GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION

2018

10710

ACCOUNTING

TIME: 3 hours

MARKS: 300

25 pages

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INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL workings in order to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue / black ink to answer the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.

8. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 35 marks; 20 minutes	
Topic of the question:	**This question integrates:**
Reconciliation	**Financial accounting** Bank and Creditors' Reconciliation **Managing resources** Internal control processes Ethics

QUESTION 2: 40 marks; 25 minutes	
Topic of the question:	**This question integrates:**
Manufacturing	**Managerial accounting** Concepts Production Cost Statement Break-even Analysis

QUESTION 3: 80 marks; 40 minutes	
Topic of the question:	**This question integrates:**
Company Financial Statements and Audit Report	**Financial accounting** Concepts Income Statement **Managing resources** Tangible assets **Managing resources** Audit Report

QUESTION 4: 65 marks; 45 minutes	
Topic of the question:	**This question integrates:**
Cash Flow Statement and Interpretation	**Financial accounting** Concepts Cash Flow Statement Interpretation of financial information **Managing resources** Internal control

QUESTION 5: 40 marks; 25 minutes	
Topic of the question:	**This question integrates:**
Inventory valuation	**Managing Resources** Inventory valuation Internal control

QUESTION 6: 40 marks; 25 minutes	
Topic of the question:	**This question integrates:**
VAT and Budgets	**Financial Accounting** VAT **Managerial Accounting** Cash Budget Calculations **Managing resources** Internal control processes and Ethics

QUESTION 1

RECONCILIATION **(35 marks; 20 minutes)**

1.1 You are provided with information related to SA Traders.

REQUIRED:

1.1.1 **Calculate:**

- The correct totals for the Cash Receipts Journal (CRJ) and the Cash Payments Journal (CPJ) for July 2018
- The bank account balance in the General Ledger on 31 July 2018 (15)

1.1.2 Prepare the Bank Reconciliation Statement on 31 July 2018. (6)

1.1.3 Internal control of cash is lacking in SA Traders. Identify TWO problems and provide suitable advice to improve internal control. (4)

INFORMATION:

A. The following items appeared in the Bank Reconciliation Statement on 30 June 2018:

Unfavourable balance on the bank statement		17 828
		93 140
Outstanding deposit (1 March 2018)	70 000	
Outstanding deposit (25 June 2018)	23 140	
Outstanding cheques and EFT:		
		13 350
No. 215 (12 January 2018)	1 210	
No. 670 (25 June 2018)	5 200	
No. 671 (2 September 2018)	1 760	
EFT payment to Zimbali Suppliers	5 180	
Balance as per Bank account in the General Ledger		**?**

B. Before receiving the July 2018 Bank Statement, the provisional totals in the Cash Journals on 31 July 2018 were:

- CRJ, R42 620
- CPJ, R20 921

C. The Bank Statement for July 2018 shows the following items which do not appear in the Cash Journals for July 2018:

DETAILS	AMOUNT
Deposit	23 140
Cheque no. 670	2 500
Debit order Insure (Ltd.) for insurance	1 080
Debit order Insure (Ltd.) for insurance	1 080
EFT (Zimbali Suppliers)	5 180
Interest on bank overdraft	172
Service fees	273
Dishonoured cheque – N.Trollip to settle his account of R 1 400	1 316
Dishonoured cheque – G.Smith (cheque post-dated) – **see D**	4 200
Direct deposit by tenant, D.Mahlangu	8 000

Note:

- Cheque no. 670 – The amount according to the Bank statement is correct.
- The debit order for insurance was processed twice by the bank due to insufficient funds in the previous month. The overdraft facility was exceeded.
- An investigation revealed that the deposit of R70 000, dated 1 March 2018, was never deposited at the bank. Malcolm, the previous bookkeeper, cannot be traced and it was decided to write off this amount.

D. The following item appeared in the July 2018 Cash Receipts Journal:

- A post-dated cheque, received from G. Smith (a debtor) for R4 200, was banked in error. **(See C)**

The following items appeared in the July 2018 Cash Journals but not in the Bank Statement on 31 July 2018:

- EFT (processed by SA Traders but still outstanding on the Bank Statement) R3 380
- Deposit (dated 31 July 2018) R11 800

1.2 **CREDITORS' RECONCILIATION**

VENUS TRADERS

The Creditors' Control Account and creditors' list for July 2018 was prepared by an inexperienced bookkeeper.

REQUIRED:

Use the table provided to indicate corrections and entries that must be made to the Creditors' Control Account and the creditors' list.

Provide figures and a plus (+) or minus (–) sign for each correction. (10)

INFORMATION:

A.

	CREDITORS' CONTROL ACCOUNT	CREDITORS' LIST
Balance / Total	R40 130	R39 490

B. Transactions:

(i) An invoice for R792 received from Universal Suppliers, was recorded incorrectly as R972 and posted accordingly.

(ii) A cheque for R8 400 issued to creditor Mars Inc. was recorded correctly in the relevant journal. It was posted incorrectly as R8 800 to the Creditors' Ledger Account of Mars Inc.

(iii) A credit note for R120 received from Saturn Ltd. was recorded in the Creditors' Journal. The transaction was recorded correctly in the ledger account of Saturn Ltd.

(iv) Transfer a credit balance of R2 100 from the Debtors' Ledger account of J. Jupiter in the books of Venus Traders to their account in the Creditors' Ledger.

35

QUESTION 2

MANUFACTURING **(40 marks; 25 minutes)**

2.1 You are provided with information **A – C** relating to ABC Fabrics, a textile manufacturer. The business produces uniforms for schools. The financial year ended on 30 June 2018.

REQUIRED:

Prepare the following for the year ended 30 June 2018:

2.1.1 Factory overhead cost note (12)

2.1.2 Production cost statement (show workings in brackets) (18)

INFORMATION:

A. Stock balances

	30 June 2018 (closing balances)	**1 July 2017 (opening balances)**
Raw Material Stock	R 55 200	R 63 660
Work-in-Process Stock	200 000	?
Finished Goods Stock	119 500	219 500

B. Extract of transactions for the financial year ended 30 June 2018 before adjustments in information C.

Raw materials purchased	R 1 720 000
Cost of transporting raw materials	42 300
Indirect Materials (factory)	74 450
Factory sundry expenses	67 000
Rent Expense	225 000
Water and Electricity (Sales department)	38 800
Insurance (Sales department))	24 000
Direct Labour (Information C(v))	?
Factory foreman's salary (including contribution)	171 900
Indirect labour (including contribution)	29 250

C. Adjustments and additional information

(i) All the indirect materials were used in the factory.

(ii) Rent is apportioned to the various departments according to floor space:

Factory:	600 square metres
Administration offices:	250 square metres
Sales department:	150 square metres

(iii) 40% of water and electricity must be shared equally between the administration department and the sales department. The remainder must be allocated to the factory.

(iv) Insurance is allocated to the factory, sales and office departments in the ratio 5:2:1. It was allocated in the ratio 5:3:1 in error.

(v) **Production Wages**

Employees	Normal Time		Overtime paid for the year
	Hours	Rate	
6	2 000 hours per year per employee	R60	R67 500

- Employer's contribution on normal time wages is 9% to the pension fund and 1% towards UIF.

(vi) Cost of sales for the year amounted to R3 400 000.

2.2 The following information was taken from the books of Maritzburg Printers. They specialize in producing personalised desk pads to order. The following figures were calculated by the bookkeeper.

REQUIRED:

2.2.1 Show a calculation to verify the break-even point for the year ending July 2018. (3)

2.2.2 Should Maritzburg Printers be satisfied with the break-even point calculated above? Give ONE reason (with figures) to support your answer. (3)

2.2.3 The owner could not understand why the break-even-point is much lower than last year whilst there was no significant change in the total cost of production. He requested an explanation. Provide TWO points. Quote figures. (4)

INFORMATION:

	2018		2017
	Total	**Per Unit**	**Per Unit**
Direct Materials	801 908	12.40	10.50
Direct Labour	546 462	8.45	8.95
Factory overhead cost	500 545	7.74	9.12
Total cost of production	1 848 916	28.59	28.57
Administration cost	312 355	4.83	4.72
Selling and distribution cost	175 902	2.72	4.92
Fixed cost	812 900	12.57	13.84
Variable cost	1 524 272	23.57	24.37
Sales	3 272 302	50.60	46.55
Break-even point	30 074 units		33 633 units
Number of units produced and sold	64 670 units		53 900 units

40

QUESTION 3

STATEMENT OF COMPREHENSIVE INCOME AND AUDIT REPORT

(70 marks; 40 minutes)

3.1 **CONCEPTS**

Choose the correct term to complete each of the following statements. Write only the term next to the question number (3.1.1 – 3.1.4) in the ANSWER BOOK.

Income statement; Current asset; Non-current asset; Liquidity Test; Balance sheet; Solvency test; Cash flow statement

3.1.1 The statement reflecting the financial position of the company is called a / an …

3.1.2 Consumable stores on hand are a / an ...

3.1.3 The calculation to determine the ability of the business to settle its total liabilities / obligations is called …

3.1.4 The statement reflecting the financial results of the company is called a / an … (4)

3.2 **RAND WORKS LTD.**

The following information was extracted from the financial records of Rand Works Limited. The company is authorised to sell 1 500 000 ordinary shares. The financial year ended on 28 February 2018.

REQUIRED:

3.2.1 **Refer to Information I:**
Calculate the missing amounts (indicated by **a** to **e)** on the Fixed / Tangible Asset Note for the year ended 28 February 2018. (12)

3.2.2 Prepare the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2018. (44)

3.2.3 Prepare the following notes to the financial statements:

- Ordinary Share Capital (7)
- Retained Income **(Refer to Information K and L.)** (7)

INFORMATION:

PRE-ADJUSTMENT TRIAL BALANCE OF RAND WORKS LIMITED
ON 28 FEBRUARY 2018

Balance sheet accounts section	**Debit**	**Credit**
Ordinary shares capital		3 760 000
Retained income		468 000
Loan from WP Bank		124 800
Land and buildings	3 300 000	
Vehicles	513 000	
Equipment (1 March 2017)	235 600	
Accumulated depreciation on vehicles (1 March 2017)		178 600
Accumulated depreciation on equipment (1 March 2017)		73 940
Trading stock	962 600	
Debtors' control	161 000	
Provision for bad debts		2 140
Bank	259 600	
Petty cash	2 400	
Fixed deposit: XYZ Bank	850 000	
SARS (income tax)	413 500	
Creditors' control		650 000
Creditors for salaries		13 500
Nominal accounts section		
Sales		1 1791 200
Cost of sales	8 310 660	
Debtors' allowances	130 940	
Bad debts	8 640	
Interest on fixed deposit		?
Bad debts recovered		870
Packing material	24 000	
Advertising	345 800	
Rent income		176 880
Sundry expenses	47 430	
Asset disposal		3 100
Interest on current account		?
Salaries and Wages	950 000	
Directors' fees	432 000	
Audit fees	81 000	
Dividends on ordinary shares	240 000	
	17 268 170	**17 268 170**

Adjustments and additional information:

A The following credit note was issued to a customer.
This credit note was omitted from the journal. The mark-up is 50% on cost price.

Rand Works Ltd. No. 84

CREDIT NOTE

To: 24 February 2018
AB Soloman
PO Box 3367
Johannesburg

Quantity	Description	Unit price	Total
1	Wrought Iron chandelier *Wrong size*	1 260	1 260, 00
E & O.E.		**TOTAL**	R1 260,00

B A physical stock count on 28 February 2018 revealed the following:

- Trading stock on hand, R962 800
- Packing material used during the financial year amounted to R23 070.

C A debtor, M Spark was declared insolvent. Received and recorded R450 as a first and final dividend of 40c in the rand. The balance must still be written off.

D On 24 February 2018, R2 400 was received from C. Quinn, whose account had previously been written off as irrecoverable. The amount was entered in the Debtors' Control column in the CRJ.

E Decrease the provision for bad debts by R230 .

F The tenant has paid rent until 31 March 2018. The rent was increased by 10% p.a. from 1 December 2018.

G The loan statement from WP Bank reflects the following:

WP BANK LOAN STATEMENT ON 28 FEBRUARY 2018	
Balance at the beginning of the financial year	R210 000
Repayments during the year, including interest	85 200
Interest charged (capitalized)	?
Balance at the end of the financial year	150 000

H An employee, H.Abbot, commenced work on 1 February 2018. His gross salary of R13 500 was processed without taking his deductions and contributions into account.

- Deductions R3 405
- Contributions R1 755

NOTE: All contributions are recorded as part of salaries and wages.

I Fixed / Tangible Asset Note

	VEHICLES	EQUIPMENT
Carrying value at the beginning of the financial year	**(b)**	**161 660**
Cost	**(a)**	**235 600**
Accumulated depreciation	**(178 600)**	**(73 940)**
Movements		
Additions at cost	**133 000**	**-**
Disposals at carrying value	**-**	(**d)**
Depreciation	**(c)**	**(35 040)**
Carrying value at the end of the financial year		**123 920**
Cost	**513 000**	(**e)**
Accumulated depreciation		

ADDITIONAL INFORMATION TO NOTE:

- Depreciation on vehicles is calculated at 30% p.a. on the diminishing balance method. Take into account that a new vehicle was bought on 1 November 2017.
- The Pre-adjustment Trial Balance reflects “Asset Disposal” R3 100. This relates to a computer which was sold for R3 100 cash on 31 October 2017. The cost price of the computer was R6 000 and the **accumulated depreciation** up to the date of sale was R3 300.

J Financial indicator

- Operating profit on turnover: 13%

K Income tax

Income Tax was calculated at 30% of the net income for the year. Net profit after tax was correctly calculated at R1 060 927.

L Shares Capital and Dividends

200 000	Shares were in issue at the beginning of the current financial year.
800 000	Additional shares were issued on 31 October 2017 at R4,20 per share.
50 000	On 28 February 2018, shares were bought back from a deceased shareholder for R238 000. This transaction was not yet recorded.

- An interim dividend of R60 000 was paid on 31 August 2017.
- A final dividend of 22 cents per share was declared on 28 February 2018 and must still be brought into account. The estate of the deceased shareholder qualifies for final dividends on 28 February 2018.

3.3 **AUDIT REPORT**

The following extract below relates to Parfum Ltd. for the year ended 31 December 2017.

Read both extracts before answering the questions set.

REQUIRED:

3.3.1. Parfum Ltd. received an unqualified audit report. Indicate whether this is justified. (2)

3.3.2 Comment on the actions of the directors. (2)

3.3.3 Comment on the statement made by the chairman at the media briefing. (2)

INFORMATION

A EXTRACT FROM INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the financial statements present fairly, in all material respects the financial position of Parfum Ltd. at 31 December 2017 and its financial performance and cash flows for the year ended in accordance with the International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Arnst & Doung Inc.
Registered Auditor
Chartered Accountant (SA)
15 January 2018

B EXTRACT FROM AN INTERNET ARTICLE

21 August 2018

"R7.2 million in directors' fees were paid out to Parfum Ltd. directors without the necessary authorization from shareholders in the financial year 2017 and the same amount is due for payment in the current year. Brat Zucker, who took the reins as chairman of Parfum Ltd. last month, announced at a media briefing that the oversight, while it shouldn't happen, sometimes happens in big companies. He does not view it as an indication that corporate governance at Parfum Ltd. is lacking."

QUESTION 4

CONCEPTS, CASH FLOW STATEMENT AND INTERPRETATION

(65 marks; 45 minutes)

4.1 CONCEPTS

Choose a description from COLUMN B that matches a concept in COLUMN A. Write only the letter (A – E) next to the question number (4.1.1 – 4.1.3) in the ANSWER BOOK.

Column A	Column B
4.1.1 Profitability	A Expresses an opinion on the financial statements of a company.
4.1.2 Net working capital	B Operating efficiency of the business
4.1.3 Independent auditor	C Current Assets less current Liabilities
	D Employed by a company to check the reliability of the accounting systems daily.

(3)

4.2 ZUKA LIMITED

Zuka Ltd. provided you with extracts from their financial records for the financial year ended 28 February 2018.

REQUIRED:

4.2.1 Complete the Cash Flow Statement for the year ended 28 February 2018. (18)

4.2.2 Calculate the following financial indicators:

- Net asset value per share (3)
- Acid-test ratio (4)
- Debt / equity ratio (3)
- Return on total capital employed (ROTCE) (5)

4.2.3 Explain whether the repurchase price of R9,00 per share on 31 March 2017 was fair. Quote TWO financial indicators (with figures) in your answer. (4)

4.2.4 In answering the following two questions, quote financial indicators in your explanations:

- Is there an improvement in the company's ability to settle its short-term debts? Explain. (3)
- Suggest TWO strategies the company could use to improve its cash flow other than raising capital or loans. (4)

4.2.5 Explain how the sale of new shares affected the risk and financial gearing of the company. Quote TWO financial indicators. (5)

4.2.6 Certain shareholders were not satisfied with the dividends they received:

- Calculate the dividend pay-out rate for each year. (4)
- Provide TWO reasons (with figures) to support the director's decision regarding the pay-out rate. (4)

4.2.7 D. Pont held 330 000 shares before the sale of additional shares. He chose to invest in another company.

Explain how this affected his shareholding in Zuka Ltd.
Use calculations to support your answer. (5)

INFORMATION:

A Extract from the Income Statement on 28 February 2018.

Depreciation	R 701 760
Interest expense	272 000
Net profit before tax	2 500 000
Income tax	750 000

B Information extracted from the Balance Sheet:

	28 Feb 2018	28 Feb 2017
Fixed/Tangible Assets	8 798 080	6 580 000
Financial Assets	800 000	1 100 000
Inventories	340 920	1 140 000
Trade and other receivables	452 000	680 000
Trade debtors	406 000	680 000
SARS: Income tax	46 000	-
Cash and cash equivalent	9 000	8 520
Shareholders' Equity	7 019 320	5 216 320
Ordinary Share Capital	5 240 000	4 200 000
Retained Income	1 779 320	1 016 320
Non-current Liabilities	2 000 000	3 000 000
Current Liabilities	1 380 680	1 292 200
Trade creditors	841 680	340 000
SARS: Income tax	-	120 000
Shareholders for dividends	539 000	268 000
Bank overdraft	0	564 200

C SHARE CAPITAL

- 700 000 shares were in issue on 1 March 2017.
- On 31 March 2017, 60 000 shares were repurchased from the estate of a deceased shareholder at R9,00 each.
- On 1 August 2017, 200 000 shares were issued at R7,00 each.

D FIXED ASSETS

- Unused vehicle was sold at book (carrying) value at the end of the year for R110 160
- During the year, the business purchased a new property.

E FINANCIAL INDICATORS

	28 Feb 2018	28 Feb 2017
% Gross profit on sales	79,6%	58.3%
Net profit after tax on turnover	24,9%	23,8%
Current ratio	0,6:1	1,4:1
Acid-test ratio	?	0,5:1
Stock holding period	73 days	91 days
Stock turnover rate	5 times	4 times
Debtors collection period	47,2 days	30,8 days
Earnings per share (EPS)	208 cents	214 cents
Dividend per share (DPS)	96 cents	52 cents
Return on shareholders' equity (ROSHE)	?	21%
Return on Capital Employed (ROTCE)	?	24,3%
Debt / equity ratio	?	0,6:1
Net asset value per share (NAV)	?	745 cents
Market price of shares on the JSE	950 cents	850 cents
Interest on loan (rate)	15%	15%

65

QUESTION 5

INVENTORY SYSTEM AND STOCK VALUATION (40 marks; 25 minutes)

The information provided is from the accounting records of Camp Out Ltd.
The company sells cooler boxes and tents. The financial year ended on 28 February 2018.

The business uses **the periodic inventory system** and the **weighted average method of stock valuation** for cooler boxes and **the specific identification method** for tents.

REQUIRED:

5.1 Explain the difference between the **specific identification** and the **weighted average** methods of valuing stock. (4)

COOLER BOXES:

5.2 Provide a calculation to show the number of missing cooler boxes on 28 February 2018. (4)

5.3 Calculate the following in respect of cooler boxes:

- The value of closing stock (4)
- Cost of sales of cooler boxes (5)
- Gross profit on cooler boxes (3)

5.4 The manager feels that the business is more efficient in controlling stock.

5.4.1 Calculate the stock holding period (in days) of cooler boxes for 2018. Use the closing stock. (4)

5.4.2 Comment on your findings in response to the manager's feelings. (3)

TENTS:

5.5 Calculate the value of the closing stock of tents. (7)

5.6 The mark-up percentage on tents is 25% on cost. Calculate the total sales for the financial period. (6)

INFORMATION: COOLER BOXES

A Value of Stock on hand

Date	No. of Items	Unit Price	Total (R)
01 March 2017	520	R60	31 200
28 February 2018	850	?	?

B Purchases and sales of cooler boxes

Date	PURCHASES		
	No. of Items	Unit Price	Total (R)
August 2017	1 600	R64	102 400
February 2018	2 700	R70	189 000
TOTAL	**4 300**		**291 400**

C SALES OF COOLER BOXES: 3 900 units were sold for R387 000.

D RETURNS:

20 damaged cooler boxes costing R60 each were returned to the supplier. The supplier only agreed to give an allowance of **R1 000** due to late notification.

E

Financial Indicators	2018	2017
Stock Holding Period	?	125 days
Stock Turnover Rate	5.7 times	2.9 times

INFORMATION: TENTS

TENT RANGE	STOCK ON HAND 1 MARCH 2017	PURCHASES DURING THE YEAR	PRICE PER TENT	NUMBER OF TENTS SOLD DURING THE YEAR
1. Bush Baby	14	-	R1 260	14
2. Leopard	10	32	R1 400	28
3. Lizzard	7	28	R1 680	28
4. Buffalo	8	34	R1 540	35

QUESTION 6

CASH BUDGET, AGE ANALYSIS AND VAT **(40 marks; 25 minutes)**

6.1 **CASH BUDGET**

You are provided with an incomplete cash budget and additional information in respect of Fashion Expression Ltd. The financial year-end is 28 February each year.

REQUIRED:

6.1.1 Calculate the Debtors' Collection for June 2018. (4)

6.1.2 Calculate the figure that would appear in the Cash Budget for Salaries and Wages for May 2018. (5)

6.1.3 The purchases payment policy needs to be changed.

- Explain the need to change the policy. (3)
- Provide TWO points of change that would benefit the company. (2)

6.1.4 The directors took significant decisions to address their concerns about the cash balance. Mention TWO strategies used to improve the cash balances. Explain why you agree or disagree with these strategies. (6)

INFORMATION:

FASHION EXPRESSION LTD
Extract of the Cash Budget for the period
1 April 2018 to 30 June 2018

RECEIPTS	**April**	**May**	**June**
Commission income	60 000	65 000	*
Sale of Land and Buildings	0	380 000	0
Proceeds from 50 000 shares issued	239 000	0	0
TOTAL RECEIPTS	**443 000**	*	**195 000**
PAYMENTS – extract			
Salaries and wages	48 000	*	*
TOTAL PAYMENTS	**204 500**	*	**340 700**
Surplus (Deficit)	**238 500**	**110 000**	**(145 700)**
Bank balance at beginning of month	**(60 000)**	**178 500**	**288 500**
Bank balance at end of month	**178 500**	**288 500**	**142 800**

6.2 **AGE ANALYSIS**

The Debtors' Age Analysis of Multiplex Ltd was prepared on 30 June 2018.

REQUIRED:

6.2.1 The internal auditor is concerned that the credit controller is not managing the debtors effectively.

- Provide TWO points of evidence from the Age Analysis, to substantiate his concern. Quote figures.
- Suggest TWO ways in which the problems identified can be rectified. (4)

6.2.2 What would H. Jacob's outstanding balance be on 31 July 2018 if he paid R1 310 during July 2018? (2)

INFORMATION:

A. DEBTORS' AGE ANALYSIS

Debtor	Limit	Total due	Overdue	60 days +	30 days +	Current
H. Jacob	R 10 000	R 15 310	R 9 800	R 1 200	R 1 000	R 3 310
W. Grey	R 15 000	R 15 000	R 12 000	R 3 000		
L. Conrad	R 8 000	R 4 254			R 3 000	R 1 254
Total		**R 34 564**	**R 21 800**	**R 4 200**	**R 4 000**	**R 4 564**
		100%	**63%**	**12%**	**12%**	**13%**
Credit terms: Strictly 30 days from date of statement						

B ADDITIONAL INFORMATION:

(i) **Debtors and sales:**

- Debtors are expected to settle their accounts as follows:
  - 25% of debtors will settle their accounts in the same month as the credit sale, subject to a 5% discount.
  - 68% of debtors will settle their accounts in the month following the credit sale.

(ii) **Purchase of stock:**

- Goods are replaced monthly to maintain a fixed stock level.
- Goods are purchased as follows: 25% for cash and 75% on credit.
- All credit purchases are settled during the following calendar month.

(iii) **Salaries and wages:**

- The manager will receive an increase of 30% on his present monthly salary of R6 000 from 1 May 2018.
- The ten shop assistants, who receive an equal salary, will each receive an increase of R300 per month, from 1 May 2018.

6.3 **VAT**

6.3.1 Choose the correct word from those within brackets. Write only the word next to the question number in your ANSWER BOOK.

(i) VAT is a / an (direct / indirect) tax.

(ii) VAT on purchase of R35 400 will (increase / decrease) the amount payable to SARS.

(iii) VAT refundable by SARS is a / an (asset / liability) to the business. (3)

6.3.2 The bookkeeper of Cooper Ltd. calculated the amount payable to SARS to be R112 539. The internal auditor found discrepancies in the calculation.

REQUIRED:

Calculate the correct amount payable to SARS. VAT is charged at 15%.

INFORMATION:

(i) VAT on shop rent paid was not taken into account. The rent amount of R15 525 was inclusive of VAT.

(ii) VAT of R22 500 on a vehicle purchased by the company was recorded as output VAT.

(iii) VAT of R7 500 was incorrectly added to a sale of R50 000. The sale of R50 000 was subject to a trade discount of 8%. (7)

40

END