



education

Department:
Education

PROVINCE OF KWAZULU-NATAL

CURRICULUM GRADE 10 - 12 DIRECTORATE

NCS (CAPS) SUPPORT DOCUMENT

MIP WINTER AND SPRING LEARNER REVISION DOCUMENT

GRADE 12

ACCOUNTING

2020

ACTIVITY A1 (Limpopo Sept 2019 Q3)

QUESTION 3 COMPANIES FINANCIAL STATEMENTS (45 marks; 30 minutes)

1. FINANCIAL STATEMENTS AND NOTES

The following information was taken from Khumalo Fashions Ltd. The financial years ended on 28 February 2019.

REQUIRED:

Complete the Income Statement for the year ended 28 February 2019. Certain figures have been added in the Answer book. (45)

INFORMATION

| Balances on 28 February 2019 | R |
|--|-------------|
| Balance sheet accounts | |
| Ordinary shareholder's capital | 1 840 000 |
| Retained income | 213 260 |
| Provision for Bad Debts (1 March 2018) | 2 000 |
| Loan from director | 750 000 |
| SARS: Income Tax | (Dr) 74 195 |
| Nominal accounts | |
| Cost of Sales | ? |
| Sundry expenses | ? |

Additional information and Adjustments:

- A. Included in the Sales amount was R56 000 received for goods sold to a school at a mark-up of only 25%. All other goods were sold at a mark-up percentage of 40%.
- B. The following information from the February Bank Statement must still be taken into account:
 - Bank charges, R340
 - Interest on current account, R670
 - R/D cheque from a debtor for R3 650 as settlement of his account of R4 050.
 - A cheque for stationery was entered in the journals as R778 instead of R878.
- C. A debtor with an outstanding debt of R800 must be written off as irrecoverable.
- D. Dresses to the value of R4 800 were damaged in transit. The insurance will cover 35% of the loss and will make a payment during March 2019. The balance is the business' loss.
- E. A physical stock-take on 28 February 2019 showed: Stationery on hand, R280
 - Trading stock of R3 200 could not be accounted for during the stock-take.
- F. An annual Insurance premium of R9 600 was paid and recorded on 1 June 2018.
- G. The Provision for Bad Debts must be adjusted to R3 800.
- H. Commission on certain old stock was calculated at R1 600 being 10% of the sale items. This must be adjusted to 6% due to the nature of the goods sold.
- I. Provide for any outstanding directors fees. The directors receive the following annual fees: G. Khumalo R50 000 and R. Khumalo R60 000.
 - Since 1 November 2018 R. Khumalo has been renting a house that belongs to the company. The rent of R6 000 per month is to be offset against her director's fees. This transaction was not recorded. R. Khumalo has also not received any fee as yet.
- J. Operating profit on Sales for the year was calculated as 25%.
- K. Net profit after Tax on Sales for the year was calculated as 15%.
- L. Tax was calculated at R78 795 for the year.
- M. **Loan from director:**
 - The balance of the loan on 1 March 2018 was R844 205.
 - Interest on loan is capitalised.
 - Payments made during the year, including interest, were R150 000.
 - A loan repayment of R120 000 will be made on 1 July 2019.
- N. Dividends declared on 27 February 2019 amounted to R16 000.

ACTIVITY A1 (Limpopo Sept 2019 Q3)
COMPANIES FINANCIAL STATEMENTS

1. KHUMALO FASHIONS LTD.

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019

| | |
|--------------------------------|-----------|
| Sales | 1 225 700 |
| Cost of sales | |
| Gross profit | |
| Other operating income | |
| Commission income (89 200) | |
| | |
| Gross operating income | |
| Operating expenses | |
| Bank charges (3 260) | |
| Bad debts (5 600) | |
| Discount allowed (2 940) | |
| Stationery (3 860) | |
| Insurance (14 250) | |
| Director's fees (50 000) | |
| Sundry expenses | |
| | |
| Operating profit | |
| Interest income (11 350) | |
| Profit before interest expense | |
| | |
| Profit before tax | |
| | |
| Profit after tax | |

ACTIVITY A2 (Free State Sept 2019, Q3)**COMPANY FINANCIAL STATEMENTS (67 marks; 40 minutes)**

You are provided with information from the records of Moonlight Ltd for the financial year ended 28 February 2019.

REQUIRED:

- 2.1 **Refer to Information D**
- 2.1.1 Calculate the profit or loss on disposal of the computer on 1 August 2018. (6)
- 2.1.2 Calculate the total depreciation for the year. (9)
- 2.1.3 Suggest ONE internal control measure that the internal auditor can perform to verify the tangible assets figure in the Balance Sheet. (2)
- 2.2 Complete the Income Statement (Statement of Comprehensive Income) for the year ended 28 February 2019. (40)
- 2.3 Prepare the Retained income note on 28 February 2019. (10)

INFORMATION:

- A. The following balances/totals, amongst others, appeared in the books on 28 February 2019:

| | R |
|--|-----------|
| Retained income | 765 000 |
| Loan: Derby Bank | 2 110 000 |
| Vehicles | 1 520 000 |
| Equipment | 660 000 |
| Accumulated depreciation on vehicles (1 March 2018) | 484 500 |
| Accumulated depreciation on equipment (1 March 2018) | 178 000 |
| Trading stock | 1 287 000 |
| Provision for bad debts (1 March 2018) | 10 200 |
| Sales | ? |
| Cost of sales | 7 540 000 |
| Rent income | 158 200 |
| Directors fees | 932 400 |
| Audit fees | 64 000 |
| Salaries and wages | 320 000 |
| Insurance | 56 250 |
| Commission income | 31 580 |
| Bad debts | 2 779 |
| Interest expenses | ? |
| Interest income | ? |
| Sundry expenses | 187 640 |

B. Adjustments and additional information

- (i) Goods are sold at a mark-up of 60% on cost price.
- (ii) A credit note for the return of merchandise sold for R12 480 was omitted from the Debtors Allowances Journal on the 15 February 2019. The goods were taken into stock, but no entries were made.
- (iii) Stock, costing R37 500 was stolen. The insurance company has agreed to pay out an amount of R26 250 which is still receivable.
- (iv) Stocktaking on 28 February 2019 reflected trading stock of R1 234 800 on hand.
- (v) A cheque for R10 150 was received from the trustee of a debtor who was declared insolvent. This represented a dividend of 40 cents in the Rand. The balance must be written off as bad debt.
- (vi) Provision for bad debts must be decreased to R9 700.
- (vii) The rent for February 2019 was still outstanding. The rent was increased by 10% on 1 November 2018.
- (viii) Income tax is calculated at 25% of the net profit.

C. The loan statement received from Derby Bank on 28 February 2019 reflected the following:

| | R |
|---|-----------|
| Balance at the beginning of the financial year | 2 620 000 |
| Repayments during the year (including interest) | 510 000 |
| Interest capitalised | ? |
| Balance at the end of the financial year | 2 398 200 |

D. Fixed Assets

Included in the vehicle account is R950 000 for a delivery van which was purchased on the 1 December 2018.

Vehicles are depreciated at 20% p.a. on cost. On 31 August 2018, a computer was taken over by Paul Cluver one of the directors, for personal use for R8 000 cash. The relevant page from the Fixed Asset Register is provided below. No entries have been made in respect of the disposal of this asset.

Equipment is depreciated at 20% p.a. on the diminishing balance method.

| FIXED ASSET REGISTER | | | Page 22 |
|---|----------------------|----------------------------|----------------|
| <i>Item: Aider computer</i> | | | |
| <i>Date purchased: 1 June 2015</i> | | <i>Cost price: R30 000</i> | |
| <i>Depreciation policy: 20% on diminishing method</i> | | | |
| DATE | CURRENT DEPRECIATION | ACCUMULATED DEPRECIATION | |
| 28 February 2016 | R4 500 | R4 500 | |
| 28 February 2017 | R5 100 | R9 600 | |
| 28 February 2018 | R4 080 | R13 680 | |
| 31 August 2018 | ? | ? | |

E. SHARE CAPITAL

On 28 February 2019 the company repurchased 125 000 shares at R0,50 above the average share price. Shareholders qualify for final dividends.

The share capital after the share buy-back consisted of 1 375 000 ordinary shares.

An interim dividend of R982 500 was paid on 1 September 2018.

A final dividend of 80 cents per share was declared on 28 February 2019.

ACTIVITY A2 (Free State Sept 2019, Q3)

2.1.1

Calculate the profit or loss on disposal of the computer on 31 August 2019.

| |
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| |
| 6 |

2.1.2

Calculate the total depreciation for the year.

| |
|---|
| |
| 9 |

2.1.3

Suggest ONE internal control measure that the internal auditor can perform to verify the tangible assets figure in the Balance Sheet.

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

2.2 Income Statement for the year ended 28 February 2019

| | |
|--------------------------------|-----------|
| Sale | |
| Cost of sales | |
| Gross profit | |
| Other operating income | |
| Commission income | 31 580 |
| Rent income 158 200 | |
| | |
| Gross operating profit | |
| Operating expenses | |
| Director's fees | 932 400 |
| Audit fees | 64 000 |
| Salaries and wages | 320 000 |
| | |
| | |
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| | |
| | |
| | |
| | |
| Operating profit | |
| | |
| Profit before interest expense | |
| | |
| | |
| | |
| Net profit for the year | 2 040 000 |

| |
|----|
| |
| 40 |

2.3

| Retained income | |
|------------------------------|---------|
| Balance at beginning of year | 765 000 |
| | |
| | |
| Ordinary Share dividends | |
| | |
| | |
| Balance at the end of year | |

10

ACTIVITY A3 (Mpumalanga Sept 2018 Q3)**CONCEPTS, INCOME STATEMENT AND NOTES TO FINANCIAL STATEMENTS (75 marks; 45 minutes)****3.1 CONCEPTS**

Choose the correct word from those given in brackets. Write only the word next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.

- 3.1.1 In the event of bankruptcy, the shareholders are not responsible for the debts of the business. This is because of (limited/unlimited) liability. (1)
- 3.1.2 In the financial statements, debtors will be shown as trade and other (equity/receivables/payables). (1)
- 3.1.3 The portion of a loan that will have to be repaid within a year is a current (liability/asset). (1)
- 3.1.4 The (internal/external) auditor is employed by the company to set up and audit internal control processes. (1)

3.2 PIXIE LTD

The information below was extracted from the accounting records of Pixie Ltd on 28 February 2018.

REQUIRED:

- 3.2.1 Prepare the following notes to the Financial Statements for the year ended 28 February 2018:
- Ordinary Share Capital (8)
 - Retained Income (10)
- 3.2.2 Complete the Income statement for the year ended 28 February 2018. (43)

INFORMATION:**A. Balances**

The following balances for 2018 were extracted from the accounting records before the adjustments and additional information were taken into account:

| | 28 February 2018 | 28 February 2017 |
|---------------------------------------|------------------|------------------|
| Balance Sheet accounts section | | |
| Ordinary share capital | R? | R1 275 000 |
| Retained income | ? | 28 900 |
| Mortgage loan: Oberon Bank | ? | 76 500 |
| Debtors control | 98 750 | 118 500 |
| Provision for bad debts | ? | 3 555 |
| SARS (Income tax) | (Cr.) 27 850 | (Dr.) 19 500 |
| Shareholders for dividends | ? | 68 000 |
| Nominal accounts section | | |
| Sales | 1 800 000 | |
| Cost of sales | ? | |
| Rent Income | ? | |
| Consumable stores | 2 900 | |
| Advertising | 62 545 | |
| Audit fees | 5 720 | |
| Director's fees | 67 350 | |
| Interest on loan | ? | |
| Salaries and wages | 128 450 | |
| Sundry expenses | ? | |
| Interest income | 13 180 | |
| Bad debts | 2 900 | |

B. Information from the Cash Flow Statement for the year ended 28 February 2018:

| | R |
|---------------------------------------|---------|
| Depreciation | 78 350 |
| Income tax paid | 64 650 |
| Proceeds from the issue of new shares | 220 000 |
| Payment for shares repurchased | 120 000 |

C. Share capital and dividends

- Pixie Ltd has an authorised share capital of 400 000 shares.
- 300 000 shares were in issue on 1 March 2017.
- 20 000 shares were repurchased on 1 October 2017 from the estate of a deceased shareholder.
- 40 000 new shares were issued on 28 February 2018. These shareholders do not qualify for final dividends.
- An interim dividend of 10 cents per share was paid on 28 August 2017.
- A final dividend of 20 cents per share was declared on 28 February 2018.

D. Adjustments and additional information that need to be taken into account:

1. The company aims to achieve a mark-up percentage on cost of 90%, but this year has only achieved an actual mark-up of 80%.
2. Pixie Ltd has rented out their unused storeroom since 1 March 2014. The rent at the beginning of the current financial year (1 March 2017) was R1 750 per month. The lease agreement stipulates an annual increase of 10% effective from 1 January each year. The rent for March 2018 has already been received.
3. Consumable stores used for the financial year amounted to R2 750.
4. Merchandise to the value of R38 000 was damaged because of a pipe burst during February 2018. After the claim, Elvis Insurance agreed to pay R34 000 in March 2018.
5. The inventory records reflect a trading stock deficit of R23 400 on 28 February 2018.
6. The loan statement received from West Bank reflects the following:

| | |
|--|---------|
| • Balance on 1 March 2017 | R76 500 |
| • Repayments during the year, including interest | 12 500 |
| • Balance on 28 February 2018 | 73 180 |

 Interest on loan is capitalised and has not been recorded yet.
7. The employer's contribution of R2 700 to the Rosa Medical Aid was omitted from the Salary Journal. The amount will be paid in March 2018. Contributions are recorded in the Salaries and wages account.
8. If the annual sales exceed R1 500 000, the two directors are each rewarded a bonus of 10% of the amount exceeding R1 500 000. This must still be recorded.
9. Pixie Ltd paid a 40% deposit on their audit fees for the year. The outstanding balance will be settled on 7 June 2018.
10. Included in the advertising cost for the year is a 12 month campaign that was launched on 1 December 2017 on a local billboard at a cost of R43 200. Advertisements will appear every second month starting in December 2017.
11. A debtor, C Mawela, with an outstanding balance of R600, has left the country. His account must be written off as irrecoverable.
12. The provision for bad debts must be decreased by R360.
13. Operating profit on sales was 22% for the year.
14. Sundry expenses is the missing figure in the Income Statement.

ACTIVITY A3 (Mpumalanga Sept 2018 Q3)

3.1 CONCEPTS

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

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3.2 PIXIE LTD

3.2.1 NOTES TO THE FINANCIAL STATEMENTS ON 28 FEBRUARY 2018

ORDINARY SHARE CAPITAL

| | | |
|-------------------------|--|-----------|
| AUTHORISED | | |
| 400 000 ordinary shares | | |
| ISSUED | | |
| 300 000 | Ordinary shares in issue on 1 March 2017 | 1 275 000 |
| | | |
| | | |
| | Ordinary shares in issue on 28 February 2018 | |

| |
|---|
| |
| 8 |

RETAINED INCOME

| | |
|------------------------------|--------|
| Balance on 1 March 2017 | 28 900 |
| | |
| | |
| Dividends on ordinary shares | |
| | |
| | |
| Balance on 28 February 2018 | |

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

3.2.2

PIXIE LTD

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

| | |
|------------------------------------|-----------|
| Sales | 1 800 000 |
| Cost of sales | |
| Gross profit | |
| Other operating income | |
| | |
| Gross operating income | |
| Operating expenses | |
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| | |
| | |
| Operating profit | |
| | |
| Net profit before interest expense | |
| | |
| Net profit before tax | |
| | |
| Net profit after tax | |

B. BALANCE SHEET**ACTIVITY B1 (DBE REVISION DOC. 2014 – Q2)****1. CALCULATION OF FINAL PROFIT, BALANCE SHEET AND NOTES**

The financial year of KAYZEE Limited ends on 30 June. The accountant of KAYZEE Limited calculated the **net profit before tax as R1 234 335**. However, it was discovered that not all the adjustments were made before calculating the net profit before tax.

REQUIRED:

- 1.1 Calculate the correct net profit after tax for the year ended 30 June 2018. (19)
- 1.2 Prepare the following notes to the Balance Sheet (Statement of Financial Position):
 - (a) Ordinary Share Capital (11)
 - (b) Retained Income (13)
 - (c) Trade and other receivables (8)
- 1.3 Complete the Balance Sheet (Statement of Financial Position) on 30 June 2018. Where notes are not required, (40)

calculations must be shown in brackets for part marks to be given.

INFORMATION:

1. The following extract was taken from the list of balances which appeared in the ledger of KAYZEE Limited on 30 June 2018, before any additional adjustments and information were taken into account:

| | |
|---|-----------|
| Ordinary Share Capital | ? |
| Retained Income (1 July 2017) | R465 000 |
| Land and Building | 4 684 000 |
| Equipment | 525 000 |
| Accumulated depreciation on equipment: | 215 000 |
| Fixed Asset: ZAR Bank | 480 000 |
| Trading stock | 198 500 |
| Debtors' control | 54 000 |
| Provision for bad debts | 2 475 |
| Bank (Dr) | 1 025 000 |
| Cash float | 4 000 |
| Consumable stores on hand | 1 100 |
| Income Accrued | 31 660 |
| SARS: Income Tax (Dr) | 364 200 |
| Creditors control | 87 150 |
| Loan: JSE Bank @ 15% p.a. (1 June 2018) | 420 000 |
| Profit and loss (net profit before tax) | 1 234 335 |

2. The following adjustments and additional information were not taken into account:
- According to the profit and loss account the insurance amounted to R40 500. This amount included an annual premium of R10 800 which was paid on 1 January 2018.
 - Trading stock, R42 000 was damaged in a fire which broke out in the storeroom. The insurance company accepted the claim and will cover 75% of the claim. The amount will be received during July 2018. This was recorded. Write off the balance.
 - The provision for bad debts must be adjusted to 4% of the outstanding debtors.
 - In the profit and loss account, the amount for Rent income amounted to R136 950. The accountant did not take into account that the tenant paid the rent for July 2018 in advance. The rent had increased by R1 050 per month on 1 February 2018.
 - Interest on the loan for the last month is still outstanding. Interest is capitalized. The business intends to reduce the loan by R60 000 in the next financial year.
 - Profit on sale of an asset sold during the year, R21 750, was recorded as a loss in the profit and loss account.
 - Income tax for the year amounted to R371 700.
 - The bank reconciliation statement on 30 June 2018, showed an outstanding cheque of R15 000, dated 31 August 2018. This cheque was issued to a creditor.
 - Share Capital:
 - On 1 July 2017 the ordinary share capital amounted to R3 600 000
 - 60% of the authorised share capital of 500 000 shares were issued.
 - On 31 July 2017 the directors issued an additional 100 000 shares at R16.
 - On 10 January 2018 the directors decided to buy back 70 000 shares from the estate of a deceased shareholder at R15 per share. This transaction was completed successfully, but no entry has been made as yet.
 - Dividends: On 1 December 2017 an interim dividend of 75 cents per share was declared and paid. A final dividend of 120 cents per share was declared on 30 June 2018.

ACTIVITY B1 – CALCULATION OF FINAL PROFIT, BALANCE SHEET AND NOTES

1.1 Correct net profit after tax for the year ended 30 June 2014

| | |
|--|------------------|
| Incorrect Net Profit before Tax | 1 234 335 |
| | |
| | |
| | |
| | |
| | |
| Correct Net Profit before tax | |
| Income Tax | |
| Net Profit after Tax | |

1.2 (a) Ordinary Share Capital

1.3

| | |
|--------------------------------|--|
| Authorised: | |
| 500 000 ordinary shares | |
| Issued: | |
| shares on 30 June 2017 @ | |
| shares issued @ | |
| shares repurchased @ | |
| shares on 30 June 2018 | |

(b) Retained Income

| | |
|--|----------------|
| Balance at end of the previous year | 465 000 |
| Net profit after tax for the year | 885 000 |
| Repurchase of _____ ordinary shares @ | |
| Dividends on ordinary shares | |
| Paid | |
| Recommended | |
| Balance at end of current year | |

(c) Trade and other receivables

| | |
|--------------------------|--|
| Trade debtors | |
| Provision for bad debts | |
| Net Trade Debtors | |
| SARS (Income Tax) | |
| Expenses Prepaid | |
| Income Accrued | |

1.3 BALANCE SHEET OF KAYZEE LIMITED AT 30 JUNE 2018

| ASSETS | Note | R |
|-------------------------------------|------|---|
| NON-CURRENT ASSETS | | |
| Fixed Assets | 3 | |
| Financial Assets | | |
| CURRENT ASSETS | | |
| Inventories | 4 | |
| Trade and other Receivables | 5 | |
| Cash and Cash Equivalent | 6 | |
| TOTAL ASSETS | | |
| EQUITY AND LIABILITIES | | |
| SHAREHOLDERS EQUITY | | |
| Ordinary Share Capital | 7 | |
| Retained Income | 8 | |
| NON-CURRENT LIABILITIES | | |
| Loan | | |
| CURRENT LIABILITIES | | |
| Trade and other Payable | 9 | |
| Bank Overdraft | | |
| Current Portion of Loan | | |
| TOTAL EQUITY AND LIABILITIES | | |

Activity B2 (Mpumalanga Sept 2019 Q3)

FIXED ASSETS AND BALANCE SHEET

(60 marks; 35 minutes)

2.1 CONCEPTS

Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (2.1.1–2.1.3) in the ANSWER BOOK.

2.1.1 (Directors/internal auditors) are appointed by the shareholders to manage the company.

2.1.2 (Liquidity/Solvency) is the ability of the business to pay off their immediate debts.

2.1.3 (GAAP/IFRS) makes that financial statements across the world is comparable and consistent. (3)
(3 x 1)

2.2 COOPER LTD

You are provided with information for the financial year ended 30 June 2019.

REQUIRED:

2.2.1 Refer to **Information B**.

Calculate the missing amounts denoted by (a) to (c) in The Fixed Asset Note for vehicles. (13)

2.2.2 Complete the Balance Sheet (Statement of Financial Position) on 30 June 2019. Show ALL workings. (36)

INFORMATION:**A. Extract from the books on 30 June 2019:**

| Balance sheet accounts section | R |
|---|-----------|
| Ordinary share capital | 3 746 500 |
| Retained income | ? |
| Mortgage loan: Gaga Bank | 752 000 |
| Fixed assets at carrying value (balancing figure) | ? |
| Trading stock | 450 000 |
| Debtors control | ? |
| Provision for bad debts | 17 200 |
| Bank (favourable) | 510 640 |
| Petty cash | 2 400 |
| Fixed deposit: Shallow Bank (5,5% p.a.) | 650 000 |
| SARS (Income tax) | 446 500 |
| Creditors control | 661 600 |
| Nominal accounts section | |
| Rent income | 176 880 |
| Directors' fees | 518 000 |
| Dividends on ordinary shares (interim) | 404 800 |

B. Extract from the Note for Fixed assets

| | VEHICLES |
|-----------------------------------|-----------------|
| Carrying value - Beginning | (a) |
| Cost | 285 000 |
| Accumulated depreciation | (91 200) |
| Movements | |
| Additions at cost | 180 000 |
| Disposals at carrying value | (b) |
| Depreciation | (c) |
| Carrying value - End | |
| Cost | |
| Accumulated depreciation | |

Additional information in respect of fixed assets:

- Fixed assets consist of Land and buildings, Vehicles and Equipment.
- On 1 July 2018 Cooper Ltd had the following vehicles:
Two delivery vehicles purchased on 1 October 2016 at R142 500 each.
- Depreciation on vehicles is calculated at 20% per annum on the diminishing balance method.
- One of the vehicles was written off in an accident on 31 March 2019. The insurance company, BST Insure, agreed to pay out R79 800 on 31 July 2019.
- Cooper Ltd replaced the delivery vehicle written off with a new vehicle purchased on 1 June 2019 for R180 000. This was correctly recorded.

C. Share capital and dividends

- 80% of the 1 000 000 authorised shares were in issue on 30 June 2019.
- The directors declared a final dividend of 75 cents per share on 30 June 2019.

D. Trading stock and consumable stores on hand

- An invoice issued to a debtor has not been recorded in full. Obsolete goods were sold for R4 000 which is 20% below cost. The selling price was recorded correctly but not the cost price.
- Consumable stores on hand amounts to 15 300 on 30 June 2019.

E. Provision for bad debts has already been adjusted to 4% of the debtors of 2019.

F. Loan from Gaga Bank

R300 000 of the loan will be repaid during the next financial year.

G. The following adjustments have not been taken into account:

- The tenant has paid rent until 31 July 2019. The rent was increased by R1 320 from 1 April 2019.
- The two directors earn the same monthly fees. Two month's fees are still outstanding to both the directors.

H. After the actual tax was calculated on the corrected net profit for the year, it was found that the provisional tax paid was R23 500 less than the actual tax.

I. The NAV per share on 30 June 2019 amounts to 636 cents per share after all adjustments and information were taken into account.

Activity B2 (Mpumalanga Sept 2019 Q3)

2.1 CONCEPTS

| | |
|-------|--|
| 2.1.1 | |
| 2.1.2 | |
| 2.1.3 | |

| |
|---|
| 3 |
|---|

2.2.1 FIXED ASSETS

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

| |
|----|
| 13 |
|----|

2.2.2 BALANCE SHEET ON 30 JUNE 2019

| | |
|--------------------------------------|-----------|
| ASSETS | |
| NON-CURRENT ASSETS | 5 777 280 |
| Fixed assets | 5 127 280 |
| Financial assets: Fixed deposit | 650 000 |
| | |
| CURRENT ASSETS | |
| | |
| | |
| | |
| TOTAL ASSETS | |
| | |
| EQUITY AND LIABILITIES | |
| ORDINARY SHAREHOLDERS' EQUITY | |
| Ordinary share capital | 3 746 500 |
| | |
| | |
| NON-CURRENT LIABILITIES | |
| | |
| | |
| CURRENT LIABILITIES | |
| Trade and other payables | |
| | |
| | |
| TOTAL EQUITY AND LIABILITIES | |
| | |
| | |

B3 (Gauteng Sept 2019 Q3)

GRADE 12

2020 MATR DOCUMENT

CONCEPTS AND BALANCE SHEET**(55 marks; 35 minutes)****3.1 CONCEPTS**

Choose an explanation from COLUMN B that matches a concept in COLUMN A. Write only the letter (A – D) next to the question number (3.1.1 – 3.1.4) in the ANSWER BOOK.

| COLUMN A | | COLUMN B | |
|----------|-------------------|----------|--|
| 3.1.1 | Finance cost | A | Consumable stores not used at the end of the financial year |
| 3.1.2 | Dividends | B | Interest on bank overdraft on the Income Statement |
| 3.1.3 | Inventory | C | A financial indicator which reflects liquidity |
| 3.1.4 | Current liability | D | Profits distributed to shareholders in proportion to the number of shares held |
| | | E | Debts payable over a short period of time |

3.2 PHAMBILI LIMITED

The information below relates to Phambili Ltd. The financial year ended on 28 February 2019.

REQUIRED:

- 3.2.1 Prepare the following notes for the financial year ended 28 February 2019.
- (a) Ordinary share capital (11)
- (b) Retained income (11)
- 3.2.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2019. Where notes are not required, show ALL workings. (29)

INFORMATION:**A Balances extracted from the accounting records on 28 February 2019 (unless otherwise stated).**

| | R |
|--|-----------|
| Ordinary share capital (1 March 2018) | 1 220 000 |
| Retained income (1 March 2018) | 355 500 |
| Loan from VDS Bank | 1 376 000 |
| Fixed assets at carrying value | 1 499 500 |
| Fixed deposit: Sandton Bank | ? |
| Trading stock | 480 000 |
| Creditors' control | 177 500 |
| Debtors' control | 400 000 |
| Packing material on hand | 16 000 |
| Accrued expenses (expenses payable) | 10 000 |
| Income received in advance (deferred income) | 11 500 |
| Bank (favourable) | 1 010 100 |
| Provision for bad debts (1 March 2018) | 6 200 |
| SARS: Income tax (provisional tax payments) | 1 180 000 |
| Ordinary share dividends | 350 000 |

B Share capital:

- Phambili Ltd. is authorised to sell 6 000 000 ordinary shares.
- 500 000 shares were in issue on 1 March 2018.
- 900 000 new shares were issued on 1 August 2018 at R3,00 per share. This has been properly recorded.
- 150 000 shares were repurchased on 10 January 2019 from a disgruntled shareholder for 75 cents above the average share price. This transaction was not recorded. This shareholder does not qualify for final dividends.

C Dividends:

The Directors declared a final dividend of 50 cents per share on 28 February 2019.

D Provision for bad debts:

The provision for bad debts must be decreased to R5 400.

E Loan:

- The loan was received on 1 September 2016.
- This loan is to be repaid over 6 years in equal monthly instalments with effect from 1 October 2016. All payments have been made.
- Interest is not capitalised and has been paid in full.

F Taxation:

After taking into account all relevant information, taxation for the year was accurately calculated to be R1 148 000 at 28%.

B3 (Gauteng Sept 2019 Q3)

3.1 CONCEPTS

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

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3.2 PHAMBILI LIMITED

3.2.1 Prepare the following notes for the financial year ended 28 February 2019.

(a) Ordinary share capital

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(b) Retained income

| | | |
|--------------------------------------|---------|--|
| Balance at the beginning of the year | 355 500 | |
| | | |
| | | |
| Ordinary share dividends | | |
| | | |
| | | |
| | | |
| Balance at the end of the year | | |

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| 11 |

3.2.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2019. Where notes are not required, show ALL workings.
BALANCE SHEET ON 28 FEBRUARY 2019

| | |
|--------------------------------------|------------------|
| ASSETS | |
| NON-CURRENT ASSETS | |
| | |
| | |
| CURRENT ASSETS | 1 400 200 |
| | |
| | |
| Cash and cash equivalents | |
| TOTAL ASSETS | |
| | |
| EQUITY AND LIABILITIES | |
| ORDINARY SHAREHOLDERS' EQUITY | |
| Ordinary share capital | |
| | |
| NON-CURRENT LIABILITIES | |
| Loan | |
| CURRENT LIABILITIES | 1 208 000 |
| Trade and other payables | |
| | |
| | |
| TOTAL EQUITY AND LIABILITIES | |

| |
|----|
| |
| 29 |

QUESTION 4: FINANCIAL STATEMENTS**(60 marks; 35 minutes)**

- 4.1 Choose the correct description in COLUMN B to match the concept in COLUMN A. Write only the letters (A–E) next to the question numbers (4.1.1 to 4.1.5) in the ANSWER BOOK.

| COLUMN A | | COLUMN B | |
|----------|------------------|----------|---|
| 4.1.1 | SAICA | A | Guidelines for preparation of financial statements to ensure consistency. |
| 4.1.2 | CIPC | B | Appointed by the board of directors |
| 4.1.3 | IFRS | C | Maintaining the integrity of the profession and institute disciplinary action against those who breach standards. |
| 4.1.4 | Internal auditor | D | Expresses an unbiased opinion on the financial statements of the company. |
| 4.1.5 | External auditor | E | Maintaining records and control of new/existing companies. |

(5)

4.2 **CDJ LTD.**

The information relates to a public company with an authorised share capital of 1 500 000 ordinary shares, the financial year-end 28 February 2019.

REQUIRED:

4.2.1 Complete the Retained Income Note to the Statement of Financial Position (Balance Sheet). (12)

4.2.2 Complete the Statement of Financial Position (Balance Sheet) on 28 February 2019. (35)

4.2.3 At the annual general meeting, the board of directors proposed the following TWO programmes:

Program 1 R1 500 000 be allocated for staff training and development initiatives during the next two financial years.

Program 2 R1 000 000 to be spent on the upliftment of the computer facilities at three local schools.

Vic Pienaar, a young shareholder, was not pleased about this proposal. He feels that greater dividends should be given to shareholders.

- Explain why the directors included these proposals in their director's report. Provide TWO points. (4)
- Provide a different benefit of each of the programmes proposed, to the company. (4)
-

INFORMATION:**A. Balances/Totals on 28 February 2019.**

| | Debit | Credit |
|---|------------|------------|
| Ordinary share capital (1 000 000 shares) | | R4 200 000 |
| Retained income (1 March 2018) | | 468 000 |
| Loan: Central Bank | | 352 400 |
| Fixed assets at cost | R4 919 040 | |
| Accumulated depreciation | | 201 520 |
| Trading stock | 255 340 | |
| Debtors Control | 235 000 | |
| Provision for bad debts | | 4 000 |
| Fixed deposit: King Bank | ? | |
| Bank | 381 300 | |
| Creditors' Control | | 22 000 |
| SARS (income tax) | 340 000 | |
| Insurance | 23 520 | |
| Rent Income | | 34 600 |

B. Additional information:**(i) Share Capital:**

| | |
|---------|--|
| 200 000 | Shares were in use at the beginning of the current financial year. |
| 600 000 | Additional shares were issued on 1 April 2018 at R3,90 per share. |
| 200 000 | Additional shares were issued on 31 October 2018 at R5 per share. |
| 50 000 | On 28 February 2019, shares were bought back from the estate of a diseased shareholder for R237 500. This transaction was not yet recorded. They qualify for final dividends. |

(ii) Loan agreement with Central Bank:

| | |
|---|----------|
| Opening balance of loan on 1 March 2018. | R550 000 |
| Repayment during the year, including interest | 197 600 |
| Closing balance | 420 000 |

- The interest on loan is capitalised.
- R150 000 of the loan will be paid in the next financial year.

(iii) Dividends:

- An interim dividend of 30 cents per share was paid on 31 August 2018.
- A final dividend of 22 cents per share was declared on 28 February 2019 and must still be brought into account.

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

- The rent for February 2019 was not received yet. The space was rented out since 1 December 2018.
- An additional insurance policy on granite saws was taken out on 1 October 2018. The annual premium of R13 440 was paid.
- Consumable stores on hand R1 580.
- A debtor owing R35 000 was declared insolvent. No entry was made.
- The provision for bad debt must be adjusted to R6 000.
- Audit fees of R9 000 are still outstanding on 28 February 2019.

(v) **Net profit and income tax:**

Income tax for the year was calculated at 30%

Net profit before tax is R1 085 600 after all adjustments above were taken into account.

Activity B4 (Eastern Cape Sept 2019 Q 4)

4.1

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| 4.1.1 | |
| 4.1.2 | |
| 4.1.3 | |
| 4.1.4 | |
| 4.1.5 | |

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| 5 |

4.2.1

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|---|--|
| RETAINED INCOME | |
| Balance at the beginning of the year | |
| | |
| | |
| | |
| | |
| | |
| Balance at the end of the year | |

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| 12 |

4.2.2

| STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2019 | |
|---|--|
| ASSETS | |
| Non-current assets | |
| | |
| | |
| Current assets | |
| | |
| | |
| | |
| TOTAL ASSETS | |
| EQUITY AND LIABILITIES | |
| Shareholder's equity | |
| Ordinary share capital | |
| | |
| Non-current liabilities | |
| | |
| Current liabilities | |
| | |
| | |
| | |
| TOTAL EQUITY AND LIABILITIES | |

| |
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| |
| 35 |

4.2.3

GRADE 12

2020 MIF DOCUMENT

At the annual general meeting, the board of directors proposed the following TWO programmes:

Explain why the directors included these proposals in their directors' report. Provide TWO points.

Provide a different benefit of each of the programmes proposed, to the company.

| |
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| | |
|-------------|--|
| Programme 1 | |
| Programme 2 | |

| |
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| |
| 4 |

BALANCE SHEET AND GAAP PRINCIPLES**(85 marks; 55 minutes)****5.1 GAAP PRINCIPLES**

Choose a GAAP principle in COLUMN B that matches the description in COLUMN A. Write only the letters (A–F) next to the question numbers (4.1.1 to 4.1.5) in the ANSWER BOOK.

| COLUMN A | | COLUMN B | |
|----------|---|----------|-----------------|
| 5.1.1 | The original cost of the assets of a business need to be recorded. | A | prudence |
| 5.1.2 | All significant information needs to be clearly shown in the financial statements of a business. | B | matching |
| 5.1.3 | Income and expenses must be recorded in the correct financial period. | C | business entity |
| 5.1.4 | Financial Statements are prepared with the assumption that the business does not expect to close down in the near future. | D | materiality |
| 5.1.5 | The owner and business are seen as two separate entities for accounting purposes. | E | historical cost |
| | | F | going concern |

5.2 SAHARA LIMITED

The information provided relates to Sahara Ltd for the year ended

30 June 2019. Sahara Ltd has

an authorised share capital of 1 000 000 ordinary shares.

REQUIRED:

5.2.1 Prepare the following notes to the Balance Sheet:

- (a) Ordinary share capital (10)
- (b) Retained income (13)

5.2.2 Complete the Balance Sheet (Statement of financial position) on 30 June 2019. Show calculations. (46)

INFORMATION:**A. Ordinary share capital:**

- 700 000 ordinary shares were issued on 1 July 2018 to the total value of R2 100 000.
- The company decided to buy back 30 000 shares from an unsatisfied shareholder on 1 October 2018 at R9 per share. An electronic transfer to the shareholder was done on the same day. These shares do not qualify for any dividends thereafter.
- A further 100 000 new ordinary shares were issued on 1 March 2019 at R7 per share.

B. Dividends:

- An interim dividend of 20 cent per share was paid on 31 December 2018.
- A final dividend of 35 cent per share was declared on 30 June 2019 and will be paid in August 2019.

C. Net profit and income tax:

- The correct net profit before income tax for the year ended on 30 June 2019 was calculated at R1 250 000. This is after all the adjustments reflected below were brought into account.
- Income tax is calculated at 28% of net profit.

D. Balances in the books on 30 June 2019:

| | R |
|--------------------------------|---------|
| Retained income | 799 660 |
| Creditors' Control | 720 000 |
| Debtors' Control | 530 000 |
| Creditors for salaries | 35 500 |
| Accrued income | 24 000 |
| Cash in the bank | 66 000 |
| Fixed deposit | ? |
| SARS: Income tax (provisional) | 400 000 |

E. Fixed deposit:

- A fixed deposit of R175 000 matures on 31 January 2020.

F. Loan: Quality Bank:

| | R |
|---|---------|
| Balance at beginning of financial year | 300 000 |
| Interest capitalised during the year | 8 000 |
| Repayments, including interest, during the year | 56 000 |

- Capital portion of loan to be paid in the following financial year remains the same as the current year.

G. Fixed assets:

- Land and buildings cost price on 1 July 2018 is R1 275 000.
The following invoice was not recorded:
Improvement to land and buildings: R300 000
Repairs to land and buildings: R120 000
- The carrying value of vehicles on 30 June 2019 was R720 000.
- All equipment were purchased on 1 January 2016 at R600 000. Depreciation is calculated at 15% per annum on the cost-price method.

H. Rent income:

- Rent income received in advance for July and August 2019 amounted to R17 000.

I. Financial indicators on 30 June 2019:

- The current ratio is 1,5 : 1

ACTIVITY B5 (North West Sept 2019 Q 4)

5.1

| Choose a GAAP principle in COLUMN B that matches the description in COLUMN A. | |
|---|--|
| 5.1.1 | |
| 5.1.2 | |
| 5.1.3 | |
| 5.1.4 | |
| 5.1.5 | |



5.2.1 (a) ORDINARY SHARE CAPITAL

| | | |
|------------------------------|---------------------------------|--|
| Authorised shares: | | |
| 1 000 000 ordinary shares | | |
| Issued share capital: | | |
| | Ordinary shares on 1 July 2018 | |
| | | |
| | Ordinary shares on 30 June 2019 | |



(b) RETAINED INCOME

| | |
|-----------------------------|--|
| Balance on 1 July 2018 | |
| Net profit after income tax | |
| | |
| Ordinary share dividends | |
| | |
| | |
| Balance on 30 June 2019 | |

| |
|----|
| 13 |
|----|

5.2.2 SAHARA LTD

BALANCE STATEMENT ON 30 JUNE 2019

| | |
|-------------------------------------|--|
| ASSETS | |
| NON-CURRENT ASSETS | |
| Fixed Assets | |
| | |
| CURRENT ASSETS | |
| Inventory | |
| Trade and other receivables | |
| Cash and cash equivalents | |
| TOTAL ASSETS | |
| EQUITY AND LIABILITIES | |
| SHAREHOLDERS EQUITY | |
| | |
| | |
| NON-CURRENT LIABILITIES | |
| Loan: Quality Bank | |
| CURRENT LIABILITIES | |
| Trade and other payables | |
| Shareholders for dividends | |
| | |
| TOTAL EQUITY AND LIABILITIES | |

| |
|----|
| 46 |
|----|

C. CASH FLOW STATEMENT & D. RATIO ANALYSIS AND INTERPRETATION

ACTIVITY C1 (Limpopo Sept 2019 Q4)

(75 marks, 45 minutes)

1.1 LEWIS LTD.

You are provided with extracts from the financial records of Lewis Ltd.

REQUIRED

- 1.1.1 Calculate the total dividends paid that will be reflected on the Cash Flow Statement on 30 June 2019. (4)
- 1.1.2 Calculate the balance on the SARS (Income Tax) account on 1 July 2018. (5)
- 1.1.3 Movements in fixed assets:
- (a) Calculate the amount of cash received for the equipment sold during the year. (2)
- (b) Calculate the cost of the new assets purchased during the financial year. (5)
- 1.1.4 Complete the "Cash flow from Financing Activities" section of the Cash Flow Statement on 30 June 2019. (8)
- 1.1.5 Calculate the closing balance of Retained Income on 30 June 2019. (7)
- 1.1.6 On the AGM of Lewis Ltd. there was interest shown in purchasing additional machinery and equipment. The company will have to obtain a loan of R2 million at an interest rate of 14%.
- (a) Calculate the Return on total capital employed (ROTCE). (9)
- (b) Show how the proposed additional loan will impact on the debt/equity ratio. (4)
Provide a calculation.

INFORMATION**A. Extract from the Income Statement for the year ended 30 June 2019:**

| | |
|-----------------------|------------|
| Interest on loan | R140 000 |
| Depreciation | R136 000 |
| Net profit before tax | R1 144 000 |
| Income tax | R376 000 |

B. Extract from the Balance Sheet on:

| | 30 June 2019 | 30 June 2018 |
|-----------------------------|--------------|--------------|
| Fixed assets | 6 480 000 | 5 324 000 |
| Land and Buildings | 4 900 000 | 4 100 000 |
| Equipment (carrying value) | 1 580 000 | 1 224 000 |
| Shareholder's equity | 5 782 000 | 5 470 000 |
| Share capital | ? | 4 500 000 |
| Retained income | ? | 970 000 |
| Long term loan | 950 000 | 1 038 000 |

C. Extract from the notes to the financial statements on 30 June 2019:

| Trade and other receivables | 30 June 2019 | 30 June 2018 |
|-----------------------------|--------------|--------------|
| SARS (Income tax) | 23 900 | 0 |
| Trade and other payables | 30 June 2019 | 30 June 2018 |
| SARS (Income tax) | 0 | ? |
| Shareholders for dividends | R108 000 | R143 000 |

D. Fixed assets:

- New equipment was bought during the year and an additional warehouse was built.
- Old equipment was sold at carrying value on 1 February 2019:
 - Cost price R160 000
 - Accumulated depreciation on date of sale R54 500
 - Asset sold for cash R ?
- No Land and Buildings were sold during the year.

E. Shares:

- On 1 July 2018 the company had an issued share capital of 937 500 shares.
- On 1 July 2018 the company repurchased 50 000 shares at 60c above the average

share price. The average price per share at that stage was R4,80.

- During the financial year new shares were issued.

F. Dividends and Tax:

- Dividends paid and declared during the year, R333 000.
- Tax paid during the year, R532 000.

1.2 TAYLOR LTD.

The following information pertains to the financial records of Taylor Ltd. for the year ended 28 February 2019.

REQUIRED1

- 1.2.1 Calculate the following financial indicators on 28 February 2019:
- Net Asset Value per share (NAV). (3)
 - % Return on average Shareholder's Equity (ROSHE). (5)
- 1.2.2 Comment on the liquidity of the company. Quote THREE financial indicators (with figures and trends) to support your answer. (8)
- 1.2.3 Tricia Harper is a shareholder and she is unsure if she should sell her shares or not. She asks for your advice. Provide figures in your answer. (3)
- 1.2.4 Refer to **Information C**. Calculate the total dividends Charlie Williams received during the year. (6)
- 1.2.5 The dividend pay-out policy has changed from the previous year. Provide calculations to show the change and provide ONE possible reason for the change. (6)

INFORMATION

A. Extract from the Income Statement for the year ended 28 February 2019:

| | |
|------------------------|---------|
| Interest on loan (14%) | 87 000 |
| Net profit before tax | 635 000 |
| Net profit after tax | 457 200 |

B. Other financial information and indicators for the past two years:

| | 2019 | 2018 |
|--|------------|------------|
| Number of issued shares on 28 Feb 2018 | | 700 000 |
| Number of issued shares on 28 Feb 2019 | 762 000 | |
| Shareholder's equity | R1 690 000 | R1 510 000 |
| Current ratio | 4,1 : 1 | 2,1 : 1 |
| Acid test ratio | 1,6 : 1 | 1,4 : 1 |
| Stock turnover rate | 10 times | 6 times |
| Debtors' collection period | 30 days | 30 days |
| Creditor's payment period | 30 days | 60 days |
| Debt/Equity ratio | 0,4 : 1 | 0,3 : 1 |
| % return on shareholder's equity | ? | 22,3% |
| Net asset value per share (NAV) | ? | 216c |
| Dividends per share (DPS) | 45c | 15c |
| Earnings per share (EPS) | 60c | 55c |
| Market price per share | 252c | 236c |

C. Details on Charlie Williams' dividends:

- On 1 March 2018 Charlie Williams owned 10 400 shares in Taylor Ltd.
- He bought 10% of the new shares issued during the year.
- The interim dividend paid during the year was 20c per share (the new shares did not qualify for the interim dividend).

(a) Calculate the Return on total capital employed (ROTCE).

(b) Show how the proposed additional loan will impact on the debt/equity ratio. Provide a calculation.

1.2 TAYLOR LTD.

1.2.1 Calculate the following financial indicators on 28 February 2019:

(a) Net Asset Value per share

(b) % Return on average Shareholder's Equity (ROSHE)

1.2.2 Comment on the liquidity of the company. Quote THREE financial indicators (with figures and trends) to support your answer.

1.2.3 Tricia Harper is a shareholder and she is unsure if she should sell her shares or not. She asks for your advice. Provide figures in your answer.

1.2.4 Refer to Information C. Calculate the total dividends Charlie Williams received during the year.

1

- 1.2.5 The dividend pay-out policy has changed from the previous year. Provide calculations to show the change and provide ONE possible reason for the change.

ACTIVITY C2 (Free State Sept 2019, Q4) CASH FLOW STATEMENT AND INTERPRETATION (70 marks; 50 minutes)

- 2.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (2.1.1–2.1.4) in the ANSWER BOOK.

- 2.1.1 Cash flow statement reflects the profit/loss of the company.
 2.1.2 Net current assets are also referred to as net working capital.
 2.1.3 Accumulated depreciation is regarded as a negative asset.
 2.1.4 Liquidity refers to the ability of the company to settle its immediate debts.

2.2 **PHILA LTD**

You are provided with information relating to Phila Ltd for the financial year ended 31 March 2019. The company is registered with an authorised share capital of 2 000 000 ordinary shares.

REQUIRED:

- 2.2.1 Calculate the following amounts for the Cash Flow Statement:
- Income tax paid
 - Dividends paid
 - Cost of new delivery vehicles purchased
- (14)
- 2.2.2 Prepare the sections for the Cash Flow Statement on 31 March 2019.
- Cash Effects of Financing Activities (9)
 - Net change in Cash and Cash equivalents (4)
- 2.2.3 Calculate the following financial indicators on 31 March 2019.
- Debt-equity ratio (3)
 - Net asset value per share (3)
 - % Return on average shareholders' equity (4)
- 2.2.4 The management decided to change the mark-up % in the current financial year. Was this a good decision? Explain. Quote figures. (3)
- 2.2.5 Comment on the management of expenses. Quote TWO relevant financial indicators to support your comment. (4)
- 2.2.6 Comment on the issue price of the new shares issued on 30 June 2018. Was this fair? Quote figures. (6)
- 2.2.7 Comment on the dividend pay-out policy of the company by comparing 2018 to 2019 and quote relevant figures. (6)
- 2.2.8 Comment on the degree of risk and gearing of the business. Quote TWO financial indicators with figures. (6)
- 2.2.9 How many shares will a shareholder, having 45% of the issued share capital, have to buy to gain control of the company? (4)

INFORMATION:

- A Information from the Income Statement for the financial year ended 31 March:

| | 2019 | 2018 |
|----------------------------|-----------|-----------|
| Sales | 8 300 000 | 6 650 000 |
| Cost of sales | 5 187 500 | 3 800 000 |
| Gross Profit | 3 112 500 | 2 850 000 |
| Net profit before taxation | 1 240 000 | 931 000 |
| Net profit after taxation | 892 800 | 651 700 |
| Interest on loan | 211 000 | |
| Depreciation | 425 000 | |

B Extract from the Balance Sheet on 31 March:

| | 2019 | 2018 |
|----------------------------------|------------|-------------|
| Fixed assets | 10 152 700 | 7 915 400 |
| Fixed deposit: SSB BANK | 250 000 | 400 000 |
| Shareholders' equity | 9 209 000 | 6 458 200 |
| Current assets (including stock) | 794 500 | 681 300 |
| Trading stock | 430 000 | 198 000 |
| Current liabilities | 688 200 | 538 500 |
| SARS (Income tax) | 8 500 (Dr) | 12 000 (Cr) |
| Cash & cash equivalents | 0 | 45 300 |
| Bank overdraft | 34 200 | 2 000 |
| Loan from Zipho Bank | 1 300 000 | 2 000 000 |
| Shareholders for dividends | 378 000 | 300 000 |

C Share Capital and dividends

| | | |
|-----------|---------------------------------------|-----------|
| 1 000 000 | Ordinary shares on 1 April 2018 | 6 360 000 |
| 400 000 | Shares issued on 30 June 2018 @ R8,60 | ? |
| (120 000) | Shares repurchased on 30 March 2019 | ? |
| 1 280 000 | Ordinary shares on 31 March 2019 | 8 960 000 |

- An amount of R168 000 above the average share price was paid to repurchase the shares on 30 March 2019.

An interim dividend of 15 cents per share was paid on 30 September 2018.

- A final dividend was declared on 31 March 2019.

D Fixed Assets

- Old equipment valued at R389 500 was sold at carrying value.
- Extensions to land and buildings costing R2 250 000 were completed during the financial year.
- Additional delivery vehicles were also purchased.

E Financial indicators calculated on 31 March:

| | 2019 | 2018 |
|------------------------------------|-----------|-----------|
| Gross profit on cost of sales | 60% | 75% |
| Gross profit on sales | 38% | 43% |
| Operating expenses on sales | 22% | 23% |
| Operating profit on sales | 16% | 16% |
| Market price per share on the JSE | 728 cents | 630 cents |
| Net asset value per share | ? | 636 cents |
| Earnings per share | 69 cents | 62 cents |
| Dividends per share | 41 cents | 60 cents |
| % return on shareholders' equity | ? | 11% |
| % return on total capital employed | 15,3% | 13% |
| % interest rate on loans | 13% | 13% |
| Debt/Equity ratio | ? | 0,3 : 1 |
| Current ratio | 1,2 : 1 | 1,3 : 1 |
| Acid-test ratio | 0,5 : 1 | 0,9 : 1 |
| Period for which stock is on hand | 22 days | 18 days |
| Average debtors' collection period | 44 days | 47 days |

C2 (Free State Sept 2019, Q4)

2.1

| | |
|-------|--|
| 2.1.1 | |
| 2.1.2 | |
| 2.1.3 | |
| 2.1.4 | |

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2.2.1

Calculate the following for the Cash Flow Statement:

| | |
|---|--|
| Income tax paid | |
| Dividends paid | |
| Cost of new delivery vehicles purchased | |

| |
|----|
| |
| 14 |

| | | | |
|-------|--------------------------------------|--|---|
| 2.2.2 | Cash effects of financing activities | | |
| | | | |
| | | | |
| | | | 9 |

| | | | |
|--|---|--|---|
| | Net change in Cash and Cash equivalents | | |
| | | | |
| | | | 4 |

| | | |
|-------|----------------------------------|---|
| 2.2.3 | Calculate the debt/equity ratio. | |
| | | 3 |

| | | |
|--|--|---|
| | Calculate the net asset value per share. | |
| | | 3 |

| | | |
|--|---|---|
| | Calculate the % return on average shareholders' equity. | |
| | | 4 |

| | | |
|-------|---|---|
| 2.2.4 | The management decided to change the mark-up % in the current financial year. Was this a good decision? Explain. Quote figures. | |
| | | 3 |

| | | |
|-------|---|---|
| 2.2.5 | Comment on the management of expenses. Quote TWO relevant financial indicators to support your comment. | |
| | | 4 |

2.2.6 Comment on the issue price of the new shares issued on 30 June 2018. Was this fair? Quote figures.

| |
|---|
| |
| 6 |

2.2.7 Comment on the pay-out policy of the company by comparing 2018 to 2019 and quote relevant figures.

| | |
|------|--|
| 2018 | |
| 2019 | |

| |
|---|
| |
| 6 |

2.2.8 Comment on the degree of risk and gearing of the business. Quote TWO financial indicators with figures.

Comment:

| |
|---|
| |
| 6 |

2.2.9 How many shares will a shareholder, having 45% of the issued share capital, have to buy to gain control of the company?

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CASH FLOW STATEMENT AND INTERPRETATION**(75 marks; 45 minutes)****3.1 TINAMERA Ltd**

You are provided with information relating to Tinamera Ltd for the financial year ended 30 June 2018.

REQUIRED:**3.1.1 Refer to Information C.**

Complete the Fixed/Tangible Asset Note for the year ended 30 June 2018. (15)

3.1.2 Complete the Cash Flow Statement Ltd for the year ended 30 June 2018. Some of the details and figures have been entered in the ANSWER BOOK. (25)

3.1.3 Calculate the following financial indicators on 30 June 2018:

- Percentage operating profit on sales (3)
- Debt-equity ratio (3)
- Net asset value per share (3)

3.1.4 Refer to Information E.

The following statement was taken from the minutes of the annual general meeting: 'We, the shareholders, would like to express our concern over the directors' decision to repurchase 80 000 shares during this financial year.'

Provide a reason supported by information from the Cash Flow Statement as to why the shareholders feel this way. (2)

- After an investigation, it has come to light that Jim Jeffs, the shareholder from whom the company repurchased the shares, is a close friend of the financial director. (2)
Briefly explain why you as a shareholder may find this to be a problem.

INFORMATION:**A. Information extracted from the Income Statement on 30 June 2018:**

| | |
|-----------------------|-----------|
| Sales | 5 611 000 |
| Operating profit | 1 410 550 |
| Interest on loan | 86 760 |
| Net profit before tax | 1 323 790 |

B. Figures extracted from the Balance sheet and notes on 30 June:

| | 2018 | 2017 |
|----------------------------|------------|------------|
| Shareholder's equity | R4 607 300 | R3 808 100 |
| Fixed assets | ? | 3 948 600 |
| Mortgage loan | 1 142 000 | 920 000 |
| Inventories | 759 600 | 589 500 |
| Bank overdraft | ? | 91 000 |
| Shareholders for dividends | 30 000 | 60 000 |

C. Fixed/Tangible assets

| | Buildings | Vehicles | Equipment |
|--------------------------------------|------------------|-----------------|------------------|
| Carrying value - 1 July 2017 | 3 452 000 | 413 400 | 83 200 |
| Cost | 3 452 000 | 872 000 | 340 000 |
| Accumulated depreciation | 0 | (458 600) | (256 800) |
| Movement | | | |
| Additions at cost | ? | 0 | ? |
| Disposals at carrying value | 0 | ? | 0 |
| Depreciation | 0 | ? | ? |
| Carrying value - 30 June 2018 | 4 522 800 | ? | ? |
| Cost | 4 522 800 | | |
| Accumulated depreciation | 0 | | |

Additional information in respect of fixed assets:

- An extension to the office block was undertaken during the year.
- The business had three vehicles at the beginning of the year. The following details appeared in the Fixed Asset Register on 1 July 2017:

| | Vehicle 1 | Vehicle 2 | Vehicle 3 |
|--------------------------|------------------|------------------|------------------|
| Cost | 240 000 | 352 000 | 280 000 |
| Accumulated depreciation | (225 000) | (70 400) | (163 200) |
| Carrying value | 15 000 | 281 600 | 116 800 |

NOTE: Vehicle 1 is old and is reaching the end of its useful life.

Vehicle 3 was sold at its carrying value of R102 800 during the year.

- Equipment of R116 000 was purchased on 1 December 2017. No equipment was sold.
- Depreciation policy: Vehicles: 20% on cost
Equipment: 15% on carrying value

D. Loan

The company took out an additional loan on 30 June 2018. Repayments on the old loan, including interest totalled R164 760. Interest on loan is capitalised.

E. Shares

- Jim Jeffs, a shareholder, is very concerned about the liquidity and profitability situation of the company and has decided to sell his shares. The directors repurchased all 80 000 ordinary shares from him at a price of R4,20 per share. The average issue price on this date was R3,05.
- No new shares were issued.
- Number of shares in issue on 30 June 2018 was 750 000.

F. Dividends

Total dividends paid and declared for the financial year ended 30 June 2018 amounts to R170 000.

3.2 INTERPRETATION OFFINANCIAL INDICATORS

Your friend, Phakamile, is a director in two companies. You are considering buying shares in one of the companies. He presents you with the financial indicators of the two companies. The companies are of similar size and they have issued the same number of shares.

REQUIRED:

Study the financial indicators given and answer the questions that follow.

- 3.2.1 Which company uses more loans? Explain whether this is a good idea or not. In each case, quote a financial indicator to support your answer. (6)
- 3.2.2 According to Phakamile the liquidity indicators of Thabiso Ltd are better than those of Lauren Ltd. Explain, quoting THREE financial indicators to support his opinion. (9)
- 3.2.3 Although the market price of the shares of Lauren Ltd is higher than those of Thabiso Ltd, Phakamile is of the opinion that Thabiso Ltd's shareholders are more satisfied with the market price of their shares. Explain, quoting financial indicators to support this opinion. (4)
- 3.2.4 In which company is Phakamile a major shareholder? Support your answer with a calculation. (3)

FINANCIAL INDICATORS

| | Thabiso Ltd | Lauren Ltd |
|---|-------------|------------|
| Number of shares in issue | 500 000 | 500 000 |
| Phakamile's shareholding | 50 000 | 300 000 |
| Market price per share on the JSE | 630 cents | 680 cents |
| Net asset value per share | 520 cents | 790 cents |
| Earnings per share | 165 cents | 813 cents |
| Dividends per share | 182 cents | 552 cents |
| % return on shareholders' equity | 11,8% | 28,5% |
| % return on total capital employed (before tax) | 12,4% | 30,3% |
| % interest rate on loans | 14% | 14% |
| Debt/Equity ratio | 1,8 : 1 | 0,3 : 1 |
| Current ratio | 1,7 : 1 | 5,8 : 1 |
| Acid-test ratio | 0,8 : 1 | 3,7 : 1 |
| Period for which enough stock is on hand | 80 days | 140 days |
| Debtors' average collection period | 26 days | 55 days |

C3 (Mpumalanga Sept 2018 Q4)

3.1 TINAMERA LTD

3.1.1 FIXED ASSET NOTE TO THE BALANCE SHEET ON 30 JUNE 2018

| | Land and Buildings | Vehicles | Equipment |
|-------------------------------|--------------------|-----------|-----------|
| Carrying value – 1 July 2017 | 3 452 000 | 413 400 | 83 200 |
| Cost | 3 452 000 | 872 000 | 340 000 |
| Accumulated depreciation | 0 | (458 600) | (256 800) |
| Movements | | | |
| Additions at cost | | 0 | |
| Disposal at carrying value | 0 | | 0 |
| Depreciation | 0 | | |
| | | | |
| Carrying value – 30 June 2018 | 4 522 800 | | |
| Cost | 4 522 800 | | |
| Accumulated depreciation | 0 | | |

15

3.1.2 TINAMERA LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

| | |
|--|-----------|
| CASH FLOW FROM OPERATING ACTIVITIES | |
| Cash generated from operations | 1 295 760 |
| Interest paid | (86 760) |
| Dividends paid | |
| Income tax paid | (625 000) |
| CASH FLOW FROM INVESTING ACTIVITIES | |
| Purchase of fixed assets | |
| CASH FLOW FROM FINANCING ACTIVITIES | |
| Proceeds of new loans | |
| Repayment of loan | |
| Net change in cash and cash equivalents | |
| Cash and cash equivalents beginning of year | (91 000) |
| Cash and cash equivalents at the end of year | |

25

3.1.3 Calculate the percentage operating profit on sales

| | |
|--|---|
| | 3 |
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Calculate the debt-equity ratio

| | |
|--|---|
| | 3 |
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Calculate the net asset value per share

| | |
|--|---|
| | 3 |
|--|---|

3.1.4

- Provide a reason supported by information from the Cash Flow Statement as to why the shareholders are concerned over the directors' decision to repurchase 80 000 shares.

- After an investigation, it has come to light that Jim Jeffs, the shareholder from whom the company repurchased the shares, is a close friend of the financial director. Explain briefly why you as a shareholder may find this to be a problem.

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3.2

INTERPRETATION OF FINANCIAL INDICATORS

3.2.1

Which company uses more loans? Quote a financial indicator to support your answer.

Explain whether this is a good idea or not. Quote a financial indicator to support your answer.

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3.2.2

According to Phakamile the liquidity indicators of Thabiso Ltd are better than those of Lauren Ltd. Explain, quoting THREE financial indicators to support his opinion.

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3.2.3

Although the market price of the shares of Lauren Ltd is higher than those of Thabiso Ltd, Phakamile is of the opinion that Thabiso Ltd's shareholders are more satisfied with the market price of their shares. Explain, quoting financial indicators to support this opinion.

4

3.2.4

In which company is Phakamile a major shareholder? Support your answer with a calculation.

3

ACTIVITY C4 (Gauteng Sept 2019 Q4)

FIXED ASSETS, CASH FLOW STATEMENT AND INTERPRETATION

(70 marks; 45 minutes)

The given information relates to Hadley Ltd. The company has an authorised share capital of 900 000 ordinary shares. The financial year ended on 28 February 2019.

REQUIRED:

4.1 Refer to Information A, B and C.

Calculate the missing figures indicated by (a) to (e) in the Fixed Asset Note below.

(17)

4.2 Prepare the Cash Flow Statement for the year ended 28 February 2019. (Where applicable show calculations / figures in brackets to earn part marks).

(30)

4.3 Calculate the Debt-Equity ratio for 2019. (Round-off to TWO decimal points.)

(3)

4.4 The directors decided to increase the loan during the current financial year. Explain TWO financial indicators to indicate why this was a good decision. Quote figures.

(8)

4.5 The board of directors is of the opinion that the shareholders should be happy with their percentage return and the market price of their shares. Quote and explain TWO financial indicators with figures to support their opinion.

(6)

4.6 The Cash Flow Statement reflects some important decisions taken by the Directors. Apart from the loans, identify TWO good decisions. Explain the effect of these decisions on the company. Quote figures.

(6)

INFORMATION:

A Extract from the Income Statement for the year ended 28 February 2019

| | R |
|-----------------------|---------|
| Depreciation | ? |
| Interest expense | 208 800 |
| Net profit before tax | ? |
| Income tax | 713 250 |
| Net profit after tax | ? |

B Extract from the Balance Sheet on 28 February

| | 2019 | 2018 |
|---------------------------------------|-------------------|-------------------|
| Land and Buildings | 5 800 000 | 6 800 000 |
| Vehicles | 2 700 000 | ? |
| Equipment | ? | 850 000 |
| Accumulated depreciation on vehicles | ? | 960 000 |
| Accumulated depreciation on equipment | ? | 180 000 |
| Financial Assets (Fixed Deposit) | 2 000 000 | 2 000 000 |
| Trade and other receivables | 405 750 | 168 300 |
| Trade debtors | 378 675 | 144 600 |
| Accrued income | 27 075 | 0 |
| SARS (Income tax) | 0 | 23 700 |
| Inventories | 360 750 | 436 185 |
| Cash and cash equivalents | 2 841 250 | 1 429 465 |
| Shareholders' equity | 11 000 250 | 10 200 000 |
| Ordinary share capital | 10 260 000 | 9 000 000 |
| Retained income | 740 250 | 1 200 000 |
| Mortgage loan SS Bank | 2 100 000 | 1 380 000 |
| Trade and other payables | ? | 763 950 |
| Trade creditors | 55 200 | 72 450 |
| Income received in advance | 19 350 | 15 000 |
| SARS (Income tax) | 31 950 | 0 |
| Shareholders for dividends | ? | 676 500 |

C **Fixed Asset Note**

| | Land and Building | Vehicles | Equipment |
|--------------------------------------|-------------------|-----------|-----------|
| Carrying value on 28 Feb 2018 | 6 800 000 | 840 000 | (c) |
| Cost | 6 800 000 | (b) | 850 000 |
| Accumulated depreciation | 0 | (960 000) | (180 000) |
| Movements | | | |
| Additions at cost | | 900 000 | 400 000 |
| Disposals | (a) | 0 | (d) |
| Depreciation | | (171 000) | (e) |
| Carrying value on 28 Feb 2019 | 5 800 000 | | |
| Cost | 5 800 000 | 2 700 000 | |
| Accumulated depreciation | | | |

Land and Building

- Part of the Land and Building was sold at carrying value during the financial year.

Vehicles

- A new delivery van was bought on 1 November 2018.
- No vehicles were sold during the financial year.

Equipment

- A printer bought for R150 000 on 1 March 2016, was sold at carrying value on 31 August 2018.
- A new printer was purchased on 31 August 2018.
- Depreciation on equipment is written-off at 10% p.a. on the cost price.

D **The following is an extract from Note 1 to the Cash Flow Statement: Reconciliation between Net Profit before Tax and Cash Generated from Operations**

| | R |
|--|-----------|
| Operating profit before changes in working capital | 2 854 800 |
| Cash effects of changes in working capital | (198 615) |

E Share capital and Dividends

- Authorised shares: 900 000
- On 1 March 2018, there were 600 000 shares in issue.
- On 31 August 2018 an interim dividend of 243 cents per share was paid.
- On 1 November 2018, 40% of the unissued shares were issued for R1 800 000.
- On 28 February 2019, 5% of the issued shares were repurchased at R16 each.
- A final dividend of 90 cents per share was recommended. All shares, including the shares repurchased, qualified for final dividends.

F Income Tax

- Tax is 30% of the net profit.

G Financial indicators on 28 February:

| | 2019 | 2018 |
|--|-------------|-------------|
| Earnings per share | 252 cents | 110 cents |
| % return on average shareholders' equity (ROSHE) | 15,7% | 12,3% |
| % return on average capital employed (ROTCE) | 20,9% | 21,3% |
| Net asset value per share | 1 608 cents | 1 700 cents |
| Debt-equity ratio | ? | 0,13:1 |
| The market price of shares on the JSE | 1 680 cents | 1 560 cents |
| Interest on alternative investments | 7,5% | 6,5% |
| Interest on loans | 12,0% | 10,5% |

ACTIVITY C4 (Gauteng Sept 2019 Q4)

4.1 Calculate the missing figures indicated by (a) – (e) in the Fixed Asset Note.

| |
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| 17 |

| | CALCULATIONS | AMOUNT |
|-----|---------------------|---------------|
| (a) | | |
| (b) | | |
| (c) | | |
| (d) | | |
| (e) | | |

4.2

| CASH FLOW STATEMENT FOR THE YEAR ENDED | |
|--|-----------|
| 28 FEBRUARY 2019 | |
| | R |
| CASH EFFECTS OF OPERATING ACTIVITIES | |
| Cash generated from operations | |
| Interest paid | (208 800) |
| Dividends paid | |
| Income Tax paid | |
| CASH EFFECTS FROM INVESTING ACTIVITIES | |
| | |
| | |
| CASH EFFECTS FROM FINANCING ACTIVITIES | |
| | |
| | |
| | |
| Net change in cash and cash equivalents | |
| Cash and cash equivalents at beginning of year | |
| Cash and cash equivalents at end of year | |

| |
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| |
| 30 |

4.3 Calculate the Debt-Equity ratio for 2019. (Round-off to TWO decimal points.)

| |
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| 3 |

4.4 The directors decided to increase the loan during the current financial year. Explain TWO financial indicators to indicate why this was a good decision. Quote figures.

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| 8 |

4.5 The board of directors is of the opinion that the shareholders should be happy with their percentage return and the market price of their shares. Quote and explain TWO financial indicators with figures to support their opinion.

| |
|---|
| |
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4.6 The Cash Flow Statement reflects some important decisions taken by the Directors. Apart from the loans, identify TWO good decisions. Explain the effect of these decisions on the company. Quote figures.

| DECISION | EFFECT ON COMPANY |
|----------|-------------------|
| | |
| | |

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C5 (Eastern Cape September 2019 Q5)

CASH FLOW AND INTERPRETATION (80 marks; 50 minutes)

The following information relates to Frankfurt Ltd that distributes perfumes to retailers. The financial year ended on 31 August 2019.

REQUIRED:

- 5.1 Calculate the following concerning the cash flow statement:
 - 5.1.1 The cash generated from operations. (15)
 - 5.1.2 The cash flow from investing activities. (10)
 - 5.1.3 The cash flow from financing activities. (7)
 - 5.1.4 The net change in cash and cash equivalents. (5)

- 5.2 Calculate the following financial indicators for 2019:
- Acid test ratio (4)
 - Debt-equity ratio (4)
 - Net asset value per share (4)
 - Percentage return on total capital employed. (8)
- 5.3 It was a good decision for the directors to increase the loan. Explain and quote TWO financial indicators with figures to support the director's decision. (6)
- 5.4 One of the shareholders want to sell his shares at 550 cents per share. Explain why the business should not repurchase these shares. Quote TWO financial indicators (with figures) to support your opinion. (4)
- 5.5 Identify TWO major decisions taken by the directors, as evident from the Cash Flow Statement. Quote figures. Explain how these decisions would benefit the business in future. (8)
- 5.6 Lee Jenkins owns 20 000 shares in the company. She is not satisfied with the low dividends she obtained this year.
- Calculate the amount of money she received this year in the form of dividends. (2)
 - Explain to her why you think the directors changed the dividend pay-out policy this year. Quote figures. (3)

INFORMATION:**A. Extract from the Income Statement on 31 August 2019.**

| | |
|-----------------------|-----------|
| Depreciation | R950 000 |
| Interest expense | 144 150 |
| Net profit before tax | 1 230 000 |
| Income tax | ? |
| Net profit after tax | 861 000 |

B. Extract from the Balance Sheet on 31 August:

| Note | 2019 | 2018 |
|--------------------------------------|------------|------------|
| Fixed assets at carrying value | R3 616 400 | R2 300 000 |
| Financial assets | 300 000 | 712 500 |
| Current assets | 1 231 050 | 1 116 650 |
| Inventories | 903 900 | 1 044 700 |
| Trade and other receivables See (iv) | 257 150 | 70 950 |
| Cash and cash equivalents | 70 000 | 1 000 |
| Ordinary share capital | 1 932 000 | 2 000 000 |
| Retained income | 1 413 800 | 1 156 000 |
| Loan | 1 622 000 | 300 000 |
| Bank overdraft | | 62 000 |
| Trade and other payables See (v) | 1 138 000 | ? |

C. Additional information:**(i) Ordinary share capital:**

| | | |
|-----------|--|------------|
| 1 000 000 | Shares in issue at beginning of year | R2 000 000 |
| 200 000 | Additional shares issued on 30/11/2018 | 520 000 |
| 280 000 | Shares repurchased on 31 May 2019 | (588 000) |
| 920 000 | Issued shares on 31 August 2019 | 1 932 000 |

(ii) Extract from Retained income:

| | |
|----------------------|------------|
| Repurchase of shares | (R266 000) |
|----------------------|------------|

(iii) Fixed assets

- Fixed assets were bought during the year for R?
- Fixed assets were sold during the year at book value, R225 000.

(iv) Trade and other receivables:

| | 2019 | 2018 |
|-------------------|----------|---------|
| Net Trade debtors | R208 150 | R70 000 |
| Prepaid expenses | 0 | 950 |
| SARS (Income tax) | 49 000 | |

(v) Trade and other payables:

| | 2019 | 2018 |
|----------------------------|----------|----------|
| Trade creditors | R944 800 | R860 700 |
| Income received in advance | 0 | 28 300 |
| SARS (Income tax) | | 163 700 |
| Shareholders for dividends | 193 200 | 120 000 |

D. Financial indicators:

| | 2019 | 2018 |
|------------------------------------|----------|-------------|
| % Return on shareholder's equity | ? | 16,3% |
| Earnings per share | 80 cents | 56 cents |
| Dividends per share | 33 cents | 50 cents |
| % Return on total capital employed | ? | 21,2% |
| Interest rate on loan | 15% | 14% |
| Net asset value per share (NAV) | ? | 315,6 cents |
| Debt–equity ratio | ? | 0,1: 1 |
| Market price per share | 380 cent | 360 cent |
| Current ratio | 1,6: 1 | 1,5: 1 |
| Acid-test ratio | ? | 0,4: 1 |

5.1.1

CASH GENERATED FROM OPERATIONS

| | |
|-----------------------------------|----------------|
| Net profit before tax | |
| Adjustments in respect of: | |
| Depreciation | 950 000 |
| | |
| Changes in working capital | |
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5.1.2

CASH FLOWS FROM INVESTING ACTIVITIES

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5.1.3

CASH FLOWS FROM FINANCING ACTIVITIES

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5.1.4

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| NET CHANGE IN CASH AND CASH EQUIVALENTS | |
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USE ADDITIONAL PAPER TO ANSWER THE REMAINING QUESTIONS

**ACTIVITY C6 (NSC NOV 2017 – Q4)
CASH FLOW STATEMENT AND INTERPRETATION**

6.1 Choose a term to complete each of the following statements. Write only the term next to the question number (6.1.1–6.1.4) in the ANSWER BOOK.

| |
|---|
| shareholder(s); external auditor(s); director(s); internal auditor(s) |
|---|

- 6.1.1 ... are appointed by the shareholders to manage the company.
- 6.1.2 The ... is employed by the company to set up functional internal control processes.
- 6.1.3 A ... is a person who invests in a company by buying shares.
- 6.1.4 ... are appointed by shareholders to give an unbiased opinion on the financial statements. (4)

6.2 **SO-FINE LTD**

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

REQUIRED:

- 6.2.1 Prepare the following notes to the Balance Sheet on 31 August 2017:
 - Ordinary share capital (7)
 - Retained income (9)
- 6.2.2 Complete the Cash Flow Statement by inserting only the details and figures indicated by a question mark (?). (19)
- 6.2.3 Calculate the following financial indicators on 31 August 2017:
 - Percentage operating profit on sales (3)
 - Debt-equity ratio (4)
- 6.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period. (4)

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 |

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.

6.3 CASTRO LTD AND RONKI LTD

You are provided with information relating to two companies.

BACKGROUND INFORMATION:

- Henry Harries owns 300 000 shares in each company.
- **Castro Ltd** issued 200 000 new shares only to existing shareholders at the average issue price (R9,10). These funds were used to establish a new branch. No new loans were raised.
- **Ronki Ltd** paid R4 800 000 to repurchase 320 000 shares.

REQUIRED:

NOTE: Where comments or explanations are required, quote financial indicators and figures to support your answer.

CASTRO LTD

- 6.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued. (3)
- 6.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators. (6)
- 6.3.3 Henry had the option to buy some of the new shares issued by Castro Ltd. He had saved sufficient funds (interest rate 5% p.a.) for this purpose. (6)
- If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy and how much would he have had to pay? (5)
 - Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option. (6)

RONKI LTD

- 6.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators. (6)
- 6.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares. (3)
- 6.3.6 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd. (6)

ADDITIONAL INFORMATION:

Financial indicators and additional information from annual reports:

| | CASTRO LTD | | RONKI LTD | |
|------------------------------------|------------|-----------|-----------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Debt-equity ratio | 0,5 : 1 | 0,8 : 1 | | |
| Current ratio | | | 1,9 : 1 | 3,5 : 1 |
| Acid-test ratio | | | 1,1 : 1 | 1,7 : 1 |
| Stock-holding period | | | 54 days | 54 days |
| Number of shares in issue | 700 000 | 500 000 | 580 000 | 900 000 |
| Average share issue price | R9,10 | | R10,20 | |
| Price paid for share repurchase | | | R15,00 | |
| Price of share on JSE | R12,00 | | R15,00 | |
| Net asset value per share | R10,73 | R11,38 | R13,30 | R13,22 |
| % return on shareholders' equity | 23% | 17% | 16% | 13% |
| % return on total capital employed | 20% | 15% | | |
| Earnings per share | 140 cents | 196 cents | 266 cents | 171 cents |
| Total dividends | R357 000 | R325 000 | R928 000 | R928 000 |
| Dividends per share | 51 cents | 65 cents | 160 cents | 103 cents |

ACTIVITY C6 (NSC NOV 2017 – Q4)

6.1

| | |
|-------|--|
| 6.1.1 | |
| 6.1.2 | |
| 6.1.3 | |
| 6.1.4 | |

| |
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6.2
6.2.1

**SO-FINE LTD
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 |

6.2.2

SO-FINE LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2017

| | | |
|---|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash generated from operations | | |
| Interest paid | | |
| Dividends paid | | |
| Income tax paid | | ? |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of fixed assets | | ? |
| ? | | ? |
| Change in investments | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| ? | | ? |
| ? | | ? |
| Change in non-current liabilities | | |
| | | |
| Net change in cash and cash equivalents | | ? |
| Cash and cash equivalents – opening balance | | ? |
| Cash and cash equivalents – closing balance | | ? |

6.2.3

| | |
|---|---|
| Calculate the percentage operating profit on sales. | |
| | 3 |
| Calculate the debt-equity ratio. | |
| | 4 |

6.2.4

Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period.

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

6.3

CASTRO LTD

6.3.1

Comment on the price of R9,10 charged by Castro Ltd for the new shares issued.

| |
|---|
| |
| 3 |

6.3.2

Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators.

| |
|---|
| |
| 6 |

6.3.3

If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy?

| |
|---|
| |
| 3 |

How much would he have had to pay?

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

Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option.

Reason 1:

Reason 2:

| |
|---|
| |
| 6 |

RONKI LTD

6.3.4

Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators.

6

6.3.5

Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares.

3

6.3.6

Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd.

Point 1:

Point 2:

Point 3:

6

E. AUDIT REPORTS**ACTIVITY E1 (Gauteng Sept 2019 Q 3)****AUDITING**

You are provided with an extract from the report of the independent auditors.

Audit Opinion – To the shareholders:

We have examined the financial statements as set out on Pages 23 to 89.

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company as at 28 February 2019 and the results of their operation and cash flows for the year ended are in accordance with International Financial Reporting Standards (IFRS), and in the manner as required by the Companies Act in South Africa.

Mxo and Frank

Chartered Accountants (SA)

Registered Accountants and Auditors

Midrand, 31 March 2019

REQUIRED:

- 1.1 Explain why the shareholders would be satisfied with this audit report. (2)
- 1.2 Tello Motloung, the managing director, has informed the auditors that he intends to buy the unissued shares for himself without informing the other shareholders. What advice should the auditors give to Tello? Explain. (2)
- 1.3 Explain why the auditors found it necessary to stipulate the page numbers in the report. (2)
- 1.4 Explain TWO major consequences for Mxo and Frank should they be negligent in performing their duties. (4)

ACTIVITY E1 AUDITING

| | | |
|-----|---|--|
| 1.1 | Explain why the shareholders would be satisfied with this audit report. | <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">2</div> |
| 1.2 | Tello Motloung, the managing director, has informed the auditors that he intends to buy the unissued shares for himself without informing the other shareholders. What advice should the auditors give to Tello? Explain. | <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">2</div> |
| 1.3 | Explain why the auditors found it necessary to stipulate the page numbers in the report. | <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">2</div> |
| 1.4 | Explain TWO major consequences for Mxo and Frank should they be negligent in performing their duties. | <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">4</div> |

ACTIVITY E2 (North West Sept 2019 Q 4)

You are provided with the extracts of the independent audit reports of Giovanni Ltd.

REQUIRED:

- 2.1 Provide ONE reason why public companies must be externally audited. (2)
- 2.2 What type of report did Giovanni Ltd receive from the independent auditors? Explain your answer. (3)
- 2.3 **Refer to Information B.**
One of the directors says that “the company must not waste money on things like this.” Provide THREE reasons against his opinion. (6)

INFORMATION:

A. Extract from the Independent Auditors’ Report:

In our opinion, these financial statements present fairly, in all material respects, the financial position of Giovanni Ltd as at 31 March 2019, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act (Act 71 of 2008) of South Africa.

B. The following extract appeared in the Directors’ report of Giovanni Ltd:

In terms of the outreach/ programme, Giovanni Ltd has established a sports academy for the local community. The company is providing sporting facilities to schools and is maintaining the sports ground.

ACTIVITY E2 (North West Sept 2019 Q 4)

| | | |
|-----|---|---|
| 2.1 | Provide ONE reason why public companies must be externally audited. | <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">2</div> |
| 2.2 | What type of report did Giovanni Ltd receive from the independent auditors? Explain your answer. Type: Explanation: | <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">3</div> |
| 2.3 | Refer to information B. One of the directors says that “the company must not waste money on things like this.” Provide THREE reasons <u>against</u> his opinion. | <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">6</div> |

ACTIVITY E3 (Limpopo Sept 2019 Q 3)

AUDIT REPORT

The following media release from the Auditor General appeared in the national newspapers.

PWC reports on overall deterioration in the audit results of Richard Distributors Ltd.

The audit report for Richard Distributors Ltd, a public owned company that is a leader in the transport and logistics industry, continues to cause concern – seven of the eleven provincial head offices received reports showing problems.

Answer the following questions:

- 3.1 What is the purpose of an independent auditor report and to whom is it addressed? (3)
- 3.2 Explain the difference between a qualified and an unqualified audit report. (4)
- 3.3 Predict THREE implications for the company or directors after PWC release their report. (3)

3.1 AUDIT REPORT

| | |
|-----|---|
| 3.1 | <p>What is the purpose of an independent auditor report and to whom is it addressed?</p> <p>Purpose:</p> <p>Addressed to:</p> |
| 3.2 | <p>Explain the difference between a qualified and an unqualified audit report.</p> <p>Qualified:</p> <p>Unqualified:</p> |
| 3.3 | <p>Predict THREE implications for the company or directors after PWC release their report.</p> |

3

4

ACTIVITY E4 (Mpumalanga Sept 2019 Q 3)

4. AUDIT REPORT

You are provided with an extract from the audit report of the independent auditors of Cooper Ltd. Read the report and answer the questions that follow.

| | |
|----------------|---|
| | To Shareholders |
| <i>Point 1</i> | We have audited the annual financial statements of Cooper Limited for the year ended 30 June 2019, set out on pages 25 to 51..... |
| | Basis for Opinion |
| <i>Point 2</i> | An amount that was shown as additions to Land and buildings was for revaluations of the Buildings. No audit evidence was provided. |
| | Opinion |
| <i>Point 3</i> | In our opinion, the financial statements fairly present the financial position of the company at 30 June 2019, except for the increase in the value of the fixed assets in the Balance Sheet. |

REQUIRED:

- 4.1 Explain why the auditors did specifically address the report to shareholders? (2)
- 4.2 **Refer to point 1.**
Explain why the independent auditors referred to pages 25-51 in the report. (2)
- 4.3 **Refer to point 2.**
The directors claimed that the value of the buildings increased over the years and that the value must be increased and shown as additions in the fixed asset note.
As the independent auditor, what advice would you give? Provide ONE point. (2)
- 4.4 **Refer to point 3.**
 - The company received a/an (unqualified/qualified/disclaimer) audit report. (1)
 - Give a reason for your answer. (1)

ACTIVITY E4 (Mpumalanga Sept 2019 Q 3)

| | | |
|-----|--|---|
| 4.1 | | 2 |
| 4.2 | | 2 |
| 4.3 | | 2 |
| 4.4 | | 2 |

ACTIVITY F1 WEIGHTED AVERAGE & FIFO (35 marks; 20 minutes)

Omega Electronics is a business that sells televisions. The business is owned by Ching Lee. They make use of the WEIGHTED AVERAGE method for stock valuation and use the periodic inventory system. The financial year ended on 28 February 2019. The mark-up is 25% on cost price.

REQUIRED:

- 1.1 Calculate the following on 28 February 2019:
- 1.1.1 Value of the closing stock. (10)
- 1.1.2 Gross profit for the year ended. (5)
- 1.2 The owner and the accountant disagree on the method of stock valuation. The accountant wants to use the FIFO method.
- 1.2.1 Calculate the stock value on 28 February 2019 using the FIFO method. (7)
- 1.2.2 Explain the effect on gross profit if the FIFO method is used. (2)
- 1.2.3 As an internal auditor, explain the benefits of using the FIFO method to the owner and the accountant. State TWO points. (4)
- 1.3 Ching Lee feels that she was not able to achieve her targeted mark-up % for 2019.
- Do (or perform) a calculation to confirm whether she is correct. (3)
 - Provide TWO suggestions that can be implemented in order to improve profitability. (4)

INFORMATION:**A.** Stock of television sets:

| Date: | Details: | Total: |
|------------------|-----------|----------|
| 1 March 2018 | 49 units | R195 424 |
| 28 February 2019 | 220 units | ? |

ACTIVITY F1

ACTIVITY F 2: INVENTORY SYSTEM (46 marks; 30 minutes)

The information provided is from the accounting records of Clan William Ltd.

The company sells cooler boxes and tents. The financial year ended on 28 February 2018.

The business uses **the periodic inventory system** and the **weighted average method of stock valuation** for cooler boxes and **the specific identification method** for tents.

REQUIRED:

- 2.1 Explain the difference between the **specific identification** and the **weighted average** methods of valuing stock. (2)

COOLER BOXES:

- 2.2 Provide a calculation to show the number of missing cooler boxes on 28 February 2018. (4)
- 2.3 Calculate the following in respect of cooler boxes:
- The value of closing stock (3)
 - Cost of sales of cooler boxes (5)
 - Gross profit on cooler boxes (3)
- 2.4 The manager feels that the business is more efficient in controlling stock.
- 2.4.1 Calculate the stock holding period (in days) of cooler boxes for 2018. (4)
- Use the closing stock.
- 2.4.2 Comment on your findings in response to the manager's opinion. (3)

TENTS:

- 2.5 Calculate the value of the closing stock of tents. (4)
- 2.6 The mark-up percentage on tents is 25% on cost. Calculate the total sales of tents for the financial period. (6)

INFORMATION: COOLER BOXES**A Value of Stock on hand**

| Date | No. of Items | Unit Price | Total (R) |
|------------------|--------------|------------|-----------|
| 01 March 2017 | 520 | R60 | 31 200 |
| 28 February 2018 | 850 | ? | ? |

B Purchases of cooler boxes

| Date | PURCHASES | | |
|---------------|--------------|------------|----------------|
| | No. of Items | Unit Price | Total (R) |
| August 2017 | 1 600 | R64 | 102 400 |
| February 2018 | 2 700 | R70 | 189 000 |
| TOTAL | 4 300 | | 291 400 |
| | | | |

C SALES OF COOLER BOXES: 3 900 units were sold for R387 000.

D RETURNS:

20 damaged cooler boxes costing R60 each were returned to the supplier. The supplier only agreed to give an allowance of **R1 000** due to late notification.

E.

| Financial Indicators | 2018 | 2017 |
|----------------------|-----------|-----------|
| Stock Holding Period | ? | 125 days |
| Stock Turnover Rate | 5.7 times | 2.9 times |

INFORMATION: TENTS

| TENT RANGE | STOCK ON HAND 1 MARCH 2017 | PURCHASES DURING THE YEAR | PRICE PER TENT | NUMBER OF TENTS SOLD DURING THE YEAR |
|--------------|----------------------------------|---------------------------------|-------------------|---|
| 1. Bush Baby | 14 | - | R1 260 | 14 |
| 2. Leopard | 10 | 32 | R1 400 | 28 |
| 3. Lizzard | 7 | 28 | R1 680 | 28 |
| 4. Buffalo | 8 | 34 | R1 540 | 35 |

ACTIVITY F2

ACTIVITY F3: STOCK VALUATION

(45 marks; 25 minutes)

- 3.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (5.1.1 – 5.1.4) in the ANSWER BOOK.
- 3.1.1 In the (perpetual / periodic) inventory system, the cost of sales must be calculated at the end of the year.
 - 3.1.2 The (specific identification / weighted-average) stock valuation method is best suited for unique high-value products.
 - 3.1.3 In the perpetual inventory system, merchandise purchased is recorded as an (asset / expense) to the business.
 - 3.1.4 The (first-in-first-out / weighted-average) stock valuation method is best suited for products of similar value purchased in large quantities. (4)

3.2 KROOKED SKATEBOARD TRADERS

You are provided with information relating to Krooked Skateboard Traders owned by G Gonzales. The business sells a type of skateboard that is imported from California. The financial year ended on 28 February 2019. The business uses the weighted-average method to value their stock and uses the periodic inventory system.

REQUIRED:

- 3.2.1 Calculate the following on 28 February 2019:
 - (a) The value of closing stock using the weighted-average method. (9)
 - (b) Cost of Sales (4)
 - (c) Gross Profit (3)
- 3.2.2 G Gonzales wants to alternate between using the weighted-average method and a FIFO method, depending on which will result in the higher cost of sales.
 - (a) In your opinion, why do you think G Gonzales wants to increase the value of cost of sales in the financial statements? (2)
 - (b) Provide ONE reason why the bookkeeper says that alternating between two methods of valuing stock does not comply with the requirements of GAAP. (2)

INFORMATION:

A Stock records of skateboards

| Date | Number of units | Total value |
|------------------|-----------------|-------------|
| 01 March 2018 | 860 | R238 600 |
| 28 February 2019 | 420 | ? |

B Purchases of skateboards

| Purchases: | | | | | | |
|---------------|--------------|----------------|------------------|-----------------------|-----------------------------|---------------------|
| DATE | NO. OF UNITS | PRICE PER UNIT | TOTAL PURCHASES | CARRIAGE ON PURCHASES | TOTAL CARRIAGE ON PURCHASES | TOTAL PURCHASE COST |
| | | R | R | R | R | R |
| 31/05/18 | 1 200 | 280 | 336 000 | 20 | 24 000 | 360 000 |
| 01/07/18 | 1 600 | 300 | 480 000 | 20 | 32 000 | 512 000 |
| 12/09/18 | 1 000 | 290 | 290 000 | 24 | 24 000 | 314 000 |
| 15/01/19 | 600 | 320 | 192 000 | 24 | 14 400 | 206 400 |
| Totals | 4 400 | | 1 298 000 | | 94 400 | 1 392 400 |

C Returns of skateboards

Forty (40) skateboards from the July purchases that were not of good quality were returned to the supplier. They credited the business account with the total cost, including carriage on purchases.

D Sales

4 800 units at R350 each: R1 680 000

3.3 PROTEC TRADERS

Patrick Ace is the owner of PROTEC Traders, who sells safety helmets. He has three different stores that are managed by Lucas, Pitso and Pepe. He is concerned that the stores are not running effectively and gave you the following information to analyse for February 2019.

REQUIRED:

Identify a different problem in each store. Quote figures to support the problem identified in each case and give Patrick Ace advice on how to solve each problem. (9)

| | Store 1 Lucas | Store 2 Pitso | Store 3 Pepe |
|--------------------------------------|--------------------------|--------------------------|-------------------------|
| Sales | R280 000 | R340 000 | R300 000 |
| Returns from customers for the month | R4 000 | R28 000 | R3 000 |
| Returns policy | 7 days | 21 days | 7 days |
| Stock stolen during the month | 0 units | 4 units | 50 units |
| Advertising | R30 000 | R10 000 | R24 000 |
| Number of employees | 6 | 4 | 6 |

3.1

Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (5.1.1 – 5.1.4) in the ANSWER BOOK.

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

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

3.2

KROOKED SKATEBOARD TRADERS

3.2.1

Calculate the following on 28 February 2019:

(a) The value of closing stock using the weighted-average method.

| |
|---|
| |
| 9 |

(b) Cost of sales:

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

(c) Gross Profit:

| |
|---|
| |
| 3 |

3.2.2

G Gonzales wants to alternate between using the weighted-average method and a FIFO method, depending on which will result in the higher cost of sales.

(a) **In your opinion, why do you think G Gonzales wants to increase the value of cost of sales in the financial statements?**

(b) **Provide ONE reason why the bookkeeper says that alternating between two methods of valuing stock does not comply with the requirements of GAAP.**

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

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

3.3

PROTEC TRADERS

Identify a different problem in each store. Quote figures to support the problem identified in each case and give Patrick Ace advice on how to solve each problem.

| | Problem (Quote figures.) | Solution / Advice |
|-------------------------------------|---------------------------------|--------------------------|
| Store 1: Lucas | | |
| Store 2: Pitso | | |

| |
|---|
| |
| 9 |

| | | |
|-----------------|--|--|
| Store 3: | | |
| Pepe | | |

G. TANGIBLE ASSETS**ACTIVITY G1 (32 Marks, 19 Minutes)**

HB Contractors purchased a second hand caravan, to accommodate their four staff members while working on building sites far from their homes in Durban. This asset is considered to be part of the equipment that is taken to building sites. The businesses financial year ends on 31 July each year.

Information:

- Caravan details:

| | | | |
|-------------------------|---------------|----------------------------|-----------------|
| Asset | Caravan | Cost Price | R80 000 |
| Registration No. | ND 455 789 | Depreciation Method | Diminishing Bal |
| Date Purchased | 1 August 2017 | Depreciation Rate | 20% p.a. |

- The caravan was sold for R50 000 cash on 30 January 2020.

Required:

- 1.1 Provide **TWO** advantages of purchasing a caravan for the staff, rather than booking them alternative accommodation. (4)
- 1.2 Is it ethical for Harry Bhengu, the owner of HB Contractors, to use business funds to pay for his personal accommodation in a hotel during the duration of the contract? (3)
- 1.3 Complete the Fixed Asset Register for this caravan. (9)
- 1.4 Draft the Asset Disposal account in the General Ledger to calculate whether a profit or a loss was made on the disposal of this caravan. (10)
- 1.5 Apart from the above caravan, HB Contractors has various specialised tools that are needed for their various construction projects. Discuss **THREE** control measures that can be implemented to ensure the safety of these tools, as well as the safety of the workers. (6)

ACTIVITY G1 (32 Marks, 19 Minutes)

- 1.1 Provide **TWO** advantages of purchasing a caravan for the staff, rather than booking them alternative accommodation. (4)

- 1.2 Is it ethical for Harry Bhengu, the owner of HB Contractors, to use business funds to pay for his personal accommodation in a hotel during the duration of the contract? (3)

- 1.3 Complete the Fixed Asset Register for this caravan. (9)

| | Depreciation | Accumulated Depreciation | Carrying Value |
|-----------------|--------------|--------------------------|----------------|
| 31 July 2018 | | | |
| 31 July 2019 | | | |
| 30 January 2020 | | | |

- 1.4 Draft the Asset Disposal account in the General Ledger to calculate whether a profit or a loss was made on the disposal of this caravan. (10)

Asset Disposal

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

- 1.5 Apart from the above caravan, HB Contractors has various specialised tools that are needed for their various construction projects. Discuss **THREE** control measures that can be implemented to ensure the safety of these tools, as well as the safety of the workers. (6)

ACTIVITY G2: (30 Marks, 18 Minutes)

You are provided with the asset disposal account in the books of Elan Square that recorded the sale of a vehicle on 31 August 2019, and some additional information.

Required:

- 2.1 Complete the fixed assets note in the books of Elain Square for the financial year ended 28 February 2020. The incomplete note is in your answer book. Show detailed calculation for depreciation in the space provided. (14)
- 2.2 Answer the following questions:
- 2.2.1 Which GAAP principle is used when assets are depreciated? Explain the purpose of the principle. (3)
- 2.2.2 Elain has suggested to the bookkeeper that in future vehicles must be depreciated by 50% on cost, in order to get the greatest tax benefit. Explain to her whether this is feasible or not as well as the consequences of this decision. (5)
- 2.2.3 Elain budgeted R50 000 for motor expenses in the year ended 28 February 2020 that included maintenance and licenses. She was very concerned when the Income Statement was produced to notice that the actual costs were R95 000. Discuss 2 possible reasons for this difference and suggest to her 2 measures that she could use in future to prevent these great differences. (8)

Information:**General Ledger of Elain Square****Asset Disposal**

| | | | | | | | |
|------|----|----------|--------|------|----|-----------------------------|--------|
| 2019 | | | | 2019 | | Accumulated depreciation on | |
| Aug | 31 | Vehicles | 80 000 | Aug | 31 | vehicles | 48 800 |
| | | | | | | Bank | 25 000 |
| | | | | | | Loss on sale of asset | 6 200 |
| | | | 80 000 | | | | 80 000 |

Additional Information:

- During the year additions were made to the land and buildings by taking out a mortgage loan from NFB Bank.
- On 31 August 2019 an old vehicle was sold **for cash**. This money was then used as a deposit on a new vehicle, purchased 1 September 2019, for which the business still owes an amount of R179 000 to MH Motors. The accumulated depreciation on the asset sold was R44 000 on 1 March 2019.
- Vehicles are depreciated by 20% p.a. on the diminishing balance method.

ACTIVITY G2 (30 Marks, 18 Minutes)

Elain Square
Notes to the financial statements for the year ended 28 February 2020

2.1. Tangible Assets

| | Land & Buildings | Vehicles |
|-------------------------------------|------------------|-----------|
| Cost price (1/03/19) | 1 260 000 | 360 000 |
| Accumulated Depreciation (1/03/19) | 0 | (125 000) |
| Carrying Value (1/03/08) | 1 260 000 | |
| Movements | | |
| Additions at cost | | |
| Disposals at carrying value | 0 | |
| Depreciation for the year | 0 | |
| Cost price (28/02/09) | 1 450 000 | |
| Accumulated Depreciation (28/02/20) | 0 | |
| Carrying Value (28/02/20) | 1 450 000 | |

Calculation Of Depreciation:

| | | |
|---------------------------|--|--|
| Old / Remaining Vehicles | | |
| Sold Vehicle | | |
| New Vehicle | | |
| Total Depreciation | | |

2.2 2.2.1 Which GAAP principle is used when assets are depreciated? Explain the purpose of the principle (3)

2.2.2 Elain has suggested to the bookkeeper that in future vehicles must be depreciated by 50% on cost, in order to get the greatest tax benefit. Explain to her whether this is feasible or not as well as the consequences of this decision. (5)

2.2.3 Elain budgeted R50 000 for motor expenses in the year ended 28 February 2020 that included maintenance and licenses. She was very concerned when the Income Statement was produced to notice that the actual costs were R95 000. Discuss 2 possible reasons for this difference and suggest to her 2 measures that she could use in future to prevent these great differences. (8)

Possible reasons: (4 marks)

-

-

Suggestions: (4 marks)

-

-

ACTIVITY G3 (68 Marks, 41 Minutes)

Jenny Khuzwayo owns Jenny's Transport Services. This business provides transport for pensioners' who cannot drive and need assistance with their shopping, doctor's visits etc. The businesses financial year ends on 31 January 2020.

Required:

- 3.1 Identify the GAAP concept that is applied in the following cases:
- 3.1.1 Penny's vehicles need to be recorded at their original cost price (1)
- 3.1.2 Each vehicle's value depreciates annually due to wear and tear (1)
- 3.2 Complete the Fixed Asset Register to calculate the Accumulated Depreciation on **ONE** Toyota Corolla on 1 December 2019 by completing the table in your answer sheet. (16)
- (see bottom of page for information)
- 3.3 Complete the following General Ledger Accounts, correctly balanced / closed off, for the year ended 31 January 2020:
- 3.3.1 Accumulated Depreciation on Vehicles (21)
- 3.3.2 Asset Disposal (12)
- 3.4 The Tangible Assets note to the Balance Sheet on 31 January 2020 (10)
- 3.5 Did this Jenny make a good decision regarding the sale of one Corolla and replacing it with a Kombi? Give a reason for your answer. (3)
- 3.6 Identify **TWO** things that Penny can do to ensure that her employees drive her vehicles in a responsible manner. (4)

Information:

- Jenny started this business, by purchasing **THREE** identical Toyota Corolla's, at a cost price of R120 000 **each** on 1 August 2016.
- No additional vehicles have been bought or sold between 1 July 2016 and 1 February 2019, the beginning of the financial year.
- Vehicles are depreciated at 20% per annum according to the diminishing balance method.
- On 1 December 2019, Penny decided to replace **ONE** Toyota Corolla with a second hand Kombi costing R180 000. The Corolla was traded in for R50 000. The sold Corolla had a book value of R57 600 on the date of sale.

ACTIVITY G3 (68 Marks, 41 Minutes)

3.1 Identify the GAAP concept that is applied in the following cases:

3.1.1 Penny's vehicles need to be recorded at their original cost price

(1)

3.1.2 Each vehicle's value depreciates annually due to wear and tear

(1)

3.2 Complete the Fixed Asset Register to calculate the Accumulated Depreciation on **ONE** Toyota Corolla on 1 December 2019 by completing the table in your answer sheet.

(16)

| Corolla Number 1 | | | |
|---------------------|---------------------|---------------------------------|-----------------------|
| Make | Toyota | | Cost price |
| Model | Corolla | | Depreciation Method |
| Registration number | ND 638 - 376 | | Depreciation Rate |
| Date Bought | | | |
| | Depreciation | Accumulated Depreciation | Carrying Value |
| 31 January 2017 | | | |
| 31 January 2018 | | | |
| 31 January 2019 | | | |
| 1 December 2019 | | | |

3.3.1 **Accumulated Depreciation: Vehicles**

(21)

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3.3.2

Asset Disposal

(12)

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3.4 **Notes to the Financial Statements for the year ended 31 January 2020**

(10)

| | Vehicles |
|---|-----------------|
| Carrying value at the beginning of the year | |
| Cost | |
| Accumulated Depreciation | |
| Movements | |
| Additions at cost | |
| Disposals at carrying value | |
| Depreciation | |
| Carrying value at the end of the year | |
| Cost | |
| Accumulated Depreciation | |

3.5 Did this Jenny make a good decision regarding the sale of one Corolla and replacing it with a Kombi? Give a reason for your answer.

(3)

3.6 Identify **TWO** things that Jenny can do to ensure that her employees drive her vehicles in a responsible manner.

(4)

H. COST ACCOUNTING**ACTIVITY H1 (50 marks, 30 minutes)****1.1 CHUNKY CHAIRS**

Chunky Chairs produces kitchen chairs. The financial year ended on 31 May 2019.

REQUIRED

- 1.1.1 Calculate the total purchases of raw material for the financial year ended 31 May 2019. (4)
- 1.1.2 Complete the Production Cost Statement on 31 May 2019. (9)
- 1.1.3 Calculate the following for the financial year ended 31 May 2019:
- Number of units sold during the year (5)
 - Cost of sales (5)
 - Net profit for the year (8)

INFORMATION

A. The business uses the FIFO-method to value their stock and the periodic inventory system.

B. Balances:

| | 31 May 2019 | 1 June 2018 |
|--------------------|------------------|--------------------------|
| Raw material stock | ? | R325 000 |
| Work in Progress | R94 000 | ? |
| Finished Goods | ? 9 500 units | R285 000 15 000 units |

- C. Carriage on raw materials amounted to R27 000 for the year.
- D. Raw Material available for production was R1 450 000, while raw materials used in the factory were R1 140 000.
- E. Salaries and wages amounted to R650 000 for the year. 40% of this was wages of workers who worked on the chairs. The rest was divided equally between Factory overheads and Administrative cost
- F. 80 000 chairs were completed during the year at a unit cost of R21,25.
- G. Sales: chairs were sold at R42,50 per unit.
- H. After all expenses above were taken into account, the Distribution cost was R625 600 and Administrative cost R787 400.

1.2 GLITTERATI BAGS AND PROBLEM SOLVING

Glitterati Bags manufactures exclusive evening handbags.

REQUIRED

- 1.2.1 Calculate the following:
- (a) the variable cost per unit. (4)
 - (b) the breakeven point. (5)
- 1.2.2 After an analysis of cost and efficiency, the internal auditor is concerned about a few points. Refer to **Information C** and answer the following questions:
- (a) **Direct material:** Identify ONE problem and suggest ONE possible solution for the problem. (2)
 - (b) **Direct labour and Sewing machine maintenance:** Identify TWO different problems with each item and suggest a solution for EACH separate problem. (8)

INFORMATION

A. The business manufactured and sold 23 400 handbags during this year. The bags were sold at R299 each.

B. **Analysis of cost:**

| | Total | Per unit |
|--------------------------|------------|----------|
| Direct Material | R1 989 000 | R85 |
| Direct Labour | R2 527 200 | R108 |
| Factory Overhead | R842 400 | R36 |
| Administrative cost | R538 200 | R23 |
| Selling and distribution | R795 600 | R34 |

C. After an analysis of cost and efficiency, the internal auditor is concerned about the following points:

- **Direct material:**
 - 50 cm of material is needed to produce one handbag.
 - It was determined that 1 meter of material was used per handbag.
- **Direct labour:**
 - 8 workers are employed that produce the handbags.
 - The average production per worker is 2 925 handbags.
 - The wage records reflected that one worker, Tarren, produced 2 100 handbags and she earned the highest overtime pay.
- **Sewing machines maintenance:**
 - The maintenance cost increased significantly in the last year.
 - The maintenance on two workers' machines, those of Roger and Gary, were three times higher than the other machines.

1.1 **CHUNKY CHAIRS**

1.1.1 Calculate the total purchases of raw material for the financial year ended 21 May 2019.

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1.1.2 Production cost statement for the year ended 31 May 2019

| | |
|---|-----------|
| | 1 140 000 |
| | |
| Prime cost | |
| | |
| Total cost of production | 1 712 000 |
| | |
| | |
| Total cost of production of complete products | |

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1.1.3

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|---|--|
| Calculate the following for the financial year ended 31 May 2019: | |
| Number of units sold during the year. | |
| Cost of Sales | |

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Calculate the Net Profit for the year ended 31 May 2019.

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1.2 GLITTERATI BAGS AND PROBLEM SOLVING

1.2.1

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|---------------------------------|--|
| Calculate the following: | |
| (a) the variable cost per unit. | |
| (b) the breakeven point. | |

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1.2.2

After an analysis of cost and efficiency, the internal auditor is concerned about a few points. Refer to Information C and answer the following questions:

(a) Direct material:

| Problem | Solution |
|---------|----------|
| | |
| | |

(b) Direct labour:

| Problem | Solution |
|---------|----------|
| | |
| | |
| | |

Sewing machine maintenance:

| Problem | Solution |
|---------|----------|
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ACTIVITY 2

MANUFACTURING

(45 marks; 25 minutes)

2.1 VUMA MANUFACTURERS

You are provided with information relating to VUMA Manufacturers for the year ended 28 February 2019. The business produces handbags.

REQUIRED:

- 2.1.1 Prepare the following notes to the Production Cost Statement:
- Direct labour cost (6)
 - Factory overhead cost (10)
- 2.1.2 Prepare the Production Cost Statement for the year ended 28 February 2019. (10)

INFORMATION:**A. Stock on hand on 1 March 2018**

| | |
|------------------|----------|
| Raw Materials | R138 000 |
| Work in progress | 79 000 |
| Finished goods | 68 000 |

B. Stock on hand on 28 February 2019:

| | |
|------------------|----------|
| Raw Materials | R142 000 |
| Work in progress | ? |
| Finished goods | 172 000 |

C. Raw materials

- Raw materials purchased during the year amounted to R1 450 000.
- Raw materials costing R19 000 were returned to the supplier.

D. Labour

- The factory has five workers involved in production. Together they worked a total of 800 hours per month at R50 per hour (normal time). Only three workers worked 60 hours each per month for overtime during the current financial year.
ie overtime rate is 1½ times the normal rate.
- The employer contributes 1% of normal wage to UIF for all employees.
- Indirect labour amounts to R135 340 including benefits.

E. Figures obtained from the Trial Balance:

| | |
|-----------------------------------|---------|
| Water and Electricity | R77 000 |
| Rent expense | 288 000 |
| Depreciation on factory equipment | 18 900 |
| Depreciation on office equipment | 5 300 |
| Insurance | 108 000 |
| Sundry expense | 84 000 |

Additional information relating to the above:

- The water and electricity bill are shared among factory, office and sales departments in the ratio 4:2:1.
- 75% of all sundry expenses relates to the factory.
- Rent remained unchanged throughout the financial year. Rent is allocated according to floor area occupied, as follows: 1 500 square meters, 500 square meters and 400 square meters for factory, sales and office departments respectively.
- Insurance cost on equipment is split amongst factory, sales and office as follows.
 - Factory R48 500
 - Sales 37 400
 - Office 22 100

2.2 JPC MANUFACTURERS

You are provided with information relating to JPC Manufacturers consisting of two factories producing different products: Suitcases and Laptop bags.

The owner, JP has found out that his profit has declined from 2018 to 2019. He asks for advice.

REQUIRED:

- 2.2.1 Identify ONE variable cost that was not well controlled in each department. Quote figures. In each case, provide a solution for the problem identified. (8)
- 2.2.2 Calculate the break-even point of suitcases for 2019. (5)
- 2.2.3 Explain whether the business should be satisfied with the production of suitcases. Quote figures to support your answer. (3)
- 2.2.4 JP wants to adjust the selling price of ONE of the products. What advice would you offer him? Provide a valid reason for your suggestion by quoting relevant figures. (4)

ACTIVITY 2

2.1.1

| DIRECT LABOUR COST | |
|---------------------------|---------------|
| Workings | Answer |
| | |

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| |
| 6 |

| FACTORY OVERHEAD COST | |
|------------------------------|----------------|
| Indirect Material | 128 000 |
| Indirect labour | 135 340 |
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2.1.2

| PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019 | |
|--|-----------|
| | |
| | |
| Prime Cost | |
| | |
| Total cost of production | |
| Work in process at the beginning of the year | 79 000 |
| | |
| | |
| Cost of production of finished goods | 2 690 190 |

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2.2.1

Identify ONE variable cost that is not well controlled in each department. Quote figures. In each case provide a solution for the problem identified.

| | Suitcases | Laptop Bags |
|-----------------|-----------|-------------|
| Cost Identified | | |
| Figures | | |
| Solution | | |

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2.2.2

Calculate the break-even point of suitcases for 2019.

| Workings | Answer |
|----------|--------|
| | |

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2.2.3

Explain whether the business should be satisfied with the production of suitcases. Quote figures to support your answer.

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2.2.4

JP wants to adjust the selling price of ONE of the products. What advice would you offer? Provide a valid reason for your suggestion, quoting relevant figures.

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ACTIVITY H3 (35 marks; 20 minutes)

3.1

KLEMISH MANUFACTURERS

The business produces study desks.

REQUIRED:

Prepare the following for the financial year ended 28 February 2019:

- 3.1.1 Production cost statement
- 3.1.2 Abridged Income Statement

(13)
(11)

INFORMATION:

A **Stock on hand:**

| | 28 February 2019 | 28 February 2018 |
|------------------|------------------|------------------|
| Work-in-progress | ? | R500 800 |
| Finished goods | R18 000 | R672 000 |

- B
 - 10 800 tables were produced at a unit cost of R495 each.
 - Sales of 16 000 tables amounted to R8 160 000.

C Prime cost: R4 600 000 (after adjustments)

D The bookkeeper calculated the following costs before taking into account the adjustments below:

| | |
|--------------------------|------------|
| Administration | R296 800 |
| Factory overheads | R974 400 |
| Direct materials | R3 100 000 |
| Direct labour | ? |
| Selling and distribution | R844 000 |

- An amount of R204 000 for raw materials, purchased on credit, was not taken into account.
- Stationery valued at R1 000, purchased for the Administration department was incorrectly allocated to the Selling and Distribution department.
- Rent Expense, R252 000, was shared between the Factory and Selling and Distribution department in the ratio of 2:1.
85% should have been allocated to the Factory. Correct the error.

3.2 DAMARA'S JEWELLERY

Damara owns a jewellery business.

REQUIRED:

- 3.2.1 Break-even point:
- Calculate the break-even point for February 2019. (4)
 - Damara is satisfied with the results. Explain ONE reason with figures to support Damara's satisfaction. (3)
- 3.2.2 Refer to the unit costs.
- Explain why the fixed costs per unit decreased. (2)
 - Provide ONE possible reason for the change in Direct Material Costs. (2)

INFORMATION:

| | February 2019 | February 2018 |
|--|-------------------|-------------------|
| Total units produced and sold | 18 000 units | 15 000 units |
| Break-even point in units | ? | 13 500 units |
| Selling price per unit | R407,00 | R330,00 |
| TOTAL VARIABLE COSTS | R4 410 000 | R3 510 000 |
| VARIABLE COSTS PER UNIT | R245,00 | R234,00 |
| Direct material cost per unit | R128,00 | R135,00 |
| Direct labour cost per unit | R80,00 | R62,00 |
| Selling and distribution cost per unit | R37,00 | R37,00 |
| TOTAL FIXED COSTS | R1 296 000 | R1 296 000 |
| FIXED COST PER UNIT | R72,00 | R86,40 |
| Factory overhead cost per unit | R52,00 | R62,40 |
| Administration cost per unit | R20,00 | R24,00 |

3.1.1

| PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019 | |
|---|--|
| Direct material cost | |
| Direct labour cost | |
| Prime cost | |
| Factory overhead cost | |
| | |
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| | |
| Total cost of production | |

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3.1.2

| ABRIDGED INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019 | |
|---|-----------|
| Sales | 8 160 000 |
| Cost of Sales | |
| | |
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3.2

DAMARA'S JEWELLERY

3.2.1

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| <p>Break-even point:</p> <p>(a) Calculate the break-even point for February 2019.</p> <p>(b) Damara is satisfied with the results. Explain ONE reason with figures to support Damara's satisfaction.</p> |
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3.2.2

Refer to the unit costs.(a) **Explain why the fixed costs per unit decreased.**

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(b) **Provide ONE possible reason for the change in Direct Material Costs.**

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ACTIVITY H4**MANUFACTURING****(50 marks; 25 minutes)****4.1 CONCEPTS**

Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (2.1.1–2.1.3) in the ANSWER BOOK.

4.1.1 Commission on sales will be classified as an administration cost. (1)

4.1.2 Advertising is part of factory overhead costs. (1)

4.1.3 Carriage on raw materials purchased increases the cost of raw materials issued for production. (1)

4.2 STAR WHEELS MANUFACTURERS

You are provided with information relating to Star Wheels Manufacturers for the year ended 31 December 2015. The business manufactures one type of bicycle.

REQUIRED:

4.2.1 Prepare the following notes to the Production Cost Statement:

- Direct labour cost (9)

- Factory overhead cost (13)

4.2.2 Prepare the Production Cost Statement. (10)

INFORMATION:

This business produces and sells one type of breakfast cereal. The sole owner is Craig Manning. The financial year-end is 31 October.

REQUIRED:

4.3.1 Calculate the break-even point for the year ended 31 October 2015. (4)

4.3.2 Should the business be satisfied with the number of units that they produced and sold during the current financial year? Explain. Quote figures. (3)

4.3.3 Give TWO possible reasons for the increase in the direct material cost per unit in the current financial year. (4)

4.3.4 Craig suggests that, in order to improve financial results in the new financial year, the quantity of cereal per box must be reduced by 10% and the selling price must remain the same. Give TWO valid reasons why he should not do this. (4)

INFORMATION:

The following information was taken from the accounting records:

| | 31 October 2015 | | 31 October 2014 | |
|-----------------------------------|-----------------|----------|-----------------|----------|
| | Total | Per unit | Total | Per unit |
| Sales | R1 792 000 | R28,00 | R1 794 000 | R23,00 |
| Variable costs | R1 024 000 | R16,00 | R975 000 | R12,50 |
| Fixed costs | R736 000 | R11,50 | R630 000 | R8,08 |
| Direct material cost | R656 000 | R10,25 | R592 800 | R7,60 |
| Break-even point | ? | | 60 000 units | |
| Number of units produced and sold | 64 000 units | | 78 000 units | |

INFORMATION:

| | SUITCASES | | LAPTOP BAGS | |
|---|-------------|-------------|-------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| General information: | | | | |
| Total fixed costs | R3 500 000 | R3 500 000 | R2 100 000 | R2 100 000 |
| Net profit | (118 000) | 1 050 000 | 1 692 000 | 1 932 000 |
| Variable costs per unit: | R242 | R218 | R92 | R82 |
| Direct material cost | R68 | R70 | R54 | R40 |
| Direct labour cost | R150 | R130 | R32 | R32 |
| Selling & distribution cost | R24 | R18 | R6 | R10 |
| Additional information | | | | |
| Selling price per unit charged by JP | R420 | R400 | R250 | R250 |
| Selling price per unit charged by competitors | R405 | R405 | R265 | R260 |
| Number of units produced & sold | 19 000 | 25 000 | 24 000 | 24 000 |
| Break-even units | ? | 19 231 | 13 292 | 12 500 |

ACTIVITY H4

4.1

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| 4.1.1 | |
| 4.1.2 | |
| 4.1.3 | |

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4.2

STAR WHEELS MANUFACTURERS

4.2.1 DIRECT LABOUR COST

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FACTORY OVERHEAD COST

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4.2.2 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015.

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4.3 NUTRITIOUS EATS

4.3.1

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4.3.2

Should the business be satisfied with the number of units that they have produced and sold during the current financial year? Explain. Quote figures.

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4.3.3

Give TWO possible reasons for the increase in the direct material cost per unit in the current financial year.

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4.3.4

Craig suggests that, in order to improve financial results in the new financial year, the quantity of cereal per box must be reduced by 10% and the selling price must remain the same. Give TWO valid reasons why he should not do this.

4

I] RECONCILIATIONS**A. BANK RECONCILIATION****(30 minutes)****ACTIVITY 11.**

You are provided with information relating to Simms Traders for July 2019.

REQUIRED:

- 1.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (a)-(d) in the ANSWER BOOK.
- (a) A cheque that is more than six months old will not be cashed by the bank because it is a stale cheque.
- (b) Service fees and interest on bank overdraft will be recorded as bank charges in the Cash Payments Journal.
- (c) A debit balance on the bank statement reflects an unfavourable balance.
- (d) An internal auditor should inspect the bank reconciliation statement at the end of each month. (4)
- 1.2 Calculate the correct totals for the Cash Receipts Journal and the Cash Payments Journal for July 2019. Use the tables provided. (14)
- 1.3 Prepare the Bank Reconciliation Statement on 31 July 2019. (10)
- 1.4 Explain how cheque No. 908 should be treated when preparing the financial statements on 31 July 2019, the financial year-end. (2)
- 1.5 **Refer to information F.**
The bookkeeper has decided to write off the amount of R50 000.
- Identify the GAAP principle applied by the bookkeeper. (1)
 - Provide TWO suggestions on how a similar problem can be prevented in the future. (4)

INFORMATION:**A. BANK RECONCILIATION STATEMENT ON 30 JUNE 2019**

| | Debit | Credit |
|-----------------------------------|---------|---------|
| Balance as per Bank Statement | R19 310 | |
| Outstanding deposit (10 May 2019) | | R50 000 |
| Outstanding cheques: | | |
| No. 892 (1 January 2019) | 12 340 | |
| No. 897 (22 June 2019) | 8 700 | |
| Balance as per Bank Account | 9 650 | |
| | 50 000 | 50 000 |

- B. Before receiving the July 2019 Bank Statement, the following provisional totals appeared in the Cash Journals for July 2019:
 - CRJ R 127 670
 - CPJ R 68 900
- C. The Bank Statement for July 2019 reflected the following:
 - Bank charges R1 300
 - Interest on overdraft R920
 - Debit order for insurance R600
 - Direct deposit of R1 800 for rent from a tenant.
- D. Cheque No. 892 was issued as a donation. It was not cashed.
- E. Cheque No. 897 did not appear in the July 2019 bank statement.
- F. The outstanding deposit (10 May 2019) 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 Redman Traders dated 25 November 2019 for R15 000 was not recorded in the July 2019 Cash Receipts Journal. It was also not deposited during July.
- H. The following items appear in the July 2019 Cash Journals but not on the July Bank Statement:
 - A deposit of R18 000, dated 27 July 2019
 - Cheque No. 905, dated 31 July 2019
 - Cheque No. 908, R3 100, dated 15 December 2019 was issued to a creditor D. Hart for supplying goods.
- I. The Bank Statement on 31 July 2019 reflects a credit balance of
R44 040

ACTIVITY 11 BANK RECONCILIATION

1.1

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

4

1.2

Calculate the correct totals for the Cash Receipts Journal and the Cash Payments Journal for July 2019. Use the tables provided.

| Cash receipts journal | Cash payments journal |
|-----------------------|-----------------------|
| 127 670 | 68 900 |
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1.3 Bank reconciliation statement on 31 July 2019.

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1.4 Explain how cheque No. 908 should be treated when preparing the financial statements on 31 July 2019 the end of the financial year.

2

1.5 Identify the GAAP principle applied by the bookkeeper.

Provide TWO suggestions on how a similar problem can be prevented in the future.

5

ACTIVITY I2

(40 MARKS; 25 MINUTES)

BANK RECONCILIATION, GAAP, INTERNAL CONTROL

2.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number 1.1.1 – 1.1.4 in the answer book.

- 2.1.1 A post-dated cheque issued by the business on 20 May 2019 but dated 24 August 2019, will only be entered in the Cash Payments Journal of Quick Traders on 24 August 2019. (1)
- 2.1.2 A debit balance on the bank statement reflects an unfavourable balance. (1)
- 2.1.3 Service fees and interest on an overdraft will be recorded as bank charges in the Cash Payment Journal. (1)
- 2.1.4 An internal auditor will want to inspect the bank reconciliation statement at the end of each month. (1)

You are provided with information related to Quick Traders on 31 May 2019.

REQUIRED:

- 2.2.1 Calculate the correct totals for the Cash Receipts Journal and Cash Payment Journal for May 2019. (9)
- 2.2.2 Prepare the Bank Reconciliation Statement on 31 May 2019. (10)
- 2.2.3 Explain how cheque No.908 should be treated when preparing the financial statements as at 31 May 2019 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 apply in this case?
 - The bookkeeper wants to prevent a problem such as this in future. Give **TWO** solutions to improve internal control in this regard. (1)
- (4)

INFORMATION:

- A. The following items appeared in the Bank Reconciliation Statement on 30 April 2019:

| | DEBIT | CREDIT |
|---------------------------------------|--------|--------|
| Debit balance as per Bank statement | 19 310 | |
| Outstanding deposit (10 January 2019) | | 50 000 |
| Outstanding cheques: | | |
| No.892 (1 November 2018) | 12 340 | |
| No.897 (10 April 2019) | 8 700 | |
| Debit balance as per Bank Account | 9 650 | |
| | 50 000 | 50 000 |

- B. Before receiving the May 2019 Bank Statement, the following provisional totals appeared in the Cash Journals on 31 May 2019:
- CRJ R146 970
 - CPJ R 68 900
- C. The Bank Statement for May reflected the following:
- Bank charges R2 100.
 - Interest on an overdraft R920.
 - Debit order for insurance R600.
 - Direct deposit of R1 800 for rent received from tenant.
- D. The bank charges was over stated by R800 for May 2019. The bank has agreed to correct the error during June 2019.
- E. Cheque no. 892 must be cancelled.
- F. Cheque no. 897 did not appear in the May 2019 Bank Statement.

- G. The outstanding deposit (10 January 2019) cannot be traced and the cashier at that time has since disappeared. It was decided to write off this amount.
- H. A cheque received from Zulu Traders dated 25 August 2019 for R15 000 was not recorded in the May 2019 Cash Receipts Journal. It was also not deposited in May.
- I. The following items appear in the May 2019 Cash Journals but not on the Bank Statement:
- A deposit of R18 000, dated 27 May 2019.
 - Cheque No. 905, R1 200, dated 31 May 2019.
 - Cheque No. 908, R3 100, dated 15 September 2019.
- J. The Bank Statement on 31 May 2019 reflects a favourable bank balance of R42 440.

ACTIVITY 12

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.

| | |
|-------|--|
| 2.1.1 | |
| 2.1.2 | |
| 2.1.3 | |
| 2.1.4 | |

| |
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| 4 |

2.2.1 Calculate the correct totals for the Cash Receipts Journal and Cash Payment Journal for May 2019.

| Cash Receipts Journal | |
|-----------------------|---------|
| | 146 970 |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |

| Cash Payment Journal | |
|----------------------|--------|
| | 68 900 |
| | |
| | |
| | |
| | |
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2.2.2 Prepare the Bank Reconciliation Statement on 31 May 2019.

| | Debit | Credit |
|--|-------|--------|
| | | |
| | | |
| | | |
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| | | |
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2.2.3 Explain how cheque No. 908 should be treated when preparing the financial statements as at 31 May 2019 the end of the financial year.

| |
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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?
- The bookkeeper wants to prevent a similar problem in future. Give TWO suggestions to improve internal control in this regard.

| |
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ACTIVITY I

1.1 CREDITORS' RECONCILIATION

The information relates to Kirsten Traders for August 2019. Kirsten Traders buys goods on credit from Amla Suppliers.

REQUIRED:

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

- In the Creditors' Ledger Account in the books of Kirsten Traders
- In the Creditors' Reconciliation Statement on 31 August 2019

(9)

INFORMATION:

The following differences were discovered when comparing the account in the Creditors' Ledger with the statement received from Amla Suppliers:

- A An invoice for R14 800 was recorded incorrectly as R1 480 on the statement received from the creditor.
- B The bookkeeper of Kirsten Traders recorded an invoice for R1 350 as a credit note.
- C The discount of R850 was in error, overstated by R350 in the Creditors' Ledger.
- D A cheque for R7 200 issued by Kirsten Traders did not appear on the statement due to the statement been processed early.
- E Goods for R2 700, returned by Kirsten Traders, was not recorded.

ACTIVITY 1

| | Creditors' Ledger | Creditors' Reconciliation Statement |
|----------------|--------------------------|--|
| Balance | 28 370 | 25 300 |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

9

ACTIVITY 2

Veli Traders buys goods on credit from Pillay Suppliers. The information presented is for May 2019.

REQUIRED:

- 2.1 Reconcile the Creditors Ledger account of Pillay Suppliers in the books of Veli Traders with the statement received.

Commence with the opening balances as provided in the ANSWER BOOK.

(13)

INFORMATION:

- A. Creditors Ledger of Veli Traders
Pillay Suppliers (CL6)

| DATE | DETAILS | FOL | DEBIT | CREDIT | BALANCE |
|-------|--------------------|-----|--------|--------|---------|
| May 1 | Balance | b/d | | | 34 200 |
| 5 | Invoice No. 443 | CJ | | 4 770 | 38 970 |
| 10 | Cheque No. 2810 | CPJ | 15 000 | | 23 970 |
| | Discount | CPJ | 750 | | 23 220 |
| 12 | Invoice No. 568 | CJ | | 5 640 | 28 860 |
| 18 | Debit Note No. 114 | CAJ | 980 | | 27 880 |
| 28 | Invoice No. 667 | CJ | | 7 120 | 35 000 |

- B. Statement received from Pillay Suppliers

| PILLAY SUPPLIERS | | | | | |
|--|---------------------|------------------------|--------|--|--|
| STATEMENT OF ACCOUNT | | | | | |
| Customer: | | Statement date: | | No. A732 | |
| Veli Traders | | 25 May 2017 | | 112 Willow Street Willowmore 5 570 | |
| DATE | DETAILS | DEBIT | CREDIT | BALANCE | |
| April 28 | Account rendered | | | 38 830 | |
| 30 | Invoice No. 376 | 3 370 | | 42 200 | |
| May 1 | Receipt No. 1144 | | 8 000 | 34 200 | |
| 5 | Invoice No. 443 | 7 740 | | 41 940 | |
| 10 | Receipt No. 1328 | | 15 000 | 26 940 | |
| 12 | Invoice No. 568 | 6 640 | | 33 580 | |
| 18 | Credit Note No. 743 | 980 | | 34 560 | |
| 22 | Invoice No. 772 | 3 860 | | 38 420 | |
| Includes transactions up to 25th of each month | | | | | |

- C. Differences noted:

- (i) Invoice No. 443 was recorded incorrectly in the creditors ledger.
- (ii) The statement did not reflect the discount for early payment on the 10th. This will be rectified on the next statement.
- (iii) It was discovered that Invoice No. 568 on the statement included goods valued at R1 000 ordered by the warehouse manager. The manager is facing disciplinary action.
- (iv) Goods valued at R980 were returned on the 18th. It is shown as a debit entry in both the creditor's ledger account as well as the statement of account.
- (v) Invoice No. 772 on the statement was an error made by Pillay Suppliers. These goods were not purchased by Veli Traders.
- (vi) The statement was received on 25 May 2019.

| NO. | CREDITOR'S LEDGER ACCOUNT BALANCE | STATEMENT BALANCE |
|---------|--------------------------------------|-------------------|
| Balance | 35 000 | 38 420 |
| i) | | |
| ii) | | |
| iii) | | |
| iv) | | |
| v) | | |
| vi) | | |
| TOTAL | | |

DEBTORS RECONCILIATION AND DEBTORS AGE ANALYSIS**ACTIVITY 1****(30 Marks; 18 Minutes)****ILLOVU TRADERS**

The debtors' age analysis on 31 May 2018 is provided. Credit terms are 30 days

REQUIRED:

- 1.1 Explain how a debtors' age analysis can assist with internal control over debtors. (2)
- 1.2 Calculate the percentage of total debts exceeding the credit terms. (4)
- 1.3 Explain ONE problem (with figures) relating to each of the following debtors:
 - Mswane P (3)
 - Hambrok V (3)

INFORMATION:**DEBTORS' AGE ANALYSIS ON 31 MAY 2018:**

| | CREDIT LIMIT | AMOUNT OWING | CURRENT MONTH | 30 DAYS | 60 DAYS | 90 DAYS |
|------------|-----------------|-----------------|------------------|---------|---------|------------|
| | R | R | R | R | R | R |
| P. MSWANE | 10 000 | 11 000 | 1 980 | 9 820 | | |
| W. SMITH | 14 000 | 13 450 | 4 100 | 3 902 | 5 448 | |
| N. CELE | 2 800 | 2 550 | | 2 550 | | |
| V. HAMBROK | 14 000 | 11 192 | | | 9 112 | 2 080 |
| K. PRICE | 5 000 | 2 608 | 1 408 | 1 200 | | |
| | | 41 600 | 7 488 | 17 472 | 14 560 | 2 080 |
| | | 100% | ? | ? | ? | ? |

1.1 Explain how a debtors' age analysis can assist with internal control over debtors.

| |
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| |
| 2 |

1.2 Calculate the percentage of total debts exceeding the credit terms.

| |
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1.3 Explain ONE problem (with figures) relating to each of the following debtors:

Mswane P

Hambrok V

| |
|---|
| |
| 6 |

ACTIVITY 2 : DEBTORS' RECONCILIATION**2.1 DEBTORS' AGE ANALYSIS**

The information below relates to Witbank Hardware.

REQUIRED:

- 2.1.1 Explain why the debtors' age analysis is considered to be an effective internal control measure. State ONE point.
- 2.1.2 Explain TWO different problems highlighted by the debtors' age analysis. In EACH case, provide the name of a debtor and figure(s).

INFORMATION:

- A. Debtors are granted 30 days to settle their accounts.

B. Debtors' age analysis on 31 October 2017:

| DEBTORS | CREDIT LIMIT | AMOUNT OWING | CURRENT MONTH | 30 DAYS | 60 DAYS | 90 DAYS |
|----------|--------------|--------------|---------------|---------|---------|---------|
| Z Zulu | 6 000 | 5 000 | 2 100 | 2 900 | | |
| P Botha | 3 500 | 4 200 | 3 800 | 400 | | |
| M Valley | 7 000 | 1 450 | 500 | | | 950 |
| S Walker | 13 000 | 12 500 | 1 000 | 3 000 | 4 500 | 4 000 |
| O Klein | 3 000 | 3 000 | 1 900 | | 1 100 | |
| | | 26 150 | 9 300 | 6 300 | 5 600 | 4 950 |
| | | 100% | 36% | 24% | 21% | 19% |

2.2 DEBTORS' RECONCILIATION

Information from the records of Amber Traders for November 2017 is presented. Some errors and omissions were noted. See information B.

REQUIRED:

- 2.2.1 Calculate the correct Debtors' Control Balance on 30 November 2017. Show figures and indicate '+', '-' or 'No change' at EACH adjustment. (7)
- 2.2.2 Calculate the correct total of the debtors' list on 30 November 2017. (10)

INFORMATION:**A. Balances on 30 November 2017 before errors and omissions:**

- (i) Debtors' Control, R25 700
- (ii) Debtors' list:

| | DEBIT | CREDIT |
|-------------|---------|--------|
| L Nkosi | R5 700 | |
| S Muller | R11 100 | |
| M Welthagen | | R1 900 |
| B Sandleni | R15 900 | |
| | R32 700 | R1 900 |

B. Errors and omissions:

- (i) The total of the Debtors' Journal was undercast by R2 700.
- (ii) Interest of R350 must be charged on the overdue account of S Muller.
- (iii) An amount of R3 100 received from L Nkosi was incorrectly recorded as R1 300 in the Cash Receipts Journal and posted as such to the General Ledger and the Debtors' Ledger.
- (iv) Trading stock returned by B Sandleni was posted to the wrong side of his Debtors' Ledger Account, R1 200.
- (v) No entry was made for a credit sales invoice issued to M Welthagen, R1 500.

ACTIVITY2

2.1 DEBTORS' AGE ANALYSIS

2.1.1 Explain why the debtors' age analysis is considered to be an effective internal control measure. State ONE point.

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

2.1.2 Explain TWO different problems highlighted by the debtors' age analysis. In EACH case, provide the name of a debtor and figure(s).

| PROBLEM | DEBTOR AND FIGURE(S) |
|---------|----------------------|
| | |
| | |

| |
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2.2 DEBTORS' RECONCILIATION

2.2.1 CORRECTIONS TO THE DEBTORS' CONTROL ACCOUNT ON 30 NOVEMBER 2017

| | |
|-------------------------------------|--------|
| Balance before errors and omissions | 25 700 |
| (i) | |
| (ii) | |
| (iii) | |
| (iv) | |
| (v) | |
| Correct Debtors' Control balance | |

| |
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| |
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2.2.2 DEBTORS' LIST ON 30 NOVEMBER 2017

| | | | |
|--------------------------------|----------|--|----|
| L Nkosi | (5 700) | | |
| S Muller | (11 100) | | |
| M Welthagen | (-1 900) | | |
| B Sandleni | (15 900) | | |
| Correct total of Debtors' List | | | 10 |

ACTIVITY J1: VAT

1.1 Bigshow Traders is registered for VAT. The VAT rate is 15%. The business is owned by Des Damons.

REQUIRED:

1.1.1 Calculate the amount of VAT receivable or payable to SARS. Indicate whether it is receivable or payable. (13)

1.1.2 Des suggests that the business should charge VAT but stop submitting returns to SARS in future.

Give your opinion regarding this matter. State ONE relevant point (2)

INFORMATION:

| | INCLUSIVE | EXCLUSIVE | VAT |
|---|-----------|-----------|-------|
| Total sales | 368 000 | | (i) |
| Total cost of goods bought | | 174 560 | (ii) |
| Goods returned by debtors | | | 2 500 |
| Goods returned to suppliers | 11 201 | 9 740 | (iii) |
| Bad debts | | | 2 000 |
| Goods taken by the owner for personal use | 5 750 | | 750 |
| Discount given to customers | | | 1 059 |

ACTIVITY J2: VAT**2.1. VAT CONCEPTS****REQUIRED**

Indicate if the following items are VAT Exempt or Zero Rated items. (3)

| | |
|-------|-----------------------|
| 2.1.1 | Public road transport |
| 2.1.2 | Vegetables |
| 2.1.3 | Residential rent |

2.2 WINSTON TRADERS

The following information was taken from the accounting records of Winston Traders. The financial year end is 28 February 2018. All goods bought and sold are subject to **15%** VAT.

REQUIRED

Use the information below to answer the following questions:

2.2.1 Calculate the amount that would be entered next to Debtors Control on the credit side of the VAT Output account. (3)

2.2.2 Calculate the VAT amount owed to SARS on 28 February 2018. (5)

2.2.3 In which section of the Balance Sheet will you record the amount calculated in 2.2.2? (1)

INFORMATION

A The General Ledger reflects the following accounts:

VAT Input

| | | | | | | | | | |
|-------------------|----|-------------------|-----|-------|-------------------|----|-------------------|-----|-----|
| Feb ¹⁸ | 28 | Bank | CPJ | 8 600 | Feb ¹⁸ | 28 | Creditors Control | CAJ | 150 |
| | | Creditors Control | CJ | 6 000 | | | | | |

VAT Output

| | | | | | | | | | |
|-------------------|----|-----------------|-----|-----|-------------------|----|-----------------|-----|--------|
| Feb ¹⁸ | 15 | Debtors Control | GJ | 276 | Feb ¹⁸ | 28 | Bank | CRJ | 18 000 |
| | 28 | Debtors Control | DAJ | 350 | | | Debtors Control | DJ | ? |

B **Additional information:**

- Total cash sales for February 2018 was R120 000 (excluding VAT). 75% of all goods were sold for cash and the rest on credit.

ACTIVITY J3**CASH BUDGET, AGE ANALYSIS AND VAT****3.1 CASH BUDGET**

You are provided with an incomplete cash budget and additional information in respect of Fashion Expression Ltd. The financial year-end is 28 February each year.

REQUIRED:

- 3.1.1 Calculate the Debtors' Collection for June 2018. (4)
- 3.1.2 Calculate the figure that would appear in the Cash Budget for Salaries and Wages for May 2018. (5)
- 3.1.3 The purchases payment policy needs to be changed. (3)
- Explain the need to change the policy. (2)
 - Provide TWO points of change that would benefit the company. (6)
- 3.1.4 The directors took significant decisions to address their concerns about the cash balance. Mention TWO strategies used to improve the cash balances. Explain why you agree or disagree with these strategies. (6)

INFORMATION:

| FASHION EXPRESSION LTD | | | |
|---|-----------------|----------------|------------------|
| Extract of the Cash Budget for the period 1 April 2018 | | | |
| to 30 June 2018 | | | |
| RECEIPTS | April | May | June |
| Commission income | 60 000 | 65 000 | * |
| Sale of Land and Buildings | 0 | 380 000 | 0 |
| Proceeds from 50 000 shares issued | 239 000 | 0 | 0 |
| TOTAL RECEIPTS | 443 000 | * | 195 000 |
| PAYMENTS – extract | | | |
| Salaries and wages | 48 000 | * | * |
| TOTAL PAYMENTS | 204 500 | * | 340 700 |
| Surplus (Deficit) | 238 500 | 110 000 | (145 700) |
| Bank balance at beginning of month | (60 000) | 178 500 | 288 500 |
| Bank balance at end of month | 178 500 | 288 500 | 142 800 |

.2 AGE ANALYSIS

The Debtors' Age Analysis of Multiplex Ltd was prepared on 30 June 2018.

REQUIRED:

- 3.2.1 The internal auditor is concerned that the credit controller is not managing the debtors effectively. (4)
- Provide TWO points of evidence from the Age Analysis, to substantiate his concern. Quote figures.
 - Suggest TWO ways in which the problems identified can be rectified.
- 3.2.2 What would H. Jacob's outstanding balance be on 31 July 2018 if he paid R1 310 during July 2018? (2)

INFORMATION:**A. DEBTORS' AGE ANALYSIS**

| Debtor | Limit | Total due | Overdue | 60 days + | 30 days + | Current |
|--|----------|-----------------|-----------------|----------------|----------------|----------------|
| H. Jacob | R 10 000 | R 15 310 | R 9 800 | R 1 200 | R 1 000 | R 3 310 |
| W. Grey | R 15 000 | R 15 000 | R 12 000 | R 3 000 | | |
| L. Conrad | R 8 000 | R 4 254 | | | R 3 000 | R 1 254 |
| Total | | R 34 564 | R 21 800 | R 4 200 | R 4 000 | R 4 564 |
| | | 100% | 63% | 12% | 12% | 13% |
| Credit terms: Strictly 30 days from date of statement | | | | | | |

B ADDITIONAL INFORMATION:

- (i) **Debtors and sales:**
- Debtors are expected to settle their accounts as follows:
 - 25% of debtors will settle their accounts in the same month as the credit sale, subject to a 5% discount.
 - 68% of debtors will settle their accounts in the month following the credit sale.
- (ii) **Purchase of stock:**
- Goods are replaced monthly to maintain a fixed stock level.
 - Goods are purchased as follows: 25% for cash and 75% on credit.
 - All credit purchases are settled during the following calendar month.
- iii) **Salaries and wages:**
- The manager will receive an increase of 30% on his present monthly salary of R6 000 from 1 May 2018.
 - The ten shop assistants, who receive an equal salary, will each receive an increase of R300 per month, from 1 May 2018.

3.3 VAT

- 3.3.1 Choose the correct word from those within brackets. Write only the word next to the question number in your ANSWER BOOK. (3)
- (i) VAT is a / an (direct / indirect) tax.
- (ii) VAT on purchase of R35 400 will (increase / decrease) the amount payable to SARS.
- (iii) VAT refundable by SARS is a / an (asset / liability) to the business.
- 3.3.2 The bookkeeper of Cooper Ltd. calculated the amount payable to SARS to be R112 539. The internal auditor found discrepancies in the calculation.

REQUIRED:

Calculate the correct amount payable to SARS. VAT is charged at 15%.

INFORMATION:

- (i) VAT on shop rent paid was not taken into account. The rent amount of R15 525 was inclusive of VAT.
- (ii) VAT of R22 500 on a vehicle purchased by the company was recorded as output VAT.
- (iii) VAT of R7 500 was incorrectly added to a sale of R50 000. The sale of R50 000 was subject to a trade discount of 8%.

(7)

ACTIVITY J4: BUDGETS

4.1 Choose an explanation from COLUMN B that matches a concept in COLUMN A. Write only the letter (A–D) next to the question number

(4.1.1 to 4.1.4) in the ANSWER BOOK.

(4)

| COLUMN A | | COLUMN B | |
|----------|---------------------------|----------|---|
| 4.1.1 | Cash budget | A | Outlay of funds for large projects |
| 4.1.2 | Forecast Income Statement | B | Used to determine the expected bank balance |
| 4.1.3 | Capital budget | C | No reference is made to any previous budget estimates |
| 4.1.4 | Zero based budget | D | Used to determine the expected net profit |

4.2 SHELDON TRADERS

The information provided relates to Sheldon Traders, owned by Sheldon Turner. The business specialises in electrical products.

4.2.1 Identify an incorrect entry in the cash budget and explain why it is incorrect. (2)

4.2.2 State THREE ways in which the purchasing of Land and Building will be financed. (3)

4.2.3 Complete the Debtors' Collection Schedule for the budgeted period. Some figures have already been entered. (9)

4.2.4 Calculate the missing figures denoted by A – E on the cash budget. (12)

4.2.5 Refer to information F

Sheldon is concerned about certain aspects of the business.

- Comment on the cash and credit sales. Explain how these amounts are affecting the cash flow of the business? Quote figures. (6)
- Has the Advertising campaign been beneficial to the business? Explain. Quote figures. (5)
- Do you think the collection from debtors is well controlled? Explain. Quote figures. Give TWO points of advice (9)

INFORMATION:**A. EXTRACT FROM CASH BUDGET FOR SEPTEMBER AND OCTOBER 2019:**

| | September | October |
|-----------------------------|-----------|----------------|
| Cash Receipts | | |
| Cash Sales | 110 000 | E |
| Additional Loan | | 800 000 |
| Fixed deposit matured | | 500 000 |
| Collections from debtors | | |
| Total Receipts | | |
| Cash Payments | | |
| Cash Purchases | 70 000 | 77 000 |
| Payments to Creditors | D | 143 000 |
| Salaries | C | 118 800 |
| Advertising | 22 000 | 30 000 |
| Telephone | 16 800 | 18 000 |
| Vehicle expenses | 13 812 | 14 226 |
| Rent expense | 24 000 | |
| Land and buildings | | 2 400 000 |
| Municipal rates on property | | 2 000 |
| Depreciation | 10 000 | |
| Interest on loan | | 8 000 |
| Equipment Repairs | 16 400 | 20 400 |
| Drawings of cash | 60 000 | 60 000 |
| Total Payments | | |
| Cash Surplus/Deficit | | B |
| Opening Bank Balance | | 1 100 000 |
| Closing Bank Balance | A | (71 406) |

B. Debtors

Debtors are granted 30 days to settle their accounts as per policy. However, debtors' pattern of payment is as follows:

- 20% pay in the month of sale subject to a discount of 5%.
- 30% pay in the month following the month of sale.
- 48% pay in the following month.

The remaining 2% must be written off in the third month following the sale.

C. 75% of all sales are on credit.**D.****Creditors and Trading Stock**

- The business keeps a fixed base stock of R350 000. (Goods are replaced monthly.)
- The business uses a mark-up of 100% on cost.
- 35% of all stock is purchased on credit.
- Creditors' terms are strictly 30 days. The business complies with these terms.

E. Salaries:

There was a general salary increase of 8% from 1 October 2019.

F. Extract from the August 2019 Cash Budget:

| | Budgeted | Actual |
|-------------------------|----------|---------|
| Cash Sales | 110 000 | 84 000 |
| Credit Sales | 270 000 | 360 000 |
| Collection from debtors | 282 300 | 173 000 |
| Advertising | 22 000 | 44 000 |

ACTIVITY J4

4.1

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

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

4.2

SHELDON TRADERS

4.2.1

Incorrect entry:

Reason:

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

4.2.2

State THREE ways in which the purchasing of Land and Building will be financed.

| |
|---|
| |
| 3 |

4.2.3

Debtors' Collection Schedule:

| MONTH | CREDIT SALES | SEPTEMBER | OCTOBER |
|-----------|--------------|-----------|---------|
| July | R270 000 | R129 600 | |
| August | R300 000 | | |
| September | | | |
| October | | | R68 400 |
| | | | |
| | | | |

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| |
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4.2.4

| Item | Calculations | Answer |
|------|--------------|--------|
| A | | |
| B | | |
| C | | |
| D | | |
| E | | |

| |
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| |
| 12 |

4.2.5

Comment on the cash and credit sales. Explain how these amounts are affecting the cash flow of the business? Quote figures.

Comment:

Explanation:

| |
|---|
| |
| 6 |

Has the Advertising campaign been beneficial to the business? Explain. Quote figures.

YES/NO

Explanation:

| |
|---|
| |
| 5 |

4.2 BUDGET

4.2.1 Explain the importance of comparing the actual figures to the budgeted figures in the cash budget.

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

4.2.2 Calculate the values marked (A) – (F).

| | Calculations |
|---|--------------|
| A | |
| B | |
| C | |
| D | |
| E | |
| F | |

4.2.3 Refer to the figures for “Cash received from debtors”. Are the debtors adhering to the credit terms of the business? Provide figures to support your answer.

| |
|--|
| |
| |

4.2.4 No new workers were employed during July and August 2018. What could possibly be a reason for the change in each of the actual figures for those two months?

| |
|---|
| 3 |
|---|

| | Reason |
|--------|--------|
| July | |
| August | |

4.2.5 The owner feels that the business pays less money by renting equipment than purchasing

| |
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the equipment. Do you agree with her opinion? Provide TWO points to support your answer.

4.2.6

The business still faces a cash flow problem in August, even though a loan was obtained in July and the receipts from debtors improved.

Excluding these two items and the renting of equipment (as in 4.2.5), identify TWO other items, with figures, that needs attention. Also provide advice how these items can be managed.

| Item | Figure | Advice |
|------|--------|--------|
| | | |
| | | |

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4.2.7

The owner bought the vehicle from the business for her son. The usual driver and the finance officer were unhappy with this. Prove each person's point by explaining ONE reason for each.

| | Concern |
|-----------------|---------|
| Driver | |
| Finance officer | |

| |
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| |
| 2 |

ACTIVITY J5

You are provided with information relating to Billy Traders, a business owned by Billy Willy. The business sells catering equipment for cash and on credit.

REQUIRED:

- 5.1 Complete the following statements:
- 5.1.1 The main purpose of a Projected Income Statement is ... (2)
- 5.1.2 The main purpose of a Cash budget is ... (2)
- 5.2 Complete the partially completed Debtors' Collection Schedule. (6)
- 5.3 Calculate the following amounts for the Cash Budget:
- 5.3.1 The percentage increase in rent income. (4)
- 5.3.2 Payments to creditors during December. (4)
- 5.3.3 The amount of the loan to be received on 1 December. (4)
- 5.3.4 The salaries and wages for December. (5)
- 5.4 An amount of R123 000 for staff training. Provide ONE reason why this is considered to be a necessary expense. (2)
- 5.5 **Refer to information G:**
- The manager is of the opinion that some items in the budget are not well controlled. He identified the following 3 items:
- Cash sales
 - Delivery expenses
 - Rent income
 - Provide a possible reason for the variance. In each case, give one point of advice to address this problem. (6)

INFORMATION**A. Sales:**

- 50% of the total sales are for cash.
- Goods are sold at a profit mark-up of 60% on cost.

B. Debtors pay according to the following trend:

- 40% settled in the same month of transaction. They qualify for a 5% discount for prompt settlement.
- 45% settled in the one month after the transaction month.
- 13% settled in the two months after the transaction month.
- 2% is written off as bad debts in the third month after sales.

C. Purchases and payments to creditors

- The business maintains a fixed stock base level. Goods sold in a month are replaced in the same month.
- 80% of all merchandise purchased is on credit. Creditors are paid the month following the month of sales.

D. Extract for the cash budget for November and December 2019:

| CASH RECEIPTS | NOVEMBER | DECEMBER |
|--------------------------|-----------------|-----------------|
| Cash sales | 160 000 | 165 000 |
| Cash from debtors | ? | ? |
| Rent income | 18 000 | 19 440 |
| Loan from Mashonisa Bank | | ? |
| | | |
| CASH PAYMENTS | | |
| Cash purchases of stock | 40 000 | 41 250 |
| Payments to creditors | 152 000 | ? |
| Interest on loan | 0 | 3 375 |
| Salaries and wages | 48 000 | ? |
| Staff training | 123 000 | |
| Sundry expenses | 23 000 | 45 000 |
| Surplus/Deficit | | |
| Opening balance | 69 090 | (103 310) |
| Closing balance | (103 310) | 9 915 |

E. A loan will be received on 1 December 2019. Interest at 9% p.a. will be paid commencing on 31 December 2019.

F. The four workers receive the same monthly salary. Three of them will receive a bonus equal to 75% of their monthly salary and the last one will receive 50%.

G. Actual and budgeted figures for August 2019:

| | BUDGET | ACTUAL |
|-------------------|---------------|---------------|
| | R | R |
| Cash sales | 160 000 | 105 700 |
| Delivery expenses | 11 990 | 17 600 |
| Rent Income | 18 000 | 12 000 |

ACTIVITY J5

5.1.1

The main purpose of a Projected Income Statement is ...

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

5.1.2

The main purpose of a Cash budget is ...

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

5.2 DEBTORS' COLLECTION SCHEDULE

| Month | Credit Sales | November | December |
|-----------|--------------|----------|----------|
| September | 150 000 | 19 500 | |
| October | 152 000 | 68 400 | |
| November | 160 000 | 60 800 | |
| December | 165 000 | | |
| | | | |

| |
|---|
| |
| 6 |

5.3 Calculate:

5.3.1 % increase in Rent Income.

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

5.3.2 Payments to creditors in December.

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

5.3.3 The amount of the loan on 1 December.

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

5.3.4 Salaries and wages for December.

| |
|---|
| |
| 5 |

5.4 An amount of R123 000 for staff training. Provide ONE reason why this is considered to be a necessary expense.

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

5.5 Provide a possible reason for the variance. In each case, give one point of advice to address this problem.

| ITEMS | REASON | ADVICE |
|-------------------|--------|--------|
| Cash sales | | |
| Delivery expenses | | |
| Rent income | | |

| |
|---|
| |
| 6 |

You are provided with information relating to Magic Traders. The business is owned by Tony Salotte.

REQUIRED:

- 6.1 Complete the following statements:
- 6.1.1 The main purpose of a Cash Budget is to ... (2)
- 6.1.2 The main purpose of a Projected Income Statement is to ... (2)
- 6.2 Debtors' Collection Schedule and Projected Income Statement:
- 6.2.1 Complete the Debtors' Collection Schedule for June 2018. (7)
- 6.2.2 Determine the following amounts that will appear in the Projected Income Statement:
- Discount allowed for May 2018 (3)
 - Bad debts written off in June 2018 (3)
- 6.3 Calculate the following:
- Cash sales for May 2018 (2)
 - Payment to creditors in June 2018 (4)
 - Salaries for May 2018 (5)
- 6.4 Tony compared the budgeted figures to the actual figures for April 2018.

| | BUDGETED | ACTUAL |
|----------------------|----------|----------|
| Sales | R480 000 | R576 000 |
| Advertising | R8 000 | R11 000 |
| Wages of cleaners | R9 000 | R12 500 |
| Cleaning materials | R1 200 | R2 700 |
| Payment to creditors | R224 000 | R0 |

- 6.4.1 Tony is not concerned about the overspending in advertising. Explain why this is so. Quote figures to support your answer. (4)
- 6.4.2 State ONE consequence of not paying the amount due to creditors in April 2018. (2)
- 6.4.3 Refer to the figures above and to Information F. State TWO points in favour of appointing Gentex Cleaning Services. Also explain ONE point that Tony should consider before making this decision. (6)

INFORMATION:

A. Total sales:

| | ACTUAL | BUDGETED |
|------------|----------|----------|
| March 2018 | R420 000 | |
| April 2018 | R480 000 | |
| May 2018 | | R300 000 |
| June 2018 | | R360 000 |

B. Cash sales amount to 40% of the total sales.

C. Debtors are expected to pay as follows:

- 30% in the month of sales. They receive a 5% settlement discount.
- 60% in the month following the sales month
- 9% in two months after the sales month
- 1% is written off as bad debts in the third month after sales

D. Purchases and payment to creditors:

- The business maintains a fixed-stock base level.
- Goods are sold at a mark-up of 50% on cost.
- 80% of all merchandise purchased is on credit.
- Creditors are paid in full in the month following the purchase month.

E. Salaries:

- Total salaries are R101 500 for April 2018.
- There are 7 employees who earn the same monthly salary.
- 1 employee will resign and leave on 30 April 2018.
- 4 employees will each receive a bonus of 80% of their salaries in May 2018.

F. The business pays wages to two cleaners, one of whom has been on sick leave in April and a substitute had to be employed. Tony is concerned that too much money is wasted on cleaning. He thinks that he should contract Gentex Cleaning Services to take over the cleaning process entirely. They will charge R8 000 per month.

40

ACTIVITY J6

6.1.1 The main purpose of a Cash Budget is to ...

6.1.2 The main purpose of a Projected Income Statement is ...

4

6.2.1 Debtors' Collection Schedule:

| | CREDIT SALES | MAY 2018 | JUNE 2018 |
|-------------------|--------------|----------|-----------|
| March 2018 | 252 000 | 22 680 | |
| April 2018 | 288 000 | 172 800 | |
| May 2018 | | 51 300 | |
| June 2018 | 216 000 | | |
| Cash from debtors | | 246 780 | |

| |
|---|
| |
| 7 |

6.2.2 Determine the discount allowed for May 2018.

| Workings | Answer |
|----------|--------|
| | |

| |
|---|
| |
| 3 |

Determine the bad debts written off in June 2018.

| Workings | Answer |
|----------|--------|
| | |

| |
|---|
| |
| 3 |

6.3 Calculate the cash sales for May 2018.

| Workings | Answer |
|----------|--------|
| | |

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

Calculate the payment to creditors in June 2018.

| Workings | Answer |
|----------|--------|
| | |

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

| | |
|---|---------------|
| Calculate the salaries for May 2018. | |
| Workings | Answer |
| | |

| |
|---|
| |
| 5 |

6.4.1 Tony is not concerned about the overspending in advertising. Explain why this is so. Quote figures to support your answer.

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

6.4.2 State ONE consequence of not paying the amount due to creditors in April 2018.

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

6.4.3 State TWO points in favour of appointing Gentex Cleaning Services.

Point 1:

Point 2:

Explain ONE point that Tony should consider before making this decision.

| |
|---|
| |
| 6 |

ACTIVITY J7

Hayley Westra owns Boxes Etc., a business selling packing material. Her business is experiencing cash flow problems and she asked you to assist in correcting this. Budgeted and actual figures were provided in the cash budget.

REQUIRED

- 7.1.1 Explain the importance of comparing the actual figures to the budgeted figures in the cash budget. (1)
- 7.1.2 Calculate the values marked (A) – (F). (8)
- 7.1.3 Refer to the figures for “Cash received from debtors”. Are the debtors adhering to the credit terms of the business? Provide figures to support your answer. (3)
- 7.1.4 No new workers were employed during July and August 2018. What could possibly be a reason for the change in each of the actual figures for those two months? (2)
- 7.1.5 The owner feels that the business pays less money by renting equipment than purchasing the equipment. Do you agree with her opinion? Provide TWO points to support your answer. (5)
- 7.1.6 The business still faces a cash flow problem in August, even though a loan was obtained in July and the receipts from debtors improved.
- Excluding these two items and the renting of equipment (as in 7.1.5), identify TWO other items, with figures, that needs attention. Also provide advice how these items can be managed. (6)
- 7.1.7 The owner, Hayley, bought the vehicle from the business for her son. The usual driver and the finance officer were unhappy with this. Prove each person's point by explaining ONE reason for each. (2)

INFORMATION

Boxes Etc – Cash budget for July and August 2018

| | July | | August | |
|---------------------------------|-----------|-----------|-----------|-----------|
| | Budget | Actual | Budget | Actual |
| Cash receipts | | | | |
| Cash sales (40% of total sales) | 720 000 | 840 000 | 360 000 | 378 000 |
| Receipts from debtors | 864 000 | 624 000 | (A) | 920 000 |
| Rent income | (F) | (F) | 49 680 | 49 680 |
| Fixed deposit | 360 000 | 360 000 | – | – |
| Sundry income | ? | ? | ? | ? |
| Loan: FNB | 300 000 | 300 000 | – | – |
| Sale of vehicle | 189 000 | 120 000 | – | – |
| TOTAL RECEIPTS | ? | ? | ? | ? |
| Cash payments | | | | |
| Payments to creditors | 960 000 | 960 000 | (B) | 1 200 000 |
| Wages and salaries | 144 000 | 180 000 | 144 000 | 108 000 |
| Fixed deposit (ABSA) | – | – | (C) | (C) |
| Drawings | 150 000 | 210 000 | 150 000 | 168 000 |
| Repayment of loan | – | – | 30 000 | 30 000 |
| Rent of equipment | 507 000 | 459 000 | 511 080 | ? |
| Interest on loan | | | ? | ? |
| TOTAL PAYMENTS | 1 761 000 | 1 809 000 | ? | ? |
| Surplus (Deficit) | 720 200 | 483 200 | (675 400) | (757 070) |
| Bank opening balance | (432 000) | (432 000) | (D) | 51 200 |
| Bank closing balance | 288 200 | 51 200 | (E) | (705 870) |

Additional information:

- Debtors must pay their outstanding debts after 30 days and will receive a 5% discount for prompt payment.
- All stock is bought on credit and a fixed basis of stock is maintained. Creditors' accounts are settled after 30 days.
- A gross profit margin of 60% is used.
- Half of the fixed deposit received in July, was reinvested in August 2018. Interest is receivable every 6 months (at the end of June and December)
- The loan was obtained to help solve the cash flow problem. It is repayable in monthly instalments.
- The monthly rent increased on 1 August 2018 with 15%.
- In the past, when the business wanted to sell a business vehicle, the driver of that vehicle usually had first option to purchase it at carrying value. No deposit was required and the balance would have been deducted in monthly instalments from his salary.

ACTIVITY J7

7.1.1 Explain the importance of comparing the actual figures to the budgeted figures in the cash budget.

7.1.2 Calculate the values marked (A) – (F).

| | Calculations |
|---|--------------|
| A | |
| B | |
| C | |
| D | |
| E | |
| F | |

7.1.3 Refer to the figures for “Cash received from debtors”. Are the debtors adhering to the credit terms of the business? Provide figures to support your answer.

7.1.4

No new workers were employed during July and August 2018. What could possibly be a reason for the change in each of the actual figures for those two months?

| | Reason |
|--------|--------|
| July | |
| August | |

7.1.5

The owner feels that the business pays less money by renting equipment than purchasing the equipment. Do you agree with her opinion? Provide TWO points to support your answer.

7.1.6

The business still faces a cash flow problem in August, even though a loan was obtained in July and the receipts from debtors improved.

Excluding these two items and the renting of equipment (as in 7.1.5), identify TWO other items, with figures, that needs attention. Also provide advice how these items can be managed.

| Item | Figure | Advice |
|------|--------|--------|
| | | |
| | | |

7.1.7

The owner bought the vehicle from the business for her son. The usual driver and the finance officer were unhappy with this. Prove each person's point by explaining ONE reason for each.

| | Concern |
|-----------------|---------|
| Driver | |
| Finance officer | |



education

Department:
Education
PROVINCE OF KWAZULU-NATAL
CURRICULUM GRADE 10 -12 DIRECTORATE

LEARNER SUPPORT DOCUMENT

ACCOUNTING

GRADE 12

SOLUTIONS

2020

A: INCOME STATEMENT

ACTIVITY A1

1. KHUMALO FASHIONS LTD.
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019

| | | |
|---|--|------------------|
| Sales | | 1 225 700 |
| Cost of sales | (1 169 700 x ¹⁰⁰ / ₁₄₀) <input checked="" type="checkbox"/> + (56 000 x ¹⁰⁰ / ₁₂₅) <input checked="" type="checkbox"/> | 880 300 |
| Gross profit | (Sales – Cos), operation | 345 400 |
| Other operating income | operation, one part correct | 112 560 |
| Commission income (89 200 – 640) | operation | 88 560 |
| Rent income (4 x 6 000) | | 24 000 |
| Gross operating income | operation | 457 960 |
| Operating expenses | Gross operating inc – Operating profit | (151 535) |
| Bank charges (3 260 + 340) | | 3 600 |
| Bad debts (5 600 + 800) | | 6 400 |
| Discount allowed (2 940 – 400) | operation | 2 540 |
| Stationery (3 860 + 100 – 280) | one part correct | 3 680 |
| Insurance (14 250 – 2 400) | operation | 11 850 |
| Director's fees (50 000 + 60 000) | | 110 000 |
| Sundry expenses | (balancing figure, one part correct, can be negative based on candidate's answers) | 5 345 |
| Loss of damaged stock (4 800 – 1 680) | operation | 3 120 |
| Trading stock deficit | | 3 200 |
| Provision for bad debts adjustment (3 800 – 2 000) | | 1 800 |
| Operating profit (1 225 700 x 25%) | | 306 425 |
| Interest income (11 350 + 670) | | 12 020 |
| Profit before interest expense | operation | 318 445 |

| | | |
|---|--|----------|
| Interest expense operation | Profit before int exp – NPBT, | (55 795) |
| Profit before tax | NBPT + Tax, operation, must be greater than NBAT | 262 650 |
| Income tax | | (78 795) |
| Profit after tax (1 225 700 x 15%) | | 183 855 |

Any one valid points ✓✓

- Check the fixed asset register agrees with an actual physical inspection of the tangible assets.
- Check that all controls are adequate and are actually being implemented.
- Check the documentation and financial records to ensure that all purchase and sale of fixed assets have been recorded correctly.

2

CTIVITY A2

1.1 Calculate the profit or loss on disposal of the computer on 31 August 2019.

$$30\ 000 - (13\ 680 + 1\ 632) - 8\ 000 = 6\ 688$$

30 000 ✓ - (13 680 ✓ + 1 632 ✓) - 8 000 ✓ = 6 688 ✓

one method mark one part correct ✓ one part correct ✓

OR

| Asset disposal | | | |
|----------------|--------|--|--------|
| Equipment | 30 000 | Accumulated depreciation on equipment (13 680 + 1 632) | 15 312 |
| | | Bank | 8 000 |
| | | Loss on sale of asset | 6 688 |
| | 30 000 | | 30 000 |

6

1.2 Calculate the total depreciation for the year.

161 500 four marks

$$950\ 000 \times 20\% \times 3/12 = 47\ 500 \text{ ✓ one part correct}$$

$$1\ 520\ 000 - 950\ 000 \times 20\% = 114\ 000 \text{ ✓ one part correct}$$

630 000 one mark 164 320 one mark 94 768 four marks

$$(660\ 000 - 30\ 000) \checkmark - (178\ 000 - 13\ 680) \checkmark \times 20\% = 93\ 136 \checkmark$$

$$\text{Asset disposal (see 3.1.1)} = 1\ 632 \checkmark$$

Total: 256 268 ✓

9

1.3 Suggest ONE internal control measure that the internal auditor can perform to verify the tangible assets figure in the Balance Sheet.

2.2 Income Statement for the year ended 28 February 2019

| | | | |
|------------------------------------|--|------------|---------------|
| Sales | 7 540 000 ✓ x 160/100 ✓ - 12 480 ✓ | 12 064 000 | ✓ 12 051 520 |
| Cost of sales | 7 540 000 ✓ - 7 800 ✓ | | ✓ (7 532 200) |
| Gross profit | 8 | | ✓ 4 519 320 |
| Other operating income | | | ✓ 205 680 |
| Commission income | | | 31 580 |
| Rent income | 158 200 + 15 400 ✓ ✓ | | ✓ 173 600 |
| Provision for bad debts adjustment | | | ✓ ✓ 500 |
| Gross operating profit | 7 | | ✓ 4 725 000 |
| Operating expenses | | | ✓ (1 875 000) |
| Director's fees | | | 932 400 |
| Audit fees | | | 64 000 |
| Salaries and wages | | | 320 000 |
| Insurance | | | ✓ 56 250 |
| Bad debts | 2 779 ✓ + 15 225 ✓ ✓ | | ✓ 18 004 |
| Sundry expenses | | | ✓ 187 640 |
| Loss on sale of asset | see 3.1.1 (could be profit) | | ✓ 6 688 |
| Loss on theft of stock | 37 500 ✓ - 26 250 ✓ | | ✓ 11 250 |
| Trading stock deficit | 1 287 000 ✓ + 7 800 ✓ - 37 500 ✓ - 1 234 800 ✓ | | ✓ 22 500 |
| Depreciation | see 3.1.2 | | ✓ 256 268 |
| Operating profit | 18 | | ✓ 2 850 000 |
| Interest income | balancing figure | | ✓ 158 200 |
| Profit before interest expense | | | ✓ 3 008 200 |
| Interest expense | 2 398 200 + 510 000 - 2 620 000 | | ✓ (288 200) |
| Net profit before tax | NPAT + Inc tax | | ✓ 2 720 000 |

| | | | |
|-------------------------|-------------------|--------------|----|
| Income tax | 2 040 000 x 25/75 | ✓✓ (680 000) | 40 |
| Net profit for the year | 7 | 2 040 000 | |

2.3

| Retained income | |
|---|-----------------------------------|
| Balance at beginning of year | 765 000 |
| Funds used for shares repurchased (125 000 x 0,50) | ✓✓ (62 500) |
| Net profit after tax | ✓ 2 040 000 |
| Ordinary Share dividends operation one part correct must | ☑ (2 182 500) |
| be in brackets | |
| Interim | ✓ 982 500 |
| Final (1 500 000 ✓✓ x 0,80 ✓) operation one part correct | ☑ 1 200 000 |
| | ☑ 560 000 |
| Balance at the end of year | operation one part correct |

10

| ORDINARY SHARE CAPITAL | |
|--|-------------------------|
| AUTHORISED | |
| Number of authorised ordinary shares: 3 000 000 shares | |
| ISSUED | |
| | R |
| 2 000 000 Ordinary shares beginning of the year | 5 000 000 |
| 250 000 ✓ Ordinary shares issued during the financial year at @R7 each ✓ operation | ☑ 1 750 000 |
| 10 000 ✓ Ordinary shares repurchased at the average share price *R3 ✓✓ any one part correct | ☑ (30 000) |
| 2 240 000 ✓ Ordinary shares in issue at the end of the year operation | ☑ 16 720 000 |
| $\frac{5\ 000\ 000 + 1\ 750\ 000}{2\ 250\ 000}$ | one part correct |

9

ACTIVITY A 3

3.3 AUDIT REPORT

3.1 CONCEPTS

| | | |
|-------|-------------|---|
| 3.1.1 | limited | ✓ |
| 3.1.2 | receivables | ✓ |
| 3.1.3 | liability | ✓ |
| 3.1.4 | internal | ✓ |

4

3.2 PIXIE LTD

3.2.1 NOTES TO THE FINANCIAL STATEMENTS ON 28 FEBRUARY 2018

ORDINARY SHARE CAPITAL

| AUTHORISED | | |
|-------------------------|---|---|
| 400 000 ordinary shares | | |
| ISSUED | | |
| 300 000 | Ordinary shares in issue on 1 March 2017 | 1 275 000 |
| (20 000) | shares repurchased during the year (x R4,25 ✓✓) | (85 000) ignore brackets one part correct do not accept 120 000 as final answer ☑ |
| 40 000 | shares issued during the year | 220 000 ✓✓ |
| ✓✓ 320 000 | Ordinary shares in issue on 28 February 2018 | operation 1 410 000 ☑ |

8

RETAINED INCOME

| | |
|---|--------------------------------------|
| Balance at the beginning of the year | 28 900 |
| Net profit after tax | See inc St 288 000 ☑ |
| Shares repurchased (120 000 ✓ - 85 000 ✓ see OSC) | ignore brackets (35 000) ☑ |
| Dividends on ordinary shares | ignore brackets (86 000) ☑ |
| Interim dividends paid (300 000 ✓ x 0,1) | one part correct 30 000 ☑ |
| Final dividends declared (280 000 ✓ x 0,2) | one part correct 56 000 ☑ |

10

| | | | |
|--------------------------------|-----------------------------|---------|-------------------------------------|
| Balance at the end of the year | Operation, one part correct | 195 900 | <input checked="" type="checkbox"/> |
|--------------------------------|-----------------------------|---------|-------------------------------------|

3.2.2 PIXIE LTD

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

| | | | |
|---|-------------------------|-------------|-----|
| Sales | | 1 800 000 | |
| Cost of sales | | (1 000 000) | ✓✓ |
| Gross profit | Operation 3 | 800 000 | ✓ |
| Other operating income | Operation | 21 710 | ✓ |
| Rent Income (17 500 ✓ + 3 850 ✓) | 1 750 x 10 1 925 x 2 | 21 350 | ✓* |
| Provision for bad debts adjustment | | 360 | ✓✓ |
| Gross operating income | 6 | 821 710 | |
| Operating expenses | GOI - OP | (425 710) | ✓ |
| Consumable stores | | 2 750 | ✓ |
| Advertising (62 545 ✓ - 28 800 ✓✓) | | 33 745 | ✓* |
| Audit fees (5 720 x 100/40) | | 14 300 | ✓✓ |
| Director's fees (67 350 ✓ + 60 000 ✓✓) | | 127 350 | ✓* |
| Salaries and wages (128 450 ✓ + 2 700 ✓) | | 131 150 | ✓* |
| Sundry expenses | missing figure | 7 165 | ✓ |
| Bad debts (2 900 + 600) | | 3 500 | ✓✓ |
| Loss due to water damage | | 4 000 | ✓✓# |
| Trading stock deficit | | 23 400 | ✓# |
| Depreciation | | 78 350 | ✓ |
| Operating profit | 24 | 396 000 | ✓✓ |
| Interest income | | 13 180 | ✓ |
| Net profit before interest expense | Operation | 409 180 | ✓ |
| Interest expense (76 500 - 12 500 - 73 180) | | (9 180) | ✓✓ |
| Net profit before tax | Operation | 400 000 | ✓ |
| Income tax (19 500 ✓ + 64 650 ✓ + 27 850 ✓) | | (112 000) | ✓* |
| Net profit after tax | Operation 10 | 288 000 | ✓ |

Foreign items -1 max -2

*one part correct
#can be combined

B: BALANCE SHEET
ACTIVITY B1

CALCULATION OF FINAL PROFIT, BALANCE SHEET AND NOTES

1.1 Correct net profit after tax for the year ended 30 June 2018

| | |
|---------------------------------|-----------|
| Incorrect Net Profit before Tax | 1 234 335 |
| Insurance 10 800 ÷ 12 = 900 x 6 | 5 400 |

| | |
|---|-----------|
| Loss due to fire 42 000 X 25% | (10 500) |
| Provision for bad debts adjusted 2 475 – (4% x 54 000) = 2 475 – 2 160 | 315 |
| 1.2 Rent income | |
| 1 050 X 6 = 6 300 / 136 950 – 6 300 = 130 650 + 13 = 10 050 + 1 050 | (11 100) |
| Interest on loan $\frac{15}{100} \times \frac{120\ 000}{1} \times \frac{1}{12}$ | (5 250) |
| Profit on sale of asset 21 750 (correct entry) + 21 750 (make correct entry) | 43 500 |
| Correct Net Profit before tax | 1 256 700 |
| Income Tax | (371 700) |
| Net Profit after Tax | 885 000 |

Ordinary Share Capital

(b)

| | |
|---|------------|
| Authorised: | |
| 500 000 ordinary shares | |
| Issued: | |
| 300 000 shares on 30 June 2017 @ R12 each | 3 600 000 |
| (60% x 500 000) = 300 000 shares / 3 600 000 + 300 000 = R12 each | |
| 100 000 shares issued @ R16 each | 1 600 000 |
| 70 000 shares repurchased @ R13 each | (910 000) |
| (3 600 000 + 1 600 000) ÷ (300 000 + 100 000) = R13 | |
| 330 000 shares on 30 June 2018 | R4 290 000 |

Retained Income

| | |
|---|----------------|
| Balance at end of the previous year | 465 000 |
| Net profit after tax for the year | 885 000 |
| Repurchase of 70 000 ordinary shares @R2 each (R15 – R13) | (140 000) |
| Dividends on ordinary shares | (696 000) |
| Paid 400 000 X 75 cents | 300 000 |
| Recommended 330 000 X 120 cents | 396 000 |
| Balance at end of current year | 514 000 |

(c)

Trade and other receivables

| | |
|---|---------------|
| Trade debtors 54 000 | 54 000 |
| Provision for bad debts 2 475 - 315 (4% x 54 000) | (2 160) |
| Net Trade Debtors | 51 840 |
| SARS (Income Tax) | 0 |
| Expenses Prepaid 5 400 | 5 400 |
| Income Accrued 31 660 | 31 660 |
| | 88 900 |

1.3 BALANCE SHEET KAYZEE LIMITED AT 28 FEBRUARY 2018

| ASSETS | Note | R |
|---|------|------------------|
| NON-CURRENT ASSETS | | 5 474 000 |
| Fixed/Tangible Assets 4 684 000 + 525 000 – 215 000 | 3 | 4 994 000 |
| Financial Assets 510 000 | | 480 000 |
| CURRENT ASSETS | | 282 000 |
| Inventories 198 500 + 1 100 – 10 500 | 4 | 189 100 |
| Trade and other receivables | 5 | 88 900 |
| Cash and Cash equivalent 4 000 | 6 | 4 000 |
| TOTAL ASSETS | | 5 756 000 |

(a)

EQUITY AND LIABILITIES

| | | |
|----------------------------|---|-----------|
| SHAREHOLDERS EQUITY | | 4 804 000 |
| Ordinary Share Capital | 7 | 4 290 000 |
| Retained Income | 8 | 514 000 |
| | | 360 000 |

NON-CURRENT LIABILITIES

| | | |
|---|--|---------|
| Loan from JSE Bank 420 000 + 5 250 – 5 250 – 60 000 | | 360 000 |
| | | 592 000 |

CURRENT LIABILITIES

| | | |
|--|---|------------------|
| Trade and other payables | 9 | 522 000 |
| 87 150 + 11 100 + 5 250 + 7 500 + 15 000 + 396 000 | | 10 000 |
| Bank overdraft 1 050 000 - 15 000 – 1 025 000 | | 60 000 |
| Current loan portion | | 60 000 |
| TOTAL EQUITY AND LIABILITIES | | 5 756 000 |

ACTIVITY B2

2.1 CONCEPTS

| | | |
|-------|-----------|---|
| 2.1.1 | Directors | ✓ |
| 2.1.2 | Liquidity | ✓ |
| 2.1.3 | IFRS | ✓ |

3

2.2.1 FIXED ASSETS

| | | |
|-----|---|------------------------------|
| (a) | 285 000 – 91 200 | 193 800 ✓ |
| (b) | 96 900 2 marks 142 500 ✓ - 45 600 ✓ - (96 900 ✓ x 20% x 9/12 ✓) | one part correct 82 365 ✓ |
| (c) | Remaining: (285 000 – 142 500) – (91 200 – 45 600) 142 500 ✓ - 45 600 ✓ = = 96 900 x 20% = 19 380 ✓ one part correct | one part correct 36 915 ✓ |

13

| | |
|---|--|
| New: 180 000 x 20% x 1/12 = 3 000 ✓ <input checked="" type="checkbox"/> one part correct | |
| Sold: 14 535 ✓ <input checked="" type="checkbox"/> see (b) | |

2.2. BALANCE SHEET ON 30 JUNE 2019
2

| ASSETS | | | |
|--|------------------|-------------------------------------|------------|
| NON-CURRENT ASSETS | TA-CA | <input checked="" type="checkbox"/> | 5 777 280 |
| Fixed assets | NCA-FA | <input checked="" type="checkbox"/> | 5 127 280 |
| Financial assets: Fixed deposit (████████) | | <input checked="" type="checkbox"/> | 650 000 |
| | | | (3) |
| CURRENT ASSETS | | <input checked="" type="checkbox"/> | 1 465 940 |
| Inventories (450 000 ✓ - 5 000 ✓✓ + 15 300 ✓) | | <input checked="" type="checkbox"/> | 460 300 |
| Trade and other receivables 412 800 3 marks (430 000 ✓✓ - 17 200 ✓ + 79 800 ✓) | | <input checked="" type="checkbox"/> | 492 600 |
| Cash and cash equivalents (510 640 ✓ + 2 400 ✓) | | <input checked="" type="checkbox"/> | 513 040 |
| TOTAL ASSETS | | <input checked="" type="checkbox"/> | 7 243 220 |
| | | | = TE and L |
| | | | (15) |
| EQUITY AND LIABILITIES | | | |
| ORDINARY SHAREHOLDERS' EQUITY (800 000 x 6,36) | | ✓✓ | 5 088 000 |
| Ordinary share capital | | | 3 746 500 |
| Retained income | OSE - OSC | <input checked="" type="checkbox"/> | 1 341 500 |
| | | | (3) |
| NON-CURRENT LIABILITIES | | | 452 000 |
| Loan: Gaga Bank (752 000 ✓ - 300 000 ✓) | | <input checked="" type="checkbox"/> | 452 000 |
| | | | (3) |
| CURRENT LIABILITIES | | <input checked="" type="checkbox"/> | 1 703 220 |
| Trade and other payables *could include SFD/SARS:IT/STL (661 600 ✓ + 103 600 ✓✓ + 14 520 ✓✓) | | <input checked="" type="checkbox"/> | 779 720 |
| Current portion of loan | | <input checked="" type="checkbox"/> | 300 000 |
| Shareholders for dividends (800 000 x 0,75) | | <input checked="" type="checkbox"/> | 600 000 |
| SARS: Income tax | | <input checked="" type="checkbox"/> | 23 500 |

| | | |
|-------------------------------------|-------------------------------------|-----------------|
| TOTAL EQUITY AND LIABILITIES | <input checked="" type="checkbox"/> | 7 243 220 |
| | | = SE + NCL + CL |
| | | (12) |

5.2.1 (a) ORDINARY SHARE CAPITAL

| | | |
|--|--|---|
| Authorised shares: 1 000 000 ordinary shares | | |
| Issued share capital: | | |
| 700 000 ✓ | Ordinary shares on 1 July 2018 | 2 100 000 ✓ |
| (30 000) ✓ | Shares re-purchased R3 ✓✓ | (90 000) <input checked="" type="checkbox"/> |
| 100 000 ✓ | Shares issued at R7 each | 700 000 ✓ |
| 770 000 ✓ | Ordinary shares on 30 June 2019 | 2 710 000 <input checked="" type="checkbox"/> |

*one part correct
*one part correct

(b) RETAINED INCOME

| | | |
|---|---------------------------|---|
| Balance on 1 July 2018 | (Balancing figure) | 483 160 <input checked="" type="checkbox"/> |
| Net profit after income tax 1 250 000 ✓ - 350 000 ✓ (1 250 000 one mark x 72/100 one mark) | | 900 000 <input checked="" type="checkbox"/> |
| 30 000 shares re-purchased at R6 each | | (180 000) ✓ <input checked="" type="checkbox"/> |
| Ordinary share dividends | | (403 500) <input checked="" type="checkbox"/> |
| Interim dividends 670 000 x 0,20 ✓ | | 134 000 ✓ |
| Final dividends 770 000 <input checked="" type="checkbox"/> x 0,35 ✓ | | 269 500 <input checked="" type="checkbox"/> |
| Balance on 30 June 2019 | | 799 660 ✓ |

5.2.2 SAHARA LTD
BALANCE SHEET ON 30 JUNE 2019

| ASSETS | | |
|--|--|---|
| NON-CURRENT ASSETS | | 3 168 660 <input checked="" type="checkbox"/> |
| Fixed Assets | | 2 580 000 <input checked="" type="checkbox"/> |
| 1 275 000 ✓ + 300 000 ✓✓ + 720 000 ✓ + 600 000 ✓ - 315 000 ✓✓ | | |
| Financial assets: Fixed Deposit ✓ | | 588 660 <input checked="" type="checkbox"/> |
| CURRENT ASSETS (1 090 000 x 1,5) | | 1 635 000 <input checked="" type="checkbox"/> |
| Inventory | | 790 000 <input checked="" type="checkbox"/> |
| Trade and other receivables (530 000 ✓ + 24 000 ✓ + 50 000 ✓✓) | | 604 000 <input checked="" type="checkbox"/> |

| | | |
|--|---------------|----|
| Cash and cash equivalents (66 000 ✓ + 175 000 ✓✓) | 241 000 ✓* | |
| TOTAL ASSETS **(Must be the same figure as Total Equity and Liabilities) | 4 803 660 ✓** | 13 |
| EQUITY AND LIABILITIES | | |
| SHAREHOLDERS EQUITY | 3 509 660 ✓* | |
| Ordinary share capital ✓ (see 4.2.1 (a)) | 2 710 000 ✓* | 5 |
| Retained income ✓ | 799 660 ✓ | |
| NON-CURRENT LIABILITIES | 204 000 | |
| Loan: Quality Bank (300 000 ✓ + 8 000 ✓✓ - 56 000 ✓ - 48 000 ✓✓) | 204 000 ✓* | 7 |
| CURRENT LIABILITIES (**SEE ALTERNATIVE) | 1 090 000 ✓* | |
| Trade and other payables (720 000 ✓ + 35 500 ✓ + 17 000 ✓✓) | 772 500 ✓* | |
| Shareholders for dividends (see 4.2.1 (b)) | 269 500 ✓* | |
| Current portion of loan ✓ | 48 000 ✓* | 10 |
| TOTAL EQUITY AND LIABILITIES (SHE + NCL + CL) | 4 803 660 ✓* | 46 |

*one part correct

*****ALTERNATIVE FOR CURRENT LIABILITIES:**

| | | |
|---|--------------|----|
| CURRENT LIABILITIES | 1 090 000 ✓* | |
| Trade and other payables (720 000 ✓ + 35 500 ✓ + 269 500 ✓*(see 4.2.1 (b)) + 17 000 ✓✓) | 772 500 ✓* | |
| Current portion of loan ✓ | 48 000 ✓* | 10 |
| TOTAL EQUITY AND LIABILITIES | 4 803 660 ✓* | |

ACTIVITY B3

3.1 CONCEPTS

| | | |
|-------|-----|--|
| 3.1.1 | B ✓ | |
| 3.1.2 | D ✓ | |
| 3.1.3 | A ✓ | |
| 3.1.4 | E ✓ | |

4

3.2 PHAMBILI LIMITED

3.2.1 Prepare the following notes for the financial year ended 28 February 2019.

(a) Ordinary share capital

| | | |
|-------------|--|-------------|
| 500 000 ✓ | Ordinary shares at beginning of the year | 1 220 000 ✓ |
| 900 000 ✓ | Shares issued at R3,00 ✓ | 2 700 000 ✓ |
| (150 000) ✓ | Shares repurchased at R2,80 ✓✓ ASP (Do not accept R0,75 as ASP) | (420 000) ✓ |
| 1 250 000 ✓ | Ordinary shares in issue at the end | 3 500 000 ✓ |

11

ASP – average share price

(b) Retained income

| | |
|--|--------------------|
| Balance at the beginning of the year | 355 500 |
| Net profit after tax 1 148 000 ✓ × 72/28 ✓ | 2 952 000 ✓ |
| Funds used for repurchase of shares (150 000 × R0,75) | (112 500) ✓ |
| Ordinary share dividends operation, one part correct | (975 000) ✓ |
| Interim | 350 000 ✓ |
| See above Final (1 250 000 ✓ × R0,50 ✓) operation, one part correct | 625 000 ✓ |
| Balance at the end of the year inspect operation Must subtract ordinary share dividends and shares repurchased | 2 220 000 ✓ |

11

3.2.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2019. Where notes are not required, show ALL workings.

BALANCE SHEET ON 28 FEBRUARY 2019

| ASSETS | | |
|---|---|--|
| NON-CURRENT ASSETS | TA-CA | 6 519 800 ✓ |
| Fixed Assets | | 1 499 500 ✓ |
| Financial Assets (Fixed Deposit) | balancing figure | 5 020 300 ✓ |
| CURRENT ASSETS | | 1 400 200 |
| Inventory (480 000 + 16 000) | | 496 000 ✓✓ |
| Trade and receivables (400 000 ✓ - 5 400 ✓ + 32 000 ✓✓) | | 426 600 ✓ |
| Cash and cash equivalents (1 010 100 ✓ - 532 500 ✓) | | 477 600 ✓ |
| TOTAL ASSETS | | 7 920 000 ✓ |
| EQUITY AND LIABILITIES | | |
| ORDINARY SHAREHOLDERS' EQUITY | | 5 720 000 ✓ |
| Ordinary share capital | See 3.2.1 | 3 500 000 ✓ |
| Retained income | See 3.2.1 | 2 220 000 ✓ |
| NON-CURRENT LIABILITIES | | 992 000 |
| Loan (1 376 000 ✓ - 384 000 ✓✓) | | 992 000 ✓✓ |
| | (32 000 × 12) Operation, one part correct | |
| CURRENT LIABILITIES | | 1 208 000 |
| Trade and other payables | | 824 000 ✓✓/ |
| | (177 500 ✓ + 10 000 ✓ + 11 500 ✓ + 625 000 ✓ See 3.2.1) | * 199 000 / ** 1 208 000 / *** 583 000 |
| Current portion of loan | See above | 384 000 ✓ |
| Shareholders for dividends | See 3.2.1 | 625 000 |
| NOTE: CURRENT PORTION OF LOAN + SHAREHOLDERS FOR DIVIDENDS CAN BE ADDED TO TRADE AND OTHER PAYABLES OR SHOWN SEPARATELY | | |
| | | * 177 500 + 10 000 + 11 500 = 199 000 |
| | | ** 177 500 + 10 000 + 11 500 + 625 000 + 384 000 = 1 208 000 |
| | | *** 177 500 + 10 000 + 11 500 + 384 000 = 583 000 |
| TOTAL EQUITY AND LIABILITIES | | 7 920 000 ✓ |

29

ACTIVITY B4

4.1

| | |
|-------|---|
| 4.1.1 | C |
| 4.1.2 | E |
| 4.1.3 | A |
| 4.1.4 | B |
| 4.1.5 | D |

5

4.2.1

| RETAINED INCOME | |
|--|------------|
| Balance at the beginning of the year | 468 000 |
| Net profit after tax (1 085 500 x 70% or - 325 680) | 759 920 |
| mark two marks | one |
| Re-purchase of shares (50 000 ix 55c) or 237 500 - 210 000 | 50 000 x |
| 4,20 | (27 500)** |
| Ordinary share dividends | (460 000) |
| • Interim dividend (800 000 x 30c) | 240 000** |
| • Final dividend (1 000 000* x 22c) | 220 000** |
| Balance at the end of the year | 740 420** |

12

*one part correct
* If the question is silent on whether the shares bought back is entitled/not entitled to final dividends, it is implied that shares bought back is entitled to final dividends as they were there for the whole year.

4.2.2

| STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2019 | |
|--|------------------|
| ASSETS | |
| Non-current assets | operation |
| Fixed assets (4 919 040 - 201 520) | 4 717 520 |
| Financial assets | balancing figure |
| | 49 720 |
| Current assets | operation |
| Inventory (255 340 ✓ + 1 580 ✓) | 256 920 |
| Trade and other receivables (235 000 - 35 000 - 6 000 + 7 840 + 17 300 + 14 320) | 233 460* |
| (- 4 000 - 2 000) one mark | |
| Cash and cash equivalents (381 300 - 237 500) | 143 800* |
| TOTAL ASSETS | if same as TE+L |
| | 5 401 420 |

| EQUITY AND LIABILITIES | | |
|--|------------------|--------------|
| Shareholder's equity | operation | 4 730 420 ₺ |
| Ordinary share capital (4 200 000 ₺ – 210 000 ✓) | 50 | |
| 000 x 4,20 | | 3 990 000 ₺* |
| Retained income | see 4.2.1 | 740 420 ₺ |
| Non-current liabilities | | 270 000 |
| Loan: Central Bank (420 000 ₺ – 150 000 ₺) | | |
| 352 400 + 67 600 | | 270 000 ₺* |
| Current liabilities | operation | 401 000 ₺ |
| Trade and other payables (22 000 ₺ + 9 000 ₺) | | 31 000 ₺* |
| Shareholders for dividends | see 4.2.1 | 220 000 ₺ |
| Current portion of loan | | 150 000 ₺ |
| TOTAL EQUITY AND LIABILITIES | operation | 5 401 420 ₺ |

35

Trade and other payables can combine the elements under current liabilities.
*One part correct

ACTIVITY B5

5.1

| Choose a GAAP principle in COLUMN B that matches the description in COLUMN A. | | |
|---|---|-------------------|
| 5.1.1 | E | ✓ historical cost |
| 5.1.2 | D | ✓ materiality |
| 5.1.3 | B | ✓ matching |
| 5.1.4 | F | ✓ going concern |
| 5.1.5 | C | ✓ business entity |

5

C: CASH FLOW STATEMENTS AND D: ANALYSIS (COMBINED)

ACTIVITY C1

CASH FLOW STATEMENT, RATIO ANALYSIS

1.1 LEWIS LTD.

1.1.1

Calculate the total dividends paid that will be reflected on the Cash Flow Statement on 30 June 2019.

143 000 ₺ + 333 000 ₺ – 108 000 ₺ = 368 000 ₺ one part correct

OR

| Shareholders for dividends | | | |
|----------------------------|----------------|------------|----------------|
| **BANK** | ** 368 000 | Balance | 143 000 |
| Balance | 108 000 | Ord Sh Div | 333 000 |
| | <u>476 000</u> | | <u>476 000</u> |

4

1.1.2

Calculate the balance on the SARS (Income Tax) account on 1 July 2018. 1

532 000 ₺ – 376 000 ₺ – 23 900 ₺ = 132 100 ₺ ✓ one part correct

OR

| SARS (Inc tax) | | | |
|----------------|----------------|--------------------|----------------|
| Bank | 532 000 | Balance* (payable) | *132 100 |
| | | Inc Tax | 376 000 |
| | | Balance | 23 900 |
| | <u>532 000</u> | | <u>532 000</u> |

5

1.1.3

Movements in fixed assets:

(a) Calculate the amount of cash received for the equipment sold during the year.

160 000 – 54 500 = 105 500 ✓✓

(b) Calculate the cost of the new assets purchased during the financial year.

See (a)

6 480 000 ₺ + 136 000 ₺ + 105 500 ₺ – 5 324 000 ₺

= 1 397 500 ₺ one part correct

2

5

Or:
 one mark if

 1 580 000 is
 800 000 (one mark) one mark one mark
 also used
 (4 900 000 – 4 100 000) + (1 580 000 + 136 000 + 105 500 – 1 224 000)
 = 1 397 500 one method mark

1.1.4 Complete the “Cash flow from Financing Activities” section of the Cash Flow Statement on 30 June 2019.

| | |
|---|------------------|
| Cash flow from financing activities | (211 000) |
| Shares issued balancing figure; one part correct | * 147 000 |
| Shares repurchased (50 000 ✓ x R5,40 ✓ ✓) | ☑ (270 000) |
| Repayment of loan (1 038 000 ✓ – 950 000 ✓) | ☑ (88 000) |
| | |

Note: If brackets are incorrect on final figure, candidate loses one mark per line.

8

1.1.5 Calculate the closing balance of Retained Income as on 30 June 2019.

$$970\ 000\ \checkmark + (1\ 144\ 000 - 376\ 000) + 768\ 000 - 30\ 000 - 333\ 000 - (50\ 000 \times 0,60) - 333\ 000$$

$$= 1\ 375\ 000 \text{ one part correct}$$

7

1.1.6 On the AGM of Lewis Ltd. there was interest shown in purchasing additional machinery and equipment. The company will have to obtain a loan of R2 million at an interest rate of 14%.

(a) Calculate the Return on total capital employed (ROTCE).

$$\frac{1\ 284\ 000\ (2\ \text{marks})}{\frac{1}{2} [(5\ 470\ 000 + 1\ 038\ 000) + (5\ 782\ 000 + 950\ 000\ \checkmark)]} \times 100$$

$$\frac{1\ 284\ 000\ (2\ \text{marks})}{6\ 508\ 000\ (2\ \text{marks})} \times 100 = \frac{1\ 284\ 000}{6\ 620\ 000} \times 100$$

9

= 19,39% ☑✓ (accept 19%, or 19,4%), must be x 100, must be %, one part correct)

(b) Show how the proposed additional loan will impact on the debt/equity ratio. Provide a calculation.

$$950\ 000 + 2\ 000\ 000 : 5\ 782\ 000$$

$$2\ 950\ 000 : 5\ 782\ 000$$

$$0,51 : 1 \text{ one part correct}$$

4

1.2 TAYLOR LTD.

1.2.1 Calculate the following financial indicators on 28 February 2019:

(a) Net Asset Value per share

$$\frac{R1\ 690\ 000}{762\ 000} \times 100 = 221,78 \text{ one part correct, accept 222c, must be x 100}$$

3

(b) % Return on average Shareholder's Equity (ROSHE)

$$\frac{457\ 200\ \checkmark}{\frac{1}{2} \checkmark [(1\ 510\ 000\ \checkmark + 1\ 690\ 000\ \checkmark)]} \times 100$$

$$= \frac{457\ 200}{1\ 600\ 000} \times 100$$

$$= 28,58\ \% \ \checkmark \text{ must be a \% sign, one part correct}$$

5

1.2.2 Comment on the liquidity of the company. Quote THREE financial indicators (with figures and trends) to support your answer.

Financial indicator ✓ trend and figure ✓
 Comment one mark: must indicate liquidity is healthy/good
 one mark: must indicate it is possibly too good, not good to have so much current assets /

money locked up in stock, debtors or cash

- Current ratio, increased from 2,4:1 to 4,1:1 (or by 1,7:1)
- Acid-test ratio, increased from 1,4:1 to 1,6:1 (or by 0,2:1)
- Stock turnover rate, increased from 6 to 10 times (or by 4 times)
- Debtor's collection period, remained on 30 days (or no change)
- Creditor's payment period, decreased from 60 days to 30 days (decreased by 30 days)

Comment:
The liquidity of the company is healthy/acceptable/good, although some indicators could possibly be too high

1.2.3 **Tricia Harper is a shareholder and she is unsure if she should sell her shares or not. She asks for your advice. Provide figures in your answer.**

Decision ¶
Compare NAV (see 4.2.1 a) to market price ¶
Figure(-s) ¶ (either NAV and Market price mentioned together, or difference between the two)

- Tricia should sell her shares/not sell her shares
- NAV is less than Market price
- NAV is 221,8c per share and Market price is 252c per share (or Market price exceeds NAV by 30,2c, or Market price is 18,9% higher than NAV)

1.2.4 **Refer to Information C. Calculate the total dividends Charlie Williams received during the year.**

$$10\ 400 \text{ shares} \times 20\text{c} = 208\ 000\text{c} = \text{R}2\ 080$$

$$\frac{16\ 600}{(10\ 400 + 6\ 200)} \text{ shares} \times 25\text{c} = \frac{\text{R}4\ 150}{\text{R}6\ 230}$$

one part correct

3

6

1.2.5 **The dividend pay-out policy has changed from the previous year. Provide calculations to show the change and provide ONE possible reason for the change.**

Comparing 2018 DPS vs EPS by % ¶
Comparing 2019 DPS vs EPS by % ¶

In 2018 they paid out $\frac{15}{55}$, thus 27%.
In 2019 they paid out $\frac{45}{60}$, thus 70%.

One mark:
In 2018 they paid out 15c of 55c.
In 2019 they paid out 45c of 60c.

Reason: ¶¶¶¶ Part marks for an unclear or partial answer

There could have been a decision made at the AGM that the company has enough reserves and does not have to retain any more funds / The company does not need reserve funds for repurchasing of shares / The company has increased their investments in the previous year and does not require additional funds for further investments.

6

ACTIVITY C2

| | | |
|-------|---------|---|
| 2.1.1 | False ✓ | 4 |
| 2.1.2 | True ✓ | |
| 2.1.3 | True ✓ | |
| 2.1.4 | True ✓ | |

2.1 Calculate the following for the Cash Flow Statement:

| | | |
|---|-------------------------------|----|
| Income tax paid 1 240 000 – 892 800 12 000 ✓ + 347 200 ✓ + 8 500 ✓ OR – 12 000 – 347 200 – 8 500 mark the line Accept brackets | 367 700 ✓ one part correct | 14 |
| Dividends paid 1 400 000 x 0.15 300 000 ✓ + 210 000 ✓ ✓ | 510 000 ✓ one part correct | |
| Cost of new delivery vehicles purchased 10 152 700 + 425 000 + 389 500 – 7 915 400 – 2 250 000 ✓ ✓ ✓ ✓ ✓ | 801 800 ✓ one part correct | |

| | | |
|--|---------------------------------|---|
| Cash effects of financing activities | ✓ 1 732 000 one part correct | 9 |
| Proceeds from shares issued (400 000 x 8.60) | ✓ 3 440 000 | |
| Funds used to repurchase shares 840 000 ✓ ✓ + 168 000 ✓ | ✓ (1 008 000) | |
| Repayment of loan | ✓ ✓ (700 000) | |

| | | |
|--|--------------------------------|---|
| Net change in Cash and Cash equivalents | ✓ (77 500) operation | 4 |
| Cash and cash equivalents in the beginning 45 300 – 2 000 | ✓ ✓ 43 300 one part correct | |
| Cash and cash equivalents at the end | ✓ (34 200) | |

| | | |
|---|-----------------------------|---|
| 2.3 Calculate the debt/equity ratio 1 300 000 ✓ : 9 209 000 ✓ | ✓ 0,1:1 one part correct | 3 |
|---|-----------------------------|---|

| | | |
|---|---------------------------------|---|
| Calculate the net asset value per share $\frac{9\,209\,000 \checkmark - 1\,280\,000 \checkmark}{1\,280\,000 \checkmark} \times 100$ | ✓ 719 cents one part correct | 3 |
|---|---------------------------------|---|

| | | |
|--|------------------------------|---|
| Calculate the return on average shareholders' equity $\frac{892\,800 \checkmark}{\frac{1}{2}(6\,458\,200 + 9\,209\,000)} \times 100$ 7 833 600 ✓ ✓ one part correct | ✓ 11,4 % one part correct | 4 |
|--|------------------------------|---|

| | |
|---|---|
| 2.2.4 The management decided to change the mark-up % in the current financial year. Was this a good decision? Explain. Quote figures. Yes/No ✓ Explanation ✓ figure ✓ <ul style="list-style-type: none"> • A decrease in the mark-up% resulted in an increase in sales by 1 650 000 • The gross profit has increased by R262 500 • Gross profit on sales dropped from 43% to 38% • Operating profit on sales did not change, 16% | 3 |
|---|---|

| | |
|---|---|
| 2.2.5 Comment on the management of expenses. Quote TWO relevant financial indicators to support your comment. Financial indicators and figures ✓ ✓ Comment ✓ ✓ Operating expenses on sales has decreased from 23% in 2018 to 22% in 2019. The operating profit on sales however, remained unchanged at 16%. | 4 |
|---|---|

| | |
|--|---|
| 2.2.6 Comment on the issue price of the new shares issued on 30 June 2018. Was this fair? Quote figures. Any three relevant comments ✓ ✓ ✓ ✓ ✓ ✓ <ul style="list-style-type: none"> • They issued the new shares at 860 cents. • NAV per share is R7,19 at the end and R6,46 in the beginning. • Market price per share was R6,30 in the beginning and R7,28 at the end. | 6 |
|--|---|

2.2.7

Comment on the pay-out policy of the company by comparing 2018 to 2019 and quote relevant figures

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| | |
|------|------------------|
| 2018 | 60/62 = 96,8% ✓✓ |
| 2019 | 41/69 = 59,4% ✓✓ |

Any relevant comment ✓✓

- 96,8% of the earnings was paid out in 2018 but was decreased to 59,4% in 2019 (by 38%).
- The business decided to retain 40,6% of the earnings in 2019 for further growth.

6

2.2.8

Comment on the degree of risk and gearing of the business. Quote TWO financial indicators with figures.

Financial indicators – with figures ✓✓ ✓✓ Explanation/comment ✓✓

- Debt-equity ratio has improved from 0,3 to 0,1:1
- ROTCE has increased from 13,0% to 15,3%

Comment: The risk has decreased/the company is low geared
It was not necessary to pay a large portion of loan as the company is positively geared – the return is greater than interest on loan (13%).

6

2.2.9

How many shares will a shareholder, having 45% of the issued share capital, have to buy to gain control of the company?

Shares owned = 45% x 1280 000 = 576 000 ✓

He needs to own at least

50% + 1 = 640 001 shares OR

50% + 100 = 640 100 shares OR

51% = 640 000 shares ✓✓

Answer – 576 000 shares

4

ACTIVITY C3

3.1 TINAMERA LTD

3.1.1 FIXED ASSET NOTE TO THE BALANCE SHEET ON 30 JUNE 2018

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GR 12

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| | Buildings | Vehicles | Equipment |
|-------------------------------|-------------|--|--|
| Carrying value – 1 July 2017 | 3 452 000 | 413 400 | 83 200 |
| Cost | 3 452 000 | 872 000 | 340 000 |
| Accumulated depreciation | 0 | (458 600) | (256 800) |
| Movements | | | |
| Additions at cost | 1 070 800 ✓ | 0 | 116 000 ✓ |
| Disposal at carrying value | 0 | (102 800) ✓ | 0 |
| Depreciation | 0 | (99 399) ✓ One part correct 14 999 ✓✓+ 70 400 ✓+ 14 000 ✓✓ | (22 630) ✓ One part correct 12 480 ✓+ 10 150 ✓✓ |
| Carrying value – 30 June 2018 | 4 522 800 | 211 201 ✓ operation | 176 570 ✓ operation |
| Cost | 4 522 800 | | |
| Accumulated depreciation | | | |

15

3.1.2

TINAMERA LTD
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

If a working is shown as a final answer, award working mark only if brackets correctly applied for that item

If item is incorrectly placed, award no marks for details or figures

Signs may be reversed; apply consistently; mark one line only to benefit candidate

Workings may be done as T-accounts; inspect answer booklet for these workings

If workings not shown but figure is correct without brackets, award marks to cover workings and penalise on answer

Correct use of brackets to earn the mark on the final answer for each item in this column

*one part correct and correct use of brackets

| | |
|-------------------------------------|------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | Operation 384 000 ✓ |
| Cash generated from operations | 1 295 760 |
| Interest paid | (86 760) |

25

| | | |
|---|---------------------------------|----|
| Dividends paid 170 000 ✓ + 60 000 ✓ – 30 000 ✓ or - 170 000 – 60 000 + 30 000 140 000 two marks + 60 000 one mark | (200 000)* | ☑ |
| Income tax paid | (625 000) | |
| CASH FLOW FROM INVESTING ACTIVITIES | Operation (1 084 000) | ☑ |
| Purchase of fixed asset (1 070 800 ☑ see FA Note + 116 000 ✓) | (1 186 800)* | ☑ |
| ✓ Proceeds from sale of fixed assets | 102 800 | ✓ |
| CASH FLOW FROM FINANCING ACTIVITIES | Operation (114 000) | ☑ |
| ✓ Repurchase of shares | (336 000) | ✓✓ |
| Proceeds of new loans 920 000 ✓ + 86 760 ✓ – 164 760 ✓ – 1.142 000 ✓ Or 1 142 000 + 164 760 – 86 760 – 920 000 | 300 000* | ☑ |
| Repayment of loan (164 760 ✓ – 86 760 ✓) | (78 000)* | ☑ |
| Net change in cash and cash equivalents | Operation (814 000) | ☑ |
| Cash and cash equivalents beginning of year | (91 000) | |
| Cash and cash equivalents at the end of year | Operation (905 000) | ☑ |

3.1.3

Calculate the percentage operating profit on sales

$$\frac{1\,410\,550 \checkmark}{5\,611\,000 \checkmark} \times 100$$

$$= 25,1\% \checkmark \text{ One part correct in \%}$$

3

Calculate the debt-equity ratio

$$= 1\,142\,000 \checkmark : 4\,607\,300 \checkmark$$

$$= 0,3 / 0,25 : 1 \checkmark \text{ One part correct in ratio}$$

3

Calculate the net asset value per share

$$\frac{4\,607\,300 \checkmark}{750\,000 \checkmark} \times 100$$

$$= 614,3 \text{ cents} \checkmark \text{ One part correct in cents}$$

3

3.1.4

- Provide a reason supported by information from the Cash Flow Statement as to why the shareholders are concerned over the directors' decision to repurchase 80 000 shares.

Any valid explanation ✓✓ Part marks can be awarded for partial answers

Possible answers:

- The business has a very big overdraft because of the fixed assets purchased. They cannot afford to buy back the shares.
- The business had to take out another loan.

- After an investigation, it has come to light that Jim Jeffs, the shareholder from whom the company repurchased the shares, is a close friend of the financial director. Explain briefly why you as a shareholder may find this to be a problem.

Any valid explanation ✓✓ Part marks can be awarded for partial answers

Possible answers:

- This is a conflict of interest and unethical to repurchase only the shares of Jim Jeffs.
- The shares were repurchased at a price higher than the average issue price although the business has a very big overdraft.

4

| | CALCULATIONS | AMOUNT |
|-----|--|---------------|
| (a) | R6 800 000 – R5 800 000 | R1 000 000 ✓✓ |
| (b) | R840 000 + R960 000 | R1 800 000 ✓✓ |
| (c) | R850 000 – R180 000 | R670 000 ✓✓ |
| (d) | $R150\,000 - (R15\,000 + R15\,000) - R7\,500$ $R30\,000$ $\frac{R150\,000}{1} \times \frac{10}{100} \times \frac{6}{12} = R7\,500$ | R112 500 ✓ |
| (e) | <p>See (d)</p> <p>R7 500 ✓ + R70 000 ✓ + R20 000 ✓</p> <p>Sold old / remaining new</p> <p>R850 000 – R150 000 X 10% = R70 000</p> <p>$\frac{R850\,000}{1} \times \frac{10}{100} = R85\,000$</p> | R97 500 ✓ |

4.2

| CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019 | | R |
|--|-----------------------------|---------------|
| CASH EFFECTS OF OPERATING ACTIVITIES | | |
| | operation | (344 715) ✓ |
| Cash generated from operations | | 2 656 185 ✓ |
| (2 854 800 ✓ – 198 615 ✓) | one part correct | |
| Interest paid | | (208 800) |
| Dividends paid | | (2 134 500) ✓ |
| (676 500 ✓ + 1 458 000 ✓) | one part correct | |
| Income Tax paid | | (657 600) ✓ |
| (23 700 ✓ – 713 250 ✓ + 31 950 ✓) | one part correct | |
| CASH EFFECTS FROM INVESTING ACTIVITIES | | (187 500) ✓ |
| operation | | |
| Fixed assets purchased | | (1 300 000) ✓ |
| (900 000 + 400 000) | see 4.1 one part correct | |
| Proceeds on sale of fixed assets | | 1 112 500 ✓ |
| (112 500 ✓ + 1 000 000 ✓) | see 4.1 | |
| CASH EFFECTS FROM FINANCING ACTIVITIES | | 1 944 000 ✓ |
| operation | | |
| Proceeds from the sale of shares | | 1 800 000 ✓ |
| Repurchase of shares | | (576 000) ✓ |
| 36 000 (3 marks) | one part correct | |
| (720 000 ✓ X 5% ✓ X R16 ✓) | | |
| 40% X 300 000 = 120 000 + 600 000 | | |
| Proceeds of loan | | 720 000 ✓✓ |
| (2 100 000 – 1 380 000) | | |
| Net change in cash and cash equivalents | | 1 411 785 ✓ |
| operation | | |
| Cash and cash equivalents at beginning of year | | 1 429 465 ✓ |
| Cash and cash equivalents at end of year | | 2 841 250 ✓ |

BRACKETS ESSENTIAL BEFORE AWARDING THE MARK – SHOULD INDICATE OUTFLOW

4.3

| | |
|---|---|
| Calculate the Debt-Equity ratio for 2019. | |
| 2 100 000 ✓ : 11 000 250 ✓ | |
| 0,19 : 1 ✓ | 3 |

4.4

The directors decided to increase the loan during the current financial year. Explain TWO financial indicators to indicate why this was a good decision. Quote figures.

Financial indicator ✓✓ Trend and figures ✓✓ Comment ✓✓ ✓✓

ROTCE
This has decreased from 21,3% to 20.9%.
Positively geared as ROTCE is higher than the interest rate of 12%

Debt-Equity
This has increased from 0,13 : 1 to 0,19 : 1.
Low financial risk / lowly geared / not making use of loans / relies more on own capital

8

4.5

The board of directors is of the opinion that the shareholders should be happy with their percentage return and the market price of their shares. Quote and explain TWO financial indicators with figures to support their opinion.

Financial indicator ✓✓ Trends and figures ✓✓ Comments ✓✓

ROSHE
Improved from 12,3% to 15,7% and it is 8,2% more than the interest (7,5%) in alternative investments.

NAV
NAV per share of 1 608 cents is less than the market price of 1 680 cents.

6

4.6

The Cash Flow Statement reflects some important decisions taken by the Directors. Apart from the loans, identify TWO good decisions. Explain the effect of this decision on the company. Quote figures.

| DECISION Decision ✓✓ Figures ✓✓ | EFFECT ON COMPANY ✓✓ |
|--|--|
| Sale of land and building, R1 000 000 / Selling of fixed assets R1 112 500 | Increased the cash flow. / Used funds to buy other fixed assets. |
| Issue of shares R1 800 000 / 120 000 shares | Increased the cash flow. / Used funds to buy assets. |
| Purchase of fixed assets 900 000 + 400 000 = 1 300 000 | Leads to capital growth (future productivity). / More assets in the company. / Generates more income. |

6

ACTIVITY C5

QUESTION 5

5.1.1

| CASH GENERATED FROM OPERATIONS | |
|--|-------------------|
| Net profit before tax | 1 230 000 R |
| Adjustments in respect of: | |
| Depreciation | 950 000 |
| Interest expense | 144 150 ✓ |
| Operating profit before changes in working capital operation | 2 324 150 R |
| Changes in working capital operation | 59 400 R |
| Decrease in inventory (1 044 700 – 903 900) | 140 800 R |
| Increase in debtors 70 950 two marks 208 150 ✓ – (70 000 R + 950 R) | (137 200) R* |
| 889 000 two marks | |
| Increase in creditors (944 800 ✓ – (860 700 R + 28 300 ✓)) | (55 800) R* |
| Cash generated from operations operation | 2 383 550 R |
| The figure and the brackets (or no brackets) must be correct to earn the mark in the money column. | *one part correct |

15

5.1.2

| CASH FLOWS FROM INVESTING ACTIVITIES operation | |
|---|---------------|
| Purchase of fixed assets (3 616 400 R + 225 000 R + 950 000 R – 2 300 000 R) | (2 491 400) R |
| Proceeds of sale on non-current assets | 225 000 R |
| Decrease in investments (712 500 – 300 000) | 412 500 R |

10

5.1.3

| | | |
|---|-----------|----------|
| CASH FLOWS FROM FINANCING ACTIVITIES operation | 988 000 | |
| Proceeds from the issue of share capital | 520 000 | |
| Repurchase of shares (588 000 ÷+ 266 000 ÷) | (854 000) | * |
| Proceeds from long-term borrowings (1 622 000 – 300 000) | 1 322 000 | |
| | | 7 |

5.1.4

5.3

It was a good decision for the directors to increase the loan. Explain and quote TWO financial indicators with figures to support the director's decision.

Financial indicator and Figure Explanation

The debt-equity ratio increases from 0,1:1 to 0,5: 1.

The return on total capital employed increase from 21,2% to 32,6% (see 5.2)

NET CHANGE IN CASH AND CASH EQUIVALENTS operation 131 000

Cash and cash equivalents – beginning of year
(6 62 000 + 1 000)

Although the business is making greater use of loans than last year as reflected by the increase in the debt/equity ratio, ROCE is much higher than the interest rate (cost of the loan).

Debt- equity ratio is lowly geared and the return on capital employed is 32,6% and is much higher than the 15% interest on loan. Positively geared.

6

5

5.2

Calculate the following financial indicators for 2019:

Acid test ratio

327 150 two marks (944 800 + 193 200)
1 231 050 – 903 900 : 1 138 000 any one part correct
0,3 : 1 one part correct, accept 0,28 : 1

Debt-equity ratio

3 345 800 two marks
1 622 000 : 1 932 000 + 1 413 800
0,48 : 1 one part correct accept 0,5:1

Net asset value per share

3 345 800 two marks
1 932 000 + 1 413 800 x 100 = 363,67 or 364 cent one part correct
920 000

Percentage return on total capital employed:

1 230 000 ÷+ 144 150 x 100 = 32,6 one part correct
½ (4 967 800 + 3 456 000)
4 211 900 five marks

4

4

4

8

5.4 One of the shareholders want to sell his shares at 550 cents per share. Explain why the business should not repurchase these shares. Quote TWO financial indicators (with figures) to support your opinion.

5.6 Calculate the amount of money she received this year in the form of dividends.

Quoting NAV (with figure) and Market Price (with figure) and explanation (comparison with 550 cents)

Explain to her why you think the directors changed the dividend pay-out policy this year. Quote figures.

Explanation
 • This shareholder would not even be able to sell these shares on the JSE at 550 cents per share.
 • Although there is an upward trend in the MP and the NAV, it is still not good practice to pay an amount that is way above the share price.

The company paid out 88,3% (50/56) of EPS last year as they had no/little plans for improvement in the business. (Retained 16,7%)
 They decided to retain 58,8% (distributed 41%; 33/80) of the EPS this year as they have plans to expand the business which will in turn result in greater profits in the long run.
 They want to use funds from operations to improve the business rather than increase the loan or issue new shares.

Their plans would have been explained in the directors' report so that shareholders would buy in the company.

State TWO major decisions taken by the directors, as evident from the Cash Flow Statement. Quote figures. Explain how these decisions would benefit the business in future.

| Decision 1 | Decision 2 | Benefit 1 | Benefit 2 |
|---|------------|---|-----------|
| Fixed assets were bought for R2 491 400. see 5.1.2 | Figure 2 | Part marks for incomplete answer | |
| Loan was increased by R1 322 000. see 5.1.3 | | These could generate profits in future if they are well used and maintained. | |
| New shares were issued. Cash increase by R520 000. | | The still low risk can attract potential investors. | |
| Shares were re-purchased, R854 000 was spent. see 5.1.3 | | This could be used to finance fixed assets. | |
| Fixed assets were sold for R225 000. | | This increased the capital, there-fore no need to go back into overdraft. | |
| | | This would raise the NAV, EPS + DPS because the numbers of shares are lower. | |
| | | Got rid of unused or high maintenance assets. The money could be used better elsewhere. | |

ACTIVITY C6

6.1

| | | |
|-------|-------------------|---|
| 6.1.1 | Directors | ✓ |
| 6.1.2 | Internal auditor | ✓ |
| 6.1.3 | Shareholder | ✓ |
| 6.1.4 | External auditors | ✓ |

6.2 SO-FINE LTD

6.2.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

1 200 000 ordinary shares

ISSUED SHARE CAPITAL

| | | | | |
|-----------|--|-------------------|-----------|---|
| 900 000 | Ordinary shares on 1 September 2016 | Balancing figure | 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 ✓) | 5 292 000/980 000 | (378 000) | ✓ |
| 980 000 ✓ | Ordinary shares on 31 August 2017 | | 5 292 000 | |

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 Or 70 000 x (6,25 - ASP) 437 500/70 000 | (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 ✓* |

6.2.2 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 ✓ OR 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 ✓ -6 177 000 - 320 000 - 324 000 + 4 975 000 | ? (1 846 000) | ✓* |
| | ? ✓ Proceeds from <u>sale of fixed assets</u> | ? 324 000 | ✓ |
| 7 | Change in investments | | |
| | CASH FLOWS FROM FINANCING ACTIVITIES | | |
| | ? ✓ Proceeds from <u>issue of share capital</u> | ? 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

2.3 Calculate the percentage operating profit on sales.

$$\frac{697\,000}{8\,652\,000} \times 100 = 8,1\% \quad \checkmark$$

3

Calculate the debt-equity ratio.

$$985\,000 : (5\,292\,000 + 250\,000) = 0,2 : 1 \quad \checkmark$$

4

2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period.

$$\frac{900\,000 + 150\,000}{(168\,000 \checkmark / 1\,050\,000 \checkmark \times 100) + 12 \text{ cents} \checkmark} = 28 \text{ cents} \quad \checkmark$$

16 cents two marks

4

6.3 CASTRO LTD

6.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued.

Compare issue price to market price or NAV ✓✓
Figures R12,00 or R10,73 ✓
Expected responses:

- The shares were issued at the average share issue price. The existing shareholders are being rewarded as the price is lower than the R12,00 charged on the JSE and the NAV of R10,73.

3

• The shares could have been issued at the market price of R12,00 or the NAV of R10,73 (they have diluted the value of the shares).

6.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators.

Explanation ✓ ✓ Financial indicators ✓ ✓ Figures ✓ ✓

- Gearing has improved – less risk (as there was an issue of new shares) debt-equity ratio decreased from 0,8 : 1 to 0,5 : 1 (by 0,3 : 1)
- ROTCE improved (due to increased efficiency / profits on new branch) from 15 % to 20 % (by 5% or 33,3%)

6

6.3.3 If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy?

$$(700\,000 \times 60\%) - (500\,000 \times 60\%) = 120\,000$$

420 000 300 000

OR two marks one method mark (if x 60%)

$$200\,000 \times 60\% = 120\,000$$

3

How much would he have had to pay?
120 000 shares at R9,10 each = R1 092 000 ✓✓

2

Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option.

Explanation ✓✓ ✓✓ Figures ✓ ✓

Expected responses: Any two

- His dividends would have increased by R61 200 (51c x 120 000 shares). This is more than the interest he earned on the savings account R54 600 (1 092 000 see above x 5%)
- He could buy the shares for capital growth - bought the shares for R9,10 and then could sell them on the JSE for R12,00 / total profit could have been R348 000 / would be a good buy as R12,00 exceeds NAV R10,73
- He would have earned more dividends on bigger investment (51c/910c = 5,6%)
- ROSHE would be 23% on a bigger investment.
- He would lose 120 000 votes at the AGM.

6

RONKI LTD

6.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators.

Explanation: ✓✓

The liquidity situation has improved / is able to meet current debts / liquidity ratios have decreased / liquidity ratios are more efficient

Financial indicators any two ✓ ✓ Figures ✓ ✓

- Current ratio has improved/decreased (from 3,5 : 1) to 1,9 : 1
- Acid-test ratio has improved/decreased (from 1,7 : 1) to 1,1 : 1
- Stock-holding period appears to be efficient at 54 days (less than 2 months)

6

6.3.5

Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares.

Expected response: ✓✓ **Part-marks for partial or incomplete explanation**
 The company is paying a premium above the average share price in order to entice shareholders to give up their shares / they wanted to increase returns by decreasing equity / this is a fair value same as the price on the JSE.

- Compare price paid (R15,00) to Any one figure ✓
- market value R15,00
 - net asset value R13,30
 - average issue price of shares R10,20

3

6.3.6

Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd.

Explanation ✓ ✓ ✓ *Figures* ✓ ✓ ✓

- Expected responses:** Three different responses
- He has now become a majority shareholder. His 300 000 shares are 51,7% of the total shares (33,3% before the share buy-back)
 - Due to the reduced number of shares, his return has improved i.e. EPS has increased by 95c / from 171c to 266c / ROSHE increased from 13% to 16%. (NOTE: EPS and ROSHE reinforce the same point).
 - The reduced number of shares could have contributed to an increase in the DPS by 57c / by 55,3% / from 103c to 160c (Directors may have maintained the dividend pay-out policy).

6

E: AUDITING

ACTIVITY E1

1. AUDITING

1.1

Explain why the shareholders would be satisfied with this audit report.

- Any ONE relevant answer* ✓✓
- This is a positive report / clean report / in accordance with IFRS or Companies Act.
 - This is an unqualified report / the report was fairly presented as per the auditor's opinion.
 - The auditors did not mention any irregularities / shortcomings in the financial statements.

2

1.2

Tello Motloung, the managing director, has informed the auditors that he intends to buy the unissued shares for himself without informing the other shareholders. What advice should the auditors give to Tello? Explain.
Valid explanation ✓✓

- Advice – This is unethical and the issue of new shares should be advertised to all according to the Memorandum of Incorporation / Companies Act.
- It is unethical as it constitutes insider trading.

2

1.3

Explain why the auditors found it necessary to stipulate the page numbers in the report.
Any ONE valid explanation ✓✓

- They are only responsible for the pages that they have stipulated in the report / only financial statements on Pages 23 – 89 were subjected to audit / examination.
- They are not accountable for the other information in the annual report.

2

1.4

Explain TWO major consequences for Mxo and Frank should they be negligent in performing their duties.
Any TWO explanations ✓✓ ✓✓

- Not to be re-appointed as auditors
- Face disciplinary procedures by the professional body
- Lose clients / fired by shareholders (because their integrity would be questioned)
- Can be sued

4

ACTIVITY E2

2.1

Provide ONE reason why public companies must be externally audited.

Any valid answer ✓✓

- Because they work with public funds.
- To be accountable to stake holders e.g. shareholders.
- To discourage fraud.
- Requirement of the Act/IFRS (compliance).

2

.2

What type of report did Giovanni Ltd receive from the independent auditors? Explain your answer.

Type:

Unqualified report ✓

Explain your answer: ✓✓

- The auditors found that the financial statements were accurate.
- The financial statements fairly present the financial performance and financial position of the company.
- The financial statements are in accordance with International Financial Reporting Standards and the Companies Act of South Africa.

3

.3

Refer to information B.

One of the directors says that “the company must not waste money on things like this.” Provide THREE reasons against his opinion.

Any TWO valid answers ✓✓ ✓✓ ✓✓

- This forms part of their corporate social investment/responsibility which is necessary as the company relies on the goodwill (support/positive image/good publicity) of the community in which they operate.
- Creates a safer environment which encourages customers to visit the business/creates better working environment.
- In accordance with the King Code.

6

ACTIVITY E3

AUDIT REPORT

3.1

What is the purpose of an independent auditor report and to whom is it addressed?

Purpose: ✓✓

To report on the company's financial records and determine whether there is a fair presentation of facts, and whether the policies are consistent with the previous year

Addressed to: ✓

3

3.2

Shareholders

Explain the difference between a qualified and an unqualified audit report.

Qualified:

A qualified report reveals problems in certain areas of the company – all is not well. ✓✓

Unqualified:

An unqualified report is a report without any problems – good report ✓✓

3.3 **Predict THREE implications for the company or directors after PWC release their report.**

One mark per point ✓ ✓ ✓

- Existing shareholders would lose faith in the company and possible sell their shares
- Potential shareholders would not invest in the company
- Could result in a drop in the market price of the shares
- The financial statements would not be fairly presented
- Suppliers will lose faith in the company
- Internal control measures should be improved in order to prevent unethical transactions.
- Directors could lose their jobs

4

3

ACTIVITY E4

4 AUDIT REPORT

4.1

Explain why the auditors did specifically address the report to shareholders?

They are the owners of the business. ✓✓

2

4.2

Explain why the independent auditors referred to pages 25-51 in the report.

Any valid explanation Part-marks for unclear / incomplete answers

- Auditors are responsible for only parts / certain pages of the annual report.
- They are not accountable for the other information in the annual reports.
- Financial statements on pages 25–51 were subjected to audit / examination.
- Additional information, such as corporate social investment matters, is not audited.

Do not accept statistical sampling as a reason.

2

4.3 The directors claimed that the value of the buildings increased over the years and that the value must be increased and shown as additions in the fixed asset note.

As the independent auditor, what advice would you give? Provide ONE point.

ONE valid point ✓✓ Part-marks for unclear / incomplete answers

- It is fraudulent to indicate revaluation as an addition
- No audit evidence exists, so there is no proof of the actual value of the buildings
- GAAP prescribes the historical (original) cost principle when recording assets
- Only physical acquisitions/ [redacted] can be shown as additions

2

4.4 The company received a/an (unqualified/qualified/disclaimer) audit report.

Qualified ✓

Give a reason for your answer.

The auditors queried the increase of the assets in the Balance sheet. ✓

2

FJ INVENTORY SYSTEMS

ACTIVITY F1

F1.1 Calculate the following on 28 February 2019:

F1.1.1 Value of closing stock.

| Workings | Answer |
|---|--|
| $195\,424 \checkmark + 4\,034\,660 \checkmark - 38\,584 \checkmark \checkmark$ $49 \checkmark + 788 \checkmark - 7 \checkmark$ <p>eight marks 5 050 <input checked="" type="checkbox"/> x 220 ✓</p> | <p>4 191 500 four marks (5 512 x 7) two marks</p> <p>830 three marks</p> <p>1 111 000 <input checked="" type="checkbox"/> one part correct</p> |

10

F1.1.2 Gross profit for the year ended.

| Workings | Answer |
|--|---|
| <p>see 2.1.1 see 2.1.1</p> <p>COS: 4 191 500 <input checked="" type="checkbox"/> – 1 111 000 <input checked="" type="checkbox"/> = 3 080 500 (195 424 + 4 034 660 – 38 584) one mark</p> <p>Gross profit: 3 450 300 ✓ – 3 080 500 <input checked="" type="checkbox"/></p> | <p>369 800 <input checked="" type="checkbox"/> one part correct</p> |

5

F1.2.1 Calculate the stock value on 28 February 2019 using the FIFO method.

| Workings | Answer |
|--|---|
| <p>200 – 7</p> <p>193 ✓ x 5 512 ✓ = 1 063 816 <input checked="" type="checkbox"/></p> <p>220 – 193</p> <p>27 <input checked="" type="checkbox"/> x 5 145 ✓ = 138 915 <input checked="" type="checkbox"/></p> <p>Be aware of alternative arrangements</p> | <p>1 202 731 <input checked="" type="checkbox"/> one part correct</p> |

7

F1.2.2 Explain the effect on gross profit if the FIFO method is used.

Any valid point ✓✓

A larger closing stock will result in a smaller cost of sales and hence a greater (an increased) gross profit.
The gross profit will be more compared to when weighted average method is used.

2

F1.2.3 As an internal auditor, explain the benefits of using the FIFO method to the owner and the accountant. State TWO points.

Stock shown at recent prices, realistic.
Reflect a higher gross profit
Easy to apply
No manipulation of profits.

4

F1.3 Ching Lee feels that she was not able to achieve her targeted mark-up % for 2019.

Do (or perform) a calculation to confirm whether she is correct.

| Workings | Answer |
|---|---|
| <p>see 2.1.2</p> <p>369 800 <input checked="" type="checkbox"/> x 100</p> <p>3 080 500 <input checked="" type="checkbox"/></p> <p>see 2.1.2</p> | <p>12% <input checked="" type="checkbox"/> one part correct</p> |

OR: 3 080 500 x 25% = 770 125 (targeted); Actual was 369 800 (2.1.2)
Did not achieve target by 400 325

3

Provide TWO suggestions that can be implemented in order to improve profitability.

Any TWO valid suggestions ✓✓ ✓✓

Give less trade discounts
Support local suppliers
Supervise sales to ensure correct prices are applied.
Consider after-sales services such as maintenance, repairs, installations.

4

F2.4.1 Calculate the Stock Holding Period in days. Use Closing Stock in your calculation.

$$\frac{56\ 950 \checkmark \text{ see closing stock in 2.3}}{264\ 650 \checkmark \text{ see COS in 2.3}} \times \frac{365 \checkmark}{1}$$

= 78,5 days ✓

4

TIVITY F2

F2.1 Explain the difference between the specific identification method and weighted average method of valuing stock.

Specific identification method
– Each item is assigned a specific cost
– the original purchase price recorded in a register
– this data base is retrieved when item is sold. ✓

Weighted average method
– The average price is calculated taking into account opening stock, purchases, returns and carriage on purchase, divided by the total number of units in relation to the above.
– Therefore, final closing stock will be calculated on the average cost of the goods. ✓

2

F2.2 Provide a calculation to show the number of cooler boxes missing.

$$3\ 900 \checkmark - (520 + 4\ 300 - 850 - 20) \checkmark \checkmark$$

= 50 ✓
50 cooler boxes were missing.

4

F2.3 Calculate the following in respect of cooler boxes:

The value of the closing stock of cooler boxes.
$$850 \checkmark \times R67 \checkmark = R56\ 950 \checkmark$$

Cost of sales of cooler boxes.
290 400
$$(31\ 200 \checkmark + 291\ 400 \checkmark - 1\ 000 \checkmark) - 56\ 950 \checkmark \text{ see closing stock above}$$

= R264 650 ✓

Gross profit on cooler boxes.
$$387\ 000 \checkmark - 264\ 650 \checkmark = R122\ 350 \checkmark$$

3

5

3

F2.4.2 Comment on your findings in response to the manager's feelings.

Stock holding period decreased / improved ✓ from 125 days to 78,5 days ✓ or
 Stock Turnover rate increased / improved ✓ from 2.9 to 5.7 times ✓

One mark for incomplete answer

Stock is selling faster ✓

Any other suitable answer can be accepted

3

F2.5 Calculate the value of the closing stock of tents.

14 x R1 400 = R 19 600 ✓
 7 x R1 680 = R 11 760 ✓
 7 x R1 540 = R 10 780 ✓
 R 42 140 ✓

4

F2.6 If the mark-up percentage is 25% on cost price, calculate the total sales of tents for the period.

14 x 1 260 x 1,25 ✓ = R22 050 ✓
 28 x 1 400 x 1,25 = R49 000 ✓
 28 x 1 680 x 1,25 = R58 800 ✓
 35 x 1 540 x 1,25 = R67 375 ✓
 R197 225 ✓ (operation, one part correct)

OR: (17 640 ✓ + 39 200 ✓ + 47 040 ✓ + 53 900 ✓) x 1,25 ✓
 = R197 225 ✓ (One part correct)

6

ACTIVITY F3

F3.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (5.1.1–5.1.4) in the ANSWER BOOK

| | |
|--------|---------------------------|
| F3.1.1 | periodic ✓ |
| F3.1.2 | specific identification ✓ |
| F3.1.3 | asset ✓ |
| F3.1.4 | weighted-average ✓ |

4

F3.2 KROOKED SKATEBOARD TRADERS

F3.2.1 Calculate the following on 28 February 2019:

(a) The value of closing stock using the weighted-average method.

1 618 200 (3 marks)
 1 392 400 (1 mark) (40 x 320) (2 marks)

238 600 ✓ + (1 298 000 + 94 400) ✓ - 12 800 ✓
 860 ✓ + 4 400 ✓ - 40 ✓
 5 220 (3 marks)

= R310 ✓ check operation
 (8 marks)

420 x R310 = R130 200 ✓ one part correct

(b) Cost of sales:
 R1 618 200 (2 marks)
 (R238 600 + R1 392 400 - R12 800) ✓ - R130 200 ✓
 = R1 488 000 ✓

Accept ledger account / table.

(c) Gross Profit:

R1 680 000 ✓ - R1 488 000 ✓
 = R192 000 ✓ one part correct

Accept ledger account / table.

9

4

3

F3.2.2

G Gonzales the owner of Krooked Skateboard Traders wants to alternate between using the weighted-average method and a FIFO method, depending on which will result in the higher cost of sales.

(a) **In your opinion, why do you think G Gonzales wants to increase the value of cost of sales in the financial statements?**

It decreases gross / net profit and therefore decreases tax liability. ✓✓

2

(b) **Provide ONE reason why the bookkeeper says that alternating between two methods of valuing stock does not comply with the requirements of GAAP.**

Any acceptable answer ✓✓

- The business must stay consistent from one year to the next in order to compare results.
- It is not ethically correct to manipulate profit by changing policies.
- Needs permission from SARS to change from one inventory valuation method to another

2

F3.3 PROTEC TRADERS

Identify a different problem in each store. Quote figures to support the problem identified in each case and give Patrick Ace advice on how to solve each problem.

| | Problem (Quote figures.) Problem ✓✓✓ Figure ✓✓✓ | Solution / Advice ✓ ✓ ✓ |
|---------------------------|--|--|
| Store 1: Lucas | Lucas spent R30 000 on advertising and his turnover amounted to R280 000 Advertising is 10.7% of sales. | Lucas should review his advertising and promotional strategies in order to increase sales volume. |
| Store 2: Pitso | The returns of R28 000 is too high / 8,24% of sales is returned. The returns policy of 21 days is too long. | Change supplier for better quality if the product is inferior / Train the workers to provide a better sales service. Change the returns policy to 7 days. |
| Store 3: Pepe | Control of stock is a problem – 50 units of stock stolen in a month. | Improve control over stock to minimize theft. |

9

G TANGIBLE ASSETS

G1 (32 Marks, 19 Minutes)

G1.1 Provide **TWO** advantages of purchasing a caravan for the staff, rather than booking them alternative accommodation. (4)

- Cheaper to buy a caravan than accommodate four staff members. ✓✓
- No daily transportation is needed to take the staff members to the work site. ✓✓
- The workers are on hand to protect the site from damaged / theft 24 hours a day.
- A caravan will have storage space for their belongings, a fridge a bathroom, and a stove built in.
- **ANY LOGICAL ANSWER**

G1.2 Is it ethical for Harry Bhengu, the owner of HB Contractors, to use business funds to pay for his personal accommodation in a hotel during the duration of the contract? (3)

Yes ✓ – he is the owner of the business so can choose to spend business money on his business related accommodation. ✓✓

OR

No ✓ – He should stay on site in a caravan like he expects his workers to do. ✓✓

Any logical answer.

G1.3 Complete the Fixed Asset Register for this caravan. (9)

| | Depreciation | Accumulated Depreciation | Carrying Value |
|-----------------|---------------------|---------------------------------|-----------------------|
| 31 July 2018 | 16 000 ✓ | 16 000 ✓ | 64 000 ✓ |
| 31 July 2019 | 12 800 ✓ | 28 800 ✓ | 51 200 ✓ |
| 30 January 2020 | 5 120 ✓ | 33 920 ✓ | 46 080 ✓ |

G1.4 Draft the Asset Disposal account in the General Ledger to calculate whether a profit or a loss was made on the disposal of this caravan. (10)

Asset Disposal

| | | | | | | | |
|-------------|----|------------------------------|-------------|-------------|----|---------------------------|-------------|
| 2020 Jan | 30 | Equipment ✓ | 80 000 ✓ | 2020 Jan | 30 | Acc Dep on Equipment ✓ | 33 920 ☑ |
| | | Profit on Sale of Asset ✓ | 3 920 ✓☑ | | | Bank ✓ | 50 000 ✓ |
| | | | 83 920 | | | | 83 920 |

G1.5 Apart from the above caravan, HB Contractors has various specialised tools that are needed for their various construction projects. Discuss **THREE** control measures that can be implemented to ensure the safety of these tools, as well as the safety of the workers. (6)

- Ensure all tools are serviced / checked regularly for problems ☐
- Only people who have been trained to use certain tools may use them ☐
- All tools should be kept in a safe place when not in use ☐

- Workers should be provided with the correct safety gear.
- ANY LOGICAL ANSWER**

G2 (30 Marks, 18 Minutes)

Notes to the financial statements for the year ended 28 February 2020

G2.1. Tangible Assets

| | Land & Buildings | Vehicles |
|-------------------------------------|------------------|-------------|
| Cost price (1/03/ 19) | 1 260 000 | 360 000 |
| Accumulated Depreciation (1/03/19) | 0 | (125 000) |
| Carrying Value (1/03/20) | 1 260 000 | 235 000✓ |
| Movements | 190 000✓ | 107 800✓ |
| Additions at cost | 190 000✓ | 204 000✓✓ |
| Disposals at carrying value | 0 | (31 200) ✓ |
| Depreciation for the year | 0 | (65 000) ✓ |
| Cost price (28/02/20) | 1 450 000 | 484 000✓ |
| Accumulated Depreciation (28/02/20) | 0 | (141 200) ✓ |
| Carrying Value (28/02/20) | 1 450 000 | 342 800✓ |

(11 Marks)

Calculation Of Depreciation:

| | | |
|---------------------------|--|---------|
| Old / Remaining Vehicles | $(360\ 000 - 80\ 000) - (125\ 000 + 4\ 800 - 48\ 800) \times 20\%$ $= (280\ 000 - 81\ 000) \times 20\%$ | 39 800✓ |
| Sold Vehicle | $48\ 800 - 44\ 000 = 4\ 800$ | 4 800✓ |
| New Vehicle | $204\ 000 \times 20\% \times 6/12 = 20\ 400$ | 20 400✓ |
| Total Depreciation | | 65 000 |

(3 Marks)

G2.2. G2.2.1 Which GAAP principle is used when assets are depreciated? Explain the purpose of the principle. (3)

- Prudence concept✓
- Be realistic as assets lose value over time. ✓✓
 - Better to write off an asset over time than to have a large loss in the year that the asset is disposed of.

G2.2.2 Elaine has suggested to the bookkeeper that in future vehicles must be depreciated by 50% on cost, in order to get the greatest tax benefit. Explain to her whether this is feasible or not as well as the consequences of this decision. (5)

- Not feasible✓
- SARS stipulates the maximum depreciation to be written off. ✓✓
 - Writing off higher amounts would be fraud as this would result in lower profits and therefore less tax. ✓✓
 - Vehicles last a lot longer than 2 years.
 - This can result in penalties, fines, and jail sentences.

G2.2.3 Elaine budgeted R50 000 for motor expenses in the year ended 28 February 2020 that included maintenance and licenses. She was very concerned when the Income Statement was produced to notice that the actual costs were R95 000. Discuss 2 possible reasons for this difference and suggest to her 2 measures that she could use in future to prevent these great differences. (8)

- Possible reasons: (4 marks)
- Higher fuel costs ✓✓
 - Vehicle did more mileage than budgeted. ✓✓
 - Fraud – private use.
 - Any other feasible answer
- Suggestions: (4 marks)
- Re-look at budget in view of latest price increases in fuel. ✓✓
 - Set up internal controls to monitor private use. ✓✓
 - Any other feasible answer.
- Suggestions must link to reasons

G3 (68 Marks, 41 Minutes)

G3.1 Identify the GAAP concept that is applied in the following cases:

G3.1.1 Penny's vehicles need to be recorded at their original cost price (1)

Historical Cost Concept✓

G3.1.2 Each vehicle's value depreciates annually due to wear and tear (1)

Prudence Concept✓

G3.2 Complete the Fixed Asset Register to calculate the Accumulated Depreciation on ONE Toyota Corolla on 1 December 2019 by completing the table in your answer sheet. (16)

| Corolla Number 1 | | | |
|---------------------|---------------------|---------------------------------|-----------------------|
| Make | Toyota | Cost price | 120 000✓ |
| Model | Corolla | Depreciation Method | 20%✓ |
| Registration number | ND 638 - 376 | Depreciation Rate | Diminishing Balance✓ |
| Date Bought | 1 August 2016✓ | | |
| | Depreciation | Accumulated Depreciation | Carrying Value |
| 31 January 2017 | 12 000✓ | 12 000✓ | 108 000✓ |
| 31 January 2018 | 21 600✓ | 33 600✓ | 86 400✓ |
| 31 January 2019 | 17 280✓ | 50 880✓ | 69 120✓ |

| | | | |
|-----------------|---------|---------|---------|
| 1 December 2019 | 11 520✓ | 62 400✓ | 57 600✓ |
|-----------------|---------|---------|---------|

G3.3.1 Accumulated Depreciation: Vehicles **50 880 X 3** (21)

| | | | | | | | | | |
|----------|-----|-----------------|-----|----------|----------|-----|-------------------|-----|---------|
| 2019 Dec | 1✓ | Asset Disposal✓ | GJ | 62 400✓ | 2019 Feb | 1✓ | Balance✓ | b/d | 152 640 |
| 2020 Jan | 31✓ | Balance✓ | c/d | 135 408✓ | 2019 Dec | 1✓ | Depreciation✓ | GJ | 11 520 |
| | | | | | 2020 Jan | 31✓ | Depreciation✓ | GJ | 33 648✓ |
| | | | | 197 808 | | | (27 648 + 6 000✓) | | 197 808 |
| | | | | | 2020 Feb | 1✓ | Balance✓ | b/d | 135 408 |

G3.3.2 Asset Disposal (12)

| | | | | | | | | | |
|----------|----|-----------|----|----------|----------|----|-------------------------------------|----|---------|
| 2019 Dec | 1✓ | Vehicles✓ | GJ | 120 000✓ | 2019 Dec | 1✓ | Accumulated Depreciation: Vehicles✓ | GJ | 62 400 |
| | | | | | | | Creditors' Control✓ | CJ | 50 000✓ |
| | | | | | | | Loss on Sale of Asset✓ | GJ | 7 600✓ |
| | | | | 120 000 | | | | | 120 000 |

G3.4 Notes to the Financial Statements for the year ended 31 January 2020 (10)

| | Vehicles |
|---|------------|
| Carrying value at the beginning of the year | 207 360✓ |
| Cost | 360 000✓ |
| Accumulated Depreciation | (152 640)✓ |
| Movements | 77 232✓ |
| Additions at cost | 180 000✓ |
| Disposals at carrying value | (57 600)✓ |
| Depreciation (27 648 + 11 520 + 6000) | (45 168)✓ |
| Carrying value at the end of the year | 284 592✓ |
| Cost | 420 000✓ |
| Accumulated Depreciation | (135 408)✓ |

From Ledger

G3.5 Did this Jenny make a good decision regarding the sale of one Corolla and replacing it with a Kombi? Give a reason for your answer. (3)

Yes✓ – She can transport more passengers at one time and therefore make a bigger profit.✓✓
OR

No – she made a loss on the sale of the Figo.
ANY LOGICAL ANSWER

G3.6 Identify TWO things that Jenny can do to ensure that her employees drive her vehicles in a responsible manner. (4)

- Ask customers to rate their driving✓✓
 - Hold employees accountable for damage to the vehicles due to their error✓✓
 - Install tracker to monitor the use of her vehicles
- ANY LOGICAL ANSWER**

H] COST ACCOUNTING
CHUNKY CHAIRS

H1.1. Calculate the total purchases of raw material for the financial year ended 21 May 2019.

$1\ 450\ 000\ \checkmark - 27\ 000\ \checkmark - 325\ 000\ \checkmark = 1\ 098\ 000\ \checkmark$ one part correct

H1.1.2 Production cost statement for the year ended 31 May 2019

| | | |
|--|-----------------|-----------|
| Direct material | | 1 140 000 |
| Direct labour (650 000 x 40%) | | 260 000 |
| Prime cost | DM + DL | 1 400 000 |
| Factory overhead cost | balancing | 312 000 |
| Total cost of production | | 1 712 000 |
| Work in process (1 June 2018) | balancing | 82 000 |
| | TCP + WIP begin | 1 794 000 |
| Work in process (31 May 2019) | | (94 000) |
| Total cost of production of complete products | 80 000 x 21,25 | 1 700 000 |

H1.1.3 Calculate the following for the financial year ended 31 May 2019:
Number of units sold during the year.

$15\ 000\ \text{+} + 80\ 000\ \text{+} - 9\ 500\ \text{+} = 85\ 500\ \text{+}$ ✓ one part correct

Cost of Sales

$285\ 000\ \text{+} + 1\ 700\ 000\ \checkmark - (9\ 500\ \text{+} \times 21,25\ \text{+}) = 1\ 783\ 125\ \checkmark$

part correct

Or: The Finished Goods Stock account

Calculate the Net Profit for the year ended 31 May 2019.

| | | |
|--------------------------------------|-----------|---------------|
| Sales (85 500 ÷ see 2.1.3 x 42,50 ÷) | | ₹ 3 633 750 |
| Cost of Sales | see 2.1.3 | ₹ (1 783 125) |
| Gross profit | operation | ₹ 1 850 625 |
| Less: Distribution cost | | ₹ (625 600) |
| Less: Administrative cost | | ₹ (787 400) |
| Net profit | | ₹ 437 625 |

8

* one part correct

H1.2 GLITTERATI BAGS AND PROBLEM SOLVING

H1.2.1 Calculate the following:

(a) the variable cost per unit.

$$85 \div + 108 \div + 34 \div = 227 \div \text{ one part correct}$$

OR:

$$\frac{1\,989\,000 \div + 2\,527\,200 \div + 795\,600 \div}{23\,400} = 227 \text{ per unit } \div \text{ one part correct, must be divided by 23 400}$$

4

(b) the breakeven point.

$$\frac{1\,380\,600 \text{ (2 marks)}}{299 \div - 227 \div \text{ see (a) above}} = 72 \text{ (2 marks)}$$

= 19 175 units ÷ one part correct, do not accept fractions of a unit, must be rounded

"up" to the next full unit

5

H1.2.2 After an analysis of cost and efficiency, the internal auditor is concerned about a few points. Refer to Information C and answer the following questions:

| (a) Direct material: | |
|---|--|
| Problem | Solution |
| Material is wasted ÷ | Use templates when cutting / train workers to work efficiently / any acceptable or correct answer ÷ |
| Direct labour: | |
| (b) | |
| Problem | Solution |
| Tarren is not producing enough (2 100 from 2 925) ÷ | Give her daily targets / bring in commission if they reach a certain goal / any acceptable or correct answer ÷ |
| Tarren works the most overtime and still does not reach the average production number / slow worker / exploits overtime ÷ | Only approve overtime if daily target has just been missed / count and compare the number of bags she produces every hour / any acceptable or correct answer ÷ |
| Sewing machine maintenance: | |
| Problem | Solution |
| Machines are old / needs to be replaced ÷ | Replace the machines / buy newer and more productive machines / any acceptable or correct answer ÷ |
| Roger and Gary cannot work the machines properly / lack of training ÷ | Train them again / move them to another part of the production line / any acceptable or correct answer ÷ |

2

4

4

H2

H2.1 Calculate the following on 28 February 2019:

H2.1.1 Value of closing stock.

| Workings | Answer |
|---|--|
| <p>4 191 500 four marks (5 512 x 7) two marks</p> <p><u>195 424</u> ✓ + <u>4 034 660</u> ✓ – <u>38 584</u> ✓ ✓</p> <p>49 ✓ + 788 ✓ – 7 ✓</p> <p>830 three marks</p> <p>eight marks</p> <p>5 050 ✓ x 220 ✓</p> | <p>1 111 000 ✓</p> <p>one part correct</p> |

10

H2.1.2 Gross profit for the year ended.

| Workings | Answer |
|---|--|
| <p>see 2.1.1 see 2.1.1</p> <p>COS: 4 191 500 ✓ – 1 111 000 ✓ = 3 080 500</p> <p>(195 424 + 4 034 660 – 38 584) one mark</p> <p>Gross profit: 3 450 300 ✓ – 3 080 500 ✓</p> | <p>369 800 ✓</p> <p>one part correct</p> |

5

H2.2.1 Calculate the stock value on 28 February 2019 using the FIFO method.

| Workings | Answer |
|--|--|
| <p>200 – 7</p> <p>193 ✓ x 5 512 ✓ = 1 063 816 ✓</p> <p>220 – 193</p> <p>27 ✓ x 5 145 ✓ = 138 915 ✓</p> <p>Be aware of alternative arrangements</p> | <p>1 202 731 ✓</p> <p>one part correct</p> |

7

H2.2.2 Explain the effect on gross profit if the FIFO method is used.

| | |
|---|----------|
| <p>Any valid point</p> <p>A larger closing stock will result in a smaller cost of sales and hence a greater (an increased) gross profit.</p> <p>The gross profit will be more compared to when weighted average method is used.</p> | <p>2</p> |
| <p>H2.2.3 As an internal auditor, explain the benefits of using the FIFO method to the owner and the accountant. State TWO points.</p> <p>Any TWO valid points part marks for short/incomplete statements</p> <p>Stock shown at recent prices, realistic.</p> <p>Reflect a higher gross profit</p> <p>Easy to apply</p> <p>No manipulation of profits.</p> | <p>4</p> |

H3.1 KLEMISH MANUFACTURERS

H3.1.1

| PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019 | |
|---|--------------|
| Direct material cost (3100 000 + 204 000) | 3 304 000 ✓✓ |
| Direct labour cost Prime cost – DMC | 1 296 000 ✓ |
| Prime cost | 4 600 000 ✓ |
| Factory overhead cost (974 400 ✓ + 46 200 ✓✓) | 1 020 600 ✓ |
| (84 000– | |
| 37 800) | |
| Operation; | 5 620 600 ✓ |
| one part correct | |
| FOHC operation Prime + | 5 620 600 ✓ |
| Work-in process (beginning) | 500 800 ✓ |
| | 6 121 400 |
| Work-in process (end) operation TCP – subtotal above | (775 400) ✓ |
| Check that is deducted / ignore brackets / do not accept 500 800 or 0 | |
| Total cost of production 10 800 X 495 | 5 346 000 ✓✓ |

| |
|----|
| 13 |
|----|

H3.1.2

| |
|--|
| ABRIDGED INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019 |
|--|

| | | |
|--|--|---------------|
| Sales | | 8 160 000 |
| account | See TCP 2.1.1 Could do FGS | |
| Cost of sales (672 000✓ + 5 346 000 ✓ – 18 000✓) | | (6 000 000) ✓ |
| ignore brackets | | |
| Gross profit Sales – COS | | 2 160 000 ✓ |
| Administration cost (296 800 + 1 000) | | (297 800) ✓ ✓ |
| brackets | one part correct / ignore | |
| Selling and distribution cost | | |
| (844 000 – 1000 ✓ - 46 200 ✓) | | (796 800) ✓ |
| brackets | (84 000–37 800) One part correct / ignore | |
| Net profit operation (subtract AC & SDC) one part correct | | 1 065 400 ✓ |

| |
|----|
| 11 |
|----|

H3.2 DAMARA'S JEWELLERY

H3.2.1 Break-even point:

(a) Calculate the break-even point for February 2019.

✓

$$\frac{R1\ 296\ 000}{R407 - R245} = \frac{R1\ 296\ 000}{R162} = 8\ 000\ \text{units} \quad \checkmark \text{ one part correct}$$

OR

✓ ✓

$$\frac{R1\ 296\ 000}{R7\ 7326\ 000 - R4\ 410\ 000} \times 18\ 000 = \frac{R1\ 296\ 000}{R2\ 916\ 000} \times 18\ 000 = 8\ 000\ \text{units}$$

(b) Damara is satisfied with the results. Explain ONE reason with figures to support Damara's satisfaction.

Reason ✓

Quote Figures ✓✓

- The break-even point dropped from 13 500 units to 8 000 units.
- The business is producing 18 000 units, which exceeds the break-even point of 8 000 units.
- This indicates that the business will be making a profit of R4 070 000 (10 000 X R407).

4

3

H3.2.2 Refer to the unit costs.

(a) Explain why the fixed costs per unit decreased.

Total fixed costs remained the same at R1 296 000 ✓ but the number of units produced increased to 18 000 units ✓

2

(b) Provide ONE possible reason for the change in Direct Material Costs.

Any one valid reason e.g. ✓✓

- Reduction in price / exchange rate (if imported)
- Greater efficiency in using raw materials / less wastage
- Better quality of raw materials leading to less wastage
- Found a supplier closer to the factory to reduce carriage

2

H4

H4.1 CONCEPTS

| | | |
|-------|-------|---|
| 4.1.1 | False | ✓ |
| 4.1.2 | False | ✓ |
| 4.1.3 | True | ✓ |

3

H4.2 STAR WHEELS MANUFACTURERS

H4.2.1 DIRECT LABOUR COST

| | | | |
|--|----------|-----------|---|
| Basic salary (14 x 7 000) ✓ x 12 ✓ 98 000 | one part | 1 176 000 | ✓ |
| correct | | | |
| Overtime (14 x 144) ✓ x 65 ✓ | | 131 040 | ✓ |
| UIF contributions (1 176 000 x 1%) (1% of basic) | | 11 760 | ✓ |
| one part correct | | 1 318 800 | ✓ |

9

FACTORY OVERHEAD COST

| | | | |
|---|---------|---------|---|
| Indirect materials one part correct (13 200 ✓ + 38 400 ✓ - 15 100 ✓) | 36 500 | ✓ | |
| Salaries: foreman | 156 000 | ✓ | |
| Electricity and water (104 000 x 90%) | 93 600 | ✓✓ | |
| Rent expense (115 200 x 600/1 500) | 46 080 | ✓✓ | |
| Insurance (74 200 x 3/7) | 31 800 | ✓✓ | |
| Depreciation: factory plant and machinery | 277 220 | ✓ | |
| operation | | 641 200 | ✓ |

13

H4.2.2

| | | | |
|--|------------------|-----------|---|
| Direct (raw) materials cost | 2 100 000 | | |
| Direct labour cost | see 2.2.1 | 1 318 800 | ✓ |
| Prime cost | operation | 3 418 800 | ✓ |
| Factory overhead costs | see 2.2.1 | 641 200 | ✓ |
| Total manufacturing cost | operation | 4 060 000 | ✓ |
| Work-in-process (beginning of year) | | 160 000 | |
| | operation | 4 220 000 | ✓ |
| Work-in-process at end | operation | (220 000) | ✓ |
| Cost of production of finished goods (4 015 000 ✓ + 95 000 ✓ - 110 000 ✓) | one part correct | 4 000 000 | ✓ |

10

H4.3 NUTRITIOUS EATS

H4.3.1 Calculate the break-even point for the year ended 31 October 2015.

$$\frac{736\ 000\checkmark}{(28\checkmark - 16\checkmark)} \div 12 = 61\ 333 \text{ or } 61\ 334 \text{ units} \checkmark \text{ one part correct}$$

4

H4.3.2 Should the business be satisfied with the number of units that they have produced and sold during the current financial year? Explain. Quote figures. Yes/No ✓

Reason with figures ✓✓

Reasons for Yes

The business sold (64 000 – 61 334) 2 666 units more than the break-even point.

Reasons for No

The business sold (78 000 – 60 000) 18 000 more than the break-even point in the previous financial year.

Production decreased from 78 000 – 64 000

3

H4.3.3 Give TWO possible reasons for the increase in the direct material cost per unit in the current financial year.

Any two suitable reasons ✓✓ ✓✓

- Due to the effects of inflation, price of raw materials increased.
- Storage costs.
- Raw material obtained from new suppliers.
- Increase in wastage
- Increase in carriage

4

H4.3.4 Craig suggests that, in order to improve financial results in the new financial year, the quantity of cereal per box must be reduced by 10% and the selling price must remain the same. Give TWO valid reasons why he should not do this.

Any TWO valid reasons ✓✓ ✓✓

- It is not ethical and would lead to a decrease in the customers once this information becomes public knowledge.
- This is deliberate product shrinkage to gain higher profits. Could lead to legal action against the business.
- Product may be removed from the shelves if the contents of the product do not correspond with the information on the package.

4

A. BANK RECONCILIATIONS

ACTIVITY 1

1.1 (a) True ✓

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

4

1.2 Calculate the correct totals for the Cash Receipts Journal and the Cash Payments Journal for July 2019. Use the tables provided.

| Cash receipts journal | Cash payments journal |
|-----------------------|-----------------------|
| 127 670 | 68 900 |
| 1 800 ✓✓ | 1 300 ✓✓ |
| 12 340 ✓✓ | 920 ✓✓ |
| | 600 ✓✓ |
| 8 700 F | 50 000 ✓✓ |
| 141 810 ✓ | 121 720 ✓ |

one part correct both figures

*Note: Do not award method mark if R15 000 appears in any column.

14

1.3 Bank reconciliation statement on 31 July 2019.

| | Debit | Credit |
|---|----------|--------------------------|
| Balance as per bank statement | | 44 040 ✓✓ |
| Outstanding deposit | | 18 000 ✓✓ |
| Outstanding cheques: | 897 | 8 700 ✓ |
| #balancing figure | 905 | 20 500 ✓ |
| | 908 | 3 100 ✓ |
| Balance as per bank account (9 650 ✓ + 141 810 - 121 720) see 1.2.2 | 29 740 ✓ | Inspect (if no workings) |
| Both totals must be the same | 62 040 ✓ | 62 040 |

Note: Do not award method mark for balancing figure if R15 000 appears in any column.

! Presentation (if no details / or incorrect details)

10

1.4 Explain how cheque No. 908 should be treated when preparing the financial statements on 31 July 2019 the end of the financial year.

Increase bank ✓ and increase creditors ✓

Do not accept: Dr bank and Cr Creditors control is for ledger account not financial statement

2

1.5 Identify the GAAP principle applied by the bookkeeper.

Principle of prudence ✓

Provide TWO suggestions on how a similar problem can be prevented in the future.

Any TWO valid suggestions ✓✓ ✓✓ Part marks for partial/incomplete answers

Division of duties (partial answer)
 Encourage EFT payments by customers/debtors
 All cash received must be deposited daily (deposit slips must tally with receipts issued)
 Daily checks to see that deposits are made.
 Request notification (sms) from bank for all transactions.

5

ACTIVITY 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.

| | |
|-------|--------|
| 2.1.1 | False✓ |
| 2.1.2 | True✓ |
| 2.1.3 | False✓ |
| 2.1.4 | True✓ |

4
4

2.2

2.2.1 Calculate the correct totals for the Cash Receipts Journal and Cash Payment Journal for May 2019.

| Cash Receipts Journal | |
|-------------------------------|----------|
| | 146 970 |
| | 1 800✓ |
| | 12 340✓ |
| | |
| | |
| Operation if one part correct | |
| | 161 110☑ |

| Cash Payment Journal | |
|-------------------------------|----------|
| | 68 900 |
| | 2 100✓ |
| | 920✓ |
| | 600✓ |
| | 50 000✓✓ |
| Operation if one part correct | |
| | 122 520☑ |

9
9

2.2.2 Prepare the Bank Reconciliation Statement on 31 May 2019.

| | Debit | Credit |
|--------------------------------------|----------------------------|--------------------|
| Credit balance as per bank statement | | 42 440✓ |
| Credit outstanding deposit | | 18 000✓ |
| Debit outstanding cheques | | |
| No. 897 | 8 700✓ | |
| No. 905 | 1 200✓ | |
| No. 908 | 3 100✓ | |
| Credit amount wrongly debited | | 800✓✓ |
| Debit balance as per bank account | 48 240☑ | |
| Operation | | |
| | Operation one part correct | 61 240☑ 61 240☑ |

10
10

2.2.3 Explain how cheque No. 908 should be treated when preparing the financial statements as at 31 July 2015 the end of the financial year.

Explanation: ✓✓
 Accept short explanation; may be phrased differently
 Part-marks for unclear/incomplete explanation

- Increase bank and increase creditors in the Balance Sheet notes.
- Increase cash and cash equivalents as well as trade and other payables in the notes.
- The amount is not recognised as paid and the debt is not reduced.
- Accept : debit Bank and credit Creditors control

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?
- The bookkeeper wants to prevent a similar problem in future. Give TWO suggestions to improve internal control in this regard.

Principle of prudence ✓
Solutions: Any two ✓✓ ✓✓
 Accept short solutions; may be phrased differently
 Part-marks for unclear/incomplete solution

- Division of duties/separation of duties
- Encourage EFT payments by customers / debtors

2
2

- All cash received must be deposited daily/deposit slip must agree to receipts/ bank notifications by SMS or email
- Regular and timely check / monitor all large transaction

B CREDITORS RECONCILIATION

ACTIVITY 1

| | Creditors' Ledger | Creditors' Reconciliation Statement |
|--------------------------------|-----------------------------|-------------------------------------|
| Balance | 28 370 | 25 300 |
| A | | + 13 320 ✓✓ (14 800 - 1 480) |
| B | + 2 700 ✓✓ 1 350 + 1 350 | |
| C | + 350 ✓ | |
| D | | - 7 200 ✓ |
| E | - 2 700 ✓ | - 2 700 ✓ |
| Operation – both totals | 28 720 ✓ | 28 720 |

9

ACTIVITY 1

| NO. | CREDITOR'S LEDGER ACCOUNT BALANCE | STATEMENT BALANCE |
|----------------|-----------------------------------|--|
| Balance | 35 000 | 38 420 |
| i) | 2 970 ✓✓ 7 740 - 4 770 | |
| ii) | | (750) ✓✓ |
| iii) | 1 000 ✓✓ | |
| iv) | | (1 960) 980 + 980 ✓✓ (1 mark each) |
| v) | | (3 860) ✓✓ |
| vi) | | 7 120 ✓✓ |

13
13

C. DEBTORS RECONCILIATION AND DEBTORS AGE ANALYSIS

ACTIVITY 1

1.1 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.

1.2 Calculate the percentage of total debts exceeding the credit terms.

$$\begin{array}{r}
 14\,560 \times 100 \quad + \quad 2\,080 \times 100 \\
 41\,600 \quad 1 \qquad \qquad \qquad 41\,600 \quad 1 \\
 35\% \quad \checkmark\checkmark \qquad \qquad \qquad 5\% \checkmark\checkmark \\
 \text{OR} \\
 16\,640 \times 100 \quad \text{award 2 marks for } 16\,640
 \end{array}$$

| | | | |
|--------|---|--|---|
| 41 600 | 1 | award 1 mark for 41 600 | 4 |
| 40% | | award method mark if one part is correct | 4 |

1.3

| | |
|--|-------------------|
| Explain ONE problem (with figures) relating to each of the following debtors: | |
| PROBLEM ✓✓ | FIGURES ✓✓ |
| Mswane P | |
| <ul style="list-style-type: none"> Mswane P exceeded the credit limit of R10 000 to R11 000 by R1000 | |
| Hambrok V | |
| <ul style="list-style-type: none"> Hambrok V exceeded the credit term of 30 days to 60 days (9 112) and 90 days (2 080) | |

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

ACTIVITY 2

2.1 DEBTORS' AGE ANALYSIS

2.1.1

| |
|---|
| <p>Explain why the debtors' age analysis is considered to be an effective internal control measure. State ONE point.</p> <p>Valid explanation ✓✓ part-mark for unclear / incomplete answer</p> <ul style="list-style-type: none"> Helps identify slow or defaulting debtors (not abiding to the credit terms) so that action can be taken. Highlights debtors in good standing so their credit ratings can be reviewed. It can expose the problem of allowing debtors to exceed their credit limits. It can assist with planning/corrective measures such as sending reminders, writing off debtors etc. |
|---|

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

2.1.2

| |
|--|
| Explain TWO different problems highlighted by the debtors' age analysis. In EACH case, provide the name of a debtor and figure(s). |
|--|

| Give marks for debtor & figures even if problem incorrectly identified | |
|--|--|
| PROBLEM ✓ ✓ | DEBTOR AND FIGURE(S) Debtor ✓ ✓ Figure ✓ ✓ |
| Debtors exceeding credit limits | P. Botha (by R700) Or: balance of 4 200 is above his limit of 3 500 |
| Overdue accounts/not complying with credit terms/slow payers | S. Walker (R8 500 overdue) O. Klein (R1 100 overdue); M. Valley (R950 overdue) |
| Poor control of granting credit / Continue selling to debtors whose accounts are overdue | M. Valley (R950) S. Walker (R8 500) O. Klein (R1 100) |

| |
|---|
| 6 |
|---|

2.2

DEBTORS' RECONCILIATION

2.2.1

CORRECTIONS TO THE DEBTORS' CONTROL ACCOUNT ON 30 NOVEMBER 2017

| | |
|---|-------------|
| Balance before errors and omissions | 25 700 |
| (i) | +2 700 ✓ |
| (ii) | +350 ✓ |
| (iii) no part-marks | - 1 800 ✓✓ |
| (iv) | No change ✓ |
| (v) | +1 500 ✓ |
| Correct Debtors' Control balance | 28 450 ☑ |
| one part correct | |

| |
|---|
| 7 |
|---|

accept brackets for -ve amounts; no sign indicates +ve
accept "0 or -" for "no change"

2.2.2 DEBTORS' LIST ON 30 NOVEMBER 2017

| | | | |
|--------------------------------|---|----------|----|
| L Nkosi | (5 700 – 1 800 ✓) | 3 900 ✓ | |
| S Muller | (11 100 + 350 ✓) | 11 450 ✓ | |
| M Welthagen | (– 1 900 + 1 500 ✓) | (400) ✓ | |
| B Sandleni | (15 900 – 1 200 ✓ – 1 200 ✓) 2 400 two marks must be < 15 900 | 13 500 ☑ | |
| Correct total of Debtors' List | operation one part correct | 28 450 ☑ | 10 |

J] VAT AND K] BUDGETING

ACTIVITY J1:

1.1.1

Calculate the amount of VAT receivable or payable to SARS. Indicate whether it is receivable or payable.

Input : 26 184 ✓✓ + 2 500 ✓ + 2 000 ✓ + 1 059 ✓
Output : 48 000 ✓✓ + 1 461 ✓✓ + 750 ✓

50 211 - 31 743 = 18 468 ✓☑ operation

Receivable/Payable:

Payable to SARS ✓

13

1.1.2

Des suggests that the business should charge VAT but stop submitting returns to SARS in future. Give your opinion regarding this matter. State ONE relevant points.

Any ONE ✓✓

According to VAT regulations he is obliged to register as a VAT vendor. If he does not, he can be charged for no compliance. He might lose his license. Even if he does not register, he still has to meet his VAT requirements. Failure to submit correct VAT returns or late submissions attracts penalties, fines and interest.

2

2.1. VAT CONCEPTS

| | | |
|-------|----------|---|
| 2.1.1 | Exempt ✓ | |
| 2.1.2 | Zero ✓ | |
| 2.1.3 | Exempt ✓ | 3 |

2.2 WINSTON TRADERS

2.2.1

Calculate the amount that would be entered next to Debtors Control on the credit side of the VAT Output account.

Total sales = 120 000 x ²⁵/₇₅ = 40 000 ✓ x 15% ✓ = 6 000 ☑

3

2.2.2

Calculate the VAT amount owed to SARS on 28 February 2018.

(18 000 + 6 000 see 5.2.1)
24 000 ☑ – (276 + 350) ✓ + 150 ✓ – (8 600 + 6 000) ✓

= 8 924 ☑

5

2.2.3

In which section of the Balance Sheet will you record the amount calculated in 5.2.2?

Trade and other payables ✓

1

ACTIVITY J3 CASH BUDGET

| 3.1.1 DEBTORS' COLLECTION SCHEDULE | | |
|------------------------------------|--------------|-----------|
| | Credit Sales | June |
| May | 72 000 | 48 960 ✓ |
| June | 84 000 | 19 950 ☑✓ |
| | | 68 910 ☑ |

3.1.2 Calculate the Wages and Salaries for May

| | |
|---|---|
| 6 000 + 1 800 = 7 800 | |
| 42 000 + 3 000 = 45 000 | |
| <p>3.1.4 The directors are concerned about the cash balances shown in the Cash Budget. Mention TWO strategies used to improve the cash balances.</p> <p>OR</p> <p>7 800 + 45 000 = 52 800</p> <p>Explain why you agree or disagree with these strategies.</p> | 5 |
| Any TWO | |

3.1.3 The purchases payment policy needs to be changed.

- Explain the need to change the policy.
Debtors are expected to pay within 30 days and creditors are also being paid within 30 days. This could lead to cash flow problems if debtors do not pay on time.
- Provide TWO points of change that would benefit the company
All purchases to be made on credit and negotiate extended terms with creditors.

5

ACTIVITY J4

| | | |
|-----|-------|-----|
| 4.1 | 4.1.1 | B ✓ |
| | 4.1.2 | D ✓ |
| | 4.1.3 | A ✓ |
| | 4.1.4 | C ✓ |

4.2 SHELTON TRADERS

4.2.1 **Incorrect entry:**
Depreciation ✓
Reason:
It is a non-cash item. ✓

4.2.2 **State THREE ways in which the purchasing of Land and Building will be financed.**
Additional loan R800 000 ✓
Fixed deposit matured. R500 000 ✓
September closing bank balance R1 100 000 ✓

4.2.3 Debtors' Collection schedule:

| MONTH | CREDIT SALES | SEPTEMBER | OCTOBER |
|-----------|--------------|--------------------|-----------|
| July | R270 000 | R129 600 | |
| August | R300 000 | ✓ 90 000 | ✓ 144 000 |
| September | ✓ 330 000 | ✓✓ 62 700 | ✓ 99 000 |
| October | ✓✓ 360 000 | | R68 400 |
| | | 282 300 | 311 400 |
| | | Both totals | |

4.2.4

| Item | Calculations | Answer |
|------|---|---|
| A | | ✓ 1 100 000 |
| B | 71 406 – 1 100 000 | ✓✓ (1 171 406) |
| C | 118 800 x 100/108 | ✓✓ 110 000 |
| D | 400 000 ✓ $\times \frac{100}{200} = 200 000$ ✓ $\times \frac{35}{100}$ ✓ ✓ | <input checked="" type="checkbox"/> 70 000 one part correct |
| E | 360 000 <input checked="" type="checkbox"/> $\times \frac{25}{75}$ ✓ | <input checked="" type="checkbox"/> 120 000 one part correct |

4.2.5

Comment on the cash and credit sales. Explain how these amounts are affecting the cash flow of the business? Quote figures.

Comment ✓ ✓ **Quote figures** ✓ ✓

- Cash sales had a negative variance of R26 000. The actual amount of R84 000 is less than the budgeted amount of R110 000
- The credit sales had a positive variance of R90 000. The actual amount R360 000 was more than the budgeted amount of R270 000.
- There were more customers buying on credit R360 000 as compared to cash sales of R84 000.

Explanation ✓ ✓

- This will have resulted in a surplus of cash for August. The bank balance will increase by R64 000 (R90 000 – R26 000) positively.

4.2.6

Has the Advertising campaign been beneficial to the business? Explain. Quote figures.

YES/NO

Yes ✓

Explanation

Explanation ✓ ✓ **Quote figures** ✓ ✓

- The actual advertising amount R44 000 doubled from 5% to 10% on sales. The sales increased by R64 000 (R444 000 – R380 000) which is an increase of 14%.
- Therefore, the increased advertising did not increase sales.

4.2.7

Do you think the collection from debtors is well controlled? Explain. Quote figures.

YES/NO

No ✓

Explain

Explain ✓ ✓ **Quote figures** ✓ ✓

- Collections of R173 000 are much lower than expected, R282 300.
- This will cause a cash flow problem as the variance is R109 300.

Give TWO points of advice ✓ ✓ ✓ ✓

- Ensure debtors adhere to policy by notifying them of outstanding balances/SMS.
- Charged interest on overdue amounts.
- Do not allow further credit to debtors who do not adhere to the required credit policy.

ACTIVITY J4

4.1

List TWO items on the Projected Income Statement provided, that would not appear on a cash budget.

Any two valid points ✓ ✓

Cost of sales
Discount received

Depreciation
Trading stock deficit

2

4.2

A. Advertising

132 000 X 2%

= R 2 640 ✓ Operation one part correct

2

B. Net profit after tax

17 625 ✓ - 585 ✓ - 5 112 ✓ = R11 928 Operation one part correct

4

4.3

Calculate the cost of sales for May 2019. Refer to information C and H.

$$51\,000 \times \frac{100}{80}$$

= 63 750 Operation one part correct

2

4.4

Creditor's payment schedules.

| Month | Credit purchases | July | August | September |
|-------|------------------|--------|----------------|--|
| May | 51 000 | 48 960 | - | - |
| June | 55 000 | | 52 800 | - |
| July | 49 200 ✓✓ | | If 96% of July | 47 232 <input checked="" type="checkbox"/> |

4

4.5.1 The percentage increase in wage that the cleaners will receive in September 2019.
176 one mark
$$\frac{(3\,376 - 3\,200)}{3\,200} \times 100$$

= 5.5% Operation one part correct

3

4.5.2 The monthly salary due to the sales manager in September 2019.

$$(17\,100 - 300) / 2 = (8\,400 \checkmark + 300 \checkmark) \times \frac{108}{100} \checkmark$$

= 9 396 Operation one part correct
OR 8 700 x 1.08 = 9 396
Two marks One mark One method mark

4

4.5.3 The total credit sales expected in September 2019.
$$(99\,000 \times 160\%) \checkmark \times 75\% \checkmark = 118\,800 \checkmark$$
 Operation one part correct
OR
$$132\,000 \times 120\% = 158\,400 \times 75\% = 118\,800$$

One mark One mark One method mark
OR
$$3\,168 / 2\% = 158\,400 \times 75\% = 118\,800$$

One mark One mark One method mark

3

4.5.4 The loan balance on 1 August 2019.

$$(585 \checkmark \times \frac{1\,200 \checkmark}{9}) = 78\,000 \checkmark$$
 Operation one part correct
OR
$$585 \times 12 = 7020 \times 100 / 9 = 78\,000$$

One mark One mark One method mark

3

4.6 Refer to the actual figures for Depreciation and Trading stock deficit for July 2019. In each case, provide a reason for the difference with the budgeted figures.
Any valid point ✓ ✓
Depreciation:

- Purchases of a new asset.
- Calculation error.

Trading stock deficit

- Unanticipated stock loss.
- Random stock take revealed stock shortage.
- Damaged goods noted and taken into account.

2

4.7

Refer to the actual figures for July 2019. Comment on any TWO expenses (excluding items mentioned in QUESTION 6.6) that were not well controlled by the business. In each case, quote the relevant figures and give ONE suggestion on how this expense can be more effectively managed.

| EXPENSE | COMMENT (WITH FIGURE) | SUGGESTION |
|--|---|--|
| Any two: No mark for expenses | Comment and figure ✓✓ each | Suggestion ✓ each |
| Maintenance | Over budget / underspent. (4 000 – 1 650) | Adjust budget or use the money wisely to maintain the assets. This could extend the lifespan and productivity of the assets. |
| Telephone | Overspent / under budgeted (2 000 – 4 280) over 50% | Control / usage or check for misuse. Budget correctly if found to be necessary. |
| Advertising | Underspent / over budgeted (2 400 – 1 968) | Spend money allocated. Look at different forms of advertising may result in better sales / profit |

6

ACTIVITY J5

5.1.1

The main purpose of a Projected Income Statement is ...
To project/plan/estimate the expected net profit for the budgeted period.
To plan/project/estimate/monitor/control/expected income and expenses for budget period. ✓✓

2

5.1.2

The main purpose of a Cash budget is ...
To project/plan/estimate the expected bank balance at the end of budget period.
To plan/project/estimate/monitor/control/expected cash received and paid over the budget period. ✓✓

2

5.2

DEBTORS' COLLECTION SCHEDULE

| Month | Credit Sales | November | December |
|-----------|--------------|----------|-----------|
| September | 150 000 | 19 500 | |
| October | 152 000 | 68 400 | ✓✓ 19 760 |
| November | 160 000 | 60 800 | ✓✓ 72 000 |
| December | 165 000 | | ✓✓ 62 700 |

6

5.3

Calculate:

5.3.1 % increase in Rent Income.

1 440 two marks
(19 440 – 18 000) ✓✓ x 100 = 8% ✓ one part correct
18 000 ✓

4

5.3.2 Payments to creditors in December.

320 000 ✓ x 100/160 ✓ x 80% ✓ = 160 000 ✓ one part correct
OR
40 000 x 80/20 = 160 000

4

5.3.3 The amount of the loan on 1 December.

3 375/1 ✓ x 12/1 ✓ x 100/9 ✓ = 450 000 ✓ one part correct

4

5.3.4 Salaries and wages for December.

48 000/4 = 12 000 x 175% = 21 000 x 3 = 63 000 ✓ one part correct
12 000 x 150% = 18 000 ✓ one part correct
Total: 81 000 ✓ one part correct

5

5.4 An amount of R123 000 for staff training. Provide ONE reason why this is considered to be a necessary expense.

- Better training to provide a better service.
 - Giving back to the society.
 - Commitment to the growth and development of the society.
- Any ONE valid reason. ✓✓

2

5.5 Provide a possible reason for the variance. In each case, give one point of advice to address this problem.

| ITEMS | REASON ✓✓✓ | ADVICE ✓✓✓ |
|-------------------|--|--|
| Cash sales | Too many discounts given to clients. | Encourage more cash sales as this improve the cash flow of the business. |
| Delivery expenses | Possible abuse of delivery vehicle by employees. | Better control/supervisor on vehicles. |
| | Due to old condition of the vehicle more maintenance and repair cost have been incurred. | Buy a new vehicle. |
| Rent income | Poor collection strategy used by the business. Over budgeted. | Use debit order/EFT for the tenants. |
| | Possible that the tenant has left and the premises have been left unoccupied. | Ensure that tenants have to place certain number of months' notice before leaving. |

6

ACTIVITY J6

6.1.1 The main purpose of a Cash Budget is to ...
 Part-marks for incomplete / unclear response
 Project / estimate the expected bank balance at end of budget period.
 Project / estimate / monitor / control expected cash received and paid over budget period.

6.1.2 The main purpose of a Projected Income Statement is ... ✓
 Part-marks for incomplete / unclear response
 Project / estimate the expected net profit for the budgeted period.
 Project / estimate / monitor / control expected income and expenses for budget period.

4

6.2.1 Debtors' Collection Schedule:

| | CREDIT SALES | MAY 2018 | JUNE 2018 |
|-------------------|--------------|----------|--|
| March 2018 | 252 000 | 22 680 | |
| April 2018 | 288 000 | 172 800 | 25 920 ✓ |
| May 2018 | 180 000 ✓✓ | 51 300 | 108 000 <input checked="" type="checkbox"/> 60% of credit sales |
| June 2018 | 216 000 | | 61 560 ✓✓ |
| Cash from debtors | | 246 780 | 195 480 <input checked="" type="checkbox"/> Operation, one part correct |

7

6.2.2 Determine the discount allowed for May 2018.
 See 6.2.1 (✓) Operation, one part correct
 $180\ 000 \times (30\% \times 5\%) = 2\ 700$

OR

- $51\ 300 \text{ one mark} \times 5/95 \text{ one mark} = 2\ 700 \text{ one method mark}$
- $180\ 000 \times 30\% = 54\ 000 \text{ one method mark} - 51\ 300 \text{ one mark} = 2\ 700 \text{ one method mark}$

3

Determine the bad debts written off in June 2018.
 Operation one part correct
 $1\% \times 252\ 000 = 2\ 520$

3

6.3 Calculate the cash sales for May 2018.

| Workings | Answer |
|--|---|
| $300\ 000 \times 40\%$ OR $300\ 000 - 180\ 000$ | No part marks 120 000 ✓✓ |
| Calculate the payment to creditors in June 2018. | |
| Workings | Answer |
| $300\ 000 \checkmark \times 100/150 \checkmark \times 80/100 \checkmark$ | 160 000 <input checked="" type="checkbox"/> |

2

| | | |
|-------------------|------------------------------------|----------|
| 200 000 two marks | Operation, one part correct | 4 |
|-------------------|------------------------------------|----------|

| Calculate the salaries for May 2018. | | Answer |
|--------------------------------------|--|---|
| Workings | | |
| ✓ ✓ ✓ | 14 500 + 11 600 | |
| | (2 x 14 500) + (4 x 26 100) | |
| | 29 000 104 400 | |
| OR | (6 x 14 500) + (4 x 11 600) | |
| | 87 000 two marks 46 400 two marks | |
| | | 133 400 ✓ Operation, one part correct |

| |
|---|
| 5 |
|---|

6.4.1 Tony is not concerned about the overspending in advertising. Explain why this is so. Quote figures to support your answer.

Candidates must indicate the positive effect of advertising on sales ✓✓
Provide appropriate figures ✓ ✓ one mark each

Expected response for 4 marks:
Advertising increased by R3 000 but Sales increased by R96 000.
OR
Advertising increased by 37,5% while Sales increased by 20% on bigger base.

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

6.4.2 State ONE consequence of not paying the amount due to creditors in April 2018.
Any ONE valid consequence ✓✓ Part-marks for incomplete / unclear response

- Credit to the business will be stopped by the creditors.
- The credit ratings of business will decrease / could be blacklisted / report to credit bureau
- Business will be charged interest for slow payment.
- Legal action can be taken by the creditors

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

6.4.3 State TWO points in favour of appointing Gentex Cleaning Services.
Any two valid responses ✓✓ ✓✓ Figures not required but may be provided as part of an explanation
Part-marks for incomplete / unclear response

- Outsourced cleaning could cost less than budgeted/actual for wages and cleaning materials
- Easier to budget (fixed contract amount)
- Expertise / professionalism / specialisation of the cleaning company
- No interruption or extra costs due to workers on sick leave etc.
- No storage space needed for cleaning materials
- Leads to reduction in administration costs
- VAT input can be claimed from SARS
- The cleaners can be rotated between different clients if necessary

Explain ONE point that Tony should consider before making this decision.
Any valid response ✓✓ Part-marks for incomplete / unclear response

- Whether it will make the current employees redundant / retrench or reassign the existing cleaners (consider the ethics of this)
- Reliability of the new cleaning company

| |
|---|
| 6 |
|---|

- Honesty of the workers of the outsourced business
- Negative image of outsourcing to the company
- Whether outsourcing conflicts with their social responsibility programmes
- Instructions to cleaners have to be given through the cleaning firm's managers
- Terms of the contract regarding fee increases

Response for one mark:

- VAT charged on outsourced cleaning services

- Only hires equipment when necessary
- Does not have to pay maintenance on equipment
- Any other reasonable answer

No

- By purchasing their own equipment they will save money as the equipment will last longer than what the repayment period
- The equipment can be rented out to earn an additional income (if it is not in use in the business at that time)
- Any other reasonable answer

ACTIVITY J7

7.1.1 Explain the importance of comparing the actual figures to the budgeted figures in the cash budget.

To determine if the items/costs were managed well and within the set limits ✓
(Any acceptable answer)

7.1.2 Calculate the values marked (A) – (F).

| | Calculations |
|---|---|
| A | 1 080 000 x 95% = 1 026 000 ✓✓ |
| B | 1 800 000 x $\frac{100}{180}$ = 1 125 000 ✓ |
| C | 360 000 / 2 = 180 000 ✓ |
| D | 288 200 ✓ |
| E | (675 400) + 288 200 (see D) = (387 200) ✓ |
| F | 49 680 x $\frac{100}{115}$ = 43 200 ✓ |

1

7.1.3 Refer to the figures for "Cash received from debtors". Are the debtors adhering to the credit terms of the business? Provide figures to support your answer.

Explanation: Comparison of budgeted and actual ✓✓ Figures ✓

They should have paid R864 000 and only paid R624 000

7.1.4 No new workers were employed during July and August 2018. What could possibly be a reason for the change in each of the actual figures for those two months?

| | Reason |
|--------|--|
| July | Workers worked overtime ✓ |
| August | Less workers came to work / Workers were on a strike ✓ |

(Any acceptable answers for both scenarios)

7.1.5 The owner feels that the business pays less money by renting equipment than purchasing the equipment. Do you agree with her opinion? Provide TWO points to support your answer.

Yes/No □ Explanation □ □

Yes

3

7.1.6

The business still faces a cash flow problem in August, even though a loan was obtained in July and the receipts from debtors improved.

Excluding these two items and the renting of equipment (as in 6.2.5), identify TWO other items, with figures, that needs attention. Also provide advice how these items can be managed.

Item ✓ ✓ Figure ✓ ✓ Advice ✓ ✓

| Item | Figure | Advice |
|--------------------|---|--|
| Creditors | 960 000 or (b) 1 125 000 or 1 200 000 | Buy less on credit, attempt more cash sales in order to qualify for a cash discount. |
| Drawings | 150 000 or 210 000 or 168 000 | Urge owner to decrease drawings so that the business can recover the cash flow |
| Salaries and wages | 144 000 to 180 000 or 144 000 to 108 000 | Pay workers a fixed salary; employ workers for a fixed term. |

7.1.7

The owner bought the vehicle from the business for her son. The usual driver and the finance officer were unhappy with this. Prove each person's point by explaining ONE reason for each.

| | Concern |
|-----------------|--|
| Driver | He was supposed to have first option to buy the vehicle and now he can't go against the owner of the business. |
| Finance officer | The business received R60 000 less (R180 000 – R120 000) than what they would have received if the vehicle was sold to the driver. |

