basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

FEBRUARY/MARCH 2017

MARKS: 300

TIME: 3 hours

This question paper consists of 17 pages and a 16-page answer book.

INSTRUCTIONS AND INFORMATION

Read the 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 earn 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: 30 marks; 20 minutes	
Topic of the question:	**This question integrates:**
VAT and Reconciliation	**Financial accounting** Concepts VAT calculations Bank reconciliation **Managing resources** Internal control

QUESTION 2: 40 marks; 25 minutes	
Topic of the question:	**This question integrates:**
Inventory Valuation and Problem-solving	**Managerial accounting** Concepts Inventory valuation **Managing resources** Internal control

QUESTION 3: 75 marks; 45 minutes	
Topic of the question:	**This question integrates:**
Company Financial Statements and Interpretation	**Financial accounting** Income statement Balance sheet and notes Interpretation of financial information

QUESTION 4: 70 marks; 40 minutes	
Topic of the question:	**This question integrates:**
Cash Flow Statement and Interpretation	**Financial accounting** Concepts Cash Flow Statement Interpretation of financial information **Managing resources** Internal control

QUESTION 5: 45 marks; 25 minutes	
Topic of the question:	**This question integrates:**
Manufacturing	**Managerial accounting** Production Cost Statement Break-even calculation **Managing resources** Internal control

QUESTION 6: 40 marks; 25 minutes	
Topic of the question:	**This question integrates:**
Budgeting	**Managerial accounting** Cash Budget and calculations **Managing resources** Internal control

QUESTION 1: VAT AND RECONCILIATION **(30 marks; 20 minutes)**

1.1 **CONCEPTS**

REQUIRED:

Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–D) next to the question number (1.1.1–1.1.3) in the ANSWER BOOK, for example 1.1.4. E.

COLUMN A	COLUMN B
1.1.1 School fees	A VAT received by the trader for the sale of merchandise
1.1.2 Output VAT	B an example of a VAT-exempt item
1.1.3 VAT vendor	C VAT is included in the selling price
	D a business with an annual turnover of more than R1 000 000

(3 x 1) (3)

1.2 **VALUE-ADDED TAX (VAT)**

Thanda Traders is a VAT-registered business. All items are subject to VAT at 14%.

REQUIRED:

1.2.1 Calculate the amount of VAT either receivable from or payable to SARS on 31 July 2016. Indicate whether this amount is receivable or payable. (9)

1.2.2 The owner wants to change the VAT amount on bad debts from R840 to R4 200. Give ONE reason why you would disagree with him. (2)

INFORMATION:

The following transactions relate to Thanda Traders for the VAT period ended 31 July 2016:

A	Balance owing by SARS on 1 July 2016	R16 800
B	Purchase of trading stock (VAT exclusive)	R825 000
C	Cash and credit sales (VAT inclusive)	R1 539 000
D	VAT on discount received from suppliers	R1 120
E	VAT on bad debts written off	R840

1.3 **BANK RECONCILIATION**

The following information relates to Sizwe Traders for July 2016.

REQUIRED:

1.3.1 Calculate the correct balance of the Bank Account in the General Ledger on 31 July 2016. State if this balance is favourable or unfavourable. (8)

1.3.2 Prepare the Bank Reconciliation Statement on 31 July 2016. (6)

1.3.3 **Refer to Information C.**
Explain ONE internal control measure that the business should implement to ensure that this will not happen in the future. (2)

INFORMATION:

A. Extract from the Bank Reconciliation Statement on 30 June 2016:

Favourable balance as per Bank Statement	R42 555
Outstanding deposit: (dated 11 June 2016)	R37 800
Outstanding cheques:	
No. 186 (dated 22 January 2016)	R450
No. 305 (dated 30 August 2016)	R8 400

B. The balance in the Bank Account was provisionally calculated as a favourable balance of R16 785 on 31 July 2016, before taking into account the items listed below.

C. Cheque No. 186 does not appear on the Bank Statement for July 2016.

D. The following items appeared only on the July Bank Statement:

- Interest earned on favourable bank balance, R285
- Bank charges, R950
- Unidentified debit order of R1 950. The bank promised to correct this error on the August 2016 Bank Statement.

E. Cheque No. 374 appeared correctly on the Bank Statement as R8 450. The Cash Journal shows it as R4 850.

F. The outstanding deposit of R37 800 does not appear on the Bank Statement for July 2016. An investigation revealed that this money was never deposited. The cashier has disappeared.

G. The following entries were only in the Cash Journals for July 2016:

- A deposit of R27 180 made on 31 July 2016
- Cheque No. 401 (dated 18 July 2016), R18 600

H. The balance on the Bank Statement on 31 July 2016 is the missing figure.

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QUESTION 2: INVENTORY VALUATION AND PROBLEM-SOLVING

(40 marks; 25 minutes)

2.1 CONCEPTS

Complete the following sentences by filling in the missing words. Write only the words next to the question number (2.1.1–2.1.3) in the ANSWER BOOK.

2.1.1 The method that is appropriate for very expensive, individually recognisable items is the … method. (1)

2.1.2 The method that assumes that the older stock is sold first is the … method. (1)

2.1.3 The method that divides the total cost of goods available for sale by the number of units is the … method. (1)

2.2 AB SPORT SHOP

André Brand is the owner of this business. This business uses the periodic inventory system.

2.2.1 Calculate the unit price of cricket bats on 1 July 2015. (2)

2.2.2 Calculate the value of the stock on hand on 30 June 2016 using the weighted-average method. (10)

2.2.3 Calculate the gross profit on 30 June 2016. (5)

2.2.4 Calculate how long (in days) it is expected to sell the closing stock of 465 cricket bats. Use the closing stock in your calculation. (4)

2.2.5 André is concerned about the control of cricket bats.

- Provide a calculation to support his concern. (5)
- How can André solve this problem? Explain ONE point. (2)

INFORMATION:

A. STOCK OF CRICKET BATS

	UNITS	UNIT PRICE	TOTAL
Opening stock (1 July 2015)	350	**?**	R420 000
Closing stock (30 June 2016)	465	**?**	**?**

B. PURCHASES, RETURNS AND CARRIAGE

	UNITS	UNIT PRICE	TOTAL
Purchases	**3 150**		**R4 302 500**
September 2015	1 100	R1 250	R1 375 000
January 2016	950	R1 350	R1 282 500
March 2016	650	R1 475	R958 750
June 2016	450	R1 525	R686 250
Returns (from June purchases)	20	**?**	**?**

Carriage on purchases:
- Total transport cost of stock purchased during the year is R110 400.
- No refund was received for carriage on the returns.

C. SALES

Total sales of R5 400 000 comprised 3 000 cricket bats sold at R1 800 each.

2.3 **PROBLEM-SOLVING**

Best Phones sells one brand of cellphone. The owner, Bennie Roos, has three branches in different shopping malls. The table below reflects annual figures of the branches for the financial year ended 28 February 2017 as presented by the bookkeeper.

REQUIRED:

Identify ONE problem relating to each branch. Quote figures to support your answer. In EACH case, offer Bennie advice. (9)

INFORMATION FOR 2017	PARYS BRANCH	PRETORIA BRANCH	POFADDER BRANCH
Number of cellphones available for sale	440	390	280
Number of orders received	110	300	400
Number of cellphones sold	110	300	280
Closing stock	330	90	0
Selling price per cellphone	R7 200	R6 000	R6 400
Mark-up percentage	80%	50%	60%
Amount deposited during the year	R792 000	R1 680 000	R1 792 000

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QUESTION 3: COMPANY FINANCIAL STATEMENTS AND INTERPRETATION (75 marks; 45 minutes)

You are provided with information from the records of Gandhi Ltd for the financial year ended 28 February 2017.

REQUIRED:

3.1 Complete the Income Statement for the year ended 28 February 2017. Note that some information is included in the ANSWER BOOK. (33)

3.2 Prepare the following notes to the Balance Sheet:

3.2.1 Ordinary share capital (10)

3.2.2 Retained income (10)

3.3 Complete the EQUITY AND LIABILITIES section of the Balance Sheet. Show workings in brackets. (16)

3.4 On 1 March 2016, B Sly (a shareholder) owned 400 000 ordinary shares. On 31 March 2016, she bought an additional 80 000 shares.

On 28 February 2017, she convinced the CEO to repurchase 250 000 shares from other shareholders.

3.4.1 Calculate B Sly's percentage shareholding in the company before and after the share buy-back. (4)

3.4.2 Explain why the other shareholders will be concerned about this transaction. (2)

INFORMATION:

A. The following balances/totals, amongst others, appeared in the books on 28 February 2017:

	R
Ordinary share capital	**?**
Retained income	**?**
Loan: Anca Bank	433 500
Trading stock (before the annual stock take)	231 700
Debtors' control	540 000
Provision for bad debts (1 March 2016)	19 600
Creditors' control	395 200
SARS: Income tax (provisional tax payments)	360 000
Rent income	61 900
Interest income	**?**
Sundry expenses	**?**
Directors' fees	605 500
Audit fees	29 000
Ordinary share dividends (interim)	420 000

B. The **gross profit** for the year ended 28 February 2017 was calculated at R3 150 000. A mark-up of 60% on cost was achieved.

C. The following adjustments must still be brought into account:

- Stocktaking on 28 February 2017 reflected trading stock of R207 500 on hand.
- Provision for bad debts must be increased to R21 600.
- One third ($^1/_3$) of the audit fee was still due on 28 February 2017.
- One of the three directors is still owed his fee for February 2017. All three directors received the same monthly fee.
- A vacant storeroom was rented out from 1 June 2016. On 1 January 2017 the rent was increased by R2 700 per month. The rent for February 2017 is outstanding.
- Sundry expenses are the balancing figure.

D. Loan: Anca Bank

Interest on the loan is capitalised, but no entry has been made in the books. A monthly instalment of R5 200 (including interest) is paid. This was taken into account. The loan statement showed a closing balance of R487 000. The company plans to increase their loan repayments in order to settle 20% of the loan balance in the next financial year.

E. Operating profit on sales was 14,5%.

F. Income tax at 32% of the net profit amounted to R396 800.

G. Share capital and dividends:

- The company is registered with an authorised share capital of 1 200 000 ordinary shares.
- 85% of the authorised shares were in issue on 1 March 2016.
- On 31 March 2016, the directors issued all the unissued shares. EFT payments totalling R756 000 were received.
- On 27 February 2017, the company repurchased 250 000 shares at R4,15 per share.
- An interim dividend was paid on 6 September 2016.
- A final dividend of 25 cents per share was declared on 28 February 2017. All shareholders (including the shares repurchased) were entitled to final dividends. This must still be brought into account.

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QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION

(70 marks; 40 minutes)

4.1 **CONCEPTS**

Choose the correct term to complete each of the following statements. Write only the term next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

working capital; inflow of cash; interest on loan; outflow of cash; depreciation

4.1.1 An increase in trading stock will indicate a/an … (1)

4.1.2 The difference between current assets and current liabilities is referred to as … (1)

4.1.3 … is regarded as a non-cash item. (1)

4.1.4 A decrease in debtors will indicate a/an … (1)

4.2 **BRAZILIA LTD**

The following information relates to Brazilia Ltd for the financial year ended 31 October 2016.

REQUIRED:

4.2.1 State ONE purpose of a Cash Flow Statement. (2)

4.2.2 Complete the Cash Flow Statement for the year ended 31 October 2016. Some of the figures have already been entered for you. (27)

4.2.3 Calculate the following financial indicators for the financial year ended 31 October 2016. Round off your calculation to ONE decimal point or to the nearest cent, where applicable.

- Acid-test ratio (4)
- % return on shareholder's equity (ROSHE) (4)
- Earnings per share (EPS) (3)

INFORMATION:

A. Extract from the Income Statement for the year ended 31 October 2016:

Depreciation	154 000
Interest on loan	336 000
Net profit before tax	1 938 600
Income tax	560 000
Net profit after tax	1 378 600

B. Figures identified from the Balance Sheet on 31 October:

	Average	2016	2015
	R	R	R
Fixed assets at carrying value		10 041 000	8 878 000
Fixed deposit: Granite Bank		760 000	1 000 000
Non-current liability: Loan from Metal Bank	2 625 000	2 450 000	2 800 000
Current assets		1 186 600	1 191 200
Current liabilities		1 236 000	1 359 200
Ordinary shareholders' equity	7 605 800	8 301 600	6 910 000
Retained income		1 021 600	960 000
Ordinary share capital		7 280 000	5 950 000

C. Figures extracted from the notes to the Balance Sheet on 31 October:

	2016	2015
	R	R
Shareholders for dividends	656 000	595 000
SARS (Income tax)	Debit 28 500	Credit 41 750
Debtors' control	527 000	816 200
Creditors' control	580 000	374 000
Bank	Debit 174 500	Credit 348 450
Petty cash	5 000	3 000
Trading stock	451 600	372 000

D. Share capital

- The authorised share capital of the company is 5 000 000 shares.
- 700 000 shares were in issue on 31 October 2015, the last day of the previous financial year.
- 120 000 new shares were issued on 1 November 2015, the beginning of the current financial year.
- 20 000 shares were repurchased on 31 October 2016 at R15,50 each. The average issue price of the shares on the date of repurchase was R9,10 per share. These shares qualify for final dividends.

E. Dividends

The directors paid an interim dividend of R533 000 on 28 May 2016.

F. Fixed assets

- Extensions to the building were undertaken at a cost of R1 360 000 during the financial year. No other fixed assets were purchased.
- Equipment was sold at carrying value during the financial year.

4.3 GRAYSON LTD AND JONI LTD

The financial indicators and other information given refer to TWO different companies, Grayson Ltd and Joni Ltd. Both companies are listed on the stock exchange.

NOTE: When answering the questions below, quote the relevant financial indicators with actual figures (percentages/ratios and/or amounts).

REQUIRED:

4.3.1 Which company is NOT handling its working capital effectively? Explain what the main problem is in respect of their working capital, by quoting TWO financial indicators. (7)

4.3.2 The companies have made different decisions regarding the use of loans. Comment on the degree of risk and financial gearing. Give ONE financial indicator in EACH case for EACH company. (7)

4.3.3 The dividend policy used by each company has been maintained for the past four years. Explain the policy used by EACH company. Provide figures to support your explanation in EACH case. (6)

4.3.4 Should EACH company be satisfied with its share price on the JSE? Explain. Provide figures. (6)

INFORMATION:

The following financial indicators/other information is from the records of Grayson Ltd and Joni Ltd on 31 March 2016, the financial year-end:

	GRAYSON LTD	**JONI LTD**
Current ratio	1,65 : 1	4,40 : 1
Acid-test ratio	1,20 : 1	0,85 : 1
Stock-holding period	38 days	184 days
Return on average shareholders' equity (ROSHE)	16,1%	8,9%
Debt-equity ratio	0,85 : 1	0,1 : 1
Return on average total capital employed (ROTCE)	27%	4%
Earnings per share (EPS)	540 cents	730 cents
Dividends per share (DPS)	528 cents	292 cents
Net asset value per share (NAV)	1 200 cents	425 cents
Market price per share on the JSE	875 cents	763 cents
Interest rate on loans	14%	14%
Interest rate on fixed deposits	8%	8%
Percentage dividend pay-out	98%	40%

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QUESTION 5: MANUFACTURING (45 marks; 25 minutes)

5.1 MOSES MANUFACTURERS

The following information relates to Moses Manufacturers, a small business that manufactures photo frames. The financial year ended on 30 April 2016.

REQUIRED:

5.1.1 Prepare the Production Cost Statement for the year ended 30 April 2016. (16)

5.1.2 Complete the abridged (shortened) Income Statement to calculate the net profit for the year ended 30 April 2016. (8)

INFORMATION:

A.

Stock records	30 APRIL 2016	30 APRIL 2015
Raw material stock	R58 560	R37 600
Work-in-process stock	**?**	R142 000

- Purchases of raw materials for the financial year amounted to R555 000.
- Defective material valued at R21 000 was returned to suppliers.

B. The business produced 39 000 units at a cost of R45 each.

C. The following information was calculated on 30 April 2016.

	R
Direct material cost	**?**
Direct labour cost	716 960
Factory overhead cost (See D below.)	468 450
Selling and distribution cost (See D below.)	609 850
Administration cost (See D below.)	443 950
Cost of production of finished goods	**?**
Gross profit	1 250 000

D. The following items must be taken into account:

- Administration cost includes the annual insurance premium of R22 750; however, 60% must be allocated to the factory.
- Factory overhead cost includes the full amount of rent paid, R36 300. However, this should have been allocated according to floor area. The areas are: factory 400 square metres, office 120 square metres, shop 80 square metres.

5.2 UNIT COSTS AND BREAK-EVEN ANALYSIS

Bill's Manufacturers is a business that produces pencil cases. Bill is concerned about his cost of production.

REQUIRED:

5.2.1 Explain the difference between *fixed cost* and *variable cost*. (2)

5.2.2 Calculate the break-even point for 2017. (5)

5.2.3 Comment on the break-even point and the level of production for 2016 and 2017. Explain why the owner should be satisfied or not. (6)

5.2.4 Identify the variable cost that should be of great concern to the owner. Explain and provide a calculation to support your answer. (4)

5.2.5 Despite the fact that there was a decrease in the fixed costs per unit, the owner is still not satisfied with his control over the fixed costs. Explain and provide calculation(s) to support his opinion. (4)

INFORMATION:

	PENCIL CASES UNIT COSTS	
	2017	**2016**
Variable costs	**R11,60**	**R11,00**
Direct material cost	6,03	5,80
Direct labour cost	4,05	3,50
Selling and distribution cost	1,52	1,70
Fixed cost	**R5,40**	**R5,50**
Factory overhead cost	3,50	3,65
Administration cost	1,90	1,85
Selling price per unit	R17,80	R16,50
	Units	**Units**
Units produced and sold	80 000	65 000
Break-even units	**?**	65 000

NOTE: Take the inflation rate of 8% into account.

45

QUESTION 6: BUDGETING (40 marks; 25 minutes)

You are provided with the incomplete Debtors' Collection Schedule and Cash Budget of Zeppe Bazaar.

REQUIRED:

6.1 Calculate the expected monthly percentage of goods sold on credit. (4)

6.2 Complete the Debtors' Collection Schedule for March 2017. (5)

6.3 The owner wants to improve the control over debtors. Credit terms are 30 days.

6.3.1 Explain why the owner is concerned. Give TWO reasons with supporting figures. (4)

6.3.2 Suggest ONE solution for this problem. (2)

6.4 Calculate the following:

6.4.1 **(a)** and **(b)** as provided in the budget. Use budgeted figures in your calculations. (11)

6.4.2 The percentage increase in rent on 1 March 2017 (4)

6.4.3 The amount of the interest on the investment expected to be received in March 2017 (4)

6.5 **Refer to Information H.**
Identify TWO payments that you consider to be poorly managed in February 2017. In EACH case, give a suggestion to improve the internal control of the items identified. (6)

INFORMATION:

A. The Debtors' Collection Schedule for February and March 2017

MONTH	CREDIT SALES	FEBRUARY	MARCH
December 2016	74 000	16 280	
January 2017	68 000	27 200	**?**
February 2017	70 000	24 010	**?**
March 2017	64 000		**?**
Cash from debtors		67 490	**?**

B. Debtors are expected to pay as follows:

- 35% is paid in the month of sale. They receive a 2% discount.
- 40% is paid in the month following the sales month.
- 22% is paid two months after the sales month.
- 3% is bad debts.

C. All goods are sold at a profit mark-up of 25% on cost.

D. Stock sold is replaced in the month of sale (a stock base is maintained).

E. All stock is purchased on credit. Creditors are paid in the month following the month of purchase to receive a 5% early settlement discount.

F. The business employs four sales assistants on the same salary scale. They will receive an inflationary increase of 7,5%, effective from 1 March 2017. An additional sales assistant will be employed on 1 March 2017, but she will not receive the increase.

G. A fixed deposit matures on 31 March 2017. This will be received together with interest at 8% p.a. for the last quarter of its term.

H. EXTRACT FROM BUDGET FOR FEBRUARY 2017 AND MARCH 2017

	FEBRUARY		MARCH
	BUDGETED	**ACTUAL**	**BUDGETED**
Receipts			
Cash sales	17 500	18 640	16 000
Cash from debtors	67 490	43 870	**?**
Rent income	11 200	11 200	12 544
Fixed deposit (including interest)	-	-	16 830
Payments			
Payments to creditors (for stock)	68 000	68 000	**(a)**
Salaries: office staff	19 000	19 000	20 900
Salaries: sales assistants	20 800	20 800	**(b)**
Municipal services	10 600	10 600	11 000
Drawings	3 000	5 500	3 000
Stationery	1 200	2 600	1 200
Loan instalment	5 000	5 000	5 000
Maintenance of office equipment	3 800	1 500	3 800
Advertising	2 400	1 000	2 400

I. DEBTORS' AGE ANALYSIS ON 28 FEBRUARY 2017

Total owed	30 days	60 days	90 days	90+ days
R110 400	R53 000	R32 000	R17 800	R7 600
	48%	29%	16%	7%

40

TOTAL: 300