**ACCN**



# ISEBE LEMFUNDO LEMPUMA KOLONI

EASTERN CAPE EDUCATION DEPARTMENT

OOS-KAAP ONDERWYSDEPARTEMENT

IIMVIWO ZEBANGA LOKUGQIBELA

NATIONAL SENIOR CERTIFICATE EXAMINATION

NASIONALE SENIOR SERTIFIKAAT-EKSAMEN

**SEPTEMBER 2009**

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| **ACCOUNTING** |

##### IXESHA: 3 iiyure TIME: 3 hours TYD: 3 uur

**AMANQAKU: 300 MARKS: 300 PUNTE: 300**

*Write on the cover of your answer book, after the word “Subject” –*

**ACCOUNTING**

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| --- |
| This examination paper consists of 17 pages. |

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| **INSTRUCTIONS AND INFORMATION** | |
|  |  |
| 1. | You are provided with a question paper and an answer book. |
|  |  |
| 2. | This question paper comprises SIX compulsory questions. Answer all the questions. |
|  |  |
| 3. | Use the formats provided in the answer book in order to reflect your answers. |
|  |  |
| 4. | Where applicable workings must be shown in order to achieve part-marks. |
|  |  |
| 5. | You must attempt to comply with the suggested time allocation guide. |
|  |  |
| 6. | Non-programmable calculators may be used. |
|  |  |
| 7. | You may use dark pencil or blue/black ink to answer questions. |

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| |  |  | | --- | --- | | **QUESTION 1: 38 marks; 23 minutes** | | | **The topic of the question is:** | **The learning outcomes covered are:** | | Reconciliations and Fixed assets | LO1 Financial information  AS4 Analyse and interpret bank, debtors and   creditors reconciliation  LO3 Managing resources  AS6 Apply internal control and audit processes | |
| |  |  | | --- | --- | | **QUESTION 2: 56 marks; 34 minutes** | | | **The topic of the question is:** | **The learning outcomes covered are:** | | Company balance sheet and auditing | LO1 Financial information  AS5 Prepare, analyse and interpret financial  statements  LO3 Managing resources  AS6 Apply internal control measures | |
| |  |  | | --- | --- | | **QUESTION 3: 56 marks; 33 minutes** | | | **The topic of the question is:** | **The learning outcomes covered are:** | | Manufacturing | LO1 Managerial accounting  AS1 Prepare production cost statement  LO3 Managing resources  AS6 Analysing and applying audit principles | |
|  |
| |  |  | | --- | --- | | **QUESTION 4: 31 marks; 19 minutes** | | | **The topic of the question is:** | **The learning outcomes covered are:** | | Cash budget | LO2 Managerial accounting  AS3 Analyse and interpret cash budgets  LO3 Managing resources  AS6 Apply internal control measures | |
| |  |  | | --- | --- | | **QUESTION 5: 40 marks; 24 minutes** | | | **The topic of the question is:** | **The learning outcomes covered are:** | | VAT and stock systems | LO1 Financial information  AS7 Apply VAT principles  LO3 Managing resources  AS4 Different valuation methods  AS5 Code of ethics | |

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| |  |  | | --- | --- | | **QUESTION 6: 79 marks; 47 minutes** | | | **The topic of the question is:** | **The learning outcomes covered are:** | | Cash flow and interpretation of financial statements | LO1 Financial information  AS5 Prepare and interpret financial statements  LO3 Managing resources  AS5 Code of ethics | |

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| **Question 1** | | | |
|  | | | |
| **Reconciliations and internal control (38 marks; 23 minutes)** | | | |
|  | | | |
| 1.1 | You are provided with the debt collection policy and the debtor’s age analysis of Radebe Stores. Study the debtors’ age analysis and answer the questions that follow. | |  |
|  |  | |  |
|  | DEBTORS COLLECTION POLICY | |  |
|  |  | |  |
|  | 1. | Debtors who settle within 30 days qualify for 5% discount for prompt payment. |  |
|  |  |  |  |
|  | 2. | 1. Interest is charged as follows:   3% on accounts overdue for 31 − 60 days.  5% on accounts overdue for 61 − 90 days. |  |
|  |  |  |  |
|  | 3. | 1. Accounts overdue for more than 90 days are handed over to the attorneys for collection. |  |
|  |  | |  |
| **Radebe Stores** | | |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Debtors age analysis on 31 March 2009** | | | | | |
| **Name** | **Current** | **31** − **60** | **61** − **90** | **>90** | **Total** |
| Mathew | 6 250 | 2 100 |  |  | 8 350 |
| Indira |  |  | 6 224 |  | 6 224 |
| Carl | 13 632 |  |  |  | 13 632 |
| Rahul |  |  |  | 3 140 | 3 140 |
| Paul |  | 6 030 | 420 |  | 6 450 |
| Total | 19 882 | 8 130 | 6 644 | 3 140 | ? |

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| --- | --- | --- | --- |
| **QUESTIONS:** | | |  |
|  |  |  |  |
|  | 1. 1.1.1 | Mention any TWO possible mistakes that may occur when you prepare a debtors control and debtors list and how to correct it. | (4) |
|  |  |  |  |
|  | 1. 1.1.2 | What can we determine by looking at the age analysis above? Give TWO points. | (4) |
|  |  |  |  |
|  | 1. 1.1.3 | 1. What was the total amount owed by debtors on 31 March 2009? | (3) |
|  |  |  |  |
|  | 1.1.4 | Which debtor was not in arrears? | (1) |
|  |  |  |  |
|  | 1.1.5 | Since which month was Rahul overdue? | (1) |
|  |  |  |  |
|  | 1.1.6 | Does this business keep tight control over its debtors? Explain. | (4) |
|  |  |  |  |
|  | 1.1.7 | What percentage of the debtors is due? | (3) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 1.1.8 | What would you do to encourage debtors to pay their accounts on time? | | (2) |
|  |  |  | |  |
|  | 1.1.9 | Paul wishes to change his supplier and wants to settle his account by 1 April 2009. | |  |
|  |  |  | |  |
|  |  | (a) | Will he qualify for the 5% discount? | (1) |
|  |  |  |  |  |
|  |  | (b) | Calculate the final amount he has to pay to settle his account as at 1 April 2009. | (3) |
|  |  |  |  |  |
| **Question 1.2** | | | |  |
|  |  |  |  |  |
| **Asset Management** | | | |  |
|  |  |  |  |  |
| Study the extract from the Tangible Asset Register of Sureshcraft Traders below to answer the questions which follow. | | | |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Tangible Asset Register of Sureshcraft Traders | | | | | |  |  | | Fol 6 | |
| Description: Saira bench saw  Date of purchase: 1 March 2006 Date sold: 28 February 2009  Purchased from: Tools for Mzantsi Sold to: Mary Woods  Cost: **R7 000** Sold for: **R3 000**  **Depreciation: 10% p.a. on the diminishing balance** | | | | | | | | | | |
| **Date** | | | | **Depreciation** | **Accumulated depreciation** | | | **Carrying Value** | | |
| 28 February 2007 | | | |  |  | | |  | | |
| 28 February 2008 | | | |  |  | | |  | | |
| 28 February 2009 | | | |  |  | | |  | | |
|  | |  |  | | | | | | | |  | |
| 1.2 | | 1.2.1 | Complete the depreciation, accumulated depreciation and carrying value columns in the register in your answer booklet. | | | | | | | | (3) | |
|  | |  |  | | | | | | | |  | |
|  | | 1.2.2 | Calculate the profit/loss on the sale of the asset. | | | | | | | | (3) | |
|  | |  |  | | | | | | | |  | |
|  | | 1.2.3 | * + 1. The asset was replaced because the owner wanted a more technologically advanced one. Give ONE benefit a new bench saw will offer the business? | | | | | | | | (2) | |
|  | |  |  | | | | | | | |  | |
|  | | 1.2.4 | Consider the use and value of assets to answer the questions below. | | | | | | | |  | |
|  | |  |  | | | | | | | |  | |
|  | |  | (a) | Would the rate of depreciation be higher for vehicles or for computers? Motivate your answer. | | | | | | | (2) | |
|  | |  |  |  | | | | | | |  | |
|  | |  | (b) | Why would computers be replaced more often than vehicles? | | | | | | | (2) | |
|  | |  |  |  | | | | | | | **[38]** | |

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| **QUESTION 2** | | |  |
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| **COMPANIES – BALANCE SHEET AND AUDITING (56 marks; 34 minutes)** | | |  |
|  |  |  |  |
| You are provided with information relating to Tanveer LTD at their year-end,  30 June 2008. | | |  |
|  |  |  |  |
| **Required:** | | |  |
|  |  |  |  |
| 2.1 | Use the information provided to prepare the Balance sheet of Tropical Ltd  on 30 June 2008. Show workings in brackets to earn part-marks. | | (43) |
|  |  |  |  |
| 2.2 | Auditing: | |  |
|  |  |  |  |
|  | 2.2.1 | Briefly explain the difference in the duties performed by the internal auditor and the independent (external) auditor. | (3) |
|  |  |  |  |
|  | 2.2.2 | Briefly explain how an auditor should check that the figures shown for fixed assets and stock in the financial statements are reasonable. | (3) |
|  |  |  |  |
|  | 2.2.3 | What should the independent auditor do if he feels that the value for equipment is not reasonable? | (3) |
|  |  |  |  |
|  | 2.2.4 | Due to the change in demand, 300 units of the stock on hand cannot be sold at their normal selling price. A second-hand dealer is prepared to take them at below cost price. What advice do you have for the business and state the GAAP principle to be used? | (4) |
|  |  |  |  |
| **INFORMATION:** | | |  |
|  |  |  |  |
| 1. | The following information appeared in the books for fixed/tangible assets on  28 February 2009: | |  |
|  | * Land and buildings (cost) 460 000 * Vehicles (cost) 296 000 * Equipment (book/carrying value) 315 000 * Accumulated depreciation on vehicles 295 999 | |  |
|  |  | |  |
| 2. | Fixed deposit details are as follows:   * + - NBS Bank (12%) expires on 1 January 2012) R420 000     - Shilpa Bank (10%) expires on 1 June 2009) R35 000 | |  |
|  |  |  |  |
| 3. | Inventories comprise trading stock only. There are no consumable stores on hand. The business sells special cricket sets. During the year they sold  3 800 units at a mark-up of 60%. The business uses the weighted average method of valuing stock (round off to the nearest rand). Purchases from the manufacturers were in bulk as follows: | |  |

|  |  |  |
| --- | --- | --- |
| **Date** | **Per unit cost** | **Total units purchased** |
| 1 March 2008 | R 480 | 1 400 |
| 15 July 2008 | R 520 | 1 800 |
| 5 December 2008 | R 560 | 800 |

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| --- | --- | --- | --- |
|  | **NB:** Opening stock of 500 units was valued at R225 000. | |  |
|  |  |  |  |
| 4. | The authorised share capital comprises 600 000 ordinary shares of R2 par value. To date 400 000 of these shares have been issued. Half of the issued shares were issued at a premium of 60 cents per share. | |  |
|  |  |  |  |
| 5. | **The following figures were obtained from the notes to the financial statements:** | |  |

|  |  |
| --- | --- |
| Retained income/Accumulated profits at the beginning of the year | 160 000 |
| Net income after tax | 384 000 |
| Interim dividends paid | 78 000 |
| Final dividends declared | 18c per share |

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| 6. | **The loan statement from Warne Bank reflected the following:** | |  |

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| --- | --- |
| Balance at the beginning of the financial year | 320 000 |
| Repayment of loan: R6 200 per month | 74 400 |
| Interest capitalised | 48 600 |

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|  | An amount of R68 000 of the capital will be paid during the next financial year. | |  |
|  |  |  |  |
| 7. | **The following balance appeared in the General Ledger on  28 February 2009:** | |  |

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| --- | --- |
| Debtors control | 277 500 |
| Creditors control | 162 000 |
| Deferred income (received in advance) | 9 600 |
| Expenses payable (accrued) | 10 950 |

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|  | **Note:** Provision for bad debts is 5% of debtors | |  |

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| 8. | **Income tax:** | |  |
|  | * The tax liability for the year was R274 000 * SARS (income tax) at the beginning of year balance was R2 500 (dr.). * Provisional payment of R260 000 was made during the year. | |  |
|  |  |  |  |
| 9. | The missing figure represents cash and cash equivalents. | |  |
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| **Question 3** | | |  |
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| **manufacturing costs (56 marks; 33 minutes)** | | |  |
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| 3.1 | **NEETHU Manufacturers** | |  |
|  |  |  |  |
|  | Use the information, notes and adjustments below, as taken from the books of Neethu Manufacturers, to do the following: | |  |
|  |  |  |  |
|  | 3.1.1 | Calculate the following: |  |
|  |  | 1. Direct material costs | (7) |
|  |  | 1. Direct labour costs | (7) |
|  |  | 1. Manufacturing overheads | (12) |
|  |  |  |  |
|  | 3.1.2 | Prepare a Production cost statement for the period ending 28 February 2009. | (8) |
|  |  |  |  |
|  | 3.1.3 | Is the manufactured product labour-intensive or not? Give ONE reason for your answer. | (3) |
|  |  |  |  |
|  | **Information** | |  |
|  | **Opening balances on 1 March 2008** | |  |

|  |  |
| --- | --- |
| Raw material inventory | 32 000 |
| Work-in-progress stock | 22 000 |
| Finished goods on hand | 48 000 |
| Consumable stores | 600 |
| Factory and equipment (cost price) | 450 000 |
| Accumulated depreciation on factory and equipment | 90 000 |

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| --- | --- | --- |
|  | **Summary of transactions for the year ending 28 February 2009** |  |

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| --- | --- |
| Purchase of raw materials | 295 000 |
| Carriage on purchase of raw materials | 4 500 |
| Purchase of indirect raw material | 8 600 |
| Purchase of cleaning material (administrative) | 1 300 |
| Purchase of factory equipment (1 September 2008) | 25 000 |
| Production wages | 100 000 |
| Skills development levy (factory) | 1 000 |
| UIF (factory) | 1 000 |
| Salaries: factory staff | 70 000 |
| Salaries: Administrative staff | 80 000 |
| Salaries:Sales staff | 50 000 |
| Insurance: Factory | 6 950 |
| Water and electricity | 32 600 |
| Sundry expenses: Factory | 37 000 |
| Administration costs | 15 750 |
| Maintenance costs: Factory | 7 440 |
| Total sales and distribution costs | 72 600 |
| Total administrative costs | 160 400 |

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|  | **Notes and adjustments** | |  |
|  |  |  |  |
| 1. | The balance of consumables on 1 March 2008, includes the following:  Indirect material R500  Cleaning materials (administrative) R100 | |  |
|  |  |  |  |
| 2. | No entry has been made for R325 with regards to Mark Transport for the transport of raw materials to the factory. | |  |
|  |  |  |  |
| 3. | A calculation error was made during the physical stocktaking of raw materials, that has not yet been corrected on the inventory statements: 300 units at R4,50 each were erroneously calculated as having a value of R45 each (see no. 4) | |  |
|  |  |  |  |
| 4. | **Inventory on hand according to physical stocktaking on  28 February 2009:** | |  |

|  |  |  |
| --- | --- | --- |
| Raw material inventory |  | 31 000 |
| Work-in-progress stock |  | 18 000 |
| Finished goods |  | 28 500 |
| Consumable stores |  | 750 |
| administrative | 210 |  |
| Indirect material | 540 |  |

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| --- | --- | --- | --- | --- |
| 5. | The following information appears on the wages statement with regards to production wages for the last week of February 2009:  Gross wages R2 900  UIF R 29  Medical fund R 150  PAYE R 261  Net wages R2 460  NOTE: The employer matches contribution to the UIF on a rand-for-rand   basis. The employer contributes 1% of the gross wage to the skills   development levy. No entry with regards to any of the above was   made. | | |  |
|  |  | |  |  |
|  | **Additional information** | | |  |
|  |  |  | |  |
|  | 1. | 85% of all water and electricity was used by the manufacturing division. | |  |
|  | 2. | Depreciation on the factory and equipment has to be calculated at 10% per year on the carrying value. | |  |
|  | 3. | During the year 420 000 identical units were manufactured, and 415 230 units were sold. | | (37) |

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| **Question 3.2 MUMBAI MANUFACTURERS** | | | |  |
|  | | | |  |
| You are the accountant of Mumbai Manufacturers. You have compiled the information shown below. For the past two years, the business has been experiencing consistent losses although production costs are under control. You are tasked to assist in improving the business. | | | |  |
|  |  | | |  |
| **NOTE:** | | | |  |
| * There was no work-in-progress at the beginning or at the end of  each year. * Not all pairs of boots manufactured in 2009 were sold. * Selling and distribution cost includes marketing cost. * The selling price of similar quality pairs of boots produced by competitors is  R395. | | | |  |
|  |  |  | |  |
| **REQUIRED:** | | | |  |
|  |  | |  |  |
|  | 3.2.1 | | Calculate the following unit costs for 2009: |  |
|  |  | | 1. Direct material cost per unit. | (2) |
|  |  | | 1. Factory overhead cost per unit. | (2) |
|  |  | |  |  |
|  | 3.2.2 | | Give a reason for the change in factory overheads per unit between the two years. | (2) |
|  |  | |  |  |
|  | 3.2.3 | | Give a possible reason for the difference in the direct labour cost per unit. | (2) |
|  |  | |  |  |
|  | 3.2.4 | | Calculate the total number of units the business must produce in order to break-even (that is not to make a profit or a loss). Use the 2009 figures in your calculations. | (7) |
|  |  | |  |  |
|  | 3.2.5 | | Give TWO suggestions from the information given to improve profitability. (Quote figures to support your suggestion). | (4) |
|  |  | |  |  |
| **INFORMATION:** | | | |  |
|  |  | |  |  |
| **MUMBAI MANUFACTURERS** | | | |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Information from Income Statement** | **2009**  **Total in R** | **2009 Per unit R** | **2008**  **Totals in R** | **2008**  **Per unit R** |
| Sales  Cost of sales | 1630 000  (1048 000) | 407,50  (262) | 1062 000 (795 000) | 354  (265) |
| Gross profit | 582 000 | 145.50 | 267 000 | 89 |
| Administration cost (fixed cost)  Selling and distribution cost (variable cost) | (430 000)  (196 000) | (107,50)  (49) | (240 000) (150 000) | (80)  (50) |
| Net profit (loss) | (44 000) | (11) | (123 000) | (41) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Information from Production Cost Statement** |  |  |  |  |
| Direct material costs  Direct labour costs | 310 800  495 600 | ?  118 | 240 000  300 000 | 80  100 |
| Prime cost  Factory overheads (90% is fixed cost) | 806 400  294 000 | ?  ? | 540 000  285 000 | 180  95 |
| Total cost of production | 1 100 400 | 262 | 825 000 | 275 |
| Number of units produced | 4 200 pairs of boots | | 3 000 pairs of boots | |

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| **Question 4** | | |  |
|  |  |  |  |
| **Budgets (31 marks; 19 minutes)** | | |  |
|  |  |  |  |
| You are provided with the cash budget for Emile Sports Stores, traders in sportswear, for the period 1 March 2009 to 31 May 2009. | | |  |
|  |  |  |  |
|  |  | **Emile Sports Stores**  **Cash budget for the three months ending 31 May 2009.** |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **March 2009** | **April 2009** | **May 2009** |
| **Cash receipts** |  |  |  |
| Cash sales | 115 000 | 119 300 | 159 646 |
| Received from debtors | 162 000 | 163 210 | 164 220 |
| Rent income | 5 000 | 5 750 | **?** |
| Total receipts | 282 000 | 288 260 | 329 616 |
| **Cash payments** |  |  |  |
| Cash purchases from stock | 69 000 | 70 375 | 82 788 |
| Payments to creditors | 32 500 | 32 150 | 42 500 |
| Salaries and wages | 27 000 | 27 000 | 32 670 |
| Advertising |  | 1 500 |  |
| Vehicles |  | 99 000 |  |
| Sundry administration costs | 25 000 | 24 500 | 23 200 |
| Interest on loan | 500 | 500 | 375 |
| Repayment of loan |  |  | 10 000 |
| Total payments | 154 000 | 255 025 | 191 533 |
| **Cash surplus** | 128 000 | 33 235 | 138 083 |
| Bank account opening balance | (13 500) | 114 500 | 147 735 |
| Bank account closing balance | 114 500 | 147 735 | 285 818 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Questions** | | |  |
|  |  |  |  |
| 4.1 | In addition to their 10 sales employees, Emile Sports Stores will employ an additional salesman from 1 May 2009 and will also earn an equal salary as others. Calculate the percentage increase in the salaries. | | (5) |
|  |  |  |  |
| 4.2 | According to the rental agreement the rent is paid one month in advance  and rent increases yearly on 1 May. | |  |
|  |  |  |  |
|  | 4.2.1 | Why is the April budget reflecting the increase? | (1) |
|  |  |  |  |
|  | 4.2.2 | Calculate the percentage increase in rent. | (2) |
|  |  |  |  |
|  | 4.2.3 | Determine the budget figure for May 2009. | (2) |
|  |  |  |  |
| 4.3 | Explain why depreciation amount of R9200 per month does not appear in the cash budget. Give TWO other items that should not be reflected. | | (4) |

|  |  |  |  |
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| 4.4 | Comment on the pattern of the sundry administration budget. | | (2) |
|  |  | |  |
| 4.5 | Comment on the advertising budget. | | (2) |
|  |  |  |  |
| 4.6 | Interest on the loan is 15% per year payable end of the month. R10 000 will be paid back on the loan on 1 May 2009. What will the balance of the loan account be after this payment? | | (5) |
|  |  |  |  |
| 4.7 | Emile Sports Stores plan to extend and improve their buildings for an  amount of R150 000 in June 2009. Provide TWO suggestions with explanation as to how they can finance this venture. | | (4) |
|  |  |  |  |
| 4.8 | At the end of March 2009 they compared actual figures with budgeted figures and found the following: | |  |
|  |  |  |  |
|  | Compare and comment on each of the following categories. | |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Budgeted figures for March 2009** | **Actual figures for**  **March 2009** |  |
| Cash sales | 115 000 | 101 500 |  |
| Collection from debtors | **?** | 120 000 | (4) |

|  |  |  |  |
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|  |  |  | **[31]** |

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| **QUESTION 5** | | |  |
|  |  |  |  |
| **VAT AND STOCK SYSTEMS (40 marks, 24 minutes)** | | |  |
|  |  |  |  |
| 5.1 | **VAT** | |  |
|  |  |  |  |
|  | **Required:** | |  |
|  |  |  |  |
|  | 5.1.1 | What is the difference between output VAT and input VAT? | (2) |
|  |  |  |  |
|  | 5.1.2 | Tim Endrews, the owner of Endrews Traders, wants to know how much he owes SARS in respect of VAT for the period July to  August 2009. Calculate the amount owing to SARS based on the following figures: | (8) |
|  |  | **(Round off to the nearest cent.)** |  |
|  |  |  |  |
|  |  | **NOTE:** VAT is included where possible |  |
|  |  |  |  |
|  |  | Sales of - VAT item R440 400  - Non-VATable R 55 600  Purchases from VAT vender R207 750  Purchases from Non-VAT vender R 47 800  Purchases of equipment R 45 000  Staff entertainment expenses R 16 000  Wages paid to employees R 21 000 |  |
|  |  |  |  |
|  | 5.1.3 | Tim Endrews regularly purchases goods from Saki Stores. The owner has offered Tim a special price of R3 400 including VAT instead of the normal price of R3 700, provided he pays cash and do not require a document. Tim is tempted, as this seems like a good offer. Advise him as to whether he should accept the offer. Briefly explain. | (5) |
|  |  |  |  |
| 5.2 | **STOCK SYSTEMS** | |  |
|  |  |  |  |
|  | **REQUIRED:** | |  |
|  |  |  |  |
|  | 5.2.1 | Explain ONE main difference between FIFO and average method of stock valuation. | (4) |
|  |  |  |  |
|  | 5.2.2 | Calculate the value of unsold units at 31 October 2009 using FIFO. | (3) |
|  |  |  |  |
|  | 5.2.3 | Calculate cost of sales using the FIFO method of valuation. | (6) |

|  |  |  |  |
| --- | --- | --- | --- |
|  | 5.2.4 | Calculate the gross profit using FIFO. | (3) |
|  |  |  |  |
|  | 5.2.5 | Calculate the value of closing stock using weighted average method. | (6) |
|  |  |  |  |
|  | 5.2.6 | Prales has been told that he would make a higher gross profit if he used weighted average method of valuing his stock. However, he feels it will make no difference over time. Do you agree? Explain your answer. Calculations are not required. | (3) |
|  |  |  |  |
| **Information** | | |  |
|  |  |  |  |
| 1. | You are provided with information relating to Prales Traders for the year ended 29 February 2009. The business sells computer parts and uses the periodic inventory system. FIFO method is used for stock valuation. | |  |
|  |  |  |  |
|  | 2009 Aug 01 Opening stock 2 200 units @ R100 per unit  24 Purchases 1 800 units @ R115 per unit  Sep 26 Purchases 1 390 units @ R125 per unit  Oct 21 Purchases 1 250 units @ R140 per unit  28 Purchases 1 270 units @ R145 per unit  31 Number of units unsold 1 980 | |  |
|  |  |  |  |
|  | **Note:** | |  |
|  | The following must also be considered: | |  |
|  | * Selling price is R200 per unit is constant. * Carriage on all purchases is charged at R5 per unit. * Twenty defective units were returned to the supplier. This applies to the purchases on 24 August 2009. The supplier granted a full refund including the carriage. | |  |
|  |  |  | **[40]** |

|  |  |  |  |
| --- | --- | --- | --- |
| **QUESTION 6** | | |  |
|  |  |  |  |
| **COMPANIES (79 marks; 47 minutes)** | | |  |
|  |  |  |  |
| Royals Ltd is a public company that sells a wide range of electronic equipment. You are provided with extracts of information relating to the company for the financial year ended 28 February 2009. | | |  |
|  |  |  |  |
| **Required:** | | |  |
|  |  |  |  |
| 6.1 | Complete the following notes/figures for the Cash Flow Statement using the Information given below extracted from the Income Statement and Balance Sheet plus the additional information. | |  |
|  |  |  |  |
|  | 6.1.1 | The reconciliation between profit before taxation and cash generated from operations. | (16) |
|  |  |  |  |
|  | 6.1.2 | The amount paid for income tax. | (4) |
|  |  |  |  |
|  | 6.1.3 | Cash flow from financing activities. | (6) |
|  |  |  |  |
| 6.2 | Calculate the following using the information given below extracted from the Income Statement and Balance Sheet plus the additional information. | |  |
|  |  |  |  |
|  | 6.2.1 | How much the new shares were sold for? | (4) |
|  |  |  |  |
|  | 6.2.2 | Total interim dividend paid during the year ended 28 February 2009. | (4) |
|  |  |  |  |
|  | 6.2.3 | The net asset value per share on 28 February 2009. (2008: R3,03) | (4) |
|  |  |  |  |
|  | 6.2.4 | The earnings per share for the year 28 February 2009.  (2008: 30 cents) |  |
|  |  |  |  |
|  | 6.2.5 | Comment on the dividend policy. | (2) |
|  |  |  |  |
|  | 6.2.6 | The return on average shareholders’ equity for the year ended 28 February 2009. (2008: 8%) | (5) |
|  |  |  |  |
|  | 6.2.7 | The debt:equity ratio on 28 February 2009. (2008: 0,15:1) | (4) |
|  |  |  |  |
|  | 6.2.8 | The return on average total capital employed for the year ended  28 February 2009. (2008: 10,5%) | (4) |

|  |  |  |  |
| --- | --- | --- | --- |
| 6.3 | Comment on the following using your calculations and figures given in QUESTION 6.2 above. | |  |
|  |  |  |  |
|  | 6.3.1 | The present market value of the share in Royals Ltd is R3,85. One of the shareholders is uncertain as to whether he should sell his shares or not. Offer advice together with TWO reasons for your answer. Quote figures. | (8) |
|  |  |  |  |
|  | 6.3.2 | Royals Ltd increased their loan during the course of the year. Was this a wise decision or not? Make use of information calculated above in order to comment on the director’s decision by giving TWO reasons for your answer. Quote figures. | (8) |
|  |  |  |  |
| 6.4 | Why is it necessary for the auditors to complete their audit in accordance with the International Standard of Auditing? | | (3) |
|  |  |  |  |
| 6.5 | Do the auditors guarantee that their report is completely accurate and correct? Explain. | | (3) |
|  |  |  |  |
| **INFORMATION:** | | |  |
|  |  |  |  |
| 1. | **Extract of information from the Income Statement for 2009:**  Net Profit after tax 148 500  Income tax 28 000  Depreciation 24 000  Interest on loans 22 950  Interest on overdraft 2 200 | |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2. | **Extract from the Balance Sheet** | |  |  |  |
|  |  | |  |  |
|  |  | | **2009** | **2008** |
|  | **CURRENT ASSETS** | | ? | 193 500 |
|  | Inventory | | ? | 120 000 |
|  | Trade and other receivables/Debtors (see Note 1) | | 114 000 | 73 500 |
|  | Cash and cash equivalents | | 18 000 | 0 |
|  | **SHAREHOLDERS’ EQUITY** | 1 200 000 | | 949 500 |  |
|  | Share capital | 1 050 000 | | 875 000 |
|  | Share premium | 72 000 | | 27 000 |
|  | Retained Income | 78 000 | | 47 500 |
|  | **NON-CURRENT LIABILITIES** | 240 000 | | 219 000 |  |
|  | Loan (11% p.a.) | 240 000 | | 219 000 |
|  | **CURRENT LIABILITIES** | 144 000 | | 151 500 |  |
|  | Trade and other payables (see Note 2) | 144 000 | | 136 500 |
|  | Bank overdraft | 0 | | 15 000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 3. | **Note 1: Trade and other receivables** | **114 000** | **73 500** |  |
|  | Trade debtors | 108 000 | 57 000 |
|  | Expenses prepaid | 6 000 | 4 500 |
|  | SARS (Income tax) | 0 | 12 000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Note 2: Trade and other receivables** | **152 500** | **136 500** |  |
|  | Trade creditors | 91 500 | 105 750 |
|  | Income received in advance | 3 000 | 9 750 |
|  | SARS (Income tax) | 18 000 |  |
|  | Shareholders for dividends | 40 000 | 21 000 |

|  |  |  |  |
| --- | --- | --- | --- |
| 4. | **Additional information** | |  |
|  |  |  |  |
|  | 4.1 | The authorised share capital consists of 600 000 ordinary shares of R3.50 each. |  |
|  | 4.2 | New shares were issued on 1 September 2008. |  |
|  |  |  |  |
|  | 4.3 | The current ratio of 2009 was 2,4 : 1. |  |
|  |  |  |  |
|  | 4.4 | Dividends per share for 2009 were 40c per share. (2008 was 26c per share). Interim dividend was declared and paid on the 31 August 2008. | **[79]** |
|  |  |  |  |
|  |  | **TOTAL:** | **300** |