higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

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JUNE EXAMINATION

NATIONAL CERTIFICATE

FINANCIAL ACCOUNTING N6

(4010216)

11 June 2014 (Y-Paper)
13:00–16:00

This question paper consists of 11 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 HOUR
MARKS: 200

INSTRUCTIONS AND INFORMATION

1. Answer ALL the questions in the ANSWER BOOK.
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 may 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

J&B Limited is a company listed on the Johannesburg stock exchange. The following balances were included in the preadjustment trial balance on 30 June 2014.

Preadjustment trial balance of J&B Limited on 30 June 2014

Ordinary share capital	1 050 000
9% preference share capital	252 000
Retained income	135 345
Accrued interest on bond	5 460
Bank (favourable)	70 770
Preliminary expenses	8 820
Revaluation surplus on land and buildings	285 600
Creditors	105 840
Debtors	481 320
Equipment at carrying value	79 695
General reserve	168 000
Investment at cost:	
50 400 ordinary shares in CW Ltd	105 840
75 600 ordinary shares in SG (Pty)Ltd	95 256
Land and buildings	474 600
Mortgage bond at 10% p.a.	210 000
Prepaid expenses	6 384
Provision for bad debts	48 132
Provision for dividends	22 680
Receiver of revenue (income tax)	51 240
Share premium on preference shares	106 680
Stock of merchandise at cost	1 005 480
Vehicles at carrying value	112 812

ADDITIONAL INFORMATION:

1 The company was incorporated on 1 September 2012 with a share capital of 840 000 ordinary shares of R2 each and 420 000 9% preference shares of R1 each.

2 The loan is secured by a first mortgage over land and buildings. The first instalment of R42 000 on the loan is due for payment on 30 November 2014.

3 On 30 June 2014 accumulated depreciation was calculated and taken into account as follows:

3.1 On equipment at 10% per annum on cost. The equipment was purchased on 1 October 2012 and the accumulated depreciation amounted to R7 245 on 30 June 2013.

3.2 On vehicles at 15% per annum on the diminished balance. The vehicles were purchased on 1 June 2012 and the accumulated depreciation amounted to R1 680 on 30 June 2012.

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4 S.A normal tax for the year amounted to R105 840, whereas the provisional tax payments during the year amounted to R54 600.

5 On 30 June 2014 the shares of CW Ltd were quoted at R1.50 each on the stock exchange, whereas the shares of SG (Pty)Ltd could be sold for R0.50 each according to the directors.

6 The provision for dividends relates to the preference shares only. The directors decided on a dividend of 18 cents per ordinary share which must still be provided for.

REQUIRED:

1.1 The balance sheet of J&B Limited on 30 June 2014 in compliance with the requirements of the Companies Act.

1.2 The following notes to the balance sheet:

- Fixed assets
- Investments

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QUESTION 2

T. Brooks and M. Oslo are equal members in a close corporation operating as BO Steel Works CC.

REQUIRED:

Prepare the income statement for the year ended 28 February 2014.

INFORMATION:

Preadjustment trial balance of BO Steelworks CC on 28 February 2014

BALANCE SHEET ACCOUNTS	DEBIT	CREDIT
Members' contributions		209 200
Accumulated profits		48 330
Loan: SS Bank		160 000
Loan: T. Brooks		80 000
Vehicles at cost price	288 000	
Accumulated depreciation on vehicles		103 680
Equipment	180 000	
Accumulated depreciation on equipment		72 000
Loan to M Oslo	54 000	
Trading inventory	181 680	
Debtors control	174 800	
Creditors control		152 800
Provision for bad debts		3 790
Bank	245 270	
Pension fund		800
Medical aid fund		960
SARS (PAYE)		1 080
SARS (income tax)	100 000	
Nominal accounts section		
Sales		2 507 550
Cost of sales	1 580 000	
Debtors allowance	39 360	
Bad debts	11 360	
Stationary	34 060	
Interest on loan: SS Bank	16 000	
Interest on loan: T. Brooks	12 000	
Interest on loan: M. Oslo		2 430
Rent expenses: M. Oslo	73 000	
Advertising	50 400	
Salary: T. Brooks	82 100	
Salary: M. Oslo	63 500	
Wages	72 000	
Pension fund contributions	5 640	
Medical aid contributions	7 050	
Insurance	27 100	
Distribution to members	45 300	
	3 342 620	3 342 620

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Adjustments and additional information

1 A debtor, T. Solomon, returned unsatisfactory merchandise with a selling price of R1 400 (profit mark-up 25% on cost price). No entry was made for this transaction.

2 Included in the amount for insurance is an annual premium of R9 600, paid on 1 November 2013.

3 The CC paid R14 760 for an advertisement that will appear in a local newspaper for a period of four months starting 1 January 2014.

4 Depreciation must be brought into account as follows:
- On equipment at 20% p.a. on the cost
- On vehicles at 15% p.a. on the diminished balance

NOTE: A new bakkie was purchased on 1 September 2013 for R116 000. The purchase of the vehicle was properly recorded.

5 The CC writes off debts outstanding for more than five months. Debts totaling R7 200 outstanding for this period must be written off.

6 The provision for bad debts must be calculated at 2% of the balance of debtors control.

7 The year-end stocktaking revealed that trading inventory worth R173 300 is on hand. Stationery used for the accounting year amounted to R31 100.

8 The CC rents the building from M. Oslo. The rent was paid up to 30 April 2014. Rent was increased by 15% from 1 January 2014.

9 A wage earner who joined the business on 21 February 2014 was left off the Wages Journal on 28 February 2014. The information below was extracted from her wage card:
- Her gross wage is R1 500 per week.
- PAYE amounts to 18% of her gross weekly wage.
- A pension fund deduction of R100 per week is made.
- A weekly deduction of R150 is made for her medical aid.

The CC contributes on a rand-to-rand basis to the employees' medical aid fund and 8% of the employees' gross weekly wage to the pension fund.
The only payment made was her net wage, which she received on 28 February 2014. This transaction was not recorded in the Bank.

10 The loan to Oslo was made on 1 June 2013 at an interest rate of 6% p.a. All interest has been received to date.

11 The loan from Brooks was negotiated on 1 April 2012 at an interest rate of 15% p.a. The loan has to be repaid in full by 1 April 2018.

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12 Provision must be made for income tax. Calculate the income tax at 27% of the net profit. (Round off to the nearest rand.)

13 The members decided to distribute a final amount of R134 700 after tax among them. **[34]**

QUESTION 3

You are provided with figures extracted from the financial statements of KK Ltd.

REQUIRED:

Prepare the cash flow statement for the year ended 30 June 2014. Use the indirect method.

INFORMATION:

Income statement of KK Ltd for the year ended 30 June 2014

Sales	8 000 000
Directors remuneration	(1 000 000)
Bad debts	(70 000)
Audit fees	(100 000)
Depreciation	(230 000)
Operating profit	1 470 000
Interest expenses	(170 000)
Net profit before taxation	1 300 000
Income tax	(610 000)
Net income after taxation	690 000

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Balance sheet of KK Ltd on 31 June 2014

	2014	2013
ASSETS		
Non-current assets	6 500 000	4 860 000
Fixed assets (see note 1)	6 420 000	4 795 000
Shares in DD (Pty) Ltd	80 000	65 000
Current assets	1 860 000	2 310 000
Inventory	1 250 000	1 020 000
Trade and other receivables	598 000	1 194 000
Cash and cash equivalents (note 2)	12 000	96 000
TOTAL ASSETS	**8 360 000**	**7 170 000**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Ordinary shareholders equity	6 270 000	5 130 000
Ordinary share capital (par value R5)	5 000 000	4 300 000
Share premium	750 000	400 000
Retained income (note 3)	520 000	430 000
Non-current liabilities	1 240 000	1 050 000
Loan from KK Ltd	1 240 000	1 050 000
Current liabilities	850 000	990 000
Trade and other payables (note 4)	850 000	990 000
Total equity and liabilities	**8 360 000**	**8 360 000**

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NOTES TO THE FINANCIAL STATEMENTS

1. Fixed assets	Land and buildings	Vehicles	Equipment	Total
Carrying value at the beginning of the year	2 595 000	0	2 200 000	4 795 000
Cost price	2 595 000	0	?	
Accumulated depreciation	0	0	?	
Depreciation for the year	0	0	(230 000)	
Disposals at carrying value	?	0	0	
Carrying value at the end of the year	1 940 000	?	2 272 000	6 420 000
Cost price	1 940 000	?	?	
Accumulated depreciation	0	?	?	

A portion of the land and buildings were sold at book value. The vehicles were purchased on the last day of the accounting period i.e. all the depreciation relates to equipment.

2. Cash and cash equivalents	2014	2013
Bank	10 000	96 000
Cash float	2 000	
	12 000	96 000
3.Retained income		
Retained income at the beginning of the year	430 000	360 000
Net profit after tax	690 000	570 000
Dividends paid and declared	(600 000)	(500 000)
Retained income at the end of the year	520 000	430 000
4. Trade and other payables		
Trade creditors	358 000	538 000
Expenses payable (interest on loan)	30 000	50 000
SARS (Income tax)	62 000	94 000
Shareholders for dividends	400 000	308 000
	850 000	990 000

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QUESTION 4

Sipho Motors sells cars for cash and on hire purchases. The goods sold on hire purchases are sold at a profit of 150% on the cost price.

The following information was obtained from the books of the business on 31 March 2014:

New goods in stock (01-04-2013)	588 900
Secondhand goods in stock (01-04-2013)	93 054
Hire-purchase debtors (01-04-2013)	882 960
Cash sales of new goods	2 202 447
Hire-purchase sales (invoice price)	2 932 800
Purchases of new stock	2 557 776
Cash sales of secondhand goods	166 413
Payments by hire-purchase debtors	1 516 320
Machines repossessed	325 260
New goods in stock (31-03-2014)	757 380
Secondhand goods in stock (31-03-2014)	48 786

REQUIRED:

4.1 Calculate the following for the year
(a) Realised profit
(b) Unrealised profit

4.2 Complete the following ledger accounts:

- Hire-purchase debtors
- Hire purchases
- Secondhand trading account
- Trading account

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QUESTION 5

5.1 Name FOUR differences between internal and external audit. (4 x 2) (8)

5.2 What are the differences between a qualified audit opinion and an unqualified audit opinion? (6 x 2) (12)

5.3 SH Ltd has an unissued share capital of R50 000 shares. On 1 January 2014 SH Ltd offered 20 000 ordinary shares to the public at R2.50 each. The offer was underwritten by ZZ Bank for a commission of 5%. Applications for 16 000 shares were received on 31 May 2014 and all the transactions finalised.

REQUIRED:

Complete the journal entries for the above transactions. (27)

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5.4 KL Ltd is a registered company with an authorised share capital of 2 000 000 shares at R2 each. Their financial year ends on 28 February 2014.

REQUIRED:

Calculate the retained income as at 28 February 2014.

INFORMATION:

The following balances appeared in the books on 1 March 2013:

Ordinary share capital	2 000 000
Share premium	120 000
Retained income	640 000

5.4.1 The directors paid an interim dividend of 20 cents per share on 31 August 2013.

5.4.2 The company issued a further 600 000 shares at a premium of 60 cents per share on 1 November 2013. All the shares were applied for and the money was banked.

5.4.3 A final dividend of 45 cents per share was declared on 28 February 2014.

5.4.4 The provisional income tax for the year amounted to R357 000.

5.4.5 The final net income of the year was calculated on 28 February 2014 as R880 000.

5.4.6 Income tax was calculated as R246 400 for the year. (10)
[57]

TOTAL: 200

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EXAMINATION NUMBER

CENTRE NUMBER

FINANCIAL ACCOUNTING N6

11 June 2014

ANSWER BOOK

QUESTION 1	
QUESTION 2	
QUESTION 3	
QUESTION 4	
QUESTION 5	
TOTAL	
PERCENTAGE	

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QUESTION 1

BALANCE SHEET ON 30 JUNE 2014

INVESTMENTS

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QUESTION 2

BO STEELWORKS CC

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2014

QUESTION 3

KK LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

Cash from operating activities	
Cash from investing activities	
Cash flow from financing activities	
Net change in cash and cash equivalents	

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NOTES:

RECONCILIATION OF PROFIT BEFORE TAX AND CASH FROM OPERATING ACTIVITIES

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QUESTION 4

Hire-purchase debtors

Hire purchases

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Secondhand trading account

Trading account

[42]

QUESTION 5

5.1 Name FOUR differences between internal and external audit.

INTERNAL AUDIT	EXTERNAL AUDIT

(4 x 2) (8)

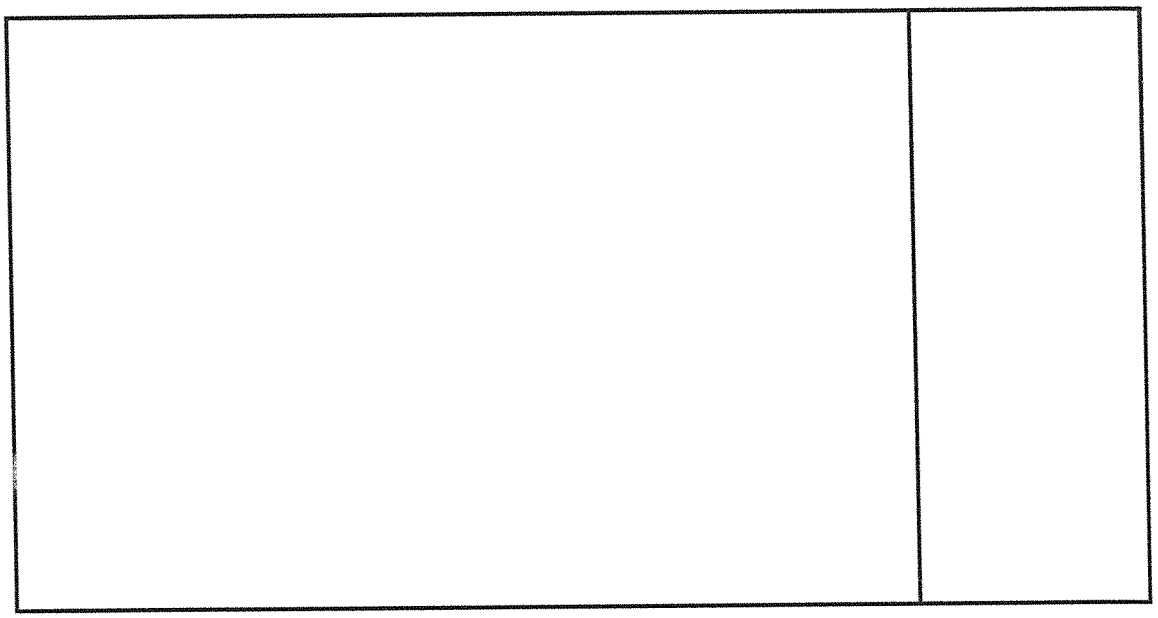
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5.2 What are the differences between a qualified audit opinion and an unqualified audit opinion?

QUALIFIED AUDIT OPINION	
(3 x 2)	(6)
UNQUALIFIED AUDIT OPINION	
(3 x 2)	(6)

5.3 **JOURNAL ENTRIES – SH LTD**

5.4 Calculate the retained income as at 28 February 2014.



(10)
[57]

TOTAL: 200

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