NATIONAL SENIOR CERTIFICATE EXAMINATION
EXEMPLAR 2008

ACCOUNTING: PAPER I

Time: 2 hours 200 marks

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This paper consists of 11 pages. Please check that your question paper is complete.
2. Read the questions carefully.
3. Answer the questions in the Workbook.
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: 39 marks; 23 minutes	
Learning outcome	**Assessment Standards**
Part A – Financial information: VAT Part B – Financial information: CC	• Apply the principle of VAT in different situations • Analyse and interpret financial information
Question 2: 81 marks; 49 minutes	
Learning outcome	**Assessment Standards**
Part A – Financial information Part B – Financial information	• Prepare financial statements (Income statement and Balance sheet) • Prepare financial statements (Cash flow)
Question 3: 40 marks; 24 minutes	
Learning outcome	**Assessment Standards**
Part A – Managerial accounting Part B – Managerial accounting	• Production Cost Statement • Trading statement
Question 4: 40 marks; 24 minutes	
Learning outcome	**Assessment Standards**
Part A – Managing resources Part B – Managing resources	• Interpret and report on the movement of assets • Use FIFO and Weighted average to calculate value of trading stock

QUESTION 1 (39 marks; 23 minutes)

Jason, Sven and Kelsey are members in, a business selling Casual Clothing.

1.1 **PART A**

Houtbay CC is a registered vendor and they submit their VAT returns every second month: February, April, June, August, October and December. The financial year of Houtbay CC ends annually on 28 February. Study the following information extracted from the accounting records of Houtbay CC and then answer the questions that follow.

Information

Summary of transaction for the VAT period ending 28 February 2008. All amounts are inclusive of VAT at 14%.

1. Total sales, R427 500.

2. Total purchases (excluding fixed assets), R193 800. This includes items purchased for the owners' personal use, R2 280.

3. Fixed assets purchased, R85 500.

4. Total cash and cheques received from debtors, R92 000 in settlement of accounts of R96 600.

5. Total cheques paid to creditors, R83 000. R4 731 was received in discount from creditors.

6. Bad debts written off, R2 850.

Questions to be answered

1.1.1 To whom is VAT paid? (1)

1.1.2 Calculate the Output VAT for the VAT period ending 28 February 2008. (4)

1.1.3 Calculate the Input VAT for the VAT period ending 28 February 2008. (5)

1.1.4 In which financial statement and where in this financial statement will the amount owed for VAT be recorded for the VAT period ending 28 February 2008? (2)

1.1.5 By what date must VAT be paid over to the relevant authority and what interest penalty is imposed by this authority? (2)

1.2 **PART B**

Jason and Sven each have a 40% share in Houtbay CC as they are actively involved in the running and managing of the CC. Kelsey has the other 20% interest in the CC as she is not actively involved in the CC. The financial year of the business ends annually on 28 February.

Information:

1. Extract from the General ledger on

	2008	**2007**
Members' contributions: • Jason • Sven • Kelsey	 R50 000 300 000 25 000	 R50 000 50 000 25 000
Accumulated profit	90 000	60 000
Mortgage bond (14% p.a.) • The mortgage bond was increased by R500 000 on 1 March 2007	2 000 000	1 500 000
Loan from Jason (18% p.a.)	250 000	250 000
Loan from Kelsey (18% p.a.)	150 000	125 000
Loan to Sven (12% p.a.)	20 000	0
Interest on loan from members: • Jason • Kelsey	 45 000 25 125	 45 000 22 500
Interest on loan to members: • Sven	 400	 0
Interest on mortgage bond	280 000	210 000

2. Financial indicators on

	2008	2007
Average return on members' equity	46,15%	51,42%
Average return on capital employed	23,07%	23,73%

3. Additional information

	28 February 2008	28 February 2007
Net profit before tax	R215 000	R120 000
Net profit after tax	150 000	90 000

Questions to be answered

1.2.1 Prepare the Appropriation account of Houtbay CC for the year ended 28 February 2008. (7)

1.2.2 Do you think that it is more beneficial for the members of the CC to have their investment in members' contribution or loans from members? Supply two suitable reasons to substantiate your answer. (5)

1.2.3 Supply two reasons from the information given above for the decrease in the average return on members' equity from 2007 to 2008. (4)

1.2.4 Should the members' of the CC be happy with the returns achieved by the CC for the financial year ended 2008. Your answer must be in reference to

- Risk (3)
- Profitability (3)

1.2.5 When calculating the average return on capital employed one of the following two formulas could be used by the CC. Which of the two formulae will give a more accurate representation of the average return on capital employed? Give a reason for your answer. (3)

Formulae 1

$$\frac{\text{net profit before tax} + \text{interest expense}}{\text{average members' equity} + \text{average long term liabilities} + \text{loans from members}} \times \frac{100}{1}$$

Formulae 2

$$\frac{\text{net profit before tax} + \text{interest expense} - \text{loan to members}}{\text{average members' equity} + \text{average long term liabilities} + \text{loans from members} - \text{loans to members}} \times \frac{100}{1}$$

39 marks

QUESTION 2 (81 marks; 49 minutes)

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

2.1 **PART A**

The information given below was extracted from the accounting records of Mace Traders Ltd.

Required

2.1.1 Complete the Income statement for the year ended 28 February 2008.
Note: Certain information has already been filled in for you. This information is correct. (23)

2.1.2 Complete the Equity and liabilities section of the Balance sheet on 28 February 2008. (15)

2.1.3 Prepare the note to the Balance sheet for Trade and other payables on 28 February 2008. (8)

Information

A Extracted from the Pre-adjustment trial balance on 28 February 2008

	Debit	**Credit**
Accumulated profit (1 March 2007)		48 872
Vehicles	600 000	
Accumulated depreciation on vehicles		115 125
Mortgage bond		450 000
SARS (Income tax)	70 000	
Interest on mortgage bond (16% per annum)	47 000	
Rent income		96 200
Ordinary share dividends (interim dividend)	22 500	

B Adjustments

1. Depreciation on vehicles is calculated at 20% per annum on the diminished balance method. Take into consideration that a new vehicle costing R270 000 was purchased on 1 December 2007. The purchase of this vehicle has been recorded in the books of the business.

2. The mortgage bond was increased from R375 000 to R450 000 on 1 June 2007. Provide for any outstanding interest.

3. Rent income amounted to R6 500 per month on 1 March 2007. Rent increases annually by 10% on 1 September each year.

C Additional information

1. The business operates on a profit mark-up of 65% on cost.
2. Operating expenses as a percentage on sales = 22%.
3. Income tax is calculated at 30% of pre-tax profits.
4. Debt to equity ratio on 28 February 2008, 0,4 : 1.
5. As at 28 February 2008 there were 50 000 shares in issue. All shares were issued at a premium of R1,10.
6. Final dividends per share on 28 February 2008 was R1,75 per share.
7. Total current assets amounted to R388 500 and the current ratio on 28 February was 2,1 : 1.

2.2 PART B

The information given below was extracted from the accounting records of OHNO VEY Traders Ltd.

Required

2.2.1 Prepare the Cash flow from operations section of the Cash flow statement for the year ended 28 February 2008. Only show the note for the reconciliation of profit before tax and cash generated from operation. Any other calculations must be shown in brackets so that part marks can be awarded. (29)

2.2.2 Answer the questions that follow.

Information

1. From the accounting records on 28 February

	2008	**2007**
Fixed assets at carrying value	R1 796 000	R1 750 000
Inventories	180 000	160 000
Trade debtors	205 000	240 000
Prepaid expenses (interest on loan)	3 200	2 500
SARS (income tax) DR		8 500
SARS (income tax) DR	3 200	
Trade creditors	132 000	157 200
Accrued expenses	2 000	2 800
Shareholders for dividends	90 000	55 000
Interest expense	47 000	40 000
Net profit before tax	130 000	120 000
Net profit after tax	91 000	84 000

2. Additional information

2.1 Fixed assets costing R180 000 were purchased during the financial year and fixed assets were sold at carrying value, R32 000 during the financial year.

2.2 An interim dividend of R25 000 was paid during the financial year ended 2008.

2.2.2 Questions to be answered

(a) Name the other two sections of the Cash flow statement. (2)

(b) If you were a shareholder in this company, what two areas in the Cash Flow Statement may be of concern to you and give reasons why? (4)

81 marks

QUESTION 3 (40 marks; 24 minutes)

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

PART A

3.1 The following information was extracted from the accounting records of Kitties Fashions. Kitties Fashions sell one style of Hooded Sweatshirt.

Required

Prepare the Production Cost Statement for the year ended 31 October 2008.
Note: Certain information has already been filled in for you. Only fill in the information denoted by an *. (24)

Information

1.

Balance of stock	Number of units	1 November 2007	Number of units	31 October 2008
Raw materials		?		R11 250
Work in progress		R7 070		?
Finished goods	280	R14 000	380	R22 800
Indirect materials		750		1 225

2. Transactions for the year ended 31 October 2008

Administrative expenses	R18 000
Advertising	12 450
Commission sales staff	14 600
Indirect materials purchased	4 275
Maintenance of knitting machines	5 500
U.I.F contribution:	
Factory staff	840
Factory Supervisor	240
Administrative staff	360
Railage on raw materials purchased	2 700
Raw materials purchased	156 250
Raw material returned to suppliers	3 750
Salaries and wages:	
Factory staff	84 000
Factory Supervisor	24 000
Administrative staff	36 000
Water and electricity (75% is for the factory)	12 000

3. Additional information

3.1 Depreciation on factory equipment, R2 100.

3.2 4300 units were produced during the current financial year.

PART B

3.2 Freer Manufacturers manufacture soccer balls. The business has been in existence for two years and wants to tender to produce the official soccer balls that will be sold at all the World Cup Soccer Stadiums during 2010.

Required

Use the information given below to answer the questions that follow.

Information

	31 October 2008		31 October 2007	
	Total	**Per Unit**	**Total**	**Per Unit**
Administration costs (fixed cost)	R337 500	R7,50	R241 600	R6,00
Selling and distribution costs (variable cost)	270 000	6,00	86 400	2,70
Direct material costs	787 500	R17,50	336 000	R10,50
Direct labour costs	360 000	R8,00	240 000	R7,50
Factory overhead costs	596 250	13,25	416 000	13,00
Total cost production costs	1 743 750	38,75	992 000	31,00
No. of units produced	45 000 soccer balls		32 000 soccer balls	

Note:

1. All soccer balls produced during 2007 and 2008 were sold.

2. There were raw materials on hand on 31 October 2007 and 31 October 2008, but there is no work in progress.

3. All soccer balls produced are sold to Sportmans Warehouse. Soccer balls were sold for R93 each.

4. Freer Manufacturers only has one competitor, Mc Innes Bouncy Balls. Mc Innes Bouncy Balls sells their soccer balls for R105 each.

Questions to be answered

3.2.1 Explain the difference between fixed costs and variable costs and give an example of a fixed cost and a variable cost. (4)

3.2.2 Calculate the total number of soccer balls that must be sold by Freer Manufacturers during 2008 in order to break even. (5)

3.2.3 Although Freer Manufacturers increased production by 41% from 2007 to 2008, their profits only increased by 13%. List two expenses that have greatly increased and, taking current economic conditions into account, explain why you think they would have increased substantially during this time. (4)

3.2.4 Should the selling price of the soccer balls be increased? Justify your response with a suitable reason. (3)

40 marks

QUESTION 4 (40 marks; 24 minutes)

4.1 PART A

The tuckshop at Orange High School is run by a parent, Ben Mc Innes. He sells tins of cold drink and packets of chips at a mark-up of 100% on cost. He employs students to help him sell during the school tea and lunch breaks. Ben uses the FIFO stock valuation system. Ben sells both cold drinks and chips at a 100% mark-up on cost price.

Information

On 1 November 2008 Ben had the following stock on hand:

- 200 tins of cold drink with a cost price of R2.50 each
- 150 packets of chips with a cost price of R1,60 each

On 15 November 2008 Ben bought the following:

- 20 cases of cold drink. Each case contains 24 cold drinks. The cost per case was R66.
- 300 packets of chips at R1,75 per packet.

During November 2008 Ben sold 560 tins of cold drink and there were 70 packets of chips in stock on 30 November 2008. The total cost price of goods sold for November 2008 amounted to R2 132,50.

Answer the following questions

4.1.1 Calculate:

- the number of tins of cold drink in stock on 30 November 2008. (3)
- the number of packets of chips sold during November 2008. (3)

4.1.2 Calculate:

- the monetary value of total sales for November 2008. (3)
- the gross profit achieved for November 2008. (3)

4.1.3 Determine the value of Ben's stock on 30 November 2008. (3)

4.1.4 Should Ben be concerned about the amount of stock he has on hand on 30 November 2008? Explain. (3)

4.1.5 Ben's student helpers have asked if they could buy chips and cold drinks from his tuck shop at cost price. Give a reason why this would not be a good idea. (2)

4.2 PART B

Ben had drawn up the following accounts to record the depreciation and asset disposal of equipment for the financial year ended 28 February 2008. During the year a large industrial freezer was damaged during one lunch break. The old freezer was sold at a loss of R125. A new freezer was purchased on 1 December 2008. Equipment is depreciated at 15% per annum on cost price.

Study the information given below then answer the questions that follow.

Equipment

2007 Mar	01	Balance	b/d	25 000	?	?	Asset disposal	GJ	6 000
Dec	01	Creditors control	CJ	12 000	2008 Feb	28	Balance	c/d	31 000
				37 000					37 000
2008 Mar	01	Balance	b/d	31 000					

Accumulated depreciation on equipment

?	?	Asset disposal	GJ	3 975	2007 Mar	01	Balance	b/d	15 000
2008 Feb	28	Balance	c/d	14 700	?	?	Depreciation	GJ	3 75
					2008 Feb	28	Depreciation	GJ	3 300
				18 675					18 675
					Mar	01	Balance	b/d	14 700

Asset disposal

?	?	Equipment	GJ	6 000	?	?	Accumulated depreciation on equipment	GJ	?
						?	Debtors control	GJ	?
						?	Loss on sale of asset	GJ	?

4.2.1 Determine the date on which the old freezer was sold. (5)

4.2.2 Calculate the price at which the old freezer was sold. (4)

4.2.3 The freezer was sold on credit. Briefly explain why the folio reference is GJ and not DJ. (2)

4.2.4 At what value will the freezer be shown in the Balance on 28 February 2008? (3)

4.2.5 The new freezer purchased on 1 December 2007 was valued at R15 000 but the business only paid R120 000. Name the Generally Accepted Accounting Principle that is being applied. (2)

4.2.6 Ben is concerned that the tuck shop equipment is being damaged and that he has to replace equipment more often than what is being budgeted for.

Describe two control measures that you think could be introduced to extend the life span of the equipment. (4)

40 marks

TOTAL FOR THIS PAPER: 200 MARKS