



NATIONAL SENIOR CERTIFICATE EXAMINATION
MAY 2022

ACCOUNTING: PAPER I

Time: 2 hours

200 marks

INFORMATION BOOKLET

QUESTION 1 INVENTORY SYSTEMS & VAT (41 marks; 25 minutes)**QUESTION 1.1 INVENTORY SYSTEMS (31 marks, 19 minutes)****Information relating to Callaghan Cheeses****Ignore VAT for the purposes of the Inventory Section.**

Callaghan Cheeses is a local business that sells cheese and cheese boards from their shop, which is situated in an upmarket shopping mall. This small business is VAT registered and is owned by Sydney Callaghan.

They use the periodic inventory system and value the goods as follows:

- **Cheese** according to the FIFO (First In First Out) method. The intended mark-up on cheese is 100%.
- **Cheese boards** according to the weighted average method. The intended mark-up on the boards is 60%.

The following relates to the quarter ended 31 May 2021:

Details & dates	CHEESE FIFO method			CHEESE BOARDS Weighted average method		
	Kilograms (kg)	Cost per kg (R)	Total	Boards	Cost per board (R)	Total
Opening stock (1 March 2021)	190	55	R10 450	60	225	R13 500
Purchases	810		R48 100	260		R53 750
March 2021	220	65	R14 300	70	210	R14 700
April 2021	430	60	R25 800	110	195	R21 450
May 2021	160	50	R8 000	80	220	R17 600
Closing stock (31 May 2021)						
Sales	735	115	R87 745	265	344	R91 160
Returns	10 kg from the March purchase.			5 boards from the April purchase.		
Carriage on purchases*	R5 per kilogram. Carriage is not refunded on returns.			Total cost for the quarter amounted to R2 395		

*Carriage on purchases is not included in the purchase values for March, April and May.

Additional information:

1. Sales were not as high as expected and as a result 25 kg of cheese that was purchased in April had to be thrown away. No other losses were experienced with regard to the cheese.
2. Some boards were accidentally lost at the various market exhibitions they took part in during the past three months.

QUESTION 1.2 VAT**(10 marks, 6 minutes)****Information relating to Callaghan Cheeses****VAT is calculated at 15%.**

Selected transactions involving VAT from the financial records of Callaghan Cheeses for the year ending 31 May 2021:

All transactions below involve the cheese boards that were marked up by 60%.

1. The owner took stock for her own use. The stock cost R1 260 exclusive.
2. A debtor paid R9 315 to settle his account. This was after he was granted a 10% settlement discount.
3. Goods with an inclusive **selling price** of R2 760 were returned to the supplier.

QUESTION 2 COMPANY FINANCIAL STATEMENTS (66 marks, 39 minutes)

Information relating to Mishka Limited

Mishka Limited is a South African listed company with an authorised share capital of 5 000 000 ordinary shares. They import and buy from local suppliers in order to supply retail stores with stationery products. They use a standard mark-up of 75% on cost at all times.

1. Extracted balance from the financial records on **1 March 2020**:

Balance Sheet Section	
Accrued income (Interest on fixed deposit)	R4 200

2. Extracted totals/balances from the Pre-adjustment Trial Balance for the year ended **28 February 2021**:

Balance Sheet Section	
Debtors control	R149 500
Provision for bad debts	R6 150
Trading stock	R759 300
Loan: Li Bank (12% p.a.)	R525 000
SARS: Income tax	R480 000 dr
SARS: PAYE	R19 800
Pension fund	R6 900
Nominal Accounts Section	
Sales	R4 815 000
Cost of sales	R2 324 000
Debtors allowances	R96 000
Stationery	R14 700
Ordinary share dividends	R344 000
Depreciation on vehicles	R42 400

3. Extract from the Notes to the Financial Statement for the year ended **28 February 2021**:

Ordinary share capital

Issued share capital		
3 500 000	Ordinary shares on 1 March 2020	R7 405 000
800 000	Shares sold at R2,30 each on 1 May 2020	R1 840 000
4 300 000	<i>Sub-total</i>	R9 245 000
60 000	Shares bought back on 1 December 2020	?
4 240 000	Ordinary shares on 28 February 2021	?

- Shares were bought back at 276 cents each.

Additional information and adjustments that still need to be taken into account:

1. A debtor returned stock that was sold for R11 900 and cost R6 800. It was returned to the supplier, who issued a credit note less a 10% penalty as it was returned after the number of days allowed.
2. A window was left open during a major storm and as a result R7 000 worth of stock was damaged by the rain. The insurance company agreed to pay for the damaged stock less a 15% excess.
3. The stock take revealed the following:
 - Trading stock on hand R741 200
 - Stationery used during the year R 12 900
4. The following error needs to be corrected: A debtor who had previously been written off as a bad debt returned to pay his debt of R3 200. This has been incorrectly recorded as:

Debit:	Bad Debts Recovered
Credit:	Debtors Control
5. Provision for bad debts must be adjusted to 4% of trade debtors.
6. The interest on fixed deposit is not capitalised. The bookkeeper forgot to reverse the interest on fixed deposit at the beginning of the year. The fixed deposit was increased during the year and an amount of R6 100 for interest is still owed by the investment bank.
7. Commission income of R24 per unit sold on behalf of Daines Dairy. The commission on the January sales of 1 500 units is still owed to Mishka Limited.
8. An additional store manager was appointed on 1 February 2021. The salaries clerk forgot to record her February salary details:

Gross salary	R216 000 per annum
Pension fund	8% of gross salary
SARS (PAYE)	R4 500 per month

 The company contributes on a rand-for-rand basis to the pension fund.
9. The interest on the loan is up to date but must be recorded. An annual loan repayment of R35 000 is made and recorded on 1 December each year. Interest is not capitalised.
10. After the income tax on the net profit had been accounted for, the company still owed SARS R12 000.
11. Interim dividends were paid during the year. A final dividend of 9c per share on all shares in issue at the end of the year was declared on 28 February 2021.

QUESTION 3 CASH FLOW STATEMENTS**(49 marks, 29 minutes)****Information relating to Readhead Motors Ltd**

Readhead Motors Ltd is a South African listed company with an authorised share capital of 5 million shares. They import and sell automotive spares for all types of vehicles.

- The Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2021 revealed that a net profit after tax of R1 505 000 was made. The company is taxed at a rate of 30% on profit.
- Extract from the Statement of Financial Position (Balance Sheet) as at:

	28 February 2021 R's	28 February 2020 R's
Ordinary share capital	2 600 000 (4 000 000 shares)	2 730 000 (4 200 000 shares)
Retained income	1 882 100	964 800
Fixed assets (at carrying value)	1 931 680	1 729 000
Financial assets (Investments)	1 000 000	1 400 000
Loan: You Bank (11% p.a.)	2 372 000	2 016 000
Inventory	356 000	?
Trade & other receivables	424 200	486 000
Accrued income	16 800	15 100
Bank	?	814 520 (cr)
Cash float & petty cash	12 000	14 000
Trade & other payables	603 100	521 400
Accrued expenses (Interest on loan)	17 160	18 480
SARS (PAYE)	19 400 (cr)	13 600 (cr)
SARS (Income tax)	27 000 (dr)	84 000 (cr)
Shareholders for dividends	280 000	6c per share

3. Additional information:

3.1 Fixed and Financial Assets

- The investments are made up of shares in Ranchod Ltd on which no dividends were declared or paid during the year. As a result Readhead Motors Ltd has started to decrease their investment.
- New equipment was bought for R576 150 during the year, and an old delivery vehicle was sold at book value. It had a cost price of R249 000 and an accumulated depreciation at the time of the sale of R186 750.

3.2 Loans

- Interest is not capitalised.
- Interest paid during the year amounted to R196 680.
- Loan repayments amount to R12 000 per month.
- An additional amount was borrowed on the loan facility during the year to fund the expansion of the warehouse.

3.3 Shares & Dividends

- 200 000 shares were bought back from the estate of a deceased shareholder at a cost of 25 cents above the average share price at the time of the buy-back.
- No additional shares were issued during the year.

3.4 The change in the stock levels resulted in an outflow of R63 300 in cash.

3.5 The following information was extracted from the Cash Flow Statement for the year ended 28 February 2021:

- | | |
|--|------------|
| • Inflow of cash from the operating activities | R1 278 420 |
| • Inflow of cash from the financing activities | R176 000 |

QUESTION 4 MANUFACTURING WITH ASSET MANAGEMENT
(44 marks, 27 minutes)

Information relating to Jasson Jewellers

Jasson Jewellers is a local manufacturing business that produces affordable necklaces and bracelets with imitation gemstones and quality gold-plated chains. They use a standard mark-up of 150% on cost. They own their own equipment and delivery vehicles but rent their factory and office space. Their current financial year end is 31 May 2021.

1. **The following balances were extracted from the financial records of the business:**

	31 May 2021	1 June 2020
Indirect materials stock	R31 400	R46 200
Raw materials stock	R672 020	R513 500
Work-in-progress stock	R628 900	R546 700
Finished goods stock	R201 300	R229 800
Factory equipment	R1 055 000	R964 000
Accumulated depreciation on factory equipment	?	R454 720

2. **Direct & indirect materials**

- R156 000 worth of indirect materials were purchased during the year. 95% of all indirect materials are used in the production process.
- Carriage on the purchases of raw materials amounted to R94 500.
- Raw materials to the value of R2 100 000 were purchased during the year. 7½% of the purchases were returned to suppliers as they were not to specification.
- \$16 000 worth of raw materials were purchased from Wang Designs in the USA. A 5% trade discount was then negotiated with Wang Designs. Import duties are charged at 2% of the final invoice total. At the time of payment, the rand:dollar exchange rate was R15:\$1. This was not included in the above transactions.

3. **Factory overheads**

- The following totals were extracted from the Pre-Adjustment Trial Balance on 31 May 2021:

(a) Rent expense	R226 850
(b) Rates & taxes	R82 900
(c) Insurance	R73 440
(d) Water & lights	R?
- The rent for June 2021 was paid in advance. Rent is a fixed monthly amount and has remained unchanged during the year. Rent is allocated according to the floor space: factory 900 m², offices 200 m², sales 100 m².
- 80% of the total Rates & taxes account is allocated to the production process. The Rates & taxes account for May 2021 has been received and not yet paid, R6 500.

4. The following information was extracted from the factory Water & lights accounts for the year:

	Annual usage		Monthly fees
	Units of water & electricity used	Cost per unit	Account service & sundry fees
Tier 1	20 000	R0.65	R400
Tier 2	19 800	R0.95	R0
Total	39 800	?	?

5. The administration and selling departments' assets account for 30% of the insurance.
6. Depreciation on the factory equipment is calculated at 20% p.a. on the diminished balance. The following was extracted from the Fixed Asset Register:
- (a) Old equipment that was originally purchased for R124 000 was sold at its book value on 31 October 2020. On 1 June 2020 it had an accumulated depreciation of R34 720. No entries have been made in this regard.
 - (b) New equipment was purchased for R215 000 cash on 1 March 2021. This was recorded.

4. **Other information relevant to sales**

The total cost of production for the year amounted to R3 313 086.