



education

Department:
Education
PROVINCE OF KWAZULU-NATAL

ACCOUNTING

MEMORANDUM

SEPTEMBER 2019

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

MARKS: 300

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item. No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as the final figure, award one mark. Not the method mark for the answer. Note: if figures are stipulated in memo for components of workings, these do not carry the method for final answer.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in a certain question.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
10. Operation' means 'Check operation'. 'One part correct' means 'Operation & one part correct'. Note: check operation must be +, -, x, ÷, or per candidates operation.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect, indicate with a ☒. Note: do not award marks for workings if numerator and denominator are swapped-this also applies to ratios.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f=foreign item; p=placement.

This memorandum consists of 17 pages

QUESTION 1

Choose the correct answer from the words provided within brackets.
Write only the answer, next to each number (1.1.1 – 1.1.4) in the
ANSWER BOOK.

1.1

1.1.1	Cash Receipts Journal	✓
1.1.2	Debit	✓
1.1.3	Credit note	✓
1.1.4	Discount allowed	✓

4

1.2.1 **Bank Reconciliation Statement on 30 June 2019.**

		Debit	Credit
Credit balance as per bank statement	11 300		11 300 ✓
Credit outstanding deposit	8900		8 900 ✓
Credit amount wrongly debited	8 000		8 000 ✓
Debit outstanding cheques: No. 621	(3 200)	3 200 ✓	
No. 821	(600)	600 ✓	
No. 937	(2 400)	2 400 ✓	
Debit balance as per bank account	22 000	22 000 ✓	
Operation one part correct for both totals		28 200 ✓	28 200

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1.3.1 **Briefly explain why the balance of the debtors control account should correspond with the total of the list of debtors.**

Any valid point ✓✓

The Debtors Control account is a summary of all the debtors' accounts in the Debtors Ledger. / Complete/compiled from the same source documents.

2

1.3.2 **Calculate the correct closing balance of the debtors control account as at 30 June 2019.**

$$175\,700 - 4\,100 ✓ + 2\,300 ✓ + 8\,700 ✓ + 300 ✓ = 182\,900 ✓$$

5

1.3.3 **List of debtors of Birdswood Traders on 30 June 2019.**

S. M Mazibuko	46 500 - 1 400 ✓ - 1 400 ✓	2 800 two marks	43 700 ✓
T.G Nyembe	31 800 - 7 600 ✓		24 200 ✓
T.M Msweli	27 000 + 2 300 ✓		29 300 ✓
J.P Botha	63 200 - 2 700 ✓		60 500 ✓
P.S Pillay	8 600 + 7 600 ✓ + 8 700 ✓ + 300 ✓	9000 two marks	25 200* ✓
Operation one part correct			182 900 ✓

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1.3.4

BIRDWOOD TRADERS

- **Does Birdswood Traders have effective control over their debtors? Explain by quoting figures to motivate your answer.**

Explanation ✓ **Figure** ✓✓

$60\,000/187\,500 \times 100 = 32\%$ of the debtors keep to the credit terms of 30 days.

OR

$127\,500/187\,500 \times 100 = 68\%$ of the debtors exceed the payment period of 30 days.

OR

Mazibuko, Botha and Pillay have exceeded their credit limits by R13 700, R20 500 and R15 200 respectively.

3

- **State TWO actions that Birdswood could take in order to encourage debtors to settle their accounts according to the terms.**

Any two relevant answer ✓✓ ✓✓

- Issue monthly statements
- Send reminders through text messages [SMS].
- Allow discounts to debtors who pay in time.
- Charge interest on overdue accounts.
- Stop selling to debtors until overdue accounts are settled.

4

TOTAL MARKS
40

QUESTION 2

2.1.1 **Production Cost Statement on 28 February 2019**

Direct Materials Cost (1 770 000✓ – 10 000✓)		1 760 000	✓
Direct Labour Cost	Balancing figure	1 475 000	☑
Prime Cost	Operation	3 235 000	☑
Factory Overhead Cost (327 000✓ + 10 000✓)		337 000	✓
Total Cost of Production	Operation	3 572 000	☑
Work-in Process at the beginning of the year		37 600	✓
		3 609 600	
Work-in Process at the end of the year		(84 600)	✓
Cost of Production of Finished Good		3 525 000	☑
	(315 000✓ + 3 337 000✓ – 127 000✓)	Operation one part correct	

15

2.1.2 **Calculate the Net profit**

Sales		6 390 000✓
Cost of sales		(3 337 000) ✓
Selling and distribution cost		(603 000) ✓
Administration cost		(810 000) ✓
Net profit	Operation one part correct	1 640 000☑

OR

$$6\,390\,000 - 3\,337\,000 - 603\,000 - 810\,000 = 1\,640\,000$$

5

2.2.1 **Calculate the break-even point for the year ended 28 February 2019.**

$$\frac{348\,500 \text{ two marks}}{246\,000 \checkmark + 102\,500 \checkmark} \\ \frac{150 \checkmark - 70 \checkmark \checkmark}{80 \text{ three marks}}$$

4 356 or 4 357☑ units Operation one part correct

6

2.2.2 **Should the business be satisfied with the number of units that are currently produced? Explain.**

Any one explanation✓✓ Figure✓

Compare BEP with units produce and sold

see 2.2.1

They are producing 4 100 and the break-even is 4 356/4 357 units.

OR

Produce 256/257 units less than what is required to break-even.

3

2.2.3 Despite the fact that there was an increase in the price of direct material, the direct material cost per unit decreased from R32 to R27. Give TWO valid reasons for the decrease.

Any two valid points ✓✓ ✓✓

- Better training of workers resulted to less wastage.
- Raw material obtained at a cheaper price.
- Greater care or efficiency in the use of raw material resulted to less wastage.
- Tighter control over use of raw material.

Award **one mark** for the following response

- Training of workers.
- Less wastage.

4

2.2.4 Despite the fact that there was no increase in wages during the year, the direct labour cost per unit increased from R20 to R28. Give a valid reason for the increase.

Any valid point ✓✓

- More overtime
- Decrease in productivity, working slower, demotivated or lazy workers
- Poor supervision of workers.
- Unproductive workers due to power cuts

2

TOTAL MARKS
35

QUESTION3**3.1**

3.1.1	Shareholders	✓	
3.1.2	Directors	✓	
3.1.3	External Auditor	✓	do not accept auditor

3

3.2

Net profit before tax		1 449 200	
Directors fees (625 000✓ – 25 000✓)		(600 000)	✓
Packing material (12 000✓ x 80/20✓)		(48 000)	✓
Bad debts (1 200✓ - 480✓)		(720)	✓
Rent income (177 600✓ – 26 400✓)		151 200	✓
Salaries		55 820	✓✓
Operating profit before interest expense		1 007 500	✓
Interest expense		(157 500)	✓
Net profit before tax	Operation one part correct	850 000	✓
Income tax		(255 000)	✓
Net profit after tax	Operation	595 000	✓

Accept brackets instead of – If no sign, assume + Positive/negative effect & figure must be correct Foreign entries -1 (max -2)

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3.3.1

Trade and other receivables			
Trade debtors (44 800✓ – 1 200✓ + 1 000✓)		44 600	✓
Provision for bad debts		(1 700)	✓
Net trade debtors	Operation one part correct	42 900	✓
Prepaid expense (Directors fees) See 3.2		25 000	✓
SARS Income tax (267 000✓ – 255 000✓)	See 3.2	12 000	✓
	Operation one part correct	79 900	✓

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3.3.2

Retained income			
Balance at the beginning (130 000 ✓+ 79 000✓)		209 000	✓
Buy-back of shares (20 000✓ X 3.95✓)		(79 000)	✓
Net profit after tax See 3.2		595 000	✓
Dividends Operation one part correct		(190 820)	✓
Paid / interim		55 820	✓
Final/ recommended (180 000✓ X 0.75✓)		135 000	✓
Balance at the end of the year Operation		534 180	✓

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NSC

3.4 Balance Sheet (Statement of Financial Position) on 28 February 2019.

Asset			
Non current assets	TA – CA	2 607 300	3
Tangible assets	Balancing figure	1 907 300	
Fixed deposit		700 000	
Current assets	Operation	185 800	7
Inventory (92 400 ✓ + 12 000 ✓)		104 400	
Trade and other receivables	See 3.3.1	79 900	
Cash and cash equivalent		1 500	
Total assets	(Total equity + liabilities = Total asset)	2 793 100	
Equity and liabilities			
Shareholders' equity	operation	1 443 180	3
Ordinary share capital		909 000	
Retained income	see 3.3.2	534 180	
Non current liabilities		780 000	3
Loan (1 140 000 – 360 000 ✓ ✓)		780 000	
Current liabilities	operation	569 920	13
Trade and other payables (43 000 ✓ + 26 400 ✓ + 1 000 ✓ + 3 000 ✓ See 3.2		73 400	
Current portion of loan	see NCL	360 000	
Shareholders for dividends	see 3.3.2	135 000	
Bank overdraft (5 000 ✓ – 480 ✓ – 3 000 ✓) or (- 5000 + 480 + 3 000)		1 520	
Total equity and liabilities	operation	2 793 100	29

TOTAL MARKS

75

QUESTION 4

4.1 Choose a term from COLUMN B that matches the description in COLUMN A. Write only the letter (A–D) next to the question number

4.1.1	D	✓
4.1.2	C	✓
4.1.3	B	✓

3

4.2.1 Notes to the Financial Statements

	Calculations	Answer
2	A. 1 900 000 – 1 100 000	800 000 ✓✓ no part marks
7	B. Vehicle 1 One mark 500 000 x 20/100 = 100 000 but only 49 999 ✓✓	185 624 ✓ One part correct
	Vehicle 2 437 500 x 20/100 x 9/12 65 625 ✓✓	
4	Vehicle 3 350 000 x 20/100 70 000 ✓✓	
3	C. 437 500 ✓ – (87 500 ✓ + 65 625 ✓) 153 125 two marks See B	284 375 ✓ One part correct
	D. 300 000 – 120 000 = 180 000 ✓ – 81 000 ✓	99 000 ✓ One part correct

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4.2.2 Ordinary share capital

Authorised 2 000 000 shares

Issue

800 000	Shares issued at the beginning @ R7	5 600 000
200 000	shares issued during the year @ R9.80	1 960 000 ✓
(120 000) ✓	Buy-back of shares at R7.56 ✓	(907 200) ✓
880 000 ✓	Shares issued at the end Operation	6 652 800 ✓

6

4.2.3 Calculations of figures to appear in the Cash Flow Statement

Calculations	Answers
<ul style="list-style-type: none"> Dividends paid + 230 000 ✓ + 514 000 ✓ – 290 000 ✓ 224 000 two marks Operation one part correct – 230 000 – 514 000 + 290 000 choose the line 	454 000 ✓
<ul style="list-style-type: none"> Tax paid + 243 000 ✓ – 28 000 ✓ – 45 000 ✓ Operation one part correct – 243 000 + 28 000 + 45 000 choose the line 	170 000 ✓

4

4

4.2.4	Cash flow from financing activities		
	Proceeds on shares issued	1 960 000	✓
	Buy back of shares (120 000 X 10)	(1 200 000)	✓✓
	Changes in loan	340 000	✓
	Operation one part correct	1 100 000	☑

5

4.2.5 The directors have taken significant decisions which will be reflected in the Cash Flow Statement. Identify TWO of these major decisions and quote figures. In each case give one consequence of the decision to the business.

Any two valid decisions and consequences		Consequence marked with a decision	
Decision ✓	Figure ✓	Consequences ✓	
Proceed on shares issued by R1 960 000		To finance the purchases of fixed assets and to finance the repurchased shares.	
Purchases of fixed assets by R 1 270 000		Productivity will increased and the business will have more fixed assets	
Buy-back of shares by R 1 200 000		To reduce the dividends and shareholders' equity. Improve NAV/EPS.	

6

4.2.6 Percentage Operating Profit on Sales

$$\frac{952\,000}{3\,400\,000} \times \frac{100}{1}$$

= 28% ☑ operation one part correct

3

4.2.7 Briefly explain ONE consequence that might be faced by directors and ONE consequence for majority shareholder.

Any valid point ✓✓ ✓✓

Directors

- Directors might lose their job.
- Lose customer or investors because of the fraud/tarnished image.
- Directors might lose trust from minority shareholders.

Majority shareholder

- Shares will lose value in JSE.
- Business can be liquidated.

4

4.3.1

Your friend is of the opinion that the liquidity position of Westland Ltd. is better than that of Northwood Ltd. Quote TWO financial indicators (with figures) to support her opinion.

Quote TWO financial indicators.

Candidate must compare both companies

Any two financial indicators ✓✓ Figures for both companies ✓✓ Explanation ✓✓

- Current ratio of Northwood Ltd is 3,6 : 1 and Westland Ltd. is 2,4 : 1
- Acid-test ratio of Northwood Ltd is 0,6 :1 and Westland Ltd. is 1,2 : 1
- The stock turnover rate of Northwood Ltd. is 4 times and Westland Ltd. is 8 times

Explanation

- Westlands Ltd. has a better current ratio and is able to cover current liabilities whereas Northwood Ltd's. ratio is too high – funds tied up in stock (current assets)/not used profitably
- Westlands Ltd. has a better Acid-Test Ratio than Northwood Ltd. Northwood Ltd. has too much stock on hand which resulted in the poor Acid-Test Ratio
- Westlands Ltd. is selling its stock faster (8 times) during the year as compared to Northwood Ltd. (4 times).

6

4.3.2

Northwood Ltd. paid off a large portion of its loan during the financial year. Quote TWO financial indicators with relevant figures to show why this was not a good decision taken by the directors.

Financial indicators and figures ✓✓ ✓✓

Valid comment ✓✓

Relevant financial indicators:

Debt: equity is 0,2 : 1

ROTCE: is 18,4%

Comment

The company is at low risk. Therefore there was no need to pay a large portion of the loan.

It is also positively geared. The ROTCE (18,4%) is higher than the interest rate of 10,5%.

6

NSC

4.3.3 Will the shareholders be satisfied with the price at which the new shares were issued for both companies? Explain. Quote relevant financial indicators and figures for each company.

	Northwood Ltd.	Westland Ltd.
Yes/No	NO	YES
Relevant indicator and comment	They sold the shares at 260 cents under the market price (450 cents compared to 710 cents).	They sold the shares at 290 cents above the market price (1200 cents compared to 910 cents).
Explanation ✓ ✓	Selling price is also 85 cents less than the NAV of 535 cents.	Selling price is also 80 cents more than the NAV of 1 120 cents.
Figures ✓ ✓	Existing shareholders are being disadvantaged (260 x 189 000= R491 000). Could have raised more money if they increased the price	Existing shareholders and directors should be happy to raise additional income (280 x 189 000= R529 200).
Must indicate MP & NAV		

4

4.3.4 Your friend owns 30 000 shares in each of the companies.

	Northwood Ltd.	Westland Ltd.
Calculate the dividends that he earned from each company.	30 000 x R2,30 = R69 000 ✓	30 000 x R2,45 =R73 500 ✓
Compare and comment on the dividend pay-out policies of the two companies. Provide calculations in your explanation.	DPS 230 cents EPS 350 cents Distributes 66% ✓ (230/350) of earnings. OR Northwood Ltd. decided to retain 34% of its EPS.	DPS 245 cents EPS 285 cents Distributes 86% ✓ (245/285) of earnings. OR Westland Ltd. decide to retain only 14% of its EPS.
Explain ONE reason for the dividend pay-out of each company.	Northwood Ltd. appears to have plans for growth (better long-term benefits) / equalisation of dividends over time. ✓✓	Westland Ltd. appears to keep shareholders satisfied by giving them good dividends. ✓✓

8

TOTAL MARKS

75

QUESTION 5

5.1.1 Calculate the closing stock for memory stick using weighted average method.

$$\frac{12\,000\checkmark + 56\,640\checkmark - 3\,400\checkmark - 1\,440\checkmark + 1\,675\checkmark}{100\checkmark + 420\checkmark - 25\checkmark - 10\checkmark}$$

five marks

$$\frac{65\,475}{485}$$

four marks

R135 **nine marks** x 51 = R6 885 Operation one part correct Multiplied by 51 for a method mark

10

5.1.2 Themba Zondi suspects that memory sticks are being stolen. Show calculations to support his suspicions.

$$(420 + 100)\checkmark - (25 + 10)\checkmark - 427\checkmark - 51\checkmark = 7\checkmark$$

Operation one part correct

5

5.1.3 Calculate the stock holding period in days for memory sticks.

$$\frac{\frac{1}{2}(12\,000\checkmark + 6\,885\checkmark)}{58\,590\checkmark} \times \frac{365}{1} \quad \text{OR} \quad \frac{\frac{1}{2}(100 + 51)}{427} \times \frac{365}{1}$$

See 5.1.1

59 days Operation one part correct

64,5 days One method mark

4

5.1.4 Suggest TWO (separate) internal control measures that Themba Zondi can introduce to prevent the stock losses.

Any valid point

- Improve or step-up security measures.
- Train security personnel.
- Conduct regular checks at exit point.
- Rotate and divide duties / responsibility among staff.
- Conduct regular stock counts and inspection of stock register.

2

NSC

5.2.1 Calculate VAT payables to or receivable from SARS in respect of calculators. Note that sales include VAT while purchases do not include VAT. Round off your calculations to nearest rand.

	VAT Inclusive	VAT Exclusive	VAT
Purchases		1 515 000	227 250
Returns to suppliers		84 000 ✓	(12 600) ✓
Sales	2 306 900 ✓		(300 900) ✓
Returns by debtors	19 550 ✓		2 550 ✓
Payables ✓		Operation one part correct	(83 700) ✓

8

5.2.2 Themba Zondi intends to deliberately reduce the sales amount when completing the VAT returns so as to reduce the amount of VAT payable to SARS.

What advice you provide to the owner regarding his intentions?
Provide ONE point of advice.

Any valid point ✓✓

- It is illegal to reduce the sales amount/ change the price.
- It is unethical to manipulate the sales figures.
- It is a criminal offence

2

5.3 PROBLEM SOLVING

You are provided with information relating to Leno Stores. They sell tents, chairs and tables for cash only. The owner is concerned that the figures provided reflect poor internal control and decision-making.

Identify ONE problem for each product. Quote figures. In EACH case, give advice on how to solve the problem.

Product	Problem Figures Comparison figures not necessary	Advice
Tents	Stolen tents 20 which leads to loss of income of R30 000	Improve physical security Regular stock counts Check points at doors.
Chairs	Missing money Total sales: R1 984 400 but only R1 800 000 banked (R184 400) cash missing	Division of duties (banking) Documentation Request bank notification for transactions (sms, whatsapp, emails).
Tables	Too much stock on hand 250 whilst sales is only 500 for the year. $250/500 = 5$ months; Slow movement of goods only 67% of available stock sold i.e. $500/750$	Reduce the selling price to increase sales More effective advertising Consider discontinuing the product Purchase these goods according to order.

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TOTAL MARKS

40

QUESTION 6

6.1 List TWO items on the Projected Income Statement provided, that would not appear on a cash budget.

Any two valid points ✓ ✓

Cost of sales
Discount received
Depreciation
Trading stock deficit

2

6.2 A. Advertising

132 000 X 2%

= R 2 640 ✓ Operation one part correct

2

B. Net profit after tax

17 625 ✓ – 585 ✓ – 5 112 ✓ = R11 928 Operation one part correct

4

6.3 Calculate the cost of sales for May 2019. Refer to information C and H.

$51\,000 \times \frac{100}{80}$

= 63 750 Operation one part correct

2

6.4 Creditor's payment schedules.

Month	Credit purchases	July	August	September
May	51 000	48 960	-	-
June	55 000		52 800	-
July	49 200 ✓✓		If 96% of July	47 232 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>

4

6.5.1 The percentage increase in wage that the cleaners will receive in September 2019.

$$\frac{176 \text{ one mark}}{(3\,376 - 3\,200) \checkmark} \times 100$$

$$\frac{176}{3\,200 \checkmark} \times 100$$

$$= 5.5\% \checkmark \text{ Operation one part correct}$$

3

6.5.2 The monthly salary due to the sales manager in September 2019.

$$(17\,100 - 300) / 2 = (8\,400 \checkmark + 300 \checkmark) \times \frac{108 \checkmark}{100}$$

$$= 9\,396 \checkmark \text{ Operation one part correct}$$

OR $8\,700 \times 1.08 = 9\,396$

Two marks One mark One method mark

4

6.5.3 The total credit sales expected in September 2019.

$$(99\,000 \times 160\%) \checkmark \times 75\% \checkmark = 118\,800 \checkmark \text{ Operation one part correct}$$

OR

$$132\,000 \times 120\% = 158\,400 \times 75\% = 118\,800$$

One mark One mark One method mark

OR

$$3\,168 / 2\% = 158\,400 \times 75\% = 118\,800$$

One mark One mark One method mark

3

6.5.4 The loan balance on 1 August 2019.

$$(585 \checkmark \times \frac{1\,200 \checkmark}{9}) = 78\,000 \checkmark \text{ Operation one part correct}$$

OR

$$585 \times 12 = 7020 \times 100 / 9 = 78\,000$$

One mark One mark One method mark

3

6.6 Refer to the actual figures for Depreciation and Trading stock deficit for July 2019. In each case, provide a reason for the difference with the budgeted figures.

Any valid point ✓ ✓

Depreciation:

- Purchases of a new asset.
- Calculation error.

Trading stock deficit

- Unanticipated stock loss.
- Random stock take revealed stock shortage.
- Damaged goods noted and taken into account.

2

6.7 Refer to the actual figures for July 2019. Comment on any TWO expenses (excluding items mentioned in QUESTION 6.6) that were not well controlled by the business. In each case, quote the relevant figures and give ONE suggestion on how this expense can be more effectively managed.

EXPENSE	COMMENT(WITH FIGURE)	SUGGESTION
<p>Any two:</p> <p>No mark for expenses</p>	<p>Comment and figure ✓✓ each</p>	<p>Suggestion ✓ each</p>
Maintenance	Over budget / underspent. (4 000 – 1 650)	Adjust budget or use the money wisely to maintain the assets. This could extend the lifespan and productivity of the assets.
Telephone	Overspent / under budgeted (2 000 – 4 280) over 50%	Control / usage or check for misuse. Budget correctly if found to be necessary.
Advertising	Underspent / over budgeted (2 400 – 1 968)	Spend money allocated. Look at different forms of advertising may result in better sales / profit

6

TOTAL MARKS
35