



# education

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Department:  
Education  
**REPUBLIC OF SOUTH AFRICA**

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ACCOUNTING**  
**PREPARATORY EXAMINATION 2008**

**MARKS: 300**

**TIME: 3 hours**

**This question paper consists of 16 pages and an answer book of 17 pages.**

**INSTRUCTIONS AND INFORMATION**

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

**MARKS: 300      MINUTES: 180**

<b>QUESTION 1: 40 marks; 25 minutes</b>	
<b>The topic of the question is:</b>	<b>The learning outcomes covered are:</b>
Reconciliations and internal control	LO1 Financial Accounting -AS4 Analyse and interpret reconciliations LO3 Managing resources -AS5 Code of ethics -AS6 Apply internal control processes
<b>QUESTION 2: 70 marks; 45 minutes</b>	
<b>The topic of the question is:</b>	<b>The learning outcomes covered are:</b>
Financial statements and interpretation of a company	LO1 Financial Accounting -AS5 Prepare and interpret financial statements of a company LO3 Managing resources -AS3 Asset disposal
<b>QUESTION 3: 70 marks; 40 minutes</b>	
<b>The topic of the question is:</b>	<b>The learning outcomes covered are:</b>
Corporate reporting	LO1 Financial Accounting -AS5 Prepare financial statements -AS6 Analyse an audit report LO3 Managing resources -AS5 Role of professional bodies
<b>QUESTION 4: 45 marks; 25 minutes</b>	
<b>The topic of the question is:</b>	<b>The learning outcomes covered are:</b>
Stock systems and VAT	LO1 Financial Accounting -AS7 Apply principles of VAT LO3 Managing resources -AS4 Different valuation methods -AS5 Code of ethics -AS6 Apply internal control processes
<b>QUESTION 5: 45 marks; 25 minutes</b>	
<b>The topic of the question is:</b>	<b>The learning outcomes covered are:</b>
Manufacturing	LO2 Managerial Accounting -AS2 Prepare, analyse & report on costing LO3 Managing resources -AS6 Apply internal control processes
<b>QUESTION 6: 30 marks; 20 minutes</b>	
<b>The topic of the question is:</b>	<b>The learning outcomes covered are:</b>
Cash budgets	LO2 Managerial Accounting -AS2 Analyse & interpret a cash budget LO3 Managing resources -AS5 Code of ethics -AS6 Apply internal control processes

**QUESTION 1: RECONCILIATIONS AND INTERNAL CONTROL (40 marks; 25 minutes)****INFORMATION:**

You are provided with the last two months' Bank Reconciliation Statements of Umlazi Traders.

<b>Bank Reconciliation Statement of Umlazi Traders on 30 April 2008</b>	
	<b>R</b>
<b>Debit</b> balance as per Bank Statement	26 650
Outstanding cheques:	
No. 123 (dated 25 November 2007)	285
No. 335 (dated 28 February 2008)	260
No. 438 (dated 15 April 2008)	775
No. 447 (dated 30 April 2008)	2 300
No. 448 (dated 25 June 2008)	5 000
Outstanding deposits	41 350
<b>Credit</b> amount wrongly debited on Bank Statement	250
Balance as per Bank Account in the General Ledger	?

<b>Bank Reconciliation Statement of Umlazi Traders on 31 May 2008</b>	
<b>Debit</b> balance as per Bank Statement	23 270
Outstanding cheques:	
No. 335 (dated 28 February 2008)	260
No. 448 (dated 25 June 2008)	5 000
No. 473 (dated 22 May 2008)	3 300
Outstanding deposits	31 600
<b>Credit</b> balance as per Bank Account in the General Ledger	230

**REQUIRED:**

Refer to the Bank Reconciliation Statements of April and May 2008 and answer the following questions:

- 1.1 According to the April 2008 Bank Statement, does Umlazi Traders have a favourable bank balance or an overdraft? Give a reason for your answer. (2)
- 1.2 Calculate the missing bank balance in the General Ledger of Umlazi Traders on 30 April 2008. State whether this is a favourable or unfavourable balance. (6)

- 1.3 Cheque No. 123 does not appear on the May 2008 Bank Reconciliation Statement. The payee, S Smit, did not deposit this cheque for commission.
- 1.3.1 Briefly explain what the problem is with cheque No. 123. (3)
- 1.3.2 What entries would the bookkeeper have to make during May 2008 to deal with cheque No. 123? (2)
- 1.4 Which of the cheques shown as outstanding on the April 2008 **Bank Reconciliation Statement** was reflected on the May 2008 **Bank Statement**? (Write down only the cheque numbers.) (4)
- 1.5 The Bank Reconciliation on 30 April 2008 shows the item: 'Credit amount wrongly debited on Bank Statement, R250.'
- 1.5.1 Was this error corrected by the bank during May 2008? Give a reason for your answer. (3)
- 1.5.2 Give an example of the type of error that the bank could have made. (3)
- 1.6 Explain why cheques 335 and 448 appear on both the April and May 2008 Bank Reconciliation Statements. Give a different reason for each cheque. (4)

**PROBLEM SOLVING:**

- 1.7 As internal auditor of Umlazi Traders, you have noticed that both the April and May 2008 Bank Reconciliations reflect very large outstanding deposits. Your investigation into this matter shows that the cashier in fact received most of these amounts before the date on the Bank Statement.

**REQUIRED:**

List points to include in a report to the chief accountant of Umlazi Traders highlighting your concerns and suggestions on the following points:

- 1.7.1 What do you suspect is the cashier doing illegally which is resulting in these very large outstanding deposits? (3)
- 1.7.2 Discuss THREE internal control measures that could be implemented in the accounting department to avoid any further problems of this type occurring. (6)
- 1.7.3 Discuss TWO steps that could be taken should your suspicions of illegal actions by the cashier be confirmed. (4)

**QUESTION 2: FINANCIAL STATEMENTS AND  
INTERPRETATION OF A COMPANY****(70 marks; 45 minutes)**

Clarens Ltd has an authorised share capital of 700 000 ordinary shares with a par value of 50 cents per share.

On 28 February 2007, the end of the previous financial year, they had issued 450 000 ordinary shares, all at par value.

**REQUIRED:**

Use the information provided to prepare the following:

- 2.1 The Asset Disposal Account on 30 November 2007. Refer to number 7 of the information provided. (9)
- 2.2 Answer the following questions:
- 2.2.1 Use the EPS (see No. 3 below) in order to calculate the number of new shares issued on 1 March 2007. (5)
- 2.2.2 Calculate the dividends per share for the year ended 29 February 2008. (4)
- 2.2.3 Discuss ONE reason why shareholders would be:
- Happy with the dividend policy of this company
  - Unhappy with the dividend policy of this company
- Quote financial indicators to support your answer. (4)
- 2.3 Clarens Ltd shares are currently being traded on the stock exchange at R0,85 per share and the net asset value is R0,62 per share. The directors have decided to issue the remainder of the authorised shares at R0,75 each. Would you be willing to purchase additional shares at this price? Justify your answer by giving TWO reasons. (5)
- 2.4 Prepare the Cash Flow Statement for the year ended 29 February 2008, together with the note for cash generated from operations. Where notes are not required, show workings in brackets. (43)

**INFORMATION:**

1. Figures extracted from the Income Statement of Clarens Ltd on 29 February 2008.

Depreciation on vehicles	R22 392
Depreciation on equipment	R5 728
Audit fees	R38 000
Directors' fees	R90 000
Interest on loan from director (interest is capitalised)	R12 000
Net income before tax	R180 000
Net income after tax	R126 000

2. New shares were issued on 1 March 2007, at a premium of 20 cents per share.
3. The earnings per share (EPS) for the year ended 29 February 2008 was 20 cents per share.
4. Interim dividends of R50 400 were paid during the current financial year.
5. On 28 February 2007, Clarens Ltd had a loan from a director of R75 000. The balance of this loan is R132 000 on 29 February 2008. 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.
6. Figures extracted from the Balance Sheet of Clarens Ltd as at the end of February:

	2008	2007
Retained income	R?	R52 200
Book value of total tangible (fixed) assets	R322 000	R246 200
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
Cash and cash equivalents	R?	R8 000 (cr)

7. On 30 November 2007 Clarens Ltd sold their only vehicle for cash. The vehicle was sold at book/carrying value. This vehicle was originally bought on 1 March 2005 for R80 000. A new vehicle was purchased on the same day to replace the vehicle sold. All vehicles are depreciated at 20% p.a. using the cost price method.

These transactions have been recorded. No other tangible assets were bought or sold during the current financial year.

**QUESTION 3: CORPORATE REPORTING****(70 marks; 40 minutes)****3.1 SIKA LIMITED (51 marks)**

SIKA LIMITED is a public company listed on the JSE. The company sells tyres to the general public.

**REQUIRED:**

- 3.1.1 Use the information provided below to prepare the Appropriation Account for the year ended 30 June 2008. (12)
- 3.1.2 Comment on the liquidity position of the company in 2008 in comparison to 2007 by quoting **THREE** financial indicators in your answer. (6)
- 3.1.3 Make **TWO** recommendations to the directors as to how the liquidity position can be improved. (4)
- 3.1.4 Prepare the Balance Sheet on 30 June 2008. The notes to the Balance Sheet are not required. Workings must be shown in brackets to be awarded part marks.

NOTE: Take financial indicators into account. (29)

**INFORMATION:**

- The company has an authorised share capital of 1 500 000 shares with a par value of R3 each. On 1 July 2007 750 000 shares had already been issued. Of the issued shares, 333 000 were issued at a premium of R1,00. There were no new shares issued during the financial year.
- The Retained Income Account reflected a credit balance of R193 000 on 1 July 2007.
- Income tax for the year was R336 000. The taxation rate is 28% of the net profit.
- The following financial indicators were calculated on 30 June:

	<b>2008</b>	<b>2007</b>
Dividends per share (interim and final)	80 cents	90 cents
Solvency ratio	5 : 1	4,8 : 1
Current ratio	1,3 : 1	1,9 : 1
Acid-test ratio	0,7 : 1	1,1 : 1
Stock turnover rate	4 times	5 times
Debtors' collection period (days)	60 days	50 days
Creditors' payment period (days)	30 days	36 days

5. Balances extracted from the Post-Closing Trial Balance on 30 June 2008:

Tangible (Fixed) assets (carrying value)	R3 088 400
Fixed deposit: Northwest Bank	270 000
Creditors' control	160 000
Bank overdraft	32 000
Petty cash	3 000
Shareholders for dividends	225 000
SARS: Income tax (Credit)	15 000
Mortgage loan: GP Bank	?
Debtors' control	170 000
Prepaid expenses	9 400

6. The fixed deposit comprises two investments at Northwest Bank as follows:
- R120 000 will mature on 31 October 2008
  - R150 000 will mature on 1 May 2010

**(Move to next page.)**

**3.2 AUDITOR'S REPORT AND ETHICS****REQUIRED:**

Refer to the auditor's report issued to SIKA Ltd and answer the following questions:

- 3.2.1 Who is responsible for ensuring that the financial statements are prepared? (2)
- 3.2.2 Who is the main group of people the auditors are addressing the auditor's report to and why is the report addressed to this group? (3)
- 3.2.3 The auditor's report refers to the International Financial Reporting Standards (IFRS). Explain why auditors have to take IFRS into account when expressing their opinion. (2)
- 3.2.4 Should the shareholders be satisfied with the auditor's report? Give ONE reason for your answer. (3)
- 3.2.5 If the auditors fail to carry out their audit duties properly there could be severe consequences for them. Discuss TWO benefits to the directors/shareholders of SIKA Ltd of the fact that all the auditors have to belong to a professional body. (4)
- 3.2.6 S Siven, the audit partner, working on the audit job of SIKA Ltd will marry L Lyn, the financial director of SIKA Ltd, on 28 December 2008.
- Will this affect the audit of SIKA Ltd in any way? Give a reason for your answer.
  - What advice would you offer S Siven? (5)

**INFORMATION:****INDEPENDENT AUDITOR'S REPORT****SCOPE:**

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. 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 present fairly, in all material respects, the financial position of SIKA Ltd as on 30 June 2008 and of its financial performance 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.

SIVEN & LASH  
Registered Accountants and Auditors  
Chartered Accountants (SA)  
PO Box 999  
Durban  
4001

13 August 2008

**QUESTION 4: STOCK SYSTEMS AND VAT****(45 marks; 25 minutes)****4.1 STOCK SYSTEMS (27 marks)**

You are provided with information relating to Vision Traders for the year ended 29 February 2008. The business sells only DSTV decoders. The periodic inventory system and the weighted average stock valuation method are in operation. They buy all their stock from one supplier.

**REQUIRED:**

- 4.1.1 Explain ONE main difference between the *periodic* and *continuous* (perpetual) inventory systems. (4)
- 4.1.2 Using the weighted average stock valuation method calculate the following:
- Value of closing stock on 29 February 2008 (12)
  - Gross profit for the year ended 29 February 2008 (6)
- 4.1.3 Calculate the value of closing stock using the FIFO method. (5)

**INFORMATION:**

1. Stock on 1 March 2007 (100 decoders) R55 600 (includes carriage on purchases).
2. Purchases during the year, 1150 units for R747 500, were as follows:

<b>May 2007</b>	250 units at R630 each	R157 500
<b>October 2007</b>	800 units at R650 each	R520 000
<b>January 2008</b>	100 units at R700 each	R70 000

3. Carriage on purchases during the year was charged at R25 per decoder by the supplier.
4. Returned 10 defective decoders purchased during January 2008, to the supplier. The supplier granted a full refund including carriage.
5. A selling price of R1 095 was maintained throughout the year. Sales amounted to R1 215 450.
6. On 29 February 2008, physical stocktaking revealed stock of 130 decoders on hand.

**4.2 VALUE-ADDED TAX AND ETHICS (18 marks)**

The following article appeared in a newspaper in a small rural town.

**TROMP PHARMACY IN HOT WATER AGAIN**

*By Ina Prodd, 30 June 2008*

Tromp Pharmacy has recently reopened after a week-long strike by its six employees after a disagreement over poor wage increases. But owner and local entrepreneur Terry Tromp now has an even bigger fight on his hands with regard to claims of unethical methods of setting the marked prices of the medicines he sells. The Pharmaceutical Society of South Africa (PSSA) is investigating.

A recently dismissed employee, Magda Klaar, revealed to the *Woodvlei News* that Tromp would revalue all his stock of medicines on hand at the latest replacement costs even if old stock had been bought at lower prices.

'He then adds a 100% mark-up as well as VAT on that value. He collects R100 000 per month from customers who are forced to buy their medicines from him as there is no other pharmacy within 50 km of Woodvlei,' a dissatisfied Klaar said.

Klaar's claims in the press also attracted the attention of SARS who have received no VAT payments from Tromp since the pharmacy was established six months ago.

Tromp told the *Woodvlei News* that he was 'fed up' with all the trouble the pharmacy had caused him. 'I operate several successful businesses in Woodvlei and I should be able to charge whatever I want to for my goods. In addition to the rapidly increasing cost of my stock, the biggest expenses are petrol and wages. I am seriously considering closing this business down. This is a lot of nonsense,' he said.

**REQUIRED:**

- 4.2.1 How would you respond to Terry's comment in the last sentence about 'this is a lot of nonsense'? (3)
- 4.2.2 If you bought this business from Terry, what would you do differently? Explain TWO points and give ONE reason for each point. (6)
- 4.2.3 Based on the information contained in this article, how much output VAT should Terry have declared to SARS for the last 6 months? Write down a calculation to support your answer. (4)
- 4.2.4 Tromp Pharmacy is experiencing a cash-flow problem and there is no money available to pay SARS. The bank account reflects an overdraft of R183 860 on 31 August 2008. You are the accountant of Tromp Pharmacy and the owner asks you to reduce the sales amount to an extent where the VAT input exceeds the VAT output so that the business receives a refund from SARS.

As the accountant will you go along with this suggestion? Motivate your response by giving TWO reasons for your decision. (5)

**QUESTION 5: MANUFACTURING****(45 marks; 25 minutes)****5.1 NERD MANUFACTURERS (32 marks)**

Nerd Manufactures manufactures school tracksuits and sells them at a mark-up of 50% on cost.

**REQUIRED:**

- 5.1.1 Prepare the Production Cost Statement of NERD Manufacturers for the year ended 31 August 2008. Only the note for factory overhead costs is required. Workings must be shown in brackets where notes are not required so that part marks can be awarded. (28)
- 5.1.2 The owner, D Dunn, is of the opinion that employees are not using the raw materials very effectively or tracksuits are being stolen in the factory. Recommend TWO internal control measures that could be implemented by management to solve these problems. (4)

**INFORMATION:****NERD MANUFACTURERS**

<b>Balances on 1 September 2007:</b>	
Factory plant	260 000
Accumulated depreciation on factory plant	84 000
Stocks on hand:	
Raw materials	14 700
Work-in-progress	3 400
Finished goods	4 200
Consumable stores	1 600
<b>Transactions for the year ended 31 August 2008:</b>	
Factory wages: Direct	156 000
Indirect	9 200
Purchases: Raw materials	136 000
Factory plant purchased (1 February 2008 )	140 000
Rent	24 000
Factory foreman's salary	86 000
Carriage on raw materials purchased	5 800
Insurance	5 600
Consumable stores purchased on credit	5 900
Other factory overheads	25 200

**ADDITIONAL INFORMATION:**

1. Inventory on hand at 31 August 2008 is as follows:
 

Raw materials	R 6 000
Finished goods	R12 600
Work in progress	R10 870
Consumable stores	R 2 100
2. The factory plant is depreciated at 15% p.a. on the carrying value.
3. 80% of the consumable stores is used in the factory and the balance is used in the sales department.
4. The rent must be apportioned as follows: Factory 60% and the rest equally between sales and administration.
5. Insurance must be divided between the factory, sales and administration departments in proportion to the floor area which is currently in the ratio 4:2:1 respectively.

**5.2 SOWETO SHOE FACTORY (13 marks)**

SOWETO SHOE FACTORY manufactures sport shoes. The factory produced 36 000 pairs of shoes during the year and all pairs were sold at R249 each. There was no work-in-progress stock either at the beginning or at the end of the year.

**REQUIRED:**

- 5.2.1 Calculate the unit cost of production. (3)
- 5.2.2 Calculate the number of pairs of shoes that must be produced and sold to break even. (10)

**Information extracted from the Production Cost Statement for the year ended 29 February 2008**

Direct material cost	R1 980 000
Direct labour cost	2 592 000
Factory overhead cost	864 000
<b>Total cost of production</b>	<b>5 436 000</b>

**Information from the Income Statement for the year ended 29 February 2008**

Sales (36 000 pairs at R249 each)	R8 964 000
Cost of sales	5 436 000
Administration cost (all fixed costs)	540 000
Selling and distribution cost (all variable costs)	792 000
<b>Net profit for the year</b>	<b>2 196 000</b>

**QUESTION 6: CASH BUDGET OF A SOLE TRADER****(30 marks; 20 minutes)**

You are provided with an incomplete Cash Budget and additional information relating to The Smart Store, a popular retail clothing store situated in a busy shopping centre in Wattsville.

The owner, Mrs N Reddy, is very concerned about the drop in sales over the past months.

**REQUIRED:**

6.1 Refer to the proposed Cash Budget as well as the additional information provided to calculate the figures labelled (a) to (e). (18)

6.2 6.2.1 Refer to the item Fixed Deposit (1 November), as shown in the Receipts section of the Cash Budget. Explain what is expected to happen with regard to the fixed deposit on 1 November 2008. (2)

6.2.2 The Smart Store plans to purchase equipment during the budget period. Study the Cash Budget in order to calculate the total expected cost price of this equipment. (3)

6.2.3 The sales assistant has complained to Mrs Reddy about her proposed salary increase in November 2008.

- Give ONE argument to support her opinion.
- Give ONE argument against her opinion.

(4)

6.2.4 At the end of October 2008, you compare the actual figures for Advertising with the Cash Budget figures and you notice the difference below. Provide ONE point of advice to Mrs Reddy in this respect.

	October Budgeted	October Actual	Difference
Advertising	R2 000	R600	-R1 400

(3)

**ADDITIONAL INFORMATION**

1. **Actual and budgeted sales figures:**

	Actual		Budgeted	
	Aug.	Sept.	Oct.	Nov.
<b>Total sales</b>	220 000	200 000	180 000	220 000
<b>Cost of sales</b>	176 000	160 000	144 000	176 000

- 20% of total sales are sold on credit each month.
- 65% of all stock is bought on credit.
- A fixed level of trading stock on hand is maintained throughout the year through replacement on a monthly basis.

2. Debtors are expected to pay their accounts as follows:
- 70% in the month following the month of sale  
 28% in two months following the month of sale  
 2% to be written off in the third month following the month of sale
3. Creditors are paid in full in the month following the month of purchase to qualify for a 5% discount.

**Cash Budget of The Smart Store for October and November 2008**

	<b>October</b>	<b>November</b>
<b>RECEIPTS:</b>		
Cash sales	144 000	(a)
Debtors' collections	40 320	(c)
Fixed deposit (1 November)	-	20 000
Interest on fixed deposit (12% p.a.)	500	300
Other cash income	?	?
<b>PAYMENTS:</b>		
Cash purchase of trading stock	(b)	61 600
Payments to creditors	(d)	88 920
Deposit – purchase of equipment	3 000	-
Instalment payment – equipment (4 equal instalments)	-	4 700
Rent expense	16 000	17 440
Salary – shop manager	12 000	13 680
Salary – sales assistant	5 000	5 125
Consumable stores	11 000	12 080
Advertising	2 000	2 000
Interest on overdraft	315	-
Other cash operating expenses	?	?
Surplus/(Shortfall) for the month	(21 995)	18 855
Bank balance at the beginning of the month	14 200	?
Bank balance at the end of the month	(7 795)	(e)