

GRADE 12
MARKS: 200

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES:

- This paper consists of **8** pages. Please check that your question paper is complete.
- Read the questions carefully and only answer what is required.
- There is a complete Answer Book. There is a clearly marked page for each answer.
- You may not use green or red ink. **You are encouraged to use a pencil, but please use a soft, dark pencil.**
- It is in your interest to write legibly and to present your work neatly.
- **Show all calculations in brackets and in the space provided. DO NOT ABBREVIATE!**
- You are given a proposed time allocation in which to answer each question. Try not to deviate from it.

QUESTIONS	LEARNING OUTCOMES				COGNITIVE SKILLS					
	<u>LO 1</u> AS 1 AS 2 AS 5 AS 7	<u>LO 2</u> AS 2	<u>LO 3</u>	TOTAL	Knowledge	Understanding Comprehension	Application	Analysis	Synthesis	Evaluation
					1	2	3	4	5	6
Question 1 [35min]	62			62			22	10	30	
Question 2 [20min]	40			40	10	30				
Question 3 [20min]	36			36	10	18				8
Question 4 [27min]			37	37				10	27	
Question 5 [18min]	25			25			25			
TOTAL Marks	163		37	200	48	75	47	20	57	8
TOTAL %	81%		19%		58%			42%		
Targeted %	50-60%	20-25%	20-25%		60%			40%		

QUESTION 1**CASH FLOW STATEMENT****35 MINUTES****LO 1 Financial Information:***AS 5 Prepare the financial statements of a company, including notes.*

The following information was extracted from the records of **Magwani Ltd**.

The company is listed on the JSE. **Magwani Ltd** has an authorised share capital of 300 000 ordinary shares with a par value of R10 each.

The financial year of the business ends annually on 28 February.

Required:

- 1.1 Calculate the ordinary share premium for 2008. New shares were issued during the financial year. (5)
- 1.2 Calculate the following for the year ended 29 February 2008:
- Income Tax (5)
 - Depreciation (5)
 - Interest paid (7)
- 1.3 Prepare the Note for Reconciliation of profit before tax and cash generated from operations. (16)
- 1.4 Prepare the Cash Flow Statement for the year ended 29 February 2008. (14)
- 1.5 Answer the following questions: (10)
- 1.5.1 Analyse the main sources of cash for the company. Comment on your analysis. Also refer to the changes in working capital. (6)
- 1.5.2 Do you agree with the investment activities? Substantiate your answer. (4)

INFORMATION:

1. Post Closing Trial Balance for:

	29 February 2008	28 February 2007
Ordinary share capital	1 000 000	750 000
Ordinary share premium	?	200 000
Accumulated profit	235 000	220 000
Fixed Assets at carrying value	1 310 000	965 500

Trading stock	365 000	410 000
Debtors control	143 000	90 000
Accrued income	-	18 000
Prepaid expense (interest expense)	2 000	-
SARS : Income tax	18 000(Cr)	3 500(Dr)
Bank	70 000	11 000(Cr)
Cash Float	4 000	3 000
Creditors control	95 000	72 000
Income received in advance	11 000	8 000
Accrued expense (interest expense)	-	4 000
Shareholders for dividends	35 000	55 000
Loan	100 000	170 000

2. New shares were issued on 1 March 2007 at a premium of R8 per share.
3. Earnings per share for 2008 were 65 cents.
4. Income tax amounted to R22 700.
5. Interim dividend declared and paid was R15 000.
6. During the year fixed assets were purchased to the value of R575 000 and an old vehicle was sold at carrying value of R86 000.
7. Interest on overdraft was R500
8. The loan was decreased on 1 December 2007. Interest is calculated at 14% per annum.

62 MARKS

QUESTION 2**CLOSE CORPORATIONS****20 MINUTES****LO 1 Financial Information:***AS 2 Prepare and interpret CC ledger accounts.**AS 5 Prepare the financial statements of a close corporation, including notes.*

The given information appeared in the books of **EGOLI CC** with T Vorster and J Edwards as members. The corporation's financial year ends on 28/29 February each year.

Instruction:

2.1. Draw up the following ledger accounts, properly balanced or closed off on 29 February 2008:

- Members' contributions (6)
- Loan to J Edwards (4)
- Distribution payable to members (4)
- South African Revenue Services (income tax) (9)
- Rent expense: J Edwards (7)

Balance or close off the accounts on 29 February 2008.

2.2. Show only the **Equity and Non-current Liabilities sections of the Balance Sheet** on 29 February 2008. (Show calculations in brackets) (10)

INFORMATION:

Some of the balances which appeared in their books on 1 March 2007, the first day of a new accounting period, are as follows:

	R
Members contributions	135 000
Accumulated profits	51 000
South African Revenue Services (income tax)	17 850
Distribution payable to members	36 900
Loan from T. Vorster	31 500
Loan: East Cape Bank (18% p.a.)	20 000

Transactions:

2007

March 14 Paid the distribution due to members by cheque.

21 Received income tax assessment and paid amount due by cheque.

- May 8 T. Vorster purchased trading stock for the business, R22 500, while on a private visit to France. He requested that the amount must be regarded as part of his members' contribution.
- June 13 T. Vorster gave his personal laser printer, R 14 250, to the business to increase his members' contribution.
- Aug 30 Paid provisional income tax by cheque R42 500.
- Nov 1 J. Edwards let an office to the close corporation for 6 months at a total payment of R9 000. The cheque was issued.
- 2008
- Jan 31 J. Edwards borrowed R22 500 from the close corporation to buy a motor-bike for her son. The loan is interest free and an amount of R1 800 will be deducted from her salary on the 20th of every month. The first deduction will be on 20 February.
- Feb 26 Issued a cheque for R28 000 in respect of provisional income tax.
- 28 Final accounts were drawn up and a net income of R240 000 was transferred to the Appropriation account. The income tax calculated correctly amounted to R72 000. R90 000 of the net income will be distributed between the members in the ratio 3:1.

40 MARKS

QUESTION 3

MANAGING FIXED ASSETS

20 MINUTES

LO 3 Managing Resources:

AS 1 Interpret and report on the result of asset movement , analyse the fixed asset register and discuss reasons for disposing assets

Required:

Study the asset register on the next page and answer the following questions:

- 3.1 Identify the method of depreciation and give a reason for your answer. (4)
- 3.2 Why would the business prefer using the above method? (4)
- 3.3 What are the factors considered when determining the useful life of an asset? Explain four factors. (8)
- 3.4 At what rate is the asset depreciated? (2)
- 3.5 Determine the date of purchase. (2)
- 3.6 The owner wants to trade in the van for a newer model. What would be a fair price? Motivate your answer. (4)

3.7 What is the importance of maintaining effective control of fixed assets? (6)

3.8 How do you maintain control over fixed assets? Explain three methods. (6)

Information

Lonehill Plumbers Asset Register – Vehicle			
<u>Make:</u> Toyota <u>Model:</u> Van <u>Reg No:</u> TSA 607 GP <u>Date purchased:</u> ? <u>Cost price:</u> R220 000			
Date	Annual depreciation	Accumulate depreciation	Carrying value
30 June 2006	R11 000	R11 000	R209 000
30 June 2007	R31 350	R42 350	R177 650
30 June 2008	R26 647.50	?	?
Method of depreciation		?	
Rate of depreciation		?	

36 MARKS

QUESTION 4

COMPANIES

27 MINUTES

LO 1 Financial Information:

AS 5 Analyse and interpret the financial statements/indicators of a company.

Zane Millian, the accountant of **Cosmos Traders Ltd**, has realised that the cash in their bank account is lying idle and not earning income for the business. Zane has done some research and come up with the following options in order to utilise the cash more effectively.

The financial year of Cosmos Traders Ltd end annually on 28 February.

Option 1:

Repay R50 000 on the mortgage bond on 1 May 2008.

Option 2:

Invest R50 000 as a fixed deposit at ABSA Bank on 1 May 2008.

Option 3:

Invest the R50 000 in shares on 1 May 2008. The market value of the shares on 1 May 2008 is R10, 75 per share. The net asset value (NAV) on the same date is R9, 75.

An interim dividend of 60 cents per share will be paid to shareholders on 1 November 2008, and a final dividend of 80 cents per share will be recommended by the directors on 28 February 2009 and paid on 25 March 2008.

Information:

Cash in bank on 1 March 2008, R60 000.

Mortgage bond on 1 March 2007, R420 000 at 9% interest per annum.

Debt to equity ratio on 1 March 2008, 0,5:1

Interest on Fixed deposit 14% per annum

Zane Millian now asks your advice on the following:

- 4.1 Explain one benefit each option would have on the business. (6)
- 4.2 Which of the options above will have the best effect on the cash flow position of the business in future? Supply one reason for your answer. (4)
- 4.3 Analyse all three options (with pros and cons) and then, based on your findings, recommend the best option for the business. Use calculations to substantiate your answers. (23)
- 4.4 Explain why the NAV of a share is different to the market price of a share. (4)

37 MARKS

QUESTION 5

VAT

18 MINUTES

LO 1 Financial Information:

AS 7 Record Vat entries into the journals and post to the Ledger.

The following information was extracted from the records of Jolly Good Traders for the period 1 April – 31 May 2009.

You are required to draw up the following accounts by using the information given below:

- 5.1. VAT Control Account
- 5.2. Output VAT
- 5.3. Input VAT

Additional Information:

- a) VAT is charged at 14% and is inclusive. You must round off your amounts to the nearest cent.

- b) The VAT control account has a credit balance of R4 368. This is an amount outstanding for the period 1 February – 31 March 2009.
- c) Jolly Good Traders is registered to SARS under the invoice basis.

INFORMATION:

Cash Receipts Journal

Sales	R346 880
Debtors Control	R 13 680
Commission Income	R 11 200

NOTE:

R22 000 of the sales was for goods that are exempted from tax and R18 was for goods that are Zero-rated.

Cash Payment Journal

Trading Inventory	R147 264
Creditors Control	R 12 800
Sundry Accounts: Expenses	R152 000

NOTE:

Included in the Expenses is an amount of R92 000 which were for Salaries and R4 368 for the outstanding VAT in the VAT control account. The outstanding VAT was paid on the 10 May 2009.

Debtors Journal

Debtors Control	R27 360
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Creditors Journal

Trading Stock	R 36 000
Sundry Acc. Stationery	R 2 976
Equipment	R 19 600

Debtors Allowance Journal

Debtors Control	R 4 384
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Creditors Allowance Journal

Trading Stock	R 5 760
Stationery	R 536

Petty Cash Journal

Sundry Expenses	R 1 250
Fuel	R 630

NOTE:

Included in the sundry expenses are zero-rated items of R125.

General Journal

Bad Debts (12/05/2009)	R 2 800
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(25 MARKS)

ANSWER BOOKLET

GRADE 12

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NAME: _____

%

QUESTIONS	AVAILABLE	ACHIEVED	LO
1. CASH FLOW STATEMENT	62		LO 1
2. CLOSE CORPORATIONS	40		LO 1
3. MANAGING FIXED ASSETS	36		LO 3
4. COMPANIES	37		LO 1
5. VAT - LEDGER	25		LO 1
	200		

QUESTION 1

1.1

(5)

1.2

Income tax

(5)

Depreciation

(5)

Interest paid

(7)

1.3

Reconciliation between profit before tax and cash generated from operations

Net profit before tax	
Adjustment for:	
Profit before changes in working capital	
Changes in working capital	
Cash generated from operations	

(16)

1.4

Cash Flow Statement for the year ended 28 February 2008

Cash flows from operating activities	
---	--

Cash generated from operations	
Cash flows from investing activities	
Cash flows from financing activities	
Net change in cash and cash equivalents	

(14)

1.5.1

(6)

1.5.2

(4)

QUESTION 2

3.4 At what rate is the asset depreciated?

(2)

3.5 Determine the date of purchase.

(2)

3.6 The owner wants to trade in the van for a newer model in July 2008. What would be a fair price? The delivery van has been involved in a number of minor accidents. Motivate your answer.

(4)

3.7 What is the importance of maintaining effective control of fixed assets?

(6)

3.8 How do you maintain control over fixed assets? Explain three methods.

(6)

OUTPUT VAT ACCOUNT									
MAY	31	DEBTORS CONTROL			MAY	31	BANK	CRJ	
		DEBTORS CONTROL	GJ				DEBTORS CONTROL	DJ	

(9)

INPUT VAT ACCOUNT									
MAY	31	BANK			MAY	31	CREDITORS CONTROL		
		CREDITORS CONTROL							
		PETTY CASH							

(10)

MEMO

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%

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1. CASH FLOW STATEMENT	62		LO 1
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	200		

QUESTION 1

1.1

$1\ 000\ 000 - 750\ 000 = 250\ 000 / 10 = 25\ 000$ ✓ shares issued

$25\ 000 \times R8 = R200\ 000$ ✓

$R200\ 000$ ✓ + $R200\ 000 = R400\ 000$ ✓(✓)

(5)

1.2

Income Tax

R 3 500 ✓

+ 18 000 ✓

(22 700) ✓ = (1 200) ✓(✓) or Ledger account

(5)

Depreciation:

R 965 500 ✓

+ 575 000 ✓

(86 000) ✓ or Ledger account

(1 310 000) = ✓

R144 500 ✓ Depreciation

(5)

Interest paid:

$170\,000 \times 14\% \times 9/12 = R17\,850$ ✓

$100\,000 \times 14\% \times 3/12 = 3\,500$ ✓

= R21 350

$R\,4\,000$ ✓ + $2\,000$ ✓ + $21\,350$ + 500 ✓ = $R27\,850$ ✓(✓)

(7)

1.3

Reconciliation between profit before tax and cash generated from operations

Net profit before tax (65c x 100 000 + 22 700)	✓✓✓(✓)87 700
Adjustment for:	166 350
Depreciation	(✓)144 500
Interest expense	(✓)21 850
Profit before changes in working capital	254 050
Changes in working capital	36 000
Decrease in stock(365 – 410)	✓✓45 000
Increase in debtors (143 – 90 – 18)	✓✓✓ (35 000)
Increase in creditors(95 + 11 – 72 – 8)	✓✓✓✓26 000
Cash generated from operations	(✓)290 050

(16)

1.4

Cash Flow Statement for the year ended 28 February 2008

Cash flows from operating activities	(✓)191 000
Cash generated from operations	(✓)290 050
Interest paid	(✓) (27 850)
Dividends paid(R55 000 + 15 000)	✓✓ (70 000)
Normal tax paid	(✓) (1 200)
Cash flows from investing activities	(✓) (489 000)
Tangible assets purchased	✓ (575 000)
Proceeds from disposal of tangible assets	✓86 000
Cash flows from financing activities	(✓)380 000
Proceeds from issue of shares(R250 000 + 200 000)	✓✓450 000
Repayment of long term borrowings	✓ (70 000)
Net change in cash and cash equivalents	(✓)82 000

(14)

1.5.1

R450 000 from the issue of shares. ✓✓

Stock purchased decreased and this was the main source for the working capital (was positive). ✓✓

Debtors increased, however the business took longer to pay creditors. ✓✓

(6)

1.5.2

No/yes, ✓

Purchased fixed assets valued at R575 000. ✓ The proceeds from shares only R450 000. ✓ If this purchase was essential for operations and maybe new technology acceptable. ✓

(4)

QUESTION 2

GENERAL LEDGER OF EGOLI CC										
Dr.					MEMBERS' CONTRIBUTION					Cr.
					Mar	1	Balance	b/d	135 000✓	
					May	8	Trading Stock✓	GJ	22 500✓	
					Jun	13	Equipment✓	GJ	14 250✓	
									171 750(v)	

6

LOAN TO J EDWARDS									
Jan	31	Bank✓	CPJ	22 500✓	Feb	20	Bank✓	CRJ	1 800✓
						29	Balance	c/d	20 700
				22500					22 500
Mar	1	Balance	b/d	20 700					

4

DISTRIBUTION PAYABLE TO MEMBERS									
Mar	14	Bank✓	CPJ	36 900✓	Mar	1	Balance	b/d	36 900✓
Feb	29	Balance	c/d	90 000	Feb	29	Distribution to members✓	GJ	90 000
				90 000					90 000
					Mar	1	Balance	b/d	90 000

4

SOUTH AFRICAN REVENUE SERVICES(INCOME TAX)								
Mar	21	Bank✓	CPJ	17 850✓	Mar	1	Balance	b/d 17 850
Aug	30	Bank✓	CPJ	42 500✓	Feb	28	Income Tax✓	GJ 72 000✓
Feb	26	Bank✓	CPJ	28 000✓				
	28	Balance	c/d	1 500✓				
				72 000				72 000
					Mar	1	Balance	b/d 1 500
								9

RENT EXPENSE: J EDWARDS

Nov	1	Bank✓	CPJ	9 000✓	Feb	29	Prepaid Expenses✓	GJ 3 000✓
							Profit & Loss a/c✓	GJ 6 000✓(✓)
				9 000				9 000

EGOLI CC

BALANCE SHEET ON 29 FEBRUARY 2008

Members' EquityMembers' funds	
Members contributions (135 000✓ + 22 500✓ + 14 250✓)	171 750(✓)
Accumulated profits (51 000✓ + 168 000 ✓- 90 000✓)or (240 000 ✓- 72 000✓)	129 000(✓)
Non-current liabilities	51 500(✓)
Loan: East Bank @ 18%p.a.	20 000
Loan from members	31 500
Current liabilities	95 100
Trade & other payables (1 500✓)	95 100
	447 350(✓)
	10

QUESTION 3

3.1 Identify the method of depreciation and give a reason for your answer.

The diminished balance method. ✓✓
 Decreasing charge over the useful life. ✓
 Every year less depreciation is written off. ✓

(4)

3.2 Why would the business prefer using the above method?

The method selected is one that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. ✓✓

An asset has a limited useful life. ✓✓

(4)

3.3 What are the factors considered when determining the useful life of an asset? Explain four factors.

Expected usage of the asset – expected capacity or physical output.

Expected physical wear and tear,
technical or commercial obsolescence

Legal limitations – expiry date of a lease

Any 4 X 2 each

(8)

3.4 At what rate is the asset depreciated?

15% ✓✓

(2)

3.5 Determine the date of purchase.

1 March 2006 ✓✓

(2)

3.6 The owner wants to trade in the van for a newer model in July 2008. What would be a fair price? The delivery van has been involved in a number of minor accidents. Motivate your answer.

Carrying value on 30 June 2008: R144 002, 50. ✓

As the vehicle has been involved in accidents it would probably not be traded in at the carrying value. ✓

Trade-ins normally get a lower price than when sold privately, ✓

Suggested price between R100000 and 140 000. ✓

(4)

3.7 What is the importance of maintaining effective control of fixed assets?

Allows the business to know what fixed assets it has on hand.

Business can determine the value of fixed assets on hand

Allows the business to determine if the assets are still economically viable.

Any 3 X 2 each

(6)

3.8 How do you maintain control over fixed assets? Explain three methods.

The purchase of a fixed asset should be requisitioned via an order.
All purchases of fixed assets must be authorised by management.
The asset must be recorded at historical value
All legal documents re purchase must be kept safely
Proof of receipt of asset must be accurately recorded and filed.

Any 3 X 2 each

(6)

QUESTION 4

4.1 Explain one benefit each option would have for the business. (6)

Option 1: (Pay off Loan)

- No riskVV
- Improve liquidity on the short termVV
- Les interest expenseVV
- Net profit percentage improvesVV
- Any other acceptable answer...

Option 2: (Fixed Deposit)

- No riskVV
- Net profit percentage improvesVV
- Any other acceptable answer

Option 3: (Buy shares)

- Capital growthVV
- No tax on dividends receivedVV
- Any other acceptable answer

4.2 Which of the options above will have the best effect on the cash flow position of the business in the future? Supply one reason for your answer. (4)

Payment of the loanVV,
increase liquidity on the short termVV

4.3 Analyse all three options (with pros and cons) and then, based on your findings, recommend the best option for the business. Use calculations to substantiate your answers. (23)

Loan: Debt:Equity = 0,5 : 1, payment of R50 000 on loan will decrease the ratio√√to
370 000√:840 000√
0,44:1√√

- The norm is 0,5 – 1:1√√
- Paying of the loan too quickly will result in the ratio to go below the norm and a business should strive to keep a proper credit record√√
- Less interest expense√√
- Unless the business, want to expand in the near future with additional loans, they should try to keep their debt/equity at the norm and not move to the debt stage too quickly√√

Any 6 marks

Fixed deposit:

- R50 000 x 14% = R7 000 interest income√√
- 30 days notice to get money back√√
- Pay tax on interest income√√, R7 000 x 30% = R2 100√√
- Only get R4 900 interest after tax√√, which is only a 9,8% return√√

Any 6 marks

Shares:

- Receive (60 + 80) 140 cents dividend, √√ 140/1075c = 13% return√√
- Capital growth √√
- Can get money immediately if they need to √√
- Don't pay tax on the dividend received√√

Any 6 marks

BETTER BUSINESS CHOICE: Investing in shares√√

4.4 Explain why the NAV of a share is different to the market value of a share. (4)

A company calculates the NAV per share on the historical cost values of assets. √√
The public calculates the NAV using the current market value of assets. √√

QUESTION 5

General ledger of JOLLY GOOD TRADERS										
date	Details	fol	R	C	date	details	fol	R	C	
VAT CONTROL ACCOUNT							B			
2009					2009					
May	10 Bank	CPJ	√4 368	0	Apr	1 Balance	b/d	√4 368	0	
	Input Vat	GJ	(√)31 476	10	May	31 Output Vat	GJ	(√)46 452	49	
	Balance	c/d	√14 976	39						
			50 820	49				50 820	49	
					Jun	1 Balance	b/d	(√)14 976	39	
OUTPUT VAT ACCOUNT							N			
2009					2009					
May	31 4 384*14/114 Debtors Control	DAJ	√√538	39	May	31 (346880+11200)*14/114 Bank√	CRJ	√√43 974	74	
	Debtors Control √ Bad Debts(2800*14/114)	GJ	√√343	86		27 360*14/114 Debtors Control	DJ	√√3 360	0	
	Vat Control Acc	GJ	√46 452	49						
			47 334	74				47 334	0	

INPUT VAT ACCOUNT										
							N			
2009					2009					
May	31 (147264+55632)*14/114 Bank√	CPJ	√√24 917	5	May	31 (5760+ 536)*14/114 Creditors Control√	CAJ	√√773	19	
	(36000+2976+19600)*14/114 Creditors Control√	CJ	√√7 193	54		Vat Control Acc√	GJ	(√)31 476	1	
	1125*14/114 Petty Cash√	PCJ	√√138	16						
			32 249	20				32 249	20	

