201311H097

higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

N540(E)(N7)H
NOVEMBER EXAMINATION

NATIONAL CERTIFICATE

FINANCIAL ACCOUNTING N6

(4010216)

7 November 2013 (X-Paper)
09:00–12:00

This question paper consists of 14 pages and a 7-page answer book.

BUSINESS STUDIES

Copyright reserved

DEPARTMENT OF HIGHER EDUCATION AND TRAINING
REPUBLIC OF SOUTH AFRICA

NATIONAL CERTIFICATE
FINANCIAL ACCOUNTING N6
TIME: 3 HOURS
MARKS: 200

INSTRUCTIONS AND INFORMATION

1. Answer ALL the questions.
2. Read ALL the questions carefully.
3. Number the answers according to the numbering system used in this question paper.
4. Arrange the pages of the ANSWER BOOK in numerical order before stapling them together.
5. Only BLUE or BLACK ink may be used.
6. Show ALL the calculations between brackets where necessary.
7. The financial statements must be drawn up according to the 2001 syllabus.
8. Write neatly and legibly.

BUSINESS STUDIES

Copyright reserved

QUESTION 1

1.1 Various options are given as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number (1.1.1–1.1.10) in the ANSWER BOOK.

1.1.1 Rent received from the tenant up to 31 July 2013 was R5 760 pm. The financial year ends on 31 December. Rent income in the trial balance is R78 336. From 1 August 2013 the rent increased by 10%. The tenant pays his rent one month in advance. Income received in advance is:

A R 6 025
B R 6 336
C R 2 880
D R 5 760

1.1.2 Use the information given below to determine the balance on the accumulated depreciation account on 28 February 2013.

Vehicles on 28 February 2013 R300 000
Accumulated depreciation on vehicles (on 1 March 2012) R1 20 000
A new vehicle was acquired and recorded on 30 June 2012 at cost price of R144 000. Depreciation is calculated at 25% p.a. on the cost price.

A R 183 000
B R 114 000
C R 42 000
D R 90 000

1.1.3 A debtor returned damaged goods valued at R18 000, exclusive of VAT. Mark-up is 33 1/3% of cost. Calculate the cost price of damaged goods returned.

A R 4 456
B R 5 400
C R 13 500
D R 6 000

BUSINESS STUDIES

Copyright reserved

1.1.4 Extract of the balances from the records of PC Traders are as follows:

Debtors control	R 35 760
Provision for bad debts	R 1 380

A debtor's debt of R576 must be written off as irrecoverable. The provision for bad debts must be adjusted to 5% of outstanding debt. Which amount represents the provision for bad debts after the adjustment?

A R 1 691
B R1 720
C R 1 788
D R 1 759

1.1.5 AC Traders was incorporated on 1 March 2012 with an authorised share capital of 720 000 ordinary shares of R5 each and 180 000 15% preference shares of R2 each. AC Traders issued share capital were:

480 000 ordinary shares of R5 each and 180 000 15% preference shares of R2 each
The company declared a final ordinary dividend of 250 cents per share. (No interim dividends were declared)
The total dividends for the year are:

A 54 000
B R1 254 000
C R 1 200 000
D R 1 227 000

1.1.6 Without the rules and regulations in the Company Act, directors would be able to hide relevant information from the shareholders, for example

A Directors fees could be concealed by including them in the salaries and wages amount in the Income statement

B Profits could be manipulated by changing the depreciation rate

C Directors could make financial statements complicated that they could not be properly understood by shareholders

D All the above-mentioned

BUSINESS STUDIES

Copyright reserved

1.1.7 Use the information given below to determine the retained income at the beginning of the year.

Gross profit for the year	R 777 600
Total operating expenses	R 453 600
Interest income	R 32 400

The company was taxed at 35% of the net profit for the year.

Total dividends declared for the year	R 51 840
Interim dividends paid during the year	R 19 440
Retained Income at the end of the year	R 320 760

A R162 000
B R183 060
C R160 380
D R202 500

1.1.8 Calculate the taxation paid amount in the cash flow statement if:

The amount owed by SARS on 30 April 2012 is R13 920
The amount owed by SARS on 30 April 2013 is R 8 760
Income tax for the year is R181 440

A R 158 760
B R204 120
C R176 280
D R186 600

1.1.9 A business mark-up is 40% on sales.
Calculate the cost price of goods if the total sales were R336 000.

A R96 000
B R240 000
C R134 400
D R201 600

1.1.10 Determine the amount to be disclosed as sales in the Income statement of JT Ltd a registered vendor for VAT purposes.

Cash sales inclusive of VAT (14%)	R 19 152
Credit sales inclusive of VAT (14%)	R 212 040
Sales return excluding VAT (14%)	R 1 800

A R 197 025
B R 229 392
C R 229 140
D R 201 000

(10 × 3) (30)

BUSINESS STUDIES

1.2 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question number (1.2.1–1.2.5) in the ANSWER BOOK.

1.2.1 The Companies Act, no. 61 of 1973, provides for a form of enterprise that is composed of individual persons, but is regarded as a legal person dependent of its members.

1.2.2 A private company is an association of at least seven persons, established with the view to making profits.

1.2.3 A company is established by the Registrar of companies certifying that the company has been incorporated.

1.2.4 The member's interest of a close corporation consists of contributions by members, surplus with revaluation of fixed assets and retained profit.

1.2.5 The annual financial statements of a close corporation consist of a balance sheet and notes, income statement, report by the accounting officer and cash flow statement.

(5 × 2) (10)
[40]

BUSINESS STUDIES

QUESTION 2

Celia Limited is a business selling shoes and is listed on the Johannesburg Stock Exchange. The following balances were in the pre-adjustment trial balance on 30 June 2013:

	R
Ordinary share capital (5 400 000 shares)	10 800 000
Cumulative participating preference shares (720 000 shares)	1 440 000
Share premium	480 000
15% secured debenture at R20 each	720 000
Surplus on revaluation of land and buildings	1 440 000
Retained income (1 July 2012)	5 040 000
Land and buildings	19 680 000
Equipment at cost	7 920 000
Accumulated depreciation on equipment	2 640 000
Trading stock	2 682 000
Debtors control	1 800 000
Provision for bad debts	240 000
Creditors control	1 440 000
Bank favourable	60 000
Petty cash	6 000
Provisional income tax payments	180 000
Investments	3 072 000
Income from investment	144 000
Interest on debenture	6 000
Sales	78 600
Cost of sales	45 432 000
Administrative expenses	21 552 000

The following additional information should be taken into account:

1. The retained income at the end of the year amounted to R13 359 600.

2. Authorised capital is as follows:

   6 600 000 ordinary shares
   600 000 10% redeemable preference shares at R2,00 each
   2 000 000 cumulative participating preference shares at R2,00 each
   The participating preference shareholders are entitled to an annual dividend of 10 cents per share as well as a quarter of the declared ordinary dividend

3. The debentures, obtained on 31 December 2012 are redeemable in 10 equal annual instalments of R72 000 each as at 30 September secured by a first mortgage on land and buildings. Make provision for the interest due for the financial year.

4. The land and buildings consist of seven premises and the information is available for examination at the head office.

BUSINESS STUDIES

5. During the year an investment was sold at a profit of R19 200. This profit was used to write off another investment of the company's, as it no longer had any book value.

6. Make provision for auditor's fees of R52 800.

7. Lease of vehicle due, R48 000.

8. Directors' fees due: as director R6 000, and other R2 400.

9. Depreciation on equipment at 10% on the diminished balance must be provided.

10. Company tax R960 000 for the year must be provided.

11. Make provision for dividends. The final dividend declared for ordinary shares is 20 cents per share.

12. The investment consists of :

240 000 ordinary shares in CH Ltd at R5,00 each (45% of issued shares) (market value R1 440 000)
600 000 ordinary shares in DE Ltd at R3,00 each (25% of issued shares) (market value R216 000)
72 000 10% preference shares in EC Ltd at R1,00 each (20% of issued shares) (directors valuation R78 000).

13. Income from investments:

Listed – dividends	R136 800
Unlisted – dividends	R7 200

REQUIRED:

2.1 Draw up the balance sheet for the year ended on 30 June 2013 according to the requirements of the Companies Act (Act 61 of 1973) and generally accepted accounting practice.

2.2 Only the following notes to the balance sheet are required:

2.2.1 Property, plant and equipment

2.2.2 Creditors control **[31]**

BUSINESS STUDIES

Copyright reserved

QUESTION 3

SNA has two members, L Loe and J Jen, with an equal interest of 50% in the close corporation. Prepare the income statement for the year ended on 28 February 2013.

INFORMATION

SNA CC

Pre-adjustment trial balance on 28 February 2013

Balance sheet section		
Members contribution		120 000
Retained income		60 000
Loan account: Jen (1 March 2012)	57 600	
Loan account: Loe (1 March 2012)		10 050
Mortgage loan: ECE Bank (19% p.a.)		165 000
Land and buildings	268 500	
Equipment	93 000	
Accumulated depreciation on equipment		35 400
Trading stock	93 750	
Debtors control	34 950	
Provision for bad debts		1 350
SARS (Income tax)	15 000	
Creditors control		18 960
Fixed deposit ECC bank (12% p.a.)	11 250	
Bank	12 225	
Cash float	750	
Nominal account section		
Sales		915 000
Debtors allowance	12 000	
Cost of sales	450 000	
Rent income		14 400
Interest on mortgage loan	28 500	
Packing material	6 750	
Salaries and wages	214 500	
Commission income		6 675
Interest on investment		1 200
Bad debts	2 550	
Telephone	3 750	
Sundry expenses	47 700	
	1 352 775	1 352 775

Copyright reserved

ADJUSTMENT AND ADDITIONAL INFORMATION:

ALL calculations must be rounded off to the nearest rand.

1. Stock was donated to the SPCA as part of an advertising campaign, R900.

2. Interest of R2 850 is due on the mortgage loan.

3. Provide for interest not yet received on the fixed deposit. The fixed deposit was increased by R3 000 on 1 May 2012. This increase was recorded properly.

4. Commission amounting to R600, was received in advance.

5. Vacant property was let as from 1 April 2012 to a tenant at a monthly rental of R1 200. The necessary adjustments must still be made.

6. An amount of R570 was prepaid for insurance. Insurance is treated as a sundry expense.

7. The bookkeeper made an error that must be corrected. An amount of R300 was received from G Goode and credited to debtors. The account of Goode was written off as irrecoverable the previous year.

8. Bad debts of R525 must be written off and the provision for bad debts must be adjusted to 5% of the book debts.

9. Jen took goods for personal use, R2 700 on 28 February 2013. This amount must be shown against his loan account.

10. According to stocktaking at the end of the year, the following were on hand:

    Trading stock, R88 950
    Packing material, R660

11. Provide for depreciation on equipment at 10% p.a. according to the diminishing balance method. Note that new equipment for R45 000 was bought exactly half way through the year. It was recorded properly.

12. Remuneration, R1 350 to the accounting officer has already been included with the sundry expenses.

13. Provide for interest on members loans at 10% p.a. on the opening balance.

14. Make provision for annual salary to member Jen R48 000.

15. An amount of R 90 000 will be distributed to the member.

16. Income tax calculated for the accounting period amounts to R46 500. **[36]**

BUSINESS STUDIES

Copyright reserved

QUESTION 4

The following is an extract from the financial statements of RN Limited for the year ended 31 December:

RN Limited
Balance sheet on 31 December 2013

	2013	2012
Share premium	36 000	18 000
Capital redemption reserve fund	14 400	
General reserve	108 000	81 000
Retained income	234 000	153 000
120 000 14% preference shares of 50 cents each	90 000	90 000
Ordinary share capital – 180 000 ordinary shares of R1 each	270 000	180 000
Long term liabilities		180 000
Current liabilities (note 2)	144 000	118 800
	896 400	820 800
Fixed assets (see note 1)	590 400	514 800
Current assets (note 2)	306 000	306 000
	896 400	820 800

Extract from income statement 31 December 2013

Net income before taxation	270 000
Net income after taxation	138 600
Surplus with expropriation of land	14 400
Dividends: Preference	?
Ordinary	18 000
Transfer to: Non-distributable reserves – capital redemption	
Reserve funds	14 400
General reserves	?
Retained income at end of the year	234 000
Retained income at the beginning of the year	153 000

ADDITIONAL INFORMATION:

1. Fixed assets

	Cost 2013	Price 2012	Accumulated 2013	Depreciation 2012	Book Value 2013	2012
Land and buildings	324 000	252 000			324 000	525 000
Machinery and equipment	392 400	342 000	126 000	79 200	266 400	262 800
	716 400	594 000	126 000	79 200	590 400	514 800

1.1 A piece of land costing R45 000 was sold to the government for R39 600 on 30 March 2013.

Copyright reserved

1.2 Machinery and equipment with a cost price of R72 000 was bought.

1.3 Machinery and equipment with a book value of R14 400 was sold at a loss of R7 200.

2. Current assets consist of:

	2013	2012
Cash	32 400	7 500
Trade debtors	151 800	131 250
Prepaid expenses	24 300	48 900
Stock	97 500	118 350

Current liabilities consist of:

Shareholders for dividends	21 600	18 000
Receiver of revenue	36 000	21 600
Trade creditors	63 150	50 250
Accrued expenses	3 900	6 900
Income received in advance	19 350	22 050

3. During the year, 90 000 shares were issued at a premium of 40c per share.
Preliminary expenses incurred were written off against the share premium.

4. Interest paid for the year amounted to R9 000 and investment income was R3 600.

5. The following operating incomes were yielded during the financial year ended 31 December 2013:

Turnover	R 300 000
Rent received	R 68 700
Commission received	R 31 950

REQUIRED:

4.1 Prepare a cash flow statement for RN limited for the year ended 31 December 2013.

4.2 Include the following note:
Reconciliation of net profit before taxation with cash generated from operations. **[29]**

BUSINESS STUDIES

Copyright reserved

QUESTION 5

GG Traders sell equipment for cash and on hire purchases. The goods sold on hire purchases are sold at a profit of 60% on the selling price.

The following information was obtained from the books of the business on 31 December 2013:

New goods in stock (1 Jun 2013)	377 500
Second-hand goods in stock (1 Jun 2013)	59 650
Hire purchases debtors (1 Jun 2013)	566 000
Purchases of new stock	1 639 600
Cash sales of new goods	1 411 825
Hire purchases sales (invoice price)	1 880 000
Cash sales of second-hand goods	106 675
Payment by hire purchases debtors	972 000
Machines repossessed	208 500
New goods in stock (31 December 2013)	485 500
Second hand goods in stock (31 December 2013)	31 275

You are provided with the following incomplete ledger accounts for 2013:

Hire purchases debtors

Jun 1	(a)	566 000	Dec 31	Bank	972 000
Dec 31	Hire purchases	(e)		(b)	75 060
				(c)	(d)
				Balance c/d	
Jan 1	Balance b/d				

Hire purchases account

Dec 31	Goods on hire purchases	752 000	Jun 1	Balance b/d	339 600
	Hire purchases debtors	(f)	Dec 31	(i)	(j)
	Balance (unrealised profit)	(g)			
	Profit and loss (realised)	(h)			
			Jan 1	Balance b/d	(k)

Second-hand trading account

June 1	Opening stock	(l)	Dec 31	(n)	(o)
Dec 31	Hire purchases debtors	(m)		Closing stock	(p)
				Profit and loss	(q)

Copyright reserved

Trading account

Jun 1	Opening stock	(r)	Dec 31	(t)	1 411 825
Dec 31	Purchases	(s)		(v)	(u)
	Profit and loss				

REQUIRED:

Complete the ledger account by filling in the missing details denoted by the letters (A–V) in the ANSWER BOOK. [44]

QUESTION 6

Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question number (6.1–6.10) in the ANSWER BOOK.

6.1 Internal audit is an independent investigation of activities in a business to obtain an overview of activities as a service to management of the business.

6.2 Internal auditors are concerned with the evaluation of all internal systems and procedures.

6.3 Internal control is a system of controls, financial or otherwise that is introduced by the auditors.

6.4 The meaning of internal control is to ensure that assets are secure and that records of all the assets of the business are kept.

6.5 The materiality of the item in relation to the financial information seen as a whole affects the auditor's judgment with regard to adequate acceptable evidence.

6.6 A document made out by a person independent of the client is normally not a better form of evidence than an internal document.

6.7 Verification of a transaction means that the auditor compares the accounting entry to supporting documents and determines whether the transaction has been recorded correctly.

6.8 Functions of an internal audit report are to identify strengths in the existing financial and accounting systems.

6.9 An unqualified report is the best report from the client's point of view.

6.10 When verifying a transaction ensure that it is legal and does not violate a statutory right.

[20]

TOTAL: 200

Copyright reserved

BUSINESS STUDIES