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Department:

Education

**PROVINCE OF KWAZULU-NATAL**

**CURRICULUM GRADE 10 – 12 DIRECTORATE**

# **MATRIC INTERVENTION PROGRAMME**

**GRADE 12**

**ACCOUNTING**

**2017**

This document is intended to assist the Accounting teachers with the Grade 12 curriculum implementation in the classroom.

This document covers the following topics:

1. Companies - Unique transactions.
2. Companies – Final accounts, financial statements and notes (Income Statement, Balance Sheet).
3. Companies – Cash flow and Analysis and interpretation of financial statements.
4. Companies – Analysis of published financial statements and Audit reports.
5. Tangible Assets.
6. Inventory Valuations
7. Reconciliations
8. Value Added Tax
9. Manufacturing
10. Budgeting

The aim of this document is to support teachers so as to enable them to facilitate the challenging topics. It focuses on extra support to both teachers and learners so that the schools can improve the quality of results in the subject. The approach to the activities is on methodology, formats, theory, case studies, Internal control, ethics and problem solving.

The Curriculum Grade 10 – 12 Directorate acknowledges the contribution made by KwaZulu-Natal Department of Education Accounting Advisors in producing this document.

## A. COMPANIES

### ACTIVITY A1: THEORY

- 1.1 Explain the concept "LEGAL PERSONALITY"?
- 1.2 Which ACT was passed by Parliament regarding companies in SA and explain why such an ACT is necessary?
- 1.3 What does the concept "LIMITED LIABILITY" mean?
- 1.4 Name the document that companies use to invite the public to purchase shares?
- 1.5 List 3 differences between a PUBLIC and a PRIVATE company?
- 1.6 Differentiate between "AUTHORISED" and "ISSUED SHARE CAPITAL".
- 1.7 What is the NET PROFIT that is not appropriated, known as?

### ACTIVITY A2: LEDGER ACCOUNTS

Use the information given below to prepare the following accounts in the ledger of Muffaasa Ltd for the year ended 31 August 2016.

1. ORDINARY SHARE CAPITAL
2. RETAINED INCOME
3. SARS (INCOME TAX)
4. SHAREHOLDERS FOR DIVIDENDS
5. APPROPRIATION ACCOUNT

#### INFORMATION:

1 Sept 2015: The following balances appeared in the ledger :

|                                         |              |
|-----------------------------------------|--------------|
| Ordinary Share Capital (500 000 shares) | R 3 250 000  |
| Retained Income                         | R1 600 000   |
| SARS (Income Tax)                       | R70 000 (Cr) |
| Shareholders for Dividends              | R325 000     |

|              |                                                                                                                                                                                                            |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 15 Sept 2015 | SARS and the shareholders were paid the amounts due to them.                                                                                                                                               |
| 28 Feb 2016  | The Company paid provisional tax of R170 000 and interim dividends of 75c per share.                                                                                                                       |
| 1 March 2016 | The company issued a further 200 000 shares at R10.00 each. The proceeds of the share were deposited.                                                                                                      |
| 31 Aug 2016  | At the end of the accounting period, the company made a second provisional tax payment of R500 000 and the directors declared a final dividend of 125c per share. This was applicable to all shareholders. |
| 31 Aug 2016  | The directors decided to buy back 180 000 shares from various shareholders at R12,00 per share. A direct transfer was effected.                                                                            |
|              | A second provisional tax payment of R310 000 was made.                                                                                                                                                     |
|              | The net profit before tax amounted to R1 500 000.<br>Income tax is calculated at 30% of the net income.                                                                                                    |

You are provided with the Pre-adjustment Trial Balance of Zola Limited for the year ended 30 April 2014.

**REQUIRED:**

- 3.1 Prepare Asset Disposal Account.
- 3.2 Prepare the Income Statement for the year ended 30 April 2014.
- 3.3 Prepare the note for: Trade and other receivables

**INFORMATION:**

1.

**ZOLA LTD**

**PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 APRIL 2014**

|                                       | DEBIT            | CREDIT           |
|---------------------------------------|------------------|------------------|
| <b>Balance Sheet Accounts Section</b> |                  |                  |
| Ordinary share capital                |                  | 1 404 030        |
| Retained income                       |                  | 342 230          |
| Mortgage loan: Zip Bank               |                  | 402 250          |
| Land and buildings                    | 1 048 500        |                  |
| Vehicles                              | 407 000          |                  |
| Equipment                             | 308 000          |                  |
| Accumulated depreciation on vehicles  |                  | 147 400          |
| Accumulated depreciation on equipment |                  | 170 500          |
| Trading stock                         | 477 500          |                  |
| Consumable stores on hand             | 7 500            |                  |
| Bank                                  | 156 550          |                  |
| Petty cash                            | 1 650            |                  |
| Debtors control                       | 198 000          |                  |
| Creditors control                     |                  | 268 610          |
| SARS ( Income tax)                    | 150 900          |                  |
| Provision for bad debts               |                  | 10 050           |
| Fixed deposit: Lobola Bank (9% p.a)   | 247 500          |                  |
| <b>Nominal Account Section</b>        |                  |                  |
| Sales                                 |                  | 5 250 000        |
| Debtors allowances                    | 72 600           |                  |
| Cost of sales                         | 3 743 500        |                  |
| Rent income                           |                  | 88 400           |
| Interest income (on fixed deposit)    |                  | 13 315           |
| Bad debts recovered                   |                  | 1 150            |
| Directors fees                        | 420 000          |                  |
| Audit fees                            | 36 900           |                  |
| Packing material                      | 11 550           |                  |
| Salaries and wages                    | 330 000          |                  |
| Marketing expenses                    | 240 000          |                  |
| Bad debts                             | 6 000            |                  |
| Sundry expenses                       | 31 885           |                  |
| Ordinary share dividends              | 202 400          |                  |
|                                       | <b>8 097 935</b> | <b>8 097 935</b> |

2. **ADJUSTMENTS:** Downloaded from eduresourceza.com

- A. The company has two directors. They all received the same monthly remuneration. One director took his May 2014 fee on 15 April 2014. This has been recorded.
- B. The account of debtor, G. Zondi, R1 000 must be written off as irrecoverable.
- C. N. Ngcobo's credit balance of R2 000 in the debtors ledger must be transferred to his account in the creditors ledger.
- D. The provision for bad debts must be adjusted to 5% of the good book debtors.
- E. A physical stock-taking on 30 April 2014 revealed the following inventories on hand:
- Trading stock R470 000
  - Packing material R450
- F. A vehicle was sold for cash for R120 000 on 28 February 2014. The fixed asset register revealed the following regarding this vehicle:
- Cost price R210 000
  - Accumulated depreciation on 1 May 2013 R106 000
- This transaction has not yet been recorded by the bookkeeper.
- G. Make provision for depreciation as follows:
- Vehicles at 10% p.a. on cost price
  - Equipment at 15% p.a. on the diminishing balance method.
- NOTE:** New equipment costing R80 000 was purchased on 1 November 2013. This has been correctly recorded.
- H. Make provision for outstanding interest on a fixed deposit. This investment has been in existence for the entire year. Interest is not capitalised.
- I. The rent decreased by R1 300 on 1 April 2014. The tenant has paid rent until the end of May 2014.
- J. The loan statement received from Stanley Bank on 30 April 2014 reflected the following:
- Balance at the beginning R 402 250
  - Interest capitalised R ?
  - Repayment R 417 250
  - Balance at the end R 0.00
- K. A final dividend of 50 cents was declared.
- L. Income tax for the year amounted to R140 000.

## ACTIVITY A4: INCOME STATEMENT

You are provided with information relating to Samora Sports Limited. The company sells sports equipment and repairs equipment for their customers.

### REQUIRED:

Prepare the Income Statement for the year ended 30 June 2008 after taking all the adjustments and additional information into account.

### INFORMATION:

#### 1. Figures extracted from the Pre-Adjustment Trial Balance on 30 June 2008:

|                                                       |             |
|-------------------------------------------------------|-------------|
| Ordinary share capital (Issue Price @ R5 / share )    | R 1 200 000 |
| Fixed deposit                                         | 160 000     |
| Trading stock                                         | 215 000     |
| Debtors control                                       | 39 090      |
| Equipment (for office and shop)                       | 224 000     |
| Accumulated depreciation on office and shop equipment | 130 000     |
| Mortgage loan from Credbank                           | 281 200     |
| Sales                                                 | 1 703 200   |
| Debtors allowances                                    | 17 000      |
| Cost of sales                                         | ?           |
| Service fee income (in respect of repair services)    | 297 140     |
| Rent income                                           | 105 000     |
| Interest income                                       | 11 200      |
| Salaries and wages                                    | 234 750     |
| Employers' contributions to Pension Fund and UIF      | 53 200      |
| Audit fees                                            | 30 000      |
| Directors fees                                        | 230 000     |
| Consumable stores                                     | 51 100      |
| Bank charges                                          | 5 240       |
| Sundry expenses                                       | ?           |

#### 2. Adjustments and additional information:

The auditors have identified the following errors or omissions:

- 2.1 The auditors are owed a further R28 000 after completing the audit.
- 2.2 Bank charges of R310 reflected on the June 2008 bank statement have not yet been entered in the books.
- 2.3 A credit note issued to a debtor, A Mona, dated 28 June 2008 was not recorded in the books. The credit note was for:
  - Goods returned by A Mona, R 6 200 (the cost was R4 800)
  - Price reduction on unsatisfactory repair of a tennis racket, R540
- 2.4 The stock count on 30 June 2008 revealed the following on hand:
  - Trading stock, R202 000
  - Consumable stores, R900
- 2.5 An employee was left out of the Salaries Journal for June 2008. The details from his pay-slip were:

|                          |         |
|--------------------------|---------|
| Gross salary             | R6 000  |
| PAYE deduction (18%)     | (1 080) |
| Pension deduction (7,5%) | (450)   |
|                          | (60)    |
|                          | R4 410  |

The business contributions were:

- Pension Fund: 10,5% of gross salary
- UIF: Rand-for-rand basis

- 2.6 The tenant paid the July and August rent in June 2008. The rent was increased by R700 per month on 1 January 2008.
- 2.7 Provide for depreciation on office and shop equipment at 10% p.a. on the diminishing-balance method. Note that new shop equipment costing R30 000 was purchased half-way through the financial year (this was properly recorded).
- 2.8 Interest on the loan was capitalised. The loan statement from Credbank on 30 June 2008 reflects the following:

| <b>Loan statement on 30 June 2008</b>                                           |          |
|---------------------------------------------------------------------------------|----------|
| Balance on 1 July 2007                                                          | R332 800 |
| Interest charged                                                                | ?        |
| Monthly payments to Credbank in terms of the loan agreement(12 months x R4 300) | R 51 600 |
| Balance on 30 June 2008                                                         | R326 000 |

The interest expense for the year has not yet been entered in the books.

- 2.9 Use the following percentages to calculate the missing figures:

- Mark-up % achieved: 60% on cost
- Operating profit on sales: 20%
- Income tax rate: 30% of net profit

## B. COMPANIES-INCOME STATEMENT AND BALANCE SHEET

### ACTIVITY B1: COMPANY FINANCIAL STATEMENTS AND GAAP-PRINCIPLES )80 marks; 60 minutes)

#### 1. GAAP PRINCIPLES

Choose the correct GAAP principle from the list of principles to best fit the statements that follow.

historical cost; matching; business entity; materiality; prudence; going-concern

- 1.1 Assets are recorded at the original cost price and not at replacement value. (1)
- 1.2 Financial information of importance to decision making must be shown separately for the users of information. (1)
- 1.3 Income and expenditure must be reported in the correct financial period. (1)
- 1.4 Financial statements are prepared on the assumption that a business will continue in the foreseeable future. (1)

#### 2. FINANCIAL STATEMENTS

You are provided with the Pre-Adjustment Trial Balance of a company, Dunhill Ltd. on 28 February 2014.

##### REQUIRED:

- 2.1 Prepare the Income Statement for the year ending 28 February 2014. (44)
- 2.2 Prepare the following notes to the Balance sheet:
  - Ordinary share capital (7)
  - Retained income (9)
  - Trade and other payables (16)

| PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2014    |           |
|-----------------------------------------------------|-----------|
| Balance Sheet Accounts Section                      | R         |
| Ordinary share capital (2 240 000 shares)           | ?         |
| Retained income                                     | 1 525 000 |
| Vehicles at cost                                    | 880 000   |
| Accumulated depreciation on vehicles                | 164 000   |
| Equipment                                           | 760 000   |
| Accumulated depreciation on equipment               | 650 000   |
| Trading stock                                       | 1 534 000 |
| Debtors control                                     | 521 300   |
| Provision for bad debts                             | 22 000    |
| Creditors control                                   | 786 800   |
| Loan: Spark Bank                                    | 450 000   |
| Bank (Dr)                                           | 129 400   |
| SARS: Income tax (Dr)                               | 150 000   |
| SARS: PAYE                                          | 44 800    |
| Pensionfund                                         | 15 800    |
| Fixed Deposit: Shark Bank                           | 450 000   |
|                                                     |           |
| Nominal Accounts Section                            |           |
| Sales                                               | 5 970 000 |
| Cost of sales                                       | 3 200 000 |
| Salaries and wages                                  | 821 000   |
| Directors' fees                                     | 840 000   |
| Audit fees                                          | 88 000    |
| Employers' contributions to pension and medical aid | 81 000    |
| Debtors allowances                                  | 70 000    |
| Bank charges                                        | 28 000    |
| Sundry Expenses                                     | 89 730    |
| Bad debts                                           | 12 100    |
| Rent income                                         | 234 950   |
| Interest on fixed deposit                           | 27 000    |
| Repairs and maintenance                             | 125 600   |
| Consumable stores                                   | 39 500    |
| Dividends on ordinary shares (interim)              | 55 000    |

# ADJUSTMENTS AND ADDITIONAL INFORMATION:

1. The authorised share capital comprises 3 000 000 ordinary shares.
  - There were 2 000 000 ordinary shares for R5 225 000 issue at the beginning of the financial year.
  - A further 250 000 new ordinary shares were issued on 10 March 2013 at 250 cent each. These shares have been properly recorded.
  - The directors decided to buy back 10 000 shares from Ernie at R3,10 per share. An electronic transfer was made on 28 February 2014. He is still entitled to dividends during the current financial year.
2. A debtor returned defective stock with a selling price of R15 000 (mark-up 50%). The stock was then returned to the suppliers, but no entries have been made.
3. A debtor, M Spark was declared insolvent. His estate paid 40c in the rand. R450 was already received and recorded. Write the rest off as irrecoverable.
4. On 28 February 2014, R2 400 was received from J Jones, whose account had previously been written off as irrecoverable. The amount was entered in the Debtors' control column in the CRJ.
5. The provision for bad debts must be adjusted to 4% of good book debts.
6. A physical stock count on 28 February 2014 reflected:
  - Trading stock on hand R1 531 000.
  - Consumable stores used R39 000.
7. Depreciation is calculated as follows:
  - Vehicles is calculated at 20% p.a. on the diminishing balance method. A new vehicle was purchased on 31 December 2013 for R300 000. This has been properly recorded.
  - Equipment is calculated at 15% p.a. on the cost price. This equipment is very old and will be replaced in the near future.
8. The auditors, Froome are owed an extra R12 000 in fees.
9. An employee was omitted from the salaries journal. He has not been paid. His details are as follows:
 

| Deductions |         | Employer's contribution | Net salary |
|------------|---------|-------------------------|------------|
| PAYE       | Pension | Pension                 |            |
| R2 880     | R1 950  | R3 900                  | 10 538     |
10. The rent has been paid three months in advance.  
NOTE: The monthly rent increased by R1 250 on 1 November 2013.
11. The loan statement from Spark Bank reflected the following:
 

|                                        |          |
|----------------------------------------|----------|
| Balance at beginning of financial year | R948 000 |
| Repayments during the year             | 423 000  |
| Interest capitalised                   | ?        |
| Balance at end of financial year       | R600 000 |
12. R17 000 still owed to SARS for Income tax.
13. Final dividends of 15 cents per share were declared.

## COMPANY FINANCIAL STATEMENTS

## 1. GAAP-PRINCIPLES

|     |  |     |  |     |  |     |  |
|-----|--|-----|--|-----|--|-----|--|
| 1.1 |  | 1.2 |  | 1.3 |  | 1.4 |  |
|-----|--|-----|--|-----|--|-----|--|

## 2.1 INCOME STATEMENT FOR THE YEAR ENDING 28 FEBRUARY 2014

|                                                |  |         |
|------------------------------------------------|--|---------|
| Sales                                          |  |         |
| Cost of Sales                                  |  |         |
| <b>Gross profit</b>                            |  |         |
| <b>Other operating income</b>                  |  |         |
| Rent income                                    |  |         |
|                                                |  |         |
|                                                |  |         |
| <b>Operating income</b>                        |  |         |
| <b>Operating expenses</b>                      |  |         |
| Directors' fees                                |  | 840 000 |
| Bank charges                                   |  | 2 800   |
| Repairs and maintenance                        |  | 125 600 |
| Sundry expenses                                |  | 89 730  |
| Bad Debts                                      |  |         |
| Salaries and wages                             |  |         |
| Consumable stores                              |  |         |
| Audit fees                                     |  |         |
| Employers contribution pension and medical aid |  |         |
|                                                |  |         |
|                                                |  |         |
|                                                |  |         |
|                                                |  |         |
|                                                |  |         |
| <b>Operating profit</b>                        |  |         |
| Interest income                                |  | 27 000  |
| <b>Profit before interest expense</b>          |  |         |
| <b>Interest expense</b>                        |  |         |
| <b>Profit before tax</b>                       |  |         |
| Income tax                                     |  |         |
| <b>Net profit for the year</b>                 |  |         |

|    |  |
|----|--|
|    |  |
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## 2.2 ORDINARY SHARE CAPITAL

|                   |  |
|-------------------|--|
| <b>AUTHORISED</b> |  |
|                   |  |
|                   |  |
|                   |  |
| <b>ISSUED</b>     |  |
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## TRADE AND OTHER PAYABLES

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## ACTIVITY B2

## COMPANY FINANCIAL STATEMENTS

(60 marks; 33 minutes)

- 1 Choose the appropriate words given below to complete the sentences:

|                                                                                                                                                              |  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| working capital, financial asset, qualified, operating expense, cash and cash equivalents,<br>operating profit, borrowed capital, finance cost, unqualified, |  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--|

- 1.1 The difference between current assets and current liabilities is referred to as ...  
 1.2 The audit report states: "With the exception of a few aspects, shareholders can rely on the figures in the financial statements." This will be regarded as a/an ... report.  
 1.3 Interest on the bank overdraft is classified as a/an ....  
 1.4 A fixed deposit which will mature in the next financial year, will be regarded as part of ... in the Balance sheet. (4)

## 2 JOYCO LIMITED

The financial year of Joyco Limited ends on 30 June. The accountant of Joyco Limited took the year-end adjustments into account and calculated the net profit before tax as R830 000. However, it was discovered that not all the adjustments were made before calculating the net profit before tax.

## REQUIRED:

- 2.1 Calculate the correct net profit after tax for the year ended 30 June 2014. (19)  
 2.2 Complete the Liabilities section of the Balance Sheet (Statement of Financial Position) on 30 June 2014. Where notes are not required, calculations must be shown in brackets for part marks to be given. (13)  
 2.3 Prepare the following notes to the Balance Sheet (Statement of Financial Position):  
     (a) Ordinary Share Capital (11)  
     (b) Retained income (13)

**INFORMATION:**

- 1 The following extract was taken from the list of balances which appeared in the ledger of Joyco Limited on 30 June 2014, before any additional adjustments and information were taken into account:

|                                            |          |
|--------------------------------------------|----------|
| Ordinary Share capital                     | ?        |
| Retained Income (1 July 2013)              | R310 000 |
| Equipment                                  | 350 000  |
| Accumulated depreciation on equipment      | 145 000  |
| Trading Stock                              | 132 000  |
| Debtors Control                            | 36 000   |
| Provision for bad debts                    | 1650     |
| Bank (Dr)                                  | 550 000  |
| Accrued Income                             |          |
| SARS: Income tax (Dr.)                     | 242 800  |
| Creditors Control                          |          |
| Income Received in Advance                 |          |
| Accrued Expenses                           |          |
| Loan: Zorro Bank @ 15 % p.a. (1 June 2014) | 280 000  |

- 2 The following adjustments and additional information were not taken into account:

- (a) According to the profit and loss account the insurance amounted to R27 000. This amount included a annual premium of R7 200 which was paid on 1 November 2013.
- (b) Trading Stock, R28 000 was damaged in a fire which broke out in the storeroom. The insurance company accepted the claim and will cover 80% of the claim. This amount will be received during July 2014. Write off the balance.
- (c) The provision for bad debts must be adjusted to 4% of the outstanding debtors.
- (d) In the profit and loss account, the amount for Rent income amounted to R91 300. The accountant did not take into account that the tenant paid the rent for July 2014 in advance. The rent had increased by R700 per month on 1 February 2014.
- (e) Interest on the loan for the last month is still outstanding. Interest is capitalized. The business intends to reduce the loan by R40 000 in the next financial year.
- (f) Profit on sale of an asset sold during the year, R14 500, was recorded as a loss in the profit and loss account.
- (g) Income Tax for the year amounted to R247 800.
- (h) The bank reconciliation statement on 30 June 2014 showed an outstanding cheque of R1500, dated 15 August 2014. This cheque was issued to a creditor.
- (i) Share capital:
  - On 1 July 2013 the ordinary share capital amounted to R2 400 000.
  - 60 % of the authorised share capital of 500 000 shares were issued.
  - On 31 July 2013 the directors issued an additional 100 000 shares at R8,20.
  - On 10 January 2014 the directors decided to buy back 70 000 shares from the estate of a deceased shareholder at R8,60 per share. This transaction was completed successfully, but no entry has been made as yet.
- (j) Dividends: On 1 December 2013 an interim dividend of 50 cents per share was declared and paid. A final dividend of 70 cents per share was declared on 30 June 2014.



| 2.3 NOTES TO THE BALANCE SHEET: |                         |  |    |
|---------------------------------|-------------------------|--|----|
| (a)                             | Ordinary Share Capital  |  |    |
|                                 | Authorised:             |  |    |
|                                 | 500 000 ordinary shares |  |    |
|                                 | Issued:                 |  |    |
|                                 |                         |  |    |
|                                 |                         |  |    |
|                                 |                         |  |    |
|                                 |                         |  |    |
|                                 |                         |  | 11 |

| 2.3 NOTES TO THE BALANCE SHEET: |                                 |  |  |
|---------------------------------|---------------------------------|--|--|
| (b)                             | Retained income                 |  |  |
|                                 | Balance at end of previous year |  |  |
|                                 |                                 |  |  |
|                                 |                                 |  |  |
|                                 |                                 |  |  |
|                                 |                                 |  |  |
|                                 |                                 |  |  |
|                                 | Balance at end of current year  |  |  |

**AUDIT REPORT AND BALANCE SHEET****(75 marks; 45minutes)**

- 1 Read the following statements and identify the type of opinion that will be given by the external auditor. Use the words in the block to guide you.

Disclaimer; Unqualified report; Qualified report

- 1.1 The auditor is generally satisfied, but highlighted a few concerns.
- 1.2 The external auditor is not prepared to issue an opinion on the financial statements.
- 1.3 The financial statements fairly present the financial position of the company. (3)
- 2 Explain why a business would need an internal auditor in addition to an external auditor. (2)

3 **RITCHIE TRADERS LIMITED**

The following information was taken from the accounting records of Ritchie Traders Limited. The company has an authorised share capital of 2 000 000 shares.

**REQUIRED:**

- 3.1 Calculate the net profit after taken into account **Additional information G.** (10)
- 3.2 Prepare the following notes to the financial statements:
- 3.2.1 Share capital (8)
- 3.2.2 Retained income (10)
- 3.3 Prepare the Balance Sheet of Ritchie Traders Limited on 28 February 2014. (42)

**Note:** Where notes are not required, show ALL calculations in brackets in order to earn part marks.

**INFORMATION:**

1. The following balances appeared in the General Ledger of Ritchie Traders Limited on 28 February:

|                                         |           |
|-----------------------------------------|-----------|
| Ordinary share capital (300 000 shares) | 1 200 000 |
| Retained income (1 March 2013)          | 167 920   |
| Land and Buildings                      | 1 366 838 |
| Equipment                               | 526 000   |
| Accumulated depreciation on equipment   | 157 800   |
| Fixed deposit: Kay Bank                 | ?         |
| Loan from Bond Securities               | 360 000   |
| Trading stock                           | 389 990   |
| Debtors' control                        | 141 200   |
| Creditors' control                      | 46 950    |
| Provision for bad debts                 | 4%        |
| Cash float                              | 1 000     |
| Income received in advance              | ?         |
| Bank overdraft                          | 470 000   |
| SARS(Income tax)                        | 5 962(cr) |

**2. ADDITIONAL INFORMATION:**

**A Shares issued**

The company has an authorised share capital of 2 000 000 shares.

On 1 March 2013 another 200 000 shares were issued at R4,25 per share. It has been recorded.

On 30 June 2013 the board of directors decided to repurchase 50 000 shares from a disgruntled shareholder at a price of R5,00 per share. This has not yet been recorded.

**B Dividends**

An interim dividend of 10c per share was declared and paid to shareholders on 31 August 2013.

The new shareholders qualified for the interim dividend.

A final dividend of 40c per share was declared by the directors on 28 February 2014. The buy-back shareholders are not entitled to the final dividend.

**C Bank statement**

When the Bank Statement was compared to the Cash Journals, the accountant realised that cheque 1879 was outstanding.

On investigation it was found that this cheque, for R25 000 dated 19 March 2014 had been issued to Handyman CC to pay for repairs to the roof which were completed in January 2014.

**D Fixed deposit**

The interest on the fixed deposit amounts to R4 500. The fixed deposit was invested on 1 June 2013 at Kay Bank at 6% interest p.a.

**E Loan**

The loan was taken out on 1 March 2011. It is repaid in equal monthly instalments, over a period of seven years.

**F Debtors**

A debtor with a credit balance of R11 200 must be transferred to the Creditors' Ledger.

**G Net profit and adjustments**

The net profit after tax was R389 500 before the following adjustments were taken into account:

**Fixed assets**

Computers were stolen on 28 February 2014. The computers were originally bought on 1 December 2012 for R54 000. The depreciation rate on computers is 33 $\frac{1}{3}$ % on cost. The insurance claim of R20 000 will be processed during April 2014.

**Trading Stock**

There was a trading stock deficit of R1 990.

**Rent income**

Rent income amounted to R53 120 for the year. It included the rent for March 2014.

The rent increased by 14% on 1 February 2014.

|      |                                                                                   |     |     |         |    |
|------|-----------------------------------------------------------------------------------|-----|-----|---------|----|
| 1    | 1.1                                                                               | 1.2 | 1.3 |         | 3  |
| 2    |                                                                                   |     |     |         |    |
| 3.1  | <b>Calculate the net profit after taken into account additional information G</b> |     |     |         |    |
|      | Net profit after tax                                                              |     |     | 389 500 | 10 |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
| 3.2. | <b>Ordinary Share Capital</b>                                                     |     |     |         |    |
| 1    | <b>AUTHORISED</b>                                                                 |     |     |         |    |
|      | Number of authorised ordinary shares: 2 000 000 shares.                           |     |     |         |    |
|      | <b>ISSUED</b>                                                                     |     |     |         |    |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
| 3.2. | <b>Retained income</b>                                                            |     |     |         |    |
| 2    | Balance at the beginning of the year                                              |     |     | 167 920 |    |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
|      |                                                                                   |     |     |         |    |
|      | Balance at the end of the year                                                    |     |     |         | 10 |

RITCHIE TRADERS LIMITED  
BALANCE SHEET ON 28 FEBRUARY 2014

|                               |           |
|-------------------------------|-----------|
| ASSETS                        |           |
| NON CURRENT ASSETS            | 1 803 538 |
|                               |           |
|                               |           |
| CURRENT ASSETS                |           |
|                               |           |
|                               |           |
|                               |           |
| TOTAL ASSETS *                | 2 358 042 |
| EQUITY AND LIABILITIES        |           |
| SHAREHOLDERS' EQUITY          | 1 359 370 |
|                               |           |
|                               |           |
| NON-CURRENT LIABILITIES       |           |
|                               |           |
| CURRENT LIABILITIES           |           |
|                               |           |
|                               |           |
|                               |           |
| TOTAL EQUITY AND LIABILITIES* |           |

\*[Both totals must be the same]

You are provided with information related to MT Ltd for the year ending 30 June 2015. The company is registered with an authorised share capital of 2 000 000 ordinary shares.

**REQUIRED**

1. Prepare the following notes to the Balance Sheet:
  - 1.1. Ordinary share capital
  - 1.2. Retained Income
2. Prepare the Balance Sheet as at 30 June 2015.
3. Give TWO reasons why directors buy back

**INFORMATION**

1. The following balances were extracted from the books of MT Ltd.

|                                  |         |
|----------------------------------|---------|
| Debtors control                  | 293 000 |
| Provision for bad debts.         | 14 500  |
| Creditors control                | 150 000 |
| Trading stock                    | ?       |
| Bank(favourable)                 | 204 000 |
| Consumables on hand              | 2 500   |
| Petty cash                       | 1 500   |
| SARS income tax (DR)             | 300 000 |
| Prepaid expenses                 | 1 500   |
| Deposit on water and electricity | 4 000   |
| Accrued income                   | 2 500   |

2. The following financial indicators were calculated for the financial year ending 30 June 2015
  - Net Asset Value per share 525 cents
  - Current ratio 1,4 : 1
3. R70 000 was owed to the directors fees.
4. The rent received was R154 100. This amount included the rent for July and August 2015. Note the rent has been decreased by 10% on 1 March 2015.
5. J Crazy, a debtor who owed R3 000 was declared insolvent and must be written off.
6. On the first day of the financial year 20% Of the shares are unissued. The issued shares were issued as follows. Half were issued in 2012 at R4 per share. The other half were issued during the previous financial year at 500 cents each.

During the current financial year on 1February 2015, 200 000 new shares were issued at R4, 50. All the amounts were received in the bank account of the business.

On 30 June 2015 the directors authorised a share buyback of 50 000 ordinary shares at R8 each from a disgruntled shareholder. An electronic fund transfer was done on the same day.

7. Dividends were as follows:
  - An interim dividends of 20 cents per share was declared and paid on31 December 2014
  - On 30 June 2015 a final dividend of 30cents per share was declared.
8. The income tax was correctly calculated as R318 000. This was 30% of the net profit.
9. A quarter of the fixed deposit worth R80 000 will mature in September 2015.
10. The loan statement received from Better Bank showed the following:
 

|                                        |         |
|----------------------------------------|---------|
| Balance at the beginning               | 650 000 |
| Repayment of loan (including interest) | 150 000 |
| Interest capitalised                   | 20 000  |
| Balance at the end                     | ?       |

NB: the capital repayment of the loan will remain constant until the loan is fully paid.

## 1.1 Ordinary share capital

|                      |            |
|----------------------|------------|
| Authorised shares    | 2 000 0000 |
| Issued share capital |            |
|                      |            |
|                      |            |
|                      |            |
|                      |            |
|                      |            |

## 1.2 Retained Income

|                          |  |
|--------------------------|--|
| Balance at the beginning |  |
|                          |  |
|                          |  |
|                          |  |
| <b>Dividends</b>         |  |
| Paid                     |  |
| Declared                 |  |
| Balance at the end       |  |

3. Give **TWO** reasons why directors buy back

## 2. BALANCE SHEET AS AT 30 JUNE 2015.

|                               |  |  |
|-------------------------------|--|--|
| ASSETS                        |  |  |
| NON CURRENT ASSETS            |  |  |
| Fixed assets                  |  |  |
|                               |  |  |
|                               |  |  |
| Current assets                |  |  |
|                               |  |  |
|                               |  |  |
|                               |  |  |
| <b>TOTAL ASSETS</b>           |  |  |
| <b>EQUITY AND LIABILITIES</b> |  |  |
| <b>ORDINARY SHARE EQUITY</b>  |  |  |
| Ordinary share capital        |  |  |
| Retained income               |  |  |
|                               |  |  |
| NON CURRENT LIABILITIES       |  |  |
|                               |  |  |
| CURRENT LIABILITIES           |  |  |
|                               |  |  |
|                               |  |  |
|                               |  |  |
|                               |  |  |

**C. AUDIT REPORT, CASH FLOW STATEMENT AND ANALYSIS****ACTIVITY C1****AUDIT REPORT**

4.1 The following audit report was issued by the auditors of Bafana Sports Ltd.

|                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Audit report – To the shareholders:                                                                                                                                                                                                                                                                                                                           |
| In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 30 June 2014 and the results of their operations and cash flows for the year ended, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act in South Africa. |
| DST and Associates<br>Chartered Accountants (SA)<br>Registered Accountants and Auditors<br>Pretoria. 10 August 2014                                                                                                                                                                                                                                           |

**REQUIRED:**

- 4.1.1 Provide a reason why the Companies Act makes it a requirement for public companies to be audited.
- 4.1.2 At the AGM, one of the shareholders said that he was not happy with the words "fairly present" in the audit report. He wants the auditors to state that financial statements are "correct in all respects". What explanation should be given to this shareholder? State ONE point.

**4.2 CASHFLOW STATEMENT AND INTERPRETATION OF INFORMATION**

You are provided with information relating to AMI Limited for the financial year ended 31 August 2014

**REQUIRED:**

- 4.2.1 Refer to the Note for Fixed/Tangible assets below  
Calculate the fixed/tangible assets purchased.  
Calculate the depreciation on vehicles.  
Calculate the proceeds of fixed/tangible assets sold.
- 4.2.2 Prepare the Cash Flow Statement for the year ended 31 August 2014. Notes are not required. Show workings in brackets.
- 4.2.3 Calculate the following financial indicators on 31 August 2014  
Debt: Equity ratio.  
Net asset value per share.  
Earnings per shares
- 4.2.4 The directors feel that the liquidity position of the company has generally improved.  
Quote THREE financial indicators (with figures) to support their opinion.  
Explain the financial indicators.
- 4.2.5 One of the directors feels that the company should make more use of loans. Quote TWO financial indicators with figures to support his opinion. Briefly explain.
- 4.2.6 The market price of the shares on the Johannesburg Securities Exchange (JSE) was 1750 cents on 31 August 2014. As a major shareholder, you are very satisfied with the performance of the company.  
Explain by quoting TWO financial indicators to support your opinion

## 1. NOTES FROM THE FINANCIAL STATEMENTS

| FIXED/TANGIBLE ASSETS                         | Land and Buildings | Equipment | Vehicles  |
|-----------------------------------------------|--------------------|-----------|-----------|
| Carrying value at the beginning of the year   | 818 200            | 52 800    | ?         |
| Cost                                          | 818 200            | 120 000   | 382 800   |
| Accumulated depreciation                      | 0                  | (67 200)  | (146 800) |
| <b>MOVEMENTS</b>                              |                    |           |           |
| Additions at cost                             | ?                  | 0         | 0         |
| Disposals at carrying value                   | 0                  | 0         | ?         |
| Depreciation                                  | 0                  | (7 920)   | ?         |
| Carrying value at the end of the current year | 2 273 300          | 44 880    | ?         |
| Cost                                          | 2 273 300          | 120 000   | 172 800   |
| Accumulated depreciation                      | 0                  | (75 120)  | (83 000)  |

## NOTE:

- A vehicle was sold at carrying value on the last day of the financial period.
- Depreciation on vehicles is provided at 20% on the diminishing balance method.
- No equipment was purchased or sold during the year.
- Extensions to land and buildings were made during the year.

## 2. The following figures were extracted from the financial records for the past two years:

| Extracted from the Post-closing Trial Balance:  | 2014<br>R | 2013<br>R |
|-------------------------------------------------|-----------|-----------|
| Ordinary share capital                          | 1 254 000 | 432 000   |
| Retained income                                 | 781 380   | 205 200   |
| Non-current liability: Loan Uno Bank (15% p.a.) | 580 000   | 820 000   |
| Fixed/Tangible assets                           | ?         | ?         |
| Inventories (all Trading Stock)                 | 276 800   | 261 800   |
| Debtors' Control                                | 70 200    | 84 000    |
| Creditors' Control                              | 69 000    | 53 400    |
| Shareholders for dividends                      | 78 000    | 58 320    |
| SARS – Income tax                               | 66 600 Cr | 29 200 Dr |
| Cash and cash equivalents                       | 74 000 Dr | 86 920 Dr |

3

| Extract from notes to the financial statements: | 2014<br>R |
|-------------------------------------------------|-----------|
| Depreciation on vehicles                        | ?         |
| Depreciation on equipment                       | 7 920     |
| Interest on loan (all capitalised and paid)     | 120 450   |
| Net profit before tax                           | 1 037 400 |
| Income tax for the year                         | 311 220   |
| Net profit after tax                            | 726 180   |
| Dividends for the year                          | 150 000   |

4 The following financial indicators were calculated for the past two years.

|                                              | 2014           | 2013         |
|----------------------------------------------|----------------|--------------|
| Shares issued                                | 1 200 000      | 45 000       |
| Return on average shareholders' equity       | 54,3%          | 37,3%        |
| Return on total capital employed (after tax) | 41,6%          | 35%          |
| Net asset value per share                    | ?              | 1 400 cents  |
| Debt/equity ratio                            | ?              | 1,3 : 1      |
| Current ratio                                | 2 : 1          | 4,1 : 1      |
| Acid-test ratio                              | ?              | 1,8 : 1      |
| Rate of stock turnover                       | 3,5 times p.a. | 3 times p.a. |
| Debtors' collection period                   | 28 days        | 30 days      |
| Creditors' payment period                    | 60 days        | 40 days      |
| Earnings per share                           | ?              | 590 sent     |
| Dividends per share                          | 125 cents      | 135 cents    |

## ANSWER C1

### 4.1 AUDIT REPORT. CASH FLOW AND INTERPRETATION

|       |
|-------|
| 4.1.1 |
| 4.1.2 |

### 4.3 AMI LTD

#### CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2014

|                                               |                |
|-----------------------------------------------|----------------|
| <b>Cash flows from operating activities</b>   | <b>761 180</b> |
| Cash generation from operations               | 1 227 370      |
| Interest paid                                 | (120 450)      |
| Dividends paid                                |                |
| Income tax paid                               |                |
| <b>Cash flows from investing activities</b>   |                |
|                                               |                |
|                                               |                |
| <b>Cash flows from financing activities</b>   |                |
|                                               |                |
|                                               |                |
| <b>Net change in cash equivalents</b>         |                |
| Cash and cash equivalents – beginning of year | 86 920         |
| Cash and cash equivalents – end of year       | 74 000         |

|                                                                       |  |
|-----------------------------------------------------------------------|--|
| 4.2.1                                                                 |  |
| 4.2.2                                                                 |  |
| 4.2.3                                                                 |  |
| 4.2.3 Calculate the following financial indicators on 31 August 2014. |  |
| Debt: Equity ratio.                                                   |  |
| Net asset value per share                                             |  |
| Earnings per share                                                    |  |
| 4.2.4                                                                 |  |
| 4.2.5                                                                 |  |
| 4.2.6                                                                 |  |

## ACTIVITY C2

### CASH FLOW STATEMENT AND ANALYSIS

The information below was extracted from the books of Nandi Ltd. Study the information and answer the questions that follow.

#### REQUIRED:

- 4.1 Match column A with the most appropriate description or answer found in column B. Write down only the letter from column B in the answer book.

| COLUMN A |                                     | COLUMN B |                                                                     |
|----------|-------------------------------------|----------|---------------------------------------------------------------------|
| 4.1.1    | ROSHE                               | A        | Liquidity                                                           |
| 4.1.2    | Long-term credit providers          | B        | Preparation of financial statements.                                |
| 4.1.3    | SARS                                | C        | Interested in profitability of the company.                         |
| 4.1.4    | Current asset : Current Liabilities | D        | Provides credibility in the global economy to financial statements. |
| 4.1.5    | IFRS                                | E        | Solvency                                                            |
|          |                                     | F        | Interest rates offered by banks                                     |

- 4.2 Prepare the reconciliation between net profit before tax and cash generated from operations. (Show workings in brackets)
- 4.3 Complete the 'Cash Flow from operating activities' section of the Cash Flow Statement.
- 4.4 Complete 'Cash Flow from investing activities' section of the Cash Flow Statement.
- 4.5 Complete 'Cash Flow from financing activities' section of the Cash Flow Statement.
- 4.6 Identify THREE ways in which the repayment of the loan and the increase in fixed assets were financed.
- 4.7 Calculate the following for the year ended 30 June 2014.
- 4.7.1 Net asset value per share (NAV)
  - 4.7.2 Debt/equity ratio
  - 4.7.3 Return on shareholders' equity
- 4.8 With regard to the loan and the repayment thereof:
- Do you think that it was a good idea to pay off a large portion of the loan?
  - Briefly explain your findings with reference to TWO relevant financial indicators. Name and quote figures in your explanation
- 4.9 Provide TWO comments on the net asset value per share for 2014. Make use of financial indicators or figures to support your opinion. The shareholders present at the AGM were not happy with the drop in share price on the JSE over the past two years. Provide a possible reason for the change. Suggest a possible solution to the directors to rectify this problem.

### INFORMATION

1.

| <b>EXTRACT FROM THE BALANCE SHEET (Statement of Financial Position) ON 30 JUNE 2014</b> |             |             |
|-----------------------------------------------------------------------------------------|-------------|-------------|
|                                                                                         | <b>2014</b> | <b>2013</b> |
| <b>ASSETS</b>                                                                           |             |             |
| <b>NON-CURRENT ASSETS</b>                                                               |             |             |
| Fixed assets                                                                            | 979 440     | 814 800     |
| Financial assets                                                                        | 130 000     | 190 000     |
| <b>CURRENT ASSETS</b>                                                                   |             |             |
| Inventory                                                                               | 1 125 000   | 1 145 000   |
| Trade and other receivables                                                             | 1 115 000   | 1 143 000   |
| <b>CAPITAL AND RESERVES</b>                                                             |             |             |
| <b>ORDINARY SHAREHOLDERS EQUITY</b>                                                     | 2 499 900   | 1 085 100   |
| Ordinary share capital                                                                  | 2 375 000   | 1 000 000   |
| Retained Income                                                                         | 124 900     | 85 100      |
| <b>CURRENT LIABILITIES</b>                                                              |             |             |
| Trade and other payables                                                                | 1 150 940   | 1 070 800   |
|                                                                                         |             |             |

### 2. Notes to the Balance Sheet

(Statement of Financial Position)

|                                       | <b>2014</b> | <b>2013</b> |
|---------------------------------------|-------------|-------------|
| 1. <b>FIXED ASSETS</b>                | 979 440     | 814 800     |
| Land and Buildings                    | 900 000     | 750 000     |
| Equipment (Book value)                | 79 440      | 64 800      |
| 2. <b>TRADE AND OTHER RECEIVABLES</b> | 1 115 000   | 1 143 000   |
| Debtors Control                       | 1 102 000   | 1 130 000   |
| Accrued Income                        | 9 000       | 6 000       |
| Prepaid Expenses                      | 4 000       | 3 000       |
| SARS: Income Tax                      | 0           | 4 000       |

|                            |           |           |
|----------------------------|-----------|-----------|
| Creditors Control          | 1 043 565 | 1 047 300 |
| Accrued expenses           | 7 000     | 9 500     |
| SARS: Income Tax           | 10 375    | 0         |
| Shareholders for Dividends | 260 000   | 14 000    |

### 3. ADDITIONAL INFORMATION

#### 3.1 Ordinary share capital:

- 1 July 2013: 100 000 shares issued @ R10 each
- 1 January 2014: 100 000 new shares were issued @ R15  
(These shares did not qualify for interim dividends)
- 30 June 2014: repurchased 10 000 shares at R15

#### 3.2 Depreciation

- Total depreciation for the year amounted to R16 645.

#### 3.3 Sale of equipment

Details of Equipment sold at carrying value:

|                                       |              |
|---------------------------------------|--------------|
| Cost price                            | R40 000      |
| Accumulated depreciation to date sold | R20 570      |
| Date sold                             | 1 April 2014 |
| Selling price                         | ?            |

#### 3.4 Income tax

- Income tax at 28% of the net profit for the year amounted to R165 200.

#### 3.5 Dividends

- The interim dividend of 100 cents per share was declared and paid on 15 January.2014. The final dividend was declared on 30 June2014.

#### 3.6 Loan

The loan statement from Mula Bank on 30 June 2014 reflected:

|                                                 |            |
|-------------------------------------------------|------------|
| Balance at the beginning of financial year      | R1 070 000 |
| Repayments during the year (including interest) | 840 000    |
| Interest capitalised (interest rate 15% p.a.)   | ?          |
| Balance at end of financial year                | 350 000    |

#### 3.7 Financial indicators

|                                  | 2014  | 2013  |
|----------------------------------|-------|-------|
| % return on shareholders' equity | ?     | 59%   |
| % return on capital employed     | 28,4% | 18%   |
| Net asset value per share        | ?     | 1195c |
| Market price per share on JSE    | 1117c | 1600c |
| Debt / equity Ratio              | ?     | 1 :1  |

### CASH FLOW STATEMENT AND ANALYSIS

|     |       |  |       |  |
|-----|-------|--|-------|--|
| 4.1 |       |  |       |  |
|     | 4.1.1 |  | 4.1.4 |  |
|     | 4.1.2 |  | 4.1.5 |  |
|     | 4.1.3 |  |       |  |

NANDI LIMITED

## NOTES TO THE CASH FLOW STATEMENT

## 4.2 RECONCILIATION BETWEEN NET PROFIT BEFORE TAXATION AND CASH GENERATED FROM OPERATIONS

Adjustment in respect of:

Operating profit before changes in working capital

Net change in working capital

Cash generated from operations

## 4.3 Cash flow from operating activities

Dividends paid

(24 000)

## 4.4 Cash flow from investing activities

## 4.5 Cash flow from financing activities

4.6 Identify THREE ways in which the repayment of the loan and the increase in fixed assets was financed.

4.7.1 Net asset value per share (NAV)

4.7.2 Debt/equity ratio

4.7.3 Return on shareholders' equity

4.8

4.9

Comment on NAV

Possible reason for the drop in share price:

| Reason | Solution |
|--------|----------|
|        |          |

### ACTIVITY C3

#### CASH FLOW STATEMENT AND RATIOS

You are provided with information relating to Boshof Limited, a public company. The company issued additional shares on 31 August 2013.

#### REQUIRED:

- 5.1 Complete the note to the Cash Flow Statement for reconciliation between profit before taxation and cash generated from operations for the year ended 30 June 2014.
- 5.2 Complete the Cash Flow Statement for the year ended 30 June 2014.

|                                        | 2014    | 2013    |
|----------------------------------------|---------|---------|
| Current ratio                          | 1,9 : 1 | 1,1 :1  |
| Acid test ratio                        | ?       | 0,2 :1  |
| Stock turnover rate                    | 6 times | 4 times |
| Debt/equity ratio                      | ?       | 0,4 : 1 |
| Net asset value per share              | ?       | R2,20   |
| Earnings per share                     | 627c    | 310c    |
| Dividends per share                    | 560c    | 315c    |
| Return on average shareholders' equity | ?       | 32,1%   |
| Return on total capital employed       | 59,0%   | 40,3%   |
| Interest rate on loans                 | 11%     | 11%     |

**1 BOSHOF LIMITED**  
**BALANCE SHEET ON 30 JUNE 2014**

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**ADDITIONAL INFORMATION.**

**1. Number of shares:**

|                                                                         |                |
|-------------------------------------------------------------------------|----------------|
| Authorised                                                              | 300 000 shares |
| Issued on 30 June 2013                                                  | 180 000 shares |
| New shares issued on 1 July 2013 at 1 260c                              | 60 000 shares  |
| Repurchased on 30 June 2014                                             | 37 500 shares  |
| The repurchase price was 120 cents higher than the average issue price. |                |

**2. The Income Statement for 2014 reflects the following:**

Net profit before tax, R2 148 000  
 Income tax, R644 400  
 Interest expense, R108 900 (all interest due has been paid)  
 Depreciation, R93 000

**3. Unused fixed assets were sold at book value during the year for R168 000.**

**4. Amounts owed to SARS at the year-end are included in Trade and other payables:**

Owed to SARS on 30 June 2013, R28 800  
 Owed to SARS on 30 June 2014, R36 000

**5. As the new shares were repurchased on the last day of the year they did qualify for all dividends.**

Dividends were as follows:  
 Final dividends for 2013 paid on 5 August 2013, total R234 000.  
 Interim dividends for 2014 on 31 December 2013, total R432 000.  
 Final dividends for 2014 declared on 30 June 2014, 205 cents per share.

**ANSWER C3**

**5.1 Complete the note to the Cash Flow Statement for reconciliation between profit before taxation and cash generated from operations for the year ended 30 June 2014.**

|                                                     |           |
|-----------------------------------------------------|-----------|
| Net profit before taxation                          | 2 148 00  |
| Adjustment for                                      | 201 900   |
| Depreciation                                        | 93 000    |
| Interest expense                                    | 108 900   |
| Operating profits before changes in working capital | 2 349 900 |
| Change in working capital                           |           |
| Change in inventories                               |           |
| Change in receivables                               |           |
| Change in payables                                  |           |
|                                                     |           |

5.2

**Cash Flow Statement for the year ended 30 June 2014**

|                                                |           |
|------------------------------------------------|-----------|
| <b>CASH EFFECTS OF OPERATING ACTIVITIES</b>    |           |
| Cash generated from operations                 |           |
| Interest paid                                  | (108 900) |
| Taxation paid                                  |           |
| Dividends paid                                 |           |
| <b>CASH EFFECTS OF INVESTING ACTIVITIES</b>    |           |
| Purchase of non-current assets                 |           |
| Proceeds from disposal of non-current assets   | 168 000   |
| Investments mature                             |           |
| <b>CASH EFFECTS OF FINANCING ACTIVITIES</b>    |           |
| Proceeds from the issue of new shares          |           |
| Repurchase of shares                           |           |
| Decrease in loans                              |           |
| Net change in cash and cash equivalents        |           |
| Cash and cash equivalents at beginning of year |           |
| Cash and cash equivalents at end of year       | 234 750   |

5.3

|  |
|--|
|  |
|--|

5.4.1

Acid test ratio

|  |
|--|
|  |
|--|

5.4.2

Debt-equity ratio

|  |
|--|
|  |
|--|

5.4.3

Net asset value per share

|  |
|--|
|  |
|--|

5.4.4

Return on shareholders' equity

5.5

5.6

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#### D. TANGIBLE ASSETS

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- All fixed assets purchased by a business are not intended for resale but to be used in the operation of the business to assist in generating a profit.
- Separate records are kept for every fixed asset purchased in an asset register. Full details of every asset is recorded on the asset register and the depreciation for the financial year is calculated and recorded in the asset register and kept up to date at all times.
- Fixed assets are depreciated at cost price/ straight line method or at carrying value/ diminishing balance/ or called book value method.
- For internal control purposes, the assets and the registers are regularly monitored.
- When the asset is sold the asset register is updated; additional depreciation calculated, to whom it was sold and closed off as the asset does not belong to the business anymore.
- At the end of each financial year all the relevant fixed assets are depreciated. Any depreciation on assets sold during the year, form part of the depreciation amount disclosed in the Income Statement.

#### GAAP PRINCIPLES RELATING TO FIXED ASSETS

- Historical cost: Fixed assets are **recorded** at the price the asset was purchased called cost price.
- Prudence: Vehicles and equipment are generally **reported** in a realistic but conservative manner i.e. at their book/carrying value rather than at historical cost. Land and buildings must be reflected at historical cost although the market value may be significantly higher.
- Matching: Only depreciation on the Asset must be transferred to the Income Statement as an operating expense to be matched against the income for the year, so that the net profit can be correctly calculated.
- Materiality: Depreciation must be disclosed in the Income Statement. The cost price, the accumulated depreciation and the book/carrying value must be disclosed in the Tangible assets note to the Balance Sheet.
- Business Entity: The tangible assets of the business must be recorded and kept separate from the personal assets of the owner/s and the use of the assets must be controlled for business purposes only.
- Going – concern: The cost price of the tangible asset will not be written off as an operating expense in the year of purchase but will be depreciated over its life span, since it is assumed that the business will continue to operate for a number years
- Consistency: Fixed assets can be depreciated at either straight line (cost price) method or diminishing balance method. It is advisable to adopt the same rate and method of depreciation over the life span of similar assets. It is, however, important that the change of method is disclosed.

#### ACTIVITY D1

Information: A Vehicle was sold for cash at its carrying value on 31 May 2015. The following extract of the vehicle sold was taken from the Fixed Assets Register:

|                                                                   |              |                              |
|-------------------------------------------------------------------|--------------|------------------------------|
| Cost price: R140 000                                              |              | Date purchased: 1 March 2013 |
| Rate of Depreciation: 20% p.a. on the diminishing –balance method |              |                              |
| Financial Year End                                                | Depreciation | Accumulated Depreciation     |
| 28 February 2014                                                  | 28 000       | 28 000                       |
| 31 May 2014                                                       | ?            | ?                            |

**REQUIRED:** Prepare the Asset Disposal Account for the Vehicle on 31 May 2014 (Use The information given above).

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## Asset Disposal

|  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|
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**ACTIVITY D2: FIXED ASSETS AND INTERNAL CONTROL**

You are provided with information in respect of Zakhele Hardware for the year ended 29 February 2015. The business is owned by Bongani Zulu and Dumini Mkokstad

**REQUIRED:**

- 2.1 Prepare the Asset Disposal Account for office equipment (computers) stolen on 30 June 2015 (see information 1 below)
- 2.2 One of the employees, Landiwe Zwane, knows that the insurance policy only covers theft if there are evidences of forced entry. She also knows that Bongani broke the security gate of the office to make the incident look like forced entry. She is not sure if Dumini knows about this. What advice would you give Landiwe? Explain one point.
- 2.3 Explain how and why the Fixed Assets Register will assist the internal auditor in his duties.
- 2.4 In order to solve their cash flow problems, Bongani has sold a portion of the premises at cost price. Dumini disagrees with him on this. Do you support Dumini's opinion? Give a reason.
- 2.5 The business owns three delivery vehicles. Refer to the information in respect of each delivery vehicle from the Fixed Asset Register (see information 4 below)
  - Identify the cost price of delivery vehicle 3
  - Explain why delivery vehicle 2 is shown at a book value of R1,00 (one rand)
- 2.6 As a service to their customers, the business delivers goods within Zakhele. They charge a flat rate of R250 per delivery. Clients pay cash directly to the drivers. A total of 3 680 deliveries was done during the year. The delivery service operated on 260 days during the year.

**ACTIVITY D3**

**You are the internal auditor and you are concerned about possible problems relating to the delivery vehicles and their drivers.**

Refer to the information in point 4 below. Identify and explain ONE major problem relating to each delivery vehicle or its driver. Quote figures from the information to support your answer.

**Provide a valid solution to each problem.**

**INFORMATION****1. Office equipment and disposals:**

Office equipment includes the office computers. Six of the office computers were stolen on 30 June 2015. These six computers were originally bought at a cost price of R13 200 each. The insurance company, Ace Insurers, only paid out R5 000 for each computer. These computers were replaced at a higher price on 31 August 2015.

2. **Delivery vehicles:**

The business owns three delivery vehicles that they use to generate their income.

3. **Information from the financial statements for year ended 29 February 2015**

| FIXED ASSETS                        | Land and Building | Office Equipment | Vehicles  |
|-------------------------------------|-------------------|------------------|-----------|
| Carrying value at beginning of year | 1 200 000         | 630 000          | 403 501   |
| Cost                                | 1 200 000         | 980 000          | 699 000   |
| Accumulated depreciation            |                   | (350 000)        | (295 499) |
|                                     |                   |                  |           |
| Movements                           | (700 000)         | 19 560           | (111 000) |
| Additions                           |                   | 240 000          |           |
| Disposals at carrying value         | (700 000)         | (63 360)         |           |
| Depreciation                        |                   | (157 080)        | (111 000) |
|                                     |                   |                  |           |
| Carrying value at end of year       | 500 000           | 649 560          | 292 501   |
| Cost                                | 500 000           | 1 140 800        | 699 000   |
| Accumulated depreciation            |                   | 9491 2400        | (406 499) |

4. **Information from the Fixed Assets Register and the accounting records on 29 February 2015**

| Fixed Asset Register     | Delivery Vehicle 1 | Delivery vehicle 2 | Delivery vehicle3 |
|--------------------------|--------------------|--------------------|-------------------|
| Date purchased           | 1 April 2014       | 1 January 2006     | 1 April 2002      |
| Cost price of vehicle    | R315 000           | R144 000           | ?                 |
| Accumulated depreciation | R94 500            | R143 999           | R168 000          |
| Carrying value           | <b>R220 500</b>    | <b>R1</b>          | <b>R72 000</b>    |

| Information from the accounting records  | Delivery Vehicle 1 | Delivery vehicle 2 | Delivery vehicle 3 |
|------------------------------------------|--------------------|--------------------|--------------------|
| Name of driver                           | <b>Solly</b>       | <b>Themba</b>      | <b>Goldie</b>      |
| Number of days worked                    | 210 days           | 260 days           | 260 days           |
| Number of deliveries done                | 280 deliveries     | 2 100 deliveries   | 1 300 deliveries   |
| Cash paid in by drivers                  | R70 000            | R525 000           | R275 000           |
| Salary paid to drivers                   | R52 000            | R52 000            | R52 000            |
| Fuel and maintenance costs for the year  | R36 400            | R430 500           | R201 500           |
| Fuel and maintenance costs per kilometre | R1,30              | R2,05              | R1,55              |

**ANSWER**

2.1

**Asset Disposal**

|  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|
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The internal Auditor must:

- determines whether the business operating policies and procedures are easily and clearly understood in respect of tangible assets
- The internal Auditor must determine whether the business operating policies and procedures are sufficient and are used effectively and consistently.
- Ensure that the management of the business effectively identifies and minimise the risk in respect of tangible assets
- Ensure that the staffs consistently adhere to the internal control policies and procedures concerning tangible assets.
- Ensure efficient usage of tangible assets and that tangible asset is used to the benefit of the business.
- Overcome any shortcomings in the internal controls or policies

### **INTERNAL CONTROL**

The policies and procedures in respect of control over tangible assets may include the following:

- Division of duties
- Proper Authorisation
- Adequate and reliable documentation and records must be maintained
- Physical control of stock

### **ETHICAL ISSUES RELATING TO FIXED ASSETS**

The following are the examples of the unethical behaviour/s that the employees may engage in if the internal and audit control measures are not adequate in a business.

- Receiving kickbacks, gifts and gratuities during the procurement process
- Engaging with persons, family or businesses where the employee has a direct or indirect interest.
- Misuse of tangible assets of the business
- Unauthorised personal use of tangible assets for personal gain
- Theft of tangible assets

### **ACTIVITY D4**

Study the following cases and answer questions that follow:

#### **Case 1**

At an Annual General Meeting, a shareholder, P. Khumalo felt that the directors were manipulating the financial statements of the company by understating the value of the tangible assets. He felt that the Land and buildings should be reflected at its current market value instead of the cost price. If you are the accountant of business, how will you respond to K. Khumalo.

**Case 2**

The business policy stipulates that all business vehicles be parked and locked on the business premises over the weekends. The owner conducted a check and discovered that a particular vehicle was missing. He established that one of the drivers was using the vehicle without permission for private purposes during the weekend. How can you handle this as an internal auditor? What control measures can you put in place?

**Case 3**

The secretary frequently receives expensive gifts from a computer company (Hi-Tech). He buys all the businesses computer software and equipment for this company. As an internal auditor, how can you, handle this and control measure can you put in place.

**Case 4**

You have been recently been appointed as the accountant of the company on 1 June 2015. As a registered member of SAICA you subscribe to its professional code of conduct and ethics. When preparing the financial statements on 30 June 2015, the managing director approaches you and expresses his concern about the low profits for the current financial year. He requests that you affect the following change to financial statements:

The method of calculating depreciation on motor vehicles must be changed from the cost price method to the book value method.

- What effect will the change in the method of calculating depreciation have on the net profit of the company?
- What will your response to the managing director be about changing the method of calculating the depreciation? Explain fully
- What do you think will be the reaction of the shareholders if they are made aware of the requests made by the managing director to you?

**ANSWER:****CASE 1****CASE 2****CASE 3****CASE 4**

## E. STOCK VALUATION – INVENTORY

A business can decide which of the following two inventory systems to use to record and control their inventory:

| SYSTEM           | IMPORTANT POINTS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Perpetual</b> | <ul style="list-style-type: none"><li>a) Entries are made in a Balance Sheet account called trading stock (an asset account) every time goods are bought and sold.</li><li>b) Cost of sales needs to be calculated and recorded every time goods are sold.</li><li>c) When stock is purchased the trading stock account is debited with the cost price (the asset is increasing).</li><li>d) When stock is sold the trading stock account is credited with the cost price (the asset is decreasing).</li><li>e) Any additional costs when purchasing stock are debited to the trading stock account (e.g. carriage on purchases).</li><li>f) This system is better for the internal control of inventory</li></ul>                                                                                                                                                                                                                           |
| <b>Periodic</b>  | <ul style="list-style-type: none"><li>a) Businesses would decide to use this system when it is not always feasible to calculate cost of sales every time goods are sold.</li><li>b) Stock purchases are recorded in a nominal account called purchases (an expense account).</li><li>c) Additional expenses when purchasing stock (e.g. carriage on purchases) are recorded separately in a nominal account called carriage on purchases (an expenses account).</li><li>d) Cost of sales is therefore only calculated periodically by using the formula:<br/><math display="block">\text{Opening stock} + \text{purchases} + \text{carriage on purchases} + \text{import duties} + \text{customs duties} - \text{closing stock} = \text{cost of sales}.</math></li><li>e) Inventories (trading stock) are goods that are bought in order to be resold at a profit.</li><li>f) Stock is always recorded in the books at cost price.</li></ul> |

A business can decide which of the following two stock valuation methods to use in order to value its inventory:

| Method                  | IMPORTANT POINTS                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>FIFO</b>             | a) FIFO stands for First In First Out.<br>b) Businesses that sell goods which have a limited shelf life (e.g. milk or cell phones) often prefer to use this system.<br>c) This means that the oldest stock is sold first and that the stock left at the end will always be the most recently bought stock.<br>d) Under this method the stock on hand will be valued at the most recent prices |
| <b>Weighted average</b> | a) Under this system the value of the stock on hand is not calculated on the most recent prices because all prices on stock purchased are averaged.<br>b) Weighted average is calculated by dividing the total cost of stock purchased by the total number of units purchased.<br>c) Under this method the stock on hand will not be valued at the most recent prices.                        |

### ACTIVITY E1 (Specific identification method)

Thabiso Mpanza runs a used car dealership known as Thabs Motor Cars. During the year he purchased 65 cars at various auction sales. He uses the specific identification inventory valuation system.

#### REQUIRED TO DO:

##### 1.1 Calculate the followings:

1.1.1 Sales amount

1.1.2 Value of closing stock

1.1.3 Cost of sales amount

**1.2 A Toyota corolla 16 v was sold to customer, Ziyanda Mzombe, for R28 000. After a month of usage, she complained that the vehicle had a serious oil leak and there were ignition problems. She accused Thabiso of selling an “unroadworthy” vehicle. How do you think Thabiso should deal with this customer?**

#### INFORMATION

| Purchases             | Cost per unit | Sales per unit                         |
|-----------------------|---------------|----------------------------------------|
| 08 Chevrolet Optra LS | R80 000       | 5 cars @ R96 000                       |
| 50 Toyota Corolla 16v | R20 000       | 20 cars @ R24 000<br>17 cars @ R28 000 |
| 07 VW Golf sedan      | R33 000       | 5 cars @ R39 600                       |

|                                          |
|------------------------------------------|
| 1.1.1 Sales amount                       |
| 1.1.2 Value of Closing stock             |
| 1.1.3 Calculate cost of sales            |
| 1.2 Complaint by customer Ziyanda Mzombe |

**ACTIVITY E2****INVENTORY VALUATION: SMART UNIFORMS**

You are provided with information relating to Smart Uniforms for June 2014. The business is owned by Harry Mavuso. They buy and sell school blazers. The business uses the weighted-average method for stock valuation and the periodic inventory system.

**REQUIRED:**

- 2.1 Calculate the total amount paid for carriage on the purchases on 11 June 2014. (4)
- 2.2 Calculate the value of the closing stock on 30 June 2014 using the weighted-average method. (8)
- 2.3 Harry is considering a change in the method of valuing stock. The value of closing stock using the FIFO method will be R20 850 higher than the value using the weighted-average method.  
Explain the effect that this will have on the gross profit. (2)  
Give ONE valid reason for and ONE valid reason against changing the stock valuation method. (4)
- 2.4 Harry is concerned about the control of his stock of blazers. He has sold 2 900 blazers during the year.  
Give a calculation to support his concern. (4)

**INFORMATION:****A. Inventory balances:**

| Date         | No. of units | Price per unit | Total cost |
|--------------|--------------|----------------|------------|
| 1 June 2014  | 410          | R190           | R77 900    |
| 30 June 2014 | 580          | ?              | ?          |

**B. Purchases during the month:**

| Date                           | No. of units | Price per unit | Carriage on purchases | Total cost |
|--------------------------------|--------------|----------------|-----------------------|------------|
| 11 June 2014                   | 1 600        | R215           | ?                     | R352 600   |
| 18 June 2014                   | 1 210        | R240           | Nil                   | R290 400   |
| 26 June 2014                   | 470          | R265           | R3 300                | R127 850   |
| Total purchases                | 3 280        |                |                       | R770 850   |
| Returns from 18 June purchases | 5            |                |                       | R1 200     |

**ACTIVITY E3**

Perkin Stores sells LCD flat screen television sets to the public. Their financial year ends on 29 February 2014. The cost price of the product they sell has changed significantly due to newer, later models being introduced into the market. Barry Perkin, the owner, feels comfortable selling the same old model.

**INSTRUCTIONS:**

1. Perkin Stores uses the weighted average method to value their stock. Calculate the closing stock balance, using the above method.
2. Calculate the gross profit on TV sets sold for the year based on the weighted average method.
3. Perkin is considering a change to the FIFO method to value his stock. Calculate the gross profit using this method.
4. In your opinion, which is the more appropriate method to use? Explain a reason for your answer.
5. Although Perkin is contended to sell the same brand TV sets, he did notice the significant difference between the number of units he had at the beginning of the year, and his closing balance. Explain why he should be concerned about this trend, and provide TWO suggestions on how he can remedy this situation.

**INFORMATION:**

The following information appeared in the records of Perkin Stores for the year ended 29 February 2014:

The selling price per TV is fixed at R9 500.

| STOCK RECORDS                      | NUMBER<br>OF UNITS | UNIT PRICE | TOTAL VALUE |
|------------------------------------|--------------------|------------|-------------|
| Opening balance (1 March 2013)     | 80                 | 5 950      | 476 000     |
| Purchases during the year          | 850                |            | 4 265 400   |
| May 2013                           | 300                | 5 550      | 1 665 000   |
| August 2013                        | 320                | 4 820      | 1 542 400   |
| January 2014                       | 230                | 4 600      | 1 058 000   |
| Total available for sale           | 930                |            | 4 741 400   |
| Sales of TV sets                   | 510                | 9 500      | 4 845 000   |
| Closing balance (29 February 2014) | 418                | ?          | ?           |

\*Two TV sets from the most recent purchases, were damaged in the process of setting up a display unit.

## F. RECONCILIATIONS

In accounting context; reconciliation means to make two sets of amounts correspond with each other (i.e. make them equal to each other) by explaining why the two sets of amounts differ.

The purpose of reconciliation is to verify the errors and differences to confirm the accuracy of all transactions recorded.

There are three types of Reconciliation. These are Bank, Debtors and Creditors.

| Bank reconciliation                                                                                                                                                                                       | Debtors' reconciliation                                                                                                                                   | Creditors' reconciliation                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The balance in the bank account in the business's general ledger should be the same as the balance on the bank statement received from the bank. When these are not the same, they need to be reconciled. | The balance of the debtors' control account should be the same as the total of the debtors list. When these are not the same, they need to be reconciled. | The balance of the creditors' control account should be the same as the total of the creditors' list. The statements received from the creditors must match each creditors balance in the business's books. When these are not the same, they must be reconciled. |

## CREDITORS

### ACTIVITY F1

The information below was extracted from the records of Siwendu Traders for August 2014:

The creditors ledger account of Kay Lee Suppliers (a creditor) and the Statement of Account received from Kay Lee Suppliers are reproduced.

Siwendu Traders receives a 5% trade discount on all purchases above R3 000.

### INSTRUCTIONS:

Calculate the correct balance for Kay Lee Suppliers in the Creditors Ledger. Show all workings.

**Prepare the Creditors Reconciliation on 31 August 2014.**

### INFORMATION:

**A. When comparing the Creditors Ledger account against the statement received, the following were noted:**

1. The statement did not take into account the 5% trade discount on goods purchased on 8<sup>th</sup>.
2. The discount for early settlement of account on the 15<sup>th</sup> was also omitted on the statement.
3. The statement reflected the correct amount for the purchases of stock on the 20<sup>th</sup>.
4. The entry on the 22<sup>nd</sup> was for goods purchased from Khaya Stores, and not from Kay Lee Stores.
5. Debit Note for returns to Kay Lee Stores, R370, was posted to the wrong side of the ledger account.
6. The credit note on the 22<sup>nd</sup> is an error on the statement.

**B. The creditors' ledger account of Kay Lee Suppliers in the books of Siwendu Traders.**

### CREDITORS LEDGER OF SIWENDU TRADERS

| KAY LEE SUPPLIERS (CL6) |    |                   |     |       |        |         |
|-------------------------|----|-------------------|-----|-------|--------|---------|
| 2014                    |    |                   |     | DEBIT | CREDIT | BALANCE |
|                         | 1  | Balance           | b/d |       |        | 32 600  |
|                         | 8  | Invoice X12       | CJ  |       | 8 664  | 41 264  |
|                         | 15 | Cheque 887        | CPJ | 8 000 |        | 33 264  |
|                         |    | Discount Received | CPJ | 800   |        | 32 464  |
|                         | 20 | Invoice X56       | CJ  |       | 2 280  | 34 744  |
|                         | 22 | Invoice 776       | CJ  |       | 1 690  | 36 434  |
|                         | 27 | Debit Note 90     | CAJ |       | 370    | 36 804  |
|                         |    |                   |     |       |        |         |

C. The following statement of account was received from Kay Lee Suppliers.

| STATEMENT OF ACCOUNT                                                                                    |    |                                               |                                             |  |
|---------------------------------------------------------------------------------------------------------|----|-----------------------------------------------|---------------------------------------------|--|
| ACCOUNT OF: <b>SIWENDU TRADERS</b>                                                                      |    |                                               | Kay Lee Suppliers 56 City Road<br>Spinglake |  |
|                                                                                                         |    |                                               | 25 August 2014                              |  |
| 2014<br>August                                                                                          | 1  | Balance                                       | 37 600                                      |  |
|                                                                                                         |    | Payment – cheque 798 (received on 29/07/2012) | (5 000)                                     |  |
|                                                                                                         | 8  | Purchases – Invoice X12                       | 9 120                                       |  |
|                                                                                                         | 15 | Payment received cheque 887                   | (8 000)                                     |  |
|                                                                                                         | 20 | Purchases – Invoice X56                       | 2 880                                       |  |
|                                                                                                         | 22 | Credit Note 47 – goods returned               | (606)                                       |  |
|                                                                                                         |    | Closing Balance                               | <b>35 994</b>                               |  |
| This statement includes all transactions up to and including the 25 <sup>th</sup> of the current month. |    |                                               |                                             |  |

## ACTIVITY F2

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.

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.

## INFORMATION:

The following balances are provided:

|                                                                                          |          |        |
|------------------------------------------------------------------------------------------|----------|--------|
| In the account of Valley Ltd in the Creditors' Ledger of KZ Stores on 30 September 2014: | R112 820 | Credit |
| On the statement received from Valley Ltd on 25 September 2014:                          | R182 150 | Debit  |

The following errors and omissions were discovered during an investigation:

- A payment by KZ Stores of R9 000 was omitted from the Creditors' Ledger and the statement.
- An invoice for goods bought for R87 500 was reflected on the statement from Valley Ltd but was not recorded by KZ Stores.
- An invoice for R28 000 received from Valley Ltd was recorded correctly by KZ Stores. The statement of account reflects it as R20 800.
- 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.
- 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 2014 statement.
- A debit note for R2 100 issued to Value CC was incorrectly recorded in the account of Valley Ltd by KZ Stores.
- A credit note for R5 250 received from Valley Ltd for goods returned was incorrectly recorded as an invoice by KZ Stores.
- Goods purchased from Valley Ltd on 30 September 2014 for R4 600 were recorded by KZ Stores. The statement from Valley Ltd is dated 25 September 2014.

**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.

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

2.1

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       |                                |                                               |
|         |                                |                                               |

2.3.1

2.3.2

**ACTIVITY F3**

Mdluli Traders has requested you to assist their inexperienced bookkeeper to prepare the reconciliations of creditors for presentation to the management.

**REQUIRED:**

- 3.1. Prepare the account of Xavier Suppliers in the Creditors' Ledger of Mdluli Traders. Correct errors and omissions by starting with the balance provided in the answer book.
- 3.2. Prepare the Creditors Reconciliation Statement for June 2015

**INFORMATION**

| <b>XAVIER SUPPLIERS</b><br>765 4 <sup>th</sup> Street<br>Ormonde<br>2016<br><b>STATEMENT OF ACCOUNT</b> |                             |         |
|---------------------------------------------------------------------------------------------------------|-----------------------------|---------|
| <b>Mdluli Traders</b><br><b>P.O Box 5280</b><br><b>Robertsham</b>                                       |                             |         |
| Date                                                                                                    | Details / Doc no            | Amount  |
| June 1                                                                                                  | Balance                     | 27 936  |
| 7                                                                                                       | Invoice 215                 | 8 200   |
| 9                                                                                                       | Credit note 120             | - 652   |
| 14                                                                                                      | Receipt 371                 | -18 230 |
| 23                                                                                                      | Invoice 420                 | 5 750   |
| 27                                                                                                      | Invoice 625                 | 7 853   |
| 29                                                                                                      | Interest on overdue account | 48      |
|                                                                                                         |                             | 30 905  |
| <b>Terms – 10% discount if paid within 14 days</b>                                                      |                             |         |

**CREDITORS' LEDGER OF MDLULI TRADERS – JUNE 2015****XAVIER SUPPLIERS**

| Date   | Details           | Fol | Debit  | Credit | Balance |
|--------|-------------------|-----|--------|--------|---------|
| June 1 | Balance           |     |        |        | 27 936  |
| 7      | Invoice 215       | CJ  |        | 9 446  | 37 382  |
| 9      | Credit note 120   | CAJ |        | 652    | 38 034  |
| 14     | Cheque 269        | CPJ | 18 230 |        | 19804   |
|        | Discount received | CPJ | 2 026  |        | 17 778  |
| 17     | Invoice 348       | CJ  |        | 5 544  | 23 322  |
| 23     | Invoice 420       | CJ  |        | 5 750  | 29 072  |
| 27     | Invoice 625       | CJ  |        | 7 853  | 36 925  |
| 30     | Invoice 645       | CJ  |        | 6 240  | 43 165  |

**Errors and omissions**

The statement of Xavier Suppliers was compared with the Creditors Ledger of Mdluli Traders and the following errors were revealed:

- Invoice 215 for goods bought on the 7<sup>th</sup> of June were incorrectly recorded as R9 446 in the Creditors' Ledger.
- Credit note 120 from Xavier Suppliers has been recorded as purchases in the records of Mdluli Traders.
  - Mdluli Traders received a 10% discount on the payment made on the 14<sup>th</sup> of June. Xavier Suppliers omitted the discount, but later agreed to subtract the amount from the account.
- Invoice 348 dated the 17<sup>th</sup> of June was wrongly credited against the ledger of Xavier Suppliers. The goods were bought from Shukuma Wholesalers.

## ANSWER

## CREDITORS' LEDGER ACCOUNT: XAVIER SUPPLIERS – JUNE 2015

| Date    | Details           | Fol | Debit | Credit | Balance |
|---------|-------------------|-----|-------|--------|---------|
| June 30 | Incorrect balance |     |       |        | 43 165  |
|         |                   |     |       |        |         |
|         |                   |     |       |        |         |
|         |                   |     |       |        |         |
|         |                   |     |       |        |         |
|         |                   |     |       |        |         |

## CREDITORS RECONCILIATION STATEMENT– JUNE 2015

|                                    |        |
|------------------------------------|--------|
| Balance as per creditors statement | 30 905 |
|                                    |        |
|                                    |        |
|                                    |        |
|                                    |        |

**DEBTORS****ACTIVITY F4**

You are provided with the Debtors Control Account, as it appeared in the books of JP Stores, together with the posting errors and omissions noted.

**INSTRUCTIONS:**

4.1 Draw up a corrected Debtors Ledger account. *Adjust the appropriate journal totals with the corrections, and show the changes in brackets, to receive part marks.*

4.2 The credit controller realised that debtors' allowance is high. What can the business do to reduce this balance? (Two points)

4.3 Debtor B. Brom was charged interest on his overdue account of R 3 450 at 12% p.a, for three months. He argued that this penalty was unfair because his most recent purchase of R1 250 was made in this month. Explain why you agree with him.

4.4 The business uses the invoice method to determine its VAT liability.

Briefly describe this method. Due to the cash flow problems experienced by the business, the owner decided to inflate the VAT Input amount on the VAT return form by R7 500.

What implications would this have on the business and the owner?

**INFORMATION:**

GENERAL LEDGER OF JP STORES  
BALANCE SHEET SECTION  
DEBTORS CONTROL (B6)

|             |    |                 |    |        |             |    |                  |     |        |
|-------------|----|-----------------|----|--------|-------------|----|------------------|-----|--------|
| 2014<br>May | 1  | Balance         |    | 21 670 | 2014<br>May | 31 | Bank             |     | 12 530 |
|             | 31 | Sundry Accounts | DJ | 13 326 |             |    | Discount Allowed |     | 470    |
|             |    | Bank            |    | 483    |             |    | Sundry Accounts  | DAJ | 2 736  |
|             |    | Sundry Debits   | GJ | 537    |             |    | Sundry Credits   | GJ  | 700    |
|             |    |                 |    |        |             |    |                  |     |        |

**ADDITIONAL INFORMATION:**

*Note that all amounts in the ledger includes VAT (unless otherwise indicated).*

- On 31 May, a cheque for R513 was received from the bank, marked "R/D-insufficient funds". This cheque was received from a debtor, V. Stik, in settlement of his account, after receiving a 10% discount. This transaction was not recorded.
- A credit note for R114 (inclusive of VAT) was recorded in the journal as R141.
- The debtors' journal was overcast by R330.
- Goods returned by a debtor, R250 (excluding VAT) was not recorded.
- A debtor, whose account was written off as a bad debt, paid R500 of what he owed.
- The account of V. Stik (No. 1 above), must be written off as irrecoverable.

**ACTIVITY F5**

You are provided with information relating to Ace Traders for September 2014.

**REQUIRED:**

- 5.1 Calculate the correct bank balance of Ace Traders on 30 September 2014, using figures that should be entered in the Cash Journals. Show ALL workings
- 5.2 Use the information below to prepare the Bank Reconciliation Statement of Ace Traders on 30 September 2014
- 5.3 Refer to the outstanding deposit of R43 000, dated 11 September 2014. Why should the internal auditor be concerned? State points.

**INFORMATION ON 30 SEPTEMBER 2014:**

1. Balances prior to doing the bank reconciliation:
  - Balance of the Bank Account in the Ledger on 30 September 2014 R60 000 Favourable
  - Balance per Bank Statement on 30 September 2014 R17 600 Favourable
  - Difference R42 400
2. Individual differences noticed between the books of Ace Traders and the Bank Statement for September 2014:
  - Cheque No. 657, dated 2 March 2014, still not reflected in Bank Statement R2 000
  - Deposit, dated 11 September 2014, not reflected in Bank Statement R43 000
  - Dishonoured cheque, originally received from a debtor on 15 September 2014, reflected in Bank Statement but not in Journals R9 500
  - Cheque No. 931, dated 18 September 2014, not reflected in Bank Statement R4 800
  - Cheque No. 936, dated 30 October 2014, not reflected in Bank Statement R10 200
  - Deposit, dated 28 September 2014, not reflected in Bank Statement R5 700
  - Bank charges in Bank Statement, but not in Journals R1 200

**5.1 Calculate the correct bank balance of Ace traders on 30 September 2014**

|                                                |        |
|------------------------------------------------|--------|
| Balance prior to doing the bank reconciliation | 60 000 |
|------------------------------------------------|--------|

**5.2 Bank Reconciliation Statement of Ace Traders on 30 September 2014**

|     |  |
|-----|--|
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
| 5.3 |  |

Norman Ngwenya is the owner of Modern Clothes (Pty) Ltd, a company which manufactures and sells clothes. Norman wants to expand as a business and supply clothes to the retailers around Gauteng and he is meeting the potential investor at the end of May. The owner is not happy with the increased outstanding deposit reflected in the bank reconciliation statement for April 2015. Norman approached Phillip Moloi, his friend who works as an external auditor in one of the auditing firms. The auditor has been requested to verify the bank reconciliation statement prepared by the accountant for presentation to the management.

**REQUIRED:**

Refer to the Bank Reconciliation Statement of April and additional information in responding to the following questions directed to the internal auditor for presentation:

1. (a) Re-calculate the bank balance on 30 April 2015.  
(b) Is the bank balance favorable or unfavorable? Briefly explain.
2. Cheque no. 380 is stale. It was issued to Diepkloof Children's home as a donation. Norman Ngwenya, the owner, tried to contact the organisation but it doesn't seem to exist.  
(a) In your opinion, what internal control measures should be put in place to avoid such situations in future? Provide two points.  
(b) State the double entry to record the stale cheque.
- 3 (a) Explain cheque no 826, dated 22 May.
- 4 Explain why the deposits on 26<sup>th</sup> and 29<sup>th</sup> April were not reflected in the bank statement.
- 5 (a) The amount of R13 200 deposited on the 19<sup>th</sup> of April does not reflect in the Bank Statement. Give **ONE** possible reason for this.  
(b) What action must the internal auditor take? Provide **TWO** points.  
(c) What control measures must be put in place by the management to ensure that cheques and cash deposits are safe? Provide **TWO** points.

**INFORMATION:**

A. You are provided with Bank reconciliation Statement of Modern Clothes (Pty) Ltd

| Bank Reconciliation Statement of Modern Clothes (Pty) Ltd on 30 April 2015. |                   |                   |        |
|-----------------------------------------------------------------------------|-------------------|-------------------|--------|
|                                                                             |                   |                   | R      |
| Credit balance as per Bank Statement                                        |                   |                   | 18 792 |
| Outstanding deposits                                                        |                   |                   | 30 720 |
| Outstanding cheques:                                                        |                   |                   |        |
|                                                                             | <b>Date</b>       | <b>Cheque no.</b> |        |
|                                                                             | 12 September 2014 | 380               | 840    |
|                                                                             | 21 April 2015     | 737               | 1 500  |
|                                                                             | 28 April 2015     | 784               | 2 274  |
|                                                                             | 22 May 2015       | 826               | 2 340  |
| Credit the amount wrongly debited on the Bank Statement                     |                   |                   | 2 700  |
| ...?.... balance as per bank Account                                        |                   |                   | ?      |

**B. Additional information**

**Note:** The Bank Statement was issued by Umzansi Bank on 25 April 2014. The following amounts were received on the following dates in the Cash Receipts Journal

| Date          | Amount  |
|---------------|---------|
| 19 April 2014 | R13 200 |
| 26 April 2014 | R5 400  |
| 29 April 2014 | R12 120 |
|               | R30 720 |

## ACTIVITY F7

### BANK RECONCILIATION AND INTERNAL CONTROL

You are the internal auditor of Jozi Designers. You discovered an error in the Cash Payments Journal for February 2015. The records were prepared by the new bookkeeper, Benny Kgosimang. The interest on overdraft has been added to the Bank charges.

The Cash Payments Journal also reflects three cheques dishonoured by the bank in February, due to insufficient funds.

### REQUIRED

**Prepare a presentation for management that will include advice on the correct procedure for handling the transactions identified.**

- (a) Explain the correct disclosure for interest and bank charges. Motivate your answer.
- (b) Which GAAP principle is applicable?
- (c) Provide advice on any suitable method that can be implemented to reduce the incident of dishonoured cheques.

## G. MANUFACTURING

### ACTIVITY G1

Study the given information of Vincent Manufacturers (VTBM). The business manufactures and sells high quality tennis accessories to tennis clubs and to schools.

### INFORMATION

The owner, Vincent, experienced a slump during the summer months and is contemplating to close down the section of the manufacturing process of tennis balls due to the low stock turnover and rather to import tennis balls in the future.

During the tennis season extra effort was done by the selling and distribution staff to promote and to advertise the brand of tennis balls manufactured. Advertising was done at every club and during tennis tournaments. Incentives and prizes were used as promotions to advertise the Vincent 's tennis balls

Vincent received orders from 12 new tennis clubs to supply 5 000 tennis balls per month. More orders are expected from schools and from the existing clients.

As the accountant of VTBM, Vincent requested you to investigate and complete the relevant statements. The break-even point for the past two months, July and August has to be completed as well. The outcome thereof is imperative for Vincent to know before decisions are finalised.

### REQUIRED

**Study the information given above and complete the following:**

1. Complete the incomplete Production Cost Statement for the month of July and complete the Production Statement of August from the given information for August 2015.
2. Draw up the note on Direct Raw Material Cost for the month of August 2015.
3. Calculate the unit cost of each tennis ball in August 2015.
4. Calculate the break-even point in August 2015.
5. Vincent, the owner of VTBM, feels positive about the orders that came in after the advertising campaign and the number of stock sold that increased from July to August 2015. Vincent wants to purchase a delivery van to be able to handle the increase of orders. He requested you to investigate to see if the buying of a delivery van is liable for the business.. Take into account the calculated break-even point

**Make use of the information and use figures (financial indicators) to substantiate your answer.**

- 6 Name FOUR items that could possibly be included in factory overheads costs.
- 7 On investigation, Vincent has discovered that the sales figure for the month of August 2015, R44 500, was actually R3 000 less than what was expected considering that 5 000 tennis balls were manufactured.
  - 7.1 Give ONE possible reason for the discrepancy between the numbers sold.
  - 7.2 Discuss ONE measure that the owner could take to prevent this situation in the future.
8. Vincent plans to substitute the material with an inexpensive material. The use of this inexpensive material will decrease his production cost by at least 25%. He does not plan to inform his clients or to reduce his selling price.  
**Comment on his plans with specific reference to:**
  - 8.1 The ethics of his decision.
  - 8.2 The possible influence of his decisions on the profitability of the business.

#### ADDITIONAL INFORMATION

1. Vincent's tennis balls has a nil balance for the work-in-progress account at the beginning and at the end of the month.
2. For the sake of calculations, all the stock manufactured are all sold during the month to different tennis clubs.

#### Stock of raw materials on hand

| Date           | Amount |
|----------------|--------|
| 1 August 2015  | 1 150  |
| 31 August 2015 | 1 300  |

#### Raw material bought during the month of August 2015

| Transaction                       | Amount |
|-----------------------------------|--------|
| For cash                          | 4 250  |
| On credit                         | 7 915  |
| Transport cost on stock purchased | 485    |

3. All the stock manufactured is also sold in the same month.

|                                             | July        | August      |
|---------------------------------------------|-------------|-------------|
| Total number of units manufactured and sold | 4 000 units | 5 000 units |

4. Direct labour cost has increased from July to August.

|                             | July           | August         |
|-----------------------------|----------------|----------------|
| Direct labour cost per unit | R1,40 per unit | R1,50 per unit |
|                             |                |                |

5. The Fixed cost is the following

|                       | July  | August |
|-----------------------|-------|--------|
| Factory overhead cost | 5 800 | 8 000  |
| Administration cost   | 2 600 | 5 000  |

6. The variable cost, selling and distribution cost of the manufacturing has been well maintained due to the fact that transport cost was not the cost of the VTBM but that of the outlets. The sales personnel received R0, 50 per unit sold.

|                               | July              | August            |
|-------------------------------|-------------------|-------------------|
| Prime cost                    | R3,80 per unit    | R4 per unit       |
| Selling and distribution cost | 50c per unit sold | 50c per unit sold |
| Selling price                 | R8 per unit       | R9,50 per unit    |

7 You are provided with the incomplete

**Production Cost Statement for the month of July and August 2015**

|                                      | July   | August |
|--------------------------------------|--------|--------|
| Direct materials costs               | 9 600  | *      |
| Direct labour costs                  |        | *      |
| Prime costs                          | *      | *      |
| Factory overheads                    | *      | 8 000  |
| Total manufacturing cost             | 20 000 | *      |
| Work in process at the beginning     | 0      | 0      |
| Work in process at the end           | 0      | 0      |
| Cost of production of finished goods | *      | *      |

**1. PRODUCTION COST STATEMENT FOR THE MONTHS JULY AND AUGUST 2015**

|                                           | July | August |
|-------------------------------------------|------|--------|
| Direct material costs                     | 9600 |        |
| Direct labour costs (1.5 x 10 000)        | 5600 |        |
| Prime costs                               |      |        |
| Factory overhead costs                    |      | 8000   |
| Total manufacturing cost                  | 2000 |        |
| Work in process at the beginning of month | 0    | 0      |
| Work in process at the end of the month   | 0    | 0      |
| Cost of production of finished goods      |      |        |

**2. Notes to the Financial Statements**

|                             |  |
|-----------------------------|--|
| <b>Direct Material Cost</b> |  |
| Opening stock               |  |
|                             |  |
|                             |  |
|                             |  |
|                             |  |
| <b>Direct material cost</b> |  |
| <b>3.</b>                   |  |

|    |     |
|----|-----|
| 4. |     |
| 5. |     |
| 6. |     |
| 7  | 7.1 |
|    | 7.2 |
| 8. | (a) |
|    | (b) |

## H. VAT (Value added Tax)

Definition: VAT is the tax charged on goods and a service supplied and is charged at the current rate (standard rate) of 14%. VAT is an important of the income generated by the government to cover government expenditure.

### Who has to register as a VAT vendor

A person or business that supplies goods and services with a turnover of more than R1- million must register as a vendor (trader), this is compulsory registration whereas a business with a turnover less than R1- million can register if they want to, this is a voluntary registration.

The benefits of registering as a VAT vendor

The business is able to claim back the amount on VAT paid on goods and services bought (VAT input)

### Types of VAT

VAT input: is the VAT paid by a business on the purchases of goods and services (which can be claimed back from SARS)

VAT output: Is the VAT collected by the business on the sale of all goods and services (which needs to be paid over to SARS)

Items on which VAT is not charged

Zero- rated items: they are charged at 0% VAT, but this can be changed by the government (Finance minister) at any time. Examples are fresh fruit and vegetables, brown bread, maize, milk, rice and cooking oil.

VAT- exempt items: Items on which no VAT is charged. Examples are interest rate, export services, educational services and childcare services)

### VAT calculation

VAT output – VAT input = amount payable to SARS (*when amount in VAT output is bigger than amount in VAT input*)

When VAT input is bigger than VAT output = amount receivable from SARS

VAT inclusive: When VAT is included in an amount, the calculation will be the **amount X 14/114**

VAT exclusive: When VAT is excluded in an amount, the calculation will be the **amount X14/100**

## ACTIVITY H1

### VALUE-ADDED TAX

You are provided with information relating to Amy's Clothing Store. All goods are subject to 14% VAT. The business is owned by Amy Andrews.

#### REQUIRED:

1.1 Calculate the amount owed to SARS for VAT.

1.2 Amy has not yet submitted the VAT return.

John Smith is the internal auditor. He has a CA qualification. He has noticed that an invoice for purchases from KZN Wholesalers amounting to R200 000 has been signed by Amy and recorded by the bookkeeper. On investigation he discovers that KZN Wholesalers does not exist.

What should John Smith do about this? Explain.

**INFORMATION:**

|   |                                      | VAT EXCLUSIVE | VAT     | VAT INCLUSIVE |
|---|--------------------------------------|---------------|---------|---------------|
| 1 | Invoices received from suppliers     | R500 000      | R70 000 | R570 000      |
| 2 | Invoices issued to customers         | R820 000      | ?       | R934 800      |
| 3 | Credit notes issued to customers     | R60 000       | ?       | ?             |
| 4 | Credit notes received from suppliers | R40 000       | R5 600  | R45 600       |
| 5 | Goods taken by Amy for personal use  | ?             | ?       | R14 250       |
| 6 | Bad debts written off                | R15 000       | R2 100  | R17 100       |

**ANSWER**

1.1 Calculate the amount owed to SARS for VAT

1.2 What should John Smith do about this? Explain.

|                         |                       |
|-------------------------|-----------------------|
| Financial Accounting    | Management Accounting |
| ⇒ Financial Statements  | ⇒ Budgets             |
| ⇒ Past events           | ⇒ Future Orientated   |
| ⇒ Objective –           | ⇒ Subjective          |
| ⇒ GAAP                  |                       |
| ⇒ External and Internal | ⇒ Internal use        |

### Cash Budget and Projected Income Statement

#### Reasons for Budgeting: Financial Planning

- ✓ Funders require a budget statement in addition to a business plan, particularly a new business starter
- ✓ Helps in planning for the future and managing of funds.
- ✓ Gives the confidence that the business will make a profit (in some cases)
- ✓ Identifies problems before they occur (such as the need for finance, etc)
- ✓ Improves decision making and meeting of objectives.
- ✓ Increases staff motivation, as they have to meet targets
- ✓ Monitors performance (are you capable of meeting targets - recognized from previous budgets)
- ✓ Predict needs for extra funds. - Can identify cash shortfalls so that an overdraft can be arranged.

It becomes possible to forecast movement of cash by identifying:



- ✓ With this information the business will be able to pay debts on time, take advantage of cash discounts and to recover debts from debtors on time.
- ✓ The planned future cash movements – how much and when - are therefore anticipated, and managers can see the cash effects of their plans.

| Basis of Cash Budget                                                                                                                                                                                                            | Basis of Projected of Income Statement                                                                                                              |  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|--|
| Cash transactions only – no adjustments of accruals                                                                                                                                                                             | Projected Income / Expenses                                                                                                                         |  |
| <ul style="list-style-type: none"> <li>• Cash Receipts for period</li> <li>• Cash Payments for period</li> <li>• Cash increase / (decrease) for period</li> <li>• Beginning Cash Balance</li> <li>• End Cash balance</li> </ul> | <ul style="list-style-type: none"> <li>• Income for the period</li> <li>• Expenses for the period</li> <li>• Projected income / expenses</li> </ul> |  |

#### ACTIVITY J1

#### BUDGETING AND CORPORATE GOVERNANCE

(30 minutes)

##### 1.1 PRESENTATION OF A CASH BUDGET

You are the accountant of Limpopo Traders and you have prepared the cash budget for the three months ending 31 March 2015, to present to the owner, Thabo Mkhize.

#### REQUIRED:

- 1.1.1 What is the main purpose of preparing a Cash Budget?

- Downloaded from eduresourceza.com
- 1.1.2 At the end of October 2014 you identified the following figures. Explain what you would mention to Thabo about each of the following items at the end of October:

|                         | October 2014 |         |
|-------------------------|--------------|---------|
|                         | Budgeted     | Actual  |
| Repairs and maintenance | R23 000      | R18 000 |
| Telephone               | R15 000      | R24 000 |
| Rent income             | R72 000      | R22 000 |
| Advertising             | R25 000      | R25 000 |

- 1.1.3 Calculate the total sales that may be expected in February 2015.
- 1.1.4 Prepare a Debtors Collection Schedule for the period ending 31 March 2015 to check the figures in the Cash Budget.
- 1.1.5 Thabo is of the opinion that it would be a good idea to start selling on credit, but his shop manager disagrees. Give ONE point from the question to support Thabo's opinion, and ONE point against his opinion. Give figures to support your points.
- 1.1.6 Refer to the complete Cash Budget for the three months ending 31 March 2015 (see below). Thabo cannot understand what the budget reflects and he asks you to highlight the important aspects.  
Explain THREE points other than those mentioned in QUESTIONS 1.1.2 to 1.1.5 above. Give figures/ratios/percentages) from the question to support your explanations.

**INFORMATION:**

- Credit sales:** Thabo decides to start selling on credit from 1 February 2015. Credit sales are expected to comprise 80% of all sales. The business uses a mark-up of 50% on cost at all times. Debtors are expected to pay as follows:  
10% pay in the same month as the credit sales transaction  
55% pay in the month following the credit sales transaction month  
28% pay in the second month following the credit sales transaction month  
7% is expected to be irrecoverable (bad debts)
- Mortgage loan:** Thabo decides to take out a mortgage loan on the property which the business bought for cash many years ago. Interest of 15% p.a. is capitalised.

**CASH BUDGET FOR THREE MONTHS ENDING 31 MARCH 2015**

|                                                | 2015<br>JANUARY | 2015<br>FEBRUARY | 2015<br>MARCH    |
|------------------------------------------------|-----------------|------------------|------------------|
| <b>RECEIPTS</b>                                |                 |                  |                  |
| Cash sales                                     | 600 000         | 144 000          | 162 000          |
| Collection from debtors (see info.1 above)     |                 | 57 600           | 381 600          |
| Mortgage loan from ACE Bank (see info.2 above) |                 | 900 000          |                  |
| Rent income                                    | 72 000          | 72 000           | 80 000           |
| Interest on fixed deposit                      | 3 000           | 3 000            |                  |
| Fixed deposit maturing                         |                 |                  | 470 000          |
| <b>TOTAL RECEIPTS</b>                          | <b>675 000</b>  | <b>1 176 600</b> | <b>1 093 600</b> |
| <b>PAYMENTS</b>                                |                 |                  |                  |
| Purchase of stock (all for cash)               | 400 000         | 480 000          | 540 000          |
| Repayment of loan and interest                 |                 | 10 370           | 10 370           |
| Bank charges                                   | 13 000          | 8 000            | 8 000            |
| Insurance                                      | 7 700           | 7 700            | 10 010           |
| Salaries                                       | 140 000         | 140 000          | 168 000          |
| Wages                                          | 60 000          | 62 400           | 62 400           |
| Telephone                                      | 16 000          | 16 000           | 16 000           |
| Advertising                                    | 15 000          | 15 000           | 15 000           |
| Sundry expenses                                | 20 000          | 21 000           | 22 000           |
| Purchase of vehicles                           |                 |                  | 180 000          |
| Vehicle expenses                               |                 |                  | 9 000            |
| Drawings by Thabo                              | 100 000         | 200 000          | 200 000          |
| <b>TOTAL PAYMENTS</b>                          | <b>771 700</b>  | <b>960 470</b>   | <b>1 240 780</b> |
| Surplus (Deficit) for the month                | (96 700)        | 216 130          | (147 180)        |
| Cash at beginning of month                     | 55 000          | (41 700)         | 174 430          |
| Cash at the end of the month                   | (41 700)        | 174 430          | 27 250           |

**ACTIVITY J2 (NOV 2009)**

**DEBTORS' COLLECTION AND CASH BUDGET**

**(18 minutes)**

Africa Ceramics is owned by Joe Tyler. He sells a wide range of ceramic tiles. The following information was extracted from the books:

**REQUIRED:**

- 2.1 Complete and total the Debtors' Collection Schedule for November and December 2014.
- 2.2 Refer to Information 3 below. Compare the budgeted figures to the actual figures for October to comment on each of the following. State TWO points in each case.
  - Advertising
  - Repairs and maintenance
  - Delivery expenses

Joe is pleased that the number of customers has increased. You do not share his opinion that this increase in customers is good.
- 2.3
  - (a) Explain TWO problems you have identified and quote figures from the question to support your answer.
  - (b) Give ONE point of advice in each case.
- 2.4 By looking at the Cash Budget in Information 3 and assuming all other items are in line with the budget, would you expect the bank balance at the end of October to be favourable or unfavourable? Give a reason for your answer.

**INFORMATION:**

**1. DEBTORS' COLLECTION SCHEDULE OF AFRICA CERAMICS FOR THE PERIOD ENDING 31 DECEMBER 2014**

| Month         | Credit sales | DEBTORS' COLLECTION |               |               |
|---------------|--------------|---------------------|---------------|---------------|
|               |              | October 2014        | November 2014 | December 2014 |
| August        | 360 000      | 64 800              |               |               |
| September     | 540 000      | 270 000             |               |               |
| October       | 450 000      | 129 600             |               |               |
| November      | 420 000      |                     |               |               |
| December      | 420 000      |                     |               |               |
| <b>TOTALS</b> |              | <b>464 400</b>      |               |               |

**2. EXPECTED COLLECTION FROM DEBTORS:**

- 75% of all sales are expected to be on credit.
- 30% of debtors settle accounts during the transaction month to benefit from a 4% discount for prompt payment.
- 50% of debtors settle accounts in the month following the transaction month.
- 18% settle accounts during the second month after the transaction month.
- 2% is written off as irrecoverable after 60 days.

**3. BUDGETED AND ACTUAL FIGURES:**

At the end of October, the following actual figures were identified and compared to the budgeted figures:

| From the Projected Income Statement: | OCTOBER<br>BUDGET<br>R | OCTOBER<br>ACTUAL<br>R |
|--------------------------------------|------------------------|------------------------|
| Total sales                          | 600 000                | 672 000                |
| Cash sales                           | 150 000                | 70 000                 |
| Credit sales                         | 450 000                | 602 000                |

| From the Cash Budget:        | OCTOBER<br>BUDGET<br>R | OCTOBER<br>ACTUAL<br>R |
|------------------------------|------------------------|------------------------|
| Collections from debtors     | 464 400                | 238 588                |
| Purchase of trading stock    | 375 000                | 420 000                |
| Advertising                  | 15 000                 | 25 000                 |
| Repairs and maintenance      | 16 500                 | 3 800                  |
| Delivery expenses            | 20 000                 | 42 000                 |
| Bank balance at end of month | 120 000                | ?                      |

## CONTENT AND ACTIVITIES

## AA. FINAL ACCOUNTS

## ACTIVITY A 1

## A COMPREHENSIVE ACTIVITY BASED ON TRADING, PROFIT AND LOSS AND APPROPRIATION ACCOUNTS.

## (Gr 12 Accounting: The Answer series- Adapted)

Use the extract from the Trial Balance taken from the books of Brown LTD and the adjustments given below to prepare the final accounts for the year ended 31 October 2013. Most of the nominal balances have been entered for you.

## EXTRACT FROM PRE-ADJUSTMENT TRIAL BALANCE ON 31 OCTOBER 2013

| Balance Sheet Section                 | R         |
|---------------------------------------|-----------|
| Ordinary share capital                | 800 000   |
| Accumulated profits                   | 53 000    |
| Loan: Pink Bank (18% p.a)             | 360 000   |
| Equipment                             | 220 752   |
| Accumulated depreciation on equipment | 198 750   |
| Trading stock                         | 410 000   |
| Provision for bad debts               | 10 200    |
|                                       |           |
| Nominal Section                       |           |
| Sales                                 | 2 053 700 |
| Debtors allowances                    | 46 000    |
| Cost of sales                         | 1 004 450 |
| Dividend on ordinary shares           | 16 000    |
| Interest on debtor's overdue accounts | 8 500     |
| Interest on loan                      | 52 800    |

## ADJUSTMENTS

1. A debtor returned goods sold to him on credit. The original marked price of the goods was R12 000, but we had allowed him a trade discount of 10%. The cost price of these was R6 000.
2. A debtor who owes R 4 800 has been declared insolvent. His estate will pay 30 cents in the rand in the next financial period. The balance is to be written off.
3. Debtors are to be charged interest amounting to 1 000 on their overdue accounts.
4. The provision for bad debts is to be adjusted to R9 600.
5. R4 250 commission is still owing to the business.
6. In terms of the agreement with Pink Bank R40 000 must be paid off the loan on 1 June each year. This year's payment has been made. Adjust for interest owing.
7. Advertising includes a contract signed with Independent Newspapers amounting to R24 000 for advertising for the period 1 October 2010 to 31 March 2011.
8. The premises have been rented since the 1 November 2008 at a cost of R23 000 per month. Make the necessary adjustment.
9. Stocktaking on 31 October 2010 revealed stock hand worth R415 000.
10. Depreciation is to be written off equipment at 10% p.a. on cost. Take into account that the equipment is very old.
11. Income tax for the year amounted to R44 508.
12. A final dividend of 40 cents per share has been declared for all 200 000 shares.

## TRADING ACCOUNT

|                 |  |         |  |
|-----------------|--|---------|--|
| Cost of sales ( |  | Sales ( |  |
| Profit and loss |  |         |  |
|                 |  |         |  |

## PROFIT AND LOSS ACCOUNT

|                          |         |                                    |       |
|--------------------------|---------|------------------------------------|-------|
| Advertising (71 000      |         | Trading account                    |       |
| Audit fees (             | 15 000  | Commission income (229220          |       |
| Bad debts (7 678         |         | Interest income(debtors) (4250     |       |
| Directors fees (         | 30 000  | Bad debts recovered                | 2 156 |
| Interest on loan (26 400 |         | Provision for bad debts adjustment |       |
| Rent expense (149 500    |         |                                    |       |
| Salaries & wages         | 164 000 |                                    |       |
| Trading stock deficit    |         |                                    |       |
| Depreciation             |         |                                    |       |
| Appropriation            |         |                                    |       |
|                          |         |                                    |       |

## APPROPRIATION ACCOUNT

|                          |  |                     |  |
|--------------------------|--|---------------------|--|
| Income tax               |  | Accumulated profits |  |
| Ordinary share dividends |  | Profit and loss     |  |
| Accumulated profits      |  |                     |  |
|                          |  |                     |  |

**BB. COMPANIES - FINANCIAL STATEMENTS**

**ACTIVITY BB 1**

**MATCHING ITEMS – GAAP CONCEPTS**

**REQUIRED:**

Choose an example from COLUMN B that matches the concept relating to companies in COLUMN A. Write only the letter next to the question number

| COLUMN A                                             | COLUMN B                                                                                                                                             |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Materiality                                       | A The tenant has paid R26 000, which includes rent for one month of the following year. Only R24 000 is recorded in the income Statement             |
| 2. Prudence                                          | B Although the cost prices of the stock items are fluctuating, the stock is recorded at cost, assuming that it will be sold some time in the future. |
| 3. Matching                                          | C The directors' fees must be reflected separately from salaries and wages.                                                                          |
| 4. Going – concern concept                           | D Even though the market value of land and buildings R2 000 000, it is recorded at the original purchase of R1 200 000.                              |
| 5. Historical-cost concept                           | E Money lost due to theft of stock is written off, even thou there is possibility that it may be recovered in future.                                |
| ANSWER: 1. _____ 2. _____ 3. _____ 4. _____ 5. _____ |                                                                                                                                                      |

**ACTIVITY BB 2 (Question 4.1 – Nov/Dec 2013)**

**REQUIRED:**

Choose a description from COLUMN B that matches the term in COLUMN A.

Write only the letter (A-D) next to the question number

| COLUMN A                            | COLUMN B                                                                                                               |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| 1. Income Statement                 | A this shows the owners 'equity (net worth) of a company, its assets and liabilities, at the end of the financial year |
| 2. Balance Sheet                    | B this shows an opinion expressed on the fair presentation of the figures in the financial statements                  |
| 3. Cash Flow Statement              | C this shows the net profit or loss of a company for a financial year                                                  |
| 4. Independent Auditor's Report     | D this shows the effect of the operating, financing and investing activities on the money possesses by the business    |
| ANSWER:                             |                                                                                                                        |
| 1. _____ 2. _____ 3. _____ 4. _____ |                                                                                                                        |

**1. Name the Audit report/ opinion that suit the following descriptions:**

- 1.1 Is issued when auditors determine that the financial statement presented are free of material misstatements and are in accordance with GAAP.
- 1.2 Is issued when the auditors could not form and consequently refused to present an opinion on the financial statements.
- 1.3 Is issued when the auditors determine that the financial statements are materially misstated and do not confirm with GAAP.
- 1.4 Is issued when the auditor encountered one of two types of situations which do not comply with GAAP.

**2. Study the following audit report that was issued by the auditors of Siyanda LTD and answer the questions that follow:****Audit opinion – To the shareholders:**

In our opinion the financial statements fairly presents, in all material respects, the financial position of the company and the group and results of their operations and cash flow for the year ended 31 August 2013 in accordance with International Financial Reporting Standards, and in the manner required by companies act in South Africa.

**Makenzie**

Chartered Accountants (SA)

Registered Accountants and Auditors

Ekuvukeni 20 September 2013

- 2.1. Do you think it is good that South Africa is part of the International Financial Reporting Standards? Give a reason for your answer.
- 2.2. Do you think it is necessary for **Makenzie** to have the details “Chartered Accountants (SA), Registered Accountants and Auditors” under their name? Give two reasons for your answer.
- 2.3 If you were a major shareholder of Siyanda LTD, what personal characteristics would you look for in appointing the Chief Executive Officer (CEO) and other Directors? Explain two points.

**ANSWER:**

2.1 Do you think it is good that South Africa is part of the International Financial Reporting Standards? Give a reason for your answer.

2.2 Do you think it is necessary for **Makenzie** to have the details “Chartered Accountants (SA), Registered Accountants and Auditors” under their name? Give two reasons for your answer.

2.3 If you were a major shareholder of Siyanda LTD, what personal characteristics would you look for in appointing the Chief Executive Officer (CEO) and other Directors? Explain two points.

**AUDIT REPORT:**

1. Explain what the role of the independent auditor is.
2. Name TWO persons other than the shareholders who would be interested in the audit report and give a reason for their interest.
3. Explain why it is important for an independent auditor to belong to a professional body like SAICA

**AUDIT REPORT:**

1. Explain what the role of the independent auditor is.
2. Name TWO persons other than the shareholders who would be interested in the audit report and give a reason for their interest.
3. Explain why it is important for an independent auditor to belong to a professional body like SAICA

**ACTIVITY BB 5** (Question 6 – Exemplar 2014)**A. INCOME STATEMENT, FIXED ASSET AND STOCK****KLOOF COMPUTERS (PTY) LTD**

You are provided with information relating to Kloof Computers (Pty) Ltd for the year ended 30 June 2013.

**REQUIRED:**

1. Refer to Adjustments and additional information 5. Calculate the profit/loss on the disposal of the office computers sold on 31 March 2013.
2. Refer to Adjustments and Additional Information 6. Calculate the value of stock on hand of the:
  - Hypa laptops, according to the specific identification method.
  - ABX printers, according to the FIFO method.
  - Silvo printing paper, according to the weighted-average method
3. Prepare the Income Statement for the year ended 30 June 2013.

**INFORMATION:**
**(a) Items extracted from the Pre-Adjustment Trial Balance on 30 June 2013**

|                                               | DEBIT     | CREDIT    |
|-----------------------------------------------|-----------|-----------|
| Balance Sheet Accounts Section                | R         | R         |
| Land and buildings                            | 930 000   |           |
| Equipment                                     | 510 100   |           |
| Accumulated depreciation on equipment         |           | 231 000   |
| Trading stock                                 | 281 000   |           |
| Loan from Highway Lenders (13% p.a.)          |           | 300 000   |
| SARS (Provisional tax)                        | 194 000   |           |
| Debtors' control                              | 32 000    |           |
| Provision for bad debts                       |           | 2 000     |
|                                               |           |           |
| Nominal Accounts Section                      |           |           |
| Sales                                         |           | 3 700 000 |
| Cost of sales                                 | 2 100 000 |           |
| Staff costs (salaries, wages and commission)  | 180 000   |           |
| Directors' fees                               | 120 000   |           |
| Commission income                             |           | 36 000    |
| Interest on loan                              | 29 000    |           |
| Sundry expenses (including packing materials) | 45 000    |           |
| Asset disposal                                |           | 7 000     |

**(b) Adjustments and additional information:**

- Commission income of R2 350 is owed to the business.
- Packing materials of R1 700 are on hand at the end of the year. Packing materials are included in Sundry expenses.
- One of the two directors has been paid his fees for 6 months. The fees were increased by 10% half-way through the financial year. Provide for fees owing. Both directors earn the same annual fees.
- Interest at 13% p.a. is owed on the loan. This interest is not capitalised. The loan was taken out several years ago. A payment of R100 000 was made on 31 December 2012. This has been properly recorded.
- Equipment comprises:

|                   | Cost on<br>30 June 2013 | Accumulated depreciation<br>on 1 July 2012 | Depreciation rate                  |
|-------------------|-------------------------|--------------------------------------------|------------------------------------|
| General equipment | 418 000                 | 183 000                                    | 20% on diminishing balance method. |
| Office computers  | 92 100                  | 48 000                                     | 33,3333% on cost                   |
|                   | <b>R510 100</b>         | <b>R231 000</b>                            |                                    |

**NOTE:** One of the office computers was sold on 31 March 2013. The selling price was credited to the Asset Disposal account but no other entry has been made. The cost price of this computer was R18 600 and the accumulated depreciation at the beginning of the year was R9 400.

Depreciation is to be written off at the rates reflected above.

- The business uses the perpetual inventory system. Stock records show:

| Item                 | Valuation<br>method                   | Stock on hand on<br>30 June 2013 | Value on<br>30 June 2013 |
|----------------------|---------------------------------------|----------------------------------|--------------------------|
| Hypa laptops         | Specific identification: R10 500 each | 20 computers                     | ?                        |
| ABX printers         | FIFO                                  | 46 printers                      | ?                        |
| Silvo printing paper | Weighted average                      | 600 reams                        | ?                        |

**NOTE:** Two of the Hypa laptops included in the stock figures above were donated to Bonlo Primary School and Bonlo High School. No entry has been made for these donations.

The following information relates to trading stock of printers and paper:

|                  | ABX printers |        |          | Printing paper |       |          |
|------------------|--------------|--------|----------|----------------|-------|----------|
|                  | Quantity     | Price  | Total    | Quantity       | Price | Total    |
| Opening stock    | 20           | R700   | R14 000  | 1 200          | R33   | R39 600  |
| <b>PURCHASES</b> | 204          |        | R153 040 | 5 400          |       | R206 800 |
| August 2012      | 100          | R730   | R73 000  | 1 600          | R40   | R64 000  |
| January 2013     | 70           | R750   | R52 500  | 2 000          | R30   | R60 000  |
| May 2013         | 34           | R810   | R27 540  | 1 800          | R46   | R82 800  |
| <b>SUBTOTAL</b>  | 224          |        | R167 040 | 6 600          |       | R246 400 |
| Sales            | 178          | R1 500 | R267 000 | 6 000          | R65   | R390 000 |
| Closing stock    | 46           |        | ?        | 600            |       | ?        |

7. The income tax assessment for the year reflected that the business owed SARS an amount of R37 000 on 30 June 2013.

## B. PROBLEM-SOLVING

To try and increase the sales of laptops, the directors of Kloof Computers (Pty) LTD decided to employ three newly qualified salespersons on a trial period for one month.

These salespersons would not be restricted to working at the shop premises. They were employed to visit potential customers who might be interested in laptops and printers.

The salespersons would each be paid the following:

- A fixed basic monthly salary of R7 000.
- 10% commission on sales made by them.
- A travel allowance of R2,00 per kilometre travelled in their private cars.

The business normally makes a gross profit of R6 000 per laptop (cost price R10 500, selling price R16 500).

The salespersons are allowed to offer a maximum trade discount of R500 per laptop to help them secure a sale of necessary.

At the end of the one-month trial period, you are provided with the figures on the next page.

## REQUIRED:

- Explain ONE problem relating to each salesperson. Provide figures to support your explanations.
- What advice would you offer the directors in respect of the plan to employ these salespersons?

## INFORMATION:

| Name of salesperson:                                                | GUGU     | MANNY    | JIM      |
|---------------------------------------------------------------------|----------|----------|----------|
| Number of laptops drawn from stock at the beginning of the month    | 20       | 20       | 20       |
| Number of laptops sold for cash                                     | 9        | 16       | 11       |
| Number of laptops returned to stock at the end of the month         | 11       | 4        | 8        |
| Discounts allowed to customers                                      | R0       | R8 000   | R5 000   |
| Cash from sales deposited by each salesperson into the bank account | R148 500 | R207 000 | R193 000 |
| Gross profit earned before discounts and other expenses             | R54 000  | R90 000  | R72 000  |
| Basic salary                                                        | R7 000   | R7 000   | R7 000   |
| Commission paid to each salesperson                                 | R14 850  | R25 200  | R17 850  |
| Travel allowance claimed (R2,00 per km)                             | R3 000   | R1 000   | R1 000   |

ANSWER:

1. Calculate the profit/loss on the disposal of the office computers sold on 31 March 2013

2. Calculate the value of stock on hand of the:

Hypa laptops, according to the specific identification method:

ABX Printers, according to the FIFO method:

Silvo printing paper, according to the weighted-average method:

[illegible]

|                                                                                                    |                                         |
|----------------------------------------------------------------------------------------------------|-----------------------------------------|
| B. Explain ONE problem relating to each salesperson. Provide figures to support your explanations. |                                         |
|                                                                                                    | Explanation of problem (with figure(s)) |
| GUGU                                                                                               |                                         |
| MANNY                                                                                              |                                         |
| JIM                                                                                                |                                         |
| What advice would you offer the directors in respect of the plan to employ these salespersons?     |                                         |

## ACTIVITY BB 6: INCOME STATEMENT AND FIXED ASSETS

You are provided with information relating to Prime Limited for the year ended 28 February 2015

### REQUIRED:

1. Prepare the Income Statement for the year ended 28 February 2015.
2. Complete the Fixed Asset Note on 28 February 2015

### INFORMATION

#### 1. Figures extracted from the Pre-adjustment Trial Balance on 28 February 2015

|                                          |           |
|------------------------------------------|-----------|
| Ordinary share capital                   | 3 200 000 |
| Fixed deposit                            | 280 000   |
| Vehicles                                 | 780 000   |
| Equipment                                | 350 000   |
| Accumulated depreciation on vehicles     | 468 000   |
| Accumulated depreciation on equipment    | 105 000   |
| Trading stock                            | 325 000   |
| Debtors' control                         | 65 000    |
| Provision for bad debts                  | 3 700     |
| Mortgage loan from Quick Bank (12% p.a.) | 440 000   |
| Sales                                    | 2 900 000 |
| Debtors' allowances                      | 18 500    |
| Cost of sales                            | 1 650 000 |
| Rent income                              | 200 700   |
| Interest on mortgage loan                | 126 000   |
| Directors' fees                          | 315 000   |
| Audit fees                               | 30 000    |
| Salaries and wages                       | 372 000   |
| Consumable stores                        | 62 500    |
| Bank charges                             | 7 200     |
| Sundry expenses                          | 30 000    |
| Bad debts                                | 1 500     |

#### 2. ADJUSTMENTS AND ADDITIONAL INFORMATION

- A. Trading stock on hand according to a physical stocktaking on 28 February 2015 amounted to R318 500.
- B. The stocktaking also revealed that the value of consumable stores used was R60 000.
- C. The following entries appeared on the February Bank Statement but had not been recorded in the books of the company:
  - Bank charges, R3 600
  - A direct deposit by a debtor which had been written off as a bad debt in the previous financial year, R1 900
- D. The account of H Howard, a debtor, must be written off as irrecoverable, R1 000
- E. Provision for bad debts must be adjusted to R3 200.
- F. The interest on the loan for February 2015 has not yet been entered and no payment for February has been made. Interest is capitalised.
- G. The details of an employee, T Shube, who had been employed on 1 February 2015, were omitted from the Salaries Journal for February. The details of his salary were as follows:

| Gross Salary | Deductions |              |     | Contributions |     |
|--------------|------------|--------------|-----|---------------|-----|
|              | PAYE       | Pension Fund | UIF | Pension Fund  | UIF |
| 10 500       | 1 890      | 840          | 160 | 420           | 80  |

**NOTE:** All contributions are recorded as part of salaries and wages.

- H. A vehicle was sold on 31 December 2013 for R95 500. The details from the fixed asset register were:
- Cost price, R180 000
  - Accumulated depreciation at the beginning of the financial year, R72 000
  - Depreciation rate at 20% p.a. on cost
- This sale has not been recorded.
- I. Provide for depreciation as follows:
- On vehicles at 20% p.a. on cost
  - On equipment at 15% p.a. on the diminishing balance method
- New equipment for R32 000 was purchased on 1 September 2013.  
This purchase has not been recorded.
- J. The rent income was increased by R900 per month from 1 November 2013. The tenant has not yet paid the rent for February 2015.
- K. Income tax is calculated at 30% of the net profit
- L. Dividends declared at 10 cents per share for all 320 000 shares on issue.

**ANSWER:**

**1. NOTE TO THE BALANCE SHEET ON 28 February 2015**

| Fixed /Tangible Assets            | Vehicle   | Equipment | Total |
|-----------------------------------|-----------|-----------|-------|
| Carrying Value (Beg. Of the year) |           |           |       |
| Cost price                        |           |           |       |
| Accumulated Depreciation          | (468 000) | (105 000) |       |
|                                   |           |           |       |
| Movements                         |           |           |       |
| Additions                         |           |           |       |
| Disposals (31 Dec 2011)           |           |           |       |
| Depreciation                      |           |           |       |
| Carrying value end of the year    |           |           |       |
| Cost price                        |           |           |       |
| Accumulated depreciation          |           |           |       |

## 2. PRIME LTD

## INCOME STATEMENT FOR THE YEAR ENDED 28 February 2015

|                                         |  |
|-----------------------------------------|--|
| Sales                                   |  |
| Cost of sales                           |  |
| <b>Gross profit</b>                     |  |
| <b>Other operation income</b>           |  |
| Rent                                    |  |
|                                         |  |
|                                         |  |
|                                         |  |
| <b>Gross Operating income</b>           |  |
| <b>Operating expenses</b>               |  |
| Director's fees                         |  |
| Audit fees                              |  |
| Salaries & wages                        |  |
| Consumables stores                      |  |
| Bank charges                            |  |
| Sundry expenses                         |  |
| Bad debts                               |  |
|                                         |  |
|                                         |  |
|                                         |  |
|                                         |  |
| <b>Operating profit before interest</b> |  |
|                                         |  |
| <b>Profit before tax</b>                |  |
|                                         |  |
| <b>Net profit after tax</b>             |  |

## ACTIVITY BB 7

(Question 4.1 – Nov/Dec 2011)

1. Indicate where each of the following items would be placed in the Balance Sheet by choosing the answer from the list below. Write only the answer next to the question number.

|                                                                                  |
|----------------------------------------------------------------------------------|
| Non-current assets; Current assets; Non-current liabilities; Current liabilities |
|----------------------------------------------------------------------------------|

- |                                 |                                                  |
|---------------------------------|--------------------------------------------------|
| 1.1 Current portion of a loan   | 1.2 Fixed deposits (maturing in two years' time) |
| 1.3 Trade and other receivables | 1.4 Bank overdraft                               |

|           |           |           |           |
|-----------|-----------|-----------|-----------|
| 1.1 _____ | 1.2 _____ | 1.3 _____ | 1.4 _____ |
|-----------|-----------|-----------|-----------|

2. Indicate whether the following statements are TRUE or FALSE: (Question 3.1- Feb/Mar 2013)

- 2.1 Shareholders' earnings are equal to net profit before tax.  
 2.2 Net current assets are also referred to as net working capital  
 2.3 A company is a legal entity and therefore its financial affairs are independent of the financial affairs of the shareholders.  
 2.4 The independent auditors are responsible for setting up internal control measures of a company.

|           |           |           |           |
|-----------|-----------|-----------|-----------|
| 2.1 _____ | 2.2 _____ | 2.3 _____ | 2.4 _____ |
|-----------|-----------|-----------|-----------|

## ACTIVITY BB 8

## BALANCE SHEET

(Question 4: Exemplar 2014)

You are provided with information relating to Prospect Limited for the financial year ended 31 March 2013. The CEO, Ronnie Phosa, together with his children, owns 150 000 shares in the company.

Where explanations or comments are required, you are required to quote figures or financial indicators to support your explanations.

## REQUIRED:

- Shareholders' equity section of the Balance Sheet on 31 March 2013.
- Notes to:
  - Ordinary share capital
  - Retained income
- Calculate the net asset value per share on 31 March 2013 after the repurchase of the shares from the Gaptu Family.
- The Gaptu family were keen to sell their shares because they were unhappy with the low pay-out policy that the directors were following in deciding on dividends. In your opinion, are their complaints valid, or not? Explain.
- Have the Gaptu family been offered a fair value for their shares? Explain.
- In your opinion, will the repurchase of the shares from the Gaptu family benefit the remaining shareholders, or not? Explain.

**INFORMATION:**

1. The ordinary share capital on 1 April 2012 consisted of:
  - 250 000 ordinary shares issued in the 2010 financial year at R5,00 per share.
  - 150 000 ordinary shares issued in the 2011 financial year at R7,00 per share.
2. Retained income on 1 April 2012 amounted to R1 960 000.
3. The following changes occurred to share capital during the 2013 financial year:
  - On 1 October 2012, 100 000 new ordinary shares were issued at R9,00 per share. These shareholders are not entitled to interim dividends.
  - On 31 March 2013, the directors decided to repurchase 220 000 ordinary shares from members of the Gaptu family who were no longer interested in being shareholders. These shareholders had originally bought most of their shares on the JSE at different prices and at different times. The repurchase price was R10,70 per share. These shareholders are entitled to all dividends for the 2013 financial year.
4. Additional information for the past two financial years:

|                                           | FINANCIAL YEAR ENDED |                |
|-------------------------------------------|----------------------|----------------|
|                                           | 31 March 2013        | 31 March 2012  |
| Net income after tax                      | R1 600 000           | R2 200 000     |
| Ordinary shareholders' equity at year-end | ?                    | R4 260 000     |
| Number of shares in issue at year-end     | ?                    | 400 000 shares |
| Market price per share on the JSE         | 1 040 cents          | 1 040 cents    |
| Net asset value per share                 | ?                    | 1 065 cents    |
| Earnings per share                        | 356,6 cents          | 488.9 cents    |
| Interim dividends                         | 70 cents             | 90 cents       |
| Final dividends                           | 102 cents            | 140 cents      |

**ANSWER:****1 PROSPECT LIMITED****EXTRACT FROM THE BALANCE SHEET ON 31 MARCH 2013**

|  |  |  |
|--|--|--|
|  |  |  |
|  |  |  |
|  |  |  |

**2. NOTES TO THE BALANCE SHEET****Note 7. ORDINARY SHARE CAPITAL (ISSUED)**

|  |  |
|--|--|
|  |  |
|  |  |
|  |  |
|  |  |

**Note 8. RETAINED INCOME**

|                              |  |
|------------------------------|--|
| Balance at beginning of year |  |
|                              |  |
|                              |  |
|                              |  |
|                              |  |
|                              |  |
| Balance at end of year       |  |

3. Net asset value on 31 March 2013 after the repurchase of shares.

4. In your opinion, are the complaints by the Gaptu family about the dividends valid, or not? Explain.

5. Have the Gaptu family been offered a fair value for their shares? Explain.

6. In your opinion, will the repurchase of the shares from the Gaptu family benefit the remaining shareholders, or not? Explain.

**ACTIVITY BB 9****(Question 3: Nov/Dec 2014)****BALANCE SHEET, INTERPRETATION AND ETHICS**

You are presented with information from the records of Vijay Limited. The financial year-end is 28 February 2014.

**REQUIRED:**

1. Prepare the following notes to the Balance Sheet:
  - 1.1 Share capital
  - 1.2 Retained income
2. Prepare the Balance Sheet (Statement of Financial Position) on 28 February 2014. Where notes are not required, show ALL workings in brackets.
3. Calculate the return on average shareholders' equity for 2014.
4. From 2013 to 2014 the directors made a deliberate decision to change the policy on the distribution of profits in the form of dividends. Comment on this change. Quote financial indicators or figures to support your answer.
5. Comment on whether the shareholders should be satisfied with the percentage return and the market price of their shares. Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trends. Give an additional comment in each case.
6. The external auditors, Hassan and Jacob, have employed Janet to work on the audit of Vijay Ltd. Janet owns 10 000 shares in Vijay Ltd.

Explain why this is a problem and give a valid solution.

**INFORMATION:**

A. The authorised share capital consists of 750 000 ordinary shares.

On 1 March 2013, only 60% of the shares were in issue.

B. The following amounts were extracted from the records:

|                                     | 28 Feb. 2014 | 28 Feb. 2013 |
|-------------------------------------|--------------|--------------|
| Ordinary share capital              | ?            | 3 215 000    |
| Retained income                     | ?            | 322 500      |
| Total ordinary shareholders' equity | ?            | 3 537 500    |
| Fixed assets (carrying value)       | ?            |              |
| Fixed deposit: Sam Bank             | 650 000      |              |
| Loan: William Bank                  | 482 600      |              |
| Inventories                         | 275 400      |              |
| Debtors' Control                    | 243 500      |              |
| Creditors' Control                  | 62 460       |              |
| Cash in the bank and petty cash     | 336 600      |              |
| Income received in advance (Rent)   | 12 120       |              |
| Prepaid expenses (Insurance)        | 7 600        |              |
| Provisional income tax payments     | 299 980      |              |
| Interim dividends                   | 270 000      |              |

- C. On 1 November 2013, the company issued a further 80 000 shares at R9,50 per share.
- D. On 28 February 2014, the directors decided to repurchase 75 000 ordinary shares from the estate of a shareholder who had died. This shareholder had originally purchased his shares on the JSE at various times and at different prices. A repurchase price of R10,40 was accepted as being a fair price.
- E. On 27 February 2014, a final dividend of 40 cents per share was declared. All shares, including the new shares issued and repurchased, qualify for final dividends.
- F. The loan statement from William Bank received on 28 February 2014 reflected interest capitalised at

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R81 400. This was not recorded in the books. The business expects to settle 20% of the outstanding balance in the next financial year.

- G. After all the above adjustments were taken into account the net profit before tax was calculated to be R1 161 000. The income tax is calculated at 30% of net income before tax.

H.

| Financial indicators on 28 February:   | 2014      | 2013      |
|----------------------------------------|-----------|-----------|
| Earnings per share (EPS)               | 170 cents | 82 cents  |
| Dividends per share (DPS)              | 100 cents | 82 cents  |
| Net asset value (NAV)                  | 846 cents | 786 cents |
| Return on shareholders' equity (ROSHE) | ?         | 18,3%     |

I.

| Additional information:                  | 2014        | 2013        |
|------------------------------------------|-------------|-------------|
| Market price of Vijay Ltd shares on JSE  | 1 032 cents | 1 060 cents |
| Interest rate on alternative investments | 9%          | 9%          |

## ANSWER

### 1 1.1 SHARE CAPITAL AUTHORISED SHARE CAPITAL

|                         |
|-------------------------|
| 750 000 ordinary shares |
|-------------------------|

### ISSUED SHARE CAPITAL

|          |                                                       |  |
|----------|-------------------------------------------------------|--|
| _____    | Ordinary shares in issue on 1 March 2013              |  |
| 80 000   | Ordinary shares issued during the year                |  |
| (75 000) | Ordinary shares re-purchased (average price of _____) |  |
| _____    | Ordinary shares in issue on 28 February 2014          |  |

### 1.2 RETAINED INCOME

|                             |         |
|-----------------------------|---------|
| Balance on 1 March 2013     | 322 500 |
|                             |         |
|                             |         |
| Ordinary share dividends    |         |
|                             |         |
|                             |         |
| Balance on 28 February 2014 |         |

## 2 VIJAY LIMITED

## BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON 28 FEBRUARY 2014

|                                     |         |
|-------------------------------------|---------|
| <b>ASSETS</b>                       |         |
| <b>Non-current assets</b>           |         |
|                                     |         |
| Financial asset: Fixed deposit      | 650 000 |
|                                     |         |
| <b>Current assets</b>               |         |
| Inventories                         | 275 400 |
| Trade and other receivables         |         |
| Cash and cash equivalents           | 336 600 |
|                                     |         |
| <b>TOTAL ASSETS</b>                 |         |
| <b>EQUITY AND LIABILITIES</b>       |         |
| <b>Shareholders' equity</b>         |         |
|                                     |         |
|                                     |         |
| <b>Non-current liabilities</b>      |         |
|                                     |         |
| <b>Current liabilities</b>          |         |
|                                     |         |
|                                     |         |
|                                     |         |
|                                     |         |
| <b>TOTAL EQUITY AND LIABILITIES</b> |         |

|   |                                                                                                                                                                                                                                                                 |
|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3 | Calculate the return on average shareholders' equity for 2014.                                                                                                                                                                                                  |
| 4 | From 2013 to 2014 the directors made a deliberate decision to change the policy on the distribution of profits in the form of dividends. Comment on this change. Quote financial indicators or figures to support your answer.                                  |
| 5 | Comment on whether the shareholders should be satisfied with the percentage return and the market price of their shares. Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trends. Give an additional comment in each case. |
| 6 | <p>The external auditors, Hassan and Jacob, have employed Janet to work on the audit of Vijay Ltd. Janet owns 10 000 shares in Vijay Ltd.</p> <p>Explain why this is a problem.</p> <p>Give a valid solution.</p>                                               |

**ACTIVITY CC 1****QUESTIONS:**

1. Explain the difference between a Balance Sheet and a Cash Flow Statement.
2. Name the three broad categories that appear on the Face of the Cash Flow Statement.
3. Explain what is meant by Financing Activities in a Cash Flow Statement.
4. Explain why Depreciation and Interest Expense are added back to Net Profit before Tax.
5. What are the components of Working Capital?
6. When is it favourable to make use of borrowed capital?
7. List some of the stakeholders who will be interested in the Financial Statements. Indicate the reason(s) for their interest.

**ANSWER**

1. Explain the difference between a Balance Sheet and a Cash Flow Statement.
2. Name the three broad categories that appear on the Face of the Cash Flow Statement.
3. Explain what is meant by Financing Activities in a Cash Flow Statement.
4. Explain why Depreciation and Interest Expense are added back to Net Profit before Tax.
5. What are the components of Working Capital?
6. When is it favourable to make use of borrowed capital?
7. List some of the stakeholders who will be interested in the Financial Statements. Indicate the reason (s) for their interest.

Note to calculation of Cash Flow from operations

|   |                                                    |  |  |
|---|----------------------------------------------------|--|--|
| 1 | Cash generated from operations                     |  |  |
|   | Profit before taxation                             |  |  |
|   | Adjustments in respect of:                         |  |  |
|   | Depreciation                                       |  |  |
|   | Interest expense                                   |  |  |
|   | Interest income                                    |  |  |
|   | Operating profit before changes in working capital |  |  |
|   | Changes in working capital                         |  |  |
|   | Increase/Decrease in inventory                     |  |  |
|   | Increase/Decrease in trade and other receivables   |  |  |
|   | Increase/Decrease in trade and other payables      |  |  |
|   | Cash generated from operations                     |  |  |

**CASH FLOW STATEMENT (FORMAT)**

|                                                           |          |      |            |
|-----------------------------------------------------------|----------|------|------------|
| <b>CASH RETAINED FROM OPERATING ACTIVITIES</b>            |          |      | <b>XXX</b> |
| Cash generated from operations                            | 1        | xx   |            |
| Interest paid                                             | 3        | (xx) |            |
| Taxation paid                                             | 4        | (xx) |            |
| Dividends paid                                            | 5        | (xx) |            |
|                                                           |          |      |            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>               |          |      | <b>XXX</b> |
|                                                           |          |      |            |
| Purchases of tangible assets                              |          | (xx) |            |
| Proceeds from sale of tangible assets                     |          | xx   |            |
|                                                           |          |      |            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>               |          |      | <b>XXX</b> |
|                                                           |          |      |            |
| Proceeds from issue of shares                             |          | xx   |            |
| Increase/ (Decrease/ Repayment) of non- current liability |          | xx   |            |
|                                                           |          |      |            |
| <b>Net change in cash and cash equivalents</b>            | <b>2</b> |      | <b>XXX</b> |
| <b>Cash and cash equivalents : beginning of the year</b>  |          |      | <b>X</b>   |
| <b>Cash and cash equivalents : end of year</b>            | <b>2</b> |      | <b>X</b>   |

## CC 2.1 FILL IN THE MISSING AMOUNTS (in Rands)

| NO  | CASH RETAINED FROM<br>OPERATING ACTIVITIES | CASH FLOW FROM<br>INVESTING ACTIVITIES | CASH FLOW FROM<br>FINANCING ACTIVITIES | NET INFLOW<br>(OUTFLOW) |
|-----|--------------------------------------------|----------------------------------------|----------------------------------------|-------------------------|
| e.g | 55 000                                     | (20 000)                               | 25 000                                 | 60 000                  |
| 1   | 36 000                                     | 24 000                                 | (10 000)                               | ?                       |
| 2   | ?                                          | (66 000)                               | 20 000                                 | 82 000                  |
| 3   | 84 000                                     | ?                                      | 16 000                                 | (42 000)                |
| 4   | (14 000)                                   | 26 000                                 | ?                                      | 46 000                  |
| 5   | 27 000                                     | ?                                      | 14 400                                 | (96 000)                |
| 6   | 120 300                                    | (58 400)                               | ?                                      | (35 300)                |

## CC 2.2 FILL IN THE MISSING AMOUNTS (in Rands)

| NO   | BANK AT THE BEGINNING OF THE<br>YEAR | BANK BALANCE AT THE END<br>OF THE YEAR | NET INFLOW/ (OUTFLOW) OF<br>CASH |
|------|--------------------------------------|----------------------------------------|----------------------------------|
| e.g. | 15 000                               | 27 000                                 | 12 000                           |
| 1    | 26 000                               | 16 000                                 | ?                                |
| 2    | 37 000                               | ?                                      | (50 000)                         |
| 3    | ?                                    | (5 000)                                | 6 000                            |
| 4    | (64 000)                             | ?                                      | (15 000)                         |
| 5.   | 201 500                              | ?                                      | 102 300                          |

You are provided with information relating to Bellco Limited for the year ended on 31 August 2013.

1. A company's published annual report comprises five main parts.

Choose a description from COLUMN B that matches a component in COLUMN A. Write only the letter (A-E) next to the question number (1.1 – 1.5) in the Answer book.

| <b>COLUMN A</b><br><b>(Components of the annual report)</b> | <b>COLUMN B</b><br><b>(Description)</b>                                                            |
|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| 1.1 Income Statement                                        | A. a written verbal explanation of operations of the company during a financial year.              |
| 1.2 Balance Sheet                                           | B. reflects whether or not the shareholders can rely on the financial statements.                  |
| 1.3 Cash Flow Statement                                     | C. reflects the profit/loss of the company.                                                        |
| 1.4 Directors' report                                       | D. reflects the effect of the operating, financial and investing activities on the cash resources. |
| 1.5 Independent auditor's report                            | E. reflects the net worth of the company.                                                          |

2. Complete the Cash Flow Statement for the year. Show workings in brackets.
3. Calculate the following financial indicators for 2013:
- 3.1 Acid-test ratio
  - 3.2 % return on average shareholders' equity
  - 3.3 Debt-equity ratio
  - 3.4 % return on average capital employed (use net income before tax)
4. The directors are pleased that the operating efficiency of the business has improved. Quote and explain TWO financial indicators to support their opinion.
5. According to the Companies Act (Act 61 of 1973), the directors may repurchase shares only if the business is acceptable. Quote and explain THREE financial indicators that provide evidence that they have complied with the Act.
6. The directors want to establish another branch in a different area next year. They will need finance of R1,5 million to do this. One of the directors has suggested that they finance the expansion by increasing loans instead of issuing new shares.
- Quote and explain TWO financial indicators to support his opinion.
  - Explain TWO other factors, with advice, that the directors should consider before embarking on this expansion.
7. Refer to the extract of the independent auditor's report under Information 6:
- Explain in our own words why it is necessary for the independent auditors to mention internal controls under the section on Directors' Responsibility.
  - Under the section on Independent Auditor's Responsibility, they mention something about 'ethical requirements'. Give a practical example of this.
  - Is their final opinion good, or not? Explain.
  - Why is it necessary for the independent auditor to have the qualification CA (SA) behind his name? Explain.

## A. Extract from Income Balance Sheet for the year ended 31 August:

|                                                            | 2013              | 2012              |
|------------------------------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                                              |                   |                   |
| Fixed assets                                               | 12 138 000        | 12 357 000        |
| Investments (4% p.a.)                                      | 250 000           | 600 000           |
| Current assets                                             | 3 465 000         | 3 200 000         |
| Trading Stock                                              | 1 720 000         | 2 250 000         |
| SARS (Income tax)                                          | 65 000            | 0                 |
| Trade and other receivables (excluding SARS)               | 1 140 000         | 940 000           |
| Cash and cash equivalents                                  | 540 000           | 10 000            |
|                                                            |                   |                   |
| <b>TOTAL ASSETS</b>                                        | <b>15 853 000</b> | <b>16 157 000</b> |
|                                                            |                   |                   |
| <b>EQUITY AND LIABILITIES</b>                              |                   |                   |
| Shareholder's equity                                       | 11 011 400        | 8 595 000         |
| Share capital                                              | 8 960 000         | 6 360 000         |
| Retained income                                            | 2 051 400         | 2 235 000         |
| Loan from Unity Bank (11% p.a.)                            | 3 000 000         | 5 400 000         |
| Current liabilities                                        | 1 841 600         | 2 162 000         |
| Trade and other payables (excluding SARS and shareholders) | 920 000           | 1 260 000         |
| SARS (Income tax)                                          | 0                 | 72 000            |
| Shareholders for dividends                                 | 921 600           | 620 000           |
| Bank overdraft                                             | 0                 | 210 000           |
| <b>TOTAL EQUITY AND LIABILITIES</b>                        | <b>15 853 000</b> | <b>16 157 000</b> |

|                          |            |
|--------------------------|------------|
| Depreciation             | R1 010 000 |
| Operating profit         | 3 062 000  |
| Interest expense         | 462 000    |
| Net profit before tax    | 2 600 000  |
| Net profit after tax     | 1 820 000  |
| Interim dividends paid   | 770 000    |
| Final dividends declared | 921 600    |

**C. Shares issued and repurchased:**

- 1 000 000 ordinary shares were in issue at the end of the previous financial year, 31 August 2012.
- 400 000 ordinary shares were issued on 1 September 2012.
- 120 000 ordinary shares were repurchased on 28 February 2013 from the estate of a shareholder who had died. The shares were repurchased at R2,60 above the average issue price.

**D. Changes to fixed assets:**

New vehicles and equipment were bought during the year for R880 000. Unused vehicles were sold at book value during the year.

**E. Financial indicators for the past two years:**

|                                          | 2013        | 2012        |
|------------------------------------------|-------------|-------------|
| Solvency ratio                           | 3,3:1       | 2,1:1       |
| Current ratio                            | 1,9:1       | 1,5:1       |
| Acid-test ratio                          | ?           | 0,4:1       |
| Turnover rate of stock                   | 8,7 times   | 6,6 times   |
| % return on average shareholders' equity | ?           | 15,6%       |
| Net asset value per share                | 860,3 cents | 859,5 cents |
| Earnings per share                       | 135,8 cents | 114,2 cents |
| Dividends per share                      | 127 cents   | 30 cents    |
| Debt-equity ratio                        | ?           | 0,6: 1      |
| % return on average capital employed     | ?           | 12,4%       |
| % 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%        |

## REPORT OF THE INDEPENDENT AUDITOR

We have audited the annual financial statements of Bellco Limited..... as set out on pages 52 to 64.

### Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Independent Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

### Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Bellco Limited as at 31 August 2013, and its financial performance and cash flows for the 52 weeks then ended in accordance with International Financial Reporting Standards and the requirements of the Companies act of South Africa.

### Msane & Charter

Director: MPJ Msane

Registered Auditor; Chartered Accountants (SA)

15 September 2013

## ANSWER

### 1. MATCHING

1.1 \_\_\_\_\_ 1.2 \_\_\_\_\_ 1.3 \_\_\_\_\_

1.4 \_\_\_\_\_ 1.5 \_\_\_\_\_

## 2. BELLCO LIMITED

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2013

|                                             |                  |
|---------------------------------------------|------------------|
| <b>Cash effects of operating activities</b> | <b>1 293 000</b> |
| Cash generated from operations              | <b>4 062 000</b> |
| Interest paid                               | <b>(462 000)</b> |
|                                             |                  |
|                                             |                  |
|                                             |                  |
| <b>Cash effects of investing activities</b> |                  |
|                                             |                  |
|                                             |                  |
|                                             |                  |
|                                             |                  |
| <b>Cash effects of financing activities</b> |                  |
|                                             |                  |
|                                             |                  |
|                                             |                  |
| Net change in cash equivalents              |                  |
| Cash equivalents – beginning of year        |                  |
| Cash equivalents – end of year              | <b>540 000</b>   |
|                                             |                  |

|                                                                                                                                                                                                                                      |                                                                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|
| 3.1                                                                                                                                                                                                                                  | Acid-test ratio                                                  |
| 3.2                                                                                                                                                                                                                                  | % return on average shareholders' equity                         |
| 3.3                                                                                                                                                                                                                                  | Debt-equity ratio                                                |
| 3.4                                                                                                                                                                                                                                  | % return on average capital employed (use net income before tax) |
| 4. The directors are pleased that the operating efficiency of the business has improved. Quote and explain TWO financial indicators to support their opinion.                                                                        |                                                                  |
| 5. According to the Companies Act (Act 61 of 1973), the directors may repurchase shares only if the business is acceptable. Quote and explain THREE financial indicators that provide evidence that they have complied with the Act. |                                                                  |

6. One of the directors has suggested that they finance the expansion by increasing loans instead of issuing new shares.

Quote and explain TWO financial indicators to support his opinion.

Explain TWO other factors, with advice, that the directors should consider before embarking on this expansion.

| Factor | Advice |
|--------|--------|
|        |        |
|        |        |

7. Explain in our own words why it is necessary for the independent auditors to mention internal controls under the section on Directors' Responsibility.

Under the section on Independent Auditor's Responsibility, they mention something about 'ethical requirements'. Give a practical example of this.

Is their final opinion good, or not? Explain.

Why is it necessary for the independent auditor to have the qualification CA (SA) behind his name? Explain.

**ACTIVITY CC 4****(Question 4.2 –Feb/Mar 2012)**

You are provided with information relating to Ambrosio Limited for the year ended 31 December 2011

**REQUIRED:**

Refer to the incomplete Cash Flow Statement provided in information 8. Calculate only the missing figures indicated by (a) to (e) in the Cash Flow Statement of Ambrosio Ltd on 31 December 2011. The other missing figures are NOT required.

**INFORMATION:****1. Extract from Income Statement for the year ended 31 December 2011**

|                                 |           |
|---------------------------------|-----------|
| Sales                           | 9 900 000 |
| Operating expenses for the year | 2 475 000 |
| Operating income for the year   | 3 597 000 |
| Depreciation on equipment       | 99 000    |
| Depreciation on vehicles        | 115 500   |
| Interest expense                | 148 500   |
| Net profit before tax           | ?         |
| Income tax                      | 916 550   |

2. Balance Sheet on 31 December 2011

|                                                              | 2011             | 2010             |
|--------------------------------------------------------------|------------------|------------------|
| <b>ASSETS</b>                                                |                  |                  |
| Tangible/ Fixed assets                                       | 5 953 000        | 5 692 500        |
| Financial assets                                             | ?                | ?                |
| Inventories                                                  | 660 000          | ?                |
| Trade and other receivables                                  | ?                | 681 000          |
| Cash and cash equivalents                                    | ?                | -                |
| <b>TOTAL ASSETS</b>                                          | <b>8 031 000</b> | <b>7 301 250</b> |
|                                                              |                  |                  |
| <b>EQUITY AND LIABILITIES</b>                                |                  |                  |
| Ordinary shareholder's equity                                | 6 673 000        | 5 148 000        |
| Ordinary share capital                                       | 5 478 000        | 4 620 000        |
| Retained income                                              | 1 195 000        | 528 000          |
| Non-current liabilities (Mortgage loan: Viva Bank (14% p.a)) | 600 000          | 1039 500         |
| Trade and other payables                                     | 758 000          | 915 750          |
| Bank overdraft                                               | -                | 198 000          |
| <b>TOTAL EQUITY AND LIABILITIES</b>                          | <b>8 031 000</b> | <b>7 301 250</b> |

3. Shares issued:

|                                                  |                   |
|--------------------------------------------------|-------------------|
| 2 310 000 ordinary shares on 1 January 2011      | R4 620 000        |
| 390 000 ordinary shares issued on 1 January 2011 | 858 000           |
| 2 700 000 ordinary shares on 31 December 2011    | <b>R5 478 000</b> |

4. Dividends:

New shares were issued at the beginning of the financial year.

The shares were issued at the beginning of the financial year.

The directors declared dividends as follows:

- Interim dividends of 33 cents
- Final dividends of 20 cents

5. Tangible / Fixed assets:

|                             | 2011      | 2010      |
|-----------------------------|-----------|-----------|
| Land and buildings          | 4 950 000 | 4 537 500 |
| Equipment at carrying value | 495 000   | 429 000   |
| Vehicles at carrying value  | 508 000   | 726 000   |

The following changes took place in terms of tangible/fixed assets:

- Vehicles were sold at carrying value during the year. These have been correctly recorded. The cost price of these vehicles was R350 000 and the accumulated depreciated was 247 500 at the date of disposal.
- New equipment was purchased during the year.
- Land and buildings were bought during the year.

## 6. Trade and other payables include the following.

|                            | 2011    | 2010    |
|----------------------------|---------|---------|
| Trade creditors            | ?       | 397 650 |
| Shareholders for dividends | 540 000 | 484 100 |
| SARS (Income tax)          | ?       | 33 000  |
|                            | 758 000 | 915 750 |

## 7. FINANCIAL INDICATORS:

The following financial indicators were calculated for the past two years:

|                                        | 2011     | 2010     |
|----------------------------------------|----------|----------|
| Operating expenses on sales            | ?        | 18%      |
| Operating profit on sales              | 11,3%    | 14%      |
| Net profit after tax on sales          | 21,3%    | 26,8%    |
| Debt-equity ratio                      | ?        | 0,2: 1   |
| Return on average shareholder's equity | 35,5%    | 37%      |
| Earnings per share                     | 78 cents | 85 cents |
| Dividends per share                    | 53 cents | 60 cents |
| Return on capital employed             | 47,0%    | 44,2%    |
| Solvency ratio                         | ?        | 3,4: 1   |
| Current ratio                          | 1,7: 1   | 1,3: 1   |
| Acid-test ratio                        | 1,1: 1   | 0,6: 1   |

| CASH FLOW STATEMENT ON 31 DECEMBER 2011     |                  |
|---------------------------------------------|------------------|
|                                             |                  |
| <b>Cash effects of operating activities</b> | <b>542 250</b>   |
| Cash generated from operations              | ?                |
| Interest paid                               | (148 500)        |
| Dividends paid                              | (a)              |
| Income tax paid                             | ?                |
|                                             |                  |
| <b>Cash effects of investing activities</b> | <b>(631 750)</b> |
| Purchase of fixed assets                    | (b)              |
| Proceeds of sale of fixed assets            | (c)              |
| Change in financial assets                  | ?                |
|                                             |                  |
| <b>Cash effects of financing activities</b> | <b>385 500</b>   |
| Proceeds of issue of shares                 | 825 00           |
| Repayment of long-term loan                 | (439 500)        |
|                                             |                  |
| Net change in cash equivalents              | (d)              |
| Cash equivalents – beginning of year        | (198 000)        |
| Cash equivalents – end of year              | (e)              |
|                                             |                  |

ANSWER:

Refer to the incomplete Cash Flow Statement provided in information 8. Calculate only the missing figures indicated by (a) to (e) in the Cash Flow Statement of Ambrosio Ltd on 31 December 2011. The other missing figures are NOT required.

| CASH FLOW STATEMENT ON 31 DECEMBER 2011     |                  |
|---------------------------------------------|------------------|
|                                             |                  |
| <b>Cash effects of operating activities</b> | <b>542 250</b>   |
| Cash generated from operations              | ?                |
| Interest paid                               | (148 500)        |
| Dividends paid                              | (a)              |
| Income tax paid                             | ?                |
|                                             |                  |
| <b>Cash effects of investing activities</b> | <b>(631 750)</b> |
| Purchase of fixed assets                    | (b)              |
| Proceeds of sale of fixed assets            | (c)              |
| Change in financial assets                  | ?                |
|                                             |                  |
| <b>Cash effects of financing activities</b> | <b>385 500</b>   |
| Proceeds of issue of shares                 | 825 00           |
| Repayment of long-term loan                 | (439 500)        |
|                                             |                  |
| Net change in cash equivalents              | (d)              |
| Cash equivalents – beginning of year        | (198 000)        |
| Cash equivalents – end of year              | (e)              |
|                                             |                  |

You are provided with an incomplete Cash Flow Statement of SS Limited for the year ended 30 June 2004, together with additional information. SS Limited has an authorised share capital of 200 000 ordinary shares. The market price of the shares is currently 605c. New shares were issued on 1 January 2004.

**REQUIRED:**

*Study the information provided and answer the questions which follow.*

**INFORMATION:**

1. The following figures appeared in the Income Statement for June 2004:

|                      |          |
|----------------------|----------|
| Depreciation         | R 37 200 |
| Income tax           | R 44 266 |
| Net income after tax | R115 184 |

2. Dividends declared on ordinary shares:

|           |                                    |
|-----------|------------------------------------|
| - Interim | R33 880 (Paid on 31 December 2003) |
| - Final   | ? (Payable on 15 August 2004)      |

3. The following information appeared in the Balance Sheet:

| <b>Extract: BALANCE SHEET</b>                                     | <b>30 June 2004</b> | <b>30 June 2003</b> |
|-------------------------------------------------------------------|---------------------|---------------------|
| Ordinary share capital                                            | 596 400             | 504 000             |
| Retained income                                                   | 80 400              | 87 096              |
| <u>Share capital and reserves</u>                                 | <b>676 800</b>      | <b>591 096</b>      |
| Non-current liabilities: Loan Natal Bank (interest rate 12% p.a.) | 144 000             | 0                   |
| Fixed assets at carrying value                                    | 720 000             | 660 000             |
| S.A. Revenue service: Income tax                                  | 10 800 Dr           | 4 800 Cr            |
| Shareholders for dividends                                        | 88 000              | 40 656              |
| Cash and cash equivalents                                         | 600                 | 600                 |
| Bank overdraft (Interest rate 19% p.a.)                           | 29 600 Cr           | 246 648 Cr          |

4. For the purposes of the Cash Flow Statement, the cash effects of changes in working capital were calculated to be R15 600 (favourable).
5. The loan from Natal Bank was taken out on 1 April 2004. Interest on overdraft for the year was R3 540. All interest payments are up to date.
6. Certain assets were sold at carrying value, R2 400.
7. Incomplete Cash Flow Statement for the year ended 30 June 2004:

|                                                     |                  |
|-----------------------------------------------------|------------------|
| <u>Cash flows from operating activities</u>         | ?                |
| Cash generated from operations                      | A                |
| Interest paid                                       | B                |
| Dividends paid                                      |                  |
| Income tax paid                                     | D                |
| <u>Cash flows from investing activities</u>         | ?                |
| Fixed assets purchased                              | E                |
| ?                                                   | F                |
| <u>Cash flows from financing activities</u>         | ?                |
| Proceeds of issue of share capital                  | G                |
| ?                                                   | H                |
| <u>Net change in cash and cash equivalents</u>      | I                |
| <b>Cash and cash equivalents: beginning of year</b> | <b>(246 048)</b> |
| <b>Cash and cash equivalents: end of year</b>       | <b>J</b>         |

**ANSWER THE FOLLOWING QUESTIONS:**

1. Prepare the note for 'Reconciliation between net profit before taxation and cash generated from operations' as it would appear in the notes to the Cash Flow Statement of SS Limited.
2. Provide the missing figures in the Cash Flow Statement labelled (A) to (J). Workings to be shown in brackets to earn part-marks.

## NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

## Reconciliation between net profit before taxation and cash generated from operations

|  |  |
|--|--|
|  |  |
|  |  |
|  |  |
|  |  |
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|  |  |
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|  |  |

2

| Number | CALCULATIONS | Answer |
|--------|--------------|--------|
| A      |              |        |
| B      |              |        |
| C      |              |        |
| D      |              |        |
| E      |              |        |
| F      |              |        |
| G      |              |        |
| H      |              |        |
| I      |              |        |
| J      |              |        |

**FIXED ASSETS, CASH FLOW STATEMENT: INTERPRETATION AND CORPORATE GOVERNANCE**

You are provided with information relating to Meteor Supermarkets Limited, a public company. The financial year-end is 28 February 2014.

**REQUIRED:****1. Refer to Information E:**

Calculate the missing amounts (indicated by **a**, **b** and **c**) in the Fixed/Tangible Asset Note for the year ended 28 February 2014.

2. Complete the Cash Flow Statement for the year ended 28 February 2014. Some of the details and figures have been entered in the ANSWER BOOK. Show workings in brackets.
3. At the AGM, a shareholder stated that the Cash Flow Statement reflects poor decisions by the directors. Explain TWO points, with relevant figures, to support his opinion.
4. Calculate the following financial indicators for the financial year ended 28 February 2014:
  - 4.1 Net asset value per share
  - 4.2 Debt-equity ratio
5. Comment on the liquidity position of the company. Quote THREE relevant financial indicators (actual figures/ratios/percentages) and their trends.
6. The directors decided to increase the loan during the current financial year. Quote TWO financial indicators (actual figures/ratios/percentages) that are relevant to their decision. Explain why this was a good decision, or not.
7. The Bakker family owns 740 000 shares in this company. Explain the effect that the repurchase of shares on 31 December 2013 had on their control of the company. Give a calculation(s) to support your answer.

**INFORMATION:****A. Extract from the Income Statement for the year ended 28 February 2014:**

|                                    |           |
|------------------------------------|-----------|
| Interest on loan (all capitalised) | 88 500    |
| Net profit before tax              | 1 575 000 |
| Income tax                         | 441 000   |

## B. Extract from the Balance Sheet as at:

|                                                              | 28 Feb. 2014     | 28 Feb. 2013     |
|--------------------------------------------------------------|------------------|------------------|
| <b>Current assets</b>                                        | <b>3 337 300</b> | <b>4 641 000</b> |
| Inventories                                                  | 818 200          | 641 000          |
| Trade debtors                                                | 2 377 600        | 1 512 000        |
| SARS: Income tax                                             | 128 000          | -                |
| Cash and cash equivalents                                    | 13 500           | 2 488 000        |
| <b>Shareholders' equity</b>                                  | <b>8 839 000</b> | <b>7 400 000</b> |
| Ordinary share capital                                       | 8 700 000        | 6 600 000        |
| Retained income                                              | 139 000          | 800 000          |
| <b>Mortgage loan: Excel Bank (interest rate: 12,5% p.a.)</b> | <b>908 000</b>   | <b>508 000</b>   |
| <b>Current liabilities</b>                                   | <b>2 063 700</b> | <b>1 302 000</b> |
| Trade creditors                                              | 678 700          | 700 000          |
| Shareholders for dividends                                   | 870 000          | 480 000          |
| Bank overdraft                                               | 515 000          | -                |
| SARS: Income tax                                             | -                | 122 000          |

## C. Shareholders' register:

| DATE             | DETAILS                                                                                                                                                        |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 March 2013     | 1 200 000 shares in issue                                                                                                                                      |
| 31 March 2013    | 300 000 shares issued at R8 each                                                                                                                               |
| 31 December 2013 | The company bought back 50 000 shares from a dissatisfied shareholder, S Smit, at R9,50 each. The average price of all shares issued to date was R6 per share. |
| 28 February 2014 | 1 450 000 shares in issue                                                                                                                                      |

## D. Dividends for the financial year ending 28 February 2014:

|                                              |          |
|----------------------------------------------|----------|
| Interim dividends paid on 31 August 2013     | R750 000 |
| Final dividends declared on 28 February 2014 | R870 000 |

## E. Fixed/Tangible assets:

|                                                              | LAND AND BUILDINGS | VEHICLES         |
|--------------------------------------------------------------|--------------------|------------------|
| <b>Carrying value at the beginning of the financial year</b> | <b>2 689 000</b>   | <b>1 880 000</b> |
| Cost                                                         | 2 689 000          | 3 250 000        |
| Accumulated depreciation                                     | -                  | (1 370 000)      |
| <b>Movements</b>                                             |                    |                  |
| Additions at cost                                            | a                  | 330 000          |
| Disposals at carrying value                                  | -                  | b                |
| Depreciation                                                 | -                  | c                |
| <b>Carrying value at the end of the financial year</b>       | <b>6 740 000</b>   |                  |
| Cost                                                         | 6 740 000          | 3 440 000        |
| Accumulated depreciation                                     | -                  |                  |

**Additional information in respect of fixed/tangible assets:**

- (i) A vehicle was sold for cash at its carrying value on 31 May 2013. The following extract of the vehicle sold was taken from the Fixed Assets Register:

| Cost price: R140 000                                             |              | Date purchased: 1 March 2012 |
|------------------------------------------------------------------|--------------|------------------------------|
| Rate of depreciation: 20% p.a. on the diminishing-balance method |              |                              |
| FINANCIAL YEAR END                                               | DEPRECIATION | ACCUMULATED DEPRECIATION     |
| 28 February 2013                                                 | 28 000       | 28 000                       |
| 31 May 2013                                                      | 5 600        | 33 600                       |

- (ii) A new vehicle, costing R330 000, was purchased and paid for by cheque on 1 January 2014.
- (iii) Vehicles are depreciated at 20% p.a. on the diminishing balance method.
- (iv) New premises (land and buildings) were acquired during the financial year.

**F. Financial indicators:**

|                                      | 28 Feb. 2014   | 28 Feb. 2013   |
|--------------------------------------|----------------|----------------|
| Debt-equity ratio                    | ?              | 0,1 : 1        |
| Net asset value per share (NAV)      | ?              | 617 cents      |
| Current ratio                        | 1,6 : 1        | 3,6 : 1        |
| Acid-test ratio                      | 1,2 : 1        | 3,1 : 1        |
| Stock turnover rate                  | 6,8 times p.a. | 5,1 times p.a. |
| Debtors' collection period           | 40 days        | 35 days        |
| % return on average capital employed | 18,8%          | 16,4%          |

**ANSWER**

1. Calculate the missing amounts (indicated by a, b and c) in the Fixed/Tangible Asset Note for the year ended 28 February 2014.

| NO. | WORKINGS | AMOUNT |
|-----|----------|--------|
| a   |          |        |
| b   |          |        |
| c   |          |        |

|                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
|------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|--|--------------------------------|---------|---------------|----------|--|--|--|--|-------------------------------------|--|--|--|--|--|-------------------------------------|--|--|--|--|--|-----------------------------------------|--|------------------------------------------------|-----------|------------------------------------------|--|
| 2.                                             | <b>METEOR SUPERMARKETS LTD</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
|                                                | <b>CASH FLOW STATEMENT FOR YEAR ENDED 28 FEBRUARY 2014</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
|                                                | <table border="1"> <tr> <td>Cash flow from operating activities</td><td></td></tr> <tr> <td>Cash generated from operations</td><td>969 600</td></tr> <tr> <td>Interest paid</td><td>(88 500)</td></tr> <tr> <td></td><td></td></tr> <tr> <td></td><td></td></tr> <tr> <td>Cash flow from investing activities</td><td></td></tr> <tr> <td></td><td></td></tr> <tr> <td></td><td></td></tr> <tr> <td>Cash flow from financing activities</td><td></td></tr> <tr> <td></td><td></td></tr> <tr> <td></td><td></td></tr> <tr> <td>Net change in cash and cash equivalents</td><td></td></tr> <tr> <td>Cash and cash equivalents at beginning of year</td><td>2 488 000</td></tr> <tr> <td>Cash and cash equivalents at end of year</td><td></td></tr> </table> | Cash flow from operating activities |  | Cash generated from operations | 969 600 | Interest paid | (88 500) |  |  |  |  | Cash flow from investing activities |  |  |  |  |  | Cash flow from financing activities |  |  |  |  |  | Net change in cash and cash equivalents |  | Cash and cash equivalents at beginning of year | 2 488 000 | Cash and cash equivalents at end of year |  |
| Cash flow from operating activities            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
| Cash generated from operations                 | 969 600                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
| Interest paid                                  | (88 500)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
|                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
|                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
| Cash flow from investing activities            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
|                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
|                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
| Cash flow from financing activities            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
|                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
|                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
| Net change in cash and cash equivalents        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
| Cash and cash equivalents at beginning of year | 2 488 000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |
| Cash and cash equivalents at end of year       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                     |  |                                |         |               |          |  |  |  |  |                                     |  |  |  |  |  |                                     |  |  |  |  |  |                                         |  |                                                |           |                                          |  |

3. At the AGM, a shareholder stated that the Cash Flow Statement reflects poor decisions by the directors. Explain TWO points, with relevant figures, to support his opinion.
- Point 1:
- Point 2:

4. 4.1 Calculate the net asset value per share for 2014.
- 4.2 Calculate the debt-equity ratio for 2014.

5. Comment on the liquidity position of the company. Quote THREE relevant financial indicators (actual figures/ratios/percentages) and their trends.

Financial indicator 1 and trend:

Financial indicator 2 and trend:

Financial indicator 3 and trend:

General comment:

6. The directors decided to increase the loan during the current financial year. Quote TWO financial indicators (actual figures/ ratios/percentages) that are relevant to their decision. Explain why this was a good decision, or not.

Financial indicator 1:

Financial indicator 2:

Explanation:

7. The Bakker family owns 740 000 shares in this company. Explain the effect that the repurchase of shares on 31 December 2013 had on their control of the company. Give a calculation(s) to support your answer.

## DD. FINANCIAL STATEMENTS- ANALYSIS AND INTERPRETATION

| AREA OF ANALYSIS          | DESCRIPTION                                                                                   | RELATED FINANCIAL INDICATORS                                                                                                                                                                         |
|---------------------------|-----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Profitability             | How efficient is the company in its normal operating activities?                              | % gross profit on sales<br>% net profit on sales<br>% operating expenses on sales<br>% operating profit on sales<br>% gross profit on cost of sales (mark-up)                                        |
| Liquidity                 | The ability of a company to pay off its immediate (short-term) debts.                         | Current ratio<br>Acid test ratio<br>Net current assets (net working capital)<br>Turnover rate of stock<br>Debtors' collection period<br>Creditors' payment period<br>Average period of stock on hand |
| Solvency                  | The ability of a company to pay off all its debts                                             | Solvency ratio<br>Net assets                                                                                                                                                                         |
| Return                    | Are the shareholders earning a fair amount on their investment?                               | % return on average shareholders' equity<br>Earnings per share<br>Dividends per share<br>Net asset value                                                                                             |
| Financial risk<br>Gearing | To what extent is the company financed by loans (borrowed money) compared to its own capital? | Debt/equity ratio<br>% return on total capital employed                                                                                                                                              |

**COMMENTING ON FINANCIAL INDICATORS:**

- \* Consider what the question is asking you to analyse (e.g. liquidity). Decide on the relevant financial indicator(s)
  - \* Name the financial indicator(s) giving figures or ratios or percentages.
  - \* Compare the current year's indicator(s) with that of the previous year. Say whether it has increased or decreased
  - \* If possible, provide a general comment
- Hint:** Use point form instead of long sentences to comment

**EXAMPLE 1**

| Financial indicator | 2010    | 2011    |
|---------------------|---------|---------|
| Current ratio       | 1,3 : 1 | 2,1 : 1 |
| Acid test ratio     | 0,6 : 1 | 1,4 : 1 |

Current ratio ✓ has improved from 1,3 : 1 to 2,1 : 1 ✓

Acid test ratio ✓ has also improved from 0,6 : 1 to 1,4 : 1 ✓

This company is in good liquidity position and should be able to pay its short-term debt easily. ✓

**EXAMPLE 2**

| Financial indicator       | 2010          | 2011          |
|---------------------------|---------------|---------------|
| Earnings per share (EPS)  | 35c per share | 15c per share |
| Dividends per share (DPS) | 25c per share | 20c per share |

\*EPS has declined from 35c to 15c per share. ✓

\*DPS has declined from 25c to 20c per share. ✓

\*In 2010 their EPS was 35c while the DPS was only 25c per share. This means that the company retained 10c per share for future growth. ✓✓

\*In 2011 they only earned 15c per share but gave the shareholders 20c per share meaning that none of this year's profits were retained. ✓✓

**ACTIVITY D 1**

1. Complete the following sentences by using words in the list below. Write only the word next to the question number

|                                                   |
|---------------------------------------------------|
| profitable; solvent; liquid; return; risk/gearing |
|---------------------------------------------------|

1. A company with total assets exceeding the total liabilities is.....
2. A company which relies heavily on loans will have high .....
3. A company which controls its income and expenses properly will be.....
4. The percentage net income on equity indicates the. .... earned by shareholders.
5. A company which is able to settle its immediate debts is.....

**ANSWER:**

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| 1. .... | 2. .... | 3. .... | 4. .... | 5. .... |
|---------|---------|---------|---------|---------|

**ACTIVITY D 2**

(Question 4.5 –4.8: Nov/Dec 2011)

1.

**REQUIRED**

1. Calculate the following for 2011:
  - 1.1 Earnings per share
  - 1.2 Net asset value per share
  - 1.3 Debt-equity ratio
2. The directors are generally happy with the improvement in the liquidity from 2010 to 2011. Quote THREE relevant financial indicators for both years (actual ratios or figures) to support their opinion.
3. Comment on the price at which the new shares were issued on 1 March 2010. Will the directors and the shareholders be satisfied with this? Explain, quoting relevant figures from the question.
4. The directors have taken significant decisions during the year which have obviously affected the cash balances. List THREE of these by quoting figures from the Cash Flow Statement in each case. State why each of these decisions will have important effect on the future results of the company.

**INFORMATION:**

2. Extract from Income Statement for the year ended 28 February 2011

|                             |           |
|-----------------------------|-----------|
| Depreciation                | R203 000  |
| Interest on loan (16% p.a.) | 86 400    |
| Net profit before tax       | 1 020 350 |
| Income tax                  | 306 105   |
| Net profit after tax        | 714 245   |

3. Figures from the Balance Sheet and Notes on 28 February 2011

|                               | 2011      | 2010      |
|-------------------------------|-----------|-----------|
| Ordinary shareholders' equity | ?         | 2 572 500 |
| Ordinary share capital        | 3 113 400 | 2 149 500 |
| Retained income               | ?         | 423 000   |
| Fixed / Tangible asset        | 2 790 000 | 3 824 500 |
| Loan (18% p.a.)               | 500 000   | 850 000   |
| Inventories                   | 381 000   | 408 000   |
| Cash and cash equivalents     | 1 155 000 | 3 000     |
| Trade and other receivables   | 1 640 000 | 1 198 500 |
| Trade debtors                 | 1 640 000 | 1 150 000 |
| SARS (Income tax)             | -         | 48 500    |
| Trade and other payables      | 1 803 355 | 2 011 500 |
| Trade creditors               | 1 534 355 | 1 030 000 |
| Accrued expenses (Telephone)  | 8 000     | 8 700     |
| SARS (Income tax)             | 69 000    | -         |
| Shareholders for dividends    | 192 000   | 57 700    |
| Bank overdraft                | -         | 915 100   |

4. Ordinary shares

**Details of shares authorised:** 750 000 shares

**Details of shares issued:**

411 000 ordinary shares at R3,00 each on 1 March 2010

189 000 ordinary shares issued at 510 cents on 1 March 2010

600 000 ordinary shares R3,00 each on 28 February 2011

The market price of the shares on the JSE was 670 cents on 1 March 2010. It increased by 20 cents during the financial year.

5. Dividends

- An interim dividend of 66 cents per share was paid on 30 September 2010.
- The directors recommended a final dividend of 32 cents per share on 28 February 2011.

6. Fixed assets

- Land and buildings were sold for R1 250 000.
- Equipment was purchased for cash.
- No other tangible/fixed assets were bought or sold

# Financial indicators

The following indicators were calculated for the past two years:

|                                          | 2011     | 2010      |
|------------------------------------------|----------|-----------|
| Solvency                                 | 2,6 : 1  | 1,9 : 1   |
| Debtors' collection period               | 28 days  | 32 days   |
| Creditors' payment period                | 20 days  | 43 days   |
| Stock turnover rate                      | 6 times  | 8 times   |
| Current ratio                            | 1,8 : 1  | 0,8 : 1   |
| Acid-test ratio                          | 1,5 : 1  | 0,6 : 1   |
| Debt – equity ratio                      | ?        | 0,3 : 1   |
| % return on average shareholders' equity | 23%      | 19%       |
| % return on total capital employed       | 27%      | 12%       |
| Net asset value per share                | ?        | 603 cents |
| Dividends per share                      | 98 cents | 112 cents |
| Earnings per share                       | ?        | 206 cents |

## ANSWER:

1. Calculate the following for 2011:

1.1. Earnings per share

1.2. Net asset value per share

1.3. Debt-equity ratio

2. The directors are generally happy with the improvement in the liquidity from 2010 to 2011. Quote THREE relevant financial indicators for both years (actual ratios or figures) to support their opinion.

3. Comment on the price at which the new shares were issued on 1 March 2010. Will the directors and the shareholders be satisfied with this? Explain, quoting relevant figures from the question.

4. The directors have taken significant decisions during the year which have obviously affected the cash balances. List THREE of these by quoting figures from the Cash Flow Statement in each case. State why each of these decisions will have important effect on the future results of the company.

## EE. RECONCILIATIONS **Downloaded from eduresourceza.com**

In accounting context; reconciliation means to make two sets of amounts correspond with each other (i.e. make them equal to each other) by explaining why the two sets of amounts differ.

The purpose of reconciliation is to verify the errors and differences to confirm the accuracy of all transactions recorded. There are three types of Reconciliation. These are Bank, Debtors and Creditors.

| Bank reconciliation                                                                                                                                                                                       | Debtors' reconciliation                                                                                                                                   | Creditors' reconciliation                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The balance in the bank account in the business's general ledger should be the same as the balance on the bank statement received from the bank. When these are not the same, they need to be reconciled. | The balance of the debtors' control account should be the same as the total of the debtors list. When these are not the same, they need to be reconciled. | The balance of the creditors' control account should be the same as the total of the creditors' list. The statements received from the creditors must match each creditors balance in the business's books. When these are not the same, they must be reconciled. |

### ACTIVITY EE 1

(Question: Nov/Dec 2011)

#### BANK RECONCILIATION

You are provided with information relating to Ace Traders for September 2011.

#### REQUIRED:

1.1.1 Indicate whether the following statements are TRUE or FALSE:

- (a) An internal auditor will want to inspect the Bank Reconciliation Statement at the end of each month.
- (b) A debit balance on the Bank statement reflects an unfavourable balance.
- (c) Service fees and interest on an overdraft will be recorded as Bank charges in the Cash payments journal.
- (d) A post dated cheque issued by Ace Traders in September 2011, but dated February 2013, will only be entered in the Cash Payments journal of Ace Traders in February 2013.

1.1.2. Calculate the correct bank balance of Ace Traders on 30 September 2011. Show all workings.

1.1.3. Use the information below to prepare the Bank Reconciliation Statement of Ace Traders on 30 September 2011.

1.1.4. Refer to the outstanding deposit of R43 000, dated 11 September 2011. Why should the internal auditor be concerned?

#### INFORMATION ON 30 SEPTEMBER 2011

##### Balances prior to doing the Bank reconciliation:

Balance of the Bank Account in the Ledger on 30 September 2011

**R60 000** favourable

Balance per Bank Statement on 30 September 2011

**R17 600** favourable

Difference

**R42 400**

##### Individual differences noticed between the books of Ace Traders and the Bank Statement for September 2011:

|    | Details                                                                                                                      | Amount  |
|----|------------------------------------------------------------------------------------------------------------------------------|---------|
| 1. | Cheque No 657, dated 2 March 2011, still not reflected in Bank Statement                                                     | R2 000  |
| 2. | Deposit, dated 11 September 2011, not reflected in Bank Statement                                                            | R43 000 |
| 3. | Dishonoured cheque, originally received from a debtor on 15 September 2011, reflected in Bank Statement but not in Journals. | R9 500  |
| 4. | Cheque 931, dated 18 September 2011, not reflected in Bank Statement.                                                        | R4 800  |
| 5. | Cheque No. 936, dated 30 October 2011, not reflected in Bank Statement.                                                      | R10 200 |
| 6. | Deposit, dated 28 September 2011, not reflected in Bank Statement                                                            | R5 700  |
| 7. | Bank charges in Bank Statement, but not in Journals                                                                          | R1 200  |

## 1.1.1 Indicate whether the statements are true or false

|     |  |     |  |
|-----|--|-----|--|
| (a) |  | (b) |  |
| (c) |  | (d) |  |

## 1.1.2 Calculate the correct bank balance of Ace Traders on 30 September 2011.

|                                                |        |
|------------------------------------------------|--------|
| Balance prior to doing the bank reconciliation | R60000 |
|                                                |        |
|                                                |        |
|                                                |        |
|                                                |        |
| Correct balance on 30 September 2011           |        |

## 1.1.3 BANK RECONCILIATION STATEMENT ON 30 SEPTEMBER 2011

|  |  |  |
|--|--|--|
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |

## 1.1.4 Refer to the outstanding deposit of R43 000, dated 11 September 2011. Why should the internal auditor be concerned? State TWO points.

You are provided with bank reconciliation statement

**Required:**

Study the information and answer the questions that follow.

**Bank Reconciliation of Imbokodo Traders**

| <b>Bank Reconciliation statement as at 28 February 2011</b> |         |
|-------------------------------------------------------------|---------|
| Balance per bank statement                                  |         |
| Outstanding deposit                                         | R16 100 |
| Outstanding cheques                                         |         |
| No 202 dated (01/07/2010)                                   | R4 510  |
| No 417 dated (23/02/2011)                                   | R350    |
| No 482 dated (28/06/2011)                                   | R8 200  |
| Dr Balance as per Bank account                              | R10 450 |

**QUESTIONS:**

1. Calculate the bank statement balance of Imbokodo Traders on 28 February 2011.
2. Cheque no. 202 has been treated incorrectly by Imbokodo Traders. What would the correct entry be in the books of Imbokodo Traders? Provide a reason for your answer.
3. Explain how cheque no. 482 should be treated when preparing the financial statements.
4. Explain why it is necessary to prepare a bank reconciliation statement every month. List at least two points.

**ANSWER**

|                                                                                                                                                                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Calculate the bank statement balance of Imbokodo Traders on 28 February 2011.                                                                                        |
| 2. Cheque no. 202 has been treated incorrectly by Imbokodo Traders. What would the correct entry be in the books of Imbokodo Traders? Provide a reason for your answer. |
| 3. Explain how cheque no. 482 should be treated when preparing the financial statements.                                                                                |
| 4. Explain why it is necessary to prepare a bank reconciliation statement every month. List at least two points.                                                        |

**DEBTORS' RECONCILIATION**

You are required to refer to the Debtors Reconciliation and the additional information provided below to answer the following questions.

**Ace Stores Reconciliation of Debtors control account to the Debtors' List on 31 January 2011.**

|                                     |                |
|-------------------------------------|----------------|
| Balance per Debtors control account | R32 000        |
| Balance per Debtors Ledger          | R28 000        |
| A. Adam                             | R 6 000        |
| B. Billie                           | R 4 500        |
| C. Charlie                          | R 8 500        |
| D. Daniel                           | R 5 500        |
| E. Eve                              | R ?            |
| <b>Difference</b>                   | <b>R 4 000</b> |

**ADDITIONAL INFORMATION**

The following errors were discovered and must be corrected:

- A. Goods sold on credit to D. Daniel for R1 300 was correctly recorded in the Debtors Journal but incorrectly posted as R3 100 to D. Daniel's account in the Debtors Ledger.
  - B. A cheque for R3 000 received from B. Billie was dishonoured when presented to the bank for payment. The entry for the dishonoured cheque appeared in the Cash Payment Journal and correctly posted to the Debtors control account. No entry appears in the B. Billie's account.
  - C. The total in the Debtors Allowances column of R2 800 as per Debtors Allowances Journal for January 2011 was not posted to the Debtors control account.
1. Explain what action the bookkeeper should have taken when he discovered a difference of R4 000 in the Reconciliation Statement. Discuss at least **TWO** actions.
  2. Calculate the correct balance owing by the following debtors:  
(Show your calculations)
    - B. Billie
    - D. Daniel
    - E. Eve
  3. If a Reconciliation of Debtors was not done at the end of January 2011 how would this have affected the business? Discuss at least one effect.
  4. Calculate the opening balance in the Debtors control account 01 February 2011.

1. Explain what action the bookkeeper should have taken when he discovered a difference of R4 000 in the Reconciliation Statement. Discuss at least TWO actions.

2. Calculate the correct balance owing by the following debtors:

(Show your calculations)

- Billie
  
  
  
  
  
  
- Daniel
  
  
  
  
  
  
- Eve

3. If a Reconciliation of Debtors was not done at the end of January 2011 how would this have affected the business? Discuss at least one effect.

4. Calculate the opening balance in the Debtors control account 01 February 2011.

**DEBTORS CONTROL AND AGE ANALYSIS**

You are provided with information relating to BEARES FURNITURES, a business owned by Beares. The financial year end 28 February 2011. Veli was a new credit officer appointed on 1 March 2010.

**REQUIRED:**

1. How can the preparation of DEBTORS' COLLECTION SCHEDULE and Debtors' Age Analysis assist Beares and Veli in controlling debtors?
2. Refer to Information 2 below:

Calculate the expected debtors collection for the month of March 2011. Total sales for the year ended 28 February 2011 is expected to increase to R960 000.

3. The balance on the Debtors' Control account was R42 500 on 01 March 2010, the beginning of the financial year and R83 500 on 28 February 2011, the end of the financial.
  - Calculate the average debtors' collection period (in days) for the past financial year ended 28 February 2011.
  - Explain whether Beares should be satisfied with the number of days and give reasons for your opinion.
4. Beares feels that the control of debtors has not been satisfactory since Veli was employed. Beares wants you to report to him what appears to have gone wrong. Refer to the Debtors' Age Analysis (Information 3) and the Debtors' Control account (Information 4) provided below.

Explain FOUR points that you would include in your report. You must quote specific information from the Age Analysis of Debtors (TWO points) and from the Debtors' Control account (TWO points) to support your answer.

5. Refer to the newspaper article (Information 5).

How would these regulations influence Beares Furnitures in the granting of credit to clients? Explain TWO points.

**INFORMATION:****1. Credit limits and credit terms:**

It is Beares' business policy to grant debtors credit limits of R15 000 each. They are expected to settle their accounts in 30 days.

**2. Sales and collections for the year ended 28 February 2011:**

- Total sales for the year, R840 000.
- Sales occurred evenly throughout the year.
- 25% of sales are for cash, the rest are on credit.
- 30% of debtors settle their accounts in the same month as the sales transaction month subject to 2% discount.
- 50% settle in the month following the sales transaction month.
- 15% settle in the 2<sup>nd</sup> month following the sales transaction month.
- 5% are written off as bad in the 3<sup>rd</sup> month following the sales transaction.

## 3. Debtors' age analysis on 28 February 2011

## Note:

- Business policy is to set credit limits at R15 000 per account.
- The credit terms are 30 days.

| Name      | Total         | Current       | 30 days       | 60 days       | 60 days +     |
|-----------|---------------|---------------|---------------|---------------|---------------|
| K. Khoza  | 15 000        | 15 000        |               |               |               |
| M. Miller | 31 000        | 12 000        | 4 000         | 2 000         | 13 000        |
| B. Bester | 9 100         |               |               | 9 100         |               |
| P. Paulse | 11 600        | 9 200         | 2 400         |               |               |
| N. Ncube  | 16 800        | 7 800         | 5 500         | 3 500         |               |
|           | <b>83 500</b> | <b>44 000</b> | <b>11 900</b> | <b>14 600</b> | <b>13 000</b> |

## 4. DEBTORS' CONTROL ACCOUNT

|             |                                        |     |                |             |                     |     |                |
|-------------|----------------------------------------|-----|----------------|-------------|---------------------|-----|----------------|
| 2010 Feb 01 | Balance                                | b/d | 86 500         | 2010 Feb 28 | Bank and discount   | CRJ | 61 000         |
| Feb 28      | Sales                                  | DJ  | 52 500         |             | Debtors' allowances | DAJ | 3 000          |
|             | Bank                                   | CPJ | 9 700          |             | Bad debts           | GJ  | 2 000          |
|             | Sundry Accounts<br>(Discount-reversed) | GJ  | 800            |             | Balance             | c/d | 83 500         |
|             |                                        |     | <b>149 500</b> |             |                     |     | <b>149 500</b> |
| 2010 Mar 1  | Balance                                | b/d | 83 500         |             |                     |     |                |

## NEWSPAPER ARTICLE

**Furniture retailers fear that National Credit Act will restrict business**

*In June 2007, the government introduced a new law, the National Credit Act (NCA), which stipulates strict requirements before granting credit to any customer.*

*Legal expert Neil Nene said, 'The NCA was designed to save consumers from themselves. Before the implementation of the NCA, many businesses could do exactly what they wanted to. They were actively encouraged encouraging customers to buy on credit in order to increase the sales volumes of their businesses. Now, they will have to apply responsible measures before allowing customers to open new accounts.'*

*In a survey of 20 local furniture retailers, the Daily Views found that 15 retailers were extremely worried about the effect of the NCA on their businesses. One of these retailers, Steve Smits, said that customers should be trusted to make their own decisions about whether they can afford to settle their debts, and that the new measures might force some retailers to close down their businesses.*

**ANSWER**

1. How can the preparation of a Debtors Collection Schedule assist in controlling debtors?

How can the preparation of a Debtors Age Analysis assist in controlling debtors?

2.

| DEBTORS COLLECTION SCHEDULE: |              |            |            |          |
|------------------------------|--------------|------------|------------|----------|
| MONTH                        | CREDIT SALES | MARCH 2010 | APRIL 2010 | MAY 2010 |
|                              | R            | R          | R          | R        |
| MARCH 2010                   |              |            |            |          |
|                              |              |            |            |          |
|                              |              |            |            |          |
|                              |              |            |            |          |

3. Calculate the debtors average collection period for the year ended 28 February 2010:

Explain whether Beares should be satisfied with this. Provide a reason for your opinion.

4. Explain FOUR points that you would include in your report. You must quote specific information from the Age Analysis of Debtors (TWO points) and from the Debtors Control account (TWO points) to support your answer.

Age Analysis of Debtors (TWO points)

Debtors Control account (TWO points)

5. How would these regulations influence Beares Furnishers in the granting of credit to clients? Explain TWO points.

1. Study the Creditors Ledger provided below; analyse the information and show the effect of the entries in the Accounting Equation

Use the following table to show the effect on Accounting Equation

| Date | Account Debited | Account Credited | A | O E | L |
|------|-----------------|------------------|---|-----|---|
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |

CREDITORS LEDGER OF BOB STORES  
T P NOMBIKA

| DATE     | DETAILS          | FOL | DEBIT | CREDIT | BALANCE |
|----------|------------------|-----|-------|--------|---------|
| 1/02/11  | Account rendered |     |       |        | 280     |
| 2/02/11  | Cheque no 29     | CPJ | 270   |        | 10      |
|          | Cheque no 29     | CPJ | 10    |        | -       |
| 7/02/11  | Invoice 63       | CJ  |       | 50     | 50      |
| 11/02/11 | Credit Note      | CAJ | 17    |        | 33      |
| 17/02/11 | Invoice 76       | CJ  |       | 97     | 130     |
| 29/02/11 | Invoice 96       | CJ  |       | 35     | 165     |

## 2. CREDITORS' RECONCILIATION: Errors and Omissions

Use the same template as in No. 1 to analyse the following errors and omissions in the accounting equation:

- A credit purchase of stationery from PO Ltd R 2000 was left out of the book in errors
- Stock purchased on the credit from Mbuli Ltd R2700, was incorrectly posted to account of Shady Wholesalers
- A discount of R 320 received from Mbuli Ltd. Was incorrectly posted to the creditors ledger as R 230
- Interest of R300 must be brought into account on the overdue account of Mbuli Ltd
- The debit balance of Mabaso Traders must be transferred to the their account in the debtors Ledger
- V A T of R 500 was omitted from an invoice of equipment bought from Shady Wholesaler

Use the following table to show the effect on Accounting Equation

| Date | Account Debited | Account Credited | A | O E | L |
|------|-----------------|------------------|---|-----|---|
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
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|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |
|      |                 |                  |   |     |   |

**CREDITORS' RECONCILIATION**

A statement received from a creditor, Kairo Suppliers, on 28 February 2011, reflects that Ace Traders owes them R11 390. According to Ace Traders, the amount outstanding is only R7 910.

**REQUIRED:**

Use the table below to indicate the differences that were discovered when comparing the account in the Creditors' Ledger with the statement received from Kairo Suppliers.

Write only the amounts in the appropriate column and a plus (+) or minus (-) sign to indicate an increase or decrease in the balance. Calculate the correct balance/total at the end.

**INFORMATION:**

On investigation, it was found that:

- A cheque for R3 000 issued by Ace Traders has not yet been recorded in the statement received from Kairo Suppliers.
- The cheque in settlement of the January account was not received by Kairo Suppliers within 7 days; therefore the discount of R500 recorded by Ace Traders in the Creditors' Ledger must be cancelled.
- Returns recorded as R810 in the Creditors' Ledger of Ace Traders were recorded as R900 in the statement received from Kairo Suppliers. Ace Traders had miscalculated the cost of goods returned.
- An invoice received from Kairo Suppliers was correctly recorded as R7 700 by Ace Traders. However, in the statement received from Kairo Suppliers it was incorrectly recorded as R770.
- An invoice for R3 500 received from Kairo Suppliers was incorrectly recorded as a credit note by Ace Traders.

**Use the table to indicate the differences that were discovered when comparing the account in the Creditors' Ledger with the statement received from Kairo Suppliers.**

Write only the amounts in the appropriate column and a plus (+) or minus (-) sign to indicate an increase or decrease in the balance. Calculate the correct balance/total at the end.

|               | Creditors' Ledger of<br>Ace Traders | Statement from<br>Kairo Suppliers |
|---------------|-------------------------------------|-----------------------------------|
| Balance       | R7 910                              | R11 390                           |
| 1             |                                     |                                   |
| 2             |                                     |                                   |
| 3             |                                     |                                   |
| 4             |                                     |                                   |
| 5             |                                     |                                   |
| Balance/Total |                                     |                                   |

## CREDITORS' RECONCILIATION AND INTERNAL CONTROL

KZ Stores purchase goods on credit from Valley Ltd.

**REQUIRED:**

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.
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.

The following balances are provided:

|                                                                                          |          |        |
|------------------------------------------------------------------------------------------|----------|--------|
| In the account of Valley Ltd in the Creditors' Ledger of KZ Stores on 30 September 2014: | R112 820 | Credit |
| On the statement received from Valley Ltd on 25 September 2014:                          | R182 150 | Debit  |

- 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 2014 statement.
  - F. A debit note for R2 100 issued to Value CC was incorrectly recorded in the account of Valley Ltd by KZ Stores.
  - 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 2014 for R4 600 were recorded by KZ Stores. The statement from Valley Ltd is dated 25 September 2014.
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.
- 3.1 Explain what action should be taken against J van Wyk. State TWO points.
  - 3.2 What must the business do to prevent a similar incident in future? Explain THREE points.

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.

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       |                                |                                               |
|         |                                |                                               |

- 3
- 3.1 Explain what action should be taken against J van Wyk. State TWO points.
- 3.2 What must the business do to prevent a similar incident in future? Explain THREE points.

**FF. INVENTORY VALUATIONS AND VALIDATIONS****ACTIVITY FF 1****INVENTORY VALUATION**

You are provided with information relating to Mzansi Traders owned by Thami Mzansi. This business sells one type of cellular phone and their financial year ends on 31 December. The business uses the FIFO method to value their stock and they use the periodic inventory system.

**REQUIRED:**

- A. Calculate the value of the closing inventory according to the FIFO method on 31 December 2011.
- B. Calculate the following for the year ended 31 December 2011:
  - Cost of sales
  - Gross profit

You may prepare a Trading Account to assist you in these calculations.

- C. Use the figures calculated above to calculate the mark-up % on cost achieved.
- D. Refer to the mark-up % calculated above. Comment on whether this mark-up % has been beneficial to Mzansi Traders in 2011. Note that in the previous financial year the gross profit was R400 000 and the mark-up % was 75%.

**INFORMATION:****1. Inventories of cellular phones:**

The stocks were as follows at the beginning and end of the financial year:

| Date             | No. of units | Per unit | Total value |
|------------------|--------------|----------|-------------|
| 1 January 2011   | 450          | R530     | R238 500    |
| 31 December 2011 | 280          | ?        | ?           |

**2. Purchases of cellular phones:**

During the financial year ended 31 December 2011, the following stock items were purchased:

| Date<br>2011 | No. of units | Cost per unit | Total purchases | Carriage per unit | Total carriage |
|--------------|--------------|---------------|-----------------|-------------------|----------------|
| 30 April     | 600          | 550           | 330 000         | 30                | 18 000         |
| 30 June      | 900          | 600           | 540 000         | 30                | 27 000         |
| 30 Sept      | 500          | 530           | 265 000         | 30                | 15 000         |
| 30 Nov       | 200          | 620           | 124 000         | 30                | 6 000          |
| Totals       | 2200         |               | 1 259 000       |                   | 66 000         |

### 3. Returns of cellular phones:

Mzansi Traders were not happy with the price of the purchases on 30 June 2011. Therefore they returned 100 cellular phones to the supplier. The supplier credited them with the cost price of each item, excluding the carriage.

### 4. Sales of cellular phones:

2 270 units at R900 each = R2 043 000

## ACTIVITY F 2

(Question 1.3: Nov/Dec 2014)

### 1. INVENTORY VALUATION: SMART UNIFORMS

You are provided with information relating to Smart Uniforms for June 2014. The business is owned by Harry Mavuso. They buy and sell school blazers. The business uses the weighted-average method for stock valuation and the periodic inventory system.

#### REQUIRED:

- 1.1 Calculate the total amount paid for carriage on the purchases on 11 June 2014.
- 1.2 Calculate the value of the closing stock on 30 June 2014 using the weighted-average method.
- 1.3 Harry is considering a change in the method of valuing stock. The value of closing stock using the FIFO method will be R20 850 higher than the value using the weighted-average method.
  - Explain the effect that this will have on the gross profit.
  - Give ONE valid reason **for** and ONE valid reason **against** changing the stock valuation method.
- 1.4 Harry is concerned about the control of his stock of blazers. He has sold 2 900 blazers during the year. Give a calculation to support his concern.

#### INFORMATION:

##### A. Inventory balances:

| Date         | No. of units | Price per unit | Total cost |
|--------------|--------------|----------------|------------|
| 1 June 2014  | 410          | R190           | R77 900    |
| 30 June 2014 | 580          | ?              | ?          |

##### B. Purchases during the month:

| Date                                  | No. of units | Price per unit | Carriage on purchases | Total cost |
|---------------------------------------|--------------|----------------|-----------------------|------------|
| 11 June 2014                          | 1 600        | R215           | ?                     | R352 600   |
| 18 June 2014                          | 1 210        | R240           | Nil                   | R290 400   |
| 26 June 2014                          | 470          | R265           | R3 300                | R127 850   |
| <b>Total purchases</b>                | 3 280        |                |                       | R770 850   |
| <b>Returns from 18 June purchases</b> | 5            |                |                       | R1 200     |

1 1.1

Calculate the total amount paid for carriage on the purchases on 11 June 2014.

1.2

Calculate the value of the closing stock on 30 June 2014 using the weighted-average method.

1.3

Explain the effect that this will have on the gross profit.

ONE valid reason for changing the stock valuation method:

ONE valid reason against changing the stock valuation method:

1.4

Harry is concerned about the control of his stock of blazers. He has sold 2 900 blazers during the year. Give a calculation to support his concern.

## GG. TANGIBLE ASSETS

## ACTIVITY GG 1

On 1 March 20.1 the following balances appeared, amongst others, in the books of Rhodes Stores:

|                                      |          |
|--------------------------------------|----------|
| Vehicles (cost)                      | R253 000 |
| Accumulated Depreciation on vehicles | R99 250  |

The asset register shows the following information on 1 March 20.1

| VEHICLE | COST     | ACCUMULATED DEPRECIATION | CARRYING VALUE |
|---------|----------|--------------------------|----------------|
| 1       | R80 000  | R46 000                  | R34 000        |
| 2       | R84 500  | R44 700                  | R39 800        |
| 3       | R88 500  | R8 550                   | R79 950        |
|         | R253 000 | R99 250                  | R153 750       |

Depreciation is provided at 10% pa on cost price.

On 31 August 20.1 vehicle no.1 was sold on credit to A. Lotto for R33 500.

**Instructions:**

2.1 Show the following ledger accounts:

## Vehicles

Accumulated depreciation on vehicles

## Depreciation

### Asset disposal

## ANSWER

## 2.1 GENERAL LEDGER OF RHODES STORES

## Balance sheet accounts section

| Dr |  | Vehicles |  |  |  | B1 |  |  |  | Cr |  |
|----|--|----------|--|--|--|----|--|--|--|----|--|
|    |  |          |  |  |  |    |  |  |  |    |  |
|    |  |          |  |  |  |    |  |  |  |    |  |
|    |  |          |  |  |  |    |  |  |  |    |  |
|    |  |          |  |  |  |    |  |  |  |    |  |

| Dr |  | Accumulated depreciation on vehicles |  |  |  |  |  | B2 |  | Cr |  |
|----|--|--------------------------------------|--|--|--|--|--|----|--|----|--|
|    |  |                                      |  |  |  |  |  |    |  |    |  |
|    |  |                                      |  |  |  |  |  |    |  |    |  |
|    |  |                                      |  |  |  |  |  |    |  |    |  |
|    |  |                                      |  |  |  |  |  |    |  |    |  |
|    |  |                                      |  |  |  |  |  |    |  |    |  |

Nominal accounts section

| Dr |  | Depreciation |  |  |  |  |  | N15 |  | Cr |  |
|----|--|--------------|--|--|--|--|--|-----|--|----|--|
|    |  |              |  |  |  |  |  |     |  |    |  |
|    |  |              |  |  |  |  |  |     |  |    |  |
|    |  |              |  |  |  |  |  |     |  |    |  |
|    |  |              |  |  |  |  |  |     |  |    |  |

| Dr |  | Asset disposal |  |  |  |  |  | N16 |  | Cr |  |
|----|--|----------------|--|--|--|--|--|-----|--|----|--|
|    |  |                |  |  |  |  |  |     |  |    |  |
|    |  |                |  |  |  |  |  |     |  |    |  |
|    |  |                |  |  |  |  |  |     |  |    |  |

**Thengeduze Co. has employed an inexperienced bookkeeper. The bookkeeper has asked you to give him answers on the information he was expected to give his manager regarding the motor vehicle sold.**

The company bought a new motor - car from Toyota in Durban for R80 000 on 1 July 1998. The company is not registered as a vat vendor.

On 30 June 2003 the carrying value of the car was R20 000. On 30 June 2004 the car was sold to the employee for R15 000 cash including vat.

**Use the above information to answer the following questions (show workings):**

- 1.1 Give possible reasons why the company would sell this vehicle?
- 1.2 Calculate the age of this vehicle
- 1.3 What was the accumulated depreciation on 30 June 2003?
- 1.4 What was the rate of depreciation if it was provided on the straight line basis/cost price?
- 1.5 Give possible reasons why this vehicle was sold at a price higher than its carrying value?
- 1.6 Was the owner doing the right thing by charging vat on the sale of the vehicle?  
Support your answer.
- 1.7 What is the life expectancy of the asset?
- 1.8 What control measures would you put in place to ensure that the vehicle is not abused for private purposes?

**FIXED ASSETS AND INTERNAL CONTROL**

You are provided with information in respect of Bloemfontein Hardware for the year ended 29 February 2008. The business is owned by Mike Moore and Milly Miles.

**REQUIRED:**

- 1 Prepare the Asset Disposal Account for office equipment (computers) stolen on 30 June 2007 (see information 1 below).
- 2 One of the office employees, Di Vulge, knows that the insurance policy only covers theft if there is evidence of forced entry. She also knows that Mike broke the security gate of the office to make the incident look like forced entry. She is not sure if Milly knows about this.  
What advice would you give Di? Explain ONE point.
- 3 Explain how and why the Fixed Assets Register will assist the internal auditor in his duties.
- 4 In order to solve their cash flow problems, Mike has sold a portion of the premises at cost price. Milly disagrees with him on this. Do you support Milly's opinion? Give a reason.
- 5 The business owns three delivery vehicles. Refer to the information in respect of each delivery vehicle from the Fixed Asset Register (see information 4 below). Identify the cost price of delivery vehicle 3.  
Explain why delivery vehicle 2 is shown at a book value of R1,00 (one rand).
6. As a service to their customers, the business delivers goods within Bloemfontein. They charge a flat rate of R250 per delivery. Clients pay cash directly to the drivers.  
A total of 3 680 deliveries was done during the year. The delivery service operated on 260 days during the year. You are the internal auditor and you are concerned about possible problems relating to the delivery vehicles and their drivers.  
Refer to the information in point 4 below. Identify and explain ONE major problem relating to each delivery vehicle or its driver. Quote figures from the information to support your answer. Provide a valid solution to each problem.

**INFORMATION:**

1. **Office equipment and disposals:**  
Office equipment includes the office computers. Six of the office computers were stolen on 30 June 2007. These six computers were originally bought at a cost price of R13 200 each. The insurance company, Ace Insurers, only paid out R5 000 for each computer. These computers were replaced at a higher price on 31 August 2007.
2. **Delivery vehicles:**  
The business owns three delivery vehicles that they use to generate their income.

3. Information from the financial statements for year ended 29 February 2008:

| FIXED ASSETS                        | Land & buildings | Office equipment | Vehicles  |
|-------------------------------------|------------------|------------------|-----------|
| Carrying value at beginning of year | 1 200 000        | 630 000          | 403 501   |
| Cost                                | 1 200 000        | 980 000          | 699 000   |
| Accumulated depreciation            |                  | (350 000)        | (295 499) |
|                                     |                  |                  |           |
| Movements                           | (700 000)        | 19 560           | (111 000) |
| Additions                           |                  | 240 000          |           |
| Disposals at carrying value         | (700 000)        | (63 360)         |           |
| Depreciation                        |                  | (157 080)        | (111 000) |
|                                     |                  |                  |           |
| Carrying value at end of year       | 500 000          | 649 560          | 292 501   |
| Cost                                | 500 000          | 1 140 800        | 699 000   |
| Accumulated depreciation            |                  | (491 240)        | (406 499) |

4. Information from the Fixed Assets Register and the accounting records on 29 February 2008:

| Fixed Assets Register    | Delivery vehicle 1 | Delivery vehicle 2 | Delivery vehicle 3 |
|--------------------------|--------------------|--------------------|--------------------|
| Date purchased           | 1 April 2007       | 1 January 1999     | 1 April 2005       |
| Cost price of vehicle    | R315 000           | R144 000           | ?                  |
| Accumulated depreciation | R94 500            | R143 999           | R168 000           |
| Carrying value           | R220 500           | R1                 | R72 000            |

| Information from the accounting records  | Delivery vehicle 1 | Delivery vehicle 2 | Delivery vehicle 3 |
|------------------------------------------|--------------------|--------------------|--------------------|
| Name of driver                           | <b>Solly</b>       | <b>Themba</b>      | <b>Goldie</b>      |
| Number of days worked                    | 210 days           | 260 days           | 260 days           |
| Number of deliveries done                | 280 deliveries     | 2 100 deliveries   | 1 300 deliveries   |
| Cash paid in by drivers                  | R70 000            | R525 000           | R275 000           |
| Salary paid to drivers                   | R52 000            | R52 000            | R52 000            |
| Fuel and maintenance costs for the year  | R36 400            | R430 500           | R201 500           |
| Fuel and maintenance costs per kilometre | R1,30              | R2,05              | R1,55              |

1. ASSET DISPOSAL

|  |  |  |  |  |  |  |  |  |  |
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## II. MANUFACTURING ACTIVITY II 1

### 1. ACE CALCULATORS

The business produces one type of basic school calculator. The business uses the periodic inventory system.

#### REQUIRED:

2.1 Indicate the cost accounts that would be affected by the following in a manufacturing business:

- (a) Rent paid for factory buildings
- (b) Overtime paid to factory workers
- (c) Commission paid to salespersons
- (d) Cost of raw materials used in the production
- (e) Salary of internal auditor

2.2 Prepare the Production Cost Statement for the year ended 28 February 2013.

2.3 30 000 calculate the cost of production per unit.

#### INFORMATION:

Information extracted from the financial records on 28 February 2013:

|                                            | R         |
|--------------------------------------------|-----------|
| Administration cost                        | 485 000   |
| Direct/Raw material cost                   | 1 161 000 |
| Factory overhead cost                      | 810 000   |
| Selling and distribution cost              | 245 000   |
| Direct labour cost                         | ?         |
| Prime cost                                 | 1 797 000 |
| Total cost of production of finished goods | 2 460 000 |
| Work-in-process (1 March 2012)             | 102 000   |
| Work-in-process (28 February 2013)         | ?         |
| Finished goods stock (1 March 2012)        | 202 800   |
| Finished goods stock (28 February 2013)    | 500 200   |
| Sales (26 500 calculators at R130 each)    | 3 445 000 |
| Cost of sales                              | ?         |

**3. MALOMA DAIRY**

You are provided with information for the year ended 28 February 2013. This dairy is owned by Mark Maloma. The business produces flavoured milk which is sold in bottles.

**INFORMATION:**

The number of units produced and sold increased from 420 000 bottles in 2012 to 540 000 bottles in 2013.

The following figures apply to the 2013 financial year.

|                         | <b>TOTAL</b> | <b>PER UNIT</b> |
|-------------------------|--------------|-----------------|
| Sales (540 000 x R6,60) | R3 564 000   | R6,60           |
| Variable costs          | R1 458 000   | R2,70           |
| Fixed costs             | R972 000     | R1,80           |

- 3.1 Calculate the break-even point and comment on the level of production for the year.
- 3.2 Despite the fact that the factory workers were given a 10% wages increase, the direct material cost per unit has dropped by 50 cents per unit. What could have caused the difference? What comment would you make to Mark about the control of this item?
- 3.3 The fixed costs per unit dropped from R1,90 in 2012 to R1,80 in 2013. Should Mark be satisfied with this? What comment would you make to Mark about the control of this item? Provide figures to support your answer.
- 3.4 You are the internal auditor and you have noticed that the business is using bottles bought from Apex Products as containers for the flavoured milk. The contract with Apex Products was signed by the office manager, Alex Fynn. While working late one night, you noticed that Apex Products delivered a laptop to Mr Fynn.
  - Will this be a concern to you? Give a reason for your answer.
  - Explain what action you would take as internal auditor. State Three points.

**ACE CALCULATORS****Production Cost Statement for the year ended 28 February 2013**

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## 2. MALOMA DAIRY

## ACTIVITY II 2

(Question 6.1: Nov/Dec 2014)

## BRIAN'S BRELLIES

Brian Jonas is the owner of Brian's Brellies, a business that manufactures umbrellas. The financial year ends on 31 July 2014.

## REQUIRED:

1. Refer to Information C: Calculate the direct labour cost.
2. Refer to Information D: Prepare the correct note for factory overhead cost.
3. Prepare the Production Cost Statement for the year ended 31 July 2014.

## INFORMATION:

| A. | STOCK BALANCES        | 31 JULY 2014 | 1 AUGUST 2013 |
|----|-----------------------|--------------|---------------|
|    | Raw material stock    | R124 400     | R98 780       |
|    | Work-in-process stock | R42 600      | R37 600       |
|    | Indirect material     | R3 600       | R4 400        |

- B. Raw material issued to the factory for production: R623 700
- C. Three workers are employed in production. They each work 1 920 hours normal time per year at R95 per hour. In December 2013, each factory worker received a bonus of 12% of his annual earnings.
- D. The bookkeeper presented the following factory overhead cost calculation:

|                           |                |
|---------------------------|----------------|
| Sundry factory expenses   | 30 975         |
| Indirect material         | 52 200         |
| Rent expense              | 117 000        |
| Advertising               | 10 500         |
| Insurance                 | 16 640         |
| Salary of factory foreman | 97 150         |
| Water and electricity     | 20 010         |
| <b>TOTAL</b>              | <b>344 475</b> |

The following errors were noticed:

- Stocks of factory indirect materials were not taken into account in calculating indirect materials used.
- The amount for rent expense is the total amount paid. Rent should be split between the factory, sales and administration sections in the ratio of 5 : 2 : 1.
- The amount for insurance is the total amount paid. This includes the August 2014 premium. Only 75% of this expense relates to the factory. There was no increase in monthly premiums.
- The factory foreman was on paid leave in July 2014. His salary for July 2014 was not processed. The factory foreman received a R900 monthly increase in his salary with effect from 1 June 2014.
- 60% of the water and electricity cost was allocated to the factory whereas it should have been 80%.

1. Calculate the direct labour cost.

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2. **FACTORY OVERHEAD COST**

|                         |        |
|-------------------------|--------|
| Sundry factory expenses | 30 975 |
|                         |        |
|                         |        |
|                         |        |
|                         |        |
|                         |        |
|                         |        |
|                         |        |
|                         |        |

3. **PRODUCTION COST STATEMENT FOR THE YEAR ENDED 31 JULY 2014**

|                                      |         |
|--------------------------------------|---------|
| Direct material cost                 | 623 700 |
|                                      |         |
|                                      |         |
| Prime cost                           |         |
|                                      |         |
|                                      |         |
| Total production cost                |         |
|                                      |         |
|                                      |         |
|                                      |         |
|                                      |         |
| Cost of production of finished goods |         |

**BEN'S CATERING**

Ben Khulamo owns a small business that produces pies and doughnuts which he supplies to local school tuck shops.

Where comments/explanations are required below, quote figures, unit costs or financial indicators to support your opinions.

**REQUIRED:**

1. Identify ONE unit cost for doughnuts and TWO unit costs for pies that were major problems in 2014, considering that the inflation rate was 5%. For each unit cost identified, give a possible cause of the problem and give advice on how to rectify it.
2. Ben feels that he can produce and sell more doughnuts. Calculate the number of extra doughnuts he must produce and sell to make an additional profit of R15 000. Assume that the unit costs and selling price for 2014 remain unchanged.
3. Ben is concerned about the financial performance of his business and the fact that a new competitor has opened in the area.
  - Name the product which has been negatively affected by the new competitor.
  - Comment on how this would have affected the net profit on this product.

| INFORMATION                          | DOUGHNUTS    |              | PIES         |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
|                                      | 2014         | 2013         | 2014         | 2013         |
| Total units produced & sold          | 55 000 units | 51 000 units | 35 000 units | 44 000 units |
| Break-even point (units)             | 21 667 units | 24 074 units | 38 095 units | 18 519 units |
|                                      |              |              |              |              |
| Ben's selling price per unit         | R8,00        | R7,00        | R12,50       | R12,00       |
| Selling price of competitor          | R8,60        | -            | R12,50       | -            |
|                                      |              |              |              |              |
| <b>VARIABLE COSTS PER UNIT</b>       | <b>R5,00</b> | <b>R4,30</b> | <b>R8,30</b> | <b>R5,85</b> |
| Direct material cost per unit        | R1,95        | R2,05        | R5,05        | R2,20        |
| Direct labour cost per unit          | R1,90        | R1,55        | R2,20        | R2,60        |
| Selling & distribution cost per unit | R1,15        | R0,70        | R1,05        | R1,05        |
|                                      |              |              |              |              |
| <b>FIXED COSTS PER UNIT</b>          | <b>R1,18</b> | <b>R1,27</b> | <b>R4,57</b> | <b>R3,64</b> |
| Factory overhead cost per unit       | R0,67        | R0,78        | R3,38        | R2,50        |
| Administration cost per unit         | R0,51        | R0,49        | R1,19        | R1,14        |

**ANSWER**

Identify ONE unit cost for doughnuts and TWO unit costs for pies that were major problems in 2014, considering that the inflation rate was 5%.

| ONE unit cost for doughnuts (Quote figures.) | Problem and advice                                   |
|----------------------------------------------|------------------------------------------------------|
|                                              | <p>Possible cause of the problem:</p> <p>Advice:</p> |
| TWO unit costs for pies (Quote figures.)     | Problem and advice                                   |
|                                              | <p>Possible cause of the problem:</p> <p>Advice:</p> |
|                                              | <p>Possible cause of the problem:</p> <p>Advice:</p> |

**JJ. CASH BUDGET**

**ACTIVITY JJ 1**

As the accountant of Blossom Traders Ltd you are reviewing the Cash Budget for the three months ending 30 September 2013, which will be presented to the directors.

**REQUIRED:**

1. Explain to the shareholders what the main difference is between a projected income statement and a Cash Budget.
2. Name TWO items that could be included in 'other operating expenses'
3. Complete the Debtors' collection Schedule for July and August 2013
4. Calculate the following
  - 4.1 The % increase in sales in September 2013.
  - 4.2 The rent income amount for September 2013. Note that the company is budgeting for a 12% increase in rent starting 1 September 2013.
  - 4.3 The total sales for August 2013
  - 4.4 The amount that will be paid to creditors during September.
  - 4.5 The amount that will be paid for interim dividends in September 2013
  - 4.6 What the buy-back of shares will cost the company in September 2013
  - 4.7 The interest that will be received for September 2013.

5. In August, there is an amount that will be paid for income tax
  - 5.1 What does this amount represent, since the financial year-end of this company is annually at the end of February?
  - 5.2 How will this amount be calculated
6. Shareholders are unhappy with the way the collection of debtors has been handled
  - 6.1 Explain why you believe the shareholders feel this way regarding collection from debtors.
  - 6.2 Suggest TWO measures that can be introduced to improve the situation
7. At the end of June, the following figures were identified. The directors have asked that you explain to them why the budgeted and actual amounts of certain items differ significantly. Explain what you would say to them about each of the following items. Explain ONE point of advice in each case.

|                       | JUNE 2013 |        |
|-----------------------|-----------|--------|
|                       | Budgeted  | Actual |
| Advertising           | R5 200    | R8 000 |
| Training of employees | R12 000   | 0      |
| Rent Income           | R8 500    | R2 000 |

**INFORMATION:**

1. Credit sales: 40% of all sales are on credit.  
Debtors are given 30 days in which to settle their debts. However, trends over the pass year reveal that debtors pay as follows:
  - 40% within the same month of sale subject to a 5% discount
  - 35% in the month following the sale, that is 30 days.
  - 20% in the second month following the sale, that is 60 days.
  - 5% of debts are written off after 60 days.
2. Stock purchases:
  - The business works on a fixed stock base when the stock sold in a month is replaced at the end of that month
  - The business uses a mark-up of 60% on cost
  - 80% of stock is purchased on credit and creditors are paid in 30 days
3. Fixed deposit:  
The business has 3 fixed deposits with Reliable Bank to the value of R675 000 at an interest rate of 8.0%. One of these fixed deposits, worth R375 000, matures in September.
4. Shares:
  - The company has 250 000 shares in issue and the authorised share capital has a balance of R1 500 000.
  - The company is planning issuing a further 40 000 shares during august 2013 at a price of R10,00 per share.
  - One of the shareholders passed away earlier in the year. This shareholder owns 55 000 shares. It was decided to buy back the shares from the deceased estate during September 2013 at a price of R15,50 each.
5. Dividends:  
At the end of September, an interim dividend of 40 cents per share will be paid on shares held at the end of September.

**CASH BUDGET FOR THREE MONTHS ENDING 30 SEPTEMBER 2013**

|                                     | 2013 JULY | 2013 AUGUST | 2013 SEPTEMBER |
|-------------------------------------|-----------|-------------|----------------|
| <b>RECEIPTS</b>                     |           |             |                |
| Cash sales                          | 1 200 000 | 1 200 000   | 1 440 000      |
| Collections from debtors            | ?         | ?           | 804 800        |
| Ordinary share capital (new shares) |           | 400 000     |                |
| Rent income                         | 8 500     | 8 500       | ?              |
| Fixed deposit maturing              |           |             | 375 000        |
| Interest on fixed deposit           | 4 500     | 4 500       | ?              |
| Sundry income                       |           |             | ?              |
|                                     | 1 893 300 | 2 339 000   | 2 635 700      |
|                                     |           |             |                |
|                                     |           |             |                |
| <b>PAYMENTS</b>                     |           |             |                |
| Purchase of stock                   | ?         | ?           | 300 000        |
| Payments to creditors               | ?         | ?           |                |
| Directors' fees                     | 6 000     | 6 000       | 6 000          |
| Salaries and wages                  | 520 000   | 520 000     | 520 000        |
| Audit fees                          | 7 500     | 7 500       | 7 500          |
| Income tax                          |           | 46 000      |                |
| Advertising                         | 5 200     | 5 200       | 5 200          |
| Dividends on ordinary shares        |           |             | ?              |
| Buy-back of shares                  |           |             | ?              |
| Other operating expenses            | ?         | ?           | ?              |
|                                     |           |             |                |
|                                     |           |             |                |
|                                     |           |             |                |
| Surplus (deficit)                   | 134 600   | 534 300     | (199 500)      |
| Opening bank balance                | (28 000)  | 106 600     | 640 900        |
| Closing bank balance                | 106 600   | 640 900     | 441 400        |

3.

| <b>Debtors' Collection Schedule for July and August 2013</b> |              |                 |                   |
|--------------------------------------------------------------|--------------|-----------------|-------------------|
|                                                              | Credit sales | July collection | August collection |
| May                                                          | R660 000     |                 |                   |
| June                                                         | R680 000     |                 |                   |
| July                                                         | R800 000     |                 |                   |
| August                                                       | R800 000     |                 |                   |
|                                                              |              |                 |                   |
| <b>TOTAL</b>                                                 |              |                 |                   |

**CASH BUDGET AND INTERNAL CONTROL**

You are provided with information relating to Martin's Health Shop. The business sells a health drink which has a shelf life of two months. The financial year of the business ends on 30 September 2014. The newly appointed bookkeeper prepared a budget for the three months ended 31 December 2014. The Cash Budget he presented is not completely correct.

**REQUIRED:****1. Refer to Information C:**

List FOUR items that should not have been placed in this Cash Budget.

2. Complete the Creditors' Payment Schedule for the period October to December 2014 by calculating the amounts indicated by an asterisk (\*).
3. With reference to the prepared budget, calculate the following:
  - 3.1 The total sales for September 2014
  - 3.2 The percentage increase in rent income in December 2014
  - 3.3 The salaries and wages amount for December 2014
  - 3.4 The rate of interest on the loan
4. Answer the following questions.
  - 4.1 Calculate the period for which enough stock is on hand (in days) on 30 September 2014. Explain whether this is appropriate for the business.
  - 4.2 Calculate the mark-up percentage achieved for the year ended 30 September 2014.
  - 4.3 Comment on whether or not the change in the mark-up percentage has benefited the business. Give a calculation(s) to support your opinion.

**INFORMATION:**

- A.** Figures extracted from the financial statements on 30 September 2013 and 2014:

|               | 2014      | 2013      |
|---------------|-----------|-----------|
| Sales         | 1 780 600 | 1 680 000 |
| Cost of sales | 1 228 000 | ?         |
| Mark-up %     | ?         | 60%       |

- B.** It is business policy to maintain a stock base of R250 000 every month.  
Stock sold each month is replaced in the same month.

C. CASH BUDGET PREPARED BY THE BOOKKEEPER FOR THE PERIOD ENDED 31 DECEMBER 2014:

| CASH RECEIPTS                   | OCTOBER  | NOVEMBER  | DECEMBER  |
|---------------------------------|----------|-----------|-----------|
| Cash sales                      | 238 000  | 212 500   | 221 000   |
| Receipts from debtors           | 40 500   | 42 000    | 37 500    |
| Loan: Mali Bank                 | -        | -         | 150 000   |
| Discount received               | 1 350    | 1 400     | 1 400     |
| Rent income                     | 8 000    | 8 000     | 9 000     |
|                                 | 287 850  | 263 900   | 418 900   |
| CASH PAYMENTS                   |          |           |           |
| Total cost of sales             | 185 000  | 170 000   | 175 000   |
| Cash purchases of trading stock | 111 000  | 102 000   | 105 000   |
| Bad debts                       | 400      | 400       | 400       |
| Salaries and wages              | 46 000   | 46 000    | 5.3.3     |
| Interest on loan                | -        | -         | 1 125     |
| Depreciation on equipment       | 8 200    | 8 200     | 8 200     |
| Sundry cash expenses            | 18 000   | 18 900    | ?         |
|                                 | 368 600  | 345 500   | 358 500   |
| Cash surplus/deficit            | (80 750) | (81 600)  | 60 400    |
| Bank (opening balance)          | 45 000   | (35 750)  | (117 350) |
| Bank (closing balance)          | (35 750) | (117 350) | (56 950)  |

- D. Credit sales amounts to 15% of total sales. Debtors are expected to pay in full in the month following the month of sales.
- E. 40% of all the trading stock was purchased on credit.
- F. Creditors allow 60 days credit, but payments made within the month of purchase receive 5% discount. Based on past experience, the business pays as follows:
- 10% within the month of purchase
  - 75% in the month following the month of purchase
  - 15% in the second month following the month of purchase.
- G. The loan will be received on 1 December 2014.
- H. The union negotiated an 8,5% increase in salaries and wages. This will only be effective from 1 December 2014.

**ANSWER**

1. List FOUR items that should not have been placed in this Cash Budget.

2. **CREDITORS' PAYMENT SCHEDULE**

| MONTH     | CREDIT PURCHASES | OCTOBER | NOVEMBER | DECEMBER |
|-----------|------------------|---------|----------|----------|
| August    | 64 000           | 9 600   |          |          |
| September | 67 200           | 50 400  | 10 080   |          |
| October   | 74 000           | 7 030   | 55 500   | *        |
| November  | 68 000           |         | 6 460    | *        |
| December  | *                |         |          | *        |
|           |                  | 67 030  | 72 040   | *        |

- 3.1 Calculate the total sales for September 2014.
- 3.2 Calculate the percentage increase in rent income in December 2014.
- 3.3 Calculate the salaries and wages amount for December 2014.
- 3.4 Calculate the rate of interest on the loan.

- ## KK. VALUE ADDED TAX

## VAT, INVENTORY AND ETHICS

The business accounts for VAT on a two-monthly basis.

Calculate the final amount payable to SARS on 31 July 2014 (you may prepare a VAT Control Account to assist in your calculations).

INFORMATION:

|                                                | INCLUDING<br>VAT | EXCLUDING<br>VAT | VAT<br>AMOUNT |
|------------------------------------------------|------------------|------------------|---------------|
| Balance owed by SARS on 1 July 2014            |                  |                  | R11 200       |
| Cash and credit sales invoices                 | R1 026 000       | R900 000         | R126 000      |
| Purchase of trading stock                      | R627 000         | R550 000         | R77 000       |
| Defective stock returned to suppliers          | R2 223           | R1 950           | R273          |
| Discount allowed to debtors for prompt payment |                  | R47 800          | ?             |
| New office computer bought on credit           | R10 830          |                  | ?             |

**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                      | (4 x 1) | (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) |

**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    |
| <b>NOTE:</b><br>Deductions: 8,5% of basic wage<br>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 to the weighted-average method.

**Storeroom stock records:**

|                                   | METRES       | TOTAL<br>AMOUNT<br>(R) |
|-----------------------------------|--------------|------------------------|
| Balance on 1 March 2015           | 1 350        | 131 500                |
| <b>Purchases:</b>                 | <b>5 400</b> | <b>584 000</b>         |
| 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.

**QUESTION 2: RECONCILIATION, AGE ANALYSIS AND VAT** (40 marks, 25 minutes)

2.1 Simply Traders sell goods for cash and on credit.

**REQUIRED:**

2.1.1 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)

2.1.2 **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: (12)
  - J Ramsay (D2)
  - W Smith (D3)
  - C Prince (D5)

2.1.3 **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           |
| <b>TOTAL</b> |       | <b>R163 100</b> |

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 R20 100 instead of R21 000.
- (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<br>DAYS | 61–90<br>DAYS | MORE THAN<br>90 DAYS |
|---------|---------|---------------|---------------|----------------------|
| 201 200 | 35 300  | 23 300        | 76 700        | 65 900               |

The credit period is 60 days.

## 2.2 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 14% 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      |        | R225 720      |
| Goods taken by owner for personal use |               | R2 940 |               |
| Returns by debtors                    |               | R1 120 |               |
| Debtors' accounts written off         | R9 500        |        |               |
| Total sales                           |               |        | R332 880      |

**QUESTION 3: AUDIT REPORT AND INCOME STATEMENT (70 marks; 40 minutes)**

**3.1 CONCEPTS**

Choose the correct term to complete each of the following statements. Write only the term next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.

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

3.1.1 Interest on a bank overdraft is a/an ...

3.1.2 Consumable stores on hand are a/an ...

3.1.3 The portion of a loan to be paid during the next financial year is regarded as a/an ... in the Balance Sheet.

3.1.4 The difference between current assets and current liabilities is known as ... (4 x 1) (4)

**3.2 AUDIT REPORT**

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

**REQUIRED:**

3.2.1 To whom is the audit report addressed? (1)

3.2.2 Who has to ensure that the financial statements are prepared and presented at the annual general meeting? (1)

3.2.3 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)

3.2.4 Explain why the independent auditors referred to pages 11–29 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

3.3 **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         |
|-------------------------------|-----------|
| <b>Balance Sheet Accounts</b> |           |
| Mortgage loan: Parys Bank     | 333 200   |
| Bank (favourable)             | 482 000   |
| Debtors' control              | 116 500   |
| Trading stock                 | 209 500   |
| Provision for bad debts       | 3 732     |
| <b>Nominal Accounts</b>       |           |
| Sales (less allowances)       | 4 777 300 |
| Cost of sales                 | ?         |
| Directors' fees               | 375 000   |
| Salaries and wages            | 365 540   |
| 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:
- 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<br>COMPUTER          | COST    | DEPRECIATION | BOOK<br>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

**QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION (75 marks; 45 minutes)**

- 4.1 Choose a term from COLUMN B that matches the description in COLUMN A. Write only the letter (A–D) next to the question number (4.1.1–4.1.4) in the ANSWER BOOK, for example 4.1.5 E.

| COLUMN A |                                                                    | COLUMN B |                  |
|----------|--------------------------------------------------------------------|----------|------------------|
| 4.1.1    | Ability of the business to pay off all its debts                   | A        | gearing          |
| 4.1.2    | Ability of the business to pay off its short-term debts            | B        | return on equity |
| 4.1.3    | The benefit that shareholders receive for investing in the company | C        | solvency         |
| 4.1.4    | The extent to which a company is financed by loans                 | D        | liquidity        |

(4 x 1) (4)

4.2 **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:**

- 4.2.1 Prepare the following notes to the Balance Sheet: (7)
- Ordinary share capital (9)
  - Retained income
- 4.2.2 Calculate the following amounts for the Cash Flow Statement:
- Change in loan (2)
  - Income tax paid (4)
- 4.2.3 Complete the extract from the Cash Flow Statement for cash and cash equivalents. (4)
- 4.2.4 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)

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

4.2.6 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)

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

| NUMBER OF SHARES | DATE PURCHASED  | %<br>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)

4.2.8 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.

##### 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   |

|                                       | 2016              | 2015             |
|---------------------------------------|-------------------|------------------|
|                                       | R                 | R                |
| Fixed assets (carrying value)         | 17 420 950        | 14 683 300       |
| Fixed deposit: Ken Bank               | 250 000           | 380 000          |
| <b>Current assets</b>                 | <b>1 015 000</b>  | <b>456 000</b>   |
| 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            |
| <b>Shareholders' equity</b>           | <b>10 050 750</b> | <b>9 540 000</b> |
| Ordinary share capital                | ?                 | 9 180 000        |
| Retained income                       | ?                 | 360 000          |
| <b>Loan: Barbie Bank</b>              | <b>8 000 000</b>  | <b>4 500 000</b> |
| <b>Current liabilities</b>            | <b>635 200</b>    | <b>1 479 300</b> |
| 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)          | ?           | 1 060 cents |
| Market price                             | 1 000 cents | 1 030 cents |
| Interest rate on loans                   | 12%         | 12%         |

**QUESTION 5: INVENTORIES****(30 marks; 20 minutes)****5.1 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:**

5.1.1 Explain the following valuation methods:

- FIFO
- Specific identification

(2)

(2)

5.1.2 Calculate the cost price per laptop on hand on 1 October 2015.

(2)

5.1.3 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             |
|----------------------|---------|-------|---------------------|-------------------|
| <b>PURCHASES:</b>    |         |       |                     |                   |
| Dec. 2015            | Granite | 410   | R3 750              | R1 537 500        |
| Mar. 2016            | Vision  | 630   | R4 650              | R2 929 500        |
| <b>RETURNS:</b>      |         |       |                     |                   |
| Mar. 2016            | Vision  | 20    | R4 650              | (R93 000)         |
| <b>Net purchases</b> |         |       |                     | <b>R4 374 000</b> |

**C. Sales for the year:**

| MODEL   | UNITS | AMOUNT            |
|---------|-------|-------------------|
| Lexus   | 118   | R598 850          |
| Granite | 356   | R2 229 375        |
| Vision  | 502   | R4 247 775        |
|         |       | <b>R7 076 000</b> |

## 5.2 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.

5.2.1 **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)

5.2.2 **Chairs:**

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

5.2.3 **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     |

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

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

**REQUIRED:****6.1 Refer to Information G.**

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

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

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

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

6.4 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         | R14 400  | R17 280  |

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

6.4.2 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     | ?       | (160 000) | ?       |
| 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     | ?       |

**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            |
| <b>RECEIPTS</b>          |                |              |
| 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            |
| <b>PAYMENTS</b>          |                |              |
| 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       |

ANSWER FULL PAPER

QUESTION 1

1.1

|       |  |  |
|-------|--|--|
| 1.1.1 |  |  |
| 1.1.2 |  |  |
| 1.1.3 |  |  |
| 1.1.4 |  |  |

4

1.2.1

Calculate direct labour cost.

8

Calculate direct material cost.

6

1.2.2

Production Cost Statement for the year ended 29 February 2016:

|                                      |  |
|--------------------------------------|--|
|                                      |  |
|                                      |  |
| Prime cost                           |  |
|                                      |  |
| Cost of production of finished goods |  |

8

1.2.3

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 (fabric). |                                   |                                 |
|------------------------------------------------------------------------------------|-----------------------------------|---------------------------------|
|                                                                                    | STOREROOM:<br>Raw material stolen | FACTORY:<br>Raw material wasted |
| CALCULATION:<br>metres of fabric                                                   |                                   |                                 |
| STRATEGY                                                                           |                                   |                                 |

11

|             |
|-------------|
| TOTAL MARKS |
|             |
| 45          |

QUESTION 2

2.1.1

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.

|         | Information to be obtained | Reason |
|---------|----------------------------|--------|
| Point 1 |                            |        |
| Point 2 |                            |        |

4

2.1.2

Calculate the correct closing balance of the Debtors' Control Account on 31 October 2016.

6

| Calculate the correct amounts owing by debtors. |              |         |
|-------------------------------------------------|--------------|---------|
|                                                 | Calculations | Balance |
| J Ramsay (D2)                                   | 37 500       |         |
| W Smith (D3)                                    | 19 500       |         |
| C Prince (D5)                                   | 3 900        |         |

|    |
|----|
|    |
| 12 |

2.1.3

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

|   |
|---|
|   |
| 4 |

|   |
|---|
|   |
| 4 |

2.2

|                                                                                    |
|------------------------------------------------------------------------------------|
| Calculate the amount receivable from or payable to SARS for VAT on 31 August 2016. |
| Receivable/Payable:                                                                |

|    |
|----|
|    |
| 10 |

| TOTAL MARKS |
|-------------|
|             |
| 40          |

QUESTION 3

3.1

|       |  |
|-------|--|
| 3.1.1 |  |
| 3.1.2 |  |
| 3.1.3 |  |
| 3.1.4 |  |

|   |
|---|
|   |
| 4 |

3.2

AUDIT REPORT

3.2.1

To whom is the audit report addressed?

|   |
|---|
|   |
| 1 |

3.2.2

Who has to ensure that the financial statements are prepared and presented at the annual general meeting?

|   |
|---|
|   |
| 1 |

3.2.3

Fralezi Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.

Explain your choice.

|   |
|---|
|   |
| 2 |

3.2.4

Explain why the independent auditors referred to pages 11–29 in the report.

|   |
|---|
|   |
| 2 |

3.3

FRALEZI LTD

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

|                                |         |
|--------------------------------|---------|
| Sales                          |         |
| Cost of sales                  |         |
| Gross profit                   |         |
| Other income                   |         |
|                                |         |
|                                |         |
|                                |         |
|                                |         |
|                                |         |
|                                |         |
| Operating expenses             |         |
| Directors' fees                |         |
| Salaries and wages             |         |
| Sundry expenses                |         |
|                                |         |
|                                |         |
|                                |         |
|                                |         |
|                                |         |
|                                |         |
|                                |         |
|                                |         |
| Operating profit               |         |
| Interest income                |         |
| Profit before interest expense |         |
| Interest expense               |         |
| Net profit before tax          |         |
| Income tax for the year        |         |
| Net profit after tax           | 504 000 |

TOTAL MARKS

60

70

QUESTION 4

4.1

|       |  |  |  |
|-------|--|--|--|
| 4.1.1 |  |  |  |
| 4.1.2 |  |  |  |
| 4.1.3 |  |  |  |
| 4.1.4 |  |  |  |

4.2.1

ORDINARY SHARE CAPITAL:

AUTHORISED SHARE CAPITAL

1 500 000 ordinary shares

ISSUED SHARE CAPITAL

|         |                                |           |  |
|---------|--------------------------------|-----------|--|
| 900 000 | Ordinary shares on 1 July 2015 | 9 180 000 |  |
|         |                                |           |  |
|         |                                |           |  |
|         |                                |           |  |

RETAINED INCOME:

|                         |         |   |
|-------------------------|---------|---|
| Balance on 1 July 2015  | 360 000 |   |
| Net profit after tax    | 444 500 |   |
|                         |         |   |
|                         |         |   |
|                         |         |   |
|                         |         |   |
| Balance on 30 June 2016 |         | 9 |

4.2.2

Calculate the change in loan for the Cash Flow Statement.

2

Calculate the income tax paid for the Cash Flow Statement.

4

4.2.3

Net change in cash and cash equivalents

4

4.2.4

Calculate the acid-test ratio on 30 June 2016.

4

Calculate the debt-equity ratio on 30 June 2016.

3

Calculate the % return on average shareholders' equity (ROSHE) for the year ended 30 June 2016.

5

Calculate the net asset value per share (NAV) on 30 June 2016.

3

|       |                                                                                                                                                                                                       |                   |                                              |  |    |
|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------------------------------|--|----|
| 4.2.5 | The liquidity of the company has improved. Quote THREE financial indicators to support this statement. Provide figures and trends.                                                                    |                   |                                              |  | 6  |
| 4.2.6 | 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  |
| 4.2.7 | (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  |
| 4.2.8 | The Cash Flow Statement reflected fixed assets purchased to the amount of R4,5 million.                                                                                                               |                   |                                              |  |    |
|       | Major sources of funding with figures<br>(over R1 000 000 each)                                                                                                                                       | Good/Bad decision | Explanation with financial indicators/figure |  |    |
|       | Source 1:                                                                                                                                                                                             |                   |                                              |  |    |
|       | Source 2:                                                                                                                                                                                             |                   |                                              |  |    |
|       |                                                                                                                                                                                                       |                   |                                              |  | 10 |

**QUESTION 5**

**5.1 INVENTORY VALUATION**

5.1.1

Explain the FIFO valuation method.

Explain the specific identification valuation method.

4

5.1.2

Calculate the cost price per laptop on hand on 1 October 2015.

2

5.1.3

Calculate the value of the closing stock on 30 September 2016.

9

**5.2 MANAGEMENT OF INVENTORIES**

5.2.1

What decision did Kyle take regarding the selling price of the desks? Provide figures.

2

How has this decision affected the business? State TWO points. Provide figures.

4

5.2.2

Was it a good idea for Kyle to change to a cheaper supplier of chairs?

YES/NO: \_\_\_\_\_

Explain TWO points. Provide figures.

5

5.2.3

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

Suggestion 1 (with figures):

Suggestion 2 (with figures):

4

TOTAL MARKS

30

QUESTION 6

6.1.1

TWO items recorded incorrectly in the Cash Budget:

2

6.1.2

TWO items in the Cash Budget that would NOT appear in a Projected Income Statement:

2

6.2

DEBTORS' COLLECTION SCHEDULE

| MONTHS    | CREDIT SALES | SEPTEMBER | OCTOBER |
|-----------|--------------|-----------|---------|
| July      | 120 000      | 8 400     |         |
| August    | 151 200      | 60 480    |         |
| September | 172 800      | 86 400    |         |
| October   |              |           |         |
|           |              | 155 280   |         |

9

6.3

AMOUNTS FOR THE CASH BUDGET

| WORKINGS |                                   | AMOUNT |
|----------|-----------------------------------|--------|
| (a)      | Cash sales for September          |        |
| (b)      | Payments to creditors for October |        |
| (c)      | Directors' fees for October       |        |
| (d)      | Interest on loan for October      |        |

18

6.4.1

The directors changed the method of payment to the salespersons.

Explain how this has benefitted the salespersons. Quote figures.

Explain how this has benefitted the business. Quote figures.

4

6.4.2

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

5

TOTAL MARKS

40

TOTAL: 300