Instructions

1. **This is an open book exam.**
2. You are reminded that answers may **NOT** be written in pencil or erasable pen.
3. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and the required depth of the answer.
4. Answer the questions using:
   - Appropriate arrangement and presentation;
   - Clarity of explanation;
   - Logical argument; and
   - Clear and concise language.

   Marks will be awarded for the above.

5. Non-programmable calculators are allowed.
6. Smart watches are NOT allowed
7. All scripts must be handed in.
8. Clearly show all calculations.
9. Assume that all amounts are material except where the contrary is stated.
10. Round amounts to the nearest Rand.

1 QUESTION 1: (5 MARKS)

State whether the following statements are **TRUE** or **FALSE**

1.1 According to the accrual concept, transactions must be recorded in the accounting records when the cash is received or paid, not necessarily when they occur. (1)

1.2 The going concern concept states that financial statements are prepared with the assumption that the entity will continue to exist for the foreseeable future. (1)

1.3 Revenue will result in an increase in owner's equity and increase in assets. (1)

1.4 Payment of an expense results in the decrease of assets and increase in owners' equity. (1)

1.5 Capital contribution by the owner is classified as Non-current assets. (1)

2 QUESTION 2: (14 MARKS)

Answer each of the following questions by selecting the correct letter (A – E) next to relevant the number Unless otherwise indicated, questions are not related. Only one answer per question will be allowed. **SHOW CALCULATIONS WHERE APPLICABLE!**

2.1 XYZ traders had equipment (cost price) on 1 January 2016 of R 80 000. A residual value of R 5000 is placed on equipment, and depreciated over useful life of 5 years on straight-line method. At the beginning of the current year the equipment had accumulated depreciation of R 30 000. The carrying amount of the equipment at the end of the financial year (31 December 2016) will be?

A. R32 000
B. R35 000
C. R33 333
D. R30 000
E. None of the above. (2)

2.2 A vehicle was purchased for R 50 000 at the beginning of the financial year, and is depreciated at 10% per annum on the reducing balance method. Accumulated depreciation on the vehicle at the beginning of the year was R13 550. Depreciation on the vehicle for the year will be?

A. R5 000
B. R3 465
C. R3 645
D. R 4 050
E. None of the above. (2)

2.3 Which of the following assets are not depreciated?

A. Vehicle
B. Fixed deposit
C. Equipment
D. Machinery
E. None of the above. (2)

2.4 Which of the following examples are current assets?

A. Buildings, bank, trade and other receivables
B. Vehicles, inventory, petty cash
C. Inventory, bank, trade and other payables
D. Inventory, bank (ct), trade and other receivables
E. None of the above. (2)

2.5 The following are examples of owners' equity accounts?

A. Capital, fixed deposit
B. Capital, drawings
C. Income, drawings
D. Long-term loan, expense
E. None of the above. (2)

2.6 Which of the following assets are not classified as a non-current asset?

A. 24 months fixed deposits
B. Debtors control
C. Vehicles
D. Furniture
E. None of the above. (2)

2.7 Which of the following sequences of steps best describes the correct sequence in the accounting cycle?

A. Source document, journal, ledger, trial balance, financial statements
B. Source document, trial balance, journal, ledger, financial statements
C. Source documents, ledger, journal, trial balance, financial statements
D. Trial balance, source documents, financial statements, ledger, journal
E. None of the above. (2)

3 QUESTION 3: (3 MARKS)

The following are examples of which elements of Financial Statement? State the element.

3.1 Equipment, Fixed Deposit, Inventory (1)

3.2 Salaries, Insurance, Rental paid (1)

3.3 Sales, Interest received, Rent received (1)

4 QUESTION 4: (33 MARKS)

You are the financial manager at Ronix Traders, and the young accounting clerk is struggling with some year-end procedures. You are provided with the following pre-adjustment trial balance from of Ronix Traders. The clerk asked your help with the outstanding entries.

Pre-adjustment trial balance on 31 December 2018	Dr	Cr
Capital		300 000
Drawings		33 000
Land	180 000	
Equipment	100 000	
Accumulate depreciation: Equipment:01/01/2018		45 500
Vehicles	80 000	
Accumulated depreciation: Vehicles:01/01/2018		20 000
Fixed deposit: ASBA Bank	20 000	
Inventory: 01/01/2018	33 000	
Debtors control	15 000	
Bank	27 000	
Cash and cash equivalents	1 579	
Allowance for credit losses :01/01/2018		750
Creditors control		11 811
Loan from Lion Bank		255 000
Sales		740 055
Purchases	540 000	
Freight on purchases	2 000	
Freight on sales	1 900	
Customs duty	4 550	
Rental income		24 000
Advertising costs	9 000	
Salaries	410 000	
General expenses	6 087	
	1 430 116	1 430 116

Additional information:

1. A fixed deposit investment was made at ASBA bank on 30 June 2018. The interest rate is 9% per annum. No interest has been received.
2. On 1 January 2017 Ronix traders borrowed R255 000 from Lion Bank. The loan bears interest at 15% per annum. No interest has been paid.
3. Allowance for credit losses must be adjusted to 3% of outstanding debtors.
4. Depreciation should still be provided for:
   - Vehicles has no residual value and is depreciated at 25% on the straight line method
   - Equipment has a residual value of R 5 000 and is depreciated at 20% on the reducing balance method.
5. Closing inventory balance on hand at 31/12/2018 is R19 800.

REQUIRED:

4.1 Compile the Statement of profit and loss and other comprehensive income for the year ended 31 December 2018. (18)

4.2 Prepare the Statement of Financial Position on 31 December 2018. (15)

NB: Notes to the financial statement are not required.

5 QUESTION 5: (33 MARKS)

Catwalksale (Pty) Ltd ("Catwalksale") is a web-based company, situated in Cape Town, which sells and produces designer brands at discount prices by hosting flash events. Flash sales offers high-end fashion brands at a discounted price, but for a limited time only. They send out notifications (emails, Facebook updates or tweets) to let their members-only community know when an event starts. It has grown to be South Africa's largest members-only private online shopping club.

You are the CEO of Wool-on Ltd ("Wool-on"), a clothing retailer listed on the Johannesburg Stock Exchange. Wool-on is a major user of the products sold on Catwalksale, they are one of Catwalksale's biggest customers. The financial director of Catwalksale has recently set up a meeting with you, to discuss whether Wool-on would be willing to provide short-term un-secured loan to Catwalksale, as they are experiencing short-term cash flow problems. Catwalksale is willing to pay interest on this short-term loan at current market related interest rates. The reason for their cash flow problem, is due to the strict water restrictions that have been imposed on the Western Cape. They need to use a lot of water to produce some clothing items, and had to pay large penalties due to the overuse of water.

Catwalksale has, however, signed an agreement with a company in Durban, to provide them with the necessary clothing items, at a premium, until the water crisis is overcome. The South-African weather bureau is very optimistic that the Western Cape will receive sufficient rain during the coming winter months in 2019.

The financial director has given you access to extracts from the financial statements of Catwalksale for the past two years, as well as additional information.

ADDITIONAL INFORMATION:

Financial Indicators/Ratios	2018	2017
A. Current ratio	?	2.91 : 1
B. Acid test ratio	?	1.28 : 1
C. Debtors collection period	?	16 days
D. Creditors payment period	?	27 days
E. Inventory turnover rate	?	24 times/year
F. Gross profit percentage	?	35%
G. Net profit percentage	?	4%
H. Return on equity	?	27%
I. Debt equity ratio	?	0.39

Catwalksale (Pty) Ltd
Extract from the statement of profit or loss and other comprehensive income for the year ending 31 December:

	2018	2017
Revenue (40% on credit)	3 550 000	3 500 000
Cost of sales (30% on credit)	(2 307 500)	(2 275 000)
Net profit after tax	50 000	950 000

Catwalksale (Pty) Ltd
Statement of financial position as at 31 December:

	2018	2017
Assets		
Property, plant and equipment	125 000	120 000
Current assets	**188 000**	**178 000**
Inventory	110 000	100 000
Trade debtors	75 000	66 000
Other receivables	3 000	4 000
Cash and cash equivalents	0	8 000
Total assets	**313 000**	**298 000**
Equity and liabilities		
Ordinary shares	51 000	51 000
Retained earnings	125 000	120 000
Long-term loans	47 000	66 000
Current liabilities	**90 000**	**61 000**
Trade creditors	66 000	53 000
Income tax	4 000	8 000
Bank overdraft	20 000	0
Total equity and liabilities	**313 000**	**298 000**

REQUIRED:

5.1 Use the financial information provided to calculate the following ratios for the year ending 31 December 2018:

A. Current ratio; (2)
B. Acid test ratio; (2)
C. Debtors collection period (in days); (2)
D. Creditors payment period (in days); (2)
E. Inventory turnover rate (times per year); (2)
F. Gross profit percentage; (2)
G. Net profit percentage; (2)
H. Return on equity; and (2)
I. Debt equity ratio. (2)

5.2 As CEO of Wool-on Ltd you have to compile a report about the financial position of the business to the shareholders. Use the ratios calculated in 5.2 to compare with the previous year's ratios. Offer recommendations and areas where Catwalksale (Pty) Ltd should focus on to reduce the threats their business faces, and offer your advice where the business can improve. Suggest areas of strengths and weaknesses of the bussiness and make recommendations to the shareholders whether they should give the loan to Catwalksale (Pty) Ltd or any other alternatives available. (15)

IMPORTANT:

- Carefully study the statement of profit or loss and other comprehensive income, the note and statement of financial position provided to calculate the ratios and compile your report.
- Round off all calculations to two decimal points and show formulas.
- Assume 365 days in a year.

6 QUESTION 6: (12 MARKS)

The following information has been extracted from the records of All Aboard Ltd. that sells small boats and boating accessories across the country. The following information has been extracted for the year ended 30 September 2018.

All Aboard Ltd
Extract from the statement of profit or loss and other comprehensive income for the year ended 30 September 2018

	R
Gross profit	2 400 000
Other operating expenses	(1 580 000)
Operating profit	820 000
Other operating income	
Profit on sale of equipment	12 000
Profit from operations	832 000
Financing activities	
Investment income – dividends	68 000
Interest on mortgage bond	(164 000)
Profit before tax	736 000
Income tax	(187 040)
Profit for the year	**548 960**

All Aboard Ltd
Cash flow statement for the year ended 30 September 2018

	R
Cash flow from operating activities	**115 960**
Cash received from customers	5 850 000
Cash paid to suppliers and employees	(5 010 000)
Net cash generated by operations	840 000
Dividends received	68 000
Interest received	-
Dividends paid	(410 000)
Interest paid	(164 000)
Tax paid	(218 040)
Cash flow from investment activities	**(1 644 400)**
Increase in investments	(314 400)
Purchase of land for expansion	(1 200 000)
Proceeds from sale of machinery	30 000
New equipment for expansion	(160 000)
Cash flow from financing activities	**1 000 000**
Increase in mortgage bond	550 000
Issue of ordinary shares	450 000
Net increase(decrease) in cash and cash equivalents	**(528 440)**
Cash & cash equivalents at beg of period	29 000
Cash & cash equivalents at end of period	(499 440)

REQUIRED:

6.1 You are the Financial Manager of All Aboard Ltd. The shareholders asked you to explain why the company is so cash-strapped; while the CEO is telling them they are making profits. By using the financial information provided to you above, write an formal e-mail to the shareholders explaining the reasons for the misunderstanding. (12)

TOTAL: [100]

Type the examination paper

File reference: 8.1.7.2.2