

GRADE 12 ACCOUNTING MEMORANDUM

2009

QUESTION 1

1.1 Bank reconciliation

Balances and Transactions	Bank		Bank reconciliation		No entry
	Dr	Cr	Dr	Cr	
Provisional Balances	25 580 – 3 000 – 18 580 =4 000✓✓			4 170 ✓	
3.1					✓
3.2	250✓	250✓	250✓		
3.3	300				
3.4	90				
3.5			890+130+110		
3.6		30+170			
3.7		800			
3.8	1 000				
3.9				1 300	
3.10	700				
3.11		440			
3.12		560			
3.13					✓
Totals	6 340	2 250	1 380	5 470	
Balance	4 090		4 090		
					16

Question 1.2

Dr	BANK	Cr
Balance	4 090	
Creditors control	890	
	4 980	
		2

Please turn over

Creditors control

Dr		Cr
	Balance	12 400
	Bank	890
		13 290
		2

Question 1.3

Procedure for post-dated cheques received	
Record the following information in the PDC register:	
◆	Date the cheque was received
◆	Name of drawer
◆	Cheque number
◆	Bank and branch number
◆	Value of the cheque
◆	Due date of cheque
On due date:	
◆	Make out a receipt
◆	Record the transaction in the Cash Receipts Journal
	4

Question 1.4

1.4.1 What do you understand by the term "Financial Services Provider"?	
Financial Services Providers provide businesses with financial services/advice; examples of financial services providers include banks, brokers and financial advisers.	
(a)	furnishes advice, or
(b)	furnishes advice and renders any intermediary service, or
(c)	renders an intermediary service.
	2

1.4.2 What does the abbreviation FAIS stands for?	
Financial Advisory and Intermediary Services	
	1

1.4.3.1. Where can the owner of BELL Stores go for advice?	
FAIS Ombudsman	
Banking Ombudsman	
	2

1.4.3.2 Do you think FIFI Bank is complying with the FAIS Act? Briefly explain.	
No,	
- FIFI Bank did not act according to the contract.	
- FIFI Bank did not act honestly, fairly, with due skill, care and diligence, and in the interests of GATO	
	3

1.4.3.3 If you where the adviser (answer in question 1.4.3.1), what should FIFI Bank do to solve the problem?	
- Pay back the total of the fixed deposit of R30 000 immediately.	
- Pay the R2 250 interest and not only the R1 950 (did not stipulated in the contract)	
	3

TOTAL MARKS
35

QUESTION 2

Perpetual Inventory system - FIFO

[illegible][illegible]

Perpetual Inventory system – Weighted average

Date	Received			Issued			Balance			
	Units quantity	Unit price	Total amount	Units quantity	Unit price	Total amount	Units quantity	Unit price	Total amount	
1 July							400	R4	1 600	
10 July	700	R4,10	2 870				1 100	R4.06	4 470	
17 July				800	R4,06	3 248	300	R4,06	1 218	
22 July	500	R4,15	2 075				800	R4, 12	3 293	
24 July	40	R4,15	166				760	R4,12	3 127	
30 July				600	R4,12	2 472	160	R4,12	659	
										8

Dr					Trading stock					Cr	
Jul	1	Balance	b/d	1 600	J u l	1 7	Cost of sales	CRJ	3 248		
	1 0	Creditors control	CJ	2 870		2 4	Creditors control	CAJ	166		
	2 2	Creditors control	CJ	2 075		3 0	Cost of sales	CRJ	2 472		
							Balance	c/d	659		
				6 545					6 545		
Aug	1	Balance	b/d	659							
											7

++ QUESTION 3

3.1	Calculate the mark-up % that Danielle uses for her business. ✓ ✓ ✓✓ 240 000 / 300 000 X 100 = 80% Or: use figures from any of the other columns	4
3.2	Probable reason for interest income: The investment was decreased. ✓✓ Probable reason for depreciation: More fixed/tangible assets were bought. ✓✓	4
3.3	Comment on Stationery: Well controlled in January, but R3 000 over-budget in February. This is possibly due to wastage/theft. ✓✓ Comment on Telephone: Abuse is apparent. R2 000 over budget in Jan and R4 000 over budget in February. Not well controlled. ✓✓ Comment on Motor vehicle expenses: Well controlled. The variance is only 10% (1 200/ 12 000) while the price of petrol increased by 25%. ✓✓✓	7
3.4	Danielle is concerned that she has to keep contributing more capital each month so that the business can settle its debts. Explain why the Projected Income Statement will not help her in identifying the reasons for this problem. Cash problems will be identified in the Cash Budget. The projected Income Statement reflects profit. Certain income items might not have been collected, while payments for debts are not reflected in the projected Income Statement. ✓✓✓	3

3.5	Calculate the amount of the loan. ✓ ✓ ✓ ✓ $37\,500 / 0.15 \times 12 = R3\,m$ What advice would you give her regarding accessing funds in order to repay the loan? Provide two points <i>Any two valid points, examples ✓✓ ✓✓</i> • Liquidate the investment as the interest is only 6% • Admit a partner/member • Sell off unused property • Any other valid point	8
3.6	Quote figures from the question which indicates that she appears to be losing customers. Jan actual sales R396 000 Budgeted R540 000 ✓✓ OR Feb actual sales R360 000 Budgeted R594 000 OR Feb actual sales R360 000 are less than Jan R396 000 Identify three points, with appropriate figures from the projected Income Statement, which indicate that she has made mistakes in dealing with her customers. <i>Any three valid points, for example ✓✓ ✓✓ ✓✓</i> • Advertising only R1 000 per month compared with R5 000 budget • Discount allowed is Nil, despite R2 000 monthly budget – not granting discount, or debtors are paying too slowly to gain the benefit • The 80% mark-up at all times might be a problem in relation to prices of competitors – offer trade discounts • Security spent is 50% of the budget of R7 000 – this is causing shop-lifting as evidenced by trading stock deficits which were not budgeted. • Bad debts R11 880/R10 800 exceed the budget R6 480/R7 128 – indicates poor screening or poor collection.	8

3.7	Calculate the monthly salary earned by each shop assistant in January. ✓ ✓ ✓ $R24\ 000 / 6 = R4\ 000$ Calculate the % salary increase that Danielle granted the shop assistants in February. $R16\ 800 / 4 = R4\ 200$ ✓ Increase = $R4\ 200 - R4\ 000$ ✓ = R200 % increase = $200 / 4\ 000 \times 100 = 5\%$ ✓ Provide two reasons why they would not be happy with this increase. Quote evidence from the question to support your answer. <i>Any two valid points, examples ✓✓ ✓✓</i> • The manager received a 25% increase while the assistants received 5% • The 5% increase is significantly less than the inflation rate of approximately 11%. • The assistants who resigned were not replaced. The remaining assistants probably have to work harder for a small increase.	11
-----	--	---

TOTAL MARKS
45

QUESTION 4

4.1	Calculate Direct Labour Cost:
	✓ 15 employees x ✓ 14 days x 9 hours x ✓ R36 = R68 040
	✓ 15 employees x ✓ 45 hours x ✓ R72 = <u>R48 600</u>
	TOTAL = <u>R116 640</u> ✓

7

4.2 DUBE TABLES MANUFACTURERS PRODUCTION COST STATEMENT FOR JULY 2008

Direct material cost 40 000 ✓ + 180 000 ✓ – 65 000 ✓	✓ ☒ 155 000
Direct labour cost	☒ 116 640
Prime cost	☒ 271 640
Factory overhead cost	☒ 85 160
Total cost of production	☒ 356 800
Work-in-process on 1 July 2008	✓ 55 000
	411 800
Work-in-process on 31 July 2008	✓ (40 000)
Cost of production of finished goods (410 tables)	☒ 371 800

12

Note 1: Factory overhead cost

Indirect materials 75% x (6 000 + 20 000)	✓ ☒ 19 500
Wages of factory cleaner	✓ 2 600
Salary of factory foreman 15 000 + 1 500	✓ ☒ 16 500
Depreciation	✓ 7 400
Factory maintenance 8 000 + 3 500	✓ ☒ 11 500
Electricity & water	✓ 4 140
Factory rent 630 / 900 x R30 000	✓ ☒ 21 000
Insurance 630 / 900 x R43 200 / 12	✓ ☒ 2 520
	☒ 85 160

14

4.3	Calculate the unit cost of production per table: ✓ ✓ ✓ R371 800 / 410 tables = R906,83	3
4.4	THEBE feels that the power cuts have had a significantly negative effect on his business. Provide two points from the question that indicate he is correct. Quote figures/calculations from the question to support your answer. <i>Any two valid points, quoting evidence, for example ✓✓✓ ✓✓✓</i> • Production is 40 units short. Loss of gross profit = 40 x R500 = R20 000. • The overtime wages paid cause a difference in Direct Labour Cost of ½ x R48 600 = R24 300, that is R59,27 per table. • They were exceeding their BEP by 130 tables. During July, the margin reduced to 90 tables.	6
4.5	Provide two suggestions on how to improve efficiency in the use of direct materials. <i>Any two valid points, for example ✓✓ ✓✓</i> • Identify the exact amount of direct material required for each table • Proper documentation for stocks drawn from the store-room • Assess the degree of wastage (off-cuts) Provide two suggestions on how to improve the efficiency of the direct labourers. <i>Any two valid points, for example ✓✓ ✓✓</i> • Time and work study – inspect and calculate how long it takes for one table to be made • Proper training of direct workers • Assess procedure for clocking in and out • Monitor tea breaks, lunch breaks, sick leave etc • Reduce overtime – buy a generator to restrict work to normal time.	8

TOTAL MARKS
50

QUESTION 5

5.1 Calculate the missing amounts on the face of the Cash flow statement indicated by the letters (a) to (e).	
(a) 309 600	
(b) $158\,700 - 12\,000 - 15\,400 = 131\,300$	
(c) $4\,699\,200 + 2\,599\,000 - 6\,278\,200 - 440\,000 = 580\,000$	
(d) $(2\,400\,000 - 2\,040\,000) + (409\,500 - 288\,000) = 481\,500$	
(e) $52\,800 - 39\,600 = 13\,200$ (INFLOW)	
	12

5.2.1 Calculate the acid test ratio for 2008:	
$308\,480 - 180\,080 : 328\,680$ $128\,400 : 328\,680$ $0,39 : 1$	
	3

5.2.2 Calculate the stock turnover rate for 2008:	
$\frac{3\,294\,000}{(180\,080 + 390\,000)/2}$ $= \frac{3\,294\,000}{285\,040}$ $= 11,6 \text{ times}$	
	4

5.2.3 Calculate the debt/equity ratio for 2008:	
$2\,940\,000 : 3\,318\,000$ $0,89 : 1$	
	3

5.2.4 Calculate the net asset value per share for 2008:	
$\frac{3\,318\,000}{600\,000} \times \frac{100}{1}$ $= 553 \text{ cents}$	
	3

5.2.5 Calculate the earnings per share for 2008:	
$\frac{370\,500}{600\,000} \times \frac{100}{1}$ $= 61,75 \text{ cents}$	
	3

5.3 Does the company have a liquidity problem? Briefly explain, quoting THREE relevant liquidity ratios (financial indicators) to support your answer.	
- The current ratio decreased from 1,7 : 1 in 2007 to 0,9 : 1 in 2008. - The acid test ratio decreased from 0,6 : 1 in 2007 to 0,39 : 1 in 2008. - The stock turnover rate improved from 6 times in 2007 to 11,6 times in 2008. There was too much stock on hand last year, but the company had better control over stock; the company will find it difficult to pay their short-term liabilities.	
•	3

5.4 As a shareholder in the company, would you be satisfied with the earnings per share, dividends per share and return on shareholders' equity? Briefly explain, quoting relevant financial indicators (ratios or percentages).	
- The earnings per share increased from 53,5 cents in 2007 to 61,75 cents per share in 2008. - The dividends per share increased from 29 cents in 2007 to 43 cents per share in 2008. - The return on shareholders' equity increased from 11% in 2007 to 12,3% in 2008. - New shares were issued at the beginning of the year, but all the financial indicators increased. Thus, the shareholders can be satisfied with their investment in the company.	
•	3

5.5

5.5.1 In your opinion, which option should they choose?	
Option B	
5.5.2 Briefly explain why you would choose this option and why you would reject the other option. Quote TWO financial indicators from your answer to QUESTION 5.4 to support your opinion.	
- The return on total capital employed before tax is 15% and the interest on loan from Shifty Lenders will be 24%. - The debt/equity ratio is 0,89 : 1 for 2008. With the additional loan + interest the company could be at risk (high geared).	
•	4

5.6

5.6.1 Calculate the minimum of new shares he will have to buy to retain control of the company	
51% x 100 000 = 51 000 shares	2
5.7 If the shares are issued at a premium of 50 cents, what would he have to pay for the new shares?	
51 000 x R4,50 = R229 500	2
5.7.1 In your opinion, would this represent a fair value for these shares?	

Quote a financial indicator to support your answer.	
Yes The net asset value per share is 553 cents, which is higher than 450 cents.	
	2

5.8 What is meant by “corporate social investment” and why is it important for a company to report on this?	
Relates to expenditure by the company in the community and the environment. It is essential that companies also put back into the economy, for the benefit of all, and don't just take in the form of profits. (KING REPORT)	
	2

5.9 What is the difference between liquidity and solvency?	
• Solvency The ability to meet financial obligations on time, or to pay long-term debts. • Liquidity The ease and speed with which an investment can be converted into cash. Also referred to as the ability to pay short-term debts using short-term assets.	
•	4

TOTAL MARKS
50

Question 6.1

General ledger of Petunia stores Ltd

[illegible]

Dr					Asset Disposal						Cr
Feb	28	Equipment	GJ	48 000	Feb	28	Bank	GJ	35 000		
							Accumulated depreciation on equipment	GJ	10 209		
							Loss on sale of Equipment	GJ	2 791		
				48 000					48 000		
											8

Question 6.2

Income statement for the year ended 28 February 2009

Sales (525 780 – 21 560)		504 220	
Cost of sales		(254 680)	
Gross profit		249 540	
Other operating income		11 840	
Discount received	620		
Rent income (13 090 – 1 870)	11 220		
Gross income		261 380	
Operating expenses		(207 430)	
Depreciation (see calculation)	33 894		
Loss on sale of asset	2 791		
Trading stock deficit	2 780		
Provision for bad debts adjustment	74		
Salaries	149 920		
Packing material	2 548		
Discount allowed (350 – 25)	325		
Advertising (2 470 + 2760 – 1 840)	3 390		
Insurance (5 620 – 460)	5 160		
Stationary (4 258 – 435)	3 823		
Pension fund contributions (1 875 + 750)	2 625		
Medical aid contributions (965 + 320)	1 285		
Bad debts (350 + 465)	815		
Net income before tax		53 950	
Income tax		(18 680)	
Net income after tax		33 270	
			35

Calculations (adjustments)

1. Depreciation

$$\begin{aligned}
 \text{asset disposal} &= 15\% \times 48\,000 \times 2/12 = 1\,200 \\
 &= 48\,000 - 1\,200 = 46\,800 \times 15\% = 7\,020 \\
 &= 48\,000 - 1\,200 - 7\,020 \times 15\% \times 4/12 = 1\,989 \\
 \text{Total} &= 1\,200 + 7\,020 + 1\,989 = 10\,209
 \end{aligned}$$

3+4 Depreciation

$$\begin{aligned}
 \text{Equipment} &= 19\,970 - 7\,270 = 12\,700 \times 15\% = 1\,905 \\
 \text{Vehicles} &= 120\,000 \times 25\% = 30\,000
 \end{aligned}$$

5+6 Trading stock deficit

$$34\,570 + 750 - 32\,540 = 2\,780$$

9 Insurance

$$\begin{aligned}
 6x + 7(x + 0,15x) &= 5\,620 \\
 6x + 7x + 1,05x &= 5\,620 \\
 14,05x &= 5\,620 \\
 x &= 400
 \end{aligned}$$

$$\begin{aligned}
 400 \times 0,15 &= 60 \\
 400 + 60 &= 460
 \end{aligned}$$

10	Salary (75 000/12)	6 250	
	SARS: PAYE (36% x 6 250)		2 250
	Pension fund (8% x 6 250)	500	
	Medical aid fund	320	
	Creditors for salaries		3 180
	Pension fund contribution	750	
	Pension fund		750
	Medical aid contribution	320	
	Medical aid	320	

Question 6.3

Notes to the financial statements

Trade and other receivables	R	
Trade debtors (23 875 + 325 + 25 – 350 – 465)	23 410	
Provision for bad debts (840 + 74)	(914)	
Net trade debtors	22 496	
Prepaid expenses (460 + 1 840)	2 300	
SARS: income tax (19 657 – 18 680)	977	
	25 773	
		14

Accumulated profit	R	
Balance at the beginning of the year	46 429	
Net profit as per income statement	33 270	
Ordinary dividends	(37 500)	
Paid	25 000	
Recommended	12 500	
Balance at the end of the year	42 199	
		6

Trade and other payables	R	
Trade creditors (43 650 + 750)	44 400	
SARS: PAYE (1 349 + 2 250)	3 599	
Accrued expenses	2 760	
Pension fund (425 + 500 + 750)	1 675	
Medical aid fund (320 + 320)	640	
Creditors for salaries	3 180	
Shareholders for dividends	12 500	
Income received in advance	1 870	
	70 624	
		14

Question 6.4

6.4.1 Briefly explain the role performed in a company by the directors.	
- To control and manage the activities of the company.	
- They serve as the "ears, eyes, arms and legs" of the company.	
-	2

6.4.2 Briefly explain the role performed in a company by auditors.	
- To express an opinion on the presentation figures in the financial statements.	
- Protect shareholders/check books/detect fraud	
	2

6.4.3 List three groups of people, apart from the existing shareholders, who would be interested in the financial statements of the company.	
• SARS • Directors • Short-term credit providers • Long-term credit providers • Suppliers • General public • Unions	
•	2

TOTAL MARKS
90

TOTAL: 300