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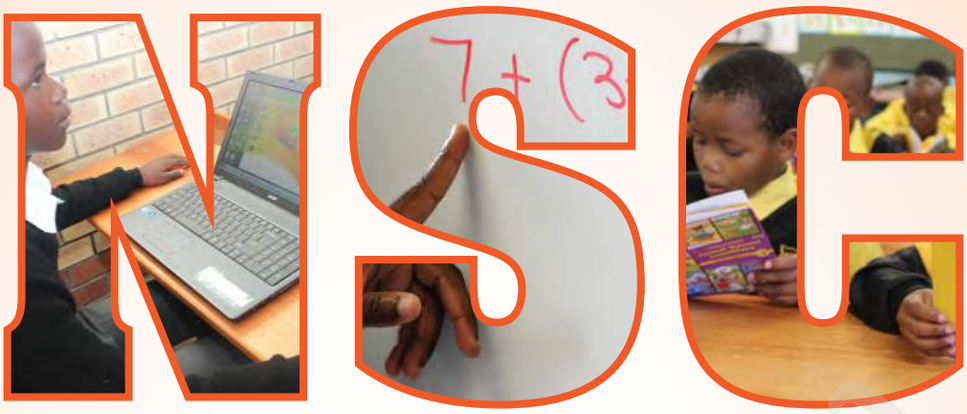
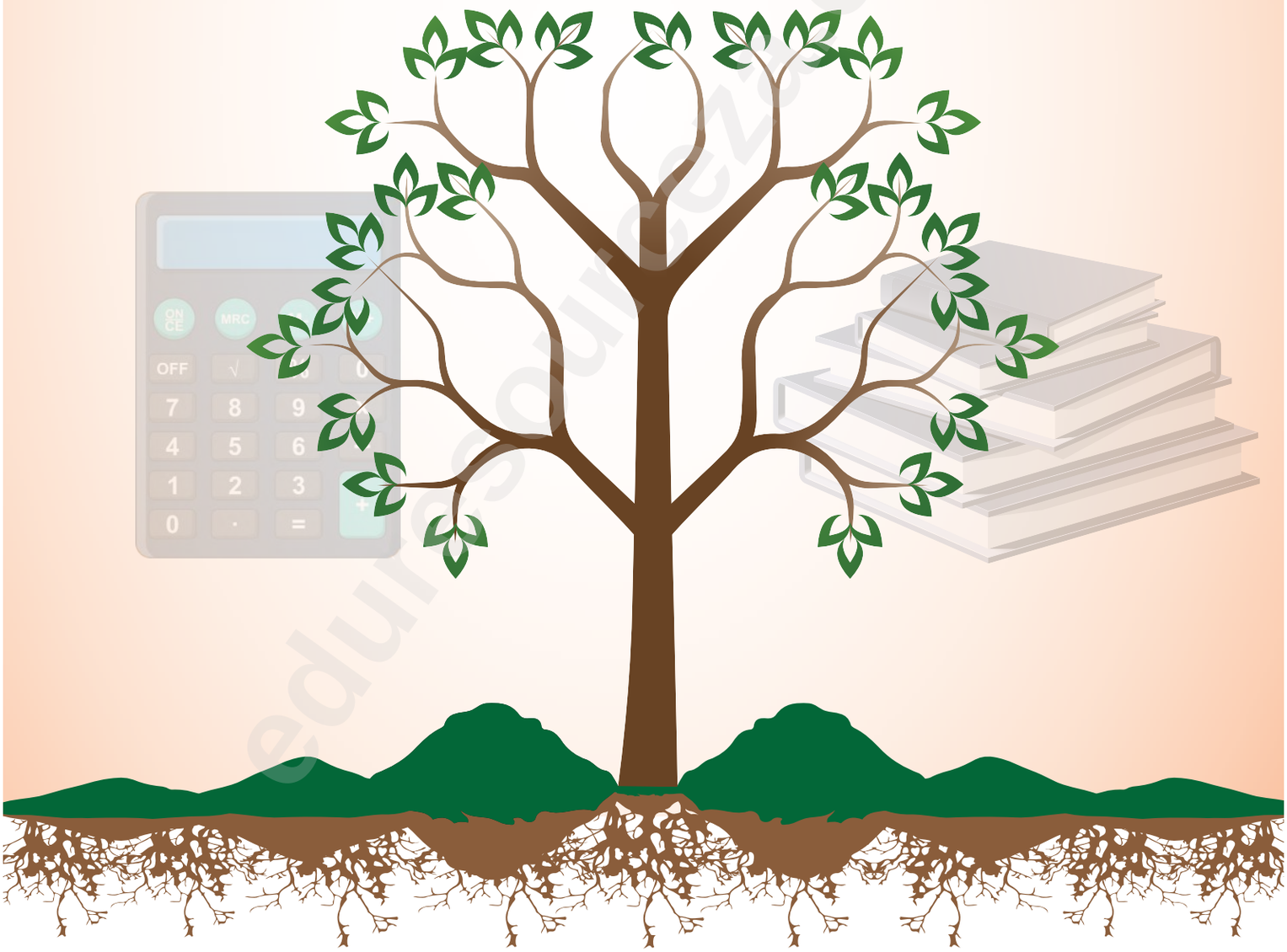


ACCOUNTING TRAINING MANUAL
2018 - 2020



Teacher Development Implementation

National Institute for Curriculum and Professional Development (NICPD)

basic education
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Basic Education
REPUBLIC OF SOUTH AFRICA

Read to Lead
A Reading Nation is a Leading Nation

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NSC SUPPORT PROGRAMME

ACCOUNTING

2018 - 2020

TEACHER DEVELOPMENT IMPLEMENTATION

(NICPD)

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TABLE OF CONTENTS

		Page
Introduction		02
1	➨ Icons	05
2	➨ Module 1 : Statement of Financial Position (Balance Sheet)	06 – 27
3	➨ Module 2 : Cash flow Statements	28 – 66
4	➨ Module 3 : Analysis and interpretation of financial statements	67 – 91
5	➨ Module 4 : Reconciliations	92 – 112

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Introduction

In pursuit of quality education as an apex priority the DBE has developed a battery of NSC support interventions. One of these will focus on Economics and Accounting in the FET band. The two subjects have had some disturbing trends in the last few years, ranging from declining enrolment and performance in the NSC examinations.

According to the CAPS curriculum Economics as a subject "aims to ensure that children acquire and apply knowledge and skills in ways that are meaningful to their own lives", and further defined as "the study of how individuals, business, governments and other organizations within our society choose to use scarce resources to satisfy their numerous needs and wants in manner that is efficient, equitable and sustainable" (CAPS, Grade 10-12, Economics, page 8).

Both empirical and anecdotal evidence has shown that the number of schools offering Economics and learners taking Economics at the National Senior Certificate (NSC) level has been on the decline. In addition, the ratio of male to female learners writing the NSC examinations is skewed around 32% of the learners being male. This situation needs to be arrested in s systematic way.

On the other hand, Accounting focuses on measuring performance, processing and communicating financial information about economic sectors. It deals with the logical, systematic and accurate selection and recording financial information and transactions as well as the compilation, analysis, interpreting and communicating financial statements and managerial reports for use by interested parties.

While participation has dropped sharply from 148 000 in 2013 to 117 000 in 2017, pperformance has been inconsistent since the introduction of CAPS in 2014, in one year the performance will increase and the next year it will drop. Moreover performance has never been above the 70% mark since the introduction of the new curriculum.

The DBE-initiated programme intentions resonate with the 2013 UNESCO Roadmap for implementing Education for Sustainable Development. The Roadmap lifts up five priority action areas, three of which are restated herein to shed more light on the programme for ten districts. The priority action areas are:

(i) Transforming learning and training environments: *integrating sustainability principles into education and training settings*

(ii) Building capacities of educators and trainers*: increase the capacity of educators to more effectively deliver ESD*

(iii) Accelerating sustainable solutions at local levels: *at community level, scale up programmes and networks*

The profound intentions of the UNESCO roadmap and the DBE interventions interweave so pleasantly towards the same end: capacity for effectiveness. The subject specialists at ground level have worked together to produce the Training Manuals in Economics and Accounting that will be used by subject advisors and teachers in the system. We want to express deep-felt gratitude to these subject specialists, who generously offered their time and expertise in the development of these Training Manuals. It is further worth stating the names of the writers of these manuals:

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NO	ECONOMICS	PROVINCE	ACCOUNTING	PROVINCE
1	Ms Sithembiso Tshabalala	KZN	Mr PJ Fouche	FS
2	Ms Thabisa Seleho	NW	Mr DP Lackay	WC
3	Mr Thando Sikiti	WC	Ms ZJM Mampana	MP
4	Ms RJK Mongalo	LP	Ms Beauty Mpanza	GP
5	Ms Natalie Winter	GP	Mr Poobie Govender	EC
6	Ms Palesa Booi	FS	Mr Veli Mbuli	KZN
7	Ms Masego Khumalo	NC	Mr Dorian Olifant	NC
8	Mr Mzikayise Masango	DBE	Mr NJ Mativandlela	LP

This Manual has been submitted to SACE for endorsement, and can then be used by all provinces, districts, and schools towards building teacher capacities, competencies and confidence. It is important to note that this is not a textbook, and therefore the format and the purpose are different from that of a textbook. Further, the ideas to further strengthen and improve the concepts are welcomed and can be sent to email address given hereunder.

Wishing all the trainers, teachers and other users of this training manual all the best. We earnestly hope that the manual will remain a valuable user-friendly tool in enhancing the requisite Economics and Accounting competencies for subject advisors and classroom-based educators.

Mr. Phillip K Dikgomo

Director: Teacher Development Implementation

Dikgomo.p@dbe.gov.za

Department of Basic Education

January 2018

"Without confidence one is defeated twice in the journey of life"

Reggae scholar and intellectual

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1. This manual addresses the following broad topics/sections from the Financial Accounting field as explained in CAPS:

    - Company Financial Statements and Interpretation.
    - Reconciliations.

    Take note that other key topics such as Income Statement, VAT, Cost Accounting, Budgeting and Stock Valuation are vitally important sections that must be thoroughly explained and assessed.

2. The material herein is intended to supplement the work that must be covered during normal class time, according to the ATP, and in no way intended to replace a good textbook and other useful resources a teacher may have.

3. The activities are structured to move from the easy (requiring basic understanding) to the more complex (requiring analytical skills and insight).

4. Many of the questions are extracted and adapted from past year examination papers. You are expected to work through many past year papers as possible.

5. You are encouraged to source other material to help your preparation and delivery of meaningful instruction.

6. Reading financial magazines, watching the news, and using publications such as the King Code and the amended Companies Act will add to your confidence and attitude in effectively preparing candidates for the final Grade 12 examination and beyond.

7. This manual includes an answer book as well as marking guidelines.

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ICONS

1. Discussion	
2. Group Activity	
3. Individual Activity	
4. Study Tips	
5. Notes	
6. Useful Information	

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MODULE 1: STATEMENT OF FINANCIAL POSITION (THE BALANCE SHEET)

The Balance Sheet is a Financial Statement that is usually prepared at the end of an accounting period (a financial year) to show the financial position of a business in terms of its assets, liabilities and equity.

Understanding Financial Statements require a thorough understanding of the typical Accounting Cycle and especially the Accounting Equation. These topics are introduced in Grade 8/9/10 and extend into Grade 11 and 12.

ACTIVITY 1:

Illustrate a basic flow of recording and reporting financial information. Commence with transactions and end with the Preparation of Financial Statements.

UNDERSTANDING THE ACCOUNTING EQUATION

The accounting equation is: **ASSETS = EQUITY + LIABILITIES**

Extending the Accounting Equation, we have the following:

<table>
<tr><th>ASSETS</th><th>EQUITY</th><th>LIABILITIES</th></tr>
<tr><td rowspan="4">• NON-CURRENT ASSETS
• CURRENT ASSETS</td><td>• CAPITAL
• DRAWINGS</td><td rowspan="4">• NON-CURRENT LIABILITIES
• CURRENT LIABILITIES</td></tr>
<tr><td>• CAPITAL
• CURRENT ACCOUNTS</td></tr>
<tr><td>• ORDINARY SHARE CAPITAL
• RETAINED INCOME</td></tr>
<tr><td>• PROFIT AND LOSS (Income and Expenses)</td></tr>
</table>

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ACTIVITY 2:

Place the General Ledger accounts from the list provided in the appropriate column on the table provided in the Answer Book, as follows:

NON-CURRENT ASSETS	CURRENT ASSETS	NON-CURRENT LIABILITIES	CURRENT LIABILITIES	EQUITY

LIST OF ACCOUNTS:

Sales	Rent income	Stationery	Consumable stores on hand
Salaries and wages	Retained income	Trading stock	Deferred income
Drawings	Accumulated depreciation on vehicles	Vehicles	Prepaid expenses
Debtors control	Fixed deposit	Loan: NVT Bank	Provision for bad debts
Debtors allowances	Accrued expenses	Fee income	Accrued income

Points for discussion:

1. The different forms of ownership and the changes in terminology relative to each.
2. Accounts that have the effect of increasing/decreasing specific items on the Balance Sheet.

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ACTIVITY 3: BASIC FORMAT OF THE BALANCE SHEET

A typical Balance Sheet is presented. Fill in the missing amounts to complete this financial statement.

MOON LTD

BALANCE SHEET FOR THE YEAR ENDED 28 FEBRUARY 2018

ASSETS	Notes	
NON-CURRENT ASSETS		**4 980 000**
Fixed/tangible assets	3	
Financial assets		**160 000**
CURRENT ASSETS		**1 820 000**
Inventories	4	**956 000**
Trade and other receivables	5	
Cash and cash equivalents	6	**2 500**
TOTAL ASSETS		
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Share capital	7	
Retained income	8	**218 200**
NON-CURRENT LIABILITIES		
Mortgage Loan (740 000 –		
CURRENT LIABILITIES		**921 800**
Trade and other payables	9	
Bank overdraft		**45 300**
Current portion of loan		**148 000**
		6 800 000

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QUESTION 4 : BASIC BALANCE SHEET AND NOTES

You are provided with information relating to JOB Taylor Ltd for the year ended 28 February 2017.

REQUIRED:

4.1 Complete the Retained Income Note to the Balance Sheet (Statement of Financial Position). (10)

4.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2017. (Show workings in brackets). (40)

INFORMATION:

A. Extract from the Pre-adjustment Trial Balance on 28 February 2017.

	Debit	Credit
Ordinary share capital (900 000 shares)		R 4 050 000
Retained income (1 March 2016)		345 000
Loan: Vivian Bank (1 March 2016)		750 000
Fixed assets at cost	R 4 350 000	
Accumulated depreciation		650 520
Trading stock	258 740	
Debtors Control	195 000	
Provision for bad debts		4 000
Fixed deposit: Santa Bank	?	
Bank	464 000	
Creditors' Control		101 000
SARS (Income tax)	364 000	
Rent Income		80 150

B. Additional information:

(i) **Share Capital**

600 000	Shares were in issued at the beginning of the current financial year (Average Share Price; R4,00).
300 000	Additional shares were issued on 1 May 2016 at R5,50 per share.
75 000	On 28 February 2017, shares were bought back from a shareholder for R450 000. This transaction **was not** recorded yet. They are entitled to a final dividend.

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(ii) **Loan agreement with Vivian Bank:**

Opening balance: 1 March 2016.	R 750 000
Repayment during the year, including interest	192 300
Closing balance: 28 February 2017	615 000

- The interest on loan is capitalised.
- R125 000 of the loan will be paid in the next financial year.

(iii) **Dividends:**

- An interim dividend of R240 000 was paid on 31 August 2016.
- A final dividend of 28 cents per share was declared on 28 February 2017 and must still be brought into account.

(iv) **The following adjustments must be taken into consideration for the drafting of the Balance Sheet only:**

- Audit fees still outstanding on 28 February 2017, R19 000.
- A debtor owing R6 500 was declared insolvent, was not recorded.
- The provision for bad debt must increase by R1 500.
- Consumable stores on hand, R2 180.
- The rent for February 2017 was not received yet. Note that the rent was increase by 15% on 1 November 2016.

(v) **SARS (income tax):**

- Income tax for the year is calculated at 28% of the net profit.
- Net profit before tax (after all adjustments) amounted toR1 250 000.

65

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ACTIVITY 5: BALANCE SHEET AND NOTES

You are provided with information relating to Fouche Limited for the financial year ended 28 February 2017.

REQUIRED:

5.1 Prepare the following notes to the Balance Sheet on 28 February 2017:

5.1.1 Ordinary share capital (10)

5.1.2 Retained income (11)

5.1.3 Fixed/Tangible assets (16)

5.2 Complete the Balance Sheet on 28 February 2017. (33)

INFORMATION:

A. Figures extracted from the accounting records on 28 February 2017:

	R
Ordinary share capital	?
Retained income (1 March 2016)	146 000
Fixed deposit: Zamdela Bank	400 000
Mortgage loan: Cash Bank	920 000
Fixed/Tangible assets	?
Debtors' control	?
Creditors' control	95 700
SARS: Income tax (provisional tax payments)	246 000
Expenses accrued/payable	28 300
Bank (Dr)	61 340
Petty cash and cash float	3 200
Trading inventory	234 000
Consumable stores on hand	14 500

B. **Share Capital:**

- The company has an authorised share capital of 3 000 000 shares.
- 1 800 000 shares were issued at R4,00 per share during the previous year.
- A further 200 000 shares were issued on 1 May 2016 at R6,00 per share. This transaction was recorded.
- On 3 January 2017, the business repurchased 80 000 shares from a shareholder at a price of R4,90 per share. This was correctly recorded.

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D. Fixed Assets:

Incomplete Fixed Asset note on 28 February 2017:

	LAND AND BUILDINGS	EQUIPMENT	VEHICLES
Carrying value in beginning	**R 6 990 000**	**R 155 000**	**520 000**
Cost (1 March 2016)	**6 990 000**	**240 000**	**880 000**
Accumulated depreciation	**(0)**	**(85 000)**	**(360 000)**
Movements			
Additions at cost	*	*	**0**
Disposal at carrying value	**(0)**	**(0)**	*
Depreciation	**(0)**	*	**(161 600)**
Carrying value at the end	**7 490 000**	*	*
Cost (28 February 2017)	**7 490 000**	**360 000**	*
Accumulated depreciation	**(0)**	*	*

- Land and buildings were bought during the current financial year.
- New equipment for R120 000 purchased on credit on 28 February 2017, was **not** yet recorded.
- Equipment is depreciated at 10% p.a. on diminishing-balance method.
- A vehicle, sold for cash at carrying value on 31 August 2016, was correctly recorded. Details of the vehicle sold were as follows:
  - Cost price, R144 000
  - Accumulated depreciation at beginning of financial year, R84 000
  - Depreciation rate of 20% p.a. on the on the cost price method.
- Total depreciation on vehicles for the year amounted to R161 600.

F. Fixed Deposits:

There are two fixed deposits at CCB Bank.

- One, valued at R175 000, matures on 31 July 2017.
- The other, valued at R225 000, matures on 31 December 2019.

G. Net profit and Income tax:

- Net profit before tax as per the Income Statement, R780 000;
- Income tax for the year, R234 000.

H. Loan: Cash Bank:

- R100 000 of the loan will be paid back during the next financial year.

USING FINANCIAL INDICATORS TO COMPLETE A BALANCE SHEET

The basic Balance Sheet introduced in Grade 10 is extended each year to include relevant changes that come with the different forms of ownerships. Essentially, differences are mainly noted in the Equity Section of each different form of ownership.

It is common practice at Grade 12 level to complete the Balance Sheet using financial indicators to calculate certain missing figures. This is a skill that must be developed through an understanding of the relationship between the different sections of a Balance Sheet and the relevant financial indicators.

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The following examples illustrate how financial indicators are used to calculate certain missing figures. Each example focus on different indicators, moving from the simple to the more challenging.

Example 1:

Extract from the Pre-adjusted Trial Balance on 28 February 2017

	Debit	Credit
Balance sheet section		
Trade debtors	?	
Inventories	15 000	
Bank	10 000	
Trade creditors		200 000

Financial indicator

Current ratio	2.5 : 1

Extract of the Balance sheet

Current assets	**Current liabilities x 2,5***	*500 000
Trade debtors	balancing figure	**475 000**
Inventories		15 000
Bank		10 000
Current liabilities		*200 000
Trade creditors		200 000

** Current assets is 2,5 times more than Current Liabilities;*

Therefore 200 000 x 2,5 = 500 000 will be equal to the Current Assets.

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Example 2:

Extract of the Pre-adjusted Trial Balance on 28 February 2017

	Debit	Credit
Balance sheet section		
Trade debtors	?	
Inventories	?	
Bank	25 000	
Trade creditors		300 000

Financial indicator

Current ratio	2,0 : 1
Acid test ratio	1,4 : 1

Extract of the Balance sheet

Current assets	**Current liabilities x 2,0**	**600 000**
Trade debtors	balancing figure	395 000
Inventories	**0,6 of trade creditors**	**#180 000**
Bank		25 000
Current liabilities		300 000
Trade creditors		300 000

The difference between the Current Ratio and the Asset Test Ratio is Inventory.

Therefore the difference between 2 : 1 and 1,4 : 1 is 0,6. R300 000 x 0,6 = R180 000.

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Example 3:

Extract of Pre-adjusted Trial Balance on 28 February 2017:

	Debit	Credit
Balance sheet section		
Ordinary share capital		5 000 000
Retained income		800 000
Loan: Poobie Bank		?

Financial indicator

Debt: Equity ratio	0,1 : 1

Extract of the Balance sheet

EQUITY & LIABILITIES		
Ordinary shareholders' equity		5 800 000
Ordinary share capital		5 000 000
Retained income		800 000
Non-current liabilities		
Loan: Poobie Bank	0,1:1	**# 580 000**

 # The Loan balance will therefore be 0,1 of the Shareholders' Equity. 5 800 000 x 0,1.

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Example 4:

Extract from the Pre-adjusted Trial Balance on 28 February 2017:

	Debit	Credit
Balance sheet section		
Ordinary share capital		4 000 000
Retained income		?
Loan: Mashele Bank		900 000

Financial indicator

Debt: Equity ratio	0,2 : 1

Extract of the Balance sheet

EQUITY & LIABILITIES		
Ordinary shareholders' equity		***4 500 000**
Ordinary share capital		4 000 000
Retained income	balancing figure	**500 000**
Non-current liabilities		
Loan: Mashele Bank	0,2:1	900 000

** Shareholders equity will be equal to the Loan balance divided by 0,2.*

900 000 ÷ 0,2 = R4 500 000

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Example 5:

Extract from the Pre-adjusted Trial Balance on 28 February 2017:

	Debit	Credit
Balance sheet section		
Ordinary share capital		5 200 000
Retained income		?

Note: The Share Capital comprised 800 000 ordinary shares.

Financial indicator

Net asset value per share	700 cent

Extract of the Balance sheet

EQUITY & LIABILITIES		
Ordinary shareholders' equity		*5 600 000
Ordinary share capital		5 200 000
Retained income	balancing figure	**400 000**

** Net asset value per share is Shareholders Equity/Number of Shares.*

Therefore 800 000 x 7 = R5 600 000 will be the Shareholders Equity.

(700 cents is 700/100)

Subtract the Ordinary Share Capital balance of R5 200 000 = Retained Income balance.

Example 6

Extract: Pre-adjustment Trial Balance on 28 February 2017:

	Debit	Credit
Balance sheet section		
Ordinary share capital		?
Retained income		750 000

Note: 950 000 shares were in issue at the end of the financial year.

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Financial indicator

Net asset value per share	800 cent

Extract of the Balance sheet

EQUITY & LIABILITIES		
Ordinary shareholders' equity		*7 600 000
Ordinary share capital	balancing figure	**6 850 000**
Retained income		750 000

* *Shareholders Equity will be 950 000 x 8 = 7 600 000. Subtract the Retained Income balance of R750 000 = Ordinary Share Capital balance.*

Example 7:

Extract: Pre-adjustment Trial Balance on 28 February 2017:

	Debit	Credit
Balance sheet section		
Ordinary share capital		?
Retained income		750 000
Loan: Beauty Bank		650 000

Note: The total capital employed amounts to R6 500 000.

Extract of the Balance sheet

EQUITY & LIABILITIES		
Ordinary shareholders' equity		# 5 850 000
Ordinary share capital	balancing figure	**5 100 000**
Retained income		750 000
Non-current liabilities		650 000
Loan		650 000

 # Total Capital Employed = Shareholders Equity + Non-Current Liabilities.

Therefore R6 500 000 – 650 000 = 5 850 000. Subtract Retained Income to calculate OSC.

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Example 8:

Extract: Pre-adjustment Trial Balance on 28 February 2017:

	Debit	Credit
Balance sheet section		
Ordinary share capital		?
Retained income		450 000
Loan: Baloyi Bank		580 000
Fixed assets		
Trade debtors	?	
Bank	50 000	
Inventory	?	
Trade creditors		?
Shareholders for dividends		120 000

Financial indicators:

Current ratio	2,5 : 1
Acid test ratio	1,9 : 1
Debt equity ratio	0,1 : 1

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ACTIVITY 6: BALANCE SHEET AND NOTES

EXTRACT OF THE BALANCE SHEET

Current assets		1 200 000
Trade and other receivables	missing figure	**288 000**
Inventories	acid test ratio	**862 000**
Cash and cash equivalents		50 000
EQUITY & LIABILITIES		
Ordinary shareholders' equity	debt/equity	**5 800 000**
Ordinary share capital	missing figure	
Retained income		450 000
Non-current liabilities		580 000
Loan		580 000
Current liabilities	current ratio	**480 000**
Trade and other payables	missing figure	**360 000**
Shareholders for dividends		120 000

& *Use the Current ratio to calculate Total Current Liabilities of 480 000.*

Trade and other payables of 360 000 is the missing figure.

$ *Using the Acid Test Ratio: TOR + CCE = 480 000 x 1,9 = 912 000.*

Therefore Inventories = 912 000 – 50 000 = 862 000

Or: 2,5 – 1,9 = 0,6 x 480 000 = 288 000 (Inventories).

Using Debt/Equity, Shareholders Equity is 580 000 ÷ 0,1; Subtract RI to find OSC.

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

REQUIRED:

6.1 Prepare the following notes to the Balance Sheet on 28 February 2017:

6.1.1 Ordinary share capital (10)

6.1.2 Retained income (10)

6.2 Prepare the Balance Sheet on 28 February 2017. Show ALL workings. (35)

INFORMATION:

A. List of balances on 28 February 2017, unless otherwise stated:

	R
Ordinary share capital (See Information B.)	**?**
Retained income (1 March 2016)	567 000
Fixed assets at carrying value (1 March 2016)	?
Fixed deposit: Parys Bank	**?**
Loan from director (See Information F.)	630 000
Debtors' control	554 000
Provision for bad debts (1 March 2016)	31 300
Bank (favourable)	**?**
Trading stock	1 040 000
Creditors' control	692 000
Accrued income	2 440
Prepaid expenses	16 800
SARS: Income tax (provisional tax payments)	952 000

B. Share capital:

- Boonzaaier Ltd is authorised to sell 6 500 000 ordinary shares.
- The Share Capital balance on 1 March 2016, of R10 000 000 comprised 4 000 000 ordinary shares.
- 800 000 shares were issued on 1 December 2016 at R5,50 each.
- 250 000 shares were repurchased on 20 February 2017 at R3,25 per share.

C. Dividends:

- An interim dividend of R680 000 was paid on 28 August 2016.
- A final dividend of 36 cents per share was declared on 28 February 2017. All shares (including the shares repurchased on 20 February 2017) qualify for final dividends.

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D. **Net profit before tax:**

- After taking into account all relevant information, the net profit before tax was accurately calculated to be R3 400 000.
- Income tax at the rate of 27% must be taken into account.

E. The interest on the fixed deposit was R42 000. The fixed deposit was invested on 1 May 2016 at Parys Bank at 8% p.a.

F. **Loan from Director:**

- The loan was originally received on 1 September 2014.
- This loan is to be repaid over 6 years in equal monthly instalments with effect from 30 September 2014. All payments have been made.
- Interest is not capitalised and has been paid in full.

G. **Provision for bad debts:**

The provision for bad debts must be adjusted to R33 240 of the outstanding debtors.

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

Current ratio	1,5 : 1
Acid-test ratio	1,1 : 1

ACTIVITY 7: BALANCE SHEET AND NOTES

You are provided with information relating to Mtombeni Ltd for the year ended 30 June 2017.

The business has an authorised share capital of 1 750 000 ordinary shares.

REQUIRED:

7.1 Prepare the following notes to the Balance Sheet:

7.1.1 Ordinary share capital (10)

7.1.2 Retained income (10)

7.1.3 Trade and other receivables (10)

7.2 Use the information below and complete the Balance Sheet on 30 June 2017.

Where notes are not required, show ALL workings in brackets. (25)

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INFORMATION:

A. Issued share capital comprised 900 000 ordinary shares on 1 July 2016.

B. **The following was extracted from the books on 30 June 2017:**

Ordinary share capital (1 July 2016)	6 075 000
Retained income (1 July 2016)	345 900
Fixed/Tangible assets (carrying value)	?
Fixed deposit: Swan Bank	360 000
Debtors' control	156 570
Provision for bad debt	10 380
Loan: Drake Bank	375 000
Creditors' control	196 700
SARS: Income tax (provisional payments)	435 900
Dividends on ordinary shares (interim dividends)	290 000

C. An additional 100 000 shares were issued on 1 December 2016 at R9,25 per share. This was recorded properly.

On 1 May 2017, 120 000 shares were bought back at R8,10 per share. These shareholders were not entitled to final dividends.

D. The following adjustments must be considered when preparing the Balance Sheet:

- A debtor with a credit balance of R10 500 must be transferred to the Creditors' Ledger.
- The provision for bad debts must be increased by R5 610.
- The rent expense increased by R1 850 on 1 April 2017. Total rent of R163 400 was paid up to 31 July 2017.
- The bank reconciliation reflected a post-dated cheque for R35 000 dated 31 August 2017 issued to a creditor in settlement of the account.
- The statement received from Drake Bank in respect of the loan reflected interest capitalised of R44 600. Monthly repayments are R12 500 including interest. These fixed monthly repayments will end in 2019.
- On 30 June 2017, a final dividend of 28 cents per share was declared.

E. Net profit after tax, after taking into account the adjustments above, was calculated as R1 080 000. The income tax rate is 28% of net profit before tax.

F. The following financial indicators apply to the Balance Sheet

- Current ratio is 2,3:1
- Acid-test ratio is 1,7:1

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ACTIVITY 8: BALANCE SHEET AND NOTES

Information relating to Chuta Ltd for the financial year ended 28 February 2017 is provided.

REQUIRED:

8.1 Prepare the following notes to the Balance Sheet on 28 February 2017:

8.1.1 Retained income (10)

8.1.2 Fixed/Tangible assets (28)

8.2 Complete the Balance Sheet on 28 February 2017. (32)

INFORMATION:

A. Figures extracted from the accounting records on 28 February 2017:

	R
Ordinary share capital	?
Retained income (1 March 2016)	372 140
Fixed deposit: Boris Bank	1 010 140
Mortgage loan: Mongomorry Bank	?
Fixed/Tangible assets	?
Debtors' control	?
Bank (Dr)	43 500
Petty cash and cash float	5 700
Inventory	490 000
Creditors' control	?
SARS: Income tax (provisional tax payments)	408 560

B. Shares Capital:

On 1 February 2017 the business repurchased 190 000 shares at R2,50 above the average price per share. This has been recorded properly.

C. Dividends:

- Interim dividends of R140 000 were paid on 1 October 2016.
- Final dividends of R250 000 were declared on 15 February 2017.

D. There are two fixed deposits at the Boris Bank. One, valued at R235 000, matures on 1 September 2017. The other, matures on 31 December 2019.

E. The Income tax for the year amounts to, R450 000. It is 30% of the net profit before tax.

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F. Note to the Balance Sheet on 28 February 2017

FIXED/TANGIBLE ASSETS	LAND AND BUILDINGS	EQUIPMENT	VEHICLES
Carrying value in the beginning	**R4 899 999**	*	*
Cost	**4 899 999**	**360 000**	**970 000**
Accumulated depreciation	**(0)**	**(340 000)**	**(395 000)**
Movements			
Additions at cost	*	*	**0**
Disposal at carrying value	**(0)**	**(0)**	*
Depreciation	**(0)**	*	*
Carrying value at the end	**5 540 399**	*	*
Cost	**5 540 399**	*	*
Accumulated depreciation	**(0)**	*	*

Details of fixed assets

- Land and buildings were bought during the year and are not depreciated.
- New equipment was bought for R180 000 on credit on 1 September 2016. This transaction has been recorded.
- Provide for depreciation on equipment at 10% p.a. on the cost price method.
- A vehicle was sold for cash at carrying value on 30 November 2016. This has been properly recorded. The details of the asset sold from the Fixed Asset Register were as follows:
  - Cost price, R240 000
  - Accumulated depreciation at beginning of financial year, R192 000
  - Depreciation rate of 20% p.a. on the diminishing-balance method

G. The loan statement received from Mongomorry Bank on 28 February 2017 indicated the following:

	R
Balance at beginning of financial year	1 955 000
Repayments during financial year	745 000
Interest capitalised	234 600
Balance at end of financial year	?

10% of the outstanding loan matures on 1 August 2017.

H. The following financial indicators apply to the Balance Sheet

The current ratio is 1,4:1

Net asset value per share is 750 cent. The company issued 800 000 shares.

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ACTIVITY 9: BALANCE SHEET AND NOTES

The information relate to Himalaja Limited for the financial year ended 28 February 2017.

REQUIRED:

9.1 Prepare the following notes to financial statements on 28 February 2017:

9.1.1 Share capital (9)

9.1.2 Retained Income (9)

9.2 **Refer to Information G:**

Calculate the following using the first-in-first-out stock valuation method:

9.2.1 Value of the closing stock (5)

9.2.2 The number of items stolen (6)

9.3 Prepare the Balance Sheet on 28 February 2017. (31)

INFORMATION:

A Share Capital

- 480 000 shares of the 780 000 authorised ordinary shares, were issued on 1 May 2014 at R7,50.
- On 1 December 2016, 120 000 shares were issued at R9,50 per share.
- 30 000 ordinary shares were repurchased on 1 February 2017 for R8,50 per share. These shareholders were entitled to final dividends.

B Dividends

An interim dividend of 45 cents per share was paid. The new shares issued did not qualify for the interim dividend.

A final dividend of 60 cents per share was declared on 26 February 2017.

C The following balances appeared in the books on 28 February 2017:

Fixed assets		?
Fixed deposit: DDM Bank		450 000
Retained income (1 March 2016)		271 000
Trade debtors		442 000
SARS – Income tax	Dr	245 800
Trade and other payables		?
Bank		199 950
Mortgage Loan : Cheetah Bank		601 250

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D Fixed Deposit

The fixed deposit was invested on the 1 September 2016 at 6% p.a. interest, capitalised. Interest was not taken into account above. 30% of the investment will mature on 30 June 2017.

E Mortgage Loan

R120 250 of the loan will be paid back in the next financial year.

F Inventories

Inventories comprise trading stock only. The stock records show, among others, the following details:

	Units	Cost price per unit	Total cost
Opening Stock	850	R70	R 57 250
Purchases	**7 500**		**R599 500**
April 2016	3 100	R75	R232 500
October 2016	2 900	R80	R232 000
February 2017	1 500	R90	R135 000
Returns (October 2016)	150	?	?
Sales	4 790	R130	R622 700
Closing stock	3 350		

G Income tax

Net profit after tax on 28 February 2017 amounted to R630 000. Income tax is calculated at 30 %.

H Current ratio on 28 February 2017 was 1,9 : 1.

For extra practice, refer to the following questions from past examination papers:

Nov 2014	Question 3	Note for OSC, Retained Income and Balance Sheet
Nov 2015	Question 3	Calculate net profit Note Retained Income and Balance Sheet
June 2016	Question 4	Note for OSC, Retained Income and Balance Sheet
Nov 2017	Question 3	Note for OSC, Retained Income and Balance Sheet

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MODULE 2: CASH FLOW STATEMENT

Overview of CAPS

TOPIC	CONTENT
Financial accounting: companies • Preparation of final accounts and financial statements. • Analysis of financial information from published financial statements.	*Financial statements and notes:* • Income Statement • Balance Sheet • Cash Flow Statement *Analysing and interpreting published financial statements which forms part of the Annual Report.*

MAIN PURPOSE OF THE CASH FLOW STATEMENT:

Reflects on the effect of business activities on the cash resources in terms of:

- how cash was generated;
- how cash was utilised

Business activities are divided into three broad types of activities namely: operating, investing and financing activities.

Operating activities: • The main income-earning activities of the company. • They are directly related to the main objective of a company. • The cash generated by operating activities is perhaps the most significant indicator of a company's success because this relates to the main purpose of establishing the company.
Investing activities: • These activities involve the actual establishment of the infrastructure of a business in order for it to be in a position to earn income.
Financing activities: • Activities involved in funding the infrastructure of the company. • They result in the change in the size and composition of the debt and the capital funding.

The Format of the Cash Flow Statement

CASH FLOW STATEMENT FOR THE YEAR ENDING ……	
Cash effect of operating activities	XXX
Cash effects of investing activities	XXX

Special notes:

← Should be positive at all times if company is successful.

← Depends on decisions made by directors

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Cash effects of financing activities	XXX	← Depends on decisions made by directors
Net change in cash and cash equivalents	XXX	← Depends on the above points
Cash and cash equivalents at the beginning of year	XXX	
Cash and cash equivalents at the end of year	XXX	← Positive total will assist liquidity

The use of brackets in a CFS will indicate an OUTFLOW of cash.

WHERE DO I FIND THE INFORMATION TO PREPARE A CASH FLOW STATEMENT?

Information to prepare the CFS is usually obtained from prepared Financial Statements, and additional information provided to explain certain figures on the Statements; summarised as follows:

Operating Activities	Income Statement	Sales	xxx
		Less: Cost of sales	(xxx)
		Gross Profit	xxx
		Add: Other operating income	xxx
		Less: operating expenses	(xxx)
		Operating profit	xxx
	Balance Sheet	**Current Assets**	
		Inventories	xxx
		Trade and other receivables	xxx
		Cash and Cash Equivalents	xxx
		Current liabilities	
		Trade and other payables	xxx
Investing Activities	Balance Sheet	**Non-current Assets**	
		Tangible/Fixed Assets	xxx
		Financial Assets/Fixed deposit	xxx
Financing Activities	Balance Sheet	**Shareholders' Equity**	xxx
		Non-current liabilities	xxx

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ADDRESSING EACH SECTION OF THE CASH FLOW STATEMENT TO FACILITATE A BETTER UNDERSTANDING:

➢ ***CHANGES IN CASH AND CASH EQUIVALENTS:***

- This is the last part of the Cash Flow Statement (Refer Format).
- This is also the net effect of the three different business activities on the cash assets.

CASH FLOW STATEMENT FOR THE YEAR ENDING ……	
Cash effect of operating activities	XXX
Cash effects of investing activities	XXX
Cash effects of financing activities	XXX
Net change in cash and cash equivalents	*XXX*
Cash and cash equivalents at the beginning of year	*XXX*
Cash and cash equivalents at the end of year	*XXX*

Example 1 - *(an **increase in cash** balances - **inflow**)*

	2017	**2016**
Current assets	xxx	xxx
Inventory	xxx	xxx
Trade and other receivables	xxx	xxx
Cash and cash equivalents	***48 200***	***18 600***

Solution: *Completing the appropriate section of the Cash Flow Statement:*

Net change in cash and cash equivalents	***29 600 #***
Cash and cash equivalents at beginning of the year	18 600
Cash and cash equivalents at end of the year	48 200

*# The cash balance increased from R18 600 to R48 200 and therefore **no brackets** are used.*

Example 2 - *(a **decrease in cash** balances - **outflow**)*

	2017	**2016**
Current assets	**XXX**	**XXX**
Inventory	xxx	xxx
Trade and other receivables	xxx	xxx
Cash and cash equivalents	***13 700***	***135 800***

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Solution:

Net change in cash and cash equivalents	(122 100) #
Cash and cash equivalents at beginning of the year	135 800
Cash and cash equivalents at end of the year	13 700

*# The cash balance decreased from R135 800 to R13 700 and therefore **brackets** are used.*

Example 3 - (what to do in the case of an **overdraft**)

	Year 2	Year 1
CURRENT ASSETS	XXX	XXX
Inventory	XXX	XXX
Trade and other receivables	XXX	XXX
Cash and cash equivalents	**2 000**	**3 000**
CURRENT LIABILITIES	XXX	XXX
Bank overdraft	**0**	**60 000**
Trade and other payables	XXX	XXX

Solution:

Net change in cash and cash equivalents	***59 000 #***
Cash and cash equivalents at beginning of the year	*(57 000)
Cash and cash equivalents at end of the year	2 000

** the opening balance must take into account the Current Asset portion (- 60 000 + 2 000)*

*# The cash balance increased from an overdraft to a favourable balance therefore we do **not use** a bracket.*

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Activity 1

REQUIRED:

Complete the appropriate section of the Cash Flow Statement for the following: by providing the missing figures in the respective spaces.

(a)

	2018	2017
CURRENT ASSETS	XXX	XXX
Inventory	XXX	XXX
Trade and other receivables	XXX	XXX
Cash and cash equivalents	**75 000**	**30 000**

(b)

	2018	2017
CURRENT ASSETS	XXX	XXX
Inventory	XXX	XXX
Trade and other receivables	XXX	XXX
Cash and Cash equivalents	**3 500**	**6 500**

	2018	2017
CURRENT LIABILITIES	XXX	XXX
Bank overdraft	**22 000**	XXX
Trade and other payables	XXX	XXX

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➢ ***COMPLETING THE "CASH EFFECTS FROM FINANCING ACTIVITIES".***

- These include all activities involving the **issue and repurchase of shares** as well as the **obtaining and repayment of loans**.

CASH FLOW STATEMENT FOR THE YEAR ENDING ……	
Cash flow from operating activities	XXX
Cash flow from investing activities	XXX
Cash flow from financing activities	***?***
Proceeds from shares issued	*?*
Repurchase of shares	*?*
Loans received / repaid	*?*
Net change in cash and cash equivalents	XXX
Cash and cash equivalents at beginning of the year	XXX
Cash and cash equivalents at end of the year	XXX

Important considerations:

- Information is obtained from the Balance Sheet (shareholders' equity and non-current liabilities) to complete this section.
- Always refer to the additional information (notes to the financial statements) especially for the changes to share capital.
- **Proceeds from shares issued** will always be an **inflow of cash**.
- Funds used to **repurchase of shares** will always be an **outflow of cash**.
- An **increase in loan** will represent an **inflow of cash**.
- A **decrease in loans** (loans paid) will represent an **outflow of cash**.

OUTFLOWS OF CASH ARE ALWAYS SHOWN IN BRACKETS!

Example:

Information:

	Year 2	**Year 1**
SHAREHOLDERS' EQUITY	XXX	XXX
Ordinary Share Capital	526 500	300 000
Retained income	XXX	XXX
NON-CURRENT LIABILITIES	110 000	70 000
Loans	110 000	70 000

- 100 000 additional shares were issued at R2,85 per share.
- 25 000 shares were repurchased at R4,00 per share.

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Solution:

CASH EFFECTS FROM FINANCING ACTIVITIES			***225 000***
Proceeds from shares issued	(100 000 x R2,85)	*inflow*	285 000
Repurchase of shares	(25 000 x R4)	*(outflow)*	(100 000)
Loans received	(110 000 – 70 000)	*inflow*	40 000

The net inflow of 225 000 has no brackets.

Activity 2

REQUIRED: Complete the appropriate section of the Cash Flow Statement.

INFORMATION:

	2018	**2017**
SHAREHOLDERS EQUITY		
Ordinary Share Capital	2 184 000	1 520 000
Retained Income	1 153 000	770 000
NON-CURRENT LIABILITIES		
Mortgage bond: Brick-bank	850 000	670 000

1. During the financial year 80 000 shares were issued at R10,40 per share.
2. The company repurchased 52 000 shares at R11 per share from an old shareholder.

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Activity 3

REQUIRED: Complete the appropriate section of the Cash Flow Statement.

INFORMATION:

	2017	2016
SHAREHOLDERS EQUITY	xxx	xxx
Ordinary Share Capital	525 000	700 000
Retained Income	xxx	xxx
NON-CURRENT LIABILITIES	290 000	530 000
Mortgage bond: Brick-bank	290 000	530 000

1. During the financial year 60 000 shares were issued at R6,50 per share
2. The company repurchased 20 000 shares at R8 per share from a shareholder.

Activity 4

REQUIRED: Complete the appropriate section of the Cash Flow Statement.

INFORMATION:

AUTHORISED		
5 000 000	**Ordinary shares**	
ISSUED		
3 000 000	Ordinary shares in issue at the beginning of the year	18 000 000
1 000 000	Ordinary shares issued on 30 August 2016	7 800 000
(200 000)	Ordinary shares repurchased for R6,45 during the year	(1 290 000)
3 800 000	Ordinary shares at the end of the year	24 510 000

RETAINED INCOME

Balance at the beginning of the year		1 370 000
Net profit after tax		3 250 800
Ordinary shares repurchased		(510 000)
Dividends		(3 100 000)
Paid		1 200 000
Recommended (3 800 000 x R0,50)		1 900 000
Balance at the end of the year		1 010 800
Non-current liabilities		
Mortgage loan	800 000	2 400 000

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➢ ***COMPLETING THE "CASH EFFECTS FROM INVESTING ACTIVITIES".***

- Involves the changes to the infrastructure of the business as well as changes to the financial investments of the business.
- Include transactions involving the addition to and disposal of fixed / tangible assets as well as the changes to the financial assets / fixed deposits of the business.

CASH FLOW STATEMENT FOR THE YEAR ENDING ……	
Cash flow from operating activities	XXX
Cash flow from investing activities	***?***
Purchase of fixed assets	*?*
Proceeds from sale of assets	*?*
Increase / Decrease in investments	*?*
Cash flow from financing activities	XXX
Net change in cash and cash equivalents	XXX
Cash and cash equivalents at beginning of the year	XXX
Cash and cash equivalents at end of the year	XXX

Important considerations:

- Information is obtained from the Balance Sheet (non-current assets) and more especially the tangible (fixed) asset note. Additional information on movements are also relevant.
- Additions to or purchase of fixed assets will represent an outflow of cash (in brackets).
- Disposal of fixed assets will represent an inflow of cash (no brackets).
- Fixed deposits / investments which matures / decrease will represent an inflow of cash.
- Fixed deposits made / investments placed will represent an outflow of cash.

Use the following format to identify changes to fixed assets (summary of note):

FA = Fixed Assets; BS = Balance Sheet; IS = Income Statement

FA at the beginning of year	XXX	←This figure comes from the BS Year 1
+ FA purchased	Add: XXX	← You will be able to calculate one of these figures as a missing figure needed for the preparation of the CFS.
– FA sold (at book value)	Less: XXX	
– Depreciation for the year	Less: XXX	←This figure comes from the IS
= FA at the end of the year	XXX	←This figure comes from the BS Year 2

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Example:

You are provided with the following information from the financial statements.

Complete the appropriate extract from the Cash Flow Statement.

	Year 2	Year 1
NON-CURRENT ASSETS	770 000	480 000
Fixed Assets	650 000	430 000
Investment in fixed deposit	120 000	50 000

Note:

- The Income Statement reflects depreciation of R35 000.
- Fixed assets was sold at carrying value for R22 000.

Solution:

Calculate the amount for fixed assets purchased, as follows:

Fixed assets at beginning of year	430 000
+ Fixed assets purchased	*missing figure*
- Fixed assets sold (carrying value)	(22 000)
- Depreciation	(35 000)
- Fixed assets at end of year	650 000

Calculation of the missing figure:

430 000 – 22 000 – 35 000 – 650 000 = (277 000): an outflow of cash

Extract from Cash Flow Statement

Cash flow from investing activities	net cash outflow	**(325 000)**
Purchase of fixed assets (refer calculation)	outflow	(277 000)
Proceeds from sale of assets	inflow	22 000
Increase / Decrease in investments (120 000 – 50 000)	outflow	(70 000)

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Activity 5

You are provided with the following information from the financial statements.

Complete the extract from the Cash Flow Statement.

	2017	2016
NON-CURRENT ASSETS	323 000	505 000
Fixed Assets	83 000	205 000
Investment in fixed deposit	240 000	300 000

Note:

- The income statement reflects depreciation of R44 000.
- Fixed assets were bought for R52 000 during the 2017 financial period.

Activity 6

You are provided with the following information taken from the financial statements:

	2017	2016
NON-CURRENT ASSETS		
Tangible Assets	943 000	1 476 000
Fixed deposit: Investro bank	350 000	270 000

- During the year a vehicle with a cost price of R480 000 and a total accumulated depreciation of R207 000 was sold at carrying value.
- The total depreciation on all tangible assets amounted to R445 000 for the year.

➢ ***COMPLETING THE "CASH EFFECTS FROM OPERATING ACTIVITIES".***

- Concerns the transactions of the company which deals with day to day operations.
- Includes all cash activities which determine the net profit in the income statement.
- It also covers the part of the balance sheet dealing with working capital (inventory, debtors and creditors).

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CASH FLOW STATEMENT FOR THE YEAR ENDED ……	
Cash flow from operating activities	*?*
Cash generated from operations *Note 1*	*?*
Interest paid	*(?)*
Dividends paid	*(?)*
Taxation paid	*(?)*
Cash flow from investing activities	XXX
Cash flow from financing activities	XXX
Net change in cash and cash equivalents	XXX

Note 1: Cash generated from operations		
Net profit for the year	xxx	←start with this figure from IS
+ Depreciation	xxx	←add back non-cash item
+ Interest expense	xxx	←add back non-operating expense
Sub-total	xxx	
Net change in working capital	xxx	
(Increase) / Decrease in inventories	xxx	←these amounts can be with or without brackets depending on the effect on the cash of the business i.e. whether there was an inflow or outflow of cash.
(Increase) / Decrease in receivables	xxx	
Increase / (Decrease) in payables	xxx	
Cash generated from operations	xxx	←This figure will be used in the CFS

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Information obtained from:

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017

Operating activities	Sales		600 000
	Cost of sales		(400 000)
	Gross profit		200 000
	Other operating income		20 000
	Rent income		20 000
	Gross operating income		220 000
	Operating expenses		(67 500)
	Salaries		31 000
	Directors fees		10 000
	Audit fees		10 000
	Depreciation **(eliminated in Note 1)**		15 000
	Stationery		1 500
	Operating profit (loss)		152 500
	Interest income	1	500
	Profit/loss before interest expenses		153 000
	Interest expense **(eliminated in Note 1)**	2	(3 500)
	Profit (Loss) before tax **(used to start Note 1)**		149 500
	Income tax **(use to calculate taxation paid)**		(40 000)
	Net profit (loss) after tax		109 500

		Year 2	Year 1
	CURRENT ASSETS	90 000	47 000
Operating Activities	Inventory (used to calculate changes in working capital)	70 000	30 000
	Trade and other receivables (used to calculate changes in working capital)	15 000	13 000

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		Year 2	Year 1
Operating Activities	**CURRENT LIABILITIES**	65 000	57 000
	Trade and other payables (used to calculate changes in working capital)	65 000	57 000

	When calculating the cash inflow or outflow from working capital, note that Interest expense payable, shareholders for dividends and SARS (income tax) must be excluded as they are dealt with on the face of the Cash Flow Statement.

Calculation of Income Tax paid and Dividends paid: *Use the following format*

DIVIDENDS PAID / TAXATION PAID	
Amount in financial statements	xxx
+ Amount owing at beginning of year (normally a credit balance)	xxx
- Amount owing at end of year (normally a credit balance)	(xxx)
= ***Amount paid***	**xxx**

- The amounts paid is required for the section on the "Cash flows from Operating Activities"
- The amount in respect of income tax may either be owed to SARS or owed by SARS. In which case reverse the signs for SARS: Income tax when the amounts are shown under Trade and other receivables on the comparative balance Sheets.

Example:

Information:	
Extract from the Income Statement for the year ended 28 February 2018	
Net profit before tax	300 000
Income tax	135 000
Interest on loan	92 000
Depreciation	120 000

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Extract from the Balance Sheet on 28 February 2018		
	2018	**2017**
Trading stock	600 000	520 000
Trade and other receivables	230 000	286 000
Trade and other payables	300 000	272 000
SARS (income tax)	12 000	16 000
Shareholders for dividends	60 000	45 000

The total dividends for the year amounts to R100 000 as per the note to Retained Income.

Solution

Note 1: Cash generated from operations		
Net Profit *before* tax		300 000
Add: Depreciation		120 000
Add: Interest expense		92 000
Subtotal		512 000
Net changes in working capital		**(4 000)**
Changes in inventory (600 000 – 520 000)	- outflow	(80 000)
Changes in receivables (286 000 – 230 000)	- inflow	56 000
Changes in payables (300 000 – 272 000)	- inflow	28 000
Cash generated from operations		**508 000**

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We can use the following table to calculate the dividends paid and taxation paid:

Dividends paid and Taxation paid		
	Dividends	**Taxation**
Amount in financial statements	100 000	135 000
+ Amount owing at beginning of year	45 000	16 000
- Amount owing at end of year	(60 000)	(12 000)
= Amount paid	***85 000***	***139 000***

CASH FLOW STATEMENT FOR THE YEAR ENDING ……		
Cash flow from operating activities		225 000
Cash generated from operations	Note 1	508 000
Interest paid		(92 000)
Dividends paid (100 000 + 45 000 – 60 000)		(85 000)
Taxation paid (135 000 + 16 000 – 12 000)		(139 000)

In this example there was no interest due at the beginning or end of the year.

Dividends paid and taxation paid can also be shown as a working/calculation

ACTIVITY 7

REQUIRED:

Complete the given table which reflects the section for the "Cash from Operating Activities" relating to interest paid, dividends paid and taxation paid. Show your workings.

INFORMATION:

A. Extract from the Income Statement for the year ended February 2018

Interest expense	R75 000
Income tax	R522 000

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B. Extract from the Balance Sheet:

ACTIVITY 8

	2018	2017
Trade and other payables		
Trade creditors	R89 200	R61 250
Shareholders for dividends	R660 000	R324 000
SARS (income tax)	R51 000	R30 000
Accrued expenses (interest expense)	R24 000	R33 000

C. The Retained Income note reflected total ordinary share dividends of R1 080 000.

The information relate to Dean Ltd for the year ended 28 February 2018.

REQUIRED:

- Complete the note for "Cash generated from operations"
- Complete the section on the "cash flow from operating activities"

INFORMATION:

A. Extract from the Income Statement for the year ended February 2018:

Interest expense	R12 500
Depreciation	R29 000
Income Tax (30% of Net Profit before tax)	R87 000

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B. Extract from the Balance Sheet:

	2018	2017
Inventory		
Trading stock	R200 000	R230 000
Consumable stores on hand	R3 000	R5 000
	R203 000	R235 000

Trade and other receivables		
Trade debtors	R41 000	R25 000
Prepaid expenses	R1 500	R1 500
	R42 500	R26 500

Trade and other payables		
Trade creditors	R35 000	R46 500
Shareholders for dividends	R110 000	R54 000
SARS (income tax)	R8 500	R5 000
Accrued expenses (interest expense)	R4 000	R5 500
Income received in advance	R3 500	R7 500
	R161 000	R118 500

C. The Retained income note showed total ordinary share dividends of R180 000.

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Adapted questions from **PAST YEAR PAPERS:**

QUESTION 1:

The information relates to Bellco Ltd for the year ended on 31 August 2017.

REQUIRED:

Complete the Cash Flow Statement for the year. Show ALL workings. (22)

INFORMATION:

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

	2017	2016
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 & other receivables (excluding SARS)	1 140 000	940 000
Cash & cash equivalents	540 000	10 000
TOTAL ASSETS	**15 853 000**	**16 157 000**
Shareholders' 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 & other payables	920 000	1 260 000
SARS (Income tax)	0	72 000
Shareholders for dividends	921 600	620 000
Bank overdraft	0	210 000
TOTAL EQUITY & LIABILITIES	**15 853 000**	**16 157 000**

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B. **Extract from the Income statement and Notes on 31 August 2017:**

Depreciation	R 1 010 000
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. **Share Capital:**

- 1 000 000 ordinary shares were in issue on 31 August 2016.
- 400 000 ordinary shares were issued on 1 September 2016 at R8.60 each.
- 120 000 ordinary shares were repurchased on 28 February 2017 from the estate of a shareholder, 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.

QUESTION 2:	

You are provided with information relating to Meteor Supermarkets Ltd. The financial year-end is 28 February 2017.

REQUIRED:

2.1 **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 2017.

2.2 Complete the Cash Flow Statement for the year ended 28 February 2017. Some of the details and figures have been entered in the ANSWER BOOK. Show ALL workings.

2.3 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.

INFORMATION:

A. Extract from the Income Statement for the year ended 28 February 2017:

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

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B. Extract from the Balance Sheet as at:

	28 Feb. 2017	28 Feb. 2016
Current assets	**3 337 300**	**4 641 000**
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
Shareholders' equity	**8 839 000**	**7 400 000**
Ordinary share capital	8 700 000	6 600 000
Retained income	139 000	800 000
Mortgage loan: Excel Bank (Interest rate: 12,5% p.a.)	**908 000**	**508 000**
Current liabilities	**2 063 700**	**1 302 000**
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 2016	1 200 000 shares in issue
31 March 2016	300 000 shares issued at R8 each
31 December 2016	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 2017	1 450 000 shares in issue

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D. Dividends for the financial year ending 28 February 2017:

Interim dividends paid on 31 August 2016	R750 000
Final dividends declared on 28 February 2017	R870 000

E. Fixed/Tangible assets:

	LAND AND BUILDINGS	VEHICLES
Carrying value at the beginning of the financial year	**2 689 000**	**1 880 000**
Cost	2 689 000	3 250 000
Accumulated depreciation	-	(1 370 000)
Movements		
Additions at cost	**a**	330 000
Disposals at carrying value	-	**b**
Depreciation	-	**c**
Carrying value at the end of the financial year	**6 740 000**	
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 2016. The following extract of the vehicle sold was taken from the Fixed Assets Register:

Cost price: R140 000 Date purchased: 1 March 2015

Rate of depreciation: 20% p.a. on the diminishing-balance method

FINANCIAL YEAR END	DEPRECIATION	ACCUMULATED DEPRECIATION
28 February 2016	28 000	28 000
31 May 2016	5 600	33 600

(ii) A new vehicle, costing R330 000, was purchased and paid for by cheque on 1 January 2017.

(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.

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QUESTION 3: CASH FLOW STATEMENT

3.1 **SENZO LTD**

The information below relates to Senzo Ltd.

REQUIRED:

3.1.1 Calculate the following figures that will appear on the Cash Flow Statement:

- Income tax paid (5)
- Proceeds from disposal of fixed assets (carrying value) (5)
- Net change in cash and cash equivalents. Indicate whether this is a net inflow or net outflow of cash. (5)

3.1.2 Complete the section of the Cash Flow Statement for cash effects of financing activities. (12)

INFORMATION:

A. Figures from the Balance Sheet and notes:

	28 FEBRUARY 2017	28 FEBRUARY 2016
Fixed assets (carrying value)	R4 137 700	R2 598 300
Financial assets (fixed deposit)	350 000	600 000
Current assets	**662 300**	**575 500**
Inventories	322 000	345 000
Trade and other receivables	245 000	228 000
SARS: Income tax	6 400	–
Cash and cash equivalents	88 900	2 500
Shareholders' equity	**3 439 500**	**2 718 000**
Ordinary share capital	2 967 000	2 520 000
Retained income	472 500	198 000
Non-current liabilities	**1 200 000**	**500 000**
Current liabilities	**510 500**	**555 800**
Trade and other payables	323 000	285 000
Shareholders for dividends	187 500	108 000
SARS: Income tax	–	9 800
Bank overdraft	–	153 000

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B. Extract from the Income Statement for the year ended 28 February2017:

Gross profit	R2 040 000
Depreciation	215 100
Operating profit	1 300 000
Interest expense	132 000
Net profit before tax	1 175 000
Net profit after tax	846 000

C. Share capital:

- Authorised share capital consists of 800 000 ordinary shares.
- 150 000 new ordinary shares were issued on 1 October 2016.
- 60 000 ordinary shares were repurchased on 1 January 2017 at 90 cents above the average issue price of R4,30.
- On 28 February 2017 the share register reflected that a total of 690 000 shares had been issued to date.

D. Fixed assets:

- Additional property was purchased for R2 100 000. No other fixed assets were purchased.
- Equipment was sold at carrying value.

QUESTION 4:

4.1 **REID LTD**

You are provided with information relating to Reid Ltd for the financial year ended 30 June 2017.

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

REQUIRED:

4.1.1 Prepare the following notes to the Balance Sheet:

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

4.1.2 Calculate the following amounts for the Cash Flow Statement:

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

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

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INFORMATION:

A. Share capital and dividends:

- 900 000 shares were in issue on 1 July 2016.
- 75 000 ordinary shares were repurchased from the estate of a deceased shareholder at R10,70 per share on 1 October 2016.
- The company issued 125 000 ordinary shares at R10,80 per share on 1 April 2017.
- The 2017 Cash Flow Statement reflected dividends paid of R434 250.

B. Extract from Income Statement for the year ended 30 June 2017:

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

C. Extract from Balance Sheet on 30 June:

	2017	2016
	R	R
Fixed assets (carrying value)	17 420 950	14 683 300
Fixed deposit: Ken Bank	250 000	380 000
Current assets	**1 015 000**	**456 000**
Inventories (only trading stock)	564 000	281 500
Trade and other receivables (debtors)	246 000	167 000
Cash and cash equivalents	205 000	7 500
Shareholders' equity	**10 050 750**	**9 540 000**
Ordinary share capital	?	9 180 000
Retained income	?	360 000
Loan: Barbie Bank	**8 000 000**	**4 500 000**
Current liabilities	**635 200**	**1 479 300**
Trade and other payables	420 000	683 400
Shareholders for dividends	209 000	162 000
SARS: Income tax	6 200	23 400
Bank overdraft	-	610 500

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QUESTION 5:

SO-FINE LTD

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

REQUIRED:

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

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

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

INFORMATION:

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

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

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B. Information from the Balance Sheet on 31 August:

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

C. Share capital and dividends

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

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

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

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QUESTION 6:

You are provided with information relating to Classico Limited. The financial year ended on 31 October 2017. New shares were issued on the first day of the financial year.

REQUIRED:

6.1 What is the main purpose of a Cash Flow Statement? (2)

6.2 Refer to the fixed asset note under **Information C**.

Calculate the missing amounts (indicated by **a, b, c** and **d**) in the Fixed/Tangible Asset Note for the year ended 31 October 2017. (9)

6.3 Complete the Cash Flow Statement for the year ended 31 October 2017. Show ALL workings in brackets. (24)

6.4 The directors issued more shares and sold fixed assets in order to improve the cash flow. A shareholder, John Meanwell, has criticised them for these decisions.

In each case:

- Provide a reason to support John's opinion.
- Other than improving the cash flow, provide a reason to support the directors' decision. (8)

INFORMATION:

A. The following information was extracted from the Income Statement for the year ended 31 October 2017:

Interest on loan (all capitalised)	175 500
Income tax	375 000
Net profit after tax	975 000

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B. Information extracted from the Balance Sheet:

	31 October 2017	31 October 2016
Current assets	**4 804 000**	**2 820 000**
Inventories	1 437 500	1 656 250
Trade and other receivables (see D)	1 075 000	956 250
Cash and cash equivalents	2 291 500	207 500
Ordinary shareholders' equity	**4 450 000**	**4 000 000**
Ordinary share capital (see F)	3 450 000	3 150 000
Retained income	1 000 000	850 000
Loan: Freeport Bank (12% p.a.)	**2 000 000**	**1 375 000**
Current liabilities	**1 450 000**	**1 262 500**
Trade and other payables (see E)	1 450 000	1 262 500

C. Fixed/Tangible assets:

	Land and buildings	Vehicles	Equipment
Carrying value at beginning of financial year	**3 000 000**	**660 000**	**?**
Cost	3 000 000	900 000	?
Accumulated depreciation	0	(240 000)	(52 500)
Movements			
Additions at cost	0	0	48 000
Disposals at carrying value	**(a)**	**(c)**	0
Depreciation	0	**(b)**	(55 500)
Carrying value at end of financial year	**2 500 000**	**446 000**	**(d)**
Cost	2 500 000	750 000	258 000
Accumulated depreciation	0	(304 000)	?

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Additional information in respect of fixed assets:

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

D.

Trade and other receivables include:	**31 October 2017**	**31 October 2016**
SARS: Income tax	R22 500	0

E.

Trade and other payables include:	**31 October 2017**	**31 October 2016**
SARS: Income tax	0	R27 500
Shareholders for dividends	R450 000	R385 000

F. Details of ordinary share capital:

- Ordinary share capital at the beginning of the 2017 financial year consisted of 700 000 ordinary shares with a total value of R3 150 000.
- On 1 November 2016, 50 000 additional shares were issued at R6,00 each.
- There were no further changes to share capital.

G. The dividends (interim and final) for the financial year ended 31 October 2017 amounted to R825 000.

QUESTION 7:

You are provided with information for the financial year ended 28 February 2016, taken from the books of Chuta Ltd, a listed public company.

REQUIRED:

7.1 **Refer to Information C.**

Prepare the Asset Disposal Account for the equipment sold on 31 August 2016. (9)

7.2 **Refer to Information C.** Calculate the amounts indicated by **(a)** to **(c)**. (12)

7.3 Calculate the following figures which will appear in the Cash Flow Statement for the year ended 28 February 2017: (Show ALL workings.)

7.3.1 Income tax paid (5)

7.3.2 Net change in cash and cash equivalents (4)

7.4 Prepare the section for the Cash Effects On Financing Activities of the Cash Flow Statement for the year ended 28 February 2017. (7)

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INFORMATION:

A. **Extract from the Income Statement for the year ended 28 February 2017:**

Sales	R2 800 000
Net profit before tax	1 240 000
Income tax	?
Net profit after tax	892 800

B. **Extract from the Balance Sheet**

	2017	2016
Fixed assets (carrying value)	?	?
Fixed deposit: FS Bank	**1 450 000**	**1 200 000**
Current assets	**1 944280**	**1 010 000**
Inventory	975 700	345 000
Debtors and other receivables	419 000	629 600
SARS (Income tax)	0	17 400
Cash and cash equivalents	549 580	18 000
Shareholders' equity	**5 950 800**	**4 345 000**
Share capital	5 402 000	4 200 000
Retained income	548 800	145 000
Mortgage loan: TKO Bank	**1 950 000**	**400 000**
Current liabilities	**587 200**	**555 000**
Creditors and other payables	437 800	165 000
Accrued expenses	8 700	5 000
SARS (Income tax)	35 700	0
Shareholders for dividends	105 000	275 000
Bank overdraft	0	110 000

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C. Fixed Assets

(i)

	Land and Buildings	Vehicles	Equipment
Carrying value at the beginning of the year	2 000 000		**(b)**
Cost	2 000 000		900 000
Accumulated depreciation	0		(470 000)
Movements:			
Additions	**(a)**		150 000
Disposals	0		
Depreciation	0		**(c)**
Carrying value at the end of the year	3 900 000		
Cost	3 900 000		930 000
Accumulated depreciation	0		

(ii) **Equipment**

- An old printer, bought for R120 000, was sold for cash on 31 August 2016 at carrying value. Accumulated depreciation on this printer was R38 400 on 1 March 2016.
- A new printer was bought for R150 000 on 1 September 2016.
- Depreciation on equipment is written off at 20% p.a. according to the diminishing-balance method.

D. Share Capital

- Authorised share capital is 3 000 000 ordinary shares.
- In 2012, 1 200 000 ordinary shares had been issued at R3,50 per share.
- On 1 November 2016, 300 000 ordinary shares were issued at R4,50 each.
- On 28 February 2017, 40 000 shares were repurchased at R0,60 more than the average price per share.

E. Dividends

The directors declared a final dividend of 7 cents per share. The shares bought back on 28 February 2017 also qualify for the final dividends.

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QUESTION 8:

8.1 **BRAZILIA LTD**

The following information relates to Brazilia Ltd for the financial year ended 31 October 2017.

REQUIRED:

8.1.1 State ONE purpose of a Cash Flow Statement. (2)

8.1.2 Complete the Cash Flow Statement for the year ended 31 October 2017. Some of the figures have already been entered for you. (27)

INFORMATION:

A. Extract from the Income Statement for the year ended 31 October 2017:

Depreciation	154 000
Interest on loan	336 000
Net profit before tax	1 938 600
Income tax	560 000
Net profit after tax	1 378 600

B. Figures identified from the Balance Sheet on 31 October:

	Average	**2017**	**2016**
	R	**R**	**R**
Fixed assets at carrying value		10 041 000	8 878 000
Fixed deposit: Granite Bank		760 000	1 000 000
Non-current liability: Loan from Metal Bank	2 625 000	2 450 000	2 800 000
Current assets		1 186 600	1 191 200
Current liabilities		1 236 000	1 359 200
Ordinary shareholders' equity	7 605 800	8 301 600	6 910 000
Retained income		1 021 600	960 000
Ordinary share capital		7 280 000	5 950 000

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C. Figures extracted from the notes to the Balance Sheet on 31 October:

	2017	2016
	R	R
Shareholders for dividends	656 000	595 000
SARS (Income tax)	Debit 28 500	Credit 41 750
Debtors' control	527 000	816 200
Creditors' control	580 000	374 000
Bank	Debit 174 500	Credit 348 450
Petty cash	5 000	3 000
Trading stock	451 600	372 000

D. Share capital

- The authorised share capital of the company is 5 000 000 shares.
- 700 000 shares were in issue on 31 October 2016, the last day of the previous financial year.
- 120 000 new shares were issued on 1 November 2016, the beginning of the current financial year.
- 20 000 shares were repurchased on 31 October 2017 at R15,50 each. The average issue price of the shares on the date of repurchase was R9,10 per share. These shares qualify for final dividends.

E. Dividends

The directors paid an interim dividend of R533 000 on 28 May 2017.

F. Fixed assets

- Extensions to the building were undertaken at a cost of R1 360 000 during the financial year. No other fixed assets were purchased.
- Equipment was sold at carrying value during the financial year.

QUESTION 9:

You are provided with information extracted from the records of Maxie Ltd for the financial year ended 28 February 2017.

REQUIRED:

9.1 Complete the note for Cash Generated from Operations for the year ended 28 February 2017. (10)

9.2 Complete the Cash Flow Statement for the year ended 28 February 2017.

Some of the figures are entered in the ANSWER BOOK.

Where notes are not required, show ALL workings. (21)

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INFORMATION:

A. Extract from the Income Statement for the year ended 28 February 2015

	R
Depreciation	178 000
Interest expense	52 000
Income tax	93 520
Net profit after income tax	240 480

B. Figures obtained from the Balance Sheet and notes on 28 February

	2017 R	2016 R
Fixed assets (carrying value)	2 568 730	2 174 390
Financial assets (fixed deposit)	150 000	230 000
Current assets	**413 600**	**496 810**
Inventories	194 600	262 000
Trade debtors	214 000	198 000
SARS: Income tax	-	2 110
Cash and cash equivalents	5 000	34 700
Shareholders' equity	**2 392 480**	**1 848 000**
Ordinary share capital	2 016 000	1 520 000
Retained income	376 480	328000
Non-current liabilities	**500 000**	**800 000**
Current liabilities	**239 850**	**253200**
Trade creditors	124 800	165 200
Shareholders for dividends	96 000	88 000
SARS: Income tax	6 300	-
Bank overdraft	12 750	-

C. Share capital

- The business has an authorised share capital of 800 000 ordinary shares.
- 400 000 shares were issued before 28 February 2016.
- On 1 March 2016 an additional 200 000 shares were issued at R5,00 each.
- On 1 September 2016 the company repurchased 120 000 shares from a dissatisfied shareholder at R4,50 each.
- After the above transactions there were 480 000 shares in issue.

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D. Fixed assets

- Extensions to the existing buildings were undertaken during July 2016.
- There were no other movements of fixed assets during the financial year.

E. Dividends

- An interim dividend of R60 000 was paid on 30 September 2016.
- The final dividend was declared on 28 February 2017.

QUESTION 10:

10.1 **MAFUSA LTD**

The information presented relates to the financial year ended 30 April 2017.

REQUIRED:

10.1.1 **Refer to Information C.**

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

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

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

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

INFORMATION:

A. Information extracted from the Income Statement on 30 April 2017:

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

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B. Information extracted from the Balance Sheet on 30 April 2017:

	2017 (R)	2016 (R)
Fixed deposit	200 000	520 000
Current assets (including cash and cash equivalents)	946 550	887 250
Cash and cash equivalents	125 750	54 750
Shareholders' equity	7 166 850	6 142 800
Ordinary share capital	6 660 000	5 600 000
Retained income	506 850	542 800
Non-current liabilities	1 800 000	2 750 000
Current liabilities	526 750	509 500
Trade and other payables	285 600	232 800
Bank overdraft	0	92 000
Shareholders for dividends	231 250	176 000
SARS: Income tax	9 900	8 700

C. Fixed assets:

Fixed assets comprises of land and buildings and equipment.

Extract from the Fixed Asset Note:

	EQUIPMENT
Cost (1 May 2016)	3 640 000
Accumulated depreciation (1 May 2016)	**(a)**
Carrying value (1 May 2016)	2 002 000
Movements:	
Additions	900 000
Disposals	**(b)**
Depreciation	**(c)**
Carrying value (30 April 2017)	
Cost (30 April 2017)	**(d)**
Accumulated depreciation (30 April 2017)	

- Equipment is depreciated at 15% p.a. on cost.

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- On 31 August 2016 old equipment costing R750 000 was sold for cash at its carrying value. The accumulated depreciation on this equipment was R491 750 on 1 May 2016.
- On 1 December 2016 new equipment valued at R900 000 was purchased.
- There were no other movements.

D. Share capital and dividends:

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

1 May 2016	The issued share capital consisted of 800 000 ordinary shares.
1 February 2017	200 000 ordinary shares were issued at R8,00 per share.
25 April 2017	75 000 ordinary shares were repurchased from a retired shareholder at a total cost of R600 000.
30 April 2017	There were 925 000 shares in issue.

Total dividends for the financial year amounted to R871 250.

QUESTION 11:

11.1 **MIKHA LTD**

You are provided with information relating to Mikha Ltd for the financial year ended 31 December 2017.

REQUIRED:

11.1.1 Prepare the following notes on 31 December 2017:

- Ordinary share capital (6)
- Retained income (9)

11.1.2 Complete the CASH EFFECTS OF OPERATING ACTIVITIES section of the Cash Flow Statement. Show workings. (9)

11.1.3 Calculate the following amounts that will appear in the Cash Flow Statement. State whether these are inflows or outflows.

- Change in fixed deposit (3)
- Proceeds on disposal of equipment (6)

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INFORMATION:

A. Extract from Income Statement (Statement of Comprehensive Income) for the year ended 31 December 2017:

Sales	R6 090 000
Gross profit	1 890 000
Interest expense (all paid)	100 000
Depreciation	360 400
Net profit before tax	1 150 000
Income tax	322 000

B. Extract from Balance Sheet (Statement of Financial Position) on 31 December 2017:

	2017	2016
Ordinary share capital	R4 752 000	R4 200 000
Retained income	637 000	276 000
Fixed assets (carrying value)	5 828 000	4 905 800
Fixed deposits	200 000	500 000
Loan: Sharks Bank	1 000 000	600 000
Cash and cash equivalents	126 400	2 000
Bank overdraft	-	85 600
SARS: Income tax	3 600 (Dr)	9 200 (Cr)
Shareholders for dividends	175 000	270 000

C. Share capital:

- The company is registered with an authorised share capital of 800 000 ordinary shares.
- On 1 January 2017, there were 600 000 ordinary shares in issue.
- On 31 August 2017, a further 100 000 shares were issued.
- On 30 December 2017, the company repurchased 40 000 shares from a disgruntled shareholder at R1,30 above the average share price of R7,20. This shareholder qualified for final dividends.

D. Dividends:

- Interim dividends were paid on 30 June 2017.
- A final dividend of 25 cents per share was declared on 31 December 2017.

E. Fixed assets:

- R1 495 000 was paid for extensions to buildings.
- Old equipment was sold for cash at carrying value.

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MODULE 3: INTERPRETATION OF FINANCIAL INFORMATION

INTRODUCTION:

INTERPRETING business activities refers to analyzing financial results to report on success and progress of the organization. **COMMUNICATING** business information would entail transfer of facts and data to all parties interested in using the business information.

Interpreting financial statements would logically follow the lengthy process of preparing financial statements and compiling the annual report to be presented to Shareholders and other stake-holders at the Annual General Meeting of the Company.

This section of the syllabus falls under the field, Financial Accounting as outlined in CAPS and together with the other topics in the field of Financial Accounting, must constitute between 50% – 60% of an accounting paper.

Prior knowledge:

Interpreting financial information is generally classified in the higher order cognitive level. Questions in this section would require a candidate to **sift through** the given information to **identify, evaluate** and at times provide creative or practical solutions and advice.

Success in this area demands a thorough understanding of the **basic accounting cycle of activities**, year-end accounting procedures as well as the structure and formats of financial statements.

It must be noted and appreciated that interpretation of financial information is NOT a section or topic on its own. It is often integrated with various other aspects/topics of the syllabus; as such interpretive questions are spread across an entire examination paper.

PREVIEW:

Previous diagnostic reports highlighted the following concerns relating to Interpretation:

- Candidates were not able to identify the relevant financial indicators to address or comment on specific questions.
- They were unable to extract or sift the appropriate information from the financial information given, to calculate financial indicators.
- They fail to understand the requirements of the question; such as comment, give advice, provide the trend, justify his actions etc.
- The inability to work backwards using the given information mainly due to reliance on rote learning or mindless memorising.
- Assessing the length of answers expected by the question (how much to write).

Content:

1. **Understanding Financial Statements and the Annual Report**
2. **Users of Financial Information**
3. **Financial Indicators as basis of interpreting financial information**
4. **How well do you know your formulae?**
5. **Ratio Relationships**
6. **Strategy in answering interpretative questions (recommended steps)**
7. **Let's practice.**
8. **Grade 10 and 11**

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1. Understanding Financial Statements and the Annual Report:

At the end of an Accounting period (usually a financial year), a business would prepare financial statements to:

- Assess their financial performance for the period under review.
- Determine their financial position in terms of their assets, equity and liability.

ACTIVITY 1:

Provide the name of the financial statement or report that is described by each of the following statements: (5)

1.1 This shows the net worth of a business on a specific date, usually the end of the financial year by listing the assets and liabilities.

1.2 This shows whether the business made a profit or loss for the period under review by giving a breakdown of income and expenses.

1.3 This is a detailed narrative of the achievements (financial and otherwise) of the business during the period under review as well as plans for the future growth of the company.

1.4 This is an independent unbiased opinion on the fair presentation of the financial information as contained in the Annual Report.

1.5 This shows the inflows and outflows of the cash resources of a business in terms of its operating, financing and investing activities.

ACTIVITY 2:

Identify the appropriate financial statement where you will find the following information. (13)

Amount received for the issue of new shares	
Total amount of the loan either received or paid.	
The amount of shares that are not yet issued.	
Total income tax expense	
Total depreciation for the year	
Total amount owing to creditors	
Total amount of dividends payable to shareholders	
Total cash paid to shareholders in respect of dividends	
Amount owed to/owed by SARS at year-end	
The short term portion of a non-current liability	
Total amount paid to SARS for Income tax	
Gross profit for the year	
Fixed assets bought for cash during the financial year	

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2. Users of Financial Information:

Public companies are listed on the stock exchange. The public (shareholders) invest in these companies. Companies play a vital role in the economy.

ACTIVITY 3:

Provide a brief explanation why each of the following user would be interested in the financial information of a company. (18)

3.1 Shareholders

3.2 Prospective shareholders

3.3 The CEO and the board of directors

3.4 Internal and external auditors

3.5 SARS

3.6 Creditors

3.7 Competitors

3.8 Trade unions and employees

3.9 Newspapers and financial publications

3. Financial Indicators as a basis for interpreting financial information:

Financial indicators are generally grouped according to specific categories and are intended to provide users with answers to a range of questions.

ACTIVITY 4:

Match the category in Column B to the specific questions in Column A. (6)

COLUMN A		COLUMN B	
4.1	Can the business pay off its immediate debts in the short term?	A	Return on Investment
4.2	To what extent is the business financed by borrowed capital and is the loan beneficial to the business	B	Risk and gearing
4.3	Are potential shareholders interested in investing their capital in this company?	C	Liquidity
4.4	Is the business controlling expenses effectively and making a reasonable profit?	D	Solvency
4.5	Is the business able to meet all their financial obligations with its existing possessions?	E	Profitability /operating efficiency
4.6	Are shareholders receiving a favourable benefit by putting their money in this business?	F	Share price/market prospects

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ACTIVITY 5:

Are you able to identify the relevant financial indicators used to analyse the performance of a business? Place the relevant financial indicators from the list provided, into an appropriate category box. (20)

LIST OF FINANCIAL INDICATORS

Current ratio
Acid test ratio
Total assets – total liabilities
Operating income on sales
Net assets
Return on average capital employed (ROTCE/ROCE)
Gross profit percentage on sales
Net current assets
Stock turnover rate
Net asset value per share (NAV)
Dividends per share (DPS)
Net profit after tax on sales
Creditors average payment period
Stock holding period
Solvency ratio
Earnings per share (EPS)
Debt/equity ratio
Return on shareholders' equity (ROSHE)
Gross profit percentage
Debtors average collection period
Operating expenses on sales
Market price of shares (JSE)
Interest rates (on loan / investments)

PROFITABILITY	
OPERATING EFFECIENCY	
LIQUIDITY	
SOLVENCY	
RISK AND GEARING	
RETURN	
MARKET PROSPECTS **Share price /value**	

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4. How well do you know your formulae?

Financial indicators are generally a relationship between related information on financial statements. Essentially, the name of the indicator will lead you to the appropriate figures to be used; such as **Operating profit** on **sales** where Operating Profit and Sales from the Income Statement has to be used.

ACTIVITY 6:

Use the information from the books of Rama Ltd for the financial year ended 28 February 2017 to calculate the following financial indicators. Round off all calculations to ONE decimal point.

6.1 Current ratio

6.2 Acid test ratio

6.3 Stock turnover rate

6.4 Average stock holding period

6.5 Average debtors collection period

6.6 Average creditors payment period

6.7 Solvency ratio

6.8 Debt/equity ratio

6.9 Return on average capital employed (ROTCE)

6.10 Return on shareholders' equity

6.11 Earnings per share (EPS)

6.12 Dividends per share (DPS)

6.13 Net asset value per share (NAV)

6.14 Gross profit percentage on sales

6.15 Operating expenses on sales

6.16 Operating income on sales

6.17 Net profit after tax on sales

6.18 Gross profit percentage

INFORMATION:

A. **Share Capital**

The business has an authorised share capital of 750 000 ordinary shares.

The total issued share capital on 28 February 2017 was 400 000 ordinary shares.

50 000 ordinary shares were issued on 2 March 2016.

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B. **Extract from the Income Statement on 28 February 2017:**

Sales	5 152 000
Cost of sales	3 220 000
Gross profit	1 932 000
Operating income	257 600
Operating expenses	1 004 640
Operating profit	1 184 960
Interest expense	133 960
Net profit before income tax	1 051 000
Income tax	315 300
Net profit after income tax	735 700

C. **Information from the Balance Sheet on 28 February**

	28/02/2017	**28/2/2016**
Non-current assets	**6 947 700**	**6 377 400**
Fixed assets	6 747 700	6 177 400
Financial assets	200 000	200 000
Current assets	**973 200**	**1 058 700**
Inventories	418 000	321 700
Trade debtors	550 000	475 000
Cash and cash equivalents	5 200	262 000
Shareholders' equity	**6 224 000**	**5 058 300**
Ordinary share capital	5 827 500	4 960 000
Retained income	396 500	98 300
Non-current liabilities	**1 000 000**	**1 600 000**
Current liabilities	**696 900**	**777 800**
Trade creditors	411 200	621 600
Shareholders for dividends	220 000	120 000
Bank overdraft	52 200	0

D. An interim dividend of R180 000 was paid and a final dividend was declared.

E. Credit sales amount to 30% of the total sales.

Credit purchases amounted to R2 415 000.

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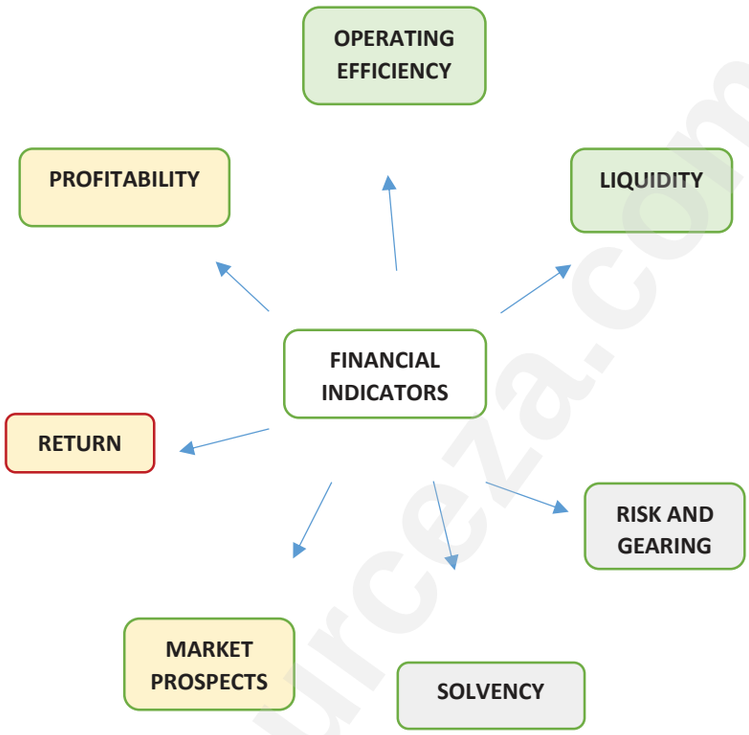
5. Ratio Relationships:

Although the ratios (financial indicators) are in classified according to different categories, information used to calculate them would come from basically two financial statements. It is therefore understandable that certain categories will be integrated and must be used together in providing answers to important decisions.



PROFITABILITY, RETURN and **MARKET** related financial indicators focus on sales, management of expenses and profits.

OPERATING EFFICIENCY and **LIQUIDITY** would focus on the management of working capital (current assets and current liabilities)

OPERATING EFFICIENCY and **PROFITABILITY** also focus on managing expenses and daily operating activities (current assets and current liabilities).

SOLVENCY and **GEARING** will be concerned with the long term issues of the business. The focus would therefore be on total assets and total liabilities.

It is therefore necessary to consider, and quote related groups of financial indicators when answering the typical examination-type questions in interpretation.

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6. Strategy in answering interpretative questions (recommended steps)	

➨ **Identify the appropriate financial indicators necessary to answer the question.**

At times, the question will not give any indications of the financial indicators to be used. Example, Comment on the liquidity of the business… You may need to calculate the ratios (if they are not given on the table of indicators).

➨ **Quote the figures and show the trend. Do some comparison (increased/decreased)**

Comparisons would include:

- Information of the same business (previous financial year)
- Other businesses in the same industry (competitors)
- Targets set by the business (such as mark-up percentage)
- An alternative action (such as an investment in a fixed deposit)

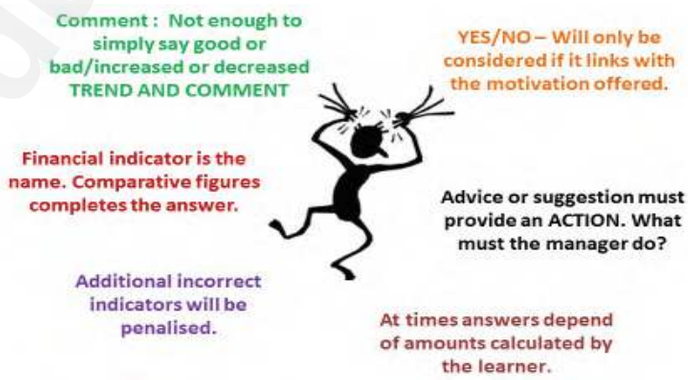
➨ **Comment.**

Show some insight or understanding (focus on whether this is **good** or **bad** for the business). Provide short, concise statements. Be guided by the mark allocation as to how much information you need to provide.

UNDERSTANDING WHAT TO DO OR HOW TO RESPOND TO QUESTIONS IN ACCOUNTING:

Commonly used statements (verbs) to questions: *Refer to the activities below to point these out.*

Prepare…..	Provide the missing….	What advice….
Post to…..	Quote and explain….	Suggest….
Complete…..	Comment on….	Choose the……
Calculate….	Will the business…	Support your ….
Show how…..	Should the business…..	Give TWO….
Indicate how….	Is the director justified….	Why would…. /Would you…



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PROFITABILITY / OPERATING EFFECIENCY

The directors are of the opinion that the operating efficiency of the company has improved. Quote and explain TWO financial indicators (with figures) to support their opinion.

Financial indicators ✓ ✓ Valid explanations (with figures) ✓ ✓

Operating expenses on sales – decreased from 32% to 25% (improvement in control of expenses)

Operating profit on sales – increased from 15,8% to 22% (improvement in profitability)

Net profit after tax on sales – increased (see 4.3.1) from 11,3% to 13,5% (improvement in efficiency / profit)

LIQUIDITY

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

Name of THREE financial indicator ✓ ✓ ✓ Figure and trend ✓ ✓ ✓

- Current ratio: 3,6 : 1 → 1,6 : 1 / decreased to 1,6 : 1
- Acid test ratio: 3,1 : 1 → 1,2 : 1 / decreased to 1,2 : 1
- Stock turnover rate: 5,1 → 6,8 times p.a./ increased to 6,8 times
- Debtors' collection period: 35 → 40 days / increased to 40 days

General comment: ✓ ✓ ✓

- The current ratio improved / was possibly too high in 2013 / cash was too high / current assets do not earn any return / they may be more efficient in 2014.
- The acid test ratio improved / is more efficient in 2014 / cash is lower
- The stock turnover rate has improved / stock increased but is being sold more quickly / assists liquidity and is appropriate for a supermarket.
- The debtors are paying more slowly / this trend must be rectified / normal credit terms 30 days.

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RETURN RATIOS

Provide calculations to show the change in the dividend pay-out policy.

Comparison of DPS to EPS for 2015 ✓ Calculation / implied calculation ✓

Comparison of DPS to EPS for 2016 ✓ Calculation / implied calculation ✓

Possible calculations for two marks each:

- 2015: 35/58 = 60,3% **OR** 0,6:1 **OR** Paid out most of earnings/more than 50%
- 2016: 55/51 = 107,8% **OR** 1,1:1 **OR** Paid out more than earnings

Possible responses for one mark each:

- 2015: Paid out 35c of 58c earnings / retained 23c of 58c earnings
- 2016: Paid out 55c of 51c earnings / paid out 4c from previous earnings

Explain why the directors decided to change the policy. State ONE point with figures.

Any ONE valid explanation ✓ Relevant figures ✓

Responses for two marks:

To satisfy shareholders for:

- ROSHE decreased (from 6,2%) to 4,5%. see 4.2.4
- Market price decreased (from 1 030 cents) to 1 000 cents.
- EPS decreased (from 58 cents) to 51 cents.

Responses for one mark:

- Satisfy shareholders / Encourage new shareholders
- To get directors re-elected at AGM

RISK AND GEARING

The directors decided to increase the loan during the current financial year. Explain why this was a good decision. Quote and explain TWO financial indicators (with figures) in your answer.

Ratio ✓ ✓ Figures and trend ✓ ✓ Comment beyond trend ✓✓ ✓✓

ROTCE This has increased from 21,2% to 24,2%

Positively geared as ROTCE is higher than interest rate (10,5%)

DEBT-EQUITY RATIO This has increased from 0,09 : 1 to 0,33 : 1 see 5.5.3

Low financial risk/not making much use of loans. Relies more on own funds

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SHARE PRICE AND MARKET PROSPECTS

The directors were pleased with the price that the company paid to buy back the 40 000 shares. Give a suitable reason why the directors felt that way. Quote relevant financial indicators (with figures) to support your answer.

Reason ✓✓ Relevant figure ✓

Paid R4,30 per share to buy back shares. This is lower than the **market value** per share (2015 – 480 cents; 2016 – 505 cents).

(not a big difference to the **NAV** – 362 cents and 408 cents)

Average issue price was R3,70.

Purchased at a lower price than the issue price of the additional shares. (R4,50)

7. Let's practice.

ACTIVITY 7:

You are provided with the financial indicators calculated from the financial statements of Mzomhle Ltd for the past two years ended 28 February. The perpetual inventory system is used to record stock. Goods are sold at a mark-up of 75% on cost.

REQUIRED:

7.1	The directors are not satisfied by the liquidity position of the company. Are they justified? Quote THREE relevant financial indicators (with figures).	(9)
7.2	Comment on the profitability of the business. Make reference to information relating to the Income Statement.	(9)
7.3	Should the shareholders be satisfied with their earnings and dividends? Quote the relevant financial indicators to support your answer.	(6)
7.4	The directors intend expanding the existing buildings. Would you advise them to issue additional shares or to take out an additional loan? Quote the relevant financial indicators to support your decision.	(8)

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INFORMATION

	2017	2016
Current ratio	3,6 : 1	2,8 : 1
Acid-test ratio	0.7 : 1	0.7 : 1
Rate of stock turnover	3,7 times	5 times
Average debtors collection period	28 days	35 days
Return on shareholders' equity	16%	18%
Earnings per share	45 cents	54 cents
Dividends per share	21 cents	11 cents
Gross profit on cost of sales	70%	65%
Gross profit on sales	38%	32%
Net profit after tax on sales	12%	15%
Operating expenses on sales	36%	31%
Operating profit on sales	16%	21%
Return on total capital employed	20%	22%
Debt/equity ratio	0.6 : 1	0.3 : 1
Interest rate on long-term loans	13%	12%
Net asset value per share	322 cents	376 cents
Market price per share	331 cents	388 cents

ACTIVITY 8:

Rafiki Ltd is a company registered on the JSE with an authorised share capital of 750 000 shares. (520 000 of these shares where in issue on 01 June 2016, while a further 120 000 shares were issued on 01 December 2016). The financial year of the company ended on 31 May 2017.

REQUIRED:

8.1 Calculate the following financial indicators for the financial year ended 31 May 2017. Round off all calculations to ONE decimal place.

8.1.1 Operating expenses on sales (3)

8.1.2 Debt/equity ratio (3)

8.1.3 Return of shareholders' equity (5)

8.1.4 Net asset value per share. (4)

8.2 The internal auditor recommended to the directors that more attention be paid to managing expenses in the next financial year. Explain why you think she feels this way. Quote TWO financial indicators, with figures, to support your argument. (6)

8.3 The auditor also felt that it was not necessary to repay a large portion of the loan during the financial year. Provide a reason why you think she felt that way. Quote TWO relevant financial indicators (with figures) in your answer. (6)

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8.4 Some shareholders were not satisfied with their returns for the current financial year. Are they justified? Motivate your answer by quoting any TWO relevant financial indicators and by commenting on the dividend policy of the business. (7)

8.5 The company paid R7,50 per share to repurchase 70 000 ordinary shares on 31 March 2017. Certain directors felt that the company paid too much. Explain why you either agree or disagree with the directors. Make reference to relevant figures (financial indicators) to support your answer. (6)

INFORMATION:

A. **Information from the Statement of Comprehensive Income (Income Statement) on 31 May 2017.**

Sales	R 6 620 000
Cost of Sales	4 303 000
Depreciation	298 000
Operating expenses	2 117 000
Interest Expense	122 000
Income tax	299 400
Net profit after income tax	698 600

B. **Information from the Statement of Financial Position (Balance Sheet) on 31 May:**

	2017	**2016**
Non-current assets	R 4 757 500	R 4 489 820
Fixed Assets (carrying value)	4 707 500	4 409 820
Fixed Deposit : Devi Bank	50 000	80 000
Current Assets	475 000	443 680
Inventories	321 000	234 000
Trade Debtors	151 000	108 800
Cash and cash equivalents	3 000	98 600
Bank overdraft	14 860	-
Shareholders' equity	3 831 400	3 471 800
Ordinary share capital	3 733 500	3 328 000
Retained income	97 900	143 800
Loan : Mona Bank	1 000 000	1 200 000
Current liabilities	401 100	261 700
Trade creditors	90 600	131 700
SARS: Income tax	7 640 (Cr)	2 280 (Dr)
Shareholders for dividends	288 000	130 000

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C. **The following financial indicators were calculated on 31 May:**

	2017	2016
Current ratio	1,2 : 1	1,7 : 1
Acid test ratio	0,4 : 1	0,8 : 1
Gross profit on sales	35%	35%
Operating expenses on sales	?	24%
Net profit after tax on sales	10,5%	12,8%
Debt/equity ratio	?	0,3 : 1
Return on average capital employed	23,6%	24,8%
Return on shareholders' equity	?	21,6%
Earnings per share	127 cents	134 cents
Dividends per share	120 cents	97 cents
Net asset value per share	?	668 cents
Market price of share (Securities Exchange)	665 cents	650 cents
Current interest rate on loans	11,5%	11,5%

ACTIVITY 9:

Razia Traders Ltd is a listed company with an authorised share capital of 750 000 ordinary shares. The financial year of the company ends on 30 June each year.

REQUIRED:

9.1 Identify THREE major decisions highlighted by the Cash Flow Statement and explain TWO consequences of these decisions to the business. Quote figures. (8)

9.2 Comment on the issue price of the additional shares issued on 1 August 2015. (3)

9.3 Did the estate of the late shareholder receive a fair price for their shares? Explain. (4)

9.4 At the annual general meeting (AGM) a young shareholder was not pleased about R200 000 spend on a local clean the environment campaign. She was of the opinion that maximizing profits should be the main focus of the business. What would you say to her? Provide TWO points. (3)

9.5 A senior director of the firm was disappointed that the new shares were sold without giving the directors an option to purchase shares before they were advertised to the public. Is he justified to feel this way? Explain. (4)

9.6 Indira Devi owns 340 000 shares. She was disappointed that additional shares were issued in her absence. She persuaded the directors to re-purchase 80 000 shares from one of her acquaintances.

- Do calculations to show the change in her percentage share-holding after each change in the share capital. (6)
- Explain why she was eager for the company to re-purchase the shares. (2)

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INFORMATION:

A. **Authorised Share Capital Note on 30 June 2016**

750 000 ordinary shares		
Issued shares		
?	Balance on 1 July 2015	**?**
?	Additional shares issued on 1 August 2015	525 000
(80 000)	Shares repurchased on29 June 2016	?
670 000	Balance on 30 June 2016	**3 886 000**

- On 1 July 2015, 90% of the authorised shares were in issue.
- On 1 August 2015, all the unissued shares were issue.
- The company paid R7,00 per share to repurchase the shares on 29 June 2016. These shareholders were entitled to final dividends.

B. **CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2016**

CASH EFFECTS OF OPERATING ACTIVITIES	
Cash generated from operations	
Interest paid	(93 500)
Income tax paid	(263 000)
Dividends paid	(333 750)
CASH EFFECTS OF INVESTING ACTIVITIES	(586 700)
Fixed assets purchased	(818 700)
Fixed assets sold for cash	72 000
Investment	160 000
CASH EFFECTS OF FINANCING ACTIVITIES	
Proceeds of shares issued	525 000
Repurchase of shares	**?**
Loans	(320 000)
Cash surplus/deficit for the year	(38 400)
Cash and cash equivalents (1 July 2015)	58 700
Cash and cash equivalents (30 June 2016)	20 300

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C. The following financial indicators were calculated:

	2016	2015
Earnings per share (EPS)	70 cents	65 cents
Dividends per share (DPS)	35 cents	58 cents
Return on average shareholders' equity	12,6%	15%
Return on capital employed	17%	18,2%
Debt/equity ratio	0,2 : 1	0,33 : 1
Net asset value (NAV)	627 cents	581 cents
Market price of shares (Securities exchange)	655 cents	635 cents
Current interest rate on borrowing	11%	11%

ACTIVITY 10:

You want to invest in a company. You selected the two companies below as they both manufacture sports equipment. Both companies have the same number of shares.

	LUPIN LTD	LILAC LTD
Market price per share on the JSE	550 cents	675 cents
Net asset value per share	480 cents	790 cents
Earnings per share	310 cents	145 cents
Dividends per share	190 cents	155 cents
% return on shareholders' equity	16,3%	9,2%
% return on total capital employed	21,6%	10,6%
% interest rate on loans	12,0%	12,0%
Debt/Equity ratio	0,3 : 1	2,0 : 1
Current ratio	4,0 : 1	1,3 : 1
Acid-test ratio	2,4 : 1	0,8 : 1
Stock holding period	132 days	75 days
Average debtors' collection period	48 days	26 days

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REQUIRED:

In answering the following questions, compare and quote the relevant financial indicators of both companies. Show actual figures, ratios and/or percentages to support answers.

10.1 Which company is handling their working capital more effectively? Explain and quote THREE financial indicators to support his opinion. (9)

10.2 Considering the use of loans by the two companies:

- Which company is making more use of loans? Quote a financial indicator for each company. (3)
- Explain whether or not it was a good idea for that company to make use of loans. Quote ONE financial indicator. (3)

10.3 Lupin LTD has a better percentage return, earnings and dividends than Lilac LTD. Explain and quote THREE financial indicators for each company. (9)

10.4
- Explain why the existing shareholders of Lupin LTD are happy with the current market value of their shares. (2)
- Explain why the existing shareholders of Lilac LTD are very disappointed with the current market value of their shares. (2)

ADDITIONAL PRACTICE:

NSC PAPER	QUESTION	TOPIC
2014 NOVEMBER	3	Balance Sheet and Interpretation
	4	Fixed assets, cash flow and interpretation
2015 MARCH	3	Balance sheet notes and interpretation
	4	Cash flow statement and interpretation
2015 NOVEMBER	4	Cash flow statement and interpretation
2016 MARCH	5	Balance sheet notes, cash flow statement and interpretation
2016 NOVEMBER	4	Cash flow statement and interpretation
2017 MARCH	4	Cash flow and interpretation
2017 NOVEMBER	4	Cash flow and interpretation

RECOMMENDATIONS FOR IMPROVEMENT IN THIS TOPIC:

1. Make extensive use of past year examination papers (National and Provincial)
2. Go back to basics – revise Grade 10 and 11 work, the basic concepts and the Accounting Equation.
3. Master the formats of financial statements.
4. Introduce short, regular informal testing to assess understanding and for remediation.
5. Discuss and debate to improve interpretive skills.

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8. Grade 10 and 11:

Analysis and interpretation logically follow the preparation of Financial Statements of a sole trader in Grade 10 and preparation of Financial Statements of a partnership business in Grade 11.

This topic is introduced in the third term in Grade 10 and in the second term in Grade 11.

The basic logic of interpretation using financial indicators is consistent across all grades, as such the introduction above will apply to Grades 10 and 11 (excluding all references to companies).

LIST OF FINANCIAL INDICATORS APPLICABLE TO EACH GRADE (AS PER CAPS):

	GRADE 10	GRADE 11	GRADE 12
Profitability	Gross profit on sales	Gross profit on sales	Gross profit on sales
	Gross profit on cost of sales	Gross profit on cost of sales	Gross profit on cost of sales
	Net profit on sales	Net profit on sales	Net profit on sales
	Operating expenses on sales	Operating expenses on sales	Operating expenses on sales
	Operating profit on sales	Operating profit on sales	Operating profit on sales
Liquidity	Current ratio	Current ratio	Current ratio
	Acid test ratio	Acid test ratio	Acid test ratio
		Stock turnover rate	Stock turnover rate
		Stock holding period	Stock holding period
		Ave. debtors collection period	Ave. debtors collection period
		Ave. creditors payment period	Ave. creditors payment period
Solvency	Solvency ratio	Solvency ratio	Solvency ratio
Return	Return on equity	***Partners earnings***	Return on ***shareholders' equity***
		Return on ***partners equity***	***Return on capital employed***
		Return of equity (per partner)	***Net asset value***
			Dividends per share
			Earnings per share
Risk/Gearing		***Debt equity ratio***	Debt equity ratio

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GRADE 10 ACTIVITY 1:

SARDIE STORES

The information below, appeared in the books of Sardie Stores for the financial year ended 28 February 2017.

Amounts extracted from the Balance Sheet on 28 February 2017:

Trade debtors	33 360	Vehicles	432 000
Trade creditors	25 600	Trading stock	52 200
Accrued Income	6 420	Capital	640 000
Accrued expenses	7 800	Fixed Deposit	50 000
Mortgage Bond	145 000	Bank overdraft	10 400

Financial indicators on 29 February 2016:

- Current Ratio : 1,9 : 1
- Acid test ratio : 1,1 : 1

REQUIRED:

1.1 Refer to the table provided in the answer book. Place a tick in the appropriate box for each of the balance sheet item listed. (10)

1.2 Calculate the following financial indicators on 28 February 2017:

- Current ratio (5)
- Acid test ratio (4)

1.3 Based on the above figures, comment on the liquidity of the business. (4)

GRADE 10 ACTIVITY 2:

BULL-DOG TRADERS

The following information relate to Bull-Dog Traders.

REQUIRED:

2.1 Calculate the following ratios/financial indicators for the year ended 29 February 2016. Show all calculations to the nearest ONE decimal points.

2.1.1 Solvency ratio (5)

2.1.2 Current ratio (3)

2.1.3 Acid test ratio (4)

2.1.4 Return on average owner's equity (5)

2.1.5 Mark up percentage (3)

2.2 Comment on the liquidity position of the business. Quote TWO relevant financial indicators/ratios for both years to support your response. (6)

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2.3 The business aims to achieve a mark-up of 75% on cost at all times. Provide TWO reasons for the business not achieving the expected mark-up percentage. (4)

INFORMATION:

A. **Extract from the Income Statement for the year ended 29 February 2016:**

Sales	1 875 000
Cost of sales	1 118 750
Operating expenses	700 000
Net profit	525 000

B. **Extract from the Balance Sheet as at 29/28 February:**

	2016	**2015**
Fixed/Tangible assets at carrying value	2 250 000	1 500 000
Fixed deposit: Betty Bank	150 000	120 000
Current assets	1 287 500	880 000
Inventories	300 000	225 000
Trade and other receivable	850 000	565 000
Cash and cash equivalents	137 500	90 000
Owner's equity	2 500 000	1 475 000
Non-current liabilities	818 750	625 000
Current liabilities	368 750	400 000

C. **Financial indicators calculated for the year ending 28 February 2016:**

Solvency ratio	2,44 : 1
Current ratio	2.2 : 1
Acid test ratio	1,64 : 1
Return on average owner's equity	22%
Mark up percentage	62%

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GRADE 10 ACTIVITY 3:

SL TRADERS

INFORMATION:

A. The following balances appeared in the books of SL Traders on 31 March, the end of the financial year:

	2017	2016
Fixed assets (carrying value)	1 078 260	279 500
Trading stock	194 000	273 000
Accounts receivable (Debtors)	355 920	325 000
Cash and cash equivalents	112 000	368 000
Total assets	1 740 180	1 245 500
Owner's equity	724 980	723 500
Loan: Bundy Bank	?	0
Accounts payable (Creditors)	315 200	522 000
Net profit as per the Income Statement	165 500	174 000

B. The following financial indicators were calculated:

	2017	2016
Current ratio	?	1,9 : 1
Acid test ratio	?	1,3 : 1
Solvency ratio	?	2,4 : 1
Return on equity	?	25%
Gross profit percentage (target)	60%	60%
Gross profit percentage (achieved)	52%	48%

REQUIRED:

3.1 Calculate the financial indicators to complete the table above. (18)

3.2 The business acquired a loan on 1 April 2016. Interest is capitalised. Calculate the amount of the loan. (4)

3.3 Comment on the solvency of the business. Quote figures. (4)

3.4 Will the business be able to pay its short term debts in the next financial year? Explain. Quote TWO financial indicators with figures. (6)

3.5 Should Stan be satisfied with his return on equity? Explain. Quote figures. (4)

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3.6 Provide TWO reasons why the business was not able to achieve its targeted gross profit percentage. (4)

GRADE 11 ACTIVITIES

GRADE 11 ACTIVITY 1:

Golden Sun Traders is a partnership business owned by partners N. Yong and G. Sung. The financial year ended on 28 February 2015.

REQUIRED:

1.1 Calculate the following:

1.1.1 The total current liabilities. (4)

1.1.2 Percentage return earned by N. Yong. (5)

1.1.3 Debt/equity ratio. (4)

1.1.4 Acid-test ratio. (4)

1.2 Comment on the liquidity of the business.

Quote TWO financial indicators (with figures) in your answer. (6)

1.3 Do you think that N. Yong is satisfied with his return on investment? Explain. Quote TWO relevant financial indicators (with figures) to support your answer. (6)

1.4 The partners want to expand the existing business and are considering increasing the loan. What advice would you offer them? Support your answer by making reference to TWO financial indicators (with figures). (6)

INFORMATION:

A. **GENERAL LEDGER OF GOLDEN TRADERS**

APPROPRIATION ACCOUNT

2015 Feb	28	Salary : Yong		150 000	2015 Feb	28	Profit and Loss		446 400
		Salary : Sung		182 400					
		Interest on Capital: Yong		42 000					
		Interest on Capital : Sung		28 000					
		Bonus : Sung		12 000					
		Current account : Yong		19 200					
		Current account : Sung		12 800					

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B.

Balances and other information:	28 FEBRUARY 2015	28 FEBRUARY 2014
Capital : Yong	525 000	400 000
Capital : Sung	350 000	400 000
Current account : Yong	9 100 **(Dr)**	15 400
Current account : Sung	10 600	12 200
Loan: Mia Bank (11%p.a.)	400 000	400 000
Trade debtors	273 200	142 000
Cash and cash equivalents	36 800	36 600
Trading stock	177 000	50 000
Current liabilities	?	127 000
Current ratio	2,5 : 1	1,8 : 1
Acid test ratio	?	1,2 : 1
Debt equity ratio	?	0,5 : 1
Return earned by Yong	?	48%
Return earned by Sung	61%	57%

GRADE 11 ACTIVITY 2:

MIDDLE POINT TRADERS

Information from the records of Middle Point Traders (partners Middle and Point) for the financial year ended 30 April 2017 is presented.

REQUIRED:

2.1 Calculate the following:

- Percentage mark-up on cost (4)
- Operating expenses on sales (3)
- Total earnings of Middle (4)
- The percentage return earned by Point (5)
- The debt/equity ratio for 2017. (3)

2.2 Comment on the liquidity of the business. Quote and explain TWO financial indicators (with figures) in you answer. (4)

2.3 Were the partners justified in increasing the loan? Explain. Quote TWO financial indicators, and figures, in your explanation. (4)

2.4 Middle is not happy with his return on investment. Explain why you think he feels this way. Quote figures. (4)

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INFORMATION:

A. Extracts from the Income Statement on 30 April 2017:

Sales	R 4 257 000
Gross profit	1 677 000
Operating expenses	1 064 250
Net profit for the year	720 000

B. Extracts from the partners' Current Accounts on 30 April 2017:

	MIDDLE	**POINT**
Total primary distribution	?	279 570
Share in the remaining profit	118 020	59 010
Drawings	198 000	210 000

C. Extracts from the Balance Sheet on 30 April:

	2017	**2016**
Partners Equity	**1 237 300**	**838 300**
• Capital	975 000	885 000
• Current Account	262 300	(46 700)
Loan: Simi Bank	**742 380**	**85 000**
Current Assets	**598 080**	**441 600**
• Trading stock	276 400	200 800
• Trade and other receivables	288 880	220 600
• Cash and cash equivalents	32 800	20 200
Current liabilities	**427 200**	**368 000**
• Trade and other payables	328 360	339 240
• Short term portion of loan	98 840	28 760

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D. Details of the partners' equity on 30 April:

	MIDDLE		POINT	
	2017	**2016**	**2017**	**2016**
Capital	650 000	535 000	325 000	350 000
Current Account	202 720	22 300	59 580	(69 000)
	852 720	557 300	384 580	281 000

E. Financial indicators on 30 April:

	2017	**2016**
Current ratio	1,4 : 1	1,2 : 1
Acid test ratio	0,8 : 1	0,7 : 1
Debt/equity ratio	?	0,1 : 1
Return on investment : Monty	54%	46%
Return on investment : Python	?	81%
Return on capital employed	69%	43%
Interest rate on loans	13%	13%

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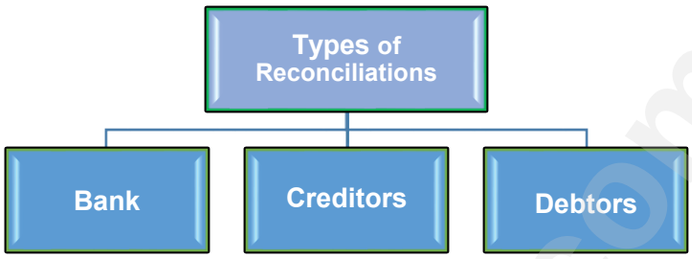
MODULE 4: RECONCILIATIONS

INTRODUCTION

Reconciliation forms part of the internal control processes where different sets of information are compared, differences are identified, investigated (if necessary) and corrected.

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



The need to do reconciliations:

BANK	DEBTORS'	CREDITORS'
• The **Bank Account balance** in the General Ledger of the business is never the same as the balance on the **Bank Statement received** from the bank.	• The balance of the **Debtors' Control** account in the General Ledger should be the same as the total of the **Debtors List.** (An internal control measure).	• The balance of the **Creditors' Control** account in the General Ledger should be the same as the total of the **creditors' list**. • A **Creditor's Ledger account** in the books of the business should match **the statement** balance from the creditor.

1. BANK RECONCILIATION

It enables the business or individual to keep track of the following:

- Outstanding cheques
- Outstanding deposits
- Stale cheques
- Bank charges/ service fees
- Electronic transfers made by the business or person
- Electronic transfers /direct deposits in favour of the business
- Interest on overdrafts
- Interest earned on the credit balance

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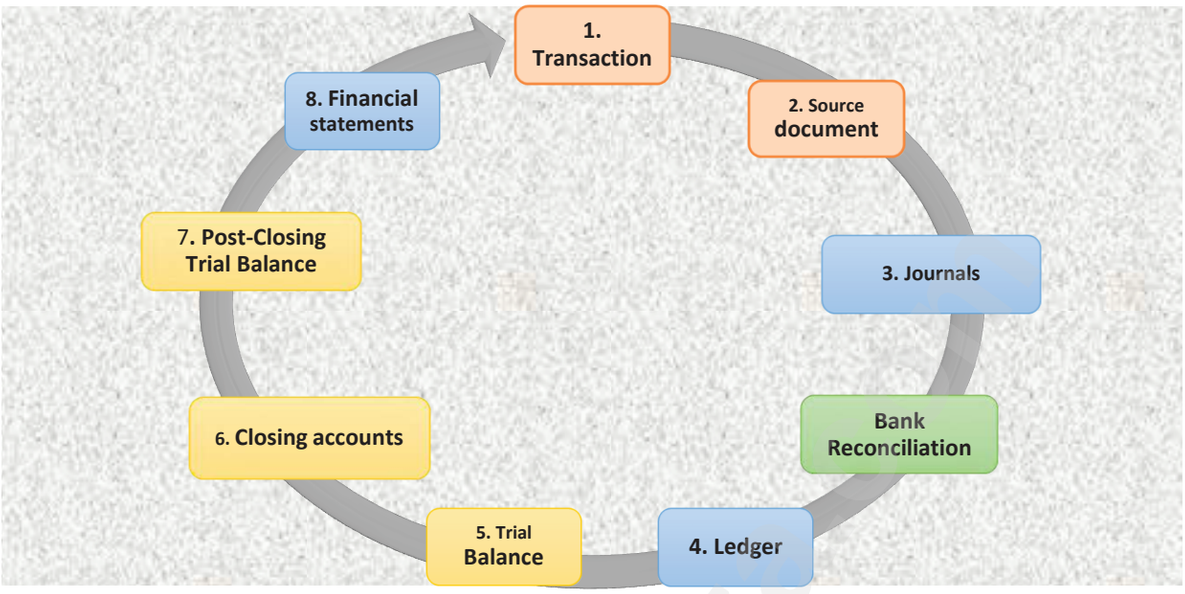
The accounting cycle

The Bank Reconciliation process is an integral internal control function before posting to the General Ledger.



Information from the bank statement is used to update the relevant journals so that the correct amounts are posted to the ledger.

Comparison between the bank statement and the current bank account

Records of the business	Records of the Bank
Cash transactions recorded in the **CRJ** and **CPJ**	The bank sends a **statement of account** to the business showing a record of all transactions through that account..
Cash received and deposited is reflected on the debit side of the Bank Account	The Bank credits all deposits made by the business
→ **Asset of the business increase**	→ **Liability of the bank increase**
Payments made by the business are reflected on the credit side of the bank account	Payments, withdrawals, debit orders made by the business are recorded on the debit side of the bank statement.
→ **Assets decrease**	→ **Liability decrease**
A **favourable** balance is reflected on the **debit** side of the Bank account	A **favourable** bank balance is reflected on the **credit** side of the Bank statement
An **unfavourable** bank balance (**bank overdraft**) is reflected on the **credit** side of the Bank account	An **unfavourable** bank balance is reflected on the **debit** side of the Bank statement

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ACTIVITY ON BASIC CONCEPTS

Match the concepts in Column A with the statements provided in Column B

1. Current Bank account	A	A cheque account at the bank.
2. Cheque	B	Amounts deducted by the bank as payment for the services it provides. This is reflected on the statement.
3. Cheque counterfoil	C	Represents a situation when a business has withdrawn more money than was deposited in the bank account.
4. Bank charges	D	Represents a payment (expense) to the bank for an overdraft bank balance.
5. Bank overdraft	E	A receipt (income) from the bank for reflecting a favourable bank balance.
6. Interest on overdraft	F	An instruction to the bank, signed by the drawer, to pay a specific sum of money.
7. Interest on current account	G	This is used to buy goods or services from suppliers, and the amounts used is paid back to the bank at a later date.
8. Credit card	H	This is used to buy goods/services and the amount is immediately deducted from your bank account balance.
9. Debit card	I	This form is used to record the total cash and cheques received for the day and is proof of the amount deposited in the current account.
10. Dishonoured cheque "(R/D cheque)	J	This is the portion of the cheque that is kept by the drawer as proof of the cheque payment.
11. Deposit slip	K	The cheque deposited by the business has not been paid out by the bank.

QUESTION 1

The following information relates to Sizwe Traders for July 2016.

REQUIRED:

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

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

1.3 **Refer to Information C.**

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

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INFORMATION:

A. Extract from the Bank Reconciliation Statement on 30 June 2016:

Favourable balance as per Bank Statement	R42 555
Outstanding deposit: (dated 11 June 2016)	R37 800
Outstanding cheques:	
No. 186 (dated 22 January 2016)	R450
No. 305 (dated 30 August 2016)	R8 400

B. The balance in the Bank Account reflected a favourable balance of R16 785 on 31 July 2016, before taking into account the items listed below:

C. Cheque No. 186 does not appear on the bank statement for July 2016.

D. The following items appeared on the July Bank Statement only:
- Interest earned on favourable bank balance, R285
- Bank charges, R950
- Unidentified debit order of R1 950. The bank will correct this in August 2016.

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

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

G. The following entries appeared in the July Cash Journals only:
- A deposit of R27 180 made on 31 July 2016
- Cheque No. 401 (dated 18 July 2016), R18 600

H. The balance on the Bank Statement on 31 July 2016 is the missing figure.

QUESTION 2

2.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (i) – (iv) in the ANSWER BOOK. (4)

(i) A post-dated cheque issued on 24 July 2015 but dated 24 August 2015, will only be entered in the Cash Payments Journal on 24 August 2015.

(ii) A debit balance on the bank statement reflects an unfavourable balance.

(iii) Service fees and interest on an overdraft will be recorded as bank charges in the Cash Payment Journal.

(iv) An internal auditor should inspect the bank reconciliation statement at the end of each month.

2.2 You are provided with information related to Quick Traders for July 2015.

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REQUIRED:

2.2.1 Calculate the correct totals for the Cash Receipts Journal and Cash Payment Journal for July 2015. (12)

2.2.2 Prepare the Bank Reconciliation Statement on 31 July 2015. (11)

2.2.3 Explain how cheque No. 908 should be treated when preparing the financial statements on 31 July 2015, the end of the financial year. (2)

2.2.4 **Refer to information G:**

The bookkeeper has decided to write off the amount of R50 000.

- Which GAAP principle will the bookkeeper be applying? (1)
- The bookkeeper wants to prevent a similar problem in future. Give **TWO** suggestions to improve internal control in this regard. (4)

INFORMATION:

A. Items on the Bank Reconciliation Statement on 30 June 2015:

	DEBIT	CREDIT
Debit balance as per Bank statement	19 310	
Outstanding deposit (10 May 2015)		50 000
Outstanding cheques:		
No.892 (1 January 2015)	12 340	
No.897 (10 June 2015)	8 700	
Debit balance as per Bank Account	9 650	
	50 000	50 000

B. Provisional journal totals before receiving the July 2015 bank statement:

- CRJ: R146 970
- CPJ: R 68 900

C. The Bank Statement for July reflected the following:

- Bank charges, R1 300.
- Interest on an overdraft, R920.
- Debit order for insurance, R600.
- Direct deposit of R1 800 for rent received from tenant.

D. Cheque no. 892 must be cancelled.

E. Cheque no. 897 did not appear in the July 2015 Bank Statement.

F. The outstanding deposit (10 May 2015) cannot be traced and the cashier at that time has since disappeared. It was decided to write off this amount.

G. A cheque received from Zulu Traders dated 25 November 2015 for R15 000 was not recorded in the July 2015 Cash Receipts Journal. It was also not deposited in July.

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H. The following items appear in the July 2015 Cash Journals but not on the Bank Statement:

- A deposit of R18 000, dated 27 July 2015.
- Cheque No. 905, R1 200, dated 31 July 2015.
- Cheque No. 908, R3 100, dated 15 December 2015.

I. The Bank Statement on 31 July 2015 reflects a favourable bank balance of R44 040.

2. CREDITORS RECONCILIATIONS

Types of Creditors Reconciliations

- Creditors' reconciliation is an internal control measure that highlights the differences between a Creditor's balance in the creditors' ledger of a business and the monthly statement received from a creditor (an external set of information).

  This process ensures that the creditors' accounts are properly maintained and controlled.

- The second type of reconciliation involves comparing the Creditors Control account in the General Ledger against the Creditors List and correcting differences.
  Creditors Control Account: a General Ledger account that contains all related totals from the relevant subsidiary journals .The account balance allows one to verify the accuracy of Creditors lists total.

Possible reasons for differences in the control account balance and the list total are:

- Errors made on source documents
- Incorrect additions in the journal (casting errors)
- Posting incorrect amounts to the ledgers
- Posting to the incorrect side in the ledgers
- Incorrect balancing of accounts in the ledgers

Effect of errors in the following entries:

Type of error	General Ledger	Creditors ledger	Creditors list
Source document	Mistake in two accounts	Creditors accounts will be wrong	Creditors list will be wrong
Journal	Mistake in two accounts	Creditors accounts will be wrong	Creditors list will be wrong
Posting to the General Ledger	The account)s) will be wrong.	No effect	No effect
Posting to the Creditors account	No effect	Creditors accounts will be wrong	Creditors list will be wrong

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Reconciliation of creditors' statements with their Creditor's Ledger account

These reasons typically reasons why the balance on the statement received from a creditor is different from the Creditor's ledger account balance:

- The statement date differs from the closing date in the Creditors Ledger.
- Transactions (purchases; returns/allowances; payments; discounts) could have been omitted or entered incorrectly in the Creditors Ledger account and/or the statement of account.
- A discount could have been deducted on the ledger account but not accepted by the creditor.
- Posting and/or recording errors in either the creditor's ledger and/or the statement.
- Addition or subtraction errors in either the creditor's ledger and/or the statement.

The Reconciliation process involves the following steps:

Step1: Compare the credit (+) column of the Creditors Ledger with the debit (+) column of the statement.

Creditors Ledger	→	Statement of Account
Invoices		Invoices

Step 2: Compare the debit (–) column of the Creditors Ledger with the credit (–) column of the statement.

Creditors Ledger			Statement of Account
Debit notes	→	are compared with	Credit notes
Cheques	→		Receipts
Discount received	→		Discount allowed

Step 3: Tick the amounts that **appear in both** the Creditors Ledger and the statement. ✓
Circle the amounts that **appear in only the** Creditors Ledger or the statement.

Step 4: Errors and/or omissions in the Creditors Ledger must be correct by the business.

Step 5: Errors and/or omissions on the statement must be recorded in the Creditor's Reconciliation Statement. The Creditor must be notified of this error/omission so that it can be corrected on the next statement.

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Reconciliation of creditors' statements with their Creditor's Ledger account

These reasons typically reasons why the balance on the statement received from a creditor is different from the Creditor's ledger account balance:

- The statement date differs from the closing date in the Creditors Ledger.
- Transactions (purchases; returns/allowances; payments; discounts) could have been omitted or entered incorrectly in the Creditors Ledger account and/or the statement of account.
- A discount could have been deducted on the ledger account but not accepted by the creditor.
- Posting and/or recording errors in either the creditor's ledger and/or the statement.
- Addition or subtraction errors in either the creditor's ledger and/or the statement.

The Reconciliation process involves the following steps:

Step1: Compare the credit (+) column of the Creditors Ledger with the debit (+) column of the statement.

Creditors Ledger	→	Statement of Account
Invoices		Invoices

Step 2: Compare the debit (–) column of the Creditors Ledger with the credit (–) column of the statement.

Creditors Ledger			Statement of Account
Debit notes	→	are compared with	Credit notes
Cheques	→		Receipts
Discount received	→		Discount allowed

Step 3: Tick the amounts that **appear in both** the Creditors Ledger and the statement. ✓
Circle the amounts that **appear in only the** Creditors Ledger or the statement.

Step 4: Errors and/or omissions in the Creditors Ledger must be correct by the business.

Step 5: Errors and/or omissions on the statement must be recorded in the Creditor's Reconciliation Statement. The Creditor must be notified of this error/omission so that it can be corrected on the next statement.

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TYPES OF ERRORS

- **Error of Omission** – a transaction is not recorded at all
- **Error of commission** – an item is entered to the correct side of the wrong account (there is a debit and a credit entry, the records balance).
- **Error of principle** – an item is posted to the correct side of the wrong type of account, For example cash paid for repairs (expense) is debited to an asset account.
- **Error of original entry** – an incorrect figure is entered in the records and then posted to the correct account
- **Reversal of entries** – the amount is correct, the accounts used are correct, but the account that should have been debited is credited and vice versa

Business risks and internal control of creditors

Business risks relating to creditors include:

- Overpaying creditors
- Being overcharged by creditors
- Being charged interest on overdue accounts by creditors
- Missing out on prompt settlement discounts offered by creditors

The business should implement appropriate internal control measures to protect the business against these risks and ensure that creditors' accounts are properly controlled.

Internal controls relating to creditors typically include:

- Adequate segregation (separation) of duties with regards to creditors' transactions. (E.g. the same person should not order and receive goods.)
- The clerk receiving the items from creditors must check the delivery note against the order form to ensure that all items ordered were delivered.
- All documents (invoices; debit notes etc.) relating to credit transactions must be correctly processed in the proper journals.
- Paying creditors on time to take advantage of settlement discounts and to avoid interest being charged.

QUESTION 1

The information below relates to Imali Traders for August 2016.

REQUIRED:

1.1 Explain why the balance of the Creditors' Control Account and the total of the Creditors' List should correspond. (2)

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1.2 Reconcile the Creditors control account with the Creditors list on 31 August 2016. The balance in the Creditors' Control account was **R108 450** and the total of the Creditors' list with **R104 865**. (13)

INFORMATION:

The following errors and omissions were discovered during an investigation:

A. The Creditors' Journal was overcast by R1 080.

B. A debit note of R825 was entered in the Creditor's Journal. The correct entry was made in the Creditors' Ledger.

C. A debtor with a credit balance of R405 was included in the creditors' list by mistake.

D. An invoice for R981 received from a creditor was incorrectly recorded as R918 and posted accordingly.

E. VAT of R810 was omitted from an invoice received from a creditor.

F. Transfer the credit balance of R180 of a debtor in the Debtors' Ledger to his account in the Creditors' Ledger.

G. The amount of R1 260 reflected as a refund in the Creditors' Control Account was in fact received from a debtor whose account was previously written off. No entry for this amount was made in the Creditors' Ledger.

QUESTION 2

Thanda Stores buys goods on credit from Minty Suppliers.

REQUIRED:

2.1 Use the table provided to indicate the changes that must be made:

- In the Creditors' Ledger Account in the books of Thanda Stores
- In the Creditors' Reconciliation Statement on 29 February 2016

(14)

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

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

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INFORMATION:

A. **Creditors' Ledger of Thanda Stores**

Minty Suppliers

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

B. **Statement of account received from Minty Suppliers**

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

Debtor: **Thanda Stores** 25 February 2016

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

C. An investigation revealed the following errors and omissions

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

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

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

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

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

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

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

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MJ Stores buys goods on credit from Braeside Dealers. You are presented with information from the records of MJ Stores for October 2014.

REQUIRED:

Indicate the changes that must be made to the statement received from the creditor, Braeside Dealers, and the Creditors Ledger account in the books of MJ Stores.

INFORMATION:

A. The statement received from Braeside Dealers on 30 October 2014 reflected an outstanding balance of **R12 540.**

B. The Creditors' Ledger account of Braeside Dealers in the books of MJ Stores showed that only **R5 350** was due to Braeside Dealers on 31 October 2014.

C. An investigation revealed the following:

i Returns recorded as R820 in the creditors ledger account of Braeside Dealers was shown as R280 on the statement received. The amount on the statement was correct.

ii An invoice for R4 200 received from Braeside Dealers was incorrectly recorded as a credit note by the clerk of MJ Stores in the creditors' ledger.

iii An invoice received from Braeside Dealers was correctly recorded as R4 400 in the creditors' ledger account of Braeside Dealers in the books of MJ Stores, but the statement showed this amount as R400.

iv A payment of R5 000 made by MJ Stores appeared on the statement. The statement also reflected a discount of R250 for early payment. MJ Stores did not record the discount in the creditors' ledger.

v A payment of R2 500 to Braeside Dealers on 27 October 2014 did not appear on the statement due to the statement being processed early.

QUESTION 4

Viva Traders received a statement of account from creditor, Egoli Suppliers. The balance on the statement did not agree with that on the account of Egoli Suppliers in the Creditors' Ledger of Viva Traders.

REQUIRED:

Complete the table in the ANSWER BOOK to show how the differences must be treated to reconcile the Creditors' Ledger Account balance with the statement balance.

Write the amounts in the appropriate columns and indicate the increase or decrease with a (+) or (-) with each amount.

Total the columns to show the correct balances at the end of March 2016.

INFORMATION:

Balance of Egoli Suppliers in Creditors' Ledger of Viva Traders	R10 705
Balance on the statement received from Egoli Suppliers	R19 120

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A comparison between the Creditors' Ledger Account of Egoli Suppliers and the statement of account showed the following differences:

A. An invoice for R9 870 received from Egoli Suppliers was correctly recorded in the Creditors Ledger Account. The amount was incorrectly recorded as R8 790 on the statement.

B. Viva Traders entered a discount of R375 relating to a payment of R5 000 on 15 March 2016. Egoli Suppliers did not approve this discount stating that the payment was received late.

C. The statement of account reflected returns valued at R890. The Creditors' Ledger Account showed R690. It was established that Viva Traders miscalculated the value of the goods returned.

D. An invoice for R2 160 received from Egoli Suppliers was incorrectly recorded as a debit note in the Creditors' Ledger.

E. A direct transfer of R5 000 by Egoli Traders was recorded in the Cash Payments Journal on 29 March 2016. The statement of account from Egoli Suppliers was dated 25 March 2016.

3. DEBTORS RECONCILIATION

It is normal procedure to compare the balance of the **Debtor's Control account** with the total of the **Debtor's List** at the end of each month. If the balance/total is not the same, the errors and omissions should be identified and addressed in order to reconcile the books.

The Debtors Control account ,Debtors Ledger and Debtors List

> The **entry** in the journal will be posted on a daily basis to the **Debtor's ledger** and the **total** at the bottom of the journal will be posted at the end of the month to the **Control Account.**

Identifying Possible Errors:

Errors	Procedure to correct
Source Document	■ Correct both the Debtor's Control and the Debtor's Ledger accounts (i.e. the List).
Journal	■ Correct both the Debtor's Control and the Debtor's Ledger accounts (i.e. the List).
Totalling Journals	■ Correct Debtor's control account must be corrected
Posting errors	■ Correct Debtor's control or Debtor's Ledger, correction will ONLY be made where the posting error was made.
Calculation error	■ Correct the error in the affected record, Debtor's control or Debtor's Ledger.

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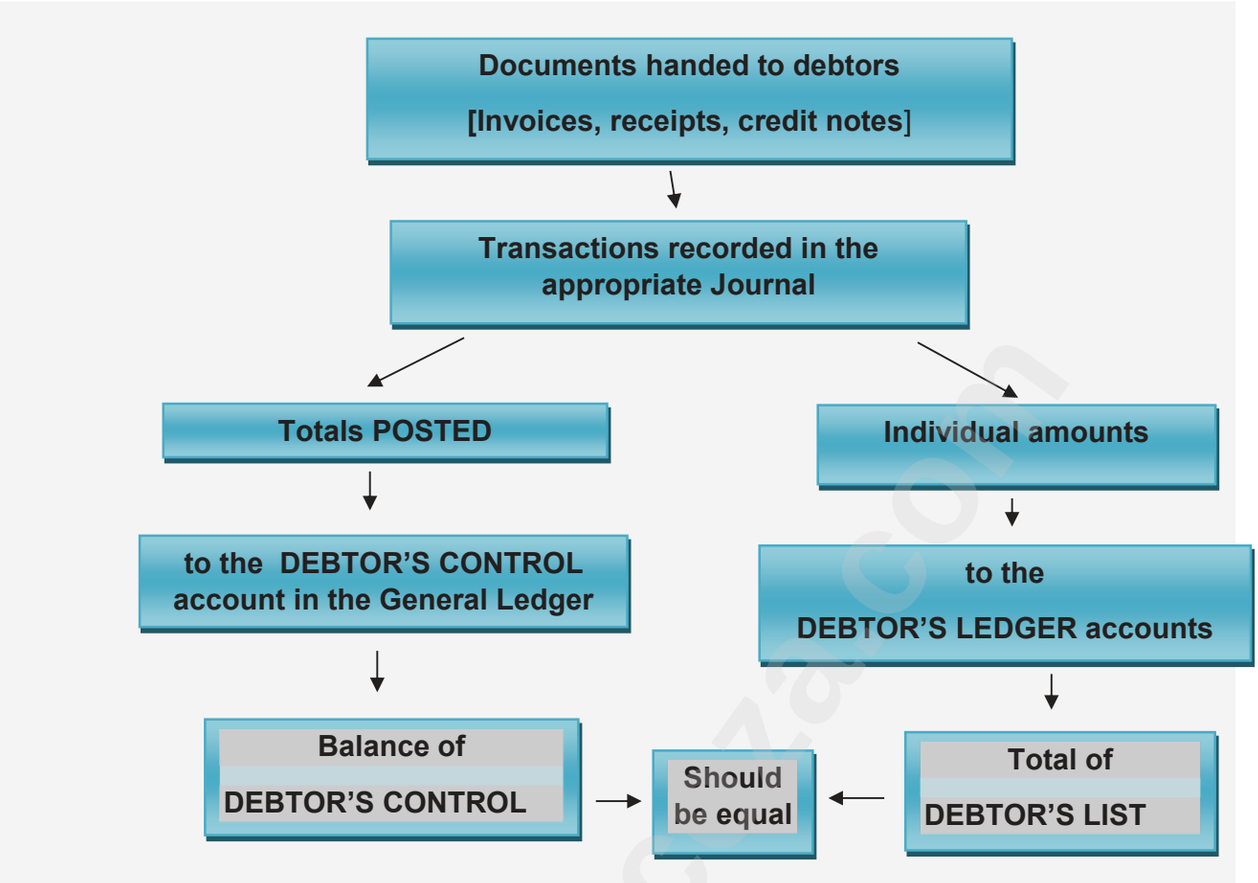

QUESTION 1

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

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

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

1.1.3 A post-dated cheque received from a debtor must be recorded in the CRJ on the date received. (3)

1.2 **MIZZY BOUTIQUE**

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

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REQUIRED:

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

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

INFORMATION:

A.

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

B. Errors or omissions to be corrected:

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

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

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

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

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

(f) No entry was made for a dishonoured cheque of R1 750 on the February 2017 bank statement. This had originally been received from debtor J Taylor to settle his debt of R1 950.

Debtors Age Analysis

Debtors Age Analysis-is a tool used to manage the outstanding debts and identify debtors who are not performing according to credit agreement. It displays a breakdown of debtor account balances for each specified period for selected debtors account or a range of selected debtor's accounts. Debtors Age analysis is useful for credit control, helps a business to anticipate any cash flow problems.

Debtors Ledger –is used to manage and monitor the accounts of individual debtors.

The Debtors clerk /Debtors credit controller is responsible for:

- Monitor debtors' credit rating before extending any credit to the debtor.
- Monitor debtors' accounts to avoid exceeding of credit limit.
- Ensuring that payments are received as per agreement.
- Approve the credit sales before any order is delivered to a customer.

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Debtors Age Analysis –when a debtors ledger is broken down into **time periods** to clearly indicate how long an amount has been outstanding.

TWO rules applicable when calculating Age Analysis

- **Returns are subtracted from the latest sales**

Credit note subtracted from recent invoice

- **Payments are subtracted from the oldest outstanding balance**

Issue a receipt for payment and discount

Important information for exams: Debtors Age Analysis

❖ **Identify figures and quote names of debtors.**

Problems reflected by the Debtors Age:

- Slow payers
- Debtors exceeding credit limits
- Continued sales to defaulting debtors

QUESTION 2 : DEBTORS AGE ANALYSIS (Enrichment)

This activity is aimed at providing background information on how Age Analysis is compiled.

REQUIRED:

Prepare:

- The debtor's age analysis statement
- A summary of aging statement
- A step-by-step illustration of the month number and balance per month

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A. P. David has the following credit agreements with A. Armstrong

- Credit limit : **R5 000**
- Credit terms **60 days**

B. **Transactions:**

1 May 2017	Outstanding balance of R1 800 at the beginning of the month.
5 May 2017	Receive a cheque from A Armstrong for R1 000 as payment on the amount owing for April 2017: A. Armstrong received R50 discount. Issued a receipt 491
15 May 2017	Issued invoice 1564 for goods sold on credit to A. Armstrong, R1 600.
25 May 2017	A. Armstrong returned merchandise for R200. Issued a credit note 184.
6 June 2017	Sold goods on credit to A. Armstrong for R2 100 and issue invoice 1589.
30 June 2017	Interest charged on A. Armstrong's overdue account amounted to R50 (journal voucher).
10 July 2017	Received a cheque for R1 500 from A. Armstrong as payment of his debt. Issued receipt 601
26 July 2017	Issued invoice to A. Armstrong as payment for merchandise sold to him for R1 900
31 July 2017	Charge A. Armstrong's overdue account with R60 interest (journal voucher)

QUESTION 3 : DEBTORS AGE ANALYSIS

GLENDALE TRADERS

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

REQUIRED:

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

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

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

- D Pillay
- W Patel (4)

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

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INFORMATION:

DEBTORS' AGE ANALYSIS ON 30 APRIL 2017:

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

14

QUESTION 4 : BANK RECONCILIATION AND DEBTORS AGE ANALYSIS

4.1 BANK RECONCILIATION AND INTERNAL CONTROL

The information below relates to Eureka Traders

REQUIRED:

4.1.1 Calculate the correct bank balance on 30 June 2015. (13)

4.1.2 Prepare the Bank Reconciliation Statement on 30 June 2015. (8)

4.1.3 Refer to information E

Identify TWO separate problems with evidence. Give advice for EACH problem. (6)

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INFORMATION:

A. The following Bank Reconciliation Statement was prepared on 31 May 2015:

Balance as per Bank Statement (unfavorable)		(R13 000)
Outstanding deposit		30 000
Outstanding cheques:		
No. 614 (dated 20 December 2014)	Donation	(10 500)
No. 958 (dated 25 May 2015)	Merchandise	(7 900)
No. 962 (dated 30 July 2015)	Settlement of account	(4 500)
Correction of error		3 600
Balance as per bank account (unfavorable)		(2 300)

NOTE: The deposit of R30 000 appeared on the Bank Statement on 14 June 2015.

- The error of R36 000 was corrected by the bank on 10 June 2015.
- Cheque no. 958 issued in May 2015, was reflected on the Bank Statement for June as R9700.The Bank Statement is correct .The other outstanding cheques have not been presented at the bank.

B. Provisional totals on 30 June 2015: CRJ: R87 220; CPJ: R74 860

C. The bank statement for June 2015 revealed the following:

- Direct deposit for rent income from the tenant ,R21 000
- Stop order for insurance ,R6 500
- R/D cheque originally received from F.Mnisi for R2 250 in settlement of hid debt of R2 300
- Bank Charges ,R210
- Balance as per Bank Statement?

D. The following cheques appeared in the Cash Payments Journal and not on the Bank Statement for June 2015:

- No. 982 for R2 200
- No. 986 for R1 400 (dated 28 July 2015)

E. The bookkeeper recorded the following entry in the June 2015 CRJ:

Doc.	Date	Details	Analysis	Bank	Sales
CS371–	30	Cash	18 500	18 500	18 500

This was recorded by the bank on 15 July 2015.The internal auditor has noticed that cash slips, CS371-402, actually total R25 500.

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4.2 DEBTORS AGE ANALYSIS

The information below relates to Max Sportswear.

REQUIRED:

4.2.1 Refer to Information B

As the internal auditor, what concerns would you have over Susan's job description? Explain. (2)

4.2.2 Identify TWO debtors who could have their credit limits increased (2)

4.2.3 Explain THREE different problems reflected by the Debtors' Age Analysis. Give evidence. (9)

INFORMATION:

A The business sells 80% of their stock on credit. Debtors are required to settle their accounts by the end of the month following the sales transaction month.

B Susan, the bookkeeper, issues invoices and credit notes and collects cash from debtors.

C Debtors' Age Analysis on 31 August 2015:

DEBTORS	CREDIT LIMIT	AMOUNT OWING	CURRENT MONTH	30 DAYS	60 DAYS	90 DAYS
S Muller	R10 000	R12 000	R1 800	R4 200	R2 400	R3 600
L Ndlovu	R5 800	R5 000	R3 100		R1 900	
P Pillay	R3 500	R3 200	R3 200			
B Vasco	R5 000	R5 000		R2 600	R1 600	R800
C Crooks	R4 500	R4 100	R3 500	R600		
R Aucamp	R1 500	R1 400	R500			R900
		R30 700	R12 100	R7 400	R5 900	R5 300
		100%	39%	24%	19%	18%

QUESTION 5

The following information relates to Dreamy Delight Traders, a business trading in cookies and pastries. The information appeared in the records for the period 1 March 2014 to 28 February 2015.

REQUIRED:

5.1 **Refer to Information A:**

Provide a reconciled Debtor's List on 28 February 2015. (14)

5.2 **Refer to Information B:**

5.2.1 Calculate the Bank Statement balance on 31 January 2015. Indicate whether it was a favourable or unfavourable balance. (7)

5.2.2 One of the cheques was wrongly handled on the Bank Reconciliation Statement. Identify the cheque and give a reason for your choice. Provide the correct entry for this cheque. (6)

Cheque no. 1297 was issued to a creditor. How would this cheque be handled in the financial statements if the financial year ends on 28 February 2015? (2)

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INFORMATION:

A. CONTROL OF DEBTORS:

On closer inspection the following errors were found:

- An invoice for R2 300 issued to Baker House was posted to the account of Gorgeous Baker.
- A payment of R19 400 made on 1 February 2015 by Gorgeous Baker and discount of R600 were posted to the account of Crispy Cook.
- An amount of R1 625 was added to the account of Gorgeous Baker for interest on the overdue account. Interest was calculated at 15% p.a. The interest should be added to Baker House, which has owed R65 000 since 31 December 2014.

B. BANK RECONCILIATION STATEMENT ON 28 FEBRUARY 2015

? Balance according to the Bank Statement	
Credit outstanding deposit	15 870
Debit outstanding cheques:	
No. 857 (dated 1 August 2014)	7 450
No. 1284 (dated 17 February 2015)	3 500
No. 1297 (dated 27 April 2015)	500
Credit balance according to bank account	2 000

29

THE END

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Private Bag X895, Pretoria, 0001

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Accounting Answer Book

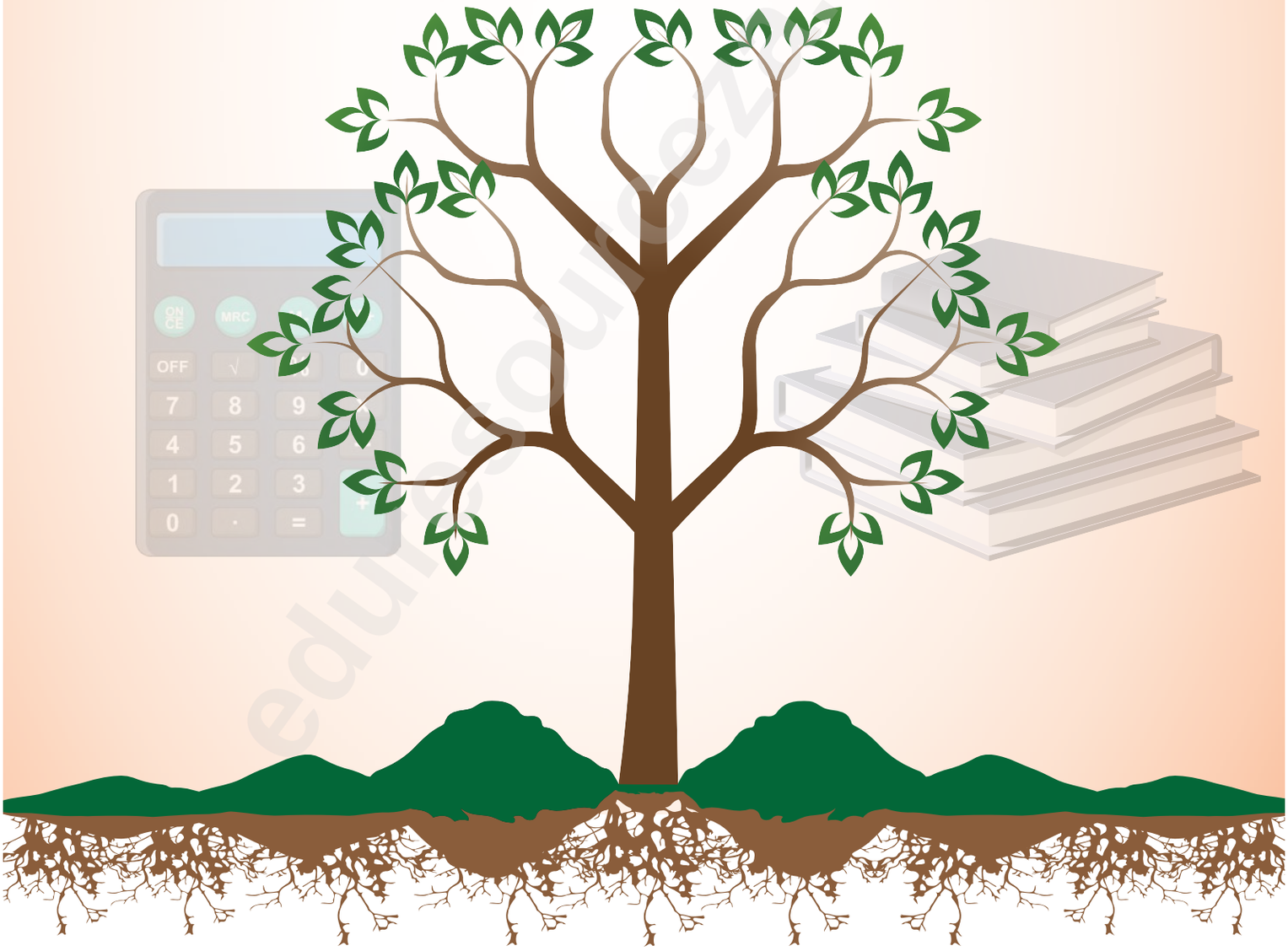

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TABLE OF CONTENTS - ANSWER SHEETS

- Module 1 : Financial Statements –Balance Sheet 2 -14
- Module 2 : Cash flow Statement 15 -30
- Module 3 : Analysis and interpretation of financial statements 31 -46
- Module 4 : Reconciliations 47 -57

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COMPANIES FINANCIAL STATEMENTS –BALANCE SHEET

BALANCE SHEET

ACTIVITY 1:

Illustrate a basic flow of recording and reporting financial information. Commence with Transactions and end with the Preparation of Financial Statements.

ACTIVITY 2:

Place the General Ledger accounts from the list provided in the appropriate column on the table provided in the Answer Book, as follows:

NON-CURRENT ASSETS	CURRENT ASSETS	NON-CURRENT LIABILITIES	CURRENT LIABILITIES	EQUITY

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ACTIVITY 3:

A typical Balance Sheet is presented. Fill in the missing amounts to complete this statement.

MOON LTD
BALANCE SHEET FOR THE YEAR ENDED 28 FEBRUARY 2018

ASSETS	Notes	
NON-CURRENT ASSETS		**4 980 000**
Fixed/tangible assets	3	
Financial assets		**160 000**
CURRENT ASSETS		**1 820 000**
Inventories	4	**956 000**
Trade and other receivables	5	
Cash and cash equivalents	6	**2 500**
TOTAL ASSETS		
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Share capital	7	
Retained income	8	**218 200**
NON-CURRENT LIABILITIES		
Mortgage Loan (**740 000** –)		
CURRENT LIABILITIES		**921 800**
Trade and other payables	9	
Bank overdraft		**45 300**
Current portion of loan		**148 000**
		6 800 000

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ACTIVITY 4

4.1 RETAINED INCOME NOTE

Balance at the beginning of the year	**345 000**	
Interim dividend	**240 000**	
		10

4.2 BALANCE SHEET/STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2017

ASSETS		
Non-current assets		
Fixed assets		
Financial assets		
Current assets		
Inventory		
Trade and other receivables		
Cash + cash equivalents		
TOTAL ASSETS		
EQUITY AND LIABILITIES		
Shareholder's equity		
Ordinary share capital		
Retained income		
Non-current liabilities		
Loan: Vivian Bank		
Current liabilities		
Trade and other payables		
Shareholders for dividends		**40**
Current portion of loan		
TOTAL EQUITY AND LIABILITIES		

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ACTIVITY 5
FOUCHE LTD

5.1.1 **ORDINARY SHARE CAPITAL**

AUTHORIZED		
3 000 000 shares		
ISSUED		
		10

5.1.2 **RETAINED INCOME**

Balance on 1 March 2016		
Ordinary share dividends		
Interim		
Final		
Balance on 28 February 2017		**11**

5.1.3

FIXED/TANGIBLE ASSETS	**Land and Buildings**	**Equipment**	**Vehicles**	
Carrying value in beginning	**6 990 000**	**155 000**	**520 000**	
Cost	**6 990 000**	**240 000**	**880 000**	
Accumulated depreciation	**0**	**(85 000)**	**(360 000)**	
Movements				
Additions at cost			**0**	
Disposal at carrying value	**(0)**	**(0)**		
Depreciation	**0**		**(161 600)**	
Carrying value at the end	**7 490 000**			
Cost	**7 490 000**	**360 000**		
Accumulated depreciation	**0**			**16**

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5.2 FOUCHE LTD
BALANCE SHEET ON 28 FEBUARY 2017

ASSETS	
Non-current assets	
Tangible assets	
Fixed deposit at Zamdela Bank	
Current assets	
Inventories	
Trade & other receivables	
SARS – Income Tax	
Cash & cash equivalents	
TOTAL ASSETS	
EQUITY & LIABILITIES	
Ordinary shareholders' equity	
Ordinary share capital	
Retained income	
Non-current liabilities	
Mortgage loan: Cash Bank	
Current liabilities	
Trade & other payables	
Shareholders for dividends	
Current portion of loan	
TOTAL EQUITY & LIABILITIES	

33

Ordinary share capital		?
Retained income		450 000
Loan		580 000
Fixed assets		
Trade debtors	?	
Bank	50 000	
Inventory	?	
Trade creditors		?

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ACTIVITY 6

6.1 BOONZAAIER LIMITED

6.1.1 Ordinary share capital

AUTHORISED			
6 500 000 shares			
ISSUED			
			10

6.1.2 Retained income

Balance at beginning of year	**567 000**	
Funds used for shares repurchased		
Net profit after tax		
Ordinary share dividends		
Balance at end of year		**10**

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6.2 BOONZAAIER LIMITED
BALANCE SHEET ON 28 FEBRUARY 2017

ASSETS	
Non-current assets	
Fixed assets	
Fixed deposit: Parys Bank	
Current assets	
Inventories	
Trade and other receivables	
TOTAL ASSETS	
EQUITY & LIABILITIES	
Ordinary shareholders' equity	
Ordinary share capital	
Retained income	
Non-current liabilities	
Loan: BB Bank	
Current liabilities	**2 600 000**
Trade and other payables	
Current portion of loan	
Shareholders for dividends	
TOTAL EQUITY & LIABILITIES	

35

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ACTIVITY 7

7.1.1 ORDINARY SHARE CAPITAL

AUTHORIZED		
1 750 000 shares		
ISSUED		
		10

7.1.2 RETAINED INCOME

Balance on 1 July 2016	**345 900**	
Ordinary share dividends		
Balance on 30 June 2017		**10**

7.1.3 TRADE AND OTHER RECEIVABLES

		10

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7.2 MTOMBENI TRADERS LTD
BALANCE SHEET ON 30 JUNE 2017

ASSETS	
NON-CURRENT ASSETS	
Fixed/Tangible Assets	
Fixed deposit	
CURRENT ASSETS	
Inventory	
Trade and other receivables	
Cash and cash equivalents	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY	
Ordinary share capital	
Retained income	
NON-CURRENT LIABILITIES	
Loan: Drake Bank	
CURRENT LIABILITIES	
Trade and other payables	
Shareholders for dividends	
Current portion of loan	
TOTAL EQUITY AND LIABILITIES	

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ACTIVITY 8
CHUTA LTD

8.1.1 **RETAINED INCOME**

		10

8.1.2

FIXED/TANGIBLE ASSETS	**Land and Buildings**	**Equipment**	**Vehicles**	
Carrying value in beginning	**4 899 999**			
Cost price	**4 899 999**	**360 000**	**970 000**	
Accumulated depreciation In the beginning	**0**	**(340 000)**	**(395 000)**	
Movements				
Additions at cost			**0**	
Disposal at carrying value	**(0)**	**(0)**		
Depreciation	**0**			
Carrying value at the end	**5 540 399**			
Cost	**5 540 399**			28
Accumulated depreciation	**(0)**			

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8.2 CHUTA LTD
BALANCE SHEET ON 28 FEBUARY 2017

ASSETS	
Non-current assets	
Tangible assets	
Fixed deposit at Boris Bank	
Current assets	
TOTAL ASSETS	
EQUITY & LIABILITIES	
Ordinary shareholders' equity	
Non-current liabilities	
Mortgage loan: Mongomorry Bank	
Current liabilities	**980 000**
Trade & other payables	
TOTAL EQUITY & LIABILITIES	

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ACTIVITY 9

9.1.1 SHARE CAPITAL		
Authorised		
780 000 ordinary shares		
Issued Share Capital		
480 000	**Ordinary shares in issue at the beginning of the year at 750 cent**	**3 600 000**
		9

9.1.2	**RETAINED INCOME**	
Balance at the beginning of the year		**271 000**
		9

9.2.1	**Value of the closing stock.**	
		5

9.2.2	**Calculate the number of items stolen**	
		6
		6

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9.3 HIMALAJA LIMITED
BALANCE SHEET ON 28 FEBRUARY 2017

ASSETS	
NON-CURRENT ASSETS	
CURRENT ASSETS	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
SHAREHOLDERS EQUITY	
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
Trade- and other payables	
TOTAL EQUITY AND LIABILITIES	

31

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CASHFLOW STATEMENTS

Activity 1 **Complete the appropriate section of the Cash Flow Statement by providing the missing figures in the respective spaces.**

Complete the appropriate section in the Cash Flow Statement	
Net change in cash and cash equivalents	
Cash and cash equivalents at beginning of the year	
Cash and cash equivalents at end of the year	

Activity 2 **complete the appropriate section of the Cash Flow Statement by providing the missing figures in the respective spaces.**

Complete ***the appropriate section*** in the Cash Flow Statement	
Net change in cash and cash equivalents	
Cash and cash equivalents at beginning of the year	
Cash and cash equivalents at end of the year	

Activity 3 **Complete the table that follows**

CASH EFFECTS FROM FINANCING ACTIVITIES	

Activity 4 **Complete the extract from the Cash Flow Statement that follows**

CASH EFFECTS FROM FINANCING ACTIVITIES	
Proceeds from shares issued	
Repurchase of shares	
Loans received	

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Activity 5 Complete the extract from the Cash Flow Statement that follows

CASH EFFECTS FROM FINANCING ACTIVITIES	
Proceeds from shares issued	
Repurchase of shares	
Loans received	

Activity 6 Complete the extract from the Cash Flow Statement that follows

Extract from Cash Flow Statement

Cash flow from investing activities	
Purchase of fixed assets	
Proceeds from sale of assets	
Increase / Decrease in investments	

Calculations / Workings (Activity 6)

Activity 7 Complete the extract from the Cash Flow Statement that follows

Extract from Cash Flow Statement

Cash flow from investing activities	
Purchase of fixed assets	
Proceeds from sale of assets	
Increase / Decrease in investments	

Calculations / Workings (Activity 7)

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Activity 8 **Complete the given table which reflects the section for the "Cash from Operating Activities" relating to interest paid, dividends paid and taxation paid. Show your working between brackets**

CASH FLOW STATEMENT FOR THE YEAR ENDING FEBRUARY 2018		
Cash flow from operating activities		XXX
Cash generated from operations	**Note 1**	XXX
Interest paid		
Dividends paid		
Taxation paid		

Calculations / Workings (Activity 8)

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Activity 9 **Complete the note for "Cash generated from operations" as well as the section on the "cash flow from operating activities"**

Note 1: Cash generated from operations	

CASH FLOW STATEMENT FOR THE YEAR ENDING 28 FEBRUARY 2018	
Cash flow from operating activities	

CALCULATIONS

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QUESTION 1

1.1 BELLCO LIMITED
CASH FLOW STATEMENT FOR YEAR ENDED 31 AUGUST 2017

Cash effects of operating activities	**1 293 000**
Cash generated from operations	**4 062 000**
Interest paid	**(462 000)**
Cash effects of investing activities	
Cash effects of financing activities	
Net change in cash & cash equivalents	
Cash & cash equivalents at beginning of year	
Cash & cash equivalents at end of year	**540 000**

22

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QUESTION 2

2.1 Calculate the missing amounts (indicated by a, b and c) in the Fixed/Tangible Asset Note for the year ended 28 February 2017.

NO.	WORKINGS	AMOUNT
a		
b		
c		

12

2.2

METEOR SUPERMARKETS LTD	
CASH FLOW STATEMENT FOR YEAR ENDED 28 FEBRUARY 2017	
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	

31

2.3 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

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QUESTION 3

3.1 SENZO LTD

3.1.1 Calculate income tax paid.

5

Calculate proceeds from disposal of fixed assets (carrying value).

5

Calculate net change in cash and cash equivalents.

5

3.1.2

CASH EFFECTS OF FINANCING ACTIVITIES	

12

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QUESTION 4

4.1.1 ORDINARY SHARE CAPITAL:

AUTHORISED SHARE CAPITAL

1 500 000 ordinary shares

ISSUED SHARE CAPITAL

900 000	Ordinary shares on 1 July 2016	9 180 000	
			7

RETAINED INCOME:

Balance on 1 July 2016	360 000	
Net profit after tax	444 500	
Balance on 30 June 2017		9

4.1.2

Calculate the change in loan for the Cash Flow Statement.	
	2
Calculate the income tax paid for the Cash Flow Statement.	
	4

4.1.3

Net change in cash and cash equivalents		
		4

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QUESTION 5

5.1 SO-FINE LTD

5.1.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

1 200 000 ordinary shares

ISSUED SHARE CAPITAL

900 000	Ordinary shares on 1 September 2016		
	Ordinary shares on 31 August 2017	5 292 000	7

RETAINED INCOME

Balance on 1 September 2016	147 370	
Net profit after income tax	438 130	
Ordinary share dividends		
Balance on 31 August 2017		9

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5.1.2 SO-FINE LTD

CASH FLOW STATEMENT FOR YEAR ENDED 31 AUGUST 2017

	CASH FLOWS FROM OPERATING ACTIVITIES		
	Cash generated from operations		
	Interest paid		
	Dividends paid		
4	**Income tax paid**	?	
	CASH FLOWS FROM INVESTING ACTIVITIES		
		?	
	?	?	
7	**Change in investments**		
	CASH FLOWS FROM FINANCING ACTIVITIES		
	?	**?**	
	?	**?**	
4	**Change in non-current liabilities**		
	Net change in cash and cash equivalents	**?**	
	Cash and cash equivalents – opening balance	**?**	
4	**Cash and cash equivalents – closing balance**	**?**	**19**

QUESTION 6

6.1 **What is the main purpose of a Cash Flow Statement?**

2

6.2 **Calculate the missing amounts (indicated by a, b, c and d) in the Fixed/Tangible Asset Note for the year ended 31 October 2017.**

	Workings	Amount
a		
b		
c		
d		

9

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6.3 CLASSICO LTD
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2017

CASH FLOW FROM OPERATING ACTIVITIES	
Cash generated from operations	1 985 500
Interest paid	(175 500)
Taxation paid	
Dividends paid	
CASH FLOW FROM INVESTING ACTIVITIES	
Fixed assets purchased	
Proceeds from sale of fixed assets	
CASH FLOW FROM FINANCING ACTIVITIES	
Proceeds from the sale of shares	
Change in loan	
NET CHANGE IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS AT BEGINNING	
CASH AND CASH EQUIVALENTS AT END	

24

6.4

Decisions by directors	Reason to support John's opinion	Reason to support directors' decision (other than improving cash flow)
Issued more shares		
Sold fixed assets		

8

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QUESTION 7

7.1 **ASSET DISPOSAL**

2016 Aug.	31			2016 Aug.	31		

9

7.2

No.	Calculation	Amount
(a)		
(b)		
(c)		

12

7.3.1 Calculate the income tax paid.

5

7.3.2 Calculate the net change in cash and cash equivalents.

4

7.4 Cash effects on financing activities

7

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QUESTION 8

8.1 BRAZILIA LTD

8.1.1 State ONE purpose of a Cash Flow Statement.

2

8.1.2 CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2017

CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated from operations	2 844 200	
Interest paid	(336 000)	
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed assets purchased	(1 360 000)	
Change in fixed deposit	240 000	
CASH FLOW FROM FINANCING ACTIVITIES		
NET CHANGE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS AT BEGINNING		
CASH AND CASH EQUIVALENTS AT END	179 500	27

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QUESTION 9

9.1 CASH GENERATED FROM OPERATIONS

Depreciation	178 000	
Interest expense	52 000	
Operating profit before changes in working capital		
Cash generated from operations		10

9.2 MAXIE LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017

CASH EFFECTS OF OPERATING ACTIVITIES		
CASH EFFECTS OF INVESTING ACTIVITIES		
CASH EFFECTS OF FINANCING ACTIVITIES	160 000	
Proceeds of shares issued	1 000 000	
Share repurchased	(540 000)	
Repayment of loan	(300 000)	
NET CHANGE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents (1 March 2016)		
Cash and cash equivalents (28 February 2017)		21

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QUESTION 10

10.1.1

(a)	
(b)	
(c)	
(d)	

16

10.1.2 Calculate the income tax paid.

5

Calculate the net changes in cash and cash equivalents.

4

10.1.3

CASH FLOW FROM FINANCING ACTIVITIES	

7

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QUESTION 11

MIHKA LTD

11.1.1 ORDINARY SHARE CAPITAL

Authorised Share Capital

800 000 ordinary shares

Issued Share Capital

600 000	Ordinary shares on 1 January 2017	4 200 000	
100 000			
			6

RETAINED INCOME

Balance on 1 January 2017	276 000	
		9

11.1.2

CASH EFFECTS OF OPERATING ACTIVITIES		
Cash generated from operations	1 237 400	
		9

11.1.3 Amounts in the Cash Flow Statement:

Calculate: Change in fixed deposit	3
Calculate: Proceeds on disposal of equipment	6

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ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

ACTIVITY 1

1.1		
1.2		
1.3		
1.4		
1.5		5

ACTIVITY 2

Identify the appropriate financial statement where you will find the following information.

Amount received for the issue of new shares		
Total amount of the loan either received or paid.		
The amount of shares that are not yet issued.		
Total income tax expense		
Total depreciation for the year		
Total amount owing to creditors		
Total amount of dividends payable to shareholders		
Total cash paid to shareholders in respect of dividends		
Amount owed to/owed by SARS at year-end		
The short term portion of a non-current liability		
Total amount paid to SARS for Income tax		
Gross profit for the year		
Fixed assets bought for cash during the financial year		13

ACTIVITY 3

3.1	Shareholders
3.2	Prospective (potential) shareholders
3.3	The CEO and the board of directors (management)
3.4	Internal and external auditors
3.5	SARS

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3.6	Creditors	
3.7	Competitors	
3.8	Trade unions and employees	
3.9	Newspapers and financial publications	18

ACTIVITY 4

4.1		
4.2		
4.3		
4.4		
4.5		6
4.6		

ACTIVITY 5:

PROFITABILITY	
OPERATING EFFECIENCY	
LIQUIDITY	
SOLVENCY	
RISK AND GEARING	
RETURN	
MARKET PROSPECTS Share price /value	

20

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ACTIVITY 6: Know your formulae

6.1	Current ratio
6.2	Acid test ratio
6.3	Stock turnover rate
6.4	Average stock holding period (in days)
6.5	Average debtors collection period
6.6	Average creditors payment period
6.7	Solvency ratio
6.8	Debt/equity ratio
6.9	Return on average capital employed (ROTCE)
6.10	Return on shareholders' equity
6.11	Earnings per share (EPS)
6.12	Dividends per share (DPS)
6.13	Net asset value per share (NAV)

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6.14	Gross profit percentage on sales
6.15	Operating expenses on sales
6.16	Operating income on sales
6.17	Net profit after tax on sales
6.18	Gross profit percentage

ACTIVITY 7:

7.1	The directors are not satisfied by the liquidity position of the company. Are they justified? Quote THREE relevant financial indicators (with figures) in your answer.	9
7.2	Comment on the profitability of the business. Make reference to information relating to the Income Statement.	9

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7.3	Should the shareholders be satisfied with their earnings and dividends? Quote the relevant financial indicators to support your answer.	6
7.4	The directors intend expanding the existing buildings. Would you advise them to issue additional shares or to take out an additional loan? Quote the relevant financial indicators to support your decision.	8

ACTIVITY 8:

8.1.1	Operating expenses on sales	3
8.1.2	Debt/equity ratio	3
8.1.3	Return of shareholders' equity	5
8.1.4	Net asset value per share.	4

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8.2	**The internal auditor recommended to the directors that more attention be paid to managing expenses in the next financial year. Explain why you think she feels this way. Quote TWO financial indicators, with figures, to support your argument.**	6
8.3	**The auditor also felt that it was not necessary to repay a large portion of the loan during the financial year. Provide a reason why you think she felt that way. Quote TWO relevant financial indicators (with figures) in your answer.**	6
8.4	**Some shareholders were not satisfied with their returns for the current financial year. Are they justified? Motivate your answer by quoting any TWO relevant financial indicators and by commenting on the dividend policy of the business.**	7
8.5	**Explain why you either agree or disagree with the directors. Make reference to relevant figures (financial indicators) to support your answer.**	6

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ACTIVITY 9:

9.1 **Identify THREE major decisions highlighted by the Cash Flow Statement and explain TWO consequences of these decisions to the business. Quote figures.**

Decisions (with figures):

6

Consequences:

2

9.2 **Comment on the issue price of the additional shares issued on 1 August 2015.**

3

9.3 **Did the estate of the late shareholder receive a fair price for their shares? Explain.**

4

9.4 **At the annual general meeting (AGM) a young shareholder was not pleased about R200 000 spend on a local clean the environment campaign. She was of the opinion that maximizing profits should be the main focus of the business. What would you say to her? Provide TWO points.**

3

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9.5	A senior director of the firm was disappointed that the new shares were sold without giving the directors an option to purchase shares before they were advertised to the public. Is he justified to feel this way? Explain.	4
9.6	Do calculations to show the change in her percentage share-holding after each change in the share capital.	6
	Explain why she was eager for the company to re-purchase the shares.	2

ACTIVITY 10: TWO COMPANIES

10.1	Which company is handling their working capital more effectively? Explain and quote THREE financial indicators to support his opinion.	9

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10.2	Which company is making more use of loans? Quote a financial indicator for each company.	3
	Explain whether or not it was a good idea for that company to make use of loans. Quote ONE financial indicator.	3
10.3	Lupin LTD has a better percentage return, earnings and dividends than Lilac LTD. Explain and quote THREE financial indicators for each company.	9
10.4	Explain why the existing shareholders of Lupin LTD are happy with the current market value of their shares.	2
	Explain why the existing shareholders of Lilac LTD are very disappointed with the current market value of their shares	2

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GRADE 10: ACTIVITY 1

SARDIE STORES

1.1

ACCOUNTS	NON-CURRENT ASSET	CURRENT ASSET	EQUITY	NON CURRENT LIBILITY	CURRENT LIABILITY
Trade debtors					
Trade creditors					
Accrued Income					
Accrued expenses					
Mortgage Bond					
Vehicles					
Trading stock					
Capital					
Fixed Deposit					
Bank overdraft					

10

1.2

Current ratio

5

Acid test ratio

4

1.3

Comment on the liquidity of the business.

4

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GRADE 10: ACTIVITY 2:

2.1 **Calculate :**

2.1.1 **Solvency ratio**	5
2.1.2 **Current ratio**	3
2.1.3 **Acid test ratio**	4
2.1.4 **Return on average owner's equity**	5
2.1.5 **Mark up percentage**	3

2.2 **Comment on the liquidity position of the business. Quote TWO relevant financial indicators/ratios for both years to support your response.**	6

2.3 **The business aims to achieve a mark-up of 75% on cost at all times. Provide TWO reasons for the business not achieving the expected mark-up percentage.**	4

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GRADE 10: ACTIVITY 3:

3.1 **FINANCIAL INDICATORS**

WORKINGS	ANSWER	
Calculate: Current Ratio		5
Calculate: Acid test ratio		4
Calculate: Solvency ratio		4
Calculate: Return on equity		5

3.2

Calculate the amount of the loan	4

3.3

Comment on the solvency of the business. Quote figures.	4

3.4

Will the business be able to pay its short term debts in the next financial year? Explain. Quote TWO financial indicators with figures.	6

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3.5 **Should Stan be satisfied with his return on equity? Explain. Quote figures.**

4

3.6 **Provide TWO reasons why the business was not able to achieve its targeted gross profit percentage.**

4

GRADE 11: ACTIVITY 1:

1.1 Calculate:

1.1.1 **The total value of current liabilities.**

4

1.1.2 **Percentage return earned by N. Yong**

5

1.1.3 **Debt/equity ratio**

4

1.1.4 **Acid-test ratio**

4

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1.2 **Comment on the liquidity of the business.**
Quote TWO financial indicators (with figures) in your answer.

6

1.3 **Do you think that N. Yong is satisfied with his return on investment? Explain. Quote TWO relevant financial indicators (with figures) to support your answer.**

6

1.4 **The partners want to expand the existing business and are considering increasing the loan. What advice would you offer them? Support your answer by making reference to TWO financial indicators (with figures).**

6

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GRADE 11: ACTIVITY 2:

MIDDLE POINT TRADERS

2.1 Calculate the following:

WORKINGS	ANSWER	
• Percentage mark-up on cost		4
• Operating expenses on sales		3
• Total earnings of Middle		4
• The percentage return earned by Point		5
• The debt/equity ratio for 2017.		3

2.2

Comment on the liquidity of the business. Quote and explain TWO financial indicators (with figures) in you answer.

4

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2.3	**Were the partners justified in increasing the loan? Explain. Quote TWO financial indicators, and figures, in your explanation.**	4
2.4	**Middle is not happy with his return on investment. Explain why you think he feels this way. Quote figures.**	4

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RECONCILIATIONS

QUESTION 1

BANK RECONCILIATION

1.1 Calculate the correct balance of the Bank Account in the General Ledger on 31 July 2016.

Provisional Bank balance	R16 785
Correct Bank balance	

Favourable/Unfavourable: _____

8

1.2 Bank Reconciliation Statement as at 31 July 2016

6

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

2

16 Marks

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QUESTION 2

1. Indicate whether the following statements are TRUE or FASLE. Write only 'true' or 'false' next to the question number (i) – (iv) in the answer book

(i)	
(ii)	
(iii)	
(iv)	

4

2. Calculate the correct totals for the Cash Receipts Journal and Cash Payment Journal for July 2015.

Cash Receipts Journal
146 970

Cash Payment Journal
68 900

12

3. Prepare the Bank Reconciliation Statement on 31 July 2015.

Bank Reconciliation Statement on 31 July 2015		
	Debit	Credit

12

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CREDITORS' RECONCILIATION – ANSWER SHEET 1

1.1 Explain why the balance of the Creditors' Control Account and the total of the Creditors' List should correspond.

2

1.2 Reconcile the Creditors control account with the Creditors list on 31 August 2016. The balance in the Creditors' Control account was R108 450 and the total of the Creditors' list with R104 865.

	CREDITORS CONTROL		CREDITORS LIST	
	DEBIT	CREDIT	DEBIT	CREDIT
		108 450		104 865
A.				
B.				
C.				
D.				
E.				
F.				
G.				
	BALANCE		BALANCE	

13

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ANSWER SHEET 2

2.1.1

	CREDITORS' LEDGER	CREDITORS' RECONCILIATION STATEMENT
Balance	**110 170**	**111 600**
(a)		
(b)		
(c)		
(d)		
(e)		
(f)		
(g)		
(h)		

14

2.1.2

State TWO internal control measures that the business can use to prevent similar incidents from happening in future.
Any **TWO** relevant control measures

4

CREDITORS RECONCILIATION:ANSWER SHEET 3

NO.	CREDITORS LEDGER ACCOUNT	STATEMENT
BALANCE	**5 350**	**12 540**
i		
ii		
iii		
iv		
v		
TOTAL		

9

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CREDITORS' RECONCILIATION :ANSWER SHEET 4

	ACCOUNT OF EGOLI SUPPLIERS IN CREDITORS' LEDGER OF VIVA TRADERS	STATEMENT RECEIVED FROM EGOLI SUPPLIERS
Balance	R10 705	R19 120
A		
B		
C		
D		
E		
Final balance		

9

DEBTORS RECONCILIATION - ANSWER SHEET 1

1.1 TRUE OR FALSE

1.1.1	
1.1.2	
1.1.3	

3

1.2 MIZZY BOUTIQUE

Use the table provided to indicate corrections that must be made to the Debtors' Control Account and the debtors' list.
Provide figures and a plus (+) or minus (–) sign for each correction.

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

13

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ANSWER SHEET 2 - AGE ANALYSIS

A. ARMSTRONG							
DATE	**RECEIPTS/ DISCOUNTS/ RETURNS**	**AMOUNTS**	**CLOSING BALANCE**	**TOTAL DEBITS (Cr sales and other Debits)**			
				May	**June**	**July**	
	Balance and Sales						
May	Payment received						
	Cr Note- Returns						
July	Payment Received						

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ANSWER SHEET 3 –AGE ANALYSIS

3. GLENDALE TRADERS

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

2

3.2 Calculate the percentage of total debts exceeding the credit terms.

4

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

DEBTOR	PROBLEM WITH FIGURES
D Pillay	
W Patel	

4

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

4

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ANSWER SHEET 4.1

BANK RECONCILIATION AND INTERNAL CONTROL

4.1.1 **Calculate the correct bank balance on 30 June 2015.**

Cash Receipts Journal (figures only)	Cash Payments Journal (figures only)
87 220	74 860

Bank balance on 30 June 2015:

13

4.1.2 **Bank Reconciliation Statement on 30 June 2015**

8

4.1.3 **Refer to Information E. Identify TWO separate problems with evidence. Give advice for EACH problem.**

PROBLEM WITH EVIDENCE	ADVICE

6

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4.2 DEBTORS' AGE ANALYSIS

4.2.1 As the internal auditor, what concerns would you have over Susan's job description? Explain. **2**

4.2.2 Identify TWO debtors who could have their credit limits increased. **2**

4.2.3 **Explain THREE different problems reflected by the Debtors' Age Analysis. Give evidence.**

	Explanation of problem with evidence
Problem 1	
Problem 2	
Problem 3	

TOTAL MARKS
40

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DEBTORS RECONCILIATION - ANSWER SHEET 5

5.1 Reconciled Debtors' List on 28 February 2015

	Previous balance	Calculation	Correct balance
Baker House	65 000		
Gorgeous Baker	37 000		
Handsome Chef	28 000		
Crispy Cook	(Credit) 20 000		
Correct total of List of Debtors			

14

5.2.1 Calculate the Bank Statement balance on 31 January 2015. Indicate whether it was a favourable or unfavourable balance.

7

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5.2.2 One of the cheques was wrongly handled on the Bank Reconciliation Statement. Identify the cheque and provide a reason.

What entry should be made in the general ledger to correct the error?

6

Cheque number:

Reason:

Correction:

How would cheque number 1927 be handled in the financial statements if the financial year ends on 28 February 2015?

2

TOTAL
29

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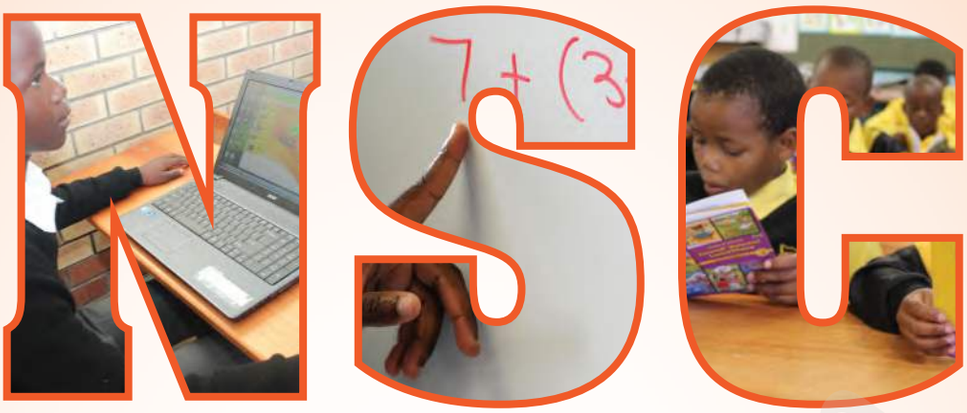

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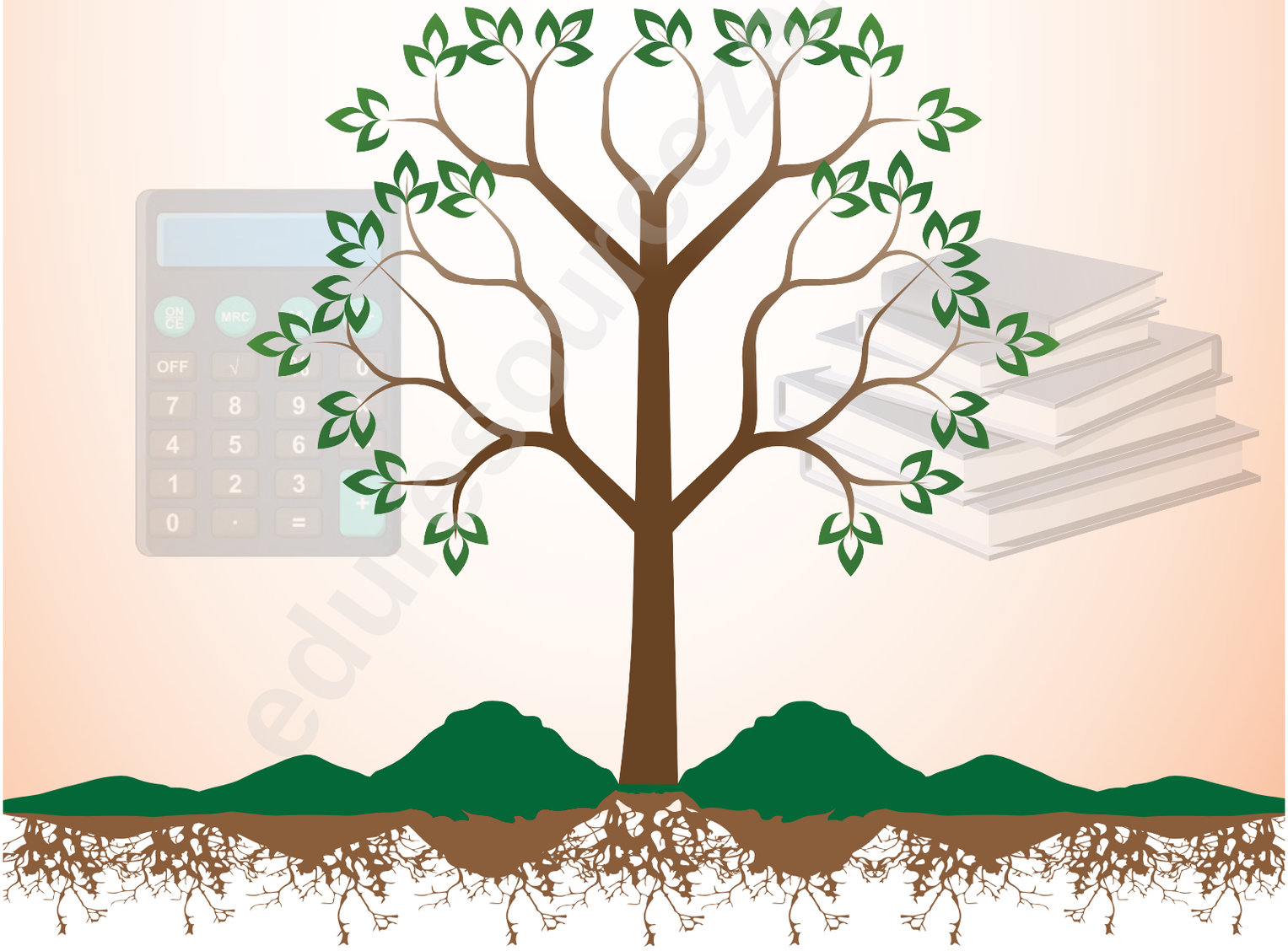

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TABLE OF CONTENTS - SOLUTIONS

Page

- Module 1 : Statement of Financial Position (Balance Sheet) 2 –14
- Module 2 : Cash flow Statement 15 –29
- Module 3 : Analysis and interpretation of financial statements 30 -48
- Module 4 : Reconciliations 49 -60

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STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

BALANCE SHEET
ACTIVITY 1:

Illustrate a basic flow of recording and reporting financial information. Commence with Transactions and end with the Preparation of Financial Statements.

Expected response:

Documents	Daily
Journals	Daily for each month
Ledgers	Monthly
Pre – adjustment trial balance	End of the year
Adjustments	End of the year
Post adjustment trial balance	End of the year
Closing transfers	End of the year
Income statement	End of the year
Balance sheet	End of the year
Notes	End of the year

ACTIVITY 2:

Place the General Ledger accounts from the list provided in the appropriate column on the table provided in the Answer Book, as follows:

Expected response:

Discuss: Types of assets, negative assets, income, expenses, etc.

NON-CURRENT ASSETS	CURRENT ASSETS	NON-CURRENT LIABILITIES	CURRENT LIABILITIES	EQUITY
Accumulated depreciation on vehicles	Debtors control	Loan: NVT Bank	Accrued expenses	Sales
Fixed deposit	Trading stock		Deferred income	Salaries and wages
Vehicles	Consumable stores on hand			Drawings
Provision for bad debts	Accrued income			Debtors allowances
				Rent income
				Retained income
				Stationery
				Fee income

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ACTIVITY 3:

Fill in the missing amounts to complete this statement.

MOON LTD
BALANCE SHEET FOR THE YEAR ENDED 28 FEBRUARY 2018

ASSETS	Notes	
NON-CURRENT ASSETS		**4 980 000**
Fixed/tangible assets	3	4 820 000
Financial assets		**160 000**
CURRENT ASSETS		**1 820 000**
Inventories	4	**956 000**
Trade and other receivables	5	861 000
Cash and cash equivalents	6	**2 500**
TOTAL ASSETS		6 800 000
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		5 286 200
Share capital	7	5 068 000
Retained income	8	**218 200**
NON-CURRENT LIABILITIES		592 000
Mortgage Loan (740 000 – 148 000)		592 000
CURRENT LIABILITIES		**921 800**
Trade and other payables	9	728 500
Bank overdraft		**45 300**
Current portion of loan		**148 000**
		6 800 000

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ACTIVITY 4

4.1 RETAINED INCOME NOTE

Balance at the beginning of the year	**345 000**		
Net profit after tax (1 250 000 x 72%)	900 000	✓✓	
Re-purchase of shares (75 000 ✓x R1,50)✓✓ OR (450 000 (1 mark) – 337 500 (2 marks)	(112 500)	☑	
Ordinary share dividends	(492 000)		
Interim dividend	**240 000**		
Final dividend (900 000✓x 28c)✓	252 000	✓	**10**
Balance at the end of the year	640 500	☑	

4.2 BALANCE SHEET/STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2017

ASSETS			
Non-current assets balancing figure	4 860 030	☑	
Fixed assets (4 350 000✓– 650 520✓)	3 699 480	✓	
Financial assets	1 160 550	☑	5
Current assets	479 970	☑	
Inventory (258 740✓+ 2 180✓)	260 920	✓	
Trade and other receivables 364 000- 350 000 195 000✓– 6 500 ✓– 5 500✓✓+ 8 050✓✓+ 14 000✓✓	205 050	☑	
Cash + cash equivalents (464 000 ✓– 450 000☑) see buy back of OSC	14 000	☑	
TOTAL ASSETS same as TE+L	5 340 000	☑	17
EQUITY AND LIABILITIES			
Shareholder's equity	4 353 000	☑	
Ordinary share capital 450 000 – 112 500 (4 050 000 ✓– 337 500 ✓✓)	3 712 500	☑	
Retained income see 1.2.1	640 500	☑	6
Non-current liabilities	490 000		
Loan: Vivian Bank **750 000** + 57 300 ✓✓– 192 300 ✓– 125 000✓)	490 000	☑	5
Current liabilities	497 000	☑	
Trade and other payables (101 000✓ + 19 000✓	120 000	✓	**40**
Shareholders for dividends see 1.1	252 000	☑	
Current portion of loan	125 000	☑	
TOTAL EQUITY AND LIABILITIES	5 340 000	☑	7

*Trade and other payables can combine the elements under current liabilities.

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ACTIVITY 5
FOUCHE LTD

5.1.1 **ORDINARY SHARE CAPITAL**

AUTHORIZED		
3 000 000 shares		
ISSUED		
✓ 1 800 000 ordinary shares in issue at beginning of year at R4	7 200 000 ✓	
✓ 200 000 ordinary shares in issue during the year at R6 ✓per share	1 200 000 ✓	
✓ (80 000) shares repurchased during the year at Average price of R4.20✓ operation, one part correct	(336 000) ☑	
☑ 1 920 000 shares at the end of the year operation, one part correct	8 064 000 ☑	10

5.1.2 **RETAINED INCOME**

Balance on 1 March 2016	146 000 ✓	
Net profit after income tax (780 000 – 234 000)	546 000 ✓✓	
Shares repurchased (80 000 x R0,70 ✓) operation, one part correct	(56 000) ☑	
Ordinary share dividends operation, one part correct	(500 000) ☑	
Interim (2 000 000 ✓x R0,10✓)	200 000 ☑	
Final	300 000 ✓	
Balance on 28 February 2017 operation, one part correct	136 000 ☑	11

5.1.3

FIXED/TANGIBLE ASSETS	**Land and Buildings**	**Equipment**	**Vehicles**	
Carrying value in beginning	**6 990 000**	**155 000**	**520 000**	
Cost	**6 990 000**	**240 000**	**880 000**	
Accumulated depreciation	**0**	**(85 000)**	**(360 000)**	
Movements				
Additions at cost	✓✓500 000	✓✓ 120 000	**0**	
Disposal at carrying value (144 000 ✓- 84 000✓ - 14 400✓)	**(0)**	**(0)**	☑ (45 600)	
Depreciation	**0**	✓✓(15 500)	**(161 600)**	
Carrying value at the end	**7 490 000**	☑ 259 500	☑ 312 800	
Cost	**7 490 000**	**360 000**	✓✓ 736 000	
Accumulated depreciation	**0**	☑ (100 500)	☑ (423 200)	16

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5.2 FOUCHE LTD
BALANCE SHEET ON 28 FEBUARY 2017

ASSETS			
Non-current assets		☑ 8 287 300	
Tangible assets	see 2.1.3	☑ 8 062 300	
Fixed deposit at Zamdela Bank (400 000✓ – 175 000✓		☑ 225 000	(5)
Current assets		☑ 1 376 700	
Inventories (234 000✓ + 14 500✓)		☑ 248 500	
Trade & other receivables	balancing figure	☑ 876 660	
SARS – Income Tax (246 000 ✓– 234 000✓)		☑ 12 000	
Cash & cash equivalents (61 340 ✓+ 3 200 ✓+ 175 000✓)		☑ 239 540	
TOTAL ASSETS	same as TE+L	☑ 9 664 000	(13)
EQUITY & LIABILITIES			
Ordinary shareholders' equity		☑ 8 200 000	
Ordinary share capital	see 2.1.1	☑ 8 064 000	
Retained income	see 2.1.2	☑ 136 000	(3)
Non-current liabilities		820 000	
Mortgage loan: Cash Bank 920 000 ✓ - 100 000 ✓✓		✓ 820 000	(4)
Current liabilities		☑ 644 000	
Trade & other payables (95 700✓ + 28 300✓ + 120 000✓)		☑ 244 000	
Shareholders for dividends		✓ 300 000	
Current portion of loan		✓ 100 000	
TOTAL EQUITY & LIABILITIES		☑ 9 664 000	(8)

33

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ACTIVITY 6

6.1 BOONZAAIER LIMITED

6.1.1 Ordinary share capital

AUTHORISED			
6 500 000 shares			
ISSUED			
4 000 000 ✓	shares in issue at beginning	✓10 000 000	
800 000 ✓	shares issued during the financial year at R5,50 ✓per share	✓4 400 000	
(250 000) ✓	shares repurchased (average issue price: R3,00 ✓per share)	☑(750 000)	
4 550 000 ✓	shares in issue at end one part correct	☑13 650 000	10

6.1.2 Retained income

Balance at beginning of year		**567 000**
Funds used for shares repurchased (250 000 x R0,25☑)	☑	(62 500)
Net profit after tax (3 400 000 ✓ – 918 000✓) one part correct	☑	2 482 000
Ordinary share dividends operation one part correct	☑	(2 408 000)
Interim	✓	680 000
Final (4 800 000 x $^{36}/_{100}$) one part correct	✓☑	1 728 000
Balance at end of year one part correct	☑	578 500

10

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6.2 BOONZAAIER LIMITED
BALANCE SHEET ON 28 FEBRUARY 2017

ASSETS			
Non-current assets		☑13 378 500	
Fixed assets	balancing figure	☑12 748 500	
Fixed deposit: Parys Bank 42000✓ x 12/10 ✓x 100/8✓		☑✓630 000	(7)
Current assets	current liabilities x 1,5	✓✓ 3 900 000	
Inventories	current liabilities x 0,4	✓1 040 000	
Trade and other receivables (554 000✓ – 33 240✓✓ +1 6 800✓+ 2 440✓)		☑ 540 000	
Cash and cash equivalents	balancing figure	☑☑2 286 000	
SARS: Income tax (952 000 ✓ – 918 000 ✓)		☑34 000	
TOTAL ASSETS	same as TE+L	☑17 278 500	(15)
EQUITY & LIABILITIES			
Ordinary shareholders' equity		☑14 228 500	
Ordinary share capital		☑13 650 000	
Retained income		☑ 578 500	(3)
Non-current liabilities		450 000	
Loan: BB Bank (630 000✓ – 180 000 ✓✓✓)		☑450 000	(5)
Current liabilities		**2 600 000**	
Trade and other payables		✓ 692 000	
Current portion of loan		☑☑ 180 000	
Shareholders for dividends	see 3.1.2	☑ 1 728 000	
TOTAL EQUITY & LIABILITIES		☑17 278 500	(5)

35

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ACTIVITY 7

7.1.1 ORDINARY SHARE CAPITAL

AUTHORIZED		
1 750 000 shares		
ISSUED		
900 000 ✓ ordinary shares in issue at beginning of year	6 075 000 ✓	
100 000 ✓ ordinary shares in issue during the year at R9.25✓	925 000 ✓	
(120 000) ✓shares repurchased during the year at R7,00✓	(840 000) ☑	
880 000 ✓ ordinary shares in issue at end of year	6 160 000 ☑	**10**

7.1.2 RETAINED INCOME

Balance on 1 July 2016	**345 900**	
Net profit after income tax	1 080 000 ✓	
Shares repurchased (120 000✓ x R1,10✓)	(132 000) ☑	
Ordinary share dividends	(536 400) ☑	
Interim (paid)	290 000 ✓	
Final (880 000☑ x 28 cents✓)	246 400 ☑	
Balance on 30 June 2017	757 500 ☑	**10**

7.1.3 TRADE AND OTHER RECEIVABLES

Net trade debtors (156 570 ✓ – 15 990 ✓ + 10 500 ✓)	151 080 ☑	
SARS: Income tax (435 900✓ – 420 000✓)	15 900 ☑	
Prepaid expenses	13 850 ✓✓	
	180 830 ☑	**10**

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7.2 MTOMBENI TRADERS LTD
BALANCE SHEET ON 30 JUNE 2017

ASSETS			
NON-CURRENT ASSETS		☑ 6 459 500	
Fixed/Tangible Assets		☑ 6 099 500	
Fixed deposit		✓ 360 000	(3)
CURRENT ASSETS	(2,3 X CL)	☑☑ 1 366 200	
Inventory	(0,60 x CL)	☑☑ 356 400	
Trade and other receivables		☑ 180 830	
Cash and cash equivalents	balancing figure	☑ 828 970	
TOTAL ASSETS	same as TE+L	☑ 7 825 700	(7)
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY		☑6 917 500	
Ordinary share capital		☑6 160 000	
Retained income		☑ 757 500	(3)
NON-CURRENT LIABILITIES		314 200	
Loan: Drake Bank (375 000✓+ 44 600 ✓ – 105 400✓✓)		☑ 314 200	(4)
CURRENT LIABILITIES		☑ 594 000	
Trade and other payables (196 700✓+10 500 ✓+ 35 000✓)		☑ 242 200	
Shareholders for dividends		☑ 246 400	
Current portion of loan		☑ 105 400	
TOTAL EQUITY AND LIABILITIES		☑ 7 825 700	(8)

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ACTIVITY 8
CHUTA LTD

8.1.1 **RETAINED INCOME**

Balance on 1 March 2016	372 140 ✓	
Net profit after income tax (450 000✓x $^{70}/_{30}$)✓	1 050 000 ☑	
Shares repurchased (140 000 x R2,50 ✓) operation, one part correct	(350 000) ☑	
Ordinary share dividends operation, one part correct	(390 000) ☑	
Interim	140 000 ✓	
Final	250 000 ✓	
Balance on 28 February 2017 operation, one part correct	682 140 ☑	**10**

8.1.2

FIXED/TANGIBLE ASSETS	**Land and Buildings**	**Equipment**	**Vehicles**	
Carrying value in beginning	**4 899 999**	✓ 20 000	✓ 575 000	
Cost price	**4 899 999**	**360 000**	**970 000**	
Accumulated depreciation In the beginning	**0**	**(340 000)**	**(395 000)**	
Movements				
Additions at cost	✓✓ 640 400	✓✓ 180 000	**0**	
Disposal at carrying value (240 000 ✓-192 000✓ - 7 200✓✓)	**(0)**	**(0)**	☑ (40 800)	
Depreciation Equipment (19 999✓✓ + 9 000✓✓) Vehicles 7 200☑ + 105 400✓✓✓	**0**	☑ (28 999)	☑ (112 600)	
Carrying value at the end	**5 540 399**	☑ 171 001	☑ 421 600	
Cost	**5 540 399**	✓ 540 000	✓✓ 730 000	
Accumulated depreciation	**(0)**	☑ (368 999)	☑ (308 400)	**28**

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8.2 CHUTA LTD
BALANCE SHEET ON 28 FEBUARY 2017

ASSETS			
Non-current assets		☑ 6 908 140	
Tangible assets	see 5.1.2	☑ 6 133 000	
Fixed deposit at Boris Bank (1 010 140✓ – 235 000✓		☑ 775 140	(5)
Current assets	CL 1.4:1	☑ 1 372 000	
Inventories		✓ 490 000	
Trade & other receivables	balancing figure	☑ 597 800	
Cash & cash equivalents (43 500 ✓+ 5 700 ✓+ 235 000 ✓✓)		☑ 284 200	
TOTAL ASSETS	same as TE+L	☑ 8 280 140	(12)
EQUITY & LIABILITIES			
Ordinary shareholders' equity	800 000 x 750 cent	☑ 6 000 000	
Ordinary share capital	balancing figure	☑ 5 317 860	
Retained income	see 5.1.1	☑ 682 140	(3)
Non-current liabilities		1 300 140	
Mortgage loan: Mongomorry Bank (1 955 000 ✓+ 234 600 ✓– 745 000 ✓– 144 460✓		☑ 1 300 140	(5)
Current liabilities		**980 000**	
Trade & other payables	balancing figure	☑ 544 100	
Shareholders for dividends		☑ 250 000	
SARS – Income Tax (450 000 ✓– 408 560✓)		☑ 41 440	
Current portion of loan		✓ 144 460	
TOTAL EQUITY & LIABILITIES		☑ 8 280 140	(7)

32

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ACTIVITY 9

9.1.1 SHARE CAPITAL		
Authorised		
780 000 ordinary shares		
Issued Share Capital		
480 000	**Ordinary shares in issue at the beginning of the year at 750 cent**	**3 600 000**
120 000 ✓	Ordinary shares issued at 950 cent✓ on 1 December 2016	1 140 000✓
(30 000)✓	Ordinary shares repurchased for 790 cent✓✓ during the year	(237 000) ☑
570 000☑	Ordinary shares at the end of the year	4 503 000 ☑

9
9

9.1.2 RETAINED INCOME	
Balance at the beginning of the year	**271 000**
Net profit after tax	630 000✓
Repurchase of 30 000 ordinary shares at 60 cent ☑ see 6.1.1	(18 000) ☑
Dividends	(576 000) ☑
Paid (480 000 ✓x 45 cent)	216 000✓
Recommended (600 000 ✓X 60 cent)	360 000✓
Balance at the end of the year	307 000☑

9
9

9.2.1	Value of the closing stock.
	1 500 x 90 = 135 000 ✓ 1 850✓ x 80✓ = 148 000 ✓ 283 000 ☑ (One part correct)

5
5

9.2.2	Calculate the number of items stolen
	✓ ✓ ✓ ✓ ✓ ☑ (One part correct) 850 + 7 500 – 150 – 4 790 – 3 350 = 60 units

6
6

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9.3 HIMALAJA LIMITED
BALANCE SHEET ON 28 FEBRUARY 2017

	ASSETS	
	NON-CURRENT ASSETS	4 787 000☑
	Fixed assets	4 462 550☑
7	Fixed Deposit DDM Bank (450 000✓ + 13 500 ✓– 139 050✓✓)	324 450☑
	CURRENT ASSETS	1 064 000☑
	Inventories see 6.2.1	283 000 ☑
	Trade- and other receivables	442 000✓
	Cash & cash equivalents (199 950✓ + 139 050☑)	339 000☑
7	**TOTAL ASSETS** check transfer from liabilities	5 851 000☑
	EQUITY AND LIABILITIES	
	SHAREHOLDERS EQUITY	4 810 000☑
	Share capital see 6.1.1	4 503 000 ☑
3	Retained Income see 6.1.2	307 000☑
	NON-CURRENT LIABILITIES	481 000☑
5	Mortgage loan (601 250 ✓ – 120 250✓✓)	481 000☑
	CURRENT LIABILITIES (see CA) be in ratio 1.9:1	560 000☑☑
	Trade- and other payables balancing figure	55 550☑
	SARS – Income tax (270 000✓ – 245 800✓)	24 200☑
	Short term loan	120 250☑
	Shareholders for dividends see 6.2.1	360 000☑
9	**TOTAL EQUITY AND LIABILITIES**	5 851 000☑

31
31

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CASHFLOW STATEMENTS

Activity 1 **(a)**

Net change in cash and cash equivalents	45 000
Cash and cash equivalents at beginning of the year	30 000
Cash and cash equivalents at end of the year	75 000

Activity 1 **(b)**

Net change in cash and cash equivalents	*(25 000)*
Cash and cash equivalents at beginning of the year	*6 500*
Cash and cash equivalents at end of the year *(3 500 – 22 000)*	*(18 500)*

Activity 2

CASH EFFECTS FROM FINANCING ACTIVITIES	*440 000*
Proceeds from shares issued (80 000 x 10,40)	*832 000*
Repurchase of shares (52 000 x 11)	*(572 000)*
Loans received (850 000 – 670 000)	*180 000*

Activity 3

CASH EFFECTS FROM FINANCING ACTIVITIES	(10 000)
Proceeds from shares issued (60 000 x 6,50)	390 000
Repurchase of shares (20 000 x 8)	(160 000)
Loans repaid (530 000 – 290 000)	(240 000)

Activity 4

CASH EFFECTS FROM FINANCING ACTIVITIES	*7 600 000*
Proceeds from shares issued	*7 800 000*
Repurchase of shares *(1 290 000 + 510 000)*	*(1 800 000)*
Loans received *(2 400 000 – 800 000)*	*1 600 000*

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Activity 5

Extract from Cash Flow Statement

Cash flow from investing activities	*138 000*
Purchase of fixed assets	*(52 000)*
Proceeds from sale of assets	*130 000*
Increase / ~~Decrease~~ in investments *(300 000 – 240 000)*	*60 000*

Calculations / Workings

Disposal of fixed assets

(205 000 + 52 000 – 44 000 – 83 000) = 130 000

Activity 6

Extract from Cash Flow Statement

Cash flow from investing activities	***8 000***
Purchase of fixed assets	*(119 000)*
Proceeds from sale of assets	*207 000*
Increase / ~~Decrease~~ in investments *(350 000 – 270 000)*	*(80 000)*

Calculations / Workings

Purchase of fixed assets

1 476 000 – 207 000 - 445 000 – 943 000 = -119 000

Activity 7

CASH FLOW STATEMENT FOR THE YEAR ENDING FEBRUARY 2018		
Cash flow from operating activities		XXX
Cash generated from operations	**Note 1**	XXX
Interest paid *(75 000 + 33 000 – 24 000)*		*(84 000)*
Dividends paid *(1 080 000 + 324 000 – 660 000)*		*(744 000)*
Taxation paid *(522 000 + 30 000 – 51 000)*		*(501 000)*

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Activity 8

Note 1: Cash generated from operations	
Net Profit before tax (87 000 x 100/30)	*290 000*
Add: Interest Expense	*12 500*
Depreciation	*29 000*
Subtotal	*331 500*
Net changes in working capital	*500*
Decrease in Inventory (235 000 – 203 000)	*32 000*
Increase in receivables (42 500 – 26 500)	*(16 000)*
Decrease in payables (54 000 – 38 500)	*(15 500)*
Cash generated from operations	*332 000*

CASH FLOW STATEMENT FOR THE YEAR ENDING 28 FEBRUARY 2018	
Cash flow from operating activities	*110 500*
Cash generated from operations	*332 000*
Interest paid (12 500 + 5 500 – 4 000)	*(14 000)*
Dividends paid (180 000 + 54 000 – 110 000)	*(124 000)*
Taxation paid (87 000 + 5 000 – 8 500)	*(83 500)*

Adapted questions from **PAST YEAR PAPERS:**

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QUESTION 1

1.1 BELLCO LIMITED
CASH FLOW STATEMENT FOR YEAR ENDED 31 AUGUST 2017

Cash effects of operating activities	**1 293 000**
Cash generated from operations	**4 062 000**
Interest paid	**(462 000)**
Dividends paid (620 000✓ + 770 000✓)	✓ (1 390 000)
Income tax paid (780 000✓ + 72 000✓ + 65 000✓) 7	✓ (917 000)
Cash effects of investing activities *Check operation*	☑ (441 000)
Purchase of fixed assets	✓ (880 000)
Proceeds of sale of fixed assets *One part correct*	#☑✓✓ 89 000
Investments matured 6	✓ 350 000
Cash effects of financing activities *Check operation*	☑ (112 000)
Proceeds of issue of share capital	*✓✓ 3 440 000
Repurchase of share capital 840 000 + 312 000 OR 120 000 x 9,60	*✓✓ (1 152 000)
Repayment of loans 6	✓ (2 400 000)
Net change in cash & cash equivalents *Check operation*	☑ 740 000
Cash & cash equivalents at beginning of year	✓✓ (200 000)
Cash & cash equivalents at end of year 3	**540 000**

22

 # Workings for fixed assets: 12 357 000 + 880 000 – **89 000** – 1 010 000 = 12 138 000

**Workings for financing activities (note that alternative valid entries are acceptable):*

ORDINARY SHARE CAPITAL

Bank 840 000 c/d 8 960 000	b/d 6 360 000 Bank 3440 000
9 800 000	**9 800 000**
	b/d 8 960 000

RETAINED INCOME

Bank 312 000 c/d 2 051 400	b/d 2235 000 App 128 400
2 363 400	2 363 400
	b/d 2 363 400

APPROPRIATION

780 000 1 691 600 I 128 400	2 600 000
2 600 000	**2 600 000**

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QUESTION 2

2.1 Calculate the missing amounts: Fixed/Tangible Asset Note

NO.	WORKINGS	AMOUNT
a	6 740 000 – 2 689 000	4 051 000 ✓✓
b	140 000 – 33 600	106 400 ✓✓
c	✓✓ ✓✓ ✓ ✓ ✓ 5 600 + 11 000 + **20% x (3 110 000 – 1 342 000)** 353 600 (3 marks) **OR**: 2 marks 1 mark 1 mark 1 mark 1 mark 1 mark 5 600 + 20% x [(1 768 000 x 10/12) + (2 098 000 x 2/12)] 294 667 + 69 933	370 200 ☑

12

2.2

11

METEOR SUPERMARKETS LTD CASH FLOW STATEMENT FOR YEAR ENDED 28 FEBRUARY 2017		
Cash flow from operating activities	(1 039 900)	☑
Cash generated from operations	**969 600**	
Interest paid	**(88 500)**	
✓ Taxation (441 000) ✓ + (122 000) ✓ + (128 000) ✓ 563 000 (2 marks) OR –441 000 – 122 000 – 128 000	(691 000)	☑
✓ Dividends 480 000 ✓ + 750 000 ✓✓ 480 000 + 1 620 000 – 870 000 OR – 480 000 – 1620 000 + 870 000 1 mark 1 mark 1 mark	(1 230 000)	☑
Cash flow from investing activities	(4 274 600)	☑
✓ Purchase of fixed assets 4 051 000☑ + 330 000✓	(4 381 000)	☑
✓ Proceeds from disposal of fixed assets	106 400	☑
Cash flow from financing activities	2 325 000	☑
✓ Proceeds from the sale of shares	2 400 000✓	✓
✓ Share buy-back	(475 000✓)	✓
✓ Change in loan	400 000✓	✓
Net change in cash and cash equivalents	(2 989 500)	☑
Cash and cash equivalents at beginning of year	**2 488 000**	
Cash and cash equivalents at end of year	(501 500)	✓☑*

31

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2.3 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.

Any TWO valid answers: Explanation ✓ ✓ Figures ✓ ✓

- Dividends of R1 230 000 (see 2.2) cause a negative figure for cash retained from operating activities.
- Fixed assets bought are very high (R4 381 000) (see 2.2) which leads to a bank overdraft.
- The directors allowed a large bank overdraft of R515 000 or R501 500 to result from high payments for dividends/fixed assets.
- The buy-back of shares (R475 000) (see 2.2) reduced cash resources / reduced capital base of the company.
- The vehicle was sold at book value (R106 400) (see 2.2) and was only 1½ years old.

4

3.1 QUESTION 3: SENZO LTD

3.1.1 Calculate income tax paid.

1 175 000 – 846 000 Must be both

9 800 ✓ + 329 000 ✓✓ + 6 400 ✓ = 345 200 ☑one part correct

–9 800 – 329 000 – 6 400 = –345 200

Mark one line only. Signs may be reversed but must be consistent.
Ledger T-account may be drafted. Figures could be in brackets.

5

Calculate proceeds from disposal of fixed assets (carrying value).

4 698 300 4 352 800

✓✓✓✓ ☑one part correct

(2 598 300 + 2 100 000) – (4 137 700 + 215 100) = 345 500

2 598 300 + 2 100 000– 4 137 700 – 215 100 = 345 500

–2 598 300 –2 100 000 +4 137 700 + 215 100 = –345 500

Mark one line only. Signs may be reversed but must be consistent.
Ledger T-account may be drafted. Figures could be in brackets.

5

Calculate net change in cash and cash equivalents.

(153 000 ✓ – 2 500 ✓) + 88 900 ✓ = 239 400 ✓

150 500

OR

1 mark 1 mark 1 mark 1 mark

(88 900 – 2 500) + 153 000 = 239 400

86 400

Indicate whether this is a net inflow or net outflow of cash.

Net inflow✓ Depends on calculation above

5

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3.1.2

CASH EFFECTS OF FINANCING ACTIVITIES	1 093 000☑ Operation, one part correct
Proceeds from shares issued 2 967 000 ✓ + 258 000 ✓✓ – 2 520 000 ✓	705 000☑* One part correct, must be inflow 4 marks if amount correct but in brackets
Re-purchase of shares 2 marks 60 000 ✓ x R5,20 ✓✓4,30 + 0,90 both figures together	(312 000) ☑* One part correct must be outflow
Increase in non-current liabilities (Loans)	700 000✓✓ Must be inflow for 2 marks

12

Ledger account formats may be used to show calculations.
*If answer is combined as a net inflow, award only 1 method mark on final answer, not 2.
*If net effect has been shown with workings, mark as follows:
2 967 000 – 2520 000 – 54 000 = 393 000
1 mark 1 mark 2 marks 1 method mark

QUESTION 4

4.1.1 ORDINARY SHARE CAPITAL:

AUTHORISED SHARE CAPITAL

1 500 000 ordinary shares

ISSUED SHARE CAPITAL

900 000	**Ordinary shares on 1 July 2016**	**9 180 000**
✓(75 000)	Shares re-purchased (Average: R10,20)	✓✓ (765 000)
✓125 000	Shares issued (R10,80 per share)	✓1 350 000
✓950 000	Ordinary shares on 30 June 2017	9 765 000☑

7

RETAINED INCOME:

Balance on 1 July 2016	**360 000**
Net profit after tax	**444 500**
Funds used for repurchase of shares 75 000 ✓ x 0,50 ☑	(37 500) ☑
Ordinary share dividends	(481 250) ☑
Interim (434 250✓ – 162 000✓)	272 250☑
Final	209 000 ✓
Balance on 30 June 2017	285 750☑

9

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4.1.2 **Calculate the change in loan for the Cash Flow Statement.**

8 000 000 – 4 500 000 = 3 500 000 ✓✓ **2**

Calculate the income tax paid for the Cash Flow Statement.

23 400 ✓ + 190 500 ✓ – 6 200 ✓ = 207 700 ☑

OR
– 23 400 – 190 500 + 6 200 = –207 700

OR T-account with figures on correct sides

Debit	Credit
207 700	23 400
6 200	190 500

4

4.1.3

Net change in cash and cash equivalents	✓ 808 000
Cash and cash equivalents (beginning of year)	✓✓ (603 000)
Cash and cash equivalents (end of year)	✓ 205 000

4

QUESTION 5

5.1 SO-FINE LTD

5.1.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

1 200 000 ordinary shares

ISSUED SHARE CAPITAL

900 000	**Ordinary shares on 1 September 2016**	4 725 000 ☑
150 000	Issued on 1 May 2016 at R6,30 each	945 000 ✓☑
(70 000)	Re-purchased 30 August 2017 (ASP: R5,40✓☑)	(378 000) ☑
980 000 ✓	**Ordinary shares on 31 August 2017**	**5 292 000**

7

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RETAINED INCOME

Balance on 1 September 2016	**147 370**	
Net profit after income tax	**438 130**	
Shares repurchased (437 500 ✓ – 378 000 ☑) (70 000✓ x 0,85☑)	(59 500) ☑	
Ordinary share dividends	(276 000) ☑	
• Interim dividends (900 000 ✓ x 0,12)	108 000 ☑	
• Final dividends	168 000 ✓✓	
Balance on 31 August 2017	250 000 ☑	9

5.1.2 SO-FINE LTD

CASH FLOW STATEMENT FOR YEAR ENDED 31 AUGUST 2017

	CASH FLOWS FROM OPERATING ACTIVITIES		
	Cash generated from operations		
	Interest paid		
	Dividends paid		
4	**Income tax paid** (- 2 400 ✓ + 187 770 ✓ - 11 800 ✓)	? (173 570) ☑*	
	CASH FLOWS FROM INVESTING ACTIVITIES		
	Purchases of fixed assets (6 177 000 ✓ + 320 000 ✓ + 324 000 ✓ – 4 975 000 ✓)	? (1 846 000) ☑*	
	? ✓ Proceeds from the sale of fixed assets	? 324 000 ✓	
7	**Change in investments**		
	CASH FLOWS FROM FINANCING ACTIVITIES		
	? ✓ Proceeds from issue of share capital see 5.1.1	**?** 945 000 ☑	
	? ✓ Repurchase of shares	**?** (437 500) ✓	
4	**Change in non-current liabilities**		
	Net change in cash and cash equivalents	**?** 86 000 ☑*	
	Cash and cash equivalents – opening balance (2 500 – 65 100)	**?** (62 600) ✓✓	
4	**Cash and cash equivalents – closing balance**	**?** 23 400 ✓	19

*one part correct and correct use of brackets

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QUESTION 6

6.1 What is the main purpose of a Cash Flow Statement?

Good answer = 2; Average = 1; Incorrect = 0 ✓✓

It provides users of financial statements with information on the inflow and outflow of the cash resources of the company
To see how monies were generated or spent and what the cash flow position is.
To account for the difference in opening and closing bank balances

2

6.2 Calculate the missing amounts (indicated by a, b, c and d) in the Fixed/Tangible Asset Note for the year ended 31 October 2017.

	Workings	Amount	
a	3 000 000 – 2 500 000	500 000	✓✓
b	660 000 x 20%	132 000	✓✓
c	660 000 – (b) – 446 000 **OR** 150 000 – 68 000	82 000	✓✓ ☑
d	157 500 + 48 000 -55 000 **OR** 258 000 – 108 000	150 000	✓✓

9

6.3 CLASSICO LTD
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2017

CASH FLOW FROM OPERATING ACTIVITIES	625 000	☑
Cash generated from operations	**1 985 500**	
Interest paid	**(175 500)**	
Taxation paid (27 500✓ + 375 000✓ + 22 500✓)	(425 000)	☑
Dividends paid (385 000✓ + 825 000✓ – 450 000✓)	(760 000)	☑
CASH FLOW FROM INVESTING ACTIVITIES	534 000	☑
Fixed assets purchased	(48 000)	✓
Proceeds from sale of fixed assets (500 000✓ + 82 000 ☑	582 000	☑
CASH FLOW FROM FINANCING ACTIVITIES	925 000	☑
Proceeds from the sale of shares	300 000	✓ ✓
Change in loan (2 000 000 ✓ - 1 375 000 ✓)	625 000	☑
NET CHANGE IN CASH AND CASH EQUIVALENTS	2 084 000	☑ ✓
CASH AND CASH EQUIVALENTS AT BEGINNING	207 500	✓
CASH AND CASH EQUIVALENTS AT END	2 291 500	✓

24

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6.4

Decisions by directors	Reason to support John's opinion	Reason to support directors' decision (other than improving cash flow)
Issued more shares	Dilutes the returns to existing shareholders ✓✓ / No apparent need to issue shares as there is considerable cash on hand	Cheaper option of raising funds as loans carry interest ✓✓
Sold fixed assets	Prevents the company from benefiting through capital gains ✓✓	Unproductive or unused assets will incur maintenance expenses. ✓✓

8

QUESTION 7

7.1

ASSET DISPOSAL

2016 Aug.	**31**	Equipment ✓	120 000 ✓	**2016 Aug.**	**31**	Accumulated depreciation on equipment ✓ (38 400✓ + 8 160✓✓)	46 560☑
						Bank ✓	73 440 ☑
			120 000				120 000

9

7.2

No.	Calculation	Amount
(a)	3 900 000 -2 000 000	1 900 000✓✓
(b)	900 000 – 470 000	430 000✓✓
(c)	Sold: 8 160☑see 7.1 (3 marks) New: 20% x 150 000✓ x 6/12✓ = 15 000✓ Old: (780 000✓ – 431 600✓) x 20% = 69 680✓348 400 (2 marks)	92 840☑

12

7.3.1 **Calculate the income tax paid.**

1 240 000 – 892 800
- 347 200✓✓+ 17 400 ✓+ 35 700✓ = - 294 100 ☑
or
+ 347 200- 17 400 - 35 700 = + 294 100

5

7.3.2 **Calculate the net change in cash and cash equivalents.**

549 580 ✓ + 92 000 ✓✓ = 641 580 ☑
(110 000 – 18 000)

4

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7.4 Cash effects on financing activities

Proceeds from shares issued (300 000 x R4,50)	1 350 000✓
Buy back of shares (40 000✓ x R4,30✓✓)	(172 000) ☑
Mortgage loan	1 550 000 ✓
	2 728 000☑

7

QUESTION 8

8.1 BRAZILIA LTD

8.1.1 State ONE purpose of a Cash Flow Statement.

One valid explanation ✓✓

- It provides users of financial statements with information regarding the inflow and outflow of the cash resources of the company.
- It explains the reasons for the change in the bank balance.
- It shows the breakdown of the flow of cash in terms of operating, investing and financing activities.

2

8.1.2 CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2017

	CASH FLOW FROM OPERATING ACTIVITIES	749 950 ☑
	Cash generated from operations	**2 844 200**
	Interest paid	**(336 000)**
	Taxation paid (41 750 ✓ + 560 000 ✓ + 28 500 ✓)	(630 250) ☑#
8	Dividends paid (595 000 ✓ + 533 000 ✓)	(1 128 000) ☑#
	CASH FLOW FROM INVESTING ACTIVITIES	(1 077 000) ☑
	Fixed assets purchased	**(1 360 000)**
6	Proceeds from the sale of fixed assets (10 041 000✓ – 1 360 000 ✓ + 154 000 ✓– 8 878 000 ✓)	43 000 ☑#
	Change in fixed deposit	**240 000**
	CASH FLOW FROM FINANCING ACTIVITIES	852 000 ☑
	Proceeds from the sale of shares (7 280 000 ✓ + 182 000 ✓ – 5 950 000 ✓)	1 512 000 ☑#
	Shares repurchased (20 000 ✓ x R15,50 ✓)	(310 000) ☑#
10	Change in loans	(350 000) ✓✓
	NET CHANGE IN CASH AND CASH EQUIVALENTS	524 950 ☑
	CASH AND CASH EQUIVALENTS AT BEGINNING (3 000 – 348 450)	(345 450) ✓✓
3	**CASH AND CASH EQUIVALENTS AT END**	**179 500**

27

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QUESTION 9

9.1 CASH GENERATED FROM OPERATIONS

Net profit before income tax (240 480 + 93 520)	334 000 ✓✓	
Depreciation	**178 000**	
Interest expense	**52 000**	
Operating profit before changes in working capital	564 000	
Cash effects of changes in working capital	11 000 ☑	
Change in inventories (262 000 – 194 600)	67 400 ✓☑	
Change in receivables (214 000 – 198 000)	(16 000) ✓☑	
Change in payables (165 200 – 124 800)	(40 400) ✓☑	
Cash generated from operations	575 000 ☑	**10**

9.2 MAXIE LTD
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017

CASH EFFECTS OF OPERATING ACTIVITIES	289 890 ☑	
Cash generated from operations	575 000 ☑	
Interest paid	(52 000) ✓	
Income tax paid (93 520 ✓ – 2 110 ✓ – 6 300 ✓)	(85 110) ☑	
Dividends paid (88 000 ✓ + 60 000 ✓)	(148 000) ☑	
CASH EFFECTS OF INVESTING ACTIVITIES	(492 340) ☑	
Purchase of fixed assets (2 568 730 ✓ + 178 000 ✓ – 2 174 390 ✓)	(572 340) ☑	
Investments matured (230 000 – 150 000)	80 000 ✓☑	
CASH EFFECTS OF FINANCING ACTIVITIES	**160 000**	
Proceeds of shares issued	**1 000 000**	
Share repurchased	**(540 000)**	
Repayment of loan	**(300 000)**	
NET CHANGE IN CASH AND CASH EQUIVALENTS	(42 450) ☑	
Cash and cash equivalents (1 March 2016)	34 700 ✓	
Cash and cash equivalents (28 February 2017)	(7 750) ✓☑	**21**

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QUESTION 10

10.1.1

(a)	3 640 000 – 2 002 000 = 1 638 000 ✓✓
(b)	750 000 x 15% x $^{4}/_{12}$ = 37 500 ✓✓ 750 000 ✓ – (491 750 ✓ + 37 500) = 220 750 ☑ 529 250 (3 marks)
(c)	(Sold): 37 500 ☑ refer (b) (New): 900 000 x 15% x $^{5}/_{12}$ = 56 250 ✓✓ (Old): (3 640 000 – 750 000) x 15% = 433 500 ☑ 2 890 000 ✓✓ Total: 527 250 ☑
(d)	3 640 000 + 900 000 – 750 000 = 3 790 000 ✓☑

16

10.1.2

Calculate the income tax paid.

383 700 ✓✓

8 700 ✓ + (1 279 000 – 895 300) – 9 900 ✓ = 382 500 ☑

5

Calculate the net changes in cash and cash equivalents.

125 750 ✓ – 54 750 ✓+ 92 000 ✓ = 163 000 ☑

4

10.1.3

CASH FLOW FROM FINANCING ACTIVITIES	50 000 ☑
Proceeds from shares issued (200 000 x R8,00)	1 600 000 ✓✓
Funds used to repurchase shares	(600 000)✓✓
Decrease in loan (2 750 000 – 1 800 000)	(950 000)✓✓

7

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QUESTION 11

MIHKA LTD

11.1.1 ORDINARY SHARE CAPITAL

Authorised Share Capital

800 000 ordinary shares

Issued Share Capital

600 000	**Ordinary shares on 1 January 2017**	**4 200 000**	
100 000	Issued on 31 August 2017	840 000 ☑*	
(40 000) ✓	Re-purchased (ASP: R7,20)	(288 000) ✓✓	
660 000 ✓	Ordinary shares on 31 December 2017	4 752 000 ✓	**6**

RETAINED INCOME

Balance on 1 January 2017	**276 000**	
Net profit after income tax (1 150 000 – 322 000)	828 000 ✓✓	
Shares repurchased (40 000 ✓ x R1,30 ✓)	(52 000) ✓	
Ordinary share dividends	(415 000) ☑	
• Interim dividends	240 000 ☑	
• Final dividends	175 000 ✓	
Balance on 31 December 2017	637 000 ✓	**9**

11.1.2

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) ☑*	
270 000 + see 11.1.1 (415 000 - 175 000) both 1 mark Dividends paid (270 000 ✓ + 240 000 ☑) see 11.1.1	(510 000) ☑*	**9**

11.1.3 Amounts in the Cash Flow Statement:

Calculate: Change in fixed deposit 300 000 ✓✓ Inflow	**3**
Calculate: Proceeds on disposal of equipment 5 828 000 ✓ + 360 400 ✓ – 1 495 000 ✓ – 4 905 800 ✓ = 212 400 ☑ OR: – 5 828 000 – 360 400 + 1 495 000 + 4 905 800 = –212 400 Inflow ✓	**6**

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INTERPRETATION OF FINANCIAL INFORMATION

1. Understanding Financial Statements and the Annual Report:

ACTIVITY 1

1.1	Balance Sheet (Statement of Financial Position) ✓	
1.2	Income Statement (Statement of Comprehensive Income) ✓	
1.3	Directors report ✓	
1.4	External (independent) auditors report ✓	
1.5	Cash Flow Statement ✓	**5**

ACTIVITY 2

Identify the appropriate financial statement where you will find the following information.

Amount received for the issue of new shares	Cash Flow Statement ✓	
Total amount of the loan either received or paid.	Cash Flow Statement ✓	
The amount of shares that are not yet issued.	Balance Sheet (note) ✓	
Total income tax expense	Income Statement ✓	
Total depreciation for the year	Income Statement / Balance Sheet (note) ✓	
Total amount owing to creditors	Balance Sheet ✓	
Total amount of dividends payable to shareholders	Balance Sheet ✓	
Total cash paid to shareholders in respect of dividends	Cash flow statement ✓	
Amount owed to/owed by SARS at year-end	Balance sheet ✓	
The short term portion of a non-current liability	Balance sheet ✓	
Total amount paid to SARS for Income tax	Cash flow statement ✓	
Gross profit for the year	Income statement ✓	
Fixed assets bought for cash during the financial year	Cash flow statement ✓	**13**

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2. Users of Financial Information:

ACTIVITY 3
(✓✓ for one point in each box)

3.1	**Shareholders** The performance of their investment; their return on investment; the future prospect/growth of the company (trends)
3.2	**Prospective (potential) shareholders** As prospective investment opportunities; trends;
3.3	**The CEO and the board of directors (management)** Effective operation of all sections; for future planning and corrective measures; to plan to counter threats; evaluate the performance of line managers; take strategic decisions.
3.4	**Internal and external auditors** Compliance with companies act and reporting standards; good and bad practices
3.5	**SARS** Determine the compliance in terms of tax laws; registration and other duties
3.6	**Creditors** Assess creditworthiness; adjusting/negotiating credit terms; determining amount of credit to grant to reduce risk.
3.7	**Competitors** Assess their own performance; adopt good practices
3.8	**Trade unions and employees** The firm's ability to sustain the salary and wage payments; pension and other benefits; to negotiate wage increases annually.
3.9	**Newspapers and financial publications** Information that is news-worthy; satisfying their clients such as other businesses, creditors, investors, the international community

18

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3. Financial Indicators as a basis for interpreting financial information:

ACTIVITY 4

4.1	C (Liquidity) ✓	
4.2	B (risk and gearing) ✓	
4.3	F (Share price / market prospects) ✓	
4.4	E (profitability/operating efficiency) ✓	
4.5	D (Solvency) ✓	
4.6	A (Return on investment) ✓	6

ACTIVITY 5:

(20 correct responses with at least 3 in each box)

PROFITABILITY	Operating income on sales Gross profit percentage on sales Net profit after tax on sales Gross profit percentage Operating expenses on sales
OPERATING EFFECIENCY	Creditors average payment period Stock turnover rate Stock holding period Earnings per share (EPS) Debtors average collection period
LIQUIDITY	Current ratio Acid test ratio Net current assets Stock turnover rate Creditors average payment period Stock holding period Debtors average collection period
SOLVENCY	Total assets – total liabilities Net assets (Total Assets – total liabilities = Equity Solvency ratio
RISK AND GEARING	Return on average capital employed (ROTCE) Debt/equity ratio Interest rate on loan (external indicator)
RETURN	Dividends per share (DPS) Earnings per share (EPS) Return on shareholders' equity (ROSHE) Interest rate on investments (fixed deposits) Return on average capital employed (ROTCE)*
MARKET PROSPECTS Share price /value	Net asset value per share (NAV) Market price of shares (JSE) Average share price Issue price / buy back price

20

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4. How well do you know your formulae?

ACTIVITY 6: Know your formulae No marks allocated in this activity

6.1	**Current ratio** 973 200 : 696 900 1,4 : 1
6.2	**Acid test ratio** (973 200 – 418 000) : 696 900 Or (550 000 + 5 200) : 696 900 555 200 555 200 = 0,8 : 1
6.3	**Stock turnover rate** $\frac{3\,220\,000}{\frac{1}{2}(321\,700+418\,000)}$ = 41,9 times
6.4	**Average stock holding period (in days)** $\frac{\frac{1}{2}(321\,700+418\,000)}{3\,220\,000}$ x 365 = 41,9 days Or 365/8,7
6.5	**Average debtors collection period** $\frac{\frac{1}{2}(475\,000+550\,000)}{30\% \times 5\,152\,000}$ x 365 = 121 days 512 500 1 545 600
6.6	**Average creditors payment period** $\frac{\frac{1}{2}(621\,600+411\,200)}{2\,415\,000}$ x 365 = 78 days 516 400
6.7	**Solvency ratio** (6 947 700 + 973 200) : (1 000 000 + 696 900) = 4,7 : 1 7 920 900 1 696 900
6.8	**Debt/equity ratio** 1 000 000 : 6 224 000 = 0,2 : 1 (0,16 : 1)
6.9	**Return on average capital employed (ROTCE)** $\frac{1\,051\,000+133\,960}{\frac{1}{2}(6\,224\,000+1\,000\,000+5\,058\,300+1\,600\,000)}$ x 100 = 17,1% 6 941 150

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6.10	**Return on shareholders' equity** $\frac{735\ 700}{\frac{1}{2}(6\ 224\ 000 + 5\ 058\ 300)}$ x 100 = 13% 5 641 150
6.11	**Earnings per share (EPS)** $\frac{735\ 700}{450\ 000}$ x 100 = 163,5 cents
6.12	**Dividends per share (DPS)** $\frac{180\ 000 + 220\ 000}{450\ 000}\ x\ 100$ = 89 cents
6.13	**Net asset value per share (NAV)** $\frac{6\ 224\ 000}{450\ 000}\ x\ 100$ = 1383 cents
6.14	**Gross profit percentage on sales** $\frac{1\ 932\ 000}{5\ 152\ 000}$ x 100 = 37,5%
6.15	**Operating expenses on sales** $\frac{1\ 004\ 640}{5\ 152\ 000}$ x 100 = 19,5%
6.16	**Operating income on sales** $\frac{257\ 600}{5\ 152\ 000}\ x\ 100$ = 5%
6.17	**Net profit after tax on sales** $\frac{735\ 700}{5\ 152\ 000}$ x 100 = 14,3%
6.18	**Gross profit percentage** $\frac{1\ 932\ 000}{3\ 220\ 000}$ x 100 = 60%

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5. Ratio Relationships:

a. *Discuss the mind map that show how the different categories of Financial Indicators work together to answer common questions.*
b. *Recap the group of indicators that fall under each category and place emphasis on the information from the financial statements that must be used; Example, Profitability and Return ratios will use the Net Profit amount; Solvency and Gearing will need the Non-current Liabilities amount.*

6. Strategy in answering interpretative questions (recommended steps)

a. *Explain the steps in detail.*
b. *In making comparisons, note that norms for ratios is no longer favoured for various reasons.*
c. *Use the practical examples to explain the requirements of each question – focus on the key verbs used.*
d. *Analyze each of the examples provided to show how the steps are implemented to answer the exam-type questions.*

7. Activity

ACTIVITY 7: MZOMHLE LTD

7.1 **The directors are not satisfied by the liquidity position of the company. Are they justified? Quote THREE relevant financial indicators (with figures) in your answer.**

Quote THREE financial indicators ✓ ✓ ✓
Show the figures (including the trend) ✓ ✓ ✓
Comment on each, or a general comment to cover the indicators you chose ✓ ✓ ✓

- The stock turnover rate decreased from 5 times to 3,7 times. Stock is not moving as fast as we would like it to.
- The current ratio appear to be too high (3,6 : 1 for 2,8 : 1), mainly due to the high stock levels.
- The acid test ratio being constant (at 0,7 : 1 for both years) confirms the reason for the high current ratio.
- The average debtors' collection period improved from 35 days to 28 days, further suggests that cash is not a concern but the movement of stock is.

9

7.2 **Comment on the profitability of the business. Make reference to information relating to the Income Statement.**

Identifying the financial indicators ✓ ✓ ✓
Quoting figures and showing trends ✓ ✓ ✓
Comment / explanation ✓✓✓

Gross profit on cost of sales increased from 65% to 70%
Gross profit on sales increased from 32% to 38%
Operating expenses on sales increased from 31% to 36%
Net profit after tax on sales decreased from 15% to 12%
Operating profit on sales decreased from 21% to 16%

- The company needs to sort out its pricing policy (mark-up %)
- And to control expenses more effectively.
- This has led to the decrease in the operating profit
- As well as the net profit after income tax.

9

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7.3 **Should the shareholders be satisfied with their earnings and dividends? Quote the relevant financial indicators to support your answer.**

Quoting relevant financial indicators (with trends) ✓ ✓ ✓
Explanation ✓✓✓

- The return on shareholders' equity decreased from 18% to 16%. Shareholders may not be so concerned about this drop as it is still higher that the interest they would earn on a fixed deposit (alternative investment)
- Although the EPS decreased from 54c to 45 cents, directors gave a higher DPS this year; from 11c to 21c per share. This is obviously to appease shareholders to mask the drop in earnings.
- The company retained more money of the EPS last year. They still paid less than 50% of the EPS as dividends, opting to retain the balance for future growth.

6

7.4 **The directors intend expanding the existing buildings. Would you advise them to issue additional shares or to take out an additional loan? Quote the relevant financial indicators to support your decision.**

Quoting relevant financial indicators (with trends) ✓✓ ✓✓
Explanation ✓✓ explaining risk and gearing
Advice ✓✓ reference to issuing shares

- The debt/equity ratio increased from 0,3 : 1 to 0,6 : 1. The company is making greater use of loans this year, moving into a position of high gearing.
- The ROTCE also decreased from 22% to 20% but since it exceeds the rate of interest on loans, the business enjoys positive gearing.
- If the trend of decreasing return on capital employed continue and if interest rates also increase (as per the trend), the company could be in financial trouble.
- Issuing new shares is less risky – the company only need to consider the distribution of the profits (dividends) to the additional shareholders/shares.

8

ACTIVITY 8:

8.1.1 **Operating expenses on sales**

(2 117 000 ✓ ÷ 6 620 000 ✓) x 100 = 31,9% ☑ or 32% One part correct

3

8.1.2 **Debt/equity ratio**

1 000 000 ✓ : 3 831 400 ✓
0,3 : 1☑ One part correct; in the form x : 1

3

8.1.3 **Return of shareholders' equity**

$$\frac{698\ 600\ ✓}{{}^{1}/_{2}\ ✓\ (3\ 831\ 400\ ✓ + 3\ 471\ 800\ ✓)} \times 100 = 19{,}1\%\ ☑$$

3 651 600

One part correct;

5

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8.1.4 **Net asset value per share.**

3 831 400 ✓ ÷ 570 000 ✓✓ = 672 cents ☑ (R6,72) One part correct
(520 000 + 120 000 – 70 000)

4

8.2 **The internal auditor recommended to the directors that more attention be paid to managing expenses in the next financial year. Explain why you think she feels this way. Quote TWO financial indicators, with figures, to support your argument.**

Financial indicators with figures ✓✓ ✓✓ Explanation ✓✓

Operating expenses on sales increased from 24% to 32% (above)
Net profit after tax on sales decreased from 12,8% to 10,5%.
Although the GP remained constant, operating expenses on sales has increased by more than the inflation rate – clearly expenses are not being managed effectively.

6

8.3 **The auditor also felt that it was not necessary to repay a large portion of the loan during the financial year. Provide a reason why you think she felt that way. Quote TWO relevant financial indicators (with figures) in your answer.**

Financial Indicators with figures ✓✓ ✓✓ Explanation ✓✓

Debt/Equity ratio remained at 0,3 : 1 (above)
The financial risk is low. (low gearing)
The company is making more use of own capital rather than borrowed capital.

ROTCE: decreased from 24,8% to 23,6% This is still above the interest rate (11,5%).
The company is positively geared – making effective use of borrowed capital.
The company should take advantage of this situation to generate more profits.

6

8.4 **Some shareholders were not satisfied with their returns for the current financial year. Are they justified? Motivate your answer by quoting any TWO relevant financial indicators and by commenting on the dividend policy of the business.**

Yes/No ✓
Financial indicators with figures ✓✓ ✓✓ Comment on the dividend policy ✓✓
Return on shareholders' equity decreased from 21,6% to 19,1% (above)
This is still above the return they would earn on any alternative investments (fixed deposits).
DPS increased from 97 cents to 120 cents whilst the EPS went down from 134 cents to 127 cents.
The company paid out 94% of the earnings this year and 72% last year.
Shareholders should be happy with their returns.
The directors however, need to consider that long term prospects of the company and possibly needed to retain more of the EPS to address liquidity and profitability issues.

7

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8.5 **Explain why you either agree or disagree with the directors. Make reference to relevant figures (financial indicators) to support your answer.**

Financial indicators (with figures) ✓✓ ✓✓ Explanation ✓✓

The market price of the shares is 665 cents (was 650 cents in 2014)
The NAV was 668 cents last year (improved to 672 cents in 2015)
The directors did pay too much to re-purchase the shares. This has disadvantaged the company.

6

ACTIVITY 9:

9.1 **Identify THREE major decisions highlighted by the Cash Flow Statement and explain TWO consequences of these decisions to the business. Quote figures.**

Decisions (with figures): Any THREE of: ✓✓ ✓✓ ✓✓
Proceeds from shares issued (R525 000) and shares repurchased (560 000)
Fixed assets purchased (R818 700) or sale of assets (R72 000) Net : R746 000
Loan repaid (R320 000)
Fixed deposit redeemed (R160 000)? Is this a decision?
Dividends paid (R333 750) although part of it is last year's outstanding balance)

6

Consequences: Any TWO of: ✓ ✓

Cash outflows (purchasing of assets/repaying the loan/repurchase of shares) causes strain on cash resources.
Inflows include proceeds from shares issued / sale of assets.
Efficiency in managing working capital. (liquidity)
Effect on profitability.

2

9.2 **Comment on the issue price of the additional shares issued on 1 August 2015.**

Good explanation quoting figures ✓✓✓ satisfactory explanation with figures ✓✓ weak ✓

Relevant ratios: NAV and market price.
Shares issued at R7,00 each (market price at the beginning of the year was R6,35 and the NAV on 1 July 2015 was 583 cents).
The new shares were issued at a reasonable price as it is close to the market price. The NAV also shows an upward trend so investors can show confidence in the business.
This answer is based on reflection (could use the opening or closing ratios to make comments).

3

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9.3 **Did the estate of the late shareholder receive a fair price for their shares? Explain.**

Good explanation quoting figures ✓✓✓✓ satisfactory explanation with figures ✓✓✓ explanation without figures ✓✓ weak ✓

Considering the NAV of 627 cents, the market price of 655 cents and the average share price at the time of repurchase, the estate of the late shareholder received a very good deal.
This decision (price offered) may not have been in the best interest of the company. Directors are appointed to act in the best interest of the business – this could raise ethical issues (possible corruption) and require an investigation.

4

9.4 **At the annual general meeting (AGM) a young shareholder was not pleased about R200 000 spend on a local clean the environment campaign. She was of the opinion that maximizing profits should be the main focus of the business. What would you say to her? Provide TWO points.**

Good explanation explaining CSR ✓✓✓ satisfactory explanation ✓✓ weak ✓

The main objective of profit companies is to make a profit. However, all companies are expected to engage in some form of community upliftment programme (CSR). This serves to create goodwill for the business and create a positive image. Corporate governance (King code)
Other benefit to the company include tax benefits, BEE status etc.

3

9.5 **A senior director of the firm was disappointed that the new shares were sold without giving the directors an option to purchase shares before they were advertised to the public. Is he justified to feel this way? Explain.**

TWO valid points ✓✓ ✓✓

This is an example of insider trading.
Directors must not use their position or any privileged or confidential information obtained while acting as a director to gain an advantage. (Using information that is not public knowledge. It is unfair to a market participant who does not have the same information).

4

9.6 **Do calculations to show the change in her percentage share-holding after each change in the share capital.**

750 000 x 90% = 675 000 shares at the beginning of the year.
340 000/675 000 = 50,3% ✓✓

340 000/750 000 = 45,3% ✓✓ (after the issue of the additional shares)

340 000/670 000 = 50,7% ✓✓ (after the repurchase of the shares)

6

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Explain why she was eager for the company to re-purchase the shares.

Valid explanation mentioning majority shareholding ✓✓

Indira was the major shareholder at the beginning of the year but she lost that status when the additional shares were issued.
After the repurchase of shares, she regained that status.
Being the major shareholder affords one the opportunity to appoint directors, external auditor and to influence all strategic decisions in a company.
At times this is considered a weakness to the company.

2

ACTIVITY 10: TWO COMPANIES

10.1 Which company is handling their working capital more effectively? Explain and quote THREE financial indicators to support his opinion.

Financial indicator with figures ✓✓ ✓✓ ✓✓ Explanation ✓ ✓ ✓

- Current ratio of Lilac LTD is 1,3 : 1 and of Lupin LTD is 4:1
- Lilac has enough current assets to cover current liabilities whereas Lupin LTD is holding too much current assets which may not result in a return for the business.
- Acid test ratio of Lilac LTD is 0,8 : 1 and of Lupin LTD is 2,4 : 1. Even if Lilac is not able to sell all of trading stock it should still be able to cover short term debt.
- Lupin LTD is holding much current assets in the form of trading stock (stock piling).
- Stock holding period of Lilac LTD is 75 days and for Lupin LTD is 132 days (almost 5 months). Lilac LTD has enough stock for 2,5 months which is appropriate for a company selling running shoes as styles of shoes normally change seasonally. Lupin LTD is holding stock for too long, styles will change and clients will not be interested in buying outdated styles resulting in obsolete stock.
- Debtors average collection period of Lilac LTD is 26 days - within the acceptable credit terms and is much lower than the 48 days of Lupin LTD.

9

10.2 Which company is making more use of loans? Quote a financial indicator for each company.

Lilac LTD ✓
Debt / equity ratio 2 : 1✓ for Lilac LTD and 0,3 : 1✓ for Lupin LTD

3

Explain whether or not it was a good idea for that company to make use of loans. Quote ONE financial indicator.

No ✓
Return on Capital Employed for Lilac is 10,6%✓ which means that the return they are earning is lower than the interest he is paying on the loan (negative gearing) ✓

3

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10.3 **Lupin LTD has a better percentage return, earnings and dividends than Lilac LTD. Explain and quote THREE financial indicators for each company.**

Financial indicators and figures ✓✓ ✓✓ ✓✓ Explanation ✓ ✓ ✓

- % ROSHE for Lupin LTD is much higher (16, 3%) than that of Lilac LTD (9,2%).
- EPS for Lupin LTD is 310 cents whereas Lilac LTD is only earning 145 cents per share.
- DPS for Lupin LTD is 190 cents whereas for Lilac it is only 155 cents per share.

Lupin LTD is retaining income (EPS 310 cents, DPS 190 cents) whereas Lilac LTD is not retaining any income (EPS 145 cents, DPS 155 cents).

Lupin LTD's EPS of 310 cents compares well to the NAV of the share of 480 cents; Lilac LTD's EPS of 145 cents compares unfavourably to the NAV of 790 cents.

Lupin LTD's DPS of 190 cents compares well to the NAV of the share of 480 cents; Lilac LTD's DPS of 155 cents compares unfavourably to the NAV of 790 cents.

9

10.4 **Explain why the existing shareholders of Lupin LTD are happy with the current market value of their shares.**

Comparing market price and NAV of Lupin LTD ✓ Figures ✓

Market price of Lupin LTD is 550 cents which is higher than the NAV of 480 cents OR market price is 70 cents higher than the NAV. Lupin LTD is thus able to fetch a price higher than the value of the shares in the books of the company.

2

Explain why the existing shareholders of Lilac LTD are very disappointed with the current market value of their shares

Comparing market price and NAV of Lilac LTD ✓ Figures ✓

Market price of Lilac LTD is 675 cents which is lower than the NAV of 790 cents OR market price is 115 cents lower than the NAV.

2

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8. Grade 10 and 11:

Refer to the table of financial indicators for each Grade.
Discuss the movement from Grade 10 to 12. The additional indicators are in italics.

GRADE 10: ACTIVITY 1

SARDIE STORES

1.1

ACCOUNTS	Non-Current Asset	Current Asset	Equity	Non-Current Liability	Current Liability
Trade debtors		X ✓			
Trade creditors					X ✓
Accrued Income		X ✓			
Accrued expenses					X ✓
Mortgage Bond				X ✓	
Vehicles	X ✓				
Trading stock		X ✓			
Capital			X ✓		
Fixed Deposit	X ✓				
Bank overdraft					X ✓

10

1.2

Current ratio

(33 360 + 6 420 + 52 200) : (25 600 + 7 800 + 10 400)
91 980 ✓☑ 43 800 ✓☑
2,1 : 1 ☑

5

Acid test ratio

(91 980 – 52 200) : 43 800 ☑ = 0,9 : 1 ☑
39 780 ✓☑

4

1.3

Comment on the liquidity of the business.

Quoting the figures and noting the trend ✓✓
Valid comment based on figures ✓✓

Current ratio improved from 1,9 : 1 to 2,1 : 1 but the Acid test ratio went down from 1,1 : 1 to 0,9 : 1

Although the business may be in a sound liquidity position (they have enough current assets to cover short term debts), they are however, holding too much stock. This has contributed to the lower acid test ratio. There is a need to improve sales to reduce stock.

4

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GRADE 10: ACTIVITY 2:

2.1 **Calculate :**

2.1.1	**Solvency ratio** [2 250 000 + 150 000 + 1 287 500] : [818 750 + 368 750] 3 687 500 ✓✓ 1 187 500 ✓✓ = 3.10 : 1 ☑	5
2.1.2	**Current ratio** 1 287 500 ✓ : 368 750 ✓ = 3.49 : 1 or 3.5 : 1 ☑	3
2.1.3	**Acid test ratio** [850 000 + 137 500] : 368 750 ✓ 987 500 ✓✓ = 2.68 : 1 ☑	4
2.1.4	**Return on average owner's equity** 525 000 ✓ ÷ ½ ✓ [2 500 000 ✓ + 1 475 000 ✓] x 100 1 987 500 = 26.4% ☑	5
2.1.5	**Mark up percentage** [1 875 000 - 1 118 750] ÷ 1 118 750 ✓ x 100 756 250 ✓✓ = 67.6% ☑	3

2.2 **Comment on the liquidity position of the business. Quote TWO relevant financial indicators/ratios for both years to support your response.**

Financial indicator ✓✓ figure/trend ✓✓ Comment ✓✓

Current ratio:
- Increased from 2.2 : 1 to 3.49 : 1
- Business can pay off its short term debts

Acid test ratio:
- Increased from 1.64 : 1 to 2.68 : 1
- Business can pay off its short term debts even without the inventory

6

2.3 **The business aims to achieve a mark-up of 75% on cost at all times. Provide TWO reasons for the business not achieving the expected mark-up percentage.**

Any TWO valid reasons ✓✓ ✓✓

- Clearance sales
- Prices reduced to meet with the competition
- Trade discounts given to customers
- Incorrect mark-up calculations

4

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GRADE 10: ACTIVITY 3:

3.1 **FINANCIAL INDICATORS**

WORKINGS	ANSWER	
Calculate: Current Ratio (194 000 ✓ + 355 920 ✓ + 112 000 ✓) : 315 200 ✓ 661 920	2,1 : 1 ☑	5
Calculate: Acid test ratio (355 920 ✓ + 112 000 ✓) : 315 200 ✓ Or 661 920 – 194 000 two marks	1,5 : 1 ☑	4
Calculate: Solvency ratio 1 740 180 ✓ : (700 000 + 315 200) 1 015 200 ✓☑ one part correct	1,7 : 1 ☑	4
Calculate: Return on equity $\frac{165\ 500\ ✓}{½\ ✓\ (724\ 980\ ✓ + 723\ 500\ ✓)}$ x 100 724 240 two marks	22,9% ☑	5

3.2

Calculate the amount of the loan 1 740 180 ✓ – 724 980 ✓ – 315 200 ✓ = 700 000 ☑ one part correct	4

3.3

Comment on the solvency of the business. Quote figures. Comment ✓✓ figures ✓✓ The solvency decreased from 2,4 : 1 to 1,7 : 1. Total assets are still greater than total liabilities which means that the business is solvent. Acquiring the additional loan has contributed to the decrease in the ratios.	4

3.4

Will the business be able to pay its short term debts in the next financial year? Explain. Quote TWO financial indicators with figures. Financial indicators (with trends) ✓✓ ✓✓ comment ✓✓ Current ratio improved from 1,9 : 1 to 2,1 : 1 Acid test ratio improved from 1,3 : 1 to 1,5 ; 1 The business is in a sound liquidity position. It can easily pay short term debts in the next financial year. Stock is also being managed well as shown by the acid test ratio.	6

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3.5 **Should Stan be satisfied with his return on equity? Explain. Quote figures.**

Comment ✓✓ figures ✓✓

Stan's return on equity has declined slightly from 25% to 22,9%. It is still very favourable as it is higher than returns on alternative investments such as fixed deposits.

4

3.6 **Provide TWO reasons why the business was not able to achieve its targeted gross profit percentage.**

TWO reasons ✓✓ ✓✓

The business could have sold goods at a mark-down sale.
Trade discounts offered to regular clients.
Obsolete goods sold at cost at clearance sales
Possible incorrect mark-up applied to certain products.

4

GRADE 11: ACTIVITY 1:

1.1 Calculate:

1.1.1 **The total value of current liabilities.**

Current Assets : (273 200 + 36 800 + 177 000) = 487 000 ✓✓

487 000 ÷ 2,5 ✓ = 194 800 ☑ one part mark

4

1.1.2 **Percentage return earned by N. Yong**

$$\frac{211\ 200\ ✓✓\ (150\ 000 + 42\ 000 + 19\ 200)}{\frac{1}{2}\ (400\ 000 + 525\ 000 + 15\ 400 - 9\ 100)} \times \frac{100}{1}$$

925 000 ✓ 6 300 ✓

465 650 two marks

= 45% ☑ one part correct

5

1.1.3 **Debt/equity ratio**

875 000 ✓ 1 500 ✓

400 000 ✓ : (525 000 + 350 000 + 10 600 – 9 100)

0,46 : 1 or 0,5 : 1 ☑ one part correct

4

1.1.4 **Acid-test ratio**

310 000 ✓✓ (refer 1.1.1)

(273 200 + 36 800) : 194 800 ☑

1,6 : 1 ☑ one part correct

4

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1.2 **Comment on the liquidity of the business.**
Quote TWO financial indicators (with figures) in your answer.

Quoting financial indicators with figures ✓✓ ✓✓ comment ✓✓

Current ratio : moved from 1,8 : 1 to 2,5 : 1
Acid test ratio : moved from 1,2 : 1 to 1,6 : 1

The business appears to be in a good liquidity position. Both ratios showed an improvement.
There is however, stock piling and poor collection from debtors. This could lead to liquidity problems in the future.

*take into consideration the candidate's calculation for acid test ratio.

6

1.3 **Do you think that N. Yong is satisfied with his return on investment? Explain. Quote TWO relevant financial indicators (with figures) to support your answer.**

Yes/No ✓
Quoting financial indicators with figures ✓✓ ✓✓ comment ✓

Return earned by Yong : decreased from 48% to 45%
Return earned by Sung : improved from 57% to 61%
ROTCE : improved from 37% to 43%

Although Yong may be getting a return above the return earned by the business, he may be disappointed with the decrease in his return compared to the increase in Sung's return.

Other factors: He has contributed more capital but he also has debit balance on his current account.
*take into consideration the candidate's calculation for percentage return earned by Yong.

6

1.4 **The partners want to expand the existing business and are considering increasing the loan. What advice would you offer them? Support your answer by making reference to TWO financial indicators (with figures).**

Quoting financial indicators with figures ✓✓ ✓✓ comment ✓✓

The debt/equity ratio improved from 0, 48: 1 to 0, 45: 1.
ROTCE : improved from 37% to 43 %

The business can afford to increase the loan as it is lowly geared. It is also receiving a good return on capital employed (higher than Interest rate on loans). There is positive gearing.

*take into consideration the candidate's calculation for debt/equity ratio.

6

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GRADE 11: ACTIVITY 2:

MIDDLE POINT TRADERS

2.1 Calculate the following:

WORKINGS	ANSWER	
• **Percentage mark-up on cost** $\frac{1\,677\,000 ✓}{(4\,257\,000 - 1\,677\,000)} \times 100$ 2 580 000 ✓✓	65% ☑ One part correct	4
• **Operating expenses on sales** $\frac{1\,064\,250 ✓}{4\,257\,000 ✓} \times 100$	25% ☑ One part correct	3
• **Total earnings of Middle** 720 000 ✓ – 338 580 ✓✓ (279 570 + 59 010)	381 420 ☑ One part correct	4
• **The percentage return earned by Point** (from above or from info) $\frac{(279\,570 + 59\,010)\ ☑}{\frac{1}{2}\ ✓(281\,000 ✓ + 384\,580 ✓)} \times 100$	102% ☑ One part correct	5
• **The debt/equity ratio for 2017.** 742 380 ✓ : 1 237 300 ✓	0,6 : 1 ☑ One part correct	3

2.2 **Comment on the liquidity of the business. Quote and explain TWO financial indicators (with figures) in you answer.**

Financial indicators (with figures) ✓ ✓ Comment ✓✓

The current ratio improved from 1,2 : 1 to 1,4 : 1
The acid test ratio improved from 0,7 : 1 to 0,8 : 1

The business is experiencing liquidity problems – it does not have sufficient cash to meet short term obligations. There is some evidence of stock-piling. **4**

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2.3 **Were the partners justified in increasing the loan? Explain. Quote TWO financial indicators, and figures, in your explanation.**

Yes/No ✓
Financial indicator with figures ✓ ✓ Explanation ✓

The debt equity ratio moved from 0,1 : 1 to 0,6 : 1 (refer 2.1)
The business is making greater use of borrowed capital (loans).
An improvement on the return on capital employed (43% to 69%) shows that the business is making effective use of the loan to improve profitability.
Interest on loan is 13% - positive gearing

4

2.4 **Middle is not happy with his return on investment. Explain why you think he feels this way. Quote figures.**

Financial indicators with figures ✓✓ Explanation ✓✓

Middle's return has increased from 46% to 54%.
Point's return increased from 81% to 102%.

He is probably unhappy because his return is almost ½ of Point's (47%)
It was the same last year (43%)
He is the partner that has contributed more capital (650 000 : 325 000)
He manages his current account better (202 720 : 59 580)

4

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RECONCILIATIONS

1. BANK RECONCILIATION

1.1 Calculate the correct balance of the Bank Account in the General Ledger on 31 July 2016.

Provisional Bank balance	**R16 785**
Cheque No. 186	+ 450 ✓
Interest income	+ 285✓
Bank charges	– 950✓
Correction Cheque No. 374	– 3 600 ✓✓
Theft of cash	– 37 800✓
Correct Bank balance	– 24 830 ☑ One part correct

Favourable/Unfavourable: Unfavourable ✓

8

1.2 Bank Reconciliation Statement as at 31 July 2016

	Alternative	**DEBIT**	**CREDIT**
Balance as per bank statement Balancing figure	(26 960)	26 960☑	
Outstanding deposit	27 180		27 180✓
Outstanding cheques:			
No. 305	(8 400)	8 400✓	
No. 401	(18 600)	18 600✓	
Debit order erroneously debited	1 950		1 950✓
Balance as per bank account See 1.3.1	(24 830)		24 830☑
		53 960	53 960

6

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

Any valid internal control measure ✓✓

- Separation of duties – receipting, recording and depositing of cash must be done by different employees.
- Rotation of duties – employees must be rotated weekly doing different cash handling duties.
- Enforce the internal control measure over cash i.e. all cash received should be deposited within one working day.
- Request SMS notification from bank when deposits are being done.

2

MARKS
16

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QUESTION 2

1. **Indicate whether the following statements are TRUE or FASLE. Write only 'true' or 'false' next to the question number (i) – (iv) in the answer book.**

(i)	False✓
(ii)	True✓
(iii)	False✓
(iv)	True✓

4

2. **Calculate the correct totals for the Cash Receipts Journal and Cash Payment Journal for July 2015.**

Cash Receipts Journal
146 970
1 800✓✓
12 340✓✓
161 110

Cash Payment Journal
68 900
1 300✓✓
920✓✓
600✓✓
50 000✓✓
121 720

12

3. **Prepare the Bank Reconciliation Statement on 31 July 2015.**

	Debit	Credit
Credit balance as per bank statement✓		44 040✓
Credit outstanding deposit✓		18 000✓
Debit outstanding cheques✓		
• 897	8 700✓	
• 905	1 200✓	
• 908	3 100✓	
Debit balance as per bank account✓	49 040☑	
Operation both total must be the same	62 040☑	62 040

11

4. **Explain how cheque No. 908 should be treated when preparing the financial statements as at 31 July 2015 the end of the financial year.**

Increase bank ✓ and increase creditors✓ in the Balance Sheet notes.
Accept : Dr bank and Cr Creditors control

2

5. **Refer to information G. The bookkeeper has decided to write off the amount of R50 000.**
- **Which GAAP principle will the bookkeeper be applying?**
- **The bookkeeper wants to prevent a similar problem in future. Give TWO suggestions to improve internal control in this regard.**

Principle of prudence ✓
TWO valid suggestions ✓✓ ✓✓
- Division of duties
- Encourage EFT payments by customers / debtors
- All cash received must be deposited daily (deposit slip must agree to receipts)
- Regular and timely check / monitor all large transaction

5

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QUESTION 1: CREDITORS RECONCILIATION

1.1 **Explain why the balance of the Creditors' Control Account and the total of the Creditors' List should correspond.**

ONE valid point ✓✓

- The Creditors' Control Account is a summary of all the individual transactions in the personal accounts of creditors in the Creditors Ledger
- It is prepared from the same documents, therefore the balance on the Creditors' Control account must be equal to the total of the Creditors' List

5

1.2

	CREDITORS CONTROL		CREDITORS LIST	
	DEBIT	CREDIT	DEBIT	CREDIT
		108 450		**104 865**
A.	✓1 080			
B.	(825 + 825)✓✓1 650			
C.			✓405	
D.		(981 – 918) ✓✓63		☑ 63 See creditors control
E.		✓810		✓810
F.		✓180		✓180
G.	✓1 260			
	BALANCE	105 513	**BALANCE**	105 513

12

QUESTION: 2

2.1.1

	CREDITORS' LEDGER	CREDITORS' RECONCILIATION STATEMENT
Balance	**110 170**	**111 600**
(a)	-11 100 ✓	
(b)	+ 5 000 ✓	
(c)		- 28 800 ✓
(d)	+ 1 650 ✓✓	
(e)	- 2 400 ✓✓	
(f)		- 5 400 ✓✓ - 2 700/- 2 700 1 mark
(g)	+ 3 300 ✓	
(h)		- 13 800 ✓
		- 1 380 ✓
		+ 44 400 ✓
		-15 180 two marks +29 220 three marks
	106 620 ☑	106 620

14

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2.1.2	**State TWO internal control measures that the business can use to prevent similar incidents from happening in future.**
	Any **TWO** relevant control measures ✓✓ ✓✓ • Division of duties / rotate duties. (Pearl must not be the only person responsible for ordering and recording goods.) • Have special order forms to be signed by two people. • Check documents regularly against deliveries. • Do regular/random stock counts to verify stock records

4

QUESTION 3: CREDITORS RECONCILIATION:

NO.	CREDITORS LEDGER ACCOUNT	STATEMENT
BALANCE	**5 350**	**12 540**
i	540 ✓✓	
ii (4 200 X 2)	8 400 ✓✓	
iii		4 000 ✓
iv	(250) ✓	
v		(2 500) ✓
TOTAL	14 040 ☑	14 040 ☑

9

QUESTION 4:CREDITORS' RECONCILIATION

	ACCOUNT OF EGOLI SUPPLIERS IN CREDITORS' LEDGER OF VIVA TRADERS	STATEMENT RECEIVED FROM EGOLI SUPPLIERS
Balance	**R10 705**	**R19 120**
A		+1 080 ✓✓
B	+375 ✓	
C	- 200 ✓✓	
D	2 160 + 2 160 +4 320✓✓	
E		- 5 000 ✓
Final balance	15 200	15 200 ☑

9

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DEBTORS RECONCILIATION -SOLUTION 1

1.1 TRUE OR FALSE

1.1.1	True ✓
1.1.2	False ✓
1.1.3	False ✓

3

1.2 MIZZY BOUTIQUE

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

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

	Debtors' Control Account	Debtors' List
Balance/Total on 28 February 2017	**R37 710**	**R39 490**
(a)	+ 7 440 ✓	+ 7 440 ✓
(b)		– 4 500 ✓✓
(c)		+1360 +1360 one mark one mark + 2 720 ✓✓
(d)	+ 1 350 ✓	+ 1 350 ✓
(e)	– 450 ✓	– 450 ✓
(f)	+ 1 950 ✓	+ 1 950 ✓
Balance/Total on 28 February 2017	R48 000 ☑ for both totals	R48 000

13

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DEBTORS AGE ANALYSIS –SOLUTION 2

A. ARMSTRONG							
DATE	**RECEIPTS/ DISCOUNTS/ RETURNS**	**AMOUNTS**	**CLOSING BALANCE**	**TOTAL DEBITS (Cr sales and other Debits)**			
				May	**June**	**July**	
	Balance and Sales		1 800	1 600	2150	1960	
May	Payment received	1050	(1050)				
	Cr Note- Returns	200		(200)			
July	Payment Received	1500	(750)	(750)			
			NIL	**650**	**2150**	**1960**	
				60 days	**30 days**	**current**	

NOTE:

The figures in the first row of the entries represent the Opening balance and Credit Sales for May, June and July.

Payment received in May includes a discount of **R50, i.e. R1000 + R50 =R1050,** alternatively, the discount can be separated from the payment.

The goods were returned in May and these goods are subtracted from credit sales for May.

1. Credits sales for June includes interest charged on overdue account, i.e. **R2100 + R50 = R2150.**
2. Credit sales for July includes interest charged on overdue account, i.e**. R1900 + R60 = R1960.**
3. At the end a total is displayed for the balance and each ageing period.

Name of debtor	Bal	Current amount	1 month (30 days)	2 months 60 days	3 months 90 days	More than 3 months
A. Armstrong	4 760	1 960	2 150	620	Nil	Nil
% of Total		**41.1%**	**45.2%**	**13,7%**		

1. A Armstrong's account is within the credit limit of **R5 000** and the credit term of **60 days.**
2. A . Armstrong meets his credit and there is no problem about his account.
3. P David does not envisage any danger of bad debts because A. Armstrong pays his account regularly.

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DEBTORS AGE ANALYSIS –SOLUTION 3
3 GLENDALE TRADERS

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

Any ONE valid point. ✓✓

- Gives an indication of debtors whose accounts are overdue.
- The analysis will give a clear idea of reliable debtor.
- Assist the business to review credit limits allowed to debtors.
- Assist the business when to refuse additional credit sales until accounts are paid.

2

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

16 640 two marks
14 560 ✓+ 2 080 ✓ x 100 = 40% ☑ one part correct
41 600✓

4

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

DEBTOR	PROBLEM ✓ ✓ FIGURES✓ ✓
D Pillay	Exceeding the credit limit of R10 000. (amount owing is R11 800)/ Exceed with R1 800
W Patel	Exceeded credit terms. Balance of R11 192 is more than 30 days.

4

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

TWO valid points (with figures). ✓✓ ✓✓ part marks for incomplete answer

- Exceeding credit terms/slow payer (5 448/13 450) 40,5% of his account is more than 30 days
- The business allowed him to buy R4 100 more goods even though he does not pay on time.

4

14

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QUESTION 4
4.1 BANK RECONCILIATION AND INTERNAL CONTROL

4.1.1 Calculate the correct bank balance on 30 June 2015.

Cash Receipts Journal (figures only)		Cash Payments Journal (figures only)
87 220	Accept workings placed directly in the calculation below CRJ&CPJ Ignore R2 300 unless it is a foreign entry	**74 860**
✓ 21 000	*OR: 7900 in CRJ & 9700 in CPJ	*✓✓ 1 800
✓✓ 10 500	Both essential: 2 marks	✓ 6 500
	8 960: 3 marks 8750 / 6710 / 2460: 2 marks	✓ 2 250
	Ignore R7 000 & R25 500	✓ 210
118 720	Foreign items -1 (max -2)	85 620

Bank balance on 30 June 2015: 13

33 100 2 method marks

See CRJ total See CPJ total

– 2 300 ✓✓ + 118 720 ☑ – 85 620 ☑= 30 800 ☑ one part correct

OR: – 2 300 + 87 220 – 74 860 + 21 000 + 10 500 – 1 800 – 6 500 – 2 250 – 210 = 30 800

4.1.2 Bank Reconciliation Statement on 30 June 2015

	Alternative	Debit	Credit
Balance per Bank Statement	R20 400	Balancing figure Could be Dr / Cr	R 20 400 ☑
Credit outstanding deposit	18 500		18 500 ✓✓
Debit outstanding cheques:	Could use – signs		
No. 962	(4 500)	R 4 500 ✓✓	
No. 982	(2 200)	2 200 ✓	
No. 986	(1 400)	1 400 ✓	
Balance as per Bank Account	30 800	30 800 ☑	See 1.1.1
		38 900	38 900

-1 incorrect / no details (max -2) Foreign entries -1 (max -2)

For 2-column method with no Debit/Credit indicated, assume left=Debit and right=Credit.
For 2-column method with Credit/Debit indicated, mark according to indication.
For 2-column method with brackets used, do not accept brackets/negatives in any column.

8

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4.1.3 **Refer to Information E. Identify TWO separate problems with evidence from the information. Give advice for EACH problem.**

PROBLEM WITH EVIDENCE	ADVICE
Theft / Fraud / Error/ Internal control measures are lacking. Some of the cash slips (R7 000) have not been deposited / recorded. Problem ✓Evidence ✓ Figures not required	Check that the total of cash slips agree to the total of the deposit slip. ✓ Specific advice required based on evidence.
Rolling of cash / The deposit occurs much later after receipt of cash (15 days). Problem ✓ Evidence ✓ Figures not required	Cash collected must be deposited immediately / Sales person must not deposit cash / Divide duties ✓ Specific advice required based on evidence.

6

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4.2 DEBTORS' AGE ANALYSIS

4.2.1 **As the internal auditor, what concerns would you have over Susan's job description? Explain.**

Any ONE valid point ✓✓ Incomplete / unclear answer: 1 mark

For 2 marks:

- Lack of division of duties negatively affects internal control.
- Susan is the only person dealing with invoicing and receipt of cash.
- Nobody is checking Susan's work.

For 1 mark:

- Division of duties / Internal control

2

4.2.2 **Identify TWO debtors who could have their credit limits increased.**

Pillay ✓
Crooks ✓ -1 for superfluous name (max -2)

2

4.2.3 **Explain THREE different problems reflected by the Debtors' Age Analysis. Give evidence to support your answer.**

There must be 3 separate problems i.e. Payment periods + Credit limits + Selling to those who are not settling previous debts
Part-marks for partial answers / partially correct answers

	Explanation of problem with evidence
Problem 1	Problem ✓✓ Slow payers / Non-payers / Lack of adherence to time terms / Possibility of bad debts / Bad Evidence ✓ Specific evidence required i.e. names or figures Some debtors (37% / 18% / 19%) are taking longer than 30/60/90 days to settle debts / (e.g. Muller / Vasco / Aucamp)
Problem 2	Problem ✓✓ Credit limit / Not adhering to credit limit / Bad internal control of credit limits Evidence ✓ Specific evidence required i.e. names or figures Muller is R2 000 over the limit
Problem 3	Problem ✓✓ Sales continue to be made to debtors whose accounts are overdue / Bad control of sales to debtors Evidence ✓ Specific evidence required i.e. names or figures Aucamp / Ndlovu were allowed to buy even though they have debts which are 60 / 90 days old

9

MARKS : 40

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RECONCILIATIONS -SOLUTION 5

(If answers are in brackets, assume it is negative)

5.1 Reconciled Debtor's List on 28 February 2015

	Previous balance	Calculation	Correct balance
Baker House	65 000	+2 300 ✓ + 1 625 ✓	68 925 ☑
Gorgeous Baker	37 000	-2 300 ✓ – 19 400 ✓ -600 ✓ – 1 625 ✓	13 075 ☑
Handsome Chef	28 000		28 000 ✓
Crispy Cook	(Credit) 20 000	+ 19 400 ✓ + 600 ✓	0 ✓
Correct total of list of debtors			**110 000** ☑✓

14

5.2.1 Calculate the Bank Statement balance on 31 January 2015. Indicate whether it was a favourable or unfavourable balance. 7

17 870 2 marks 11 450 3 marks

15 870 ✓+ 2 000 ✓– 7 450 ✓– 3 500 ✓– 500 ✓= 6 420 ✓

OR

-15 870 ✓- 2 000 ✓+ 7 450 ✓+ 3 500 ✓+ 500 ✓= - 6 420 ✓

Unfavourable ✓ **OR**

<u>Bank reconciliation statement</u>

? Balance according to the Bank statement	**6 420**	
Credit outstanding deposit		15 870
Debit outstanding cheques:		
857	7 450	
1284	3 500	
1297	500	
Credit balance according to the Bank acc		2 000
	17 870	17 870

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5.2.2 **One of the cheques was wrongly handled on the Bank Reconciliation Statement. Identify the cheque and provide a reason.**
What entry should be made in the general ledger to correct the error?

Cheque number:
857 ✓

Reason:
Stale cheque. ✓

Correction:
Debit: ✓ Bank ✓ and credit: ✓ (Donation / Any expense / Payment / Creditors Control / Debtors Control / any liability).✓

6

How would cheque number 1297 be handled in the financial statements if the financial year ends on 28 February 2015?

Add to Bank ✓if favourable / subtract from Bank if unfavourable

OR

Add to cash and cash equivalents
(**Not debit Bank**)

Add to Creditor's Control ✓

OR

Add to trade and other payables
(**Not credit Creditor's Control**)

2

TOTAL
29

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222 Struben Street

Private Bag X895, Pretoria, 0001

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