



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

ACCOUNTING

ADDITIONAL EXEMPLAR 2008

MARKS: 300

TIME: 3 hours

This question paper consists of 14 pages.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully.

1. This question paper consists of SIX compulsory questions. Answer ALL the questions.
2. Use the formats provided in the ANSWER BOOK in order to answer the questions.
3. Where applicable, workings must be shown in order to achieve part-marks.
4. You must attempt to comply with the suggested time allocation guide.
5. Non-programmable calculators may be used.
6. You may use a dark pencil or blue/black ink to answer the questions.

MARKS: 300**MINUTES: 180**

QUESTION 1: 50 marks; 25 minutes	
The topic of the question is:	Companies – Ledger Accounts
QUESTION 2: 55 marks; 35 minutes	
The topic of the question is:	Companies – Balance Sheet, Auditing and Stock
QUESTION 3: 75 marks; 50 minutes	
The topic of the question is:	Companies – Cash Flow and Ratios
QUESTION 4: 65 marks; 30 minutes	
The topic of the question is:	Manufacturing and Cost Concepts
QUESTION 5: 30 marks; 25 minutes	
The topic of the question is:	Inventories
QUESTION 6: 25 marks; 15 minutes	
The topic of the question is:	VAT and Ethics

QUESTION 1**COMPANIES – LEDGER ACCOUNTS****(50 marks; 25 minutes)**

You are provided with information relating to Parboo Ltd for the year ended 29 February 2008. The company has an authorised share capital of 1 000 000 ordinary shares of R4,00 par value each. The Chief Executive Officer (CEO) is Ben Bhengu.

REQUIRED:

1.1 Briefly explain what is meant by the following:

- Share capital (2)
- Share premium (2)
- Retained income (2)

1.2 Refer to point 6 in the information. Calculate the correct net profit before tax for the year. (6)

1.3 Prepare the following accounts in the Ledger (the accounts must be properly closed off or balanced).

- SARS (Income tax) (11)
- Appropriation account (15)

1.4 Consider point 4 in the information regarding the permission granted to the directors to issue shares at their discretion. You are a shareholder but not a director. Give ONE point in favour of granting the directors this permission and one point against it. (4)

1.5 Refer to the extract from the newspaper article provided on the next page.

- Consider the complaint by Mary Moosa regarding Bhengu's directors' fees. Do you agree with her? Explain. (4)
- Consider the complaint by Ken Kelly. Is Bhengu's response acceptable? What else could he have said? (4)

INFORMATION:

1. The following balances appeared in the Ledger at the beginning and end of the financial year:

	BEGINNING 1 MAR. 2007	END 29 FEB. 2008
Ordinary share capital (par value R4 each)	R2 400 000	R ?
Share premium	R330 000	R505 000
Retained income	R454 000	R?
SARS (Income tax)	R38 600 (Credit)	R11 500 (Debit)
Shareholders for dividends	R270 000	R?

2. Amounts owing in respect of the previous financial year to SARS and the Shareholders (for dividends) were paid on 10 June 2007.
3. Amounts paid on 31 August 2007:
 - The first provisional tax payment of R187 500 for the 2008 financial year.
 - Interim dividend of 84 cents per share (The new shares issued on 1 September 2007 do not qualify for these interim dividends, but will receive final dividends. Refer to point 4 in the information below.)
4. The directors have been granted permission by the shareholders to issue new shares as and when required.

The directors decided to issue new shares at a premium of 125 cents during the year. The transactions were handled by New Bank and the relevant amount was received from Star Bank on 1 September 2007.

5. The second provisional tax payment of R220 000 was made on 29 February 2008.
6. At the year-end, the accountant calculated the net profit before tax to be R1 475 000, but thereafter he discovered that the following had not yet been taken into account:
 - A donation of stock to the Chatsworth Youth Development Programme, R70 000.
 - According to his contract, Ben Bhengu's directors' fees are R110 000 per month. His fees for February had not been paid.
 - Although rent paid of R175 000 had been correctly recorded, it was discovered that these payments included rent for March and April 2008.
7. At the year-end, 29 February 2008, the directors recommended a final dividend of 110 cents per share. An entry must also be made for income tax for the year.
8. The article below appeared in the newspaper after the AGM.

PARBOO LTD SHAREHOLDERS TAKE CEO TO TASK

By Harry Digger, 10 June 2008

There was certainly a lot of argument at the AGM of Parboo Ltd last week. The company distributes sports equipment and has built up a fine reputation amongst the public in recent years and has delivered impressive returns to shareholders over the past five years. However, this counted for nothing last night as CEO **Ben Bhengu** was called upon to answer a number of very direct questions.

One of the minority shareholders, **Mary Moosa**, questioned Bhengu's exorbitant directors' fees, saying these could not be justified. Bhengu responded by saying these had been approved by the remunerations committee and were based on the past and current performance of the company.

Another shareholder, **Ken Kelly**, also questioned the 'unnecessary waste of funds' that have been donated to the Chatsworth Youth Development programme, saying these funds could have been used to boost dividends to shareholders. Bhengu's response was that such expenditure was in line with the company's social responsibility objectives which had been unanimously approved by the entire board of directors.

The share price dropped 15% on the JSE yesterday.

QUESTION 2**COMPANIES – BALANCE SHEET, AUDITING AND STOCK (55 marks; 35 minutes)**

You are provided with information relating to Topical Ltd at their year-end 30 June 2008.

REQUIRED:

- 2.1 Use the information provided to prepare the Balance Sheet of Topical Ltd on 30 June 2008. Show workings in brackets to earn part-marks. (43)
- 2.2 Auditing:
- 2.2.1 Briefly explain the difference in the work done by the internal auditor and the independent (external) auditor. (3)
- 2.2.2 Briefly explain how an auditor should check that the figures shown for equipment and stock in the financial statements are reasonable. (3)
- 2.2.3 What should the independent auditor do if he feels that the value for equipment is not reasonable? (3)
- 2.2.4 The independent auditor is aware that a new model television is now on the market. He knows that the TVs in stock at Topical Ltd cannot be sold at their normal selling price, and they probably would not be sold at their cost price either. What advice do you have for the business? Explain. (3)

INFORMATION:

1. The following information appeared in the books for fixed/tangible assets on 30 June 2008:
- Land and buildings (cost) R198 000
 - Vehicles (cost) 234 000
 - Equipment (book/carrying value) 269 801
 - Accumulated depreciation on vehicles 233 999
2. The investment comprises a fixed deposit at Pretoria Bank, R347 548.

3. Inventories comprise trading stock only. There are no consumable stores on hand. The business sells only one type of TV set. During the year they sold 258 TV sets at a mark-up of 60%. The business uses the weighted average method of valuing stock (round off to the nearest rand). Purchases from the manufacturers were in bulk as follows:

DATE	UNIT COST	QUANTITY	TOTAL PURCHASES
1 July 2007	R4 000	120	R480 000
24 November 2008	R4 800	160	R768 000
18 April 2008	R5 300	50	R265 000

4. The authorised share capital comprises 400 000 ordinary shares of R2 par value. To date 300 000 of these ordinary shares have been issued. Half of the issued shares were issued at a premium of 60 cents per share.
5. The following figures were obtained from the Retained Income note to the financial statements:

Retained income at the beginning of the year	R114 000
Net income after tax	R262 000
Interim dividends paid	R51 000
Final dividends declared	22 cents per share

6. The loan statement from Sabie Bank reflected the following:

Balance at the beginning of the financial year	R275 000
Repayment of loan: 12 monthly payments of R6 100 each	R73 200
Interest capitalised	R32 500

Over the next financial year, the capital value of the loan will be reduced by R45 600.

7. The provision for bad debts is 5% of the book debts. The following balances appeared in the General Ledger on 30 June 2008:

Debtors' control	R185 000
Creditors' control	R108 000
Income receivable (accrued)	R3 800
Deferred income (received in advance)	R6 400
Expenses payable (accrued)	R7 300

8. No money is owed to SARS or owing by SARS for income tax at the end of the year.
9. The missing figure represents cash and cash equivalents.

QUESTION 3**COMPANIES – CASH FLOW AND RATIOS****(75 marks; 50 minutes)**

Mackie Ltd has an authorised share capital of 900 000 ordinary shares with a par value of R3 per share.

As at 28 February 2007, the end of the **previous financial year**, they had issued 500 000 ordinary shares.

REQUIRED:

- 3.1 Complete the fixed/tangible asset note in the Balance Sheet of Mackie Ltd as well as the Asset Disposal Account by filling in all the missing figures in the ANSWER BOOK.

Note that during the year a new vehicle was bought on 31 May 2007 and old equipment was sold at book value on credit. (20)

- 3.2 Complete the following parts of the Cash Flow Statement for the year ended 29 February 2008:

- Note to show the reconciliation between profit before taxation and cash generated from operations (15)
- Cash flows from financing activities (10)
- Amount of cash paid to SARS (4)

- 3.3 Calculate the price at which the new shares were issued on 1 March 2007. (4)

- 3.4 Calculate the following to ONE decimal place on 29 February 2008:

- Net asset value per share (4)
- Return on average ordinary shareholders' equity (4)
- Return on average total capital employed (4)

- 3.5 Some of the shareholders have issued a vote of no confidence in the directors regarding the performance and financial decisions made in the last year. Do you think they are justified in their decision? Quote at least THREE figures/financial indicators to support your answer. (10)

INFORMATION:

1. Depreciation on the assets is as follows:
 - Vehicle at 15% p.a. on diminishing balance method
 - Equipment R36 375 for the year ended 29 February 2008
2. The following figures were extracted from the Income Statement:

Interest on loan from director (interest capitalised), R12 000
Income tax, R54 000
Net profit after tax, R126 000

3. The new shares were issued on 1 March 2007.
4. On 28 February 2007, Mackie Ltd had a loan of R75 000 from a director at an interest rate of 14% p.a. The balance of this loan on 29 February 2008 is R132 000. The loan agreement stipulates that interest is to be capitalised and that repayments of R1 200 per month are to be made to the director. During the year the loan was also increased.
5. Financial indicators for the year ended 28 February 2007:
 - Net asset value, R2,64
 - Return on ordinary shareholders' equity, 9%
 - Return on total capital employed, 12%
6. Current market price of the share on the JSE is R3,20 on 29 February 2008.
7. Figures extracted from the Balance Sheet of Mackie Ltd as at the end of February:

	2008	2007
Ordinary share capital	R1 800 000	R1 500 000
Ordinary share premium	R97 500	R30 000
Retained income	R39 600	R52 200
Loan from director	R132 000	R75 000
Creditors' control	R35 000	R28 000
SARS (Income tax)	R5 250 (dr)	R4 000 (cr)
Shareholders for dividends	R88 200	R40 000
Debtors' control	R63 000	R66 000
Inventories	R116 150	R86 200

QUESTION 4**MANUFACTURING AND COST CONCEPTS****(65 marks; 30 minutes)**

You are provided with information relating to Tasty Dog Treats (Pty) Ltd for July 2008. The business makes tasty dog pellets for pets. The business is personally owned and managed by Peter Hound.

REQUIRED:

- 4.1 Prepare the Production Cost Statement for July 2008. Show workings in brackets on the Production Cost Statement. (30)
- 4.2 Prepare the Income Statement for July 2008. Show workings in brackets. (23)
- 4.3 In order to be able to print the 'Proudly South African' logo on the packaging of his product, Peter will need to purchase the cardboard boxes from a local supplier rather than import them from Botswana.
- 4.3.1 Give TWO reasons why using a local supplier is likely to reduce the unit cost calculated above. (3)
- 4.3.2 Calculate the unit cost of producing a complete box of tasty dog pellets in July 2008. (Show workings to earn marks.) (2)
- 4.3.3 By doubling production to 60 000 units during August 2008 the profit made will more than double. Briefly explain why. (2)
- 4.4 In order to analyse the performance of the business, the accountant knows that it is essential to work out the break-even point of production. However, he is unsure of how to do the necessary calculation.
- 4.4.1 Explain to the accountant how the break-even point is calculated. (You are not required to do the calculation, only explain the method/formula.) (3)
- 4.4.2 After doing the necessary calculation, it is determined that the break-even point for this business is 17 361 units. Should the accountant be happy with the business' present production level? Why? (2)

INFORMATION:

1.	PRODUCTION & SALES INFORMATION OF TASTY DOG PELLETS	JULY 2008
	Number of finished boxes of dog pellets produced	30 000
	Number of units sold	30 000
	Mark-up on cost of production	40%
	Selling price per unit	?

2. STOCK AT THE BEGINNING AND END OF THE MONTH	1 JULY 2008	31 JULY 2008
Raw materials stock:		
• Stock of ingredients to make dog pellets	R 70 000	R 85 000
• Stock of cardboard boxes	Nil	R 14 400
Work-in-process stock	Nil	Nil
Finished goods stock	Nil	Nil
Indirect materials stock (cleaning materials)	Nil	Nil
Stock of packing materials for deliveries	R 3 500	R 1 300

3. Raw materials (bought from a local supplier) comprise all ingredients for the production of dog pellets as well as the cardboard box containers (imported from a supplier in Botswana).

- Ingredients were bought during the month on credit for R320 000 (these were delivered free of charge).
- Bought 50 000 cardboard boxes from Botswana for a total cost of 20 000 Botswana pula. One Botswana pula is equivalent to R1,30.
- Import duty is 10%.
- Transport costs paid on these boxes, R7 400.

4. Remuneration is as follows:

- The 12 direct workers are each required to work 180 hours per month, in other words, 20 days at 9 hours per day. Their normal rate of pay is R28 per hour. However, during July 50 hours were lost as a result of Eskom power cuts. The workers were required to work 50 hours overtime over weekends but only 9 workers were available for this (3 said they were sick). **The overtime rate is double the normal rate.**
- The factory foreman is paid a fixed salary of R11 000 per month irrespective of overtime. He had to be paid a bonus of R6 000 for working over the weekends.
- The bookkeeper is paid a monthly salary of R4 000.
- The cleaner is paid a fixed salary of R3 200 per month. This is to be split between the factory, the office and the sales department in the ratio 5:1:2.
- The salespersons were paid commission of R41 964 in total.

5. Electricity and water paid during the month was R29 000. This has been allocated as follows:

- Office: R500
- Sales department: R1 000
- The factory plant and machinery accounts for the rest

6. Cleaning materials were bought for cash, R12 400. Transport costs on these were paid out of petty cash, R600. All these materials were used. The factory uses 80% of these indirect materials, while the rest is used equally by the Administration and Selling and Distribution departments.
7. Rent paid was R15 300. This is to be split according to floor area:
- Factory 300 square metres
 - Office 10 square metres
 - Sales department 30 square metres
8. Depreciation for the month:
- Depreciation on delivery vehicle, R9 400
 - Depreciation on factory plant, R55 000
 - Depreciation on office equipment, R900
9. Other transactions for July:
- Packing materials (for deliveries to customers) bought, R6 500 (R1 300 of this was unused)
 - Petrol bought for the delivery vehicle and salesmen's sales vehicles, R18 000
 - Repairs to factory machines, R66 000

QUESTION 5**INVENTORIES****(30 marks; 25 minutes)**

You are provided with information relating to Dean's Sport, a small business owned by Dean, that sells one type of soccer ball to spectators who attend soccer matches.

The business uses the periodic stock system. Dean sells the soccer balls at R120 each, although the cost price has been changing over the months. He has always made use of the FIFO method to value his stock.

REQUIRED:

- 5.1 Calculate the value of the closing stock using the FIFO method. (7)
- 5.2 Calculate the gross profit made on the stock if the FIFO method is used. (7)
- 5.3 Dean has been told that he would make a larger gross profit if he used the weighted average method of valuing his stock. However, he feels it will make no difference to the overall profits of the business over a period of time. Do you agree? Explain your answer. You are not required to make any calculations. (4)
- 5.4 Dean is concerned, as the gross profit has decreased from last year. Discuss ONE possible reason for this based on the information given to you and provide a possible solution to this problem. (6)
- 5.5 Dean heard from a friend of his who did Accounting at school that he should use the perpetual stock system instead of the periodic stock system. He is confused and has asked you for advice in this matter. Explain the difference to him and give him advice on which method he should use. (6)

INFORMATION:

Dean has given you the following information on all his purchases and sales over the last 3 months.

	NUMBER OF SOCCER BALLS	UNIT PRICE	TOTAL
Opening stock 1 June 2008	30	R40	R1 200
Total purchases:	60		R3 800
June 2008	20	R55	R1 100
July 2008	25	R60	R1 500
August 2008	15	R80	R1 200
Sales of soccer balls: June – August 2008	70		

QUESTION 6**VAT AND ETHICS****(25 marks; 15 minutes)****REQUIRED:**

- 6.1 What is the difference between output VAT and input VAT? (4)
- 6.2 At what rate is VAT currently being charged in South Africa? (2)
- 6.3 Is the current rate of VAT being charged on all goods in South Africa? Explain. (5)
- 6.4 George Gummy, the owner of Gummy Traders, wants to know how much he owes SARS in respect of VAT for the two-month period July – August 2008. Calculate the amount owing to SARS based on the following figures:
- (Round off to the nearest cent.)**
- Total sales for July and August, R880 800 (exclusive of VAT)
 - Total purchases for July and August, R415 500 (inclusive of VAT)
 - Purchase of equipment in July, R65 000 (inclusive of VAT) (10)
- 6.5 George Gummy regularly purchases goods from Sneaky Stores. The owner has offered George a special price of R6 800 including VAT instead of the normal price of R7 400, provided he pay cash and do not require a document. George is tempted, as this seems like a good offer. Advise him as to whether he should accept the offer. Briefly explain. (4)

25**TOTAL: 300**