



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ACCOUNTING
EXEMPLAR 2008**

MARKS: 300

TIME: 3 hours

This question paper consists of 18 pages and an answer book of 20 pages.

INSTRUCTIONS AND INFORMATION

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

**GRADE 12
ACCOUNTING
EXEMPLAR 2008**

MARKS: 300 MINUTES: 180

QUESTION 1: 25 marks; 20 minutes	
The topic of the question is:	The learning outcomes covered are:
Reconciliations & internal control	LO1 Financial accounting - AS4 Analyse & interpret reconciliations LO3 Managing resources - AS6 Apply internal control processes
QUESTION 2: 30 marks; 20 minutes	
The topic of the question is:	The learning outcomes covered are:
Stock systems	LO3 Managing resources - AS3 Using different valuation methods - AS5 Code of ethics
QUESTION 3: 70 marks; 40 minutes	
The topic of the question is:	The learning outcomes covered are:
Manufacturing – Production cost	LO2 Managerial accounting - AS2 Prepare, analyse & report cost information
QUESTION 4: 70 marks; 40 minutes	
The topic of the question is:	The learning outcomes covered are:
Financial statements and interpretation of a company	LO1 Financial accounting - AS5 Prepare & interpret financial statements
QUESTION 5: 75 marks; 40 minutes	
The topic of the question is:	The learning outcomes covered are:
Corporate reporting	LO1 Financial accounting - AS5 Prepare & interpret financial statements - AS6 Analysing an audit report LO3 Managing resources - AS5 Code of ethics, role of professional bodies
QUESTION 6: 30 marks; 20 minutes	
The topic of the question is:	The learning outcomes covered are:
Value-added tax	LO1 Financial accounting - AS7 Apply principles of VAT

QUESTION 1**RECONCILIATIONS AND INTERNAL CONTROL****(25 marks; 20 minutes)**

You are provided with three examples of reconciliations done by employees in the accounting department of Soweto Stationers.

REQUIRED:

Study the information provided and then answer the questions that follow.

INFORMATION:**EXAMPLE
A**

BANK RECONCILIATION STATEMENT ON 29 FEB. 2008	
	R
Balance per Bank Statement	Credit 8 000
Outstanding deposit	3 000
Outstanding cheques:	
No. 1040 dated 13 Feb. 2008	2 200
No. 1052 dated 18 Aug. 2008	10 000
No. 1055 dated 28 Feb. 2008	4 300
Balance per Ledger Account	?

**EXAMPLE
B**

CREDITORS' RECONCILIATION STATEMENT ON 29 FEB. 2008	
ACE WHOLESALERS	
	R
Balance per Creditors' Statement on 25 Feb. 2008	Debit 5 000
Invoice not reflected on statement:	
Invoice No. 225	18 400
Invoice on statement but not in Creditors Ledger:	
Invoice No. 187	3 100
Payment not reflected on statement:	
Dated 23 Feb. 2008	9 000
Returns not reflected on statement:	
Debit note No. 44	1 100
Balance per Creditors Ledger Account on 29 Feb. 2008	?

**EXAMPLE
C**

RECONCILIATION OF CREDITORS' CONTROL ACCOUNT TO THE CREDITORS' LIST ON 29 FEB. 2008	
	R
Balance per Creditors' Control Account	46 000
Balances per Creditors' Ledger	47 900
Ace Wholesalers	?
Busta Furnishers	20 000
Camel Security Services	12 000
Dumbo CC	?
Difference	1 900

QUESTIONS:

- 1.1 Briefly explain:
- What you understand by the term *internal control* (2)
 - Why it important to apply internal control in a business (3)
 - Why preparing reconciliations is important for internal control. (2)
- 1.2 According to the Bank Statement, does this business have a favourable bank balance or a bank overdraft? Give a reason for your choice. (2)
- 1.3 Calculate the bank balance in the Ledger of Soweto Stationers on 29 February 2008. State whether this is a favourable or unfavourable balance. (3)
- 1.4 List FOUR steps you would follow when preparing a Bank Reconciliation Statement. (4)
- 1.5 When preparing the financial statements of Soweto Stationers at the end of February 2008, what amount would you reflect under Cash and Cash Equivalents on the Balance Sheet? (2)
- 1.6 Calculate the correct amount owed to Ace Wholesalers by Soweto Stationers. (4)
- 1.7 Briefly explain what action should be taken over the difference of R1 900 reflected in Example C. (3)

25

QUESTION 2**STOCK SYSTEMS****(30 marks; 20 minutes)**

The following information relates to the trading activities of Micro Traders for the financial year ended 29 February 2008.

The business is owned by BA Crooke. The business sells only one type of microwave oven and has decided to keep the selling price constant throughout the year.

Mr Crooke is keen to secure a loan from the bank. He wants to ensure that the profit in the financial statements creates a very favourable impression with the bank.

The business uses the periodic inventory system and the FIFO method of valuing stock.

INFORMATION:

	Number of units	Unit price R	Total R
Sales	?	1 400	252 000
Stock on hand on 1 March 2007	40 units	950	38 000
Purchases during the year	210 units		170 000
June 2007	30 units	900	27 000
October 2007	80 units	850	68 000
January 2008	100 units	750	75 000

REQUIRED:

- 2.1 Explain the difference between the periodic and perpetual inventory systems. Also explain the advantage of each system. (4)
- 2.2 Calculate the total number of microwave ovens sold during the year. (3)
- 2.3 Calculate the total number of microwave ovens on hand at 29 February 2008. (3)
- 2.4 The business uses the FIFO valuation method.
- 2.4.1 Calculate the closing stock using the FIFO method. (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. (5)
- 2.5 In order to secure the loan the owner, BA Croke, 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. (5)
- 2.5.2 Calculate the gross profit for the year ended 29 February 2008 using the weighted average stock valuation method. You may draft the Trading Account to calculate this figure. (3)
- 2.6 In your opinion, will it be ethical for Mr Croke to change the method of stock valuation? Give ONE reason for your answer. (4)

QUESTION 3**MANUFACTURING****(70 marks; 40 minutes)****3.1 MAHALA BAGS**

You are provided with information relating to Mahala Bags for the financial year ended 29 February 2008. This is a manufacturing business owned by the Mahala family. They manufacture school bags and sell these at a mark-up of 40% on cost.

REQUIRED:

Prepare the Production Cost Statement of Mahala Bags for the year together with the notes as indicated in the ANSWER BOOK. Use the format provided. (38)

INFORMATION:

The following balances appeared, amongst others, in the Ledger on 1 March 2007 (the beginning of the financial year):

Factory equipment – at cost	350 000
Accumulated depreciation on factory equipment	120 000
Office equipment – at cost	90 000
Accumulated depreciation on office equipment	14 000
Stock of finished goods (600 bags)	33 000
Work-in-progress stock	15 280
Direct/Raw materials stock	20 000

Stocks on hand at the end of the year

	R
Stock of finished goods (400 bags)	22 000
Work-in-progress stock	37 000
Direct/Raw materials stock	40 000
Factory consumable stores	1 500

Production:

Number of finished bags produced during the year 20 000 units

Transactions during the year ended 29 February 2008:

- Raw materials** were imported at a cost of R440 000.
- The cost of **transporting** these materials from the suppliers was R70 000.
- Salaries and wages paid:**
 - Five factory workers at R5 000 per month
 - One cleaner at R2 000 per month (this cleaner works in the factory 50% of his time)
 - One office worker at R6 000 per month

4. **Pension Fund:** All employees, except the cleaner, contribute to the pension fund. The deduction from earnings is 7,5% while the business contributes 10,5% of monthly earnings towards the pension fund.
5. **UIF:** The law states that a 1% deduction will apply to earnings by all employees. The business contributes an additional 1%.
6. **Consumable stores** purchased during the year:
 - For factory use, R33 500
 - For office use, R19 000
7. **Depreciation** on all equipment is calculated at 10% p.a. on cost. Note that new factory equipment, costing R150 000, was bought on 1 September 2007.
8. **Selling expenses**
 - Advertising, R10 000
 - Delivery expenses, R24 000
9. **Maintenance:** Repairs to factory equipment were paid, R50 000. A further R3 000 is owed for repairs done during February 2008, but this has not been paid yet.
10. The following were paid for the factory and office. These payments are to be allocated between the factory and the office in the ratio 80% to 20% respectively.
 - **Rent**, R72 000
 - **Insurance, water and electricity**, R60 000

3.2 LADUMA SOCCER BOOT MANUFACTURERS

You are the managerial accountant of Laduma Soccer Boot Manufacturers. You have compiled the information shown below. For the past two years the business has been experiencing consistent losses. The owners have requested your assistance in planning for the future to make the firm profitable.

NOTE:

- There was no work-in-progress at the beginning or the end of each year.
- All pairs of boots produced were sold.
- The price of similar quality pairs of boots produced by competitors is R790.

REQUIRED:

- 3.2.1 Explain what is meant by the following and give an example of each:
- Fixed costs (2)
 - Variable costs (2)
- 3.2.2 Calculate the following unit costs for 2008:
- Direct material cost per unit (2)
 - Factory overhead cost per unit (2)
 - Total variable cost per unit (3)
- 3.2.3 Calculate the total number of pairs of soccer boots the business must produce in order to break even (that is not to make a profit or a loss). Use the 2008 figures in your calculation. (9)
- 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 that need to be better controlled (4)
 - Whether or not the price of the boots should be increased (4)
 - Whether the business will be in a position to meet the break-even point the next year (4)

INFORMATION:**LADUMA SOCCER BOOT MANUFACTURERS**

	2008		2007	
	Total	Per unit	Total	Per unit
	R	R	R	R
Information from Income Statement:				
Sales	3 260 000	815	2 124 000	708
Cost of sales	(2 172 000)	(543)	(1 590 000)	(530)
Gross profit	1 088 000	272	534 000	178
Administration cost (fixed cost)	(860 000)	(215)	(480 000)	(160)
Selling and distribution cost (variable cost)	(392 000)	(98)	(300 000)	(100)
Net profit (loss)	(164 000)	(41)	(246 000)	(82)

	2008		2007	
	Total	Per unit	Total	Per unit
	R	R	R	R
Information from Production Cost Statement:				
Direct material cost	620 000	?	480 000	160
Direct labour cost	984 000	246	690 000	230
Prime cost/Total direct cost	1 604 000	?	1 170 000	390
Factory overhead cost	568 000	?	480 000	160
Total cost of production	2 172 000	543	1 650 000	550
Number of units produced and sold	4 000 pairs of boots		3 000 pairs of boots	

QUESTION 4**COMPANY INTERPRETATION****(70 marks; 40 minutes)**

You are provided with information relating to Fatti's Supermarkets Ltd, a public company listed on the JSE (Stock Exchange).

REQUIRED:

- 4.1 Complete the Cash Flow Statement for the year ended 30 June 2008. (18)
- 4.2 Calculate the following financial indicators for 2008:
- Percentage operating profit on sales
 - Percentage return on average shareholders' equity
 - Net asset value per share
 - Earnings per share
 - Average stock turnover rate (18)
- 4.3 The number of directors and employees has remained the same for the past two years. You are told that there is a staff problem in this business. The employees feel that they are now working much harder and they are therefore dissatisfied with their wages and salaries.
- 4.3.1 Have the employees been treated fairly or not? Briefly explain. State TWO points supporting your answer, by quoting figures from the financial statements or the financial indicators. (6)
- 4.3.2 What advice would you offer to the directors to solve this problem? (3)
- 4.4 Has the company controlled its working capital well, and is the company liquid? Briefly explain, quoting figures from the financial statements or the financial indicators. (7)
- 4.5 As a shareholder in this company you are satisfied with the return, earnings, dividends and share price of the company. Write a brief letter to the Managing Director/Chief Executive Officer (CEO) explaining why you are happy with the performance of the directors and highlight areas where there can be further improvement. Quote figures from the financial statements or the financial indicators to support your opinions. (18)

INFORMATION:

Information extracted from the published financial statements for the past two years.
Note that figures are expressed in thousands of rands.

	30 June 2008 R '000	30 June 2007 R '000
Non-current assets	1 238 080	1 222 000
Tangible assets	898 080	922 000
Financial assets (investments in shares)	340 000	300 000
Current assets	178 000	168 000
Inventories (all trading stock)	59 000	125 000
Trade and other receivables	21 000	32 000
Cash and cash equivalents	98 000	11 000
Ordinary shareholders' equity	1 224 780	990 000
Ordinary share capital (R10 par value)	950 000	800 000
Share premium	140 000	80 000
Retained income	134 780	110 000
Non-current liability (long-term loan, 12% p.a.)	100 000	300 000
Current liabilities	91 300	100 000
SARS (income tax)	4 300	3 000
Shareholders for dividends	38 000	28 000
Expenses payable	2 000	6 000
Trade creditors and other payables	47 000	63 000

Information extracted from the Income Statement for the past two years:

	30 June 2008 R '000	30 June 2007 R '000
Sales	942 400	624 000
Cost of sales	(640 000)	(375 000)
Gross profit	302 400	249 000
Operating expenses	(160 000)	(130 000)
Salaries and wages (1 120 employees)	70 000	50 000
Directors' fees (4 directors)	16 500	15 000
Depreciation	15 000	13 000
Other operating expenses	58 500	52 000
Operating profit	142 400	119 000
Interest on mortgage loan	(12 000)	(36 000)
Net profit before tax	130 400	83 000
Income tax	(39 120)	(29 050)
Net profit after tax	91 280	53 950

Additional information:

- New shares were issued on the first day of the financial year.
- Fixed assets were sold at book value during the year for R160 000 000.
- The market value of the shares on the JSE is R11,90 on 30 June 2008. This represents a 15% improvement from the previous year.
- The tax rate for companies declined from 35% in 2007 to 30% in 2008.

The following financial indicators were calculated for the past two years:

	2008	2007
% increase in sales	51%	2%
% mark-up on cost	47%	66%
% operating expenses on sales	17%	20,8%
% operating profit on sales	?	19,1%
% net profit on sales	9,7%	8,6%
% return on average shareholders' equity (after tax)	?	5,4%
% return on total capital employed (before tax)	10,9%	8,5%
Net asset value per share	?	1 238 cents
Dividends per share	70 cents	67 cents
Earnings per share	?	67,4 cents
Debt-equity ratio	0,1:1	0,3:1
Current ratio	2:1	1,7:1
Acid-test ratio	1,3:1	0,4:1
Stock turnover rate	?	3 times

QUESTION 5**COMPANY REPORTING****(75 marks; 40 minutes)****5.1 KAMBULO LTD**

You are provided with information relating to Kambulo Ltd.

REQUIRED:

- 5.1.1 Use the information below and complete the Balance Sheet on 30 June 2008. (35)
- 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? (5)
- 5.1.3 What should Joan Kambo as CEO of Kambulo Ltd do before buying the new shares? Briefly explain by providing TWO points. (4)

INFORMATION:

- The authorised share capital comprises 800 000 ordinary shares of R4 par value each. By 30 June 2008, 500 000 shares had been issued as follows:
 - 200 000 at par
 - 300 000 at R5,40 each
- The mortgage loan statement from Kwezi Bank reflected the following:
 - Balance on 1 July 2007, R830 000
 - Interest capitalised for the year, R94 200
 - Repayments of R12 600 per month (this is to cover interest and loan repayments)

The capital sum of the loan is expected to reduce by R60 000 over the next financial year.
- The following balances were extracted from the Post-Adjustment Trial Balance on 30 June 2008:
 - Tangible assets at carrying value, R3 408 000
 - Creditors' control, R280 000
 - Bank overdraft, R170 000
 - Cash float and petty cash, R8 000
- There are two fixed deposits at the KZN Bank.
 - One, valued at R360 000, matures on 31 July 2009.
 - The other, valued at R80 000, matures on 31 December 2008.
- The following financial indicators apply to the Balance Sheet date:
 - The debt-equity ratio is 0,2:1
 - The current ratio is 2:1
 - The acid-test ratio is 0,8:1

5.2 CORPORATE GOVERNANCE AND AUDITING

- 5.2.1 Study the following audit report that was issued by the auditors of Kambulo Ltd and answer the questions that follow.

Audit opinion – To the shareholders:

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 30 June 2008 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in South Africa.

Trew & Frank

**Chartered Accountants (SA)
Registered Accountants and Auditors
Durban 25 July 2008**

- (a) Briefly explain why this audit report is addressed to the shareholders. (3)
- (b) Briefly explain the significance of the reference to CA (SA). (2)
- (c) Briefly explain how the firm of Trew & Frank arrived at the opinion that they express in this report. Give TWO points. (4)
- (d) Should the shareholders be satisfied with this report? Explain. (3)
- (e) What action would be taken by professional bodies such as the SAICA if Trew & Frank had been accused of being negligent in issuing this opinion? What consequences could there be for Trew & Frank? (4)

- 5.2.2 Study the following press article (based on an actual case) and answer the questions that follow.

CEO found guilty of insider-trading charges

The Chief Executive Officer of Felon Ltd, YB Goode, will pay about R5 million and cannot serve as the director of a public company for five years under a court order announced on Monday. He had been found guilty of fraud and of contravening the Companies Act and regulations of the JSE.

The amount of R5 million relates to losses which he avoided on the sale of shares in Felon Ltd in December 2007. YB Goode sold Felon Ltd shares a day before the government announced it had declined to approve Felon's new drug for the treatment of cancer, Curex. The share price fell about 80% immediately following the government's refusal to approve the drug Curex.

The presiding judge found that YB Goode had been in possession of the privileged information about the government's decision before deciding to sell the shares. He had deliberately not communicated this information to the public, some of whom had consequently lost significant amounts of their retirement funds when the share price subsequently declined.

Felon Ltd announced last week that YB Goode's contract as CEO had been cancelled. Goode was earning R8 million per year in this post.

- (a) Has YB Goode been treated fairly by the judge and the company Felon Ltd? Briefly explain your reason. (4)
- (b) If you were a major shareholder of Felon Ltd, what characteristics would you look for in appointing the CEO and other directors to prevent a similar problem in future? Give TWO points. (4)

INFORMATION:

- 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, for example social and environmental issues.

REQUIRED:

- (a) Give 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. (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. (4)

QUESTION 6**VALUE-ADDED TAX****(30 marks; 20 minutes)**

Manzini Stores, owned by Ivy Manzini, is registered for VAT under Category B (the invoice basis) on a one-month period. The business also only deals with other VAT-vendors.

You have been provided with the information from the journals for August 2008.

REQUIRED:

- 6.1 What is meant by *value-added tax* and at what rate is VAT calculated? (2)
- 6.2 Calculate the following:
- 6.2.1 The VAT output amount from the CRJ (2)
- 6.2.2 The VAT input amount from the CPJ (3)
- 6.2.3 The VAT output amount from the DJ (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 following journals will be posted to the General Ledger:
- CRJ
 - CPJ
 - DJ
 - GJ
- Complete the table in the ANSWER BOOK. (12)

- 6.4 Calculate the amount of VAT to be paid over to the SARS in respect of August 2008. (4)
- 6.5 Ivy does not have enough money in her bank account to pay the 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
 - Solve the problem in the future (4)

INFORMATION FROM THE JOURNALS:

1. **Cash Receipts Journal**
- Total of Sales column R942 000
 - Total of Debtors' Control column R420 000
 - Total of Sundry Accounts column Nil
 - Total of VAT output column R ?
2. **Cash Payments Journal**
- Total of Trading Stock column R248 000
 - Total of Creditors' Control column R494 000
 - Total of Sundry Accounts column (all equipment) R580 000
- NOTE: Equipment is subject to VAT.
3. **Debtors' Journal**
- Goods were sold on credit for R397 860 (including VAT).
4. **Debtors' Allowance Journal**
- Total of VAT output column R6 930
5. **Creditors Journal**
- Total of VAT input column R58 170
6. **Creditors' Allowance Journal**
- Total of VAT input column R7 210
7. **General Journal**
- 7.1 The owner took stock at cost price, R9 000, for personal use. The VAT on this item is R1 260.
- 7.2 A debtor, D Dodge, has disappeared. His debt of R4 560 is to be written off as irrecoverable. All items sold to D Dodge were subject to VAT of R560.

30

TOTAL: 300