



SOLUTIONS TO MANUFACTURING

Question 1 (Nov 2011, Question 1)

1.1

For each item below, indicate the appropriate category. Choose your answers from the options provided in the question paper.

No part-marks

1.1.1	Direct material	✓✓
1.1.2	Indirect labour	✓✓
1.1.3	Indirect material	✓✓

1.2

SLEEPWELL MANUFACTURERS PRODUCTION COST STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2011

	TOTAL	
Direct/Raw materials cost	1 250 000	
Direct labour cost ✓	640 500	✓
Prime / Direct costs ✓ must = DMC + DLC	1 890 500	✓
Factory / Manufacturing overhead cost ✓	728 000	✓
Total cost of production / TMC ✓ operation adding	2 618 500	☑
Work-in-process stock on 1 October 2010	45 000	
	2 663 500	
Work-in-process on 30 September 2011 / end of year ✓	(38 500)	☑
Cost of production of finished goods	2 625 000	

- 1 foreign entries to a maximum of -2 in the case of additional entries added in to the PCS e.g. S&D Cost, Admin cost, Finished goods stock in addition to items that should be there



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1.3.1

Calculate the direct material cost per unit for 2011.

$$\frac{79\,050}{15\,500} \checkmark = R5,10 \text{ or } 510 \text{ cents } \checkmark \text{ operation if one part correct}$$

do not accept 5,1 cents or R510 or 5,1%

1.3.2

Calculate the break-even point for the year ended 30 June 2011.

$$= \frac{89\,900}{14,50 - 8,50}$$

$$= \frac{89\,900}{6} \checkmark \checkmark$$

if 6 not provided look above, no part-marks

$$= 14\,984 \text{ units } \checkmark$$

(accept 14 984 or 14 983 or 14 983,33) operation if one part correct
Do not accept R, cents or % signs

1.3.3

Should the business be satisfied with the number of units that are currently produced? Briefly explain.

Yes/No/Satisfied/Dissatisfied ✓

Explanation for yes: Figures not required; Must refer to a comparison to BEP for 2 marks
They are producing 516 or 517 units more than what is required to break even (14 984 units). ✓✓ Full marks if explanation is consistent with 1.3.2

Explanation for no:
They are only producing 516 or 517 units (3%) more than the break even point.

Examples of responses for one mark:

- They are producing enough units
- They are making a profit / almost making a loss
- They are covering costs



1.3.4

Should she carry on with her plan? Give ONE valid reason for your decision.

No ✓

Any one valid reason ✓✓ **part-marks for partial answers**

- It is unethical
- They must not mislead the customers
- The customers will notice the difference and stop buying from her – loss of goodwill
- Quality will be compromised
- Better training of workers for less wastage

Examples of responses for one mark:

- Sales will drop
- Profit will drop
- She must increase the selling price (i.e. keep existing filling)



SOLUTIONS TO BANK RECONCILIATION AND CREDITORS' RECONCILIATION

Question 1 (Adapted from Nov 2011, Question 2)

1.1.1 State whether the statements are TRUE or FALSE.

No part-marks

(a)	True ✓✓
(b)	True ✓✓
(c)	False ✓✓
(d)	False ✓✓

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

Accept brackets instead of – sign Foreign item -1 max -2
Could do a T-account; Could do horizontal calculation

Balance prior to doing the bank reconciliation	R60 000	R60 000
Stale cheque cancelled	✓2 000	✓2 000
Bank charges	✓– 1 200	✓– 1 200
Dishonoured cheque	✓–9 500	✓–9 500
Deposit reversed (rule of prudence)		✓–*43 000
Correct balance on 30 September 2011 operation if one part correct	✓ <input checked="" type="checkbox"/> 51 300	✓ <input checked="" type="checkbox"/> 8 300

1.1.3

BANK RECONCILIATION STATEMENT ON 30 SEPTEMBER 2011		
-1 for poor presentation / incorrect details (max -2)	Debit	Credit
Balance as per Bank Statement		✓ 17 600
Outstanding cheques:		
No. 931	✓ 4 800	
No. 936	✓✓ 10 200	or 48 700
Outstanding deposit *must be omitted if in 2.1.2		✓ *43 000
-1 if outstanding deposits combined without figures in brackets		✓ 5 700
Balance as per bank account see 2.1.2 or check operation	<input checked="" type="checkbox"/> 51 300 or 8 300	
- 1 foreign entries to a maximum of -2 e.g. 43 000 in both 2.1.2 and 2.1.3	66 300 or 23 300	66 300 or 23 300
-1 for poor presentation / incorrect details (max -2)		
If 2-column method used without Debit / Credit headings assume left=Debit and right=Credit		
OR single column method OR could start with ledger balance		
Balance as per Bank Statement		✓ 17 600
Less outstanding cheques: or brackets or – may be used		
No. 931		✓ 4 800
No. 936		✓✓ 10 200
Add outstanding deposit *must be omitted if in 2.1.2		✓ *43 000
-1 if outstanding deposits combined without figures in brackets		✓ 5 700 or 48 700
Balance as per bank account see 2.1.2 or check operation	<input checked="" type="checkbox"/> 51 300 or 8 300	
- 1 foreign entries to a maximum of -2 e.g. 43 000 in both 2.1.2 and 2.1.3		



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.

Two valid points ✓✓ ✓✓ **part-marks for partial answers**

Possible answers for 2 marks:

- This deposit should have been reflected on the bank statement within a day.
- R43 000 outstanding for some time could indicate that regular depositing is not happening (possible rolling of cash and fraud).
- R43 000 appears to be missing and will affect the cash flow and liquidity.
- Possible error (e.g. wrong account number) or fraud by the bank which must be resolved as soon as possible.
- Rule of prudence would dictate that the amount should be reversed if there is a possibility of fraud.
- Lack of internal control.
- Possibility of fraud / error.

Examples of responses for one mark:

- This is a large amount of money
- Division of duties

Question 2

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

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

If extra entries are shown, award marks but -1 for the foreign item on each line; sign must be correct to earn marks; if no + sign assume positive, accept brackets for a negative

	Creditors' Ledger of Ace Traders	Statement from Kairo Suppliers
Balance	R7 910	R11 390
1		✓✓ - 3 000
2	✓✓ +500	
3	✓✓ - 90	
4		✓✓ + 6 930
5	+3 500 ✓ +3 500 ✓ OR +7 000	
Balance/Total	15 320	✓ operation, both totals 15 320



SOLUTIONS TO INCOME STATEMENT, ASSET DISPOSAL AND AUDIT REPORT

1.1

ASSET DISPOSAL

2010 Dec.	31	Vehicles	✓ 235 000	2010 Dec.	31	Accumulated depreciation on vehicles (105 750 ✓ + 17 625 ✓✓)	<input checked="" type="checkbox"/> 123 375 Operation any one part correct, two items must be added
						Debtors' control ✓	✓ 90 000
						Loss on sale of asset / Profit & loss ✓	✓ 21 625
			235 000				235 000



1.2 ANEESA LTD : INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	Sales (10 500 000 ✓ – 145 200 ✓)	✓	10 354 800
	Cost of sales	✓	(7 487 000)
5	Gross profit <small>Check operation, COS must be deducted</small>	☑	2 867 800
	Other operating income <small>Check operation</small>	☑	164 660
	Rent income (176 880 ✓ – 14 520 ✓✓) <small>operation if one part correct and adj exists</small>	☑	162 360
	Bad debt recovered	✓	2 300
6	Gross operating income		3 032 460
	Operating expenses <small>Check operation</small>	☑	(2 396 600)
	Directors fees (840 000✓ + 22 500✓)	✓	862 500
	Audit fees	✓	73 800
	Salaries and wages	✓	660 000
	Packing material (23 100 ✓ – 4 260 ✓)	✓	18 840
	Marketing expenses	✓	480 000
	Sundry expenses	✓	63 770
	Bad debts (12 000 ✓ +19 200✓✓) <small>operation if one part correct & adj exists</small>	☑	31 200
	Provision for bad debts adjustment (18 840 – 18 000) <small>or (23 340 – 18 000) NB: no part marks</small>	✓✓	840 or 5 340
	Depreciation <small>operation if one part correct</small> (17 625 ☑ <small>must see 3.2.1</small> + 86 850 ✓ + 4 000 ✓ + 22 700 ✓✓) <small>61 050 + 43 425 for 1mark each 104 475 for 2 marks</small>	☑	131 175
	Loss on sale of asset <small>must see 3.2.1</small>	☑	21 625
26	Trading stock deficit <small>2 marks or Nil</small>	✓✓	52 850
	Operating profit <small>operation if exp deducted</small>	☑	635 860
	Interest income (26 630 + 12 970) <small>If one part correct</small>	✓☑	39 600
	Profit before interest expenses/Finance cost		675 460
	Interest expenses/Finance cost (458 000 + 804 500 – 1 125 000) <small>Must mark one line only</small> <small>or (1 125 000✓ – 458 000✓ – 804 500✓)</small>	☑	(137 500)
	Profit before tax <small>operation if interest deducted</small>	☑	537 960
	Income tax <small>accept figure without bracket</small>	✓	(150 285)
10	Net profit after tax <small>check operation, tax must be deducted</small>	☑	387 675

Foreign items –1 each (max –2);

If interest income / interest expense in two places, treat as foreign item

If interest income / interest expense misplaced, mark it but (–1 each time (–2 max))



SOLUTIONS TO CASH FLOW STATEMENT, RATIOS AND INTERPRETATION

1.1

Indicate where each of the following items would be placed in the Balance Sheet by choosing the answer from the list in the question paper.

4.1.1	Current liabilities ✓✓
4.1.2	Non-current assets ✓✓
4.1.3	Current assets ✓✓
4.1.4	Current liabilities ✓✓

1.2

RETAINED INCOME NOTE ON 28 FEBRUARY 2011

-1 foreign entries (max -2)

Retained income at the beginning of the year		423 000
Net profit after tax ✓	Do not accept NP before tax	✓ 714 245
Dividends ✓		(588 000)
Interim dividends paid	✓✓	396 000
Final dividends declared	✓✓	192 000
Retained income at the end of the year	<input checked="" type="checkbox"/>	549 245

Operation, if any one figure correct, dividends deducted

1.3

RECONCILIATION BETWEEN NET PROFIT BEFORE TAX AND CASH GENERATED FROM OPERATIONS FOR THE YEAR ENDED 28 FEBRUARY 2011

Foreign items – 1 max -2

Net profit before tax		1 020 350
Adjustments in respect of:		
Depreciation ✓	✓	203 000
Interest expense ✓	✓	86 400
Operating profit before changes in working capital		1 309 750
Cash effects of changes in working capital		40 655
Change in inventory		27 000
Change in trade and other receivables /debtors ✓	✓✓ *	(490 000)
Change in trade and other payables /creditors ✓	✓✓ *	503 655
* If figure correct but brackets incorrect, allocate 1 mark to figure		
Cash generated from operations	<input checked="" type="checkbox"/>	1 350 405

operation if any one figure above is correct



1.4 ZIPHO LIMITED	
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2011	
Workings may be shown as T-accounts for dividends, tax & fixed assets	
If items are misplaced, award the marks but -1 each time for misplacement, max -3	
Cash effects of operating activities <small>operation one part correct</small>	<input checked="" type="checkbox"/> 621 700
Cash generated from operations <small>see 4.3</small>	<input checked="" type="checkbox"/> 1 350 405
Interest paid	(86 400)
✓ Dividends paid (57 700 ✓ + 588 000 <input checked="" type="checkbox"/> - 192 000 ✓) <small>396 000 two marks</small> <small>see 4.2</small> OR (- 57 700 - 588 000 + 192 000) <small>sign must be correct; mark one line only operation one part correct</small>	<input checked="" type="checkbox"/> (453 700)
✓ Income tax paid (306 105 ✓ - 48 500 ✓ - 69 000 ✓) OR (- 306 105 + 48 500 + 69 000) <small>sign must be correct; mark one line only operation one part correct</small>	<input checked="" type="checkbox"/> (188 605)
12	<small>Inflow or Outflow must be correct to earn the method on the final figure</small>
Cash effects of investing activities <small>operation one part correct</small>	<input checked="" type="checkbox"/> 831 500
Purchase of fixed assets (203 000 ✓ + 2 790 000 ✓ + 1 250 000 ✓ - 3 824 500 ✓) OR (- 203 000 ✓ - 2 790 000 ✓ - 1 250 000 ✓ + 3 824 500 ✓) <small>sign must be correct; mark one line only operation one part correct</small> <small>must be shown as outflow</small>	<input checked="" type="checkbox"/> (418 500)
✓ Proceeds / disposal / sale of fixed assets <small>must be shown as inflow</small>	✓ 1 250 000
8	
Cash effects of financing activities	613 900
Proceeds of issue of shares	963 900
Repayment of long-term loan	(350 000)
Net change in cash equivalents <small>operation top-down or bottom-up</small>	<input checked="" type="checkbox"/> 2 067 100
Cash equivalents – beginning of year	✓✓ (912 100)
Cash equivalents – end of year 3	1 155 000



SOLUTIONS TO BUDGET AND DEBTORS' ANALYSIS

1.1. Prepare a Debtors' Collection Schedule for November 2011.

	Credit sales	November collections
September	R 63 000	✓✓ 18 900
October	✓ 60 750	If 40% of credit sales ✓✓ 24 300
November	58 500	✓✓ 14 625
TOTAL	operation	✓ 57 825

1.2. Calculate the figures indicated by A–E in the Cash Budget.

A	39 190 ✓
B	15 970 ✓✓ no part-marks
C	20 250 ✓✓ no part-marks
D	$\frac{81\,000}{1} \times \frac{100}{150} \times \frac{1}{2}$ 27 000 ✓ if one part correct
E	25 650 ✓✓ if 95% of D



1.3 Calculate the debtors' average collection period (in days) for the financial year ended 31 October 2011.

$$\frac{(79\,500 + 83\,500) / 2}{720\,000} \times \frac{365}{1} = 41,3$$

no part marks for each figure operation one part correct

Explain whether Alfred should be satisfied with this collection period. Give ONE reason for your opinion.

Yes/No ✓

Valid reason depending on calculation ✓✓
Part-mark for partial answer; must refer credit term

Possible reason:

- Debtors are not complying with the (30 day) credit term. The collection period is therefore not good.
- Although they are not complying with the (30 day) credit term, most of them are expected to settle their accounts within 60 days.

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).

Reason ✓✓ ✓✓
Name(s) ✓ ✓

Any two valid different points

- Two debtors are exceeding the credit limit or R15 000 (D Scott or C Ntuli)
- Three debtors are taking longer than the credit term or 30 days (D Scott or P Raj or N Mpo)
- One debtor appears to have absconded (P Raj).

Figures are not required, but figures may be used to refer to the credit limit or the credit term. Any ONE relevant debtor may be mentioned.



1.5 Calculate the percentage increase in salaries and wages in December 2011.

8% ✓✓ no part-marks

One of the employees, Mona Lott, is not happy with this increase. State TWO points in response to her complaint.

Response to Mona Lott: ✓ ✓ any two valid responses: 1 mark each

- Compare to inflation rate
- Sales are decreasing per month
- Economy is declining, she is lucky to have a job
- Expenses exceed the income for the past two months
- There is not much money in the bank
- Consider amount of drawings taken by owner (can only work out Nov drawings)

SOLUTIONS TO INVENTORY VALUATION

Question 1 (Nov 2011, Question 6)

1.1.1

What do the letters *FIFO* stand for?

First In First Out ✓✓ no part marks, accept a valid explanation e.g. stock bought first is sold before the later stock purchased

1.1.2

Calculate the value per bicycle on hand on 1 July 2010.

R4 000 ✓✓ no part marks

1.1.3

Calculate the value of the closing stock on 30 June 2011 according to the FIFO method.

R756 000 ✓ + R247 500 ✓✓ = R1 003 500 ✓ operation one part correct



1.1.4

Calculate the gross profit on 30 June 2011.

Accept a Trading account for workings

Opening stock	✓	R240 000
Purchases (2 606 000✓ – 22 500✓)		R2 583 500
Closing stock see 6.1.3	☑	(1 003 500)
Cost of sales		(R1 820 000)
Sales	✓	R3 037 500
Gross profit operation	☑	<u>R1 217 500</u>

OR

$$\begin{aligned} \text{COS} &= 240\,000 \checkmark + 2\,606\,000 \checkmark - 22\,500 \checkmark - 1\,003\,500 \checkmark = 1\,820\,000 \\ \text{Sales} &= \checkmark 3\,037\,500 \\ \text{Gross profit} &= \checkmark 1\,217\,500 \end{aligned}$$

$$\begin{aligned} \text{OR} \quad & \begin{array}{ccc} 240\,000 & 950\,000 & 630\,000 \end{array} \\ \text{COS} &= (60 \times 4\,000) \checkmark + (250 \times 3\,800) \checkmark + (140 \times 4\,500) \checkmark \checkmark = R1\,820\,000 \\ \text{Sales} &= = R3\,037\,500 \checkmark \\ \text{Gross profit} &= = R1\,217\,500 \checkmark \end{aligned}$$



1.1.5

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

Any two valid comments: ✓✓ ✓✓ **Part mark for partial answers**

Expected responses:

- Bicycles are discrete / expensive units and models change – it is more appropriate to attach specific cost prices to specific items of stock, which makes FIFO more appropriate.
- FIFO value is more precise / accurate.
- Decision should not be made on the basis of what is easier or what will result in less tax. They must choose the most appropriate method / must not manipulate the profit (unethical).
- The business should keep to the existing method to ensure comparability across years unless very valid reason for change which is not the case here.
- Both Steve and Bonggi are incorrect w.r.t. their reasons. FIFO involves more recording because individual cost prices are attached to specific bicycles. Bonggi is incorrect because the situation regarding profit/losses will change depending on stock values each year.
- In the long run it does not make much difference which method you are using (profit will eventually be the same)
- Get clearance from SARS to make the change (affects profit and tax)



1.2

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.

Each comment: one mark; quoting figures: one mark; advice: two marks.
Figures must be based on information in the question.

BRANCH	COMMENT	ADVICE
<p><i>Riverside</i> Figures ✓ Comment ✓ Advice ✓✓</p>	<p>Negligence of management / theft occurring. There are 18 scooters missing (90-72) / Loss in profit of R72 000 / Value of shortage of R135 000. Do not accept Advertising as sales are higher than the other branches.</p>	<p>Improve internal control / do regular physical stock checks / Vusi must be accountable (pay in) / Install security camera.</p>
<p><i>Valley View</i> Figures ✓ Comment ✓ Advice ✓✓</p>	<p>The scooters are not selling well. / Situated in a low economic area / Vusi is too lazy / Vusi has too much stock on hand. Only 75 out of 300 have been sold. OR Even though Vusi has advertised a lot, R40 000 / R25 000 more than Riverside, it has not been effective. OR Stock will become obsolete / out of date, 225 left over. OR He made a net loss of R100 000 on figures available due to low sales.</p>	<p>Doctor Zulu should get Vusi to advertise effectively to increase sales. OR Instead of paying managers a set monthly income he should pay them commission based on sales. OR Restrict amount of stock on hand as this could lead to theft or out of date stock (stock piling). OR Close down the branch. OR Transfer stock to Mountain Rise branch.</p>
<p><i>Mountain Rise</i> Figures ✓ Comment ✓ Advice ✓✓</p>	<p>Even though Melanie has spent the most on advertising, R60 000, this has not led to good sales. Advertised four times more but has half of Vusi's sales. OR Her advertising has been very effective that it has led to all 190 units of stock being sold out. OR Poor management / She is not ordering enough stock and has no stock (Nil) left over. The customers might be going to other branches to get their scooters.</p>	<p>The manager's advertising strategy should be revisited. OR Instead of paying managers a set monthly income he should pay them commission based on sales. OR Order more stock to satisfy demand to prevent customers from going to other branches or competitors. OR Obtain stock from other branches to address the demand.</p>