



NATIONAL SENIOR CERTIFICATE EXAMINATION  
NOVEMBER 2014

**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      COMPANY CONCEPTS AND FINANCIALS      (61 marks; 34 minutes)****Information relating to Ziyaduma Ltd.**

Ziyaduma Ltd's financial year ends on the 31 October 2014.

This question consists of 3 parts, and each part must be seen independently of the others.

**PART A: FILL IN THE MISSING WORDS**

Complete the sentences below by selecting the correct answers from the given alternatives.

IFRS	Unqualified	SAICA	Solvency	Qualified	Fair presentation	Risk
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1. If the auditors are concerned about irregularities in the financial statements they would issue a \_\_\_\_\_ audit report.
2. If the business relies heavily on borrowed money to fund its operations, it will be regarded as a high \_\_\_\_\_ business.
3. \_\_\_\_\_ is a professional body that assures the public that a Chartered Accountant has skills and integrity.
4. The role of an independent auditor is to express an opinion on the \_\_\_\_\_ of the financial statements.
5. The \_\_\_\_\_ ratio is one of the ratios to be calculated before a company can pay dividends or buy back shares from shareholders

**PART B: ACCOUNTING EQUATION****Transactions:**

1. An adjustment must be made for Directors' fees of R170 000 that were paid in advance.
2. The income tax expense for the year amounted to R155 000. This amount is lower than the provisional tax paid for the year.
3. The amount owing to the Shareholders for dividends at the end of the previous financial year was paid, R72 000. The bank account was overdrawn at this stage.

## PART C: NOTES TO THE FINANCIAL STATEMENTS

**Adjustments and additional information:**

1. Depreciation on equipment is calculated at 15% per annum on the diminishing balance method. Property is not depreciated.
2. The following extract was taken from the Cash Flow Statement of Ziyaduma Ltd on 31 October 2014, their financial year end.

<b>Cash Flows from Investing Activities</b>	(1 163 000)
Purchase of non-current assets	(1 270 000)
Proceeds of sale of non-current assets (all equipment)	107 000

3. The company traded in all their equipment at a profit of R2 000 against newer models bought on the 1 September 2014. This has been recorded.
4. The company issued an additional 600 000 ordinary shares at an issue price of 120 cents per share.
5. The company bought back 50 000 ordinary shares at the average share issue price of 70 cents per share. This has been recorded.
6. An audit report was compiled by the external auditors, and an amount of R35 000 is still owing for this service.
7. An invoice for the purchase of trading stock R30 000 (VAT exclusive) and the corresponding VAT of R4 200 on this purchase had been recorded. It was discovered that the trade discount of 10% on this invoice had been omitted.
8. Loan repayments of R5 500 are made every six months.
9. Provisional tax payments of R870 000 and R920 000 were made to SARS. The tax expense was calculated as R1 832 500 for the financial year.
10. One of the employees is going on holiday for the first week in November, and was paid for this at the end of October. His gross weekly wage is R3 600. All entries relating to his wages for the first week of November were made in the October Wages Journal.

His deductions are as follows:

- PAYE 18% of gross wage
- Medical aid R225 per week
- UIF 1%

The company only contributes to UIF.

11. Total dividends for the year amounted to R994 000. The pre-adjustment trial balance on the 31 October 2014 reflected an amount of R639 000 in the Ordinary share dividends account.

**QUESTION 2 CASH FLOW STATEMENTS****(48 marks; 32 minutes)****Information relating to Promet Limited**

1. Extract from the Statement of Comprehensive Income/Income Statement for the year ended 31 October 2014:

	R
Depreciation	135 000
Taxation	235 950

2. Extracts from the Statements of Financial Position/Balance Sheet on 31 October:

	2014	2013
	R	R
Tangible assets	4 300 000	3 700 000
Inventories	387 000	430 000
Cash and cash equivalents	178 500	5 000
Ordinary Share Capital	3 200 000	2 400 000
Retained Income	239 050	120 000
Mortgage Loan: BBO	1 278 200	1 200 000
Bank Overdraft	0	12 000

3. Extracts from the notes to the Statements of Financial Position:

**Trade and Other Receivables**

	2014	2013
	R	R
SARS – Income Tax	7 200	–

**Trade and Other Payables**

	2014	2013
	R	R
SARS – Income Tax	–	29 350
Shareholders for dividends	45 050	60 000

4. Additional information relating to Promet Limited:
- Assets to the value of R770 000 were purchased during the year. The company also disposed of out-dated machinery at its book value during the year.
  - During the year, monthly repayments of R15 150 were paid to BBO to cover the mortgage loan repayments and the interest on the loan. Interest on the loan is capitalised.
  - BBO also agreed to increase the mortgage loan during the year.
  - No shares were repurchased from shareholders during the year.
5. Cash Flow Statement for the year ended 31 October 2014

**Promet Limited**  
**Cash Flow Statement for the year ended 31 October 2014**

<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>B</b>
Cash generated from operations	798 800
Interest paid	(110 000)
Dividends paid	(374 000)
Income tax paid	A
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>E</b>
Purchase of non-current assets	C
Proceeds from the sale of non-current assets	D
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>I</b>
Proceeds from the issue of share capital	F
Proceeds from long-term loans	G
Payment of capital portion of long-term loans	H
Net change in cash and cash equivalents	185 500
Cash and cash equivalents at the beginning of the year	(7 000)
Cash and cash equivalents at the end of the year	178 500

Notes to the Cash Flow Statement for the year ended 31 October 2014

Cash and cash equivalents

	<b>Net change</b>	<b>2014</b>	<b>2013</b>
Savings Account	2 000	J	5 000
Bank	L	K	(12 000)

**QUESTION 3 ASSET MANAGEMENT****(46 marks; 28 minutes)****Information relating to Spectrum Bottles**

Spectrum Bottles sell two types of water bottles, i.e. a 500 ml plastic bottle and a 500 ml glass bottle. They supply various sports shops and school uniform shops. The business uses the **periodic inventory system** to record their stock and different stock methods to value their stock.

**INFORMATION:**

- The business uses the **FIFO method** to value the stock of plastic water bottles and the **Weighted Average method** to value the stock of glass water bottles.
- The following balances were taken from the General Ledger:

	500 ml plastic water bottles			500 ml glass water bottles		
Date	Number of units	Price per unit	Total value	Number of units	Price per unit	Total value
1 Nov 2013	2 000	R20	R40 000	800	R35	R28 000

- The following purchases and returns were made during the year:

	500 ml plastic water bottles			500 ml glass water bottles		
Date	Number of units	Price per unit	Total value	Number of units	Price per unit	Total value
Nov 2013	(1 000)	R20	(R20 000)	500	R35	R17 500
Jan 2014	17 000	R20	R340 000	–	–	–
March 2014	7 000	R22,50	R157 500	1 000	R39, 70	R39 700
June 2014	9 000	R23	R207 000	–	–	–
June 2014	(2 000)	R23	(R46 000)	1 500	R42	R63 000
Sept 2014	5 000	R23, 50	R117 500	–	–	–
	35 000		R756 000	3 000		R120 200

- Sales for the year were reflected as follows:

500 ml plastic water bottles			500 ml glass water bottles		
Number of units	Selling price	Total value	Number of units	Selling Price	Total value
23 500	?	R805 750	1 950	R75	R146 250

**QUESTION 4      MANUFACTURING****(45 marks; 26 minutes)****Information relating to Health Nut Manufacturers**

Health Nut Manufacturers produces an energy bar made from dried fruit, seeds and rolled oats. The business rents their premises which is divided into three sections, i.e. the factory (493 m<sup>2</sup>); the administration office (58 m<sup>2</sup>) and the sales office (29 m<sup>2</sup>). The financial year ends on the 31 August 2014.

1. The following balances were found in the General ledger on 31 August 2014:

	2014	2013
Direct materials stock on hand	84 250	96 000
Indirect materials stock on hand	1 400	3 800

2. Transactions during the year:

2.1 Raw materials

- Raw materials purchased during the year, R1 280 000
- Returns of raw materials to the supplier, R38 400
- Carriage on raw materials, R23 400
- During the physical stock count of the raw materials on the 31 August 2014, a calculation error was made. 5 000 packets of raisins with a unit cost of R2,75 per packet were recorded at R3,50 per packet on the stock sheets. This error must be corrected.

2.2 Indirect materials

- Credit invoices for the purchase of indirect materials totalled R76 800 for the year. The factory uses 65% of all indirect materials, and the balance is shared equally between the other two departments.

2.3 Salaries and wages

- Factory workers, R426 000
- Factory foreman's salary, R222 000
- Factory foreman medical aid contributions R18 000
- Administration staff, R108 000
- Salesperson, R180 000
- The business uses a clock card machine for information on normal and overtime hours. The workers have definitely worked more efficiently, and wage rates have not increased this year.

2.4 Other expenses

- Depreciation on factory machinery, R25 600
- Depreciation on delivery vehicle, R86 400
- Insurance paid for the year, R78 600. Included in this is a new annual insurance premium of R22 800 paid on the 1 June 2014. Insurance is for the factory only.
- Rent is apportioned according to floor space. The rent expense allocated by the bookkeeper to the sales department was R34 800. The rental for the year had been paid, but the bookkeeper neglected to take into account the annual increase of 10% from the 1 August 2014.
- Bad debts for the year amounted to ?

3. The selling and distribution cost per unit for the year was calculated to be 25 cents.
4. Health Nut Manufacturers produced and sold 1 420 000 bars during the year at a selling price of R7 per bar. There was no work-in-progress stock at the beginning or end of the year.