basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

FEBRUARY/MARCH 2018

MARKS: 300

TIME: 3 hours

This question paper consists of 18 pages and a 16-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 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: 40 marks; 25 minutes	
Topic:	**This question integrates:**
Debtors' Reconciliation and VAT	**Financial accounting** Debtors' reconciliation VAT calculations **Managing resources** Internal control and ethics

QUESTION 2: 35 marks; 20 minutes	
Topic:	**This question integrates:**
Inventory Valuation and Internal Control	**Managing resources** FIFO and weighted-average valuation methods Internal control

QUESTION 3: 45 marks; 25 minutes	
Topic:	**This question integrates:**
Manufacturing	**Managerial accounting** Production Cost Statement Break-even analysis **Managing resources** Internal control

QUESTION 4: 65 marks; 40 minutes	
Topic:	**This question integrates:**
Balance Sheet and Audit Report	**Financial accounting** Concepts Balance Sheet and notes **Managing resources** Audit process

QUESTION 5: 70 marks; 45 minutes	
Topic:	**This question integrates:**
Fixed Assets, Cash Flow and Interpretation	**Financial accounting** Cash Flow Statement Interpretation of financial information **Managing resources** Fixed assets

QUESTION 6: 45 marks; 25 minutes	
Topic:	**This question integrates:**
Projected Income Statement	**Managerial accounting** Calculations Interpretation of budgetary information **Managing resources** Internal control processes

QUESTION 1: DEBTORS' RECONCILIATION AND VAT (40 marks; 25 minutes)

1.1 DEBTORS' AGE ANALYSIS

The information below relates to Witbank Hardware.

REQUIRED:

1.1.1 Explain why the debtors' age analysis is considered to be an effective internal control measure. State ONE point. (2)

1.1.2 Explain TWO different problems highlighted by the debtors' age analysis. In EACH case, provide the name of a debtor and figure(s). (6)

INFORMATION:

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

B. Debtors' age analysis on 31 October 2017:

DEBTORS	CREDIT LIMIT	AMOUNT OWING	CURRENT MONTH	30 DAYS	60 DAYS	90 DAYS
Z Zulu	6 000	5 000	2 100	2 900		
P Botha	3 500	4 200	3 800	400		
M Valley	7 000	1 450	500			950
S Walker	13 000	12 500	1 000	3 000	4 500	4 000
O Klein	3 000	3 000	1 900		1 100	
		26 150	9 300	6 300	5 600	4 950
		100%	36%	24%	21%	19%

1.2 DEBTORS' RECONCILIATION

Information from the records of Amber Traders for November 2017 is presented. Some errors and omissions were noted. See information B.

REQUIRED:

1.2.1 Calculate the correct Debtors' Control Balance on 30 November 2017. Show figures and indicate '+', '–' or 'No change' at EACH adjustment. (7)

1.2.2 Calculate the correct total of the debtors' list on 30 November 2017. (10)

INFORMATION:

A. Balances on 30 November 2017 before errors and omissions:

(i) Debtors' Control, R25 700

(ii) Debtors' list:

	DEBIT	CREDIT
L Nkosi	R5 700	
S Muller	R11 100	
M Welthagen		R1 900
B Sandleni	R15 900	
	R32 700	R1 900

B. Errors and omissions:

(i) The total of the Debtors' Journal was undercast by R2 700.

(ii) Interest of R350 must be charged on the overdue account of S Muller.

(iii) An amount of R3 100 received from L Nkosi was incorrectly recorded as R1 300 in the Cash Receipts Journal and posted as such to the General Ledger and the Debtors' Ledger.

(iv) Trading stock returned by B Sandleni was posted to the wrong side of his Debtors' Ledger Account, R1 200.

(v) No entry was made for a credit sales invoice issued to M Welthagen, R1 500.

1.3 VAT

The information relates to Aqua Stores for the VAT period ended 31 July 2017. The business is owned by Nomvula Sithole. All goods sold are subject to 14% VAT.

REQUIRED:

1.3.1 Calculate the VAT amount that is either receivable from or payable to SARS on 31 July 2017. (11)

1.3.2 Nomvula has ordered goods with a marked price of R35 000 from Beta Suppliers.

The sales director of Beta Suppliers, Jim Frow, has offered to sell these goods to Nomvula for R15 000, provided that they do not have to issue an invoice.

Comment on the offer made by Jim. State TWO points. (4)

INFORMATION:

A. Amount owed by SARS on 1 July 2017, R27 200.

B. Amounts from the Journals on 31 July 2017:

DETAILS	EXCLUDING VAT	VAT AMOUNT	INCLUDING VAT
Total sales	R495 000	R69 300	R564 300
Purchases of stock	159 000	22 260	181 260
Stock returned by debtors	15 000	**?**	17 100
Bad debts	**?**	**?**	34 200

C. The following transactions were not taken into account:

- Stock taken by the owner, cost price R9 000 (excluding VAT).
- VAT on discount received from suppliers. Total discount received amounted to R33 630.

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QUESTION 2: INVENTORY VALUATION AND INTERNAL CONTROL

(35 marks; 20 minutes)

2.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (2.1.1–2.1.3) in the ANSWER BOOK.

2.1.1 Merchandise purchased is recorded as an (asset/expense) to the business in the perpetual inventory system. (1)

2.1.2 The (specific identification/weighted-average) stock valuation method is best suited for unique high-value products. (1)

2.1.3 Cost of sales is usually calculated at the end of the financial year in the (periodic/perpetual) inventory system. (1)

2.2 **MONGI TRADERS**

You are provided with information relating to Mongi Traders. The business sells one type of plastic table. Their financial year ends on 31 December. The business uses the FIFO method to value their stock. They use the periodic inventory system.

REQUIRED:

2.2.1 Calculate the value of the closing stock according to the FIFO method on 31 December 2017. (6)

2.2.2 Calculate the following for the year ended 31 December 2017:

- Cost of sales
- Gross profit (8)

2.2.3 The owner considers changing the stock valuation method to the weighted-average method.

- Calculate the value of the closing stock on 31 December 2017 by using the weighted-average method. (6)
- What will be the effect on the gross profit if the owner changes to this valuation method? Provide figures. (3)

INFORMATION:

A. Inventories:

DATE	NUMBER OF UNITS	PER UNIT	TOTAL VALUE
1 January 2017	540	R350	R189 000
31 December 2017	440	**?**	**?**

B. Purchases and returns in 2017:

Purchases:

DATE	NO. OF UNITS	PER UNIT	TOTAL PURCHASES	CARRIAGE PER UNIT	TOTAL CARRIAGE	TOTAL PURCHASE COST
31 Mar.	550	R370	R203 500		R13 750	R217 250
30 Jun.	900	R380	R342 000		R22 850	R364 850
30 Sep.	500	R350	R175 000	R25	R12 500	R187 500
30 Nov.	300	R400	R120 000	R30	R9 000	R129 000
Totals	**2 250**		**R840 500**		**R58 100**	**R898 600**

Returns:

DATE	NO. OF UNITS	PER UNIT	TOTAL RETURNS	CARRIAGE PER UNIT	TOTAL CARRIAGE
5 Jul.	50	R380	R19 000	0	0

These returns are from the purchases of June 2017. There is no refund for carriage.

C. Sales:

2 300 units at R600 each = R1 380 000

2.3 **INTERNAL CONTROL**

You are provided with information relating to Leno Furnishers. They sell tables, chairs and beds for cash only. The owner is concerned that the figures provided reflect poor internal control and decision-making.

Identify ONE problem for each product. Quote figures. In EACH case, give advice on how to solve the problem. (9)

INFORMATION:

Information from the records for the financial year:

	TABLES	CHAIRS	BEDS
Opening stock (units)	50	209	300
Units purchased	670	2 390	380
Units sold	600	2 400	480
Units as per physical count at year-end	90	199	200
Selling price per unit	R1 500	R800	R3 000
Total sales (amounts actually deposited)	R900 000	R1 800 000	R1 440 000

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QUESTION 3: MANUFACTURING (45 marks; 25 minutes)

3.1 GLAMOUR DRESS CREATIONS

Glamour Dress Creations manufactures one type of ladies' dress. The financial year ended on 28 February 2017.

REQUIRED:

3.1.1 Prepare the Production Cost Statement for the year ended 28 February 2017. (21)

3.1.2 Calculate the net profit for the year ended 28 February 2017. (7)

INFORMATION:

A. Stock balances, among others, were taken from the General Ledger:

	28 FEBRUARY 2017	1 MARCH 2016
Work-in-process stock	**?**	R76 000
Finished goods stock	R190 000	R110 000

B. Information extracted from the financial records on 28 February 2017:

Administration cost	R259 010
Raw/Direct material cost	918 550
Factory overhead cost	227 240
Selling and distribution cost	410 000
Net wages paid to factory workers (direct labour)	753 300
SARS: PAYE	48 600
UIF deductions	1%
Sales	**?**
Cost of sales	1 860 000

C. The following information has not been taken into account:

- A problem was identified regarding the valuation of the closing stock of raw materials: 5 000 metres of material on hand, with a unit cost of R2,75 per metre, were erroneously recorded as R3,80 per metre. This must be corrected.
- Rent expense was omitted from the figures above. Total rent paid for the financial year amounted to R87 100. The rent for March 2017 has been paid in advance. The rent was increased by R650 on 1 December 2016. 80% of this expense must be allocated to the factory and the balance must be regarded as an office expense.
- The employer contributes 1% to UIF on behalf of the employees.

D. The business uses a mark-up percentage of 75% on cost. During the financial year special discounts of R85 000 were offered to cash customers who bought in bulk.

3.2 LIGHTING SOLUTIONS

George Mkize is the owner of Lighting Solutions, a manufacturing business that produces one type of energy-saving light bulb. The financial year ended on 31 December 2017.

NOTE:

- Production is based on orders received; therefore there are no balances for work-in-process.
- The current inflation rate is 8%.

REQUIRED:

3.2.1 Calculate the factory overhead cost per unit for the year ended 31 December 2017. (2)

3.2.2 Explain why George would not be concerned about the 28,1% increase in total variable cost from R936 000 to R1 200 000. (3)

3.2.3 Give TWO reasons for the increase in the selling and distribution cost per unit. (2)

3.2.4 George wants to know if the production level for this financial year is satisfactory.

- Calculate the break-even point for the year ended 31 December 2017. (4)
- Comment on the production level for 2017. State TWO points. Quote figures. (4)

3.2.5 Lighting Solutions are considering importing raw materials because it is cheaper and of a higher quality. Name TWO aspects that they must consider before finalising their decision. (2)

INFORMATION:

Information from the records of Lighting Solutions on 31 December:

	2017		2016	
	TOTAL (R)	**UNIT COST (R)**	**TOTAL (R)**	**UNIT COST (R)**
Fixed costs:	**575 000**	**11,50**	**428 400**	**10,20**
Factory overhead cost	395 000	**(3.2.1)**	310 800	7,40
Administration cost	180 000		117 600	2,80
Variable costs:	**1 200 000**	**24,00**	**936 600**	**22,30**
Direct material cost	435 000	8,70	344 400	8,20
Direct labour cost	560 000	11,20	441 000	10,50
Selling and distribution cost	205 000	4,10	151 200	3,60
Selling price per unit	R45,00		R41,50	
Number of units produced and sold	50 000		42 000	
Break-even point (units)	**?**		22 313	

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QUESTION 4: BALANCE SHEET AND AUDIT REPORT (65 marks; 40 minutes)

4.1 Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–E) next to the question number (4.1.1–4.1.5) in the ANSWER BOOK.

COLUMN A	COLUMN B
4.1.1 Income Statement	A an explanation of the operations of the company during a financial year
4.1.2 Balance Sheet	B reflects whether or not the shareholders can rely on the financial statements
4.1.3 Cash Flow Statement	C reflects the profit/loss of the company for the year
4.1.4 Directors' report	D reflects the effect of the operating, financing and investing activities on the cash resources
4.1.5 Independent audit report	E reflects the net worth of the company

(5 x 1) (5)

4.2 **ORBIT LTD**

Refer to the information from the records of Orbit Ltd for the financial year ended 30 June 2017.

REQUIRED:

4.2.1 Prepare the following notes to the Balance Sheet:

(a) Ordinary share capital (8)

(b) Retained income (11)

4.2.2 Complete the Balance Sheet on 30 June 2017. Where notes are not required, show ALL workings in brackets. (28)

4.2.3 The CFO (chief financial officer), Barry Wright, has convinced the company to buy back a further 400 000 shares from his close relative during the next financial year. Barry currently owns 1 904 400 shares in this company, which is 46% of the issued shares.

As a shareholder, explain your concern regarding the proposed buy-back of shares. Provide calculations to support your concern. (6)

INFORMATION:

A. Extract from the books on 30 June 2017:

Fixed/Tangible assets (carrying value)	**?**
Fixed deposit: Morocco Bank	380 000
Ordinary share capital (1 July 2016)	3 150 000
Retained income (1 July 2016)	874 000
Bank (favourable)	250 700
Loan: Helping Bank	302 400
Trading stock	478 000
Debtors' control	317 000
Creditors' control	239 800
Income received in advance	6 600
SARS: Income tax (provisional payments)	390 000
Dividends on ordinary shares (interim dividends)	630 000

B. Share capital:

- The business has an authorised share capital of 6 000 000 shares.
- 70% of the shares were in issue on 1 July 2016.
- 60 000 ordinary shares were repurchased from a disgruntled shareholder on 1 December 2016. The company paid R3,50 per share. This was paid and recorded on 1 December 2016.

C. A final dividend of 22 cents per share was declared on 30 June 2017. Only shares in the share register qualify for final dividends.

D. The following adjustments have not been taken into account yet:

- Provision for bad debts is set at 5% of the outstanding debtors.
- Insurance included an annual premium of R31 800, paid for the period 1 October 2016 to 30 September 2017.

E. The loan statement from Helping Bank reflected the following:

Balance on 1 July 2016	R480 000
Repayments during financial year (including interest)	R177 600
Interest capitalised	R57 600
Balance on 30 June 2017	**?**

R40 000 of the loan will be paid back in the next financial year.

F. Income tax for the year amounted to R408 800. This was calculated at 28% of the corrected net profit.

4.3 **AUDIT REPORT: DF ENTERPRISES LTD**

REQUIRED:

4.3.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (4.3.1(a)–4.3.1(b)) in the ANSWER BOOK.

(a) The audit report is completed by the (internal/external) auditor. (1)

(b) The (directors/shareholders/auditors) are responsible for the preparation of the financial statements. (1)

4.3.2 Refer to the audit report below.

(a) The audit report below indicates a/an (qualified/unqualified) opinion. (1)

(b) Explain why the shareholders should be concerned about this audit report. State TWO points. (4)

INFORMATION:

EXTRACT FROM THE AUDIT REPORT OF DF ENTERPRISES LTD

Basis for Qualification of Opinion
Source documents for expenditure amounting to R550 000 could not be traced.

Audit Opinion
In our opinion, except for the effects of the unsubstantiated expenditure described in the **Basis for Qualification of Opinion** paragraph, the financial statements fairly represent the financial position of the company on 30 June 2017 and the results of their operations and cash flows for the year ended, in accordance with the International Financial Reporting Standards, and in the manner required by the Companies Act (Act 61 of 1973) of South Africa.

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QUESTION 5: FIXED ASSETS, CASH FLOW AND INTERPRETATION
(70 marks; 45 minutes)

MAFOKO LTD

The given information relates to Mafoko Ltd for the financial year ended 28 February 2017.

REQUIRED:

5.1 **Refer to Information A and Information B.**

Calculate the missing amounts denoted by **(a)** to **(c)** on the Fixed Asset Note. (15)

5.2 Calculate the following amounts for the Cash Flow Statement:

5.2.1 Income tax paid (5)

5.2.2 Dividends paid (3)

5.2.3 Net change in cash and cash equivalents (4)

5.3 Complete the Cash Effects of Financing Activities section of the Cash Flow Statement. (10)

5.4 Calculate the following financial indicators on 28 February 2017:

5.4.1 Debt-equity ratio (3)

5.4.2 Earnings per share (in cents) (3)

5.4.3 Return on average shareholders' equity (ROSHE) (5)

5.5 Explain why the directors felt that the 630 cents offered on the shares repurchased was a fair price. Quote TWO financial indicators with figures. (4)

5.6 The directors revised the dividend pay-out policy for the current financial year.

5.6.1 Calculate the percentage of earnings distributed as dividends for each year to show this change. (4)

5.6.2 Give ONE reason why the directors took this decision. (2)

5.6.3 Explain why the shareholders may not be satisfied with the return they earned. Quote a financial indicator or figure(s). (3)

5.7 The Cash Flow Statement reflects some important decisions taken by the directors.

Apart from the dividends, identify THREE good decisions. Explain the effect of each decision on the company. Quote figures. (9)

INFORMATION:

A. Information from the financial statements on 28 February:

	2017 R	**2016 R**
Depreciation	**?**	**?**
Interest expense	123 000	126 500
Net profit before income tax	422 500	157 500
Net profit after income tax	295 750	113 400
Fixed assets (carrying value)	4 934 450	3 993 390
Shareholders' equity	**4 375 250**	**3 135 000**
Ordinary share capital	4 117 500	3 000 000
Retained income	257 750	135 000
Non-current liabilities	750 000	1 300 000
Inventories (only Trading Stock)	288 000	363 000
Debtors	318 000	254 000
Creditors	287 000	367 000
Cash and cash equivalents	2 500	245 000
Bank overdraft	27 500	-
SARS: Income tax	5 200 (Cr)	3 390 (Cr)
Shareholders for dividends	98 000	50 000

B. Fixed Asset Note:
Fixed assets comprise only Buildings and Equipment.

	BUILDINGS	**EQUIPMENT**
Carrying value (01/03/2016)	2 866 990	1 126 400
Cost (01/03/2016)		2 200 000
Accumulated depreciation (01/03/2016)		(1 073 600)
Movements:		
Additions	**(a)**	300 000
Disposals		**(c)**
Depreciation		**(b)**
Carrying value (28/02/2017)		1 058 520
Cost (28/02/2017)		
Accumulated depreciation (28/02/2017)		

- Additional equipment was purchased on 1 June 2016.
- Extensions to the building were completed on 31 August 2016.
- Old equipment was sold at carrying value on 28 February 2017.
- Equipment is depreciated at 20% p.a. using the diminishing-balance method.

C. Share capital and dividends

- The company is registered with an authorised share capital of 1 000 000 ordinary shares.
- On 1 March 2016 there were 500 000 shares in issue. A further 200 000 shares were issued on this date.
- An interim dividend of R70 000 was paid on 31 August 2016.
- On 28 February 2017, 25 000 ordinary shares were repurchased from the estate of a deceased shareholder at R6,30 per share. The average issue price was R6,10 at this point.
- A final dividend was declared on 28 February 2017.

D. Financial indicators on 28 February:

	2017	**2016**
Debt-equity ratio	**?**	0,4:1
Earnings per share	**?**	23 cents
Dividend per share	24 cents	20 cents
Return on average shareholders' equity	**?**	3,6%
Return on total capital employed	11,4%	6,4%
Net asset value per share	648 cents	627 cents
Market price of shares (JSE)	640 cents	630 cents
Interest rate on loans	12%	11%
Interest on fixed deposits	9%	8%

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QUESTION 6: PROJECTED INCOME STATEMENT (45 marks; 25 minutes)

You are provided with information relating to Mabuso's Auto Repairs for the period 1 March 2018 to 30 April 2018. The business is owned by Vusi Mabuso.

- All transactions are strictly cash.
- The financial year ends on 30 April each year.
- The business repairs vehicles for which they charge service fees.
- If the repairs require new spare parts, these are charged to each customer's account separately.
- Consumable stores are used for repairing the vehicles. There is no charge for these items.

REQUIRED:

6.1 Calculate the:

6.1.1 Mark-up percentage on spare parts used in the Projected Income Statement for March 2018 (3)

6.1.2 % decrease in service fee income expected in April 2018 (3)

6.1.3 Additional space (in square metres) the business will rent from April 2018 (4)

6.1.4 Interest rate on the fixed deposit (5)

6.2 Comment on the control of stock and explain how Vusi intends to correct this. Quote figures. (4)

6.3 Vusi is considering changes to the fixed assets owned by the business.

6.3.1 Vusi is thinking of purchasing the business premises rather than renting it. State ONE advantage and ONE disadvantage of this option. (4)

6.3.2 Vusi offers a free delivery service of spare parts to customers, but plans to discontinue this service on 31 March 2018.

State TWO points to support this decision. (4)

6.3.3 Calculate the cost of the new vehicle that he plans to purchase on 1 April 2018. (4)

6.4 **Refer to information E.**

You are provided with the projected and actual figures for February 2018. Quote figures in your explanation in EACH case below.

6.4.1 Explain whether Water and electricity has been well controlled, or not. (3)

6.4.2 Explain whether you agree with Vusi's decision not to use the full budget for Advertising. (3)

6.4.3 Explain whether Consumable stores have been well controlled, or not. (4)

6.4.4 Explain how Vusi's decision about the mark-up percentage on spare parts has affected the business. (4)

INFORMATION:

A. Extract from the Projected Income Statement for the period 1 March 2018 to 30 April 2018:

	MARCH 2018	APRIL 2018
	R	R
Service fee income from customers	150 000	136 500
Profit on sale of spare parts	22 875	31 500
Sales	53 375	76 500
Cost of sales	(30 500)	(45 000)
Other operating income		
Profit on disposal of delivery vehicle	8 000	0
Gross operating income		
Operating expenses		
Rent expense (see B below)	6 000	9 200
Water and electricity	5 200	5 200
Motor vehicle expenses	7 500	1 500
Security expenses	5 000	9 200
Advertising	4 700	4 700
Consumable stores (used for repair service)	30 000	30 000
Repairs and maintenance of equipment	15 000	0
Depreciation on vehicles (see D below)	3 000	9 000
Depreciation on equipment	1 500	1 500
Trading stock deficit	14 000	2 000
Operating profit		
Interest on fixed deposit (see C below)	5 700	2 700
Net profit		

B. Rent expense is calculated on a fixed amount per square metre. The business will rent 75 square metres in March 2018. On 1 April 2018 additional floor space will be rented at the same rate due to expansion.

C. A fixed deposit of R450 000 will mature on 31 March 2018.

D. Vehicles:

ITEM	COST PRICE	ACCUMULATED DEPRECIATION: 31/03/2018	DEPRECIATION RATE AND METHOD
Delivery vehicle	R240 000	R108 000	15% p.a. on cost
Audi Q7	**?**	0	

The delivery vehicle will be sold on 31 March 2018. The Audi Q7 vehicle will be purchased on 1 April 2018 and used by the owner.

E. Figures provided for February 2018:

	PROJECTED	ACTUAL
Water and electricity (*see note below)	R 4 500	R 5 000
Advertising	4 700	1 800
Service fee income	150 000	127 500
Consumable stores	30 000	36 450
Sale of spare parts	128 700	97 200
Cost of sales	78 000	54 000
Profit on sale of spare parts	50 700	43 200
Mark-up percentage (on cost)	65%	80%

***NOTE:** The water and electricity tariff unexpectedly increased by 15% from 1 February 2018.

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TOTAL: 300