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**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

ACCOUNTING

NOVEMBER 2009(1)

MARKS: 300

TIME: 3 hours

This question paper consists of 19 pages and an answer book of 21 pages.

INSTRUCTIONS AND INFORMATION

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Workings must be shown in order to achieve part-marks.
4. Non-programmable calculators may be used.
5. You may use a dark pencil or blue/black ink to answer the questions.

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

QUESTION 1: 35 marks; 20 minutes	
Topic of the question:	Learning outcomes covered:
Creditors' reconciliation	LO1 Financial accounting - AS4 Creditors' reconciliation LO3 Managing resources - AS6 Internal control

QUESTION 2: 40 marks; 24 minutes	
Topic of the question:	Learning outcomes covered:
Inventory valuation and control	LO1 Financial accounting - AS5 Interpretation of financial information LO3 Managing resources - AS4 Inventory valuation - AS6 Apply internal control and audit processes

QUESTION 3: 55 marks; 33 minutes	
Topic of the question:	Learning outcomes covered:
Manufacturing	LO2 Managerial accounting - AS2 Prepare, analyse and report cost information

QUESTION 4: 70 marks; 42 minutes	
Topic of the question:	Learning outcomes covered:
Financial statements and audit of a company	LO1 Financial accounting - AS5 Financial statements - AS6 Independent auditor's report LO3 Managing resources - AS3 Asset disposal - AS5 Professional bodies

QUESTION 5: 70 marks; 43 minutes	
Topic of the question:	Learning outcomes covered:
Cash-flow statement and ratio analysis	LO1 Financial accounting - AS5 Final accounts, financial statements and interpretation

QUESTION 6: 30 marks; 18 minutes	
Topic of the question:	Learning outcomes covered:
Debtors' collection and interpretation of budget	LO2 Managerial accounting - AS3 Analyse and interpret a cash budget LO3 Managing resources - AS6 Apply internal control and audit processes

QUESTION 1**CREDITORS' RECONCILIATION****(35 marks; 20 minutes)**

You are the internal auditor of Valentine Stores, a gift shop owned by Mark Masuku. The Creditors' Control Account and Creditors' List were prepared by the bookkeeper, Ditzzy Donald. The postings from the journals have been done, but you have noted a number of errors and omissions.

REQUIRED:

- 1.1 The Creditors' Control Account reflected a balance of **R61 417** while the total of the Creditors' List from the Creditors' Ledger reflected a total of **R59 387**. Briefly explain why it is important that these two figures agree. (2)
- 1.2 Refer to Information 2: Errors and Omissions below.
- 1.2.1 List the corrections that the bookkeeper must make to the Creditors' Control Account in the General Ledger. The first one has been done for you as an example. If no entry is applicable, you must write 'NO ENTRY'. (11)
- 1.2.2 Prepare a correct Creditors' List on 31 July 2009. Show workings in brackets to earn part-marks. (16)
- 1.3 Provide THREE points for good internal control over creditors. (6)

INFORMATION**1. CREDITORS' LIST ON 31 JULY 2009**

	Debit	Credit
Khan Traders	R563	
Thankful Stores		R30 560
Connel Ltd		R10 890
Yolisa Wholesalers		R18 500
TOTALS	R563	R59 950
	= R59 387	

2. ERRORS AND OMISSIONS

- A. A credit invoice for trading stock purchased from Connel Ltd for R3 400 on 28 July 2009 was not recorded at all. (See solution in ANSWER BOOK.)
- B. Stock purchased on credit from Connel Ltd, R7 200, was incorrectly posted to the account of Yolisa Wholesalers.
- C. Interest of R258 must be brought into account on the overdue account of Connel Ltd.
- D. The debit balance of Khan Traders must be transferred to their account in the Debtors' Ledger.
- E. Goods of R8 350 returned to Thankful Stores were incorrectly treated as a credit purchase and posted accordingly.
- F. A discount of R230 received from Yolisa Wholesalers was incorrectly posted to the Creditors' Ledger as R320. The General Ledger is correct.
- G. The amount of R2 100 reflected as a refund in the Creditors' Control Account was in fact received from a debtor, S Steyn, whose account had previously been written off as bad debt.
- H. An amount of R80 in the Creditors' Allowances Journal for trading stock returned was posted to the wrong side of a creditor's account, Thankful Stores.
- I. VAT of R490 was omitted from an invoice of equipment bought from Yolisa Wholesalers.

[35]

QUESTION 2**INVENTORY VALUATION AND CONTROL****(40 marks; 24 minutes)**

You are provided with information relating to Banyana Traders, owned by David Hambeck, for the financial year ended 28 February 2009. The business is situated in Johannesburg.

David buys and sells soccer balls and jerseys. The business uses the periodic inventory system.

The soccer balls are bought from South African suppliers, and the soccer jerseys of different clubs and countries are imported from overseas.

David employs salespersons to control each item of stock:

- James controls and sells the soccer balls
- Cyril controls and sells the soccer jerseys

David has decided on the following accounting policies for valuing inventory:

- Soccer balls – Weighted-average method
- Soccer jerseys – First-in-first-out method (FIFO)

REQUIRED:

- 2.1 Although this business has done well, David is considering closing it down and investing his capital in fixed property. State TWO points that he should consider before making a final decision. (4)
- 2.2 David suspects that a number of soccer balls have been shoplifted. Calculate the number of soccer balls stolen. (5)
- 2.3 Use the relevant information to calculate the closing stock value of:
- Soccer balls (using the weighted-average method) (6)
 - Soccer jerseys (using the FIFO method) (5)
- Show your workings to earn part-marks.
- 2.4 Calculate the following for soccer jerseys (you may prepare a Trading Account to calculate these figures):
- Cost of sales (4)
 - Mark-up % on cost (5)
 - Stock turnover rate (5)
- 2.5 If David decides to continue with this business, what advice would you offer him? State TWO points and quote financial indicators or specific information from the question to support your answer. (6)

INFORMATION:**1. Inventories:**

The stocks were valued as follows at the beginning and end of the financial year:

Date	Soccer balls			Soccer jerseys		
	No. of units	Per unit	Total value	No. of units	Per unit	Total value
01/03/08	1 200	R120	R144 000	520	R320	R166 400
28/02/09	900	?	?	250	?	?

2. Purchases:

During the financial year ended 28 February 2009, the following stock items were purchased:

Date of purchases	Soccer balls			Soccer jerseys		
	No. of units	Per unit	Total value	No. of units	Per unit	Total value
31/03/08	1 300	R120	R156 000	400	R200	R 80 000
30/06/08	900	R150	R135 000	600	R225	R135 000
30/09/08	1 000	R175	R175 000	1 400	R255	R357 000
02/01/09	200	R180	R 36 000	100	R300	R 30 000
Totals	3 400		R502 000	2 500		R602 000

3. Carriage on purchases:

During the year, the business paid a total of R30 200 to transport soccer balls to the shop. The price of the soccer jerseys includes carriage.

4. Sales:

Items	Details	Total
Soccer balls	3 500 units at R320 each	R1 120 000
Soccer jerseys	2 770 units at R400 each	R1 108 000

5. Financial indicators:

Items	Mark-up % on cost	Stock turnover rate
Soccer balls	48,5%	3,9 times p.a.
Soccer jerseys	?	? times p.a.

[40]

QUESTION 3**MANUFACTURING****(55 marks; 33 minutes)****3.1 BAKONA BIN MANUFACTURERS**

You are provided with information relating to Bakona Bin Manufacturers for the year ended 28 February 2009.

The business makes and sells only one type of product, namely plastic rubbish bins.

REQUIRED:

3.1.1 Prepare the following notes to the Production Cost Statement:

- Direct/Raw material cost (7)
- Direct labour cost (7)
- Factory overhead cost (16)

3.1.2 Prepare the Production Cost Statement. (10)

3.1.3 Calculate the unit cost of production per plastic bin completed. (3)

INFORMATION:**1. Units produced:**

58 000 bins were completed during the financial year.

2. Stock balances:

	1 March 2008	28 February 2009
Direct/Raw material stock	R57 900	R34 200
Work-in-process stock	169 500	120 600
Factory indirect material stock	8 100	7 400

3. Transactions for the year:

	R
Raw material purchased for cash and on credit	1 622 700
Defective raw material returned to suppliers	23 100
Carriage on raw materials purchased	28 800
Salaries:	
• Factory foreman	241 000
• Office workers	270 000
Wages:	
• Office workers	48 000
• Factory workers in the production process (see Information 4 below)	?
UIF contributions (to be allocated to each specific cost account):	
• Factory workers in the production process	11 520
• Factory foreman	2 410
• Office workers	2 700
Factory indirect material purchased	125 900
Sales of finished goods (R120 per unit)	7 800 000
Commission to salespersons (10% of sales)	?
Advertising	145 000
Factory maintenance	85 000
Bad debts	8 400
Rent to be allocated in proportion to floor space (see Information 5 below)	133 000
Bins stolen (rand value)	960
Water and electricity (see Information 6 below)	36 000
Depreciation on factory equipment	52 000
Sundry administration expenses	150 800
Sundry factory expenses	25 000

4. Factory workers in the production process:

Number of factory employees working directly on the bins (unchanged throughout the year)	12 employees
Number of normal hours worked by each factory worker during the year	1 600 hours
Number of overtime hours worked by each factory worker during the year	240 hours
Wage rate (normal)	R 60 per hour
Wage rate (overtime)	R100 per hour

5. Floor space:

	Factory	Office	Sales dept.
Square metres	1 200 sq. metres	600 sq. metres	600 sq. metres

6. Water and electricity:

15% of the amount is allocated to the office and 25% to the sales department.
The rest applies to the factory.

3.2 KOOL MANUFACTURERS

This business makes plastic vuvuzelas.

The information below relates to the year ended 30 June 2009.

Number of vuvuzelas produced	12 000
Sales for the year (all manufactured units were sold)	R480 000
Total fixed costs	R210 000
Total variable costs	R300 000

- 3.2.1 Give ONE example of a fixed cost and ONE example of a variable cost. (2)
- 3.2.2 Explain why it is important to calculate the expected break-even point for a business before the start of a financial year. (2)
- 3.2.3 Use the figures above to calculate the break-even point. (5)
- 3.2.4 Comment on your calculation in QUESTION 3.2.3. What advice would you offer Kool Manufacturers? Briefly explain. (3)
- [55]**

QUESTION 4**FINANCIAL STATEMENTS AND AUDIT****(70 marks; 42 minutes)****4.1 SIMPHIWE LIMITED**

You are provided with the Pre-Adjustment Trial Balance of Simphiwe Limited. The company buys and sells uniforms and they also repair uniforms for their customers, for which they charge a fee. These fees are credited to the Fee Income Account in the General Ledger.

REQUIRED:

- 4.1.1 Refer to Information 2J below.
Calculate the profit or loss on disposal of the computer. Show workings. You may prepare an Asset Disposal Account to identify the figure. (8)
- 4.1.2 Complete the Income Statement for the year ended 30 September 2009. The notes to the financial statements are NOT required. (47)

INFORMATION:

1. SIMPHIWE LTD
PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 SEPTEMBER 2009

	DEBIT	CREDIT
Balance Sheet Accounts Section	R	R
Ordinary share capital		1 300 000
Share premium		170 730
Retained income (1 October 2008)		170 000
Loan from Stay Bank		90 000
Land and buildings at cost	1 628 520	
Vehicles at cost	220 000	
Equipment at cost	190 000	
Accumulated depreciation on vehicles (1 October 2008)		41 000
Accumulated depreciation on equipment (1 October 2008)		37 000
Debtors' control	36 600	
Creditors' control		17 960
Trading stock	479 000	
Bank		13 500
Petty cash	2 200	
SARS – Income tax	83 500	
Provision for bad debts		1 440

Nominal Accounts Section	R	R
Sales		2 720 000
Cost of sales	1 310 000	
Debtors' allowances	6 200	
Salaries and wages	162 000	
Discount allowed	905	
Fee income		104 750
Rent income		56 000
Insurance	11 000	
Sundry expenses	39 250	
Directors' fees	390 000	
Audit fees	53 705	
Consumable stores	24 000	
Interest income		2 500
Ordinary share dividends	88 000	

2. ADJUSTMENTS:

- A. Prepaid expenses in respect of sundry expenses at the year-end, R3 200, have not been taken into account.
- B. On 30 September 2009, R580 was received from A Ethic, whose account had previously been written off as irrecoverable. The amount was entered in the Debtors' Control column in the Cash Journal.
- C. The provision for bad debts must be adjusted to R1 830.
- D. There were two directors at the start of the accounting period. Directors' fees have been paid for the first half of the accounting period. On 1 April 2009, a third director was appointed. All three directors earn the same monthly fee. Provide for the outstanding fees owed to the directors.
- E. Rent has been received for 14 months.
- F. The following credit note was left out of the Debtors' Allowances Journal for September in error. The mark-up on goods sold was 50% on cost.

SIMPHEWE LTD		CREDIT NOTE 4533	
		28 Sept. 2009	
Credit:	Supaclean Ltd PO Box 340, Westmead, 3610	Unit price	Total
24	Uniforms returned	R400	R9 600
	Reduction on fee charged for repair of uniforms		R 750
			R10 350

G. A physical stock count on 30 September 2009 reflected the stock of uniforms on hand as R490 000.

H. The loan statement from Stay Bank reflected the following:

Balance at beginning of financial year	R 150 000
Repayments during the year	R 78 000
Interest capitalised	R ?
Balance at end of financial year	R 90 000

I. Depreciation on vehicles is calculated at 20% p.a. on the diminishing-balance method.

J. Depreciation on equipment is calculated at 10% p.a. on the cost price. Note that an item of equipment was taken over by one of the directors, Ivor Steele, on 30 June 2009 for personal use for R800 cash. The relevant page from the Fixed Asset Register is provided below. No entries have been made in respect of the disposal of this asset.

FIXED ASSET REGISTER		Page 12	
Item: VYE Computer		Ledger Account: Equipment	
Date Purchased: 1 April 2006		Cost Price: R22 000	
Depreciation Policy: 10% p.a. on cost price			
Date	Depreciation calculations	Current Depreciation	Accumulated Depreciation
2006 30 September	$R22\ 000 \times 10\% \times 6/12$	R1 100	R1 100
2007 30 September	$R22\ 000 \times 10\% \times 12/12$	R2 200	R3 300
2008 30 September	$R22\ 000 \times 10\% \times 12/12$	R2 200	R5 500
2009 30 June	?	R ?	R ?

K. Income tax for the year amounts to R63 280.

- 4.2 You are provided with the following extract taken from the report of the independent auditors.

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

Paragraph 1 We have audited the annual financial statements of Simphiwe Limited set out on pages 8 to 17 for the year ended 30 September 2009. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Paragraph 2 **An audit includes:**

- Examining, on a test basis, evidence supporting the amounts in the financial statements;
- Assessing the accounting principles used and significant estimates made by management;
- Evaluating the overall financial statement presentation.

Paragraph 3 **Audit opinion**

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 September 2009 and the results of their operations and cash flow for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 1973 (Act 61 of 1973) in South Africa.

Bailey & Nokwe, Chartered Accountants (SA) 10 Nov. 2009

REQUIRED:

- 4.2.1 Explain why it is important for the independent auditor to be a member of a professional body. (2)
- 4.2.2 Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain. (2)
- 4.2.3 Refer to the underlined words in paragraph 2.
- (a) Give ONE example of 'evidence' that an auditor would use. (2)
- (b) Give ONE example of the 'accounting principles' he/she would assess as part of the audit. Explain why the auditor would inspect this principle. (3)
- 4.2.4 Refer to paragraph 3. Explain why you would be satisfied with this audit opinion. (2)
- 4.2.5 Refer to the disposal of the computer for R800 in Information 2J of QUESTION 4.1. Another director, Sam Smith, has complained that Ivor Steele has acted unethically in taking over the computer for R800. Ivor disagrees.
- (a) Give ONE opinion to support Sam.
- (b) Give ONE opinion to support Ivor. (4)

[70]

QUESTION 5**CASH-FLOW STATEMENT AND RATIO ANALYSIS****(70 marks; 43 minutes)**

The information given below was extracted from the financial statements of Manchester Ltd, distributors of exquisite perfumes.

REQUIRED:

- 5.1 Prepare the following:
- 5.1.1 Complete the note for reconciliation between profit before taxation and cash generated from operations. (8)
 - 5.1.2 Prepare the Cash-Flow Statement for the year ended 28 February 2009. (28)
- All workings must be shown in brackets to earn part-marks.
- 5.2 Calculate the following for 2009:
- 5.2.1 Current ratio (3)
 - 5.2.2 Acid-test ratio (4)
 - 5.2.3 Net asset value per share (4)
 - 5.2.4 Debt/Equity ratio (Gearing ratio) (3)
- 5.3 Explain why the directors decided to reduce the long-term loan significantly during the current financial year. In your opinion, was this a wise decision? Explain, quoting evidence (figures/financial indicators) from the question. (6)
- 5.4 Comment on the return on shareholders' equity, earnings and dividends earned by the shareholders. Quote evidence (figures/financial indicators) from the question. (6)
- 5.5 Calculate the premium at which the new shares were issued. (5)
- 5.6 The existing shareholders are unhappy with the price at which the additional shares were sold. Discuss, quoting ONE figure or financial indicator to support your answer. (3)

INFORMATION:

1.	Extract from the Income Statement	R
	Depreciation	33 500
	Interest expense	164 450
	Net profit before tax	844 300
	Income tax (rate 30% of net profit)	?

2.	BALANCE SHEET	28 February 2009	28 February 2008
	ASSETS		
	Non-current assets	3 490 885	3 017 500
	Fixed/Tangible assets at carrying value	3 440 885	2 967 500
	Fixed deposit at PDV Bank	50 000	50 000
	Current assets	320 000	231 250
	Inventories	251 250	110 250
	Trade debtors	60 000	76 000
	Cash and cash equivalents	1 250	45 000
	SARS – Income tax	7 500	0
	TOTAL ASSETS	3 810 885	3 248 750
	EQUITY AND LIABILITIES		
	Capital and reserves	3 120 000	1 443 000
	Ordinary share capital (par value R5)	2 085 000	1 050 500
	Share premium	268 970	0
	Retained income	766 030	392 500
	Non-current liabilities	300 000	1 525 000
	Loan: Enid Bank at 15% p.a.	300 000	1 525 000
	Current liabilities	390 885	280 750
	Trade creditors	209 945	220 475
	Bank overdraft	47 500	0
	Shareholders for dividends	133 440	52 525
	SARS – Income tax	0	7 750
	TOTAL EQUITY AND LIABILITIES	3 810 885	3 248 750

3. ADDITIONAL INFORMATION:

- A. Additional new shares were issued at a premium halfway through the year on 31 August 2008. These shares did not qualify for interim dividends.
- B. Fixed assets were sold for R100 000 cash at carrying value.
- C. Earnings and dividends per share were as follows:

	2009	2008
Earnings per share	189 cents per share	135 cents per share
Total dividends	72 cents per share	105 cents per share
Interim dividends	40 cents per share	80 cents per share
Final dividends	32 cents per share	25 cents per share

- D. You are also provided with the following financial indicators:

	2009	2008
% return on shareholders' equity	26%	21%
% return on capital employed (after tax)	24%	10%
Net asset value per share	?	687 cents

- E. The price of the shares on the Johannesburg Securities Exchange (JSE) has fluctuated between 680 cents and 780 cents over the past year.

[70]

QUESTION 6**DEBTORS' COLLECTION AND CASH BUDGET****(30 marks; 18 minutes)**

Africa Ceramics is owned by Joe Tyler. He sells a wide range of ceramic tiles. The following information was extracted from the books:

REQUIRED:

- 6.1 Complete and total the Debtors' Collection Schedule for November and December 2009. (13)
- 6.2 Refer to Information 3 below. Compare the budgeted figures to the actual figures for October to comment on each of the following. State TWO points in each case. (6)
- Advertising
 - Repairs and maintenance
 - Delivery expenses
- 6.3 Joe is pleased that the number of customers has increased. You do not share his opinion that this increase in customers is good. (4)
- (a) Explain TWO problems you have identified and quote figures from the question to support your answer. (4)
- (b) Give ONE point of advice in each case. (4)
- 6.4 By looking at the Cash Budget in Information 3 and assuming all other items are in line with the budget, would you expect the bank balance at the end of October to be favourable or unfavourable? Give a reason for your answer. (3)

INFORMATION:

1. DEBTORS' COLLECTION SCHEDULE OF AFRICA CERAMICS FOR THE PERIOD ENDING 31 DECEMBER 2009

Month	Credit sales R	DEBTORS' COLLECTION		
		October 2009 R	November 2009 R	December 2009 R
August	360 000	64 800		
September	540 000	270 000		
October	450 000	129 600		
November	420 000			
December	420 000			
TOTALS		464 400		

2. EXPECTED COLLECTION FROM DEBTORS:

- 75% of all sales are expected to be on credit.
- 30% of debtors settle accounts during the transaction month to benefit from a 4% discount for prompt payment.
- 50% of debtors settle accounts in the month following the transaction month.
- 18% settle accounts during the second month after the transaction month.
- 2% is written off as irrecoverable after 60 days.

3. BUDGETED AND ACTUAL FIGURES:

At the end of October, the following actual figures were identified and compared to the budgeted figures:

From the Projected Income Statement:	OCTOBER BUDGET R	OCTOBER ACTUAL R
Total sales	600 000	672 000
Cash sales	150 000	70 000
Credit sales	450 000	602 000

From the Cash Budget:	OCTOBER BUDGET R	OCTOBER ACTUAL R
Collections from debtors	464 400	238 588
Purchase of trading stock	375 000	420 000
Advertising	15 000	25 000
Repairs and maintenance	16 500	3 800
Delivery expenses	20 000	42 000
Bank balance at end of month	120 000	?

[30]**TOTAL: 300**