



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2016

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
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Cost of sales}}{\text{Average inventories}}$
$\frac{\text{Average inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Closing inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$	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 INVENTORY SYSTEMS

(32 marks, 19 minutes)

Information relating to Weighcomm Scales

Weighcomm Scales supplies seafood retailers with specialised electronic scales. They use the periodic inventory system to record their stock, and the FIFO method to value it. The financial year ends on 31 July 2016.

1. Below is the stock record of electronic scales purchases for the year. Prices **exclude VAT**.

	Number of units	Unit cost	Total cost
Opening stock (1 August 2015)	200	R2 100	R420 000
Purchases during the year	1 350		R2 942 000
November 2015	320	R2 180	R697 600
February 2016	540	R2 160	R1 166 400
July 2016	490	R2 200	R1 078 000

2. Gross sales for the year were R4 375 320 **including VAT**.
3. Debtors' returns amounted to R19 000 **excluding VAT** (5 units). These were all returns of stock.
4. The following credit note for scales returned to a supplier was found in the clerk's desk drawer. It has not been processed and related to stock bought in July 2016. There were no other credit notes during the year.

<p><i>Weighcomm Scales Ltd</i> 17 Beviss Crescent New Germany Tel: (031) 703 2555 Fax: (031) 703 2566 e-mail: enquires@weighcommscales.co.za <www.weighcommscales.com></p>			
CREDIT NOTE: 5664/07		DATE: 31 JULY 2016	
Address to: CROSSFIT SCALES 210 NORTH COAST ROAD DURBAN			
QUANTITY	ITEM	UNIT COST (Excl. VAT)	TOTAL
12	Electronic scale	?	?
VAT			?

5. According to the physical stock count on 31 July 2016, the business had 510 units on hand.

QUESTION 2 COMPANY FINANCIAL STATEMENTS (70 marks, 42 minutes)**Information relating to Impumelelo Limited****Impumelelo Limited
Pre-adjustment Trial Balance for the year ended 31 October 2016**

	R	R
Balance Sheet Section		
Ordinary share capital		?
Retained income		?
Land and buildings	4 064 000	
Vehicles	1 850 000	
Accumulated depreciation on vehicles		1 729 000
Fixed deposit: Rand Merchant at 10,5% p.a.	135 000	
Trading stock	360 870	
Debtors control	161 969	
Bank		32 740
Loan: Capitec Bank		300 000
Creditors for salaries		25 100
SARS: PAYE		12 050
Unemployment insurance fund (UIF)		979
Creditors control		229 120
Provision for bad debts		7 930
SARS: Income tax	289 000	
Nominal Accounts Section		
Sales		2 435 000
Cost of sales	1 521 875	
Debtors' allowances	3 725	
Rent income		144 313
Audit fees	25 000	
Directors fees	159 600	
Sundry expenses	116 649	
Bad debts	11 594	
Salaries	240 000	
Interest on fixed deposit		9 050
Loss on disposal of asset	6 000	
Ordinary share dividends	140 000	
	9 085 282	9 085 282

Additional information and adjustments that still need to be taken into account:

1. The following adjustments relate to their debtors:

1.1 A credit note dated 31 October 2016 was issued for defective stock with a selling price of R2 256. The company consistently applies a mark-up of 60% on cost. These goods were returned to the supplier.

1.2 Provision for bad debts needs to be adjusted to R8 200.

2. Rental income for November 2016 was received and recorded on 25 October 2016. The premises were occupied for the entire year.

3. Impumelelo Limited paid a 40% deposit on their audit fees for the year. The balance will be settled on 7 November 2016.

4. According to the physical stock count, trading stock on hand amounted to R358 240.

5. The creditors for salaries figure of R25 100 in the pre-adjustment trial balance reflected the following 2 situations:

5.1 The salaries clerk had incorrectly processed the October salary of employee Jack Jones who had left the company on 30 September 2016.

The details of his October salary are as follows:

GROSS SALARY	R28 000	DEDUCTIONS:	CONTRIBUTIONS
		PAYE: R7 852	
		UIF: R148 (Ignore the maximum for UIF)	UIF: R148 (Ignore the maximum for UIF)

Contributions are debited to the salaries account.

5.2 The remaining salary was for an employee who requested that his October salary only be paid on 1 November 2016.

5.3 Payments to SARS and the various funds will only be made on 1 November 2016.

6. The fixed deposit was increased by R25 000 on 1 July 2016. This has been recorded. Interest is not capitalised. Outstanding interest needs to be accounted for.

7. Only one asset, a vehicle, was sold at the beginning of the year. The book value of this vehicle on the date of sale was R20 000. It was sold for R24 000 cash. All the transactions relating to the transfer of the cost price and accumulated depreciation of the asset were correctly transferred to the asset disposal account, but the bookkeeper recorded the receipt of cash in the CRJ and the asset disposal account as R14 000 instead of R24 000.

8. The remaining vehicles must be depreciated to a **book value** of R15 000.

9. Impumelelo Limited took out a loan from Capitec Bank on 1 November 2015 on the agreement that they would pay back a fixed amount of the loan each year as well as any interest expense for that year. The following table shows the transactions related to the loan for the financial year ending 31 October 2016:

Opening balance at 1 November 2015	R420 000
Add: Interest capitalised	?
Less: Repayments and interest payments made during the year	(166 200)
Closing balance at 31 October 2016	300 000

Impumelelo Limited has budgeted to repay the same capital portion of the loan next year.

10. The following share transactions took place during the year:

<ul style="list-style-type: none"> On 31 October 2015 the company had shares in issue with a weighted average of R6,90 per share
<ul style="list-style-type: none"> On 1 November 2015 the company issued a further 125 000 ordinary shares at R7,30 per share. This transaction has been recorded.
<ul style="list-style-type: none"> On 30 September 2016 the company repurchased 37 500 shares at R8,50 per share from the estate of a deceased shareholder
<ul style="list-style-type: none"> On 31 October 2016 director A. Shaw was issued 2 500 ordinary shares at R7,40 each in lieu of his outstanding directors fees. No entry has been made to record this.

11. On completion of the audit for the year it was calculated that Impumelelo Limited owed SARS a further R11 450 for Income Tax.
12. On 31 October 2016, the directors declared a final dividend of 80 cents per share. **The shares issued to director A. Shaw DO NOT qualify for this dividend.**

QUESTION 3 CASH FLOW STATEMENTS**(50 marks, 30 minutes)****Information relating to Claxton LTD.**

1. Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 31 July 2016.

Loss on sale of equipment	R3 250
Depreciation for the year	R164 400
Interest on loan	R110 000
Income tax	R518 000
Net income before taxation	R1 223 000

2. Extract from the Statement of Financial Position (Balance Sheet) as at:

	31 July 2016	31 July 2015
Fixed Assets:	7 332 850	5 170 000
Land and buildings	6 100 000	4 220 000
Equipment at carrying value	1 232 850	950 000
Equity	5 865 750	5 690 000
Share capital	?	4 655 000
Retained income	?	1 035 000
Long-term liabilities	987 250	900 000
Mortgage loan: RFS Financial Bank (12% p.a.)	987 250	900 000

3. Extract from the notes to the Financial Statements as at 31 July 2016

Note 5: Trade and other receivables

	31 July 2016	31 July 2015
SARS – Income tax	R22 700	?

Note 6: Cash and cash equivalents

	31 July 2016	31 July 2015
Bank	R12 500	
Petty cash	R2 000	R1 500

Note 7: Trade and other payables

	31 July 2016	31 July 2015
SARS – Income tax		?
Shareholders for dividends	R113 000	R162 000
Bank		?

4. Additional information:

- The **total** dividends paid and declared for the year amounted to R338 000.
- The cash flow statement on 31 July 2016 reflected taxation paid of R557 050.
- The business bought new equipment during the year.
- They also disposed of obsolete equipment on 31 March 2016. The following information relating to the disposal of this equipment was taken from the tangible asset register:

Cost price of the equipment	R180 000
Accumulated depreciation (1 August 2015)	R87 500

Depreciation was calculated at 15% p.a. on the diminishing balance method.

- The business built an additional warehouse during the year.
- Claxton LTD had 931 000 ordinary shares in issue on 1 August 2015.
- On 1 August 2015, Claxton LTD decided to repurchase 50 000 ordinary shares from a shareholder at R5,50 per share. The weighted average price per share on this date was R5.
- During the financial year ended 31 July 2016, they issued further shares to the public at a price of R5,55 per share.
- Claxton LTD took out a new loan of R218 000 during the year. Interest is capitalised and loan repayments (including interest for the year) were made during the year.
- The **net change in cash and cash equivalents for the year ended 31 July 2016** was R119 000 (positive).

QUESTION 4 MANUFACTURING**(48 marks, 29 minutes)**

This question consists of 2 parts; each is related to a completely different business.

PART A**Information relating to Thorndon Manufacturers**

Thorndon Manufacturers are a medium-sized business that specialises in the production of security alarms. They supply their products to various security companies, but also have an online store where they have a call centre selling security alarms directly from the factory. 90% of all the selling and distribution costs are incurred by the online call centre.

1. The following balances were found in the stock accounts:

	30 September 2016	1 October 2015
Raw materials stock	R70 000	R55 000
Indirect materials stock	R2 730	R4 500
Work-in-progress stock	?	R65 050
Finished goods stock	R80 500	R101 450

2. Raw materials were purchased during the year, R1 135 000. The owner returned raw materials costing R2 500 that he had previously taken for his own personal use. The return of this stock has not been recorded.
3. A credit invoice for R3 500 had not yet been recorded. This was in respect of transporting raw materials from the harbour to the factory.
4. After the creditor's reconciliation had been completed, it was discovered that a bulk purchase discount of R6 000 on raw materials had not been granted. Thornton Manufacturers is entitled to this discount.
5. Sales for the year were R6 282 375. (30% of these sales are through the call centre.) Cost of sales for the year were R2 512 950.
6. Indirect material bought during the year was R260 000. Indirect material used is divided between the factory, administration, and selling and distribution in the ratio of 1 : 1 : 3.
7. At the end of the year it was discovered that indirect material in the factory (packing boxes) costing R1 750 had been stolen. The stock is insured and the insurance will pay out R1 130 in October 2016. No entries have been made to record this theft.
8. Monthly insurance has remained constant for the last two years. Insurance paid for the year amounted to R121 520 and this included insurance paid in advance for October and November 2016. Insurance of R59 520 was allocated to selling and distribution, and R7 440 to administration.
9. R490 000 is the total rent. 60% is for the factory, 5% for administration and the rest is for selling and distribution.

10. The following salary and wage expenses were incurred:

	Gross salaries and wages	Contributions	
		Medical aid	UIF
Indirect labour			
Factory	R312 850	R7 002	R2 428
Administration	R80 000	R1 650	R1 600

Direct labour, including contributions, amounts to R790 000.

11. Transport costs to deliver alarms to online customers were R35 080.

12. Total selling and distribution costs as a percentage of sales for the year was 16%.

PART B

Information relating to Bags of Fun

Bags of Fun is a small manufacturing business that produces transparent pencil bags. This business supplies these pencil bags to various school shops in the Durban area. Maria Martins, the owner, is concerned about the profitability and sustainability of her business.

The following information was taken from the books of Bags of Fun at their year-end, 31 October 2016.

Every year they sell all the goods they produced:

	31 October 2016			31 October 2015
	Total costs	Unit cost	Fixed/Variable	
Direct materials costs	R607 750	R5,50		
Direct labour costs	R508 300	R4,60		
Selling and distribution costs	R182 325	R1,65	All variable	
Factory overheads cost	R548 410		All Fixed	
Administration costs	R247 500		All Fixed	
Selling price per unit		R18,85		R15

	31 October 2016	31 October 2015
Units produced and sold	?	98 000 units
Break-even point	?	78 000 units