

# Learn Xtra



**ACCOUNTING**  
**GRADE 12**

**exam school**  
**2012**

The Department of Basic Education proudly endorses  
the Mindset Learn Spring School programme



**basic education**

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

Mindset Learn Xtra Exam School  
is brought to you by





## CONTENTS

Introduction .....	2
Broadcast Schedules .....	4
Preparing for Examinations.....	5
Exam Techniques .....	6
Exam Overview .....	7
Manufacturing .....	8
Bank Reconciliation and Creditors' Reconciliation .....	12
Income statement, Asset Disposal and Audit Report .....	15
Cash Flow Statement, Ratios and Interpretation.....	20
Budget and Debtors' Analysis .....	24
Inventory Valuation .....	27
Solutions to Manufacturing.....	31
Solutions to Bank Reconciliation and Creditors Reconciliation .....	34
Solutions to Income Statement, Asset Disposal and Audit Report .....	36
Solutions to Cash Flow Statement, Ratios and Interpretation .....	38
Solutions to Budget And Debtors' Analysis.....	40
Solutions to Inventory Valuation .....	42



[www.learnxtra.co.za](http://www.learnxtra.co.za)

## INTRODUCTION

Have you heard about Mindset? Mindset Network, a South African non-profit organisation, was founded in 2002. We develop and distribute quality and contextually relevant educational resources for use in the schooling, health and vocational sectors. We distribute our materials through various technology platforms like TV broadcasts, the Internet ([www.mindset.co.za/learn](http://www.mindset.co.za/learn)) and on DVDs. The materials are made available in video, print and in computer-based multimedia formats.

At Mindset we are committed to innovation. In the last three years, we have successfully run a series of broadcast events leading up to and in support of the Grade 12 NSC examinations

Now we are proud to announce our 2012 edition of Exam School. From 15<sup>th</sup> October till 20<sup>th</sup> November will bring you revision lessons in nine subjects - Mathematics, Physical Sciences, Life Sciences, Mathematical Literacy, English 1<sup>st</sup> Additional Language, Accounting, Geography, Economics and Business Studies.

In this exam revision programme we have selected Questions mainly from the Nov 2011 Papers and have tried to cover as many topics as we can. Each topic is about an hour long and if you work through the selected questions you will certainly have increased confidence to face your exams. In addition to the topics and questions in this booklet, we have schedule 1½ hour live shows a day or two before you write your exams. To get the most out of these shows, we need you to participate by emailing us questions, calling in or posting on twitter, peptxt or facebook.

Since you asked us for late night study sessions and that's what we've planned! You'll find repeats of our Live shows at 10:30pm every evening. Then from midnight to 6:00 am there are revision lessons too. So if you can't watch during the day, you can record or watch early in the morning! .

## GETTING THE MOST FROM EXAM SCHOOL

You must read this booklet! You'll find the exam overviews and lots of study tips and hints here. in Start your final revision by working through the questions for a topic fully without looking up the solutions. If you get stuck and can't complete the answer don't panic. Make a note of any questions you have. Now you are ready to watch a Learn Xtra session. When watching the session, compare the approach you took to what the teacher does. Don't just copy the answers down but take note of the method used. Also make a habit of marking your work by checking the memo. Remember, there are usually more than one way to answer a question. If you still don't understand post your question on Facebook – you'll get help from all the other Mindsetters on the page. You can also send an email to [helpdesk@learnxtra.co.za](mailto:helpdesk@learnxtra.co.za) and we'll get back to you within 48 hours.

Make sure you keep this booklet. You can re-do the questions you did not get totally correct and mark your own work. Exam preparation requires motivation and discipline, so try to stay positive, even when the work appears to be difficult. Every little bit of studying, revision and exam practice will pay off. You may benefit from working with a friend or a small study group, as long as everyone is as committed as you are.



[www.learnxtra.co.za](http://www.learnxtra.co.za)

We are pleased to announce that we'll continue to run our special radio broadcasts on community radio stations in Limpopo, Eastern Cape and KZN. This programme is called MTN Learn. Find out more details at [www.mtnlearning.co.za](http://www.mtnlearning.co.za). You can also listen online or download radio broadcasts of previous shows. Tuning into radio will give you the chance to learn extra! Look out for additional notes in Newspaper supplements too.

Mindset believes that the 2012 Learn Xtra Spring School will help you achieve the results you want. All the best to the Class of 2012!

## CONTACT US

We want to hear from you. So let us have your specific questions or just tell us what you think through any of the following:



LearnXtra



@learnxtra



[www.learnxtra.co.za](http://www.learnxtra.co.za)



[helpdesk@learnxtra.co.za](mailto:helpdesk@learnxtra.co.za)



086 105 8262



Mindset

Get the free app at [pepclub.mobi](http://pepclub.mobi)



## EXAM SCHOOL SCHEDULE: ACCOUNTING

### 16 Oct

01:30	Manufacturing
02:30	Bank Reconciliation and Creditors' Reconciliation
03:30	Income statement, Asset Disposal and Audit Report
04:30	Live: Manufacturing & Inventories (Repeat)

### 18 Oct

22:30	Live: Financial Statements & Interpretation of Ratios (Repeat)
-------	--

### 19 Oct

00:00	Income statement, Asset Disposal and Audit Report
01:00	Cash Flow Statement, Ratios and Interpretation
02:00	Bank Reconciliation and Creditors' Reconciliation
03:00	Budget and Debtors' Analysis
04:00	Exam Overviews
04:30	Live: Manufacturing & Inventories (Repeat)

### 20 Oct

22:30	Manufacturing
23:30	Bank Reconciliation and Creditors' Reconciliation

### 21 Oct

00:30	Income statement, Asset Disposal and Audit Report
01:30	Cash Flow Statement, Ratios and Interpretation
02:30	Budget and Debtors' Analysis
03:30	Inventory Valuation
04:30	Live: Manufacturing & Inventories (Repeat)
14:30	Inventory Valuation
15:30	Live
17:00	Income statement, Asset Disposal and Audit Report
18:00	Cash Flow Statement, Ratios and Interpretation
22:30	Live: (Repeat)

### 23 Oct

00:00	Manufacturing
01:00	Income statement, Asset Disposal and Audit Report
02:00	Bank Reconciliation and Creditors' Reconciliation
03:00	Budget and Debtors' Analysis
04:00	Inventory Valuation
05:00	Cash Flow Statement, Ratios and Interpretation



## PREPARING FOR EXAMINATIONS

1. Prepare well in advance for all your papers and subjects. You need to start your planning for success in the final examination now. You cannot guarantee success if you only study the night before an exam.
2. Write down the date and time of your final exam so that you can plan and structure a study time table for all your subjects.
3. Set up a study time-table according to your prelim and final Grade 12 exam time-table and stick to your study schedule. If you study a small section every day, you will feel you have achieved something and you will not be as nervous by the time you have to go and write your first paper.
4. Your study programme should be realistic. You need to spend no more than 2 hours per day on one topic. Do not try to fit too much into one session. When you cover small sections of work often, you will master them more quickly. The broadcast schedule may help you to make sure you have covered all the topics that are in the exam.
5. When studying don't just read through your notes or textbook. You need to be active by making summary checklists or mind maps. Highlight the important facts that you need to memorise. You may need to write out definitions and formulae a few times to make sure you can remember these. Check yourself as often as you can. You may find it useful to say the definitions out aloud.
6. Practise questions from previous examination papers. Follow these steps for using previous exam papers effectively:
  - Take careful note of all instructions - these do not usually change.
  - Try to answer the questions without looking at your notes or the solutions.
  - Time yourself. You need to make sure that you complete a question in time. To work out the time you have, multiply the marks for a question by total time and then divide by the total number of marks. In most exams you need to work at a rate of about 1 mark per minute.
  - Check your working against the memo. If you don't understand the answer given, contact the Learn Xtra Help desk (email: [helpdesk@learnxtra.co.za](mailto:helpdesk@learnxtra.co.za)).
  - If you did not get the question right, try it again after a few days.
7. Preparing for, and writing examinations, is stressful. You need to try and stay healthy by making sure you maintain a healthy lifestyle. Here are some guidelines to follow:
  - Eat regular small meals including breakfast. Include fruit, fresh vegetables, salad and protein in your diet.
  - Drink lots of water while studying to prevent dehydration.
  - Plan to exercise regularly. Do not sit for more than two hours without stretching or talking a short walk.
  - Make sure you develop good sleeping habits. Do not try to work through the night before an exam. Plan to get at least **6 hours** sleep every night, especially on the night before the exam.



## EXAM TECHNIQUES

1. Make sure you have the correct equipment required for each subject. You need to have at least one spare pen and pencil. It is also a good idea to put new batteries in your calculator before you start your prelims or have a spare battery in your stationery bag.
2. Make sure you having a light high energy meal before going to the exam venue.
3. Make sure you get to the exam venue early - don't be late.
4. While waiting to go into the exam venue, don't try to cram or do last minute revision. Try not to discuss the exam with your friends. This may just make you more nervous or confused.
5. Here are some tips as to what to do when you receive your question papers:  
Don't panic, because you have prepared well.
  - You are always given reading time before you start writing. Use this time to take note of the instructions and to plan how you will answer the questions. You can answer questions in any order.
  - Time management is **crucial**. You have to make sure that you answer all questions. Make notes on your question paper to plan the order for answering questions and the time you have allocated to each one.
  - It is a good idea always to underline the key words of a question to make sure you answer it correctly.
  - Make sure you study the given information very carefully when reading the question. Make sure you check your answer book too.
  - When you start answering your paper, it is important to read every question twice to make sure you understand what to do. Many marks are lost because learners misunderstand questions and then answer incorrectly.
  - Look at the mark allocation to guide you in answering the question.
  - When you start writing make sure you number your answers exactly as they are in the questions.
  - Make sure you use the special answer booklet to answer all questions.
  - Think carefully before you start writing. It is better to write an answer once and do it correctly than to waste time rewriting answers.
  - DO NOT use correction fluid (Tippex) because you may forget to write in the correct answer while you are waiting for the fluid to dry. Rather scratch out a wrong answer lightly with pencil or pen and rewrite the correct answer.
  - Check your work. There is usually enough time to finish exam papers and it helps to look over your answers. You might just pick up a calculation error.





## EXAM OVERVIEW

### Accounting

	<b>WEIGHTING</b>
<p><b>Financial accounting</b> (Learning Outcome 1):</p> <p>Skills required:</p> <ul style="list-style-type: none"> <li>collecting, reporting and evaluating financial information of past financial periods,</li> <li>assess the financial performance of a person or organisation in making appropriate decisions</li> </ul>	50% - 60%
<p><b>Managerial accounting</b> (Learning Outcome 2):</p> <p>Skills required:</p> <ul style="list-style-type: none"> <li>compiling, reporting and evaluating financial information largely geared towards future financial periods,</li> <li>to evaluate business options to make appropriate decisions</li> </ul>	20% - 25%
<p><b>Managing resources</b> (Learning Outcome 3):</p> <p>Skills required:</p> <ul style="list-style-type: none"> <li>understanding strategies and tools to manage resources and make decisions in a responsible manner and using knowledge of internal control and ethical issues in administering a business to achieve desired objectives</li> </ul>	20% - 25%

## EXAM INSTRUCTIONS

1. Answer ALL the questions.
2. Use the special ANSWER BOOK provided to answer ALL the questions.
3. Make sure you show all your workings to achieve part-marks.
4. You may use a non-programmable calculator.
5. You may use dark pencil or blue/black ink to answer the questions.
6. The questions may be answered in any order. Make sure you read through the summary page at the beginning of the exam paper and select the order you will answer in.
7. Pay special attention to the time allocated for each question





## MANUFACTURING

### Check List

Make sure you can perform calculations and interpret financial documents that relate to:

- Direct materials
- Direct labour
- Factory Overheads
- Ratios

### STUDY NOTES

#### Overview of Ledger Accounts

Direct / Raw Material stock  
Work in Process stock  
Finished Goods stock  
Consumable stores stock



STOCK ACCOUNTS

Direct Material  
Factory Overheads  
Direct Labour  
Selling & Distribution  
Administration



COSTS ACCOUNTS



<b>NAME OF BUSINESS</b> <b>NOTES TO THE FINANCIAL STATEMENTS</b>
---

1. Direct material costs		
Opening stock		
Net purchases		
Carriage on purchases		
Custom duties		
Closing stock		
Direct material cost		

2. Direct labour costs		
Factory wages		
Pension Fund Contributions		
Medical Aid Contributions		
UIF Contributions		
Direct labour cost		

3. Factory overhead costs		
Indirect material		
Indirect labour		
Depreciation: factory plant		
Insurance		
Unemployment Insurance fund contributions		
Salaries ETC		

4. Cost of finished goods sold		
Opening stock of finished goods		
Cost of finished goods produced during the year		
Debtors Allowances / Sales returns		
Closing stock of finished goods		
Cost of finished goods sold		



Name of Business
PRODUCTION COST STATEMENT FOR THE YEAR ENDED (DATE)

	Notes	R
Direct costs		
Direct material costs	1	
Direct labour costs	2	
Factory overhead costs	3	
Total manufacturing costs		
Work-in-process at beginning of the year		
Work-in-process at end of the year		
Cost of production of finished goods		

## **MANUFACTURING QUESTION**

**Question 1** (Nov 2011, Question 1)

### **1.1 COST CONCEPTS**

**REQUIRED:**

For each item below, indicate the appropriate category. Choose your answers from the following options:

direct labour; indirect labour; direct materials; indirect materials

- 1.1.1 Cost of the raw materials used in the production process (2)
- 1.1.2 Salary of the factory foremen (2)
- 1.1.3 The cleaning material used in the factor (2)

### **1.2 SLEEPWELL MANUFACTURERS**

**REQUIRED:**

Complete the Production Cost Statement for the year ended 30 September 2011. Some of the details have been entered for you. You have to complete the missing details and figures. (10)

**INFORMATION:**

The information below was extracted from the financial records of Sleepwell Manufacturers on 30 September 2011, the end of the financial year.



	<b>R</b>
Finished goods (1 October 2010)	55 800
Work-in-process (1 October 2010)	45 000
Administration cost	75 000
Direct/Raw material cost	1 250 000
Direct labour cost	640 500
Factory overhead cost	728 000
Selling and distribution cost	306 000
Cost of production of finished goods	2 625 000
Sales	3 952 650
Cost of sales	?
Finished goods (30 September 2011)	45 700
Work-in-process (30 September 2011)	?

### 1.3 PIES GALORE

This business produced 15 500 pies for the year ended 30 June 2011.

#### REQUIRED:

- 1.3.1 Calculate the direct material cost per unit for 2011. (3)
- 1.3.2 Calculate the break-even point for the year ended 30 June 2011. (5)
- 1.3.3 Should the business be satisfied with the number of units that they are currently producing? Briefly explain. (3)
- 1.3.4 The direct-material cost per unit for 2010 amounted to R3,80. The owner (Cathy) feels that, in order to make more profit, she will have to cut her costs or increase her selling price. She considers the option to cut her costs by using fewer ingredients in the filling, but keeping the selling price the same.  
  
Should she carry on with her plan? Give ONE valid reason for your decision. (3)

#### INFORMATION:

The following information was extracted from the books:

	<b>TOTAL</b>	<b>PER UNIT</b>
Sales	R224 750	R14,50
Total variable cost	R131 750	R8,50
Total fixed cost	R89 900	R5,80
Direct-material cost	R79 050	?



## **BANK RECONCILIATION AND CREDITORS' RECONCILIATION**

### **STUDY NOTES**

#### **Bank reconciliation entries at a glance**

The following table represents where transactions are to be entered:

Transaction	CRJ	CPJ	Bank	Recon	No entry
			DR	CR	
Direct deposit into the bank account as reflected on the B/S.	✓				
Stop / debit orders / electronic payments appearing on the B/S.		✓			
Bank charges and interest on overdraft.		✓			
Cancellation of cheques (stale, stop payment, stolen or altered cheques).	✓				
Interest on favourable bank balance.	✓				
Cheques issued, but not appearing on the B/S.			✓		
Cheques outstanding on the previous B/R recon, but appearing in the current B/S.					✓
Cheques outstanding on the previous B/R recon, but still not appearing in the current B/S.			✓		
Outstanding deposits.				✓	
Deposit outstanding previously, but appearing in the current B/S.					✓
Dishonoured cheques.		✓			
Post-dated cheques issued.			✓		
Post-dated cheques received.					✓
Error in the CPJ <ul style="list-style-type: none"> <li>Amount in the CPJ is higher than the original cheque.</li> <li>Amount in the CPJ is lower than the original cheque.</li> </ul>	✓	✓			
Error on the B/S <ul style="list-style-type: none"> <li>Amount incorrectly debited</li> <li>Amount incorrectly credited</li> </ul>			✓	✓	



**Question 1** (Adapted from Nov 2011, Question 2)

**1.1 BANK RECONCILIATION**

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

**REQUIRED:**

**1.1.1** Indicate whether the following statements are TRUE or FALSE:

- (a) An internal auditor will want to inspect the Bank Reconciliation Statement at the end of each month. (2)
- (b) A debit balance on the Bank Statement reflects an unfavourable balance. (2)
- (c) Service fees and interest on an overdraft will be recorded as Bank Charges in the Cash Payments Journal. (2)
- (d) A post-dated cheque issued by Ace Traders in September 2011, but dated February 2012, will only be entered in the Cash Payments Journal of Ace Traders in February 2012. (2)

**1.1.2** Calculate the correct bank balance of Ace Traders on 30 September 2011, using figures that should be entered in the Cash Journals. Show ALL workings. (5)

**1.1.3** Use the information below to prepare the Bank Reconciliation Statement of Ace Traders on 30 September 2011. (7)

**1.1.4** Refer to the outstanding deposit of R43 000, dated 11 September 2011. Why should the internal auditor be concerned? State TWO points. (4)

**INFORMATION ON 30 SEPTEMBER 2011:**

▪ **Balances prior to doing the bank reconciliation:**

Balance of the Bank Account in the Ledger on 30 September 2011	R60 000	Favourable
Balance per Bank Statement on 30 September 2011	R17 600	Favourable
Difference	R42 400	

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

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



**Question 2** (Adapted from Nov 2011, Question 2)

**2. CREDITORS' RECONCILIATION**

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

**REQUIRED:**

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

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

(11)

**INFORMATION:**

On investigation, it was found that:

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





## **INCOME STATEMENT, ASSET DISPOSAL AND AUDIT REPORT**

### **STUDY NOTES**

#### **INTRODUCTION**

A company essentially has three different sets of financial statements.

The first set is the most comprehensive, and shows all items of income, expenditure, assets and liabilities. This set of financial statements is set up for use by management and other internal users. **We will be focusing on this particular set of financial statements.**

The second set has less information, and is set up for use by shareholders.

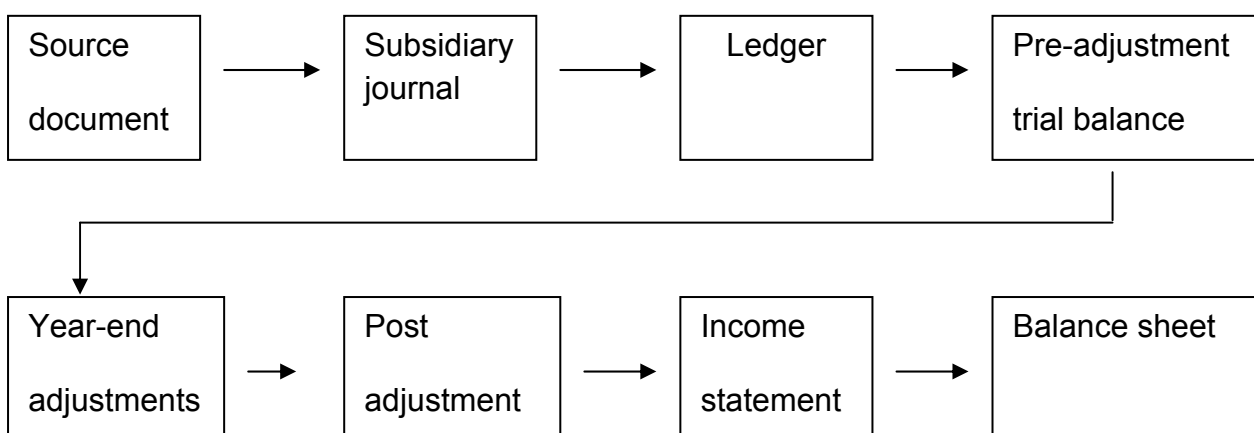
The third set is set up according to the express requirements of the Companies Act, and displays the least information of the three sets of statements. This is the version of the annual financial statements that should be published. (abridged financial statements)

Some users of financial statements:

- Shareholders
- Prospective shareholders or investors
- Banks and other financial institutions
- Creditors
- Directors
- SARS:
- The **Income statement**, which gives an indication of the operating activities of the enterprise during the year (**result of operations**)
- The **Balance sheet**, which indicates the enterprises' financial position at the end of the year (**state of affairs**)

In terms of the recording of transactions of an enterprise, financial statements form the last step in this process. All transactions are recorded as they occur and at the end of the financial year the financial statements are prepared.

The following diagram illustrates the cycle followed when recording transactions:





## INCOME STATEMENT

The Income Statement should reflect all incomes and expenses, which apply to the financial period under review. Therefore, this statement would only include income and expense accounts. The purpose of preparing this statement is to determine the net profit / loss for the period. The income statement is prepared in keeping with the GAAP principals, especially the matching principal where incomes and expenses for the same period must be reflected.

The following table illustrates some income and expense accounts:

Incomes	Expenses
Sales	Cost of sales
Rent income	Rent expense
Discount received	Discount allowed
Interest on fixed deposit / investment	Interest on loan
Commission income	All operating expenses (e.g., telephone, wages etc.)
Bad debts recovered	Bad debts
Provision for bad debts (decrease)	Provision for bad debts (increase)
Trading inventory surplus	Trading inventory deficit
Profit on sale of asset	Loss on sale of asset
	Depreciation
	Directors fees
	Audit fees

### Format of the company Income Statement:

<b>LIMITED LIABILITY COMPANIES</b>
<b>INCOME STATEMENT – TRADING BUSINESS (Continuous inventory system)</b>

Name of Company \_\_\_\_\_

Income statement for the year ended \_\_\_\_\_

	Notes	R	R
Turnover (sales – debtors allowances)			Xxxx
Cost of sales			(xxx)
Gross profit			Xxxx
Other operating income			Xxxx
(Incomes as illustrated in the table above, excluding interest)			Xxxx
Gross operating income			Xxxxx
(Operating expenses as illustrated in the table above, excluding interest)			(xxxx)
Operating profit / (loss)			Xxxxx
Interest income	1		Xx
Profit (loss) before interest expense			Xxxxx
Interest expense	2		(xx)
Profit / (loss) before tax			Xxxx
<b>Taxation</b>			<b>(xxx)</b>
<b>Net profit / (loss) after tax for the year / period</b>	<b>9</b>		<b>Xxxxx</b>



**Question 1** (Adapted from Nov 2011, Question 3)

1. You are provided with the Pre-adjustment Trial Balance of Aneesa Limited for the year ended 30 June 2011.

**REQUIRED:**

- 1.1 Prepare the Asset Disposal Account to record the sale of vehicles. See information G and H under Adjustments below. (9)
- 1.2 Complete the Income Statement for the year ended 30 June 2011. The notes to the financial statements are NOT required. Show workings in brackets. (47)



**INFORMATION:**

1. **ANEESA LTD**  
**PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 JUNE 2011**

	<b>DEBIT</b>	<b>CREDIT</b>
<b>Balance Sheet Accounts Section</b>	<b>R</b>	<b>R</b>
Ordinary share capital		2 820 000
Retained income		684 460
Mortgage loan: Joy Bank		804 500
Land and buildings	2 097 000	
Vehicles	814 000	
Equipment	616 000	
Accumulated depreciation on vehicles		294 800
Accumulated depreciation on equipment		341 000
Trading stock	955 000	
Cash float	15 000	
Bank	313 100	
Petty cash	3 300	
Debtors' control	396 000	
Creditors' control		487 300
SARS (Income tax)	261 800	
Provision for bad debts		18 000
Fixed deposit: Broad Bank (8% p.a.)	495 000	
<b>Nominal Accounts Section</b>		
Sales		10 500 000
Debtors' allowances	145 200	
Cost of sales	7 487 000	
Rent income		176 880
Interest income (on fixed deposit)		26 630
Bad debts recovered		2 300
Directors' fees	840 000	
Audit fees	73 800	
Salaries and wages	660 000	
Packing material	23 100	
Marketing expenses	480 000	
Sundry expenses	63 770	
Bad debts	12 000	
Ordinary share dividends	404 800	
	<b>16 155 870</b>	<b>16 155 870</b>



2. **ADJUSTMENTS:**

- A. A physical stock-taking on 30 June 2011 revealed the following inventories on hand:
- Trading stock                   R902 150
  - Packing material                R4 260
- B. Directors' fees of R22 500 are outstanding at the end of the financial period.
- C. Make provision for outstanding interest on a fixed deposit. This investment has been in existence for the entire year. Interest is not capitalised.
- D. A debtor who originally owed R32 000 has been declared insolvent. His estate paid 40 cents in every rand and this has been correctly recorded. The remaining balance must be written off as irrecoverable.
- E. Provision for bad debts must be adjusted to 5% of debtors.
- F. The rent increased by R1 320 on 1 April 2011. The tenant has paid rent until the end of July 2011.
- G. A vehicle was sold on credit for R90 000 on 31 December 2010. The fixed-asset register revealed the following regarding this vehicle:

	<b>R</b>
Cost price	235 000
Accumulated depreciation on 1 July 2010	105 750

This transaction has not yet been recorded by the bookkeeper.

- H. Make provision for depreciation as follows:
- Vehicles at 15% p.a. on cost price
  - Equipment at 10% p.a. on the diminishing balance method.
- NOTE:** New equipment to the value of R48 000 was purchased on 1 September 2010. This has been correctly recorded.
- I. The loan statement received from Joy Bank on 30 June 2011 reflected the following:

	<b>R</b>
Balance at the beginning of the financial year	1 125 000
Repayments during the year	458 000
Interest capitalised	?
Balance at the end of the financial year	804 500

- J. Income tax for the year, R150 285.

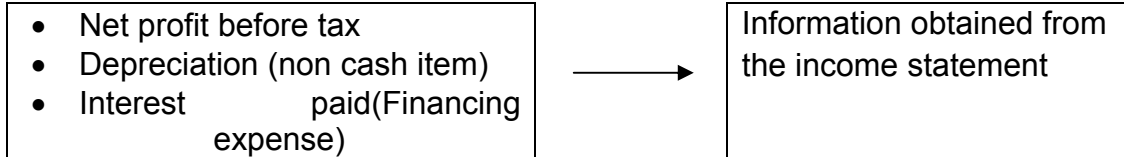


## CASH FLOW STATEMENT, RATIOS AND INTERPRETATION

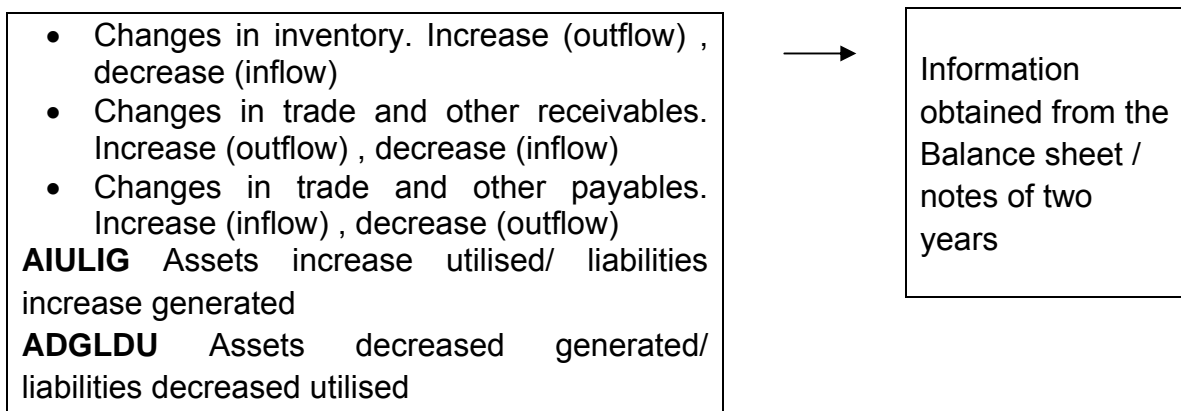
### STUDY NOTES

Steps in preparing the Cash Flow Statement

1. Calculate the cash generated from operations by considering the following:



2. Calculate the changes in working capital by considering the following:



3. Calculate the amount of taxation **paid**.

You may use the logical method as illustrated in the format of the notes to the cash flow statement or you may do the SARS: Income tax account. The **bank** amounts in this account would represent the taxation paid.

4. Calculate the amount of dividend **paid**.

You may use the logical method as illustrated in the format of the notes to the cash flow statement or you may do the Shareholders for dividend and ordinary share dividend accounts. The **bank** amounts in these accounts would represent the dividend paid.

5. Calculate the fixed assets purchased.

You may use the particular asset ledger account or you may use the carrying value method.

**Note: The following is the carrying value method**

Carrying value of asset at the beginning of the year		xxxx
Less: Depreciation		(xxx)
	Carrying value of asset sold (if any)	(xxx)
Add: Asset purchased		? Amount to be determined
=	Carrying value at the end of the year	xxxx

The carrying value at the beginning and the end would be given in the Balance sheet or the notes; therefore the asset purchased would be the missing figure.





6. Calculate the proceeds from the sale of fixed assets.
7. Calculate proceeds from the issue of shares. Remember to include the premium
8. Calculate proceeds from obtaining new loans.
9. Calculate repayment of loans.
10. Calculate the change in cash and cash equivalents.

**Question 1** (Adapted from Nov 2011, Question 4)

You are provided with information relating to Zipho Limited, a public company. The financial year ends on 28 February 2011.

**REQUIRED:**

- 1.1 Indicate where each of the following items would be placed in the Balance Sheet by choosing the answer from the list below. Write only the answer next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

non-current assets; current assets; non-current liabilities; current liabilities
--

- |       |  |      |
|-------|--|------|
| 1.1.1 | Current portion of a loan  | (2)  |
| 1.1.2 | Fixed deposits (maturing in two years' time)   | (2)  |
| 1.1.3 | Trade and other receivables  | (2)  |
| 1.1.4 | Bank overdraft   | (2)  |
| 1.2   | Prepare the Retained Income note to the Balance Sheet on 28 February 2011.   | (8)  |
| 1.3   | Complete the note for the reconciliation between net profit before tax and cash generated from operations for the year ended 28 February 2011. | (11) |
| 1.4   | Complete the Cash Flow Statement for the year ended 28 February 2011. Some of the figures have been entered in the ANSWER BOOK.                | (23) |





**INFORMATION:**

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

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

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

	2011	2010
Ordinary shareholders' equity	?	2 572 500
Ordinary share capital	1 800 000	1 233 000
Share premium	1 313 400	916 500
Retained income	?	423 000
Fixed/Tangible assets	2 790 000	3 824 500
Loan (18% p.a.)	500 000	850 000
Inventories	381 000	408 000
Cash and cash equivalents	1 155 000	3 000
Trade and other receivables	1 640 000	1 198 500
Trade debtors	1 640 000	1 150 000
SARS (Income tax)	-	48 500
Trade and other payables	1 803 355	2 011 500
Trade creditors	1 534 355	1 030 000
Accrued expenses (Telephone)	8 000	8 700
SARS (Income tax)	69 000	-
Shareholders for dividends	192 000	57 700
Bank overdraft	-	915 100



3. **Ordinary shares**

**Details of shares authorised:**

750 000 shares of R3,00 each

**Details of shares issued:**

411 000 ordinary shares on 1 March 2010

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

600 000 ordinary shares on 28 February 2011

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

4. **Dividends**

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

5. **Fixed assets**

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

6. **Financial indicators**

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

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



## **BUDGET AND DEBTORS' ANALYSIS**

### **STUDY NOTES**

Debtors represent amounts owing to the business. The collection of amounts due must be evaluated. The recoverability weakens as debtors age.

The credit policy must be strictly adhered to, and the management must keep an eye on aging debtors' accounts and thus avoid possible losses (bad debts). Analysis of every debtor must be done by way of ageing debtors and must be done regularly.

### **AGE ANALYSIS OF DEBTORS**

An age analysis of debtors can be drawn up in order to monitor how long debtors have been owing.

The following table illustrates a Debtors Age Analysis schedule:

<b>PINKY TRADERS</b>						
<b>DEBTORS AGE ANALYSIS AT 31 DECEMBER 2011</b>						<b>Terms : 30 days</b>
<b>DEBTORS</b>	<b>Amount Due</b>	<b>Current</b>	<b>Period in arrear</b>			
			<b>1 month</b>	<b>2 month</b>	<b>3 month</b>	<b>+90 days</b>
A.Aim	R2 000	R1 000	R500	R500		
P.Pine	R3 600	R1 800	R500	R500	R800	
C.Calm	R3 000	R1 500	R500	R500	R500	
D.Drone	R2 500	R1 250	R500	R500	R250	
E.Edward	R1 000					R1 000
	<b>R12 100</b>	<b>R5 550</b>	<b>R2 000</b>	<b>R2 000</b>	<b>R1 550</b>	<b>R1 000</b>
<b>% Total</b>	<b>100%</b>	<b>46%</b>	<b>17%</b>	<b>17%</b>	<b>13%</b>	<b>7%</b>

The **credit control** department can make use of the above information to:

- Send out statements
- Determine bad debts
- Determine provision for bad debts
- Charge interest on outstanding accounts
- Encourage debtors to pay accounts promptly
- Offer discounts
- Etc.



**Question 1** (Adapted from Nov 2011, Question 5)

You are provided with the Cash Budget and related information of Lekazi Furnishers for the three months ended 31 December 2011. The business is owned by Alfred Celtic.

**REQUIRED:**

- 1.1 Prepare a Debtors' Collection Schedule for November 2011. (8)
- 1.2 Calculate the figures indicated by A–E in the Cash Budget. (11)
- 1.3
- Calculate the debtors' average collection period (in days) for the financial year ended 31 October 2011.  
**NOTE:** The actual balance in the Debtors' Control Account was R79 500 at the beginning of the financial year and R83 500 at the end of the financial year.
  - Explain whether Alfred should be satisfied with this collection period. Give ONE reason for your opinion. (8)
- 1.4 Refer to the Debtors' Age Analysis. Alfred feels that he has problems in controlling debtors. Give TWO different reasons why he feels this way. Briefly explain. In each case, identify the problem debtor(s). (6)
- 1.5 Calculate the percentage increase in salaries and wages in December 2011. One of the employees, Mona Lott, is not happy with this increase. State TWO points in response to her complaint. (4)

**INFORMATION:**

1. **Credit terms and credit limits:**  
It is Alfred's policy to grant debtors credit limits of R15 000 each. They are expected to settle their accounts within 30 days from the date on the statement.
2. **Sales and cost of sales**
- Total sales for the past financial year, R960 000.
  - 75% of sales are on credit, the rest are for cash.
  - The total sales for October to December were as follows: October R81 000; November R78 000; December R75 000.
  - The business uses a mark-up of 50% on cost at all times.
  - Stock is replaced on a monthly basis.
  - 50% of all purchases are for cash, the rest are on credit.
  - Creditors are paid in the month after the purchases in order to receive 5% discount.



3. **Debtors' collection:**

Debtors are expected to pay as follows:

- 25% of debtors settle their accounts in the month of the sale (current).
- 40% settle in the month following the sales transaction month (30 days).
- 30% settle in the second month (60 days).
- 5% are written off.

4.

<b>DEBTORS' AGE ANALYSIS ON 31 OCTOBER 2011</b>					
<b>NOTE:</b>					
• Business policy sets credit limits at R15 000 per account.					
• The credit terms are 30 days.					
Name	Total	Current month	30 days	60 days	60 days+
A Botha	15 000	15 000			
D Scott	29 000	10 000	5 000	2 000	12 000
P Raj	8 500			8 500	
C Ntuli	16 400	11 200	5 200		
N Mpo	14 600	5 800	5 300	3 500	
	<b>83 500</b>	<b>42 000</b>	<b>15 500</b>	<b>14 000</b>	<b>12 000</b>

**LEKAZI FURNISHERS**

**CASH BUDGET FOR THE THREE MONTHS ENDED 31 DECEMBER 2011**

	<b>2011 OCTOBER</b>	<b>2011 NOVEMBER</b>	<b>2011 DECEMBER</b>
<b>RECEIPTS</b>	<b>137 715</b>	<b>84 825</b>	<b>81 940</b>
Cash sales	<b>C</b>	19 500	18 750
Collection from debtors	59 965	?	55 690
Rent income	?	?	?
Mortgage loan from XYZ Bank	?		
<b>PAYMENTS</b>	<b>81 300</b>	<b>110 350</b>	<b>105 160</b>
Purchase of stock for cash	<b>D</b>	26 000	25 000
Payment to creditors	26 600	<b>E</b>	24 700
Repayment of loan		5 000	5 000
Interest on loan		750	750
Bank charges	1 200	1 350	?
Salaries and wages	22 000	22 000	23 760
Telephone	900	900	900
Advertising	1 000	1 000	1 000
Sundry expenses	2 600	2 700	2 800
Drawings	?	?	?
Surplus (Deficit) for the month	56 415	(25 525)	(23 220)
Cash at the beginning of the month	8 300	64 715	<b>A</b>
Cash at the end of the month	64 715	39 190	<b>B</b>





## **INVENTORY VALUATION**

### **Check List**

Make sure you can perform calculations and interpret financial documents that relate to:

- stock valuation
- asset disposal

### **STUDY NOTES**

#### **STOCK VALUATION**

As a result of changing prices and inflation as well as other economic factors, the actual value of stock changes all the time. Thus a business is faced with the dilemma of deciding what the correct value of stock on hand should be. It is apparent from what we already know, that the value of stock will determine our cost of sales which, in turn, will have an impact on the gross profit as well as the net profit of the business. Therefore, stock valuation plays an important role in determining the true financial performance of the business. The value of stock on hand is also reflected in the notes to the financial statements, and has an impact on the current assets of the business, therefore, playing an important role in establishing the financial position of the business as reflected in the Balance Sheet. Valuation of stock is also important for manufacturing concerns in terms of determining the cost of raw materials used when determining the cost of production.

#### **Methods of determining stock value**

When adopting a method to determine the cost price of the stock still on hand, the wisest choice would be that method which can facilitate the most realistic determination of profits for any specific business.

The two methods you must use to determine cost price of stock on hand at the end of the financial period are:

- ◆ Weighted average method
- ◆ First-in-first-out method (FIFO)

#### **DISPOSAL OF A FIXED ASSET**

Steps to be followed when recording the disposal of a fixed asset:

➤ **Step 1**

Calculate and record the depreciation on the asset sold. (This does not apply if the asset was sold at the beginning of the year).

Dr Depreciation

Cr Accumulated depreciation

➤ **Step 2**

Transfer the asset sold to the Asset Disposal account. (Use the cost price of the asset).

Dr Asset disposal

Cr Asset account



➤ **Step 3**

Transfer the total accumulated depreciation on that asset to the Asset Disposal account.

**# Total accumulated depreciation = Accumulated depreciation at the beginning of the year on that asset + the depreciation calculated as in step 1.**

Dr Accumulated depreciation

Cr Asset disposal

➤ **Step 4**

Record the sale / disposal of the asset. Use the selling price or the price obtained for the asset.

If for cash then:      Dr Bank  
   Cr Asset disposal

If on credit then:      Dr Debtors control  
   Cr Asset disposal

If a trade-in then:    Dr Creditors control  
   Cr Asset disposal

➤ **Step 5**

Determine whether there is a profit or a loss on the disposal of the asset.

If selling price > carrying value = Profit on sale of asset

DR Asset disposal

CR Profit on sale of asset

If selling price < carrying value = Loss on sale of asset

DR Loss on sale of asset

CR Asset disposal

**NB:** Thereafter, depreciation on the remainder of the fixed assets should be calculated, if the information is to be completed for the year-end.

**Fixed Asset account**

Balance	B/d	xxxx	Asset disposal	GJ	xxxx
Bank/Debtors/Creditors		xxxx	Balance	C/d	xxxx
		xxxx			xxxx
Balance	B/d	xxxx			

**Accumulated depreciation account**

Asset disposal	GJ	xxxx	Balance	B/d	xxxx
			Depreciation	GJ	xxx
Balance	C/d	xxxx	Depreciation		xxxx
		xxxx			xxxx
			Balance	B/d	xxxx





**Nominal section  
Asset disposal account**

Fixed asset	GJ	xxxx	Accumulated depreciation	GJ	xxxx
Profit on sale of asset		xxxx	Bank/Debtors/Creditors		xxxx
			Loss on sale of asset		xxxx
		xxxx			xxxx

**Depreciation account**

Accumulated depreciation	GJ	xxxx	Profit and loss	GJ	xxxx
Accumulated depreciation	GJ	xxxx			

**INVENTORY VALUATION QUESTIONS**

**Question 1** (Nov 2011, Question 6)

**1.1 INVENTORY VALUATION**

Speedy Traders sells one type of bicycle to major retail stores around South Africa. They make use of the FIFO method for stock valuation and use the periodic inventory system. The business is owned by Steve Martin.

**REQUIRED:**

- 1.1.1 What do the letters *FIFO* stand for? (2)
- 1.1.2 Calculate the value per bicycle on hand on 1 July 2010. (2)
- 1.1.3 Calculate the value of the closing stock on 30 June 2011 according to the FIFO method. (4)
- 1.1.4 Calculate the gross profit on 30 June 2011. (6)
- 1.1.5 The owner and the accountant disagree on the method of stock valuation. Steve, the owner, wants to continue using the FIFO method, because he says it is easier to calculate. Bonggi, the accountant, wants to use the weighted-average method, because she says the profit will be lower, and therefore the income tax will be lower.

As internal auditor, what would you say to Steve and Bonggi? State TWO points. (4)



**INFORMATION:**

The information below appeared in the records of Speedy Traders for the year ended 30 June 2011. The business used a fixed selling price of R6 750 per bicycle.

INFORMATION ON STOCK	NUMBER OF BICYCLES	VALUE PER BICYCLE	TOTAL VALUE
Bicycles on hand on 1 July 2010	60	?	R240 000
Bicycles bought during the year	630		R2 606 000
September 2010	250	R3 800	R950 000
January 2011	200	R4 500	R900 000
May 2011	180	R4 200	R756 000
Bicycles returned from January purchases	5	R4 500	R22 500
Bicycles sold during the year	450	R6 750	R3 037 500
Bicycles on hand on 30 June 2011	235	?	?

**1.2 PROBLEM-SOLVING**

Quick Bikes sells one brand of scooters. The owner, Doctor Zulu, has three branches operating in Riverside, Valley View and Mountain Rise. The three branches are managed by Robby, Vusi and Melanie, respectively.

Doctor Zulu has obtained the annual figures from the three branches for the financial period ending 28 February 2011.

**REQUIRED:**

Identify ONE problem in relation to each branch, quoting figures to support the problem. In each case, offer Doctor Zulu advice on how to solve the problem. (12)

**INFORMATION**

	RIVERSIDE (ROBBY)	VALLEY VIEW (VUSI)	MOUNTAIN RISE (MELANIE)
Number of scooters available for sale	470	300	190
Number of scooters sold during the year	380	75	190
Physical count on 28 February 2011	72	225	Nil
Cost price per scooter	R7 500	R7 500	R7 500
Selling price per scooter	R11 500	R11 500	R11 500
Advertising per year	R15 000	R40 000	R60 000
Salary of manager	R30 000 per month	R30 000 per month	R30 000 per month