

QUESTION 1 – ACCOUNTING EQUATION**[95 marks; 30 minutes]**

The following transactions were taken from the financial records of Naidoo Supermarket. Analyse the transactions in the accounting equation on the given table. Mark-up on sales is 75%.

Transactions

May 2015

- E.g. The owner increased his capital contribution with R10 000 cash.
- 1 The owner, K. Naidoo withdrew stock at cost for personal use. Selling price, R875.
 - 2 Received a cheque of R1 900 from a debtor, M. Cholephi, in settlement of her account. She received 5% discount for early settlement of her account.
 - 3 Credit sales to R. Desai, R10 500.
 - 4 The bank statement was received from ABSA and reflected the following debits:
 - Cash handling fees R98
 - Service fees R32
 - Interest on overdraft R40
 - 5 It was discovered that B. Oghuehi's account of R900 is three months overdue. Naidoo Supermarket charged her interest at 12% p.a.
 - 6 Received an invoice from Coetzer Traders for equipment, R5 000, stationery, R400 and a computer the owner purchased for his wife, R6 800. 2.5% trade discount was received on all purchases.
 - 7 The wages column total of R1 300 in the CPJ was posted in error to the salaries account.
 - 8 Issue a credit note to A. Ozo for allowance on damaged goods sold, R100.
 - 9 Naidoo Supermarket invested R40 000 in a fixed deposit account with FNB at an interest rate of 8% p.a. The deposit matured and three months interest is paid directly into the bank account of Naidoo Supermarket.
 - 10 Issued a debit note for damaged stock returned to Sibisi Stores, R310.
 - 11 A cheque of R650 received from T. Bettell in settlement of his R700 account was returned by ABSA marked 'R/D – insufficient funds'.
 - 12 Goods sold on credit to F. Shan for R300 was incorrectly posted to the account of R. Shan.
 - 13 Issued a cheque to Lekau Logistics for carriage on purchases of goods, R450.
 - 14 Issue a cheque to Selepe Realtors for renting of a building, R4 500.

QUESTION 2 – TAX AND VAT**[31 marks; 25 minutes]**

Read the following article and answer the questions that follow.

Judge Bernard Ngoepe lashes tax dodgers

Oct 18 2015 - Xolani Mbanjwa

Johannesburg - Tax Ombudsman Judge Bernard Ngoepe has slammed multinationals that transfer their profits offshore and at the same time criticised public officials who defend hopeless cases in court at taxpayers' cost.

Ngoepe also lashed out at politicians who line their pockets with public funds, saying this was discouraging South Africans from paying tax since they do not see value for their contributions.

In an interview with City Press following the release of the Tax Ombud's report for the year that ended in March, Ngoepe called on government to train tax practitioners to stop the capital flight and illicit financial flows that erode South Africa's tax base.

While it was hard to determine the true value of money being shifted out of the country to tax havens, Ngoepe said this could possibly amount to trillions of rands that could have been better used in "addressing some of the problems we have in this country".

The shifting of money out of the country through various schemes to avoid paying tax was not illegal, but in the end amounted to tax evasion.

"When you evade tax, that's when you're liable, and you find ways of running away from paying it. But you can avoid paying tax by simply staying at home and not working and say: 'I don't want to pay.'

"You avoid paying tax at a cost to yourself," he said. One example of this, Ngoepe said, was when a company with foreign operations transfers or pays for a service in a country where there's no tax requirement or the tax rate is very low.

"That company supposedly renders services to the company in South Africa and then sends them a statement of account to say: 'You owe us for the services such as advice or the like, or administration services; you owe us R50 million.'

"Because their profit is reduced by R50 million, they say: 'This is an expense and we're going to pay, and we have a debt to pay outside the country.'

QUESTIONS

- 2.1 Briefly explain the difference between tax evasion and tax avoidance. Give an example of each from the article.
- 2.2 Complete the table on the answer book by completing the VAT calculations. Round off amounts to TWO decimals.
- 2.3 In your opinion, do you think the behaviour of the persons from the article is unethical? Motivate your answer. What will the effect be on the economy?

QUESTION 3 – ADJUSTMENTS AND FINANCIAL STATEMENTS**[69 marks; 55 minutes]****REQUIRED**

- 3.1 Prepare the Balance Sheet of Cilliers Stores on 30 June 2015. **Show ALL WORKINGS for adjustments in brackets on the Balance Sheet.**
- 3.2 Complete the Tangible Assets note. No other notes are required.

INFORMATION

The following information was **extracted** from the Pre-adjustment Trial Balance on 30 June 2015:

	DEBIT	CREDIT
Capital		123 000
Drawings	8 500	
Land and buildings	750 000	
Vehicles	300 000	
Equipment	60 000	
Accumulated depreciation on vehicles		72 000
Accumulated depreciation on equipment		54 000
Fixed deposit: Nedbank	50 000	
Trading stock	61 200	
Debtors control	24 000	
Bank		6 780
Cash float	1 000	
Petty cash	800	
Loan: FNB		600 000
Creditors control		21 320
Creditors for salaries		7 650
SARS – PAYE		1 200
Unemployment insurance fund		750
Pension fund		1 800

ADJUSTMENTS AND ADDITIONAL INFORMATION

- After processing all the adjustments, including the ones listed below, the correct Net Income is R357 453.** Do not adjust this amount.
- Interest on loan is calculated at 12% p.a. The loan was increased by R100 000 on 1 June 2015, the increase was recorded. Interest for two months is still outstanding. Repayments of R4 000 per month will be made in the next financial year. Interest on the loan is capitalised.
- Depreciation is calculated as follows:
 - Equipment: 15% p.a. on the straight line method.
 - Vehicles: A new vehicle was purchased for R100 000 on 31 March 2015. This transaction has been recorded. Depreciation on vehicles is calculated at 20% p.a. using the diminished balance method.

4. Cilliers Stores rents out a furnished office. The rent is set at R3 000 per month. The rent income for the period 1 July 2014 to 31 March 2015 has been used for the upgrade of an existing storeroom. The balance of the rent income was deposited into the bank account on 30 June 2015. No entries have been recorded yet for the upgrade or the amount received.
5. A debtor, L. Maphumulo, was declared insolvent, and his estate deposited R900 into Cilliers Stores' bank account. This deposit represented 20 cents in the rand and has been recorded. The balance of his account needs to be written off.
6. A debtor returned stock with a selling price of R1 088, no entry was made to record this return. They maintain a profit margin of 60%.
7. The following information relates to consumable stores:
 - Consumable stores available during the year, R4 200
 - Consumable stores used during the year, R3 750
8. A trading stock surplus of R1 450 has not yet been recorded.
9. Included in the advertising cost for the year is a 12 month campaign that was launched on 1 April 2015 at a cost of R24 000.
10. The telephone account was received for June, R920.
11. Mr J. Brown is an employee of Cilliers Stores, his salary has not been recorded or paid for June 2015. His salary details are as follows:
Gross salary – R12 000
Deductions: PAYE – R1 500, Pension – R800, UIF – R120
Contributions: Cilliers Stores contributes on a Rand to Rand basis for UIF and Pension Fund.

QUESTION 4 – RATIO ANALYSIS**[34 marks; 22 minutes]****INFORMATION**

The information below was extracted from the accounting records of Masinga Traders on 30 September 2015, the end of the financial year. The target mark-up is 50% on cost.

Sales	R860 000
Cost of sales	600 000
Gross profit	260 000
Operating income	40 000
Operating expense	75 000
Operating profit	225 000
Net profit	200 000
Tangible assets	950 000
Current assets:	68 800
Trading stock	32 000
Debtors control	15 400
Cash	21 400
Non-current liabilities	115 000
Current liabilities	28 700
Owner's equity (30/09/2015)	875 100
Owner's equity (30/09/2014)	801 500

REQUIRED

Use the information supplied to calculate the following:

- 4.1 Calculate the mark-up achieved for 2015. Give a possible reason for the difference in actual and target mark-up.
- 4.2 Explain the reason for the difference in operating profit and net profit.
- 4.3 Calculate the operating profit on turnover for 2015.
 - 4.4.1 Calculate the current ratio for 2015. (2014 – 2.08 : 1)
 - 4.4.2 Calculate the acid test ratio for 2015. (2014 – 1.15 : 1)
 - 4.4.3 Calculate the solvency ratio for 2015. (2014 – 5.9 : 1)
 - 4.4.4 Comment on the business' solvency and liquidity from 2014 to 2015.
- 4.5.1 Calculate the return on equity for 2015.
- 4.5.2 Do you think the owner should be pleased with her return on investment for 2015? Provide a reason for your answer.

QUESTION 5 – ETHICS**[15 marks; 15 minutes]**

Consider the following newspaper article:

Online piracy thrives in internet cloud

News24 - 2014-09-19

Washington - Online piracy of music, films and other content has moved to the internet cloud, reaping big profits for digital thieves, according to a study released on Thursday.

The study identified 30 cloud-based "cyber lockers" which operate globally and are hosted in various locations around the world, and which take in some \$96m in annual revenue.

These operators use the same kind of technology and often look like legitimate services like Dropbox and Amazon Cloud Drive to deliver illegally copied content, according to the study by the Digital Citizens Alliance and British-based NetNames, two groups focused on online safety and fraud protection.

The cyber locker or cloud model has largely overtaken the older online piracy of peer-to-peer networks that allow individuals to share content on their own computers, but the result is the same.

"We've never had a business dependent on criminal activity grow and thrive in plain sight like the content theft industry," said Digital Citizens Alliance executive director Tom Galvin.

"It's astounding to think of 30 sites making \$100m on products they've stolen from content creators... cyber lockers wouldn't thrive, perhaps not even survive, without legitimate businesses facilitating the rogue operators' activities."

REQUIRED

- 5.1 What is meant by 'copyright' and why is copying of music and software illegal?
- 5.2 Who are two of the organizations fighting for the clampdown against fraud?
- 5.3 Do you feel that these organizations are being reasonable in their stance? Explain.
- 5.4 In your opinion, how will businesses be affected in the long-run if they turn a blind eye to this problem?
- 5.5 Do you feel that the copying of a CD, DVD or software is unethical? Explain.
- 5.6 Do you think that there are people suffering because of piracy? Explain.

QUESTION 6 – ACCOUNTING CONCEPTS**[6 marks; 3 minutes]**

Choose the correct answer. Write only the letter on the answer book.

6.1 The abbreviation 'GAAP' stands for:

- A Generally allowed accounting principles
- B Generally accepted accounting practice
- C General and accepted practice
- D General and accounting principles

6.2 The matching concept states that:

- A Financial information relevant to a reader of financial statements must be separately disclosed.
- B Financial information is recorded and reported in a conservative or pessimistic manner.
- C Financial information prepared on the understanding that a business will continue in the future.
- D Income and expenses must be reflected against each other in the correct financial period.

6.3 There are various types of internal controls that should be established in any business. Which one of the following is not a type of internal control?

- A King Code
- B Detective
- C Preventative
- D Corrective

TOTAL: 250 MARKS