

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. There is a **complete** Answer Book. There is a clearly marked page for each answer.
4. It is in your interests to write legibly and present your work neatly.
5. Show all calculations in brackets.
6. You may **not** use red or green ink. **You may use pencil, but please use a soft, dark pencil.**
7. No abbreviations are allowed.
8. Good luck!
9. The allocation of marks and approximate time to be taken for each question are as follows:

QUESTION	TIME	MARKS	SECTION	Learning outcomes and assessment standards
1	26 min	43	Close Corporation	12.1.1 12.1.5 12.3.6
2	27 min	45	Manufacturing	12.2.2
3	25 min	42	Companies	12.1.5 12.3.6
4	13 min	21	Inventories	12.3.4
5	17 min	29	VAT	12.1.7 12.3.5
6	12 min	20	Projected Income Statement	12.1.2 12.3.6
TOTAL	120 min	200		

QUESTION 1 Close Corporation**(43 marks, 26 minutes)**

MunnMann cc is owned by James Munnik and Patrick Mann. The financial records have been drawn up for the year ended 28 February 2009, but the income statement was mislaid by the accounting officer when he prepared their tax return. Since this is not the first problem they had with him, James and Patrick have decided to terminate his services and employ you as the accounting officer instead.

Required:

- 1 Complete the income statement for the year ended 28 February 2009. (35)
Show calculations in brackets.
- 2 Calculate the following: (6)
- Return on members' equity
- 3 Do you think the members should be satisfied with the return they are getting? Explain. (2)

Available information:

1. The stock turnover rate for the year was 52 times.
2. The business uses a mark up of 50% on cost.
3. The bank statement for February showed the fixed monthly service fee of R150, and a monthly stop order for insurance, R500.
4. James has bought a large quantity of stationary at a special price last year, so there has been no need to buy this year.
5. The lease agreement stipulates that Patrick is to be paid his rent two months in advance. The rent is increased annually on 1 September.
6. Patrick and James are each entitled to a salary of R5 000 per month. PAYE is deducted from this, at a rate of 25%. They are paid on the 25th of each month. The members do not contribute to the pension fund and medical aid.
7. The receptionist (who also doubles as secretary as she is the only employee of the business) took her leave for the year during the last two weeks of February, and as a result was only paid on 3 March 2009. Her raise was given on 1 March 2008.
8. The pension fund, medical aid and SARS are always paid during the first week of the month.
9. Accrued expenses relates to a cheque that was issued for the advertising for the year, post dated 31 March 2009.
10. A new vehicle costing R120 000 was bought during February, when an old vehicle was traded in for R45 000, at a loss of R4 000.
11. No profits were distributed this year, as James and Patrick are hoping to expand their business operations next year.
12. Tax is calculated at the company tax rate of 30%.

MunnMann CC
Balance Sheet at 28 February

ASSETS	2009	2008
<u>Non-current assets</u>	411,000	260,000
Tangible assets	191,000	150,000
Financial assets	170,000	100,000
Loan to James Munnik	50,000	10,000
<u>Current assets</u>	256,735	89,000
Total assets	<u>667,735</u>	<u>349,000</u>
EQUITY AND LIABILITIES		
<u>Members' funds</u>	494,735	245,185
<u>Non-current liabilities</u>	80,000	61,000
Loan: Ferguson Finance	50,000	25,000
Loan from Patrick Mann	30,000	36,000
<u>Current liabilities</u>	93,000	42,815
Total equity and liabilities	<u>667,735</u>	<u>349,000</u>

MunnMann CC

Extracts from the Notes to the financial statements for the year ended 28 February

	2009	2008
<u>Interest income</u>		
From investments	7,000	11,000
From loan to member	2,000	1,200
From current account	100	150
From overdue accounts	900	700
	<u>10,000</u>	<u>12,950</u>
 <u>Interest expense</u>		
On loan from Ferguson Finance	5,000	3,000
On loan from member	4,000	4,700
	<u>9,000</u>	<u>7,700</u>
 <u>Inventory</u>		
Trade inventory	20,000	30,000
Stationery on hand	300	2,000
	<u>20,300</u>	<u>32,000</u>
 <u>Trade and other receivables(includes)</u>		
Prepaid expenses (rent)	6,000	5,000
 <u>Trade and other payables(includes)</u>		
Accrued expenses	20,000	
Creditors for salaries	3,945	
Pension fund	455	415
Medical aid	800	700
South African Revenue Service	30,800	19,700
PAYE	3800	3,700
Income tax	27000	16,000

QUESTION 2 Manufacturing

(45 marks, 27 minutes)

2.1 SMURF MANUFACTURERS

Smurf Manufacturers soft toys for children. Their financial year ends on the 28 February each year.

REQUIRED:

- 2.1. Prepare the Production Cost Statement of Smurf Manufactures for the financial year ended 28 February 2009, together with the notes for:
- Direct (Raw) materials cost (8)
 - Factory overhead cost (6)
 - A calculation to show the cost of finished goods sold (10)

INFORMATION

- 1 Balances of stock on 1 March 2008:
- | | R |
|-------------------------------|---------|
| - Raw/ direct materials stock | 180 000 |
| - Work-in-process stock | 120 000 |
| - Finished goods stock | 300 000 |
| - Consumable stores stock | 10 000 |
- 2 Balances of stock on 28 February 2009:
- | | |
|-------------------------------|---------|
| - Raw/ direct materials stock | 160 000 |
| - Work-in-process stock | ? |
| - Finished goods stock | 220 000 |
| - Consumable stores stock | 5 000 |
- 3 Transactions for the year ended 28 February 2008:
- | | |
|--|-----------|
| - Raw materials bought on credit | 1 200 000 |
| - Raw materials bought for cash | 550 000 |
| - Raw materials returned to the suppliers | 50 000 |
| - Import duties and carriage on raw materials purchased | 60 000 |
| - Consumables stores bought for cash | 48 000 |
| - Factory electricity paid | 220 000 |
| - Wages paid (refer to information note 4.2 below) | 1 040 000 |
| - Maintenance of factory equipment (R70 000 paid and R5 000 still owing) | ? |
| - Rent paid | 320 000 |
| - Cost of finished goods sold | 3 307 800 |
| - Selling expenses | 110 000 |
- 4 Additional information:
- 4.1 Depreciation for the year:
- | | |
|---|--------|
| - Depreciation written off on factory equipment | 30 000 |
| - Depreciation written off on delivery vehicle | 44 000 |
- 4.2 Wages consist (is made up) of the following amounts:
- | | |
|-------------------------------------|---------|
| - 12 seamstresses who make the toys | 624 000 |
| - 1 factory manager | 160 000 |
| - 2 factory cleaners | 76 000 |
| - 2 admin clerks | 180 000 |
- 4.3 60% of consumable stores are used by the factory
- 4.4 Rent is to be allocated between the factory and admin departments in the ratio 4:1.

2.2 BOBBY BEAR MANUFACTURERS

Bobby Bear Manufacturers manufacture a wide range of bears. The bookkeeper has given you the following incomplete information regarding their costs for the last year. During the year a total of 15 000 toy bears were made and sold. There was no work in progress at the beginning or end of the year and all the toy bears were sold.

Information from the Production Cost Statement

	TOTAL R	PER UNIT R
Direct materials	330 000	*
Direct labour cost	*	*
Prime cost	*	32
Factory overhead costs	*	*
Total cost of production	750 000	50

Information from the Income Statement

	TOTAL R	PER UNIT R
Sales	1 200 000	80
Cost of sales/ cost of production of the toy bears	750 000	50
Gross profit	450 000	30
Administration cost	180 000	12
Selling and distribution cost	120 000	8
Net profit	150 000	10

REQUIRED:

- 2.2.1 Fill in the missing figures denoted with an * in the Production Cost Statement. (6)
- 2.2.2 Calculate the break-even-point i.e. the number of toy bears that need to be made so that Bobby Bear does not make a profit or loss. (6)
- 2.2.3 Bobby notice that the break-even has decreased this year, even though he has not changed the selling price of the toy bears. He is concerned that this means he is making less profit. Do you agree? Explain to Bobby whether he is right or wrong in his assumption by giving at least 3 items that could have resulted in this decrease in the break-even-point. (4)

QUESTION 3 Companies**(42 marks, 25 minutes)**

You are provided with extracts from the financial statements of Trentyres Ltd at the end of February 2009, together with comparative figures for 2008 and some additional information. Trentyres Ltd sell a wide range of tyres to the general public.

Extracts from Income Statement of Trentyres Ltd for year ended 28 February 2009:

	2009
Sales	12 105 000
Depreciation	453 000
Interest on loan	252 000
Net profit before tax	?
Income tax	394 200
Net profit after tax	552 700

Extracts from the Balance Sheet of Trentyres Ltd as at 29 February 2009:

ASSETS	2009	2008
<u>Non-current assets</u>	2,731,200	2,374,000
Fixed assets	2,731,200	2,374,000
<u>Current assets</u>	2,548,000	1,088,000
Inventories	254,000	272,000
Trade & other receivables	1,638,000	770,000
Cash and cash equivalents	656,000	46,000
Total assets	5,279,200	3,462,000

EQUITY AND LIABILITIES

<u>Shareholders' equity</u>	?	1,652,000
Ordinary share capital (Par value R2)	2,100,000	1,350,000
Share premium	170,000	20,000
Retained income	?	282,000
<u>Non-current liabilities</u>	1,800,000	1,000,000
Loan: from New York Bank (18% p.a.)	1,800,000	1,000,000
<u>Current liabilities</u>		810,000
Trade and other payables	?	810,000
Total equity and liabilities	?	3,462,000

Extracts from the notes to the financial statements of Trentyres Ltd:

Trade and other receivables	2009	2008
Trade debtors	1,592,000	770,000
SARS (Income tax)	46,000	-
	1,638,000	770,000

Trade and other payables	2009	2008
Trade creditors	?	692,500
SARS (Income tax)	-	95,000
Shareholders for dividends	157,500	22,500
	?	810,000

Additional information:

- 1 The current ratio on 28 February 2009 4:1.
- 2 During the year a vehicle was bought for R970 000 and old equipment was sold at book value.
- 3 The extra shares were sold on 1 March 2008.

Required:

- 1 Complete the Balance Sheet by calculating the missing figures marked with an ?. (6)
- 2 Complete the Retained Income note to the Balance Sheet on 28 February 2009. (6)
- 3 Complete the following note to the Cash Flow Statement 28 February 2009:
Reconciliation between profit before tax and cash generated from operations (16)
- 4 Calculate the following using the information given:
 - 4.1 The price at which the extra shares were sold. (3)
 - 4.2 The total amount paid for interim dividends. (2)
- 5 During the year the business increased the loan. One of the directors is of the opinion that this was not a wise decision in view of the financial results produced at the end of February 2009. Do you agree with him? Give at least 2 reasons for your answer. Show relevant calculations in your explanation. (5)
- 6 The current market price of the shares in Trentyres are R2.89. One of the shareholders is considering whether to buy more shares in the company. He asked for advice as to whether this is a good market price or not. Show relevant calculations in your explanation. (4)

QUESTION 4 Inventories**(21 marks, 13 minutes)**

You are provided with information relating to Joyce's Bags, a small business that sells one type of shopping bag to customers who don't want to purchase plastic bags.

The business uses the periodic stock system. Joyce buys the bags from a local manufacturer in a rural area. She sells the bags for R24 each although the cost price has been changing over the months. She has always made use of the FIFO method for valuing her stock.

Required:

- 1 Calculate the value of the closing stock using the FIFO method. (4)
- 2 Calculate the gross profit made on the stock if the FIFO method is used. (5)
- 3 Joyce has been told that she would make a larger gross profit if she used the weighted average method of valuing stock. Do you agree? Make the necessary calculations to advise Joyce as to whether she would benefit from changing to the weighted average method. (6)
- 4 What advice would you give Joyce regarding the selling price of her bags? Explain your answer by quoting appropriate figures. (2)
- 5 Joyce heard from a friend of hers that did accounting at school that she should use the perpetual stock system instead of the periodic system. She is confused and has asked you for advice in this matter. Explain to her the difference and give advice on which method she should use. (4)

INFORMATION:

Joyce has given the following information to you on all her purchases and sales over the last 3 months.

	Number of bags	Unit price	Total
Opening stock 1 March 2009	20	R11	R220
Total purchases:	40		R576
March 2009	14	R13	R182
April 2009	16	R14	R224
May 2009	10	R17	R170
Sales of bags: March – May 2009	46	R20	R920

QUESTION 5 VAT**(29 marks, 17 minutes)**

Bigshu stores (owner) Mr Bigshu is registered as a tax vendor. His mark-up is 100% on cost. Most of the journal totals for June 2009 are provided. These totals have been verified as correct.

Required:

- 1 What is the difference between Output VAT and Input VAT? (2)
- 2 Complete the missing details marked **1.** to **8.**. Round off calculations to the nearest Rand. (12)
- 3 Post to the following accounts and close off the accounts in the General Ledger:
 - Output VAT (4)
 - Input VAT (5)
- 4 Calculate the amount owing to SARS. (3)
- 5 State your view on the following scenario:
 - Yak-Tak Stores (a registered vendor) sells for cash only yet he writes off large amounts of bad debts. He claims from SARS for this. (3)

Information**JOURNAL TOTALS ON 30 JUNE 2009****Cash Receipts Journal:**

Bank	Output VAT	Sales	Cost of sales	Debtors control		Sundry accounts
				Receipts	Discount allowed	
2.	1.	26 000	13 000	1 400	0	2 500*

*Rent income

Cash Payments Journal:

Bank	Input VAT	Trading stock	Consumables	Creditors control		Sundry accounts
				Payments	Discount received	
12 312	3.	4 500	200	4.	0	2 100*

*Equipment

Petty Cash Payments Journal:

Petty cash	Input VAT	Trading stock	Consumables	Sundry accounts
6.	70	5.	200	250*

*Casual wages

Debtors Journal:

Debtors control	Output VAT	Sales	Cost of sales
2 622	322	7.	8.

Debtors Allowances Journal:

Debtors control	Output VAT	Debtors allowances	Cost of sales
57	7	50	20

Creditors Journal:

Creditors control	Input Vat	Trading stock	Consumables	Equipment	Sundry accounts
7 980	980	4 228	982	1 790	-

Creditors Allowances Journal:

Creditors control	Input Vat	Trading stock	Consumables	Equipment	Sundry accounts
171	21	80	70	-	-

QUESTION 6 Projected Income Statement**(20 marks, 12 minutes)****GINA'S FASHION BOUTIQUE**

Gina is the owner of Gina's Fashion Boutique. She is concerned about the impact of the latest increase in electricity tariffs which takes effect on 01 July 2009. Her accountant advised her to increase her existing mark-up by 15% and her operating expenses by 20%. She agreed to do this with effect from 01 July 2009.08.09

Information

The abridged Income Statement below is for the month ended 30 June 2009.08.09

Gina's Fashion Boutique
Abridged Income Statement for June 2009

	June 2009	July 2009
Sales	350 000	
Cost of sales	(200 000)	
Gross profit	150 000	
Operating expenses	(83 000)	
Salaries and wages	36 000	
Depreciation	9 000	
Other operating expenses	38 000	
Operating profit	67 000	
Interest income	2 000	
Net profit	69 000	

Additional information:

- Sales are expected to decrease by 5% in July 2009.
- Salary and wage increases are implemented on the first day of the calendar year.
- Depreciation is not expected to change in the next six months.
- A fixed income on an investment is received each month.

Required:

- 1 Calculate the current mark-up percentage. (3)
- 2 Complete the Projected Income Statement for July 2009. (13)
- 3 Explain why Gina expects her turnover to decrease in July 2009. (2)
- 4 Explain why depreciation does not appear in the Cash Budget. (2)

MEMORANDUM

QUESTION 1 Close Corporation (43 marks)

1	Draw up the income statement for the year ended 28 February 2009. MunnMann CC Income Statement for the year ended February 2009	(35)
---	--	----------

	<i>Sales</i> (1300 000 x 150%)	1 950 000	
	<i>Cost of sales</i> (20 000 + 30 000)/2 x 52 times	(1 300 000)	
	Gross Profit	650 000	
	<i>Operating expenses</i>	(294 500)	
	Bank charges	1 800	
	Insurance	6 000	
	Stationary (2000 – 300)	1 700	
	Rent expense (15 000 + 18 000)	33 000	
	Members' salaries	120 000	
	Salaries (47 340 + 5 460 + 9 600 + 15 600)	78 000	
	Advertising	20 000	
	Loss on sale of asset	4 000	
	Depreciation (150 000 + 120 000 – 191 000 – 45 000 – 4 000)	30 000	
	<i>Operating profit</i>	355 500	
	Interest income	10 000	
	Profit before interest expense	365 500	
	Interest expense	(9 000)	
	Profit before tax	356 500	
	Taxation	(106 950)	
	Net profit for the year	249 550	
2	<p>Calculate the following:</p> <p>- Return on members' equity</p> $\frac{249\,550 + 4\,000}{\frac{1}{2}(494\,735 + 245\,185 + 30\,000 + 36\,000)}$ $= \frac{253\,550}{402\,960}$ $= 62.92\%$ <p>or:</p> $\frac{249\,550 + 4\,000 - 2\,000}{\frac{1}{2}(494\,735 + 245\,185 + 30\,000 + 36\,000 - 50\,000 - 10\,000)}$ $= \frac{251\,550}{372\,960}$ $= 67.45\%$	(6)	
3	<p>Do you think the members should be satisfied with the return they are getting? Explain.</p> <p>Yes, this return is much higher than what they could expect to get from other investments, for example an investment or fixed deposit at the bank which would currently earn 10% - 13.30% at most.</p>	(2)	

QUESTION 2 Manufacturing (45 marks)

2.1 SMURF MANUFACTURERS

2.1	<p>Prepare the Production Cost Statement of Smurf Manufactures for the financial year ended 28 February 2009:</p> <p>Production Cost Statement for the year ended 28 February 2009</p> <p style="text-align: center;">Note</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Direct/ Prime Costs</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">2,404,000</td> </tr> <tr> <td>Direct materials cost</td> <td style="text-align: center;">1</td> <td style="border: 1px solid black; width: 10%;"></td> <td style="text-align: right; border: 1px solid black;">1,780,000</td> </tr> <tr> <td>Direct labour cost</td> <td style="text-align: center;">2</td> <td style="border: 1px solid black;"></td> <td style="text-align: right; border: 1px solid black;">624,000</td> </tr> <tr> <td>Manufacturing overhead costs</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">848,800</td> </tr> <tr> <td>Total manufacturing costs</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">3,252,800</td> </tr> <tr> <td>Add: Work-in- progress at beginning of year</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">120,000</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">3,372,800</td> </tr> <tr> <td>Less: Work-in-progress at end of year</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">(145,000)</td> </tr> <tr> <td>Cost of production of finished goods</td> <td style="text-align: center;">3</td> <td style="border: 1px solid black;"></td> <td style="text-align: right; border: 1px solid black; border-top: 1px solid black;">3,227,800</td> </tr> </table>	Direct/ Prime Costs			2,404,000	Direct materials cost	1		1,780,000	Direct labour cost	2		624,000	Manufacturing overhead costs			848,800	Total manufacturing costs			3,252,800	Add: Work-in- progress at beginning of year			120,000				3,372,800	Less: Work-in-progress at end of year			(145,000)	Cost of production of finished goods	3		3,227,800	(8)
Direct/ Prime Costs			2,404,000																																			
Direct materials cost	1		1,780,000																																			
Direct labour cost	2		624,000																																			
Manufacturing overhead costs			848,800																																			
Total manufacturing costs			3,252,800																																			
Add: Work-in- progress at beginning of year			120,000																																			
			3,372,800																																			
Less: Work-in-progress at end of year			(145,000)																																			
Cost of production of finished goods	3		3,227,800																																			
-	<p>Note 1: Direct Materials Cost</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Opening stock</td> <td style="width: 10%; text-align: right;">180,000</td> <td style="width: 40%;"></td> </tr> <tr> <td>Purchases (1 200 000+550 000-50 000)</td> <td style="text-align: right;">1,700,000</td> <td></td> </tr> <tr> <td>Import duties and carriage</td> <td style="text-align: right;">60,000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">1,940,000</td> <td></td> </tr> <tr> <td>Closing stock</td> <td style="text-align: right;">(160,000)</td> <td></td> </tr> <tr> <td>Raw materials issued</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">1,780,000</td> <td></td> </tr> </table>	Opening stock	180,000		Purchases (1 200 000+550 000-50 000)	1,700,000		Import duties and carriage	60,000			1,940,000		Closing stock	(160,000)		Raw materials issued	1,780,000		(6)																		
Opening stock	180,000																																					
Purchases (1 200 000+550 000-50 000)	1,700,000																																					
Import duties and carriage	60,000																																					
	1,940,000																																					
Closing stock	(160,000)																																					
Raw materials issued	1,780,000																																					
-	<p>Note 2: Factory Overhead Cost</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Consumable stores (10 000-5 000 +48 000)x60%</td> <td style="width: 10%; text-align: right;">31,800</td> <td style="width: 40%;"></td> </tr> <tr> <td>Electricity</td> <td style="text-align: right;">220,000</td> <td></td> </tr> <tr> <td>Wages (160 000+76 000)</td> <td style="text-align: right;">236,000</td> <td></td> </tr> <tr> <td>Maintenance</td> <td style="text-align: right;">75,000</td> <td></td> </tr> <tr> <td>Rent (320 000x4/5)</td> <td style="text-align: right;">256,000</td> <td></td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">30,000</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">848,800</td> <td></td> </tr> </table>	Consumable stores (10 000-5 000 +48 000)x60%	31,800		Electricity	220,000		Wages (160 000+76 000)	236,000		Maintenance	75,000		Rent (320 000x4/5)	256,000		Depreciation	30,000			848,800		(10)															
Consumable stores (10 000-5 000 +48 000)x60%	31,800																																					
Electricity	220,000																																					
Wages (160 000+76 000)	236,000																																					
Maintenance	75,000																																					
Rent (320 000x4/5)	256,000																																					
Depreciation	30,000																																					
	848,800																																					
-	<p>Note 3: Cost of Finished Goods</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Opening stock of finished goods</td> <td style="width: 10%; text-align: right;">300,000</td> <td style="width: 40%;"></td> </tr> <tr> <td>Cost of finished goods produced during the year</td> <td style="text-align: right;">3,227,800</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">3,527,800</td> <td></td> </tr> <tr> <td>Closing stock</td> <td style="text-align: right;">(220,000)</td> <td></td> </tr> <tr> <td>Cost of finished goods sold</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">3,307,800</td> <td></td> </tr> </table>	Opening stock of finished goods	300,000		Cost of finished goods produced during the year	3,227,800			3,527,800		Closing stock	(220,000)		Cost of finished goods sold	3,307,800		(5)																					
Opening stock of finished goods	300,000																																					
Cost of finished goods produced during the year	3,227,800																																					
	3,527,800																																					
Closing stock	(220,000)																																					
Cost of finished goods sold	3,307,800																																					

2.2 BOBBY BEAR MANUFATCTURERS

1	<p>Fill in the missing figures denoted with an * in the Production Cost Statement.</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="width: 50%;"></th> <th style="width: 20%;">TOTAL R</th> <th style="width: 30%;">TOTAL R</th> </tr> </thead> <tbody> <tr> <td>Direct materials</td> <td>330 000</td> <td>* 22</td> </tr> <tr> <td>Direct labour cost</td> <td>* 150 000</td> <td>* 10</td> </tr> <tr> <td>Prime cost</td> <td>* 480 000</td> <td>32</td> </tr> <tr> <td>Factory overhead costs</td> <td>* 270 000</td> <td>* 18</td> </tr> <tr> <td>Total cost of production</td> <td>750 000</td> <td>50</td> </tr> </tbody> </table>		TOTAL R	TOTAL R	Direct materials	330 000	* 22	Direct labour cost	* 150 000	* 10	Prime cost	* 480 000	32	Factory overhead costs	* 270 000	* 18	Total cost of production	750 000	50	(6)
	TOTAL R	TOTAL R																		
Direct materials	330 000	* 22																		
Direct labour cost	* 150 000	* 10																		
Prime cost	* 480 000	32																		
Factory overhead costs	* 270 000	* 18																		
Total cost of production	750 000	50																		
2	<p>Calculate the break-even-point i.e. the number of toy bears that need to be made so that Bobby Bear does not make a profit or loss.</p> <p>$R80 - (R22 + R10 + R8) = R40$ $(R270\ 000 + R180\ 000) / R40 = 11\ 250$ units</p>	(6)																		
3	<p>Bobby notice that the break-even has decreased this year, even though he has not changed the selling price of the toy bears. He is concerned that this means he is making less profit. Do you agree? Explain to Bobby whether he is right or wrong in his</p>	(4)																		

	<p>assumption by giving at least 2 items that could have resulted in this decrease in the break-even-point.</p> <p>Bobby is wrong in his assumption as a decrease means more profit.</p> <p>Possible causes:</p> <ul style="list-style-type: none"> • Cheaper/ more economical use of raw materials • Cheaper/ more economical use of labour • Reduction in factory overheads/ admin/ selling and distribution costs. 	
--	---	--

QUESTION 3 Companies (42 marks)

1	<p>Complete the Balance Sheet by calculating the missing figures marked with an ?.</p> <p>Trade and other payables: R637 000 Total equity and liabilities: R5 279 200 Shareholders equity: R2 842 200 (R5 279 200 – 1 800 000 – 637 000) Retained income: R572 200 (R2 842 200 – 2 100 000 – 170 000)</p>	(6)																				
2	<p>Complete the Retained Income note to the Balance Sheet on 28 February 2009.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Retained income at the beginning of the year</td> <td style="text-align: right;">282,000</td> </tr> <tr> <td>Net profit after tax</td> <td style="text-align: right;">552,700</td> </tr> <tr> <td>Less: dividends</td> <td style="text-align: right;">(262,500)</td> </tr> <tr> <td>Interim dividends paid</td> <td style="text-align: right; border: 1px solid black;">105,000</td> </tr> <tr> <td>Final dividends recommended</td> <td style="text-align: right; border: 1px solid black;">157,500</td> </tr> <tr> <td>Retained income at the end of the year</td> <td style="text-align: right; border-top: 1px solid black;">572,200</td> </tr> </table>	Retained income at the beginning of the year	282,000	Net profit after tax	552,700	Less: dividends	(262,500)	Interim dividends paid	105,000	Final dividends recommended	157,500	Retained income at the end of the year	572,200	(6)								
Retained income at the beginning of the year	282,000																					
Net profit after tax	552,700																					
Less: dividends	(262,500)																					
Interim dividends paid	105,000																					
Final dividends recommended	157,500																					
Retained income at the end of the year	572,200																					
3	<p>Complete the following note to the Cash Flow Statement 28 February 2009:</p> <p>Reconciliation between profit before tax and cash generated from operations</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Profit before taxation (552 700+394 200)</td> <td style="text-align: right;">946,900</td> </tr> <tr> <td>Adjustment in respect of:</td> <td></td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">453,000</td> </tr> <tr> <td>Interest expense</td> <td style="text-align: right;">252,000</td> </tr> <tr> <td>Operating profit before changes in working capital</td> <td style="text-align: right; border-top: 1px solid black;">1,651,900</td> </tr> <tr> <td>Changes in working capital</td> <td style="text-align: right;">(1,017,000)</td> </tr> <tr> <td>Decrease in inventory (272 000 - 254 000)</td> <td style="text-align: right; border: 1px solid black;">18,000</td> </tr> <tr> <td>Increase in debtors (1 592 000 - 770 000)</td> <td style="text-align: right; border: 1px solid black;">(822,000)</td> </tr> <tr> <td>Decrease in creditors (692 500-479 500(637 000-157500))</td> <td style="text-align: right; border: 1px solid black;">(213,000)</td> </tr> <tr> <td>Cash flow from operations</td> <td style="text-align: right; border-top: 1px solid black;">634,900</td> </tr> </table>	Profit before taxation (552 700+394 200)	946,900	Adjustment in respect of:		Depreciation	453,000	Interest expense	252,000	Operating profit before changes in working capital	1,651,900	Changes in working capital	(1,017,000)	Decrease in inventory (272 000 - 254 000)	18,000	Increase in debtors (1 592 000 - 770 000)	(822,000)	Decrease in creditors (692 500-479 500(637 000-157500))	(213,000)	Cash flow from operations	634,900	(16)
Profit before taxation (552 700+394 200)	946,900																					
Adjustment in respect of:																						
Depreciation	453,000																					
Interest expense	252,000																					
Operating profit before changes in working capital	1,651,900																					
Changes in working capital	(1,017,000)																					
Decrease in inventory (272 000 - 254 000)	18,000																					
Increase in debtors (1 592 000 - 770 000)	(822,000)																					
Decrease in creditors (692 500-479 500(637 000-157500))	(213,000)																					
Cash flow from operations	634,900																					
4	<p>Calculate the following using the information given:</p> <p>4.1 The price at which the extra shares were sold. (3)</p> <p>$(2\ 100\ 000 - 1\ 350\ 000) / 2 = 375\ 000$ shares Or $(750\ 000 + 150\ 000) / 375\ 000$ $(170\ 000 - 20\ 000) / 375\ 000 = 40$ cents = R2.40 R2 + 40cents = R2.40</p> <p>4.2 The total amount paid for interim dividends. (2)</p> <p>$R262\ 500 - 157\ 500 = R105\ 000$</p>	(5)																				
5	<p>During the year the business increased the loan. One of the directors is of the opinion that this was not a wise decision in view of the financial results produced at the end of February 2009. Do you agree with him? Give at least 2 reasons for your answer. Show relevant calculations in your explanation.</p> <p>No. The debt: equity ratio is low (0.6:1), low risk and there is positive gearing the return of 32.9% is higher than the interest rate on the loan of 18%.</p> <p>Or Yes if reasons are logical.</p>	(5)																				
6	<p>The current market price of the shares in Trentyres are R2.89. One of the shareholders is considering whether to buy more shares in the company. He asked for advice as to whether this is a good market price or not. Show relevant calculations in your explanation.</p> <p>Compare to NAV. $(R2\ 842\ 200 / 1\ 050\ 000 = R2.71)$ Share price is higher than NAV.</p> <p>Opinion(Yes or no, depending on reasons. No as price is higher than NAV, or yes business is making good returns.</p>	(4)																				

QUESTION 4 Inventories (21 marks)

1	Calculate the value of the closing stock using the FIFO method. 60-46 =14bags Value of stock: 10 x R17 = R170 4 x R14 =R56 Total = R206	(4)
2	Calculate the gross profit made on the stock if the FIFO method is used. Cost of sales: 220 + 576 – 226 = R570, sales R24 x 46 = R1104 Gross profit: 1104 – 570 =R534	(5)
3	Joyce has been told that she would make a larger gross profit if she used the weighted average method of valuing stock. Do you agree? Make the necessary calculations to advise Joyce as to whether she would benefit from changing to the weighted average method. Weighted average: R796/60 =R13.27 Closing stock: 14 x R13.27 = R185.78 Gross profit: 1104 –(796 – 185.78)=R493.78 Opinion: Learners to given their own opinion on the merits of changing stock valuation system. In this case the weighted average has recorded a slightly lower(R534/ R493.78) profit but over the years this will balance out as the closing stock of one year becomes the opening stock of the next year.	(6)
4	What advice would you give Joyce regarding the selling price of her bags? Explain you answer by quoting appropriate figures. She should consider increasing her selling price as she was making R13 profit on the opening stock but only R7 on the last lot of her bags that she bought. She must adjust the selling price in line with the cost price of the bags.	(2)
5	Joyce heard from a friend of hers that did accounting at school that she should use the perpetual stock system instead of the periodic system. She is confused and has asked you for advice in this matter. Explain to her the difference and give advice on which method she should use. Perpetual: cost of sales calculated at the sales point. Periodic: cost sales calculated at end of period after stocktaking. Advice: learners to give their own advice, but must be substantiated. Suggestion: Joyce sells so little that she would be better to stay with the periodic stock system.	(4)

QUESTION 5 VAT (29 marks)

1	<p>What is the difference between Output VAT and Input VAT? Output VAT: This the VAT received on sales and income. Input VAT: This is the VAT paid on items purchased.</p>	(2)																																																																																										
2	<p>Complete the missing details marked 1. to 8.. Round off calculations to the nearest Rand.</p> <table border="1" data-bbox="131 594 821 894"> <thead> <tr> <th>No.</th> <th>Answer: R</th> <th>Working</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>3,640</td> <td>26000X14%</td> </tr> <tr> <td>2</td> <td>33,540</td> <td>(26000x1.14)+1400+2500</td> </tr> <tr> <td>3</td> <td>952</td> <td>(4500+200+2100)x14%</td> </tr> <tr> <td>4</td> <td>4,560</td> <td>12312-952-4500-200-2100</td> </tr> <tr> <td>5</td> <td>300</td> <td>70x100/14=500,500-200=300</td> </tr> <tr> <td>6</td> <td>820</td> <td>70x114/14=570+250=820</td> </tr> <tr> <td>7</td> <td>2,300</td> <td>322x100/14</td> </tr> <tr> <td>8</td> <td>1,150</td> <td>2300x100/200</td> </tr> </tbody> </table>	No.	Answer: R	Working	1	3,640	26000X14%	2	33,540	(26000x1.14)+1400+2500	3	952	(4500+200+2100)x14%	4	4,560	12312-952-4500-200-2100	5	300	70x100/14=500,500-200=300	6	820	70x114/14=570+250=820	7	2,300	322x100/14	8	1,150	2300x100/200	(12)																																																															
No.	Answer: R	Working																																																																																										
1	3,640	26000X14%																																																																																										
2	33,540	(26000x1.14)+1400+2500																																																																																										
3	952	(4500+200+2100)x14%																																																																																										
4	4,560	12312-952-4500-200-2100																																																																																										
5	300	70x100/14=500,500-200=300																																																																																										
6	820	70x114/14=570+250=820																																																																																										
7	2,300	322x100/14																																																																																										
8	1,150	2300x100/200																																																																																										
3	<p>Post to the following accounts and close off the accounts in the General Ledger: GENERAL LEDGER OUTPUT VAT (4)</p> <table border="1" data-bbox="131 999 1393 1173"> <thead> <tr> <th colspan="2">2009</th> <th colspan="2"></th> <th colspan="2">2009</th> <th colspan="2"></th> <th colspan="2"></th> </tr> </thead> <tbody> <tr> <td>June</td> <td>30</td> <td>Debtors control</td> <td>DAJ</td> <td>7</td> <td>June</td> <td>30</td> <td>Bank</td> <td>CRJ</td> <td>3,640</td> </tr> <tr> <td></td> <td></td> <td>VAT control</td> <td>GJ</td> <td>3,955</td> <td></td> <td></td> <td>Debtors control</td> <td>DJ</td> <td>322</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>3,962</td> <td></td> <td></td> <td></td> <td></td> <td>3,962</td> </tr> </tbody> </table> <p>(5)</p> <table border="1" data-bbox="131 1205 1393 1446"> <thead> <tr> <th colspan="2">2009</th> <th colspan="2"></th> <th colspan="2">2009</th> <th colspan="2"></th> <th colspan="2"></th> </tr> </thead> <tbody> <tr> <td>June</td> <td>30</td> <td>Bank</td> <td>CPJ</td> <td>952</td> <td>June</td> <td>30</td> <td>Creditors control</td> <td>CAJ</td> <td>21</td> </tr> <tr> <td></td> <td></td> <td>Petty cash</td> <td>PCJ</td> <td>70</td> <td></td> <td></td> <td>VAT control</td> <td>GJ</td> <td>1,981</td> </tr> <tr> <td></td> <td></td> <td>Creditors control</td> <td>CJ</td> <td>980</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>2,002</td> <td></td> <td></td> <td></td> <td></td> <td>2,002</td> </tr> </tbody> </table>	2009				2009						June	30	Debtors control	DAJ	7	June	30	Bank	CRJ	3,640			VAT control	GJ	3,955			Debtors control	DJ	322					3,962					3,962	2009				2009						June	30	Bank	CPJ	952	June	30	Creditors control	CAJ	21			Petty cash	PCJ	70			VAT control	GJ	1,981			Creditors control	CJ	980										2,002					2,002	(9)
2009				2009																																																																																								
June	30	Debtors control	DAJ	7	June	30	Bank	CRJ	3,640																																																																																			
		VAT control	GJ	3,955			Debtors control	DJ	322																																																																																			
				3,962					3,962																																																																																			
2009				2009																																																																																								
June	30	Bank	CPJ	952	June	30	Creditors control	CAJ	21																																																																																			
		Petty cash	PCJ	70			VAT control	GJ	1,981																																																																																			
		Creditors control	CJ	980																																																																																								
				2,002					2,002																																																																																			
4	<p>Calculate the amount owing to SARS. $3\ 955 - 1\ 981 = R1\ 974$</p>	(3)																																																																																										
5	<p>State your view on the following scenario: Yak-Tak Stores (a registered vendor) sells for cash only yet he writes off large amounts of bad debts. He claims from SARS for this. This is illegal and is not good business practice. Legal action can be taken against him as vendors are expected to provide accurate information to SARS. Any other suitable answer.</p>	(3)																																																																																										

QUESTION 6 PROJECTED INCOME STATEMENT (20 marks)

1	<p>Calculate the current mark-up percentage. $150\,000/200\,000 \times 100 = 75\%$</p>	(3)																																	
2	<p>Complete the Projected Income Statement for July 2009. Projected Income Statement for June 2009</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">June 2009</th> <th style="width: 20%; text-align: center;">July 2009</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td style="text-align: right;">350 000</td> <td style="text-align: right;">332 500</td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;">(200 000)</td> <td style="text-align: right;">(175 000)</td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">150 000</td> <td style="text-align: right;">157 500</td> </tr> <tr> <td>Operating expenses</td> <td style="text-align: right;">(83 000)</td> <td style="text-align: right;">(90 600)</td> </tr> <tr> <td style="padding-left: 20px;">Salaries and wages</td> <td style="text-align: right;">36 000</td> <td style="text-align: right;">36 000</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="text-align: right;">9 000</td> <td style="text-align: right;">9 000</td> </tr> <tr> <td style="padding-left: 20px;">Other operating expenses</td> <td style="text-align: right;">38 000</td> <td style="text-align: right;">45 600</td> </tr> <tr> <td>Operating profit</td> <td style="text-align: right;">67 000</td> <td style="text-align: right;">66 900</td> </tr> <tr> <td style="padding-left: 20px;">Interest income</td> <td style="text-align: right;">2 000</td> <td style="text-align: right;">2 000</td> </tr> <tr> <td>Net profit</td> <td style="text-align: right;">69 000</td> <td style="text-align: right;">68 900</td> </tr> </tbody> </table>		June 2009	July 2009	Sales	350 000	332 500	Cost of sales	(200 000)	(175 000)	Gross profit	150 000	157 500	Operating expenses	(83 000)	(90 600)	Salaries and wages	36 000	36 000	Depreciation	9 000	9 000	Other operating expenses	38 000	45 600	Operating profit	67 000	66 900	Interest income	2 000	2 000	Net profit	69 000	68 900	(13)
	June 2009	July 2009																																	
Sales	350 000	332 500																																	
Cost of sales	(200 000)	(175 000)																																	
Gross profit	150 000	157 500																																	
Operating expenses	(83 000)	(90 600)																																	
Salaries and wages	36 000	36 000																																	
Depreciation	9 000	9 000																																	
Other operating expenses	38 000	45 600																																	
Operating profit	67 000	66 900																																	
Interest income	2 000	2 000																																	
Net profit	69 000	68 900																																	
3	<p>Explain why Gina expects her turnover to decrease in July 2009. There will be an increase in her prices as a result of 15% increase in mark-up. Any other suitable answer.</p>	(2)																																	
4	<p>Explain why depreciation does not appear in the Cash Budget. Depreciation is a non-cash item, no outflow of cash.</p>	(2)																																	