



# basic education

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

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ACCOUNTING  
NOVEMBER 2012**

**MARKS: 300**

**TIME: 3 hours**

**This question paper consists of 19 pages and a 20-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. 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 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 of the question:</b>	<b>Learning outcomes covered:</b>
Inventory valuation and value-added tax (VAT)	LO1 <b>Financial accounting</b>
	AS2 Bookkeeping cycle
	AS7 VAT
	LO3 <b>Managing resources</b>
	AS4 Calculate and validate inventories

<b>QUESTION 2: 30 marks; 20 minutes</b>	
<b>Topic of the question:</b>	<b>Learning outcomes covered:</b>
Bank Reconciliation and Debtors' Age Analysis	LO1 <b>Financial accounting</b>
	AS4 Interpretation of Bank Reconciliation and Debtors' Age Analysis
	LO3 <b>Managing resources</b>
	AS6 Apply internal control and audit processes

<b>QUESTION 3: 55 marks; 35 minutes</b>	
<b>Topic of the question:</b>	<b>Learning outcomes covered:</b>
Manufacturing, internal control and ethics	LO2 <b>Managerial accounting</b>
	AS2 Production Cost Statement
	AS2 Unit costs and break-even point
	LO3 <b>Managing resources</b>
	AS5 Ethics
	AS6 Apply internal control and audit processes

<b>QUESTION 4: 70 marks; 40 minutes</b>	
<b>Topic of the question:</b>	<b>Learning outcomes covered:</b>
Company financial statements and fixed assets	LO1 <b>Financial accounting</b>
	AS1 Concepts
	AS5 Financial statements
	LO3 <b>Managing resources</b>
	AS3 Asset disposal

<b>QUESTION 5: 70 marks; 40 minutes</b>	
<b>Topic of the question:</b>	<b>Learning outcomes covered:</b>
Interpretation of company information and audit report	LO1 <b>Financial accounting</b>
	AS1 Concepts
	AS5 Final accounts, financial statements and analysis and interpretation
	AS6 Audit reports

<b>QUESTION 6: 40 marks; 25 minutes</b>	
<b>Topic of the question:</b>	<b>Learning outcomes covered:</b>
Projected Income Statement and internal control	LO1 <b>Financial accounting</b>
	AS5 Ratio analysis
	LO2 <b>Managerial accounting</b>
	AS3 Analyse and interpret a Projected Income Statement
	LO3 <b>Managing resources</b>
	AS6 Apply internal control and audit processes

**QUESTION 1: CONCEPTS, INVENTORY AND VAT****(35 marks; 20 minutes)****1.1 CONCEPTS****REQUIRED:**

Indicate whether the following statements are TRUE or FALSE:

- 1.1.1 The FIFO method of stock valuation is based on the assumption that stock acquired last is the first merchandise to be sold.
- 1.1.2 Under the perpetual stock system carriage on goods bought is debited to the Trading Stock Account.
- 1.1.3 Under the periodic stock system, when goods are sold, the cost of sales is recorded at the same time.
- 1.1.4 All businesses in South Africa must charge value-added tax on all goods that they sell and all services that they provide.
- 1.1.5 When the owner of a clothing business takes clothing for personal use at cost price, VAT is levied on these goods. (10)

**1.2 INVENTORY VALUATION**

You are provided with information relating to Quality Building Suppliers for April 2012. They buy boxes of floor tiles and sell them to retailers around Hazyview. They use the weighted-average method for stock valuation and the periodic inventory system. Refer to the table below.

- 1.2.1 Calculate the total value of the opening stock (A). (3)
- 1.2.2 Calculate the value of the tiles received on 25 April 2012 (B). (4)
- 1.2.3 Calculate the value of the closing stock using the weighted-average method. (6)

<b>INFORMATION</b>	<b>BOXES OF TILES ON HAND</b>	<b>VALUE PER UNIT</b>	<b>CARRIAGE ON PURCHASES</b>	<b>TOTAL VALUE</b>
Opening stock (1 April 2012)	600	R85,00		<b>(A)</b>
<b>Boxes of tiles purchased during the month</b>	<b>3 160</b>			<b>?</b>
10 April 2012	1 000	R90,00	R4 500	R94 500
20 April 2012	1 200	R95,00	R5 700	R119 700
25 April 2012	960	R120,00	R5 760	<b>(B)</b>
Boxes of damaged tiles returned to supplier (these tiles were originally delivered on 25 April)	100	?		?
Sales for the month	2 510	R160,00		R401 600
Closing stock (30 April 2012)	1 150	?		?

### 1.3 VALUE-ADDED TAX

You are provided with information relating to Amy's Clothing Store. All goods are subject to 14% VAT. The business is owned by Amy Andrews.

#### REQUIRED:

1.3.1 Calculate the amount owed to SARS for VAT. (9)

1.3.2 Amy has not yet submitted the VAT return.

John Smith is the internal auditor. He has a CA qualification. He has noticed that an invoice for purchases from KZN Wholesalers amounting to R200 000 has been signed by Amy and recorded by the bookkeeper. On investigation he discovers that KZN Wholesalers does not exist.

What should John Smith do about this? Explain. (3)

#### INFORMATION:

		VAT EXCLUSIVE	VAT	VAT INCLUSIVE
1.	Invoices received from suppliers	R500 000	R70 000	R570 000
2.	Invoices issued to customers	R820 000	?	R934 800
3.	Credit notes issued to customers	R60 000	?	?
4.	Credit notes received from suppliers	R40 000	R5 600	R45 600
5.	Goods taken by Amy for personal use	?	?	R14 250
6.	Bad debts written off	R15 000	R2 100	R17 100

**QUESTION 2: BANK RECONCILIATION AND DEBTORS' AGE ANALYSIS**  
(30 marks; 20 minutes)

**2.1 REQUIRED:**

Complete the following sentences in your own words:

- It is important to prepare a Bank Reconciliation Statement each month because ... (2)
- It is important to prepare a Debtors' Age Analysis each month because ... (2)

**2.2** You are provided with information relating to Cravenby Traders.

**REQUIRED:**

- 2.2.1 Refer to Information B. The bookkeeper has decided to write off the amount of R40 000.
- Which GAAP principle will the bookkeeper apply in this case? Briefly explain this principle. (3)
  - The bookkeeper wants to prevent a problem such as this in future. Give TWO solutions to improve internal control in this regard. (4)
- 2.2.2 Prepare the Bank Reconciliation Statement on 31 May 2012. (13)

**INFORMATION:**

- A The following balances were identified in the books of the business and the Bank Statements:

	<b>30 APRIL 2012</b>	<b>31 MAY 2012</b>
Bank account in Ledger	R12 720	?
Bank Statement	R24 700	R19 310 (overdraft)

- B Items appearing in the Bank Reconciliation Statement on 30 April 2012:
- A deposit of R40 000, dated 2 April 2012, does not appear on any Bank Statement. This money cannot be traced and the cashier has disappeared.
  - Cheque No. 962, for R2 340, dated 10 April 2012, appeared on the Bank Statement on 2 May 2012.
  - Cheque No. 967, for R4 790, dated 20 April 2012, has still not been presented at the bank by the payee, S Smit.
- C The Bank Statement for May reflected bank charges, R1 850 and interest on an overdraft, R920.
- D Items appearing in the Cash Journals but not in the Bank Statement:
- Cheque No. 1122 for R4 650, dated 18 May 2012
  - Cheque No. 1129 for R8 540, dated 25 August 2012
  - A deposit of R11 550, dated 31 May 2012
- E The bank overcharged on the bank charges for May by R960. The bank has agreed to correct the error during June 2012.

- 2.3 You are provided with the Debtors' Age Analysis of Cravenby Traders on 31 May 2012.

**REQUIRED:**

Identify TWO different problems shown by the Age Analysis and quote evidence from the question to support your answer. In each case suggest an internal control measure to correct the problem.

(6)

**INFORMATION:**

**DEBTORS' AGE ANALYSIS ON 31 MAY 2012**

<b>Credit Policy:</b>						
<ul style="list-style-type: none"> <li>Debtors will be given 30 days in which to settle their debts.</li> </ul>						
NAME	CREDIT LIMIT	TOTAL	CURRENT MONTH	30 DAYS	60 DAYS	60 DAYS+
J Arrakal	R5 000	R2 100	R1 000	R500	R600	
P Fakude	R3 500	R4 200		R1 200	R1 800	R1 200
J Martin	R1 500	R2 004		R704	R1 300	
H Howard	R1 500	R1 500			R1 000	R500
P Pomani	R2 000	R700	R700			
		R10 504	R1 700	R2 404	R4 700	R1 700
		100%	16%	23%	45%	16%

30

**QUESTION 3: MANUFACTURING****(55 marks; 35 minutes)****3.1 CAPE CHOCOLATES**

You are provided with information relating to Cape Chocolates for the financial year ended 30 June 2012. The business is owned by Mary Muller.

**REQUIRED:**

Prepare the following for the year ended 30 June 2012:

- 3.1.1 Factory Overhead Note to the Production Cost Statement (20)
- 3.1.2 Production Cost Statement (Where notes are not required, show calculations in brackets.) (16)

**INFORMATION:****1. Stock balances:**

	<b>30 JUNE 2012</b>	<b>1 JULY 2011</b>
Direct-/Raw-material stock	R20 000	R18 000
Work-in-process stock	?	R35 000
Indirect material stock	R7 500	R7 200

**2. Transactions for the year:**

- A Raw materials:
- Purchased raw materials during the year, R650 000.
  - Raw materials not ordered were returned to the supplier, R35 000.
  - Cost of transportation of raw material was an additional R12 300.
- B Factory rent paid, R68 500.
- C Advertising paid, R23 500.
- D Factory maintenance paid, R46 700. Repairs to the amount of R1 300 were completed in June 2012, but will only be paid in July 2012.
- E Water and electricity paid, R80 000 (this amount is to be split between the factory, 70% and the office, 30%).
- F Indirect material purchased, R56 000. Note that stocks are on hand at the end of each year (see Information 1 above). 80% of the indirect materials were used in the factory and the rest in the office.
- G Depreciation written off:
- Office equipment, R9 500
  - Factory machinery, R12 800



- H Sundry expenses paid, R21 000. This must be allocated according to floor space used. The ratio of the space used by the factory, office and sales department is 4 : 2 : 1.
- I Salary and wages:
- Wages paid to the cleaner, R46 000 (She spends 50% of her time cleaning the factory.)
  - Three factory workers were employed. They each work 1 600 hours normal time during the year at R40 per hour. They each worked 300 hours overtime during the year at a rate of 50% more than the normal rate.
  - The factory foreman has been paid a salary R89 050. This includes his salary for July 2012. Note that he received an increase of R650 per month with effect from 1 January 2012. He has been employed all year.
  - Salary paid to the office assistant, R130 000 for the year.
- J The cost of production of chocolates for the year is R1 212 000.

### 3.2 BELINO MANUFACTURERS

You are provided with information relating to Belino Manufacturers which consists of two factories producing different products: Belino blankets and Belino towels. The owner of the business, Benny Belino, has compared the profit he has earned over the past two years (2011 and 2012) and has found that it has decreased by more than R3 million. He asks for advice in reversing this disturbing trend. Note that the inflation rate is 7% and that Benny was able to keep the fixed costs unchanged over the past year.

#### REQUIRED:

- 3.2.1 Refer to the accountant's calculations of variable costs per unit:
- Identify the production cost that caused the biggest problem in making the blankets and the towels. Explain and quote figures to support your answer.
  - In each case, give a possible practical solution for Benny. (6)
- 3.2.2 Benny does not know how to calculate the break-even point. Give the workings to prove that the 2012 break-even point of 12 298 units for blankets is in fact correct. (4)
- 3.2.3 Refer to the number of blankets produced and sold in 2012, and the break-even point for blankets. Explain why these figures should be of concern to Benny. Quote figures to support your answer. (4)

- 3.2.4 Benny has decided to increase the prices of either the blankets or the towels by R15,00 in the next financial year.
- Which product should Benny increase in price by R15,00? Explain and quote figures to support your answer. (3)
  - In this case, estimate how much extra net profit he could earn next year assuming that his level of production and sales will remain unchanged. Give a calculation to support your answer. (2)

**INFORMATION:**

The accountant has identified the following information:

General information:	BELINO BLANKETS		BELINO TOWELS	
	2012	2011	2012	2011
Total fixed costs (factory overhead costs and administration costs)	R3 800 000	R3 800 000	R2 500 000	R2 500 000
Net profit	R1 144 000	R5 975 000	R2 620 000	R930 000

**Calculation of variable unit costs:**

Direct material cost per unit	R34,00	R35,00	R27,00	R20,00
Direct labour cost per unit	R75,00	R65,00	R16,00	R16,00
Selling and distribution cost per unit	R12,00	R9,00	R3,00	R5,00
<b>Total variable costs per unit</b>	<b>R121,00</b>	<b>R109,00</b>	<b>R46,00</b>	<b>R41,00</b>

**Additional information/calculations:**

Selling price per unit charged by Belino	<b>R430,00</b>	<b>R500,00</b>	<b>R110,00</b>	<b>R90,00</b>
Selling price of competitors	R410,00	R450,00	R130,00	R105,00
Number of units made and sold	16 000 units	25 000 units	80 000 units	70 000 units
Break-even point	12 298 units	9 719 units	39 063 units	51 020 units

**QUESTION 4: COMPANY FINANCIAL STATEMENTS AND FIXED ASSETS**  
**(70 marks; 40 minutes)**

**4.1 MATCHING ITEMS**

**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 (4.1.1–4.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B
4.1.1	Income Statement	A this shows the owners' equity (net worth) of a company, its assets and liabilities, at the end of the financial year
4.1.2	Balance Sheet	
4.1.3	Cash Flow Statement	B this shows an opinion expressed on the fair presentation of the figures in the financial statements
4.1.4	Independent Auditor's Report	
		C this shows the net profit or loss of a company for a financial year
		D this shows the effect of the operating, financing and investing activities on the money possessed by the business

(8)

**4.2 MASTER LIMITED**

You are provided with information relating to Master Ltd for the financial year ended 30 June 2012.

**REQUIRED:**

- 4.2.1 Use Information 2 to complete the Note for Fixed/Tangible Assets by filling in the missing figures indicated by an \*. (17)
- 4.2.2 Calculate the Retained Income on 30 June 2012. (You may prepare an Appropriation Account if you wish.) (7)
- 4.2.3 Prepare the Balance Sheet of Master Ltd as on 30 June 2012. Show your workings in brackets as notes are NOT required. (38)

**INFORMATION:**1. **Note to the Balance Sheet on 30 June 2012**

<b>FIXED/TANGIBLE ASSETS</b>	<b>LAND AND BUILDINGS</b>	<b>EQUIPMENT</b>	<b>VEHICLES</b>
<b>Carrying value – 1 July 2011</b>	<b>R 930 000</b>	<b>R 220 000</b>	<b>R 519 200</b>
<b>Cost</b>	<b>930 000</b>	<b>561 000</b>	<b>814 000</b>
<b>Accumulated depreciation</b>	<b>0</b>	<b>(341 000)</b>	<b>(294 800)</b>
<b>Movements</b>			
Additions at cost	*	*	<b>0</b>
Disposal at carrying value	<b>0</b>	<b>0</b>	*
Depreciation	<b>0</b>	*	<b>(98 890)</b>
<b>Carrying value – 30 June 2012</b>	<b>1 580 000</b>	*	*
<b>Cost</b>	<b>1 580 000</b>	<b>616 000</b>	*
<b>Accumulated depreciation</b>	<b>0</b>	*	*

2. **Details of fixed assets**

- Land and buildings were bought during the year and are not depreciated.
- New equipment was bought for R55 000 halfway through the financial year. This transaction has been correctly recorded.
- Provide for depreciation on equipment at 10% p.a. on cost price.
- A vehicle was sold for cash at carrying value on 31 March 2012. This has been properly recorded. The details of the asset sold from the Fixed Asset Register were as follows:
  - Cost price, R165 000
  - Accumulated depreciation at beginning of financial year, R66 000
  - Depreciation rate of 20% p.a. on the diminishing-balance method
- Depreciation on all the vehicles is R98 890 for the year.

## 3. The following figures were extracted from the accounting records at the end of the financial year on 30 June 2012:

Ordinary share capital (730 000 shares)	R 1 825 000
Retained income (1 July 2011)	39 000
Fixed deposit (see Information 4)	203 000
Mortgage loan from Khaya Bank	306 240
Fixed/Tangible assets	?
Debtors' control	68 000
Creditors' control	77 500
Provision for bad debts	1 450
SARS (Income tax – provisional tax payments)	175 000
Expenses accrued/payable	18 300
Bank (Dr)	61 340
Petty cash and cash float	3 200
Trading inventory	118 000
Consumable stores on hand	4 000
Shareholders for dividends	219 000

4. There are two fixed deposits at Sahara Bank. A fixed deposit of R98 000 matures on 30 December 2012. The rest matures on 31 May 2014.
5. The following relates to the mortgage loan from Khaya Bank:
  - Interest is capitalised.
  - Interest for the year has not been entered, R63 360.
  - The loan will be reduced by R52 800 over the next financial year.
6. Shares and dividends:
  - 100 000 new shares were issued on 1 January 2012. This has been recorded.
  - Interim dividends of 20 cents per share were paid on 31 December 2011.
  - Final dividends of R219 000 were declared on 30 June 2012.
7. The Income Statement reflects:
  - Net profit before tax, R560 000
  - Income tax for the year, R168 000.

**QUESTION 5: INTERPRETATION OF COMPANY INFORMATION****(70 marks; 40 minutes)**

- 5.1 Complete the following sentences by using the words in the list below. Write only the word next to the question number (5.1.1–5.1.5) in the ANSWER BOOK.

profitable; solvent; liquid; return; risk/gearing
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- 5.1.1 A company with total assets exceeding the total liabilities is ...
- 5.1.2 A company which relies heavily on loans will have high ...
- 5.1.3 A company which controls its income and expenses properly will be ...
- 5.1.4 The percentage net income on equity indicates the ... earned by shareholders.
- 5.1.5 A company which is able to settle its immediate debts is ... (10)

**See next page for question 5.2**

**5.2 JANKELO LIMITED**

You are provided with information related to Jankelo Ltd. New shares were issued on the first day of the financial year.

**REQUIRED:**

Use the information below to calculate the following figures or financial indicators for the financial year ended 30 June 2012. Calculate to ONE decimal place where relevant.

- 5.2.1 Acid-test ratio (4)
- 5.2.2 Earnings per share (in cents) (4)
- 5.2.3 Net asset value per share (in cents) (3)
- 5.2.4 Percentage return on average shareholders' equity (5)
- 5.2.5 The figures that will appear in the Cash Flow Statement for:
- Repayment of loans (2)
  - Proceeds of issue of ordinary shares (4)
  - Fixed assets purchased (Note that fixed assets with a book value of R105 000 were sold at carrying value.) (5)

**INFORMATION RELATING TO JANKELO LTD:**

	<b>30 JUNE 2012</b>	<b>30 JUNE 2011</b>
Sales	R 1 500 000	R 1 300 000
Depreciation	40 000	32 000
Net profit after tax	330 000	374 000
Ordinary shareholders' equity	1 445 000	1 133 000
Ordinary share capital (par value R5,00)	900 000	740 000
Share premium	188 000	132 000
Retained income	357 000	261 000
Non-current liabilities	500 000	630 000
Fixed/Tangible assets	1 667 000	1 620 000
Current assets (including inventories)	190 000	203 000
Current liabilities	120 000	170 000
Inventories	110 000	135 000

### 5.3 FINANCIAL INDICATORS OF TWO COMPANIES

Your friend, James, wants to buy shares in a company which sells running shoes. He asks you for advice and presents you with the following financial indicators of two companies he is considering. Both companies have the same number of shares with the same par values.

	<b>KWELA LTD</b>	<b>POMI LTD</b>
Market price per share on the JSE	750 cents	885 cents
Net asset value per share	609 cents	939 cents
Earnings per share	410 cents	176 cents
Dividends per share	240 cents	185 cents
% return on shareholders' equity	21,3%	11,2%
% return on total capital employed	32,6%	13,6%
% interest rate on loans	15,0%	15,0%
Debt/Equity ratio	0,3 : 1	2,0 : 1
Current ratio	6,0 : 1	1,5 : 1
Acid-test ratio	2,8 : 1	0,9 : 1
Period for which stock is on hand	150 days	88 days
Average debtors' collection period	53 days	25 days

#### REQUIRED:

Explain your answers to the following questions. In each case compare and quote financial indicators of both companies (actual figures, ratios or percentages) to support your answer.

- 5.3.1 James is of the opinion that Pomi Ltd is handling its working capital more effectively and is in a better liquidity situation than Kwela Ltd. Explain and quote THREE financial indicators to support his opinion. (9)
- 5.3.2 Consider the use of loans by the two companies:
- Which company is making more use of loans? Quote a financial indicator for each company.
  - Explain whether or not it was a good idea for that company to make use of loans. Quote ONE financial indicator. (6)
- 5.3.3 Kwela Ltd has a better percentage return, earnings and dividends than Pomi Ltd. Explain and quote THREE financial indicators for each company. (9)
- 5.3.4 The existing shareholders of the two companies hold different opinions of the current market value of their shares.
- Explain why the existing shareholders of Kwela Ltd are happy with this. Quote a financial indicator/figures to support your answer.
  - Explain why the existing shareholders of Pomi Ltd are very disappointed with this. Quote a financial indicator/figures to support your answer. (4)



#### 5.4 AUDIT REPORTS

You are provided with extracts from the independent audit reports of Kwela Ltd and Pomi Ltd.

**Extract from audit report of Kwela Ltd:**

In our opinion, the financial statements fairly present, in all material respects, the financial position of this company at 29 February 2012 and the results of their operations and cash flows for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

**Extract from audit report of Pomi Ltd:**

In our opinion, except for the effects of the company's overvaluation of its fixed assets, the financial statements fairly present the financial position of the company on 29 February 2012 and the results of their operations and cash flows for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

**REQUIRED:**

Consider the audit reports of Kwela Ltd and Pomi Ltd.

How would these audit reports influence James in deciding in which company to buy shares? Explain in respect of each company.

(5)

**QUESTION 6: PROJECTED INCOME STATEMENT AND INTERNAL CONTROL**  
**(40 marks; 25 minutes)**

The Happy Holiday Shop is owned by Jim Jambo. You are provided with extracts from the Projected Income Statement which Jim prepared for the three months ending 31 December 2012. He has included a column for the actual expenses that he has incurred in October.

**REQUIRED:**

- 6.1 Explain why it is important for Jim to prepare a Projected Income Statement. (2)
- 6.2 Calculate the percentage increase in sales he expects in December. Explain why he has budgeted for this increase. (4)
- 6.3 *Mark-up:* During October a competitor opened a shop up in the same area. Jim decided to adjust his mark-up percentage immediately to counter the new competitor. (3)
- Calculate the mark-up percentage he actually achieved in October. (3)
  - Explain whether or not it was a good idea to change the mark-up percentage from its original target. (3)
- 6.4 Calculate the following figures in the Projected Income Statement: (10)
- Rent income for November 2012 (Refer to Additional Information 1.)
  - Advertising for December 2012 (Refer to Additional Information 2.)
  - Interest expense for November 2012 (Refer to Additional Information 1.)
- 6.5 Refer to the actual and budgeted figures for October 2012. (6)
- Identify the THREE overhead expenses that have been poorly controlled by Jim. Quote figures to support your answer. (6)
  - What advice would you offer Jim to improve his internal control over these overhead expenses? Explain. (2)
- 6.6 Refer to Additional Information 3. Jim is of the opinion that he could benefit financially if he accepts Samuel's offer. State THREE points that would have a positive effect on his Projected Income Statement for January 2013 if he accepts the offer. Give figures or information from the question to support your answer. (6)
- 6.7 Jim is also conscious of the fact that there are negative points if he accepts the offer. State TWO points that Jim should consider before finalising his decision to sell the property. Explain. (4)

**INFORMATION:****HAPPY HOLIDAY SHOP  
EXTRACT FROM THE PROJECTED INCOME STATEMENT  
FOR THE THREE MONTHS ENDED 31 DECEMBER 2012**

	BUDGET	ACTUAL	BUDGET	BUDGET
	OCT. 2012	OCT. 2012	NOV. 2012	DEC. 2012
Sales	R 590 000	R 710 500	R 590 000	R 708 000
Cost of sales	368 750	490 000	368 750	442 500
Gross profit	221 250	220 500	221 250	265 500
Rent income	5 200	5 200	?	?
Salaries	?	?	?	?
Maintenance of property	4 000	7 000	4 000	4 000
Municipal rates on property	1 000	1 000	1 000	1 000
Telephone	1 500	1 200	1 500	1 500
Water and electricity	1 200	5 600	1 200	1 200
Advertising	4 000	4 000	4 000	?
Stationery	?	?	?	?
Trading stock deficit	8 000	12 300	8 000	8 000
Interest expense (15% p.a.)	(12 500)	(12 500)	?	(11 250)

**ADDITIONAL INFORMATION:**

- Jim bought the land and buildings for R1,2 million in 2011.
  - He rents out an unused portion of this property to a tenant. The rent will increase by 5% on 1 November 2012.
  - Jim had received a loan from his brother to pay for the land and buildings. The balance of this loan was R1 million on 1 October 2012. The interest rate is 15% p.a. and the loan is reduced by R50 000 per month on the last day of the month. Interest is paid monthly and is not capitalised.
- Currently Jim places five advertisements per month in the local newspaper. He plans to increase this to eight advertisements in December. The rate per advertisement will increase by 10% on 1 December 2012.
- Jim would like to improve his projected net income and is considering a proposal from a local businessman, Samuel Davids.

Samuel is prepared to purchase all the land and buildings of the business from Jim for R1,5 million during December 2012 and rent it to him for R10 500 per month.

Jim is interested in this offer as he knows that this will enable him to repay the loan from his brother in full on 1 January 2013 (the loan on this date will be R850 000). He will also be able to invest the surplus funds in a fixed deposit at 6% p.a.



# basic education

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

## NATIONAL SENIOR CERTIFICATE

**GRADE 12**

**ACCOUNTING**

**NOVEMBER 2012**

**MEMORANDUM**

**MARKS: 300**

### **MARKING PRINCIPLES:**

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no foreign item penalty for misplaced item). No double penalty applied.
2. Full marks for correct answer. If answer incorrect, mark the workings provided.
3. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer).
4. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
5. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
6. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
7. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
9. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
10. Codes: f=foreign item; p=placement/presentation.

**This memorandum consists of 20 pages.**

**QUESTION 1**

1.1

**Indicate whether the statements are TRUE or FALSE.**

1.1.1	False	✓✓
1.1.2	True	✓✓
1.1.3	False	✓✓
1.1.4	False	✓✓
1.1.5	True	✓✓

10

1.2.1

**Calculate the total value of the opening stock (A).**

$$600 \checkmark \times R85 \checkmark = R51\,000 \checkmark \quad \text{operation one part correct:}$$

3

1.2.2

**Calculate the value of the tiles received on 25 April 2012 (B).**

$$960 \checkmark \times R120 \checkmark + R5\,760 \checkmark = R120\,960 \checkmark \quad \text{operation one part correct}$$

$$R115\,200 \quad (2 \text{ marks})$$

4

1.2.3

**Calculate the value of closing stock using the weighted average method.**

$$\text{see 1.2.1} \quad \text{if } 1.2.2 + 94\,500 + 119\,700 \text{ inspect reasonable}$$

$$\frac{51\,000 \checkmark + 335\,160 \checkmark - 12\,000 \checkmark \text{ (or } 12\,600 \checkmark)}{3\,660 \checkmark} \times 1\,150 \checkmark$$

$$= \frac{374\,160 \text{ (or } 373\,560)}{3\,660} \times 1\,150$$

$$= R117\,563,93 \checkmark \quad \text{operation one part correct} \text{ or } R117\,563,92 \text{ or } R117\,564$$

OR

$$R102,23 \times 1\,150 = R117\,564,50 \text{ or } R117\,565$$

$$R102,07 \times 1\,150 = R117\,380,50 \text{ or } R117\,380 \text{ or } R117\,381$$

(4 marks) (1 mark) (1 method mark)

6

**1.3.1 Calculate the amount owed to SARS for VAT.**

operation one part correct

✓            ✓            ✓✓            ✓            ✓✓            ✓           

$$70\ 000 - 114\ 800 + 8\ 400 - 5\ 600 - 1\ 750 + 2\ 100 = R41\ 650$$

**OR:** mark one line only

$$-70\ 000 + 114\ 800 - 8\ 400 + 5\ 600 + 1\ 750 - 2\ 100 = R41\ 650$$

**OR: Input/Output calculation**

$$\begin{aligned} \text{VAT OUTPUT} &= 114\ 800 - 8\ 400 + 1\ 750 - 2\ 100 = R106\ 050 \\ \text{VAT INPUT} &= 70\ 000 - 5\ 600 = \underline{R\ 64\ 400} \\ & \qquad \qquad \qquad \underline{R\ 41\ 650} \end{aligned}$$

**OR: Input/Output calculation**

$$\begin{aligned} \text{VAT OUTPUT} &= 114\ 800 + 1\ 750 + 5\ 600 = R122\ 150 \\ \text{VAT INPUT} &= 70\ 000 + 8\ 400 + 2\ 100 = \underline{R\ 80\ 500} \\ & \qquad \qquad \qquad \underline{R\ 41\ 650} \end{aligned}$$

**OR: VAT CONTROL**

8 400	114 800
2 100	1 750
70 000	5 600
<b>41 650</b>	

9

**1.3.2 What should John Smith do about this? Explain.**

Any valid explanation ✓✓✓  
 Excellent = 3 marks; good = 2 marks; satisfactory = 1 mark; incorrect = 0 marks

Response for three marks must mention the action (inform Amy and instruct her to cancel the entry) **and** must explain the reason (tax evasion / unethical / illegal). Award part-marks for partial answers.

- Examples of responses:
- He should inform Amy that tax evasion is illegal, she should not have authorised this transaction. He must insist that the entry for R200 000 must be cancelled and the correct amount owed to SARS must be paid. (3 marks)
  - He should warn Amy about what she is authorising because this is unethical/illegal and the entry must be cancelled. (3 marks)
  - He must inform Amy or the bookkeeper that the VAT form must be correctly filled in, and this fraudulent entry must not be reflected. (3 marks)
  - He must insist that the entry is cancelled because tax evasion is illegal. (3 marks)
  - He must insist that this is corrected because he has a CA qualification and has to comply with a code of conduct. (2 marks)
  - He must insist that this is corrected. (1 mark)
  - This is fraudulent because the amount paid to SARS will be incorrect/understated (1 mark)
  - The internal controls in the business are being circumvented by someone working in the business or by the owner (1 mark)
  - Tax evasion is illegal / Manipulation of input tax (1 mark)
  - Internal controls are defective (1 mark)
  - This is unethical (1 mark)

3

<b>TOTAL MARKS</b>
<b>35</b>

**QUESTION 2**

2.1

**Complete the following sentences in your own words:**

Any valid explanation in each case ✓✓ ✓✓

One mark for mentioning internal control without any further explanation.

Two marks for explaining internal control measures (need not mention the words 'internal control').

**It is important to prepare a Bank Reconciliation Statement each month because** it is an important part of internal control which enables a business to check its bank balance to a document (the bank statement) received from the bank / to correct errors & omissions / identify outstanding cheques & deposits / detect fraud.

**It is important to prepare a Debtors' Age Analysis each month because** it is an important part of internal control which enables a business to identify debtors who are not complying with the credit terms / to ensure credit policies are followed / decide on action to be taken against certain debtors.

4

2.2.1

**Which GAAP principle will the bookkeeper apply when writing off the amount of R40 000? Briefly explain this principle.**

Principle of prudence ✓

part-marks for partial answer

Explanation (must show understanding of prudence): ✓✓

Possible responses for 2 marks:

- To treat transactions conservatively
- There is no guarantee that the money will be recovered and therefore it is treated as if it will not be recovered
- To make provision for possible losses in future.

3

**The bookkeeper wants to prevent a problem such as this in future? Give TWO solutions to improve internal control in this regard.**

Two separate points ✓✓ ✓✓ part-marks for partial answers

Possible responses for 2 marks:

- Division of duties
- Rotation of duties / employees to take leave
- Divide duties amongst employees so that the one can act as a check on the other
- Responsible staff members to check / make the deposits
- The person issuing receipts should not be the same person doing the deposits
- Regular and timely checks / monitor all large transactions
- Outstanding deposits must be investigated promptly
- Encourage EFT payments by customers / debtors
- Ask bank to send confirmation of deposits (e.g. sms)
- All cash received must be deposited daily (deposit slip must agree to receipts)
- Take strong disciplinary action over culprits (e.g. dismissal).

Do not accept preparation of bank reconciliation as a solution in this case.

Do not accept security cameras.

4

2.2.2

<b>BANK RECONCILIATION STATEMENT ON 31 MAY 2012</b>		
If 2-column method is used, assign appropriate headings to assist marking		
	Debit	Credit
✓ Balance as per <u>bank statement</u>	✓ 19 310	
✓ Outstanding cheques:		
▪ 967	✓ 4 790	
▪ 1122	✓ 4 650	
▪ 1129	✓ 8 540	
✓ Outstanding deposit		✓ 11 550
✓ Correction of error / wrongly entered		✓✓ 960
✓ Balance as per <u>bank account</u>	operation – balancing figure; debit or credit	<input checked="" type="checkbox"/> 24 780
	<b>37 290</b>	<b>37 290</b>

-1 for foreign items (max -2) e.g. R40 000, R2 340, R1 850, R920.  
Inspect operation to award marks

Balance as per Bank Statement	(19 310)
Outstanding cheques:	
▪ 967	(4 790)
▪ 1122	(4 650)
▪ 1129	(8 540)
Outstanding deposit	11 550
Correction of error	960
Balance as per bank account	(24 780)

<b>13</b>

2.3

	Identification of TWO different problems, with evidence from the question	Internal control measure to correct each problem
<b>Problem 1</b>	Identify problem (credit limits) ✓ Mention evidence ✓ Figures not necessary in this case <i>Problem:</i> Certain debtors are exceeding their credit limits <i>Evidence:</i> Fakude (exceeds by R700) or Martin (exceeds by R504).	Any valid advice ✓  Do not sell on credit to debtors who are likely to exceed their limits / ensure that they settle previous month's debt before buying on credit
<b>Problem 2</b>	Identify problem (credit periods) ✓ Mention evidence ✓ Figures not necessary in this case <i>Problem:</i> Most of the debtors are paying over periods longer than 30 days <i>Evidence:</i> 61% or R6 400 are taking longer / 39% within 30 days / Fakude & Howard exceed 60 days	Any valid advice ✓  Charge interest on overdue accounts/offer discounts for early payment/consider legal action against problem debtors

<b>6</b>

<b>TOTAL MARKS</b>
<b>30</b>



**QUESTION 3****3.1.1 CAPE CHOCOLATES – NOTE TO THE PRODUCTION COST STATEMENT FOR THE YEAR ENDED 30 JUNE 2012  
FACTORY OVERHEAD COST**

Factory indirect material <b>mark one row only</b> 80% ✓ x (7 200 ✓ + 56 000 ✓ – 7 500 ✓) 80% (1 mark) x 55 700 (3 marks) 5 760 (1 mark) + 44 800 (2 marks) – 6 000 (1 mark) <b>operation one part correct</b>	✓	44 560
Factory rent	✓	68 500
Factory maintenance (46 700 ✓ + 1 300 ✓) <b>operation one part correct</b>	✓	48 000
Water and electricity <b>two marks or nil</b>	✓✓	56 000
Depreciation / machinery <b>one mark or nil</b>	✓	12 800
Sundry expenses <b>two marks or nil</b>	✓✓	12 000
Wages of cleaner <b>one mark or nil</b>	✓	*23 000
Indirect salary (89 050 ✓ – 6 500 ✓ – 650 ✓) <b>operation one part correct</b>	✓	*81 900
* Could be combined as R104 900		
<b>Total factory overhead cost</b> <b>operation one part correct</b>	✓	346 760

- 1 foreign entries to a maximum of -2 in the case of additional entries added into the note  
e.g. R23 500, R9 500, R130 000

20

**3.1.2 CAPE CHOCOLATES – PRODUCTION COST STATEMENT FOR THE YEAR ENDED 30 JUNE 2012**

Mark for details applied if placement correct

✓ Direct/Raw materials cost <b>be aware of permutations</b> (18 000 ✓ + 650 000 ✓ + 12 300 ✓ – 35 000 ✓ – 20 000 ✓) 615 000 (2 marks) 662 300 (2 marks) 627 300 (3 marks)	✓	625 300 <b>one part correct</b>
✓ Direct labour cost (192 000 ✓ + 54 000 ✓) (3x 1600 x 40) + (900 x 60)	✓	246 000 <b>one part correct</b>
<b>Prime cost</b> <b>operation adding</b>	✓	871 300
✓ <u>Factory overhead</u> cost <b>see 3.1.1</b>	✓	346 760
<b>Total cost of production</b> <b>accept 1212 000 / operation</b>	✓	1 218 060
<b>Work-in-process on 1 July 2011</b>		<b>35 000</b>
		1 253 060
<b>Work-in-process on 30 June 2012</b> <b>check operation – work back from COP of FG</b> <b>This figure must work out to be a negative figure - check</b>	✓	(41 060)
<b>Cost of production of finished goods</b>		<b>1 212 000</b>

- 1 foreign entries to a maximum of -2 in the case of additional entries added in to the PCS

16

3.2.1

**Mark sections independently**

	<b>Blankets</b>	<b>Towels</b>
<b>Which production cost caused the biggest problem?</b>	Direct labour cost ✓	Direct material cost ✓
<b>Explanation and figures to support your opinion</b>	Increased by R10 (from R65 to R75; or 15%) ✓	Increased by R7 (from R20 to R27; or 35%) ✓
<b>Possible solution for Benny</b>	Train workers to work more efficiently / Work less overtime / Control working hours / Limit increases to inflation rate / Increase mechanisation / Pay according to productivity ✓	Secure a cheaper supplier / Ensure that workers do not waste raw materials / Improve security over DM ✓

6

3.2.2

**Benny does not know how to calculate the break-even point. Give the workings to prove that the 2012 break-even point of 12 298 units for blankets is in fact correct.**

$$\frac{R3\ 800\ 000}{(R430 - R121)} = \frac{R3\ 800\ 000}{R309} = 12\ 298 \text{ units}$$

OR

$$\begin{array}{ccccccc} \text{(one mark)} & & \text{(one mark)} & & \text{(one mark)} & & \text{(one mark)} \\ 5\ 288\ 140 & - & 1\ 488\ 058 & - & R3\ 800\ 000 & = & 82/0 \text{ (rounding off)} \\ (12\ 298 \times R430) & - & (12\ 298 \times R121) & - & R3\ 800\ 000 & = & 82/0 \text{ (rounding off)} \end{array}$$

4

3.2.3

**Refer to the number of blankets produced and sold in 2012, and the break-even point for blankets. Explain why these figures should be of concern to Benny. Quote figures to support your answer.**

Explanation on decline of number of units produced and sold ✓

Quoting of figures ✓

Explanation on increase in BEP ✓

Quoting of figures ✓

Expected responses for 4 marks (award part-marks for partial answers):

- They produced 3 702 units above the BEP. He is concerned because it is only 30% above the BEP.
- The number of blankets produced and sold has decreased by 9 000 units (from 25 000 to 16 000). The BEP has increased by 2 579 units (from 9 719 to 12 298).
- In 2011 15 281 units contributed to the profit (61%) in comparison to 2012 when only 3 702 units contributed to the profit (23%).
- This is of concern because he earns less profit on fewer units (probably because he is charging more than his competitors). The BEP is now 26% higher than it was; which means that he has to produce 26% more units before he starts making a profit.

4

**3.2.4 Which product should Benny increase in price by R15,00?**

Towels ✓

**Explain and quote figures to support your answer.**

Explanation ✓

Quoting of figures ✓

Expected responses for 2 marks:

- If he increases the price of towels to R125 it is still lower than the price of R130 charged by his major competitor (still R5 lower than competitor).
- He cannot increase the price of blankets because his price of R430 is already higher than the R410 charged by his major competitor (already R20 more).

**In this case, estimate how much extra net profit he could earn next year assuming that his level of production and sales will remain unchanged. Give a calculation to support your answer.**

80 000 x R15 = R1,2 m ✓✓

(1 mark if no calculation & answer is between R1m & R1,4m)

Could carry error through from above (e.g. focus on blankets approx R240 000)

5

TOTAL MARKS
55

**KEEP THIS PAGE BLANK**

**QUESTION 4**

**4.1 Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–D) next to the question number (4.1.1–4.1.4).**

4.1.1	C	✓✓
4.1.2	A	✓✓
4.1.3	D	✓✓
4.1.4	B	✓✓

8

**4.2 MASTER LIMITED**

**4.2.1 NOTE TO THE BALANCE SHEET ON 30 JUNE 2012**

FIXED/TANGIBLE ASSETS	Land and Buildings	Equipment	Vehicles
Carrying value – 1 July 2011	930 000	220 000	519 200
Cost	930 000	561 000	814 000
Accumulated depreciation	0	(341 000)	(294 800)
<b>Movements</b>			
Additions at cost	✓✓ 650 000	✓✓ 55 000	0
Disposal at carrying value (165 000 ✓ - 66 000 ✓ - 14 850 ✓) 80 850	0	0	☑ ( 84 150) operation one part correct
Depreciation (E: 2 750 ✓ + 56 100 ✓)	0	(☑ 58 850) operation one part correct	(98 890)
		Inspect reasonable	Inspect reasonable
Carrying value – 30 June 2012	1 580 000	☑ 216 150	☑ 336 160
Cost	1 580 000	616 000	✓✓ 649 000
Accumulated depreciation	0	☑ (399 850) Inspect reasonable	☑ (312 840) Inspect reasonable

17

**4.2.2 Calculate the Retained Income on 30 June 2012. (You may prepare an Appropriation Account if you wish.)**

$$39\ 000 \checkmark + 560\ 000 \text{ (or } 496\ 640 \checkmark) - 168\ 000 \checkmark - 126\ 000 \checkmark \checkmark - 219\ 000 \checkmark$$

$$= R86\ 000 \text{ or } R22\ 640 \checkmark \text{ operation one part correct}$$

Mark one line only

OR

$$- 39\ 000 - 560\ 000 \text{ (or } 496\ 640) + 168\ 000 + 126\ 000 + 219\ 000$$

$$= R86\ 000 \text{ or } R22\ 640 \checkmark \text{ operation one part correct}$$

OR

Appropriation Account

168 000	560 000
126 000	(or 496 640)
345 000 219 000	39 000
<b>86 000 or 22 640</b>	

7

## 4.2.3 MASTER LIMITED – BALANCE SHEET ON 30 JUNE 2012

<b>ASSETS</b>			
<b>Non-current assets</b>	operation if one part correct		<input checked="" type="checkbox"/> 2 237 310
<b>Fixed/Tangible assets</b>	see 4.2.1		<input checked="" type="checkbox"/> 2 132 310
✓ <u>Fixed deposits</u> : Sahara Bank (203 000 – 98 000)		5	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 105 000
			no part marks
<b>Current Assets</b>	operation if one part correct		<input checked="" type="checkbox"/> 358 090
<b>Inventories</b> (118 000 ✓ + 4 000 ✓)	operation one part correct		<input checked="" type="checkbox"/> 122 000
✓ Trade and other receivables / debtors 7 000 (2 marks) (68 000 ✓ – 1 450 ✓ + 175 000 ✓ – 168 000 ✓)	operation one part correct		<input checked="" type="checkbox"/> 73 550
✓ Cash and cash equivalents (98 000 ✓ + 61 340 ✓ + 3 200 ✓)	operation one part correct		<input checked="" type="checkbox"/> 162 540
<b>TOTAL ASSETS</b>	operation	16	<input checked="" type="checkbox"/> 2 595 400
<b>EQUITY AND LIABILITIES</b>			
<b>Ordinary shareholders' equity</b>	operation if one part correct		<input checked="" type="checkbox"/> 1 911 000
<b>Ordinary share capital</b>			<input checked="" type="checkbox"/> 1 825 000
<b>Retained income</b>	see 4.2.2	3	<input checked="" type="checkbox"/> 86 000 OR 22 640
<b>Non-current liabilities</b>			316 800
✓ Mortgage <u>loan</u> from Khaya Bank (306 240 ✓ + 63 360 ✓ – 52 800 ✓)	operation one part correct	5	<input checked="" type="checkbox"/> 316 800
<b>Current liabilities</b>	operation if one part correct		<input checked="" type="checkbox"/> 367 600
✓ Trade and other payables / creditors (77 500 ✓ + 18 300 ✓ + 219 000 ✓)	operation one part correct		<input checked="" type="checkbox"/> *314 800
✓ Short term portion of <u>loan</u>	see NCL above		<input checked="" type="checkbox"/> *52 800
	*Could be combined for 2 method marks as part of as R367 600		
<b>TOTAL EQUITY AND LIABILITIES</b>	operation	9	<input checked="" type="checkbox"/> 2 595 400

38

TOTAL MARKS

70

**QUESTION 5****5.1 Write down the missing word in each case**

<b>5.1.1</b>	Solvent	✓✓
<b>5.1.2</b>	Risk/gearing	✓✓
<b>5.1.3</b>	Profitable	✓✓
<b>5.1.4</b>	Return	✓✓
<b>5.1.5</b>	Liquid	✓✓

10
----

**5.2.1 Calculate the acid-test ratio.**

$$\begin{aligned} & 80\,000 \text{ (2 marks)} \\ (190\,000 \checkmark - 110\,000 \checkmark) : 120\,000 \checkmark \\ & = 0,7 : 1 \checkmark \text{ operation if one part correct} \end{aligned}$$

4
---

**5.2.2 Calculate the earnings per share (in cents).**

$$\begin{aligned} & \frac{330\,000 \checkmark}{180\,000 \checkmark \checkmark} \times \frac{100}{1} \\ & = 183,3 \text{ cents } \checkmark \text{ operation if one part correct} \end{aligned}$$

4
---

**5.2.3 Calculate the net asset value per share (in cents).**

$$\begin{aligned} & \frac{1\,445\,000 \checkmark}{180\,000 \checkmark} \times \frac{100}{1} \\ & = 802,8 \text{ cents } \checkmark \text{ operation if one part correct} \end{aligned}$$

3
---

**5.2.4 Calculate the percentage return on average shareholders' equity.**

$$\frac{330\,000 \checkmark}{\frac{1}{2} \checkmark (1\,445\,000 \checkmark + 1\,133\,000 \checkmark)} \times \frac{100}{1}$$

2 578 000 (2 marks)

$$= \frac{330\,000}{1\,289\,000} \times \frac{100}{1}$$

$$= 25,6\% \checkmark \quad \text{operation if one part correct}$$

5

**5.2.5 Calculate the figures that will appear in the Cash Flow Statement for:****Repayment of loans**

$$630\,000 - 500\,000 = 130\,000 \checkmark \checkmark \quad \text{no part marks}$$

$$- 630\,000 + 500\,000 = -130\,000$$

2

**Proceeds of issue of ordinary shares**

$$160\,000 \checkmark + 56\,000 \checkmark = 216\,000 \checkmark \checkmark \quad \text{operation if one part correct}$$

$$\text{OR } 1\,088\,000 - 872\,000 = 216\,000$$

$$\text{OR } 1\,445\,000 - 1\,133\,000 - 357\,000 + 261\,000 = 216\,000$$

312 000 (1 mark)                      - 96 000 (1 mark)

4

**Fixed assets purchased (note that fixed assets with a book value of R105 000 were sold at carrying value).**

$$1\,667\,000 \checkmark + 40\,000 \checkmark + 105\,000 \checkmark - 1\,620\,000 \checkmark = 192\,000 \checkmark$$

operation if one part correct

**OR** use one line only

$$1\,620\,000 - 40\,000 - 105\,000 - 1\,667\,000 = -192\,000$$

**OR**

Start	1 620 000
Buy	<b>192 000</b>
Sell	(105 000)
Depr	<u>(40 000)</u>
End	<u>1 667 000</u>

**OR**

1 620 000	105 000
<b>192 000</b>	40 000
	1 667 000

5



**5.3.1 James is of the opinion that Pomi Ltd is handling its working capital more effectively and is in a better liquidity situation than Kwela Ltd. Explain and quote THREE financial indicators to support his opinion.**

Financial indicator	✓	✓	✓
Quoting of figures	✓	✓	✓
Explanation	✓	✓	✓

A combined explanation may be provided; figures must be provided but not necessarily for both companies; candidates cannot get full marks if superfluous indicators are used; If candidates provide additional irrelevant indicators, search for the correct ones in the answer provided by the candidate and award marks accordingly. For those who provide more than three options, penalty of -1 for an irrelevant indicator (max -2).

- Current ratio of Pomi Ltd is 1,5 : 1 and of Kwela Ltd is 6:1 (Kwela Ltd's ratio is 4 times bigger). Pomi has enough current assets to cover his current liabilities whereas Kwela Ltd is holding too much of his funds in the form of current assets which do not result in a return for the business.
- Acid test ratio of Pomi Ltd is 0,9 : 1 and of Kwela Ltd is 2,8 : 1. (Kwela Ltd's ratio is 3 times bigger). Even if Pomi is not able to sell all of his trading stock he should still be able to cover his short term debt. Kwela Ltd is holding much of his current assets in the form of trading stock (stock piling).
- Period for which enough stock is on hand for Pomi Ltd is 88 days and for Kwela Ltd is 150 days (almost 6 months). Pomi Ltd has enough stock for 3 months which is appropriate for a company selling running shoes as styles of shoes normally change seasonally. Kwela Ltd is holding stock for too long, styles will change and clients will not be interested in buying outdated styles resulting in obsolete stock.
- Debtors average collection period of Pomi Ltd is 25 days which is within the normal/acceptable credit terms and is much lower than the 53 days of Kwela Ltd.

9
---

**5.3.2 Which company is making more use of loans? Quote a financial indicator for each company.**

Pomi Ltd ✓  
Debt / equity ratio 2 : 1 ✓ for Pomi Ltd and 0,3 : 1 ✓ for Kwela Ltd

**Explain whether or not it was a good idea for that company to make use of loans. Quote ONE financial indicator.**

No ✓  
Return on Capital Employed for Pomi is 13,6% ✓ which means that the return they are earning is lower than the interest he is paying on the loan (negative gearing) ✓

6
---

**5.3.3 Kwela Ltd has a better percentage return, earnings and dividends than Pomi Ltd. Explain and quote THREE financial indicators for each company.**

Figures for Pomi Ltd	✓	✓	✓
Figures for Kwela Ltd	✓	✓	✓
Explanation	✓	✓	✓

Candidates cannot get full marks if superfluous indicators are used. If candidates provide additional irrelevant indicators, search for the correct ones in the answer provided by the candidate and award marks accordingly. For those who provide more than three options, penalty of -1 for an irrelevant indicator (max -2)

Expected responses for 3 marks:

- % ROSHE for Kwela Ltd is much higher (21,3%) than that of Pomi Ltd (11,2%). The shareholders of Kwela Ltd are earning a higher return than they would have on other similar investments whereas the shareholders of Pomi Ltd could possibly earn a higher interest rate on other similar investments.
- EPS for Kwela Ltd is 410 cents whereas Pomi Ltd is only earning 176 cents per share.
- DPS for Kwela Ltd is 240 cents whereas for Pomi it is only 185 cents per share.

Candidates could also combine their comment on EPS and DPS as follows for 6 marks: Kwela Ltd is retaining income (EPS 410 cents, DPS 240 cents) whereas Pomi Ltd is not retaining any income (EPS 176 cents, DPS 185 cents).

Candidates could also comment on EPS as follows for 3 marks: Kwela Ltd's EPS of 410 cents compares well to the NAV of the share of 609 cents; Pomi Ltd's EPS of 176 cents compares unfavourably to the NAV of 939 cents.

Candidates could also comment on DPS as follows for 3 marks: Kwela Ltd's DPS of 240 cents compares well to the NAV of the share of 609 cents; Pomi Ltd's DPS of 185 cents compares unfavourably to the NAV of 939 cents.

9
---

**5.3.4 Explain why the existing shareholders of Kwela Ltd are happy with the current market value of their shares. Quote a financial indicator/figures to support your answer.**

Comparing market price and NAV of Kwela Ltd ✓ Figures ✓

Market price of Kwela Ltd is 750 cents which is higher than the NAV of 609 cents OR market price is 141 cents higher than the NAV. Kwela Ltd is thus able to fetch a price higher than the value of the shares in the books of the company.

**Explain why the existing shareholders of Pomi Ltd are very disappointed with the current market value of their shares. Quote a financial indicator/figures to support your answer.**

Comparing market price and NAV of Pomi Ltd ✓ Figures ✓

Market price of Pomi Ltd is 885 cents which is lower than the NAV of 939 cents OR market price is 54 cents lower than the NAV.

4
---

**5.4 How would these audit reports influence James in deciding in which company to buy shares?****Explanation on the audit report of Kwela Ltd** ✓✓

Good = 2 marks; average = 1 mark; incorrect = 0 marks

Expected responses for 2 marks:

- James will know that he can rely on the figures in the financial statements as the company has received an unqualified audit report
- James will know that he can rely on the figures in the financial statements as there is fair presentation in all material respects
- The report is unqualified – it is a good (i.e. reliable) report.

Expected responses for 1 mark:

- The financial statements fairly present the financial position
- The report is unqualified
- He will be able to rely on the figures
- This will probably have a positive influence on his decision
- He will be comfortable with his decision.

**Explanation on the audit report of Pomi Ltd** ✓✓✓

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

Expected responses for 3 marks:

- James will know that he cannot rely on the figures in the financial statements as the company has received an qualified audit report
- James will know that he cannot rely on the figures in the financial statements as they drew attention to shortcomings in the financial statements
- James will be unhappy because the fixed assets had been overvalued in the opinion of the auditors (which means that the true value of his possible investment is not certain as indicated by the net asset value).

Expected responses for 2 mark:

- The report is qualified – it is an unfavourable (i.e. unreliable) report

Expected responses for 1 mark:

- The financial statements do not fairly present the financial position in all respects
- The report is qualified
- He will not be able to rely on the figures
- This will probably have a negative influence on his decision
- He will be uncomfortable with his decision.

5

**TOTAL  
MARKS**

70

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**QUESTION 6****6.1 Explain why it is important for Jim to prepare a projected Income Statement.**

Valid explanation ✓✓

Good = 2 marks; satisfactory = 1 mark; incorrect = 0 marks

Expected response for 2 marks:

- To reflect the profit or loss the business can expect to make
- It enables him to plan properly and to anticipate any problems which could arise
- So that he can compare budgeted to actual figures in order to take corrective action.

Expected response for 1 mark:

- To see if the business is making a profit or loss
- To reflect projected income and expenditure.

2

**6.2 Calculate percentage increase in sales he expects in December.**

118 000 / 590 000 = 20% ✓✓ no part marks

**Explain why he has budgeted for this increase.**

Explanation ✓✓

Expected response for 2 marks:

- December should be a much busier period because of festive season (Christmas) or summer holidays
- There are more advertisements placed in December than in the other months.
- This is a shop focusing on holiday activities (so they should be busy during these periods)

4

**6.3 Calculate the mark-up percentage he actually achieved in October.**

$$\frac{220\,500}{490\,000} \times \frac{100}{1} = 45\% \quad \text{operation if one part correct}$$
**Explain whether or not it was a good idea to change the mark-up percentage from his original target.**

Yes / No ✓ Explanation ✓✓ part-marks for partial answers

*Explanation for no:*

Even though the actual sales were much more than budgeted, it did not result in a higher gross profit.

*Explanation for yes:*

- Sales increased significantly. (Although the gross profit was apparently the same), the business now has more customers (goodwill) which will benefit them in future.
- If they did not decrease their gross profit margin (from 60%) to 45%, they would not stay competitive and sales could drop and consequently net profit would drop.

6

**6.4 Calculate the following figures in the Projected Income Statement:**

	<b>Workings</b>	<b>Answer</b>
<b>Rent income for November 2012</b>	$5\,200 \checkmark \times \frac{105 \checkmark}{100}$ (one mark) R260 (one mark) $5\,200 + (5\% \times 5\,200)$	R5 460 <input checked="" type="checkbox"/> operation one part correct
<b>Advertising for December 2012</b>	$880 \checkmark \times 8 \checkmark$ 4 400 (one mark) (one mark) $4\,000 + 400 + 2\,640$	R7 040 <input checked="" type="checkbox"/> operation one part correct
<b>Interest expense for November 2012</b>	$15\% \checkmark \times 950\,000 \checkmark / 12 \checkmark$	R11 875 <input checked="" type="checkbox"/> operation one part correct

<b>10</b>

**6.5 Refer to the actual and budgeted figures for October 2012. Identify the THREE overhead expenses that have been poorly controlled by Jim. Quote figures to support your answer.**

Identification of THREE items:     
 Identification of figures:

Any three items:

- Maintenance of property is R3 000 over budget (R7 000/R4 000)
- Water and electricity is R4 400 over budget (R5 600/R1 200)
- Trading stock deficit is R4 300 over budget (R12 300/R8 000)

<b>6</b>

**What advice would you offer Jim to improve his internal control over these overhead expenses? Explain.**

Advice   part-marks for partial answers

Expected responses for 2 marks:

- Jim must inspect the reasons for being over budget (e.g. lack of care over property, water leaks, poor control of stock)
- He must take corrective action for the items that are over budget.
- He must budget more realistically in future.

<b>2</b>

6.6

**Jim is of the opinion that he could benefit financially if he accepts Samuel's offer. State THREE points that would have a positive effect on his Projected Income Statement for January 2013 if he accepts the offer. Give figures or information from the question to support your answer.**

Three separate points ✓ ✓ ✓  
 Figures ✓ ✓ ✓

Expected responses for 2 marks each:

- He will be saving interest on the loan – R10 625 or R11 250 or R11 875 / He will be paying no interest on loan (i.e. 0)
- He will be earning interest on a fixed deposit – 6% of R650 000 (R3 250)
- He will save on maintenance costs – R4 000 or R7 000 / He will incur no maintenance costs (i.e. 0)
- He will save on rates – R1 000 / He will not pay rates (i.e. 0)
- The rent expense is R125 less than the interest on the loan (R10 625 – R10 500)
- He will reflect a profit on sale of the property of R300 000 in the Income Statement.

6

6.7

**Jim is also conscious of the fact that there are negative points if he accepts the offer. State TWO points that Jim should consider before finalising his decision to sell the property. Explain.**

Two valid points ✓✓ ✓✓ figures not necessary in this case

Expected responses for 2 marks:

- He will be losing an asset which appreciates in value over time
- The value of the land and buildings may increase by more than the rent he is paying (R126 000 per year)
- He will be losing rent income (R5 460 per month)
- He will be paying rent (R10 500 per month)
- The rental will increase annually
- It could hamper future development of the business (if he does not own the fixed assets)
- He will not have collateral in the form of property.

4

TOTAL MARKS
40

TOTAL: 300