



higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

N540(E)(N11)H
NOVEMBER EXAMINATION

NATIONAL CERTIFICATE

FINANCIAL ACCOUNTING N6

(4010216)

11 November 2014 (X-Paper)
09:00–12:00

This question paper consists of 11 pages and an answer book of 9 pages

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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. Arrange the ANSWER SHEETS in question order before stapling them together.
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 (30 marks)

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

Ordinary stated capital (13 500 000 shares)	27 000 000
Cumulative participating preference shares (1 800 000 shares)	3 600 000
Share premium	1 200 000
15% secured debentures at R20 each	1 800 000
Surplus on revaluation of land and buildings	3 600 000
Retained income	12 600 000
Land and buildings	49 200 000
Equipment at cost	19 800 000
Accumulated depreciation on equipment	6 600 000
Trading stock	6 705 000
Debtors control	4 500 000
Provision for bad debts	600 000
Creditors control	3 600 000
Bank	150 000
Petty cash	15 000
Provisional income tax payments	450 000
Investments	7 680 000
Income from investments	360 000
Retained income	33 399 000
Sales	19 500 000
Cost of sales	11 358 000
Administrative expenditure	53 880 000

ADDITIONAL INFORMATION

1. Authorized share capital:
   16 500 000 NPV ordinary shares
   1 500 000 10% redeemable preference shares at R2 each
   6 000 000 cumulative participating preference shares at R2 each
   The participating preference shareholders are entitled to an annual dividend of 10 cents per share as well as a third of the declared ordinary dividends.

2. The debentures are redeemable in 10 equal annual instalments of R180 000 each at 30 September secured by a first mortgage on land and buildings. Make provision for the interest due for the financial year.

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

4. During the year an investment was sold at a profit of R48 000. This profit was used to write off another investment of the company, as it no longer had any book value.

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5. Administrative expenditure include the following:

Directors fees:	
As director	480 000
Other	120 000
Ordinary interim dividend paid	540 000
Debenture interest paid	150 000
Property rental	5 400 000
Salaries en wages	35 460 000
Other expenditure	9 480 000
Lease for motor vehicle	1 680 000
Interest on loan (redeemed)	570 000

6. Make provision for the auditors audit fees of R120 000 and other expenditure of R12 000.

7. Lease of vehicle due, R120 000.

8. Directors fees due: as director R15 000 and other R6 000.

9. Depreciation on equipment at 10% per annum on the diminishing balance method must be provided.

10. Company tax of R2 400 000 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:
600 000 ordinary shares in CH Ltd at R5 each (45% of issued shares) (market value R3 600 000)
1 500 000 ordinary shares in DE Ltd at R3 each (25% of issued shares) (market value R540 000)
180 000 10% preference shares in EC Ltd at R1 each (20% of issued shares) (directors valuation R195 000).

13. Income from investments:
Listed – dividends R342 000
Unlisted – dividends R18 000

REQUIRED

1.1 Draw up a Balance sheet on 30 June 2014.

1.2 Complete the following notes:

1.2.1 Reserves

1.2.2 Trade and other payables

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QUESTION 2 (34 marks)

The accounting period of Cox CC with members M Cox and P Peters ends on 28 February. M Cox has a 60% interest and P Peters has a 40% interest:

REQUIRED

Use the following information to draw up the Income Statement for the year ended 28 February 2014.

INFORMATION

COX CC
Preadjustment Trial Balance on 28 February 2014

Balance sheet section	**Debit**	**Credit**
Members' contributions		290 000
Accumulated profits		50 000
Loan to M. Cox (7,5% p.a.)	4 000	
Loan from P. Peters (9% p.a.)		40 000
Land and buildings	300 000	
Equipment at cost	35 000	
Vehicles at cost	80 800	
Accumulated depreciation on equipment (01/03/2013)		9 000
Accumulated depreciation on vehicles (01/03/2013)		16 000
Trading inventory	60 500	
Debtors control	32 000	
Provision for bad debts		1 900
SARS (income tax)	23 000	
Creditors control		28 500
Bank	25 800	
Cash float	2 040	
Nominal account section		
Sales		545 560
Debtors allowance	8 000	
Cost of sales	260 000	
Rent income: Cox		3 300
Rent income: Other		13 440
Interest on loan: Peters	1 800	
Interest on loan: Cox		300
Stationery	1 500	
Remuneration: Accounting officer	6 000	
Water and electricity	11 000	
Salary: Peters	36 000	
Salaries	73 000	
Pension fund contribution	7 160	
Insurance	3 000	
Bad debts	1 700	
Bank charges	2 800	
Sundry expenses	22 900	
	998 000	998 000

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Adjustments and additional information

1. On 1 September 2012 P Peters lent the corporation an amount of R40 000. The agreement stipulates that interest at 9% p.a. is payable half yearly. The loan is to be repaid on 1 September 2015.

2. The loan to member M Cox was made on 1 March 2013. According to the agreement, interest will be charged at 7,5% p.a. payable half yearly. No date is stipulated for the repayment of the loan.

3. The total of the rent income (rent income Cox, excluded) is in respect of offices let since 1 March 2013. On 1 December 2013, the monthly rent was increased by 10%. Rent for February 2014 is still outstanding.

4. Part of the corporation's building is also let to M Cox at R300 per month.

5. Member Peters receives a salary of R36 000 per annum for managing the CC.

6. The provision for bad debts must be calculated at 5% of the outstanding debtors after a further R400 overdue debt is written off as irrecoverable.

7. A physical stock taking revealed that the total value of trading inventory on hand amounts to R60 200, while stationery worth R160 is on hand.

8. The account for water and electricity for February 2014, R980, has not yet been paid.

9. Insurance includes an amount of R400 paid for the period 1 March 2014 to 31 May 2014.

10. On 28 February 2014 equipment was sold to P Nel for R3 400 cash. The cost price of the equipment was R6 000 and the accumulated depreciation on the equipment was R2 500 on 1 March 2013. No entries have been made of this transaction.

11. Depreciation is taken into account at 10% p.a. on the cost price of equipment. There were no other transactions in respect of equipment during the year. Vehicles are depreciated at 20% p.a. according to the diminishing balance method.

12. The following information appeared in the salaries journal for February 2014 (salary to member Peters excluded)

Employees: Net salaries	R6 400
Deductions: PAYE	R1 200
Pension fund	R700

The employer contributes to the pension fund on a rand-to-rand basis.
Salary cheques were issued to employees on 28 February 2014.
No entries have been made. The payments to the pension fund and SARS will be made on the 7th of next month.

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13. During the year members each contributed an additional R45 000 to increase the members' contribution.

14. Income tax payable for the year amounts to R22 000.

15. R80 000 of the net profit after tax must be distributed to the members according to their respective contributions to the company: M Cox 60% and P Peters 40%.

QUESTION 3 (34 marks)

You are provided with figures extracted from the financial statements of BM CC.

REQUIRED

Prepare the cash flow statement for the year ended 31 December 2014. The cash generated from/(used in) operations must be disclosed according to the direct method.

INFORMATION

BM CC
Income statement for the year ended 31 December 2014

Revenue	490 000
Cost of sales	(282 500)
Inventory (1 January 2014)	31 000
Purchases	301 500
	332 500
Inventory (31 December 2014)	(50 000)
Gross profit	207 500
Other income	28 000
Dividend income: Listed investment	13 000
Dividend income: Listed investment	15 000
	235 500
Distribution, administrative and other expenses	(99 000)
Depreciation	19 000
Salaries to members	24 000
Administrative expenses	20 000
Wages	36 000
Finance charges	(14 000)
Interest on long-term loan	14 000
Profit before tax	122 500
Income tax expense	(36 000)
Profit for the year	86 500

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BM CC
Statement of change in net investment of members for the year ended 31 December 2014

	Members contribution	Retained earnings	Total
Balances at 1 January 2014	355 000	8 000	363 000
Members contributions	20 000		20 000
Income for the year		86 500	86 500
Distribution to members		(47 500)	(47 500)
Balance at 31 December 2014	375 000	47 000	422 000

BM CC
Balance sheet on 31 December 2014

	2014	2013
Assets		
Non-current assets	448 500	394 000
Property, plant and equipment	448 500	394 000
Current assets	151 000	103 000
Inventories	50 000	31 000
Trade and other receivables	35 000	30 000
Prepayments	2 000	
Other financial assets	50 000	35 000
Cash and cash equivalents	14 000	7 000
Total assets	599 500	497 000
Equity and liabilities		
Equity	422 000	363 000
Members contribution	375 000	355 000
Retained earnings	47 000	8 000
Non-current liabilities	100 000	70 000
Long-term borrowings	100 000	70 000
Current liabilities	77 500	64 000
Trade and other liabilities	31 000	38 000
Distribution to members payable	37 500	15 000
Current tax payable	9 000	11 000
Total equity and liabilities	599 500	497 000

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BM CC
Notes
Property, plant and equipment

	Land and buildings	Machinery and equipment
Carrying value at the beginning of the year	260 000	134 000
Cost price	260 000	177 000
Accumulated depreciation		(43 000)
Additions		77 500
Disposals		(4 000)
Depreciation		(19 000)
Carrying value at the end of the year	260 000	188 500
Cost price	260 000	237 500
Accumulated depreciation		(49 000)

ADDITIONAL INFORMATION

1. During the year machinery with a cost price of R17 000 was sold for cash at the carrying amount thereof and replaced with new machinery. Depreciation to the amount of R13 000 was recorded in respect of the sold machinery, as from the date of purchases to the date of sale thereof.

2. An additional machine was purchased for R40 000 to expand the operating capacity of the business.

3. All machinery was purchased for cash.

4. No equipment was purchased or sold during the financial year.

5. The other financial assets pertain to financial assets at fair value through profit and loss: held for trading: Listed investments (shares were purchased on the JSE). No shares were sold during the current year.

6. All inventories are purchased and sold on credit.

7. Inventory is recorded at cost.

8. Trade and other payables include:

	2014	2013
Trade creditors	25 000	33 000
Accrued wages	6 000	5 000

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QUESTION 4 (48 marks)

Furnside sells furniture for cash and on hire purchases.

The following hire purchase transactions took place during 2014:

HIRE PURCHASES				
Clients	**Cost price**	**Price**	**Deposits**	**Payments**
Fox	244 800	424 800	36 000	153 600
Ghana	182 640	261 600	30 000	220 800
Hill	125 160	246 000	18 000	30 000
Ismail	219 000	458 400	31 200	256 800
Jacob	385 200	583 200	51 600	28 800

Hill could not afford the payments and the furniture was repossessed. The furniture was later sold on credit to Kim for R64 800 after R15 000 was spent in cash on repairs. Special credit arrangements were concluded as Furnside only sells furniture for cash and on hire purchases.

REQUIRED

Record the transactions in the following ledger accounts in the general ledger:

4.1 Hire-purchase debtors

4.2 Hire-purchase account

4.3 Goods on hire-purchase

4.4 Second-hand trading account

QUESTION 5 (54 marks)

5.1 State FIVE principles of internal control. (5 x 2) (10)

5.2 What are the factors that influence acceptable evidence for the auditor? (10)

5.3 You are provided with information from the books of AS Traders.

REQUIRED

Prepare the notes to the financial statements on 28 February 2014 for the fixed assets.

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INFORMATION

1. The following balance appeared in the ledger at the end of the financial year, 28 February 2014:

	At cost price 28 February 2014	Accumulated depreciation on 1 March 2013
Land and buildings	880 000	
Vehicles	507 000	273 000
Equipment	448 000	258 000
Computers	174 000	45 000

2. On 1 February 2014 JJ Construction was paid R37 000 for the following:

- Repairs to the floor, R11 000
- Building of a new storeroom, R26 000
- The full amount has been debited to Land and buildings

3. MB Computers was paid R18 000 for the following on 28 February 2014:

- Repairs to computers, R7 000
- Upgrades to existing computers, R11 000
- The full amount has been debited to the repairs account in error
- Computers are depreciated at 25% p.a. on cost

4. New equipment costing R40 000 was bought on 30 November 2013. This has been properly recorded. Equipment is depreciated at 10% p.a. on the diminishing balance method.

5. An old vehicle was traded in on 1 January 2014. The cost price of this vehicle was R120 000 and the accumulated depreciation on 1 March 2013 was R13 500. The cost of the new vehicle bought was R261 000. No entry has been made for these transactions.
Vehicles are depreciated at 20% p.a. on cost price.

TOTAL: 200

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