



ACCOUNTING: PAPER I

EXAMINATION NUMBER

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Time: 2 hours

200 marks

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This question paper consists of 11 pages and an Information Booklet of 7 (i – vii) pages with a Ratio Sheet on page i. Please check that your question paper is complete.
2. Read the questions carefully.
3. Answer the questions in the space provided.
4. It is in your own interest to write legibly and present your work neatly.
5. You may **not** use red or green ink. **You may use a pencil, but please use a soft, dark pencil.**
6. All calculations should be rounded off to two decimal places.
7. Please hand in this question paper.
8. The allocation of marks and appropriate time to be taken for each question are as follows:

	Possible marks	Actual marks	Marker signature	Moderator signature
Question 1: Manufacturing (28 minutes)	48			
Question 2: Financial Statement (40 minutes)	65			
Question 3: VAT and Analysis (28 minutes)	42			
Question 4: Asset Management (24 minutes)	45			
TOTAL	200			Checker

QUESTION 1 MANUFACTURING (48 marks; 28 minutes)

Refer to the Information Booklet for information relating to the accounting records of Heavenly Smooth.

- 1.1 Complete the Production Cost Statement for the year ended 31st October 2013. Only the notes for direct materials and factory overheads are required.

**Heavenly Smooth
Production Cost Statement for the year ending 31st October 2013**

Prime costs		
Direct materials	1.	270 000
Direct labour	2.	
Factory overheads	3.	
Total cost of goods manufactured		
Work in progress at the beginning of the year		
Work in progress at the end of the year		
Cost of finished goods manufactured		

Notes to the Production Cost Statement for the year ending 31st October 2013

1. Raw materials

Opening balance as at 1 November 2012	
Net purchases	

2. Factory overheads

(25)

1.2 Calculate the number of units that Heavenly Smooth need to produce in order to break even.

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(4)

1.3 Explain why Jennifer Laverne would be happy with the number of units the factory is producing.

(3)

1.4 Explain, giving examples how some factory overheads, water and electricity or administrative costs could have some parts that are fixed and some parts that are variable.

(2)

1.5 The ever-rising fuel price has increased the cost of transporting raw materials from the suppliers to the factory. This in turn, caused the unit costs to rise. Explain briefly a strategy Jennifer Laverne could implement to combat this rising cost.

(2)

1.6 Jennifer Laverne is concerned about the profits her business is making. She feels that, in order to increase profitability she will place only 45 ml in the bottle instead of 50 ml, but keep the selling price constant at R35. The customers will be unaware of the change in volume as the cream is not visible through the bottle, and the reduction in the amount of hand cream is minimal. Should she implement this decision? Substantiate your answer with a reason.

(3)

1.7 The production staff are very unhappy about their remuneration packages and have threatened to strike. Jennifer Laverne, the owner, feels that they are being unreasonable. Provide **two** arguments that the staff may use in support of their argument, and **one** argument that the owner may use to counter their argument.

Production staff's arguments:
Owner's counter argument:

(6)

1.8 The owner is not satisfied with the control over the factory overhead costs, and wants to know how these can be streamlined. Provide a strategy that could be implemented to achieve this. Justify your answer.

(3)

QUESTION 2 COMPANY FINANCIAL STATEMENTS
(65 marks; 40 minutes)

Refer to the Information Booklet for information relating to the accounting records of Exarro Limited.

- 2.1 Complete the Income Statement for the year ended 28th February 2014. (25)
- 2.2 Complete the Balance Sheet as at 28th February 2014. (40)

EXARRO LIMITED
 Income Statement for the year ended 28th February 2014

Turnover	1 700 000
Cost of sales	
Gross profit	
Other operating income	
Rent income	
Gross income	
Operating expenses	(337 450)
Directors' fees	77 350
Salaries	128 450
Depreciation	78 350
Consumable stores	
Loss due to theft	
Audit fees	
Advertising	
Operating profit for the year	
Interest income	0
Net profit before interest expense and financing costs	
Interest expense	
Net profit before taxation	
Taxation	
Net profit after taxation	

EXARRO LIMITED
Balance sheet as at 28th February 2014

	R
Tangible Assets	
Fixed assets (
Current assets	
Inventories (
Trade and other receivables (
Cash and cash equivalents (
TOTAL ASSETS	
EQUITY AND LIABILITIES	
Capital and reserves	
Share capital	
Retained income (
Non-current liabilities	
Loan: First Financing Bank (
Current liabilities	
Trade and other payables (
TOTAL EQUITY AND LIABILITIES	

QUESTION 3 VAT AND RATIO ANALYSIS (42 marks; 28 minutes)

Refer to the Information Booklet for information relating to the accounting records of Hideware Limited.

3.1 Calculate the amount owing to SARS in respect of VAT for the period ended 28 February 2014.

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(13)

3.2 The bookkeeper wants to register the business for e-filing, but the accountant is opposed to the idea. He believes that the business computer network is then susceptible to viruses, and the bank account can be accessed. Provide one argument that the bookkeeper can use to persuade the accountant to register.

(2)

3.3 On 1 April 2014, Hideware Limited will be given the option of purchasing the factory that manufactures the lounge suites they sell. In order to finance this purchase, the company would have to take out an additional loan of R2 500 000. Western Bank has agreed to finance this amount at an interest rate of 9% per annum.

3.3.1 Calculate the return on total capital employed on 28th February 2014, prior to the possible taking out of the loan.

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(4)

3.3.2 The directors felt it would be a wise decision to finance the purchase of the factory by raising the additional loan. Quote two financial indicators (actual ratios or percentages) as at 28 February 2014 to support their opinion.

(6)

3.3.3 Explain one additional aspect of the financial statements (not mentioned in your answer above) that the manager of Western Bank would be interested in before granting the R2 500 000 loan. Provide a reason for your answer.

(3)

3.3.4 Calculate the net asset value (NAV) per share on 28th February 2014.

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(3)

3.3.5 The current market price of a share is R11,85 on the securities exchange. The company has been in existence for the past 5 years. Would you consider buying shares in Hideware Limited? Justify your answer; giving at least 3 reasons.

(7)

3.4 Hideware Limited made cash donations to the local children's home, and to the relocation of birds from a contaminated river in the city to a bird sanctuary in a nearby town.

Explain why Hideware Limited is expected to undertake projects of this nature, and how these projects could also benefit the company financially.

Why involvements are expected:
Benefits:

(4)

QUESTION 4 INVENTORY AND ASSET MANAGEMENT (45 marks; 24 minutes)

Refer to the Information Booklet for information relating to the accounting records of Premier Sports.

4.1 Calculate the value of closing stock on 28 February 2014.

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(6)

4.2 Calculate the number of sports bags missing at the end of the year, and calculate their value using the weighted average method.

Calculation of sports bags missing:
The value of this shortage according to the weighted average method:

(7)

4.3 Calculate the gross profit for the year ending 28 February 2014.

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(5)

4.4 The owner of Premier Sports, Vikash Reddy, is concerned about the stock that has been identified as missing. He suspects, but cannot prove that one of his staff members is responsible. Besides extra security cameras and guards, provide one other control measure that he could implement specifically to combat the theft of stock by staff.

(3)

- 4.5 Complete the tangible asset note as it would appear in the financial statements on the 28 February 2014. Show all workings clearly in brackets so that part marks can be awarded.

Premier Sports
Notes to the financial statements as at 28 February 2014

Note 3. Tangible assets

	Embroidery Machines
Carrying value at the beginning of the year	
Cost at the beginning of the year	348 000
Accumulated depreciation at the beginning of the year	(113 200)
Movements	
Additions at cost price	
Disposals at carrying value (
Depreciation for the year (
Carrying value at the end of the year	
Cost at the end of the year	
Accumulated depreciation at the beginning of the year (

(24)

Show your calculations for the following:

• Carrying value of machine number 2
• Total depreciation on embroidery machines for the year
• Accumulated depreciation on embroidery machines at the end of the year

45

Total: 200 marks