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SECONDARY SCHOOL IMPROVEMENT PROGRAMME (SSIP) 2019



GRADE 12

SUBJECT: ACCOUNTING

LEARNER SOLUTIONS

(HIGH RISK)

SESSIONS 1 TO 6

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COMPANIES FINANCIAL STATEMENTS

INCOME STATEMENT

QUESTION 1

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2018		
Sales (2 456 000 ✓ – 50 000 ✓ – 6 000 ✓)	2 400 000	✓
Cost of sales 60% of sales	(1 500 000)	✓✓
Gross profit 7	900 000	✓
Other income	550 790	✓
Service fee income (450 140 ✓ – 750 ✓)	449 390	✓
Rent income (119 200 ✓ – 17 800 ✓✓) ^[1]	101 400	✓
Gross operating income 9	1 450 790	✓
Operating expenses	(1 018 790)	✓
Directors' fees (375 000 ✓ – 15 000 ✓) ^[2]	360 000	✓
Consumable stores 54 100 ✓ – 1 400 ✓)	52 700	✓
Salaries and wages (354 800 ✓ + 16 000 ✓)	370 800	✓
Employer's contributions (53 560 ✓ + 1 920 ✓ + 160 ✓)	55 640	✓
Bank charges 15 340 ✓ + 1 310 ✓)	16 650	✓
Audit fees 45 000 ✓ + 9 600 ✓)	54 600	✓
Sundry expenses balancing figure	72 350	✓
Trading stock deficit (236 000 ✓ + 3 750 ✓ – 223 700 ✓)	16 050	✓
Provision for bad debt adjustment	800	✓✓
Depreciation (15 600 ✓✓ ^[3] + 3 600 ✓) ^[4]	19 200	✓
Operating profit If = 18% of Sales 32	432 000	✓✓
Interest income	15 200	✓
Profit before interest expense	447 200	
Interest expense	(38 300)	✓✓
Net profit before tax	408 900	✓
Income tax	(102 225)	✓
Net profit after tax 6	306 675	✓

Calculations

[1] $119\,200 - (900 \times 8 = 7\,200) = 112\,000 \div 14 = 8\,000 + 900 \times 2 = 1\,800$

[2] $375\,000 \div 25 = 15\,000$

[3] $372\,000 - 72\,000 = 300\,000 - 144\,000 = 156\,000 \times 10 \div 100 = 15\,600$

[4] $72\,000 \times 10 \div 100 \times 6 \div 12 = 3\,600$

50

QUESTION 2

2.1

2.1.1	D ✓
2.1.2	C ✓
2.1.3	A ✓
2.1.4	B ✓

4

2.2 MTOMBENI LTD

2.2.1

Calculate: Carrying value of the vehicle sold on 30 November 2016

$$190\,000 \checkmark - \overset{100\,500 \text{ three marks}}{(72\,000 \checkmark + 28\,500 \checkmark \checkmark)} = 89\,500 \checkmark \text{ one part correct}$$

5

Calculate: Total depreciation on equipment on 28 February 2017

New:

$$32\,000 \checkmark \times 6/12 \checkmark \times 10\% = 1\,600 \checkmark \text{ one part correct but not for 10\%}$$

Old:

$$\overset{133\,000 \text{ two marks}}{= (218\,000 \checkmark - 85\,000 \checkmark)} \times 10\% = 13\,300 \checkmark \text{ one part correct but not for 10\%}$$

(250 000 – 32 000) one mark

$$\text{Total} = 14\,900 \checkmark \text{ one part correct}$$

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MTOMBENI LTD

Income Statement (Statement of Comprehensive Income) for the year ended 28 February 2017:

*one part correct

Sales (5 500 000 – 32 500 ✓ + 15 000 ✓)	5 482 500	☒ *
Cost of sales (3 150 000 + 9 375 ✓)	(3 159 375)	✓
Gross profit 6	2 323 125	☒ Sales - COS
Other operating income	198 950	☒ *
Rent income (169 500 ✓ + 16 500 ✓ ✓)	186 000	☒ *
Bad debt recovered	4 750	✓
** Profit on sale of asset (97 700 ✓ – 89 500 ☒ see 4.2.1)	8 200	☒ *
Gross operating income 10	2 522 075	☒ *
Operating expenses	(1 356 075)	☒ *
Directors' fees	380 000	
Audit fees	54 000	
Bad debts (13 600 ✓ + 1 900 ✓)	15 500	✓
Salaries and wages 488 500 two marks 1 755 two marks (475 000 ✓ + 13 500 ✓ + 1 620 ✓ + 135 ✓)	490 255	☒ *
Consumable stores	61 700	✓ ✓
Insurance (19 220 ✓ + 1 780 ✓)	21 000	✓
Bank charges (7 760 ✓ + 870 ✓)	8 630	✓
Sundry expenses	140 085	✓
** Trading stock deficit (386 500 ✓ – 9 375 ☒ – 374 000 ✓) R12 500 two marks only see cost of sales	3 125	☒ *
** Provision for bad debts adjustment (4 030 ✓ – 3 650 ✓)	380	✓
Depreciation (28 500 ☒ + 138 000 ✓ + 14 900 ☒) see 4.2.1 see 4.2.1	181 400	☒ *
Operating profit 30	1 166 000	☒ GOI- OExp
Interest income Missing figure NP after Interest income – Operating profit Cannot work out to be a negative figure	178 000	☒ ☒
Net profit after interest income NPBT + Interest expense	1 344 000	☒
Interest expense	(144 000)	✓ ✓
Net profit before tax NPAT + Income tax	1 200 000	☒
Income tax	(336 000)	✓ ✓
Net profit after tax 8	864 000	

TOTAL MARKS**70**

QUESTION 3 CORRECTION OF NET PROFIT BEFORE TAX

Correction of profit before tax		
Incorrect Profit before tax	840 000	
Trading stock surplus (450 700✓ – 5 700 ✓ – 446 000✓)	☑1 000	
Depreciation (R40 000✓ + R34 000✓)	☑ (74 000)	
Bad debt (4 600 x 60/100)	✓✓ (2 760)	
Provision for bad debts adjustment(9 000 ✓- 8 662✓)	☑ 338	
Income received in advance(Rent income)	✓✓ (5 450)	
Expense Accrued (Audit fees)	✓✓ (6 750)	
Expense prepaid (Directors fees)	✓✓ (40 000)	
Income tax(280 000 + 12 300)	✓✓ (292 300)	
Net profit after tax	☑ 420 078	

QUESTION 4

4.1

Write only the letter (A–E) next to the question number.

4.1.1	E ✓
4.1.2	C ✓
4.1.3	D ✓
4.1.4	B ✓

4

4.2.1 See Income Statement on the next page.

4.2.2 Ordinary Share Capital Note

Authorised 1 000 000 ordinary shares		
Issued		
✓700 000	Shares in issue on 1 Mar. 2014	✓5 600 000 (x)
✓100 000	Shares issued during the year at R12 each	✓1 200 000 (y)
✓(160 000) Ignore brackets	Shares bought back (average issued price of R8,50 ✓) Not R9,10 If $(x+y) \div 800\,000$	✓(1 360 000) One part correct Ignore brackets
640 000	Shares in issue on 28 Feb. 2015	✓5 440 000 Operation; One part correct

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4.2.3 Retained Income Note

Balance at beginning of financial year	✓ 1 368 000
Net profit after tax	see 4.2.1 ✓ 1 260 000
Buy back of shares (160 000 ✓ x 60c ✓) if 910-avg price above	* ✓ (96 000) Ignore brackets
Dividends	* ✓ (1 080 000) Ignore brackets
Interim (700 000 ✓ x 80c) Regard 80c as part of workings to assess if one part correct for final method mark	* ✓ 560 000
Final (800 000 ✓ x 65c) Regard 65c as part of workings to assess if one part correct for final method mark	* ✓ 520 000
Balance at end of financial year *Operation one part correct	* ✓ 1 452 000

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4.2.1 PRINCE LIMITED

*Operation, one part correct

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2015

	20 963 600 (2 marks)	
	Sales (14 974 000✓ x 140/100✓ – 53 600✓)	* ☒ 20 910 000
	Cost of sales	(14 974 000)
5	Gross profit	* ☒ 5 936 000
	Other income	* ☒ 355 700
	Rent income (374 950✓ – 29 500✓✓) 28 075: 1 mark; 1 425: 1 mark	* ☒ 345 450
	Bad debts recovered	✓ 4 150
	Provision for bad debt adjustment	✓✓ 6 100
9	Gross operating income	* ☒ 6 291 700
	Operating expenses Operation; Gross operating income – operating profit If no brackets, just mark operation	☒ (4 195 900)
	Auditors' fees	147 600
	Advertising	960 000
	Salaries and wages (1 300 000✓ + 17 000✓ + 3 000✓) 20 000: 2 marks	* ☒ 1 320 000
	Directors' fees (1 130 000✓ + 20 500✓)	✓ 1 150 500
	Packing material (76 200✓ – 8 500✓)	✓ 67 700
	Sundry expenses Balancing figure; any reasonable figure	☒ 164 900
	Bad debts (24 000✓ + 42 000✓)	✓ 66 000
	Trading <u>stock</u> deficit	✓✓ 20 000
	Depreciation	✓ 299 200
19	Operating profit Operation; Subtotal-Interest income	☒ 2 095 800
	Interest income (53 260✓ + 25 940✓) or 990 000 x 8%	* ☒ 79 200
		2 175 000
	Interest expense Ignore brackets; Ignore operation as NPBT is worked out from tax	✓✓ (375 000)
	Net profit before tax If NP + tax	☒ ☒ 1 800 000
	Income tax	(540 000)
9	Net profit after tax	✓✓ 1 260 000

42

Foreign items -1; max -2 Misplaced items to be marked as incorrect

TOTAL MARKS

65

COMPANIES : FIXED ASSETS, BALANCE SHEET AND AUDIT REPORT

QUESTION 5

5.1

- (a) Calculate the carrying value of Land and Buildings on 1 March 2016.

$$2\,550\,000 - 325\,000 = 2\,225\,000 \checkmark\checkmark \text{ no part marks}$$

2

- (b) Calculate the total depreciation on vehicles on 28 February 2017.

Allocate the marks to correct workings even if subtotals not shown.

New:

$$422\,550 \times 20/100 \times 6/12 = 42\,255 \checkmark\checkmark$$

Old:

one mark

$$350\,000 \times 20/100 = 70\,000 \text{ but can only write off R34\,999 } \checkmark\checkmark\checkmark$$

$$(350\,000 - 315\,000) = 35\,000 - 1 = 34\,999$$

$$42\,255 + 34\,999 = 77\,254 \checkmark \text{ one part correct}$$

6

- (c) Calculate the carrying value of Vehicles on 28 February 2017.

Note: Apply Marking Principle 10

Mark one line only – choose line to benefit candidate

$$35\,000 \checkmark + 422\,550 \checkmark - \text{see (b) above } 77\,254 \checkmark = 380\,296 \checkmark \text{ one part correct}$$

OR

$$\begin{array}{ccccccc} \text{one mark} & & \text{one mark} & & \text{one method mark} & & \text{one method mark} \\ 772\,550 - (315\,000 + 77\,254 \text{ see (b) above}) & = & 380\,296 \\ & & 392\,254 & \text{two marks} \end{array}$$

4

- (d) Calculate the carrying value of Equipment sold on 31 December 2016.

Note: Apply Marking Principle 10

Mark one line only – choose line to benefit candidate

$$\begin{array}{ccccccc} & & 30\,900 \text{ four marks} & & 18\,900 \text{ three marks} & & \\ & & 22\,800 \text{ two marks} & & & & \\ 120\,000 \checkmark - (12\,000 \checkmark + 10\,800 \checkmark + 8\,100 \checkmark\checkmark) & = & 89\,100 \checkmark & \text{one part correct} \\ 108\,000 \text{ two marks} & & & & & & \end{array}$$

OR

$$\begin{array}{ccccccc} \text{one mark} & & \text{one mark} & & \text{one mark} & & \text{two marks} & & \text{one method mark} \\ 120\,000 - 12\,000 - 10\,800 - 8\,100 & = & 89\,100 \end{array}$$

6

- (e) Calculate the total carrying value of fixed assets on 28 February 2017.

Note: Apply Marking Principle 10

$$2\,550\,000 \checkmark + \text{see (c) above } 380\,296 \checkmark + 50\,994 \checkmark = 2\,981\,290 \checkmark \text{ one part correct}$$

4

5.2 **BALANCE SHEET OF ODETTE LTD ON 28 FEBRUARY 2017**

Accept -ve figures for balancing items if these are due to prior errors by the candidates
 Ignore foreign items Placement presentation – 1 if marks earned in each case

	ASSETS		
	NON CURRENT ASSETS (TA – CA)	4 010 940	✓
	Fixed assets See (3.1 e)	2 981 290	✓
3	Financial assets (Fixed Deposit) Non-current assets – Fixed assets	1 029 650	✓
	CURRENT ASSETS CL X 2,1	870 660	✓✓
	Inventory	408 880	
	Trade and other receivables 67 200 ✓ – 270 ✓✓ + 6 800 ✓✓ + 10 350 ✓✓	84 080	✓*
	Cash and cash equivalents CA – Inv – T & OR	377 700	✓
12	TOTAL ASSETS SHE + L	4 881 600	✓
	EQUITY AND LIABILITIES		
	SHAREHOLDERS EQUITY 675 000 ✓ x 620 c ✓ 900 000 x 75%	4 185 000	✓
	Ordinary share capital SE – 520 000	3 665 000	✓
4	Retained income	520 000	
	NON-CURRENT LIABILITIES	282 000	
4	Loan: Beque Bank 376 000–92 000 ✓ 284 000 + 48 000 – 50 000 332 000 two marks	282 000	✓*
	CURRENT LIABILITIES	414 600	✓*
	# Trade and other payables 184 000✓ + 5 600✓	189 600	✓*
	## SARS: Income tax 222 000 ✓✓ – 209 000 ✓ 518 000 x 30/70 See no. of shares in SHE	13 000	✓*
	Shareholders for dividends (675 000 ✓ x 0,24✓)	162 000	✓*
	Current portion of loan	50 000	✓✓
14	TOTAL EQUITY AND LIABILITIES	4 881 600	✓*

NB: See alternative version to allow for SARS as a T&OP

*one part correct

#Trade and other payables can combine the other elements under current liabilities. Allocate the part-marks accordingly.

If SARS and S/Hs for divs are included in T&OP, award one method mark in each case for workings included.

Inspect treatment of SARS (income tax) to check if candidate deducts interest from net profit to calculate tax

5.3 AUDIT REPORT

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

Any three different valid points ✓✓ ✓✓ ✓✓

Part-marks for unclear/incomplete explanation

Note: Candidates should not restrict responses to the commenting on the two specific points in the audit report as there would be several concerns arising from those two points.

Expected responses:

- This is a disclaimer report (no audit opinion).
- It will have a negative effect on the company e.g. reputation / share price / demand for shares / bad publicity / potential investors lose confidence in the company.
- The corporate governance of the company is compromised /not in line with King Code.
- The correct procedure of approving directors' fees / bonuses was not followed.
- The directors have abused their position.
- The huge amount paid to directors could negatively affect the financial results/liquidity and solvency/profitability of the company.
- Insufficient audit evidence.

6

TOTAL MARKS
65

QUESTION 6

6.1

6.1.1	True ✓	Accept abbreviations for T or F
6.1.2	False ✓	
6.1.3	True ✓	
6.1.4	False ✓	
6.1.5	False ✓	

5

6.2 MODISE LTD

6.2.1 RETAINED INCOME

Ignore foreign items; presentation -1 max

Balance at beginning of year		R567 000
Funds used for shares repurchased (250 000 x R0,25)	✓✓	(62 500)* Ignore brackets
Net profit after tax (3 400 000 ✓ – 918 000 ✓✓) or 3 400 000 x 73% Operation, one part correct	☑	2 482 000
Ordinary share dividends Operation, one part correct	☑	(2 400 000)* Ignore brackets
Interim	✓	672 000
Final (4 800 000 ✓ x $\frac{36}{100}$ ✓) or 36 cents or 0,36 (4 550 000 + 250 000) Operation, one part correct	☑	1 728 000
Balance at end of year Operation, one part correct * figures must be subtracted	☑	586 500

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6.2.2 MODISE LTD

BALANCE SHEET ON 28 FEBRUARY 2018

ASSETS		
Non-current assets	Operation, TA - CA	✓ 13 386 500
Fixed assets	Operation, balancing figure	✓ 12 666 500
*✓ Fixed deposit / Investments / Financial assets (48 000✓ x $12/10$ ✓ x $100/8$ ✓) Be aware of alternative methods of calculation	Operation, one part correct	✓ 720 000
Current assets	No part marks (2 600 000 x 1,5)	✓✓ 3 900 000
Inventories (1 015 000 ✓ + 25 000 ✓)		✓ 1 040 000
*✓ Trade and other receivables (554 000✓ - 33 240✓✓ + 19 240✓)	Operation, one part correct	✓ 540 000
*✓ Cash and cash equivalents	Operation, balancing figure	✓ 2 320 000
TOTAL ASSETS	See total for E + L	✓ 17 286 500
EQUITY AND LIABILITIES		
Ordinary shareholders' equity	Operation, one part correct (i.e. RI figure from note): OSC + RI	✓ 14 236 500
Ordinary share capital		13 650 000
*✓ Retained income	See 4.2.1; could be -ve;	✓ 586 500
Non-current liabilities		450 000
*✓ <u>Loan</u> from director (630 000✓ - 180 000 ✓✓) or 12/42 15 000 x 12	Operation, one part correct	✓ 450 000
Current liabilities		2 600 000
Trade and other payables	operation, balancing figure	#✓ 674 000
Shareholders for dividends	See 4.2.1	✓ 1 728 000
SARS: Income tax (918 000✓ - 900 000✓) See 4.2.1 or 3 400 000 x 27%	one part correct	✓✓ 18 000
*✓ <u>Loan</u> (current portion)	see above	✓ 180 000
TOTAL EQUITY AND LIABILITIES	Operation, See OSHE + NCL + CL	✓ 17 286 500

6.2.3 The directors want to give R500 000 to a local school. Give TWO reasons why companies take such decisions.

Any TWO valid reasons ✓✓ ✓✓ Part-marks for unclear / incomplete answers

- This forms part of their corporate social investment (CSI) / responsibility (CSR) in accordance with the King Code
- Leads to goodwill from the community (support/positive image/good publicity)
- Creates a safer environment for the school / Contributes to better facilities for learners
- Tax deductible

4

6.3 AUDIT REPORT

6.3.1 Briefly explain the role of an independent auditor.

ONE valid explanation: ✓✓ Part-marks for unclear / incomplete answer

- The independent auditor expresses an opinion on the fair presentation of the financial statements
- Protects the interests of the shareholders/public.

Expected responses for max of 1 mark:

- Checks the books/Internal control/Detects fraud

2

6.3.2 Did Denga Limited receive a qualified/unqualified/disclaimer of opinion audit report?

Qualified report ✓ May be underlined in answer book

Briefly explain your choice. Mark independent of the decision above

Explanation ✓✓ Part-marks for unclear / incomplete answer

Valid responses for two marks:

- The audit opinion expressed an exception whereby it qualified the report regarding the shortcoming/exception in the case of advertising
- Advertising expenses of R500 000 could not be verified.

3

6.3.3 State THREE possible consequences for the independent auditor if he had NOT mentioned the advertising expense in his report.

Three different consequences ✓✓ ✓✓ ✓✓

- Disciplinary hearing (IRBA)
- Arrested (if fraud)
- Deregistered / struck off the roll
- Suspended (during investigation)
- Fined
- Sued by shareholders (held liable) (if they are found to be negligent)
- Lose clients / fired by clients (because his integrity would be questioned)

6

TOTAL MARKS
70

QUESTION 7

NOTES TO FINANCIAL STATEMENTS, CASH FLOW STATEMENT AND INTERPRETATION

7.1

7.1.1	Liquidity ✓
7.1.2	Gearing ✓
7.1.3	Net working capital ✓
7.1.4	Limited liability ✓

4

7.2

MIHKA LTD

7.2.1

ORDINARY SHARE CAPITAL

Authorised Share Capital

800 000 ordinary shares

Issued Share Capital

600 000	Ordinary shares on 1 January 2016	4 200 000
100 000	Issued on 31 August 2016 balancing figure repurchase must be a subtraction from top	840 000 ✓*
(40 000) ✓	Re-purchased (ASP: R7,20)	(288 000) ✓✓
660 000 ✓	Ordinary shares on 31 December 2016	4 752 000 ✓

6

Ignore brackets *Check balancing figure (ClosBal + BuyBack – OpBal) for method mark

RETAINED INCOME

Balance on 1 January 2016	276 000
Net profit after income tax (1 150 000 – 322 000)	828 000 ✓✓
Shares repurchased (40 000 ✓ x R1,30 ✓) must be in brackets	(52 000) ✓
Ordinary share dividends balancing figure; must be in brackets	(415 000) ✓
• Interim dividends total dividends – final dividends or (65c – 25c) x 600 000	240 000 ✓
• Final dividends	175 000 ✓
Balance on 31 December 2016	637 000 ✓

9

7.2.2

CASH EFFECTS OF OPERATING ACTIVITIES	292 600 ☒ *
Cash generated from operations	1 237 400
Interest paid	(100 000) ✓
Income tax paid (9 200 ✓ + 322 000 ✓ + 3 600 ✓)	(334 800) ☒ *
Dividends paid (270 000 ✓ + 240 000 ☒) see 5.2.1	(510 000) ☒ *

9

*one part correct; lose method mark on answer if incorrect use of bracket

7.2.3

Amounts in the Cash Flow Statement:**Calculate: Change in fixed deposit**

300 000 ✓✓ Inflow ✓

3

Calculate: Proceeds on disposal of equipment

$$5\,828\,000 \checkmark + 360\,400 \checkmark - 1\,495\,000 \checkmark - 4\,905\,800 \checkmark = 212\,400 \checkmark$$
one part correct

OR:

$$- 5\,828\,000 - 360\,400 + 1\,495\,000 + 4\,905\,800 = -212\,400$$

Inflow ✓

6

7.2.4

Calculate: Mark-up percentage on cost

$$\frac{1\,890\,000 \checkmark}{6\,090\,000 \checkmark - 1\,890\,000 \checkmark} \times 100 = 45\% \checkmark$$
one part correct; correct use of numerator & denominator
 4 200 000 two marks

4

Calculate: Debt-equity ratio

$$1\,000\,000 \checkmark : (4\,752\,000 \checkmark + 637\,000 \checkmark)$$

5 389 000 two marks

0,2 : 1 ☒ one part correct; must be x:1 accept 0,19:1

4

Calculate: Net asset value (in cents)

$$\frac{5\,389\,000 \checkmark}{660\,000 \checkmark} \times 100 = 817 \text{ or } 816,5 \text{ cents } \checkmark$$
one part correct; accept 816
see above see 5.2.1 correct use of numerator & denominator
 Do not accept Rand sign

3

7.2.5

The financial director was questioned about the decision to increase the loan. Explain what he should say to justify this decision. Quote TWO financial indicators (with figures).

Financial indicators: ✓ ✓ trend with figures ✓ ✓

Debt-equity ratio increased (from 0,1 : 1) to 0,2 : 1 / by 0,1 : 1 **see 5.2.4**

Return on average capital employed (ROTCE) increased from 21,3% to 21,8%.

Explanation

- Although the debt-equity ratio increased, the company is low risk / low gearing. ✓
- The ROTCE has also increased – earning far above the interest rate of 12,5% (positive gearing). ✓

Do not accept increase in risk as an explanation (counts against the decision)

6

7.2.6

Ashraf, a new shareholder, bought 70 000 shares on 31 August 2016. He expected the company to distribute at least 80% of its earnings as it did in 2015.

Ashraf is unhappy with the dividend pay-out policy for 2016. Provide a calculation to support his opinion.

65 ✓/131 ✓ x 100 = 49,6% ☒ accept 49,61% or 50% **one part correct**

Response for two marks:

DPS was 65c while EPS was 131c

3

Explain TWO points to support the company's decision regarding dividends for 2016.

Explanation ✓✓ ✓✓

One mark for incomplete / unclear answer

- The company decided to retain more of the EPS this year
- The NAV would increase thereby positively affecting the market price of the shares
- The company retained funds to expand the company in future (extensions to the building)
- Improve the cash situation/eliminated the bank overdraft from 2015
- Improvements could lead to greater profitability in the future
- The ROSHE has also increased – possibly better dividends in the long run.
- Shareholders would benefit from a capital gain on shares
- Cheaper than borrowing money (avoid interest)

4

7.2.7

Comment on the re-purchase price paid for the 40 000 shares on 30 December 2016. Provide TWO financial indicators (with figures) in your comment.

Two indicators with figures

- ✓ NAV is 817 cents see 5.2.4
- ✓ Market price is 848 cents

Comment ✓✓ One mark for incomplete / unclear answer

- The shareholder has benefitted as he may have received less had he sold his shares on the stock exchange.
- The directors may have to be investigated to determine why they disadvantaged the company.
- The price is fair because in line with the current market price.
- The price was set at a level to encourage the disgruntled shareholder to sell his shares.

Complete comment would include an opinion e.g. fair / unfair

4

TOTAL MARKS
65

QUESTION 8: FIXED ASSETS, INCOME STATEMENT AND AUDIT REPORT

8.1

8.1.1	Equity ✓	or shareholders' equity
8.1.2	Current asset ✓	
8.1.3	Non-current asset ✓	
8.1.4	Expense ✓	Accept recognisable abbreviations (e.g. NCA)

4

8.2 **YASHPAL LTD**8.2.1 **Refer to Information A:**

	WORKINGS	ANSWER
(i)	838 000 – 420 000	418 000 ✓✓
(ii)	838 000 x 15% = 125 700 ✓✓ 216 000 ✓ x 15% x 5/12 ✓ = 13 500 ✓ one part correct	139 200 ✓ one part correct
(iii)	26 250 ✓ – 4 250 ✓ OR: 105 000 – 83 000 (refer Asset disposal account below)	22 000 ✓ one part correct

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8.2.2

ASSET DISPOSAL (N12)

2018 Jan	1	Equipment	105 000 ✓✓*	2018 Jan	1	Accumulated Depreciation on Equipment	83 000 ✓*
		Profit on sale of asset	4 250 ✓			Bank	26 250 ✓
			*Equipment (622 000 – 517 000)				
			109 250				109 250
							*balancing figure

- 1 (max -2) Presentation; incorrect or no details provided

5

8.2.3 Income Statement for the year ended 28 February 2018

	Sales	7 437 500 + 32 200 or COS x 175%	7 469 700	☑☑
	Cost of sales	4 250 000 ✓ + 18 400 ✓✓	(4 268 400)	☑*
7	Gross profit	Sales – COS	3 201 300	☑
	Other income	operation	98 700	☑
	Fee income		79 350	
	Discount received		14 280	✓
	Profit on sale of asset		4 250	✓
	<u>Provision for bad debts</u> adjustment (7 480 – 6 660)		820	✓☑*
6	Gross income	GP + OI	3 300 000	☑
	Operating expenses	GI – OP	(1 350 000)	☑
	Depreciation (139 200 ☑ + 35 400 ✓) 3.2.1 (ii)		174 600	☑*
	<u>Trading stock</u> deficit (728 400 – 18 400 – 706 350) 22 050 one mark (even with no workings shown)		3 650	✓☑*
	Packing material (43 730 – 3 880)		39 850	✓☑*
	Directors fees (336 500 ✓ + 23 500 ✓)		360 000	✓
	Audit fees (19 450 ✓ + 19 450 ✓)		38 900	✓
	Bad debts (23 555 ✓ + 11 245 ✓✓)		34 800	☑*
	Rent expense (146 080 ✓ – 11 770 ✓✓)		134 310	☑*
	Salaries and wages		222 700	✓
	Sundry expenses	balancing figure	341 190	☑
25	Operating profit	PBIE – Int Inc	1 950 000	☑
	Interest income 195 000 x 8% x ½		7 800	✓☑*
	Profit before interest expense		1 957 800	
	Interest expense 565 800 - 542 000		(23 800)	✓✓
	Net profit before income tax	560 860 x 100/29	1 934 000	☑
	Income tax		(560 860)	✓
8	Net profit after tax	560 860 x 71/29	1 373 140	✓☑*

46

-1 for foreign items (max -2)

*Operation, one part correct

8.3 AUDIT REPORT: PICOLI LTD

8.3.1 Briefly explain the role of the external auditor.

Explanation ✓✓ *part marks for incomplete/unclear answers*

- Express an unbiased opinion on the fair presentation of financial statements.
- Protect the interest of shareholders by providing an independent, unbiased opinion on the financial statements.
- Assessing the internal controls and financial statements and reporting any discrepancies that do not conform to audit practices through the type of report they offer.

2

8.3.2 What type of audit report did Picoli Ltd receive? Explain.

Mark TYPE and EXPLANATION separately

TYPE: Qualified audit report ✓

EXPLANATION: Explaining the exception to fair presentation ✓✓

- The auditors found that the advertising expenses could not be verified.
- No documentation exists for the advertising expenses.
- They found a problem which they could not explain.

3

8.3.3 Why would an existing shareholder be concerned about this report? Provide TWO points.

Two valid points ✓✓ ✓✓ *part marks for incomplete/unclear answers*

- Proper internal controls are not being observed by management.
- The reputation of the company may be affected (public image).
- Potential investors will not be interested in the company (share prices will drop).
- Possibility of fraud. *Need to investigate*

4

Q8: TOTAL MARKS

75
