GRADE 12

ACCOUNTING

LEARNER HOMEWORK SOLUTIONS
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## LEARNER HOMEWORK SOLUTIONS

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<td>15</td>
<td>Consolidation</td>
<td>10-12</td>
</tr>
</tbody>
</table>
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

1.1.2 The unit cost of production for suitcases

\[
330\,000 + 264\,000 + 400\,000 = 994\,000 / 2500 = \text{R397,60}
\]

Variable cost per unit for suitcases

\[
660\,000 / 2500 = \text{R264}
\]

1.1.3 Calculate the break-even point for the suitcases.

\[
\begin{align*}
\text{Fixed costs} \\
SP \text{ per unit} - \text{VC per unit} \\
400\,000 + 250\,000 \\
520 - 264 \\
= 650\,000 \\
256 \\
= 2\,539,1 = 2\,540 \text{ units}
\end{align*}
\]
1.1.4 Identify cost with appropriate figure ✅  ✅  ✅

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

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. ✅

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

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.
### 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

**Calculate the profit or loss on disposal of the computer:**

\[
22000 - 5500 - 1650 - 800 = R14\,050
\]

**OR**

\[
22000 - (5500 + 1650) - 800 = R14\,050
\]

**OR**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost price</strong></td>
<td>22000</td>
</tr>
<tr>
<td><strong>Accumulated depreciation (5500 ✓ + 1650 ✓✓)</strong></td>
<td>7150</td>
</tr>
<tr>
<td><strong>Carrying value</strong></td>
<td>14850</td>
</tr>
<tr>
<td><strong>Disposal/Bank</strong></td>
<td>(800)</td>
</tr>
<tr>
<td><strong>Loss on sale of asset</strong></td>
<td>14050</td>
</tr>
</tbody>
</table>

**Asset disposal**

| **Equipment** | 22000 |
| **Ignore details here** |      |

| **Acc dep (5500 ✓ + 1650 ✓✓)** | 7150 |
| **Bank** | 800 |
| **Loss on sale of asset** | ✓✓14050 |

| 22000 | 22000 |
### SOLUTION TO HOMEWORK: SESSION 14

**TOPIC: CORPORATE REPORTING**

#### 1.1.2 SIMPHIWE LTD

**INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2009**

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

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. ✓ ✓*

- 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.

<table>
<thead>
<tr>
<th>One principle provided</th>
<th>Explanation of reason: ✓ ✓ e.g.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock valuation method</td>
<td>Could lead to differences in profit</td>
</tr>
<tr>
<td>Valuation of fixed assets (historical cost &amp; depreciation)</td>
<td>Could lead to differences in profit or net asset value</td>
</tr>
<tr>
<td>Matching principle</td>
<td>Income &amp; expenses must be matched in correct accounting period</td>
</tr>
<tr>
<td>Prudence principle</td>
<td>Results must be conservatively reported</td>
</tr>
<tr>
<td>Going-concern principle</td>
<td>Affects valuation of assets</td>
</tr>
</tbody>
</table>

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)
1.1.2 PRODUCTION COST STATEMENT OF BAKONA BIN MANUFACTURERS

FOR THE YEAR ENDED 28 FEBRUARY 2009  
TOTAL

<table>
<thead>
<tr>
<th>Description</th>
<th># See 1.1.1</th>
<th>#</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct/Raw materials cost</td>
<td></td>
<td>1,652,100</td>
<td></td>
</tr>
<tr>
<td>Direct labour cost</td>
<td>✓ Details</td>
<td>1,451,520</td>
<td></td>
</tr>
<tr>
<td>Direct/Prime cost</td>
<td>Check</td>
<td>3,103,620</td>
<td></td>
</tr>
<tr>
<td>Factory overhead cost</td>
<td>✓ Details</td>
<td>620,110</td>
<td></td>
</tr>
<tr>
<td><strong>Total cost of production</strong></td>
<td>✓</td>
<td>3,723,730</td>
<td></td>
</tr>
<tr>
<td>Work-in-process on 1 March 2008</td>
<td>✓</td>
<td>169,500</td>
<td></td>
</tr>
<tr>
<td>R169 500 must be +ve</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3,893,230

| Description                              | ✓           | (120,600)|            |
| Work-in-process on 28 February 2009      |             |          |            |
| R120 600 must be -ve                     |             |          |            |

| Description                              | ✓           | 3,772,630| (10)       |
| Cost of production of finished goods     | Check       |          |            |

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

3,772,630 ✓ See 3.1.2 Must be the numerator
58,000 ✓ 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

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

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 units
Must be numerator Must be denominator
OR R210 000 / [R40 – (R300 000 / 12 000)] = 14 000 units
OR Let BEP = x; then 15 x – 210 000 = 0; and x = 14 000 units
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

**One mark**:

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

[55]