NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2011

ACCOUNTING: PAPER I

Time: 2 hours 200 marks

INFORMATION BOOKLET

QUESTION 1 ASSET MANAGEMENT (15 marks, 12 minutes)

Information relating to Prontoprint

The following incomplete ledger accounts and fixed asset register were taken from the books of the business at their financial year end the 31st October 2011. On 1 November 2010 they had only two vehicles. One of these vehicles was sold during the year.

1. **General Ledger of Prontoprint**

Balance Sheet Section

Vehicles

2010 Nov 1	Balance	b/d	350 000	2011 Aug 1	Asset Disposal	GJ10	[**A**]
2011 Aug 1	Creditors Control	[**B**]	[**C**]		Balance	c/d	500 000

Accumulated Depreciation on Vehicles

2011 Aug 1	[**E**]	GJ10	[**F**]	2010 Nov 1	Balance	b/d	87 600
				2011 Aug 1	Depreciation	GJ10	[**D**]
				2011 Oct 31	Depreciation	GJ10	[**G**]

Nominal Accounts Section

Asset Disposal

2011 Aug 1	Vehicles	GJ10	[**A**]	2011 Aug 1	Accumulated Depreciation on Vehicles	GJ10	[**F**]
	Profit on sale of asset	GJ10	[**H**]		Creditors Control	GJ10	136 640

2. **Fixed Asset Register of Prontoprint**

Asset: Toyota 1 Ton delivery van			
Registration number: NPN 6414			
Date of purchase: 1 May 2009			
Cost price: R220 000			
Rate & Method of depreciation: 20% p.a. on diminishing balance method			
Date sold: 1 August 2011			
Date	**Depreciation for the current year**	**Accumulated Depreciation**	**Carrying value**
31 October 2009	22 000	22 000	198 000
31 October 2010	39 600	61 600	?
1 August 2011	?	?	?

Asset: Nissan X-Trail			
Registration number: PRONTO – ZN			
Date of purchase: 1 November 2009			
Cost price: R130 000			
Date	**Depreciation for the current year**	**Accumulated Depreciation**	**Carrying value**
31 October 2010	26 000	26 000	104 000
31 October 2011	20 800	46 800	83 200

3. The rate and method of depreciation for the new delivery vehicle is 20% p.a. on the diminishing balance.

QUESTION 2 COMPANY FINANCIAL STATEMENTS (75 marks, 40 minutes)

Information relating to Glamorous LTD

Glamorous LTD is a small company that specialises in bringing high fashion items from the various runways of Europe back to South Africa for resale.

1. **The following list of balances and totals were extracted from their Pre-Adjustment Trial Balance for the year ended 28th February 2011.**

Balance Sheet Section	
Ordinary Share Capital	800 000
Ordinary Share Premium	20 000
Loan: Africor Bank	160 000
Debtors' Control	37 800
Provision for bad debts	2 000
Creditors' Control	8 780
Trading Stock	36 700
Bank	24 290 dr
Cash Float	600
SARS – Income Tax	75 500 dr
Nominal Accounts Section	
Stationery	1 860
Discount Allowed	940
Insurance	21 250
Interest on Loan	?
Bank Charges	2 150
Interest Income on Current Account	1 780
Commission Income	6 150
Directors' Fees	80 000
Sundry Expenses	?

2. **Adjustments and additional information**

2.1 The Bank Statement for February was received after the Trial Balance was drawn up. The following differences/omissions were discovered:
- Bank Charges R260
- Interest earned on Current Account R130
- The Bank Statement reflected an R/D cheque of R1 650. This cheque had been received from a debtor in settlement of his debt of R1 700.
- Cheque no. 827 for R4 000 appeared on the Bank Statement but not in the CPJ. On investigation it was found that the cheque had been stolen from the cheque book and the signatures forged. The insurance has agreed to pay out 75% of this in April 2011.
- Cheque no. 829 issued to Rexel Wholesalers for stationery purchased was entered in the CPJ as R566 instead of R656.

2.2 After a physical stock take it was found that stationery used for the financial year amounted to R1 750.

2.3 With the impact of the recession on business, it was decided that the Provision for bad debts be increased to R2 600.

2.4 An annual insurance premium of R18 600 was paid and properly recorded on the 1st June 2010.

2.5 A supplier over-paid commission to Glamorous LTD by R1 050. This will be off-set against future commission earned.

2.6 Provide for any outstanding directors' fees. In terms of their contracts, the directors are entitled to the following amounts each year: D. McKinley R120 000 and M. Connor R80 000. Since the 1st May 2010, D. McKinley has been renting a house that belongs to the company. The rental agreement states that the rent per month is R9 000 and as yet no entries have been provided for the rent. She has asked that this rental be off-set against the directors' fees owed to her.

2.7 R3 400 worth of stock is now out of fashion and will have to be sold below cost. It is prudently expected that the sale of these shoes will only generate R2 000.

2.8 A physical stock count at the end of the year highlighted that R800 worth of trading stock had gone missing.

2.9 Operating Profit on Sales for the year was calculated to be 30%.

2.10 Net Profit after tax on Sales for the year was calculated to be 16%.

2.11 Interest expense is the missing figure and needs to be calculated. There is no outstanding interest for the current year.

2.12 Income tax for the financial year was calculated at R72 400, but this has not been entered.

2.13 Dividends for the year were as follows:
- Paid R64 000
- Declared R16 000

2.14 Glamorous LTD will make a loan repayment of R35 000 on 1 July 2011.

2.15 The correct figure for retained income at the end of the year, R80 790, has been entered in the balance sheet.

Use the following information to answer Question 2.3.

Director D. McKinley is under the impression that an external auditor's sole responsibility is to detect fraud in a company. According to McKinley, 'seeing that there is no fraud taking place in Glamorous LTD we do not need to employ the services of an auditor and can therefore eliminate an unnecessary expense'.

QUESTION 3 CASH FLOW STATEMENTS (40 marks, 22 minutes)

Information relating to Tronix LTD

1. The financial year end of Tronix LTD is 30th June each year.

2. The following information was taken directly from the Income Statement of Tronix LTD for the year ending 30th June 2011.

Depreciation	24 000
Interest Expense on loan	18 400
Taxation	40 600
Net Profit after tax	35 400

3. Extracts from the Notes to the Balance Sheet as at 30th June 2011.

	2011	**2010**
Trade and Other Receivables		
Trade debtors	46 000	57 200
Income accrued	2 300	1 500
Expenses Prepaid – Interest on loan	500	0
Trade and Other Payables		
Trade creditors	60 000	54 400
Accrued Expenses – Interest on loan	0	1 100
SARS – Income Tax	4 200	2 300
Shareholders for dividends	?	9 000

4. Extracts from the Balance Sheet as at 30th June 2011.

	2011	**2010**
Retained Income	37 800	26 400
Bank Overdraft	?	39 400
Loan	245 000	380 000
Ordinary Share Capital (at par value)	300 000	187 500

5. **Additional Information**

   5.1 The Board of Directors declared and paid an interim dividend of 8 cents per share on the 1st December 2010. A final dividend was declared but not paid.

   5.2 New shares were issued on 1st July 2010 at a premium of 20 cents per share. The par value per share is R1,50.

   5.3 Tronix LTD borrowed a further R100 000 during the year and also made two capital repayments during the year. Interest on the loan is not capitalised.

QUESTION 4 CASH BUDGETS (50 marks, 27 minutes)

Information relating to Marlpet Distributors

Marlpet Distributors is a sole trader owned by Gerald Fields. They specialise in supplying pet shops with a variety of pet products and dry pet food.

Over the past two years credit sales have increased in volume and the debtors' clerk has not been able to cope with this increase. Gerald has had to employ an additional debtors' clerk to assist with the management of debtors.

1. The business's year end is the 31st October 2011.

2. **Actual Sales for 2011**
   September R100 000
   October R110 000

3. **Projected Sales for 2011**
   November R?
   December R160 000

4. The November 2011 **cash sales** are projected to amount to R54 000.

5. 45% of all sales are cash sales.

6. The business uses a mark-up of 60% on cost at all times.

7. Cash purchases of stock amount to 20% monthly.

8. The business uses a fixed base of stock. Stock sold is replaced each month and creditors are paid 60 days after purchase.

9. Debtors' terms are strictly 60 days.

10. Debtors are expected to pay their accounts as follows:
    - 30% in the transaction month. A 3% discount is allowed if payment is received during the transaction month.
    - 65% in the month following the transaction month.
    - 5% is to be written off as a bad debt in the second month following the transaction month.

11. Gerald expects to withdraw R3 000 cash and R5 000 worth of trading stock during December 2011.

12. An amount of R3 100 owing to SARS for PAYE will be paid on the 5th December 2011.

13. Advertising expenses amount to 2% of turnover and are paid in the same month.

14. A loan repayment of R35 000 will be made on the 10th December 2011.

Refer to the information below to answer Questions 4.4 and 4.5.

Gerald analysed the **actual debtors' collection pattern** for August 2011. The results were:

CREDIT SALES	**ACTUAL COLLECTIONS**			
	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER
August R55 000	R8 536 received Discount given R264	R19 250	R22 000	R4 950 to be written off as a bad debt
	16%	35%	40%	9%

Refer to the information below to answer Question 4.6.

When comparing his Bank Statement to his journal entries Gerald discovered that someone had been withdrawing large sums of money, R15 000, from his business account. On questioning his staff, the new debtors' clerk told Gerald that she thinks it may be her fault as she had replied to an email that she thought had come from the bank. This email requested details of the business's account because they had a large deposit from a debtor that needed to be transferred to the business. This was obviously a fake email but she didn't know this and she had checked with the other debtors' clerk to see if it was alright to respond to this email. Gerald is understandably angry and demanded that she repay the R15 000 immediately.

QUESTION 5 VAT (20 marks, 19 minutes)

Information relating to Sportquip Sports

On 1 January 2011 A. Mbali began trading as **Sportquip Sports** supplying various sporting equipment to gyms, schools and sporting retailers. The business uses a mark-up of 75% on cost at all times.

The gyms and sporting retailers that Sportquip Sports supplies are all registered VAT vendors. VAT is charged at 14%.

Sportquip Sports is registered for VAT and uses the invoice basis to record its VAT transactions. The business submits a VAT return bi-monthly, i.e. February, April, June, August, October and December.

Transactions and information relating to June 2011

5.1.1 **Balances as at 1st June 2011**

VAT Output Account	R5 560
VAT Input Account	R3 210

5.1.2 Mbali took sports equipment for her personal use. The VAT on this amounted to R456.

5.1.3 Invoice X35 reflected the following purchases:

Trading Stock	R8 778 (inclusive)
Stationery	R3 420 (inclusive)

5.1.4 D/N 57 was sent to Sport's Holdings Ltd, a supplier, together with the defective stock. The VAT portion of this return amounted to R78.

5.1.5 Settled the amount owing to Sport's Holdings Ltd, a supplier, with a cheque for R3 158 and received a discount of R342. The VAT portion amounted to R42.

5.1.6 Trading Stock with a **cost price** of R19 200 (excl) was sold for cash.

5.1.7 The bank returned debtor P. Astel's cheque for R1 216 marked R/D – insufficient funds. This cheque had been received in May in settlement of his account of R1 387.

5.1.8 Sportquip Sports sold trading stock to Harvey Gym in May 2011. The tax invoice reflected VAT on the sale as R342; however it was posted to the ledger as R432.

5.1.9 Disposed of a second-hand vehicle at a loss of R3 000 on the 30th June 2011. The book value of the vehicle as at the date of sale was R37 000. The depreciation on this vehicle had been recorded up to 30th June 2011. VAT input was claimed when the vehicle was originally bought.

RATIO SHEET

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