JUNE 2013 EXAMINATION

DATE: 13 JUNE 2013

TIME: 14H00 – 17H00 TOTAL: 100 MARKS
DURATION: 3 HOURS PASS MARK: 40%

(NH-32 / UD-08)

BOOKKEEPING AND ACCOUNTING 3

THIS EXAMINATION PAPER CONSISTS OF 3 SECTIONS:

SECTION A: CONSISTS OF:
(i) 10 MULTIPLE-CHOICE QUESTIONS (10 MARKS)
(ii) 10 TRUE OR FALSE QUESTIONS (10 MARKS)
(iii) 10 MATCHING-STATEMENT QUESTIONS (10 MARKS)
ANSWER ALL THE QUESTIONS

SECTION B: CONSISTS OF 1 SHORT QUESTION
ANSWER THE QUESTION (10 MARKS)

SECTION C: CONSISTS OF 3 LONG ANSWER QUESTIONS
ANSWER ALL THE QUESTIONS (60 MARKS)

INSTRUCTIONS:

1. Read the following instructions carefully before answering the paper, as failure to act upon them will result in a loss of marks.
2. Write your answers in your answer book, which is provided in the exam.
3. Ensure that your name and student number are clearly indicated on your answer book.
4. Write your answers in either blue or black ink in your answer book.
5. Read each question very carefully before you answer it and number your answers exactly as the questions are numbered.
6. Begin with the question for which you think you will get the best marks.
7. Note the mark allocations for each question – give enough facts to earn the marks allocated.
   Don't waste time by giving more information than required.
8. You are welcome to use diagrams to illustrate your answers.
9. Please write neatly – we cannot mark illegible handwriting.
10. Any student caught cheating will have his or her examination paper and notes confiscated.
    The College will take disciplinary measures to protect the integrity of these examinations.
11. If there is something wrong with or missing from your exam paper or your answer book, please inform your invigilator immediately. If you do not inform your invigilator about a problem, the College will not be able to rectify it afterwards, and your marks cannot be adjusted to allow for the problem.
12. This paper may be removed from the examination hall after the examination has taken place.

NOTE: YOU MAY USE A NON-PROGRAMMABLE CALCULATOR.
SECTION A (30 MARKS)

ANSWER ALL THE QUESTIONS

(i) MULTIPLE-CHOICE QUESTIONS

Choose the correct option for each of the following. Write only the question number and your chosen answer. For instance, if you think that the correct answer for number 1 is (a), then write it as 1. (a).

1. Marginal income is calculated as:
   (a) sales less all production costs.
   (b) sales less variable cost.
   (c) sales less fixed cost of sales.
   (d) fixed cost less variable cost.

2. The budget that is prepared to determine how much of a particular product should be produced is known as:
   (a) the sales budget.
   (b) the cash budget.
   (c) the production budget.
   (d) the capital budget.

3. Sales less production costs equals:
   (a) marginal income.
   (b) gross profit.
   (c) net profit.
   (d) break-even value.

4. Which of the following are disadvantages of budgets?
   (a) estimates and forecasts can never be 100% accurate
   (b) it requires a lot of administrative work
   (c) it is expensive to implement
   (d) All of the above.

5. The use of untrained workers will result in:
   (a) a favourable labour variance.
   (b) an unfavourable material price variance.
   (c) an unfavourable overhead rate variance.
   (d) an unfavourable labour efficiency variance.

6. A decrease in the price of material will result in:
   (a) a favourable material price variance.
   (b) an unfavourable material price variance.
   (c) a favourable material quantity variance.
   (d) an unfavourable material quantity variance.
7. The capital budget reflects the planned investment in:
   (a) property, plant and equipment.
   (b) trade receivables (debtors).
   (c) inventory (stock).
   (d) current assets.

8. If a cost accountant needs information relating to direct wages, he will study
   the:
   (a) clock cards.
   (b) stock cards.
   (c) invoices from suppliers.
   (d) statements sent to customers.

9. A possible reason for an unfavourable material quality variance is:
   (a) waste of material.
   (b) price increase of material.
   (c) material bought from a new supplier.
   (d) job costing.

10. When calculating the labour rate variances, if the standard rate for labour is
    less than the actual rate paid for labour, this will yield:
    (a) a favourable variance
    (b) an unfavourable variance
    (c) zero variance.
    (d) an improbable variance

(ii) TRUE OR FALSE QUESTIONS

Indicate whether the following statements are True or False. Motivate all your
answers.

1. According to the weighted average method of stock valuation, material that
   is received last is issued first.

2. Break-even point is a point where gross profit is equal to the sales.

3. Economic order quantity (EOQ) – the inventory costs are minimised when
   the size of an order is such that the cost of ordering equals the cost of
   carrying that specific quantity of inventory.

4. Bad debts recovered, is entered in the cash budget.

5. Financial accounting provides information for internal users.

6. Management accounting does not necessarily follow an accounting
   framework.

7. Future value = present value / (1 + interest rate)^number of compounding periods
8. The standard costing system uses standard rates and volumes, direct materials, direct labour and manufacturing overheads.

9. Direct labour is equal to touch labour.

10. Purchasing costs are the expenses incurred to prevent the production of inferior quality products. [10]

(iii) MATCHING-STATEMENT QUESTIONS

Match the statements in Column B to the terms in Column A. Write down the answers only, for example 1. (a).

<table>
<thead>
<tr>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) conversion costs</td>
<td>1. the total cost reflecting on an invoice for a cell phone contract (cost of contract plus cost of calls made)</td>
</tr>
<tr>
<td>(b) whistle blowing</td>
<td>2. Actual Costs × Actual Quantity) – (Standard Costs × Actual Quantity)</td>
</tr>
<tr>
<td>(c) semi-variable costs</td>
<td>3. the actual costs for direct material and direct labour and normal cost for manufacturing overheads using predetermined rates</td>
</tr>
<tr>
<td>(d) direct labour rate variance</td>
<td>4. inventory items that were ordered and paid for but still need to be delivered</td>
</tr>
<tr>
<td>(e) material issue variance</td>
<td>5. the sum of direct labour costs and total overhead costs</td>
</tr>
<tr>
<td>(f) lead time</td>
<td>6. expenses that were already incurred, which cannot be changed by present or future decisions</td>
</tr>
<tr>
<td>(g) normal costing system</td>
<td>7. an employee reports the unethical conduct of a co-worker anonymously</td>
</tr>
<tr>
<td>(h) work-in-process</td>
<td>8. the time interval between when an order is placed and when the order is finally received from the supplier</td>
</tr>
<tr>
<td>(i) stock-in-transit</td>
<td>9. the balance of the manufacturing account will represent the cost of the items which have entered the manufacturing process but which have not yet been completed at the end of the financial year</td>
</tr>
<tr>
<td>(j) sunk costs</td>
<td>10. (Actual Rate – Standard Rate) Actual Time</td>
</tr>
</tbody>
</table>

[10] [30]
SECTION B: SHORT QUESTION  
(10 MARKS)

ANSWER THE QUESTION

QUESTION 1

Explain the following terms:

(a) buffer stock  
(b) unit cost  
(c) budgeted manufacturing overheads  
(d) applied manufacturing overheads  
(e) ‘time value’ of money

[10]
QUESTION 1

Examine this break-even graph and answer the questions that follow:

(a) Provide a label / title for Line AF. (1)
(b) Provide a label / title for Line FG. (1)

Briefly explain the following:

(c) line CE. (2)
(d) line CD (2)
(e) line FB (2)
(f) area I (2)
QUESTION 2

Bio-Max Manufacturers wants to buy new machinery to increase the capacity of production. You were approached to help the finance department to make a decision and to decide between two machines. Examine the information below and answer the questions that follow:

Machine Jazz

<table>
<thead>
<tr>
<th>the purchase price of the machinery</th>
<th>R650 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>the life-span of the machinery</td>
<td>7 years</td>
</tr>
<tr>
<td>interest rate</td>
<td>15%</td>
</tr>
</tbody>
</table>

Savings over the next five years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Amount</th>
<th>Discounting Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>year 1</td>
<td>R83 000</td>
<td>0.870</td>
</tr>
<tr>
<td>year 2</td>
<td>R131 000</td>
<td>0.756</td>
</tr>
<tr>
<td>year 3</td>
<td>R189 000</td>
<td>0.658</td>
</tr>
<tr>
<td>year 4</td>
<td>R237 000</td>
<td>0.572</td>
</tr>
<tr>
<td>year 5</td>
<td>R335 000</td>
<td>0.497</td>
</tr>
</tbody>
</table>

Machine Soul

<table>
<thead>
<tr>
<th>the purchase price of the machinery</th>
<th>R1 600 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>the life-span of the machinery</td>
<td>7 years</td>
</tr>
<tr>
<td>interest rate</td>
<td>12%</td>
</tr>
</tbody>
</table>

Savings over the next five years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Amount</th>
<th>Discounting Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>year 1</td>
<td>R681 624</td>
<td>0.893</td>
</tr>
<tr>
<td>year 2</td>
<td>R681 624</td>
<td>0.797</td>
</tr>
<tr>
<td>year 3</td>
<td>R681 624</td>
<td>0.712</td>
</tr>
<tr>
<td>year 4</td>
<td>R681 624</td>
<td>0.636</td>
</tr>
<tr>
<td>year 5</td>
<td>R681 624</td>
<td>0.567</td>
</tr>
</tbody>
</table>
Calculate which machines should be purchased. Use the Discounted Cash Flow method. Round off your answers to two decimal places. Provide a reason for your answer. [20]

**QUESTION 3**

Ntombi Mdladla opened up Crafts for Africa. She specialises and sells African arts and crafts. She bought all her paintings, woodcarvings, wire toys, African beads and printed material from the local rural community. Previously she worked for a big business, which catered for the tourist market and exported goods.

Use the scenario above and answer the following questions:

(a) Define the term business 'ethics'. (2)

(b) Briefly explain the importance of ethics in business. (2)

(c) In future when Crafts for Africa expands as a business venture, Ntombi will be faced with challenges such as the employment of new staff and giving back to the community.

Discuss the responsibility of Crafts for Africa with regard to these challenges in line with the code of ethics. (4)

(d) Give the meaning of each of the following business principles and indicate how Ntombi should reflect this in a code of ethics.

   i. professionalism (2)
   ii. diligence (2)
   iii. fairness (2)

(e) Ntombi will be required to implement a system of internal controls for the accounting records to ensure that the objectives and goals of the business are achieved. Briefly describe the following internal controls:

   i. recording of accounting transactions (2)
   ii. completeness of recording (2)

(f) In the running of the business, Crafts for Africa will incur controllable costs and uncontrollable cost.

Provide an example of each of these costs. (2) [20]

[60]