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GRADE 12

ACCOUNTING FEBRUARY/MARCH 2012 MEMORANDUM

MARKS: 300

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Full marks for correct answer. If answer incorrect, mark the workings provided.
3. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer).
4. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
5. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
6. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
7. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.

This memorandum consists of 16 pages.

QUESTION 1**1.1**

Complete the statements by writing down the missing words or figures. (For QUESTIONS 1.1.3 and 1.1.4 choose from the words given in brackets.)

1.1.1	Value-added Tax	✓✓
1.1.2	14	✓✓
1.1.3	VAT Output	✓✓
1.1.4	Credit	✓✓
	VAT Control	✓✓
1.1.5	R3 668	✓✓
1.1.6	R4 900	✓✓

14

1.2.1

Calculate the value of the closing inventory according to the FIFO method on 31 December 2011.

$$\begin{aligned}
 & \text{R130 000} + (80 \times \text{R530}) + (80 \times \text{R30}) \\
 & \quad \checkmark \quad \quad \checkmark \checkmark \quad \quad \checkmark \checkmark \\
 & = \text{R130 000} + \text{R42 400} + \text{R2 400} \\
 & = \text{R174 800} \quad \checkmark \quad \text{operation if one part correct}
 \end{aligned}$$

OR

$$\begin{aligned}
 & 200 \times 650 = 130\,000 \checkmark \checkmark + 80 \checkmark \times 560 \checkmark = 44\,800 \checkmark = \\
 & 174\,800 \checkmark \quad \text{operation if one part correct}
 \end{aligned}$$

6

1.2.2

Calculate cost of sales.

$$\begin{aligned}
 & \quad \quad \quad 1\,199\,000 \text{ two marks} \quad \text{see 6.2.1} \\
 & 238\,500 \checkmark + 1\,259\,000 \checkmark - 60\,000 \checkmark + 66\,000 \checkmark - 174\,800 \checkmark \\
 & = 1\,328\,700 \checkmark \quad \text{operation if one part correct}
 \end{aligned}$$

Calculate gross profit.

$$2\,043\,000 \checkmark - 1\,328\,700 \checkmark \text{ see COS} = 714\,300 \checkmark \quad \text{operation if one part correct}$$

9

1.2.3 Use the figures calculated above to calculate the mark-up % achieved.

see 6.2.2

see COS

☒ ☒☒ ☒☒

operation if one part correct

$$714\,300 / 1\,328\,700 \times 100 = 53,8\%$$

5

1.2.4 Refer to the mark-up % calculated above. Comment on whether this mark-up % has been beneficial to Mzansi Traders in 2011. Note that in the previous financial year the gross profit was R400 000 and the mark-up % was 75%.

Compare R400 000 to GP in 6.2.2 ✓✓

Compare 75% to MU % in 6.2.3 ✓✓

Comment: Good 2 marks; Satisfactory 1 mark

Expected response:

The decline in the MU % was beneficial ✓ because it led to an increase in sales which led to an increase in gross profit ✓.

6

TOTAL
MARKS

40

QUESTION 2

2.1

Choose the correct answer and write only the letter (A–D) next to the question number (2.1.1–2.1.4).

2.1.1	C ✓✓
2.1.2	B ✓✓
2.1.3	A ✓✓
2.1.4	D ✓✓

8

2.2

Calculate the value of direct labour cost that would appear in the Production Cost Statement for the year ended 28 February 2011

Normal time = 65 000 x 5 = R325 000 ✓✓
 Overtime = 180 x 70 x 5 = R63 000 ✓✓
R 388 000 ✓

operation if one part correct

5

2.3.1

Calculate the total production cost of finished goods.

R403 000 ✓ + 388 000 ✓ + (4 200 ✓ x 53,50 ✓) = R1 015 700 ✓

operation if one part correct

5

2.3.2

Calculate the unit cost of production (per tracksuit).

R1 015 700 ✓ / 4 200 ✓ = R241,83 ✓

operation if one part correct

3

2.4.1

Calculate the number of metres of raw material fabric that appear to be wasted during the production process.

16 120 ✓✓ – (3,6 ✓ x 4 200 ✓) = 1 000 metres ✓

operation if one part correct

6

- 2.4.2 There has been no theft in this business. Give TWO examples of how the wastage could have occurred and in each case, advise Miriam on how to solve the problem.

	EXAMPLES ✓✓ ✓✓	ADVICE ✓✓ ✓✓
1.	Unskilled employees	<ul style="list-style-type: none"> ▪ Training of employees ▪ Better supervision during production
2.	Poor quality of raw materials	<ul style="list-style-type: none"> ▪ Change supplier
	Lack of efficiency	<ul style="list-style-type: none"> ▪ Better supervision during production ▪ Improve control over allocation of raw materials

8

- 2.5.1 Refer to Information D. Calculate the break-even point for the 2011 financial year.

$$\frac{317\,100 \checkmark\checkmark}{350 \checkmark - 212,50 \checkmark}$$

$$\frac{317\,100}{137,50}$$

2 307 OR 2 306 OR 2 306,18 units ✓☒ operation if one part correct

6

- 2.5.2 The break-even point for 2010 was 2 250 units. Should Miriam be satisfied or dissatisfied with the break-even point for 2011 calculated above? Briefly explain.

Opinion ✓

Explanation ✓✓✓

Explanation for satisfied:

The business has produced 4 200 units, while break-even is 2 307 units.

Explanation for dissatisfied:

The break-even of 2 307 units is higher than 2 250 in 2010.

4

**TOTAL
MARKS**

45

QUESTION 3**3.1 Indicate whether the statements are TRUE or FALSE:**

3.1.1	False ✓✓
3.1.2	True ✓✓
3.1.3	True ✓✓
3.1.4	False ✓✓

8

3.2.1 See next page.**3.2.2 NOTES TO FINANCIAL STATEMENTS** Foreign items -1 (max. -2)

FIXED ASSETS	Vehicles	Equipment
Carrying value – beginning of year Check operation, acc dep must be deducted	<input checked="" type="checkbox"/> 312 000	<input checked="" type="checkbox"/> 245 000
Cost price	✓ 780 000	✓ 350 000
Accumulated depreciation	(468 000)	(105 000)
Movements		
Additions		✓ 32 000
Disposals (31 December 2011) (180 000 ✓ – 102 000 ✓) operation if one part correct	<input checked="" type="checkbox"/> (78 000)	
Depreciation (30 000 + 120 000) (36 750 + 2 400) operation if one part correct	<input checked="" type="checkbox"/> (150 000)	<input checked="" type="checkbox"/> (39 150)
Carrying value – end of year Check operation	<input checked="" type="checkbox"/> 84 000	<input checked="" type="checkbox"/> 237 850
Cost price	✓ 600 000	✓ 382 000
Accumulated depreciation	✓ (516 000)	✓ (144 150)

16

3.2.1 PRIME LTD

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2012

Foreign items -1 (max. -2)

Presentation/Misplacement -1 each time

Sales (2 900 000 – 18 500)	operation if one part correct	✓✓	2 881 500
Cost of sales		✓	(1 650 000)
Gross profit	Check operation, COS must be deducted	✓	1 231 500
Other operating income	Check operation	✓	239 500
Rent income (200 700 ✓ + 18 900 ✓✓)	operation if one part correct	✓	219 600
Bad debt recovered		✓	1 900
Provision for bad debts adjustment (3 200 ✓ – 3 700 ✓)	operation if one part correct	✓	500
Profit on sale of asset (180 000 – 30 000 – 72 000 – 95 500)	operation if one part correct	✓✓	17 500
Gross operating income			1 471 000
Operating expenses	Check operation	✓	1 026 950
Directors' fees		✓	315 000
Audit fees		✓	30 000
Salaries and wages (372 000 ✓ + 10 500 ✓ + 420 ✓ + 80 ✓)	operation if one part correct	✓	383 000
Consumable stores		✓✓	60 000
Bank charges (7 200 + 3 600)		✓✓	10 800
Sundry expenses		✓	30 000
Bad debts (1 500 + 1 000)		✓✓	2 500
Trading stock deficit (325 000 – 318 500)		✓✓	6 500
Depreciation (30 000 ✓✓ + 120 000 ✓ + 36 750 ✓ + 2 400 ✓)	operation if one part correct	✓	189 150
Operating profit before interest			444 050
Interest expenses/Finance cost (126 000 ✓ + 4 400 ✓✓)	operation if one part correct	✓	(130 400)
Profit before tax	Check operation, interest must be deducted	✓	313 650
Income tax	Check operation, must be 30% of profit before tax	✓✓	(94 095)
Net profit after tax	Check operation, tax must be deducted	✓	219 555

3.2.2 See previous page.

3.3.1 Explain what the role of the independent auditor is.

The independent auditor expresses an opinion on the financial statements presented by the directors. ✓✓

2

3.3.2 Name TWO persons other than the shareholders who would be interested in the audit report and provide a reason for their interest.

Any TWO of the other stakeholders ✓ ✓
Reason ✓✓ ✓✓

Shareholders NOT acceptable in this answer

- **Prospective shareholders** – To see whether it would be viable to buy shares in this company
- **Prospective investors (financial institutions)** – To make investments
- **Lenders** – To see whether the company is solvent and as security for their loans
- **Suppliers** – To see if amounts owed can be paid
- **SARS** – To calculate the tax accurately
- **Competitors** – To compare results
- **Trade unions** – For wage negotiations/job security
- **Board of directors/CFO** – To assess performance
- **Government** – For statistical information
- **Registrar of Companies** – To comply with legislation

6

3.3.3 Explain why it is important for an independent auditor to belong to a professional body like SAICA.

Any valid explanation ✓✓ one mark for partially correct answer

Expected response:

- Assurance of his knowledge of accounting and auditing principles and procedures (all technical aspects and legislation)
- Disciplinary procedures, should he be negligent in his duties (code of conduct/code of professional practice)
- Continuous professional training development
- Ensures standardisation of treatment of financial statements (IFRS, etc.)

2

TOTAL MARKS
80

QUESTION 4**4.1****APPROPRIATION ACCOUNT**

2011 Dec.	31	Income tax ✓	✓ 916 550	2011 Dec.	31	Profit & Loss ✓	<input checked="" type="checkbox"/> 3 014 550 balancing figure
		Ordinary share dividends ✓ (891 000 ✓ + 540 000 ✓)	<input checked="" type="checkbox"/> 1 431 000 operation if one part correct			Retained income ✓	✓ 528 000
		Retained income ✓	✓ 1 195 000				
			3 542 550		<input checked="" type="checkbox"/> Both totals		3 542 550
				Foreign items -1 (max. -2)			

13

4.2

Calculate only the missing figures indicated by (a) to (e) in the Cash Flow Statement of Ambrosio Ltd on 31 December 2011.

(a)	$1\,431\,000 \text{ } \checkmark + 486\,000 \text{ } \checkmark - 540\,000 \text{ } \checkmark = 1\,377\,000 \text{ } \checkmark$ operation if one part correct
(b)	$412\,500 \text{ } \checkmark + 495\,000 \text{ } \checkmark + 99\,000 \text{ } \checkmark - 429\,000 \text{ } \checkmark = 577\,500 \text{ } \checkmark$ operation if one part correct
(c)	$350\,000 - 247\,500 = 102\,500 \text{ } \checkmark \checkmark$
(d)	$542\,250 - 631\,750 + 385\,500 = 296\,000 \text{ } \checkmark \checkmark$
(e)	$296\,000 - 198\,000 = 98\,000 \text{ } \checkmark \checkmark$ if R189 000 less than (d)

15

4.3.1

Calculate the % operating expenses on sales on 31 December 2011.

$$\frac{2\,475\,000 \text{ } \checkmark}{9\,900\,000 \text{ } \checkmark} \times \frac{100}{1}$$

$$= 25\% \text{ } \checkmark \text{ operation if one part correct}$$

3

4.3.2 Calculate the solvency ratio on 31 December 2011.

8 031 000 ✓ : 1 358 000 ✓✓

= 5,9 : 1 ☒ operation if one part correct

4

4.3.3 Calculate the debt-equity ratio on 31 December 2011.

600 000 ✓ : 6 673 000 ✓

= 0,1 : 1 ☒ operation if one part correct

3

4.4 Comment on the operating efficiency of the company for the year ended 31 December 2011. Quote TWO financial indicators (actual ratios or percentages) relating to the Income Statement to support your comments.

Name TWO relevant financial indicators ✓ ✓

Quoting of figures ✓ ✓

Naming the trends ✓ ✓

Possible answers:

- Operating expenses on turnover increased from 18% to 25% indicating there was less control over expenses or more wastage.
- Operating profit on turnover decreased from 14% to 11,3% indicating a decline in the profitability of the business.
- Net profit after tax on sales decreased from 26,8% to 21,3% indicating lower overall profitability.

6

4.5

Would the shareholders be happy with the returns, earnings and dividends for the year ended 31 December 2011? Explain. Quote THREE financial indicators (actual ratios or percentages) or figures to support your comments.

No/Yes (with relevant explanation) ✓

Explanation ✓✓

Explanation for No:

These indicators represent a decline and shareholders would not be happy. They would be concerned that the dividends and earnings were decreased this year.

Explanation for Yes:

Although these indicators represent a decline, the ROSHE still exceeds the return on alternative investments and the EPS and DPS are both reasonable.

Name THREE relevant financial indicators ✓ ✓ ✓

Quoting of figures ✓ ✓ ✓

Naming the trends ✓ ✓ ✓

EPS decreased from 85 to 78 cents per share.

DPS decreased from 60 to 53 cents per share.

ROSHE decreased from 37% to 35,5%.

12

4.6

The CEO feels that it would be a good idea to increase the loans next year. Quote TWO financial indicators (actual ratios or percentages) to support his opinion.

Valid explanation ✓ ✓

Financial indicators ✓ ✓

- The interest rate is 14% p.a. and the return on capital employed was 44,2% in 2010, thus the returns are geared upwards (47%).
- Debt-equity ratio improved from 0,2 to 0,1 : 1. This is very favourable for banks to approve additional loans.

4

TOTAL MARKS
60

QUESTION 5**5.1.1 Calculate the figures indicated by A–E in the Cash Budget.**

A	R95 000	✓	
B	R50 000	✓	if R45 000 less than A
C	(R162 000)	✓	mark figure only, ignore brackets
D	R50 000	✓	see B
E	(R112 000)	✓	if C + D; mark figure only, ignore brackets

5

5.1.2 Calculate the entertainment expenses for January 2012.

$$R10\,000 \times 15\% = R1\,500$$

$$R10\,000 \checkmark + R1\,500 \checkmark = R11\,500 \checkmark \quad \text{operation if one part correct}$$

3

5.1.3 Calculate the % increase in the rent income for January 2012.

$$810 \checkmark / 9\,000 \checkmark \times 100 = 9\% \checkmark \quad \text{operation if one part correct}$$

3

5.1.4 Calculate the expected receipts from debtors for January 2012.

$$R432\,000 / 80\% \\ = R540\,000$$

$$R540\,000 \checkmark \checkmark \times 20\% = R108\,000 \checkmark \checkmark \times 95\% \\ = R102\,600 \checkmark \checkmark \quad \text{operation if one part correct}$$

6

5.1.5 Calculate the expected payments for the purchase of stock for February 2012.

$$360\,000 \checkmark / 80\% \checkmark = 450\,000$$

$$450\,000 \checkmark \times 100 / 150 \checkmark = 300\,000 \checkmark \quad \text{operation if one part correct}$$

5

5.1.6 State TWO points that should be included in the internal auditors' report to John Smith.

Any TWO valid points ✓✓ ✓✓

Possible responses:

- The holiday expenses for his family should be part of drawings and not shown as a business expense (business entity rule).
- It is unethical to use business funds for personal expenses.
- His drawings for December 2011 are already more than that of January 2012.
- He is not adhering to the budget (R25 000 over); this needs to be controlled.
- The family holiday should not be shown as a business expense as this has tax implications – tax evasion is illegal.

4

5.1.7 According to an article in the local newspaper, allegations are made that Feetfit Shoe Wholesalers are polluting the area by dumping their waste in a nearby field.**Explain how the owner would react to this article.***Any valid response* ✓✓

- He would be concerned about the manner in which this report affects the reputation of the business (loss of goodwill).
- He should have the allegations investigated to know the true status of the report.

If the allegations are true, how should the owner address the problem?*Any valid response* ✓✓

- If the waste does pollute the river, a proper waste-removal programme should be put in place or the current waste-removal programme should be updated to prevent future pollution.
- He should inform the community of the plans to address the pollution.
- If an employee is guilty of dumping the waste, disciplinary actions should be taken.

This could affect the Cash Budget in several ways in future. Explain why the owner, John Smith, should be concerned about this.*Any valid response* ✓✓✓

Good explanation = 3 marks; satisfactory = 2 marks; poor = 1 mark, invalid = 0 marks

- Any action taken could cost money and will have a negative impact on the Cash Budget. At the moment, expenses are more than income, but the waste problem cannot be ignored.
- If the cost is passed onto customers through higher prices, this will affect demand for their products.

7

5.2

Apart from the differences in sales, identify ONE problem in relation to each branch. Quote figures to support the problem identified. In each case, offer Philip advice on how to solve the problem.

BRANCH	COMMENTS AND FIGURES	ADVICE
Alfred Figures ✓ Comment ✓✓ Advice ✓	<ul style="list-style-type: none"> Alfred has 7 assistants, but his sales (R270 000) are lower than Temba (R360 000), who has 6 assistants (average per assistant for Alfred is R38 571 compared to Temba R60 000 and Katy R42 500). Rent expense is double (R40 000) that of the other branches (R20 000) but his sales of R270 000 are a lot less than Temba R360 000. 	<ul style="list-style-type: none"> He needs to increase his sales to justify the number of assistants he has/he should retrench at least one of his employees. He should try to negotiate with the landlord for cheaper rent/consider moving to a smaller shop in order to reduce the rent.
Temba Figures ✓ Comment ✓✓ Advice ✓	<ul style="list-style-type: none"> Temba has invested in an excessive amount of stock on hand to last 120 days. This is significantly more than that kept by Alfred (60 days) and Katy (20 days). Temba's shop is open fewer hours per day (8 hours compared to 10) and fewer days (5 days compared to 7). Sales would be higher if open 7 days per week. <p><i>Do not accept high returns as a problem for Temba (only 10% returned).</i></p>	<ul style="list-style-type: none"> He needs to ensure that he purchases stock in smaller quantities in order to meet the needs of customers, yet economise on stock levels. Increase the business hours per day and remain open for 7 days a week. This might involve allocating certain employees to certain days.
Katy Figures ✓ Comment ✓✓ Advice ✓	<ul style="list-style-type: none"> Returns are high (20% of sales) in relation to other branches (approximately 10% of sales). Advertising (R5 000) low in comparison with other branches (R10 000). Stock is low (20 days), customers may go to other branches. Number of employees is too low (4) which could affect sales. 	<ul style="list-style-type: none"> Be more careful in selling correct items to customers. Increase advertising to increase sales. Increase stock levels. Increase number of employees, but ensure that sales increase proportionately.

12

TOTAL
MARKS

45

QUESTION 6

6.1 Explain why the Debtors' Control Account should correspond with the Debtors' List.

The Debtors' Control Account is a summary of the individual debtors' accounts. ✓✓

2

6.2 Explain TWO processes the bookkeeper should follow if he/she discovers a difference between the Debtors' Control Account and the Debtors' List from the Debtors' Ledger.

TWO processes ✓✓ ✓✓

Possible responses:

- Check the entries in the journals
- Check casting (totalling) of journals
- Control with actual source documents
- Check posting from journals

4

6.3.1 Calculate the correct closing balance of the Debtors' Control Account on 31 March 2011.

200 000 ✓ – 2 600 ✓ + 1 800 ✓ + 15 000 ✓

= 214 200 ✓ operation if one part correct

5

6.3.2 Calculate the correct amounts owing by the following debtors of Crystal Traders:

	WORKINGS	ANSWER
R Jansen	R41 200 + 15 000 ✓✓ – 8 300 ✓ = R47 900 ✓ operation if one part correct	
S Wonder	R23 000 + R1 800 ✓ – 2 700 ✓✓ = R22 100 ✓ operation if one part correct	
P Collins	R7 900 + 12 000 ✓✓ + 8 300 ✓ = R28 200 ✓ operation if one part correct	

12

6.4.1 Is Crystal Traders controlling their debtors effectively? Explain, quoting figures to support your answer.

No ✓

Explanation ✓✓

Their credit terms are 60 days and they are expecting 80% of debtors to adhere to these terms. However, they have outstanding debts of R143 100 which amounts to 71% of outstanding debts (i.e. only 29% are complying with the credit terms).

3

6.4.2 Explain TWO measures a business can introduce to improve the collection of funds from debtors.

TWO measures ✓✓ ✓✓

- Proper screening of debtors, i.e. check credit references
- Offer discounts to debtors for paying within the 60-day period
- Charge interest on overdue accounts
- Follow up on outstanding debts with constant reminders or phone calls

4

TOTAL MARKS
30

TOTAL: 300