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GRADE 12

ACCOUNTING

FEBRUARY/MARCH 2013

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.
9. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
10. Codes: f=foreign item; p=placement/presentation.

This memorandum consists of 18 pages.

QUESTION 1

1.1

Indicate in which cost account each of the items will be classified by choosing the answer from the options provided.

1.1.1	Factory overheads cost	✓✓
1.1.2	Direct labour cost	✓✓
1.1.3	Administration cost	✓✓
1.1.4	Direct materials cost	✓✓

8

1.2

1.2.1

Calculate the total selling and distribution costs.

$$R15 \times 5\,500 = R82\,500 \quad \checkmark\checkmark$$

2

1.2.2

Calculate the administration cost per unit.

$$R66\,000 / 5\,500 = R12 \quad \checkmark\checkmark$$

2

1.2.3

Calculate the total cost of production for 2012.

$$522\,500 \checkmark + 275\,000 \checkmark + 165\,000 \checkmark = R962\,500 \quad \checkmark$$

OR

$$\begin{array}{cc} 2 \text{ marks} & 1 \text{ mark} \\ (95 + 50 + 30) \times 5\,500 & = R962\,500 \end{array}$$

4

1.3

1.3.1

Calculate the break-even point for 2012.

$$\frac{231\,000 \checkmark\checkmark}{250 \checkmark - 160 \checkmark\checkmark}$$

$$= 2\,567 \text{ units or } 2\,566,7 \quad \checkmark$$

6

1.3.2

Will Charley be satisfied with the number of units produced? Explain quoting figures to support your answer.

Yes / No ✓

Valid explanation ✓✓

Answer for yes:

He is producing 2 933 units more than the break-even point.

Answer for no:

He is producing and selling less (5 500 units) than he did in the previous year (6 300 units)

3

1.4 1.4.1

Direct materials cost: Explain why Charley should not be too concerned about the direct materials cost. Provide figures to support your answer.

Explanation ✓

Figure(s) ✓

The increase is only R1 per unit which is less than 1% (less than the inflation rate of 6%)

2

1.4.2

Direct labour cost and factory overhead cost: Provide figures to explain why direct labour and factory overhead cost should be of major concern to him. In each case, name a possible problem which led to an increase in each of these costs. Provide practical advice to solve each of the problems you have suggested.

	DIRECT LABOUR COST	FACTORY OVERHEAD COST
Explanation with figures Explanation ✓ ✓ Figures ✓ ✓	The increase of R18 per unit in the DLC amounts to 56 % (which is significantly higher than the inflation rate of 6%) NB: Do not accept salary/wage increases.	The increase of R9 per unit in the FOHC amounts to 43% (which is significantly higher than the inflation rate of 6%)
Possible problem which led to an increase in the cost ✓ ✓	The workers were inefficient. Too much overtime worked at higher rate.	The number of units produced is lower than that of the previous year / an expense such as rent or depreciation or could have increased significantly
Practical advice to solve this problem ✓ ✓	Inspect the work process/better training of workers	Increase the production levels to take advantage of economies of scale/ inspect the individual fixed costs to try to control them and look for cheaper options

8

TOTAL MARKS

35

QUESTION 2

2.1

Indicate whether the statements are TRUE or FALSE.

2.1.1	True	✓✓
2.1.2	False	✓✓
2.1.3	True	✓✓
2.1.4	True	✓✓

8

2.2

Calculate the correct totals for the Cash Receipts Journal and Cash Payments Journal for December 2012.

Calculation of CRJ total
23 500
✓3 250
✓5 500
✓✓273
✓32 523

Calculation of CPJ total
28 640
✓✓20 000
✓150
✓90
✓250
✓630
✓49 760

12

2.3

Prepare the Bank Reconciliation Statement on 31 December 2012.

	Debit	Credit
Balance per Bank Statement	✓ 26 217	
Outstanding deposits		✓✓ 13 500
Outstanding cheques		
▪ 620	✓ 2 550	
▪ 660	✓ 750	
▪ 680	✓ 5 600	
Credit incorrect cheque		✓✓ 300
Credit balance per bank account		✓ 21 317
	35 117	35 117

9

Foreign entries - 1, maximum -2, e.g. PDC received R800.

2.4

Refer to cheque no. 620 in the Bank Reconciliation Statement of November 2012. How would this be recorded in the financial statements for the year ending 31 December 2012? Give a reason.

Add to bank if Dr or subtract from bank if bank is overdraft ✓

Add to Creditors or Trade and other payables ✓

Reason ✓

The money is still owed and the debt will only be settled on 30 April when the cheque is due.

3

2.5

2.5.1

Which GAAP principle was applied in writing off this amount?

Principle of Prudence ✓

1

2.5.2

How can a similar problem be avoided in the future?

Any valid reason ✓✓

- Division of duties: The person completing the deposit slip must not be the same person depositing the money at the bank.
- Deposit slips must agree to total of the receipts and cash slips.
- Check via internet banking that deposits are reflected daily (request the bank to send an sms each time a deposit is made.)

2

TOTAL MARKS
35

QUESTION 3

3.1

Choose a GAAP principle from COLUMN B to match the description in COLUMN A. Write only the letter (A–D) next to the question number (3.1.1–3.1.4).

3.1.1	C	✓✓
3.1.2	A	✓✓
3.1.3	D	✓✓
3.1.4	B	✓✓

8

3.2

3.2.1

GLOBAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS

FIXED/TANGIBLE ASSETS	Land and Buildings	Vehicles	Equipment
Carrying value at beginning of year	810 000	<input checked="" type="checkbox"/> 201 400	<input checked="" type="checkbox"/> 161 660
Cost	810 000	✓ 380 000	✓ 235 600
Accumulated depreciation	0	✓ (178 600)	✓ (73 940)
Movements			
Additions at cost		133 000	
Disposal at carrying value			✓✓ (2 700)
Depreciation V: 13 300 ✓ + 60 420 ✓		<input checked="" type="checkbox"/> (73 720)	(35 040)
Carrying value at end of year	810 000	<input checked="" type="checkbox"/> 260 680	<input checked="" type="checkbox"/> 123 920
Cost	810 000	✓ 513 000	✓ 229 600
Accumulated depreciation	0	✓ (252 320)	✓ <input checked="" type="checkbox"/> (105 680)

18

3.2.2

**GLOBAL LIMITED
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2013**

	Sales (1 330 950 ✓ – 950 ✓) operation if one part correct	✓	1 330 000
	Cost of sales	✓	(831 250)
5	Gross profit Check operation, COS must be deducted	✓	498 750
	Other operating income Check operation	✓	118 148
	Discount received	✓	2 090
	Bad debt recovered (550 ✓ + 120 ✓)	✓	670
	Rent income (124 032 ✓ – 10 032 ✓✓) operation if one part correct	✓	114 000
	Provision for bad debts adjustment	✓✓	988
13	Profit on disposal of asset	✓✓	400
	Gross operating income		616 898
	Operating expenses Check operation, mark figure only	✓	(440 650)
	Stationery (1 630 – 190)	✓✓	1 440
	Bad debts (1 350 ✓ + 120 ✓ + 1 520 ✓) operation if one part correct	✓	2 990
	Insurance (22 800 ✓ – 9 500 ✓✓)	✓	13 300
	Bank charges	✓	5 770
	Salaries and wages	✓	164 430
	Directors fees	✓	110 000
	Auditors fees	✓	31 470
	Depreciation (73 720 ✓ see 3.2.1 + 35 340 ✓) operation if one part correct	✓	108 760
20	Trading stock deficit (69 730 – 67 240)	✓✓	2 490
	Operating profit	✓	176 248
	Interest income	✓	4 000
	Profit before interest expenses/Finance cost		180 248
	Interest expenses/Finance cost	✓✓	(62 700)
	Profit before tax	✓	117 548
	Income tax	✓	(35 264)
7	Net profit after tax Check operation, tax must be deducted	✓	82 284

Foreign items –1 each (max –2); Ignore Trading Stock & Prov for Bad Debts as foreign items

If interest income / interest expense in two places, treat as foreign item

If interest income / interest expense misplaced, -1 each time (-2 max)

3.2.3

RETAINED INCOME NOTE ON 28 FEBRUARY 2013

Retained income at the beginning of the year	✓	69 840
✓ Net profit after tax	☑	82 284
✓ Less dividends		(57 750)
Interim dividends paid	✓✓	34 000
Final dividends declared	✓✓	23 750
Retained income at the end of the year	☑	94 374
Check operation		

9

**TOTAL
MARKS**

80

QUESTION 4

4.1

Complete the statements by choosing a word from the options provided.

4.1.1	Independent auditor ✓✓
4.1.2	Director ✓✓
4.1.3	Shareholder ✓✓
4.1.4	Internal auditor ✓✓

8

4.2

4.2.1

Calculate the current ratio.

$$\begin{array}{c} \checkmark \quad \quad \checkmark \\ 209\,000 : 132\,000 \end{array}$$

$$= 1,6 : 1 \quad \checkmark \quad \text{operation if one part correct}$$

3

4.2.2

Calculate the earnings per share (in cents).

$$\frac{363\,000 \checkmark}{198\,000 \checkmark} \times \frac{100}{1}$$

$$= 183,3 \text{ cents} \quad \checkmark \quad \text{operation if one part correct}$$

3

4.2.3 Calculate the debt/equity ratio.

550 000 ✓ : 1 589 500 ✓

0,3 : 1 ☒ operation if one part correct

3

4.2.4 Calculate the percentage return earned on total capital employed (before tax).

$$\frac{518\,500 + 112\,000}{\frac{1}{2}(1\,589\,500 + 550\,000 + 1\,246\,300 + 693\,000)} \times \frac{100}{1}$$

$$= \frac{630\,500 \checkmark \checkmark^*}{2\,039\,400 \checkmark \checkmark^*} \times \frac{100}{1}$$

30,9% ☒ *

* operation if one part correct

5

4.2.5 Calculate the figures that will appear in the Cash Flow Statement for:**(a) Repayment of loans**

$$693\,000 - 550\,000 = 143\,000 \checkmark \checkmark$$

(b) Proceeds of issue of ordinary shares

$$176\,000 \checkmark + 61\,600 \checkmark = 237\,600 \checkmark \checkmark \text{ operation if one part correct}$$

(c) Fixed assets purchased (note that fixed assets with a book value of R115 500 were sold at carrying value)

$$1\,883\,700 \checkmark + 44\,000 \checkmark + 115\,500 \checkmark - 1\,782\,000 \checkmark$$

$$= 261\,200 \checkmark \text{ operation if one part correct}$$

2

4

5

4.3 4.3.1

Explain why the liquidity financial indicators of Lolly Ltd are better than those of Peggy Ltd. Quote THREE financial indicators to support your answer.

Quoting of indicator ✓ ✓ ✓
 Explanation by Lolly ✓ ✓ ✓
 Comparison with Peggy ✓ ✓ ✓

- Current ratio of Lolly is 1,7 : 1 and of Peggy is 5,8:1. Lolly has enough current assets to cover his current liabilities whereas Peggy Ltd is holding too much of his funds in the form of current assets which may not result in a return for the business.
- Acid test ratio of Lolly is 0,8 : 1 and of Peggy is 3,7 : 1. Even if Lolly is not able to sell all of his trading stock he should still be able to cover his short term debt. Peggy is holding much of his current assets in the form of trading stock (stock piling).
- Period for which enough stock is on hand for Lolly is 80 days and for Peggy is 140 days (almost 6 months). Lolly has enough stock for almost 3 months which is appropriate for a company selling sportswear as styles of sportswear normally change seasonally. Peggy is holding stock for too long, styles will change and clients will not be interested in buying outdated styles resulting in obsolete stock.
- Debtors are paying Lolly Ltd much sooner than the debtors of Peggy is paying them. Debtors' collection period for Peggy is 55 days whereas Lolly is collecting from their debtors within 26 days.

9

4.3.2

Which company uses more loans? Quote a financial indicator to support your answer.

Lolly Ltd ✓

Debt / equity ratio 1,9 : 1 for Lolly and 0,2 : 1 for Peggy ✓✓

Explain whether this is a good idea or not. Quote a financial indicator to support your answer.

It is not a good idea ✓

Return on Capital Employed for Lolly is 12,4 % which means that the return he is earning is lower than the interest he is paying on the loan, 14% (negative gearing) ✓✓

6

4.3.3

The market price of shares in Peggy Ltd is doing much better than that of Lolly Ltd. Explain, quoting TWO financial indicators to support this opinion.

Comparing market price and NAV of Lolly ✓✓

Comparing market price and NAV of Peggy ✓✓

Market price of Lolly Ltd is 590 cents which is lower than the Net Asset Value of 625 cents OR market price is 35 cents lower than the Net Asset Value.

Market price of Peggy Ltd is 755 cents which is higher than the Net Asset Value of 605 cents OR market price is 150 cents higher than the Net Asset Value. Peggy is thus able to fetch a price higher than the value of the shares in the books of the company.

4

4.3.4

Peggy Ltd has a better percentage return, earnings and dividends than Lolly Ltd. Explain by quoting THREE financial indicators to support this opinion.

Financial indicator ✓ ✓ ✓

Figures ✓ ✓ ✓

Explanation ✓ ✓ ✓

- % ROSHE for Peggy is much higher (28,5%) than that of Lolly (11,5%).
- EPS for Peggy is 813 cents whereas Lolly is only earning 179 cents per share.
- DPS for Peggy is 637 cents whereas for Lolly it is only 182 cents per share.

9

4.4

Comment on the audit reports of Lolly Ltd and Peggy Ltd. In each case, explain how the report will affect Peter's decision concerning the shares he wishes to purchase in the company.

Lolly Ltd: Comment on ✓ Explanation ✓

Lolly Ltd received an unqualified report which means that Peter can rely on the financial information in the financial statements in order to make a decision about purchasing the shares.

Peggy Ltd: Comment on ✓ Explanation ✓

This company received a disclaimer audit report. This means that Peter cannot rely fully on the financial statements in making a decision about investing in this company.

4

**TOTAL
MARKS**

65

QUESTION 5**5.1 5.1.1****Calculate the value of the closing stock for cricket bats (use the FIFO method).**

$$(100 \checkmark \times 655 \checkmark) + (75 \checkmark \times 630 \checkmark)$$

$$= 65\,500 + 47\,250$$

$$= 112\,750 \checkmark$$

5

5.1.2**Calculate the value of the closing stock for cricket balls (use the weighted-average method).**

$$\frac{19\,200 \checkmark + 63\,900 \checkmark - 5\,300 \checkmark}{320 \checkmark + 840 \checkmark - 60 \checkmark}$$

$$\frac{77\,800}{1\,100} \times \frac{220}{1}$$

$$= R15\,560 \checkmark \quad \text{OR} \quad R15\,560,60 \quad \text{OR} \quad R15\,561$$

7

5.2 5.2.1**Calculate the cost of sales for cricket bats.**

$$49\,500 \checkmark + 310\,250 \checkmark + 16\,050 \checkmark\checkmark - 112\,750 \checkmark$$

$$= R263\,050 \checkmark$$

6

5.2.2**Calculate the gross profit for cricket bats.**

$$R398\,125 \checkmark - R263\,050 \checkmark = R135\,075 \checkmark$$

3

5.3 5.3.1**Calculate the number of cricket bats that appear to be missing.**

$$110 + 535 - 455 = 190 \checkmark$$

Amount on hand 175 \checkmark . Therefore amount missing is 15 \checkmark

3

5.3.2**Explain TWO control measures Anele could put in place to avoid this from happening in future.**

Two control measures $\checkmark\checkmark$ $\checkmark\checkmark$

Possible responses:

- Improve physical security at exit points
- Have regular physical counts of stock

4

5.4

Provide evidence from the information provided to support Anele's concern regarding the cricket balls supplier. State TWO points and quote figures to support your answer.

Two points ✓✓ ✓✓

Possible responses:

- The cost price of the cricket balls has increased significantly since November from R65 to R85 and R95.
- 60 faulty cricket balls costing R5 300 have been returned to the new supplier. There were no returns prior to November which indicated that the batches from the new supplier are of a poorer quality.

4

5.5

Anele has since discovered that the new supplier of the cricket balls is a family member of Chris.

What advice would you offer to Anele in this regard?

Expected response:

Excellent = 3 marks; average = 2 mark ; poor = 1 mark; incorrect = 0 marks

Anele must explain to Chris that this is unethical and that his decision to favour his family member is disadvantaging the business. She must put a procurement policy in place and must ensure that employees abide by this policy. It is important to support loyal suppliers but the quality and price of the product must not be compromised.

3

TOTAL MARKS
35

QUESTION 6

6.1

Identify TWO items that Mabel has incorrectly entered in the Cash Budget.

Two items ✓✓ ✓✓

- Depreciation
- Furniture bought on credit

4

6.2

Apart from the items in QUESTION 6.1 above, name TWO other items in the Payments Section of the Cash Budget (see Information 4) that would NOT appear in a Projected Income Statement.

Any two items ✓✓ ✓✓

Expected responses:

- Payment to creditors'
- Repayment of loan
- Purchase of vehicle
- Drawings
- Cash purchases of stock

4

6.3

Identify or calculate A and B. Indicate negative figures in brackets.

A	R35 350 ✓
B	(R17 050) ✓✓

3

6.4

Identify or calculate the missing figures C and D in the extract from the Cash Budget (Information 4).

C	160 000 ✓ x 100/133⅓ ✓ = 120 000 120 000 x 50% ✓ = R60 000 <input checked="" type="checkbox"/> any one part correct
D	60 000 ✓ x 95% ✓ = 57 000 <input checked="" type="checkbox"/> any one part correct

7

6.5

Complete the Debtors' Collection Schedule for February 2013.

	Credit sales	February collections
December	R80 000	✓✓ 14 400
January	✓✓ R64 000	✓✓ 32 000
February	R56 000	✓✓ 16 800
TOTAL	operation	✓✓ 63 200

10

6.6

Calculate the percentage increase in salary and wages with effect from 1 February 2013.

$$1\,800 / 15\,000 \times 100 = 12 \% \checkmark\checkmark$$

2

6.7

Calculate the interest on the fixed deposit for January 2013.

$$42\,000 \times 7\% / 12 = R245 \checkmark\checkmark$$

2

6.8

6.8.1

Calculate the delivery expenses for January 2013.

$$R160\,000 \times 8\% = R12\,800 \checkmark\checkmark$$

2

6.8.2

John is of the opinion that this expense is costing him too much. Which TWO points should John consider before deciding on whether to discontinue this service?

Two factors ✓✓ ✓✓

- Whether his competitors are offering the service or not
- What the reaction from his customers will be should he withdraw the service (i.e. will they go to other suppliers?)
- The possibility of charging customers for the delivery service
- The possibility of finding a cheaper delivery service
- The possibility of using his own vehicles instead of subcontracting

4

6.9

Explain what you would say to John about each of the following items at the end of January 2013. Give ONE point of advice in each case.

	Comment ✓ ✓ ✓	Advice ✓ ✓ ✓
Advertising	As he <u>did not spend any money</u> on Advertising, this will probably mean that he will not achieve his budgeted sales	Make sure that he <u>utilises the advertising budget fully</u> each month (it is there for a purpose)
Stationery	<u>Spent significantly more than budgeted figure.</u>	Ensure that there is no wastage of stationery./ Keep unused stationery secured. / find a cheaper supplier
Staff training	<u>Under spent</u> on the budget which means that staff might not be interacting well with customers	He must consider that staff training affects the manner in which staff interacts with customers which leads to efficiency and goodwill.

6

6.10

Consider each of the options below and explain ONE other advantage and ONE disadvantage related to each option.

	Other Advantage ✓ ✓ ✓	Disadvantage ✓ ✓ ✓
Option 1: Raise a new loan at an interest rate of 14% p.a. to be repaid over 36 months	He will <u>own the assets</u> and they could last longer than five years if he takes good care of them.	He has to <u>pay interest</u> of R1 750 per month + R4 167 per month to <u>repay</u> the loan.
Option 2: Hire (lease) the assets from IT Connect Ltd at R5 100 per month	He <u>does not have to raise a loan/does not have to pay interest</u> on the loan./ he <u>will not have to pay repair costs</u>	The <u>lease charges are expensive</u> , R5 100 per month (R306 000 over the expected life span of five years.)/ <u>never owns the assets but continues to pay</u>
Option 3: Invite his friend James to become an equal partner in the business and provide capital of R150 000	He <u>will have the necessary funds</u> to purchase the assets which will then belong to the business / <u>share workload and skills</u>	He will have to <u>share half his profits</u> with his new partner.

6

TOTAL
MARKS

50

TOTAL: 300