



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

JUNE 2016

ACCOUNTING

MARKS: 300

TIME: 3 hours



This question paper consists of 16 pages and a 14 page answer book.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or black/blue ink to answer the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. A breakdown of the questions is provided. You must attempt to comply with the suggested time allocation for each question.

QUESTION 1: 45 marks; 25 minutes	
Topic of the question:	This question integrates:
Reconciliations	Financial accounting <ul style="list-style-type: none"> • Bank, Creditors and Debtors. Managing resources <ul style="list-style-type: none"> • Internal controls and Ethics

QUESTION 2: 35 marks; 20 minutes	
Topic of the question:	This question integrates:
Inventory valuation	Managing Resources <ul style="list-style-type: none"> • Calculating and interpreting stock information

QUESTION 3: 60 marks; 35 minutes	
Topic of the question:	This question integrates:
Companies – Concepts, Income Statement and Audit Report	Financial accounting <ul style="list-style-type: none"> • Concepts and Income Statement Managing Resources <ul style="list-style-type: none"> • Audit report – concepts and comments

QUESTION 4: 45 marks; 30 minutes	
Topic of the question:	This question integrates:
Companies – Concepts and Balance Sheet	Financial accounting <ul style="list-style-type: none"> • Concepts and Balance Sheet

QUESTION 5: 65 marks; 40 minutes	
Topic of the question:	This question integrates:
Cash Flow Statement and Interpretation of financial information	Financial Accounting <ul style="list-style-type: none"> • Calculating Cash Flow amounts • Financial indicators and interpretation

QUESTION 6: 50 marks; 30 minutes	
Topic of the question:	This question integrates:
VAT and Fixed Assets	Financial Accounting <ul style="list-style-type: none"> • VAT – concepts and calculations Managing Resources <ul style="list-style-type: none"> • Fixed assets – calculations of amounts in Note

QUESTION 1: RECONCILIATIONS**(45 marks; 25 minutes)****1.1 Bank Reconciliation**

The information below relates to Woodroffe Stores on 31 May 2016, the financial year-end. The bookkeeper is Jimmy Brown.

REQUIRED:

- 1.1.1 Calculate the balance as per the Bank Account in the General Ledger according to the Reconciliation Statement prepared by Jimmy. State whether it is favourable or unfavourable. (8)
- 1.1.2 Provide a reason why Cheque No. 882 should not appear as an outstanding cheque. Also state how this transaction must be corrected. (4)
- 1.1.3 Cheque No. 1234 is post-dated. How must this cheque be treated at the end of the financial year? (4)
- 1.1.4 An investigation revealed that the outstanding deposit of R5 000 was stolen by the cashier responsible. The cashier has since resigned and the money will not be recovered.
- List the accounting entries that must be made to take this transaction into account. (2)
 - Provide ONE control measure to prevent such incidents in future. (2)

INFORMATION:

Information from the Bank Reconciliation on 31 May 2016:

Favourable bank statement balance	R9 410
Deposits not yet recorded by the bank: 12 May 2016	5 000
27 May 2016	12 400
Outstanding cheques: No. 882 (30 October 2015)	2 400
No. 996 (21 May 2016)	15 300
No. 1234 (7 June 2016)	7 600
Incorrect debit entry on the statement	540
Balance as per Bank Account in the General Ledger	?

1.2 Creditors Reconciliation

The statement of account below was received from Zwelethu Suppliers, a creditor of Zintle Stores. A comparison of the statement to the account in the Creditors Ledger revealed errors and omissions on the statement only. Posting to the Creditor's Ledger account was correctly done.

REQUIRED:

Prepare a Creditors Reconciliation Statement on 30 April 2016.

(9)

INFORMATION:

A. Statement of account received from Zwelethu Suppliers:

ZWELETHU SUPPLIERS STATEMENT OF ACCOUNT			
21 Cape Road Kimberley, 0034		Tel: (521) 332 3345 Fax : (521) 332 5567	
DEBTOR: <i>Zintle Stores</i>		STATEMENT DATE : <i>26 April 2016</i>	
DATE	DETAILS	AMOUNT	BALANCE
2016 Apr 1	Balance		22 200
5	Invoice No. 964	6 380	28 580
6	Receipt No. 1132	(15 000)	13 580
15	Invoice No. 977	5 220	18 800
18	Credit Note No. 226	730	19 530
24	Invoice No. 981	1 800	21 330
E&OE	26 Invoice No. 999	6 640	27 970
Includes all transactions up to 26 April 2016			

B. The following errors and omissions were noted on the above statement:

- (i) The correct amount for Invoice No. 964 was R6 830.
- (ii) The 5% discount for the payment on the 6th was omitted.
- (iii) The credit note on 18th was incorrectly recorded as an invoice.
- (iv) The invoice on 24th was for goods sold to some other business.
- (v) Invoice No. 1009 for R4 090 for goods purchased on 30 April 2016 (after the statement date) appeared in the Creditors Ledger account of Zwelethu Suppliers.

C. The creditor's ledger account of Zwelethu Suppliers in the books of Zintle Stores showed a closing balance of R28 500 on 30 April 2016.

1.3 Debtors Reconciliation

The information relates to Moses Stores for March 2016

REQUIRED:

- 1.3.1 Explain why the balance on the Debtors' Control account in the general ledger should equal to the total of the Debtors' List. (2)
- 1.3.2 **Refer to Information A and B.**
Show how the balance of each debtor will be adjusted to take into account the errors and omission noted. (10)
- 1.3.3 **Refer to Information C.**
Explain why you would be concerned about the management of debtors. Quote figures in your answer. (4)

INFORMATION:

A. Extract from the Debtors' List on 31 March 2016:

M. Goode	DL1	7 535
E. Better	DL2	9 620
N. Nice	DL3	6 880

B. Errors and omissions noted:

- i) Goods sold to N. Nice, R1 840, was posted in error to the account of M. Goode.
- ii) R2 500 received from E. Better was correctly recorded in the CRJ but was posted as R2 000 to the debtor's ledger account.
- iii) N. Nice was granted an allowance of R200 for damaged goods sent to her. This was posted to the wrong side of the debtor's ledger account.
- iv) Interest of R125 charged on the overdue account of M. Goode must still be posted to the debtors' ledger.

C. The debtors' age analysis on 31 March 2016 (after the adjustments) was as follows: The business grants debtors a 5% discount if accounts are paid within 30 days.

DEBTORS CONTROL BALANCE	CURRENT	30 – 60 DAYS	60 – 90 DAYS	90 DAYS +
R70 700	R14 140	R17 675	R31 815	R7 070

QUESTION 2: INVENTORY VALUATION**(35 marks; 20 minutes)****2.1 CONCEPTS**

Pick the correct stock concept from those within brackets. Write the correct answer only next to each number (2.1.1–2.1.4) in the ANSWER BOOK. (4)

2.1.1 The (**first-in-first-out / weighted average**) stock valuation method will record closing stock at the most current stock prices.

2.1.2 The (**first-in-first-out / weighted average**) method is more relevant for low cost stock items that is purchased on a more regular basis.

2.1.3 The (**first-in-first-out / specific identification**) valuation method is suitable for very expensive, individually identifiable stock items.

2.1.4 The (**periodic / perpetual**) stock system records the cost of goods sold at the point of sales.

2.2 40 Love

Ivan Lendl owns *40 Love*, a sports shop. The financial year ends on 30 April each year. The business uses the periodic inventory system to record stock.

REQUIRED:**2.2.1 Refer to Information A:**

Tennis balls are valued using the weighted average method. Calculate:

- Value of the closing stock (8)
- The cost of sales (3)
- The stock holding period (in days; use average stock) (4)

2.2.2 Comment on whether the stock holding period is appropriate or not. (2)

2.2.3 Refer to Information B:

The specific identification method is used to maintain the stock records of tennis rackets. Calculate the following:

- Value of the closing stock of Nexus rackets (10)
- The gross profit on Olympus rackets. (4)

INFORMATION:

- A. Tennis balls are sold in packs of three.
Stock records of tennis balls:

	PACKS (units)	COST PER PACK (R)	TOTAL (R)
Stock balance (1 May 2015)	132		7 955
Purchases during the year:	610		48 120
July 2015	220	R75	16 500
October 2015	180	R80	14 400
January 2016	210	R82	17 220
Total packs available for sale	742		56 075
Returns: 12 defective packs from the October 2015 purchases were returned to the suppliers and a full refund was received.			
Stock balance (30 April 2016)	120		?

- B. The business stocks and sells two brands of tennis rackets, Nexus and Olympus.

Stock records of rackets (at cost)

	NEXUS			OLYMPUS		
	UNITS	UNIT PRICE	TOTAL	UNITS	UNIT PRICE	TOTAL
Opening Stock 1 May 2015	13		34 320	9		48 600
Purchases	60		169 750	36		200 500
July 2015	20	2 800	56 000	12	5 525	66 300
October 2015	15	2 750	41 250	10	5 580	55 800
January 2016	25	2 900	72 500	14	5 600	78 400

Sales records

BATCH	NEXUS		OLYMPUS	
	UNITS SOLD	Sales amount	UNITS SOLD	Sales amount
1 May 2015	11	39 050	4	32 400
July 2015	16	56 800	7	49 725
October 2015	12	42 600	6	58 590
January 2016	14	49 700	8	67 200
TOTAL	53	188 150	25	207 915

Nexus brand is sold at a fixed selling price per unit.

Olympus brand is sold at a mark-up of 50% on cost.

QUESTION 3: COMPANIES – CONCEPTS, AUDIT REPORT AND INCOME STATEMENT
(60 marks; 35 minutes)

3.1 GAAP CONCEPTS

Match the GAAP concepts listed in COLUMN A with an explanation provided in COLUMN B. Write the letter (A–E) only next to each number (3.1.1–3.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
3.1.1	Matching	A	The affairs of the owner must be kept separate from the business records
3.1.2	Historical cost	B	Significant expenses like directors fees must be shown separately in financial statements
3.1.3	Materiality	C	Losses must be recorded when identified even though it may be recovered in the future
3.1.4	Business entity	D	Income and expenses must be recorded in the period they are earned or incurred
		E	Assets are recorded at the price purchased even though the market price may be higher

(4)

3.2 AUDIT REPORT

Below, is an extract of the audit report of Gunuz Ltd.

REQUIRED:

3.2.1 Explain the role of the independent auditor. (2)

3.2.2 Did Gunuz Ltd receive a qualified, unqualified or a disclaimer audit report? Explain your choice. (2)

3.2.3 The marketing expense on the Income Statement refers to a golf excursion organised by the CEO and her friends. The CEO suggested to the external auditor that this transaction should be ignored.

- The external auditor was not willing to do this. Briefly explain why she feels this way. (2)

- Provide TWO consequences for the auditor if she agreed to this request. (4)

INFORMATION

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

We have audited the annual financial statements of Gunuz Limited, set out on pages 22 to 43 for the year ended 30 June 2015. 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.

Audit opinion

In our opinion, the financial statements fairly represent the financial position of the company at 30 June 2015, except for the marketing expense in the Income Statement which could not be verified, as no documentation existed for this expenditure.

Mihlali and Van Rooyen
Chartered Accountants (SA)

15 August 2015

3.3 BHEEM LTD

The information relates to Bheem Ltd for the financial year ended 29 February 2016.

REQUIRED:

Prepare the Income Statement for the year ended 29 February 2016 (46)

INFORMATION:

A. Information extracted from the pre-adjustment trial balance:

Trading stock	132 650
Debtors control	68 800
Provision for bad debts	3 490
Sales	5 207 600
Cost of sales	3 717 250
Debtors allowances	9 800
Salaries and wages	432 900
Rent income	78 600
Consumable stores	31 600
Interest on investment	22 000
Insurance	43 150
Commission income	25 250
Directors' fees	329 000
Audit fees	16 160
Sundry expenses	72 800

B. Adjustments and additional information:

- (a) A credit note for R2 800 (cost R1 750), issued to a debtor for goods returned was not recorded. The goods were placed back on the shelves.
- (b) The stock take on 29 February 2016 revealed the following stock on hand:
 - Trading stock, R131 400
 - Consumable stores, R4 100
- (c) The provision for bad debts must be adjusted to 4% of debtors.
- (d) The rent for March 2016 was received. Take into account that rent was increased by R500 on 1 July 2015.
- (e) The directors' fee of one director was outstanding for February 2016. The company has 3 directors on the same fee structure.
- (f) The auditors are due a further R3 840 due to the audit taking longer than expected.
- (g) Insurance includes R4 950 for three months ending 31 March 2016
- (h) Depreciation on equipment of R32 700 must be provided.
- (i) Interest on loan is capitalised. The loan statement showed that R24 500 was added to the loan account balance for interest.
- (j) Income tax is calculated at 30% of the net profit.

QUESTION 4: COMPANIES – CONCEPTS AND BALANCE SHEET**(45 marks; 30 minutes)****4.1. CONCEPTS**

Select a concept from the options provided that best describes the examples listed. Write the concept only next to the number (4.1.1 – 4.1.5) in the ANSWER BOOK.

**Current assets; non-current assets; non-current liability; equity;
current liabilities**

- 4.1.1 A fixed deposit that matures in five years' time.
- 4.1.2 Part of the net profit retained by the business for future expansions.
- 4.1.3 An amount receivable from SARS due to provisional tax payments being more than the income tax due.
- 4.1.4 A mortgage loan payable over 20 years.
- 4.1.5 Final dividends due to shareholders at financial year-end.

(5)**4.2 BERONE LTD**

Barone Ltd is a public company registered with an authorised share capital of 1 000 000 ordinary shares. The financial year ended on 30 April 2016.

REQUIRED:

4.2.1 Prepare the following notes to the Balance Sheet:

- Ordinary Share Capital **(7)**
- Retained Income **(10)**

4.2.2 Complete the Balance Sheet on 30 April 2016.
Where notes are not required, show all workings.

(23)

INFORMATION:**A. Share capital and dividends:**

- On 1 May 2015, 650 000 shares were in issue.
- On 1 November 2015, 150 000 additional shares were issued at R6,45 each.
- On 27 April 2016, the company repurchased 75 000 ordinary shares from an old shareholder for R525 000. This was settled by cheque.
- An interim dividend of 35 cents per share was paid on 31 October 2015.
- A final dividend of 25 cents per share was declared on 30 April 2016. All shares, including the repurchased shares qualified for final dividends.

B. Net profit and Income tax:

The **net profit** for the year (before tax) was R1 228 000.

Income tax amounted to R368 400.

Provisional income tax paid during the year amounted to R380 000.

C. Loan: BXT Bank

Interest on loan is capitalised. The loan statement from BXT Bank reflected the following:

Balance on 1 May 2015	248 000
Monthly instalments including interest	50 400
Interest capitalised	22 720
Balance on 30 April 2016	?

The business plans to pay R50 000 during the next financial year.

D. The following amounts were extracted from the post-adjustment trial balance on 30 April 2016:

Fixed assets at carrying value	4 042 000
Trading stock	326 500
Debtors control	189 900
Creditors control	111 680
Fixed deposit: Soll Bank	?
Loan: BXT Bank	?
Bank	72 000 (Dr)

QUESTION 5: CASH FLOW STATEMENT AND INTERPRETATION OF FINANCIAL INFORMATION (65 marks; 40 minutes)

5.1 CONCEPTS

Provide an accounting concept that best addresses the following analysis questions. Write the answer only next to each number (5.1.1 – 5.1.4) in the ANSWER BOOK. (4)

- 5.1.1 Can the business pay off all its debts?
- 5.1.2 To what extent does the business rely on borrowed funds?
- 5.1.3 Will the business be able to pay of its immediate debts?
- 5.1.4 How well is the business managing or controlling its expenses?

5.2 SANTOSHI LTD

The information relates to Santoshi Ltd. The financial year ended on 29 February 2016.

REQUIRED:

- 5.2.1 Complete the note for CASH GENERATED FROM OPERATIONS. (10)
- 5.2.2 Calculate the following amounts for the Cash Flow Statement
 - Income tax paid (4)
 - Dividends paid (3)
 - Fixed assets sold at carrying value (6)
- 5.2.3 Complete the CASH EFFECT OF FINANCING ACTIVITIES section of the Cash Flow Statement. (9)
- 5.2.4 Calculate the following financial indicators: Round off all calculations to one decimal point.
 - Debt equity ratio (4)
 - Net asset value per share (3)
 - Return on shareholders' equity (6)
- 5.2.5 Quote and explain THREE financial indicators (with figures) that suggest that the liquidity of the business has generally improved. (6)
- 5.2.6 Should the shareholders be satisfied with their returns and earnings? Explain. Quote TWO financial indicators (with figures) in your answer. (5)
- 5.2.7 Were the directors justified in acquiring the additional loan? Explain. Make reference to TWO financial indicators (with figures). (5)

INFORMATION:

A. Information extracted from the Income Statement on 29 February 2016:

Depreciation	118 140
Interest expense	37 600
Net profit before income tax	456 000
Income tax	132 240

B. Information extracted from the Balance Sheet

	29/02/2016	28/02/2015
Fixed assets (carrying value)	4 340 060	3 541 900
Fixed deposits	120 000	120 000
Loan: Alpha Bank	750 000	250 000
Trading stock	150 300	145 600
Debtors control	75 200	102 300
Creditors control	82 500	98 900
Bank balance	112 200 (Dr)	65 700 (Cr)
Shareholders' Equity	3 841 160	3 382 500
Ordinary share capital	3 690 000	3 240 000
Retained income	151 160	142 500
SARS: Income tax	3 500 (Cr)	7 300 (Dr)
Shareholders for dividends	120 600	120 000

C. **Additional information relating to the financial year ended 29 February 2016.**

Share capital

- On 1 March 2015, the issued share capital consisted of 600 000 ordinary shares.
- On 1 September 2015, the company repurchased 50 000 shares at R1,25 above the average share price.
- On 31 January 2016, additional shares were issued.
- On 29 February 2016, the issued share capital consisted of 675 200 ordinary shares.

Dividends

- Interim dividend of R132 000 was paid on 31 August 2015.
- A final dividend was declared on 28 February 2016.

Fixed assets

- Extensions to the buildings at a cost of R820 000 was done.
- New office equipment for R175 000 was purchased to replace old equipment which were sold at carrying value.

D. The following financial indicators relate to the financial year-end:

	2016	2015
Current ratio	1,6 : 1	0,9 : 1
Acid test ratio	0,9 : 1	0,4 : 1
Average debtors collection period	31 days	40 days
Stock turnover rate	7,2 times	9 times
Dividends per share (DPS)	40 cents	46 cents
Earnings per share (EPS)	55 cents	48 cents
Return on shareholders' equity	?	11,5%
Return on capital employed	10,2%	13%
Debt equity ratio	?	0,1 : 1
Interest rate on loans	12%	12%

QUESTION 6: VAT AND FIXED ASSETS**(50 marks; 30 minutes)**

6.1 Indicate whether the following statements are True or False. Write only True or False next to each number (6.1.1 – 6.1.3) in the ANSWER BOOK. (3)

6.1.1 All goods and services in South Africa are subject to VAT at the standard rate of 14%.

6.1.2 Businesses must submit the VAT money collected to the South African Reserve Bank.

6.1.3 VAT on sales (received by a business) is referred to as Output VAT.

6.2 VAT CALCULATIONS

Fiji Traders submits their VAT returns on a bi-monthly basis. VAT at 14% is applicable on all goods. The information relates to the VAT period ended 30 April 2016.

REQUIRED:

6.2.1 Calculate the amount that is either payable to or receivable from the revenue services for the two-month period ended 30 April 2016. Indicate whether the amount is payable to/receivable. (12)

6.2.2 Joe Fiji, the owner of Fiji Traders, has proposed to sell all the old summer shirts at a profit mark-up of 20% on cost. These transactions will be for cash only and must not be recorded.

- What advice would you offer Joe regarding this proposal? Explain. (3)

INFORMATION:

A. On 1 April 2016, the VAT Control account balance was R9 589 (debit).

B. Transactions during April 2016:

Total sales – cash and credit (inclusive of VAT)	R277 020
Total purchases – cash and credit (excluding VAT)	102 000
VAT on total returns and allowances of debtors	490
VAT on goods returned to suppliers	553
VAT on goods taken by Joe for personal use	112
VAT on discount allowed	98
VAT on bad debtors accounts written off.	406

6.3 FIXED ASSETS

The information relates to Chumlee Stores for the financial year ended 29 February 2016.

REQUIRED:

- 6.3.1 Prepare the Asset Disposal account to take into account the disposal of the old office equipment on 1 December 2015. (10)
- 6.3.2 Calculate the missing amounts denoted by **(a)** to **(d)** on the fixed asset note provided. (18)
- 6.3.3 Provide TWO possible reasons why the business decided to dispose of the old office equipment. (4)

INFORMATION:

A. Incomplete Fixed Asset note:

	PROPERTY	VEHICLES	EQUIPMENT
Cost (1/3/2015)	930 000	520 000	435 000
Accumulated depreciation (1/3/2015)	-	(234 000)	(212 280)
Carrying value (1/3/2015)	930 000	286 000	222 720
Movements:			
Additions	(a)	0	126 000
Disposals	-	0	(c)
Depreciation	-	(b)	(d)
Carrying value (29/2/2016)	1 380 000		
Cost (29/2/2016)	1 380 000	520 000	468 000
Accumulated depreciation (29/2/2016)			

- B.** The business has two vehicles. Both were purchased on 1 March 2012. Vehicles are depreciated on the straight line method (on cost).
- C.** On 1 December 2015, old office equipment were sold on credit for R25 000. The accumulated depreciation on the equipment sold was R54 800 on 1 March 2015.
- New equipment were purchased on 1 January 2016.
 - Depreciation on equipment is provided at 20% p.a. on carrying value.

50

TOTAL: 300