



ACCOUNTING: PAPER I

Time: 2 hours

200 marks

INFORMATION BOOKLET

$\frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross Profit}}{\text{Cost of sales}} \times \frac{100}{1}$	$\frac{\text{Net Profit}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net profit before tax} + \text{interest expense}}{\text{Average capital employed}} \times \frac{100}{1}$	
Current assets : Current liabilities		(Current assets – inventories) : Current liabilities
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Cost of sales}}{\text{Average inventories}}$
$\frac{\text{Average inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Closing inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$	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 MANUFACTURING AND VAT**(37 marks; 22 minutes)****Information relating to Glowcor**

Glowcor manufactures and sells one type of camping lamp. The following information relates specifically to the business:

- Glowcor, owned by Luca Booyens, began their operations 2 years ago when electricity shortages became a problem for households in South Africa.
- They also provide a repair service for lamps for which they charge a fee.
- The lamps are battery operated and use energy-saving bulbs. The lamps are fully recyclable.
- Glowcor is a registered VAT vendor and is liable for VAT at 14% on the invoice basis.
- The business uses the FIFO method of stock valuation.

Information:**A VAT information:**

1. The VAT control account reflected that SARS owed Glowcor R4 050 on 1 October 2015.
2. Total purchases for the month of October amounted to R725 000 VAT exclusive. Included in this total is an amount of R1 450 being the purchase of a zero-rated item.
3. VAT on lamps donated to a local charity during October amounted to R1 120.
4. Sales and fee income for October was calculated to be R999 780 VAT inclusive.
5. Glowcor disposed of an old piece of manufacturing equipment on 1 October 2015, and the VAT on this transaction was calculated to be R560.
6. R220 000 was paid to creditors in October in settlement of their accounts of R235 390.
7. VAT on bad debts, R2 352.

B Manufacturing information:

1. The following balances amongst others were found in the accounting records as at 31 October:

	2015	2014
	R	R
Work-in-progress stock	420 000	270 000
Finished goods stock	?	44 600

2. The following information relates to the manufacturing of lamps:

	2015
Direct materials cost per unit	R115
Direct labour costs per unit	?
Factory overhead costs	13% of the total manufacturing costs
Number of completed units manufactured	30 000

C Sales information:

1. The following information relates to the sale of lamps:

	2015
Selling price per unit	R360
Number of units sold	30 100
Number of completed units unsold as at 31 October	650
Gross profit as a percentage of sales	40%

QUESTION 2 COMPANY FINANCIAL STATEMENT (60 marks; 35 minutes)**Information relating to Akhari Limited**

A The following information was extracted from the accounting records before the adjustments below were taken into account:

	31 October 2015	1 November 2014
	R	R
Fixed deposit: Nedrand Bank	202 500	
Fixed deposit: ABBA Bank	90 000	
Trading stock	?	
Debtors Control	450 000	
Bank	335 000	
Petty cash	10 000	
Ordinary share capital	?	5 265 000
Retained income	?	
Mortgage Bond: Securico Bonds	485 000	
SARS – Income Tax	353 000 dr	
Shareholders for dividends		310 500

B Adjustments and additional information to be taken into account:

- On 1 November 2014 Akhari Limited had 1 350 000 issued ordinary shares. On the same day they decided to issue a further 150 000 new shares at R4,50 per share. This was all recorded.
- The Net Asset Value (NAV) calculated on **31 October 2014** was 420 cents.
- On 31 October 2015 the directors decided to repurchase 50 000 ordinary shares from a shareholder who needed cash urgently. After much negotiation a repurchase price of R4,30 was accepted. **No entries** have been made to record this repurchase.
- The dividends for the year (DPS) on 31 October 2015 was 57 cents. Due to the repurchase of shares happening at the end of the year, all the shares, including those **repurchased**, qualified for both the interim and final dividend.
- The dividends paid amount in the cash flow statement on 31 October 2015 was R760 500.
- Income tax for the year of R348 000 has not yet been recorded in the books. This represents 30% of the net profit **after all adjustments and additional information had been taken into consideration**.

7. The VAT control account reflected a credit balance of R8 450 on 31 October 2015, after all adjustments were made.
8. On 31 October 2015 Akhari Limited had two fixed deposits:
 - The one fixed deposit of R202 500 was invested in Nedrand Bank and will mature on 1 June 2018.
 - R50 000 of the other fixed deposit, invested in ABBA Bank, will mature on 30 November 2015.
9. A decision was made on 20 October 2015 to invest R7 000 from petty cash into the fixed deposit at Nedrand Bank. No entries have been made to record this.
10. Akhari Limited has two product lines. They specialise in the distribution of exercise bicycles and treadmills. Trading stock comprises both exercise bicycles and treadmills. On 31 October 2015 a physical stock count revealed that:
 - The stock of exercise bicycles on hand amounted to R220 000.
 - 90 treadmills were on hand. Treadmills are valued using the FIFO method. The following information relates to the stock of treadmills:

	Units	Cost per treadmill	Total costs
Opening stock (1 November 2014)	40	R5 450	R218 000
Purchases during the year:	232		R1 258 000
January 2015	160	R5 500	R880 000
July 2015	72	R5 250	R378 000
Closing stock	90	?	?

11. Akhari Limited has negotiated to sell 20% of their debtors to IRBS Financial Services at a loss of R5 000. On 25 October 2015 payment was received from them, but no entries have been made.
12. Use your knowledge of completing a balance sheet/statement of financial position in order to calculate the creditors control figure as at 31 October 2015.

QUESTION 3 CASH FLOW STATEMENT**(38 marks; 24 minutes)****Information relating to Ingwenya Limited**

1. **Extract from the statement of comprehensive income (income statement) for the year ending 31 October 2015:**

Profit on sale of vehicle	R4 800
Depreciation for the year	R158 000
Interest on loan	R86 760
Income tax	R635 600
Dividends for the year	R170 000

2. **Extract from the statement of financial position (balance sheet) as at:**

	31 October 2015	31 October 2014
	R	R
Tangible assets		
Fixed assets	4 900 000	3 983 200
Financial asset: Fixed deposit at First Rand Bank	100 000	100 000
Current assets		
SARS – Income tax	3 000	13 600
Non-current liabilities		
Mortgage loan: Coronation Financial Services	1 142 000	920 000
Current liabilities		
Bank overdraft	?	91 000
Shareholders for dividends	30 000	60 000

3. Additional information

1. The company took out an additional loan during the year. Repayments including interest totalled R164 760. Interest on the loan is capitalised.
2. An extension to the office block was undertaken during the year.
3. Equipment was purchased during this year. No equipment was sold.
4. Ingwenya Limited sold a vehicle with a cost price of R280 000 for R116 800 during the year. They did not buy or sell any other vehicles during the year.
5. Jason Steiner, a shareholder, is very concerned about the liquidity and profitability situation of the company and has decided to sell his shares. The directors repurchased all 80 000 ordinary shares from him at a price of R4,20 per share. The weighted average price on this date was R3,05. No new shares were issued.

QUESTION 4 CASH BUDGET AND FORECAST INCOME STATEMENT
(65 marks; 39 minutes)

Information relating to Frozo Yogi's

Frozo Yogi's is a small business owned and run by Joan Saunders. They specialise in the sale of a range of frozen yoghurts that they distribute to supermarkets around the Durban area. The following information relates specifically to the business:

- The business employs 10 workers in total. They each earn the same wage, but they can earn a bonus if they reach certain sales targets.
- Joan Saunders takes responsibility for all the administration and bookkeeping duties.
- The business bought a generator on 1 October 2015, in case of electricity power outages.
- The financial year ends on 30 September.

A The following balances appeared in the accounting records on 31 August 2015:

Income received in advance/Deferred income (Rent income for Sept.)	R6 200
Loan: Investek Finance (9,5% per annum)	R240 000

B Actual and budgeted information:

1. Actual and projected sales:

Actual 2015 sales:	
July 2015	R350 100
August 2015	R396 000
Budgeted 2015 sales:	
September 2015	R405 000
October 2015	R351 000

2. The company maintains a fixed base of stock and applies an 80% mark-up on cost at all times.

Note: R30 000 worth of frozen yoghurt melted during load shedding on 30 September 2015 and had to be written off as wastage in September 2015. This was obviously not budgeted for when the budgets for September and October were drawn up. The insurance company will pay out R10 000 in September 2015. New stock to replace this was bought in September 2015.

3. 70% of all purchases of stock are cash purchases.

4. The business's creditor is paid as follows, and these terms are strictly adhered to:

- 40% in the month following the transaction month in order to qualify for a 5% discount.
- 60% in the second month following the transaction month.

5. Credit sales amount to 75% of total sales.
6. Debtors are not given discounts for early payment nor are they charged interest. The budget is drawn up on the assumption that debtors keep to their credit terms.
7. Before drawing up the budget for September and October a debtor owing R8 200 from August 2015 has informed Frozo Yogi's that she cannot pay due to unforeseen cash flow problems. It has been decided that her account will be written off as irrecoverable in October 2016. They do not anticipate any other bad debts.
8. Rent income will increase by 10% on 1 October 2015. Rent is received monthly unless an agreement is made with the tenant.
9. The loan from Investek Finance was taken out on 1 April 2015. Interest on the loan is calculated at 9,5% p.a. but paid monthly. R24 000 of the loan will be repaid on 1 October 2015 and the interest at the end of October 2015.
10. Depreciation on vehicles and equipment collectively amounts to R5 200 per month. No assets were bought or sold during the year.
11. Joan Saunders has decided to increase her monthly cash drawings from 1 October 2015.
12. An annual advertising campaign consisting of 12 adverts, one per month, was launched on 1 August 2015 at a total cost of R60 000. A once-off payment for August, September and October adverts will be made at the end of October 2015.
13. Frozo Yogi's will continue to donate R1 000 cash per month to the Highway SPCA. In addition, R690 worth of stationery will be donated to them on 15 October 2015 to advertise their annual fundraising drive.