basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING

2016

MARKS: 300

TIME: 3 hours

This question paper consists of 21 pages and an answer book of 20 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 to achieve 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:**
VAT and Reconciliations	**Financial accounting** VAT calculations Reconcile a Creditors' Ledger Account to a statement of account **Managing resources** Internal control and internal audit

QUESTION 2: 50 marks; 30 minutes	
Topic of the question:	**This question integrates:**
Manufacturing	**Managerial accounting** Production Cost Statement Analyse and interpret break-even point **Managing resources** Internal control and internal audit

QUESTION 3: 40 marks; 25 minutes	
Topic of the question:	**This question integrates:**
Inventory Valuation, Internal Control and Problem-solving	**Managing resources** Inventory valuation: FIFO and weighted-average method Internal control and internal audit

QUESTION 4: 65 marks; 40 minutes	
Topic of the question:	**This question integrates:**
Concepts, Balance Sheet and Audit Report	**Financial accounting** Concepts Prepare Balance Sheet Ordinary share capital and retained income notes

QUESTION 5: 70 marks; 40 minutes	
Topic of the question:	**This question integrates:**
Fixed Assets, Cash Flow Statement and Analysis and Interpretation of Financial Statements	**Financial accounting** Cash Flow Statement Analyse and interpret financial information **Managing resources** Fixed asset management

QUESTION 6: 40 marks; 25 minutes	
Topic of the question:	**This question integrates:**
Budgeting	**Managerial accounting** Analyse and interpret a Projected Income Statement **Managing resources** Internal control

QUESTION 1: VAT AND RECONCILIATIONS (35 marks, 20 minutes)

VALUE-ADDED TAX

1.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (1.1.1–1.1.3) in the ANSWER BOOK.

1.1.1 VAT paid by a business on goods purchased is called VAT input.

1.1.2 It is compulsory for all businesses to register for VAT.

1.1.3 VAT returns to SARS are submitted after every six months of trading activities. (3 x 1) (3)

1.2 You are provided with information relating to Super Stores for the VAT period ended 29 February 2016 (two months). The standard VAT rate is 14%.

REQUIRED:

1.2.1 Taking into account the errors and omissions, calculate the VAT amount that is either payable to or receivable from SARS. (12)

1.2.2 The internal auditor discovered that the owner, Nelson, used the VAT collected from customers to pay salaries and bonuses; therefore, he could not meet the VAT deadline.

What comment would you offer Nelson concerning this practice? State ONE point. (2)

INFORMATION:

A. Amount due to SARS on 1 February 2016, R44 800.

B. **Amounts from the journals on 29 February 2016:**

	INCLUDING VAT	VAT AMOUNT
Sales	564 300	69 300
Credit purchases of stock	191 520	23 520
Stock returned by debtors	52 440	6 440
Bad debts written off	39 900	4 900

C. The following errors and omissions were noted:

- Stock taken by the owner, cost price R6 000 (excluding VAT), has not been recorded.
- VAT on sales was recorded incorrectly. Certain goods with a selling price of R50 000 (excluding VAT) should have been recorded as zero-rated items.
- VAT on discounts granted to debtors was not recorded. The total discounts allowed amounted to R19 152.

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1.3 **CREDITORS' RECONCILIATION**

Thanda Stores buys goods on credit from Minty Suppliers.

REQUIRED:

1.3.1 Use the table provided to indicate the changes that must be made:
- In the Creditors' Ledger Account in the books of Thanda Stores
- In the Creditors' Reconciliation Statement on 29 February 2016 (14)

1.3.2 An investigation into the transaction on 2 February 2016 for Invoice 560 revealed that Pearl Fakude (purchasing manager) ordered goods for herself. These goods were not taken into stock.

State TWO internal control measures that the business can use to prevent similar incidents from happening in future. (4)

INFORMATION:

A. Creditors' Ledger of Thanda Stores
Minty Suppliers

DATE		DETAILS	FOL.	DEBIT	CREDIT	BALANCE
Feb.	01	Balance	b/d			52 200
	02	Invoice 560	CJ		44 200	96 400
	04	Debit Note 52	CAJ	2 700		93 700
	07	Cheque 443	CPJ	31 350		62 350
		Discount received	CPJ	3 300		59 050
	20	Invoice 996	CJ		11 100	70 150
	23	Cheque 575	CPJ	13 200		56 950
	24	Invoice 590	CJ		24 000	80 950
	28	Cheque 580	CPJ	13 800		67 150
		Discount received	CPJ	1 380		65 770
	29	Invoice 592	CJ		44 400	110 170

B. Statement of account received from Minty Suppliers

MINTY SUPPLIERS **No. 2169**
205 Kingsview Road
Durban 3201

Debtor: **Thanda Stores** 25 February 2016

DATE		DETAILS	DEBIT	CREDIT	BALANCE
Jan.	25	Balance			67 200
	28	Receipt 110		15 000	52 200
Feb.	02	Invoice 560	49 200		101 400
	04	Credit Note 09	2 700		104 100
	07	Receipt 122		31 350	72 750
		Discount allowed		1 650	71 100
	18	Invoice 571	28 800		99 900
	23	Receipt 138		13 200	86 700
	24	Invoice 590	21 600		108 300
	25	Delivery charges	3 300		111 600

C. An investigation revealed the following errors and omissions:

(a) Invoice 996 was for goods that Thanda Stores bought from another supplier, Mondi Suppliers.

(b) Invoice 560 was recorded correctly on the statement of account.

(c) Invoice 571 was an error on the statement. This was for goods supplied to another business.

(d) The discount allowed on 7 February 2016 is correct as per the statement of account.

(e) Thanda Stores omitted to deduct the trade discount allowed on Invoice 590.

(f) Goods for R2 700 were returned by Thanda Stores to Minty Suppliers on 4 February 2016.

(g) In terms of the contract Minty Suppliers charges a delivery fee to all its customers.

(h) The statement of account only includes transactions up to 25 February 2016.

35

QUESTION 2: MANUFACTURING (50 marks; 30 minutes)

2.1 ABE ACCESSORIES

Abe Accessories manufactures cellphone covers. The information below is in respect of the financial year ended 29 February 2016.

REQUIRED:

2.1.1 Prepare the Factory Overhead Cost Note. Show ALL calculations in brackets. (15)

2.1.2 Prepare the Production Cost Statement for the year ended 29 February 2016. (8)

INFORMATION:

A.

Stock balances:	**29 FEBRUARY 2016**	**1 MARCH 2015**
Work-in-process stock	R9 320	R30 640

B. Transactions for the year ended 29 February 2016:

Consumable stores used in the factory	R129 300
Salaries and wages:	
Production wages	**?**
Other factory workers	R97 500
Administration	R250 000
Sales department	R130 000
Sundry expenses:	
Factory	R31 500
Offices	R28 000
Water and electricity	R50 000
Insurance	R24 000

C. Additional information and adjustments

- The factory cleaner was omitted from the salaries and wages list for February 2016. Her details are as follows:

Gross salary	Deductions	Net salary	Employer's Contribution
R3 800	R420	R3 380	R380

The employer's contribution is added to the salaries and wages.

- An amount of R4 000 is still outstanding for water and electricity for February 2016. The factory uses 60% of the water and electricity.
- Insurance has been paid from 1 March 2015 to 30 June 2016. This expense must be allocated to the factory, administration and sales departments in the ratio 3 : 2 : 1 respectively.

D. The business manufactured 10 500 cellphone covers at a cost of R82,40 per unit.

2.2 NEW FASHION MANUFACTURERS

This business is owned by Gloria Smit. She makes and sells dresses. The financial year ends on 29 February 2016.

REQUIRED:

2.2.1
- Gloria is concerned about the wastage of direct materials. Calculate the number of metres of fabric that was wasted. (5)
- Gloria feels that the wastage is significant. Give a calculation to support her opinion. (3)

2.2.2 Give TWO possible reasons for this wastage and, in EACH case, give advice to prevent this from happening in future. (4)

2.2.3 Break-even point and production:
- Calculate the break-even point for the year ended 29 February 2016. (4)
- Explain why the business should be satisfied with the number of units made during the current financial year. State TWO points. (4)

2.2.4 The direct material used to make the dresses is purchased locally at a cost of R150 per metre. Gloria is considering importing the fabric, as it will cost R120 per metre (all costs included). If she decides to import the fabric:

- What effect will it have on the production cost of a dress? Provide a calculation to support your answer. (3)
- State TWO other consequences of importing the direct material. (4)

INFORMATION:

A. Direct materials:

2,5 metres of fabric is used for each dress.

	Number of metres of fabric
Opening stock	525
Purchases	12 450
Raw materials issued to factory	**?**
Closing stock	1 475

B. Production levels:

	2016	2015
Total number of units produced and sold	4 500	3 800
Break-even point	**?**	3 200

C. Additional information:

	Total	Per unit
Sales	R2 925 000	R650
Fixed cost	R900 000	R200
Variable cost	R1 575 000	R350

50

QUESTION 3: INVENTORY VALUATION, INTERNAL CONTROL AND PROBLEM-SOLVING (40 marks; 25 minutes)

3.1 CONCEPTS

Give ONE word/term for each of the following descriptions by choosing a word/term from the list below. Write only the word/term next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.

perpetual inventory system; weighted-average method; specific identification method; periodic inventory system; first in first out (FIFO)

3.1.1 This method assumes that stock is sold in order of date purchased.

3.1.2 This system ensures that cost of sales is calculated at the point of sale.

3.1.3 This method of stock valuation assigns a unique or individual value to each stock item.

3.1.4 This stock system is more suited for low-value goods that are purchased in bulk. (4 x 1) (4)

3.2 LYNN STORES

You are provided with information relating to Lynn Stores. The business sells one type of leather shoes. The financial year ends on 29 February 2016. The business uses the weighted-average method for stock valuation and the periodic stock system.

REQUIRED:

3.2.1 Calculate the value of the closing stock on 29 February 2016 using the weighted-average method. (8)

3.2.2 Calculate the following for the year ended 29 February 2016:

- Cost of sales
- Gross profit (6)

3.2.3 Calculate the average stock-holding period (in days) on 29 February 2016. (5)

3.2.4 Calculate the value of the closing stock by using the FIFO method. (7)

INFORMATION:

A. Stock:

Date	Pairs of shoes	Total value (including carriage)
1 March 2015	520	R320 770
29 February 2016	325	**?**

B. Purchases:

Date	Pairs of shoes	Cost price per pair	Total purchases	Carriage per pair	Total cost (including carriage)
31/05/2015	460	R650	R299 000	R18	R307 280
01/08/2015	700	R680	R476 000	R18	R488 600
15/10/2015	500	R710	R355 000	R30	R370 000
01/02/2016	300	R725	R217 500	R30	R226 500
TOTAL	1 960		R1 347 500		R1 392 380

C. Returns:
Thirty pairs of shoes from the purchases on 1 February 2016 were not of a high quality. These were returned to the supplier. The business account was credited with R22 650 (including carriage on purchases).

D. Sales:
2 115 pairs of leather shoes were sold during the financial year. The selling price was kept constant at R1 400 per pair.

3.3 **PROBLEM-SOLVING**

You are provided with information of three jeans shops with different owners in Johannesburg. Each shop has a floor space of 100 m^2.

REQUIRED:

3.3.1 Identify ONE problem in Shop 1 and ONE problem in Shop 2. Quote figures. In EACH case, give ONE point of advice. (6)

3.3.2 Explain TWO good decisions that Chad has made in respect of Shop 3. Quote figures. (4)

Information per shop for December 2015:

	SHOP 1	SHOP 2	SHOP 3
Managers	Andy	Bob	Chad
Sales	R350 000	R240 000	R950 000
Returns from customers	R7 000	R36 000	R19 000
Mark-up percentage	90%	50%	60%
Stock-holding period	180 days	30 days	30 days
Advertising	R14 000	R4 800	R47 500
Rent expense	R35 000	R24 000	R96 000
Days worked per week	6	5	7
Shop assistants	4	2	6

40

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QUESTION 4: CONCEPTS, BALANCE SHEET AND AUDIT REPORT

(65 marks; 40 minutes)

4.1 CONCEPTS

Choose an explanation from COLUMN B that matches a concept in COLUMN A. Write only the letter (A–D) next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
4.1.1 Shareholder	A monitors control measures to prevent mismanagement and fraud
4.1.2 Director	B owners of the company
4.1.3 Internal auditor	C expresses an opinion on the financial statements of a company
4.1.4 External auditor	D appointed by the shareholders to manage the company

(4 x 1) (4)

4.2 PARADISE LIMITED

The information below relates to Paradise Ltd. The financial year ended on 29 February 2016.

REQUIRED:

4.2.1 Prepare the following notes for the year ended 29 February 2016:

- Ordinary share capital (6)
- Retained income (10)

4.2.2 Prepare the Balance Sheet (Statement of Financial Position) on 29 February 2016. Show ALL workings. (35)

INFORMATION:

A. List of balances extracted from the accounting records of Paradise Ltd on 29 February 2016, the end of the financial year, unless otherwise stated.

	R
Ordinary share capital (See Information B.)	**?**
Retained income (1 March 2015)	1 634 000
Loan from director: J Jonas (See Information E.)	1 155 000
Fixed assets at carrying value (1 March 2015)	12 278 400
Fixed deposit: Sandton Bank	**?**
Trading stock (balancing figure)	**?**
Creditors' control	478 000
Debtors' control	356 000
Provision for bad debts (1 March 2015)	16 000
Bank (favourable)	**?**
Accrued expenses (expenses payable)	12 000
Prepaid expenses	6 800
SARS: Income tax (provisional tax payments)	1 012 000

B. Share capital:

- Paradise Ltd is authorised to sell 5 000 000 ordinary shares.
- 3 000 000 shares were in issue on 1 March 2015, the beginning of the financial year, R6 000 000.
- 1 000 000 new shares were issued on 1 December 2015 at a market-related value of R5,00 per share.
- 200 000 shares were repurchased on 20 February 2016 from a shareholder who was relocating to another country. A payment of R770 000 was made on 20 February 2016.

C. Dividends:

- The directors paid an interim dividend of R840 000 on 28 August 2015.
- A final dividend of 44 cents per share was declared on 29 February 2016. All shares (including the shares repurchased on 20 February 2016) qualify for final dividends. These dividends will be paid on 31 March 2016.

D. Net profit before tax:

- After taking into account all relevant information, the net profit before tax was accurately calculated to be R3 800 000.
- Income tax at the rate of 28% must still be brought into account.

E. Loan from Director J Jonas:

- The loan was originally received on 1 December 2013.
- This loan is to be repaid over 5 years in equal monthly instalments with effect from 31 December 2013. All payments have been made.
- Interest is not capitalised and has been paid in full.

F. Provision for bad debts:

The provision for bad debts must be maintained at 5% of the outstanding debtors.

G. Fixed assets and depreciation:

- No fixed assets were purchased or sold during the financial year.
- Depreciation for the financial year ended 29 February 2016 was R890 000.

H. The following financial indicators were calculated after all adjustments had been taken into account:

Current ratio	1,3 : 1
Acid-test ratio	0,8 : 1

4.3 **AUDIT REPORT**

You are provided with an extract of the independent auditor's report of Topstar Ltd for the financial year ended 31 October 2015.

REQUIRED:

4.3.1 What type of audit report did Topstar Ltd receive? Choose from the following: unqualified, qualified, disclaimer. Give a reason for your choice. (3)

4.3.2 To whom is an audit report addressed? Give a reason for your answer. (3)

4.3.3 Explain why the auditor mentioned the following in the audit report:

- IFRS (2)
- Companies Act (Act 61 of 1973) (2)

INFORMATION:

Extract from the audit report:

In our opinion, the financial statements fairly present in all material respects the financial position of the company at 31 October 2015 as well as the financial results of its operations and the cash flows for the year then ended. This is in accordance with the International Financial Reporting Standards (IFRS) and the manner required by the Companies Act (Act 61 of 1973) in South Africa.

65

QUESTION 5: FIXED ASSETS, CASH FLOW STATEMENT, ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

(70 marks; 40 minutes)

5.1 CONCEPTS

Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (5.1.1–5.1.4) in the ANSWER BOOK.

5.1.1 The mortgage bond to finance the purchase of a fixed asset is a (financial asset/non-current liability).

5.1.2 Distributable reserves, such as retained income, are part of (shareholders' equity/non-current assets).

5.1.3 The amount due by SARS in respect of income tax is a (current asset/current liability).

5.1.4 An investment, such as a fixed deposit at 9% p.a. interest over five years, will be shown as a (current asset/financial asset). (4 x 1) (4)

5.2 MAFUSA LTD

The information presented relates to the financial year ended 30 April 2016.

NOTE: When financial indicators are required to support answers, you have to give the name of the financial indicator and the actual figure, ratio or percentage.

REQUIRED:

5.2.1 **Refer to Information C.**
Calculate the missing amounts denoted by **(a)** to **(d)** for equipment in the Fixed Asset Note. Show all workings. (16)

5.2.2 Calculate the following amounts for the Cash Flow Statement. Show ALL workings.

- Income tax paid (5)
- Net changes in cash and cash equivalents (4)

5.2.3 Complete the section on FINANCING ACTIVITIES in the Cash Flow Statement. (7)

5.2.4 Calculate the following financial indicators on 30 April 2016:

- Return on average shareholders' equity (5)
- Net asset value (3)

5.2.5 Comment on the overall liquidity position of the company. Quote THREE relevant financial indicators (with figures). (8)

5.2.6 The directors decided to change the dividend pay-out policy in 2016.

- Provide calculations that indicate the policy change. (4)
- Explain the effect of this change of policy on the company. State TWO points. (4)

5.2.7 One of the directors feels that the company should pay back the loan as soon as possible. What are your views about this? Quote and explain TWO relevant financial indicators with figures. (6)

5.2.8 Explain why the shareholders are satisfied with:

- The market price of the shares on the JSE (2)
- The price at which the 75 000 shares were repurchased on 25 April 2016 (2)

In EACH case, quote figures/financial indicators.

INFORMATION:

A. Information extracted from the Income Statement on 30 April 2016:

	R
Operating profit	1 590 000
Interest expense	300 000
Net profit before income tax	1 279 000
Net profit after income tax	895 300

B. Information extracted from the Balance Sheet on 30 April 2016:

	2016 (R)	**2015 (R)**
Fixed deposit	200 000	520 000
Current assets (including cash and cash equivalents)	946 550	887 250
Cash and cash equivalents	125 750	54 750
Shareholders' equity	7 166 850	6 142 800
Ordinary share capital	6 660 000	5 600 000
Retained income	506 850	542 800
Non-current liabilities	1 800 000	2 750 000
Current liabilities	526 750	509 500
Trade and other payables	285 600	232 800
Bank overdraft	0	92 000
Shareholders for dividends	231 250	176 000
SARS: Income tax	9 900	8 700

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C. Fixed assets:

Fixed assets comprise land and buildings and equipment.

Extract from the Fixed Asset Note:

	EQUIPMENT
Cost (1 May 2015)	3 640 000
Accumulated depreciation (1 May 2015)	**(a)**
Carrying value (1 May 2015)	2 002 000
Movements:	
Additions	900 000
Disposals	**(b)**
Depreciation	**(c)**
Carrying value (30 April 2016)	
Cost (30 April 2016)	**(d)**
Accumulated depreciation (30 April 2016)	

- Equipment is depreciated at 15% p.a. on cost.
- On 31 August 2015 old equipment costing R750 000 was sold for cash at its carrying value. The accumulated depreciation on this equipment was R491 750 on 1 May 2015.
- On 1 December 2015 new equipment valued at R900 000 was purchased.
- There were no other movements.

D. Share capital and dividends:

The business is registered with an authorised share capital of 1 200 000 ordinary shares.

1 May 2015	The issued share capital consisted of 800 000 ordinary shares.
1 February 2016	200 000 ordinary shares were issued at R8,00 per share.
25 April 2016	75 000 ordinary shares were repurchased from a retired shareholder at a total cost of R600 000.
30 April 2016	There were 925 000 shares in issue.

Total dividends for the financial year amounted to R871 250.

E. The following financial indicators were calculated on 30 April:

	2016	**2015**
Current ratio	1,8 : 1	1,7 : 1
Acid-test ratio	0,9 : 1	1,3 : 1
Stock-holding period	52 days	68 days
Debtors' collection period	47 days	30 days
Creditors' payment period	30 days	30 days
Debt-equity ratio	0,3 : 1	0,4 : 1
Return on capital employed	11%	13%
Return on shareholder's equity	**?**	14,5%
Earnings per share	107 cents	112 cents
Dividends per share	105 cents	40 cents
Net asset value per share	**?**	768 cents
Market price per share (JSE)	960 cents	777 cents
Repurchase price per share	800 cents	-
Interest rate of loan	14%	13%

70

QUESTION 6: BUDGETING **(40 marks; 25 minutes)**

You are provided with a partially completed Projected Income Statement of Senoge Stores prepared by the bookkeeper for the period 1 May 2016 to 30 June 2016. The business is owned by Susan Senoge.

REQUIRED:

6.1 Calculate the missing amounts denoted by **(a)** to **(d)** in the Projected Income Statement. (12)

6.2 Taking into account the additional information, calculate the following:

6.2.1 The monthly salary due to the sales manager in June 2016 (4)

6.2.2 The total credit sales expected in July 2016 (4)

6.2.3 The cost price of the new vehicle purchased on 1 May 2016 (4)

6.3 Comment on the control of the telephone and water and electricity. What advice would you offer Susan? State ONE point. (4)

6.4 Susan wants to reduce the maintenance budget to R500 per month and then use this saving for staff training. What should she consider before making this change? State TWO points. (4)

6.5 A new competitor started operating from nearby premises in May 2016. Refer to the actual figures for May 2016 and:

- Explain how Susan responded to this threat. State THREE points. Provide figures/calculations to support your answer. (6)
- Explain whether Susan's response was successful or not. Provide figures. (2)

INFORMATION:

A. Salaries and wages:
- The cleaner will receive an 8% increase in June 2016.
- The business employs a sales manager and an administration manager. The sales manager earns R400 more than the administration manager (per month). The managers are entitled to an increase of 7% p.a. from 1 June 2016.

B. The business uses a mark-up percentage of 60% on cost.

C. Credit sales comprise 80% of total sales. Sales are expected to increase by 10% per month and by 12% during July 2016.

D. A delivery vehicle was purchased on 1 May 2016. Vehicles are depreciated at 15% per annum on cost. The accountant did not take this into account when preparing the Projected Income Statement for May 2016.

E. Rent income increased by 9% on 1 June 2016.

F. Information (amongst others) from the Projected Income Statement for May 2016 to June 2016:

	MAY BUDGETED	MAY ACTUAL	JUNE BUDGETED
Sales	180 000	195 000	198 000
Cost of sales	(112 500)	(150 000)	**(b)**
Gross profit	67 500		
Other income		19 200	
Rent income	**(d)**		10 028
Commission income	12 500	8 000	13 000
Discount received	1 800		1 980
Gross operating income			
Operating expenses	(45 650)		
Salaries (two managers)	18 000	18 000	
Wages (cleaner)	1 800	1 800	**(c)**
Maintenance	5 000	2 000	5 000
Motor vehicle expenses	0	4 000	0
Administration expenses	8 450	8 420	8 500
Telephone, water and electricity	2 000	4 880	2 000
Insurance	1 800	1 800	1 800
Advertising	2 400	9 600	2 400
Depreciation	6 200	9 000	
Trading stock deficit	0	1 680	
Operating profit	**(a)**		
Interest income	350	350	350
Profit before interest expense	46 500		
Interest expense	(500)	(500)	(500)
Net profit	46 000		

40

TOTAL: 300