



**ACCOUNTING: PAPER I**

Time: 2 hours

200 marks

**INFORMATION BOOKLET**

**QUESTION 1 MANUFACTURING & ASSET DISPOSAL [62 marks; 37 minutes]**

The information below refers to Hammond Huts.

Hammond Huts manufactures canvas tents used for camping. Their financial year ends on 30 June. Two machinists are used in the factory to sew the tents. They are both paid the same salary.

**INFORMATION**

A. Vehicles:

- All vehicles are used by the sales team to deliver canvas tents to customers.
- A new vehicle was purchased on credit on 31 March 2018.
- Depreciation on vehicles is calculated at 15% p.a. on the cost price method and no vehicles were sold during the year.

B. Machinery:

- Machinery consists of sewing machines used for the production of canvas tents. One machine was sold for cash on 1 November 2017 at its carrying value. This machine was originally bought for R120 000 on 1 July 2015.
- Depreciation on machinery is calculated at 15% p.a. on the diminishing balance method and no new machinery was bought during the year.

C. Labour costs:

Details	No. of employees	Basic salary <b>per employee per month</b>	Annual bonus
Machinists	2	7 500	?
Sales manager	1	14 500	25 680

\*The sales manager is only involved in the selling and distribution of tents.

- The machinists of Hammond Huts belong to Mozzi Medical Aid scheme. All individuals are on the same medical scheme, which costs **R38 400 per person** annually. 40% of this is deducted from each employee's salary and the remainder is paid on their behalf by Hammond Huts.
- UIF of 1% is deducted from the gross salaries and a further 1% is contributed by the business for all employees.
- Annual bonuses were paid to all employees. Directors have set aside a certain amount for bonuses and this distribution is in the ratio of 2:3 for machinists and the sales manager respectively.

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

	<b>30 June 2018</b>	<b>30 June 2017</b>
	<b>R</b>	<b>R</b>
Indirect materials stock	17 200	14 500
Work-in-progress stock	?	220 000
Finished goods	32 000	54 000
Accumulated depreciation on vehicles	?	420 000

E. Additional information:

- All the machinery is in the factory.
- All the vehicles are used for selling and distribution.
- Indirect materials costing R20 700 were bought during the year. Indirect materials used during the year were in the ratio of 4:5 between the factory and selling and distribution.
- Hammond Huts' insurance expense for their vehicles for the year ending 30 June 2018 was R25 000. On 1 April 2018 they decided to start insuring their factory machinery. On this date, they paid an **annual** insurance policy on their machinery for R4 680.
- 400 tents were produced in the year.
- Prime costs were calculated at R860 per tent.
- Cost of sales amounted to R504 000 for the year ended 30 June 2018.

**QUESTION 2 FINANCIAL STATEMENTS**

**[62 marks; 37 minutes]**

The information that follows refers to NDIV Limited.

- NDIV Limited sells mountain bikes. They apply a mark-up of 50% on all their sales.
- NDIV Limited has an authorised share capital of R2 000 000. 125 000 shares had been issued on 28 February 2017 at an average price of 425 cents per share. No shares were issued or repurchased during the year.
- The figures already entered into the Statement of Comprehensive Income are from the Pre-adjusted Trial Balance on 28 February 2018.

A. Extract from the financial statements as at 28 February 2018 **before the adjustments below.**

	28 February 2018	28 February 2017
Trading stock	185 000	200 000
Debtors control	85 000	42 000
Provision for bad debts	4 100	?
Loan: Brand Bank @ 10,00%	335 000	?
SARS	310 000 (dr)	?
Insurance		24 000
Rent income	146 944	?

B. Adjustments and additional information **that have not been taken into account.**

1. A cash customer, F. Nigidi, bought a mountain bike for R21 000, but has not been completely happy with it. NDIV Limited have agreed to take back the bike and give him a full refund as he has only had it for a week. No entries have been made to record the return of the bike.
2. Two mountain bikes with a cost price of R12 500 each were stolen from NDIV Limited during February 2018. Insurance has agreed to pay out only 60% of the claim as one of the store room doors had been left open overnight. This insurance pay-out has not yet been received.
3. After the burglary a physical stocktaking was done which revealed the following was on hand on 28 February 2018:
  - Trading stock R152 700
  - Consumable stores R4 500
4. J. Fortuin's (a debtor) account of R6 500 must be written off as irrecoverable and the provision for bad debts must be adjusted to 5% of good book debts.

5. A cheque for R2 500 was sent to Ranger Cycles (a creditor) last month in settlement of a debt of R3 200. This was recorded in the books of NDIV Limited, however, Ranger Cycles never received the cheque and it is presumed to be lost. Ranger Cycles is refusing to grant the discount they had offered for early settlement. The original cheque must be cancelled. NDIV will make an EFT payment to Ranger Cycles in March.
6. Part of the premises owned by NDIV Limited has been rented out to Colcam Motors since 1 March 2017. It was agreed that the rental be increased by 12% on 1 March 2018. The yearly rent, plus the rent for March 2018, has been received and recorded as rent income for the year ended 28 February 2018.
7. A loan repayment of R35 000 was made and recorded on 1 June 2017. Another R35 000 will be repaid on 1 June 2018. Interest rates have remained unchanged at 10% for the entire year. Interest is **not** capitalised.
8. A further R21 000 is still owed to the auditors.
9. A vehicle was sold for R66 000 during the year. It was originally bought for R114 000 and on its date of sale had accumulated depreciation of R44 521. No other assets were bought or sold during the year.
10. Depreciation for the year was calculated as R19 255. This does not have to be adjusted because this includes the depreciation for the vehicle sold.
11. The provisional tax payments for the year have been paid. The income tax for the year was calculated to be R302 000.
12. Directors declared a final dividend of 58 cents per share on 28 February 2018.
13. The dividends per share for the year ended 28 February 2018 was 123 cents.

**QUESTION 3 CASH FLOW STATEMENT**

**[43 marks; 26 minutes]**

Stubar Ltd is a company selling borehole equipment to areas seriously affected by drought in South Africa. Their financial year ends on 30 September 2018.

**INFORMATION**

**1. Extracts from the Financial Statements of Stubar Ltd.**

	<b>30 September 2018</b>	<b>30 September 2017</b>
Ordinary share capital	R (? Shares)	R456 000 (120 000 shares)
Net profit after tax	648 000	324 000
Inventory	310 000	345 000
Depreciation	?	23 988

**Shares and dividends:**

- Stubar Ltd has an authorised share capital of 300 000 shares.
- On 1 December 2017 Stubar Ltd issued 10% of their authorised shares and received R174 000.
- On 20 July 2018, Stubar Ltd realised that their profit before tax had doubled due to the drought in the Western Cape. With this in mind, they repurchased 20 000 shares at R3,30 above the average share price.
- The company paid an interim dividend of 7 cents per share on 31 March 2018.
- A final dividend of 12 cents per share was recommended, but not yet paid.

**Taxation:**

- Provisional tax of R115 000 was paid on 31 March 2018 and another amount was paid on 30 September 2018. Tax is calculated at 28% on net profit.

**2. Mortgage loan agreement**

	<b>30 September 2018</b>	<b>30 September 2017</b>
Loan: KB Bank	500 000	234 000
Monthly repayments including interest	4 166	4 166
Monthly repayments excluding interest	2 000	2 000
KB Bank agreed to increase the loan on 1 October 2017. Interest is capitalised and all monthly payments have been recorded and received.		

**3. Trade and other receivables and payables**

	<b>30 September 2018</b>	<b>30 September 2017</b>
Debtors control	117 500	45 000
Creditors control	107 000	91 000
Accrued income (commission)	–	5 520
Accrued expenses (rates)	4 840	3 225
Income received in advance (rent)	3 333	2 555
Prepaid expenses (Insurance)	6 280	3 140
SARS (Income tax)	23 584(dr)	146 792(cr)
Shareholders for dividends	?	6 000

**QUESTION 4      VAT AND INVENTORY**

**[33 marks; 20 minutes]**

A. The information below refers to Shick Chicken.

- Shick Chicken buys and sells frozen chicken pieces.
- They make use of the periodic stock system and value their stock according to the first-in-first-out (FIFO) method.
- Their financial year ends on 31 December each year, but the business closes on 1 December for a month-long festive season break.
- Shick Chicken buys all their stock from Graberry Farms.

B. Information taken from the stock records relating to frozen chicken per kilogram.

DATE 2018	DETAILS	KILOGRAM	R/KG (excluding VAT)	TOTAL
1 January	Opening stock	320	64	20 480
		1 050		
3 February	Purchases	380	72	27 360
18 May	Purchases	400	78	31 200
2 August	Purchases	160	82	13 120
15 November	Purchases	130	85	11 050
17 November	Returns	(18)	?	?
17 November	Drawings	(2)	?	?

- Shick Chicken and Graberry Farms agreed that returns had to be made within 3 working days.
- Shick Chicken decided to maintain their selling price of R99/kg throughout the financial year. 1 150 kg of chicken was sold during the year. **No stock was lost or stolen.**

C. Information relating to the VAT records of Shick Chicken.

- The business is a registered VAT vendor and uses the invoice basis to record VAT which is charged at 14%. They are required to pay VAT every two months. They have not completed their calculation of the VAT due to/owed by SARS for the two-month period ending 30 November 2018 because the following transactions for November have not been taken into account. Before taking these transactions into account, Shick Chicken was owed R3 100 by SARS.

Source documents	VAT exclusive	VAT	VAT inclusive
Invoices issued to customers			R16 929
Invoices received from Graberry Farms	R11 050		
Credit notes received from Graberry Farms		R214,20	
Journal voucher: drawings	R170		
Journal voucher: bad debts written off			R1 140
Receipt Graberry Farms: discount received	R3 200		