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NORTH WEST PROVINCE

ACCOUNTING COLLECTABLE MARKS MATERIAL

GRADE 12

QUESTION PAPER

Read the notes on collectable marks before attempting to do the questions.

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NOTES ON COMPANIES

Tip: Know your formats and formulas. Be aware not to use a variety of unnecessarily complicated and time-consuming calculations, you are working against time.
Write neatly and legibly, markers don't want to struggle to read your handwriting.

NOTES ON COMPANY FINANCIAL STATEMENTS AND AUDIT REPORT

Preparing financial statements will always form a major part of an Accounting paper. The Income Statement and/or Balance Sheet and Cash Flow Statement appear in all examination papers. Make sure you **know the formats**. The basic format and preparation of financial statements are introduced in Gr. 10 and reinforced in Gr. 11 and 12. The Gr. 12 learner is expected to have a **solid foundation**, which must include **concepts**, **formats**, elements of the **accounting equation**, the **double entry principle** and the **steps in the accounting cycle**. Although each financial statement is dealt with separately, you need to know that it is all in the context of the **Annual Report**, presented at the **general meeting of shareholders**, so please appreciate the usefulness and relevance of financial statements and the difference between financial performance (Income Statement) and financial position (Balance Sheet). Financial statements are always accompanied by **notes**. Know the composition/components of the different notes and their place in financial statements.

Make sure you understand the **calculations for depreciation** and the **carrying value of assets sold**.

Please take note that calculations in a question can be used in subsequent questions, even if it is calculated incorrectly, if you transfer the wrong figure to the right place, you earn **method marks**.

When **calculating the correct net profit**, indicate the adjustments with the correct sign (+ or -). (Show this in all your workings).

The **amount owing to SARS**. You have an amount owed to SARS (from the Income Statement) and an amount for provisional tax payments (you have already paid it during the year, to make the big payment at the end of the year easier). These 2 figures should be **deducted** from each other to find the amount owing to or from SARS.

Retained Income Note: When buying back shares, use the amount **in excess of the average share price** and use the **correct number of shares** that is entitled to receive final dividends.

Balance Sheet: Know your **format,** don't be ignorant about the basic format by misplacing items, you lose valuable marks in the process.

Trade and Other Receivables: If a debtor is transferred from debtors to creditors, show your workings. If the debtor has a credit balance the Debtors will increase, if the debtor has a debit balance Debtors will decrease.

Trade and Other Payables: Study the note.

The value of **current assets/current liabilities** must sometimes be determined by using the current ratio.

Calculating the short-term portion of the loan. Take care with this calculation. This amount can also be the balancing figure under Current Liabilities. This amount should be the same as the amount deducted from loan under Non-current Liabilities

Adjustments: make sure adjustment has a **double effect**.

A style adopted in financial statements is that you must be **able to work from any point**, in the financial statements, using financial indicators and balancing figures to complete the statements. Don't let balancing figures be a stumbling block, it must motivate you to proceed with the question, method marks on incorrect figures can add up to more than 50% of the marks of a Statement.

Audit Report: i.e. unqualified, qualified and disclaimers. You should appreciate the considerable training and skill required of auditors, as well as the responsibilities that they are expected to discharge.

Examples of audit evidence: Auditors use this to check the accuracy and authenticity.

It **is** possible for **directors to prevent a bad audit report**.

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NOTES ON CASH FLOW STATEMENT:

1. **Dividends &Tax paid**

The following table can be used to calculate dividends and tax paid

Amount in the financial statements	
+ Amount owing at the beginning of the year	
- Amount owing at the end of the year	
= Amount paid	

2. Income Tax paid

- Many learners insert the **incorrect + / - sign** in front of the amounts especially when using the above table this is due to the fact that Income tax can appear either as current assets or a current liability
- It is also evident that many learners do not know the difference between **Income tax** and **Income tax paid.**

SUGGESTIONS:

- Learners need to have a clear understanding as to why Income tax can appear either as **a current asset** or **a current liability** in the Balance Sheet. They need to remember that if tax appears in the **current assets section then it was overpaid to SARS** and if it appears in the current Liability section then **it is owing to SARS**. The most effective way of explaining this concept to learners is by recreating **a SARS – Income tax ledger Account.** The bank amount on the **debit side** of the account is the **amount paid to SARS** in that financial year.

3. Proceeds from disposal of Asset/Additions at cost/Depreciation

- The above calculation recurs in practically all examinations and most candidates are unable to get the correct answers because they insert the **incorrect + / - sign** in front of the **amounts.**
- **SUGGESTIONS:**

  To eradicate the confusion in this regard it will be preferable to use the **Fixed Asset Note 3** (which all learners are familiar with) to obtain the answer. The answer to this question can be obtained as follows:

  NOTE 3 /FORMULA

	Fixed Assets
Cost	
Accumulated Depreciation	
Carrying Value beginning of the year	R XXXXX
+ **A**dditions	+ XXXXX
- **D**isposal at carrying value	- ????
- **D**epreciation	- XXXXX
= Carrying value at the end of the year	=R XXXXXXX
Cost	
Accumulated Depreciation	

4. Cash and Cash Equivalents

- Most candidates do not understand the concept of **Net effect** the most of the time totally disregard the effect of the bank overdraft.

SUGGESTIONS:

- Learners need to understand that the net effect implies- by how much did the bank **balance increase or decrease by**, from the beginning of the year till the end of the year. The following formula can assist:

  Formula: Net Effect **(NE)** = Current balance **(C)** - Previous balance **(P)**

5.Cash effects of financing Activities (12)

- Candidates are unsure when to bracket an amount and when to leave an amount in its positive form, since they have not yet mastered the concept of inflows and outflows
- Many candidates are unsure which amount to record for new shares issued during the year.
- Many candidates are unsure when to record an amount of loan as an inflow or an outflow.

  SUGGESTIONS:
- Educators need to emphasise that the Cash Flow statement deals with the flow of money in and out of the business through the bank account of the business. Whenever the **bank balance decreases** due to payments made then the final amount on the face of the cash flow statement must be **bracketed** and whenever the **bank balance increases** due to proceeds received then it must **not be bracketed.**
- The concept of the **increase/decrease in loans and fixed deposits** must be clearly explained to learners. The following notes can be useful to educators

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Concept	Inflow/outflow	Brackets/ No brackets	Reason
Increase in loans (have more money)	Inflow	No brackets	This borrowed money will **increase** your bank balance, so it has a positive effect
Decrease in loans (have less money)	Outflow	Brackets	Money has to be paid from the business bank account so the bank balance will **decrease**
Increase in Investments (have less money)	Outflow	Brackets	The bank account balance will **decrease** since money is withdrawn from the current account and invested in another financial institution
Decrease in Investments (have more money)	Inflow	No brackets	The investment has matured /expired so the money will be received by the business. This will **increase** the bank balance

* **HINT** - Remind learners to focus their attention on the bank balance

- The most effective way of obtaining the **amount for the issue of new shares** is to prepare the ledger account for ordinary share capital.
- The total amount **utilised for the purchases of the shares** must be reflected in **Cash Flow statement under financing activities.**

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COMPANIES

QUESTION 1: AUDIT REPORT AND INCOME STATEMENT (70 marks; 40 minutes)

1.1 CONCEPTS

Choose the correct term to complete each of the following statements. Write only the term next to the question number (1.1.1–1.1.4) in the ANSWER BOOK.

cash and cash equivalents; current asset; non-current asset; income; net working capital; expense; current liability; non-current liability

1.1.1 Interest on a bank overdraft is a/an ...
1.1.2 Consumable stores on hand are a/an ...
1.1.3 The portion of a loan to be paid during the next financial year is regarded as a/an … in the Balance Sheet.
1.1.4 The difference between current assets and current liabilities is known as (4 x 1) (4)

1.2 AUDIT REPORT

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

REQUIRED:

1.2.1 To whom is the audit report addressed? (1)
1.2.2 Who has to ensure that the financial statements are prepared and presented at the annual general meeting? (1)
1.2.3 Choose the correct word from those in brackets. Write the answer next to the question number (3.2.3) and explain your choice.

Fralezi Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report. (2)
1.2.4 Explain why the independent auditors referred to pages11–29 in the report. (2)

INFORMATION:

We have examined the financial statements set out on pages 11–29.
In our opinion, the annual financial statements present fairly, in all material respects:

- The financial position of Fralezi Ltd on 30 June
- The cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and as required by the Companies Act of South Africa

Roux and Pieterse
Chartered Accountants (CA)
Registered Accountants and Auditors
Schilbach Street, Parys

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1.3 INCOME STATEMENT

You are provided with information relating to Fralezi Ltd for the financial year ended 30 June 2016.

REQUIRED:

Complete the Income Statement for the financial year. (60)

INFORMATION:

Figures extracted from the Pre-adjustment Trial Balance on 30 June 2016:

	R
Balance Sheet Accounts	
Mortgage loan: Parys Bank	333 200
Bank (favourable)	482 000
Debtors' control	116 500
Trading stock	209 500
Provision for bad debts	3 732
Nominal Accounts	
Sales (less allowances)	4 777 300
Cost of sales	**?**
Directors' fees	375 000
Salaries and wages	365540
Sundry expenses	**?**
Depreciation	124 260
Audit fees	23 000
Repairs	100 000
Rent income	101 900
Interest income	**?**
Bad debts recovered	10 540
Packing material	13 600
Advertising	20 596
Loss of computer due to theft	9 300
Ordinary share dividends	200 000

Adjustments and additional information:

A. A credit note for R35 700 issued to a debtor, dated 27 June 2016, was not recorded. The cost price of these goods was R21 000. The goods were placed back into stock.

B. The business prices its goods at a mark-up of 70% on cost. Trade discount of R297 200 was allowed on invoices to certain customers.

C. Adjust the provision for bad debts of debtors to 4%.

D. Stock counts on 30 June 2016 revealed the following on hand:

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- Trading stock, R225 500
- Packing material, R3 700

E. External auditors are owed a further R7 250.

F. Interest on the loan is capitalised and has not been recorded yet. The loan statement from Parys Bank on 30 June 2016 reflected a closing balance of R372 920.

G. Corrections must be made in respect of a computer that was stolen on 31 March 2016.

The bookkeeper completed the following page in the Fixed Assets Register, using the incorrect method of depreciation:

SUNCREST COMPUTER	COST	DEPRECIATION	BOOK VALUE
1 July 2014	R42 000		R42 000
30 June 2015		R8 400	R33 600
31 March 2016		R6 300	R27 300
Insurance pay-out	R18 000		
Loss of computer due to theft	R9 300		

Depreciation on this asset should have been calculated at 20% p.a. on the diminishing-balanced method.

H. The monthly rent did not change during the year. During April 2016 the tenant paid R6 000 for repairs to the premises. He deducted this from his rent for May 2016, as repairs are the responsibility of the company. The repairs were not recorded. The rent for July 2016 was received and deposited during June 2016.

I. Advertising consists of a monthly contract with the local newspaper for the entire financial year. Advertising was paid for 11 months only. From 1 April 2016, the contract rate was decreased by R152 per month.

J. Net profit after tax is R504 000.

Use the following percentages to calculate certain missing figures:

- Operating profit on sales: 15%
- Income tax rate: 28% of net profit

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QUESTION 2: FINANCIAL STATEMENTS AND AUDIT REPORT

(75 marks; 45minutes)

2.1 Indicate where EACH of the following items would be placed in the financial statements by choosing a term from the list below. Write only the answer next to the question numbers (5.1.1 to 5.1.4) in the ANSWER BOOK.

non-current assets; current assets; equity; operating expenses; operating income

2.1.1 Trade and other receivables
2.1.2 Adjustments of provision for bad debts (decrease)
2.1.3 Fixed deposit maturing in three years' time
2.1.4 Trading stock deficit (4)

2.2 **TEMBISO LTD**

You are provided with information for the financial year ended 28 February 2018.

REQUIRED:

Complete the following for the year ended 28 February 2018:

2.2.1 Income Statement (Statement of Comprehensive Income) (28)
2.2.2 Notes to the Balance Sheet (Statement of Financial Position) for:
- Ordinary share capital (7)
- Retained income (7)

2.2.3 Equity and Liabilities section of the Balance Sheet (16)

INFORMATION:

A. Balances/Totals on 28 February:

	2018	2017
Ordinary share capital	8 816 000	6 976 000
Retained income	384 600	376 600
Loan: LSO Bank	?	1 725 500
Trade creditors	414 120	
SARS: Income tax (provisional payments)	341 800	
Sales	?	
Cost of sales	4 856 000	
Total operating income	879 440	
Salaries and wages	501 200	
Audit fees	65 400	
Rent expense	79 240	
Directors' fees	497 800	
Sundry expenses	91 680	
Interest on fixed deposit	?	
Interest on loan	242 500	

B. Adjustments and additional information:

(a) **Sale of goods:**
The company maintains a mark-up of 40% on cost. Note that old goods costing R96 000 (included in cost of sales) were sold at 10% below cost price.

(b) **Audit fees:**
75% of the annual fees have been paid.

(c) **Directors' fees:**
The company has three directors who earn the same fee. One director was

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paid two months in advance.

(d) **Rental:**
A storeroom was rented from 1 June 2017 at R11 200 per month. Rent increased by 7,5% on 1 December 2017. Provide for outstanding rent.

(e) **Loan: LSO Bank**
- Fixed monthly repayments, including interest, are R31 600.
- Capitalised interest amounted to R242 500 for the year ended 28 February 2018.
- Interest for the next financial year is expected to be R162 000.
- Part of the loan will be repaid within the next financial year.

(f) **Income tax for 2018:**
- R31 300 is still due to SARS.
- The correct net profit after tax is R959 400.

(g) **Share capital and dividends:**
Authorised share capital: 1 600 000 ordinary shares

1 March 2017	80% of the shares were in issue.
1 May 2017	300 000 shares were repurchased at R465 000 above the average share price.
31 August 2017	Interim dividends paid: 30 cents per share.
31 October 2017	Additional shares were issued.
28 February 2018	Final dividends were declared.

2.3 **AUDIT REPORT**
Extracts from the audit report of Tembiso Ltd are provided.
INFORMATION:

To Shareholders
We have audited the financial statements set out on pages 8 to 52 ...
Opinion
Point 1 In our opinion the financial statements present fairly, in all material respects, the financial position of the company as at 28 February 2018…

Point 2 …in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act (Act 71 of 2008)of South Africa.
Basis for Opinion
Point 3 We are independent of the company ...
Point 4 We have fulfilled our ethical responsibilities, which are consistent with international standards…
Point 5 … and the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

REQUIRED:

2.3.1 **Refer to points 1 to 3.**
Why did the auditors mention these points? Give ONE explanation for EACH point. (5)

2.3.2 **Refer to points 4 and 5.**
Explain TWO examples of:
- Ethical responsibilities
- Audit evidence (8)

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QUESTION 3: FIXED ASSETS, BALANCE SHEET AND AUDIT REPORT
(65 marks; 40 minutes)

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

3.1 **Refer to Information B.**
Calculate the missing amounts denoted by **(a)** to **(e)**. (22)

3.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2017. Show workings. (37)

INFORMATION:

A. Amounts extracted from the records on 28 February 2017:

Balance Sheet accounts section	**R**
Ordinary share capital	**?**
Retained income (28 February 2017)	520 000
Fixed assets (carrying value)	**?**
Loan from Beque Bank	284 000
Trading stock	408 880
Net trade debtors	67 200
Fixed deposit: Elze Bank	**?**
Bank (favourable)	**?**
SARS: Income tax (provisional payments)	209 000
Creditors' control	184 000
Nominal accounts section (pre-adjustment amounts)	
Insurance	30 200
Rent income	108 450
Electricity	42 000

B. Fixed assets:

	LAND AND BUILDINGS	**VEHICLES**	**EQUIPMENT**	**TOTAL**
Cost		350 000	460 000	
Accumulated depreciation		(315 000)		
Carrying value (01/03/2016)	**(a)**	35 000		
Movements:				
Additions	325 000	422 550	0	
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				

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- 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		?	?

C. The electricity account for February 2017, R5 600, was still outstanding.

D. The provision for bad debts must be increased by R270.

E. An additional insurance policy was taken out on 1 November 2016.The annual premium of R10 200 was paid and recorded.

F. The rent for February 2017 has not been received yet. The rent increased by 15% on 1 July 2016.

G. Net profit after tax, R518 000, was calculated after taking into account all the adjustments above. Income tax is 30% of the net profit.

H. 75% of the authorised share capital of 900 000 shares was in issue. The directors declared a final dividend of 24 cents per share on 28 February 2017.

I. Extract from Beque Bank loan statement:

Balance on 1 March 2016	R376 000
Instalments (including interest)	R92 000
Interest capitalised	R48 000
Balance on 28 February 2017	?

NOTE:
- Interest has not been entered in the books.
- R50 000 of the loan balance will be settled in the next financial year.

J. The net asset value per share on 28 February 2017 is 620 cents.

K. The current ratio is 2,1 : 1on 28 February 2017.

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3.3 **AUDIT REPORT**

An extract of the independent audit report of Karin Ltd for the financial year ended on 28 February 2017 is provided.

REQUIRED:

As a shareholder, what concerns would you have regarding this audit report? Explain THREE points. (6)

INFORMATION:

EXTRACT FROM THE AUDIT REPORT OF KARIN LTD

We have audited the annual financial statements of Karin Ltd for the year ended 28 February 2017. These financial statements are the responsibility of the company's directors.

Basis for Disclaimer of Opinion
In the course of our audit we established that bonuses paid to directors, amounting to R9,8 million, had not been authorised by the Remunerations Committee.

Audit Opinion
Because of the significance of the matters described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Karin Ltd for the year ended 28 February 2017.

Bongani and Botha, Chartered Accountants (SA)

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QUESTION 4: CONCEPTS, BALANCE SHEET AND AUDIT REPORT

(65 marks; 40 minutes)

4.1 CONCEPTS

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

COLUMN A		COLUMN B	
4.1.1	Finance cost	A	Consumable stores not used at the end of the financial year
4.1.2	Dividends	B	Interest on bank overdraft in the Income Statement
4.1.3	Inventory	C	A financial indicator which reflects liquidity
4.1.4	Current liability	D	Profits distributed to shareholders in proportion to the number of shares held
		E	Debts payable over a short period of time

(4)

4.2 PHAMBILI LIMITED

The information below relates to Phambili Ltd. The financial year ended on 28 February 2019.

REQUIRED:

4.2.1 Prepare the following notes for the financial year ended 28 February 2019.

- Ordinary share capital (11)
- Retained income (11)

4.2.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2019. Where notes are not required, show ALL workings. (29)

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INFORMATION:

A **Balances extracted from the accounting records on 28 February 2019**

	R
Ordinary share capital (1 March 2018)	1 220 000
Retained income (1 March 2018)	355 500
Loan from VDS Bank	1 376 000
Fixed assets at carrying value	1 499 500
Fixed deposit: Sandton Bank	?
Trading stock	480 000
Creditors' control	177 500
Debtors' control	400 000
Packing material on hand	16 000
Accrued expenses (expenses payable)	10 000
Income received in advance (deferred income)	11 500
Bank (favourable)	1 010 100
Provision for bad debts (1 March 2018)	6 200
SARS: Income tax (provisional tax payments)	1 180 000
Ordinary share dividends	350 000

B **Share capital:**

- Phambili Ltd. is authorised to sell 6 000 000 ordinary shares.
- 500 000 shares were in issue on 1 March 2018.
- 900 000 new shares were issued on 1 August 2018 R3,00 per share. This has been properly recorded.
- 150 000 shares were repurchased on 10 January 2019 from a disgruntled shareholder for 75 cents above the average share price. This transaction was not recorded. This shareholder does not qualify for final dividends.

C **Dividends:**

The Directors declared a final dividend of 50 cents per share on 28 February 2019.

D **Provision for bad debts:**

The provision for bad debts must be decreased to R5 400.

E **Loan:**

- The loan was received on 1 September 2016.
- This loan is to be repaid over 6 years in equal monthly instalments with effect from 1 October 2016. All payments have been made.
- Interest is not capitalised and has been paid in full.

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F **Taxation:**

After taking into account all relevant information, taxation for the year was accurately calculated to be R1 148 000 at 28%.

G The following financial indicator was calculated after all adjustments had been taken into account:

Solvency ratio	3,6 : 1

4.3 **AUDITING**

You are provided with an extract from the report of the independent auditors.

A

Audit Opinion – To the shareholders:

We have examined the financial statements as set out on Pages 23 to 89.
In our opinion, the financial statements fairly present, in all material respects, the financial position of the company as at 28 February 2019 and the results of their operation and cash flows for the year ended are in accordance with International Financial Reporting Standards (IFRS), and in the manner as required by the Companies Act in South Africa.

Mxo and Frank
Chartered Accountants (SA)
Registered Accountants and Auditors
Midrand, 31 March 2019

REQUIRED:

4.3.1 Explain why the shareholders would be satisfied with this audit report. (2)

4.3.2 Tello Motloung, the managing director, has informed the auditors that he intends to buy the unissued shares for himself without informing the other shareholders. What advice should the auditors give to Tello? Explain. (2)

4.3.3 Explain why the auditors found it necessary to stipulate the page numbers in the report. (2)

4.3.4 Explain TWO major consequences for Mxo and Frank should they be negligent in performing their duties. (4)

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QUESTION 5: CASH FLOW STATEMENT AND INTERPRETATION
(75 marks; 45 minutes)

5.1 Choose a term from COLUMN B that matches the description in COLUMN A. Write only the letter (A–D) next to the question number (5.1.1–5.1.4) in the ANSWER BOOK, for example 5.1.5 E.

COLUMN A	COLUMN B
5.1.1 Ability of the business to pay off all its debts	A gearing
5.1.2 Ability of the business to pay off its short-term debts	B return on equity
5.1.3 The benefit that shareholders receive for investing in the company	C solvency
5.1.4 The extent to which a company is financed by loans	D liquidity

(4 x 1) (4)

5.2 **REID LTD**

You are provided with information relating to Reid Ltd for the financial year ended 30 June 2016.

Where financial indicators are required to support your answer, name the financial indicator, the actual figure/ratio/percentage and trends.

REQUIRED:

5.2.1 Prepare the following notes to the Balance Sheet:

- Ordinary share capital (7)
- Retained income (9)

5.2.2 Calculate the following amounts for the Cash Flow Statement:

- Change in loan (2)
- Income tax paid (4)

5.2.3 Complete the extract from the Cash Flow Statement for cash and cash equivalents. (4)

5.2.4 Calculate the following financial indicators on 30 June 2016:

- Acid-test ratio (4)
- Debt-equity ratio (3)
- % return on average shareholder's equity (ROSHE) (5)
- Net asset value per share (NAV) (3)

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5.2.5 The liquidity of the company has improved. Quote THREE financial indicators to support this statement. (6)

5.2.6 Dividend policy:

- Provide calculations to show the change in the dividend pay-out policy. (4)
- Explain why the directors decided to change the policy. State ONE point with figures. (2)

5.2.7 Mary is the CEO of the company. Her shareholding is as follows:

NUMBER OF SHARES	DATE PURCHASED	% SHAREHOLDING
420 000	10 January 2015	46,7%

(a) Calculate Mary's % shareholding on 1 October 2015 after the repurchase of shares. (4)

(b) Explain how Mary has benefitted from the decision to repurchase the shares. (2)

(c) The independent auditor discovered that Mary had made the decision to repurchase the shares without informing the board of directors.

Why should the independent auditor be concerned about this? (2)

5.2.8 The Cash Flow Statement reflected fixed assets purchased to the amount of R4,5 million.

- Name TWO major sources of funding for these fixed assets with figures (over R1 000 000 each). (4)
- State for EACH source whether it was a good or bad decision. Explain your choice. Quote relevant financial indicators/figures to support your opinion. (6)

INFORMATION:

A. Share capital and dividends:

- 900 000 shares were in issue on 1 July 2015.
- 75 000 ordinary shares were repurchased from the estate of a deceased shareholder at R10,70 per share on 1 October 2015.
- The company issued 125 000 ordinary shares at R10,80 per share on 1 April 2016.
- The 2016 Cash Flow Statement reflected dividends paid of R434 250.

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B. Extract from Income Statement for the year ended 30 June 2016:

	R
Sales	5 220 000
Cost of sales	3 600 000
Operating profit	1 295 000
Income tax	190 500
Net profit after tax	444 500

C Extract from Balance Sheet on 30 June:

	2016	2015
	R	R
Fixed assets (carrying value)	17 420 950	14 683 300
Fixed deposit: Ken Bank	250 000	380 000
Current assets	**1 015 000**	**456 000**
Inventories (only trading stock)	564 000	281 500
Trade and other receivables (debtors)	246 000	167 000
Cash and cash equivalents	205 000	7 500
Shareholders' equity	**10 050 750**	**9 540 000**
Ordinary share capital	**?**	9 180 000
Retained income	**?**	360 000
Loan: Barbie Bank	**8 000 000**	**4 500 000**
Current liabilities	**635 200**	**1 479 300**
Trade and other payables	420 000	683 400
Shareholders for dividends	209 000	162 000
SARS: Income tax	6 200	23 400
Bank overdraft	-	610 500

D The following financial indicators were calculated on 30 June:

	2016	2015
Current ratio	1,6 : 1	0,3 : 1
Acid-test ratio	**?**	0,1 : 1
Stock turnover rate	8,5 times	10 times
Debtors' collection period	36 days	43 days
Creditors' payment period	63 days	63 days
Solvency ratio	2,2 : 1	2,6 : 1
Debt-equity ratio	**?**	0,5 : 1
Return on total capital employed (ROTCE)	8,2%	9,5%
Return on shareholders' equity (ROSHE)	**?**	6,2%
Earnings per share (EPS)	51 cents	58 cents
Dividends per share (DPS)	55 cents	35 cents
Net asset value per share (NAV)	**?**	1060 cents
Market price	1000 cents	1030 cents
Interest rate on loans	12%	12%

75

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QUESTION 6: CASH FLOW STATEMENT AND INTERPRETATION

(85 marks; 50 minutes)

6.1 Choose a term to complete each of the following statements. Write only the term next to the question number (6.1.1–6.1.4) in the ANSWER BOOK.

shareholder(s); external auditor(s); director(s); internal auditor(s)

6.1.1 …are appointed by the shareholders to manage the company.

6.1.2 The ... is employed by the company to set up functional internal control processes.

6.1.3 A … is a person who invests in a company by buying shares.

6.1.4 … are appointed by shareholders to give an unbiased opinion on the financial statements. (4 x 1) (4)

6.2 **SO-FINE LTD**

The given information relates to So-Fine Ltd for the financial year ended 31 August 2017.

REQUIRED:

6.2.1 Prepare the following notes to the Balance Sheet on 31 August 2017:

- Ordinary share capital (7)
- Retained income (9)

6.2.2 Complete the Cash Flow Statement by inserting only the details and figures indicated by a question mark (?). (19)

6.2.3 Calculate the following financial indicators on 31 August 2017:

- Percentage operating profit on sales (3)
- Debt-equity ratio (4)

6.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period. (4)

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INFORMATION:

A. Information from the Income Statement for the financial year ended 31 August 2017:

Sales	R8 652 000
Operating expenses	1 760 000
Depreciation	320 000
Interest expense	86 100
Operating profit	697 000
Income tax	187 770
Net profit after income tax	438 130

B. Information from the Balance Sheet on 31 August:

	2017 (R)	2016 (R)
Fixed assets (carrying value)	6 177 000	4 975 000
Fixed deposits	220 000	300 000
Loan: Dolphin Bank	985 000	450 000
Current assets	619 600	663 300
Current liabilities	490 000	614 300
Shareholders' equity	?	?
Ordinary share capital	5 292 000	?
Retained income	?	147 370
Cash and cash equivalents	23 400	2 500
Bank overdraft	-	65 100
Shareholders for dividends	168 000	120 000
SARS: Income tax	11 800 (Cr)	2 400 (Dr)

C. Share capital and dividends

- The authorised share capital comprises 1 200 000 ordinary shares.
- 900 000 ordinary shares were in issue on 1 September 2016.
- The company issued 150 000 ordinary shares at R6,30 per shareon 1 May 2017.
- 70 000 ordinary shares were repurchased from shareholders on 30 August 2017. A cheque for R437 500 was issued for these shares. These shareholders qualify for final dividends.
- An interim dividend of 12 cents per share was paid on 1 February 2017.
- A final dividend was declared on 30 August 2017.

D. Fixed assets: Transactions during the current financial year.

- Old equipment was sold for cash at the carrying value of R324 000.
- Additional equipment and delivery vehicles were purchased.

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6.3 **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

6.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued. (3)

6.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators. (6)

6.3.3 Henry had the option to buy some of the new shares issued by Castro Ltd. He had saved sufficient funds (interest rate5% p.a.) for this purpose.

- 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? (5)
- 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)

RONKI LTD

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

6.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares. (3)

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

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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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QUESTION 7: CASH FLOW STATEMENT AND INTERPRETATION

(70 marks; 40 minutes)

You are provided with information about Vooma Limited for the past two financial years ended 30 June. The company is situated in KZN and trades in racing bikes.

REQUIRED:

NOTE: Provide figures or financial indicators (ratios or percentages) and comparisons with the previous year to support comments or explanations.

7.1 Calculate the following for 2018:

7.1.1 % operating expenses on sales (2)
7.1.2 Acid-test ratio (4)
7.1.3 % return on shareholders' equity (4)

7.2 Calculate the following figures that will appear in the 2018 Cash Flow Statement:

7.2.1 Change in investments (2)
7.2.2 Income tax paid (4)
7.2.3 Fixed assets sold (at carrying value) (5)

7.3 Cash flow and financing activities:

7.3.1 Explain why the directors are satisfied with the improvement in cash and cash equivalents since 1 July 2016. (3)

7.3.2 Decisions and gearing in 2018:
- Identify THREE decisions that the directors made to pay for land and buildings. (6)
- Explain how these decisions affected:
  - Capital employed
  - Financial gearing (Quote TWO indicators.) (6)

7.3.3 From the Cash Flow Statement identify ONE decision made by the directors in 2017 that they did NOT make in 2018, besides the points mentioned above. Give a possible reason for the decision in 2017. (3)

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7.4 Dividends, returns and shareholding for the 2018 financial year:

- On 1 July 2017 there were 800 000 shares in issue.
- On 31 December 2017 interim dividends were paid.
- On 1 January 2018,200 000 shares were issued to existing shareholders.
- On 30 June 2018 final dividends of 75 cents per share were declared on all shares, but have not yet been paid.

7.4.1 Calculate for the 2018 financial year:

- Total interim dividends paid (3)
- Interim dividends per share (3)

7.4.2 Calculate total dividends earned by Dudu Mkhize for the 2018 financial year. Her shareholding is:

	SHARES PURCHASED	**PURCHASE PRICE**
31 August 2016	380 000 shares	R7,00
1 January 2018	110 000 shares	R20,00
TOTAL	490 000 shares	

(5)

7.4.3 On 1 January 2018 each shareholder was offered two shares for every five shares owned. Dudu did not buy enough shares to become the majority shareholder.

Calculate the minimum number of additional shares that Dudu should have bought. (3)

7.5 The directors decided to buy land and buildings in two other provinces in 2018 to solve the problem of low sales that they had previously had in KZN.

7.5.1 Explain:

- Why it was necessary to purchase properties in other provinces instead of in KZN (2)
- Whether the decision to purchase these properties had the desired effect on sales (3)
- Another strategy they used to solve the problem of low sales (3)

7.5.2 The CEO, Ben Palo, wants to communicate other good news to the shareholders at the AGM. Give advice on what he should say about the following topics:

- Earnings per share (3)
- % return earned (3)
- Share price on the JSE (3)

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INFORMATION FOR THE YEAR ENDED 30 JUNE:

A. FIGURES IDENTIFIED FROM INCOME STATEMENT:

	2018	2017
Sales	R13 182 000	R7 740 000
Number of bikes sold	1 750 bikes	900 bikes
Mark-up %	58%	72%
Cost of sales	8 330 000	4 500 000
Gross profit	4 852 000	3 240 000
Operating expenses	1 900 000	1 500 000
Depreciation	412 000	275 000
Income tax	819 000	444 000
Net profit after tax	1 911 000	1 036 000

B. EXTRACT FROM BALANCE SHEET ON 30 JUNE:

	2018	2017
Fixed assets (carrying value)	R12 154 000	R8 031 000
Investments	625 000	600 000
Current assets	2 427 000	2 090 000
Inventories	1 652 000	1 250 000
Trade and other receivables	365 000	820 000
SARS: Income tax	0	15 000
Cash and cash equivalents	410 000	5 000
Shareholders' equity	12 112 000	7 191 000
Non-current liabilities (Loan)	1 850 000	2 600 000
Current liabilities	1 244 000	930 000
Trade and other payables	420 000	515 000
Shareholders for dividends	750 000	280 000
SARS: Income tax	74 000	0
Bank overdraft	0	135 000

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C. CASH FLOW STATEMENT:

	2018	2017
Cash flows from operating activities	**R1 850 000**	**R1 046 000**
Cash generated from operations	3 322 000	1 989 000
Interest paid	**?**	(260 000)
Dividends paid	(520 000)	(254 000)
Income tax paid	**?**	(429 000)
Cash flows from investing activities	**(4 560 000)**	**(167 000)**
Purchases of land and buildings	(4 840 000)	0
Sale of fixed assets	**?**	383 000
Change in investments	**?**	(550 000)
Cash flows from financing activities	**3 250 000**	**(400 000)**
Share capital issued	4 000 000	0
Shares repurchased	0	(1 000 000)
Change in non-current liabilities	(750 000)	600 000
Cash and cash equivalents: Net change	540 000	479 000
Opening balance	(130 000)	(609 000)
Closing balance	410 000	(130 000)

D. FINANCIAL INDICATORS:

	2018	2017
Mark-up % achieved	58%	72%
Operating expenses on sales	**?**	19,4%
Debt-equity ratio	0,2 : 1	0,4 : 1
Acid-test ratio	**?**	0,9 : 1
Return on shareholders' equity	**?**	14,4%
Return on capital employed	20,8%	17,8%
Earnings per share	208 cents	130 cents
Dividends per share	**?**	70 cents
Dividend pay-out rate	50%	54%
Net asset value per share	1211 cents	899 cents
Market price on stock exchange	2800 cents	2100 cents
Interest on loans	12%	12%

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NOTES ON INVENTORY SYSTEMS:

Always take advantage of the **easily obtainable marks for routine calculations and comments**, often appearing regularly in past examination papers. **Don't break your head and waste time** with questions you do not understand. If there is time, you can re-visit those questions again.

Please don't use unnecessarily lengthy processes by **calculating cost of sales** and then using this figure to arrive at the stock valuations.

Three valuation methods	**FIFO method**	**Specific identification method**	**Average Weighted method**
Relevance to different types of products	Products with a short shelf life e.g. vegetables.	Very expensive products such as Mercedes, Porche, Bentleys.	e.g. groceries store.
Remember to:	Remember to deduct returns normally from the latest purchases. Count from the latest purchase backwards.	Items should be counted individually.	Get the average price and x by number of units left.
Standard calculation of value of closing stock		5 Mercedes @ Rx = 2 Porches @ Rx = 1 Bently @Rx =…… Value of stock = R……..	

Calculation for the **% mark-up achieved**: You must calculate the **gross profit**, do not simply divided the sales amount by the cost of sales (but you will earn part-marks for doing this).

Ethics = doing things the right way, no underhanded, unethical transaction, bribery or corruption.

Recap and revise the stock systems (**perpetual and periodic**) covered in Gr. 11 to get prior knowledge.

Predictable calculations under all stock valuation methods:
Determine the value of closing stock, cost of sales, gross profit and missing items.

Financial indicators relating to stock:
Stockholding period: = How long will your stock last before ordering again. Sometimes it is specifically required to use the closing stock figure of that year only, then don't waste time by determining the average stock)

Stock holding period =		
Opening stock +		Closing stock
	Cost of sales	

Stock roll over period =		
	Cost of sales	
Opening stock +		Closing stock

Number of missing items: Opening stock + Purchases – Returns – Items sold = what is supposed to be left over, compare it with what is left over.

The topic of stock lends itself to deep **problem-solving** scenarios, of business ethics and mismanagement of stock. Critically discuss effective management and internal control or the lack thereof. Analyse the information presented, usually in tables, to justify and support the arguments they present. This will normally involve comparisons between different products or between time periods. You can score part-marks for quoting relevant figures.

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INVENTORIES

QUESTION 1: INVENTORIES **(30 marks; 20 minutes)**

1.1 **INVENTORY VALUATION**

Matrix Traders sell three different types of laptops: Lexus, Granite and Vision. They use the periodic inventory system and the specific identification method to value stock.

REQUIRED:

1.1.1 Explain the following valuation methods:

- FIFO (2)
- Specific identification (2)

1.1.2 Calculate the cost price per laptop on hand on 1 October 2015. (2)

1.1.3 Calculate the value of the closing stock on 30 September 2016. (9)

INFORMATION:

The following information is in respect of the year ended 30 September 2016:

A. Opening stock:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
1 Oct. 2015	Lexus	118	?	R413 000

B. Purchases and returns:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
PURCHASES:				
Dec. 2015	Granite	410	R3 750	R1537 500
Mar. 2016	Vision	630	R4 650	R2929 500
RETURNS:				
Mar. 2016	Vision	20	R4 650	(R93000)
Net purchases				**R4374 000**

C. Sales for the year:

MODEL	UNITS	AMOUNT
Lexus	118	R598 850
Granite	356	R2 229 375
Vision	502	R4 247 775
		R7 076 000

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1.2 MANAGEMENT OF INVENTORIES

You are provided with information from the books of Kyle's Office Equipment for the year ended 29 February 2016. The business sells office desks, chairs and printers.

Kyle took certain decisions at the beginning of the 2016 financial year.

REQUIRED:
Provide relevant figures for ALL the questions below.

1.2.1 Desks:

- What decision did Kyle take regarding the selling price of the desks? (2)
- How has this decision affected the business? State TWO points. (4)

1.2.2 Chairs:

Was it a good idea for Kyle to change to a cheaper supplier of chairs? Explain TWO points. (5)

1.2.3 Printers:

Kyle significantly reduced the selling price of printers in the 2016 financial year in response to a new competitor who sells the same model at R1 200.

Based on the information below, provide TWO separate suggestions to Kyle to improve the profit on printers in 2017.

(4)

INFORMATION:

	DESKS		CHAIRS		PRINTERS	
	2016	2015	2016	2015	2016	2015
Orders received from customers	300	370	770	730	925	615
Gross units sold	300	365	770	730	725	615
Returns by customers	0	5	90	0	15	15
Selling price	R2 520	R1 920	R490	R714	R975	R1 326
Cost price	R1 400	R1 200	R350	R510	R780	R780
Mark-up %	80%	60%	40%	40%	25%	70%
Gross profit	R336 000	R259 200	R95 200	R148 920	R138 450	R327 600
Stock turnover rate	6,0	7,2	4,0	4,0	11,8	10,0

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QUESTION 2: INVENTORY VALUATION **(35 marks; 20 minutes)**

2.1 **CONCEPTS**

Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (2.1.1–2.1.4) in the ANSWER BOOK.

2.1.1 The (specific identification/weighted-average) stock valuation method is best suited for products of similar value purchased in large quantities.

2.1.2 Cost of sales is determined at the point of sale in the (perpetual/periodic) inventory system.

2.1.3 Stock valued according to the (first-in-first-out/weighted-average) method determines stock on hand by recording the cost prices of the most recent stock purchases.

2.1.4 In the periodic inventory system, carriage on goods purchased is recorded as an (expense/asset) to the business. (4 x 1) (4)

2.2 **HOT-WHEELS (PTY)LTD**

You are provided with information relating to Hot-Wheels (Pty) Ltd for the three months ending 30 September 2017.The business trades in motorbikes and helmets.

Mike, the owner, wants to assess his stock records before any price increases during the year.

REQUIRED:
Motorbikes:

2.2.1 Calculate the value of the closing stock on 30 September 2017using the specific identification method. (7)

2.2.2 Mike requires your advice on the three different models of motorbikes in which he is trading. Explain TWO points of advice. (4)

Helmets:

2.2.3 Calculate the value of the closing stock on 30 September 2017using the weighted-average method. (9)

2.2.4 Is the weighted-average method appropriate to value the helmets? Explain ONE point. (3)

2.2.5 Mike suspects that helmets are being stolen from the shop despite security cameras being installed.

- Provide a calculation to verify his suspicion. (5)
- What can Mike do to improve the internal control of stock? State THREE points. (3)

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INFORMATION:

A. Motorbikes:

Information for three months ended 30 September 2017:

Stock on 1 July 2017:

MODEL	UNITS	COST PRICE PER UNIT (R)	TOTAL (R)
AO2	12	24 300	291 600

Total purchases:

MODEL	UNITS	COST PRICE PER UNIT (R)	TOTAL (R)
AO2	6	24 300	145 800
AO3	15	27 400	411 000
AO4	18	31 600	568 800
	39		1 125 600

Sales:

MODEL	UNITS SOLD	TOTAL SALES AMOUNT
AO2	8	311 040
AO3	11	482 240
AO4	10	505 600
	29	1 298 880

B. Helmets:

Information for three months ended 30 September 2017:

Stock balances according to physical count:

	UNITS	COST PRICE PER UNIT (R)	TOTAL (R)
1 July 2017	30	R500	R15 000
30 September 2017	12		**?**

Purchases:

DATE	UNITS PURCHASED	COST PRICE PER UNIT (R)	TOTAL (R)
20 July 2017	25	R510	R12 750
20 August 2017	30	R525	R15 750
20September 2017	20	R540	R10 800
TOTAL	75		R39 300

Returns: Five defective helmets from the purchases in August 2017 were returned to suppliers for a full refund.

Sales: 85 helmets were sold at R600 each.

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QUESTION 3: INVENTORY VALUATION AND FIXED ASSETS

(45 marks; 30 minutes)

3.1 Choose a method in COLUMN B that matches the description in COLUMN A. Write only the letters (A–E) next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
3.1.1	Assumes that stock is sold in date order as purchased.	A	straight-line method
3.1.2	A unique value is assigned to each stock item.	B	weighted-average method
3.1.3	Depreciation is constant over the useful life of the fixed asset.	C	first-in-first-out method
3.1.4	Depreciation is calculated on the carrying value of the fixed asset.	D	diminishing-balance method
		E	specific identification method

(4 x 1) (4)

3.2 **PACKER'S SUITCASE SHOP**

Charles Packer sells travel suitcases. The year-end is 30 June 2018.

REQUIRED:

3.2.1 Calculate the value of the closing stock on 30 June 2018 using the first-in-first-out (FIFO) method. (5)

3.2.2 Charles suspects that suitcases have been stolen. Provide a calculation to support his concern. (5)

3.2.3 Charles is concerned about the volume of stock on hand.

- Calculate for how long his closing stock is expected to last. (6)
- State ONE problem with keeping too much stock on hand and ONE problem with keeping insufficient stock on hand. (4)

INFORMATION:

- **Stock balances:**

	UNITS	UNIT PRICE	TOTAL
Opening stock	420	R2 175	R913 500
Closing stock	496		**?**

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- **Purchases, returns and carriage:**

	UNITS	UNIT PRICE	TOTAL
Purchases	**3 155**		**R8 460 850**
September 2017	850	R2 250	R1 912 500
December	980	R2 670	R2 616 600
March 2018	875	R2 930	R2 563 750
June* (see returns)	450	R3 040	R1 368 000
Returns* (from June purchases)	25	R3 040	R76 000

- **Sales:** 3 050 travel suitcases were sold at R4 200 each.

3.3 **MINDEW LIMITED**

The financial year-end is 31 May 2018.

REQUIRED:

3.3.1 Calculate the missing figures indicated by **(i)** to **(v)** in the table below. (17)

3.3.2 Explain how the internal auditor should check that movable fixed assets were not stolen. (2)

3.3.3 Land and buildings were bought five years ago for R6m. Property prices have increased by 20% since then. The directors want to increase the value of this asset and reflect a profit of R1 200 000 in the financial statements.
As an independent auditor, what advice would you give? Provide ONE point. (2)

INFORMATION FOR YEAR-END 31 MAY 2018:

A.

FIXED ASSETS	LAND AND BUILDINGS	COMPUTERS	EQUIPMENT	VEHICLES
Carrying value: Begin	**6 000 000**	**13 000**	**1 027 500**	**1 300 000**
Cost	6 000 000	108 000	1 250 000	2 100 000
Accumulated depreciation	-	(95 000)	(222 500)	(800 000)
Movements				
Additions	**(i)**	0	172 500	0
Disposals	0	0	0	**(iv)**
Depreciation	0	**(ii)**	**(iii)**	(256 000)
Carrying value: End				
Cost				
Accumulated depreciation				**(v)**

B. Land and buildings:
Grant Construction was paid R882 000 for building new offices (R610 000) and repairing windows (R272 000).

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C. Computers:

- The three computers were all bought on the same day at R36 000 each.
- Depreciation is 33⅓% on cost.
- These computers are expected to last another two years.

D. Equipment:

- Additional equipment was purchased on 1 February 2018.
- Depreciation is 10% p.a. on cost.

E. Vehicles:

- Depreciation is 20% p.a. on carrying value.
- A vehicle was sold for cash at carrying value on 31 December 2017.
  The Fixed Assets Register reflected the following:

Cost	R176 000
Accumulated depreciation (1 June 2017)	R128 000

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NOTES ON MANUFACTURING

Because this question is fairly predictable, examiners will sometimes strive to introduce more creativity, (different questioning techniques) meaning you should use your common logic to reason questions you haven't seen before.

Manufacturing process:

Administration dept

Selling and distribution depart

Direc
+Dire
= Prin
+ Fac
= Cos
+ WI
- WIP
= Cos

Factory Overhead Cost Note Remember: You must **separate** the portion of **costs applicable to the factory** by applying the ratios or percentages to exclude **costs of the administration and sales** divisions.

Please don't included the **advertising** expense in the **Factory overheads**, you are penalised and lose marks for foreign items. **Advertising = Sales and distribution cost**.

Calculating the **total cost of production** basically replicates the composition of the **Work-In-Progress Stock Account**, which is **Grade 11 content** = figure when completing the Production Cost Statements. When you use the approaches of using the **number of units produced**, multiply it by the unit cost or complete the Finished Goods Stock Account to calculate this figure.

Calculating the additional profit = contribution per unit (i.e. selling price less variable cost per unit), is aligned to the concept of the break-even point. Remember, fixed costs stay the same up to break-even point, then multiply the selling price with the extra units and deduct the variable cost per unit.

Calculating and commenting on the break-even point: comment on both the **break-even point and the level of production**; both factors. **All production above BEP + profit**.

Variable cost =	• Direct mat cost • Direct labour cost • Sales + distribution cost
Fixed cost =	➢ Factory overhead cost ➢ Admin cost

Examiners use **skills** such as: **fractions, ratios** and/or **percentages** to calculate costs per component or department. **Year-end adjustments and reversals** may also feature in these calculations (Draw up T-accounts on the side of your Answer book). **Problem-solving questions** are common in Manufacturing, whereby information on different products is provided and learners are expected to identify problems and to offer solutions based on the figures or calculations from the table of information provided.

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MANUFACTURING

QUESTION 1: MANUFACTURING **(45 marks; 25 minutes)**

1.1 **CONCEPTS**

Give ONE cost category for each of the following descriptions by choosing a cost category from the list below. Write only the cost category next to the question number (1.1.1–1.1.4) in the ANSWER BOOK.

direct material cost; direct labour cost; factory overhead cost; administration cost; selling and distribution cost

1.1.1 Salaries paid to office workers

1.1.2 Cost of raw materials used in the production process

1.1.3 Commission paid to salespersons

1.1.4 Rent paid for factory buildings (4x1) (4)

1.2 **GUGU MANUFACTURERS**

You are provided with information relating to Gugu Manufacturers for the year ended 29 February 2016. The business produces one style of handbag.

REQUIRED:

1.2.1 Calculate the:
- Direct labour cost (8)
- Direct material cost (6)

1.2.2 Prepare the Production Cost Statement. (8)

1.2.3 The owner is concerned about the production level in 2016.

- Calculate the break-even point for 2016. (5)
- Explain whether the owner should be concerned or not. Provide figures. (3)

1.2.4 The owner is not satisfied with the internal control of the raw material.
Calculate the following regarding the raw material (fabric):
- Metres of fabric stolen from the storeroom (5)
- Metres of fabric wasted in the factory (4)

Provide a strategy to improve the internal control in EACH case above. (2)

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INFORMATION:

A. Workers involved in the manufacturing process:

NO. OF WORKERS	WAGE	EARNINGS PER WORKER	
5	Basic (normal wage)	R40 per hour	1 920 hours
	Overtime	Basic rate + 75%	90 hours
NOTE: Deductions: 8,5% of basic wage Employer's contribution: 11,5% of basic wage			

B. Raw material (fabric):

Raw material purchased is kept in a storeroom before being issued to the factory for production. Stock is valued according tothe weighted-average method.

Storeroom stock records:

	METRES	TOTAL AMOUNT (R)
Balance on 1 March 2015	1 350	131 500
Purchases:	**5 400**	**584 000**
May 2015	2 500	265 000
September 2015	2 900	319 000
Raw material issued to factory	5 500	**?**
Stock balance on 29 February 2016	940	**?**

C. There is no work-in-process stock.

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

Factory overhead cost	Fixed cost	R343 340
Administration cost	Fixed cost	R226 660
Selling and distribution cost	Variable cost	R217 340

E. Additional information on 29 February 2016:

- 4 200 handbags were produced and sold at R450 each.
- Total sales amounted to R1 890 000.
- Total variable cost per unit was R300.
- 1,25 metres of fabric was used to make one handbag.

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QUESTION 2: MANUFACTURING (55 marks; 30 minutes)

2.1 **GEVEN MANUFACTURERS**

The business produces wooden tables.

REQUIRED:

Prepare the following for the year ended 28 February 2017:

2.1.1 Production Cost Statement (14)

2.1.2 Abridged Income Statement (14)

INFORMATION:

A. Stock on hand:

	28 FEBRUARY 2017	1 MARCH 2016
Work-in-process	?	R160 000
Finished goods	400 tables, valued using FIFO method	1 200 tables at R280 = R336 000

B. Production and sales for the year:

- 7 200 tables were produced at a unit cost of R330 each.
- 8 000 tables were sold for R4 080 000.

C. Costs(before adjustments):

Administration	R148 400
Factory overheads	R487 200
Direct materials	R1 050 000
Direct labour	?
Selling and distribution	R422 000

Adjustments:

- Payment to EZ Transport, R102 000, was incorrectly allocated to Selling and Distribution. This was actually meant for delivering wood to the factory.

- The cleaning contract for the year, R126 000, was shared between Factory and Administration in the ratio 2 : 1. However, 80% should have been allocated to Factory.

D. Prime cost: R1 800 000 (after adjustments)

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2.2 **GYMWEAR MANUFACTURERS**

Gymwear Manufacturers is owned by Jan Fiks. They produce shoes and shirts for gym training. Jan requires assistance in interpreting his 2017 results. Note that one pair of shoes comprises one unit.

REQUIRED:

2.2.1 **Shirts:**

- Calculate the break-even point for shirts. (4)
- Jan is not satisfied with the variable costs per unit, even though the total variable costs per unit decreased by R6.
  - Identify ONE variable cost (with figures) that has not been well controlled. Give TWO possible reasons for this problem. (4)
  - Explain why Jan might be concerned about the large decreases in the other TWO variable costs. (4)
- Jan does not understand why the unit cost of production has increased when neither his fixed costs nor the variable costs have increased. Explain why this is so. State ONE point (with figures). (4)

2.2.2 **Shoes:**

- Calculate the % increase in the selling price of shoes. (3)
- Jan decided to improve the quality of the shoes and to export them. Explain how the direct material costs and the selling and distribution costs were affected by this decision. Provide figures. (4)
- Jan was concerned that the increase in price would have a negative impact on the business. Explain whether his concern was justified. State TWO points. (4)

INFORMATION:

	SHIRTS		SHOES	
	2017	2016	2017	2016
Break-even point	?	11 522	3 842	4 317
Units produced and sold	16 100	25 000	7 750	6 500
Net profit	R500 400	R620 000	R2 379 750	R1 183 000
Selling price per unit	R302	R290	R1 640	R1 260
Selling price of competitors	R310	R290	R1 100	R1 250
Total fixed costs (factory overhead and administration)	R530 000	R530 000	R2 340 000	R2 340 000
Total fixed cost per unit	?	?	R302	R360
Total variable costs per unit	R238	R244	R1 031	R718
Direct material costs per unit	R92	R116	R456	R330
Direct labour costs per unit	R131	R100	R381	R360
Selling and distribution costs per unit	R15	R28	R194	R28
Unit cost of production	R242	R228	R1 100	R1 004

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QUESTION 3: MANUFACTURING **(40 marks; 25 minutes)**

3.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.

3.1.1 Bad debts are an administration cost.

3.1.2 Indirect labour is a factory overhead cost.

3.1.3 Rent expense is a fixed cost. (

3.2 **KRIGE SHIRTS**

The business manufactures shirts. The financial year-end is 31 July 2018.

REQUIRED:

3.2.1 **Refer to Information C.**

Calculate direct labour cost. (9)

3.2.2 Production Cost Statement for the year ended 31 July 2018 (12)

INFORMATION:

A.

	31 JULY 2018	1 AUGUST 2017
Work-in-progress stock balance	**?**	R35 570

B. **Raw materials** issued to factory: R528 300

C. **Direct labour:**

Number of factory workers	4
Normal time expected per worker per year	1 960 hours
Normal time rate	R90 per hour
Bonuses to workers: 12% of normal wages	
NOTE: One worker worked only 1 680 hours and received a reduced bonus of R12 146.	

D. **Factory overheads** were calculated at R360 880 for the year. However, this excludes insurance of R48 750 paid for the period 1 August 2017 to 31 August 2018. Insurance must be allocated to the factory, administration and sales in the ratio 4:3:2.

E. **Production for the year:** 17 500 shirts at a cost of R95 per shirt

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3.3 **GEMMA'S MANUFACTURERS**

This business manufactures security gates. The financial year-end is 31 August 2018.

REQUIRED:

3.3.1 Calculate the break-even point for the year ended 31 August 2018.

3.3.2 Compare and comment on the break-even point and the production level achieved over the last two years. Quote figures.

3.3.3 Give TWO reasons for the increase in direct material cost. Suggest ONE way to control this cost.

INFORMATION FOR YEAR ENDED 31 AUGUST:

A.

COSTS		2018		2017
		TOTAL AMOUNT	UNIT COST	UNIT COST
Direct materials	Variable	75 600	R180	R148
Direct labour		105 840	R252	R244
Selling and distribution		60 900	R145	R136
TOTAL VARIABLE COST		**242 340**	**R577**	
Factory overheads	Fixed	67 200	R160	R156
Administration		51 660	R123	R127

B. Additional information:

	2018	2017
Total sales	R382 200	R475 200
Selling price per unit	R910	R880
Units produced and sold	420 units	540 units
Break-even point	**?**	435 units

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NOTES ON RECONCILIATIONS & VAT

Bank and Creditors-: Learners should study the following:

- **Purpose** of the Bank Reconciliation and Creditors Reconciliation.
- Know when the **Bank Account** has favourable (Debit) or Unfavourable (Credit) **balance**.
- Know when **Bank Statement balance** is favourable (Credit) and Unfavourable (Debit).
- Be able to complete Bank Reconciliation Statement using two column Format or single column Format.
- Learners also have to remember that the supplier is the creditor in the books of the business and the business is a debtor in the books of the supplier.
- Learners need to complete the Creditors Reconciliation Statement so that it reconciles the balance from the Creditor's Statement of Account with the Creditors Ledger Account.

Learners should be able to:

- Cancel the **stale cheque** in the **CRJ**
- Correct the error, Overcast or Under cast
- Record the EFT transactions
- Calculate the bank account balance
- Internal control of cash

Debtors Age Analysis: Learners should take note of the following:

- Credit Term = the period in which the debt should be paid back e.g. 50% within 30 days, 30% within 60 days and the rest before 90 days expired.
- Credit Limit = A debtor may not buy above a certain level (this is based on affordability/ the ability to pay back the debt).

***VAT:* Learners should be able to complete the following:**

- Calculate VAT amount payable/receivable to/from SARS by completing VAT Control Account or from calculations using VAT Input and VAT Output figures
- Distinguish between VAT avoidance and VAT evasion
- Know VAT Exempted and Zero-rated items

VAT exempted items:	Zero-rated VAT items
Essential Goods are listed as being:	The reasoning behind zero rating is to provide basic foodstuffs at a reduced price to **benefit the poor**.
1. **Food** ○ Any food product, including non -alcoholic beverages; ○ Animal food; and ○ Chemicals, packaging and ancillary products used in the production of any food product. 2. **Cleaning and hygiene products** ○ Toilet Paper, sanitary pads, sanitary tampons, condoms; ○ Hand sanitiser, disinfectants, soap, alcohol for industrial use, household cleaning products, and personal protective equipment; and ○ Chemicals, packaging and ancillary products used in the production of any of the above. 3. **Medical** ○ Medical and Hospital Supplies, equipment and personal protective equipment; and ○ Chemicals, packaging and ancillary products used in the production of any of the above. 4. **Fuel, including coal and gas** 5. **Basic goods, including airtime and electricity**	• brown bread • dried mealies • dried beans • lentils • pilchards or sardinella in tins or cans • rice • fresh fruit and vegetables • vegetable oil • milk • eggs • edible legumes (plants used as food).
Standard rate vs Zero rate. The possibility is that a retailer may erroneously sell a product at the standard rate rather than the zero rate. The result of this is that an informed customer might query why a retailer is selling basic foodstuff including VAT at 15%. Although not a direct financial loss to the retailer, such a transaction might result in a customer leaving with the idea that the retailer is more expensive than the competition. In addition, if a retailer realises the mistake, the VAT incorrectly paid to SARS cannot be claimed back unless the retailer can provide proof to SARS that the VAT refund will be paid back to the customer who originally paid the VAT.	However, the zero rating is not available where the goods are provided as a meal, ready for consumption when supplied. So, where a carton of milk is bought over the counter, the supply will be zero rated, but if bought as part of a meal, the supply becomes standard rated. **Basic guidelines**, which can be used when deciding whether a product should be zero rated or not: • Determine if any standard rated goods, such as flavourings, were added to the products. If so, these products might not be zero rated. • Was a process involved other than for the purpose of preserving the product in its natural state? If not, it might not be zero rated. • If the product is supplied as a ready to eat meal, the zero rate cannot apply.

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RECONCILIATIONS AND VAT

QUESTION 1: RECONCILIATION, AGE ANALYSIS AND VAT

(40 marks; 25 minutes)

1.1 Simply Traders sell goods for cash and on credit.

REQUIRED:

1.1.1 Simply Traders have the telephone numbers of all their debtors. What other information should they obtain before allowing customers to open accounts? State TWO points with a reason in EACH case. (4)

1.1.2 **Refer to Information A, B and C.**

Calculate:

- The correct closing balance of the Debtors' Control Account on 31 October 2016 (6)
- The correct amounts owing by debtors:
  - J Ramsay (D2)
  - W Smith (D3)
  - C Prince (D5) (12)

1.1.3 **Refer to Information D.**

- Calculate the percentage of debtors complying with the credit terms. (4)
- Explain TWO measures to improve collection from debtors. (4)

INFORMATION:

A. Balance of the Debtors' Control Account on 31 October 2016, R179 500 (before adjustments).

B. Debtors' list on 31 October 2016:

DEBTORS	FOLIO	AMOUNT
M Coley	D1	R60 200
J Ramsay	D2	37 500
W Smith	D3	19 500
D Cummings	D4	42 000
C Prince	D5	3 900
TOTAL		R163 100

C. The following errors and omissions must be taken into account:

(a) An invoice for R2 500 issued to W Smith was not recorded in the books of Simply Traders.

(b) The total of the Debtors' Allowances Journal was posted to the Debtors' Control Account as R20100 instead of R21 000.

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(c) An invoice for R4 300 issued to C Prince was posted incorrectly to the account of J Ramsay.

(d) Stock for R5 100 sold to C Prince was treated as a return of goods when posting it to the Debtors' Ledger Account of C Prince.

(e) A cheque for R8 350, originally received from J Ramsay in settlement of debt of R8 500, was returned by the bank, marked R/D. No entries were made in the Debtors' Ledger.

(f) An invoice for R3 600 issued to W Smith was recorded correctly in the Debtors' Journal, but posted as R6 300 to his account in the Debtors' Ledger.

(g) The total for discount allowed in the CRJ was overstated by R500.

D. Debtors' age analysis on 30 September 2016:

TOTAL	CURRENT	30–60 DAYS	61–90 DAYS	MORE THAN 90 DAYS
201 200	35 300	23 300	76 700	65 900

The credit period is 60 days.

1.2 **VALUE-ADDED TAX (VAT)**

The information below relates to Creamline Traders for their two-month VAT period ended on 31 August 2016. All items are subject to 15% VAT.

REQUIRED:

Calculate the amount receivable from or payable to SARS for VAT on 31 August 2016. Indicate whether the amount is receivable or payable. (You may complete a VAT Control Account.) (10)

INFORMATION:

A. Amount owed to SARS for July 2016, R14 250.

B. Details in respect of VAT for August 2016:

DETAILS	EXCLUDING VAT	VAT	INCLUDING VAT
Merchandise purchased/Expenses paid	R198 000		R227 700
Goods taken by owner for personal use		R3 150	
Returns by debtors		R1 200	
Debtors' accounts written off	R9 500		
Total sales			R333 800

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QUESTION 2: BANK RECONCILIATION AND INTERNAL CONTROL

(30marks; 20 minutes)

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

2.1.1 A favourable balance on the Bank Statement is indicated as a debit.
2.1.2 A post-dated cheque received must be entered on the date received.
2.1.3 An issued cheque that has been lost must be cancelled in the CRJ.

(3 x 1) (3)

2.2 **MENZIES TRADERS**

The given information relates to Menzies Traders for June 2017.

REQUIRED:

2.2.1 Calculate the following on 30 June 2017:
- Correct totals for the CRJ and CPJ
- Bank account balance (14)

2.2.2 Prepare the Bank Reconciliation Statement on 30 June 2017. (9)

2.2.3 Explain the problem relating to deposits. Quote evidence. Explain TWO strategies to prevent this in future. (4)

INFORMATION:

A. The Bank Reconciliation Statement on 31 May 2017 showed the following:

Unfavourable balance on the Bank Statement	R1 450
Outstanding deposits:	
• 17 May 2017	30 000
• 31 May 2017	16 200
Outstanding cheques:	
• 605 (dated 16 December 2016)	9 750
• 812 (dated 10 April 2017)	8 550
• 816 (dated 25 May 2017)	13 590
• 819 (dated 15 August 2017)	7 650
• 823 (dated 31 May 2017)	2 900
Unfavourable balance on the Bank account in the Ledger	R5 210

B. Provisional Cash Journal totals on 30 June 2017:
- Cash Receipts Journal: R90 500
- Cash Payments Journal: R85 920

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C. Entries in the Cash Journals for June 2017 that do not agree with the June Bank Statement:

JOURNAL	DOCUMENT	DATE	DETAILS	AMOUNT
CRJ	EFT 19	11	Paintco	R5 500
	Deposit slip 451	25	Cash sales	R40 500

NOTE: EFT 19 was incorrectly entered in the CRJ instead of the CPJ.

JOURNAL	DOCUMENT	DATE	DETAILS	AMOUNT
CPJ	Cheque 870	25	VN Ltd	R16 800
	EFT 21	30	SJ Stores	R2 250

D. Items on the Bank Statement dated 30 June 2017 that do not agree with the June Cash Journals:

DATE	DETAILS	DEBIT	CREDIT
02	Deposit (17/5)		30 000
05	Cheque 812	8 550	
09	Debit order (insurance)	2 290	
11	Direct transfer to Paintco (EFT 19)	5 500	
12	Cheque 816	13 590	
16	Deposit (31/5)		16 200
18	Direct transfer from S Smit(rent)		16 500
22	Cheque 823 (see note below)	9 200	
23	Unpaid cheque (B Blast settled his debt, R795)	750	
24	Service fee	1 220	

NOTE:
- Cheque 823: Bank Statement figure is correct.
- Service fees were overstated by R900.The bank will rectify the problem next month.

E. The Bank Statement on 30 June 2017 reflected a balance of R?.

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QUESTION 3: VAT AND CREDITORS'RECONCILIATION (35 marks, 20 minutes)

3.1 VAT

Samson Traders is registered for VAT. The VAT rate is 15%.

REQUIRED:

3.1.1 Calculate the figures indicated by **(a)**to**(d)** in the table below. (10)

3.1.2 You are the internal auditor. The sole owner, Samson, used a business cheque to buy a new car for R460 000 including VAT. This car is kept at home for his wife's use. Samson says the vehicle must be recorded as a business asset and R60 000 must be recorded as a VAT input in the business' books.

Explain what you would say to Samson. Provide TWO points. (4)

INFORMATION:

	EXCLUDING VAT	VAT AMOUNT	INCLUDING VAT
Sales returns	960	**(a)**	1 104
Purchase of stock	52 600	**(b)**	
Discount received	**(c)**	720	
Cash sales		**(d)**	112 470*

* This includes zero-rated goods that should have been sold for R5 500. The bookkeeper has incorrectly included VAT of R825 on these goods. This must be corrected.

3.2 CREDITORS' RECONCILIATION

Claire Traders buys goods on credit from Mariti Suppliers.

REQUIRED:

3.2.1 Use the table provided to indicate changes to the:
- Creditors' Ledger Account in the books of Claire Traders
- Creditors' Reconciliation Statement on 31 July 2018 (13)

3.2.2 The internal auditor insists that direct payments (EFTs) must be used to pay suppliers. Explain:
- ONE reason to support his decision (2)
- ONE internal procedure to ensure control over this system (2)

3.2.3 Refer to Invoice 301. It was discovered that the store manager, Vernon, had signed a fictitious order form and took the goods for himself when they arrived. Besides dismissing Vernon, provide:
- ONE suggestion for action to be taken against him
- ONE suggestion to prevent this problem in future (4)

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INFORMATION:

A. Creditors' Ledger of Claire Traders

MARITI SUPPLIERS (CL5)						
				DEBIT	CREDIT	BALANCE
2018 July	1	Balance	b/d			67 500
	10	Invoice 209			81 000	
		EFT		33 750		
	17	Debit Note 674		8 640		
		Invoice 282			40 950	
		Invoice 301			25 000	
	21	Invoice 360			50 250	
	24	Debit Note 995			8 100	
	27	Journal Voucher 570		5 400		
	31	Cheque and discount		77 190		147 820

B. Statement of account from Mariti Suppliers

MARITI SUPPLIERS					
Claire Traders ***108 Kruger Road***					**25 July 2018**
			DEBIT	CREDIT	BALANCE
2018 July	1	Balance			67 500
	10	Invoice 209	81 000		
		Receipt 695		33 750	
	17	Credit Note 741		6 840	
		Invoice 301	25 000		
	21	Invoice 360	20 250		
	24	Credit Note 811		8 100	145 060

C. Differences noted:

(a) The incorrect entry for Debit Note 674 in the Creditor's Ledger Account of Mariti Suppliers relates to the correct Credit Note 741 on the statement.

(b) Invoice 282 was incorrectly reflected in the account of Mariti Suppliers in the Creditors' Ledger. The goods were purchased from Genesis Suppliers.

(c) Invoice 360 was incorrectly recorded on the statement from Mariti Suppliers.

(d) Mariti Suppliers also purchased goods on credit from Claire Traders. Claire Traders has transferred a debit balance from the Debtors' Ledger (Journal Voucher 570). Mariti Suppliers will offset this on the next statement.

(e) The transaction on 24 July 2018 is for merchandise returned to Mariti Suppliers.

(f) The statement reflects transactions up to 25 July 2018.

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NOTES ON BUDGETING (use terms: **overspent, underspent, under-budgeted, over-budgeted)**

This is normally the **last question** in a paper and many candidates **struggle to complete,** and some do not attempt the question at all, due to an inability to comply with the **time frames**. Gr. 11 CAPS prescribes the preparation and presentation of a Cash Budget and the Projected Income Statement, while Gr. 12 CAPS requires **analysis and interpretation of the actual figures against budgeted/projected figures**. When you analyse, (assessment of variances) use the **appropriate terms** such as **overspent, underspent, under-budgeted and over-budgeted**

AND

assess the **impact** of the item on **business operations** and on **related items of income** **or expenses**.

Many a time you are required to identify **missing figures** in either a Cash Budget and/or a Projected Income Statement (Gr. 11 Acc. CAPS), or a **combination of both statements** in the same question, it is to assess candidates' knowledge of the differences between the Cash Budget and the Projected Income Statement, still it is not complicated calculations, you **evaluate (= compare)** the projected and actual figures in a Projected Income Statement, use the terms mentioned above and quote relevant figures to support your explanations. (Examiners love to ask this in problem-solving scenarios).

Make sure you **place figures** in the **appropriate statement** and **correct months, THINK LOGICALLY**.

	Cash Budget	**Projected Income Statement**
Purpose	A managerial accounting document to determine the projected **cash** expected to be **received and paid** for a period in the future.	A managerial accounting document to determine the projected **income and expenses** and **gross and net profit** for a period in the future.
Similarities	Cash sales and cash from debtors Payments to creditors Only cash income and expenses	Cash sales and all credit sales Cost of sales All cash + non-cash incomes + expenses
Differences	**Do not include:** Depreciation Bad debts = non-cash items Discount allowed/received Profit/loss on sale of asset	**Include:** Depreciation Bad debts Discount allowed/received Profit/loss on sale of asset

Be aware that a **penalty** is given **for superfluous entries** (deduct marks for the same figure used all over because you are not sure)

How to calculate the e.g. **% increase** in wages/salaries or anything for that matter, (a basic Gr. 9 calculation), = the **difference** between last year's and this year's salaries over **what it was x 100**. It must be equal or more than the current **inflation rate**, now 3,6% in 2020 for workers to be happy.

Think logically, can customers install wall to wall carpets? No. So look at **related items** such as carpet sales and installation. If carpet sales go up, so must the expense of installing them go up. Compare this two aspects month after month, if there is a difference, write it down = variance.

A **new competitor** is a common question. If a new person enters the market, your customers will buy from the new supplier (your competitor) you need to do something to retain your customers to still buy from you. Search through the expenses for increased expenses to see what the supplier did in order to retain his customers e.g. advertised discounts/lowered gross profit margin etc.

The **amount payable to creditors** is a common question. You almost always get a % discount for paying within 30 days (seen as paying cash). You need to calculate the projected cost of sales and deduct the % discount.

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BUDGETS

QUESTION 1: BUDGETING (40 marks; 25 minutes)

You are provided with information relating to Mayhem (Pty)Ltd.

REQUIRED:

1.1 **Refer to Information G.**

1.1.1 Identify TWO items that the bookkeeper recorded incorrectly in the Cash Budget. (2)

1.1.2 Identify TWO items in the Cash Budget that would NOT appear in a Projected Income Statement. (2)

1.2 Complete the Debtors' Collection Schedule for October 2016. (9)

1.3 Calculate the missing amounts indicated by **(a)** to **(d)** in the Cash Budget. (18)

1.4 The directors compared the budgeted figures to the actual figures for September 2016.

	BUDGETED	ACTUAL
Sales	R288 000	R489 600
Salaries: Salespersons	R40 000	R12 000
Commission: Salespersons	R0	R66 150
Packing material	R14400	R17280

1.4.1 The directors changed the method of payment to the salespersons. Explain how this has benefitted the salespersons and the business. Quote figures. (4)

1.4.2 The directors are not concerned about the overspending on packing material. Explain why this is so. Quote figures or calculations. (5)

INFORMATION:

A. Projected Income Statement:

Information extracted for the three months ended 31 October 2016:

	AUGUST	SEPTEMBER	OCTOBER
	R	R	R
Sales	252 000	288 000	?
Cost of sales	?	(160000)	?
Rent income	?	?	12 960
Discount received	3 600	4 000	?
Depreciation	5 400	5 400	5 400
Bad debts	2 800	3 350	?
Interest on loan	6 875	6 875	?

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B. Sales:

- Sales are expected to increase by 15% in October 2016.
- Credit sales comprise 60% of total sales.
- The mark-up percentage is 80% on cost.

C. Debtors' collection:

- 50% is collected in the month of sale.
- 40% is collected in the month following the month of sale.
- 7% is collected two months after the sale.
- 3% is written off as irrecoverable.

D. Purchases:

- All purchases of stock are on credit.
- Stock is replaced in the month of sale. A base stock is maintained.
- Creditors are paid two months after purchase, subject to a 4% discount.

E. Directors' fees:

- The business had three directors earning the same monthly fee.
- On 30 September 2016 one of the directors resigned.
- The remaining directors will receive an increase of 35% in their monthly fee from 1 October 2016.

F. Loan:

- The loan was reduced by R52 800 on 30 September 2016.
- Interest at 12,5% p.a. is payable every month and is not capitalised.

G. Extract from the Cash Budget prepared by the bookkeeper:

	SEPTEMBER 2016	OCTOBER 2016
	R	R
RECEIPTS		
Cash sales	**(a)**	132 480
Cash from debtors	155 280	**?**
Rent income	12 000	12 960
Discount received	3 600	5 600
Fixed deposit	56 000	0
PAYMENTS		
Payments to creditors	156 000	**(b)**
Directors' fees	216 000	**(c)**
Salaries of salespersons	40 000	40 000
Repayment of loan	52 800	0
Interest on loan	6 875	**(d)**
Delivery expenses	27 500	27 500
Audit fees	60 000	0
Bad debts	3 200	3 600
Depreciation	17 400	17 400

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QUESTION 2: BUDGETS (30 marks; 20 minutes)

You are provided with information relating to Lamba Traders, a business owned by Larry Lamba. The business sells cleaning materials for cash and on credit. They deliver goods free of charge to local customers.

REQUIRED:

2.1 Explain the main purpose of a Cash Budget and a Projected Income Statement. (2)

2.2 **Debtors:**

Refer to Information A and Information B.

The credit terms allow debtors to settle accounts by the end of the month following the sales transaction month. No discount is allowed. However, based on past experience, Larry expects debtors to pay according to the Debtors' Collection Schedule.

2.2.1 Use the November figures to calculate the following:
- % of debtors that are expected to comply with the credit terms
- % of bad debts expected (9)

2.2.2 Larry does not believe that his debtors' control clerk, Shirley, deserves a bonus on 31 October 2017. Provide evidence to support his opinion. Offer Larry advice to improve debtors' collections (TWO points). (4)

2.3 **Projected Income Statement:**

Refer to Information C and Information D.

2.3.1 Calculate:

- The fixed % of sales used by Larry to budget for delivery expenses (2)
- The amount of the loan to be repaid on 31 December 2017 (4)

2.3.2 **Refer to variances in Information D.**

Explain why Larry would feel that all these variances are problems for his business. (9)

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INFORMATION:

A. Debtors' Collection Schedule for the period ending 28 February 2018:

	CREDIT SALES R	COLLECTIONS			
		NOV. 2017 R	DEC. 2017 R	JAN. 2018 R	FEB. 2018 R
September	112 000	16 800			
October	134 400	75 264	20 160		
November	224 000	56 000	125 440	33 600	
December	358 400		89 600	200 704	53 760
January	179 200			44 800	100 352
February	112 000				28 000
		148 064	**235 200**	**279 104**	**182 112**

B. The debtors' clerk presented the following age analysis at the end of October 2017:

TOTAL	CURRENT MONTH	1 MONTH	2 MONTHS	3 MONTHS +
100%	18%	40%	23%	19%

C. Extract from the Projected Income Statement:

	NOV. 2017	DEC. 2017	JAN. 2018	FEB. 2018
Interest on loan (rate 8,5% p.a.)	R2 975	R2 975	R2 465	R2 465

D. Figures provided by the accountant on 31 October 2017:

	PROJECTED	ACTUAL	VARIANCE
Total sales	320 000	290 000	–30 000
Cash sales	96 000	50 000	–46 000
Credit sales	224 000	240 000	+16 000
Advertising	5 000	1 000	–4 000
Packing material	4 800	4 800	0
Delivery expenses	12 800	12 500	–300

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QUESTION 3: CASH BUDGETS (35 marks; 20 minutes)

Donald May owns Breezy Traders that sell air-conditioner units. The budget period ends on 31 October 2018.

REQUIRED:

3.1 Complete the Debtors' Collection Schedule for October 2018. (7)

3.2 Calculate the amounts indicated by **(i)** to **(iii)** in the extract from the Cash Budget. (9)

3.3 Calculate the % increase in salaries of sales assistants for October 2018. Explain whether they should be satisfied with this increase. (5)

3.4 **Refer to Information E.**

A new competitor moved into the area during September 2018. Donald was not aware of the competitor and did not take any action during September.

3.4.1 Explain the effect of the new competitor on any TWO items in the budget for September. Provide figures. (4)

3.4.2 Identify TWO changes Donald implemented in October in response to the new competitor. Quote figures. Give ONE reason for EACH change. (6)

3.4.3 Explain why Donald feels that his decisions were successful. Provide TWO points (with figures). (4)

INFORMATION:

A. Cash sales comprise 60% of total sales. Mark-up is 75% on cost.

B. Debtors pay as follows:

- 20% in the month of sales and receive 5% discount
- 55% in the month following the month of sales
- 22% two months after the month of sales

C. Stock sold is replaced in the month of sales. 50% of purchases are on credit. Creditors are paid in the month following the month of purchases.

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D. Extract from Cash Budget

	SEPTEMBER	OCTOBER
RECEIPTS		
Cash sales	**(i)**	630 000
Cash from debtors	369 340	**?**
Rent income*	25 600	**(ii)**
PAYMENTS		
Payments to creditors	276 000	**(iii)**
Salaries: Manager	32 400	40 500
Salaries: Sales assistants	92 400	102 102

***NOTE:** Rent income will increase by 9% in October 2018.

E. BUDGETED AND ACTUAL FIGURES FOR SEPTEMBER AND OCTOBER

	SEPTEMBER		OCTOBER	
	BUDGETED	**ACTUAL**	**BUDGETED**	**ACTUAL**
Units to sell/sold	240	200	250	300
Selling price per unit	R4 200	R4 200	R4 200	R4 200
Cash sales	**?**	336 000	630 000	378 000
Credit sales	403 200	504 000	420 000	882 000
Total sales	1 008 000	840 000	1 050 000	1 260 000
Cash purchases	**?**	**?**	300 000	252 000
Advertising	10 000	10 000	10 000	10 000
Delivery expenses	80 000	67 200	80 000	138 240
Commission on sales	30 240	25 200	31 520	46 080
Cash surplus/deficit	63 000	22 500	86 500	(12 700)
Cash: Beginning	98 000	98 000	161 000	120 500
Cash: End	161 000	120 500	247 500	107 800

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