

ACCOUNTING

PREPARATION FOR GRADE 12



ACCOUNTING PREPARATION GR 12

<p>Bank reconciliations</p> <ul style="list-style-type: none"> • Analysis & interpretation of bank statements and bank reconciliation statements
<p>Debtors' and creditors' reconciliation</p> <ul style="list-style-type: none"> • Analysis & interpretation of control accounts • Reconciliation of debtors' & creditors' statements / accounts • Age analysis
<p>Ethics</p> <ul style="list-style-type: none"> • Ethics relating to debtors & creditors – payment periods, interest, credit ratings, fraud, etc. • Ethics relating to banking environment – fraud, money laundering, tax evasion
<p>Internal control & internal audit</p> <ul style="list-style-type: none"> • Internal audit processes & internal control over debtors, creditors, cash receipts & payments • Role of completing debtors', creditors' and bank reconciliations in internal auditing • Audit evidence, results & reports • Accountable management of debtors, creditors & cash
<p>Companies - concepts</p> <ul style="list-style-type: none"> • Public & private companies • Establishment • Shareholders • Share capital • Share premium • Dividends • Retained income •
<p>Companies – recording of information</p> <ul style="list-style-type: none"> • Subsidiary journals • Ledger accounts <ul style="list-style-type: none"> ○ Ordinary share capital ○ Ordinary share premium ○ Shareholders for dividends ○ SARS: Income tax ○ Ordinary share dividend ○ Income tax
<p>Companies – accounting equation</p> <ul style="list-style-type: none"> • Effect of transactions on accounting equation
<p>Companies – final accounts</p> <ul style="list-style-type: none"> • Adjustments relating to companies <ul style="list-style-type: none"> ○ Income tax ○ Dividends ○ Retained income • Final accounts <ul style="list-style-type: none"> ○ Trading account ○ Profit & loss account ○ Appropriation account • Closing transfers

Companies – GAAP

- Accounting / Financial period
- GAAP principles
 - ▪ Historical cost principle
 - ▪ Matching & accrual principle
 - ▪ Prudence principle
 - ▪ Going concern principle
 - ▪ Consistency principle
 - ▪ Materiality principle
 - ▪ Business entity principle

Companies – financial statements

- Year-end adjustments
 - Income tax
 - Dividends
 - All Gr. 10 & 11 adjustments
- Reversal of year-end adjustments

- Income statement

- Balance sheet

- Notes to financial statements

Companies-

- Cash Flow Statement
- Notes to the cash flow statement

Companies – interpretation of financial statements

- Profitability
 - Gross profit on sales
 - Gross profit on cost of sales
 - Operating expenses on sales
 - Operating profit on sales
 - Net profit after tax on sales
- Liquidity
 - Acid test ratio
 - Current ratio
 - Rate of stock turnover
 - Number of months stock on hand
 - Average debtors' collection period
 - Average creditors' payment per.
- Solvency
 - Solvency ratio
- Return
 - Return on shareholders equity
 - Net asset value per share
 - Dividends per share
 - Earnings per share
- Risk
 - Debt/equity ratio (gearing)

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<p>Companies published financial statements</p> <ul style="list-style-type: none"> ▪ Analyse published statements of companies ▪ Analyse audit reports of companies
<p>Companies – internal control & - audit</p> <ul style="list-style-type: none"> • Internal audit processes & internal control • Audit evidence • Audit samples • Sampling techniques • Report on internal audit results • Interpretation of internal audit reports • Accountable management of resources •
<p>Companies – ethics</p> <ul style="list-style-type: none"> • Ethics relating to companies – integrity, credibility, accountability, • King Code – Corporate governance • Disciplinary procedures <p>*employer & employees *Labour Relations Act</p> <ul style="list-style-type: none"> • Legislation – Companies Act • Professional bodies <p>* SAICA, * SAIPA * IRBA * IFRS</p> <ul style="list-style-type: none"> • HIV awareness
<p>Budgets (sole trader)</p> <ul style="list-style-type: none"> • Prepare cash budget (revision grade 11) • Prepare projected income statement (revision grade 11) • Analyse & interpret: (grade 12) <ul style="list-style-type: none"> ○ Projected income statement ○ Cash budget ○ Debtors' collection schedule ○ Creditors' payment schedule
<p>Ethics</p> <ul style="list-style-type: none"> • Ethics relating to budgeting and projections – consideration of stakeholders, etc.
<p>Internal control & internal audit</p> <ul style="list-style-type: none"> • Internal audit processes & internal control relating to budgeting & projections – variance analysis • Audit evidence, results & reports • Accountable management of budgets
<p>Value Added Tax</p> <ul style="list-style-type: none"> • VAT calculations • Ledger accounts: <ul style="list-style-type: none"> ○ VAT Input ○ VAT Output ○ VAT Control • VAT returns
<p>Ethics</p> <ul style="list-style-type: none"> • Ethics relating to VAT – effect on population, VAT fraud, etc.

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<p>Internal control & internal audit</p> <ul style="list-style-type: none"> • Internal audit processes & internal control relating to collection of VAT from customers and payment of VAT to SARS • Audit evidence, results & reports • Accountable management of collection and payment of VAT
<p>Non-current assets</p> <ul style="list-style-type: none"> • Interpret & report on results of asset movement • Age of assets • Replacement rate • Life span of assets
<p>Inventory valuation methods</p> <ul style="list-style-type: none"> • Weighted average method • FIFO method
<p>Ethics</p> <ul style="list-style-type: none"> • Ethics relating to assets – fraud, theft, misappropriation, etc. • Ethics relating to inventory – quality, pricing, fraud, theft, misappropriation, etc.
<p>Internal control & internal audit</p> <ul style="list-style-type: none"> • Internal audit processes & internal control over assets and inventory • Audit evidence, results & reports • Accountable management of assets and inventory
<p>Manufacturing</p> <ul style="list-style-type: none"> • General ledger accounts <p>(Revision grade 11 work)</p> <ul style="list-style-type: none"> • Production cost statement & notes • Trading statement • Profit & loss statement • Calculate & interpret: <ul style="list-style-type: none"> ○ Gross profit & net profit ○ Break-even point ○ Total cost of production ○ Marginal cost ○ Unit cost
<p>Ethics</p> <ul style="list-style-type: none"> • Ethics relating to manufacturing – product quality, raw materials, support for local products, pricing, fraud, theft, etc.
<p>Internal control & internal audit</p> <ul style="list-style-type: none"> • Internal audit processes & internal control • Audit evidence, • Audit samples • Sampling techniques • Report on internal audit results • Interpretation of internal audit reports • Accountable management of resources

GETTING READY FOR THE GRADE 12 END YEAR EXAM!!!!

This is summary of possible content that can be examined. This is according to the workschedules provided to the teachers by die Department of Education.

QUESTIONPAPER: 300 MARKS; 3 HOURS (that means 1,67 marks/minute)

WHEN YOU STUDY YOU NEED TO PRACTISE DOING QUESTIONS AGAINST TIME. IF YOU PRACTICE AGAINST TIME YOU WILL MOST PROBABLY BE ABLE TO FINISH YOU QUESTION PAPER IN TIME!!!!!!!

GENERAL TIPS ON ANSWERING AN ACCOUNTING QUESTION PAPER:

- 1 Make sure you keep to the allocated time indicated in the question paper.
- 2 Keep a digital watch close, to know exactly how much time is available
- 3 Use you reading time to plan answering you paper
- 4 Decide the order in which you are going to do the questions
- 5 You don't necessarily need to start with question 1. Usually question 1 is a more difficult question and it tend to make you nervous.
- 6 When you feel stressed, close your eyes and focus for a minute of two.
- 7 Don't change your answers, unless you are 100% sure that you did it wrong. Most of the time the first answer you wrote is the correct one.
- 8 You are allowed to use a dark, soft pencil. Make use of this option, because using tippex messes everything up.
- 9 Show all your calculations, even the most obvious ones
- 10 Bring an extra calculator, pencil etc
- 11 Use your own calculator, because you can waste your time by using a calculator you are not use to
- 12 Start with the question you know how to do , to built your confidence
- 13 **READ,READ,READ.** Don't predict what you think the examiner wanted to ask. Some answers are straight forward, don't start looking for a catch.

IMPORTANT TIPS ON ANSWERING LEDGER ACCOUNT QUESTIONS:

- Fill in your formats. You can study formats. You will get marks for it.
- After filling in your formats match the amounts.
- You need to know the ledger even if it is not asked directly. The information can be used in other calculations
- Always balance your accounts – possible method marks
- Fill in you dates and folios
- Important ledger accounts include:
 - Company
 - Ordinary share capital
 - Ordinary share premium
 - SARS(income tax)
 - Shareholders for dividends
 - Income tax
 - Ordinary share dividends
 - Appropriation account
 - Other ledger accounts
 - Control accounts
 1. Trading inventory
 2. Debtors control
 3. Creditors control
 - VAT input
 - VAT output
 - VAT control
 - Closing accounts
 1. Trading account
 2. Profit & loss account
 3. Appropriation

Some of the accounts can be use to get missing amounts for example you can use the appropriation account to calculate the unknown profit before tax, income tax and dividends in the Cash flow statement.

GUIDELINES ON ANSWERING QUESTIONS ON STATEMENTS:

- Know the formats of the following statements:
 - Income statement
 - Balance sheet with notes
 - Cash flow statements with notes
 - Bankreconsiliation statement
 - Debtors reconciliation statement
 - Creditors reconciliation statement
 - Production cost statement with notes
- Sometimes the formats are provided on the answersheet, but you never know, rather study it by heart.

- Sometimes you need to be able to do the statements without writing down the notes. That means you still need to know the notes, otherwise you won't be able to do the calculations.
- Answer the statement part by part. Don't write out the whole format without amounts. No marks will be allocated for wording. Amounts will be marked.

GUIDELINES IN ANSWERING QUESTIONS ON ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

- Make sure you know the formats of the financial statements to make it easier in getting amounts faster.
- Know your formulas, norms and interpretation (what it indicates)
- Remember to use the appropriate units for example %, times, days, months and R.
- You don't need to write down the formulas – no marks are allocated. If you want to write it down use abbreviations to save time.
- When interpreting use short, meaningful sentences. Don't repeat yourself.
- Example of interpretation: The Ratio increase/decrease from ...:1 to ...:1. It is above/under the norm of That means.....
- Don't use long paragraphs if the question counts for example 2 marks. Have a look at the mark allocation to get an indication of how much you need to write
- Don't use irrelevant indicators when answering a question. For example if the question is on liquidity, don't write something about profitability. Focus on what was asked.

THEORY QUESTIONS:

The last few years a lot of theory questions were part of the question paper

Study your theory.

- Know the concepts unique to a company (par value; premium ect.)
- Know the GAAP concepts and be able to apply in case studies.
- Read the King Code properly.
- Know what the abbreviations of the professional bodies stand for and what their role/goals are
- Know your VAT theory and which items are exempted etc.
- Know the ways in which sampling is done and what the information on a audit report indicate.
- Know the terms unique to manufacturers: direct cost, indirect costs, fixed costs, variable costs, factory overheads etc.

- Know how to handle disciplinary issues in the workplace
- Think of creative ways to determine control over stock, cash, assets etc.

GENERAL:

1 DEBTORS AND CREDITORS:

- Age analyses : look at the date on the invoice to determine the terms: current; 30 days;60 days and 90 days.
- Think outside the box on how you can encourage to pay on date.
- Know how to identify fraud relating to debtors and creditors.

2 COMPANY:

- A big part of your question paper will be examining Companies.
- You can always be sure there will be a cash flow statement or part of it.
- Use relevant calculations – also use you ledgers, it helps a lot
- Year end adjustments include the following:
 - Bad debts
 - Depreciation
 - Accrued income
 - Income received in advance
 - Accrued expense
 - Prepaid expense
 - Trading stock deficit (continuous system)
 - Provision for bad debts
 - Consumables on hand
 - Income tax
 - Dividends (interim and final)
- Do a lot of exercises on adjustments. It makes it much easier if you know all the manners in which adjustments can be given.
- Have a look at published statements of actual companies (available on internet or in newspapers) It is possible that questions on published statements are asked and then you at least know what it looks like.

3 BUDGETS

- In Gr 12 you need to be able to interpret cash budgets and projected income statements.
- Calculations on sales/cost of sales; credit/cash purchases; % increase/decrease in income/expenses are important
- You must be able to read information from the budget and give practical suggestions.
- Know how to calculate discounts relating to debtors and creditors in the context of the schedules

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- Know the difference between items that will be recorded in the income statement and items that will be present in the budget.

4 VAT

- Know the difference between VAT inclusive(114) and VAT exclusive(100)
- Be able to calculate VAT in the journals.
- Know the formats of the ledger accounts.

5 FIXED ASSETS

- Asset disposal can have an effect on more than one question. For example at the Income statement, Balance sheet, Cash flow statement and budgets.
- Know the steps of asset disposal
 1. Write off the cost price
 2. Calculate additional depreciation
 3. Write off the total depreciation
 4. Record the saels transaction
 - a. Cash – bank
 - b. Credit – debtors control
 - c. Trade in– creditors control
 5. Calculate profit/loss on asset disposal
- Know the relevant ledger accounts i.e
 1. Accumulated depreciation
 2. Asset disposal
 3. Vehicles/Equipment
- Know the FIXED ASSETS NOTE(NOTE 3 in Balance sheet)
This note can be used in more than 1 question (in financial statements, cash flow ect.

6 STOCK VALUATION:

- Know the difference between the INVENTORY SYSTEMS:
Continuous inventory/ periodic inventory
Know the advantages/disadvantages etc.
- Know the difference between the STOCK VALUATION METHODS
First in first out (FIFO)
Weighted average
- Know how to calculate the following:
Cost of sales of available items
Cost of sales of of sold items
Value of stock on hand
- Value of stolen/damaged stock

7 MANUFACTURING ENTERPRICES:

- They don't necessarily examine the ledger accounts, but you need to know where everything fits in.
- Usually you get a question on the production cost statement with notes or parts of it.
- Show your calculations properly.
- Do exercises on the different manners in which adjustments and calculations can be questioned.
- Make sure you know your terminology and the difference between direct costs, overheads etc.
- Admin and sales expenses are not part of production costs, but must be taken into account when calculating fixed costs, variable costs and break-even point
- Know the formulas and how to explain it in words.

8 ETHICS

- Ethical issues can be questioned in any part of the question paper.
- Make sure you reason your opinion and answer with good explanations
- Read news papers ect to broaden your general knowledge
- Think outside the box

Question 1

INFORMATION:

Refers to Simpson Traders on 30 June 2010

- Net profit percentage before tax as a percentage on sales = 12%
- Income tax rate = 30% of profit before tax
- Earnings per share = 200 cents
- Number of shares issued = 21 000 ordinary shares
- The fixed deposit was invested on 1 June 2010 at an interest rate of 9% per annum
- Amount available for distribution = R61 470
- No interim dividends were declared or paid during the most recent financial year
- Acid test ratio = 1,4:1
- Current ratio = 2,2:1

(24)

24 marks; 14 minutes

Complete the missing amounts.

Name of Company: Simpson Traders Ltd

Income statement for the year ended 30 June 2010

Sales		?
Cost of sales		?
Gross income		?
Operating expenses		(31 200)
Directors fees	22 500	
Audit fees	1 200	
Depreciation	7 500	
Operating profit		?
Interest income		?
Profit before interest expense		?
Interest expense		(6 390)
Net profit before tax		
Income tax		?
Net profit after tax		?
Earnings per share		200 cents

Name of Company: **Simpsons Traders Ltd**

Balance sheet on 30 June 2010

	Note	
ASSETS		
Non-current assets		151 650
Fixed assets	3	91 650
Financial assets:		
Fixed deposit		?
Current assets		?
Inventory		?
Trade and other receivables		69 435
Cash and cash equivalents		45 540
TOTAL ASSETS		?
EQUITY AND LIABILITIES		
Capital and reserves		?
Ordinary share capital		?
Retained income		?
Non-current liabilities		102 000
Loan/Mortgage		102 000
Current liabilities		?
Trade and other payables		?
Shareholders for dividends		18 270
TOTAL EQUITY AND LIABILITIES		?

QUESTION 2

VAT and Tangible Assets [41 marks, 24 minutes]

Information

The following relates to Mashudu Stores Ltd, a registered VAT vendor.

- The Financial year ends on 28 February each year
- Vehicles are depreciated at 20% p.a. on the diminishing balance method.

A new bookkeeper was appointed on 1 October 2010. The previous bookkeeper had correctly processed all information up to the end of September, and had correctly closed off the two VAT accounts to the VAT Control Account.

The new bookkeeper was unsure of how exactly to post the VAT from the journals to the General Ledger and has presented you with the following two Ledger Accounts as they now appear in the General Ledger on 31 October 2010:

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Input VAT

2010 Oct	31	Creditors Control	CJ	9 873	2010 Oct	31	Bank	CPJ	8 925
							Creditors Control	CAJ	437

Output VAT

2010 Oct	31	Debtors Control	DAJ	376	2010 Oct	31	Bank	CRJ	12 085
		Debtors Control	DJ	11 004			Bad Debts	GJ	223

Transactions for October that the Bookkeeper did not know how to process and subsequently left out:

- On 1 October 2010 a delivery vehicle had been purchased from Hi-Way Motors on account for R159 600 inclusive of VAT. On the same day we traded-in one of the older delivery vehicles at an agreed price of R60 000 exclusive of VAT. This vehicle had been acquired on 1 March 2008 for R136 800 inclusive of VAT.
- A debtor, whose debt had previously been written off, sent us a cheque for R399.

Note: The bi-monthly VAT ends on 31 October 2010.

Use the information relating to Mashudu Stores Ltd to answer the following questions.

Required

2.1. Prepare the following General Ledger accounts for the year by making the necessary corrections and processing the VAT relating to the adjustments correctly. Balance/close off the accounts properly at the end October.

2.1.1. Input VAT	(8)
2.1.2. Output VAT	(11)
2.1.3. Asset disposal	(10) (29)

**General Ledger of Mashudu Stores Ltd
Input VAT**

Output VAT

Asset Disposal

2.2. Answer the following questions

2.2.1. The CEO of Mashudu Stores Limited has been approached by the Production Manager who has asked to use the new delivery vehicle for personal use over weekends. How would you advise the CEO concerning this matter?

(3)

The financial year end is 28 February 2011.

Additional information:

- The authorised share capital comprises 1 000 000 ordinary shares with a par value of R2,00 each. By 28 February 2010, 600 000 ordinary shares had been issued at par. During the current financial year, a further 200 000 shares were issued at a premium of 70 cents each.
- The following balances were extracted from the books of Grisham Ltd on 28 February 2011:

Land and Buildings at cost	R1 800 000
Equipment at cost	R 300 000
Creditor's Control	R 720 000
Debtor's Control	R 530 000
Creditors for Salaries	R 36 000
Accrued Income	R 24 000
Cash at Bank	R 66 000

- One of the fixed deposits, R 175 000, matures on 30 September 2011. The rest matures in 2013.
- A loan from South Bank of R 1 500 000 was originally received on 1 March 2009. This is to be paid in equal monthly instalments over 60 months.
- All of the equipment was purchased by the company on 1 October 2008. Depreciation is written off at 20% p.a. on cost price.
- The following financial indicators apply to the financial year ending 28 February 2011:
 - Net Asset Value per share R2,60
 - The Current Ratio is 1,5 : 1