GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION
2009

10710

ACCOUNTING

18 pages

ACCOUNTING (Question Paper)
ACCN

107 1 0E 12

X05

GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION

ACCOUNTING

TIME: 3 hours

MARKS: 300

INSTRUCTIONS AND INFORMATION

- You are provided with a question paper and an answer book.
- The paper comprises 6 compulsory questions. Answer ALL the questions.
- Use the formats provided in order to reflect your answers.
- Workings must be shown in order to achieve part-marks.
- You must attempt to comply with the suggested time allocations.
- Non-programmable calculators may be used.
- You may use a dark pencil or blue/black ink to answer the questions.

QUESTION 1: 40 marks; 25 minutes	
The topic of the question is:	**The learning outcomes covered are:**
Bank Reconciliations and internal control	LO1 Financial accounting - AS4 Analyse and interpret reconciliations LO3 Managing resources - AS6 Apply internal control processes

QUESTION 2: 35 marks; 21 minutes	
The topic of the question is:	**The learning outcomes covered are:**
Cash budget	LO2 Managerial accounting - AS3 Analyse and interpret a cash budget LO3 Managing resources - AS6 Apply internal control and audit processes

QUESTION 3: 50 marks; 30 minutes	
The topic of the question is:	**The learning outcomes covered are:**
Manufacturing	LO2 Managerial accounting - AS2 Prepare, analyse and report cost information LO3 Managing resources - AS6 Apply internal control and audit processes

QUESTION 4: 65 marks; 39 minutes	
The topic of the question is:	**The learning outcomes covered are:**
Financial statements of a company	LO1 Financial accounting - AS5 Prepare financial statements - AS6 Analysing an audit report LO3 Managing resources - AS5 Code of ethics

QUESTION 5: 75 marks; 45 minutes	
The topic of the question is:	**The learning outcomes covered are:**
Cash flow and interpretation of a company	LO1 Financial accounting - AS5 Prepare and interpret financial statements LO3 Managing resources - AS6 Apply internal control and audit processes

QUESTION 6: 35 marks; 20 minutes	
The topic of the question is:	**The learning outcomes covered are:**
Stock systems	LO3 Managing resources - AS3 Using different valuation methods - AS6 Apply internal control and audit processes

QUESTION 1

BANK RECONCILIATIONS AND INTERNAL CONTROL (40 marks, 25 minutes)

You are provided with information relating to Happy Traders.

REQUIRED:

1.1 Explain why it is important for a business to prepare a bank reconciliation statement each month. (3)

1.2 Calculate the correct totals for the Cash Receipts Journal and the Cash Payments Journal for August 2009. (10)

1.3 Complete the bank account in the General Ledger on 31 August 2009. (6)

1.4 Prepare the Bank Reconciliation Statement on 31 August 2009. (10)

1.5 **Refer to information 3 below.**

- Calculate the amount invested in the fixed deposit. (3)
- What advice would you provide in order to avoid interest on an overdraft? Explain briefly. (2)

1.6 **Refer to information 4 below.**

- Explain why the internal auditor should be concerned about the outstanding deposit of R23 556. (3)
- Explain how cheque No. 599 should be treated when the Financial Statements are prepared on 31 August 2009. Provide a reason for your answer. (3)

INFORMATION:

1. At the end of the previous month, 31 July 2009, the following items were reflected in the Bank Reconciliation Statement:

   - Favourable balance in the ledger of Happy Traders, R6 325
   - Favourable balance on the bank statement, R2 575
   - Outstanding deposit, dated 31 July 2009, R19 700
   - Outstanding cheques:
     No. 001 (Dated 12 February 2009), R8 900
     No. 213 (Dated 1 April 2009), R3 400
     No. 313 (Dated 28 August 2009), R7 860

   Note: Only cheque No. 313 appeared on the Bank Statement for August 2009.

2. On 31 August 2009, the provisional totals in the Journals were:

   - Cash Receipts Journal R87 000
   - Cash Payments Journal R109 000

3. The following items were reflected on the Bank Statement but not in the journals for August 2009:

   - Direct deposit by a debtor, T. Twala, R3 500
   - Bank charges, R656
   - Interest on fixed deposit for August 2009 (10% p.a.) R900
   - Interest on overdraft for August, R989
   - Debit order in favour of Safeway Insurance Co., R770
   - Dishonoured cheque on 31 August 2009, originally presented by a debtor, C. Cheat, R2 600

4. The following differences were noticed:

   - Cheque No. 415 for repairs was shown in the CPJ as R1 779 but on the August bank statement as R1 997. The Bank Statement's amount is correct.
   - A deposit of R19 700 appeared on the Bank Statement on 1 August 2009, but did not appear in the August CRJ.
   - A deposit of R23 556 dated 27 August 2009 appeared in the August CRJ but not on the August Bank Statement.
   - The following cheques appeared in the August CPJ but not on the Bank Statement:
     No. 555 (Dated 23 August 2009), R5 678
     No. 599 (Dated 31 December 2009), R4 999

5. On 31 August 2009 the Bank Statement reflected an unfavourable balance of R17 087.

40

QUESTION 2

BUDGETING **(35 marks; 21 minutes)**

PRESENTATION OF A CASH BUDGET

You are provided with the Cash Budget of Sebata's Store for the three months ending 31 May 2010.

REQUIRED:

2.1 What is the purpose of the Cash Budget? (2)

2.2 Rent increases annually on 1 April. What is the percentage increase that will be applicable from 1 April 2010? (4)

2.3 Depreciation amounts to R4 600 per month, but does not appear in the Cash Budget. Is this a mistake? Give ONE reason for your answer. (3)

2.4 Bally, the owner, has applied to increase his loan from R120 000 to R300 000. He expects it to be approved, and for the money to be available in March 2010. Calculate the loan's interest rate. (6)

2.5 Calculate what the mark-up percentage on cost price is, assuming that creditors are paid after 60 days, and assuming that 30% of all stock purchases are on credit (stock is replaced in the same month). (8)

2.6 Wages and Salaries for March and April are higher than usual, because the owner hired two students for the two months. What did each of the students earn, and was it a good decision? Provide a reason. (3)

2.7 What will the cash surplus (or deficit) be in May 2010 and to what can it be attributed? (4)

2.8 Calculate the bank balance on 31 May 2010. (3)

2.9 Why should Bally be very careful with the surplus cash on hand on 31 May 2010? (2)

Sebata`s store is a sole proprietor, located in the Strand. The owner, Bally Voice, prepared the budget below.

SEBATA`S STORE
CASH BUDGET FOR THE THREE MONTHS ENDING 31 MAY 2010

	2010 MARCH	2010 APRIL	2010 MAY
CASH RECEIPTS	**338 800**	**460 000**	**140 000**
Cash sales	338 800	280 000	140 000
Loan		180 000	
CASH PAYMENTS	**239 800**	**254 520**	**396 910**
Cash purchases of stock	169 400	140 000	70 000
Payment to creditors (after 60 days)	33 600	78 140	72 600
Salaries and wages	12 000	12 000	9 000
Rent	7 800	8 580	12 580
Advertising	2 000	2 000	
Other overheads	12 400	11 200	8 230
Vehicles			68 000
Construction of restaurant section			150 000
Interest on loan	1 400	1 400	3 500
Repayment of loan	1 200	1 200	3 000
Surplus (deficit) for the month	99 000	205 480	?
Cash at beginning of month	(21 100)	?	?
Cash at the end of the month	?	?	?

35

QUESTION 3

MANUFACTURING **(50 marks; 30 minutes)**

3.1 PRODUCTION COST STATEMENT AND PERIODIC STOCK

You are provided with information relating to Shaids Shoe Manufacturers for the financial year ended 31 December 2008.

The business makes shoes, and sells these at a mark-up of 50% on cost. They use the perpetual inventory system for finished goods and the periodic system for raw materials and indirect materials.

REQUIRED:

3.1.1 Prepare the notes to calculate the Raw materials cost and Factory overhead cost. (24)

3.1.2 Prepare the Production Cost Statement for the year ended 31 December 2008. (12)

INFORMATION:

1. The following **balances** appeared, amongst others, in the ledger at the beginning and end of the financial year.

	1 January 2008	31 December 2008
Raw materials stock	360 000	?
Work-in-progress stock	68 200	?
Finished-goods stock	750 000	110 000
Factory indirect materials stock	64 000	27 000

2. **Transactions during the year:**

- Raw materials purchased for cash, R356 000
- Raw materials purchased on credit, R490 000
- Raw materials issued for production, R540 000
- Raw materials donated by the factory to the local school, R10 000
- Cost of transporting raw materials to the factory, R29 500
- Factory indirect materials bought for cash, R79 000
- Factory indirect materials returned to suppliers, R12 000
- Wages paid to factory workers who make the shoes, R756 000
- Salary paid to employees, R478 000. Included in this amount is the salary of the factory foreman, R120 000.
- Commission on sales, R90 000 (all sales are subject to a commission of 3%)
- Maintenance of factory equipment paid, R23 000
- Water and electricity paid, R49 000 (this is to be split between the factory, office and sales sections in the ratio 4: 2: 1 respectively)
- Rent paid, R157 200 (this is to be split across the various departments according to floor area - the factory accounts for 70% out of the total area). The rent for January 2009 was paid in advance and the lease agreement provides for an annual 10% increase of rental effective from 1 January each year. Shaids Shoe Manufacturers complies with the lease agreement.

- Depreciation on factory equipment amounts to R72 400.
- Bad debts, R34 000

3.2 **UNIT COSTS**

You are provided with information relating to Gcenaphi Heaters, a business which manufactures only one type of heater.

REQUIRED:

3.2.1 Calculate the gross profit. (3)

3.2.2 Explain why it is important for a manufacturing concern to calculate unit costs and a break-even point each month. (3)

3.2.3 Calculate the break-even point for 2008. (5)

3.2.4 Comment on the break-even point calculated in Question 3.2.3. Should the business be satisfied with the number of units that are currently being produced? Explain your answer. (3)

INFORMATION:

1. There was no work-in-progress at the beginning or end of the financial year.

2. All heaters were sold at a fixed price of R114 each in 2008.

3. Direct materials cost per heater, R25

4. Prime cost per heater, R55

5. Total cost of production of finished heaters, R760 000

6. Number of heaters completed during the year, 10 000

7. Number of heaters sold during the year, 12 000

8. The cost per unit of unsold heaters at the beginning of the financial year was the same as those that were produced during the year.

9. Administration costs for the year amounted to R240 000.

10. Selling and distribution costs for the year amounted to R117 000.

11. Number of unsold heaters at the end of the financial year, 300.

Gcenaphi Heaters uses the FIFO method of valuation of finished goods.

50

QUESTION 4

COMPANY REPORTING **(65 marks; 39 minutes)**

4.1 **SEBENZA LIMITED**

You are provided with information relating to **SEBENZA LIMITED**. The company sells entertainment equipment.

REQUIRED:

4.1.1 Explain the following concepts in relation to companies:

- Separate legal entity (2)
- Limited liability (2)

4.1.2 Calculate the correct net profit before tax. (10)

4.1.3 Complete the Fixed Assets note to the financial statements on 31 December 2008. (12)

4.1.4 Complete the Balance Sheet on 31 December 2008. (Where the notes are not required, show workings in brackets.) NB. Certain figures have been provided. (27)

INFORMATION:

1. **Figures extracted from the Ledger accounts on 31 December 2008:**

Ordinary share capital (R5 par value)	R 800 000
Fixed deposit: Slamo Bank	30 000
Fixed deposit:Jigzo Bank	95 000
Creditors' control	18 600
Petty cash	7 000
Ordinary Share Premium	80 000
Equipment	575 000
Accumulated depreciation on equipment	86 000
Mortgage loan from Palmbank	?
Bank	6 000(Cr)
Depreciation	27 000
Directors' fees	38 000

2. **Adjustments and additional information:**

The figures in the Pre-Adjustment Trial balance indicated that the net profit before tax amounted to R343 500 but the following adjustments have not been taken into account:

2.1 The company purchased additional equipment on credit for R170 000 on 31 December 2008. The equipment was delivered but no entry has been made.

2.2 Depreciation on equipment, R27 000 was entered in the books. On investigation it was found that the amount should have been R22 000.

2.3 The figure for Trade and other Receivables is **correct**. The bookkeeper however omitted the Trading Stock Deficit, R19 000 and the decrease in the provision for bad debts from R5 000 to R4 500 from the profit and loss account.

2.4 In terms of their contracts, the directors are entitled to the following fees for the year:

Snow R30 000 and White R23 000. White's fees have been paid in full. Snow has only been paid 50% of the amount due to her. Provide for Snow's outstanding amount.

2.5 Interest on the loan is capitalised. The loan statement from Palmbank on 31 December 2008 reflects the following:

Balance on 1 January 2008	320 000
Interest charged	47 600
Monthly payments including interest to Palmbank in terms of the loan agreement (12 months x R6 000)	72 000
Balance on 31 December 2008	?

- The interest for the year has not yet been entered in the books.
- Capital repayments on the loan will amount to R8 500 per month in the next financial year.

2.6 The Fixed Deposit at Jigzo Bank will mature on 1 April 2009.

2.7 No amounts are due to SARS for income tax or VAT. Both these accounts have debit balances.

2.8 According to the Bank Statement, Cheque No. 786 for R2 000 issued to a creditor has not been presented at the bank for payment because it was post-dated.

2.9 Sebenza Limited did not declare a final dividend due to poor economic conditions which impacted on profits for the year.

2.10 The lease agreement with the new tenant included the following clause: The rental of R2 400 per month for the period 1 April 2008 – 31 December 2008 should be used to upgrade existing equipment of Sebenza Limited. The tenant honoured the agreement and the equipment of Sebenza Limited was upgraded. No entries have been processed as yet.

4.2 **CORPORATE GOVERNANCE AND AUDITING**

Study the statement below and then answer the questions, that follow.

DIFFERENCE BETWEEN AUDITING AND ACCOUNTING
Generally, accounting is the writing up of books and the preparation of financial statements, while auditing involves the verifying of incomes and expenditure and also the verification of assets and liabilities in order to enable the auditor to compile a report.

4.2.1 Why are auditors referred to as 'independent' auditors? (2)

4.2.2 In the annual report a condensed Income Statement is presented. This is also referred to as the 'statutory' Income Statement. Explain why it is accepted accounting practice that a condensed Income Statement is provided instead of the full Income Statement. List TWO points. (4)

4.2.3 Mention ONE consequence for an independent auditor if he/she was negligent in performing his/her duties. (3)

4.2.4 The King Code developed in South Africa lists **seven important** characteristics for good governance: Discipline, independence, social issues and responsible management to name a few. Choose any **one characteristic not mentioned above** and briefly explain what is meant by it. (3)

65

QUESTION 5

CASH FLOW AND INTERPRETATION OF A COMPANY (75 marks; 45 minutes)

The given information was extracted from the accounting records of Gr8 Xpectations Limited on 30 June 2009, the last day of their financial year. Gr8 Xpectations Limited is a public company listed on the Johannesburg Securities Exchange (JSE). They are based in Pretoria and they sell office equipment and stationery.

REQUIRED:

5.1 What is the purpose of a Cash Flow Statement? (2)

5.2 Calculate the missing figures in the Cash Flow Statement. The missing figures are denoted (a) to (i). (18)

5.3 Study the completed Cash Flow Statement and the Notes to the Cash Flow Statement and answer the following questions:

5.3.1 Why is depreciation added to the profit before taxation when the cash generated from operations is calculated? (2)

5.3.2 Why were more shares issued when the company made a profit? (2)

5.4 Calculate (to one decimal place), unless otherwise stated, the following financial indicators for the year ended 30 June 2009.

5.4.1 Mark-up percentage (gross profit percentage) on cost of sales (3)

5.4.2 Percentage return on average shareholders' equity (after tax) (4)

5.4.3 Earnings per share (3)

5.4.4 Net asset value per share (3)

5.4.5 Debt/equity ratio (2 decimal places) (3)

5.5 Profitability:

5.5.1 The business aims at a mark-up of 70% on cost. Provide THREE possible reasons why Gr8 Xpectations Limited has not achieved the intended mark-up. (3)

5.5.2 Recommend THREE internal control measures with which management can prevent theft of inventory (stock) by customers and employees. (3)

5.6 Liquidity:

5.6.1 Briefly explain the difference between the current ratio and the acid-test ratio. (2)

5.6.2 Comment on the liquidity of Gr8 Xpectations Limited. Quote any THREE relevant financial indicators from the question to support your opinion. (9)

5.7 You have decided to invest in Gr8 Xpectations Limited. Explain and quote any TWO financial indicators from the question to support your decision. (6)

5.8 Gr8 Xpectations introduced an employees' share scheme on 1 July 2004. The following distributions were made in terms of the scheme to eligible employees:

July 2004	50 shares per employee
December 2006	95 shares per employee
February 2009	165 shares per employee

One of the employees, I.M. Ntrouble, is experiencing financial difficulties and has obtained permission from the directors of Gr8 Xpectations Limited to sell her incentive shares. She has been an employee of Gr8 Xpectations Limited since January 2003.

5.8.1 How many shares would I.M. Ntrouble own on 30 July 2009? (3)

5.8.2 Calculate the total dividend she would have received in the 2009 financial year. (3)

5.8.3 Taking the market price into account, how much money would she receive if she decided to sell the shares on the JSE on 30 June 2009? (3)

5.8.4 During the annual general meeting (AGM) one of the shareholders was questioning the relevance of an employees' share scheme. As managing director of Gr8 Xpectations Limited, explain to the shareholder why this is necessary. (3)

INFORMATION:

GR8 XPECTATIONS
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

Sales	7 294 000
Cost of sales	(4 386 400)
Gross profit	2 907 600
Operating expenses	(1 359 640)
Depreciation	356 475
Sundry expenses	1 003 165
Profit before interest expense	1 547 960
Interest expense	(276 875)
Profit before tax	1 271 085
Taxation	(355 905)
Net profit (after tax) for the year	915 180

GR8 XPECTATIONS
BALANCE SHEET AS AT 30 JUNE 2009

		2009	2008
ASSETS			
Non-current assets		**17 354 775**	**16 117 500**
Property, plant and equipment		16 104 775	15 117 500
Financial assets		1 250 000	1 000 000
Current assets		**1 716 575**	**1 384 350**
Inventories		733 125	609 690
Trade and other receivables		819 875	774 660
Cash and cash equivalents		163 575	–
TOTAL ASSETS		**19 071 350**	**17 501 850**
EQUITY and LIABILITIES			
Ordinary shareholders' equity		**16 941 490**	**14 581 310**
Ordinary share capital (R8 par value)		10 600 000	9 540 000
Share premium		4 125 000	3 500 000
Retained income		2 216 490	1 541 310
Non-current liabilities		**1 250 000**	**1 000 000**
Mortgage loans		1 250 000	1 000 000
Current liabilities		**879 860**	**1 920 540**
SARS (Income tax)		169 310	231 765
Shareholders for dividends		530 000	500 000
Trade and other payables		180 550	399 740
Bank overdraft		–	789 035
TOTAL EQUITY AND LIABILITIES		**19 071 350**	**17 501 850**

GR8 XPECTATIONS LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Notes	R
Cash flows from operating activities		(a)
Cash generated from operations	1	1 516 595
Interest paid		(b)
Dividends paid		(c)
Taxation paid		(418 360)
Cash flows from investing activities		(906 250)
Purchase of non-current assets		(d)
Proceeds from sale of non-current assets		(e)
Increase in investments		(250 000)
Cash flows from financing activities		(f)
Proceeds from issue of shares		(g)
Proceeds from long-term borrowings		250 000
Net change in cash and cash equivalents		(h)
Cash and cash equivalents at beginning of year		(789 035)
Cash and cash equivalents at end of year		(i)

NOTES TO THE CASH FLOW STATEMENT

1. RECONCILIATION BETWEEN PROFIT BEFORE TAXATION AND CASH GENERATED FROM OPERATIONS	
Profit before taxation	1 271 085
Adjustments in respect of:	633 350
Interest paid	276 875
Depreciation	356 475
Operating profit before changes in working capital	1 904 435
Changes in working capital	(387 840)
Increase in inventories	(123 435)
Increase in trade and other receivables	(45 215)
Decrease in trade and other payables	(219 190)
Cash generated from operations	1 516 595

ADDITIONAL INFORMATION:

1. New shares were issued on the first day of the current financial year.
2. Equipment was sold at carrying-value during the year.
3. An additional building was erected at a cost of R1 000 000 during the year.
4. Dividends are as follows:

Details	Per share	Declared	Paid
Interim dividend 2009	30 cents	31 December 2008	31 December 2008
Final dividend 2009	40 cents	30 June 2009	25 August 2009

5. The market value of the shares on the JSE is 1100 cents on 30 June 2009. This represents an improvement of 5% over the previous year.
6. The following financial indicators were calculated for the past two years:

	2009	2008
% increase in sales	16,3%	12,5%
% mark-up on cost	?	68%
% operating expenses on sales	18,7%	22,5%
% net profit on sales	12,6%	12,2%
Current ratio	1,95 : 1	0,72 : 1
Acid-test ratio	1,12 : 1	0,40 : 1
Inventory (stock) turnover rate	3,3 times	5,9 times
Average debtors' collection period	66,5 days	77,5 days
Average creditors' payments period	60,4 days	100,7 days
% return on shareholders' equity (after tax)	?	4,6%
% return on total capital employed (before tax)	10,1%	7,0%
Net asset value per share	?	1 223 cents
Dividends per share	70 cents	90 cents
Earnings per share	?	62,1 cents
Debt-equity ratio	?	0,07 : 1

75

QUESTION 6

INVENTORY (STOCK) VALUATION **(35 marks; 20 minutes)**

The following information was extracted from the accounting records of Goodie2Shoes.

INFORMATION:

Goodie2Shoes buys and sells one type of shoes. The business uses the periodic inventory system and the weighted-average method of valuing inventory.

Inventory (Stock):

- 145 pairs were on hand at R180 per pair on 1 August 2009.
- 125 pairs were purchased at R210 per pair on 7 August 2009.
- One of the suppliers was having a sale. Purchased 100 pairs of shoes for R11 000 on 20 August 2009.
- 110 pairs of shoes were imported at R230 per pair on 26 August 2009. Import duties paid was R3 610.
- 140 pairs of shoes were on hand on 31 August 2009.

Shoes are sold at R400 per pair.

REQUIRED:

6.1 Calculate the weighted average value per unit on 31 August 2009. (9)

6.2 Calculate the value of the inventory (stock) on hand on 31 August 2009. (Round off to the nearest Rand.) (3)

6.3 Draw up the Trading Account to determine the gross profit for the month ended 31 August 2009. (11)

6.4 The owner, Bongi Modiba, wants to sell her business. She approached you as the accountant of Goodie2Shoes and requested that you change their inventory (stock) valuation method to the FIFO method to create a higher profit and a higher closing inventory for the business to enable her to sell the business at a much higher price.

6.4.1 Calculate the value of the inventory (stock) on hand on 31 August 2009 by using the FIFO inventory (stock) valuation method. (7)

6.4.2 Will it be ethical for Bongi Modiba to change the inventory (stock) valuation method? Provide TWO reasons to support your answer. (5)

35

TOTAL: 300

END