education

Department:
Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

EXEMPLAR 2008

MEMORANDUM

This memorandum consists of 21 pages.

QUESTION 1

1.1	**Briefly explain:** **What you understand by the term 'internal control.'** *The procedures and divisions of duties in place in an accounting department to ensure that all assets are safeguarded* ✓✓ **Why it is important to apply this in a business.** *Essential to achieve profit objectives of the owners and to safeguard their investment* ✓✓✓ **Why preparing reconciliations is important for internal control.** *Comparisons are made to documents received from outside organisations, or to figures in other aspects of the books. If differences can be explained, then errors, omissions or fraud is minimised.*	(7)
1.2	**According to the bank statement, does this business have a favourable bank balance or a bank overdraft? Provide a reason for your choice.** *Favourable* ✓ *– in the bank's books it is a credit balance (i.e. the bank owes money to the business)* ✓	(2)
1.3	**Calculate the Bank balance in the ledger of Soweto Stationers on 29 February 2008.** *R5 500* ✓✓ **State whether this a favourable or unfavourable balance.** *Unfavourable* ✓	(3)

1.4	**List FOUR steps you would follow when preparing a bank reconciliation statement.** *Tick off items that appear in the cash journals & bank statement* *Correct errors in cash journals* *Items which do not appear in the bank statement to be noted in the reconciliation* *Balance the bank account in the ledger after posting from updated journals* *Compare balance on ledger account to that of bank statement – outstanding items are the difference* *Any four valid points mentioned* ✓✓✓✓	(4)
1.5	**When preparing the financial statements of Soweto Stationers at the end of February 2008, what amount would you reflect under cash & cash equivalents?** *R4 500 i.e. R10 000 better than answer to 1.3* ✓✓	(2)
1.6	**Calculate the correct amount owed to Ace Wholesalers by Soweto Stationers.** ✓ ✓ ✓ ☑ *R5 000 + 18 400 – 13 200 = R10 200*	(4)
1.7	**Briefly explain what action should be taken over the difference of R1 900 in Example C.** *The accountant must search for an error in the general ledger or the creditors ledger and process the appropriate correction. All entries between the two should correspond.* ✓✓✓	(3)

TOTAL
25

QUESTION 2

2.1	**Explain the difference between the periodic and perpetual inventory systems. Also explain the advantage of each system.** *Valid difference point mentioned* • For periodic inventory system the value of the stock is determined periodically by a physical stock taking. ✓ • Perpetual inventory system the records of trading stock is continually updated. ✓ *Valid advantage point mentioned* • Periodic – this is a simpler and cheaper method to use since the cost of sale is not continually calculated. ✓ • Perpetual – It is easier to detect and correct losses since the balance of the trading stock account should always be equal to the value of the physical stock taking records. ✓	(4)

2.2	**Calculate the total number of microwave ovens sold during the year.** Microwave ovens sold = 252 000 ✓/1 400 ✓ = 180 ✓	(3)

2.3	**Calculate the total number of microwave ovens on hand at 29 February 2008.** Microwave ovens available on 28 February 2008 250 ✓ – 180 ✓ = 70 ☑	(3)

2.4 The business uses the FIFO valuation method.

2.4.1 Calculate the closing stock using the FIFO method.

✓ ✓ ✓
70 units at R750 = R52 500

(3)

2.4.2 Calculate the Gross profit for the year ended 29 February 2008 using the FIFO stock valuation method. You may draft the Trading account to calculate this figure.

Trading Acc (FIFO

Opening stock	✓ 38 000	Sales	✓ 252 000
Purchases	✓ 170 000	Closing stock	@☑ 52 500
Gross Profit	☑ 96 500		
	304 500		304 500

OR

252 000 ✓ + 52 500 @☑– 38 000 ✓ – 170 000 ✓ = R96 500 ☑

@ inspect operation – if one aspect correct

(5)

2.5 In order to secure the loan, the owner, B A Crooke, wants to change the stock valuation method to the weighted average method.

2.5.1 Calculate the value of the closing stock by using the weighted average stock valuation method on 29 February 2008

$$\frac{\text{Total value of stock available}}{\text{Total items available}} \times 70$$

$$\frac{38\,000 ✓ + 170\,000 ✓}{250 ✓} \times 70 ✓$$

or 832 x 70

=R58 240 ✓

(5)

	2.5.2	**Calculate the gross profit for the year ended 29 February 2008 using the weighted average stock valuation method.**	

Trading Acc (WA)

Opening stock	38 000	Sales	252 000
Purchases	170 000	Closing stock	☑ 58 240
Gross Profit	✓✓ 102 240		
	310 240		310 240

OR: 96 500 + (58 240 – 52 500) = 96 500 + 5 740 = R102 240 ☑✓✓

(3)

2.6 In your opinion will it be ethical for Mr. Crooke to change the method of stock valuation? Give one reason for your answer.

Yes or No ✓

Any one valid reason mentioned ✓✓✓

- Cannot change the stock system to increase the gross profit in order to secure a loan from the bank.
- Must be properly disclosed in the notes of the financial statements so that the readers can make their own decision.

(4)

30

TOTAL
30

QUESTION 3

MAHALA BAGS
PRODUCTION COST STATEMENT
FOR THE YEAR ENDED 29 FEBRUARY 2008

	Note	
DIRECT COSTS		☑ 824 500
Direct materials cost	1	☑ 490 000
Direct labour cost	2	☑ 334 500
FACTORY OVERHEAD COSTS	3	☑ 245 220
Total manufacturing costs		☑1 069 720
Add: Work-in-progress at beginning of year		✓ 15 280
		1 085 000
Less: Work-in-progress at end of year		✓(37 000)
Cost of production of finished goods (20 000 bags)		✓☑ **1 048 000**

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NOTE 1. DIRECT MATERIALS COST

Opening stock	✓✓ 20 000
Purchases	✓✓ 440 000
Carriage on purchases	✓✓ 70 000
	530 000
Less: Closing stock	✓✓ 40 000
Direct materials cost	☑ 490 000

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NOTE 2. DIRECT LABOUR COST

Factory wages	✓✓ 300 000
Pension Fund contributions (300 000 x 10,5%)	☑☑ 31 500
UIF contributions (300 000 x 1%)	☑☑ 3 000
Direct labour cost	☑ 334 500

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NOTE 3. FACTORY OVERHEAD COST

Indirect materials (33 500 – 1 500)	✓✓ 32 000
Indirect labour (12 000 + 120)	✓✓ 12 120
Depreciation: factory equipment (35 000 + 7 500)	✓✓ 42 500
Maintenance: factory equipment (50 000 + 3 000)	✓✓ 53 000
Rent of factory buildings (72 000 x 80%)	✓✓ 57 600
Factory insurance, electricity and water (60 000 x 80%)	✓✓ 48 000
Factory overhead cost	☑ 245 220

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<table>
<tr><td>3.2.1</td><td>Explain what is meant by and give an example of each
• Fixed costs
Fixed costs are those costs that do not change with the number of units produced ✓ e.g. factory rent or Salaries✓

• Variable costs
Variable costs are those that change in relation to the number of units produced ✓ e.g. direct materials ✓</td><td>(2)

(2)</td></tr>
<tr><td>3.2.2</td><td>Calculate the following unit costs for 2008:
• Direct material cost per unit

620 000 / 4 000 = R155 @ ☑✓

• Factory overhead cost per unit

568 000 / 4000 = R142 @ ☑✓

• Total variable cost per unit

(1 604 000 / 4000) @ ☑+ 98 ✓
401 + 98 = R499 ✓

@ inspect operation – if one aspect correct</td><td>(2)

(2)

(3)</td></tr>
<tr><td>3.2.3</td><td>Calculate the total pairs of soccer boots the business must make to break even (i.e. not to make a profit or a loss, use the 2008 figures in your calculation)

Sales - Cost = Profit
✓ - $ ☑ $ ☑ ✓ ✓ ✓
815 X - [155 X + 246 X + 98 X + 860 000 + 568 000] = 0
815 X - [499 X -] = 0
316 X ☑ = 1 428 000☑
X = 4 518,98 boots
= 4 519 boots✓

Or SP - VC = MP
815 - 499 = 316
<u>860 000 + 568 000</u>
316 = 4519 boots

$ method mark for transfer of figure from 3.2.2 or previous calculation</td><td>(9)</td></tr>
</table>

3.2.4	**You have been asked to compile a report to solve the problem of consistent losses. List the points that you would include in this report under the following headings (quote figures from the information to support your opinions):**	
	• **The costs which need to be better controlled** **Valid point mentioned ✓✓** *Appropriate figures quoted ✓✓* The administration costs need to be controlled better. This has increased from R160 per unit in 2007 to R215 per unit in 2008	(4)
	• **Whether or not the price of the pairs of boots should be increased** **Valid point mentioned ✓✓** *Appropriate figures quoted ✓✓* No, the price of boots cannot be increased. Similar pairs of boots cost R790 which is less than our current selling price of R815. In order to make a profit the business needs to sell more boots that may prove difficult if the price is increased.	(4)
	• **Whether the business will be in a position to meet the break-even point next year.** **Valid point mentioned ✓✓** *Appropriate figures quoted ✓✓* Based on the given information the business will <u>not be able</u> to meet break-even point. They have produced 4 000 pairs of boots whereas the calculation in 3.2.3 determined that the business needs to produce 4 519 pairs of boots in order to break even. This is 519 units short which means that the business needs to increase production and sales by 13%.	(4)

TOTAL
70

QUESTION 4

4.1 FATTI'S SUPERMARKET LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	R'000
Cash flow from operating activities		☑ 108 080
Cash generated from operations	**1**	**214 400**
Interest paid		**(12 000)**
Income tax paid		**(37 820)**
Dividends paid (28 000✓ + 66 500✓✓ – 38 000✓)		✓ (56 500)
Cash effects of investing activities		☑ (31 080)
Purchase of fixed assets (922 000 000✓ – 160 000 000✓ – 15 000 000✓ – 898 080 000✓)		✓ (151 080)
Proceeds of sale of fixed assets		**160 000**
Increase in investments		**(40 000)**
Cash effects of financing activities		☑ 10 000
Proceeds of shares issued (150 000✓+ 60 000✓)		✓ 210 000
Loans repaid		**(200 000)**
Net change in cash & cash equivalents		✓ 87 000
Cash & cash equivalents at beginning of year		**11 000**
Cash & cash equivalents at end of year		✓ 98 000

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4.2 CALCULATION OF FINANCIAL INDICATORS

WORKINGS:	ANSWER:
% Operating profit on sales ✓ ✓ 142 400 / 942 400 X 100 =	☑ 15,1%
% Return on shareholders' equity (after tax) ✓ ✓✓ 91 280 / 1 107 390 X 100	☑ 8,2%
Net asset value per share ✓ ✓✓ 1 224 780 / 95 000	☑ 1289 cents
Earnings per share ✓ ☑ 91 280 / 95000 X 100	☑ 96,1 cents
Average stock turnover rate ✓ ✓✓ 640 000 / 92 000	☑ 7 times

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4.3

4.3.1 Have the employees been treated fairly or not? Explain briefly. Provide TWO points, supporting your answer by quoting figures from the financial statements or the financial indicators.

Candidates should identify:
Assessment increase in salaries & wages
Comparison to directors fees
Comparison to sales or profits

Figures which should be quoted:
Directors fees went up by 10% (from R15m to R16,5m)
Salaries and wages went up by 40% (from R50m to R70m)
Sales went up by 51% (from R624m to R942,4m)
Operating profit went up by 19,7% (from R119m to R142,4m)

	0 marks	1-2 marks	3 marks
Two valid points identified from the question	Non-existent	Incomplete or unclear	Complete and clear ✓✓✓
Supported by quoted figures	Non-existent	Incomplete	Complete and valid ✓✓✓

(6)

4.3.2 What advice would you offer to the directors in solving this problem?

Possible responses for advice:
Remuneration committee - transparency
Dialogue with staff representatives / union

	0 marks	1-2 marks	3 marks
Valid advice provided	Non-existent	Incomplete	Complete and clear ✓✓✓

(3)

4.4 Has the company controlled its working capital well, and is it in a good liquidity situation? Explain briefly, quoting specific figures from the financial statements or the financial indicators.

Reasoned opinion expressed – Yes ✓
Quoting of improvement in current ratio from 1.7:1 to 2:1 ✓✓
Quoting of improvement in acid test ratio from 0,4:1 to1,3:1 ✓✓
Quoting of improvement in stock turnover rate from 3 to 7 times ✓$☑

$ method mark for transfer of figure from 4.2 – the stock turnover rate

(7)

4.5	**Write a brief letter to the Managing Director / Chief Executive Officer (CEO). Quote figures from the financial statements or the financial indicators to support your opinions.** *Letter to indicate:* *Improvement in ROSE%* *Improvement in EPS* *Improvement in DPS* *Payout rate - possibility of not retaining enough* *Improvement in NAV* *Undervalued on JSE – reason to be queried* *All relevant issues raised for valid global opinion* ✓✓✓✓✓✓ *Financial indicators appropriately quoted* ✓✓✓✓✓✓ *Financial indicators correctly interpreted* ✓✓✓✓✓✓ *(see alternative below)*	**(18)**
4.5	**Return:** *Mention of trend in ROSE* ✓*Quoting of ratios* ✓ *Mention of trend in ROCE* ✓*Quoting of ratios* ✓ Return on Shareholders' Equity improved from 5,4% to *8,2% Return on Capital Employed improved from 8,5% to 10,9% *Valid comment made* ✓ Shareholders should be happy with the above ratios. Had they invested their money elsewhere it would probably have been at a similar or less interest rate. **Earnings and dividends per share:** *Mention of trend in EPS* ✓*Quoting of ratios* ✓ *Mention of trend in DPS* ✓*Quoting of ratios* ✓ The EPS increased from 67,4 cents to *96,1 cents per share The DPS increased from 67 cents to 70 cents per share *Valid comment made* ✓ There has been an improvement in both these indicators. It is therefore evident that shareholders have received more in this financial year than they did in the previous financial year.	

Share price:

Mention of trend in NAV ✓Quoting of ratios ✓
Mention of trend in market value of shares ✓Quoting of ratios ✓

The NAV improved from 1238 cents to *1289 cents.
The market value of the shares improved by 15% to R11,90.

Valid comment made ✓
There has been an improvement of NAV as well as the market price of shares which is a good indication of the share price.

Possible areas for future improvement:

Any valid suggestion for improvement ✓✓✓

Possible suggestions:
A concern however is that shareholders had paid R14 per share during this financial year which is considerably higher than the market value of R11,90. This means that the shares are undervalued on the JSE and should be investigated.

Although the Sales have increased considerably from 2% in the previous financial year to 51% this year, the operating profit on sales indicate a decline from 19,1% to *15,1%.

- award mark for transfer of figure from 4.2

(18)

TOTAL
70

QUESTION 5

5.1.1 KAMBULO LTD
BALANCE SHEET ON 30 JUNE 2008

ASSETS		
Non-current assets	☑ 3 768 000	
Tangible assets	✓ 3 408 000	
Investment – Fixed deposit at KZN Bank	✓✓ 360 000	
		(4)
Current assets (510 000 x 2)	☑☑ 1 020 000	
Inventories (510 000 x 1,2) or (1 020 000 – [0,8 x 510 000])	☑☑ 612 000	
Trade & other receivables (0,8 x 510 000 = 408 000 – 88 00)	☑☑ 320 000	
Cash & cash equivalents (8 000 ✓ + 80 000 ✓)	✓ 88 000	
TOTAL ASSETS	☑ 4 788 000	(10)
EQUITY & LIABILITIES		
Ordinary shareholders' equity (713 000 ☑ / 0,2 ✓)	☑ 3 565 000	
Ordinary share capital (500 000 ✓ x R4 ✓)	✓ 2 000 000	
Share premium (300 000 ✓ x R1,40 ✓)	✓ 420 000	
Retained income	☑ 1 145 000	(10)
Non-current liabilities 830 000 ✓ + 94 200 ✓ – 151 200 ✓ – 60 000 ✓	713 000	
Mortgage loan from Kwezi Bank	✓ 713 000	
		(5)
Current liabilities	☑ 510 000	
Trade & other payables (* or 280 000 + 60 000)	✓ 280 000	
Bank overdraft	✓ 170 000	
Current portion of loan (* or shown as T&OP)	✓✓ 60 000	
TOTAL EQUITY & LIABILITIES	☑ 4 788 000	(6)

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5.1.2	**Joan Kambo currently owns 65% of the issued shares. The directors have decided to issue all the unissued shares on 10 January 2009. What is the minimum number of new shares Joan Kambo must buy in order to keep control of the company?** Kambo currently owns = 65% of 500 000 = 325 000 shares She needs to own at least = 400 001 shares or 51% of 800 000 = 408 000 ✓✓ ✓✓ ✓ She needs to buy = 400 001 – 325 000 = 75 001 OR If they sell in lots of 100, she needs = 400 100 – 325 000 = 75 100 OR If she buys 51%, she needs = 408 000 – 325 000 = 83 000	(5)
5.1.3	**What should Joan Kambo, as CEO of Kambulo Ltd, do before buying the new shares? Explain briefly by providing two points.** Any two valid points. Two marks each ✓✓ ✓✓ Part-marks for incomplete or unclear points. Declare here interest/intention in buying the new shares As CEO she must ensure that all information about the company is public knowledge. Ensure that correct procedure has been followed.	(4)

5.2.1	**(a)**	**Why is this audit report addressed to the shareholders?** The auditors are appointed by the shareholders – they own the company but they do not have access to the books and records of the company. Any reasonable explanation focusing on the separation of ownership (by shareholders) from control (by directors). ✓✓✓ Part-marks may be awarded for inadequate or incomplete answers.	(3)
	(b)	**What is the significance of the reference CA (SA)?** The audit has been done by professionals with a CA qualification. This provides assurance to the readers that the audit has been properly done. Any reasonable explanation. ✓✓ Part-marks may be awarded for inadequate or incomplete answers.	(2)

	(c)	**Briefly explain how the firm of Trew & Frank arrives at the opinion that they express in this report. Provide two points.** They must assess the internal control. They must do checks of a sample of transactions. ✓✓ ✓✓ Two marks per point.	(4)
	(d)	**Should the shareholders be satisfied with this report? Explain.** Yes. ✓ Explanation: ✓✓ Any valid point – Possible responses: It is an unqualified report, The auditors have not mentioned any irregularities. The financial statements comply with the law and regulations. The auditors are properly registered and qualified.	(3)
	(e)	**What action would be taken by the professional bodies such as SAICA if Trew and Frank were accused of being negligent in issuing this opinion? What consequences could there be for Trew & Frank?** Action by SAICA ✓✓ Possible consequence ✓✓ any valid point ***Expected responses:*** SAICA to investigate the complaint & institute a disciplinary hearing. ***Consequence:*** Trew & Frank could possibly be suspended or deregistered if found guilty of negligence. They could be prevented from auditing books of companies. They could also be sued by the complainant.	(4)

5.2.2	**(a)**	**Has YB Goode been treated fairly by the judge and the company Felon Ltd? Explain your reason briefly.** Opinion: Yes / No ✓ – to be supported by valid reason. Possible reasons: He deliberately sold these shares by misleading other people about the prospects of the company. By remaining quiet he implied that all was well. ✓✓✓ Any valid reason. Part-marks for incomplete reasoning.	(4)

	(b)	**If you were a major shareholder of Felon Ltd, what personal characteristics would you look for in appointing the CEO and other directors to prevent a similar problem in future? Provide two points.** Any valid points – two marks each. ✓✓ ✓✓ Expected responses: Honesty or integrity Accountability Transparency Awareness of the law e.g. Companies Act	(4)

5.2.3	**South Africa is playing a leading role in promoting good corporate governance. The King Code is often used as a good example of this. One of the recommendations of the King Code is that companies should be required to reflect in their annual reports the contributions that they make to benefit the community at large e.g. social and environmental issues.**		
	(a)	**Provide an example of a company that has been complying with this aspect of the King Code. Briefly explain the contribution that this company is making to the community.** Any plausible example ✓ Contribution ✓✓. Standard Bank – supports sport such as Cricket ODI's SA Breweries – entrepreneurship Sasol – cultural heritage Pick n' Pay - conservation	(3)
	(b)	**You heard a comment that companies should be primarily concerned about the interests of the shareholders, not the greater community. Explain why this opinion would not be supported in modern times.** Expected response: Companies might make big profits for the shareholders, but cause problems for the wider community e.g. pollution. The public needs to know about this. Companies which abuse the environment or the community should not be supported. e.g. Social responsibility towards the community- ploughing back into projects, e.g. community hall, sports field Any plausible reason ✓✓✓✓ Part-marks for unclear responses.	(4)

TOTAL
75

QUESTION 6

6.1 What is meant by 'Value Added Tax' and at what rate is VAT calculated?

Tax on sales of goods (levied on the purchaser by the seller) ✓
14% ✓

(2)

6.2

6.2.1 Calculate the VAT output amount from the CRJ.

14% of R942 000 = R131 880 ✓☑ *see rate in 6.1* (2)

6.2.2 Calculate the VAT input amount from the CPJ.

14% of (R248 000 + R580 000) = R115 920 ✓✓☑ *see rate in 6.1* (3)

6.2.3 Calculate the VAT output amount from the DJ.

14 / 114 x R397 860 = R48 860 ✓✓☑ *see rate in 6.1* (3)

6.3 Ivy is unsure how her bookkeeper should enter the VAT amounts in the ledger. Indicate to her how the VAT totals of the journals will be posted to the General Ledger by completing the table in the answer booklet. Some of the details have been entered for you.

Journal	Debit	Credit	Amount
CRJ	**Bank**	VAT output / control ✓	☑ R131 880
CPJ	VAT input / control ✓	Bank ✓	☑ R115 920
DJ	Debtors control ✓	VAT output / control ✓	☑ R48 860
DAJ	**VAT output / control**	**Debtors control**	R6 930
CJ	**VAT input / control**	**Creditors control**	R58 170
CAJ	**Creditors control**	**VAT input / control**	R7 210
GJ	Drawings ✓	VAT output / control ✓	R1 260
GJ	VAT output / control ✓&	Bad debts ✓ or Debtors Control	R560

& could also be VAT Input – claim back

(12)

6.4	**Calculate the amount of VAT to be paid over to SARS in respect of August 2008.** **VAT CONTROL** R115 920 | R131 880 R6 930 | R48 860 R58 170 | R7 210 R560 | R1 260 R181 580 | R189 210 TO PAY = R7 630 ✓✓ ☑☑ *If figures correctly transferred*	(4)
6.5	**Ivy does not have enough money in her bank account to pay SARS for the VAT. The bank balance is currently in overdraft at approximately R50 000. What advice would you offer her in order to:** • **solve the problem now?** Any valid answer e.g. borrow funds, introduce capital ✓✓ • **solve the problem in the future?** Better budgeting – VAT charged to customers must be earmarked for repayment, not spent on assets such as equipment. ✓✓	(4)

TOTAL
30

TOTAL: 300