

GRADE 12 ACCOUNTING

2009

MARKS: 300 MINUTES: 180

INSTRUCTIONS AND INFORMATION:

Read the following 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 dark pencil or blue/black ink to answer the questions.

QUESTION 1

BANK RECONCILIATION

(35 marks; 15 minutes)

You are provided with information from the accounting records of BELL Stores. Their financial year ends on 30 June 2008.

Required

- 1.1 Use the information provided to show the reconciliation by completing the table below. (16)

Start with the provisional balances and end with the reconciled balance as per bank account. No details are required.

- 1.2 Calculate the amount that you would reflect in the financial statements in respect of Bank and Creditors Control. (4)
- 1.3 Explain the procedure that the clerk was supposed to follow in respect of a post-dated cheque received at point 3.12. (4)

Information

1. **Bank Reconciliation Statement on 31 May 2008**
- | | R |
|-----------------------------------|---------------|
| Balance as per bank statement | 3 000 (debit) |
| Outstanding deposit | 1 000 |
| Outstanding cheques: | |
| No. 101 | 250 |
| No. 110 | 300 |
| No. 113 | 320 |
| No. 130 | 130 |
| Balance according to bank account | ? |
2. **Additional Information**
- 2.1 The bank statement showed a favourable balance on 30 June 2008 of R4 170.
- 2.2 Provisional totals in the cash journals on 30 June 2008:
- | | |
|-------------------------|---------|
| - Cash Receipts Journal | R25 580 |
| - Cash Payments Journal | R18 580 |
- 2.3 Creditors Control balance on 30 June 2008, R12 400.
3. A comparison of the bank statement for June 2008 with the bank reconciliation statement on 31 May 2008 and the Cash Journals for June 2008, the following differences were discovered

- 3.1. A deposit of R1 000 appeared in the bank statement on 1 June 2008 and not in the June cash journals.
- 3.2. Cheque 101 was lost in the mail and must be cancelled. It was replaced by cheque 175 in favour of Penny Suppliers for merchandise
- 3.3. Cheque 110 was paid to Marketing World on 28 December 2007, but the campaign never took place.
- 3.4. Cheque 113 to Midas for repairs was corrected on the bank statement of June 2008 as R230.
- 3.5. Cheque 130 together with the following cheques do not appear on the bank statement of June 2008:
 - 168 in favour of Vooma Garage R110 (dated 27 June 2008)
 - 174 in favour of Ramos Suppliers (creditor) R890 (dated 15 July 2008)
- 3.6. The bank debited the bank statement of June 2008 with cash handling fees of R30 and interest on bank overdraft R170.
- 3.7. A debit order for the insurance premium appears on the bank statement in favour of Prima Insurers for R800.
- 3.8. The bank statement has a deposit of R1 000 on 1 June 2008 for rent received from Berg Furnitures, which does not appear in the cash journals of June 2008
- 3.9. A deposit of R1 300 appears in the Cash receipts journal but not on the bank statement.
- 3.10. An amount of R700 was deposited directly into the bank account of BELL Stores by J Crous, a debtor, in settlement of his account of R720.
- 3.11. The bank statement shows a debit of R440 which is a cheque of a debtor, J Johnson, rejected by the bank as "Refer to drawer" for insufficient funds. This was in settlement of an account of R450.
- 3.12. A cheque of G Gardner (a debtor) for R560 was returned by the bank as "Post dated". The cheque was held for redepositing on 3 July 2008.
- 3.13. The owner of BELL Stores applied to increase the bank overdraft from R5 000 to R10 000. The bank manager approved the request.
- 1.4. Scenario
BELL stores invested R30 000 on a Fixed Deposit at FIFI Bank on the 1 July 2007. The agreement stipulated that an interest rate of 15% per annum would be

payable every six months. FIFI Bank is registered as an authorised financial services provider in terms of the FAIS Act. On 30th December 2007 BELL Stores received R2 250 from FIFI Bank for the first six months interest. The Reserve Bank decreased the interest rate on 1st January 2008 by 2%. BELL Stores received a cheque to the amount of R20 000 on 30th June 2008 from FIFI Bank with a letter saying that the remaining R10 000 plus R1 950 (interest for the last six months) will be paid on 31st July 2008. The reason for this is that FIFI Bank has a cash flow problem. The owner of BELL Stores telephoned FIFI Bank and queried that this was not stipulated in the agreement and questioned the interest amount. FIFI Bank said that this was due to the decrease in the interest rate on 1st January 2008.

- 1.4.1. What do you understand by the term "Financial Services Provider"? (2)
 1.4.2. What does the abbreviation FAIS stands for? (1)
 1.4.3. The owner of BELL Stores does not know how to solve the problem.
 1.4.3.1. Where can the owner of BELL Stores go for advice? (2)
 1.4.3.2. Do you think FIFI Bank is complying with the FAIS Act? Explain briefly.(3)
 1.4.3.3. If you were the adviser (answer in question 1.4.3.1), what should FIFI Bank do to solve the problem? (3)

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QUESTION 2

INVENTORY VALUATION

(30 marks; 15 minutes)

REQUIRED

1. Calculate the value of closing stock on the perpetual inventory system, using the FIFO and Weighted average methods. (16)
2. Draw up a Trading stock account in the General ledger using the FIFO and Weighted average methods. All purchases are on credit and goods are sold for cash. (14)

INFORMATION

Hemmingways Traders has the following transactions for inventory during the month of July 2008.

1 July	Balance of inventory, 400 units @ R4 each
10 July	Purchases of inventory, 700 units @ R4,10 each
17 July	800 units sold, with a selling price of R12 each
22 July	Purchases of inventory, 500 units @ R4,15 each
24 July	40 units returned to supplier, purchased on 22 July
30 July	600 units sold, with selling price of R12 each

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QUESTION 3

PROJECTED INCOME STATEMENT

(45 marks; 30 minutes)

You are provided with a projected income statement for FOURIE Traders for January and February 2009. The actual figures are also provided. The business is owned by DANIELLE FOURIE

She uses a fixed mark-up percentage at all times and credit sales comprise 60% of all sales.

FOURIE TRADERS

PROJECTED INCOME STATEMENT FOR JANUARY AND FEBRUARY 2009

	JANUARY BUDGET	JANUARY ACTUAL	FEBRUARY BUDGET	FEBRUARY ACTUAL
Sales	540 000	396 000	594 000	360 000
Cost of sales	300 000	220 000	330 000	200 000
Gross profit	240 000	176 000	264 000	160 000
Other income	47 000	34 000	53 000	44 000
Commission received	11 000	16 000	11 000	23 000
Rent income	36 000	18 000	42 000	21 000
Gross operating income	287 000	210 000	317 000	204 000
Operating expenses	(154 480)	(147 580)	(136 128)	(143 300)
Salary of the store manager	40 000	40 000	50 000	50 000
Wages of shop assistants	24 000	24 000	24 000	16 800
Sundry operating expenses	13 000	9 000	14 000	9 000
Motor vehicle expenses	12 000	13 200	12 000	13 200
Telephone	1 000	3 000	1 000	5 000
Security expenses	7 000	3 500	7 000	3 500
Trading stock deficit	0	18 000	0	12 000
Training of employees	30 000	10 000	0	0
Advertising	5 000	1 000	5 000	1 000
Discount allowed	2 000	0	2 000	0
Bad debts	6 480	11 880	7 128	10 800
Stationery	4 000	4 000	4 000	7 000
Depreciation	10 000	10 000	10 000	15 000
Operating profit	132 520	62 420	180 872	60 700
Interest income (6% p.a.)	12 000	12 000	12 000	9 000
Profit before interest expense	144 520	74 420	192 872	69 700
Interest expense (15% p.a.)	(37 500)	(37 500)	(37 500)	(37 500)
Net profit for the year	107 020	36 920	155 372	32 200

REQUIRED:

- 3.1 Calculate the mark-up % that DANIELLE uses for her business. (4)
- 3.2 Refer to the actual figures for February for Interest income and Depreciation.
- In each case, provide a probable reason why the actual figure is different from the budget for February. (4)
- 3.3 DANIELLE is always worried about the internal control over three expenses in particular: Stationery, Telephone and Motor Vehicle expenses (especially as the petrol price increased unexpectedly by 25% at the beginning of January).
- Comment on whether or not these expenses have been well controlled. Quote figures to support your answer. (7)
- 3.4 DANIELLE is concerned that she has to keep contributing more capital each month so that the business can settle its debts. Explain why the Projected Income Statement will not help her in identifying the reasons for this problem. (3)
- 3.5 DANIELLE has also borrowed money to set up this business. She is not sure if she can afford the loan repayments, which start in March.
- Calculate the amount of the loan. (4)
 - What advice would you give her regarding accessing funds in order to repay the loan? Provide two points. (4)
- 3.6 DANIELLE is concerned about the support she is getting from her customers. She is concerned about losing “goodwill”.
- Quote figures from the question that indicate that she appears to be losing customers. (2)
 - Identify three points, with appropriate figures from the projected Income Statement, that indicate that she has made mistakes in dealing with her customers. (6)
- 3.7 The shop assistants earn equal wages. Two of the six shop assistants resigned at the beginning of February. They have not been replaced.
- Calculate the monthly salary earned by each shop assistant in January. (3)
 - Calculate the % salary increase that DANIELLE granted the shop assistants in February. (4)
 - Provide two reasons why they would not be happy with this increase. Quote evidence from the question to support your answer. (4)

QUESTION 4

MANUFACTURING

(50 marks; 30 minutes)

DUBE Tables Manufacturers produces wooden dining-room tables. The business is owned by THEBE DUBE.

REQUIRED:

- 4.1 Calculate the Direct Labour Cost for the month. (7)
- 4.2 Prepare the Production Cost Statement for the month ended 31 July 2008, with a separate note for Factory Overhead Cost. Show all other workings in brackets. (26)
- 4.3 Calculate the unit cost of the production of finished goods for July 2008. (3)
- 4.4 THEBE feels that the power cuts have had a significantly negative effect on his business. Provide two points from the question that indicate that he is correct. Quote figures/calculations from the question to support your answer. (6)
- 4.5 THEBE is concerned about the control over certain costs. Direct materials account for more than 40% of the cost of one table, while direct labour accounts for more than 30%. THEBE wants your advice.
 - Provide two suggestions on how to improve efficiency in the use of direct materials.
 - Provide two suggestions on how to improve the efficiency of the direct labourers. (8)

INFORMATION FOR JULY 2008:

1. Stocks on hand at the beginning and end of the month:

	1 July 2008	31 July 2008
Raw materials	R40 000	R 65 000
Work-in-progress	R55 000	R40 000
Finished goods	Nil	Nil
Indirect material	R6 000	Nil

2. **Raw materials** purchased on credit, R180 000
3. **Depreciation** is as follows:
 - Factory plant, R7 400
 - Office equipment, R2 400.
4. **Factory maintenance** paid in July, R8 000. A further amount of R3 500 is owed for repairs to a machine.

5. **Electricity and water** paid amounts of R4 600 for July. The administration office uses 10% of this and the factory uses the rest.
6. **Rent and Insurance** are allocated between the factory and the administration office on the basis of floor area. The factory comprises 630 square metres, while the office comprises 270 square metres. The **monthly** rent for the entire premises is R30 000. The **annual** insurance premium is R43 200.
7. **Indirect materials** bought for cash, R20 000. There was no stock of indirect materials on hand at the end of the month. The factory uses 75% of these materials, while the office uses the rest.
8. **Direct labour and production:**
The 15 factory workers who make the tables each work 9 hours per day. The normal rate is R36 per hour per person.

There were normally 20 working days in a month. However, due to power cuts, the factory could operate for only 14 week days in July 2008.

In order to make up for lost time, the 15 factory workers each worked 45 hours overtime on weekends. The overtime rate is double the normal rate.

However, they were unable to meet their target production of 450 tables per month. They managed to complete 410 tables. The break-even point is 320 tables.

9. **Other salaries and wages comprise:**
 - The factory cleaner earns R2 600 per month
 - The factory foreman earns R15 000 per month. The bookkeeper had forgotten to process the foreman's pension. The employee's pension deduction is 7% and the employer's contribution is 10%. The contributions are added to the salaries account.
 - The administration staff earns R13 000 per month in total.
10. The **selling price of each table** is set at cost of production plus R500 gross profit per table.
11. The two **salespersons** work from home on a commission basis. The business incurs no fixed costs in this regard.

QUESTION 5

Companies

(50 marks; 35 minutes)

You are provided with information relating to LUIGIA Books Limited.

REQUIRED:

Refer to the information provided in order to answer the following questions.

5.1 Calculate the missing amounts in the Cash Flow statement indicated by the letters (a) to (e). (12)

5.2 Calculate the following for 2008:

5.2.1 Acid test ratio (3)

5.2.2 Stock turnover rate (4)

5.2.3 Debt/equity ratio

5.2.4 Net asset value per share (3)

5.2.5 Earnings per share (3)

5.3 Does the company have a liquidity problem? Briefly explain, quoting THREE relevant liquidity ratios (financial indicators) to support your answer. (3)

5.4 As a shareholder in this company, would you be satisfied with the earnings per share, dividend per share and return on shareholders' equity? Briefly explain, quoting relevant financial indicators (ratios or percentages). (3)

5.5 The directors require another R600 000 to finance further expansions of the company. Credbank will not grant them additional loans. There are two options remaining:

OPTION A: Obtain a loan from Shifty at an interest rate of 24% p.a.

OR

OPTION B: Issue new shares at a premium of 50 cents per share.

5.5.1 In your opinion, which option should they choose?

5.5.2 Briefly explain why you would choose this option and why you would reject the other option. Quote TWO financial indicators from your answer to **QUESTION 5.4** to support your opinion. (4)

5.6 The managing director has approached you for advice. He currently owns 306 000 shares (that is 51% of the issued capital). He is worried that he will lose control of the company if all the unissued shares are issued to the public.

5.6.1 Calculate the minimum number of new shares he will have to buy to retain control of the company. (2)

5.7.1 If the shares are issued at a premium of 50c, what would he have to pay for the new shares? (2)

- 5.7.2 In your opinion, would this represent a fair value for these shares? Quote a financial indicator to support your answer. (2)
- 5.7.3 What is meant by “corporate social investment” and why is it important for a company to report on this? (2)
- 5.8 What is the difference between liquidity and solvency? (4)

INFORMATION:

LUIGIA BOOKS LIMITED	
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008	
Cash flow from operating activities	
Cash generated from operations	1 493 600
Interest paid	(a)
Dividends paid	(222 000)
Taxation paid	(b)
Cash flow from investing activities	
Purchased of fixed assets	(2 599 000)
Proceeds of sale of fixed assets	(c)
Cash flow from financing activities	
Proceeds of shares issued	(d)
Loans raised	720 000
Net change in cash and cash equivalents	(e)
Cash and cash equivalents at beginning of year	39 600
Cash and cash equivalents at the end of the year	52 800

The following financial indicators were calculated for the past two years:	2008	2007
Current ratio	0,9 : 1	1,7 : 1
Acid-test ratio	?	0,6 : 1
Stock turnover rate	?	6 times
Debt/equity ratio	?	0,8 : 1
Return on shareholders' equity (ROSHE)	12,3%	11%
Return on total capital employed (ROTCE) before tax	15%	13%
Interest rate on borrowed money	12%	12%
Net asset value per share (NAV)	?	534 cents
Earnings per share (EPS)	?	53,5 cents
Dividend per share (DPS)	43 cents	29 cents

LUIGIA BOOKS LIMITED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE	2008	2007
Sales	5 678 800	4 040 500
Cost of sales	(3 294 000)	(2 118 000)
Gross profit	2 384 800	1 922 500
Depreciation	(440 000)	(300 000)
Other operating expenses	(1 106 000)	(980 500)
Operating profit	838 800	642 000
Interest on long-term loan (capitalised)	(309 600)	(252 000)
Net profit before tax	529 2000	390 000
Income tax	(158 700)	(117 000)
Net profit after tax	370 500	273 000

LUIGIA BOOKS LIMITED BALANCE SHEET AS AT 30 JUNE	2008	2007
Non-current/Fixed assets (see note 1 below)	6 278 200	4 699 200
Current assets	308 480	604 800
Inventories (all trading stock)	180 080	390 000
Trade and other receivables	75 600	163 200
SARS: Income tax	-	12 000
Cash and cash equivalents	52 800	39 600
TOTAL ASSETS	6 586 680	5 304 000
EQUITY AND LIABILITIES		
Ordinary shareholders' equity	3 318 000	2 724 000
Ordinary share capital (see note 2 below)	2 400 000	2 040 000
Share premium	409 500	288 000
Retained income	508 500	396 000
Non-current liability: Loan (see note 3 below)	2 940 000	2 220 000
Current liabilities	328 680	360 000
Trade and other creditors	175 280	258 000
SARS: Income tax	15 400	-
Shareholders for dividends	138 000	102 000
TOTAL EQUITY AND LIABILITIES	6 586 680	5 304 000

Notes to the Balance sheet:

1. **Fixed assets:** Certain fixed assets were sold at book value during the year.
2. **Share capital:** Authorised share capital comprises 700 000 ordinary shares of R4 par value. New shares were issued on the first day of the financial year.
3. **Loan from Credbank:** All payments of loans and interest are up to date, but Credbank will not grant any further loans to this company.

QUESTION 6
FIXED ASSETS AND CASH FLOW

(90 marks; 55 minutes)

You are provided with the Pre-adjustment trial balance of NICOLETTE Stores Ltd on 28 February 2009, at the end of their financial year, together with a list of adjustments at that date. NICOLETTE Stores Ltd has an authorised share capital of 1 000 000 shares at 50c each. NICOLETTE Stores Ltd uses the perpetual inventory system.

INSTRUCTION

- 6.1 Prepare the following ledger accounts in the General ledger of NICOLETTE Stores Ltd for the period 1 March 2008 to 28 February 2009. Balance/close off the accounts.
 - Depreciation (7)
 - Asset disposal (8)

- 6.2 Prepare the Income statement of NICOLETTE Stores Ltd for the year ended 28 February 2009. (35)

- 6.3 Prepare the following notes to the financial statements on 28 February 2009:
 - 6.3.1 Trade and other debtors (14)
 - 6.3.2 Accumulated profit (6)
 - 6.3.3 Trade and other creditors (14)

- 6.4 Answer the following questions:
 - 6.4.1 Briefly explain the role performed in a company by the directors. (2)
 - 6.4.2 Briefly explain the role performed in a company by the auditors. (2)
 - 6.4.3 List three groups of people, apart from the existing shareholders, who would be interested in the financial statements of the company. (2)

INFORMATION

- 1. Pre-adjustment trial balance of NICOLETTE Stores Ltd on 28 February 2009.

BALANCE SHEET SECTION	DEBIT	CREDIT
Ordinary share capital		250 000
Share premium		15 000
Retained income		46 429
Land and buildings	211 000	
Vehicles	120 000	
Equipment	67 970	
Accumulated depreciation on vehicles		24 500

Accumulated depreciation on equipment		15 490
Trading stock	34 570	
Debtors' control	23 875	
Provision for bad debts		840
Bank		3 285
Petty cash	210	
Creditors' control		43 650
SARS: PAYE		1 349
SARS: Income tax	19 657	
Pension fund		425
NOMINAL ACCOUNTS SECTION		
Sales		525 780
Debtors allowances	21 560	
Cost of sales	254 680	
Salaries	143 670	
Packing material	2 548	
Discount allowed	350	
Discount received		620
Advertising	2 470	
Insurance	5 620	
Rent income		13 090
Stationery	4 258	
Pension fund contributions	1 875	
Medical aid contributions	965	
Ordinary share dividends	25 000	
	940 278	940 278

2. Adjustments and additional information

- 2.1 Additional 30 000 shares were issued on 1 April 2008 at 60c each. This transaction was correctly recorded.
- 2.2 On 30 June 2008 old equipment was sold for R35 000 cash this transaction has not yet been recorded. The equipment had originally been purchased on 1 January 2007 for R48 000.
- 2.3 Depreciation is written off on 15% per annum on the diminished balance.
- 2.4 Depreciation must be written off on vehicles at 25% on the cost price.
- 2.5 R750 is still owing to Transnet for carriage on goods purchased.
- 2.6 A physical stocktaking shows the value of stock on hand R32 540, while stationery on hand is valued at R435.
- 2.7 A cheque received from a debtor on 24 February 2009 was dishonoured by the bank. No entry has yet been made for this. The cheque for R325 was in settlement of his account of R350. It has since decided to write off this account as irrecoverable.
- 2.8 The account of R Freysen must be written off as irrecoverable, R465 and the provision for bad debts adjusted to R914.

- 2.9 Insurance includes an amount paid for March 2009. Take into account that the monthly insurance premium was increased by 15% on 1 September 2008.
- 2.10 An employee was left out of the Salaries journal for February. His details are as follows:

Gross salary	R75 000 per annum
PAYE deduction	36%
Pension fund deduction	8%
Medical aid contribution	R320

The business contributes R1,50 to the pension fund for every R1 paid in by the employee. The business also contributes to the medical aid an amount equal to the amount contributed by the employee.

- 2.11 An account for advertising for R2 760 has been received but not yet recorded. This is for an advertising campaign in the newspaper for the period 1 February 2009 to 30 April 2009.
- 2.12 The tenant has paid the rent for the period 1 March 2008 to 30 April 2009.
- 2.13 The income tax for the year amounts to R18 680.
- 2.14 The directors have decided to recommend to the shareholders that a final dividend of 5% of the par value be declared.
- 2.15 The net income after tax after the above adjustments, amounts to R35 270.