

# SENIOR SECONDARY IMPROVEMENT PROGRAMME 2013



**GAUTENG PROVINCE**

Department: Education

REPUBLIC OF SOUTH AFRICA

**GRADE 12**

**ACCOUNTING**

**LEARNER HOMEWORK SOLUTIONS**

The SSIP is supported by



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**SOLUTIONS TO HOMEWORK: SESSION 12**  
**TOPIC: CONSOLIDATION**

**QUESTION 1**

1.1.1

**Factory overhead costs***Possible answers*

- Indirect materials
- Indirect labour
- Depreciation of factory plant and machinery
- Any expenses related to the **factory**, e.g. electricity

**Selling and distribution costs***Possible answers*

- Salaries of sales personnel
- Travelling expenses
- Commission on sales
- Entertainment expenses

(2)

1.1.2

**The unit cost of production for suitcases**

$$330\,000 \checkmark + 264\,000 \checkmark + 400\,000 \checkmark = 994\,000 / 2\,500 \checkmark$$

$$= R397,60 \checkmark$$

**Variable cost per unit for suitcases**

$$660\,000 \checkmark / 2\,500 \checkmark$$

$$= R264 \checkmark$$

(8)

1.1.3

**Calculate the break-even point for the suitcases.**

$$\frac{\text{Fixed costs}}{\text{SP per unit} - \text{VC per unit}}$$

$$\frac{400\,000 \checkmark + 250\,000 \checkmark}{520 \checkmark - 264 \checkmark}$$

$$= \frac{650\,000}{256}$$

$$= 2\,539,1 = 2\,540 \text{ units } \checkmark$$

(5)

1.1.4 Identify cost with appropriate figure ✓✓ ✓✓

Provide solution ✓✓ ✓✓

Identify costs	Solution
Production increased by 20% while direct material costs increased by 65%. Direct material costs increased from R200 000 to R330 000.	Investigate cheaper raw materials. Avoid wastage of raw materials. Train staff to avoid wastage.
Factory overhead expenses almost doubled from the previous year, R210 000 to R400 000.	Investigate factory expenses. Avoid wastage, e.g. electricity, telephone, repairs to machinery, etc. Implement control measures w.r.t. indirect labour and indirect materials.
Selling and distribution costs increased by 110% while sales decreased by 10%.	Implement strict control measures and limit travelling and entertainment expenses.

(8)

1.1.5 Sports bags: ✓✓✓

- Production (4 000 units) is more than double the break-even required (1 867 units).
- The units produced have all been sold.

Suitcases: ✓✓✓

- Production (2 500) below break-even (2 540). Certain costs have not been well controlled, viz. direct material, factory overheads and selling & distribution costs.

Phillip should retain manufacturing sports bags and stop producing suitcases. ✓

(7)

1.2.1 **Purpose:** ✓✓

To report on the company's financial records and determine whether there is a fair presentation of facts, and whether the policies are consistent with the previous year.

**Addressed to:** ✓

Shareholders

(3)

1.2.2 An unqualified report is a report without any problems – good report ✓✓

A qualified report reveals problems in certain areas of the company – all is not well.

(4)

1.2.3

**List THREE points.**

One mark per point listed ✓ ✓ ✓

- Existing shareholders would lose faith in the company and possibly sell their shares.
- Potential shareholders would not invest in the company
- Could result in a drop in the market price of the shares
- The financial statements would not be fairly presented
- Suppliers would lose faith in the company
- Internal control measures should be improved in order to prevent unethical transactions
- Directors could lose their jobs

(3)

**[40]**

**SOLUTION TO HOMEWORK: SESSION 13**  
**TOPIC: CREDITORS RECONCILIATION**

**QUESTION 1**

**1.1.1**

<p><b>Calculate the profit or loss on disposal of the computer:</b></p> <p style="text-align: center;">                 ✓    ✓    ✓✓✓    ✓    ✓✓  <math>22\ 000 - 5\ 500 - 1\ 650 - 800 = R14\ 050</math> </p> <p><b>OR</b></p> <p style="text-align: center;">                 ✓    ✓    ✓✓✓    ✓    ✓✓  <math>22\ 000 - (5\ 500 + 1\ 650) - 800 = R14\ 050</math> </p> <p><b>OR</b></p>			
Cost price		22 000 ✓	
Accumulated depreciation (5 500 ✓ + 1 650 ✓✓✓)		7 150	
Carrying value		14 850	
Disposal/Bank		(800) ✓	
Loss on sale of asset		14 050 ✓✓	
Asset disposal			
<i>Equipment</i>	✓22 000	<i>Accu depr</i> (5 500 ✓ + 1 650 ✓✓✓)	
Ignore details here		<i>Bank</i>	
		✓800	
		✓✓14050	
	22 000	22 000	

**SOLUTION TO HOMEWORK: SESSION 14****TOPIC: CORPORATE REPORTING****1.1.2 SIMPHIWE LTD**

<b>INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2009</b>	
Sales (2 720 000 ✓ – 6 200 ✓ – 9 600 ✓)	✓ 1 680 000
Cost of sales (1 310 000 ✓ – 6 400 ✓)	✓ (1 303 600)
Gross profit <i>If = Sales - COS</i>	✓ <input checked="" type="checkbox"/> 400 600
Other operating income <i>Inspection</i>	✓ <input checked="" type="checkbox"/> 157 180
Fee income (104 750 ✓ – 750 ✓)	✓ 296 600
Rent income (56 000 ✓ – 8 000 ✓)	✓ 48 000
Bad Debts Recovered	✓ ✓ 580
Trading Surplus [490 000 – (479 000 + 6 400)]	✓ <input checked="" type="checkbox"/> ✓ 4 600
Gross Operating Income	1 557 780
Operating expenses <i>Inspection, brackets not essential</i>	<input checked="" type="checkbox"/> (1 331 350)
Salaries and wages	✓ 162 000
Discount Allowed	✓ 905
Insurance	✓ 11 000
Sundry expenses (39 250 ✓ - 3 200 ✓)	✓ 36 050
Directors' fees (390 000 ✓ + 390 000 ✓ + 195 000 ✓)	✓ 975 000
Audit Fees	✓ 53 705
Consumable stores	✓ 24 000
Provision for bad debts adjustment	✓ ✓ 390
Depreciation (1 650 <input checked="" type="checkbox"/> + 16 800 ✓ ✓ + 38 500 ✓ ✓) see 1.1.1	<input checked="" type="checkbox"/> 54 250
Loss on sale of asset (see 1.1.1)	<input checked="" type="checkbox"/> 14 050
Operating profit	226 430
Interest income	✓ 2 500
Profit before interest expense/finance cost	347 200
Interest expense/finance cost	✓ ✓ (18 000)
Net profit before tax	210 930
Income tax	✓ (63 280)
Net profit after tax <i>Inspection – if tax deducted</i>	<input checked="" type="checkbox"/> 147 650

Foreign items -1 each (max -2)

[47]

1.2.1 **Explain why it is important for the independent auditor to be a member of a professional body.**

*Any one valid reason, e.g. ✓✓*

Can award part-marks for partial, unclear or incomplete answers

- So that readers of financial statements can have confidence in his opinion
- Assurance to the public that he/she is well trained on an on-going basis
- Disciplinary actions if negligent in performing duties
- Aware of latest trends e.g. IFRS, Companies Act, King Code
- Act in ethical manner (integrity, observe code of conduct)
- To benchmark quality of work

(2)

1.2.2 **Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain.**

*Any one valid reason, e.g. ✓✓*

Can award part-marks for partial, unclear or incomplete answers

- The auditor expresses an opinion, he/she does not prepare the financial statements
- If the auditor has anything to do with preparing the financial statements, he will not be able to express his opinion (conflict of interests, he would be biased)
- The auditor only checks on a test basis – the directors are responsible for the figures
- The directors work in the company on a daily basis – they must be held liable for errors or fraud
- The directors cannot delegate their responsibilities for the preparation of the financial statements.

(2)

1.2.3 **Refer to the underlined words in paragraph 2.**

**(a) Give ONE example of ‘evidence’ that an auditor would use.**

✓✓ Any valid proof of entries in the books or values in the books or financial statements concerning cash, fixed assets, loans, stock e.g. bank statements, stock sheets counts, invoices (source documents and supporting vouchers), fixed asset register

**(b) Give ONE example of the ‘accounting principles’ he/she would assess as part of the audit. Explain why the auditor would inspect this principle.**

**One principle provided** ✓ e.g.

Stock valuation method

Valuation of fixed assets  
(historical cost & depreciation)

Matching principle

Prudence principle

Going-concern principle

**Explanation of reason:** ✓✓ e.g.

Could lead to differences in profit

Could lead to differences in profit or net asset value

Income & expenses must be matched in correct accounting period

Results must be conservatively reported

Affects valuation of assets

*Any other valid principles and reasons acceptable – accept transparency, even though it’s a King Code principle.*

**1.2.4 Refer to Paragraph 3. Explain why you would you be satisfied with this audit opinion.**

Any valid response ✓✓

Part-marks can be awarded for unclear or incomplete answers

Possible responses, e.g.

- The auditors have stated that they are satisfied with all aspects of the financial reporting by the directors/company
- This is a standard report – cannot expect better (fairly presented)
- No negative comments reported – if the auditor had been dissatisfied about anything he would have stated it here
- Complies with IFRS and Companies Act
- The auditors have not stated the report is qualified or withheld. (2)

**1.2.5 Refer to the disposal of the computer for R800 in Information 2J of QUESTION 1.1. Another director, Sam Smith, has complained that Ivor Steele has acted unethically in taking over the computer for R800. Ivor disagrees.**

**(a) Give one opinion to support Sam**

Any one valid opinion ✓✓

Part-marks can be awarded for unclear or incomplete answers

- Ivor is benefiting from a very low charge on an asset that is worth a lot more to the company and hence the shareholders are losing as a result of this transaction (a large loss was made on this disposal).
- This sets a bad precedent for the company / misuse of his position as director; other employees might feel entitled to similar benefits.
- The directors do not own the company; the shareholders are the owners of the company.
- There is also tax implications – the director should be paying tax on this ‘perk’.
- The transaction was not transparent – no discussion / disclosure on the disposal in advance.
- The asset was still of use to the company; the director has no right to take it.

**(b) Give one opinion to support Ivor.**

Any one valid opinion ✓✓

Part-marks can be awarded for unclear or incomplete answers

- The computer is already more than three years old, and computers have a relatively short life span.
- The computer is out-dated; it will probably not be upgradeable.
- The depreciation at 10% on cost price for computers is unrealistic and should, therefore, have had a lower carrying value.

NB: Do not accept that directors are owners.

(4)  
[70]

**SOLUTIONS TO HOMEWORK: SESSION 15**

**TOPIC: MANUFACTURING**

**1.1.2 PRODUCTION COST STATEMENT OF BAKONA BIN MANUFACTURERS**

**FOR THE YEAR ENDED 28 FEBRUARY 2009  
 TOTAL**

<b>Direct/Raw materials cost</b> #See 1.1.1	<input checked="" type="checkbox"/> #	1 652 100
Direct labour cost ✓Details #See 1.1.1	<input checked="" type="checkbox"/> #	1 451 520
<b>Direct/Prime cost</b> Check operation	<input checked="" type="checkbox"/>	3 103 620
Factory overhead cost ✓Details #See 1.1.1	<input checked="" type="checkbox"/> #	620 110
<b>Total cost of production</b> Check operation	<input checked="" type="checkbox"/>	3 723 730
<b>Work-in-process on 1 March 2008</b> R169 500 must be +ve	✓	169 500
		3 893 230
<b>Work-in-process on 28 February 2009</b> R120 600 must be -ve	✓	(120 600)
<b>Cost of production of finished goods</b> Check operation	<input checked="" type="checkbox"/>	3 772 630
		(10)

**1.1.3 Calculate the unit cost of production per plastic bin completed.**

$\frac{3\,772\,630}{58\,000}$   See 3.1.2 Must be the numerator  
 Must be the denominator  
 = R65,05  Check method & operation, one part correct

(3)

1.2 **Kool Manufacturers**

1.2.1 **One example of a fixed cost:**

*Any one valid example, e.g. ✓*

Rent expense, Salaries, Indirect wages, Interest etc

*(Accept Administration costs and Factory overhead costs or any parts thereof due to assumptions included in previous papers)*

**One example of a variable cost:**

*Any one valid example, e.g. ✓*

Direct/Raw materials, Direct labour / Direct wages, Advertising, Selling and distribution, Commission on sales

(2)

1.2.2 **Explain why it is important to calculate the expected break-even point for a business before the start of a financial year.**

Good explanation = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks  
 ✓✓

**Two marks:**

- So that any potential problems of low production can be foreseen
- To start corrective action promptly before losses occur
- No profits are made until break-even is reached
- Determine the minimum number of units to produce to prevent losses
- To produce enough products to set the production level to cover all costs
- To identify whether efficiency needs to be improved to produce the required number of units to make a profit
- To provide information to compile the budget to ensure that profits are achievable

(2)

**One mark:**

- To produce enough products
- Prevent low profits / prevent a loss
- Improve efficiency
- To compile a budget

1.2.3 **Calculate the break-even point.**

✓✓ ✓ ✓

Any one part correct

$$R210\ 000 / R15 = 14\ 000 \text{ units}$$

Must be numerator Must be denominator

$$\text{OR } R210\ 000 / [R40 - (R300\ 000 / 12\ 000)] = 14\ 000 \text{ units}$$

$$\text{OR Let BEP} = x; \text{ then } 15x - 210\ 000 = 0; \text{ and } x = 14\ 000 \text{ units}$$

(5)

1.2.4 **Comment on your calculation in 3.2.3. What advice would you offer to Kool Manufacturers? Briefly explain.**

Give credit if responses are based on an incorrect calculation above (see 1.2.3)

**Comment:** *Compare BEP to the 12 000 units produced* ✓

e.g. The business is not producing enough units – they are below the BEP which means that the business will be making a loss.

**Advice:** Explanation = 2 marks; Point provided without explanation = 1 mark; Incorrect = 0 marks

**Two marks:** ✓✓

- Look at ways of economising on fixed / variable costs to reduce costs so that the BEP decreases
- Find a cheaper supplier of raw materials to reduce unit costs
- Avoid overtime to reduce labour costs
- Train direct workers to work more efficiently to increase productivity
- Avoid wastage of raw materials to reduce unit costs
- Increase selling price provided it does not lead to a reduction in sales volumes
- Spend more on advertising to increase sales volumes

(3)

**One mark:**

- Increase selling price
- Advertise
- Change supplier of raw materials
- Increase production

[55]