

**ACCOUNTING: PAPER I**

Time: 2 hours

200 marks

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**INFORMATION BOOKLET**

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**QUESTION 1          INVENTORY CONTROL          [35 marks; 21 minutes]**

Chris Pretorius owns a company called ACTV LTD, which imports silicone rings from China and sources board games locally from Port Elizabeth. Silicone rings have become popular with athletes who replace their wedding rings with them whilst doing sport.

Chris deals directly with a supplier in China from whom he buys all his rings. His supplier includes all transport costs and import duties into the cost price. The individual rings are too small to be barcoded.

He is able to buy the board games from a local manufacturer based in Port Elizabeth. He is charged a standard delivery fee of R1 850 for any order under 1 000 board games. The opening stock of 73 units were delivered free of charge by the courier company.

He makes bulk purchases of stock and tries to order 3 times a year in an effort to reduce and control stock. All returns relate to the nearest purchase, but ACTV LTD cannot claim a reduction in the carriage costs.

**ACTV LTD uses the periodic inventory system to record stock.**

Chris has decided to value his inventory as follows:

- **Silicone Rings – FIFO method**
- **Board games – Weighted average method**



Information for the year ended 28 February 2019:

Details	Date	Silicone rings			Board games		
		Units	Per unit (R)	Total value (R)	Units	Per unit (R)	Total value (R)
Opening stock	1 Mar. 2018	7 500	8,00	60 000	73	375	27 375
Total purchases		11 700		100 405	685		258 000
Purchases	30 Apr. 2018	4 200	8,00	33 600	100	382	38 200
	30 Sep. 2018	2 800	8,50	23 800	85	380	32 300
	30 Nov. 2018	4 700	9,15	43 005	500	375	187 500
Returns	5 Oct. 2018	120	?	?	–	–	–
Returns	31 Dec. 2018	185	?	?	8	?	?
Closing stock	28 Feb. 2019	6 110	?	?	?	?	?
Sales for the year		12 785	49	626 465	606	500	303 000

**QUESTION 2 FINANCIAL STATEMENTS**

**[67 marks; 40 minutes]**

The information that follows refers to **BARR SURF LTD.**

- BARR SURF LTD sells new and used surfboards and offers surf lessons for which they charge a fee income of R450 per lesson.
- BARR SURF LTD has an authorised share capital of 1 000 000 shares. 625 000 shares had been issued on 28 February 2018 at an average price of R3,20 per share.
- The figures already entered into the Statement of Comprehensive Income are from the pre-adjusted trial balance on 28 February 2019.

A. Extract from the financial statements as at 28 February 2019 **before the adjustments below.**

	<b>28 February 2019</b>	<b>28 February 2018</b>
Trading stock	75 000	80 000
Retained income	?	32 000
Sundry expenses	Balancing figure for income statement	
Loan: SB Bank @ 10,25%	223 250	235 000
SARS – Income Tax	40 000 (dr)	?

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

1. BARR SURF LTD operates on a 25% mark-up policy on all sales. Last year sales amounted to R800 000. BARR SURF LTD is pleased to announce a 10% increase in net sales in this year's financials. There were no debtors' allowances for the year.
2. Nordic Nicky is a tourism company which brings tourists into South Africa from Norway. They use BARR SURF LTD to run all their surf lessons. On 21 February 2019 BARR SURF LTD received a cheque from Nordic Nicky in full payment for 2 groups who will receive lessons as follows:

<b>Date</b>	<b>Name of group</b>	<b>Number of lessons</b>
21 February 2019	Nordic warriors	15
7 March 2019	Icy surfers	4

No entries have been made in respect of these lessons.

3. Sam SurfSki Ltd has rented a storeroom from BARR SURF LTD for R850 per month since 1 November 2018.
4. Two new surfboards with a cost price of R5 500 each were returned to the manufacturers, Stu Surf Designs, as they were damaged in transit. A debit note was issued.

5. A physical stocktaking was done, which revealed that R67 000 worth of trading stock was on hand on 28 February 2019.
6. A new employee, E. van Vuuren, was omitted from the February 2019 salaries journal in error. Her salary details are listed below.

Basic salary	14 500
PAYE	2 610
UIF deduction	1%
BARR SURF LTD also contributes 1% to the UIF.	

7. A further R1 500 is still owed to the auditors in respect of their fees.
8. Included in insurance is an annual payment for R9 468 which was taken out on a new company vehicle bought on 1 June 2018 for R172 500 cash. This is the only asset the company owns which will depreciate.
9. Depreciation is calculated at 20% per annum on cost price.
10. The loan statement received from KB bank on 28 February 2019 reflected the following:

Balance on 1 March 2018	235 000
Repayments during the year including interest	35 838
Interest	?
Balance on 28 February 2019	223 250
<ul style="list-style-type: none"> <li>• Interest is capitalised and has not yet been recorded in full for the year. The loan was not increased during the current financial year.</li> <li>• They intend to pay R11 500 of the capital amount next year.</li> </ul>	

11. The provisional tax payments for the year have been paid. Tax was calculated at 28% on profit before taxation.
12. After considering the financial implications a buyback of shares entails, it was decided by the directors on 1 December 2018 to repurchase 4% of the shares currently in issue. These shares were repurchased at R4,50. No entries have been made for this transaction.
13. Directors declared an interim dividend on 31 August 2018 of 7 cents per share. The final dividend per share recommended by the directors on 28 February 2019 was 5 cents per share.
14. The net profit after tax was calculated to be R108 000.

**QUESTION 3 CASH FLOW STATEMENT**

**[46 marks; 28 minutes]**

Bradley Bros Ltd is a company which specialises in water polo equipment and kit. They supply to all areas of South Africa. Their financial year ends on 30 June 2019. It has been a tough year for the company and so directors have decided not to declare any dividends at the end of the financial year.

**INFORMATION**

1. Extracts from the Financial Statements of Bradley Bros Ltd.

	<b>30 June 2019</b>	<b>30 June 2018</b>
Ordinary share capital	?	R126 000 (42 000 shares)
Land and Buildings	1 850 000	1 000 000
Vehicles	?	335 000
Accumulated depreciation	13 300	163 480
Inventory	?	220 000
Trade and other receivables	1 580	2 200
Cash and cash equivalents	22 000	18 500

2. Extract from the notes to the Financial Statements of Bradley Bros Ltd.

<b>RETAINED INCOME</b>	<b>AMOUNT</b>
Balance on 1 July 2018	55 000
Net profit after tax	?
Dividends paid	?
Balance on 30 June 2019	52 500

<b>TRADE AND OTHER PAYABLES</b> (These were the only current liabilities)	<b>AMOUNT</b>	
	<b>2019</b>	<b>2018</b>
Trade creditors	13 500	22 000
Income received in advance	880	540
Accrued expenses (interest on loan)	1 690	1 200
Shareholders for dividends	0	8 240
SARS (income tax)	4 418	4 222
	20 488	36 202

### 3. Shares and dividends:

- Bradley Bros Ltd has an authorised share capital of 200 000 shares.
- On 1 December 2018 Bradley Bros Ltd issued 10 000 new shares at R3,50 per share. These new shareholders were entitled to the interim dividend paid on 31 December 2018.
- No shares were repurchased during the financial year.

### 4. Ratios:

- You will need to use these ratios to calculate the missing figures (?).
- Return on shareholders equity amounted to 8% for the year ended 30 June 2019.
- The current ratio was 12:1 based on the year end figures.

### 5. Taxation:

- Income tax for the year was calculated at R5 221.

### 6. Non Current Assets:

The only **depreciable** non-current asset the business owns is a delivery van which was bought on 1 July 2015. On 1 January 2019 Bradley Bros Ltd decided to sell this delivery vehicle at book value (originally bought for R335 000) which had needed constant maintenance since January 2018.

On 1 July 2018 accumulated depreciation amounted to R163 480. Depreciation is calculated at 20% on carrying value. A new vehicle was purchased on 1 June 2019. This vehicle's depreciation is calculated at a different rate. By 1 July 2019 it had depreciated by R13 300.

### 7. Interest:

- Interest on loan as per income statement amounted to R23 200. Interest is paid separately and not capitalised to the loan account. Interest expense relates to the loan only.

**QUESTION 4      MANUFACTURING AND VAT      [52 marks; 31 minutes]**

**PART A      The information below refers to Couch Worx Ltd.**

**VAT IS CALCULATED AT 15%**

Couch Worx Ltd manufactures luxury couches. Their financial year begins on 1 March each year. Their couches are manufactured in a factory in Johannesburg which has floor space of 840 m<sup>2</sup>. They also own two sales offices, one in Cape Town (68 m<sup>2</sup>) and the other in Johannesburg (82 m<sup>2</sup>). The sales offices are small and manned by 1 staff member in each office. They each earn a basic salary of R13 500 per month. There is no work in progress at the beginning or end of the year. Finished couches are dispatched to the sales office where they are on show for customers to buy.

**INFORMATION**

A. The following balances were found in the stock accounts, but the inexperienced bookkeeper has recorded them as VAT inclusive amounts:

	<b>28 Feb 2019</b>	<b>28 Feb 2018</b>
Raw materials stock (VAT inclusive)	R 178 825	?

- On 1 March 2018 the VAT on raw materials stock amounted to R30 000.
- 55% of all purchases are paid in cash. The remainder is done on credit. Cash purchases of raw materials amounted to R27 500 (VAT exclusive).
- Couch Worx Ltd has a long-standing relationship with Rapid Rail who transports all their raw materials and offers a 4% discount on their services. The bookkeeper was unaware of this and has not recorded any discounts; he also incorrectly allocated the carriage on raw materials.

B. Labour:

- 5 factory staff who work on the production line each receive a gross salary of R7 200 per month.
- The UIF was deducted and contributed at 1% per month.
- An optional pension agreement states that Couch Worx Ltd will contribute 5% of gross salary towards pension if the factory worker does the same. Only 3 factory staff have taken up this offer.
- Contributions apply to direct wages only.
- Couch Worx Ltd employs one cleaner who works 3 days in their Johannesburg factory and 2 days in their Johannesburg sales office. The Cape Town office does not employ a cleaner.
- The cleaner's wages were incorrectly allocated to the selling and distribution note only.

C. Additional information:

- The entire rent expense has been allocated to the selling and distribution note. However, it should have been allocated as per floor space used.
- On 28 February 2019 R1 000 worth of electricity was bought for each of the 3 premises to cover the electricity bill for March 2019. 80% of the electricity bill listed in the sales and distribution note was for the factory.
- Selling price per unit amounted to R11 720.

D. The following appeared in the selling and distribution note of Couch Worx Ltd.:

Salaries & wages	R360 000
Rent expense	R627 000
Electricity	R16 000
Carriage on raw materials	R1 900

E. Income Statement for the period ended 28 February 2019 of Couch Worx Ltd.:

Sales	R5 860 000
Cost of sales	R4 688 000
Gross profit	R1 172 000
Admin expense	R0
Selling and distribution	?
Net profit	?

F. Break-even analysis:

	28 Feb 2019	28 Feb 2018
Break-even point	140	170
Number of units sold	500	520
Units produced	525	525

**PART B** The information below refers to Dusi Boets Ltd and should only be used to complete Question 4.6.

The business is a registered VAT vendor and uses the invoice basis to record VAT which is charged at 15%. 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 month of 28 February 2019 because the bookkeeper is unsure of how to deal with the following VAT entries.

- The Vat Control Account had a balance of R23 250 due to SARS on 1 February 2019.
- Cash sales for the month of February totalled R469 200 (VAT inclusive).
- Total credit purchases amounted to R14 950 (VAT inclusive). R6 000 worth of raw materials (VAT exclusive) were sent back to the supplier.
- A debtor, C. de Villiers, who bought goods in May 2018 for R11 720 (VAT exclusive) has still not paid his account, it has been decided that this debt will be written off.
- Discount of R115 (VAT inclusive) granted to G. Gearing (a debtor) has been cancelled as his cheque for R815 has been rejected by the bank.