NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2012

ACCOUNTING: PAPER I

Time: 2 hours | 200 marks

INFORMATION BOOKLET

RATIO SHEET

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

QUESTION 1 MANUFACTURING (40 marks, 25 minutes)

Information relating to Kagisa Manufacturers

Kagisa Manufacturers is a factory in Hillcrest, KwaZulu-Natal that specialises in the manufacture of wooden educational floor puzzles. The densely populated rural district of The Valley of a Thousand Hills surrounds the factory. Most of the natural resources, labour and specialised machinery is imported from other provinces or from overseas.

The owner of Kagisa Manufacturers is facing a problem in that his profits have been steadily decreasing over the past 2 years. His initial response was to simply increase his selling price, but this is not a viable option as the business has 2 competitors nearby that produce very similar products.

1. The following balances were taken from the financial records:

	31 August 2012	**1 September 2011**
Raw materials stock	39 200	46 700
Work-in-progress stock	13 800	6 750
Finished goods stock	15 300	20 150

2. **Transactions during the year:**

2.1 Credit purchases of raw materials for the year amounted to R280 000.

2.2 R7 500 worth of defective wood (raw materials) was returned to the supplier.

2.3 R2 100 was paid to Shangase Transporters for delivery of wood.

2.4 Direct labour costs amounted to R129 000.

2.5 Indirect labour costs amounted to R58 900 for the year.

2.6 Indirect materials used for the year, R12 450.

2.7 Insurance costs amounted to R65 000 for the year. Half of this cost is apportioned to the factory.

2.8 The business leases a number of machines and their photocopier from Just Leasing. The costs for the year are as follows:

2 Fine Blade cutting saws (machinery) for the factory @ R24 175 each.
1 Canon photocopy machine for the sales office @ R6 500.

2.9 The rent expense for the year amounted to R108 000 and this cost is apportioned in relation to the amount of floor space occupied. The floor area of the entire business is 3 000 m^2 and the factory occupies 1 800 m^2.

2.10 The factory produced **35 000** units for the year.

2.11 The fixed costs per unit at the end of the year was calculated at R12, 60 per unit. All factory overheads and administration costs are classified as fixed costs. Use this information to calculate administration costs for the year.

QUESTION 2 COMPANY FINANCIALS AND VAT (80 marks, 45 minutes)

Information relating to Techtron LTD

Techtron LTD is a supplier of fibre optic cabling and accessories for the installation of satellite dishes. Before he went off on his annual leave, the accountant provided the directors of Techtron LTD with an incorrect net profit before taxation figure. On closer inspection of the financial records it appears that certain year-end adjustments had not been taken into account in calculating this figure. The business is a registered VAT vendor and VAT is applied at 14% on the invoice basis. **Some figures have been entered onto the Answer Sheet, and these figures are correct.**

Note:
- The financial year ends on the 30 June 2012.
- The business uses a mark-up of 70% on cost at all times.

The following adjustments and additional information still need to be brought into account:

1. The interest on the fixed deposit for the year amounts to R3 750. It has not yet been received or recorded. Interest on the fixed deposit is not capitalised. R75 000 of this investment will mature on the 1 October 2012.

2. On 30 June 2012 the company issued all the remaining shares available. Shares were allotted and the money received and banked but not entered in the books. No shares are issued at a premium.

3. Before the following transactions took place, the company had a **debit balance** of R3 100 in the VAT control account.

   3.1 The following credit sale invoice was found in the clerk's desk drawer. On further investigation it was discovered that this invoice had not been recorded.

X15 TECHTRON LTD VAT REGISTRATION NO. 3769081552	
Sold to: Mr B Thring 144 Lambert Road Morningside	
15 m fibre optic cabling @ R300 per metre	R4 500,00
4 packets stabilising clips @ R150 per packet	R600,00
Total EXCL VAT	R5 100,00
VAT @ 14%	?
Total INCL VAT	?

   3.2 Debtor A. Khagiso has disappeared and cannot be traced. Her debt of R1 368 VAT inclusive must be written off as irrecoverable. The VAT on this transaction needs to be accounted for.

4. The provision for bad debts must be adjusted to R2 450.

5. An annual insurance premium of R4 200 had been paid and entered to cover the business from 1 November 2011, but no year-end adjustment was made.

6. An employee, J. Dwyer was given a 15% salary increase from the 1 June 2012. The Human Resources Manager forgot to pass this information onto the Salaries Clerk, so she processed and recorded J. Dwyer's June salary without the increase. It is business policy to contribute on a rand-for-rand basis to the Pension and Medical Aid Funds.

   The details of J. Dwyer's **old monthly salary** were as follows:
   - Gross salary R14 000
   - PAYE 35% of the gross salary
   - Pension deduction 15% of the gross salary
   - Medical Aid deduction R650

   Note: With the increase in salary, J. Dwyer moves into the next tax bracket and her PAYE deduction now amounts to 38% of her entire gross salary for the month.

7. Packing material physically counted to be on hand at the end of the financial year amounted to R2 520.

8. Interest on loan for the year amounts to R22 500. R15 500 of this has not yet been paid. Interest on loan is not capitalised.

9. The directors paid an interim dividend of R24 500 during the year and this was correctly recorded in the books. On the 30 June 2012, they declared a final dividend of 11 cents per share. This applies to all shares in issue at the year-end.

10. After all the above adjustments and additional information had been accounted for, the following information was extracted from the accounting records:

	Pre-adjustment trial balance on 30 June 2012	**Post-closing trial balance on 30 June 2012**
SARS – Income Tax	R201 200 dr	
SARS – Income Tax		R9 600 cr

11. The Net Asset Value (NAV) calculated on the 30 June 2012 amounted to 1 290 cents (R12,90) per share.

QUESTION 3 CASH FLOW STATEMENTS (35 marks, 25 minutes)

Information relating to Logistico Limited

1. Balance Sheet as at 29 February 2012.

	2012	**2011**
Tangible/Non-current assets		
Land and buildings	3 460 000	2 980 000
Equipment at carrying value	420 000	500 000
Current assets		
Trading stock	?	85 000
Debtors' control	260 000	315 000
Expenses prepaid/Prepaid expenses (Interest on loan)	1 000	1 525
SARS – Income Tax	2 100	0
Bank	21 000	–
Petty cash	1 750	1 400
Shareholders' equity		
Share capital and share premium	3 481 350	3 147 425
Retained income	?	?
Non-current liabilities		
Loan from Financing Forum (9% p.a.)	325 000	450 000
Current liabilities		
Creditors' control	340 000	208 000
Income received in advance	3 000	0
Creditors for wages	8 700	13 200
SARS – PAYE	14 100	12 200
SARS – Income Tax	0	5 100cr
Shareholders for dividends	65 000	40 000
Bank overdraft	–	7 000

2. The following information was taken from the Income Statement of Logistico Limited on the 29 February 2012.

Depreciation	?
Interest on loan	?
Income tax	?
Net profit for the year after taxation	910 000

3. Additional information.

3.1 **Loan from Financing Forum**

- The business made a loan repayment on the 1 December 2011.
- The interest rate was increased to 10% p.a. on the 1 September 2011. Interest is not capitalised.
- No additional loans were taken out during the year.

3.2 **Taxation**

- Income tax is calculated at 35% of net profit.
- After the adjustment for the year's income tax, there was a debit balance of R2 100 in the SARS income tax account.

3.3 **Inventories**

- Inventories consist of trading stock only.
- The Cash Flow Statement dated 29 February 2012 reflected that the **net change in inventories** for the year resulted in a cash inflow of R13 700.

3.4 **Tangible assets**

- Logistico Limited undertook major renovations to their existing buildings during the year.
- New equipment with a cost price of R60 000 was purchased on the 1 November 2011.
- Sold old equipment at its carrying value of R35 000 on the 1 March 2011.
- The business does not have any vehicles.

3.5 **Shares and Dividends**

- The amount owing to shareholders on the 28 February 2011 was paid on the 7 March 2011.
- On 29 February 2012 there were 540 000 shares in issue.
- The new shares were issued on the 1 March 2011. These shares qualify for both the interim and final dividends for the year ending 29 February 2012.
- Dividends paid as per the cash flow statement dated 29 February 2012 amounted to R175 000.

QUESTION 4 ASSET MANAGEMENT (45 marks, 25 minutes)

Information relating to Leatief LTD

Leatief LTD is a small company that specialises in the retail and distribution of genuine leather iPad cases. The business is owned by Mrs Leatief and they use the 31 October as their financial year end.

1. The business uses the periodic inventory system.

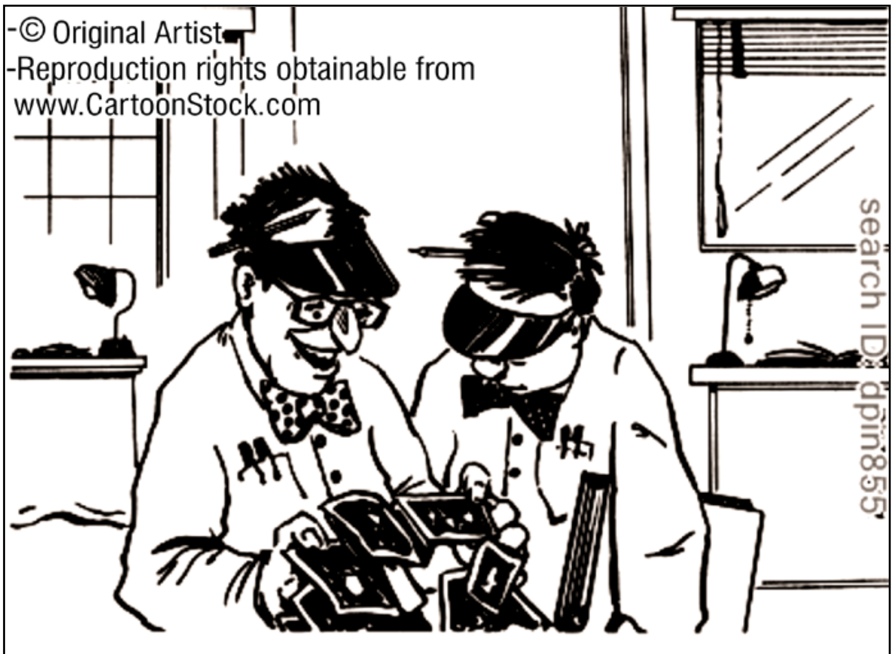
2. To combat the ever increasing competition in the industry Mrs Leatief hired a financial adviser to provide a detailed analysis of the business. As a result of this analysis, the following initiatives were introduced:

   - An aggressive 3 month advertising campaign that ran from November 2011 through to January 2012.

   - The introduction of personalised iPad cases, embossed with the client's name and contact number.

   - An improved corporate image launched on the new Facebook page and the introduction of a Twitter account.

3. Leatief Leather Distributors LTD hired a new accountant, Mr Faulds on the 1st November 2011. When he started work, he placed the following cartoon on his office door:



... and here's a picture of the family arranged in FIFO order.

[<www.CartoonStock.com>]

4. Mr Faulds does not feel that the FIFO inventory valuation method currently being used is appropriate for this business. He is concerned that this method does not fairly reflect the financial results of trading. However, Mrs Leatief is adamant that the FIFO method is the best option. Mr Faulds is finding it very difficult to convince Mrs Leatief to change to the weighted average method of inventory valuation.

5. The following information pertaining to the movement of stock during the year was taken from the financial records:

	No. of Units	Unit Price	Total
Stock on hand 1/11/2011	400	R850	R340 000
Purchases and Returns			
December 2011 purchases	800	R875	R700 000
February 2012 purchases	400	R890	R356 000
February 2012 returns to supplier	100	R890	R89 000
July 2012 purchases	200	R900	R180 000
Stock on hand 31/10/2012	250	?	?

6. The stock turnover rate for the year ended 31 October 2011 was 3,24 times.

7. On the 1 August 2012, the business traded in one of their delivery vehicles against the purchase of a new vehicle. The vehicle was purchased several years ago at a cost of R170 000, and the accumulated depreciation on the 1 November 2011 amounted to R104 000.

8. Vehicles are depreciated at 15% p.a. on the diminishing balance method. Some Depreciation amounts have been calculated for you in the table below:

Depreciation on asset traded-in	?
Depreciation on remaining assets after trade-in	R64 500
Depreciation on new vehicle	?