NATIONAL SENIOR CERTIFICATE EXAMINATION
MAY 2024

ACCOUNTING: PAPER I

Time: 2 hours | 200 marks

INFORMATION BOOKLET

QUESTION 1 INVENTORIES & VAT (40 marks, 24 minutes)

Information relating to Shah Soda

Shah Soda is a local company that sells personalised bottled cold drinks to companies and schools. A unit consists of one bottle of cold drink and the personalised label.

- They use the **periodic** inventory system for all stock.
- They are VAT registered on the invoice-based method.

QUESTION 1A VAT (10 marks, 6 minutes)

VAT is calculated at 15%

The following transactions were taken from the accounting records of Shah Soda for the year ended 28 February 2023.

On 1 February 2023 the SARS (VAT) account had a credit balance of R7 500.

1. Total purchases of ice R13 000 (exclusive).

2. A creditor who was owed R6 440 granted a 7½% settlement discount when the account was paid.

3. An amount of R2 760 was recorded as an allowance made to a debtor and the VAT of R360 was recorded as such. On investigation it was discovered that this was in fact a trade discount that was granted and should not have been recorded.

4. A debtor who owed R3 680 was written off as irrecoverable.

QUESTION 1B INVENTORY SYSTEMS (30 marks, 18 minutes)

1. Shah Soda values their stock of bottles using the **weighted average** method, as they say that all the flavours cost the same and the turnover is faster than the shelf life.

   Shah Soda has a delivery contract which costs R30 500 per annum to deliver all their purchases to their labelling factory. Customers collect or are charged for delivery.

   The stock records for the financial year ending 28 February 2023 were as follows:

Bottles of Soda Weighted Average Method	**Number of units**	**Per Unit**	**Total**
Opening stock (1 March 2022)	350 000	R4,00	R1 400 000
Purchases during the year	1 550 000		R5 575 000
May 2022	450 000	R4,50	R2 025 000
July 2022	600 000	R3,00	R1 800 000
November 2022	500 000	R3,50	R1 750 000
Closing stock (28 February 2023)	275 000		

   The following information was extracted from the stock records:

   (a) They returned 35 000 bottles on 1 August 2022 as the lids were found to be faulty.
   (b) During the year they sold 1 575 000 units at R9,00 each.
   (c) A number of bottles were given to the employees at the weighted average value, as part of their end-of-year hampers.

2. Shah Soda also sold ice blocks at R30 each. As the ice melts they have decided to value this stock using the **First-in First-out (FIFO)** method. They stopped selling these when their freezer was damaged by loadshedding.

   The following was taken from their stock records for the financial year ending 28 February 2023:

Blocks of Ice First-in First-Out Method	**Number of blocks**	**Per Unit**	**Total**
Opening stock (1 March 2022)	300	R9	R2 700
Purchases during the year	1 200		R8 800
March 2022	400	R8	R3 200
May 2022	800	R7	R5 600
Closing Stock (28 February 2023)	0		

   (a) There is no carriage on orders over 200 blocks.
   (b) 250 blocks that were purchased in May 2022 were given free of charge to customers who placed bulk orders.
   (c) 100 blocks of ice, purchased in May 2022, melted in June 2022. The rest were sold.

QUESTION 2 COMPANY FINANCIAL STATEMENTS (71 marks, 43 minutes)

Information relating to Mkhize Motors Ltd

Mkhize Motors Ltd is a South African listed company that trades in small to medium-size electrical motors that are used in commercial products. They have an authorised share capital of 6 000 000 ordinary shares.

They add a standard markup of 200% on the cost of all goods. Their latest financial year-end is 28 February 2023.

1. Extracted balances from the financial statements on **28 February 2022**.

Balance Sheet Section	
Ordinary share capital (4 800 000 ordinary shares)	R37 440 000
Retained income	R16 420 000
Equipment	R1 160 000
Accumulated depreciation on equipment	R935 000
Provision for bad debts	R23 500
Consumable stores on hand (Consumable Stores)	R1 250

2. Extracted balances / totals from the Pre-adjustment Trial Balance for the year ended **28 February 2023**.

Balance Sheet Section	
Trading stock	R695 000
Debtors' control	R578 000
SARS: Income tax	R586 300 debit
Loan: Million Bank (8% p.a.)	R288 000
Creditors control	R714 000
Nominal Accounts Section	
Sales	R15 900 000
Cost of sales	R5 300 000
Debtors' allowances	R420 000
Discount allowed	R23 850
Discount received	R38 500
Consumable stores	R45 700
Ordinary share dividends	R928 000

Additional information relating to shares and dividends for the year ended 28 February 2023:

31 May 2022:	The company issued an additional 1 000 000 ordinary shares at R8,96 each.
30 September 2022:	The company declared and paid an interim dividend totalling R928 000. This has been recorded.
1 February 2023:	The company bought back 250 000 ordinary shares at R9,95 each. It was negotiated that these shares **would qualify** for the final dividend.
28 February 2023:	A final dividend of 18 cents per share was declared.

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

1. A customer has prepaid the service fee of R2 800 for the service to his motors that will be carried out in March 2023.

2. It was discovered that the water & electricity account for February of R7 200 was never paid.

3. The company donated goods to a local charity. This meant that a gross profit of R12 400 was not made as the goods were not sold.

4. An amount of R32 000 for an advert that was placed in the local newspaper in February has not yet been paid. The newspaper had purchased a parking garage door motor for R7 500. The sale has not been recorded as it was agreed that Mkhize Motors Ltd could deduct this amount from the amount owing for the advert.

5. **Consumable Stores**

   5.1 The bookkeeper forgot to reverse the transaction for the consumable stores on hand on 1 March 2022.

   5.2 R2 250 worth of consumable stores were ordered and recorded, however, it has not yet been delivered as the supplier is still waiting for certain items.

   5.3 The annual stock take indicated the following was on hand on 28 February 2023:

   (a) Consumable stores R 1 960
   (b) Trading Stock R672 000

6. Depreciation on equipment is calculated at 20% per annum using the straight-line method.

7. It was agreed that the rent would only be increased by 5% on 1 November 2022, if the tenant agreed to pay a R9 000 deposit. The deposit was received but not recorded. The rent for February is still owed by the tenant.

8. The bank statement for February was received. It indicated that the following had not been recorded by the business:

   8.1 Bank charges R390 and interest on the credit balance R450.

   8.2 A debtor who had previously been written off as bad returned to pay the R7 000 that had been written off via EFT.

   In addition, the following was discovered:

   8.3 An EFT payment to a creditor for R7 200 was recorded. It was to settle our account of R8 000. It was not processed by the bank as the account number was entered incorrectly by the business.

9. A debtor who owed R9 600 was declared insolvent. The estate has paid 45 cents in the rand. The remainder must be written off as bad. No entries have been made for either transaction.

10. The provision for bad debts must be adjusted to 4% of the debtors.

11. A loan repayment of R24 000 is due on 31 May 2023.

12. After all adjustments an amount of R14 900 was still owing to SARS for the company tax.

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QUESTION 3 CASH FLOW STATEMENTS (43 marks, 26 minutes)

Information relating to Lenola Leads Ltd

Lenola Leads Ltd is a South African listed company that produce, package, and supply major retail outlets with a variety of electrical cabling solutions.

1. They have an authorised share capital of 5 000 000 shares. Shares were sold on 1 March 2022 to bring the total number of shares in issue on 28 February 2023 to 4 600 000 ordinary shares. No shares were repurchased during the year.

2. The earnings per share (EPS) was calculated to be R7,00 (700c) on **28 February 2023**.

3. Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2023:

Depreciation	R345 000
Interest on loan	R63 400
Income tax	30%

4. Extract from the Statement of Financial Position (Balance Sheet) as at:

	28 February 2023	**28 February 2022**
Ordinary share capital	R4 280 000	?
Retained income / Accumulated profits	R320 000	?
Fixed assets (at carrying value)	R2 937 000	R2 652 000
Investments: Shares in Thato Ltd	R250 000	R480 000
Loan: Nikki Bank (9% p.a.)	R1 880 000	R1 230 000
Current Assets	?	R1 298 000
Cash & cash equivalents	R103 000	R4 300
Inventories	?	R679 000
Trade & other receivables	?	R598 800
SARS (Income Tax)	-	R15 900
Current Liabilities	R964 000	R797 000
Creditors control	R450 700	R780 400
Income received in advance (Rent)	R17 000	R16 000
SARS (PAYE)	R23 800	R21 600
Accrued expense (Interest on loan)	R14 100	R9 300
SARS (Income Tax)	R21 400	-
Bank overdraft	R0	R39 700
Shareholders for dividends	R437 000	R420 000

5. Additional information:

5.1 **Working capital**

- The following financial indicators were calculated on **28 February 2023**:
  - Current ratio 1,15:1
  - Acid test ratio 0,75:1
- The movement of the trade and other receivables resulted in an outflow of cash of R21 200.

5.2 **Fixed assets**

- During the year the company purchased new equipment.
- The company sold old equipment at its book value of R373 000.

5.3 **Financial assets**

- During the year the company sold some of the shares it had in Thato Ltd, as the company was not paying any dividends.

5.4 **Interest on the Loan**

- The interest on loan is not capitalised.

5.5 **Dividends**

- Interim dividends of 8c per share was declared and paid on 31 August 2022.
- A final dividend was declared at the end of the year.

QUESTION 4 MANUFACTURING (46 marks, 27 minutes)

Information relating to Caplan Carpets

Caplan Carpets is a South African manufacturing company that manufactures indoor and outdoor carpets, mats and rugs.

The factory occupies 700 m^2, the administration offices 200 m^2 and three national sales offices of 100 m^2 each.

Their financial year ends on 28 February.

PART A FIXED ASSETS (16 marks; 10 minutes)

1. **Fixed Assets**

   (a) All equipment is used to manufacture their products. Equipment is depreciated at 18% per annum on the diminished balance method.

   (b) The following balances were extracted from the financial records:

	1 March 2022
Equipment	2 460 000
Accumulated depreciation on equipment	1 103 600

   (c) An old sewing machine, which cost R380 000, was traded in for a new one on 1 December 2022. The old machine had an accumulated depreciation of R149 045 on the date of sale, this included depreciation of R36 045 for the period 1 March 2022 to 30 November 2022.

   (d) The new machine cost R600 000. A trade-in value on the old machine of R250 000 was negotiated.

PART B MANUFACTURING (30 marks; 17 minutes)

2. **Inventories**

(a) The following balances were extracted from their financial records:

	2023	**2022**
Indirect materials	72 600	69 500
Work-in-progress	2 980 000	3 260 000
Finished goods	6 640 000	6 420 000

3. **Labour costs**

(a) The factory supervisors were paid a total of R604 800 after 28% was deducted for PAYE, pension fund and UIF. The company contributes a total of 8% of the gross earnings to the supervisors.

(b) The factory employs 16 workers who earn R52 per hour. All workers worked 1 920 hours in the year. Overtime totalled R340 000 and contributions for UIF and pension totalled R127 500.

4. **Expenses**

(a) Indirect materials purchased during the year totalled R236 000. 85% of all indirect materials are used in the factory.

(b) The rent for each sales office amounted to R8 000 per month. Rent is determined by the square meterage.

(c) Extracted amount from the pre-adjustment trial balance on 28 February 2023:

- Insurance R120 250

It was discovered that the insurance premium for March 2023 has been paid. The premiums have remained unchanged. 60% of the insurance is allocated to the factory.

(d) The depreciation on the factory equipment is as per part A of this question.