NATIONAL SENIOR CERTIFICATE EXAMINATION
SUPPLEMENTARY EXAMINATION – MARCH 2016

ACCOUNTING: PAPER I

Time: 2 hours | 200 marks

INFORMATION BOOKLET

<table>
<tr><td colspan="2">$\frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1}$</td><td colspan="2">$\frac{\text{Gross Profit}}{\text{Cost of sales}} \times \frac{100}{1}$</td><td colspan="2">$\frac{\text{Net Profit}}{\text{Sales}} \times \frac{100}{1}$</td></tr>
<tr><td colspan="2">$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$</td><td colspan="2">$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$</td><td colspan="2">$\frac{\text{Operating profit}}{\text{Cost of sales}} \times \frac{100}{1}$</td></tr>
<tr><td colspan="3">$\frac{\text{Net profit after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$</td><td colspan="3">$\frac{\text{Net profit before tax + interest expense}}{\text{Average capital employed}} \times \frac{100}{1}$</td></tr>
<tr><td colspan="3">Current assets : Current liabilities</td><td colspan="3">(Current assets – inventories) : Current liabilities</td></tr>
<tr><td colspan="2">$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365 \text{ or } 12}{1}$</td><td colspan="2">$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365 \text{ or } 12}{1}$</td><td colspan="2">$\frac{\text{Cost of sales}}{\text{Average inventories}}$</td></tr>
<tr><td colspan="2">$\frac{\text{Average inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$</td><td colspan="2">$\frac{\text{Closing inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$</td><td colspan="2">Current assets – Current liabilities</td></tr>
<tr><td colspan="3">Non-current liabilities : Shareholders' equity</td><td colspan="3">Total assets : Total liabilities</td></tr>
<tr><td colspan="3">$\frac{\text{Profit after tax}}{\text{No. shares in issue}}$</td><td colspan="3">$\frac{\text{Ordinary share dividends}}{\text{No. shares in issue}}$</td></tr>
<tr><td colspan="3">$\frac{\text{Fixed cost}}{\text{(selling price per unit – variable cost per unit)}}$</td><td colspan="3">$\frac{\text{Total ordinary shareholders' equity}}{\text{No. shares in issue}}$</td></tr>
</table>

QUESTION 1 MANUFACTURING (45 marks; 25 minutes)

Information relating to Crossfit Manufacturers

Crossfit Manufacturers specialises in the production of rugby boots. The following information relates to the business:

- The business has a manufacturing factory, an administration office, as well as a selling and distribution centre.
- They sell their goods at a mark-up of 60% on cost at all times.
- Their financial year ends annually on 31 January.

INFORMATION FOR PART A

1. The following stock balances were found amongst others in the accounting records:

	31 January 2016	1 February 2015
Raw materials stock	175 000	3 125 000
Indirect materials stock	80 000	62 500
Work-in-progress stock	?	2 125 000
Finished goods stock	1 812 500	2 937 500

2. Raw materials
   - Credit invoices received totalled R450 000
   - Cash purchases of raw materials R675 000
   - Debit notes issued to suppliers for raw materials totalled R64 500
   - Raw materials destroyed by water damage R75 000

3. Direct Labour costs
   - The factory workers earn a **total net monthly salary** of R175 000. The total employees deductions per month remain constant and are **always rounded up to the nearest rand**. Deductions for the month are as follows:

SARS – PAYE	R41 580
UIF	R1 750
Outsure Medical Aid	R1 500
SA Pension Fund	R14 000

   - The business makes the following contributions to salaries:

SA Pension Fund	10% of the gross monthly salary
UIF	1% of gross monthly salary per month (ignore the **maximum** of R148,72 per month for UIF)
Outsure Medical Aid	Rand-for-Rand

4. Indirect materials
   - Indirect materials purchased during the year R67 000
   - Defective indirect materials returned to suppliers R3 500
   - 25% of the indirect materials were used in the administration and selling and distribution departments. The balance was allocated to the factory.

5. Rent, Water and Electricity are apportioned in the ratio 5 : 2 : 1 in relation to the manufacturing, administration and selling & distribution departments **unless otherwise stated**.

6. The post-adjustment trial balance on 31 January 2015, the end of the previous financial year, reflected a prepaid expense of R50 000. This amount was February 2015's rent. The rent was increased by R5 000 per month on 1 December 2015.

7. Water and electricity for the year for **administration** amounted to R80 000.

8. Depreciation for the year:

Factory machinery	R350 000
Office computers and electronics	R19 500
Delivery vehicle	R57 500

9. The total gross sales for the year amounted to R12 375 000, and the debtors' allowances were R375 000.

INFORMATION FOR PART B

Use the following assumptions when calculating your break-even point:
- 15 000 pairs of rugby boots were actually sold during the year.
- The sales for the year are the same as in Information for Part A (point 9) above.
- Total fixed costs for the year amounted to R1 050 000.
- Total variable costs for the year amounted to R825 000. The variable cost per unit has remained constant over the last two years.
- All administration costs, and selling and distribution costs are treated as **fixed costs**.

QUESTION 2 COMPANY FINANCIAL STATEMENTS (80 marks; 48 minutes)

This question consists of **two separate parts**. Each part must be treated independently.

PART A (9 marks)

Information relating to Steinric Limited

INFORMATION

1. Steinric Limited has an authorised share capital of 10 000 000 ordinary shares

2. The financial year ends on 29 February 2016.

3. The following information relates to the issued share capital of Steinric Limited:
   - On 1 March 2015 the company had issued 4 000 000 ordinary shares at 220 cents each.
   - On 30 June 2015 the company sold a further 2 200 000 ordinary shares at 265 cents each.
   - On 31 October 2015 a further 1 800 000 ordinary shares were sold at 272 cents each.
   - The directors repurchased 100 000 ordinary shares at 276 cents per share from a shareholder.

PART B **(71 marks)**

Information relating to Hwange Limited

A.

Hwange Limited
Pre-adjustment trial balance as at 29 February 2016

	DEBIT	CREDIT
Balance Sheet Section		
Ordinary share capital (950 000 ordinary shares on 1 March 2015)		1 900 000
Retained income (1 March 2015)		215 680
Mortgage bond: First Rand Limited		577 400
Plant and Property	1 620 000	
Vehicles	1 026 000	
Equipment	471 200	
Accumulated depreciation on vehicles		357 200
Accumulated depreciation on equipment		147 880
Debtors' control	206 580	
Creditors' control		40 960
Trading stock	139 460	
Bank	180 080	
Cash float	2 000	
SARS – Income Tax	114 284	
Nominal Account Section		
Sales		2 661 900
Debtors' allowances	66 540	
Cost of sales	1 662 500	
Stationery	3 260	
Discount received		68 820
Bad debts	2 700	
Bad debts recovered		1 100
Insurance	45 600	
Interest on loan	64 600	
Bank charges	11 540	
Rent income		248 064
Salaries and wages	328 860	
Asset disposal		6 200
Directors fees	220 000	
Interest on current account		8 000
Ordinary share dividends	68 000	
	6 233 204	6 233 204

B. Adjustments and additional information.

1. The rent received from the tenant included the rent for March 2016. The rent was increased by R1 824 per month on 1 October 2015.

2. A debtor, J Cope, whose account had previously been written off as a bad debt, paid R1 320. This amount was incorrectly credited to the bad debts account in error.

3. Another debtor, A Faulds, who owes R7 600, has been declared insolvent. Her estate paid out an amount of 25 cents in the rand, and she also gave inventory costing R4 200 to the business as a part payment. These two entries have been recorded. The balance of her account needs to be written off.

4. According to a physical stock count on 29 February 2016, trading stock with a value of R141 500 was on hand.

5. $^{1}/_{3}$ of the director's fees are still outstanding.

6. An annual insurance premium of R17 100 was paid on 1 January 2016.

7. The stationery amount closed off to the Profit and Loss account on 29 February 2016 was R2 970.

8. The pre-adjustment trial balance reflects an asset disposal figure of R6 200. This relates to equipment that was sold for R6 200 cash on 31 October 2015. No other entries in respect of the sale have been made. The cost price of the equipment was R12 000. The **carrying value** as at the date of sale was R5 400.

9. A new vehicle costing R266 000 was purchased on 1 November 2015 and has been correctly recorded. Depreciation on vehicles is calculated at 30% p.a. on the diminishing balance method. No vehicles were sold during the year.

10. Depreciation on the all the **equipment**, including the asset disposal, was calculated to be R35 040.

11. Interest on the Mortgage bond is charged at 10, 5% p.a. and is not capitalised. There were no changes to the loan during the year.

12. On 29 February 2016, Hwange Limited repurchased 50 000 ordinary shares from a shareholder at R2,30 per share. The weighted average per share on this date was R2,00 per share. No other share transactions occurred during the year.

13. The directors declared a final dividend of R135 000 on 29 February 2016. All the shares, including those repurchased, qualify for the dividend.

14. The post-adjustment trial balance on 29 February 2016 reflected a debit balance in the SARS – Income tax account of R2 084.

QUESTION 3 CASH FLOW STATEMENTS (50 marks; 30 minutes)

Information relating to Nedstart Ltd

1. Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 31 December 2015:

	R
Cost of sales	3 300 000
Depreciation	57 000
Income tax	313 600

2. Extract from the Statement of Financial Position (Balance Sheet) as at 31 December:

	2015	**2014**
	R	R
Fixed assets		
Tangible assets	6 484 200	6 048 200
Current assets	?	557 800
Inventory	?	382 000
Trade and other receivables	148 000	127 800
Cash and cash equivalents	?	68 000
Ordinary shareholders' equity	6 518 200	5 999 800
Ordinary share capital	5 700 000	5 400 000
Retained income	818 200	599 800
Non-current liabilities	320 000	400 000
Mortgage bond at Stanfin Bank	320 000	400 000
Current liabilities	?	206 200
Trade and other payables	234 000	206 200
Bank overdraft	?	–

3. Extract from the notes to the financial statements as at 31 December:

Note 5 Trade and other receivables

	2015	**2014**
	R	R
Trade debtors	132 000	110 000
Prepaid expenses (Advertising)	16 000	4 400
SARS – Income tax	–	13 400
	148 000	127 800

Note 9 Trade and other payables

	2015	**2014**
	R	R
Trade creditors	142 800	134 200
SARS – VAT	7 000	26 000
SARS – Income tax	4 200	–
Shareholders for dividends	80 000	46 000
	234 000	206 200

4. Additional information relating to Nedstart Ltd:

- The loan statement reflected the following on 31 December 2015:

	R
Balance on 1 January 2015	?
Capitalised interest on loan	50 350
New loan taken out on 1 June 2015	130 000
Capital and interest repayments during the year	?
Balance on 31 December 2015	?

- Nedstart Ltd had 1 350 000 issued shares on 1 January 2015.
- Additional shares were sold at R3 per share on 1 July 2015. No shares were repurchased during the year.
- Nedstart Ltd declared and paid an interim dividend of 30 cents per share on 1 September 2015. All shares qualified for this dividend.
- The period for which the closing stock on 31 December 2015 is expected to last is 73 days.
- Fixed assets were purchased during the year.
- A machine was sold during the year at its carrying value of R5 000.

QUESTION 4 VAT AND CASH BUDGETS (25 marks; 17 minutes)

Information relating to Multizone Sports

This question consists of **two parts**. Both parts relate to Multizone Sports, but must be treated independently of each other.

Multizone Sports supplies various sporting equipment to gyms and sports retailers. The following information applies to the business:

- Multizone is a registered VAT vendor, and charges VAT at 14%. They use the invoice basis to record VAT transactions.
- The gyms and sports retailers they supply are all registered VAT vendors.
- The business submits a VAT return bi-monthly, i.e. February, April, June, August, October and December.

PART A

INFORMATION FOR PART A

1. All goods are sold to customers for cash, and all goods are purchased on credit from suppliers.

2. Creditors are paid in full after 30 days.

3.

Multizone Sports
Cash budget for the period December 2015 to January 2016

	December 2015		January 2016	
	Budget	**Actual**	**Budget**	**Actual**
Cash Receipts				
Sales	375 000	600 000	300 000	300 000
Loan	0	0	150 000	125 000
Fee Income	111 250	141 000	95 050	95 050
Rent income	12 500	0	12 500	12 500
TOTAL RECEIPTS	**498 750**	**741 000**	**557 550**	**532 550**
Cash Payments				
Creditors payments	300 000	312 500	250 000	187 500
Loan and interest repayments	11 500	11 500	17 500	17 500
Delivery vehicle	0	430 000	0	0
Additional operating expenses	54 000	54 000	85 500	68 400
SARS – VAT	8 700	68 900	0	0
Salaries and wages	55 000	102 500	68 500	68 500
Managers' salaries (2 managers earning R20 000 per month each)	40 000	80 000	52 000	52 000
Shop assistants wages (3 assistants earning R5 000 per month each)	15 000	22 500	16 500	16 500
TOTAL PAYMENTS	**429 200**	**979 400**	**421 500**	**341 900**
Cash surplus (deficit)	69 550	(238 400)	136 050	190 650
Opening bank balance	(30 000)	(30 000)	39 550	(268 400)
Closing bank balance	39 550	(268 400)	175 600	(77 750)

PART B

INFORMATION FOR PART B

Transactions and information relating to February 2016:

1. The VAT control account reflected that Multizone Sports owed SARS an amount of R8 120 on 1 February 2016.
2. The owner took sports equipment for his own personal use. The VAT on this transaction amounted to R912.
3. Returned defective stock to the supplier. The debit note reflected an amount of R2 200 (VAT exclusive).
4. Multizone Sports disposed of a second-hand vehicle at a loss of R6 000 on 29 February 2016. The book value of the vehicle as at the date of sale was R74 000. The depreciation on this vehicle had been recorded up to the 29 February 2016. Input VAT was claimed when this vehicle was originally bought.
5. R3 420 (VAT inclusive) worth of stock was stolen during a burglary. The insurance will pay out R2 280 (VAT inclusive) of this amount in March 2016.