



ACCOUNTING

Time: 3 hours

300 marks

READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This paper consists of 11 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 interest to write legibly and to present your work neatly.
5. You may **not** use green or red ink. **You may use a pencil, but please use a soft, dark pencil.**
6. The allocation of marks and the appropriate time to be taken for each question are as follows:

Question	Topic	LO: AS	Marks	Time
1.	Salaries and cash budgets	LO 3 AS 2 and LO 2 AS 3	58	35 min
2.	Costing, controls and ethics	LO 2 AS 2, LO 3 AS 6 and AS 5	42	26 min
3.	Perpetual stock system	LO 3 AS 4	46	27 min
4.	Income statement and adjustments	LO 1 AS 1 and AS 5	50	30 min
5.	Balance sheet	LO 1 AS 1 and AS 5	40	22 min
6.	Ratio analysis	LO 1 AS 5, LO 2 AS 1, LO 3 AS 4	64	40 min
			300	180

QUESTION 1: Salaries and cash budgets (35 min; 58 marks)

1. Read the following carefully; then answer the questions that follow:

Mr. N. Start is the Human Resources Manager at Uppity Textiles.

John Newport has been appointed as a junior marketing assistant in the Marketing department. He is to commence employment with Uppity Textiles on 1 March 2006. The following are conditions for his employment. His annual salary has been negotiated at R90 000 per annum. He is also entitled to a 13th cheque, which will be paid during December, and is calculated pro-rata in accordance with the number of months he has been in the employ of Uppity Textiles during 2006. Payment of salaries will be made on the 25th of each month by way of electronic funds transfer (EFT).

Deductions are as follows:

- Pension fund: 8% of gross salary
- PAYE: 20% of taxable income
- U.I.F.: 1% of gross salary
- Medical aid: R250 per month

Contributions:

- Pension fund: R1,50 for every R1 contributed by employees
- U.I.F. 1% of gross salary
- Medical aid: R1 for every R1 contributed by the employee
- Skills Development Levy: 1% of taxable income

Annual increases:

Annual increases come into effect on 1 March 2006 and are calculated on the employee's performance and contribution towards the business.

Working hours:

Monday to Friday from 8:00 to 17:00.

Questions to be answered

1.1 As the Human Resources Manager at Uppity Textiles, write John Newport a letter confirming his appointment as a junior marketing manager. (38)

Your letter should include the following:

- introduction paragraph detailing his position and employment commencement date and working hours.
- calculation showing John Newport's **gross monthly salary**.
- calculation showing Uppity Textiles' contributions on behalf of John Newport.
- calculation showing John Newport's total cost to Uppity Textiles.
- increases and when they come into effect.
- why net salary is paid into a banking account and not paid in cash.

1.2

It is now December and John Newport has been working for Uppity Textiles for 10 months. Up until the end of November John managed to save R500 per month. He has been planning a skiing holiday to Austria in January 2007 and the total cost of the holiday including airfares, accommodation, meals and spending money is R12 500. He intends using his annual bonus towards his holiday. John's monthly expenses are made up as follows:

Rental	1 450	Telephone	140
Car repayment	1 100	Groceries	900
Cell phone account	200	Entertainment	255
Water and electricity	250	Savings	500
Clothing accounts	400		

Answer the following questions:

- 1.2.1 Calculate the bonus that John Newport will receive in December 2006. Refer to the information in (1) above. (3)
- 1.2.2 Explain why it is important for John Newport to prepare a budget every month. (4)
- 1.2.3 What type of budget is John preparing on a monthly basis? Supply a suitable reason to justify your answer. (3)
- 1.2.4 Will John Newport have saved enough money including his annual bonus to pay for his skiing trip in January 2007? Justify your answer with a calculation. Indicate the deficit or surplus for the holiday. (6)
- 1.2.5 Referring to his monthly expenses above, which two expenses could he cut back on in order to increase his monthly savings? Supply a reason for your answer. (4)

[58 marks]

QUESTION 2: Costing, controls and ethics (26 min; 42 marks)

Debra Maseko is a member of the girls under 16 water-polo team who have been invited to play in an international tournament in Italy in February 2007. In order for her to go with the team to Italy, her parents have told her that she needs to raise R3 780 towards the cost of the tour. Debra has a secret family recipe for the most amazing chocolate brownies. She has approached the school tuck-shop to sell her brownies so that she can raise the necessary funds for the tour to Italy. She has six months within which to raise the money needed, bearing in mind that the school tuck-shop does not operate during December. Her friend's mother has offered her the use of her kitchen and equipment at a fixed cost of R150 per month. She would also pay R150 per month to her friend's mother's domestic worker who has agreed to clean up the mess after her.

In July 2006 her results were as follows:

Cost of producing 300 chocolate brownies	Total cost for 300 Brownies	Cost per Brownie
Fixed costs	300	?
Rent of kitchen and equipment	150	?
Wages	150	?
Variable costs	540	?
Ingredients	400	1,37
Water and electricity	60	?
Packaging	30	?
Cell phone costs	50	0,06
Total costs	840	?

She sells her brownies to the school tuck-shop for R4,20 each.

Answer the following questions:

- 2.1 Briefly explain the difference between a fixed cost and a variable cost. (4)
- 2.2 Calculate:
- 2.2.1 the variable cost to produce one chocolate brownie. (3)
- 2.2.2 the total cost to produce one chocolate brownie. (3)
- 2.2.3 the profit mark-up achieved by Debra on the brownies sold during July 2007. (5)
- 2.3 If Debra wishes to reach her target of R3 780 in the next six months, how many chocolate brownies is she going to have to sell per month in order to reach her goal? (6)
- 2.4 In order to reach her goal Debra needs to increase her production. She assumes that if production increases by 20% from 300 chocolate brownies to 360 chocolate brownies per month, her profit will increase by 20% as well. Is Debra correct about this assumption? Justify your answer. (5)
- 2.5 Some friends of Debra from other schools have suggested that they sell her chocolate brownies at their schools during break. As Debra's product will now be sold at various schools, suggest two accounting controls that she could put in place to ensure that she receives the correct amount of cash that was made from the sales of her chocolate brownies at other schools and that no cash or stock is stolen. (4)

2.6 Amy, a friend of Debra, has agreed to sell Debra's chocolate brownies at her school. Because Amy knows that she can sell more brownies than Debra is able to supply her with, Amy has decided to make some brownies of her own and then package them so that they look like Debra's brownies. In this way Amy can make herself some extra money. However, because Amy does not have the same recipe, her brownies will not be as good as Debra's.

2.6.1 Write a short paragraph predicting what you think Amy's actions will have on Debra's business. (6)

2.6.2 Briefly explain whether you think what Amy is planning to do is ethical. (6)

[42 marks]

QUESTION 3: The perpetual stock system [27 min; 46 marks]

Mama Mkize runs a Spaza shop selling a variety of different food and household products. Because her goods range from bread to cleaning products she uses different mark-ups for each of her products. In order to know the cost price of each item on sale in her shop she writes it in a secret code on the item's packaging.

Required:

3.1 Design a cost coding system that you would use to record the cost price of a box of washing powder that costs R18,45. (4)

3.2. The following information below relates to the trading stock transactions of Mama Mkize's Spaza Shop for September 2006. Use this information to draw up the Trading Stock Ledger Account that would appear in the General Ledger.

- Balance in the Trading Stock Account on 1 September 2006: R26 500
- Trading stock bought for cash: R150 000
- Trading stock bought on account: R85 000
- Cost price of trading stock sold for cash: R135 000
- Cost price of trading stock sold on account: R92 500
- Trading stock returned to creditor: R2 800
- Cost price of trading stock returned by credit customers: R1 500
- Trading stock on hand on 30 September 2006 as per stock-take: R23 300. (20)

3.3 If Mama Mkize was keeping an accurate record of all her trading stock transactions, what is the purpose of her doing a stock-take at the end of the month (or year)? (2)

3.4 If you were put in charge of organising the Spaza Shop's stock-take, list two things you would arrange to put in place in preparation for the stock-take. (4)

3.5 Mama Mkize is concerned with the size of her trading stock deficit. Give two reasons why this is so high and suggest two realistic measures that you would suggest she introduce in order to control and reduce this amount. (8)

3.6 As part of his grade 10 school accounting course Mama Mkize's son has learnt how to use an accounting package to record transactions. He has suggested to his mother that she buy an accounting computer program to not only record transactions but also to scan and record her sales. Write a short report explaining to Mama Mkize the advantages and possible shortfalls that the introduction of an accounting program will have for her business. (8)

[46 marks]

QUESTION 4: Income Statement and adjustments (30 min; 50 marks]

C. Dee owns a shop called Nice Noise that sells sound system items. Nice Noise’s financial year end is on 28 February.

Required:

1. Draw up the Income Statement for the year ended 28 February 2006 from the given information below. (45)
2. Answer the question at the end.

Note:

- All adjustments to figures must be shown in brackets next to the account.
- The business uses a mark-up policy of 50% which has been strictly adhered to.

Information:

GENERAL LEDGER OF NICE NOISE

FINAL ACCOUNTS SECTION

DR					PROFIT AND LOSS ACCOUNT					F2		CR	
2006					2006								
Feb	28	Salaries and Wages	GJ	34 690	Feb	28	Trading Account	GJ	98 500				
		Pension Contributions	GJ	4 300			Discount Received	GJ	340				
		Medical Contributions	GJ	1 870			Bad Debts Recovered	GJ	130				
		Sundry Expenses	GJ	12 120			Interest on Investment	GJ	900				
		Packing Materials	GJ	2 060									
		Bad Debts	GJ	300									
		Discount Allowed	GJ	20									
		Debtors Allowances	GJ	530									
		Advertising	GJ	4 550									
		Trading License	GJ	1 800									
		Rent	GJ	13 000									
		Capital Account	GJ	24 630									
				99 870									99 870

The accountant has made an error in calculating the profit in the profit and loss account. This needs to be corrected by taking into account the following information:

Adjustments and additional information:

1. The rent amount was actually for rent received from a musician who rents part of the shop where he offers private music lessons.
2. The debtors’ allowances have not been treated correctly.
3. On 18 February 2006 Nice Noise had a break-in and trading stock to the value of R4 750 was stolen. No entries have been made to record this and as the business is not insured, they cannot claim for this loss.
4. The advertising account had been overstated by R150.
5. The business has a loan of R20 000 at Dough Bank for the half the financial year. Interest has been paid monthly at an interest rate of 12% p.a. but the bookkeeper had allocated the interest to the “Loan: Dough Bank” account. Correct this error.
6. An invoice for stock sold on account for R4 500 has not been entered. Make the necessary entry.
7. The following problems were encountered with debtors at the end of the financial year:

- A debtor, I. Pod was declared insolvent. His estate paid R90 being 20c in the rand. The receipt has been recorded but no entry for the amount to be written off has been recorded in the books of the business.
 - M. P. Three has not paid his outstanding account of R800 for the past three months. Interest needs to be charged at 10% p.a.
8. The bookkeeper recorded R400 received from a debtor whose account was previously written off by Dr Bank and Cr Bad Debts. Correct the error.
9. A stock take was done after the profit and loss account was drawn up. It revealed that trading stock to the value of R1 000 was unaccounted for (missing) and there was still packing material costing R450 that has not been used.
- 4.1 C. Dee does not understand why it is necessary to have a separate account for bad debts recovered. She feels that bad debts should be credited. What is your opinion on this issue? Your answer will be assessed using the following marking grid. (5)

Criteria	Level 1 (0-1)	Level 2 (2)	Level 3 (2½)	Level 4 (3)	Level 5 (4)	Level 6 (4½)	Level 7 (5)
Opinion on how bad debts recovered should be recorded	Did not attempt to answer	Explanation made no sense	Basic answer	Obvious answer given	Good answer	Excellent answer	Insightful and creative answer

[50 marks]

QUESTION 5: Balance sheet (22 min; 40 marks)

Belly Buttons is a business that sells homemade sweets and chocolates. The accountant went on leave before after completing the Balance Sheet for the year end 31 December 2006.

5.1.

Required:

1. Complete the balance sheet for the year ended 31 December 2006 after taking into account the information that follows. (30)
2. Answer the questions that follow.

BELLY BUTTONS**BALANCE SHEET AS AT 31 DECEMBER 2006**

ASSETS	Notes	2006	2005
NON-CURRENT ASSETS		*	90 800
*		*	75 800
Financial assets (Fixed deposits)		*	15 000
CURRENT ASSETS			45 000
Inventories		*	32 560
*		*	-
Cash and cash equivalents		*	12 440
TOTAL ASSETS		*	135 800
EQUITIES AND LIABILITIES			
OWNERS' EQUITY		*	77 960
NON-CURRENT LIABILITIES			
*		*	40 000
CURRENT LIABILITIES		32 450	
Trade and other payables		22 450	17 840
*		*	
TOTAL EQUITIES AND LIABILITIES		*	135 800

NOTES TO FINANCIAL STATEMENTS

Owners' Equity Note	2006	2005
Balance at the beginning of the year	*	74 000
Additions made during the year	*	-
Net profit for the year	40 015	14 300
Drawings for the year	*	(10 340)
Balance at the end of the year	*	77 960

Additional Information:

1. A new computer costing R12 000 was bought on the last day of the financial year. No entry has been made.
2. A fixed deposit worth R5 000 matured on 1 October 2006. Another fixed deposit amounting to R2 500 is due to mature the next financial year.
3. In order to increase sales, the business decided to offer credit facilities in 2006.
4. An annual loan repayment of R10 000 is made to Ixopo Bank on 1 July 2006 each year.
5. The current ratio for 2006 is 2,5:1.
6. The bank balance increased by R2 660 for the year. There were no changes to petty cash and cash float.
7. The owner withdrew R12 000 cash and R1 500 of stock during the year. This was recorded.
8. The trading stock account reflected a balance of R47 500 on 28 February 2006. However no account has been made for the stock count which took place on the last day of the financial year where stock was valued at R46 500 and stationery at R250.

5.2. Questions:

- 5.2.1. In 2006 the business decided to offer credit facilities in 2006. Briefly comment on the effect that this has on the business's sales and net profit. (4)
- 5.2.2. What control systems should Belly Buttons have in place to ensure that any fixed/tangible assets bought by the business are used in the business and that the manager or any other employee does not take it home for their own use? (4)
- 5.2.3. What is the purpose of doing a stock-take at the end of an accounting period? (2)

[40 marks]**QUESTION 6: Ratio analysis (40 min; 64 marks)**

*Asanda Sithole sighs as he balances his ledger. He is a worried man. "I know this business is making profits so why do I never have any cash?" he thinks to himself. "How am I going to pay salaries and the telephone and the water and electricity bills on the 25th of the month?" Asanda's business, **AS Computers** sells computers at a mark-up of 50% on cost. It only opened 24 months ago and since then has grown almost 5 times in size. They have no investments and no loans. Asanda thinks back to his decision in the second month of trading to allow customers to buy on credit. "I knew our sales would increase drastically but I hadn't anticipated the effect they would have on how I manage my cash," he thought. "90% of all my sales are now on credit".*

Although Asanda only allows debtors 30 days credit they only pay on the 1st of the month. With the expansion of his business he has had to increase the amount of stock in his store, some of the stock being very expensive and quickly outdated. Although his suppliers are allowing him to buy on credit, most of them only give him 30 days credit because his business is still so new.

Information obtained from Asanda's general ledger on 30 September 2006, his financial year end. The ratios for 2005 are shown in brackets:

Sales/turnover	R980 000
Cost of Sales	R700 000
Other Income	R 12 000
Operating Expenses	R92 000
Trading Stock	R210 000
Debtors Control	R50 000
Cash	R10 000
Creditors Control	R120 000
Fixed/Tangible Assets	R530 000
Non Current/Long-term liabilities	?
Capital (1/10/2005)	R400 000
Capital (30/9/2006)	R900 000

Required:

- 6.1. Use the following information obtained from AS Computers' ledger to calculate the following ratios. The ratios for 2005 are shown in brackets:
- 6.1.1. The actual mark-up achieved (2005; 45%) (4)
- 6.1.2. The operating profit on turnover (2005; 16%) (4)
- 6.1.3. The operating expenses on turnover (2005; 12%) (3)
- 6.1.4. The current ratio (2005; 2:1) (5)
- 6.1.5. The acid test ratio (2005; 1:1) (4)

- 6.1.6. The solvency ratio is 2,5 : 1 calculate the value of the non current/long-term liabilities. (4)
- 6.1.7. The return on equity (2005; 20%) (5)
- 6.2. Make a list of all the problems that AS Computers is having in managing the cash in the business. (8)
- 6.3 Comment and/or give advice on the following aspects:
- 6.3.1. AS did not achieve their intended mark-up. Explain two possible reasons why this could have been the case. (4)
- 6.3.2 Comment on whether the business was more or less profitable than last year. Use ratios to substantiate your opinion. (5)
- 6.3.3 Discuss **four** things that you think Asanda could do in order to more effectively manage AS Computers' stock, debtors, cash and creditors so that they can improve their liquidity cash position. (8)
- 6.3.4 Comment on whether AS Computers is solvent. (2)
- 6.3.5 Explain whether you think Asanda should be pleased with his return on his investment in AS Computers. (4)
- 6.3.6 The producing of the financial information and the calculation of the ratios is part of **financial accounting**, while the use of this information to make comments and decisions about how to improve the business is part of **managerial accounting**. Briefly explain the difference between **financial** and **managerial** accounting. (4)

[64 marks]