



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATION - 2006

ACCOUNTING

HIGHER GRADE

OCTOBER/NOVEMBER 2006

MARKS: 400

TIME: 3 hours

This question paper consists of 17 pages and an answer book.



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INSTRUCTIONS AND INFORMATION

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL workings for part-marks to be allocated.
4. Read the instructions carefully and follow them precisely.
5. Candidates will forfeit marks for:
 - Important dates which are omitted
 - Use of non-standardised abbreviations
 - Over-writing on figures
 - Superfluous entries/foreign items/errors of principle
6. Non-programmable calculators may be used.
7. No pages must be removed from the answer book. The answer book caters for alternative formats of financial statements.
8. Use the information given in the table below as a guide when answering the question paper and try not to deviate from it.

| QUESTION | TOPIC | MARKS | TIME GUIDE IN MINUTES |
|--------------|-------------------|------------|--------------------------|
| 1 | Clubs | 55 | 24 |
| 2 | Budget | 50 | 22 |
| 3 | Company | 65 | 28 |
| 4 | Partnership | 70 | 30 |
| 5 | Close corporation | 45 | 20 |
| 6 | Control accounts | 65 | 29 |
| 7 | Asset disposal | 50 | 27 |
| TOTAL | | 400 | 180 minutes |



QUESTION 1**CLUBS****(55 marks; 24 minutes)****1.1 INANDA NETBALL CLUB****REQUIRED:**

Study the following information and answer the questions that follow.

INFORMATION:

- The club had 160 members on its register on 1 January 2005.
- Membership fees are R2 000 per member per year.
- Members who resign are refunded 50% of their membership fees provided they have paid their fees in full and resign before 30 June 2005.
- Members who have not paid their 2004 outstanding fees by 31 March 2005 have been deregistered and their fees have been written off.
- No new members joined the club during 2005.
- The treasurer drafted the following account for the year:

| MEMBERSHIP FEES ACCOUNT | | | | | | | |
|--------------------------------|----|---|---------|-------------|----|--------------------------------|---------|
| 2005 Jan | 01 | ? | 14 000 | 2005 Jan | 01 | ? | 18 000 |
| Dec | 31 | Bank (refunds) | 32 000 | Dec | 31 | Bank | 268 000 |
| | | Deferred income/ received in advance | 12 000 | | | Membership fees written off | 8 000 |
| | | ? | 280 000 | | | Honorarium (treasurer) | 2 000 |
| | | | | | | Income accrued/ receivable | 42 000 |
| | | | 338 000 | | | | 338 000 |

- The club held a dance on 16 December 2005 and 92 tickets were sold at R50 each. The Statement of Receipts and Payments for the year ended 31 December 2005 reflected the following:

| | |
|--|--------|
| Collection in respect of sale of dance tickets | R2 700 |
| Dance expenses paid | R3 800 |

 NOTE: Further dance expenses of R1 400 have not yet been paid.

Answer the following questions:

- 1.1.1 How much was collected in 2005 in respect of the arrear membership fees for 2004? (4)
- 1.1.2 Calculate the number of members who left the club and were refunded half their fees. (4)
- 1.1.3 Calculate the number of members registered at the club on 31 December 2005. (5)
- 1.1.4 Give ONE possible explanation for the figure of R2 000 on the credit side of the Membership Fees Account. (2)



- 1.1.5 The chairman is concerned that the community of Inanda is not supporting the club. Explain TWO possible reasons for his concern. (4)
- 1.1.6 In respect of the entries in the above membership fees account what amounts would appear in the:
- Receipts and Payments Statement
 - Income and Expenditure Statement
- Provide the figures and the descriptions. (10)
- 1.1.7 Calculate the profit or loss on the club dance (state whether this amount is a profit or a loss). (6)
- 1.1.8 The chairman is concerned that the treasurer is inefficient in collecting monies due to the club. Provide TWO reasons to support his opinion, quoting appropriate figures. (4)

1.2 PAARL DARTS CLUB

REQUIRED:

Calculate the profit on the sale of refreshments for the year ended 31 December 2005. Show ALL workings to earn part marks. (In order to calculate this figure you may prepare the relevant ledger account.) (16)

INFORMATION:

Balances on 1 January 2005:

- Stock of refreshments on hand, R2 500
- Creditors for refreshments, R3 800

Transactions for the year ended 31 December 2005:

- Cash purchases of refreshments, R15 000
- Cash sales of refreshments, deposited in the bank, R63 400
- Cheque payments to creditors for refreshments, R18 100
- Refreshments purchased on credit, R?

Additional information on 31 December 2005:

- Cost of refreshments stolen during a burglary on 24 December 2005, R800
- The insurance claim of R600 in respect of the theft of refreshments on 24 December 2005 will be received in January 2006
- Amount owing to creditors for refreshments at year-end, R2 200
- Cash sales of refreshments received on 30 December 2005 but banked only on 2 January 2006, R1 300
- Stock of refreshments on hand at year-end, R1 900



QUESTION 2**BUDGET****(50 marks; 22 minutes)**

You are provided with an incomplete Cash Budget of Witbank Limited.

REQUIRED:

- 2.1 Complete the Cash Budget for the quarter ended 31 March 2007. (41)
- 2.2 The workers at Witbank Limited feel that they are being exploited by the directors and they are planning a two-day strike during February or March 2007. The directors, however, feel that the workers are being treated fairly.
- Do you feel that the grievances of the workers are valid?
 - Provide ONE reason FOR the strike and ONE reason AGAINST the strike. In your answer quote relevant figures from the budget. (9)

INFORMATION:**Balances on 31 December 2006:**

| | |
|-----------------------------------|----------|
| Cash at bank | R 22 700 |
| Ordinary share capital R5,00 each | 350 000 |
| Trading stock (fixed base stock) | 100 000 |

| WITBANK LIMITED | | | |
|---|-----------------|-----------------|--------------|
| CASH BUDGET FOR QUARTER ENDING 31 MARCH 2007 | | | |
| CASH RECEIPTS | JANUARY | FEBRUARY | MARCH |
| Cash sales | 190 000 | 250 000 | |
| Rent income | 5 000 | | |
| | | | |
| TOTAL RECEIPTS | 195 000 | | |
| | | | |
| CASH PAYMENTS | | | |
| Cash purchases of stock | 38 000 | | |
| Payments to creditors (for stock) | 66 900 | | |
| Wages to workers (15 employees) | 70 000 | | |
| Directors' fees (3 directors) | 45 000 | | |
| Sundry operating expenses | 22 100 | | |
| | | | |
| TOTAL PAYMENTS | 242 000 | | |
| Cash surplus (deficit) | (47 000) | | |
| Bank balance at beginning of month | 22 700 | | |
| Bank balance at end of month | (24 300) | | |



Additional information:

1. All goods are currently sold for cash at a mark-up of 100% on cost. As sales are expected to slow down during the next year due to increased competition, there will be a special sale of goods sold for cash during March 2007 at a discount of 25%.
2. The expected credit purchases of trading stock is as follows:

January – R57 000; February – R75 000 ; March – R57 000.

The purchasing policy is as follows: 40% for cash and 60% on credit. All goods purchased are sold in the same month and stock is maintained at a fixed level of R100 000.
3. Creditors are paid within 30 days subject to a 5% discount for prompt settlement.
4. The monthly rent income is expected to increase by R1 000 with effect from 1 March 2007.
5. Witbank Limited is scheduled to take out a long-term loan of R120 000 on 28 February 2007. Interest on loan is payable monthly at the rate of 15% p.a.
6. The following increases will take place with effect from 1 March 2007:
 - Sundry operating expenses are expected to increase by the inflation rate of 5%.
 - The wages for the 15 workers will increase by 8%.
 - The three directors will each receive an increase of R5 000 per month.
7. Provisional tax of R32 000 is due to be paid to SARS on 28 February 2007.
8. Audit fees must be paid on 31 March 2007. The auditors are paid at the rate of R550 an hour. They are expected to spend 30 hours on the audit.
9. The company plans to declare a final dividend of 12 cents per share on 28 February 2007. This amount is due to be paid on 15 March 2007.



QUESTION 3**COMPANY****(65 marks; 28 minutes)**

Umzinto Limited has an authorised share capital of 250 000 ordinary shares. The par value of each ordinary share is R3,00 each.

REQUIRED:

- 3.1 Prepare the Cash Flow Statement for the year ended 28 February 2006. (29)
- 3.2 Calculate the number of new shares that were issued on 1 March 2005. (4)
- 3.3 Calculate the price at which each new share was issued on 1 March 2005. (4)
- 3.4 Calculate the debt equity ratio on 28 February 2006. (5)
- 3.5 Umzinto Limited aims to repay the mortgage loan as soon as possible over two years. Do you think that this is advisable? Explain your answer in full by quoting appropriate figures or financial indicators (ratios/percentages). (9)
- 3.6 The directors feel that the shareholders of Umzinto Limited should be very satisfied with the performance of the company for the financial year ended 28 February 2006.
Explain THREE points to support their opinion. Refer to the appropriate financial indicators (ratios/percentages) to support their opinion. (9)
- 3.7 You own 10 000 shares in this company. The price on the Stock Exchange is 350 cents.
Would you sell your shares on the Stock Exchange now? Provide a valid reason for your answer. (5)



INFORMATION:

The following was extracted from the financial records of Umzinto Limited on the last day of the financial year:

| | 28 February 2006 | 28 February 2005 |
|--|-----------------------------|-----------------------------|
| Balances | R | R |
| Ordinary share capital | 525 000 | 450 000 |
| Ordinary share premium | 60 000 | 35 000 |
| Retained income | 32 930 | 7 100 |
| Fixed assets at carrying value | 495 000 | 327 000 |
| Mortgage loan from Quick Bank | 120 000 | 180 000 |
| Bank (current account at Easy Bank) | Cr 87 000 | ? |
| | | |
| Financial indicators | | |
| Earnings per share (EPS) | 29 cents | 27 cents |
| Dividends per share (DPS) | 22 cents | 17 cents |
| Net asset value (NAV) per share | 176 cents | 164 cents |
| Return on total capital employed (ROTCE) | 22,5% | 23,4% |
| Return on shareholders equity (ROSHE) | 19,5% | 19,2% |
| Debt equity ratio | ? | 0,36:1 |

ADDITIONAL INFORMATION ON 28 FEBRUARY 2006:

1. Cash generated from operations was R140 100.
2. The amount paid during the year to SARS for income tax was R40 100.
3. The amount paid during the year for dividends was R36 200.
4. Additional new shares were issued on 1 March 2005.
5. Fixed assets were sold at book value for R22 500 cash. Depreciation on fixed assets for the year totalled R17 600.
6. Umzinto Ltd has paid R6 400 each month to Quick Bank for the entire financial year. This amount covers monthly interest and loan repayments in respect of the mortgage loan.
7. Interest on overdraft reflected on the Easy Bank statements totalled R7 500 for the financial year.
8. Current interest rates on loans have varied between 11% and 13% over the financial year, while overdraft rates have varied between 16% and 19%.



QUESTION 4**PARTNERSHIP****(70 marks; 30 minutes)****4.1 BALANCE SHEET AND NOTES**

Jim Juggie and Barry Balwan are partners in the firm trading as JB Traders. Their bookkeeper did not complete the Balance Sheet because he was on sick leave. The financial year ends on 28 February 2006.

REQUIRED:

4.1.1 The following notes to the Balance Sheet on 28 February 2006:

- Capital accounts (of partners) (3)
- Current accounts (of partners) (15)

4.1.2 Balance Sheet on 28 February 2006
(Show calculations in brackets where there are no notes). (43)

INFORMATION:

Extracted from the accounting records of JB Traders on 28 February 2006:

| | | | |
|---|---|--------|----|
| Capital: J Juggie (28 February 2006) | R | 50 000 | |
| Capital: B Balwan (28 February 2006) | | 75 000 | |
| Current account: J Juggie (1 March 2005) | | 8 700 | Cr |
| Current account: B Balwan (1 March 2005) | | 2 000 | Dr |
| Drawings: J Juggie | | 98 000 | |
| Drawings: B Balwan | | 77 000 | |
| Long-term loan from Soweto Bank (18 % p.a.) | | 54 000 | |
| Fixed assets | | ? | |
| Creditors control | | 65 600 | |
| Debtors control | | 7 000 | |
| Accrued income/Income receivable | | 2 760 | |
| Trading stock | | 56 700 | |
| Consumable stores on hand | | 1 700 | |
| Accrued expenses/Expenses payable | | 3 800 | |
| Cash float | | 3 000 | |
| Bank overdraft | | 2 700 | |
| Financial assets at Parys Bank | | 68 000 | |

Additional information on 28 February 2006:

1. The net profit for the year was R179 300.
2. An amount of R7 500 for the long-term loan is due to be paid to Soweto Bank within the next financial year.
3. The financial assets of R68 000 at Parys Bank consist of:
 - A fixed deposit of R18 000 due to mature on 31 March 2006
 - A fixed deposit of R50 000 due to mature on 30 June 2007.



4. J Juggie had taken the following for his personal use on 27 February 2006:
- Trading stock at cost price, R400
 - A cash cheque for R700
- These transactions have not been recorded.
5. J Juggie had reduced his capital account by withdrawing an amount of R30 000 cash from the business on 31 May 2005. This has been properly recorded.
6. B Balwan increased his capital contribution by giving computer equipment valued at R15 000 to the business on 28 February 2006. This has been properly recorded.
7. Distribution of net profit between the partners:
- 7.1 Jim Juggie is entitled to:
- Interest on capital at 10% p.a. on his capital contribution for the year. (Note changes during the year.)
 - Salary of R2 400 more per month than that of Barry Balwan because of managerial duties
 - Remaining profit shared in proportion to partners' contributions at the end of the year.
- 7.2 Barry Balwan is entitled to:
- Interest on capital of R6 000
 - Annual salary allowance of R51 000
 - Share of remaining profit R22 050

4.2 PARTNERSHIP DECISION

Barry Balwan intends to work full-time for JB Traders as his other business interests have closed down. This will mean:

- The partnership agreement will be changed to give Barry Balwan the same salary as that of Jim Juggie.
- Barry Balwan will do the books in the future (as he has an accounting qualification).
- The services of the existing bookkeeper, Tom Cook, who presently earns R60 000 a year, will no longer be required. (He will be offered early retirement and will receive a once-off payment of R75 000 from JB Traders and the pension fund will pay him a monthly pension equal to 70% of his salary).

REQUIRED:

Do you think that it will be advantageous for JB Traders to engage the services of partner Barry Balwan on a full-time basis and to allow Tom Cook to retire on pension? Give TWO reasons for your answer. Fully explain your reasons.

(9)

70



QUESTION 5**CLOSE CORPORATION****(45 marks; 20 minutes)**

The following information was extracted from the accounting records of Mlambo Stationers CC. The close corporation is owned by one member, Dudu Mlambo.

REQUIRED:

- 5.1 Income Statement for the financial year ended 30 June 2006. (32)
- 5.2 Note to the Balance Sheet: Distributable Reserve (Retained Income) on 30 June 2006. (7)
- 5.3 Dudu Mlambo is facing a problem. She wants to expand her business and she also wants to go on an overseas holiday. She needs money for both. She comes to you for advice. Explain an appropriate option that Dudu could take to finance each of the following, and provide a brief reason for choosing each option:
- 5.3.1 Expanding the business (3)
- 5.3.2 Going on an overseas holiday (3)

NOTE: An incomplete income statement and note on Distributable Reserve (Retained Income) is provided in the special answer book.

INFORMATION:**Some balances extracted on 1 July 2005:**

| | |
|--|----------|
| Loan from member: Dudu Mlambo | R 50 000 |
| Accrued expense (remuneration to accounting officer) | 2 900 |
| Accrued income (commission income) | 1 600 |
| Retained income | 18 430 |
| Bank (favourable) | 40 000 |
| Fixed deposit | 80 000 |

Additional information on 30 June 2006:

- Total sales for the year amounted to R560 000.
- The mark-up on cost of sales is 40%.
- The net income before tax on sales is equal to 13%.
- The salary to member for the year was R63 000. This is 60% of the total salary bill of Mlambo Stationers CC for the year.
- Commission received in cash during the current financial year totalled R6 100.
- Depreciation on the delivery vehicle is calculated to be R5 300.
- The fixed deposit and its interest rate have remained unchanged for the past three years. Interest of R4 200 has been received up to 31 March 2006.
- Rent received during the year was R54 600. In November 2005, the tenant paid R2 800 out of his own pocket for repairs to the roof, and he therefore deducted this amount from the December rent which he paid. This was the



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only expense for repairs during the year. The monthly rental was constant for the last 18 months and by the end of the present financial year the tenant had paid the rent for July and August in advance.

9. Interest on loan was paid to Dudu Mlambo during the year, R4 500. Loan repayments of R15 000 were also made to her during the year.
10. A total amount of R14 700 was paid by cheque during the year to the accounting officer as remuneration. However, an amount of R1 800 was still owing to the accounting officer as at 30 June 2006.
11. All other expenses are regarded as sundry expenses (this is the missing figure in the Income Statement).
12. Two provisional tax payments of R12 000 each were made during the year. The tax assessment for 2006 reflects a refund due of R3 840.
13. An interim distribution of R14 000 was made to Dudu Mlambo on 3 December 2005. Dudu wants an amount of R25 000 in retained income at the end of the financial year after making a final distribution to herself.

INCOME STATEMENT OF MLAMBO STATIONERS CC FOR YEAR ENDED 30 JUNE 2006

| | R |
|-----------------------------------|-----------|
| Sales for the year | 560 000 |
| Cost of sales | (?) |
| Gross profit for the year | ? |
| Other income | ? |
| Commission income | ? |
| Rent income | ? |
| Gross income | ? |
| Operating expenses | (?) |
| Member's salary | 63 000 |
| Salary (general) | ? |
| Repairs | ? |
| Accounting officer's remuneration | ? |
| Depreciation | 5 300 |
| Sundry expenses | ? |
| Operating profit for the year | ? |
| Interest income | ? |
| Income before interest expense | ? |
| Interest expense | (4 500) |
| Net income before tax | ? |
| Taxation | (?) |
| Net income after tax | ? |



QUESTION 6**DEBTORS AND TRADING STOCK****(65 marks; 29 minutes)****6.1 LEDGER ACCOUNTS**

You are provided with information from the records of Chintz Traders. The business uses a control account system and the continuous / perpetual inventory system.

REQUIRED:

- 6.1.1 Debtors Control Account (19)
6.1.2 Trading Stock Account (16)

Show folio references in accounts to indicate journals that would be used.

INFORMATION:

- Balances on 1 March 2006:**

Debtors control R43 200 Trading stock R64 800

- Summary of transactions extracted from journals on 31 March 2006:**

| | | |
|---|---|--------|
| Cash sales of goods (mark-up 80% on cost) | R | 9 000 |
| Cheques issued to creditors for payment of accounts | | 11 100 |
| Cash received from debtors | | 15 000 |
| Discount received from creditors | | 420 |
| Discount allowed to debtors | | 700 |
| Trading stock purchased for cash | | 11 900 |
| Stationery bought on credit | | 1 200 |
| Cheque from debtors dishonoured by the bank | | 800 |
| Credit sales of goods to debtors (gross profit was R16 000) | | 36 000 |
| Equipment bought on credit | | 4 400 |
| Allowances granted to debtors (cost of sales was R3 800) | | 5 400 |
| Trading stock purchased on credit | | 12 500 |
| Trading stock returned to creditors | | 2 200 |

- Additional information:**

Goods were taken from stock by the owner at cost price. The selling price of these goods was R720 and the cost price R400.

A debtor whose account of R500 was 4 months overdue was charged interest at the rate of 12% p.a.

The account of a debtor with a credit balance of R600 must be transferred to the Creditors Ledger.

A debtor who owed R750 was declared insolvent. His estate paid out 40 cents in the Rand. The amount was received and was included in cash received from debtors. The balance of the account must be written off.



6.2 LIQUIDITY

The following information was extracted from the financial statements of Chintz Traders for the previous financial year ended 28 February 2006:

| | 2006 | 2005 |
|---------------------------------|--------------------|--------------------|
| | 28 February | 28 February |
| Current assets | R110 400 | |
| Current liabilities | R65 100 | |
| Inventories (all trading stock) | R64 800 | R108 000 |
| Debtors control | R43 200 | R38 000 |
| Total sales (75% on credit) | R468 000 | |
| Cost of sales | R260 000 | |

REQUIRED:

6.2.1 Calculate the acid test ratio on 28 February 2006. (4)

6.2.2 Calculate the debtors collection period for year ended 28 February 2006. (5)

6.2.3 Calculate the stock turnover rate for year ended 28 February 2006. (5)

6.2.4 Comment on your calculations above. Should Chintz Traders be satisfied with the liquidity situation? Explain briefly, quoting amounts or figures to support your opinion.

The following comparisons are provided for the 2005 financial year:

Acid-test ratio 0,9:1
Debtors collection period: 35 days
Stock turnover rate: 5 times (10)

6.2.5 Nancy Dube has recently taken over as the person in charge of debtors in this business. List THREE important duties that she should perform to ensure that the debtors are paying the correct amounts promptly. (6)



QUESTION 7**FIXED ASSETS****(50 marks; 27 minutes)****7.1 COSMOS TAXI SERVICE**

Ron Lucas is the sole owner of Cosmos Taxi Service. He started business on 1 March 2002. On that day he introduced land and buildings into the business at a value of R300 000 and he bought three similar taxis for R330 000 (i.e. R110 000 each).

Cosmos Taxi Service did not buy or sell any vehicles during the first three financial years.

REQUIRED:

The following for the year ended 28 February 2006, the last day of the fourth financial year:

- | | | |
|-------|--|------|
| 7.1.1 | Asset Disposal Account | (8) |
| 7.1.2 | Accumulated Depreciation on vehicles | (13) |
| 7.1.3 | Note to Balance Sheet: Fixed assets (The total column is not required.) | (17) |

INFORMATION:

2005

May 31 Cosmos Traders sold one taxi for R45 000 cash. This vehicle was purchased on 1 March 2002 for R110 000. The vehicle is depreciated annually at the rate of 20% p.a. on cost price.

Aug 31 A new taxi was purchased on credit from Mamelodi Motors for R200 000.

Oct 31 A new garage was built at a cost of R60 000 and repairs were done to the roof of the office for R12 000.

2006
Feb 28 The policy for depreciation has not changed since Cosmos Taxi Service started business operations. Depreciation on vehicles is calculated at 20% p.a. on cost price.



7.2 JUPITER TAXI SERVICE

Syd Allan runs a competing taxi business called Jupiter Taxi Service.

He is concerned that his revenue from taxi fares has not met his budget of R1 500 000 and that the fuel and repair costs have exceeded his budget of R710 000.

He has extracted the following information from his Ledger, the Fixed Assets Register and other records on 28 February 2006, the last day of the financial year.

REQUIRED:

Consider the information provided below. Explain whether or not Syd should be concerned about any problem or aspect relating to each vehicle. Quote amounts to support your opinion. (12)

INFORMATION:

| | Taxi 1 | Taxi 2 | Taxi 3 |
|--------------------------------------|---------------|---------------|---------------|
| Name of driver | Freddy | Robbie | Shirley |
| Date purchased | 1 March 1995 | 1 March 2003 | 1 March 2005 |
| Cost price of vehicle | R45 000 | R180 000 | R300 000 |
| Accumulated depreciation | R44 999 | R36 000 | R60 000 |
| Amount of revenue brought in | R618 300 | R222 800 | R279 900 |
| Kilometres covered for the past year | 68 700 km | 69 200 km | 31 100 km |
| Fuel and repair costs for the year | R439 680 | R290 640 | R136 840 |
| Fuel and repair costs per kilometre | R6,40 | R4,38 | R4,40 |

| |
|-----------|
| 50 |
|-----------|

TOTAL: 400