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**NSC 2019
MEO 2019
SC CANDIDATES**

GRADE 12

**ACCOUNTING
NOVEMBER 2020**

MARKS: 300

TIME: 3 hours

This question paper consists of 20 pages and a 15-page answer book.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL workings to achieve part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer the questions.
6. Where applicable, show ALL calculations to ONE decimal point.
7. Write neatly and legibly.

8. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 45 marks; 25 minutes	
Topic:	This question integrates:
Manufacturing	Managerial accounting Concepts and Production Cost Statement Break-even analysis and interpretation Managing resources Internal control

QUESTION 2: 45 marks; 30 minutes	
Topic:	This question integrates:
VAT and Reconciliations	Financial accounting VAT calculations Bank reconciliations, Age analysis Managing resources Internal control processes

QUESTION 3: 40 marks; 25 minutes	
Topic:	This question integrates:
Inventory Valuation	Managing resources Weighted average method and FIFO method Internal controls

QUESTION 4: 65 marks; 40 minutes	
Topic:	This question integrates:
Fixed Assets and Financial Statements	Financial accounting Concepts and Balance Sheet with notes Managing resources Fixed asset management

QUESTION 5: 70 marks; 40 minutes	
Topic:	This question integrates:
Cash Flow Statement and Interpretation	Financial accounting Concepts, cash flow calculations Interpretation of financial information

QUESTION 6: 35 marks; 20 minutes	
Topic:	This question integrates:
Budgeting	Managerial accounting Cash Budget: analyse and interpret Managing resources Internal control

QUESTION 1: MANUFACTURING**(45 marks; 25 minutes)**

- 1.1 Choose an example in COLUMN B that matches the cost category in COLUMN A. Write only the letter (A–E) next to the question numbers (1.1.1 to 1.1.5) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.1.1	Selling and distribution	A	raw material issued for production
1.1.2	Direct labour	B	bad debts
1.1.3	Administration	C	depreciation on factory machinery
1.1.4	Factory overhead cost	D	production wages
1.1.5	Direct material	E	bank charges

(5 x 1) (5)

1.2 **BERGVIEW MANUFACTURERS**

This information relates to the financial year ended 29 February 2020.
The business manufactures buckets.

REQUIRED:

Prepare the following on 29 February 2020:

1.2.1 Factory Overhead Cost Note (16)

1.2.2 Production Cost Statement (10)

INFORMATION:**A. Stock balances**

	29 February 2020 R	28 February 2019 R
Work-in-progress	?	130 000
Finished goods	140 000	155 500
Indirect material	14 300	12 400

B. Amounts extracted from the records on 29 February 2020

	R
Salary: factory foreman	150 000
Depreciation on factory equipment	145 000
Direct material cost	2 200 000
Direct labour cost	1 209 300
Indirect material purchased	33 100
Insurance	60 000
Water and electricity	115 000
Rent expense	113 000
Sales	6 500 000
Cost of sales (mark-up on cost: 60%)	?

- Insurance is shared by the factory, administration and the selling department in the ratio 3 : 2 : 1.
- Water and electricity for February 2020 is still outstanding, R12 000. The factory uses 80% of the water and electricity.
- Rent expense is distributed according to floor space used. The factory occupies 7 200 m² of the total floor space of 9 000 m².

1.3 EASY FOODS

Easy Foods manufactures snack bars. The financial year ends on 31 December.

REQUIRED:

- 1.3.1 Explain why the change in units produced affected the fixed costs per unit. (2)
- 1.3.2 Give TWO possible reasons for the increase in direct material cost per unit. (4)
- 1.3.3 Explain why the business should not be satisfied with the level of production and the break-even point. Compare and quote figures for both years. (6)
- 1.3.4 The owner, Mike, wants to reduce the weight of the snack bars from 80 grams to 75 grams while keeping the selling price at R12,50 each. Explain ONE reason against this option. (2)

INFORMATION:

	2019		2018	
	Total	Per unit	Total	Per unit
Sales	R675 000	R12,50	R617 500	R9,50
Variable costs	R472 500	R8,75	R390 000	R6,00
Fixed costs	R191 160	R3,54	R191 160	R2,70
Direct material cost	R270 000	R5,00	R279 500	R4,30
Break-even units	50 976		50 000	
Units produced and sold	54 000		65 000	

QUESTION 2: VAT AND RECONCILIATIONS**(45 marks; 30 minutes)****2.1 VAT**

The following relates to Lunga Stores for the VAT period ended 30 April 2020. VAT at 15% applies to all goods.

REQUIRED:

Calculate the VAT amounts denoted by **(i)** to **(iii)** on the table. Indicate the effect of EACH answer on the amount payable to SARS. Refer to the example. (8)

INFORMATION:

A. Amount owed to SARS on 1 April 2020, R5 500

B. Amounts from April 2020 Journals:

DETAILS	EXCLUDING VAT	INCLUDING VAT	VAT AMOUNT	EFFECT
Total sales	R544 500	R626 175	R81 675	Increase
Purchases of stock	174 900	201 135	(i)	?
Drawings of stock	32 000		(ii)	?
Bad debts		7 015	(iii)	?

2.2 BANK RECONCILIATION AND INTERNAL CONTROL

The information relates to Plaston Traders for April 2020.

REQUIRED:

- 2.2.1 Show the entries that must be recorded in the Cash Journals. (10)
- 2.2.2 Calculate the Bank Account balance on 30 April 2020. (4)
- 2.2.3 Prepare the Bank Reconciliation Statement on 30 April 2020. (9)
- 2.2.4 As internal auditor you are not happy with the control of cash in this business.
- Explain TWO problems to confirm your suspicion. Quote figures.
 - Give advice on how EACH problem can be avoided in future. (6)

INFORMATION:**A. Information from the Bank Reconciliation Statement on 31 March 2020:**

Unfavourable balance as per Bank Statement		R19 500
Outstanding deposit		50 400
Outstanding cheques:	Cheque 615 (dated 30 October 2020)	15 750
	Cheque 960 (dated 20 March 2020)	11 850
	Cheque 965 (dated 30 May 2020)	6 750
Unfavourable balance as per Bank Account in the Ledger		3 450

- The deposit of R50 400 appeared on the Bank Statement on 14 April 2020.
- Cheque 960, issued in March 2020, was reflected on the Bank Statement for April 2020 as R14 550. The Bank Statement is correct.

B. Provisional totals in the Cash Journals on 30 April 2020 before receiving the April Bank Statement:

- Cash Receipts Journal, R65 570
- Cash Payments Journal, R64 790

C. Information on the April 2020 Bank Statement which did not appear in the April 2020 Cash Journals:

DATE	DETAILS	DEBIT	CREDIT
11	ZL Nkosi (EFT by tenant)		R31 350
25	Debit order (Quick Insurance)	R9 750	
25	Unpaid cheque (P Grobler)	3 375	
28	Interest		150
29	Service fees	600	
30	Service fees	600	

NOTE: The bank duplicated the service fees in error. They will correct this error next month.

D. Deposit entries in the April 2020 Cash Receipts Journal that do not agree with the April 2020 Bank Statement:

- R27 750 on 24 April 2020
- R44 000 on 26 April 2020. The Bank Statement reflected this as R33 500. An investigation revealed that the cash slips added up to R44 000, but only R33 500 was deposited. The shortfall cannot be traced and must be written off.

E. Entries in the April 2020 Cash Payments Journal, not in the April 2020 Bank Statement:

DOCUMENTS	DATE	DETAILS	BANK
Cheque 980	29	PNA Suppliers	R8 600
EFT: P Sithole	30	Drawings	R7 300

F. Bank Statement balance on 30 April 2020: ...?

2.3 DEBTORS' AGE ANALYSIS

The information relates to Tonga Hardware.

REQUIRED:

- 2.3.1 Explain how the Debtors' Age Analysis will assist the business in managing debtors more effectively. (2)
- 2.3.2 Explain TWO separate problems highlighted by the age analysis. Provide evidence for EACH. (4)
- 2.3.3 State TWO strategies that Tonga Hardware can use to ensure that only reliable applicants are granted credit. (2)

INFORMATION:

A. Debtors are granted 30 days to settle their accounts.

B. Debtors' age analysis on 29 February 2020:

DEBTORS	CREDIT LIMIT	AMOUNT OWING	CURRENT AMOUNT	30 DAYS	60 DAYS	90 DAYS
N Nene	9 000	7 500	3 150	4 350		
P Palm	5 250	6 300	5 700	600		
D Duma	10 500	2 175	750			1 425
S Swart	19 500	18 750	1 500	4 500	6 750	6 000
	44 250	34 725	11 100	9 450	6 750	7 425

QUESTION 3: INVENTORY VALUATION**(40 marks; 25 minutes)**

3.1 Complete the sentences by filling in the correct stock valuation method. Write only the answer next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.

3.1.1 The ... method assumes that stock is sold in order of date purchased.

3.1.2 The ... method divides the total cost of goods available for sale by the number of units.

3.1.3 The ... method is used for very expensive, individually recognisable items. (3 x 1) (3)

3.2 **JJ FASHION HOUSE**

JJ Fashion House uses the periodic stock system. Janine Naidoo owns the business.

REQUIRED:**Refer to Information A: Jeans**

3.2.1 Calculate the following on 29 February 2020:

- Value of the closing stock using the weighted-average method (6)
- Gross profit (4)

3.2.2 Calculate how long (in days) it will take to sell the closing stock of the jeans. (4)

3.2.3 Janine is considering a change in the method of valuing stock.

- Calculate the value of closing stock using the FIFO method. (7)
- State ONE advantage of using the FIFO method. (2)

Refer to Information B: Jackets

3.2.4 The owner is concerned about the theft.

- Calculate the number of jackets stolen. (4)
- Give TWO solutions to solve the problem. (4)

3.2.5 The internal auditor is concerned about the stock levels and the selling price of jackets.

Explain reasons for his concern, with figures, and give different advice in EACH case. (6)

INFORMATION:**A. Jeans:**

	UNITS	UNIT PRICE	TOTAL
Opening stock (1 March 2019)	240		R124 500
Purchases	3 150		R1 813 000
May 2019	1 300	R560	R728 000
October 2019	1 450	R580	R841 000
January 2020	400	R610	R244 000
Subtotal	3 390		R1 937 500
Returns from January purchases	130	R610	R79 300
Sales	2 880	R960	R2 764 800
Closing stock (29 February 2020)	380	?	?

B. Jackets:

	2020 (UNITS)	2019
Opening stock	1 760	
Purchases (less returns)	6 500	
Units available for sale	8 260	
Closing stock	2 980	
Units sold	5 020	
Weighted-average cost per unit	R700	R630
Selling price per unit	R1 450	R1 070
Stock-holding period	216 days	103 days
Mark-up % achieved	107%	70%

QUESTION 4: FIXED ASSETS AND FINANCIAL STATEMENTS
(65 marks; 40 minutes)

AVENGERS LTD

The information relates to the financial year ended 31 March 2020.

REQUIRED:

4.1 Refer to Information B.

Calculate the missing amounts denoted by **(i)** to **(iv)**. (16)

4.2 Prepare the following notes to the Balance Sheet on 31 March 2020:

- Ordinary share capital (7)
- Retained income (8)

4.3 Complete the Balance Sheet (Statement of Financial Position) on 31 March 2020. Show workings. (34)

INFORMATION:

A. Amounts extracted from the books on 31 March:

BALANCE SHEET ACCOUNTS	2020 R	2019 R
Ordinary share capital	?	4 800 000
Retained income	?	1 181 250
Mortgage loan: Grandeur Bank	2 508 000	3 150 000
Fixed assets at carrying value	11 458 500	
Trading stock (balancing figure)	?	
Net trade debtors	881 000	
Bank (favourable)	454 000	
Creditors' control	1 318 000	
SARS: Income tax (provisional)	972 000	
Income received in advance	32 000	
Shareholders for dividends	889 200	752 000
Nominal accounts (pre-adjustment amounts)		
Commission income	29 920	
Rent expense	364 000	
Directors' fees	2 275 000	

B. Incomplete Fixed Asset Note:

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT
Carrying value (1 April 2019)		631 000	
Cost	(i)	1 281 000	
Accumulated depreciation		(650 000)	(200 000)
Movements			
Additions		625 000	
Disposals	(850 000)	0	(iii)
Depreciation		(ii)	(42 450)
Carrying value (31 March 2020)			
Cost	9 650 000		
Accumulated depreciation			(iv)

Land and buildings:

- A building, on a separate property, was sold at cost.

Vehicles:

- A new vehicle was bought on 1 January 2020.
- Vehicles are depreciated at 20% p.a. on cost.

Equipment:

- Old equipment, cost R21 000, was sold on 30 September 2019. The accumulated depreciation was R15 000 on 1 April 2019.
- Equipment is depreciated at 15% p.a. on the diminishing-balance method.

C. Share capital:

DATE	INFORMATION
1 April 2019	800 000 ordinary shares in issue
31 May 2019	400 000 ordinary shares issued
1 October 2019	60 000 ordinary shares repurchased <ul style="list-style-type: none"> • Average share price, R7,00 • Repurchase price per share, R10,80

D. Dividends:

- An interim dividend of 124 cents was paid on 30 September 2019.
- Final dividends were declared, R889 200.

E. Mortgage loan: Grandeur Bank

- Fixed monthly repayments (including interest) have been made and correctly recorded.
- Interest of R258 000 has not been recorded by the business yet.
- The capital repayment will remain the same over the next financial year.

F. The decrease in the provision for bad debts, R2 500, was not recorded.

G. Commission income for March 2020, R41 900, was still outstanding.

H. The company has three directors who earn the same monthly directors' fee. One director has not received his directors' fee for March 2020 yet.

I. Rent for April 2020 has been paid. The rent was increased by 25% on 1 January 2020.

J. Net profit after tax and income tax:

- The correct net profit after tax **after all adjustments** is R2 534 400.
- Income tax is calculated at 28% of the net profit.

QUESTION 5: CASH FLOW STATEMENT AND INTERPRETATION**(70 marks; 40 minutes)**

- 5.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question numbers (5.1.1 to 5.1.4) in the ANSWER BOOK.
- 5.1.1 The (internal/external) auditor is appointed by shareholders to express an unbiased opinion of the financial statements of a company.
- 5.1.2 (Directors/Shareholders) are responsible for the management and running of the business.
- 5.1.3 The (Income Statement/Balance Sheet) shows the financial position of the business in terms of its assets, equity and liabilities.
- 5.1.4 The (Income Statement/Cash Flow Statement) is a financial statement that shows the sources of a company's funds and how they were used. (4 x 1) (4)

5.2 BOMBAY LTD

The information relates to Bombay Ltd for the financial year ended 29 February 2020.

REQUIRED:

- 5.2.1 Fill in the missing amounts on the Cash Flow Statement provided. Show workings. Indicate outflows in brackets. (22)
- 5.2.2 Calculate the following financial indicators on 29 February 2020:
- % operating profit on sales (3)
 - Acid-test ratio
- NOTE:** The current ratio is 1,6 : 1. (5)
- Net asset value (NAV) per share (5)

INFORMATION:**A. Extract from the Income Statement (Statement of Comprehensive Income) on 29 February 2020:**

Sales	R4 824 000
Gross profit	1 608 000
Depreciation	312 600
Operating profit	1 122 500
Net profit before tax	984 000
Net profit after tax	688 800

B. Extract from the Balance Sheet (Statement of Financial Position) on 29 February:

	2020 (R)	2019 (R)
Fixed assets (carrying value)	4 830 000	3 760 100
Current assets	?	962 000
Current liabilities	774 000	712 800
Trading stock	619 000	538 000
Bank	0	56 400
Petty cash	2 500	0
Ordinary share capital	5 880 000	5 360 000
Retained income	542 800	236 000
Loan: Kan Bank	950 000	1 300 000
SARS: Income tax	26 400 (Cr)	11 600 (Dr)
Shareholders for dividends	165 000	126 000
Bank overdraft	28 800	0

C. Share capital and dividends:

- The authorised share capital comprises 1 500 000 shares.
- On 1 March 2019, 60% of the authorised shares were in issue.
- On 30 June 2019, 200 000 additional shares were issued for R1 240 000.
- On 29 February 2020, 120 000 shares were repurchased at R96 000 above the average share price.
- Total dividends paid and declared in the 2020 tax year were R286 000.

D. Fixed assets:

- Additions to buildings were completed during November 2018.
- Old equipment was sold at carrying value, R34 500.

5.3 TWO COMPANIES: LULU LTD AND COCO LTD

Noah Lott won R5,6 m in the national lottery five years ago and then decided to invest R2,8 m in each of the two companies below, as follows:

Lulu Ltd	400 000 shares at R7,00 each = R2,8 m
Coco Ltd	100 000 shares at R28,00 each = R2,8 m

He wants your opinion on these companies.

NOTE: When answering the questions below, compare the information given and quote the relevant financial indicators of both companies (percentages, ratios and/or amounts).

INFORMATION:

	LULU LTD		COCO LTD	
	2020	2019	2020	2019
Total number of shares	1 100 000 shares		700 000 shares	
Shares originally bought by Noah	400 000 shares		100 000 shares	
Noah's % shareholding	36%		14%	
Current market value per share	R9,50		R18,80	
Ordinary share capital	R9 900 000		R11 900 000	
Retained income	R1 890 000		R600 000	
Long-term loan	R9 432 000		R2 500 000	
Current ratio	1,7 : 1	1,6 : 1	4,2 : 1	4,8 : 1
Acid-test ratio	0,9 : 1	0,8 : 1	3,6 : 1	3,5 : 1
% operating profit on sales	16%	16%	14%	18%
Debt-equity ratio	0,8 : 1		0,2 : 1	
Net asset value per share	R10,72		R17,86	
Earnings per share (EPS)	273 cents	233 cents	171 cents	266 cents
Dividends per share (DPS)	110 cents		200 cents	
% return on equity	25%	14%	9%	15%
% return on capital employed	20%	12%	10%	14%
Interest rate on loans	13%	13%	13%	13%
Interest rate on fixed deposits	6%	6%	6%	6%

REQUIRED:

- 5.3.1 Explain which company has the better liquidity. Quote TWO financial indicators to support your opinion. (4)
- 5.3.2 Comment on the earnings per share and the % return on equity of Lulu Ltd. Give TWO reasons why the shareholders will be satisfied with these indicators. (5)
- 5.3.3 Comment on the market value of the shares in Coco Ltd. Explain TWO points. (4)

- 5.3.4 Compare the dividend payout rates of both companies and explain why the directors of EACH company decided on these payout rates. (4)
- 5.3.5 Noah says that the dividend of 110 cents per share he earned from Lulu Ltd is better than the dividend of 200 cents per share from Coco Ltd. Give ONE point to prove that he is incorrect. (4)
- 5.3.6 Comment on the risk and gearing of EACH company. Quote TWO financial indicators. (6)
- 5.3.7 Noah wants to buy shares in Lulu Ltd on the JSE at current market value to become the majority shareholder and CEO. Calculate how much Noah will have to pay for the shares that he needs. (4)

QUESTION 6: BUDGETING**(35 marks; 20 minutes)**

6.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (6.1.1 to 6.1.3) in the ANSWER BOOK.

6.1.1 Bad debts is an example of a payment in a Cash Budget.

6.1.2 A Projected Income Statement estimates the expected profit or loss for a specified period.

6.1.3 A decrease in a fixed deposit will be shown as a receipt in the Cash Budget. (3 x 1) (3)

6.2 **KURUMAN (PTY) LTD**

John Peters is the majority shareholder and CEO. You are provided with information for the period ending 31 July 2020. There are five other shareholders.

Refer to Information A.

6.2.1 • Calculate the missing amounts indicated by **(i)** and **(ii)** in the Debtors' Collection Schedule. (4)

• Calculate the percentage discount allowed to debtors who settle in the month of the sales transactions. (5)

6.2.2 Calculate the following budgeted amounts:

• Total sales for July 2020 (3)

• Payment to creditors during June 2020 (4)

• Additional loan to be acquired on 1 June 2020 (4)

6.2.3 The directors did not adhere to the Cash Budget during May 2020.

• Identify TWO overpayments in May 2020. Provide figures. (6)
• Give a valid reason for EACH overpayment identified, to support their decisions.

Refer to Information E.

6.2.4 Why are the auditors concerned that the agreement with Tradecor is unethical or possibly a crime? Explain THREE points. (6)

INFORMATION:**A. Sales and debtors' collection:**

- Estimates of total sales for 2020:

April	R150 000
May	R165 000
June	?

- 25% of all sales are on credit. The rest is for cash.
- Debtors are expected to settle as follows:
 - 60% within the same month of sale, subject to a cash discount allowed.
 - 38% in the month following the month of sale.
 - 2% of debts are written off in the second month following the month of sale.
- Partially completed Debtors' Collection Schedule:

	CREDIT SALES	MAY	JUNE	JULY
May	R41 250	R23 760	(i)	
June	(ii)		R25 056	R16 530
July	R48 000			R27 648
				R44 178

B. Purchases of merchandise and payments to creditors:

- The business uses a fixed-stock base with stock sold being replaced monthly.
- The business uses a mark-up of 50% on cost.
- 20% of all merchandise is purchased for cash.
- Creditors are paid in full in the month following the month of purchase.

C. Loan and interest:

The loan from Bokke Bank will be increased on 1 June 2020. Interest at 20% p.a. is not capitalised and is payable at the end of each month.

D. Extract from the Cash Budget for the three months ending 31 July 2020:

RECEIPTS	MAY		JUNE	JULY
	Budgeted R	Actual R	Budgeted R	Budgeted R
Cash sales	123 750	142 400	130 500	144 000
Collection from debtors	38 010	26 000		44 178
Loan			?	
Sale of property	0	320 000		
Sale of old vehicle	40 000	95 000		
PAYMENTS				
Cash purchase of stock	22 000	18 000	23 200	?
Payment to creditors	80 000	80 000	?	?
Salaries	28 000	28 000	28 000	42 000
Advertising	5 600	8 400	5 600	5 600
Staff training			30 000	
Interest on loan	6 000	6 000	7 500	7 500
Vehicle maintenance	12 200	36 350	5 800	5 800
Purchase of vehicle	235 000	235 000	-	-
Rent expense	0	0	0	0
Security personnel	8 000	6 500	8 000	8 000

E. Agreement with Tradecor:

The CEO, John Peters, decided to sell one of the company's properties at book value. This property was originally bought for R320 000 in 1980. According to the sale agreement, the purchaser, Tradecor, would rent the property back to Kuruman (Pty) Ltd for R26 000 per month with effect from 1 June 2020.

The auditors of Kuruman (Pty) Ltd discovered that the sole owner of Tradecor is John Peters's wife. They regard this agreement as unethical and possibly a crime.