

ACCOUNTING GRADE 12  
Paper 2

Time: 2 hours

100 marks

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PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This paper consists of 6 pages. Please check that your question paper is complete.
2. Read the questions carefully.
3. There is a **complete** Answer Book. There is a clearly marked page for each answer.
4. It is in your interests to write legibly and present your work neatly.
5. Show all calculations in brackets.
6. You may **not** use red or green ink. **You may use pencil, but please use a soft, dark pencil.**
7. No abbreviations are allowed.
8. The allocation of marks and approximate time to be taken for each question are as follows:

QUESTION	TIME	MARKS	SECTION	Learning outcomes and assessment standards
1	36 min	30	Cash budget	12.2.3. 12.3.4.
2	42 min	35	Bank reconciliations	12.1.4.
3	42 min	35	Asset disposal and internal auditing	12.3.3. 12.3.6.
<b>TOTAL</b>	<b>120 min</b>	<b>100</b>		

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**QUESTION 1****Cash budget****(30 marks, 36 minutes)**

You are provided with information of SP Hypermarket, a business owned by Simon Peter. Simon is concerned about his poor cash flow situation at the end of June. In order to rectify the situation, Simon plans to prepare a Cash Budget and to increase his mark-up percentage.

**Required:**

- 1.1. Complete the Cash Budget for July and August 2007 by filling in the spaces indicated with an asterisk (\*). Johnny has completed some of the figures for you. All calculations must be rounded off to the nearest rand. (6)
- 1.2. At the end of August the total sales for July and August are R380 000. Should Simon be satisfied with this? Explain, and state TWO factors that Simon should consider in assessing this figure. Quote figures/financial indicators to support your answer. (5)
- 1.3. The employees feel that the remuneration policy of this business is unfair, that is, they are not satisfied with their earnings. Do you agree with them? Provide figures from the question to determine whether their opinion is valid or not. State TWO reasons to support your answer. (5)
- 1.4. Name TWO strategies that Simon could consider in June to improve his cash flow for July and August. Give a reason for each strategy. (4)
- 1.5. Simon is thinking about organizing credit terms with his suppliers. What terms should he negotiate with his suppliers, in order to ease his cash position? (6)
- 1.6. Explain why you would expect this business to have a short stock turnover period. (4)

**Information:**

1. Simon currently uses a mark-up of approximately 52% on cost, but he plans to increase this to 70% from 1 July 2007.
2. Extracts from the ledger for the past year ended 30 June 2007:

Sales	R 2 332 800	(distributed evenly over the year)
Cost of sales	R 1 536 000	
Trading stock	R 324 000	
Loan from Boodle Bank	R 90 000	(interest rate 14% p.a.)
Bank overdraft	R 28 000	
3. Cash sales comprise 20% of all sales. Simon predicts total sales and cost of sales to be the following:

	July	August
Total sales	R221 000	R255 000
Cost of sales	R130 000	R150 000
Mark-up %	70%	70%

4. Purchase of trading stock:
  - Trading stock is kept at a constant level. (Purchases replace sales in the same month.)
  - All purchases of merchandise are for cash.
5. Loan from Boodle Bank:

The short-term loan was received on 30 June 2007. This is to be repaid in equal instalments over 24 months on the last day of each month. Interest at 14% p.a. is also paid on the last day of each month.
6. On 1 August 2007, the salary of the shop manager will increase by 11%, while the wages of the six shop assistants will increase by R120 each.
7. The debtors' collection period is usually 30 days.
8. The stock turnover period is usually 5 days.

30 marks
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**QUESTION 2****Bank reconciliations****(35 marks, 42 minutes)**

You are provided with the bank reconciliation statement of Tijuana Traders below. Study the statement and answer the questions that follow.

**BANK RECONCILIATION STATEMENT ON 29 FEBRUARY 2008**

Balance as per bank statement (Cr)	7600
Outstanding deposit	1450
Outstanding cheques:	
No. 5060	500
No. 7688	1220
No. 7689	980
Balance as per bank account	?

- 2.1. Calculate the balance of the bank account in the books of Tijuana Traders on 29 February 2008. Indicate whether this is a favourable or an unfavourable balance. (3)
- 2.2. Explain why an overdraft is shown as a debit balance in the bank statement and as a credit balance in the bank account. (2)
- 2.3. Tijuana Traders owes a supplier R10 500 for stock purchased on credit on 31 January. Assuming that the business has an overdraft facility with the bank of R5 000, can it afford to pay the supplier in full? Perform a calculation to support your answer. (4)
- 2.4. What would you advise Tijuana Traders to do about the outstanding amount due to the supplier? Justify your answer. (5)
- 2.5. Provide a possible reason for why the first outstanding cheque is numbered 5060 and the last two are consecutive. (4)
- 2.6. The office clerk of Tijuana Traders claims that she deposited the cheque for R1 450 that is reflected in the outstanding deposit before the end of the month. However, the manager of the business is worried that she may have stolen the cheque for herself and wants to fire her. Should he do so, in your opinion? Justify your answer with a valid reason. (3)
- 2.7. What action should the manager of Tijuana Traders take regarding the outstanding deposit? (2)
- 2.8. List four possible items that could appear on the bank statement but not in the journals, thereby requiring the journals to be updated. (4)
- 2.9. Provide three reasons for why a cheque could be dishonoured. (3)
- 2.10. Explain why a debit order is a convenient means of payment and provide an example of one payment that could be made using a debit order. (3)

35 marks
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### QUESTION 3 Asset disposal & internal auditing (35 marks, 42 minutes)

Sacks Limited recognises the importance of keeping their employees happy and motivated within the business. As part of their human resources maintenance strategy they allow their sales representatives to use a company car when on company business, and when the car has reached mileage of 80 000km gives them the option of buying the car they have used, at its carrying value in the company's accounting records.

This strategy has been enjoyed by employees for the past five years, but the directors are concerned that in the last financial year more vehicles than usual have been taken over by employees.

#### Required:

Consider the information given and answer the questions that follow.

#### Information:

1. Representatives travel approximately 18 000km to 20 000km per year.
2. Representatives complete a standard application form when they notice that the car has reached 80 000km if they wish to buy the vehicle. The application is read and filed by the asset manager and the accompanying payment banked. The employee is responsible for transferring the vehicle into their name.
3. Depreciation was adjusted to 25% p.a. on cost by the accountant, Andrew Munnik, as of the beginning of the previous financial year (1 January 2007). Before that vehicles were depreciated at 20% p.a. on carrying value.
4. The following applications to purchase vehicles were received from representatives during June 2008:

### Application to purchase vehicle

Employee: **Chido Chikumbu**

Application date: **2 June 2008**

Vehicle registration: **PKZ329GP**

Mileage: **82 000km**

Original purchase date of vehicle by the business: **1 January 2004**

Original cost of the vehicle: **R150 000**

Total depreciation to date: **R126 325**

Purchase price: **R24 675**

## Application to purchase vehicle

Employee: **Andrew Munnik**  
Application date: **28 June 2008**  
Vehicle registration: **VKS847GP**  
Mileage: **81 500km**  
Original purchase date of vehicle by the business: **1 January 2007**  
Original cost of the vehicle: **R200 000**  
Total depreciation to date: **R75 000**  
Purchase price: **R125 000**

## Application to purchase vehicle

Employee: **Nathalie Chevreau**  
Application date: **30 June 2008**  
Vehicle registration: **QZG368GP**  
Mileage: **80 200km**  
Original purchase date of vehicle by the business: **31 April 2004**  
Original cost of the vehicle: **R140 000**  
Total depreciation to date: **R?**  
Purchase price: **R57 500 (based on trade-in value)**

5. Nathalie was not sure how to work out the carrying value of her vehicle, and has offered an amount that she thinks fair based on the trade-in value of the vehicle according to her husband, who runs a car dealership. Accumulated depreciation on Nathalie's vehicle was shown in the accounting records as R114 846.

### Questions:

- 3.1. Carefully analyse the three applications received during June. Suggest possible irregularities and use these to comment on the application procedure. Highlighting any possible flaws and suggest possible controls that could be used. Make specific reference to the applications received during June 2008. (10)
- 3.2. Complete the asset disposal account for the sale of Nathalie's car by the business, clearly showing the profit or loss made on the sale. (9)
- 3.3. At what value would the business have sold the car to Nathalie, based on the business policy of selling vehicles at the carrying value as shown in the company's accounting records? (3)
- 3.4. What problem exists relating to the value at which the vehicles are sold to employees? Explain. (6)
- 3.5. Are the directors' concerns valid? Explain. (4)
- 3.6. Suggest TWO possible internal auditing (checking) procedures that could take place in this business to help prevent this type of problem occurring in the future. (3)

35 marks

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**ANSWER BOOK**

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PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This Answer Book consists of 6 pages. Please check that your Answer Book is complete.
2. There is a clearly marked page for each answer.
3. Make sure that your work is legible and comprehensible.
4. Show all your workings in brackets.
5. Do not abbreviate.
6. You may **not** use red or green ink, but you may use pencil.

QUESTION	MARKS	ACTUAL MARKS	Assessment standards focus
1	30		12.2.3.
2	35		12.1.4.
3	35		12.3.1.
<b>TOTAL</b>	<b>100</b>		

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**QUESTION 4**

**Cash budget**

**(30 marks, 36 minutes)**

4.1. SP Hypermarket

(6)

**Cash budget for July and August 2007**

<b>Receipts</b>	<b>July</b>	<b>August</b>
Cash sales	44 200	51 000
Debtors' collections	151 243	162 362
<b>Total receipts</b>	<b>195 443</b>	<b>213 362</b>
<b>Payments</b>		
Cash purchases	130 000	*
Loan repayment	3 750	3 750
Interest on loan	1 050	*
Salary: shop manager	6 000	6 660
Wages	12 000	*
Sundry expenses	5 000	5 000
<b>Total payments</b>	<b>157 800</b>	<b>179 136</b>
Cash surplus / shortfall	37 643	34 226
Opening bank balance	*	9 643
<b>Closing bank balance</b>	<b>9 643</b>	<b>43 869</b>

4.2. At the end of August the total sales for July and August are R380 000. Should Simon be satisfied with this? Explain, and state TWO factors that Simon should consider in assessing this figure. Quote figures/financial indicators to support your answer. (5)

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4.3. The employees feel that the remuneration policy of this business is unfair, that is, they are not satisfied with their earnings. Do you agree with them? Provide figures from the question to determine whether their opinion is valid or not. State TWO reasons to support your answer. (5)

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4.4. Name TWO strategies that Simon could consider in June to improve his cash flow for July and August. Give a reason for each strategy. (4)

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4.5. Explain why you would expect this business to have a short stock turnover period. (6)

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4.6. What is your opinion about Simon buying all his stock on credit? (4)

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30 marks
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**QUESTION 5**

**Bank reconciliations**

**(35 marks, 42 minutes)**

5.1. Calculate the balance of the bank account

(3)

5.2. Explain why an overdraft is shown as a debit balance in the bank statement and as a credit balance in the bank account.

(2)

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5.3. Can Tijuana Traders it afford to pay the supplier in full?

(4)

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5.4. What would you advise Tijuana Traders to do about the outstanding amount due to the supplier?

(5)

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5.5. Provide a possible reason for why the first outstanding cheque is numbered 5060 and the last two are consecutive.

(4)

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5.6. Should the manager fire the office clerk? (3)

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5.7. What action should the manager of Tijuana Traders take regarding the outstanding deposit? (2)

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5.8. List four possible items that could appear on the bank statement but not in the journals, thereby requiring the journals to be updated. (4)

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5.9. Provide three reasons for why a cheque could be dishonoured. (3)

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5.10. Explain why a debit order is a convenient means of payment and provide an example of one payment that could be made using a debit order. (3)

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35 marks

**QUESTION 6 Asset disposal & internal auditing (35 marks, 42 minutes)**

6.1. Comment on the application procedure. (10)

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6.2. Asset disposal (9)


6.3. At what value would the business have sold the car to Nathalie? (3)

6.4. What problem exists relating to the value at which the vehicles are sold to employees? Explain. (6)

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6.5. What fraud do you suspect as a result of your investigation? Explain. (4)

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6.6. Suggest TWO possible internal auditing (checking) procedures that could be implemented in Sacks Limited to help prevent this type of problem occurring in the future. (3)

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35 marks

## MEMORANDUM

**QUESTION 7**                      **Cash budget**                      **(30 marks, 36 minutes)**

7.1. SP Hypermarket

(6)

**Cash budget for July and August 2007**

<b>Receipts</b>	<b>July</b>	<b>August</b>
Cash sales	44 200	51 000
Debtors' collections	151 243	162 362
<b>Total receipts</b>	<b>195 443</b>	<b>213 362</b>
<b>Payments</b>		
Cash purchases	130 000	✓ <b>150 000</b>
Loan repayment	3 750	3 750
Interest on loan	1 050	✓✓ <b>1 006</b>
Salary: shop manager	6 000	6 660
Wages	12 000	✓✓ <b>12 720</b>
Sundry expenses	5 000	5 000
<b>Total payments</b>	<b>157 800</b>	<b>179 136</b>
Cash surplus / shortfall	37 643	34 226
Opening bank balance	✓ <b>28 000</b>	9 643
Closing bank balance	9 643	43 869

- 7.2. No. ✓ He expected total sales of R221 000 + R255 000 = R476 000 ✓✓. However, sales for the previous year were approximately R190 000 per month i.e. R380 000 over two months ✓✓. The drop in volume is probably due to the higher price as a result of the increased mark-up ✓✓. (5)
- 7.3. Yes ✓. The shop manager earns three times what each assistant earns (R 6 000 vs. R2 000 each) ✓✓, and he received an increase of 11% while they only received 6% ✓✓. (5)
- 7.4. Buy stock on credit – cash purchases figure will decrease and allow him time to sell the stock and receive payments from debtors before paying creditors. ✓✓  
Sell less on credit / shorten credit terms / offer discounts for early settlement – credit sales make up approximately 75% of sales and require working capital. Receiving cash sooner will improve his cash flow ✓✓.  
Injection of cash through the addition of a new partner etc. ✓✓ (4)
- 7.5. 30 days (debtors ) + 5 days (stock) = 35 days for which working capital is needed. ✓✓  
Any time more than this will allow him to finance debtors and cash through the use of creditors ✓✓  
Negotiate 60 days, common terms for suppliers, and giving him extra time to sell goods and collect cash if necessary ✓✓. (6)
- 7.6. This is a hypermarket ✓✓ that sells foodstuffs that are perishable ✓✓ (4)

30 marks
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**QUESTION 8****Bank reconciliations****(35 marks, 42 minutes)**

1. Bank balance = 7600 + 1450 – 500 – 1220 – 980 = R6 350 ✓✓ Dr (favourable) ✓ (3)
2. The bank statement is prepared from the point of view of the bank. An overdraft is a liability in our books (we owe the bank money), therefore a Cr balance ✓ while it is an asset to the bank (the bank is owed money), therefore a Dr balance ✓ in the bank's books. (2)
3. Yes ✓. R6 350 – R10 500 = (4 150) ✗✓. The bank balance will become negative, but Tijuana Traders will still be below his overdraft limit. ✓ (4)
4. (Higher order thinking). A well-reasoned answer is required that shows good understanding of the advantages and disadvantages of paying the creditor in full. One mark ✓ is awarded for a piece of advice and four ✓✓✓✓ for a good justification. Example answer:
- Tijuana Traders should pay back only a part of the amount owing . The interest rate on overdrafts is likely to be higher than that on outstanding accounts, especially since the amount is only one month overdue . Paying back the supplier in full will almost wipe out the overdraft on the very first day of the month, and the business may need cash for its day-to-day expenses . It may therefore be unnecessary to use the overdraft facility, unless there is a discount offered by the creditor for early payment, but this depends on the credit terms that are offered . Tijuana Traders might pay back part of the amount owing as a sign of good faith . (5)
5. (Higher order thinking). Either the business has written out over 2000 cheques this month or cheque 5060 has been outstanding for quite some time already ✓✓. The supplier might have forgotten to bank the cheque and it may soon become stale. ✓✓ (4)
6. (Higher order thinking). The manager is wrong to fire the secretary ✓ (one mark for the correct decision). It's quite possible that she did indeed deposit the cheque before the end of the month, but after the bank statement was printed ✓✓. (3)
7. (Higher order thinking). Any valid answer, e.g. the manager should keep track of the movements in his bank account to ensure that the deposit goes through ✓✓. (2)
8. Any four of: Bank charges ✓, debit orders ✓, electronic money transfers ✓, stop orders ✓, r/d cheques ✓ (4)
9. Any three valid reasons, such as: Insufficient funds ✓, error made on cheque ✓, drawer has died ✓, cheque not signed ✓, etc. (3)
10. A debit order can be used to make regular monthly payments without having to incur the inconvenience of going to the bank ✓✓. Example: monthly rent ✓ (3)

35 marks
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## QUESTION 9 Asset disposal & internal auditing (35 marks, 42 minutes)

- 9.1. There are too few controls in the application procedure ✓✓.  
 Mileage is not monitored or checked – this should be checked by looking at the mileage on the car's dashboard. ✓✓.  
 Andrew's mileage is very high compared to the usual mileage and that of Nathalie and Chido ✓✓.  
 Mileage on the application should be checked by looking at the mileage on the car's dashboard. ✓✓.  
 Calculation of purchase price is not checked or recalculated, but accepted at face value. This could lend itself to abuse ✓✓.  
 Andrew, as the accountant, implemented the depreciation policy exactly when his vehicle was bought by the business. This is a conflict of interest ✓✓.  
 The accountant is not entitled to have nor buy his car, as this policy is only for sales representatives ✓✓.  
 This policy should be enforced by including the employee's position on the application form ✓✓.  
 Each application is approved only by the asset manager, rather than being properly investigated and authorised ✓✓.  
 Applications should be properly investigated and signed off by at least two managers ✓✓.  
 Purchase price should be determined by the financial manager rather than being left to the employees to calculate ✓✓.  
 Transfer into the employees' names should be done by the business to ensure registration is done and figures on the application are correct ✓✓. (10)

9.2. Asset disposal (9)

2008 June	30	Vehicles ✓ Profit on sale of asset ✓	GJ GJ	✓140 000 <input checked="" type="checkbox"/> 32 346	2008 June	30	Accumulated depreciation on vehicles ✓ Bank ✓	GJ CRJ	✓114 846 ✓ 57 500 172 346
				172 346					<input checked="" type="checkbox"/>

- 9.3.  $140\ 000 \checkmark - 114\ 846 \checkmark = R25\ 154 \checkmark$  (3)
- 9.4. Depreciation is too high ✓✓.  
 Depreciation does not represent the actual loss in value of the asset ✓✓.  
 Financial statements are not showing real profit on the income statement nor fair value on the balance sheet (as required by International Financial Reporting Standards) ✓✓.  
 The carrying value of the vehicle is therefore shown as too low ✓✓.  
 The business is actually making large losses on these sales without realising it. ✓✓ (6)
- 9.5. Andrew is not entitled to buy a car, as he is not a sales representative ✓✓.  
 Andrew has ensured that the value of the car is very low so he does not have to pay a high price ✓✓.  
 He could also have misrepresented the actual mileage, as it is very high on his application form for such a new car ✓✓. (4)
- 9.6. The internal audit should check applications of this nature at random ✓✓ to ensure that the policies and controls (suggested above) are being implemented properly ✓. (3)

35 marks