NATIONAL SENIOR CERTIFICATE EXAMINATION
SUPPLEMENTARY 2014

ACCOUNTING: PAPER I

Time: 2 hours

200 marks

INFORMATION BOOKLET

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

QUESTION 1 MANUFACTURING

Information relating to Heavenly Smooth manufacturers

Heavenly Smooth is a small business that specialises in the manufacture of hand cream. The hand cream is made using natural plant and sea mineral extracts that are couriered from the only supplier in Port Elizabeth to the factory in Durban. The business is owned by Jennifer Laverne.

Because the cream is made with natural products, it is only made to fill orders put in by retailers. There is therefore no finished goods stock at the beginning and end of year.

The following information was taken from the books of the business at their year-end, 31st October 2013.

A. Stock balances

	31 October 2013	**November 2012**
Raw materials	?	R7 500
Work in progress	R24 000	R29 800
Consumable stores (indirect materials)	R900	R600

B. Transactions for the year ended 31st October 2013

	2013	2012
	R	R
Raw materials purchased	250 000	
Carriage inwards	44 500	23 000
Salary to factory foreman	51 000	45 000
Salaries to production staff	84 000	79 000
Salary to administration clerk	27 000	24 000
Rental of factory	29 400	21 000
Advertising (variable cost)	17 600	
Other Administration costs	21 700	
Maintenance of factory equipment	7 500	5 770
Consumable stores purchased	6 750	
Water and electricity (80% is for the factory and the balance for administration)	27 000	

C. Additional information

- Depreciation for the year is as follows:
  On factory equipment R5 750
- 10% of purchases of raw materials made during the year were returned to the various suppliers.
- A 10% pension contribution is made on all salaries and wages.
- Fixed costs for the year amounted to R183 600.
- Variable costs for the year amounted to R380 000.
- 20 000 units were produced and sold during the year.
- Heavenly Smooth sells their hand cream at R35 per 50 ml bottle.

QUESTION 2 COMPANY FINANCIAL STATEMENTS

Information relating to Exarro Limited

A. Balances

The following balances were taken from the accounting records before the adjustments and additional information given below were taken into account:

	2014	**2013**
	R	R
Ordinary share capital	?	1 275 000
Retained income	?	28 900
Mortgage loan: First Financing Bank	?	67 500
Land and Buildings	800 000	800 000
Equipment at carrying value	?	406 750
Trading stock	?	?
Debtors' control	98 750	118 500
Expenses prepaid	1 000	650
SARS – Income tax	27 850 cr	19 500 dr
Bank (favourable)	?	157 250
Petty cash	?	1 000
Creditors' control	87 250	99 250
Expenses accrued (interest on loan)	?	0
Deferred income/Income received in advance (rent income)	?	1 750
Shareholders for dividends	?	68 000

B. Information taken from the cash flow statement for the year ending 28th February 2014:

	R
Depreciation expense	78 350
Taxation paid	64 715
Tangible/fixed assets purchased	340 000
Proceeds from the sale of tangible/fixed assets at book value	30 300
Proceeds from the new issue of shares at par	225 000
Proceeds from the loan	32 500
Net change in cash and cash equivalents for the year	186 810

C. Adjustments and additional information that needs to be taken into account:

1. Exarro Limited has an authorised share capital of R1 500 000.

2. The company year-end is the 28th February 2014.

3. The company aims to achieve a mark-up percentage on cost of 90%, but this year has only achieved an actual mark-up of 70%.

4. Exarro Limited has rented out their unused storeroom since 1 March 2009. The rent at the beginning of the current financial year (1 March 2013) was R1 750 per month. The lease agreement stipulates an annual increase of 10% effective from the 1 January 2014. The rent for March 2014 has already been received.

5. Consumable stores **used** for the financial year amounted to R2 750.

6. The stock room manager was called to an urgent planning meeting with the production manager, and in his haste left the stock room unlocked. Upon his return he discovered that stock costing R16 000 had been taken from the stock room. A claim for theft was lodged and the insurance company will pay out 75% of the claim in March. The directors have insisted that the stock room manager pay R1 500 which will be offset against the loss. This amount will be received when the manager receives his March salary.

7. Advertising amounts to 10% of the total operating expenses. There are no accruals or prepayments for advertising.

8. Audit fees is the missing amount in the Income Statement and needs to be calculated.

9. Interest on loan is calculated at 12% p.a. The loan was increased on the 31st August 2013. Interest for 2 months is still outstanding as at 28th February 2014. Interest is not capitalised.

10. The remaining shares were sold on the 1 March 2013. None of the shares were sold at a premium. All the shares qualify for dividends.

11. The following information relates to both dividends paid and declared:

	2014	**2013**
Interim dividend paid per share	3 cents	
Final dividend declared per share	5 cents	4 cents

12. The business purchased a new vehicle on 28 February and sold some equipment at book value during the year.

13. The inventories figure in the Balance sheet is the balancing figure.

QUESTION 3 VAT AND RATIO ANALYSIS

Information relating to Hideware Limited

Hideware Limited specialise in the retail of exclusive leather lounge suites. It also repairs lounge suites for which it charges a fee. They are a VAT vendor and are liable for VAT at 14% on the invoice basis. The company is registered with an authorised share capital of 1 000 000 ordinary shares. The par value per share is R10 per share.

A. The VAT control account had a credit balance of R5 900 on the 1 February 2014.

B. Extract from the subsidiary journals for February 2014.

Cash receipts journal

VAT	Sales	Debtors receipts	Fee Income
?	225 600	170 100	8 600

Cash payments journal

VAT	Trading stock	Creditors' payments	Equipment	Salaries	Stationery
?	23 700	46 500	31 500	106 800	1 700

Debtors' journal

VAT
27 636

Debtors' allowances journal

Debtors' control
5 130

Creditors' journal

VAT
27 930

Creditors' allowances journal

VAT
882

General journal:

- VAT on drawings R1 120
- VAT on bad debts R210

C. Extract from the Income Statement for the year ending 28th February 2014.

Interest on loan from Western Bank	R51 750
Net income before taxation	R500 000
Donations expense (cash)	R235 000

D. Additional information available.

	2014	2013
Ordinary shareholders' equity	3 500 000	2 230 000
Number of shares issued	300 000	204 000
Loan: Western Bank @ 9% p.a.	575 000	420 000
Return on total capital employed	?	14%
Return on shareholders' equity	6,6%	6,3%
Net asset value per share (NAV)	?	1093 cents
Market price as listed on the JSE – 28th February 2013	R11, 85	R12

QUESTION 4 INVENTORY AND ASSET MANAGEMENT

Information relating to Premier Sports

Premier Sports is a supplier of canvas sports bags embroidered with the badges and emblems of the various South African rugby teams. The business uses the periodic inventory system to record their stock and the weighted average method to value it.

1. The business's financial year ends on the 28 February 2014.

2. The following is a summary of stock, purchases and returns obtained from the storeroom records.

	Number of units	Cost per unit	Total cost
Opening stock (1 March 2013)	1 425	R75	R106 875
Purchases and returns during the year			
June 2013 purchases	1 150	R80	R92 000
July 2013 purchases	1 300	R80	R104 000
August 2013 purchases	600	R83	R49 800
August 2013 returns	(175)	R83	(R14 525)
February 2014 purchases	1 125	R85	R95 625
Total	4 000		R326 900
Closing stock (28 February 2014)	750	?	?
Sales for the year	4 600	R225	R1 035 000

3. At the physical stock count at the end of the financial year, it became evident that a number of bags had gone missing.

4. **The following information relates to the Tangible Assets of Premier Sports:**

   4.1 The bookkeeper had started the asset disposal procedure by updating the asset register for machine no. 2 (see point 4.5 on page vii), but had made an error in doing this. She did not know how to continue with the procedure so no other entries have been made to record the disposal or the purchase.

   4.2 The business has 3 embroidery machines that are used to embroider the emblems onto the sports bags. Machine no. 2 keeps breaking down, and repair costs on this machine are escalating. Premier Sports has no other equipment.

   4.3 Depreciation on the embroidery machines is calculated at 25% per annum using the diminishing balance method.

   4.4 Machine no. 2 was traded in on the 31st October 2013 for R16 000, and replaced with a newer model costing R156 000.

4.5 Asset register for machine no. 2.

ASSET		Embroidery machine no. 2	
DATE OF PURCHASE		1 July 2011	
COST PRICE		R48 000	
DEPRECIATION RATE & METHOD		25% p.a. diminishing balance method	
Date	**Depreciation**	**Accumulated Depreciated**	**Carrying Value**
28 February 2012	R8 000	R8 000	R40 000
28 February 2013	R10 000	R18 000	R30 000
31 October 2013	R7 500	R25 500	R22 500