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ACCOUNTING

GRADE 12

WINTER CLASSES

Week 1 Topics:	**Interpretation of financial statements, corporate governance, and tangible assets.**
Week 2 Topics:	**Bank reconciliation, debtors' reconciliation, creditors reconciliation and cost accounting**

TEACHER AND LEARNER CONTENT MANUAL

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ACCOUNTING PROGRAMME FOR 2024 WINTER CLASSES

WEEK ONE	
TOPICS	**DURATION**
Pre-Test.	(1 hour)
Interpretation of Financial Statements	(3 hours)
Corporate Governance	(2 hours)
Tangible assets	(2 hours)
WEEK TWO	
WEEK TWO Reconciliations: Bank reconciliation Debtors reconciliation and age analysis Creditors reconciliation	(6 hours)
Cost accounting.	(3 hours)
Post-Test.	(1 hour)

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RECONCILIATION

ACTIVITY 1

1.1 BANK RECONCILIATION AND INTERNAL CONTROL

The following information relates to Marula Traders for July 2022. The Bank statement shows transactions up to the 25th of July 2022 and the business prepares a bank reconciliation after receiving the statement.

REQUIRED:

1.1.1 Show the entries that must be recorded in the Cash Journals by completing the table provided in the ANSWER BOOK. (7)

1.1.2 Calculate the Bank Account balance on 31 July 2022. (4)

1.1.3 Prepare the Bank Reconciliation Statement on 31 July 2022. (8)

1.1.4 **Refer to Information C.**

Explain whether or not the business made the right decision in alerting the bank about the deposit of R9 800, on 25 July 2022. (2)

INFORMATION:

A. Bank Reconciliation Statement on 30 June 2022:

Favourable balance as per Bank Statement		R 18 400
Outstanding deposit:	Dated 28 June 2022	12 730
Outstanding EFT's	No. 632	13 200
	No. 633	2 630
Favourable balance as per Bank Account in the Ledger		15 300

B. On 31 July 2022, the provisional totals in the Cash Journals were:

- Cash Receipts Journal, R510 600
- Cash Payments Journal, R486 300

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C. Information on the July 2022 Bank Statement which did not appear in the July 2022 Cash Journals:

DATE		DETAILS	DEBIT	CREDIT
June	29	Deposit		R12 730
	29	EFT – 632	R13 200	
	30	Deposit		R6 250
July	01	EFT – 633	R6 230	
	05	Petty Insurers	R1 850	
	05	Petty Insurers	R1 850	
	15	Debit card withdrawal	R1 000	
	20	Transaction fees	R1 425	
	24	Interest on current account		R290
	25	Voda Administrators		R9 800

- The deposit on the 30th was for a rent income from a tenant, S.Ntuli.
- EFT No. 633 on the 1st appeared correctly on the Bank Statement.
- A debit order on the 5th, R1 850 for the monthly insurance appeared twice on the Bank Statement, but no entry has been made in the Journals. The bank will rectify this on the Bank Statement next month.
- Debit card withdrawal on the 15th was a windscreen repair to the business vehicle. The driver did not submit the slip to bookkeeper.
- The deposit on the 25th was incorrectly deposited to Marula Traders. The bank was notified.

D. The following entries were in the Cash Journals for July 2022 only:
- A deposit of R10 000 (dated 29 July 2022)
- EFT No. 655, R5 650
- EFT No. 656, R1 445

E. Bank Statement balance 31 July 2022……?

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ACTIVITY 1: ANSWER BOOK

1.1 BANK RECONCILIATION AND INTERNAL CONTROL

1.1.1 Show the entries that must be recorded in the Cash Journals.

CASH RECEIPTS JOURNAL		CASH PAYMENT JOURNAL	
Details	Amount	Details	Amount
Provisional total	R510 600	Provisional total	R486 300

8

1.1.2 Calculate the Bank Account balance on 31 July 2022.

	Answer

4

1.1.3

BANK RECONCILIATION STATEMENT ON 31 JULY 2022		
	DEBIT	CREDIT
Balance per Bank Statement		
Debit outstanding EFTs:		
Balance as per Bank Account		

7

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ACTIVITY 2

The information was extracted from the records of Hilton Traders for June 2020. The Bank statement shows transactions up to the 25th of June 2020 and the business prepares a bank reconciliation after receiving the statement.

REQUIRED:

2.1 Complete the Cash Journals for June 2020. (**Note**: The information from the Bank Statement was not taken into account) (31)

2.2 Prepare the Bank Account on 30 June 2020. (6)

2.3 Prepare the Bank Reconciliation Statement on 30 June 2020. (9)

2.4 Provide TWO suggestions that the business can use to prevent a situation like the one experience on 26 May 2020 in the future. (4)

2.5 Identify the problem that is revealed by the previous reconciliation, and list TWO internal control measures to solve this problem. (5)

2.6 Refer to the debit order for R2 244. Provide a possible explanation how this may have occurred and provide advise on how this can be rectified. (4)

INFORMATION:

A. Extract from the Bank Reconciliation statement on 31 May 2020:

Outstanding deposits: 17 May 2020	R32 100
26 May 2020	7 300
Outstanding EFT: No. 123	17 600
Unfavourable balance as per bank account	3 456

NOTE:

- The outstanding deposit of R32 100 appeared on the June 2020 bank statement.
- The outstanding deposit on the 26 May 2020 was reflected as R5 700 on the June statement. Upon enquiry, the bank confirmed that it was because of counterfeit notes included in the total deposit. This was cash received for repair services rendered. It was decided to write-off this difference.

EFT 123 appeared on the Bank Statement for June 2020.

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B. Provisional totals from the Cash Journals on 30 June 2020:

- Cash Receipt Journal, R56 200
- Cash Payment Journal, R67 400

C. The following information on the June 2020 Bank Statement from XXZ Bank did not appear in the June 2020 Cash Journals:

- Debit orders:

Pro Insurers	R5 890	Monthly insurance premium
Matjhabeng Metro	R6 000	R4 500 is for the business' rates and taxes and the balance is for the owner's private property.
YEN Bank	R5 300	Monthly repayment of loan

- EFT Fees, R189
- Cash handling fee, R112
- Service Fees, R292
- Interest on bank overdraft, R317
- A deposit from P. Nel, R11 600 for his monthly rent.
- A debit order for R2 244 appeared on the business bank statement, on 29 June 2020. This was not an account of the business and fortunately, the owner was able to instruct the bank to cancel this entry. This reversal will be reflected on the next statement.
- A direct deposit of R16 300 was wrongly reflected on the business Bank Statement. The bank will rectify the error.
- A deposit from N. Botha for R3 400 in settlement of his account of R3 500.

D. The following information in the June 2020 Cash Journals did not appear on the Bank Statement for June 2020:

- Outstanding deposit, R17 800
- EFT 654 for R5 555 to BP Suppliers for sanitizing supplies purchased.

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ACTIVITY 2: ANSWER BOOK

2.1

CASH RECEIPT JOURNAL - JUNE 2020 CRJ 6

Doc	Day	Details	Bank	Amount	Details
	30	Total	56 200	56 200	

10

CASH PAYMENT JOURNAL - JUNE 2020 CPJ 6

Doc	Day	Details	Bank	Amount	Details
	30	Total	67 400	67 400	

21

2.2

GENERAL LEDGER OF HILTON TRADERS

Bank

6

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2.3 **Bank Reconciliation Statement on 30 June 2020.**

	Debit	Credit

9

2.4 **Provide TWO suggestions that the business can use to prevent a situation like the one experience on 26 May 2020 in the future.**

`
4

2.5 **Identify the problem that is revealed by the previous reconciliation, and list TWO internal control measures to solve this problem.**

PROBLEM:

TWO CONTROL MEASURES

5

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2.6 **Refer to the debit order for R2 244. Explain a possible reason how this may have occured, and provide advise on how this can be rectified.**

POSSIBLE EXPLANATION

.

POINT OF ADVICE

4

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ACTIVITY 3

3.1 BANK RECONCILIATION

The following information relates to Sizwe Traders for July 2022.The Bank statement shows transactions up to the 25th of July 2022 and the business prepares a bank reconciliation after receiving the statement.

REQUIRED:

3.1.1 Calculate the correct balance of the Bank Account in the General Ledger on 31 July 2016. State if this balance is favorable or unfavourable (8)

3.1.2 Prepare the Bank Reconciliation Statement on 31 July 2016. (6)

3.1.3 Refer to Information C.

Explain ONE internal control measure that the business should implement to ensure that this will not happen in the future. (2)

INFORMATION:

A. Extract from the Bank Reconciliation Statement on 30 June 2022:

Favourable balance as per Bank Statement	R42 555
Outstanding deposit: (dated 11 June 2022)	R37 800
Outstanding EFT:	
No. 305	R8 400

B. The balance in the Bank Account was provisionally calculated as a favourable balance of R16 785 on 31 July 2022, before taking into account the items listed below.

C. The following items appeared only on the July Bank Statement:

- Interest earned on favourable bank balance, R285.
- Bank charges, R950
- Unidentified debit order of R1 950. The bank promised to correct this error on the August 2022 Bank Statement.

D . EFT No. 374 appeared correctly on the Bank Statement as R8 450. The Cash Journal shows it as R4 850.

E. The outstanding deposit of R37 800 does not appear on the Bank Statement for July 2022. An investigation revealed that this money was never deposited. The cashier has disappeared.

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F. The following entries were only in the Cash Journals for July 2022:

- A deposit of R27 180 made on 31 July 2022
- EFT No. 401, R18 600

G. The balance on the Bank Statement on 31 July 2022 is the missing figure.

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ACTIVITY 3: ANSWER BOOK

3.1.1

Calculate the correct balance of the Bank Account in the General Ledger on 31 July 2022.

Provisional Bank balance	**R16 785**
Correct Bank balance	

Favourable/Unfavourable: _____

3.1.2 Bank Reconciliation Statement on 31 July 2022

			6

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3.1.3

Explain ONE internal control measure that the business should implement to ensure that this will not happen in the future.

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ACTIVITY 4

4.1 Indicate whether each of the following statements are TRUE or FALSE. Write only 'true' or 'false' next to each number (2.1.1 to 2.1.3) in the ANSWER BOOK.

4.1.1 Cash withdrawal fee and interest on overdraft on a bank statement are recorded as bank charges in the Cash Payments Journal.

4.1.2 A credit balance on the bank statement represents a favourable balance for the business.

4.1.3 It is not necessary to prepare a bank reconciliation statement because the bank statement will always provide the correct bank balance. (3)

4.2 AMADEV STORES The information relates to July 2022. The official bank statement, used for reconciliation purposes, is e-mailed to the business on 25th of each month.

REQUIRED:

4.2.1 Update the CRJ and CPJ totals in the table provided and calculate the correct bank account balance in the General Ledger on 31 July 2022. Show ALL workings. (9)

4.2.2 Prepare the Bank Reconciliation Statement on 31 July 2022. (8)

4.2.3 Refer to INFORMATION D: Deposit of R22 500 on 20 July 2022. Explain why the accountant should be concerned about this deposit. Provide ONE point. (2)

INFORMATION:

A. The Bank account in the General Ledger reflected a favourable balance of R21 800 on 1 July 2022.

B. Before inspecting the July bank statement, the provisional totals in the July journals were: CRJ: R116 400 and CPJ: R132 500.

C. Bank charges on July bank statement but not in the journal, R1 150.

D. Deposit, dated 20 July was not reflected on the bank statement, R22 500.

E Deposit, dated 29 July was not reflected on the bank statement, R12 700.

F. EFT received from a debtor was correctly reflected as R5 300 on the bank statement, but incorrectly recorded as R3 500 in the journal.

G. The debit order for cell phone data, R1 840, was not recorded in the relevant journal. It was also incorrectly duplicated on the July bank statement.

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H. EFT 778, dated 31 July, was not reflected on the bank statement, R6 200.

I. Rent received on 30 July, R9 200, was recorded in the journal from a proof of payment received from the tenant. This did not appear on the statement.

J. Debit order for advertising appeared on the bank statement but not in the journal, R740. K. The bank statement closed with a balance of R? on 25 July 2022.

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ACTIVITY 4: ANSWER BOOK

4.1

4.1.1	
4.1.2	
4.1.3	

4.2 Update the CRJ and CPJ totals in the table provided, and calculate the correct Bank balance in the General Ledger on 31 July 2022.

CASH RECEIPTS JOURNAL	**CASH PAYMENTS JOURNAL**
116 400	**132 500**

Bank Balance:

(9)

4.2.2

BANK RECONCILIATION STATEMENT ON 31 JULY 2022		

(8)

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4.2.3

Refer to the outstanding deposit of R22 500 dated 20 July 2022. Explain why the accountant should be concerned about this deposit. Provide ONE point.

(2)

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ACTIVITY 5

5. Bank Reconciliation and internal control.

The following information relates to Zay Traders for June 2023.

NOTE: The official bank statement, used reconciliation, is sent by e-mail to the business on the 25th of each month.

REQUIRED:

5.1 Show the entries that must be recorded in the Cash Journals by completing the table provided in the ANSWER BOOK.

5.2 Calculate the Bank Account balance on 30 June 2023.

5.3 Prepare the Bank Reconciliation Statement on 30 June 2023.

5.4 The auditor identified problems relating to deposits. Explain and quote ONE piece of evidence.

INFORMATION:

A. Extract from the Bank Reconciliation Statement on 31 May 2023:

Outstanding deposits: 9 June 2023	22 420
30 June 2023	65 164
Outstanding EFT No. 118	8 234
Outstanding EFT No. 121	14 350
Favourable bank balance as per the Bank Accounting in the Ledger	65 000

NOTE:

- The outstanding deposit on 30 June 2023 appeared on the June Bank Statement, but the deposit on the 9 June appeared as R12 420.
- EFT 121 appears on the June Bank Statement with the correct amount of R13 450.
- All other entries appeared correctly on the June Bank Statement.

B. Before inspecting the June Bank Statement, the provisional totals in the June Cash Journals were:

- Cash Receipts Journal, R610 400
- Cash Payment Journal, R568 300

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C. **Information on the June Bank Statement from Perfect Bank which did not appear in the June Cash Journals**.

- Transaction fees of R890
- Interest on credit balance R108
- A debit order to the City Council for R25 100 for water, electricity and utilities.
- A deposit of R42 200 from Growth Bank, being a fixed deposit, that matured together with the interest.
- EFT 182 for R3 121 in favour of Ace Garage Dealers was recorded in the correct journal. Perfect Bank however, reflected it twice on the June Bank Statement. The bank informed us that they will rectify it on the next Bank Statement.
- Debtor, I. Pay, sent Zay Traders proof of a direct deposit into the business bank account of R7 860, ON 26 June 2023, being a payment on her account. The bookkeeper entered this in the CPJ.
- ATM withdrawal by Zay, the owner, for personal use, R6 000.

D. The following entries were in the Cash Journals for June 2023 only:

- A deposit of R10 000 (dated 29 June 2023)
- EFT No. 188, R6 780
- EFT No. 189, R2 468

E. Bank Statement balance 30 June 2023….?

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ACTIVITY 5: ANSWER BOOK

Bank Reconciliation and internal control.

5.1

CASH RECEIPT JOURNAL	CASH PAYMENT JOURNAL
Provisional total: R610 400	**Provisional total: R668 300**

(11)

5.2 Calculate the Bank Account balance on 30 June 2023.

WORKINGS	ANSWER

5.3

Bank Reconciliation Statement on 30 June 2023		
	DEBIT	CREDIT

(8)

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5.4

The auditor identified problems relating to deposits. Explain and quote ONE piece of evidence.

(2)

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ACTIVITY 6

6 The information relates to Rainbow Suppliers. The business is owned by Thami Louw.

They update their records after receiving the Bank Statement on the 25th of each month. EFTs are renumbered according to date order before recording in journals.

REQUIRED:

6.1 Show the entries that must be recorded in the Cash Journals by completing the table provided in the ANSWER BOOK. (9)

6.2 Calculate the correct bank balance in the ledger on 31 July 2023. (4)

6.3 Prepare the Bank Reconciliation Statement on 31 July 2023. (8)

6.4 Explain TWO concerns the owner should mention to the bookkeeper relating to the internal control over cash resources. Quote figures. In each case, explain a strategy to prevent such problems in future. (6)

INFORMATION:

A. Bank Reconciliation Statement on 30 June 2023:

Favourable balance as per Bank Statement		R18 450
Outstanding deposits:	Dated 10 June 2023	12 600
	Dated 25 June 2023	15 000
Outstanding EFT's:	No. 613	13 400
	No. 614 (dated 29 July 2023)	6 950
Favourable balance as per Bank Account in the Ledger		25 700

NOTE:

On comparing the July 2023 Bank Statement, received from RSA Bank, with the Bank Reconciliation Statement of June 2023, the following were noted:

- The outstanding deposit of R15 000 did not appear on the July Bank Statement. An investigation revealed that this money was never deposited. The cashier cannot account for the cash.
- EFT no. 613 was correctly reflected as R14 300 on the July Bank Statement.
- The other outstanding amounts from previous month appeared on the July Bank Statement.

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B. The provisional totals in the Cash Journals, before receiving the July Bank Statement reflected:

Cash Receipt Journal	Cash Payment Journal
R510 600	**R484 450**

C. The following items on the July 2023 Bank Statement must still be recorded:

i. Transaction fees, R1 425
ii. Interest on favourable bank balance, R145.
iii. A direct deposit of R6 250 from a tenant.
iv. A debit order of R1 850 for the monthly insurance appeared twice on the Bank Statement. The bank will rectify the problem next month.
v. A debit card payment of R2 700 for a battery for the business vehicle. Thami, the owner, neglected to submit the transaction slip to the bookkeeper.

D. The following entries were in the Cash Journals after the 25 July 2023:

- A deposit of R10 000 on 28 July 2023
- EFT no. 652, R5 650 (dated 29 July 2023)
- EFT no. 655, R1 445 (dated 30 July 2023)

E. Bank Statement balance on 31 July 2023: ?

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ACTIVITY 6: ANSWER BOOK

6.1

CASH RECEIPT JOURNAL		CASH PAYMENT JOURNAL	
Details	**Amount**	**Details**	**Amount**
Total	**R510 600**	**Total**	**R484 450**

(9)

6.2

Calculate the correct bank balance in the ledger on 31 May 2023.	
Workings	**Answers**

(4)

6.3

Bank Reconciliation Statement on 31 July 2023.			
	Alternative	**Debit**	**Credit**
Balance as per Bank Statement			
Credit outstanding EFTs			
Balance as per Bank Account			

(8)

Explain TWO concerns the owner should mention to the bookkeeper relating to the internal control over cash resources. Quote figures. In each case, explain a strategy to prevent such problems in future.	
Concern with evidence	**Strategy**

(6

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DEBTORS RECONCILIATION AND AGE ANALYSIS

ACTIVITY 1

1.1. The information below, relates to Umlazi Traders for June 2021.

REQUIRED:

1.1.1. Explain TWO internal control measures that Umlazi Traders can use to ensure that only reliable clients are granted credit. (4)

1.1.2. Explain why is the preparation of debtors' collection schedule and debtors' age analysis important as internal control measures? (4)

1.1.3. Refer to information A and B:

- Calculate the correct Debtors Control balance on 30 June 2021. (4)
- Calculate the balances for the debtors listed in the ANSWER BOOK. (12)

1.1.4. Refer to information C:

- Calculate the percentage of debtors' accounts that comply with the credit terms. (3)
- Explain TWO measures to prevent losses due to bad debts in the future. (4)

INFORMATION:

A. Balances on 30 June 2021 (before errors and omissions):

- **Debtors Control Account R74 600**
- **Debtors list R72 000**

V. Shabangu	R25 000
S. Mazibuko	R13 100
B. Mpisane	R26 000
P. Pillay	?

B. Errors and omissions discovered:

I. The Debtor's Journal was overcast by R2 800.

II. An allowance of R1 000 granted to V. Shabangu for damaged goods was correctly entered in the DAJ but posted to the wrong side of his ledger account.

III. Goods sold on credit to P. Pillay for R7 500 was entered incorrectly in the debtors ledger account as R5 700. Posting to the General Ledger was correct.

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IV. An EFT for R3 000 received from B. Mpisane was recorded in the account of S Mazibuko in error.

V. Payment for R5 000 received from V Shabangu and a discount of R400 granted was not record in both ledgers.

C. DEBTORS AGE ANALYSIS

AMOUNT OWING	CURRENT MONTH	30 - 60 DAYS	61 – 90 DAYS	90+ DAYS
R71 200	21 360	7 120	28 480	14 240

Debtors are allowed up to 60 days to settle their accounts.

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ACTIVITY 1: ANSWER BOOK

1.1

1.1.1

Explain TWO internal control measures that Umlazi Traders can use to ensure that only reliable clients are granted credit.

1.1.2

Why is the preparation of a debtors' collection schedule and debtors' age analysis important internal control measures? **Debtors collection schedule:** **Debtors age analysis:**

1.1.3

Calculate the correct Debtors Control balance on 30 June 2021.

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Calculate the balances for the following debtors:		
V. Shabangu	25 000	
S. Mazibuko	13 100	
B. Mpisane	26 000	
P. Pillay		

1.1.4

Calculate the percentage of debtors that are not complying with the 30 days credit terms.

Explain TWO measures to prevent losses due to bad debts in the future.

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ACTIVITY 2

2.1 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question number (2.1.1–2.1.3) in the ANSWER BOOK.

2.1.1 The balance in the Debtors' Control Account should equal the total of the debtors' list.

2.1.2 Bad debts will be recorded in the Debtors' Allowances Journal.

2.1.3 The source document for the debtor's journal is the original invoice. (3)

2.2 **MIZZY BOUTIQUE**

The Debtors' Control Account and debtors' list for February 2017 prepared by the bookkeeper contained errors/omissions.

REQUIRED:

Use the table provided to indicate corrections that must be made to the Debtors' Control Account and the debtors' list.

Provide figures and a plus (+) or minus (–) sign for each correction. (13)

INFORMATION:

A.

	Debtors' Control Account	**Debtors' List**
Balance/Total	R37 710	R39 490

B. Errors or omissions to be corrected:

(a) No entry was made for an invoice for R7 440 issued to G Gwen.

(b) A receipt for R9 400 issued to debtor B Crawley was recorded correctly in the relevant journal. It was posted incorrectly as R4 900 to his Debtors' Ledger Account.

(c) An invoice for R1 360 issued to A Naidoo was correctly recorded in the DJ. It was posted in error to the wrong side of her account in the Debtors' Ledger.

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(d) A EFT for R1 350 received from D Zulu was recorded in the CRJ and posted to the Debtors' Control Account and Debtors' Ledger accordingly. D Zulu's account was previously written off.

(e) A credit note for R720 issued to W Wallace was recorded in the DAJ as R270 and posted as such.

(f) Credit sales to J Taylor for R1 950 was not recorded.

2.3 **GLENDALE TRADERS**

The debtors' age analysis on 30 April 2017 is provided. Credit terms are 30 days.

REQUIRED:

2.3.1 Explain how a debtors' age analysis can assist with internal control over debtors. (2)

2.3.2 Calculate the percentage of total debts exceeding the credit terms. (4)

2.3.3 Explain ONE problem (with figures) relating to EACH of the following debtors:

- D Pillay
- W Patel (4)

2.3.4 Explain TWO problems (with figures) relating to debtor D Gouws. (4)

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INFORMATION:
DEBTORS' AGE ANALYSIS ON 30 APRIL 2017:

	CREDIT LIMIT	AMOUNT OWING	CURRENT MONTH	30 DAYS	60 DAYS	90 DAYS
	R	R	R	R	R	R
D Pillay	10 000	11 800	1 980	9 820		
D Gouws	14 000	13 450	4 100	3 902	5 448	
Z Ngosi	2 800	2 550		2 550		
W Patel	14 000	11 192			9 112	2 080
P Peters	5 000	2 608	1 408	1 200		
		41 600	7 488	17 472	14 560	2 080
		100%	**?**	**?**	**?**	**?**

30

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ACTIVITY 2: ANSWER BOOK

2.1 TRUE OR FALSE

2.1.1			
2.1.2			
2.1.3			3

2.2 MIZZY BOUTIQUE

Use the table provided to indicate corrections that must be made to the Debtors' Control Account and the debtors' list.

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

	Debtors' Control Account	Debtors' List	
Balance/Total on 28 February 2017	R37 710	R39 490	
(a)			
(b)			
(c)			
(d)			
(e)			
(f)			
Balance/Total on 28 February 2017			13

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2.3 GLENDALE TRADERS

2.3.1 **Explain how a debtors' age analysis can assist with internal control over debtors.**

2

2.3.2 **Calculate the percentage of total debts exceeding the credit terms.**

4

23.3 **Explain ONE problem (with figures) relating to EACH of the following debtors:**

DEBTOR	PROBLEM FIGURES
D Pillay	
W Patel	

4

2.3.4 **Explain TWO problems (with figures) relating to debtor D Gouws.**

4

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ACTIVITY 3

3.1. DEBTORS' AGE ANALYSIS

The information below relates to Witbank Hardware.

REQUIRED:

3.1.1. Explain why the debtors' age analysis is considered to be an effective internal control measure. State ONE point. (2)

3.1.2. Explain TWO different problems highlighted by the debtors' age analysis. In EACH case, provide the name of a debtor and figure(s). (6)

INFORMATION:

A. Debtors are granted 30 days to settle their accounts.

B. **Debtors' age analysis on 31 October 2022:**

DEBTORS	CREDIT LIMIT	AMOUNT OWING	CURRENT MONTH	30 DAYS	60 DAYS	90 DAYS
Z Zulu	6 000	5 000	2 100	2 900		
P Botha	3 500	4 200	3 800	400		
M Valley	7 000	1 450	500			950
S Walker	13 000	12 500	1 000	3 000	4 500	4 000
O Klein	3 000	3 000	1 900		1 100	
		26 150	9 300	6 300	5 600	4 950
		100%	36%	24%	21%	19%

3.2 DEBTORS' RECONCILIATION

Information from the records of Amber Traders for November 2022 is presented. Some errors and omissions were noted. See information B.

REQUIRED:

3.2.1. Calulate the correct Debtors' Control Balance on 30 November 2022. Show figures and indicate '+', '–' or 'No change' at EACH adjustment. (7)

3.2.2. Calculate the correct total of the debtors' list on 30 November 2022. (10)

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INFORMATION:

A. Balances on 30 November 2022 before errors and omissions:

(i) Debtors' Control, R25 700
(ii) Debtors' list:

	DEBIT	CREDIT
L Nkosi	R5 700	
S Muller	R11 100	
M Welthagen		R1 900
B Sandleni	R15 900	
	R32 700	R1 900

C. Errors and omissions:

(i) The total of the Debtors' Journal was undercast by R2 700.

(ii) Interest of R350 must be charged on the overdue account of S Muller.

(iii) An amount of R3 100 received from L Nkosi was incorrectly recorded as R1 300 in the Cash Receipts Journal and posted as such to the General Ledger and the Debtors' Ledger.

(iv) Trading stock returned by B Sandleni was posted to the wrong side of his Debtors' Ledger Account, R1 200.

(v) No entry was made for a credit sales invoice issued to M Welthagen, R1 500.

25

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ACTIVITY 3: ANSWER BOOK

3.1 DEBTORS' AGE ANALYSIS

3.1.1

Explain why the debtors' age analysis is considered to be an effective internal control measure. State ONE point.

2

3.1.2

Explain TWO different problems highlighted by the debtors' age analysis. In EACH case, provide the name of a debtor and figure(s).

PROBLEM	DEBTOR AND FIGURE(S)

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3.2 DEBTORS' RECONCILIATION

3.2.1 CORRECTIONS TO THE DEBTORS' CONTROL ACCOUNT ON 30 NOVEMBER 2022

Balance before errors and omissions	**25 700**
(i)	
(ii)	
(iii)	
(iv)	
(v)	
Correct Debtors' Control balance	

7

3.2.2 DEBTORS' LIST ON 30 NOVEMBER 2022

L Nkosi	(5 700	
S Muller	(11 100	
M Welthagen	(–1 900	
B Sandleni	(15 900	
Correct total of Debtors' List		

10

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CREDITORS RECONCILIATION

ACTIVITY 1

Thandanani Traders buys goods on credit from Marulu Suppliers. The information presented is for July 2021.

REQUIRED

Reconcile the Creditors Ledger account of Marulu Suppliers in the books of Thandanani Traders with the statement received.

Use the table in the answer book to show changes. Indicate a plus (+) or minus (-) sign next to each amount. Calculate the correct balance/total at the end. (9)

INFORMATION:

A. Creditors Ledger of Thandanani Traders

Marulu Suppliers

DATE		DETAILS	FOL	DEBIT	CREDIT	BALANCE
July	1	Balance	b/d			34 200
	5	Invoice No. 443	CJ		4 770	38 970
	10	EFT No. 2810	CPJ	15 000		23 970
		Discount	CPJ	750		23 220
	12	Invoice No. 568	CJ		5 640	28 860
	18	Debit Note No. 114	CAJ	980		27 880
	28	Invoice No. 667	CJ		7 120	35 000

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B. Statement received from Marulu Suppliers.

Marulu SUPPLIERS STATEMENT OF ACCOUNT A732

Customer:
Thandanani Traders

Statement date:
25 July 2021

112 Buthelezi Street
Kwamashu
3310

DATE		DETAILS	DEBIT	CREDIT	BALANCE
June	28	Account rendered			38 830
	30	Invoice No. 376	3 370		42 200
July	1	Receipt No. 1144		8 000	34 200
	5	Invoice No. 443	7 740		41 940
	10	Receipt No. 1328		15 000	26 940
	12	Invoice No. 568	6 640		33 580
	18	Credit Note No. 743	980		34 560
	22	Invoice No. 772	3 860		38 420

Includes transactions up to 25th of each month

C. Differences noted:

i. Invoice No. 443 was recorded incorrectly in the creditor's ledger account of Marulu Suppliers.
ii. The statement did not reflect the discount for early payment on the 10th. This will be rectified on the next statement.
iii. It was discovered that Invoice No. 568 on the statement included goods valued at R1 000 ordered by the warehouse manager. The manager is facing disciplinary action.
iv. Goods valued at R980 were returned on the 18th. It is shown on a debit entry in both the creditor's ledger account as well as the statement of account received.

v. Invoice No. 772 on the statement was an error made by Marulu Suppliers. These goods were not purchased by Thandanani Traders.

vi. The statement was received on 25 July 2021.

9

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ACTIVITY 1: ANSWER BOOK

1.1

NO.	CREDITOR'S LEDGER ACCOUNT BALANCE	STATEMENT BALANCE
BALANCE	35 000	38 420
(I)		
(ii)		
(iii)		
(iv)		
(v)		
(vi)		
Total		

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ACTIVITY 2

KZ Stores purchase goods on credit from Valley Ltd.

REQUIRED:

2.1 The bookkeeper, Litzie, says it is not necessary for her to prepare a Creditors' Reconciliation Statement because the creditors send monthly statements to the business anyway. What would you say to her? State TWO points. (4)

2.2 Use the table in the ANSWER BOOK to indicate how the relevant balances will change when preparing the creditors' reconciliation. Indicate the figure as well as a **+** for increase and a **–** for decrease. The first transaction (Information A) has been done for you. (16)

INFORMATION:

The following balances are provided:

In the account of Valley Ltd in the Creditors' Ledger of KZ Stores on 30 September 2022:	R112 820	Credit
On the statement received from Valley Ltd on 25 September 2022:	R182 150	Debit

The following errors and omissions were discovered during an investigation:

A. A payment by KZ Stores of R9 000 was omitted from the Creditors' Ledger and the statement.

B. An invoice for goods bought for R87 500 was reflected on the statement from Valley Ltd but was not recorded by KZ Stores.

C. An invoice for R28 000 received from Valley Ltd was recorded correctly by KZ Stores. The statement of account reflects it as R20 800.

D. KZ Stores had correctly recorded discount of R1 400 for early payment of their account. This has not been reflected on the statement from Valley Ltd.

E. The statement reflects interest of R630 on the overdue account. Valley Ltd acknowledged that an error had been made and promised to reverse the entry in the October 2022 statement.

F. A debit note for R2 100 issued to Value CC was incorrectly recorded in the account of Valley Ltd by KZ Stores.

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G. A credit note for R5 250 received from Valley Ltd for goods returned was incorrectly recorded as an invoice by KZ Stores.

H. Goods purchased from Valley Ltd on 30 September 2022 for R4 600 were recorded by KZ Stores. The statement from Valley Ltd is dated 25 September 2022.

2.3 **Refer to Information B:**

As the internal auditor of KZ Stores, you have detected that only R50 000 of these goods were entered into the stock records by the storeman. The remaining goods were ordered privately by J van Wyk, an employee in charge of creditors.

2.3.1 Explain what action should be taken against J van Wyk. State TWO points. (4)

2.3.2 What must the business do to prevent a similar incident in future? Explain THREE points. (6)

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ACTIVITY 2: ANSWER BOOK

2.1 **The bookkeeper, Litzie, says it is not necessary for her to prepare a Creditors' Reconciliation Statement because the creditors send monthly statements to the business anyway. What would you say to her? State TWO points.**

4

2.2

No.	Creditors' Ledger of KZ Stores	Statement of account received from Valley Ltd
Balance	112 820	182 150
A	– 9 000	– 9 000
B		
C		
D		
E		
F		
G		
H		

16

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2.3	2.3.1	**Explain what action should be taken against J van Wyk. State TWO points.**	4
	2.3.2	**What must the business do to prevent a similar incident in future? Explain THREE points.**	6

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ACTIVITY 3

Mani Supermarket is owned by Mani Bloom. The business buys goods on credit from Lawes Wholesalers.

REQUIRED:

3.1 Use the table provided in the ANSWER BOOK to show changes to the

Creditors' Ledger account of Lawes Wholesalers in the books of Mani Supermarket and the statement of account received from Lawes Wholesalers, to take into account the differences identified. Indicate a '+' or '–' next to each amount. (13)

3.2 Mani feels that the creditors' clerk is not efficient in performing her

duties.

- Provide evidence to support his opinion. Give ONE point. (2)
- Explain how he can solve this problem. (2)

INFORMATION:

A. CREDITORS' LEDGER OF MANI SUPERMARKET
LAWES WHOLESALERS (CL6)

DATE		DETAILS		DEBIT R	CREDIT R	BALANCE R
2022 April	1	Balance				41 200
	3	Invoice 3381			7 800	49 000
	8	Debit Note 149			640	49 640
	15	Invoice BB55			11 400	61 040
	18	Invoice 3886			12 800	73 840
	24	EFT 425		14 620		59 220
		Discount received		1 250		57 970
	29	Invoice 4 243			9 900	67 870

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B. Statement of account received from Lawes Wholesalers:

LAWES WHOLESALERS
STATEMENT OF ACCOUNT

To: MANI Supermarket **Credit limit: R45 000**
Statement date: 26 April 2022

DATE		DETAILS		DEBIT R	CREDIT R	BALANCE R
2022 Mar.	28	Balance	b/d			56 200
	30	Receipt 376			15 000	41 200
		Credit Note A11			750	40 450
		Penalty for late payment		580		41 030
		Penalty for late payment		580		41 610
2022 April	3	Invoice 3381		8 700		50 310
	9	Credit Note A32			640	49 670
	18	Invoice 3886		14 720		64 390
	24	Receipt 667			14 620	49 770
	25	Credit Note A88			3 180	46 590

Terms: 30 days. 10% discount allowed on payments received before the 20th of each month.
Penalty for late payment is applied on overdue balances.

+ 90 days	60 days	30 days	Current
R4 380	R7 050	R14 400	R20 760

C. A comparison of the statement received from Lawes Wholesalers with the Creditors' Ledger account revealed the following differences:

(i) Mani Supermarket was granted an allowance of R750 for inferior quality goods received during March 2022. This transaction was not recorded by the bookkeeper of Mani Supermarket.

(ii) Lawes Wholesalers had erroneously entered the penalty for late payment twice on 30 March 2022. They will correct it on the following statement.

(iii) The amount for Invoice 3381 on 3 April 2022 was correctly recorded in the Creditors' Ledger account.

(iv) An incorrect posting of the returns on 8 April 2022 was noted.

(v) Invoice BB55 in the Creditors' Ledger account was for goods purchased from a different supplier, Wes Suppliers.

(vi) Invoice 3886 on the statement included VAT at 15%. All goods on this invoice were zero-rated products. Lawes Wholesalers will correct this on the next statement

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(vii) The bookkeeper of Mani Supermarket recorded a 10% discount with the payment of EFT 425. Lawes Wholesalers indicated that the discount was not approved.

(viii) Credit Note A88 on the statement received does not relate to Mani Supermarket. This will be corrected on the next statement.

(ix) The statement is received on the 26th of each month

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ACTIVITY 3: ANSWER BOOK

3.1 CREDITORS' RECONCILIATION

	CREDITORS' LEDGER ACCOUNT OF LAWES WHOLESALERS	STATEMENT RECEIVED FROM LAWES WHOLESALERS
Balance	67 870	46 590
(i)		
(ii)		
(iii)		
(iv)		
(v)		
(vi)		
(vii)		
(viii)		
(ix)		
BALANCE		

13

3.2

Mani feels that the creditors' clerk is not efficient in performing her duties.

Provide evidence to support his opinion.	2
Explain how he can solve this problem.	2

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COST ACCOUNTING (MANUFACTURING)

ACTIVITY 1

1.	**MAGXALABA MANUFACTURERS**	
	The business produces formal shirts. The financial year ended28 February 2023.	
	REQUIRED:	
	1.1	Prepare the Production Cost Statement. [14]
	1.2	Calculate:
		• Gross profit earned on sale of shirts [5]
		• Mark-up % achieved on shirts [3]

INFORMATION

A STOCK

	28 FEBRUARY 2023	**1 MARCH 2022**
Work-in-progress	**?**	R230 000
Finished goods	400 shirts, valued using FIFO method	900 shirts at R380 = R342 000

B The bookkeeper calculated the costs below. Some errors were made.

Direct material cost	R1 575 000
Selling and distribution cost	R385 000
Administration cost	R256 400
Direct labour cost	**?**
Factory overhead cost	R518 800

C. Errors and omissions:

- Payment to Quick Deliveries, R75 000 for carriage on raw materials, was incorrectly allocated to selling and distribution cost.

- The insurance amount of R25 200 was transferred to the Administration Cost Account. Two-thirds (2/3) of this expense should be allocated to the factory.

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- The Factory Overhead Cost Account included an amount of R117 600 for water and electricity. The bookkeeper had incorrectly allocated this expense to factory, administration, and selling and distribution in the ratio 6: 3: 1. The correct ratio is 5: 4: 1.

D. Prime cost: R2 550 000 (after adjustments)

E. Production and sales for the year:

- 7 600 shirts were produced at a unit cost of R420 each.
- 8 100 shirts were sold for R4 860 000.

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ACTIVITY 1: ANSWER BOOK

1.1 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2023

Direct material cost	
Prime cost	2 550 000
Factory overhead cost	
Total manufacturing cost	
Work-in-progress (end)	
Total cost of production	

1.2

Calculate: Gross profit earned on sale of shirts.	
Workings	Answer

Calculate: Mark-up % achieved on shirts	
Workings	Answer

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ACTIVITY 2

VELAPHI Manufacturers is owned by ANELE Andrews. They produce SILVER WATCHES and SILVER RINGS. The financial year ends on 28/29 February each year.

REQUIRED:
WATCHES

2.1.1 Calculate the break-even point of WATCHES for the year ended 28 February 2023. [4]

2.1.2 Comment on the level of production achieved and the break-even point for WATCHES for 2023. Quote figures. [3]

2.1.3 Apart from inflation and wage increases, give TWO other possible reasons for the increase in the direct labour cost per unit for WATCHES. [4]

2.1.4 Give TWO reasons for the decrease in the direct material cost per unit for WATCHES. [2]

RINGS

2.2.1 Although ANELE was aware that importing SILVER for the RINGS would increase the direct material cost per unit, he thought that this would improve the quality of the RINGS.

- Explain why the direct material cost per unit for RINGS would probably increase if raw material were imported. State TWO points. [2]
- Provide figures to prove that ANELE was correct about the effect this decision would have on the cost of the RINGS. [3]

2.2.2 Calculate the % increase in the selling price of the RINGS. [2]

2.2.3 Explain the impact of the increase in the selling price of RINGS on the sales and profit. Quote figures or calculations. [3]

2.2.4 ANELE wants to increase profits on RINGS by an additional R250 000 in the next financial year. Assuming the cost structure remains the same, calculate the total number of additional units he must produce to
achieve this target. [3]

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INFORMATION:

	WATCHES		RINGS	
	2023	**2022**	**2023**	**2022**
Direct material cost per unit	R100	R125	R360	R180
Direct labour cost per unit	R135	R105	R280	R240
Selling and distribution cost per unit	R20	R30	R60	R45
Total variable cost per unit	**R255**	**R260**	**R700**	**R465**
Total fixed costs	R936 000	R836 000	R1 706 250	R2 000 000
Number of units produced and sold	24 000	22 000	3 631	6 350
Break-even number of units	**?**	20 900	3 750	5 000
Selling price per unit	R295	R300	R1 170	R780

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ACTIVITY 2: ANSWER BOOK

VELAPHI MANUFACTURERS:

	WATCHES:	
2.1.1	**Calculate the break-even point for WATCHES for the year ended 28 February 2023.**	
	Workings	**Answer**
2.1.2	**Comment on the level of production achieved and the break-even point for WATCHES for 2023. Quote figures.**	
2.1.3	**Apart from inflation and wage increases, give TWO other possible reasons for the increase in the direct labour cost per unit for WATCHES.**	
2.1.4	**Give TWO reasons for the decrease in the direct material cost per unit for WATCHES.**	

	RINGS:
2.2.1	**Explain why the direct material cost per unit for RINGS would probably increase if raw material were imported. State TWO points.**
	Provide figures to prove that Tello was correct about the effect this decision would have on the cost of the RINGS.

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2.2.2	**Calculate the % increase in the selling price of the RINGS.**	
	Workings	Answer
2.2.3	**Explain the impact of the increase in the selling price of RINGS on the sales and profit. Quote figures or calculations.**	
2.2.4	**Tello wants to increase profits on RINGS by an additional R250 000 in the next financial year. Assuming the cost structure remains the same, calculate the total number of additional units he must produce to achieve this target.**	
	Workings	Answer

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ACTIVITY 3:

KHUMALO MANUFACTURERS

The information relates to the financial year ended 28 February 2023.The business produces one style of travelling bag. The owner is KHUMALO BUNTU.

REQUIRED:

Complete the following for the year ended 28 February 2023:

3.1. Production Cost Statement. [9]

3.2. Abridged Statement of Comprehensive Income (Income Statement). [9]

There is no work-in-progress at the beginning or end of the year.

B Raw material issued to the factory for production, R1 494 000.

INFORMATION:

A		Stock balances:		
		Finished goods stock	**28 February 2023** R96 000	1 March 2022 R72 000

C **Production wages:**

Information extracted from the production wages records:

NET WAGES PAID TO PRODUCTION WORKERS	**TOTAL DEDUCTIONS**
R647 400	22% of gross wages

D The bookkeeper calculated the following costs for the year ended28 February 2023:

Factory overhead cost	R520 280
Selling and distribution cost	R224 960
Administration cost	R187 760

It was discovered that she did not take the following into account:

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- The telephone account of R22 400 was posted in error to the factory overhead cost. This expense relates to the office.

- The entire amount of rent expense, R98 400, was posted to the factory overhead cost. This expense should have been split in the ratio 7: 2: 1 between the factory, sales and administration departments.

- The insurance expense of R26 400 was divided equally between the factory overhead cost and the sales department in error. 60% of this expense relates to the factory and the balance applies to the sales department.

E **Sales:**

Total sales for the year amounted to R4 433 600.

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ACTIVITY 3: ANSWER BOOK

3.1 PRODUCTION COST STATEMENT FOR THE YEAR ENDED28 FEBRUARY 2023

Direct material cost	1 494 000
Prime cost	
Factory overhead cost (520 280	
Cost of production of finished goods	

3.2 ABRIDGED STATEMENT OF COMPREHENSIVE INCOME (INCOMESTATEMENT) FORTHE YEAR ENDED 28 FEBRUARY 2023

Sales	4 433 600
Cost of sales	
Gross profit	
Other expenses	
Selling and distribution costs (224 960	
Administration cost (187 760	
Net profit for the year	

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ACTIVITY 4

4.1 Choose the cost item in the list provided that matches the example below. Write only the cost item next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

direct material; indirect labour; direct labour; administration cost

4.1.1 Salary of the factory workers

4.1.2 Stationery used in the office.

4.1.3 Transport cost of raw material delivered to the factory. (3)

4.2 BLOEM MANUFACTURERS

The business manufactures and sells golf shirts. The financial year ended on 28 February 2024.

REQUIRED:

4.2.1 Calculate direct material cost. (6)

4.2.2 Calculate the factory overhead cost. (12)

4.2.3 Prepare the Production Cost Statement for the year ended 28 February 2024. (8)

INFORMATION:

A Stock balances on 28 February:

	2024	2023
Direct material	221 000	184 000
Work-in-progress	?	312 000
Finished goods	?	510 000

B Figures provided by the bookkeeper on 28 February 2024

Direct material	730 000
Indirect material	27 750
Carriage on purchases: Direct material	32 000
Direct labour	616 200
Advertisements	18 600
Salary: Factory foreman	210 000
Rent expense: Factory	109 000
Water and electricity	20 010

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C **Additional information and adjustments:**

- The bookkeeper forgot to record an invoice of R125 000 on which 12% trade discount was received on raw material purchased.

- Two thirds (2/3) of the indirect material was used in the factory.

- Eight part-time employees are employed to clean the factory at R80 per hour. They each work 145 hours normal time. Three of these employees worked 30 hours over time at normal time rate plus 60%.

- The bookkeeper allocated 60% of water and electricity to the factory instead of 80%.

D **Production for the year:** 14 000 shirts at a cost of R130 per shirt.

4.3 GARDEN FURNITURE MANUFACTURERS

Kok Furniture Manufacturers is owned by Kyle Jones Kok. The business manufactures garden chairs.

4.3.1 Refer to the information below:

- Should the business be satisfied with the number of chairs that were produced and sold during this financial year? Explain. Quote relevant figures in your answer. (3)

- Kyle wants to increase the number of units produced and sold to 30 000 in the next financial year while maintaining costs. Calculate the profit she will make from these units. (4)

4.3.2 Kyle is convinced that the cost of electricity in the factory has decreased in this financial year.

- Provide TWO reasons that led to the decrease in the cost of electricity in the factory in the current financial year. (4)

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INFORMATION

		2024	2023
Number of units produced and sold		25 000	18 000
Break-even point		8 871	9 360
Selling price		R60	R50
COSTS	**TOTAL R**	**UNIT COST 2024 R**	**UNIT COST 2023 R**
Direct material	250 000	10	12
Direct labour cost	375 000	15	11
Prime cost	625 000	25	23
Factory overheads	200 000	8	10
Administration costs	75 000	3	3
Selling & distribution	100 000	4	2

40

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ACTIVITY 4: ANSWER BOOK

4.1

4.1.1	
4.1.2	
4.1.3	

3

4.2.1

Calculate direct material cost.	
184 000	

6

4.2.2

Calculate the factory overhead cost.	
Rent expense	109 000

12

4.2.3 Production Cost Statement for the year ended 28 February 2024

Direct labour cost	616 200
Prime cost	
Production cost during the year	
Work-in-progress end of the year	
Total cost of production of Finished goods	

8

4.3

Should the business be satisfied with the number of chairs that were produced and sold during this financial year? Explain. Quote relevant figures in your answer.

3

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Kyle wants to increase the number of units produced and sold to 30 000 in the next financial year while maintaining costs. Calculate the profit she will make from these units.	
WORKINGS	**ANSWER**

4

Kyle is convinced that the cost of electricity in the factory has decreased in this financial year. Provide TWO reasons that led to the decrease in the cost of electricity in the factory in the current financial year.

4

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ACTIVITY 5

Cost Accounting

5.1 TWO IN ONE BLANKET MANUFACTURERS

The following information was extracted from the records of TWO-IN -ONE Blankets Manufacturers. The financial year ended on 28 February 2024. The business produces organic winter blankets.

REQUIRED:

5.1.1 Calculate the value of the closing stock of raw materials. (5)

5.1.2 Calculate the direct material cost issued for production. (4)

5.1.3 Calculate the direct labour cost. (8)

5.1.4 Complete the production cost statement for the year ended 31 August 2023. (11)

INFORMATION:

A. Raw material (Fabric):

Blankets for Health Manufacturers produced **16 160** blankets for the year ended 31 August 2023.

	Number of metres	**Cost per metre**	**Total Amount (R)**
Opening stock	2 400	R160	384 000
Closing stock	3 600 metres @ R165 3 200 metres @ R170		?

B. Purchases and returns of raw material:

	Number of metres	**Cost per metre**	**Total Amount (R)**
September 2022 purchases	11 000	R160	1 760 000
October 2022 purchases	16 000	R170	2 720 000
June 2023 purchases	4 000	R165	660 000
June 2023 returns	(400)	R165	(66 000)
	30 600		5 074 000

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C. Labour cost:

- There are ten factory workers and each worked 1 920 hours per year, at a rate of R30 per hour. Together they worked 560 hours of overtime at twice the normal rate per hour.

- The factory assistant is paid R84 000 for the year. She spends 75% of her time cleaning the factory and 25% of the time sewing labels on the blankets.

- The business contributes 1% to the UIF for all employees.

D. Other costs for the financial year (after all the adjustments):

	2024 (R)	**2023 (R)**
Total fixed costs per unit	254	225
• Factory overheads cost per unit	?	205
• Administration cost per unit	24	20

E. Stock balances that appeared in the books of Two-In-One Blankets Manufacturers:

	2024 (R)	**2023 (R)**
Work in process	45 370	72 000
Finished goods stock	?	520 000

There were 840 completed blankets on hand at the end of the year

5.2 **TAKU'S WOODWORKS**

Taku's woodworks is a small manufacturing business that produces chopping boards.

REQUIRED:

5.2.1 Calculate the break-even point for the year ended 31 January 2024. (6)

5.2.2 Calculate the units produced and sold for 2024. (2)

5.2.3 Explain whether you think the owner, Phoebe, should or should not be concerned about the profitability and production level of her business. Provide TWO reasons and justify your answer by providing supporting figures. (4)

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INFORMATION:

A. Every year all the goods produced, are sold.
B. Information taken from the financial records of Timeless Timberworks:

	31 January 2024	
	Total cost	**Unit cost**
Direct material cost	607 750	R5,50
Direct labour cost	508 300	R4,60
Selling and distribution cost	182 325	R1,65
Variable cost	**1 298 375**	**R11,75**
Factory overhead cost	548 410	
Administration cost	247 500	

	31 January 2024	**31 January 2023**
Selling price per unit	R18,85	R15
Units produced and sold	?	98 000
Break-even point	?	78 000

40

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ACTIVITY 5: ANSWER BOOK

5.1 TWO-IN-ONE BLANKET MANUFACTURERS

6.1.1	Calculate the value of the closing stock of raw materials.	
		5

5.1.2	Calculate the direct material cost issued for production.	
		4

5.1.3	Calculate the direct labour cost.	
		8

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5.1.4	Complete the production cost statement for the year ended 28 February 2024

Prime cost	
Factory overhead costs	

11

5.2 TAKU'S WOODRWORKS

5.2.1	Calculate the break-even point for the year ended 31 January 2024.
WORKINGS	**ANSWER**

6

5.2.2	Calculate the units produced and sold for 2024.
WORKINGS	**ANSWER**

2

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5.2.3	**Explain whether you think the owner, Phoebe, should or should not be concerned about the profitability and production level of her business.** **Provide TWO reasons and justify your answer by providing supporting figures.**	
		4

TOTAL MARKS
40

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ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENT

ACTIVITY 1

Myna Ltd

The information presented relates to the financial year ended 30 April 2024.

REQUIRED:

1.1 Comment on whether the business is managing its working capital effectively or not. Quote THREE relevant financial indicators (with figures). (8)

1.2 The directors decided to change the dividend pay-out policy in 2024.

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

1.3 One of the directors feels that the company should pay back the loan as soon as possible. What advice would you offer? Quote and explain TWO relevant financial indicators with figures. (6)

1.4 Explain why the shareholders are satisfied with:

- The market price of the shares on the JSE
  But NOT satisfied with (2)
- The price at which the 123 000 shares were repurchased on 25 April 2024. (2)

1.5 Shareholding of Samantha Singh in Myna Ltd

- Identify the effect that the repurchase of Samantha's shares had on her % shareholding. (2)
- Explain how the company was able to raise R5 million to finance the repurchase of shares and the dividends earned by shareholders. Provide two points. (4)
- Give two reasons why the decision to repurchase Samantha's shares should be considered as irresponsible. (4)

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INFORMATION:

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

	2024	2023
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
Debt-Equity ratio	0,3 : 1	0,4 : 1
Return on average capital employed	11%	13%
Return on average shareholders' equity	13,5%	14,5%
Earnings per share	107 cents	112 cents
Dividends per share	105 cents	40 cents
Net asset value per share	775 cents	768 cents
Market price per share (JSE)	960 cents	777 cents
Repurchase price per share	1000 cents	-
Interest rate on loan	14%	13%

B. Background information:

- **The financial statements of Myna Ltd have not yet been audited.**
- **Samantha Singh is the CFO of Myna Ltd.**

C Extract from the records for the financial year ended on 28 February:

	2024
Number of shares in issue at beginning of year	1 000 000
New shares issued/(repurchased) on 31 August 2023	(123 000)
Number of shares in issue at end of year	877 000
Issue of new shares	
Shares repurchase price	R10,00

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	2024	2023
	R	R
Ordinary Share Capital	7 000 000	10 000 000
Mortgage loan	5 500 000	2 500 000
Bank (Favourable)		440 000
Bank (Overdraft)	3 800 000	

C. Extracts from the Shareholders' Registers:

Repurchase of shares:

Samantha convinced the other directors of Myna Ltd that the company should repurchase 123 000 of his shares for R1 230 000 on 1 March 2024 . Note that interim dividends were paid on 30 November 2023.

Shareholding of CFO, Samantha:

	2024	2023
Samantha Singh	407 000	530 000
% Shareholding	46.4%	53%

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ACTIVITY 1: ANSWER BOOK

1.1 Comment on whether the business is managing its working capital effectively or not. Quote THREE relevant financial indicators (with figures).
1.2.1 Provide calculations that indicate the policy change.
Explain the effect of this change of policy on the company. State TWO points.
1.1.3 One of the directors feels that the company should pay back the loan as soon as possible. What advice would you offer? Quote and explain TWO relevant financial indicators with figures.

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1.4 • **The market price of the shares on the JSE**
• **The price at which the 123 000 shares were repurchased on 1 april 2024.**

1.5 Shareholding of Samantha Singh Myna Ltd

• Identify the effect that the repurchase of Samantha's shares had on her % shareholding. (2)

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- Explain how the company was able to raise R5 million to finance the repurchase of shares and the dividends earned by shareholders. Provide two points. (4)

- Give two reasons why the decision to repurchase Samantha's shares should be considered as irresponsible. (4)

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ACTIVITY 2

Choose the question from COLUMN B that matches a category of financial indicators in COLUMN A. Write only the letter (A–E) next to the question numbers (1.1.1 to 1.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
2.1.1 Liquidity	A. Is the business managing expense effectively to increase profitability?
2.1.2 Risk and gearing	B. Is the investment in the company better than investing in a fixed deposit?
2.1.3 Return to shareholders	C. Will the company be able to pay off its current debts?
2.1.4 Operating efficiency	D. Will the company be able to pay off all its debts using existing assets?
	E. How is the company managing loans or borrowed capital?

(4 x 1)
(4)

2.2 TANISHA LTD

The business trades in electronic equipment purchased from China. The information relates to the past two financial years, ended 31 March. The COVID-19 lockdown has negatively affected sales over the current financial year.

REQUIRED:

2.2.1

Liquidity:

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response. (6)

1.2.2

Dividends:

The directors changed the dividend policy for the current financial year.

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- Comment on the dividend per share over the two years. Quote figures. (2)
- Explain the change in the dividend pay-out rate and give a reason for this change. Quote figures. (4)
- A shareholder felt that they should be satisfied with the dividends they received, as it is better than last year. Explain why you agree with him. Quote figures. (3)

2.2.3

Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures). (6)

2.2.4

Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures. (6)

2.2.5

The Cash Flow Statement reflected a positive change of R980 000. Provide TWO points why this should still be a concern to shareholders. Quote figures. (4)

INFORMATION:

A. Financial indicators and additional information:

	2021	**2020**
Mark-up % achieved	60%	60%
% net profit before tax on sales	13,9	20,3
Current ratio	2,4 : 1	1,1 : 1
Acid-test ratio	1,0 : 1	0,4 : 1
Stock holding period	102 days	32 days
Average debtors' collection period	46 days	31 days
Average creditors' payment period	60 days	60 days
Earnings per share	58 cents	130 cents
Dividends per share	72 cents	90 cents
Dividend pay-out rate	136,5%	69%
Debt : Equity ratio	0,4 :1	0,3 : 1
Return on average shareholders' equity	17,7 %	31,6 %
Return on total capital employed	23,9 %	39 %
Net asset value per share	332 cents	409 cents

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Market price of shares on stock exchange	410 cents	540 cents
Interest rate on loans	13,5 %	13,5 %
Interest rate on fixed deposits	6,8 %	7,8 %

B. Share capital:

- On 1 April 2020 the company issued an additional 250 000 shares.
- On 31 March 2021 there were 1 250 000 shares in issue.

C. Extract from the Cash Flow Statement on 31 March:

	2021	2020
Cash flows from operation activities	(148 080)	910 000
Cash generated from operations	1281 620	
Interest paid	(232 000)	
Taxation paid	(272 700)	
Dividends paid	(925 000)	
Cash flows from investing activities	101 580	(300 000)
Cash flows from financing activities	1026 500	(100 000)
Sale of shares	375 000	0
Change in loan	651 500	(100 000)
Cash and cash equivalents : Net change	980 000	510 000
Opening	(330 000)	(840 000)
Closing	650 000	(330 000)

(35)

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ACTIVITY 2: ANSWER BOOK

2.1.1	
2.1.2	
2.1.3	
2.1.4	

(4)

2.2 TANISHA LTD

2.2.1

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.

(6)

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2.2.2

Comment on the dividend per share over the two years. Quote figures. **(2)**
Explain the change in the dividend pay-out rate. Quote figures. **Give a reason for this change.** **(4)**
A shareholder felt that they should be satisfied with the dividends they received as it is better than last year. Explain why you agree with him. Quote figures. **(3)**

2.2.3

Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures).

(6)

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2.2.4

Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures.

(6)

2.2.5

The Cash Flow Statement reflected a positive change in R980 000. Provide TWO points why this should still be a concern to directors. Quote figures.

(4)

TOTAL MARK: 35

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ACTIVITY 3

KANIKA LTD

The business trades in computer hardware and software from international companies. The information relates to the past two financial years, ended 30 April.

Ayaan is the CEO and there are five other directors in the company.

REQUIRED:

3.1 Refer to Information A.

The current ratio and acid-test ratio show that the company's liquidity position has deteriorated over the past two financial years.

Identify TWO other liquidity indicators which also show that the company is likely to have serious liquidity concerns in future. Explain ONE point in EACH case (with figures). (4)

3.2 Refer to Information A and B.

The company increased the loan to finance the purchase of additional property in a new suburb. They hoped that this would improve the demand for their products.

- Comment on how the increase in the loan affected the risk and gearing in 2021. Quote TWO financial indicators. State ONE point in EACH case (with figures). (6)
- Explain whether the decision to purchase additional property had the desired effect on demand for this product (with figures).
  (3)

3.3 Explain why the public was not interested in buying the new shares issued at R6, 00 per share. Quote THREE financial indicators (excluding indicators stated in QUESTION 3.2). State ONE point in EACH case (with figures). (9)

3.4 Refer to Information A and D.

At the AGM, many shareholders complained that the Remunerations Committee had been negligent in their duties and that Ayaan did not deserve the fees that he was paid as CEO. State TWO different points to justify their opinion. Quote figures or financial indicators (4)

3.5 Refer to Information A, B and C.

- Explain why the other directors were unhappy with the price paid for the shares repurchased from Ayaan. State TWO points. Quote financial indicators or figures to support EACH point.
  (4)

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- Give a calculation to show whether the repurchase of these shares affected Ayaans' status as majority shareholder, or not.
  (3)

3.6 Refer to Information E.

- Explain what is meant by good corporate governance and explain why it is important to the shareholders.
  (3)
- Explain a possible reason why Ayaan says he will vote against the proposal by Excellence Ltd. (2)
- The other directors feel that Ayaan is abusing his position as CEO and majority shareholder.
  - Explain why you agree with them. (2)
  - Give the directors advice on how they should handle this. (2)

INFORMATION:

A. Financial indicators on 30 April:

	2021	2020
Mark-up % achieved	60 %	75 %
% operating expenses on sales	44,1 %	32 %
Solvency ratio	1,8 :1	2,1 : 1
Debt-equity ratio	0,7 : 1	0,2 : 1
Current ratio	0,6 : 1	1,1 : 1
Acid-test ratio	0,3 : 1	0,8 : 1
Stockholding period	78 days	43 days
Average debtors' collection period	58,9 days	32,6 days
Average creditors' payment period	75,6 days	63,6 days
Earnings per share	54 cents	102 cents
Dividends per share	25 cents	90 cents
Net asset value per share	732 cents	711 cents
Return on average shareholders' equity	4,9%	5,3%
Return on average capital employed	6,4 %	9,1 %

B. Additional information:

	2021	2020
Sales	R8 976 000	R11 550 000
Market price of shares on stock exchange	580 cents	610 cents
Interest rate on loans	12 %	12 %
Interest rate on fixed deposit	8 %	8 %

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C. Share capital and shareholding of Ayaan:

	2021	2020
Number of authorised shares	5 000 000	
Number of shares in issue	2 450 000	2 400 000
Number of shares owned by shareholder, Ayaan	1 240 000	1 270 000

- On 30 April 2020, the company had 2 400 000 shares in issue.
- At the directors' meeting on 1 May 2020, it was decided to repurchase 30 000 shares from the CEO, Ayaan, at R12, 00 per share. None of the other five directors supported this decision.
- A further 80 000 shares were issued on 30 June 2020. The listed issue price of the purchase was originally R6, 00 per share. Due to a poor response from the public at this price, the directors agreed to sell these shares at R4, 80 per share.

D. Directors' fees:

	2021	2020
Director's fees paid to CEO	R2 900 000	R2 000 000
Total fees paid to 5 other directors	R3 000 000	R3 000 000

E. Proposal to purchase the unissued shares:

- Excellence Limited is a respected company with a reputation for good corporate governance. They have made an offer to purchase the remaining 2 550 000 shares in this company at a price which is considerably more than the current market value.
- Ayaan says that he will vote against this proposal. The other directors feel strongly that this offer is very generous. They are in favour of accepting the offer.

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ACTIVITY 3: ANSWER BOOK

3.1 KANIKA LTD

Identify TWO other liquidity indicators which also show that the company is likely to have serious liquidity concerns in future. Explain ONE point in EACH case (with figures).	
POINT 1	
POINT 2	

(4)

3.2

Comment on how the increase in the loan affected the risk and gearing in 2021. Quote TWO financial indicators. State ONE point in EACH case (with figures). (6)	
POINT 1	
POINT 2	
Explain whether the decision to purchase additional property had the desired effect on demand for this product (with figures). (6)	

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3.3

Explain why the public was not interested in buying the new shares issued at R6, 00 per share. Quote THREE financial indicators (excluding indicators stated in QUESTION 2.2). State ONE point in EACH case (with figures).	
POINT 1	
POINT 2	
POINT 3	

3.4

State TWO different points to justify their opinion. Quote figures or financial indicators.	
POINT 1	
POINT 2	

(4)

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3.5

Explain why the other directors were unhappy with the price paid for the shares repurchased from Ayaan. State TWO points. Quote financial indicators or figures to support EACH point. (4)	
POINT 1	
POINT 2	

Give a calculation to show whether the repurchase of these shares affected Ayaan s' status as majority shareholder, or not.	
WORKINGS	ANSWER

3.6

Explain what is meant by good corporate governance and explain why it is important to the shareholders. (3)
Explain a possible reason why Ayaan says he will vote against the proposal by Excellence Ltd. (2)
Explain why you agree with the directors. (2)
Give the directors advice on how they should handle this. (2)

TOTAL: 42

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ACTIVITY 4

CASTRO LTD AND RONKI LTD

You are provided with information relating to two companies.

BACKGROUND INFORMATION:

- Henry Harries owns 300 000 shares in each company.
- Castro Ltd issued 200 000 new shares only to existing shareholders at the average issue price (R9,10). These funds were used to establish a new branch. No new loans were raised.
- Ronki Ltd paid R4 800 000 to repurchase 320 000 shares.

REQUIRED:

NOTE: Where comments or explanations are required, quote financial indicators and figures to support your answer.

CASTRO LTD

4.1.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued

4.1.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators. (4)

4.1.3 Henry had the option to buy some of the new shares issued by Castro Ltd. He had saved sufficient funds (interest rate 5% p.a.) for this purpose.

4.1.3.1 If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy and how much would he have had to pay (2)

4.1.3.2 Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option. (6)

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4.2. RONKI LTD

4.2.1 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators. (6)

4.2.2. Comment on the price paid by Ronki Ltd for the repurchase of shares. (3)

4.2.3 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd. (6)

ADDITIONAL INFORMATION:

Financial indicators and additional information from annual reports:

	CASTRO LTD		**RONKI LTD**	
	2017	**2016**	**2017**	**2016**
Debt-equity ratio	0,5:1	0,8:1		
Current ratio			1,9:1	3,5 : 1
Acid-test ratio			1,1:1	1,7:1
Stock-holding period			54 days	54 days
Number of shares in issue	700 000	500 000	580 000	900 000
Average share issue price	R9,10		R10,20	
Price paid for share repurchase			R15,00	
Price of share on JSE	R12,00		R15,00	
Net asset value per share	R10,73	R11,38	R13,30	R13,22
% return on shareholders' equity	23%	17%	16%	13%
% return on total capital employed	20%	15%		
Earnings per share	140 cents	196 cents	266 cents	171 cents
Total dividends	R357 000	R325 000	R928 000	R928 000
Dividends per share	51 cents	65 cents	160 cents	103 cents

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ACTIVITY 4: ANSWER BOOK

CASTRO LTD

4.1.1

Comment on the price of R9,10 charged by Castro Ltd for the new shares issued.

4.1.2

Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators.

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4.1.3

4.1.3.1 If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy?
4.1.3.2 Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option. **Reason 1:** **Reason 2:**

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4.2 RONKI LTD

4.2.1

Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators.

4.2.2

Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares.

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4.2.3

Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd. **Point 1:** **Point 2:** **Point 3**

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ACTIVITY 5

5.1 Complete the following sentences using the word (s) in the list below. Write only the word next to the question number (3.1.1 – 3.1.5) in the ANSWER BOOK. (5)

liquid; profitable; solvent; return; risk/gearing

5.1.1.A company with total assets exceeding total liabilities is

5.1.2. A company that relies heavily on loans will have high

5.1.3. A company that controls its income and expenses properly will be

3.2.1 The percentage net income on equity indicates the earned by shareholders

3.2.2 A company that is able to settle its immediate debts is …

FINANCIAL INDICATORS OF TWO COMPANIES:

Your friend, Jack, has bought shares in both companies. He asks you for your opinions on the financial results. The companies are the same size.

3.3 Explain your answer to the following questions. In each case compare and quote financial indicators of both companies (actual figures, ratios or percentages) to support your answer.

REQUIRED:

5.2.1 Jack is of the opinion that KAT Ltd is handling its working capital more effectively and is in a better liquidity situation than KIT Ltd. Explain and quote THREE financial indicators to support his opinion (9)

5.2.2 The operating efficiency of KIT Ltd are better than that of KAT Ltd. Quote and explain ONE financial indicator to support your opinion. (2)

5.2.3 Which company uses more loans? Explain whether this is a good idea or not. In each case, quote a financial indicator to support your answer. (6)

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5.2.4 Compare and comment on the dividends pay-out policies of both companies. (8)

5.2.5 KIT Ltd has a better percentage return, earnings and dividends than KAT Ltd. Explain by quoting THREE financial indicators to support this opinion. (9)

5.2.6 The existing shareholders of the TWO companies hold different opinions of the current market value of their shares.

- Explain why the existing shareholders of KIT Ltd are happy with this. Quote a financial indicator /figure to support your answer. (3)
- Explain why the existing shareholders of KAT Ltd are very disappointed with this. Quote a financial indicator/figure to support your answer (3)

INFORMATION:

	KIT LTD	**KAT LTD**
Market price per share on the JSE	750 cents	885 cents
Net asset value per share	609 cents	939 cents
Earnings per share	410 cents	176 cents
Dividends per share	240 cents	185 cents
% return on shareholders' equity	21,3%	11,2%
% return on total capital employed	32,6%	13,6%
% interest rate on loan	15,0%	15,0%
Debt/equity ratio	0,3 : 1	2,0 : 1
Current ratio	6,0 : 1	1,5 : 1
Acid-test ratio	2,8 : 1	0,9 : 1
Period for which stock is on hand	150 days	88 days
Average debtors' collection period	53 days	25 days
% Gross profit on cost of sales	62,2%	58,3%
% Operating expenses on sales	37,9%	44,5%
% Operating profit on sales	10,1%	7,3%

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ACTIVITY 5: ANSWER BOOK

5.1.1	
5.1.2	
5.1.3	
5.1.4	
5.1.5	

5.2.1 Jack is of the opinion that KAT Ltd is handling its working capital more effectively and is in a better liquidity situation than KIT Ltd. Explain and quote THREE financial indicators to support his opinion (9)

5.2.2 The operating efficiency of KIT Ltd are better than that of KAT Ltd. Quote and explain ONE financial indicator to support your opinion. (2)

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5.2.3 Which company uses more loans? Explain whether this is a good idea or not. In each case, quote a financial indicator to support your answer. (6)

5.2.4 Compare and comment on the dividends pay-out policies of both companies. (8)

	Financial indicator or explanation with figures	Comparison and comment
KIT Ltd		
KAT Ltd		

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5.2.5 KIT Ltd has a better percentage return, earnings and dividends than KAT Ltd. Explain by quoting THREE financial indicators to support this opinion. (9)

5.2.6 Explain why the existing shareholders of KIT Ltd are happy with this. Quote a financial indicator /figure to support your answer. (3)

Explain why the existing shareholders of KAT Ltd are very disappointed with this. Quote a financial indicator/figure to support your answer. (3)

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ACTIVITY 6

VIRAT LIMITED AND SAMRAT LIMITED

Angad Brar owns shares in both companies. He wants to analyse both companies' financial results in order to improve his portfolio.

REQUIRED

6.1 Comment on the liquidity of the two companies and explain which company manages the working capital more efficiently. (6)

6.2 Comment on the degree of risk and gearing of both companies. Explain how this will influence your choice of company. (6)

6.3 Consider the Return, Earnings and Dividends of the two companies.

(a) Explain whether or not Angad should be satisfied with the return on his investment in both companies. Provide financial indicators/ figures to support your answer. (4)

(b) Calculate the dividend pay-out policy of both companies. Indicate which company has adopted the better policy and the possible reason for that choice. Provide figures and calculations to support your answer. (6)

6.4 (a) Refer to Information B and C. Indicate how many shares Angad must purchase in each company to maintain the percentage shareholding he had at the start of the year. (8)

(b) Calculate the amount Angad will spend in order to maintain his percentage shareholder in each company. Provide a reason why Angad would pay this amount. (6)

(c) Comment on the price per share that Angad paid for these shares in each company and provide figures to support your answer. (4)

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INFORMATION

A Financial indicators and additional information on 29 February 2020:

	VIRAT	SAMRAT
Current ratio	1,5 : 1	2,1 : 1
Acid test ratio	0,6 : 1	1,1 : 1
Debt-Equity ratio	0,3 : 1	0,8 : 1
Return on total capital employed	15,5 %	11,8 %
Interest on loan	14 %	14 %
Return on shareholder's equity	16 % (14 % in 2019)	28 % (24% in 2019)
Earnings per share	124 cents	143 cents
Dividends per share	100 cents	75 cents
Market value of shares	R8,00	R16,00
Net Asset Value per share (NAV)	R7,20	R17,50

B Share capital of the two companies:

	VIRAT		SAMRAT	
Beginning of the year: 1 March 2019	420 000 shares	R2 856 000	140 000 shares	R1 960 000
New shares issued during the year	117 000 shares	R936 000	70 000 shares	R1 120 000
Shares repurchased during the year			35 000 shares	R560 000

C Number of shares Angad owns in each company:

- At the start of the year, Angad owned the following shares in each company

VIRAT	214 200 shares
SAMRAT	84 000 shares

TOTAL MARK: 40

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ACTIVITY 6: ANSWER BOOK

6.1

Comment on the liquidity of the two companies and explain which company manages the working capital more efficiently.

(6)

6.2

Comment on the degree of risk and gearing of both companies. Explain how this will influence your choice of company.

(6)

6.3

Consider the Return, Earnings and Dividends of both companies.
a) Explain whether or not Angad should be satisfied with the return on his investment in both companies. Provide financial indicators / figures to support your answer.

(4)

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b) **Calculate the dividend pay-out policy of both companies. Indicate which company has adopted the better policy and the possible reason for that choice. Provide figures and calculations to support your answer.**

(6)

6.4

A) Refer to information B and C. Indicate how many shares must Angad purchase in each company to maintain the percentage shareholding he had at the start of the year.

(8)

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B) Calculate the amount Angad will spend in order to maintain his percentage shareholder in each company. Provide a reason why Angad would pay this amount.

(6)

C) Comment on the price per share that Angad paid for these shares in each company and provide figures to support your answer.

(4)

40

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CORPORATE GOVERNANCE

ACTIVITY 1

AUDIT REPORT

The financial statements of East Coast Ltd were audited. You are provided with the extract from the audit report.

Extract of the audit report:

> **Audit opinion- To shareholders:5**
> We have examined the financial statements as set out on pages 8 to 20.
>
> In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 28 February 2021 and the results of their operations and cash flows for the year ended, and in accordance with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act of South Africa,
>
> **Bay & Oceans**
> **Chartered Accountants (SA)**
> **Registered Accountants and Auditors**
> **Cape Town 6 April 2021**

1.1. State whether the shareholders will be satisfied or dissatisfied with this audit report. Give a reason for your answer. (3)

1.2. Explain why is it necessary for the auditors to mention pages (8 to 20) in this report. (2)

1.3. Why is it necessary for the financial statements of a public company to be audited by an independent auditor? (2)

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1.4. What actions would Bay and Oceans have to perform to verify the Fixed/Tangible assets figure in the Balance Sheet? Provide THREE points (3)

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ACTIVITY 1: ANSWER BOOK

1.1 State whether the shareholders will be satisfied or dissatisfied with this audit report. Give a reason for your answer.

1.2. Explain why is it necessary for the auditors to mention pages (8 to 20) in this report.

1.3. Why is it necessary for the financial statements of a public company to be audited by an independent auditor?

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1.4. What actions would Bay and Oceans have to perform to verify the Fixed/Tangible assets figure in the Balance Sheet? Provide THREE points

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ACTIVITY 2

AUDIT REPORT

You are provided with an extract from the independent audit report of Sumba Ltd.

EXTRACT FROM THE AUDIT REPORT OF SUMBA LTD.

We found that internal control procedures were not adhered to and documentation did not exist for a significant portion of the transactions tested.

Because of the significance of the matter described in the previous paragraph, we have not been able to obtain sufficient audit evidence to provide a basis foran audit opinion. Accordingly, we do not express an opinion on the financial statements for the year ended 28 February 2023.

REQUIRED:

2.1 The audit report is an example of a/an (qualified/unqualified/disclaimer of opinion) audit report. (1)

2.2 Who is the audit report addressed to? Give a reason for your answer. (2)

2.3 Explain why it is likely that this audit report will have a negative effect on the value of the shares of this company on the JSE. (2)

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ACTIVITY 2: ANSWER BOOK

2.1

The audit report is an example of a/an (qualified/unqualified/disclaimer of opinion) audit report.

2.2

Who is the audit report addressed to? Give a reason for your answer.

2.3

Explain why it is likely that this audit report will have a negative effecton the value of the shares of this company on the JSE.

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ACTIVITY 3

You are provided with an extract from the audit report of Steinfeld Ltd. Read the report and answer the questions that follow

3.1 What is the main role of the independent auditor? **[2]**

3.2 What type of audit report did Steinfeld Ltd receive: qualified, unqualified or disclaimer of opinion? **[2]**

5.3 If the debtors are adjusted, it will have a negative effect on the financial results and position of the business. Because of the fact that the debt is not written off, the asset value in the books is higher than it should be.

- List TWO liquidity ratios/figures that will be affected by the decision notto write off the debt **(2)**
- The CEO argues that the debtor should rightfully remain in the books until the lawsuit has been concluded. However, the auditor believes that the amount should have been written off. Give TWO reasons why the auditor feels this way **[4]**

INFORMATION:

Extract from the Independent Auditor's Report

The directors neglected to disclose the following. Included in the Trade Debtors shown on the Balance Sheet of 31 October 2018 and 31 October 2017 is an amount of R800 000 which is the subject of a lawsuit and against which no provision for bad debts has been made. In our opinion, full provision of R800 000 should have been made in the year ended 31 October 2017 and the amount written off as a bad debt in 2018.

Audit opinion

In our opinion, the financial statements fairly present the financial position of the company at 31 October 2018, except for the financial effect of not making the provision referred to in the previous paragraph.

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ACTIVITY 3: ANSWER BOOK

3.1 What is the main role of the independent auditor?

3.2 What type of audit report did Steinfeld Ltd receive: qualified, unqualified ordisclaimer of opinion? [2]

3.3 If the debtors are adjusted, it will have a negative effect on the financial results and position of the business. Because of the fact that the debt is notwritten off the asset value in the books is higher than it should be. [6]
• **List TWO liquidity ratios that will be affected by the decision not to write off the debt.**

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• **The CEO argues that the debtor should rightfully remain in the books until the lawsuit has been concluded. However, the auditor believes that the amount should have been written off. Give TWO reasons why the auditor feels this way.**

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ACTIVITY 4

You are provided with the following extract for Don Ltd from the report of the independent auditors.

REQUIRED:

4.1 Explain what is meant by Corporate Governance. (2)

4.2 Provide TWO examples of corporate governance that would occur in a company. (4)

4.3 Refer to the underlined words in paragraph 2.
- Give TWO examples of audit evidence. (4)

4.4 Explain why an independent auditor would want to see that the following GAAP principles that are applied:
- Matching (2)
- Going concern (2)

4.5 Refer to paragraph 3. Explain why you would be satisfied with this audit report opinion. (3)

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

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INFORMATION:

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS	
Paragraph 1	We have audited the annual financial statements of Don Ltd set out on Pages 10 to 19 for the year ended 31 May 2022. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.
Paragraph 2	**An audit includes:** ● Examining, on a test basis, evidence supporting the amounts in the financial statements ● Assessing the accounting principles used and significant estimates made by management; ● Evaluating the overall financial statement presentation.
Paragraph 3	**Audit opinion:** In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 31 May 2022 and the results of their operations and cash flow for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act,1973 (Act 71 of 1973) in South Africa. **Bob & John**, Chartered Accountants (SA)

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ACTIVITY 4: ANSWER BOOK

4.1. Explain what is meant by Corporate Governance.

4.2 Provide TWO examples of corporate governance that would occur in a company.

4.3 Refer to the underlined words in paragraph 2.

- **Give TWO examples of audit evidence.**

Explain why an independent auditor would want to see that the following GAAP principles that are applied:

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- **Matching**

- **Going concern**

4.5 Refer to paragraph 3. Explain why you would be satisfied with this Audit opinion.

4.6 To whom is an audit report addressed? Give reason for your answer.

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ACTIVITY 5

CORPORATE GOVERNANCE (15 marks; 10 minutes)

5.1 The board of directors wants to buy computers and IT systems from a certain computer company for R25 million. You find out the CEO's wife is a majority shareholder in the computer company.

- Express your opinion on the scenario mentioned above. Provide ONE point.
- How should this scenario be handled by a board of directors or by shareholders? Provide ONE point. (4)

5.2 You are a non-executive director and a member of the audit committee of a company. You notice that the internal auditor has not identified deficiencies in the internal control procedures e.g., the division of duties in the accounting department is not ideal.
How should this scenario be handled by you as a non-executive director? Provide ONE point. (2)

5.3 External independent auditors may charge high audit fees for their specialised work. What do you think will be the consequences for the auditor if it is proven that the auditor was negligent in the performance of his responsibilities? Name TWO consequences. (4)

5.4 Read the following extract and answer the questions that follow:

INFORMATION:

CARPETS GALORE LTD*

Shareholders of Carpet Galore Ltd were once again left without a dividend in a year wherein its profits showed a big rise. It is the third year in a row that shareholders did not receive any dividends. The company's share price … with 7% after the results for the year ended June 2022 were released. According to John Mokeana, the CEO, the directors took the decision regarding the dividends in light of Covid-19, which is not yet over.

*Based on true articles; names changed.

5.4.1 Do you think the share price of the company increased or dropped? (1)

5.4.2 How will shareholders react to this? Provide TWO points. (4)

15

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ACTIVITY 6

QUESTION 6

CORPORATE GOVERNANCE (15 marks; 10 minutes)

An article below was extracted from a local newspaper. Read the extract carefully and answer the questions that follow. Use your general knowledge of companies and corporate governance to support your answers, if necessary.

REQUIRED:

6.1 The Human Resources Division

Refer to paragraph 1.

- Provide TWO key functions for which the Human Resources Division may be responsible. (2)
- List TWO qualities that they may consider in a prospective candidate for a management position. (2)
- Explain the role of a CEO in a company. (2)
- What impact would the image of the company have on the market price of shares? Explain ONE point. (2)

6.2 Good corporate governance and concerns of stakeholders

Refer to paragraph 2.

- Provide TWO possible questions that a concerned stakeholder may have raised with the Human Resources Division at the meeting (2)
- Explain ONE strategy that Mangray Ltd can use to involve its employees in collective decision-making. Provide a reason for your answer. (3)
- "Good corporate governance helps companies to thrive and compete." Provide TWO points to show why you agree with this statement. (2)

INFORMATION:

FUMBLE RECOVERY! HOW GOOD LEADERS CAN FIX BAD DECISIONS THAT AFFECT OTHER STAKEHOLDERS.

Paragraph 1

The decline of Mangray Ltd's market price, after the media shared the secret conversation of the CEO not engaging staff correctly, was a front-page story. The Human Resource Committee did its investigations and discovered that the CEO used inappropriate language when dealing with staff. It was found that some junior staff members knew of certain decisions before they were discussed by the board, and this hampered objective inputs of other directors.

Paragraph 2

Upon engaging with all parties, it was evident that there was a lack of communication between the CEO and stakeholders. The Human Resource Committee held a meeting with staff and emphasized the KING report which speaks of a dialogue,

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which can enhance or restore stakeholder confidence, remove tensions, relieve pressure on the company's reputation and offer opportunities to align expectations, ideas and opinions on issues.

Paragraph 3

The CEO of Mangray Ltd has reflected on how he has been taking decisions in order to build relationships with stakeholders and to accelerate the company's results. He has learnt not to operate in the shadow of the past, making decisions that disappoint stakeholders, overlooking other stakeholders' inputs and allowing processes to bring about change. (15)

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ACTIVITY 6: ANSWER BOOK

QUESTION 6

6.1

6.1 .1 Provide TWO key functions for which the Human Resources Division may be responsible.	
	2
6.1.2 Provide TWO key functions for which the Human Resources Division may be responsible.	
	2
6.1.3 Explain the role of a CEO in a company.	
	2
6.1.4 What impact would the image of the company have on the market price of shares? Explain ONE point	
	2

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6.2

4.2.1 Provide TWO possible questions that a concerned stakeholder may have raised with the Human Resources Division at the meeting.
2

6.2.2 Explain ONE strategy that Mangray Ltd can use to involve its employees in collective decision-making. Provide a reason for your answer.
3

6.2.3 “Good corporate governance helps companies to thrive and compete.” Provide TWO points to show why you agree with this statement.
3

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ACTIVITY 7

CORPORATE GOVERNANCE (15 marks; 10 minutes)

7.1 Explain your understanding of corporate governance and indicate who is for the corporate governance of a company. (2)

7.2 Explain what is meant by ‘ACCOUNTABILITY’ and ‘RESPONSIBLE MANAGEMENT’ and why these factors are important for good corporate governance. (4)

7.3 List the THREE different types of audit report. Identify which report would undermine good corporate governance in a company, and provide your reason for choosing this report. (5)

7.4 Explain why the auditors would not allow the directors to reflect DIRECTORS FEES in the financial statements under SALARIES AND WAGES

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ACTIVITY 7 ANSWER BOOK

7.1

Explain your understanding of corporate governance: **Who is for the corporate governance of a company?**

7.2 Explain what is meant by 'ACCOUNTABILITY' and 'RESPONSIBLE MANAGEMENT' and why these factors are important for good corporate governance

ACCOUNTABILITY 'RESPONSIBLE MANAGEMENT	

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7.3 List the THREE different types of audit report. Identify which report would undermine good corporate governance in a company, and provide your reason for choosing this report.

Types of audit reports: Which report would undermine good corporate governance: Reason for choosing this report:	5

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ACTIVITY 8

CORPORATE GOVERNANCE AND AUDIT REPORT (15 Marks; 10 Minutes)

8.1 Choose the correct term from COLUMN B to match the description in COLUMN A. Write only the letter (A – D) next to the question number (4.1.1 to 4.1.3) in the ANSWER BOOK.

COLUMN A		COLUMN B	
8.1.1	Guidelines for the preparation of financial statements to ensure consistency.	A	Memorandum of Incorporation
8.1.2	Sets out the rights, duties and responsibilities of shareholders and directors.	B	IFRS
		C	Matching concept
8.1.3	Revenue generated and related expenses are recognised in the same accounting period.	D	Going concern concept

(3 x 1) (3

8.2 CORPORATE GOVERNANCE

REQUIRED:

8.2.1 According to the Companies Act, 2008 (Act 71 of 2008), a company must have a remunerations committee.

- Explain the role/responsibility of this committee. (2)
- Give one reason why this committee is necessary in a public company. (2)

8.2.2 Explain why it should be company policy that directors must declare all gifts, donations or favours received from suppliers. Provide TWO points. (4)

8.3 AUDIT REPORT

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REQUIRED:

Internal auditors should be appointed in private and public companies.

Explain TWO roles/responsibilities of internal auditors in companies. (4)

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ACTIVITY 9

CORPORATE GOVERNANCE **(15 marks; 10 minutes)**

Use the information presented and your knowledge on companies to answer the questions.

REQUIRED:

9.1 Sponsorship and other parties:

Refer to paragraph 1.

- Provide a reason why trade unions would want to be interested in the financial records and the performances of companies. (2)

- Explain why listed companies like Rainbow Hotels Ltd might want to spend money to sponsor such projects. (2)

9.2 Directors:

Refer to paragraph 2.

Explain the difference between an *executive* and *a non-executive director.* (2)

9.3 Concerns of shareholders:

Refer to paragraphs 1, 2 and 3.

As a concerned shareholder, what questions would you ask at AGM? Provide THREE different questions. In EACH case explain an appropriate reason. (9)

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INFORMATION:

RAINBOW HOTELS LIMITED SLAMMED FOR INAPPROPRIATE DECISIONS [By Helen Brown, Daily Views, 24 Nov 2022] *adapted*
Paragraph 1 The decision by Rainbow Hotels Ltd to sponsor the Highveld Rugby tournament to the amount of R10 million at a time when the company is seeking extra loans and finance from investors has been criticised by **shareholders and trade unions**.
Paragraph 2 One of the shareholders, Star Cloud, said this week that the business made a loss of R166 million during the 2021/2022 financial year. He said that one of the **non-executive director**, Joyce Drinkwater, needed to be held accountable and action taken against her at a special board meeting. Rainbow Hotels Ltd is the main sponsor and owns hotels in South Africa. In response Nelly McNelly, who is the **executive director** of the company, said Rainbow Hotels had reduced its sponsorships from more than 40 to only 5 sporting events and had budgeted for **8% salary and wage increases** for their employees in the next financial year.
Paragraph 3 “We are taking our strong South African brand to the rest of the country with this sponsorship and we are also making our presence felt”, said Drinkwater.

15

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ACTIVITY 9: ANSWER BOOK

RAINBOW HOTELS LTD

9.1 Sponsorship and other parties

Refer to paragraph 1.

Provide a reason why trade unions would want to be interested in the financial records and the performances of companies.

Explain why listed companies like Rainbow Hotels Ltd might want to spend money to sponsor such projects.

9.2 Directors:

Refer to paragraph 2

Explain the difference between an *executive* and *a non-executive director.* **Executive director:** **Non-executive director:**

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9.3 Concerns of shareholders:

Refer to paragraphs 1, 2 and 3.

As a concerned shareholder, what questions would you ask at AGM? Provide THREE different questions. In EACH case explain an appropriate reason.

Different questions	Reason

9

TOTAL MARKS	15

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ACTIVITY 10

(20 marks; 20 minutes)

10.1 **AUDIT REPORT**

Read through the extract below and answer the questions that follow:

> TT and Associates conducted an Audit of XYZ International Limited as per the relevant provision of the Companies Act and observed that Sundry Accounts Receivable includes an amount of R4 000 000 which is due from an enterprise that has closed down.
> As such, in my opinion (Auditor Remark), except for the matter described above as the basis for an Audit report …

10.1.1 Who appoints the external auditors and why do they appoint the auditors? (2)

10.1.2 XYZ International Limited received a qualified audit report. Give a reason why they received this type of audit report. (2)

10.1.3 At the AGM what concerns would you raise, based on the above extract. Mention ONE other concern. (2)

10.1.4 A company appoints internal auditors. Mention TWO duties that the internal auditor performs in the company. (4)

10.2 **CORPORATE GOVERNANCE**

Read through the extract below and answer the questions that follow.

> Tafy Limited inflated its profits and assets by R250 billion.
> Tafy Limited did deals with companies that were secretly linked to former CEO Z. Zenani and her friends. It also used many accounting tricks (and forged documents) and also cooked up fake income to boost some of its underperforming companies
> Zenani resigned days later.

10.2.1 Corporate governance is a set of rules and procedures by which companies are directed.
Does the company above practice good corporate governance? Substantiate your answer. Mention TWO points. (4)

10.2.2. There is clear evidence in the extract that there is conflict of interest, the fact that Tafy Limited entered into business with a company that is linked to the CEO. Because of this explain why companies must have policies regarding entering into contracts with other entities. Mention ONE point. (2)

10.2.3 At the AGM, shareholders had to find a replacement for Zenani. If you were a shareholder, what factors or characteristics would you want to find out about the directors who would get your vote? Explain ONE point and give a reason for your choice. (4)

ACTIVITY 10: ANSWER BOOK

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CORPORATE GOVERNANCE

10.1.1 **Who appoints the external auditors and why do they appoint the auditors?**

	2

10.1.2. **ABC International Limited received a qualified audit report. Give a reason why they received this type of audit report.**

	2

10.1.3 **At the AGM what concerns would you raise, based on the above extract. Mention ONE other concern.**

	2

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10.1.4 **A company appoints internal auditors. Mention TWO duties that the internal auditor performs in the company.**

4

10.2.1 **Corporate governance is a set of rules and procedures by which companies are directed.**
Does the company above practice good corporate governance. Substantiate your answer.

4

10.2.2. **There is clear evidence in the extract that there is conflict of interest, the fact that Reed Limited entered into business with a company that is linked to the CEO. Because of this explain why companies must have policies regarding entering into contracts with other entities. Mention ONE point.**

2

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10.2.3. **At the AGM, shareholders had to find a replacement for Jerro. If you were a shareholder, what factors or characteristics would you want to find out about the directors who would get your vote? Explain ONE point and give a reason for your choice.**

EXPLANATION	REASON

4

TOTAL MARKS
20

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FIXED ASSESTS

ACTIVITY 1 **12 marks; 10 minutes)**

REQUIRED:

1.1 Refer to the fixed asset note below.

Calculate the missing amounts (indicated by **a, b, c** and **d**) in the Fixed/Tangible Asset Note for the year ended 31 March 2022. (12)

Fixed/Tangible assets:

	Land and buildings	**Vehicles**	**Equipment**
Carrying value at beginning of financial year	**2 900 000**	**500 000**	?
Cost	2 900 000	780 000	?
Accumulated depreciation	0	(280 000)	(52 500)
Movements			
Additions at cost	0	0	48 000
Disposals at carrying value	**(a)**	**(c)**	0
Depreciation	0	**(b)**	(55 500)
Carrying value at end of financial year	**2 250 000**	**318 000**	**(d)**
Cost	2 250 000	630 000	258 000
Accumulated depreciation	0	(312 000)	?

Additional information in respect of fixed assets:

- A vehicle was sold at its carrying value on the last day of the financial year. Depreciation is written-off on vehicles at 20% p.a. on the diminishing balance method.
- Land and buildings were sold at cost during the financial year.

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ACTIVITY 1: ANSWER BOOK

1.1 Calculate the missing amounts (indicated by a, b, c and d) in the Fixed/ Tangible Asset Note for the year ended 31 March 2022.

	Workings	Amount
a		
b		
c		
d		

12

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ACTIVITY 2

REQUIRED

2.1 Calculate the outstanding amounts in the Fixed Asset note. (See information B)

INFORMATION

A Lists of balances/totals from 30 June 2023

BALANCE SHEET ACCOUNTS SECTION	
Equipment (30 June 2023)	2 950 000
Accumulated depreciation on equipment (30 June 2023)	425 000
Vehicles (1 July 2022)	614 000
Accumulated depreciation on vehicles (1 July 2022)	563 900

Equipment:

• Equipment is depreciated at 20% p.a. using the diminishing balance method.

• The accountant incorrectly calculated the depreciation on the cost price method at 20% and the amount of R390 000 for depreciation was recorded in the general ledger. Fix the error.

• Additional equipment with a cost price of R1 000 000 was purchased on 1 April 2023 and correctly recorded.

Vehicles:

• The business owned only one vehicle on 1 July 2022. A new vehicle was purchased on 1 May 2023. But not yet recorded.

• Depreciation is calculated at 10% p.a. on cost price and depreciation for the year was calculated at R56 099. No entry has been made for this yet.

R450 000 was paid to Jaco Builders. R435 000 for the construction of a storage room and the rest paid for repairs to the building. The entire amount was debited against land and buildings.

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B

	LAND AND BUILDINGS	EQUIPMENT	VEHICLES
Carrying value at the beginning of the year			50 100
Cost price		(A)	614 000
Accumulated depreciation	(E)	(B)	(563 900)
Movement			
Additions		100 000	(D)
Depreciation		(C)	(56 099)
Sales at carrying value			
Accumulated depreciation			
Cost price			
Carrying value at the beginning of the year			

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ACTIVITY 2.1 ANSWER BOOK

	CALCULATION	ANSWER	
A			1
B			2
C			5
D			6
E			1

(16)

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ACTIVITY 3 **TANGIBLE ASSETS (10 marks)**

3.1 The information relates to Ixopo Ltd for the financial year ended on 28 February 2023.

REQUIRED:

Calculate the total depreciation for the year. (10)

A. EXTRACT: PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY		
Balance sheet accounts	**2023 R**	**2022 R**
Ordinary share capital	8 700 000	6 900 000
Retained Income	?	850 000
Loan: Triumph Bank	2 850 000	3 100 000
Vehicles	?	800 000
Accumulated depreciation on vehicles	?	415 000
Equipment	910 000	?
Accumulated depreciation on equipment	?	782 000

Vehicles:

- An old delivery vehicle, with a carrying value of R170 000 on 1 March 2022, was sold for R150 000 cash on 1 December 2022.
- Depreciation for vehicles at 20% on a diminishing balance.

Equipment:

- New equipment costing R50 000 was purchased on 1 November 2022 for cash. Transaction was properly recorded.
- Equipment is depreciated at 15% p.a. on cost.

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ACTIVITY 3: ANSWER BOOK

3.1

Calculate the total depreciation for the year. (10)	
WORKINGS	ANSWER

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ACTIVITY 4

The following information relates to Odette Ltd. The financial year ended on 28 February 2017.

Refer to Information A

A. Fixed assets:

Calculate the missing amounts denoted **by (a) to (e).**
(22)

	LAND AND BUILDINGS	**VEHICLES**	**EQUIPMENT**	**TOTAL**
Cost		350 000		
Accumulated depreciation		(315 000)		
Carrying value (01/03/2016)	**(a)**	35 000		
Movements:				
Additions	325 000	422 550		
Disposals	0	0	**(d)**	
Depreciation		**(b)**	(13 766)	
Carrying value (28/02/2017)	2 550 000	**(c)**	50 994	**(e)**
Cost		772 550	340 000	
Accumulated depreciation				

- Depreciation on vehicles is calculated at 20% p.a. on cost.
- The company has two vehicles on 28 February 2017. One of these vehicles was purchased on 1 September 2016.
- Extract from the Fixed Assets Register in respect of equipment sold:

Fridge (Model X3)
Date purchased: 1 March 2014
Date sold: 31 December 2016 **Sold for**: R81 250

Depreciation rate: 10% p.a. (diminishing-balance method)

	COST	**DEPRECIATION**	**BOOK VALUE**
28 February 2015	R120 000	R12 000	R108 000
29 February 2016		?	?
31 December 2016		?	?

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ACTIVITY 4: ANSWER BOOK

(a)

Calculate the carrying value of Land and Buildings on 1 March 2016.

(2)

(b)

Calculate the total depreciation on Vehicles on 28 February 2017.

(6)

(c)

Calculate the carrying value of Vehicles on 28 February 2017.

(4)

(d)

Calculate the carrying value of Equipment sold on 31 December 2016.

(6)

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(e)

Calculate the total carrying value of Fixed Assets on 28 February 2017.

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ACTTIVITY 5

5.2 The following information relates to the fixed/tangible assets of Justime Footwear (Pty) Ltd. The financial year ended on 28 February 2021.

REQUIRED:

5.2.1 List THREE points for good internal control over movable fixed assets. (3)

5.2.2 Refer to Information A and B.

Calculate the cost of land and buildings purchased on 31 August 2020. (3)

5.2.3 Refer to Information A and C.

Calculate depreciation on the vehicle for the year ended 28 February 2021. (2)

5.2.4 Refer to Information A and D.

The business depreciates equipment at 30% p.a. on the diminishing-balance . On 30 November 2020, they decided to trade in a photocopy machine for a new model.

- Calculate the loss on the photocopy machine that was traded in on 30 November 2020. (6)
- Calculate depreciation on the new photocopy machine and on the remaining old equipment for the year ended 28 February 2021. (

5.2.5 The CEO feels that the land and buildings are worth at least R10 000 000 and wants to adjust the figure in the Statement of Financial Position (Balance Sheet) accordingly. Explain why the auditor does NOT agree. (2)

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INFORMATION:

A.

Extract from Trial Balances on 28 February:

	2021 R	2020 R
Balance Sheet accounts section		
Land and buildings	6 250 000	5 500 000
Vehicle	480 000	480 000
Accumulated depreciation on vehicles	?	450 000
Equipment	2 190 000	2 100 000
Accumulated depreciation on equipment	?	1 440 000

B. Land and buildings:

Glamour Construction provided an invoice on 31 August 2020 after completing the new storage facilities. The full invoice amount was paid and debited to land and buildings. However, the auditor found that repairs to the old storeroom, R60 000, were included in the invoice. This has not been corrected.

C. Vehicles:

The company has only one vehicle. The depreciation rate is 25% p.a. on cost.

D. Equipment:

photocopy machine was traded in on 30 November 2020 for R88 000 for a better model. The cost price of the new model that was delivered on 1 December 2020 was R410 000. The fixed asset register reflected the following:

Fixed asset register:

Category:	Photocopy machine	
Model:	Clearfont X23	
Date purchased:	1 March 2019	
Cost price:	R320 000	
Depreciation rate:	30% on diminishing-balance method	
Date	Depreciation	Carrying value
28 February 2020	R96 000	R224 000
30 November 2020	?	?

(23)

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ACTIVITY 5: ANSWER BOOK

FIXED ASSETS

5.2.1

List THREE points for good internal control over movable fixed assets.

3

5.2.2

Calculate: Cost of land and buildings purchased on 31 August 2020	
Workings	Answer

3

5.2.3

Calculate: Depreciation on the vehicle for year ended 28 February 2021	
Workings	Answer

2

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5.2.4

Calculate: Loss on photocopy machine traded in on 30 November 2020	
WORKINGS	ANSWER

6

Calculate: Depreciation on the new photocopy machine and on the remaining old equipment for the year ended 28 February 2021	
WORKINGS	ANSWER
Depreciation on the new photocopy machine: (2) Depreciation on the remaining old equipment: (5)	

7

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5.2.5

The CEO feels that the land and buildings are worth at least R10 000 000 and wants to adjust the figure in the Statement of Financial Position (Balance Sheet) accordingly. Explain why the auditor does NOT agree.

2

TOTALMARKS
23

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RATIOS	How it is calculated formula	Answer as/in
	Profitability	
1. Gross profit on sales	$\frac{\text{gross profit}}{\text{sales}} \text{x} \frac{100}{1}$	%
2. Gross profit on cost of sales	$\frac{\text{gross profit}}{\text{cost of sales}} \text{x} \frac{100}{1}$	%
3. Operating profit on sales	$\frac{\text{operating profit}}{\text{sales}} \text{x} \frac{100}{1}$	%
4. Operating expenses on sales	$\frac{\text{operating profit}}{\text{sales}} \text{x} \frac{100}{1}$	%
5. Net profit after tax on sales	$\frac{\text{Net profit after tax}}{\text{sales}} \text{x} \frac{100}{1}$	%
6. SOLVENCY RATIO	Total assets: total liabilities	Ratio(x:1)
7. Net assets (shareholders' equity)	Total assets - total liabilities	Rands
8. Current ratio (2:1) good indication	Current assets: current liabilities	Ratio(x:1)
9. Acid test ratio (1:1) good indication	Current assets-inventory: current liabilities	Ratio(x:1)
10. Stock turnover rate	$\frac{cost\ of\ sales}{average\ trading\ stock}$	Times per year
11. Stock holding period	$\frac{average\ trading\ stock}{cost\ of\ sales}$ x 365 days or x12/1 months	Number of days
12. Average debtor's collection period	$\frac{average\ debtors}{credit\ sales} x \frac{365}{1}$	Number of days
13. Average creditors payment period	$\frac{average\ creditors}{credit\ purchases} x \frac{365}{1}$	Number of days
14. Gearing ratio/ Debt equity ratio	*Long-term liabilities: shareholders' equity*	Ratio(x:1)

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15. Return on shareholders' equity	$\frac{Net\ profit\ after\ tax}{average\ shareholder's\ equity} x \frac{100}{1}$ ***Note: average shareholder's equity is*** $\frac{1}{2}$(shareholder's equity @ the beg + shareholder's equity @ the end)	%
16. Return on average capital employed (ROACE)	$\frac{Net\ profit\ before\ interest\ expense}{average\ capital\ employed} x \frac{100}{1}$ ***Note: capital employed*** = $\frac{1}{2}$ *(shareholders' equity + long-term loan @ the beg + shareholders' equity + long-term loan @ the end)*	%
17. Earnings per share	$\frac{Net\ profit\ after\ tax}{number\ of\ shares\ issued} x \frac{100}{1}$	Cents
18. Dividends per share	$\frac{dividends\ on\ ordinary\ shares}{number\ of\ shares\ issued} x \frac{100}{1}$	Cents
19. Net asset value per share	$\frac{\text{shareholders' equity}}{number\ of\ shares\ issued} x \frac{100}{1}$	Cents

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