PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This paper consists of 8 pages. Please check that your question paper is complete.
2. Read the questions carefully.
3. Answer the questions in the Answer Booklet.
4. It is in your own interest to write legibly and to present your work neatly.
5. You may **not** use green or red ink. **You may use a pencil, but please use a soft, dark pencil.**
6. The allocation of marks and the appropriate time to be taken for each question are as follows:

Question 1: 95 marks; 57 minutes	
Learning Outcome	**Assessment standards**
Financial information Managing resources	• Prepare, analyse and interpret financial statements • Analyse published financial statements • Interpret and report on the movement of assets
Question 2: 37 marks; 22 minutes	
Learning Outcome	**Assessment standards**
Financial information	• Prepare, analyse and interpret financial statements
Question 3: 42 marks; 25 minutes	
Learning Outcome	**Assessment standards**
Managerial accounting	• Prepare, analyse and report on cost information
Question 4: 26 marks; 16 minutes	
Learning Outcome	**Assessment standards**
Managing resources	• Use FIFO / weighted average to calculate stock values

QUESTION 1 **(95 marks; 57 minutes)**

This question consists of two parts. These parts must be seen independently from one another.

1.1 PART A

The information given below was extracted from the records of Wilson Group Ltd.

Required

1.1.1	Complete the SARS (Income Tax) account for the year ended 28 February 2008.	(12)
1.1.2	Calculate the Net Profit After Tax figure that would appear in the Income Statement for the year ended 28 February 2008.	(6)
1.1.3	Complete the Equity section of the Balance Sheet on 28 February 2008.	(12)
1.1.4	Prepare the note to the Balance Sheet for Trade and other Receivables on 28 February 2008.	(12)
1.1.5	Answer the questions that follow.	(13)

Information

A Balances / totals on 28 February 2008.

Accumulated profits / retained earnings (1 March 2007)	80 000
Loan: Standard Bank	190 000
SARS (Income Tax) – debit - post adjustment balance as at 28 February 2008	5 160
Debtors control	34 000
Provision for bad debts	1 200
Sales	1 100 000
Rent expense	33 250
Interest income	7 500
Interest expense	13 400

B Adjustments and additional information

1. Two provisional tax payments were made during the year in accordance with tax laws, namely:

   13 September 2007, R35 100. This amount was calculated and paid after deducting the balance of R17 900 owed by SARS on 1 March 2007.
   28 February 2008, R37 800.

2. Operating profit margin is 20 % of turnover.

3. Debt to equity on 28 February 2008 is 0.25 : 1.

4. At year end 350 000 shares had been issued. 75% of the shares were originally issued at the par value of R1.50 while the balance had been issued at a premium of 75 cents.

5. A debtor, whose account was written of during the previous accounting period, paid the outstanding amount of R2 500. The bookkeeper recorded this entry as a receipt from a debtor instead of a bad debt recovered.

6. The provision for bad debts is to be reduced by R150.

7. Rent expense amounted to R2 500 per month on 1 March 2007. Rent increases annually by 10% on 1 January each year.

1.1.5 Questions to be answered

(a) Explain the term ‘corporate social investment’. (3)

(b) Why do companies get involved in corporate social investment? (3)

(c) Briefly outline the role of the non-executive directors of a company. (3)

(d) The directors are concerned about the increasing amount of bad debts and the future problems they may encounter. Provide two practical suggestions to solve this potential problem. (4)

1.2 PART B

The information given below was extracted from the financial records of Atrium Ltd.

Required

1.2.1 Calculate the depreciation to be written off on the vehicles for the year ended 28 February 2008. (10)

1.2.2 Prepare the Cash Flow from Investing Activities section of the Cash Flow Statement for the year ended 28 February 2008. (6)

1.2.3 Answer the questions that follow. (24)

Information

A From the accounting records on 28 February

	2008	**2007**
Land and buildings	1 000 000	800 000
Vehicles at cost	600 000	520 000
Cash generated by operations	250 000	350 000
Cash generated by financing activities	50 000	100 000
Cash and cash equivalents	13 000	46 000

B Additional information

1. The land and buildings were purchased for cash on 15 October 2007.

2. On 1 June 2007 a delivery vehicle costing R125 000 was sold for R72 000 cash. On the same day it was replaced with a newer model costing R205 000. The book value of the vehicle sold on 1 March 2007 was R68 750. Vehicles are depreciated by 20% per annum on cost. The transaction has been recorded in full.

3. The cash generated through financing comprised solely of an extension on the long-term loan.

1.2.3 Questions to be answered

(a) Calculate the net change in cash and cash equivalents for the year ended 28 February 2008 and state whether this is an inflow or outflow of cash. (5)

(b) State 2 reasons why you, as a shareholder, are concerned with the Cash flow situation of Atrium Ltd. (4)

(c) Calculate the date of purchase of the vehicle sold. (6)

(d) In your opinion was it the right decision to trade-in the vehicle during the year? (3)

(e) The new building purchased was valued at R275 000 but the business only paid R200 000. Name the Generally Accepted Accounting Principle that is being applied in the recording of the new building. (2)

(f) Describe one method the business could implement to ensure the delivery vehicle is used for business only, and not for the private use of the driver of the vehicle. (4)

QUESTION 2 **(37 marks; 22 minutes)**

Lorraine and Mike are equal members in Milar CC, a business specialising in repairing radio controlled toys (such as cars, boats and helicopters).

Required

2.1 Study the information extracted from the records for the year ended 28 February 2008, and answer the questions that follow. (37)

Information

A Extract from the Trial balance on 28 February 2008

Members contributions	120 000
Accumulated profit / retained earnings	44 500
Loan from Lorraine (12% p.a.)	60 000
Loan to Mike (10% p.a.)	20 000
Mortgage bond (15.5% p.a.)	300 000
Interest on loan: Lorraine	7 200
Interest on loan: Mike	2 000
Interest on mortgage bond	46 500
Income tax	30 400

B Additional information

Net profit before tax	76 000
Return on total capital employed • For the year ended 28 February 2008 • For the year ended 28 February 2007	 27.9% 23.8%

Questions to be answered

2.1.1 What type of account is **Interest on loan: Mike**? (1)

2.1.2 Although Lorraine and Mike each have a 50% interest in the business Lorraine's contribution is only R30 000 compared to Mike's contribution of R90 000. With regards to this explain two possible reasons why Mike agreed to having an equal interest with Lorraine. (6)

2.1.3 The members are concerned that the business is not earning them a sufficient return. Calculate the Return on Member's Equity achieved for the year ended 28 February 2008 and use your finding to support your answer. (12)

2.1.4 Calculate the level of risk of Milar CC. (2007 = 1.5 : 1) (4)

2.1.5 As there is excess cash available Mike has suggested that some of this cash be used to partially repay the Mortgage Bond. Do you agree with Mike? Explain your opinion. (8)

2.1.6 How has the business benefitted by borrowing money from Lorraine rather than from a financial institution? (3)

2.1.7 How has Lorraine benefitted by investing money in the business as a loan rather than as a contribution? (3)

QUESTION 3 **(42 marks; 25 minutes)**

This question consists of two parts. These parts must be seen independently from one another.

3.1 **PART A**

Bling Accessories is a business manufacturing costume jewellery. The business sells its products to retail outlets across South Africa, and is split into two independent divisions, namely necklaces and bracelets.

Required

3.1.1 Use the information provided to answer the questions that follow. (27)

Information for the year ended 28 February 2008

	Necklaces	**Bracelets**
Direct materials cost	100 000	100 000
Direct labour cost	70 000	50 000
Factory overhead cost (fixed cost)	64 000	54 000
Administration cost (fixed cost)	12 000	12 000
Selling and distribution cost (variable cost)	56 000	38 000
Number of units completed during the year	5 650	8 160
Break-even point	?	1 784
Selling price per unit	129	60
Mark-up percentage	100%	93.5%

3.1.1 Questions to be answered

(a) Calculate the number of necklaces that must be sold for this division to break even. (11)

(b) List two items which could be included under the heading **factory overhead costs**. (2)

(c) Explain why Bling Accessories regard Selling and Distribution Costs as variable costs while Factory Overheads are regarded as fixed costs. (4)

(d) In your opinion which division is the most cost efficient? State two reasons for your answer. (7)

(e) Explain one cost cutting measure the business could implement in order to cut costs across both divisions. (3)

3.2 **PART B**

The following information was extracted from the records of Shearer Shirt Manufacturers at the end of their current financial year, 28 February 2008.

Required

3.2.1 Calculate the cost of Direct Materials used during the year. (6)

3.2.2 Calculate the Factory overhead cost for the year. (9)

Information

A Balances

	28 Feb 2008	**28 Feb 2007**
Raw materials: • Direct • Indirect	 128 000 12 000	 360 000 28 000
Work-in-progress	150 400	160 000
Finished goods	160 000	70 000

B Transactions for the year

Materials purchased: • Direct • Indirect	 2 120 000 88 000
Materials returned: • Direct	 48 000
Labour costs: • Factory employees • Factory administrators • Administrative employees	 360 000 200 000 160 000
Advertising	750 000
Carriage on raw materials purchased	300 000
Depreciation: factory equipment	182 400
Sundry factory expenses	760 000
Rent: • Factory • Administration offices	 600 000 400 000

QUESTION 4 **(26 marks; 16 minutes)**

The school clothing shop's bookkeeper is currently looking into changing the stock valuation method used from FIFO to Weighted Average. She is in two minds about what to do and has asked you to do a comparison of the two methods for her and give her advice about what she should do. The accounting period ends on 31 July each year and as such she needs to make up her mind quickly so that the financial statements can be prepared using the chosen method.

As you do not have time to do a full stock analysis on all items in the shop she has agreed that you give her an analysis based on jerseys.

Required

4.1 Calculate the value of stock on hand using the FIFO method of stock valuation (7)

4.2 Calculate the weighted average cost per jersey. (9)

4.3 Calculate the value of stock on hand using the weighted average method of stock valuation. (3)

4.4 Give the bookkeeper your advice on which method is more suitable for the school clothing shop, explaining your reasoning. (7)

Information

Stock on hand: 1 August 2007	25 units @ R60 per unit	R1 500
Stock on hand: 31 July 2008	65 units	?
Purchases: • 2 August 2007 • 28 February 2008 • 30 March 2008	**550 units** • 200 units @ R70 • 300 units @ R75 • 50 units @ R80	**R40 500** • R14 000 • R22 500 • R4 000
Carriage on purchases		R1 150
Returns • 1 October 2007 • 12 April 2008	**120 units** • 20 units @ R70 • 100 units @ R75	**R8 900** • R1 400 • R7 500
Sales	390 units @ R110	R42 900

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

7. This Answer Booklet consists of 10 pages. Please check that your Answer Booklet is complete.
8. This is a **complete** Answer Booklet. There is a clearly marked page for each answer. **Use the areas marked 'rough work' for doing your rough calculations.**
9. You may **not** use green or red ink. **You may use a pencil, but please use a soft, dark pencil.**
10. Round off all calculations to the nearest Rand, or one decimal point.

QUESTION	POSSIBLE MARKS	ACTUAL MARKS
1	95	
2	37	
3	42	
4	26	
TOTAL	**200 MARKS**	

QUESTION 1 **(95 marks; 57 minutes)**

1.1 PART A

1.1.1

General ledger of Wilson Group Ltd
Balance Sheet Section
SARS (Income Tax)

1.1.2

1.1.3

Wilson Group Ltd
Balance sheet as at 28 February 2008

Equity and liabilities	
Ordinary shareholders equity	

1.1.4

Notes to the Balance sheet on 28 February 2008
Trade and other receivables

Net trade debtors	
Trade debtors	
Provision for bad debts	

1.1.5

(a)

(b)

(c)

(d)

1.2 PART B

1.2.1

Depreciation:

Asset sold		
Asset purchased		
Remaining assets		
Total		

1.2.2

Atrium ltd
Cash flow statement for the year ended 28 February 2008

Cash flows from investing activities	

Working:

1.2.3

(a)

(b)

1	
2	

(c)

(d)

(e)

(f)

QUESTION 2 **(37 marks; 22 minutes)**

2.1.1

2.1.2

1	
2	

2.1.3

2.1.4

2.1.5

2.1.6

2.1.7

QUESTION 3 **(50 marks; 30 minutes)**

3.1 PART A

3.1.1

(a)

(b)

1	
2	

(c)

(d)

Most cost efficient division:	
1.	
2.	

(e)

3.2 PART B

3.2.1

3.2.2

QUESTION 4 **(26 marks; 16 minutes)**

4.1

4.2

4.3

4.4

QUESTION 1 (95 marks; 57 minutes)

1.3 PART A

1.1.1 12 marks

General ledger of Wilson Group Ltd
Balance Sheet Section
SARS (Income Tax)

2007 Mar	1	Balance b/d	17 900 ✓✓	2008 Feb	28	Income tax ✓	85 640 (✓✓)
Sept	13	Bank ✓	35 100 ✓✓			Balance c/d	5 160 ✓
2008 Feb	28	Bank ✓	37 800 ✓				
			90 800				90 800
Mar	1	Balance b/d	5 160 ✓				

1.1.2 6 marks

Sales x operating profit margin = operating profit: 1 100 000 x 20% = 220 000 ✓✓ Operating profit + interest income – interest expense – tax = net profit after tax 220 000 + 7 500 – 13 400 – 85 640 = 128 460 ✓ ✓ (✓) (✓)

1.1.3 12 marks

Wilson Group Ltd
Balance sheet as at 28 February 2008

Equity and liabilities	
Ordinary shareholders' equity 190 000 : x = 0.25 : 1	760 000 ✓✓(✓)
✓ Ordinary share capital 350 000 x 1.50	525 000 ✓✓
✓ Ordinary share premium (350 000 x 25%) x 0.75	65 625 ✓✓
✓ Accumulated profit / retained earnings	169 375 (✓✓)

1.1.4 12 marks

Notes to the Balance sheet on 28 February 2008
Trade and other receivables

Net trade debtors	35 450 (✓)
Trade debtors 34 000 + 2 500 ✓✓	36 500 (✓)
Provision for bad debts 1 200 - 150	(1 050) ✓✓
SARS (Income tax)	5 160 ✓✓
Rent expense (2 500 x 10) + (2 750 x 2) - 33 250	2 750 ✓✓(✓)
	43 360 (✓)

1.1.5 13 marks

(a) 3 marks

Business involvement in the up-liftment of the community ✓✓✓ (1 mark if vague answer given: 2 marks if brief but not vague: 3 marks if fully correct)

(b) 3 marks

Advertising / visible confirmation of concern for the community / want to give something back ✓✓✓ (1 mark if vague answer given: 2 marks if brief but not vague: 3 marks if fully correct)

(c) 3 marks

Give advice on the running of the company but do not work in the business on a day-to-day basis ✓✓✓ (1 mark if vague answer given: 2 marks if brief but not vague: 3 marks if fully correct)

(d)

Full screening of debtors ✓✓ Regular accounts ✓✓ Any other practical advice

1.4 PART B

1.2.1 10 marks

Depreciation:

Asset sold	125 000 ✓ x 20% x $^{3}/_{12}$ ✓	6 250 (✓)
Asset purchased	205 000 ✓ x20% x $^{9}/_{12}$ ✓	30 750 (✓)
Remaining assets	520 000 ✓ – 125 000 ✓ = 395 000 x 20%	79 000 (✓)
Total		116 000 (✓)

1.2.2 6 marks

Atrium ltd

Cash flow statement for the year ended 28 February 2008

Cash flows from investing activities	(333 000) (✓)
Tangible assets purchased 200 000 ✓✓ + 205 000 ✓	(405 000) ✓
Tangible assets sold	72 000 ✓

Working: Land and buildings: 1 000 000 – 800 000 = 200 000 Vehicles: 205 000

1.2.3 33 marks

(a) 5 marks

Net change + cash at beginning = cash at end: 46 000 + X ✓ = 13 000 ✓ x = 33 000 ✓✓ outflow ✓ OR Cash at beginning – cash at end = net change: 46 000 ✓ – 13 000 ✓ = 33 000 ✓✓ outflow ✓ OR Operations + investing + financing = net change: 250000✓ – 333000✓ + 50000✓ = 33000(✓) outflow ✓

(b) 4 marks

1	Decrease in cash generated by operations / need to increase LTL to have cash available else overdraft ✓✓
2	Net outflow of cash **OR** decrease in cash balance ✓✓

(c) 6 marks

125 000 ✓ – 68 750 ✓ = 56 250 ✓ = depreciation for 2 years 3 months ✓ Purchase date = 1 December 2004 ✓(✓) OR 125 000 ✓ – 68 750 ✓ = 56 250 ✓ + 6 250 ✓ = 62 500 = 2.5 years depreciation ✓ Purchase date = 1 December 2004 (✓)

(d) 3 marks

Yes: ✓ making a profit on the sale which may not happen if sold at a later date ✓✓ OR No: ✓ putting a strain on the cash flow situation ✓✓

(e) 2 marks

Historic cost concept ✓✓

(f) 4 marks

Keep a log book ✓ ✓ showing destination and kilometers used and which is signed by a manager ✓✓ Any reasonable answer: Method ✓✓ Explanation ✓✓

QUESTION 2 (37 marks; 22 minutes)

2.1.1 1 mark

Income ✓

2.1.2 6 marks

1	Mike may only be working part-time ✓✓✓
2	Mike may not have any skills whereas Lorraine has all the necessary skills ✓✓✓

2.1.3 12 marks

ROME = $\frac{\text{NIAT + int on loans from members}}{\text{Members equity + loans from mem}} \times \frac{100}{1}$ = $\frac{76\,000 ✓ \; - 30\,400 ✓ \; + 7\,200 ✓}{120\,000 ✓ \; + 44\,500 ✓ \; + 6\,000 ✓}$ = $\frac{52\,800}{224\,500}$ = 23.5% (✓✓)

No cause for concern ✓: the members are earning a far higher return than they would have had they invested their money in an alternative investment ✓✓✓

2.1.4 4 marks

Debt : members equity + loans from members = 300 000 ✓ : 224 500 (✓✓) = 1.3 : 1 ✓

(method marks only if same figure used as calculated in 2.1.3)

2.1.5 8 marks

No: ✓
positive gearing ✓✓
decreased risk ratio ✓✓
increased return on total capital employed ✓✓
Thus: funds working for the business ✓

OR

Yes: ✓
Although positive gearing ✓✓
Risk ratio is still high ✓✓
Interest rate on loan is high ✓✓
Thus: prudent to decrease the loan ✓

2.1.6 3 marks

The interest rate is lower on the loan from the member than from the bank, so cheaper ✓✓✓

2.1.7 3 marks

She is earning interest whereas if she increased her contribution she would not get any additional profit as the members are equal members ✓✓✓

QUESTION 3 (42 marks; 25 minutes)

3.1 PART A

3.1.1

(a) 11 marks

Variable cost per unit: 100 000 ✓ + 70 000 ✓ + 56 000 ✓ / 5 650 ✓ = R40 per unit

Contribution per unit: 129 ✓ – 40 (✓) = R89 per unit (✓)

Break-even point = fixed costs / contribution per unit = 64 000 ✓ + 12 000 ✓ / 89 (✓) = 2 068 units (✓)

(b) 2 marks

1	Indirect labour / electricity / insurance ✓
2	Indirect materials / rent / water ✓

(c) 4 marks

Selling and distribution in this business vary in direct proportion to the output ✓✓ Factory overhead costs remain constant irrespective of changes in output ✓✓

(d) 7 marks NB: has nothing to do with mark-up and SP: question referred to **cost** efficiency

	Most cost efficient division: bracelets ✓
1.	Bracelets making money quicker ✓✓ Break-even point vs no of units completed (N = 36.6%, B = 21.9%) ✓
2.	Bracelets cost less per unit to produce ✓✓ Total costs vs output (N = R53.50, B = R31.20)
3.	Bracelets - admin cost the same ✓✓ but per unit more economical due to output ✓ **OR: use of another cost showing cost per unit cheaper for bracelets**

(e) 3 marks

Combine costs such as admin costs ✓✓✓

3.2 PART B

3.2.1 6 marks

Opening stock + purchases – returns + carriage – closing stock = cost of materials used 360 000 ✓ + 2 120 000 ✓ – 48 000 ✓ + 300 000 ✓ – 128 000 ✓ = 2 604 000 **(✓)**

3.2.2 9 marks

Indirect materials + indirect labour + depreciation + sundry + rent Indirect materials: (28 000 ✓ + 88 000 ✓ – 12 000 ✓) = 104 000 **(✓)** 104 000 + 200 000 ✓ + 182 400 ✓ + 760 000 ✓ + 600 000 ✓ = 1 846 400 **(✓)**

QUESTION 4 (26 marks; 16 minutes)

4.1 7 marks

50 ✓ x R80 ✓ =R4 000 ✓ 15 ✓ x R75 ✓ = R1 125 ✓ Total = R5 125 ✓ **(NB: if 4.1 is incorrect but the same number on hand are used here then marks to be awarded accordingly)**

4.2 9 marks

Total cost of goods available for sale / number of units available for sale

Total cost = 1 500 ✓ + 40 500 ✓ + 1 150 ✓ – 8 900 ✓ = R34 250 **(✓)**
No of units = 25 + 550 – 120 = 455 ✓

Weighted average = R34 250 **(✓)** / 455 **(✓)** = R75.27 **(✓)**

4.3 3 marks

65 ✓ x R75.27 **(✓)** = R4 893 **(✓)** (4892.86)

4.4 7 marks

FIFO: ✓ **+ 2 points x** ✓✓

Stock is sold in the order in which it was purchased so no old stock on hand
Stock value are realistic as stock on hand valued at most recent prices
Gross profit reflects current market conditions due to stock valued at most recent prices

Weighted average: ✓ **+ 2 points x** ✓✓

It is easier to work with
Keeps price fluctuations to a minimum and costs averaged out for a year