NATIONAL SENIOR CERTIFICATE EXAMINATION
SUPPLEMENTARY EXAMINATION – MARCH 2017

ACCOUNTING: PAPER I

Time: 2 hours | 200 marks

INFORMATION BOOKLET

$\frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross Profit}}{\text{Cost of sales}} \times \frac{100}{1}$	$\frac{\text{Net Profit}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net profit before tax} + \text{Interest expense}}{\text{Average capital employed}} \times \frac{100}{1}$	
Current assets : Current liabilities	(Current assets – Inventories) : Current liabilities	
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Cost of sales}}{\text{Average inventories}}$
$\frac{\text{Average inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Closing inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$	Current assets – Current liabilities
Non-current liabilities : Shareholders' equity	Total assets : Total liabilities	
$\frac{\text{Profit after tax}}{\text{No. shares in issue}}$	$\frac{\text{Ordinary share dividends}}{\text{No. shares in issue}}$	
$\frac{\text{Fixed cost}}{(\text{Selling price per unit} - \text{Variable cost per unit})}$	$\frac{\text{Total ordinary shareholders' equity}}{\text{No. shares in issue}}$	

QUESTION 1 VAT, ASSET MANAGEMENT AND INVENTORY SYSTEMS

(61 marks; 36 minutes)

Refer to the information below relating to Xceleron Dealers.

This question consists of THREE PARTS, and each part must be treated independently of the others.

PART A VAT (16 marks)

The following information relates to Xceleron Dealers for February 2017:

Information:

A. Xceleron Dealers is a registered VAT vendor, and uses the invoice basis to record its transactions.

B. Xceleron Dealers makes bimonthly payments to SARS and the next payment is due on 25 March 2017.

C. VAT is recorded at 14%.

D. The balance on the VAT control account on 1 February 2017 was R202 500 dr.

Transactions for February 2017:

1. Total credit sales for February amounted to R1 060 200 (VAT inclusive).
2. Cash purchases for February 2017 amounted to R615 000 (VAT exclusive). Included in this amount are purchases of R120 000 VAT exempt items.
3. Bad debts written off during February amounted to R1 197 (VAT inclusive).
4. Debtors paid R11 400 in full settlement of their debts of R12 654.
5. The owner took trading stock with a cost price of R1 950 (VAT exclusive) for his own personal use.
6. The accountant discovered that a posting error had been made in January 2017. The VAT portion on a donation of stock had incorrectly been entered as R228 instead of R828. This error needs to be corrected.

PART B TANGIBLE ASSET ANALYSIS (24 marks)

The following Tangible asset note was found in the Statement of financial position of Xceleron Dealers on 28 February 2017.

	VEHICLES	MACHINERY
	R	**R**
Carrying value at the beginning of the year	580 450	28 800
Cost	960 000	240 000
Accumulated depreciation	(379 550)	(211 200)
MOVEMENTS DURING THE YEAR		
Additions		540 000
Disposals	**(a)**	–
Depreciation for the year	**(b)**	(64 799)
Carrying value at the end of the year	**Do not calculate**	**504 001**
Cost	**Do not calculate**	780 000
Accumulated depreciation	**(c)**	

Additional information:

1. Depreciation is written off on Machinery at 20% p.a. using the fixed instalment method. Depreciation for the year on the old machinery amounted to R28 799.

2. Depreciation is written off on Vehicles at 25% p.a. using the diminishing balance method.

3. On 1 November 2016 an old vehicle, originally bought on 1 July 2014 for R450 000, was traded-in for R222 000 and a new vehicle costing R675 000 was purchased. The accumulated depreciation on the old vehicle sold was R168 750 on 1 March 2016.

PART C INVENTORY SYSTEMS (21 marks)

Xceleron Dealers uses the Periodic Inventory system to record its stock.

1. The following stock records were reflected in the accounting records for the year ending 28 February 2017:

	Units	Cost per unit	Total cost
Opening stock	600	R630	
Purchases and returns	3 910		R2 768 340
May 2016	960	R720	R691 200
June 2016	1 680	R711	R1 194 480
November 2016	1 200	R660	R792 000
November 2016	(500)	R660	(R330 000)
January 2017	570	R738	R420 660
Closing stock	1 590	?	?

2. The business sells stock at R1 140 per unit.

QUESTION 2 COMPANY FINANCIALS (64 marks; 40 minutes)

Information relating to Ndaka Limited

A.

Ndaka Limited
Extract of balances and totals from the Pre-adjustment trial balance as at 31 December 2016

	Debit	Credit
	R	R
Balance Sheet Section		
Ordinary share capital (1 950 000 ordinary shares)		5 226 000
Retained income		344 900
Tangible assets at carrying value	6 682 320	
Inventories	743 905	
Debtors Control	235 625	
Petty cash	27 000	
Mortgage bond: Finrite Financers		700 000
Provision for bad debts		9 000
SARS – Income tax	?	
Creditors control		122 600
Bank overdraft		86 750
Nominal Accounts Section		
Sales		?
Cost of sales	4 100 000	
Rent income		180 000
Commission income		?
Audit fees	108 000	
Directors fees	495 000	
Sundry expenses	323 750	
Provision for bad debts adjustment	1 850	
Bad debts	5 775	
Stationery	18 325	
Advertising	144 000	
Interest expense	129 000	
Ordinary share dividends	305 000	

B. Adjustments and additional information

1. Ndaka Limited applies a mark-up of 80% on cost. In order to clear obsolete stock the company had a number of discounted sales during the year. The total trade discounts given to customers during these sales amounted to R180 000.

2. An error in the recording of the provision for bad debts adjustment was made. The bookkeeper incorrectly treated the adjustment as an **increase** rather than a **decrease** in the provision.

3. The commission income figure needs to be calculated. Included in this figure is commission of R3 150 that had been received in advance.

4. Operating expenses on **net** sales was calculated as 15% on 31 December 2016.

5. Auditors are owed a further R12 000 in fees for the financial year.

6. Directors earned a collective fee of R460 000 for their services for the financial year. Director A. Jones was paid a portion of her 2017 fees in advance and this has been recorded. No further transactions affecting directors' fees were recorded.

7. A debtor who owed R11 750 was declared insolvent. The company accepted his offer of R4 250 worth of stock in part payment of his account. His estate will pay out 65 cents in the rand on the amount still owing and this will be received in March 2017. The balance must be written off as irrecoverable. No entries have been made to record any of these transactions.

8. According to a physical stock count there was ? worth of stock on hand, and stationery **used** for the year amounted to R15 500.

9. On 1 January 2016, the SARS Income tax account reflected a credit balance of R30 000. Ndaka Limited paid SARS an amount of R360 000 as a provisional payment and to settle the outstanding balance. Another provisional payment of R250 000 was made to SARS during the year. These transactions have all been recorded. The SARS Income tax account reflected a **credit** balance of R14 500 on 31 December 2016.

10. A final dividend was declared, but not yet paid, making the **TOTAL** dividends for the year amount to R680 000.

11. Ndaka Limited makes monthly loan repayments of R6 075. All loan repayments have been made for the current year. The accountant has budgeted that these will remain the same in the next financial period.

12. Ndaka Limited did not issue any new shares during the financial year. On 31 December 2016 it repurchased 70 000 ordinary shares at a price of R4,10 per share. No entries have been made to record the repurchase.

QUESTION 3 CASH FLOW STATEMENTS (41 marks; 25 minutes)

Information relating to Avzelea LTD

A. Extract from the Statement of Comprehensive Income/Income Statement for the year ending 31 January 2017.

	R
Depreciation	304 500
Interest expense	70 200
Net income after taxation	1 540 800

B. Statement of Comprehensive Income/Balance Sheet as at 31 January:

	2017	**2016**
	R	**R**
Tangible assets	5 185 000	5 736 750
Current assets	4 203 100	2 442 650
Inventories	571 500	612 000
Trade and other receivables	2 476 600	1 826 150
Cash and cash equivalents	1 155 000	4 500
Ordinary Shareholders Equity	?	6 134 500
Ordinary share capital	?	5 000 000
Retained income	1 033 300	1 134 500
Mortgage bond	885 300	1 040 000
Current liabilities	819 500	1 004 900
Trade and other payables	819 500	810 200
Bank overdraft	0	194 700

C. Notes to the financial statements as at 31 January:

Trade and other receivables

	2017	**2016**
	R	**R**
Debtors control	2 360 000	1 725 000
Income accrued (rent income)	13 050	12 000
SARS – VAT		16 400
SARS – Income tax	103 550	72 750
	2 476 600	1 826 150

Trade and other payables

	2017	**2016**
	R	**R**
Creditors control	336 000	549 000
SARS – VAT	23 100	
Expenses accrued (interest expense)	18 400	16 200
Shareholders for dividends	442 000	245 000
	819 500	810 200

D. Additional information

1. Interest on loan is **not** capitalised.

2. Income tax is calculated at 28% of net income before taxation.

3. The company paid interim dividends during the year and declared a final dividend at the end of the year. Dividends paid as per the cash flow statement on 31 January 2017 amounted to R1 445 000.

4. Tangible assets:

   - Land and buildings were sold **at their book-value of R1 147 250**.
   - Additional vehicles were purchased during the year. No other tangible assets were purchased or sold during the year.

5. The company has an authorised share capital of 1 300 000 ordinary shares. On 1 February 2016 the company had an issued share capital of 1 000 000 ordinary shares. On the same date, the company issued the remaining shares available at R5,50 per share.

QUESTION 4 MANUFACTURING (34 marks; 19 minutes)

Information relating to Slick Manufacturers

The business manufactures a slim-fit raincoat specifically designed for cyclists. Slick Manufacturers imports the lightweight material used to manufacture the raincoats from America. Its financial year ends on 31 December.

A.

Stock on hand :	**31 December 2016**	**31 December 2015**
Raw materials	R451 600	R47 250
Finished goods	R602 550	R142 550

There was no work-in-progress at the beginning or end of the financial year.

B. **Purchases of raw materials:**

	Number of metres of material	**Price per metre**	**Total cost**
Purchases	27 500		R1 618 800
March 2016	13 600	R51	R693 600
August 2016	8 400	R63	R529 200
November 2016	5 500	R72	R396 000

C. **Purchases returns:**

Month in which the stock had been bought	**Number of metres of material**	**Price per metre**	**Total cost**
March 2016	150	R51	R7 650
November 2016	50	?	?

D. **Import duties of R41 800 were paid for raw material imported during the year.**

E. **Labour costs:**

	Number of employees	**Basic monthly salary/wage**	**TOTAL**	**OVERTIME**	
				Number of hours	**Rate**
Direct labour	15	R8 000	R1 440 000	Each employee worked 40 hours overtime	R110 per hour
Factory supervisors	2	R20 000	R480 000		

- Factory supervisors do not get paid overtime.
- All employees are required to belong to the business's pension fund, and by law the UIF. Pension deduction is 10% and UIF is 1% of basic salary.
- Slick Manufacturers contributes 12% to the pension fund, and on a rand-for-rand basis to the UIF.
- Overtime is not subjected to pension or UIF deductions or contributions.

F. **Additional information**

- Selling and distribution costs are regarded as variable while administration and factory overheads are regarded as fixed.
- Total fixed costs for the year, R351 800. Included in this figure is administration costs of R80 000.
- A total of **6 000 raincoats were produced and sold** during the financial year.
- Raincoats are sold for R825 each.
- The intended mark-up on the raincoats is 120% on cost.