

ACCOUNTING: PAPER I

Time: 2 hours

200 marks

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This paper consists of 12 pages including a ratio sheet on page 12. Please check that your question paper is complete.
2. Read the questions carefully.
3. Answer the questions in the Answer Booklet.
4. It is in your own interest to write legibly and to present your work neatly.
5. You may **not** use green or red ink. **You may use a pencil, but please use a soft, dark pencil.**
6. The allocation of marks and the appropriate time to be taken for each question are as follows:

Question 1: 30 marks; 18 minutes	
Learning Outcome	Assessment Standards
LO 1 – Financial information	AS 1 – Define and apply concepts for a Close Corporation in an accounting context AS 2 – Within the context of the accounting cycle, record unique information for a Close Corporation AS 7 – Apply the principles of VAT in different situations
Question 2: 60 marks; 36 minutes	
Learning Outcome	Assessment Standards
LO 1 – Managerial accounting LO 3 – Managing resources	AS 1 – Prepare, present, analyse and report information for a manufacturing business by preparing a production cost statement AS 2 – Validate inventories with specific reference to a manufacturing business AS 4 – Apply internal control and internal audit processes in a business environment
Question 3: 65 marks; 39 minutes	
Learning Outcome	Assessment Standards
LO 1 – Financial information LO 3 – Managing resources	AS 5 – Prepare financial statements and interpret financial statements of a company AS 4 – Apply internal control and audit processes in a business environment
Question 4: 45 marks; 27 minutes	
Learning Outcome	Assessment Standards
LO 1 – Financial information LO 3 – Managing resources	AS 5 – Prepare financial statements and interpret financial statements of a company AS 1 – Interpret and report on asset disposal

QUESTION 1 (30 marks; 18 minutes)

The following information was extracted from the accounting records of MyPro CC, owned by H el ene D and Kelsey K. H el ene D has a 60% interest in the CC and Kelsey K the balance. Profits are shared in the ratio of 3 : 2 H el ene D : Kelsey K. The financial year ends annually on 31 October. VAT is calculated at 14%.

Required**Answer the following questions**

- 1.1 Identify two forms of tax that MyPro CC will be liable to SARS for. (2)
- 1.2 The members are unsure on how to calculate the correct amount of VAT to be paid over to SARS at the end of the VAT period. Briefly explain how they should do this. (3)
- 1.3 Use the information provided in **information point 3** to calculate the amount of VAT due to/by SARS at the end of October 2009. State if this amount is receivable or payable. (11)
- 1.4 List two expenses or items that a business might incur or purchase that cannot reduce the amount owing to SARS. (2)
- 1.5 Analyse the transactions in **information point 4** below on the grid provided in the Answer Booklet to reflect the account debited and account credited. (8)
- 1.6 Refer to **information point 5** to calculate the amount paid to H el ene D for distributions during the current financial year ending 31 October 2009. (4)

Information

1. The annual turnover of the CC exceeds R1 500 000 per year. All goods sold are subject to VAT.
2. Besides the two members, the CC always employs five other workers.
3. The following was extracted from the accounting records for **October 2009**:
 - Debit balance according SARS (VAT) account on 1 October 2009, R3 002.
 - Total sales, excluding VAT, R225 000. VAT amounted to R31 500.
 - Total purchases, including VAT, R199 728.
 - Total returns to suppliers, including VAT, R8 037, including VAT of R987.
 - Total returns from customers, excluding VAT, R11 800.
 - Bad debts, R741 (including VAT) and R650 (excluding VAT).
 - Discount received, R1 425.
 - Discount allowed, R3 591.

4. The following transactions took place, amongst others, during the course of the financial year.
- Kelsey K increased her contribution in the business by contributing equipment with a value of R25 000.
 - Provisional income tax paid to SARS, R22 000.
 - An interim distribution was paid to the members, R70 000.
 - The tax assessment for income tax for the financial year amounted to R120 000.
5. The following information relates to distributions to members.
- The balance of distribution payable to members on 1 November 2008 was R210 000. This was paid to the members on 30 November 2008.
 - An interim distribution of R70 000 was paid to members on 1 March 2009.
 - Final distribution declared on 31 October 2009, R250 000. This is payable on 15 November 2009.

30 marks

QUESTION 2 (60 marks; 36 minutes)

Mawer Manufacturers, manufactures plastic water bottles used by cyclists. Their financial year ends annually on 31 October.

Required

- 2.1 Identify one fixed cost and one variable cost that Mawer Manufacturers would incur. (2)
- 2.2 List two control measures you would expect Mawer Manufacturers to have in place to ensure that completed water bottles are not stolen by staff. (4)
- 2.3 The business uses weighted average to calculate the value of raw materials used. Use the information in **points 1, 2.1, 2.2 and 3.1** to calculate the weighted average cost of raw materials used during the financial year end 31 October 2009. (9)
- 2.4 Name the other method that can be used to value the raw materials and give two possible reasons why you think the business uses weighted average to value this stock rather than the other stock valuation method. (5)
- 2.5 If raw materials are damaged or stolen, and they are insured, do you think the insurance company would pay out the weighted average cost or the original cost of the stock stolen? Give a reason for your answer. (2)
- 2.6 The Production Manager of Mawer Manufacturers has given his son defective water bottles for free to sell at his school's annual Grade 9 market day. The profits from the market day will go to the Sunflower Charity fund. His son will sell the defective bottles at the same price that the business sells the water bottles to their customers. Explain whether you think that this is ethical, giving two reasons to support your answer. (4)
- 2.7 Prepare the Production cost statement for the year ended 31 October 2009. Only show the notes for raw materials and overhead costs. Show calculations in brackets so that part marks can be awarded. (31)
- 2.8 150 000 water bottles were produced during the financial year. Calculate the cost to produce one water bottle. (3)

Information

1. Balances on 1 November 2008:
 - Stock: Raw materials, R72 000 (consisting of 10 000 packets at R7,20 per packet)
 - Work in progress, R24 000
 - Consumable stores on hand: Consumable goods (factory), R1 100
2. The following transactions took place during the financial year, 1 November 2008 to 31 October 2009:

- 2.1 Raw materials consist of plastic pellets and are purchased in packets from suppliers. The following payments were made by cheque:

Date purchased	Packets	Cost per packet	Total R
1 November 2008	16 000	R9,00	144 000
1 February 2009	12 000	R11,00	132 000
1 May 2009	24 000	R10,00	240 000
1 August 2009	18 000	R14,00	252 000
Total	70 000		768 000

- 2.2 4 000 packets of the stock purchased on 1 May 2009 were immediately returned to suppliers as they were defective.
- 2.3 Consumable goods (factory) purchased on credit and paid for by cheque, R9 800.
- 2.4 Salaries and wages paid by cheque, R190 000. R87 000 was in payment of factory manager's salary and the balance was for the wages of the production staff.
- 2.5 Employment benefits
 - Employers contributions to the Pension Fund and UIF paid on behalf of the factory manager amounted to R7 500.
 - Employers contributions to the Pension Fund and UIF paid on behalf of the production staff amounted to R10 300.
- 2.6 Insurance paid for the factory, R19 500.
- 2.7 Factory rent expense paid, R110 000.
- 2.8 Depreciation has been calculated on the following items:
 - Factory plant and machinery, R60 000
 - Office equipment, R19 600
- 2.9 Other factory overhead costs paid, R32 800.

3. Adjustments on 31 October 2009:

- 3.1 6 000 packets of raw materials purchased on 25 October 2009 at R12,90 per packet. The invoice was received but has not been recorded in the books of the business.
- 3.2 Included in the factory insurance is an amount of R7 200 paid on an annual insurance premium negotiated on 1 July 2009.
- 3.3 Factory Rent for October 2009 has not yet been paid. The rent has remained unchanged during the financial year.
- 3.4 Balances on 31 October 2009:
- 6 300 packets of plastic pellets are on hand
 - Work in progress, R38 770
 - Consumable stores on hand: Consumable goods (factory), R1 420

60 marks

QUESTION 3 (65 marks; 39 minutes)

The following information was extracted from the accounting records of Papademetriou Suppliers Ltd. They use the Perpetual stock system.

Required

- 3.1 Use the information given below to complete the Income Statement, Balance Sheet and Notes to the financial statements for the year ended 31 October 2009. Only fill in the information denoted by an *. Refer to your Answer Booklet for the partially completed Income statement, Balance sheet and Notes to the financial statements. (48)

Information

1. Goods are sold at a profit mark-up of 65% on cost.
2. Other operating expenses as a percentage on sales = 18%.
3. Papademetriou Suppliers Ltd has 300 000 shares in issue on 31 October 2009. The par value of a share is R12.
4. 100 000 of the shares were issued at a premium of R3,60 and the remainder of the shares were sold for R15,50.
5. The earnings per share after tax (EPS) for the financial year ended 31 October 2009 amounted to 91,2 cents per share. No new shares were issued during the current financial year.
6. Income tax is calculated at 28% of pre-tax profits.
7. The debt to equity ratio on 31 October 2009 is 0,48 : 1.
8. Total capital employed on 31 October 2009, R7 400 000.
9. On 1 November 2008, R1 800 was owed to SARS by Papademetriou Suppliers Ltd. Total income tax paid to SARS during the current financial year, R100 600.
10. Total dividends paid and declared for the current financial year amounted to 80 cents per share.
11. The current ratio for the year ended 31 October 2009 is 2,3 : 1 and the acid test ratio is 1,4 : 1.
12. Papademetriou Suppliers Ltd earns interest at 6% per annum on the fixed deposit. The fixed deposit has remained unchanged during the financial year.

3.2 Answer the following questions

3.2.1 According to the Companies Act, Papademetriou Suppliers Ltd must have their annual financial statements **independently** audited.

- (a) Briefly explain why it is important that these auditors are 'independent'. (2)
- (b) In the auditors report, the independent auditors will explain their responsibilities. Why do you think that this is necessary? (2)
- (c) In the auditors report the auditors express an opinion regarding the state of the information supplied by Papademetriou Suppliers Ltd. This opinion can be 'unqualified', 'qualified' or 'no opinion'. What is meant by the auditors if they express an 'unqualified' report? (4)

3.2.2 The management of Papademetriou Suppliers Ltd have decided to sell gift vouchers in order to try and increase the income of the business.

- (a) Explain why the sales of gift vouchers cannot be treated in the ledger in the same manner as the normal sales of goods. (3)
- (b) What bookkeeping entries would you advise when:
- a customer buys a gift voucher from the business?
 - a customer uses a gift voucher to pay for goods purchased? (4)
- (c) Explain how unused gift vouchers should be recorded in the financial statements at the end of the financial year. (2)

65 marks

QUESTION 4 (45 marks; 27 minutes)

The following information was extracted from the accounting records of Dario du Slack Traders Ltd. The financial year of the business ends annually on 31 October.

Required

- 4.1 State the method and rate of depreciation applied to vehicles. Show a calculation to support your answer. (4)
- 4.2 Complete the **changes in working capital** section of the note to the Cash flow statement for reconciliation of profit before tax and cash generated from operations for the year ended 31 October 2009. (9)
- 4.3 Complete the **Cash flows from operating activities** section of the Cash flow statement for the year ended 31 October 2009.
- Note: Certain information has already been filled in for you. Show your calculations in brackets so that part marks can be awarded. (8)
- 4.4 Show the **Cash flows from investing activities** section of the Cash flow Statement for the year ended 31 October 2009. (10)
- 4.5 Draw up the Appropriation Account as it would appear on 31 October 2009. (6)
- 4.6 Calculate the Net asset value (NAV) per share for the year ended 31 October 2009. (3)
- 4.7 Shares in Dario du Slack Traders Ltd are trading on the JSE at R76,50 per share. As a shareholder with a substantial investment in the company would you advise a friend to invest in this company? Use the NAV and the DPS to justify your advice to your friend. Refer to additional information 2.3.5 below. (5)

Information

1. The following information was extracted from the Income Statement for the year ended 31 October 2009.
- Interest on Loan, ?
 - Income tax, R300 000
 - Net profit after tax, R700 000

2. The following information was extracted from the Balance sheet and Notes to the financial statements on 31 October 2009.

2.1 Extract from the Balance sheet on

	31 October 2009 R	31 October 2008 R
Inventories	1 150 000	1 325 000
Trade and other receivables (see 2.2.2)	860 000	772 000
Shareholders equity (including Accumulated profit/retained income)	3 500 000	3 200 000
Accumulated profit/retained income	751 000	700 000
Loan: Fin Bank (interest is calculated at 13% per annum – see 2.3.3)	1 600 000	1 100 000
Trade and other payables (see 2.2.3)	1 220 000	1 010 000

2.2 From the Notes to the Financial statements on 31 October 2009

2.2.1 Fixed assets

	Land and buildings	Vehicles	Equipment
Cost price at beginning of year	2 500 000	450 000	210 000
Accumulated depreciation	0	(45 000)	(39 900)
Carrying value at beginning of year	2 500 000	405 000	170 100
Movements			
Additions	?	0	45 000
Depreciation	0	(90 000)	(17 835)
Disposals at carrying value	300 000	0	?
Carrying value at end of year	3 000 000	315 000	?
Cost price at end of year	3 000 000	450 000	230 000
Accumulated depreciation	0	(135 000)	?

2.2.2 Trade and other receivables

	31 October 2009 R	31 October 2008 R
Trade debtors	810 000	720 000
Accrued income	32 000	45 000
Prepaid expenses (interest on loan)	0	7 000
SARS (Income tax)	18 000	0
	860 000	772 000

2.2.3 Trade and other payables

	31 October 2009 R	31 October 2008 R
Trade creditors	711 000	650 000
Income received in advance	43 000	38 000
Accrued expenses (interest on loan)	15 000	0
SARS (Income tax)	0	22 000
Shareholders for dividends	451 000	300 000
	1 220 000	1 010 000

2.3 Additional information

2.3.1 Information affecting fixed assets

- All the vehicles were purchased on 1 May 2008.
- Equipment is depreciated at 10% per annum on carrying value.
- Old equipment was sold at carrying value on 30 June 2009. No other equipment was sold during the financial year.
- On 1 November 2008 the carrying value of the equipment sold was R20 250.

2.3.2 An interim dividend of R198 000 was paid to shareholders on 1 March 2009. The net profit before tax for the year ended 31 October 2009 was R1 000 000.

2.3.3 Interest is calculated at 13% per annum on the loan from Fin Bank. The loan from Fin Bank was increased on 1 May 2009. Repayments will commence on 1 March 2010.

2.3.4 There were 55 000 shares in issue on 31 October 2009. Shares have a par value of R50 per share. All shares were issued at their par value.

2.3.5 The following financial indicators were calculated for 2009:

- Return on average shareholders equity, 20.1%.
- Earnings per share, R18.20.
- Dividends per share, R11,80.
- Net asset value per share, ?

45 marks

Total: 200 marks

$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross Profit}}{\text{Cost of sales}} \times \frac{100}{1}$	$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit after tax}}{\text{Average shareholders equity}} \times \frac{100}{1}$	$\frac{\text{Net profit before tax} + \text{interest expense}}{\text{Average capital employed}} \times \frac{100}{1}$	
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
$\frac{\text{Profit after tax}}{\text{No. of shares in issue}} \times 100$	$\frac{\text{Total ordinary shareholders equity}}{\text{No. of shares in issue}} \times \frac{100}{1}$	
$\frac{\text{NPAT} + \text{interest on loans (from members)}}{\text{Average (members equity + loans from members)}} \times \frac{100}{1}$	$\frac{\text{Total Fixed Costs}}{\text{(Selling price per unit - Variable costs per unit)}}$	
$\frac{\text{NPBT} + \text{Int on loan (ext)} + \text{int on loans (from members)}}{\text{Average (members equity + bank loans + loans from members)}} \times \frac{100}{1}$		