GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION
2009

10710 X

ACCOUNTING

ANSWER BOOK

24 pages

ACCOUNTING (Answer Book)
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GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION

ACCOUNTING
(ANSWER BOOK)

TIME: 3 hours

MARKS: 300

NAME OF LEARNER: ______________________

ANSWER BOOK

QUESTION	MAX.	PART-MARKS	FINAL MARKS
1	40		
2	35		
3	50		
4	65		
5	75		
6	35		
	300		

QUESTION 1

BANK RECONCILIATIONS AND INTERNAL CONTROL

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

3

1.2

CASH RECEIPTS		CASH PAYMENTS	
Provisional total	87 000	Provisional total	109 000

10

1.3

LEDGER OF HAPPY TRADERS
BANK

Aug 1				Aug 31			
31							

6

1.4 **BANK RECONCILIATION STATEMENT AS AT 31 AUGUST 2009**

	Debit	Credit

10

1.5 **Calculate the amount invested in the fixed deposit.**

What advice would you provide in order to avoid interest on an overdraft? Explain briefly.

Advice:

Explanation:

5

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

6

TOTAL MARKS
40

QUESTION 2

BUDGETING

2.1 What is the purpose of the Cash Budget?

2

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

Calculation:

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

TOTAL MARKS
35

QUESTION 3

MANUFACTURING

3.1.1

CALCULATION OF RAW MATERIALS COST

8

CALCULATION OF FACTORY OVERHEADS COST

16

3.1.2 SHAIDS SHOE MANUFACTURERS
PRODUCTION COST STATEMENT FOR YEAR ENDED 31 DECEMBER 2008

Prime / Direct cost	
Direct materials cost	
Direct labour cost	
Factory overheads cost	
Total manufacturing costs	
Work in progress at the beginning of the year	
Work in progress at the end of the year	
Cost of production of finished goods	

12

3.2

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

TOTAL MARKS
50

QUESTION 4

COMPANY REPORTING

4.1

4.1.1

Explain the following concept in relation to companies: • **Separate legal entity**

2

Explain the following concept in relation to companies: • **Limited Liability**

2

SEBENZA LIMITED

4.1.2 Calculate the correct net profit before tax.

Incorrect net profit before tax	

10

4.1.3 Fixed Assets notes to the financial statements on 31 December 2008.

Fixed assets	Equipment
Cost at the beginning year	
Accumulated depreciation at beginning of the year	
Carrying value at the beginning of the year	
Movements	
Additions at cost	
Depreciation	
Cost at the end of the year	
Accumulated depreciation at end of the year	

12

4.1.4 SEBENZA LIMITED
Balance Sheet on 31 December 2008

ASSETS	
Non-current assets	
Current assets	
Inventories	**500 000**
Trade and other receivables	**150 000**
TOTAL ASSETS	
EQUITY AND LIABILITIES	
Ordinary Shareholders' Equity	
Retained Income	**82 400**
Non-current liabilities	
Current liabilities	
TOTAL EQUITY AND LIABILITIES	

27

4.2 CORPORATE GOVERNANCE AND AUDITING

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

TOTAL MARKS
65

QUESTION 5

CASH FLOW AND INTERPRETATION OF A COMPANY

5.1 **What is the purpose of a Cash Flow Statement?**

2

5.2

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

		R
Cash flows from operating activities	(a)	
Cash generated from operations		**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)	

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 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

TOTAL MARKS
75

QUESTION 6

INVENTORY (STOCK) VALUATION

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

TRADING ACCOUNT

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

TOTAL MARKS
35

TOTAL: 300

END