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# **basic education**

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Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## **SENIOR CERTIFICATE EXAMINATIONS**

**ACCOUNTING**

**2018**

**MARKS: 300**

**TIME: 3 hours**

**This question paper consists of 19 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 achieve 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.

<b>QUESTION 1: 35 marks; 20 minutes</b>	
<b>Topic:</b>	<b>This question integrates:</b>
Bank Reconciliation and Control	<b>Financial accounting</b> Bank Reconciliation <b>Managing resources</b> Internal control

<b>QUESTION 2: 45 marks; 30 minutes</b>	
<b>Topic:</b>	<b>This question integrates:</b>
Manufacturing	<b>Managerial accounting</b> Concepts and Production Cost Statement Unit costs and break-even <b>Managing resources</b> Internal control

<b>QUESTION 3: 40 marks; 25 minutes</b>	
<b>Topic:</b>	<b>This question integrates:</b>
Inventory Valuation	<b>Managing resources</b> Concepts and specific identification method Internal control

<b>QUESTION 4: 70 marks; 40 minutes</b>	
<b>Topic:</b>	<b>This question integrates:</b>
Balance Sheet and Audit Report	<b>Financial accounting</b> Concepts, Note and Balance Sheet <b>Managing resources</b> Audit report and corporate governance

<b>QUESTION 5: 70 marks; 40 minutes</b>	
<b>Topic:</b>	<b>This question integrates:</b>
Fixed Assets, Cash Flow and Interpretation	<b>Financial accounting</b> Cash Flow Statement and ratios Interpretation of financial information <b>Managing resources</b> Fixed assets

<b>QUESTION 6: 40 marks; 25 minutes</b>	
<b>Topic:</b>	<b>This question integrates:</b>
Budgeting	<b>Managerial accounting</b> Cash Budget: analyse and interpret <b>Managing resources</b> Internal control

**QUESTION 1: BANK RECONCILIATION AND CONTROL (35 marks; 20 minutes)**

The following information relates to Hartfield Suppliers for April 2018.

**REQUIRED:**

- 1.1 Bank reconciliation:
  - 1.1.1 Show the entries that must be recorded in the Cash Journals by completing the table in the ANSWER BOOK. (14)
  - 1.1.2 Calculate the Bank Account balance in the Ledger of Hartfield Suppliers on 30 April 2018. (3)
  - 1.1.3 Prepare the Bank Reconciliation Statement on 30 April 2018. (8)
- 1.2 The internal auditor is concerned about the management of cash.
  - 1.2.1 Explain TWO different problems to justify her concern. Quote figures. (4)
  - 1.2.2 Give advice (TWO points) on how such problems can be avoided in future. (2)
- 1.3 Explain TWO benefits of using the electronic funds transfer (EFT) system rather than cheques for direct payments to suppliers. (4)

**INFORMATION:****A. Extract from the Bank Reconciliation Statement on 31 March 2018:**

Favourable balance as per Bank Statement		R18 450
Outstanding deposits:	Dated 10 March 2018	12 675
	Dated 25 March 2018	25 000
Outstanding cheques:	502 (dated 19 October 2017)	4 800
	613 (dated 24 April 2018)	13 400
	614 (dated 26 April 2018)	6 950
Favourable balance as per Ledger Account		30 975

**NOTE:**

- The outstanding deposit of R12 675 appeared on the Bank Statement on 28 April 2018.
- The outstanding deposit of R25 000 did not appear on the Bank Statement for April 2018. An investigation revealed that this money was never been deposited. The cashier employed in March has left the country and cannot be traced.
- Cheque 614, R6 950, was presented for payment.

**B. Provisional totals in the Cash Journals on 30 April 2018 before receiving the Bank Statement:**

- Cash Receipts Journal, R510 607
- Cash Payments Journal, R488 260

- C. Entry in the April 2018 Cash Receipts Journal, not in the April 2018 Bank Statement:

DOCUMENTS	DATE	DETAILS	BANK
Deposit slip 998	20	Sales	R10 000

- D. Entries in the April 2018 Cash Payment Journal, not in the April 2018 Bank Statement:

DOCUMENTS	DATE	DETAILS	BANK
Cheque 652 (dated 24 June 2018)	25	MM Suppliers	R5 650
S Small (*EFT)	30	Drawings	R2 500

\*EFT: electronic funds transfer/direct payment

- E. Information on the April 2018 Bank Statement, which did not appear in the April 2018 Cash Journals:

DATE	DETAILS	DEBIT	CREDIT
10	M Mamba (*EFT by tenant)		6 250
17	Cash deposit fees	575	
18	Interest		145
21	Unpaid cheque: Apple	230	
24	Service fees	1 425	
28	Debit order (Kruger Insurers)	1 850	
28	Debit order (Kruger Insurers)	1 850	

**NOTE:**

- The unpaid cheque was received from debtor A Apple to settle his account of R250.
- The debit order for the monthly insurance appeared on the Bank Statement twice. The bank will rectify this on the Bank Statement for next month.

- F. Information in the April 2018 Bank Statement that does not agree with the Cash Payments Journal for April 2018:

Cheque 633, recorded as R2 630 in the Cash Payment Journal, appears correctly on the Bank Statement as follows:	R6 230
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- G. The Bank Statement on 30 April 2018 reflected a balance of R?.

**QUESTION 2: MANUFACTURING****(45 marks; 30 minutes)**

- 2.1 Choose ONE cost account for each of the following descriptions. Write only the cost accounts next to the question numbers (2.1.1 to 2.1.4) in the ANSWER BOOK.

direct labour cost; direct/raw materials cost; factory overheads cost; administration cost; selling and distribution cost
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- 2.1.1 Bad debts written off during the financial year
- 2.1.2 Pension fund contributions paid on behalf of the workers in the production process
- 2.1.3 Transport costs paid for raw materials purchased
- 2.1.4 Depreciation on office equipment (4 x 1) (4)

**2.2 TIGHT-FIT MANUFACTURERS**

The information relates to Tight-Fit Manufacturers, a business that manufactures denim jeans, for the financial year ended 31 March 2018.

**REQUIRED:**

- 2.2.1 Calculate:
- The value of the closing stock of raw materials of fabric using the weighted-average method (4)
  - The value of direct/raw materials issued for production (3)
  - The correct factory overhead costs (6)
- 2.2.2 Complete the Production Cost Statement on 31 March 2018. (12)
- 2.2.3 The business purchases raw materials from an overseas supplier, although there are numerous local suppliers. Give TWO reasons why the business should support local suppliers. (2)

**INFORMATION:****A. Stock balances on 31 March:**

	2018	2017
Work-in-process	?	R147 500
Finished goods	R118 000	R231 000

**B. Raw materials (fabric):**

Raw materials, consisting of metres of fabric, are issued by the storeroom to the factory.

**Storeroom stock records:**

	<b>METRES</b>	<b>TOTAL AMOUNT R</b>
Stock on 1 April 2017	5 000	535 000
Purchases:	18 700	2 072 000
July 2017	6 200	620 000
October 2017	4 800	528 000
January 2018	7 700	924 000
<b>Total available for production</b>	<b>23 700</b>	<b>2 607 000</b>
Stock on 31 March 2018	3 900	?

**C. Figures provided by the bookkeeper on 31 March 2018:**

Wages of factory workers (direct labour)	R3 522 000
Factory overhead cost (see Information D below)	R746 670
Administration cost	R655 700
Selling and distribution cost	R413 900

**D. Adjustments must be made to factory overhead cost in respect of the following:**

- Insurance of factory plant and equipment paid was R69 600 and incorrectly debited to the Administration Cost Account. Included in this is a new annual premium of R17 400 paid on 1 January 2018.
- Rent is allocated according to the floor space. However, the bookkeeper correctly allocated only R14 820 to the administration section.

<b>FACTORY</b>	<b>ADMINISTRATION OFFICE</b>	<b>TOTAL FLOOR AREA</b>
520 m <sup>2</sup>	130 m <sup>2</sup>	650 m <sup>2</sup>

**E. Details from the Income Statement for the year ended 31 March 2018:**

Sales	R9 747 000
Cost of sales	6 518 000
Gross profit	3 229 000



**2.3 BREAK-TIME MANUFACTURERS**

Break-Time Manufacturers is a manufacturing business that produces lunch boxes for school children.

**REQUIRED:**

2.3.1 Calculate the following for the year ended 30 April 2018:

- Direct labour cost (2)
- Break-even point (4)

2.3.2 Explain why the owner should be concerned about the break-even point. Quote figures. (3)

2.3.3 The owner is concerned about the direct labour cost.

- Explain why the owner would NOT be satisfied with the direct labour cost per unit. Quote figures. (3)
- Give ONE solution to this problem. (2)

**INFORMATION ON 30 APRIL:**

	2018		2017	
	TOTAL COST	PER UNIT	TOTAL COST	PER UNIT
Direct labour cost (basic and overtime)	?	R7,56	R1 646 400	R5,60
Total fixed costs	R3 102 500	R9,36	R1 989 000	R6,77
Total variable costs	R6 464 250	R19,50	R4 704 000	R16,00
Selling price per unit	R28,00		R24,50	
Number of units produced and sold	331 500 units		294 000 units	
Break-even point	?		234 000 units	

**KEEP THIS PAGE BLANK.**

**QUESTION 3: INVENTORY VALUATION****(40 marks; 25 minutes)****3.1 SPEEDY CYCLES**

You are provided with information for the year ended 31 May 2018. The owner is Fred Fakude. The business sells different models of bicycles. Fred uses the periodic inventory system and the specific identification method to value stock.

**REQUIRED:****3.1.1 Calculate:**

- Value of the closing stock of bicycles on 31 May 2018 (8)
- Cost of sales for the year ended 31 May 2018 (4)
- Gross profit for the year ended 31 May 2018 (3)

**3.1.2** Fred is satisfied that he is selling approximately 18 Cruze bicycles per month. However, he is concerned that the new Ryder model, despite its lower selling price, is not selling as quickly as the Cruze model.

- Calculate the selling price of a Ryder bicycle. (3)
- Calculate the average number of Ryder bicycles sold per month. (3)
- Indicate how long it will take Fred to sell the closing stock of the Ryder bicycles. Show calculations. (3)
- Give ONE possible reason for the slow sales of Ryder bicycles, and give advice (ONE point) to Fred in this regard. (4)

**INFORMATION:**

**A.** Three different models of bicycles were sold during the 2018 financial year.

MODEL	MARK-UP	UNITS SOLD	SALES	OTHER INFORMATION
Tempo	60%	66	R897 600	This model is no longer produced.
Cruze	60%	220	R3 308 800	
Ryder	35%	98	R979 020	This model was introduced on 1 Sep. 2017.
<b>TOTAL SALES</b>			<b>R5 185 420</b>	

**B. Opening stock:**

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
1 Jun. 2017	Tempo	70	R8 500	R595 000
	Cruze	0		

**C. Purchases and returns:**

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
<b>PURCHASES:</b>				
1 Jun. 2017	Cruze	260	R9 400	R2 444 000
1 Sep. 2017	Ryder	200	R7 400	R1 480 000
<b>RETURNS:</b>				
Feb. 2018	Ryder	45	R7 400	(R333 000)
<b>Net purchases</b>				<b>R3 591 000</b>

**3.2 MANAGEMENT OF INVENTORIES: CELIA'S CLOTHING**

Celia Mtolo owns a small clothing business. You are provided with information for the year ended 28 February 2018. The business sells T-shirts, jackets and pants.

Celia took certain decisions at the beginning of the 2018 financial year.

**REQUIRED:**

Quote relevant figures for ALL the questions below.

**3.2.1 T-shirts:**

Explain why it was NOT a good idea to change to a cheaper supplier of T-shirts. State TWO points.

(4)

**3.2.2 Jackets:**

Celia decided to change the supplier in 2018 and to change the mark-up %.

How has this decision affected the business? State TWO points.

(4)

**3.2.3 Pants:**

Celia reduced the selling price of pants significantly in the 2018 financial year in response to a new competitor who sells similar pants at R990.

Based on the information below, make TWO separate suggestions to Celia to improve the profit on pants in 2019.

(4)

**INFORMATION:**

	T-SHIRTS		JACKETS		PANTS	
	2018	2017	2018	2017	2018	2017
Gross units sold	1 200	1 080	150	165	280	325
Returns by customers	40	0	0	5	15	15
Selling price	R75	R120	R1 650	R1 085	R910	R1 054
Cost price	R50	R80	R1 000	R700	R650	R620
Mark-up %	50%	50%	65%	55%	40%	70%
Gross profit	R29 000	R43 200	R97 500	R61 600	R68 900	R134 540

**QUESTION 4: BALANCE SHEET AND AUDIT REPORT (70 marks; 40 minutes)****4.1 CONCEPTS**

Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (4.1.1 to 4.1.5) in the ANSWER BOOK

- 4.1.1 A fixed deposit maturing within the next 12 months will be shown as cash and cash equivalent in the Balance Sheet.
- 4.1.2 Earnings per share are calculated using the net profit before tax.
- 4.1.3 Net current assets are also referred to as net working capital.
- 4.1.4 Provision for bad debts is a liability.
- 4.1.5 Total capital employed consists only of ordinary shareholders' capital and retained income. (5 x 1) (5)

**4.2 MODISE LTD**

The information below relates to Modise Ltd. The financial year ended on 28 February 2018.

**REQUIRED:**

- 4.2.1 Prepare the Retained Income Note to the Balance Sheet on 28 February 2018. (12)
- 4.2.2 Complete the Balance Sheet on 28 February 2018. Show ALL workings. (38)
- 4.2.3 The directors want to give R500 000 to a local school. Give TWO reasons why companies take such decisions. (4)

**INFORMATION:****A. Extract of balances on 28 February 2018:**

	<b>R</b>
Ordinary share capital	13 650 000
Retained income (1 March 2017)	567 000
Fixed assets at carrying value	?
Fixed deposit: Peoples Bank	?
Loan from director	630 000
Debtors' control	554 000
Provision for bad debts (1 March 2017)	31 300
Bank (favourable)	?
Trading stock	1 015 000
Consumable stores on hand	25 000
Creditors' control	?
Expenses prepaid	19 240
SARS: Income tax (provisional tax payments)	900 000

**B. Share capital:**

- The authorised share capital of Modise Ltd is 6 500 000 ordinary shares.
- On 20 February 2018, 250 000 shares were repurchased at 25 cents above the average share price. This has been recorded.
- On 28 February 2018, the ordinary share capital comprised 4 550 000 ordinary shares.

**C. Dividends:**

- Interim dividends of R672 000 were paid on 28 August 2017.
- A final dividend of 36 cents per share was declared on 28 February 2018. All shares (including the shares repurchased on 20 February 2018) qualify for final dividends.

**D. Net profit before tax:**

- After taking all relevant information into account, the net profit before tax was accurately calculated to be R3 400 000.
- Income tax at 27% of the net profit must be taken into account.

**E. Fixed deposit:**

The interest on the fixed deposit was R48 000. The fixed deposit was invested on 1 May 2017 at 8% p.a.

**F. Loan from director:**

- The interest-free loan was received on 1 September 2015.
- This loan is to be repaid over six years in equal monthly instalments. The first repayment was made on 30 September 2015. All payments have been made to date.

**G. Provision for bad debts:**

The provision for bad debts must be adjusted to 6% of the outstanding debtors.

**H. The current ratio calculated after all adjustments was 1,5 : 1.**

**4.3 AUDIT REPORT**

You are provided with an extract from the audit report of the independent auditors of Denga Limited.

**REQUIRED:**

- 4.3.1 Briefly explain the role of an independent auditor. (2)
- 4.3.2 Did Denga Limited receive a qualified/unqualified/disclaimer of opinion audit report? Briefly explain your choice. (3)
- 4.3.3 State THREE possible consequences for the independent auditor if he had NOT mentioned the advertising expense in his report. (6)

**INFORMATION:****EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS****Independent Auditors' Responsibility**

We have audited the annual financial statements of Denga Limited, set out on pages 27 to 41 for the year ended 31 March 2017. 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.

**Basis for ... Opinion**

The advertising expense of R500 000 in the Income Statement could not be verified, as no documentation existed for part of this expenditure.

**... Audit Opinion**

In our opinion, except for the advertising expenses in the Income Statement which could not be verified, the financial statements fairly represent the financial position of the company at 31 March 2017.

**Khan & Kruger**

**Chartered Accountants (SA), 15 May 2017**

**QUESTION 5: FIXED ASSETS, CASH FLOW AND INTERPRETATION****(70 marks; 40 minutes)**

- 5.1 Choose a description in COLUMN B that matches the user of financial statements in COLUMN A. Write only the letters (A to D) next to the question numbers (5.1.1 to 5.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
5.1.1 Trade unions	A want to be assured that their investment in the company is used wisely
5.1.2 SARS	
5.1.3 Shareholders	B use the financial statements to make decisions to manage the company
5.1.4 Directors	C monitor whether their members are paid fairly
	D need to be assured that income tax is levied on the net profit correctly

(4 x 1)

(4)

5.2 **MALOTRA LTD**

You are provided with information relating to Malotra Ltd for the financial year ended 28 February 2018. The company is registered with an authorised share capital of 1 200 000 ordinary shares.

**REQUIRED:**5.2.1 **Refer to Information A.**

Calculate the missing amounts denoted by (a) to (d) on the Fixed Asset Note.

(16)

## 5.2.2 Calculate the net profit after income tax on 28 February 2018.

(3)

## 5.2.3 Calculate the following for the Cash Flow Statement:

- Dividends paid (4)
- Funds used to repurchase shares (5)
- Proceeds from shares issued (5)

## 5.2.4 Complete the section for Cash and Cash Equivalents in the Cash Flow Statement.

(4)

## 5.2.5 Calculate the following financial indicators on 28 February 2018:

- Acid-test ratio (4)
- Debt-equity ratio (3)
- Return on average shareholders' equity (5)



- 5.2.6 The directors decided to increase the loan during the current financial year. Explain whether this was a good decision or not. Quote TWO financial indicators (with figures). (6)
- 5.2.7 Comment on the price paid for the shares repurchased on 1 January 2018. Quote TWO financial indicators (with figures). (5)
- 5.2.8 Thandi Nene owns 416 000 shares in the company. When the directors decided to issue a further 200 000 shares during October 2017, she decided not to buy more shares and rather spend her funds on an overseas holiday.
- Explain why you feel Thandi has made the wrong decision. Quote relevant figures or calculations to support your opinion. (6)

**INFORMATION:****A. Incomplete Fixed Asset Note:**

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT
<b>Carrying value (1 Mar. 2017)</b>	4 256 350	535 250	
Cost		(b)	1 500 000
Accumulated depreciation		(419 750)	(595 000)
<b>Movements:</b>			
Additions	(a)	(c)	0
Disposals		0	(e)
Depreciation		(195 000)	(d)
<b>Carrying value (28 Feb. 2018)</b>	6 192 350		626 000
Cost		1 415 000	
Accumulated depreciation			

- An extension to the storeroom and improvements to the buildings were completed during the financial year.
- A new vehicle was purchased on 1 June 2017.
- Old equipment was scrapped at carrying value on 28 February 2018.
- Depreciation policy: Vehicles: 15% on cost  
Equipment: 20% on carrying value

**B. Income tax:**

- Income tax at 30% of the net income amounts to R286 200.

**C. Dividends:**

- Interim dividends were paid on 31 August 2017.
- Final dividends were declared on 28 February 2018.
- Only shareholders in the share register qualified for dividends.
- Dividends paid and declared for the current financial year: R332 000

**D. Ordinary Share Capital:**

800 000	Ordinary shares on 1 March 2017	R5 760 000
200 000	Shares issued on 1 October 2017	?
(120 000)	Shares repurchased on 1 January 2018	?
880 000	Ordinary shares on 28 February 2018	R6 512 000

**NOTE:** Shares were repurchased at 60 cents above the average share price.

**E. Information extracted from the Financial Statements on 28 February:**

	2018 R	2017 R
Fixed deposit: Sisi Bank	100 000	240 000
Loan: Mihla Bank	1 500 000	600 000
Current assets (including inventories)	1 136 700	1 246 400
Inventories	471 100	717 550
Current liabilities	512 000	755 500
Cash and cash equivalents	36 400	2 400
Bank overdraft	0	112 000
Shareholders' equity	6 843 300	5 826 500
Shareholders for dividends	132 000	176 000

**F. Financial indicators on 28 February:**

	2018	2017
Current ratio	2,2 : 1	1,6 : 1
Acid-test ratio	?	0,7 : 1
Debt-equity ratio	?	0,1 : 1
Earnings per share	77 cents	87 cents
Dividends per share	40 cents	80 cents
Return on average equity (ROSHE)	?	11,9%
Return on capital employed (ROTCE)	14,6%	16,4%
Net asset value	778 cents	728 cents
Interest rate on loans	12%	11%
Market value of shares on JSE	*780 cents	725 cents

**\*NOTE:** This value was unchanged over the past three months.

**QUESTION 6: BUDGETING****(40 marks; 25 minutes)**

You are provided with information relating to Magic Traders. The business is owned by Tony Salotte.

**REQUIRED:**

6.1 Complete the following statements:

6.1.1 The main purpose of a Cash Budget is to ... (2)

6.1.2 The main purpose of a Projected Income Statement is to ... (2)

6.2 Debtors' Collection Schedule and Projected Income Statement:

6.2.1 Complete the Debtors' Collection Schedule for June 2018. (7)

6.2.2 Determine the following amounts that will appear in the Projected Income Statement:

- Discount allowed for May 2018 (3)
- Bad debts written off in June 2018 (3)

6.3 Calculate the following:

- Cash sales for May 2018 (2)
- Payment to creditors in June 2018 (4)
- Salaries for May 2018 (5)

6.4 Tony compared the budgeted figures to the actual figures for April 2018.

	BUDGETED	ACTUAL
Sales	R480 000	R576 000
Advertising	R8 000	R11 000
Wages of cleaners	R9 000	R12 500
Cleaning materials	R1 200	R2 700
Payment to creditors	R224 000	R0

6.4.1 Tony is not concerned about the overspending in advertising. Explain why this is so. Quote figures to support your answer. (4)

6.4.2 State ONE consequence of not paying the amount due to creditors in April 2018. (2)

6.4.3 Refer to the figures above and to Information F. State TWO points in favour of appointing Gentex Cleaning Services. Also explain ONE point that Tony should consider before making this decision. (6)

**INFORMATION:****A.** Total sales:

	<b>ACTUAL</b>	<b>BUDGETED</b>
March 2018	R420 000	
April 2018	R480 000	
May 2018		R300 000
June 2018		R360 000

**B.** Cash sales amount to 40% of the total sales.**C.** Debtors are expected to pay as follows:

- 30% in the month of sales. They receive a 5% settlement discount.
- 60% in the month following the sales month
- 9% in two months after the sales month
- 1% is written off as bad debts in the third month after sales

**D.** Purchases and payment to creditors:

- The business maintains a fixed-stock base level.
- Goods are sold at a mark-up of 50% on cost.
- 80% of all merchandise purchased is on credit.
- Creditors are paid in full in the month following the purchase month.

**E.** Salaries:

- Total salaries are R101 500 for April 2018.
- There are 7 employees who earn the same monthly salary.
- 1 employee will resign and leave on 30 April 2018.
- 4 employees will each receive a bonus of 80% of their salaries in May 2018.

**F.** The business pays wages to two cleaners, one of whom has been on sick leave in April and a substitute had to be employed. Tony is concerned that too much money is wasted on cleaning. He thinks that he should contract Gentex Cleaning Services to take over the cleaning process entirely. They will charge R8 000 per month.