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NATIONAL CERTIFICATE

FINANCIAL ACCOUNTING N6

(4010216)

31 May 2013 (Y-Paper)
13:00–16:00

This question paper consists of 15 pages and a 7-page answer book.

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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. Red or green ink must NOT be used.
5. Show ALL the calculations between brackets where necessary.
6. The financial statements must be drawn up according to the 2001 syllabus.
7. Write neatly and legibly.

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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 Use the information below to determine the depreciation to be written off for the year ended 28 February 2013.

- Equipment at 28 February 2013 R249 600
- Accumulated depreciation on equipment on 1 March 2012 R117 600

New equipment costing R36 000 was bought on 31 August 2012. This has been properly recorded. Equipment is depreciated at 15% per annum on the diminishing balance method.

A R19 800
B R25 200
C R22 800
D R17 100

1.1.2 A business mark-up on cost price is 30%. Calculate the gross profit if the total sales were R58 500.

A R195 000
B R76 050
C R45 000
D R13 500

1.1.3 Use the information below to calculate the retained income at the end of the year.

- Retained income at the beginning of the year R357 120
- Income tax for the year R177 600
- Interim dividend paid during the year R302 400
- Total dividends declared for the year R638 400
- Net profit before tax R119 040

A R429 120
B R1 067 520
C R909 120
D R606 720

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1.1.4 The Companies Act stipulates that certain details must be shown as specific items. It includes the following:

(I) Location of land and buildings
(II) The amount of the previous year and current year
(III) Directors' fees, audit fees
(IV) Turnover, depreciation

A All the abovementioned
B II, III, IV
C I, II, III
D I, II, IV

1.1.5 Calculate the amount to be disclosed as rent paid in the income statement of CP Traders for the year ended 28 February 2013.

- Rent paid in the pre-adjustment trail balance on 28 February 2013 was R108 480
- Rent paid has been paid up to 30 April 2013. Note that the rent was increased by R1 080 per month on 1 January 2013.

A R91 440
B R125 520
C R12 960
D R17 040

1.1.6 Use the following information to calculate the final dividend declared for ordinary shares for the accounting period ended 31 October 2013.

- 1 November 2012: Balance of ordinary share capital R360 000
- 1 November 2012: The company issued a further 720 000 ordinary shares at R3 each. This included share premium of R1 per share.
- 31 October 2013: A final dividend of 25 cents per share was declared.

A R180 000
B R600 000
C R1020 000
D R420 000

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1.1.7 An extract of the balance from the records of Sali Traders shows the following:

- Debtors' control: R45 360
- Provision for bad debts: R 2 400
- A debtor's debt of R960 must be written off as irrecoverable. The provision for bad debts must be adjusted to 4% of outstanding debts.

Which amount represents the provision for bad debts adjustment in the income statement after the adjustments?

A R624 operating income
B R585 operating income
C R585 operating expense
D R624 operating expense

1.1.8 The following balances were taken from the books of LT Ltd on 30 April 2013:

- Ordinary share-capital (R0,80 per share) R825 600
- 7% preference share-capital R540 000

A fresh issue of 60 000 ordinary shares at a 50% premium was made on 1 July 2012. On 1 August 2012, 21 600 new preference shares with a par value of R2 each were issued at a premium of R9 000. Both transactions have been properly recorded.

Calculate the preference dividends.

A R37 800
B R37 170
C R20 412
D R112 320

1.1.9 Determine the net increase or decrease in cash in the cash flow statement for the year ended 30 June 2013 if:

	2013	2012
Cash in the bank	288 000	0
Petty cash	12 000	6 000
Bank overdraft	0	132 000

A R174 000 net increase in cash
B R294 000 net increase in cash
C R174 000 net decrease in cash
D R294 000 net decrease in cash

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1.1.10 Extracts of information from the books of JJ Ltd on 30 June 2013, the end of the financial year, are as follows:

- Loan from CP Bank: R72 000
- Interest on loan: R2 400

The loan was taken out on 31 December 2011 and the interest rate was 14% per annum. The loan was increased with R20 000 on 31 March 2013. The total interest on the loan in the income statement is:

A R7 560
B R10 080
C R7 980
D R10 920

(10 × 3) (30)

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 attached ANSWER BOOK.

1.2.1 After the certificate of incorporation has been issued, it provides adequate proof that the legal requirements for registration have been complied with and that the business is a full company with legal personality.

1.2.2 The own capital of a public company is obtained by issuing shares to the public.

1.2.3 The unissued share-capital cannot be issued at any stage when the company requires more share-capital.

1.2.4 The par value is a misleading indicator of the value of the share.

1.2.5 When a share is sold by the company at a price higher than the par value, the difference is known as an issued share.

(5 × 2) (10)
[40]

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QUESTION 2

Kola Limited was incorporated on 1 January 2009 with an authorised capital of 3 500 000 ordinary shares at R1,00 each and 1 000 000 10% redeemable preference shares at R2,00 each. At 31 December 2013 the company's trial balance was as follows:

Trial balance of Kola Limited – 31 December 2013

	R
Ordinary share capital	2 800 000
Share premium	100 000
10% redeemable preference share-capital	400 000
6% debenture at R10 each, secured by a first mortgage on land and buildings	600 000
General reserves	200 000
Retained profit (1 January 2013)	300 000
Land and buildings at cost	1 600 000
Machinery	1 300 000
Furniture	400 000
Provision for depreciation on machinery	410 000
Provision for depreciation on furniture	184 000
Reserved for increased replacement value of machinery	340 000
Investment	350 000
Loan levy	9 500
Long-term loan	250 000
Trading stock	790 000
Consumable stores	50 000
Debtors' control	450 000
Provision for bad debts	11 250
Bank – favorable	2 000 000
Creditors' control	352 500
Provision for income tax	120 000
Accrued expenditure	61 000
Net operating income	895 750
Dividends received	30 000
Interim dividends paid	85 000
Income tax paid for the year	20 000

The following additional information should be taken into account:

1. The retained income at the end of the year amounted to R950 750.

2. The income tax for the year amounted to R120 000.

3. Dividends received:
   - Listed investments: R20 000
   - Unlisted investments: R10 000

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4. Final dividends recommended:
   - Ordinary shares at 10%
   - Preference shares at 5%

5. Investments:
   - Listed: 200 000 shares at R1,00 each in Twan Limited – market value R225 000
   - Unlisted: 150 000 NPV preference shares in Jacks Limited – directors' valuation R110 000. It was decided to reduce the value of the investment to the directors' valuation.

6. The directors decided to write back R140 000 from the general reserve.

7. The long-term loan is secured by a second mortgage on land and buildings and must be repaid at 1 December 2017.

8. The debentures must be redeemed in instalments of R100 000 from 1 March 2014.

9. The land and buildings were purchased for R1 000 000 when the company was incorporated and improvements were made on 20 February 2012. The land and buildings are located at site 2589 Juppe.

10. The loan levy will be redeemed at 28 February 2014.

11. Stock was valued at cost on the FIFO method, which corresponds with the previous years.

12. Accrued expenditure included the following:

    - Telephone: R6 000
    - Lease: R50 000
    - Commission paid: R5 000

REQUIRED:

2.1 Draw up the balance sheet for the accounting period of a year according to the requirements of the Companies Act (Act 61 of 1973) and generally accepted accounting practice.

2.2 ONLY the following note to the balance sheet is required:

Reserves

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QUESTION 3

KNE CC has two members, K Kasich and M Nest, whose interest in the corporation is in the ratio of 66,6% and 33,3% respectively. Prepare the income statement for the year ended 31 December 2013.

KNE TRADERS CC

	R
Balance sheet section	
Members' contribution	498 930
Retained income	168 000
Loan from K Kasich	772 500
Land and buildings	1 210 350
Vehicles	296 790
Equipment	194 400
Accumulated depreciation on vehicles	177 465
Accumulated depreciation on equipment	71 370
Loan to M Nest	7 500
Fixed deposit	22 500
Trading stock	190 500
Debtors' control	22 245
Provision for bad debts	1 350
Bank (unfavorable)	15 000
Cash float	555
Creditors' control	5 838
SARS (Income tax)	124 806
Nominal account section	
Sales	2 100 000
Cost of sales	710 955
Debtors' allowance	16 875
Bad debts	1 800
Advertising	55 200
Rent income	92 400
Interest on fixed deposit	1 800
Interest on overdraft	750
Remuneration: Accounting officer	116 499
Salary: K Kasich	165 000
Wages	388 365
Telephone	78 300
Consumable stores	27 840
Bank charges	4 200
Rent expense for a warehouse	82 500
Water and electricity	131 490
Commission on sales	55 233

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Adjustments and additional information

1. The following items are on hand according to stocktaking:
   Trading stock R189 750 and consumable stores R1 875

2. Advertisements include an amount of R18 000 paid in respect of a six-month contract that expires on 30 April 2014.

3. D Down, a debtor owing R1 245, is insolvent. His account must be written off.

4. Provision for bad debts must be adjusted to 6% of outstanding debtors.

5. A salary of R165 000 is paid to K Kasich for his contribution to management of the business.

6. A vehicle, cost price R75 000, was sold on 31 October 2013 to K. Jee for R18 000 cash. On 1 January 2013 the accumulated depreciation on the vehicle sold amounted to R15 000. Depreciation on vehicles must be calculated at 20% per annum on the diminished balance. No entries have been made.

7. Rent expense for December has not yet been paid.

8. The loan to M Nest was made on 30 June 2012 at an interest rate of 12% per annum. The first instalment of R4 500 was received on 30 June 2012. The interest outstanding must be brought into account.

9. The loan agreement with K Kasich provides that a repayment of R15 000 must be made on 1 November every year and was recorded. On this date the interest rate increased from 12% to 15%. Provide for outstanding interest.

10. K Kasich supplied equipment on 1 July 2013 to the value of R30 000 to the corporation to increase his members' contribution. This has been recorded. Depreciation on equipment is calculated at 10% per annum on cost.

11. R7 500 of the fixed deposit matures on 30 June 2014.

12. Income tax for the year amounts to R70 500.

13. Net income of R120 000 is distributed between the members.

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QUESTION 4

The following balance sheets of Douglas Limited were prepared on 30 June 2013 and June 2012.

Balance Sheet on 30 June 2012 and 2013

	2013	2012
Fixed assets	1 800 000	1 260 000
Investments	900 000	720 000
Debtors	540 000	486 000
Inventory	300 000	240 000
Bank	180 000	162 000
	3 720 000	2 748 000
Ordinary share capital	900 000	600 000
Share premium	60 000	30 000
General reserve	420 000	360 000
Retained income for the end of the year	1080 000	840 000
Reserve with revaluation of land and buildings	300 000	
9% Debentures	420 000	480 000
Creditors	300 000	360 000
Taxation	180 000	150 000
Dividends proposed	60 000	48 000
	3 720 000	2 868 000

Additional information:

1. On 1 January 2013 300 000 ordinary shares of R1 each were issued at R1,10 each.

2. The 9% debenture are redeemable from 30 June 2011 in annual instalments of R60 000.

3. The amounts owing on 30 June 2012 regarding dividends proposed and taxation were paid in September 2012.

4. On 1 January 2013, R90 000 was paid to the receiver of revenue as provisional tax payments.

5. On 31 December 2012 an interim dividend of 10c per share was declared and paid.

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6. Fixed assets consist of:

2012

	Cost price	Accumulated depreciation	Book value
Land and buildings	600 000		600 000
Machinery	540 000	180 000	360 000
Vehicles	420 000	120 000	300 000
	1 560 000	300 000	1 260 000

2013

	Cost price	Accumulated depreciation	Book value
Land and buildings	1 020 000		1 020 000
Machinery	564 000	144 000	420 000
Vehicles	540 000	180 000	360 000
	2124 000	324 000	1 800 000

6.1 No land and buildings were sold during the year. Fixed property was acquired to expand operations.

6.2 Machinery with a cost price of R120 000 and an accumulated depreciation of R90 000 on 1 July 2012, was sold on 31 March 2013 for R30 000 (50% of the machinery purchased is to expand operations).

6.3 Depreciation on machinery and vehicles for the financial year ending 30 June 2012 and 2013 amounted to R63 000 and R96 000 respectively.

6.4 On 1 March 2013, a vehicle to the value of R180 000 was purchased. The vehicle was purchased to maintain operations.

6.5 On 30 June 2013 a vehicle was sold for cash, R36 000.

7. On 1 April 2013 a trade investment with a book value of R60 000 was sold for R75 000. The investment that was purchased during the year is held as a trade investment and was purchased to expand operations.

8. A provision for bad debts at 10% of debtors is maintained.

9. Interest paid for the current year amounted to R43 200, and dividends of R90 000 was received.

10. Turnover for the year amounted to R1 800 000.

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REQUIRED:

4.1 Prepare the cash flow statement for the year ended 30 June 2013.

4.2 Include the following note:
Reconciliation of net profit before taxation with cash generated from operations

[34]

QUESTION 5

Mabo Traders sell vacuum cleaners for cash and on hire-purchase. The goods sold on hire-purchase are sold at a profit of 60% on the selling price.

The following information was obtained from the books of the business on 30 June 2013:

New goods in stock (1 Jan 2013)	181 200
Second-hand goods in stock (1 Jan 2013)	28 632
Hire-purchase debtors (1 Jan 2013)	271 680
Purchases of new stock	787 008
Cash sales of new goods	677 676
Hire-purchase sales (invoice price)	902 400
Cash sales of second-hand goods	51 204
Payment by hire-purchase debtors	466 560
Machines repossessed	100 080
New goods in stock (30 June 2013)	233 040
Second-hand goods in stock (30 June 2013)	15 012

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

Hire-purchase debtors

Jan 1	(5.1)	271 680	June 30	Bank	466 560
June 30	Hire-purchase	(5.5)		(5.2)	60 048
				(5.3)	(5.4)
				Balance c/d	
July 1	Balance b/d				

Hire-purchase account

June 30	Goods on hire-purchase	360 960	Jan 1	Balance b/d	163 008
	Hire-purchase debtors	(5.6)	June 30	(5.9)	(5.10)
	Balance (unrealised profit)	(5.7)			
	Profit and loss (realised)	(5.8)			
			July 1	Balance b/d	(5.11)

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Second-hand trading account

Jan 1	Opening stock	(5.12)	June 30	(5.14)	(5.15)
June 30	Hire-purchase debtors	(5.13)		Closing stock	(5.16)
				Profit and loss	(5.17)

Trading account

Jan 1	Opening stock	(5.18)	June 30	(5.20)	
June 30	Purchases	(5.19)		(5.21)	(5.22)
	Profit and loss				

REQUIRED:

Complete the ledger account by filling in the missing details next to the question number (5.1.–5.22) 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 attached ANSWER BOOK.

6.1 An internal audit is an ongoing overview of actions and statements that are carried out in the business by specially allocated staff.

6.2 An internal auditor is appointed to check that the system and control procedures introduced by management are followed and carried out.

6.3 The overall aim of internal auditing is to assist all members of management in effectively carrying out their responsibilities.

6.4 The meaning of internal control is to ensure that the external auditor as far as possible ensures reliable and accurate records of financial reporting are available on time.

6.5 Audit evidence is all source documents and accounting records that underline information and all other information relevant to the auditor's investigation.

6.6 An auditor can use analytical procedures, checking of actual existence of an item by means of observation, and accounting records to obtain adequate acceptable evidence.

6.7 When verifying a transaction an auditor will confirm the amount involved is reasonable.

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6.8 An audit trail is not only essential to an audit, but is vital to the orderly management of a business.

6.9 Functions of an external audit report are to identify inadequate record-keeping.

6.10 A qualified opinion is when the accounting principles used in the financial statements were not applied consistently.

(10 × 2) **[20]**

TOTAL: 200

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