



KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS) SUPPORT

STEP AHEAD DOCUMENT

TEACHER GUIDE

ACCOUNTING

GRADE 12



2024

ACTIVITY A 1 : STATEMENT OF COMPREHENSIVE INCOME

Sales (3 321 000 – 14 600 + (32 120 x 100/115)		3 335 200
Cost of sales (1 845 000+ 16 000)		(1 861 000)
Gross Profit		1 474 200
Other income		84 604
Rent income (92 736- 14 112)		78 624
Bad debts recovered (3 850 + 1 670)		5 520
Provision for bad debts adjustment(9 820- 9 360)		460
Gross operating income		1 558 804
Operating expenses		(832 740)
Salaries and wages (360 500 + 20 000+3 800)		384 300
Stationery (500 +24 684 _ 2 084)		22 600
Insurance (46 500 – 4 140)		42 360
Directors fees (276 000 + 18 000- 6 000)		288 000
Audit fees (24 600 + 8 200) OR (24 600/75x100)		32 800
Bad debts		16 680
Depreciation		46 000
Operating profit		726 064
Interest income (12 400 + 1 200)		13 600
Profit before interest expense		739 664
Interest expense		(123 264)
Profit before income tax		616 400
Income tax 431 480 / 70x 30		(184 920)
Net profit for the year		430 080

ACTIVITY A 2

NET PROFIT BEFORE TAX	2 300 000
Before errors and omissions	
Consumable stores	+ 30 000
Donation (20 100 x 100/150)	-13 400
Audit fees (65 800 x 30/70)	-28 200
Rent income (109 600 x 2/8)	+27 400
Insurance (45 050 x 105/1325)	+3 570
Directors Fees (450 400 – 9600 = 440 800 / 38)	-11 600
NET PROFIT BEFORE TAX	2 307 770
INCOME TAX	-240 500
NET PROFFIT AFTER TAX	2 067 270

ACTIVITY A 3

3.1.1

(i) Calculate carrying value of the vehicle on hand on 1 March 2023

Workings

$$460\,000 - 396\,750$$

Answer

$$63\,250$$

(ii) Calculate depreciation on vehicles for the year

Workings

$$(510\,000 \times 15\% \times 4/12) = 25\,500$$

$$460\,000 \times 15\% \times 12/12 = 69\,000, \text{ CV is } 63\,250$$

$$63\,250 - 1 = 63\,249$$

$$(25\,500 + 63\,249)$$

Answer

$$88\,749$$

(iii) Calculate carrying value of equipment sold

Workings

$$75\,000 - 36\,000 - 4\,480$$

Answer

33 920

3.1.2 Calculate Profit / Loss on the sale of equipment

Workings

$$40\,000 - 33\,920$$

Answer

6 080

3.2 Calculate Trading stock deficit

$$(280 - 262) \times 4\,050$$

R72 900

3.3

SHANGE Ltd

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 29 February 2024

Sales (15 325 200 – 648 000)	14 677 200
Cost of sales	(6 966 000)
Gross Profit	7 771 200
Other income	175 000
Profit on sale of asset	6 080
Rent income (173 000 + 9 000 – 14 000)	168 000
Provision for bad debts adjustment (7 030 – 6 110)	920
Gross operating profit	7 886 200
Operating expenses	(6 286 200)
Salaries and wages	1 468 120
Depreciation (31 281 + 88 749)	120 030
Trading stock deficit	72 900
Directors fees (3 330 000 + 180 000)	3 510 000
Audit fees (91 000 + 39 000)	130 000

Repairs (476 000 + 9 000)	485 000
Bad debts (19 200 + 800)	20 000
Advertising (25 680 + 2 400 - 240)	27 840
Sundry expenses	452 310
Operating profit	1 600 000
Interest income	25 000
Profit before interest expense	1 625 000
Interest expense	(75 000)
Profit before tax (1 054 000 x 100/68)	1 550 000
Income tax for the year (1 054 000 x 32/68)	(496 000)
Net profit after tax for the year	1 054 000

Activity B1

1.1 Calculate the correct net profit after tax for the year ended 29 February 2024

Incorrect Net profit before tax	2 200 750
Gross profit (2000 – 1250)	(750)
Profit on sale of asset (8000 + 8000)	16000
Audit fees	(28000)
Repairs (200 000 – 80 000)	120 000
Interest expense	(201 000)
Income tax	(572 400)
Net profit after tax	1 534 600

1.2 Retained income for the year ended 29 February 2024

Balance at the beginning	300 000
Net profit after tax	1 534 600
Buy back of shares (80 000x 2.50)	(200 000)
Dividends	(175 400)
Interim / paid	75 400
Final / recommended	100 000
Balance at the end of the year	1 459 200



1.3 Statement of Financial position for the year ended 29 February 2024

ASSETS	
NON-CURRENT ASSETS	5 543 160
Fixed assets (4423 160 + 120 000)	4 543 160
Fixed deposit	1 000 000
CURRENT ASSETS	150 895
Inventory (468 750 + 1250 + 18 000)	488 000
Trade and other receivables (440 000 – 2000 + 11500)	450 000
Cash and cash equivalents	339 640
TOTAL ASSETS	6 820 800
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY	4 709 200
Ordinary share capital 500 000x 6,50	3 250 000
Retained income	1 459 200
NON-CURRENT LIABILITIES	1 199 000
Loan (1 521 000 – 322 000)	1 199 000
CURRENT LIABILITIES	1 290 300
Trade and other payables (437 600 + 28 000)	465 600
Shareholders for dividends	100 000
Current portion of loan	322 000
SARS – Income tax	25 000
TOTAL EQUITY AND LIABILITIES	6 820 000

ACTIVITY B2

ASSETS	
NON-CURRENT ASSETS	11 023 405
Fixed assets	9 823 405
Fixed deposit ($112\,500 \times 100/12,5 \times 12/9$)	1 200 000
CURRENT ASSETS	150 895
Inventory ($75\,680 + 2\,375$)	78 055
Trade and other receivables ($45\,100 - 5\,150 + 4\,700 + 11\,340 + 5\,450$)	61 440
Cash and cash equivalents ($2\,500 + 8\,900$)	11 400
TOTAL ASSETS	11 174 300
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY	9 584 000
Ordinary share capital	8 960 000
Retained income	624 000
NON-CURRENT LIABILITIES	300 000
Loan ($360\,000 - 30\,000 - 30\,000$) $2\,500 \times 12$	300 000
CURRENT LIABILITIES	1 290 300
Trade and other payables ($285\,000 + 7\,850 + 5\,450$)	298 300
Shareholders for dividends	170 000
Current portion of loan	30 000
Bank overdraft	792 000
TOTAL EQUITY AND LIABILITIES	11 174 300

Activity B3

Statement of comprehensive income for the year ended 29 February 2024

Sales (6 500 000 x 120/100) OR (6 500 000 + 1 300 000)		7 800 000
Cost of sales (7 800 000 x 100/160)		(4 875 000)
Gross Profit		2 925 000
Other Operating Income		141 530
Rent Income (130 200 + 11 100)		141 300
Provision for bad debts adjustment		230
Gross Operating Income	operation	3 066 530
Operating Expenses	GOI – OP	(1 896 530)
Salaries		601 450
Directors' fees		470 850
Depreciation		281 000
Sundry Expenses		387 600
Audit fees (25 000 + 37 500) OR (25 000 x 100/40)		62 500
Insurance (103 500 – 23 000) OR (11 500 X 7) OR 103 500 X 7/9		80 500
Trading stock deficit (370 870 – 358 240)		12 630
Operating Profit		1 170 000
Interest Income	NPBIE – OP	265 100
Net Profit before interest expense	NPBT + IE	1 435 100
Interest expense		(220 500)



CORPORATE GOVERNANCE

Activity B4

The Johannesburg Securities Exchange (JSE) Refer to paragraph 1

Explain why companies might want to be listed on the JSE.

- The public can participate in the purchase of shares / easier access to potential investors / tapping the global investment environment (internet)
- Adds to the prestige of the company (due to additional listing requirements & publicity)
- Ensures compliance with Companies Act and other regulations (e.g. BBEEE scores, audit requirements)
- Easier to access additional funds by advertising new issue of shares / ongoing advertising through JSE publications

Explain why the JSE would not tolerate 'incorrect, false and misleading financial results' from companies that are listed.

Explanation

- They will not deceive the public as it is their role to ensure that sound business management practices are in place / do not want to cast doubts about their operations
- Would want to avoid any legal action against the JSE for misleading shareholders / Reputation of JSE may become questionable.
- JSE is a vital organisation in facilitating capital funds that stimulate the economy / leads to creation of jobs / public relies on credible information.



Refer to paragraph 2

Explain the difference between a *qualified audit report* and a *disclaimer of opinion audit report*.

Qualified Report Disclaimer Report could be a combined or implied explanation

A qualified report mentions only specific items which are of concern to the auditor; while a disclaimer report means that the auditors are refusing to express an opinion.

Examples of separate responses for 1 mark each:

- **Qualified audit report:** The external auditors identified a few areas of concern / does not allow them to give an unqualified audit report / internal control processes / audit evidence might be deficient.
- **Disclaimer report:** The external auditors refuse to, or were unable to, obtain sufficient evidence to support an audit opinion / the company does not exercise reliable internal control processes / management was incompetent in performing basic recording and reporting tasks / financial statements do not adhere to GAAP & IFRS.

As a concerned shareholder, what questions would you raise at the AGM? Provide THREE different questions. In EACH case explain an appropriate reason.

Any three valid questions Excellent / very good = Good / satisfactory =		Any three valid reasons Reasons to be appropriate to the questions. The same reason could apply to more than one question / could be verbatim from scenario.
Questions you would raise at the AGM		One reason for each question
QUESTION	Why do the disqualified directors seem to have no skills and/or experience in governance issues? Why are there no criteria for directors' appointments?	For a company listed on the JSE highly qualified directors are required.
QUESTION	Why did the board not take immediate action over the qualified and disclaimer audit reports?	Poor audit reports will severely affect the company and the market price of its shares.
QUESTION	Why have they not implemented disciplinary procedures on these directors (before the JSE disqualified them)?	The board should have taken prompt action to prevent further problems.
QUESTION	Why were very important roles allocated to these directors?	It is reckless to allocate important tasks to directors who cannot carry them out.

QUESTION	Why do the board and the other directors appear to be negligent or careless in appointing or voting for the unskilled directors at the AGM?	The board and the other directors could lay themselves open to legal claims due to negligence / failure to screen directors and conduct background checks.
QUESTION	Where will the funds come from to pay the R6,5m fine?	Transparency required by King Code in all processes. Profits or retained income could be negatively affected.
QUESTION	How has the financial stability or profitability of the company been affected by this incident?	Fraud in financial statements could negatively affect the company's sustainability
QUESTION	How are the vacant non-executive directors' posts going to be filled?	The shareholders and the board must not vote for or appoint directors who lack vital skills.
QUESTION	What measures will the board put in place to prevent this fraud in future? What control measures does the Audit & Risk committee have in place?	Transparency / accountability / improving controls.



Explain, in your own words, why you agree or disagree with the extract that appeared in a local newspaper. State TWO different points.

Any TWO valid and separate points ☐ ☐ part-marks for partial responses

Possible responses for 2 marks each:

The Board of Directors is accountable for managing the company (they have control over all employees) and if they are doing their job properly they should be aware of potential fraud.

The Auditors are accountable for expressing an opinion on the financial statements, and they will be guilty of negligence if they do not do their duties properly and alert shareholders to problems that should be obvious.

The Directors are accountable for establishing internal control processes to prevent fraud (using the staff they employ) and the Auditors are accountable for inspecting the internal control processes and must alert the Directors to possible breaches.

If any employee commits fraud this should be identified quickly by the appointed managers and directors because internal control procedures exist for this reason.

Explain TWO points to prove possible corruption for EACH of the following problems. Quote figures or calculations

Problem 1: Payment of directors' fees

The CEO & CFO do not deserve the 72% increase in their fees as the operating profit and net profit decrease significantly by 20%.

The other directors do not deserve an increase of 8,3% either because they would have known that proper procedures were not being followed in setting directors' fees and the profits have decreased by 20%.

Problem 2: Control and productivity of other employees.

The number of employees increased significantly by 110 (19%) while the operating and net profits decreased by 20%.

Operating profit earned per employee has dropped by 50% (from R0,2 m to R0,1 m).

Operating profit decreased by 20% despite the fact that gross profit increased by 11% which indicates that control of operating expenses was a big problem.

C1 BISLEY LIMITED

1.1.1

Prepare the Ordinary Share Capital Note to Statement of Financial Position.

AUTHORISED:

1 000 000 ordinary shares

ISSUED:

900 000	Ordinary shares in issue on 1 March 2023	10 809 400
80 000	Shares issued during year at R12,74	1 019 200
(40 000)	Shares repurchased at R12,07	(482 800)
940 000	Ordinary shares in issue on 28 February 2024	11 345 800

1.1.2

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

Income tax

WORKINGS	ANSWER
- 439 650 + 16 950 + 32 700	(390 000)

Proceeds from sale of assets

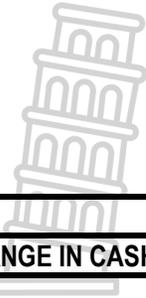
WORKINGS	ANSWER
13 163 580 + 185 400 - 870 600 - 12 646 080	167 700

1.1.3

Complete the following sections to the Cash Flow Statement:

CASH EFFECTS FROM FINANCING ACTIVITIES

CASH FLOW FROM FINANCING ACTIVITIES	1 305 000
Proceeds from shares issued	1 019 200
Repurchase of shares	(539 200)
Change in loan (2 100 000 – 1 275 000)	825 000



NET CHANGE IN CASH AND CASH EQUIVALENTS

NET CHANGE IN CASH AND CASH EQUIVALENTS	566 550
Cash and cash equivalents at beginning of the year (37 500 - 213 780)	(176 280)
Cash and cash equivalents at end of the year	390 270

1.1.4

The Cash Flow Statement reflects a significant inflow of cash through financing activities. The Cash Flow Statement highlights ways in which the directors used this inflow. Identify TWO ways, with figures (exceeding R500 000). Explain how this will benefit to the company.

CRUCIAL DECISION	EFFECT OF DECISION
Fixed assets purchased – R870 600	Leads to capital growth (future productivity)/more assets in the company/improve profit-earning capacity/existing fixed assets may be obsolete
Buy back of shares – R539 200	Keep existing shareholders happy/ disgruntle shareholder can leave/increase share price on market/ improve NAV
Inflow of net change in cash and cash equivalents – R566 550	Get rid of overdraft / addressed the overdraft

1.1.5

Calculate the following financial indicators on 30 June 2023:

% return on average capital employed (ROTCE)
(Average capital employed amount to R11 433 075)



WORKINGS	ANSWER
$1\ 025\ 850 + 439\ 650$ OR $1\ 025\ 850 \times 100/70$ $\frac{1\ 465\ 500 + 214\ 500}{11\ 433\ 075}$ $\frac{1}{2} (11\ 345\ 800 + 498\ 700 + 10\ 809\ 400 + 212\ 250)$ <small>only 1 mark as average capital employed is given</small> OR $\frac{1\ 680\ 000}{11\ 433\ 075} \times \frac{100^*}{1}$	14,7%

Dividends per share	
WORKINGS	ANSWER
$\frac{310\ 200}{940\ 000}$ $38c + 33c$	71 cents

ATIVITY C2

2.1: TYLA LTD
2.1.1 Calculate on 29 February 2024

Debt-equity ratio	
Workings	Answer
900 000 : 8 980 300	0.1:1
Earnings per share (EPS)	
Workings	Answer
$\frac{968\ 800}{1\ 000\ 000} \times 100$	96.9%

Dividend pay-out rate	
Workings	Answer
$\frac{40}{96.9} \times 100$ OR $\frac{400\,000}{968\,800} \times 100$	41.3%
% return on average equity (ROSHE)	
Workings	Answer
$\frac{968\,800}{\frac{1}{2}(8\,980\,300 + 7\,411\,500)} \times 100$	11.8%
2.1.2. CASH FLOW STATEMENT on 29 FEBRUARY 2024	
CASH EFFECTS OF OPERATING ACTIVITIES	
Cash Generated from operations	
Interest paid	(126 000)
Taxation paid (23 800 + 415 200 + 4 500)	(443 500)
Dividends paid	(440 000)
CASH EFFECTS OF INVESTING ACTIVITIES	
Purchase of fixed assets (9 528 300 + 234 000 + 48 000 – 8 320 000)	(1 490 000)
Proceeds from sale of fixed assets	48 000
Decrease in fixed deposit	400 000
CASH EFFECTS OF FINANCING ACTIVITIES	
Proceeds of shares issued 8 281 000 + 819 000 – 7 200 000	1 900 000

Funds used to repurchase shares	$819\,000 + 81\,000$ OR $90\,000 \times 10$ $(9.10 + 0.90)$	900 000
Change in loan	$1\,200\,000 - 900\,000$	(300 000)
Net change in cash and cash equivalents		271 500
Cash (Opening balance)	$- 220\,000 + 5\,000$	(215 000)
Cash (closing balance)		56 500

ACTIVITY C3

3.1.1

Calculate: Acid-test ratio	
WORKINGS	ANSWER
$(1\,077\,000 - 570\,000)$ or $(462\,000 + 45\,000)$ $507\,000$: $545\,200$	0,9 : 1

Calculate: Debt/equity ratio	
WORKINGS	ANSWER
$3\,000\,000 : 11\,030\,700$	0,3 : 1

Calculate: Dividend pay-out rate	
WORKINGS	ANSWER
$\frac{30c}{16c + 14c} \times 100$ $\frac{30c}{64c}$ <p>OR</p> $\frac{351\,600}{192\,000 + 159\,600} \times 100$ $\frac{351\,600}{735\,000}$	46,9% or 47%
	47,8% or 48%

Calculate: % Return on average shareholders' equity (ROSHE)	
WORKINGS	ANSWER
$\frac{735\,000}{\frac{1}{2}(11\,030\,700 + 9\,299\,300)} \times 100$ <p>10 165 000 two marks</p>	7,2%

3.1.2 Calculate the following for the Cash Flow Statement:

Income tax paid	
WORKINGS	ANSWER
$12\,500 + 315\,000 - 7\,600$	319 900
Dividends paid	
WORKINGS	ANSWER
$16c \times 1\,200\,000$ $350\,000 + 192\,000$	542 000
Fixed assets purchased	
WORKINGS	ANSWER
$13\,448\,900 + 45\,500 + 288\,000 - 9\,732\,300$	4 050 100

3.1.3

CASH EFFECTS OF FINANCING ACTIVITIES	3 748 000
Shares issued	1 960 000
$10\,602\,000 + 558\,000 - 9\,200\,000$	
Funds used to repurchase shares	(612 000)
$558\,000 + 54\,000$ or $60\,000 \times 10,20$	
Change on loan	2 400 000

NET CHANGE IN CASH AND CASH EQUIVALENTS	(67 500)
Balance on 1 March 2023	112 500
Balance on 29 February 2024	45 000

ACTIVITY C4

4.1	Liquidity:
4.1.1	Comment on the change in the liquidity of Velemseni Ltd. Quote TWO financial indicators with figures.
<ul style="list-style-type: none"> • <u>Current ratio</u>: increased from 2,5 : 1 to 3,1 : 1 / by 0,6 : 1. Increasing trend indicating possible stock-piling/company is not using it's current assets efficiently/may lead to difficulty meeting short-term debts/poor management of working capital. • <u>Debtor's collection period</u>: increased from 40 days to 45 days. Debtors are not adhering to credit terms, could lead to cash flow problems. 	
4.1.2	Provide TWO suggestions on how the company can improve their liquidity position. Make reference to specific financial indicators.
<p>Need to improve available cash (<u>current ratio</u>) by promoting sales; better advertising (sales promotion); reduce mark-up % (from 60% to be closer to competitors); mark-down stock to move older stock.</p> <p>Need to improve <u>collection from debtors</u> to bring this within credit terms, by:</p> <ul style="list-style-type: none"> • Reminders (SMS's, e-mails, calls etc.) sent to debtors to make payments. • Offer discount for early payment. • Charge interest for late payments / overdue accounts / encourage EFT payments or debit orders (online payments) 	
4.2	Return, earnings and market price on the JSE:
4.2.1	Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.
<ul style="list-style-type: none"> • <u>ROSHE decreased</u> from 8,7% to 5,3%. (by 3,4% percentage points/ 39 %)/ compare to alternative investments • <u>EPS decreased</u> from 96 cents to 72 cents (by 24 cents; by 25%) / representing a drop in profitability. 	
4.2.2	The shareholders of Velemseni Ltd are not satisfied with the current market price of their shares. Explain by quoting figures/indicators and identify a factor that would have affected the market price of the shares.
<p>Market price of R8,40 is below NAV of R8,77</p> <p>Identify factor</p> <ul style="list-style-type: none"> • The decline in earnings has led to a decline in the share price on the JSE (from 920 cents to 840 cents) • Low demand or reluctance to buy shares in this company / ROSHE decreased/ poor image of company or directors / lack of confidence in management 	
4.3	Risk and gearing:
Comment on how Velemseni Ltd is managing their risk and gearing. Quote TWO financial indicators in your explanation.	
<p><u>Debt/equity ratio</u> increased to 0,6 : 1 from 0,2 : 1 / by 0,4 : 1</p> <p><u>ROTCE</u> decreased to 9% from 13% / by 30,1% / 4% points</p> <p>Comment:</p> <ul style="list-style-type: none"> • Reckless borrowing / taking no action to use the funds productively The business is now highly geared / high reliance on loans • Negatively geared / ROTCE (9%) is lower than the interest rate on loans (12%) 	

4.4	Dividend pay-out policy:
4.4.1	Calculate the dividend pay-out policy for 2023.
$48/72 \times 100/1 = 66,7\%$ (Accept 67 %) (or compare 48c vs 72c)	
4.4.2	Provide ONE possible reason why Velemseni Ltd has decided to change their dividend pay-out policy for 2023.
<ul style="list-style-type: none"> - The DPS was kept constant at 48c, although there was a decrease in the EPS (from 96c to 72c) to try and keep the shareholder satisfied - Divert attention from the poor performance of the company - Directors to be re-elected - To try and create favour in the market to increase demand on JSE and push up share prices. 	
4.4.3	One of the directors feel that the dividend pay-out policy should have remained constant. Give TWO possible reasons (with figures) for his opinion.
<ul style="list-style-type: none"> • A drop in the EPS (from 96 cents) to 72 cents (by 24 cents / 25%) and an unchanged DPS at 48 cents has effectively increased the dividend pay-out policy/rate from 50% to 60% (by 17%/34%) • A constant pay-out rate at 50% would have resulted in a lower DPS of 36 cents (by 12 cents / 25%) in line with the decrease in the EPS. • If the pay-out policy remained constant, the company would have been able to retain 50% of the EPS (instead of only 33%); to focus on long-term growth of the business. 	
4.5	Percentage shareholding:
4.5.1	Comment on the price paid for the repurchase by Velemseni Ltd. Provide TWO points and quote figures.
Paid R11.00 which is unfair to the existing shareholders <ul style="list-style-type: none"> • It is higher than the marker price of R8.40 / R9.20 • It is higher than the NAV of R8.77 / R9.12 • Depleting the company's financial resources / directors are exercising poor management of cash/ possible fraudulent transaction 	
4.5.2	Calculate Lizo's new % shareholding in Velemseni Ltd.
$942\ 000/1\ 950\ 000 \times 100/1 = 48,3\%$ (Accept 48%)	
4.5.3	Explain the effect of the repurchase on Lizo's % shareholding in the company. Quote trends/ figures to support your explanation.
Lizo has lost his majority share status; his % shareholding decreased from 52% to 48,3% / by 3,7% points / by 7,1% (see 3.5.2)	

ACTIVITY C5

5.1	<p>Explain which company has the better liquidity. Quote TWO financial indicators to support your opinion.</p>
<p>Explanation and Financial Indicators for Mageba:</p> <p>Liquidity ratios of <u>Mageba Ltd</u> are <u>more efficient</u> than that of Gambushe Ltd.</p> <p>Current ratio 1,7 : 1</p> <p>Acid test ratio 0,9 : 1</p> <p>OR</p> <p>Explanation and Financial Indicators for Gambushe:</p> <p>Liquidity ratios of <u>Gambushe Ltd</u> are <u>higher / they have more CA</u></p> <p>Gambushe has more liquid assets than stock (0,6 : 1 compared to 0,8 : 1 in Mageba)</p> <p>Current ratio 4,2 : 1</p> <p>Acid test ratio 3,6 : 1</p>	
5.2	<p>Comment on the earnings per share and the % return on equity of Mageba Ltd. Give TWO reasons why the shareholders will be satisfied with these indicators.</p>
<p>Financial indicators with figures and trend</p> <p>EPS increased (from 233 cents) to 273 cents (by 40 cents / 17,2%) ROSHE increased (from 14%) to 25% (by 11% / 78,6%)</p> <p>This exceeds the returns on alternative investments (such as interest on fixed deposits which is 6%).</p>	
5.3	<p>Comment on the market value of the shares in Gambushe Ltd. Explain TWO points.</p>
<p>• Compare to NAV: Market value of R18,80 is higher than the NAV of R17,86 (by 0,94). Indicates good demand for the shares / positive image of the company / company is doing well.</p> <p>Compare to purchase price: He originally bought the shares for R28,00 but the market price is now R18,80 (indicates poor financial return)</p>	
5.4	<p>Compare the dividend pay-out rates of both companies and explain why the directors of EACH company decided on these pay-out rates.</p>

	<p>Mageba Ltd: 110c (DPS)/273 cents (EPS) or 40,3% They retained 59,7% of the EPS for future growth / expansion</p> <p>OR This is to benefit shareholders through the NAV and share price</p> <p>Gambushe Ltd: 200c (DPS)/171 cents (EPS) or 117%</p> <p>They decided to keep shareholders happy / reward shareholders for low dividends in previous years / have no plans for growth</p>
5.5	<p>Musa says that the dividend of 110 cents per share he earned from Mageba Ltd is better than the dividend of 200 cents per share from Gambushe Ltd. Give ONE point to prove that he is incorrect.</p>
	<p>200 cents – 110 cents = 90 cents more per share was earned in Gambushe Ltd.</p> <p>OR: He earned 90 cents more per share in Gambushe Ltd. In Mageba Ltd, he earned 110c on a share which cost him 700c (16%) two marks In Gambushe Ltd, he earned 200 cents on a share which cost him 2 800c (7%)</p> <p>OR: In total he earned dividends of R440 000 from Mageba Ltd, and R200 000 from Gambushe Ltd</p>
5.6	<p>Comment on the risk and gearing of EACH company. Quote TWO financial indicators</p>
	<p>Mageba Ltd:</p> <p>Debt/equity ratio is 0,8 : 1 ROTCE is 20%</p> <p>Comment</p> <p>The business makes extensive use of loans (high risk) /</p> <p>ROTCE is higher than the interest rate of 13%, indicating positive gearing</p>  <p>Gambushe Ltd:</p> <p>Debt/equity ratio is 0,2 : 1 ROTCE is 10%</p>

Comment	
The business does not rely on loans (low risk) / ROTCE is lower than interest rate of 13%, indicating negative gearing	
5.7	Musa wants to buy shares in Mageba Ltd on the JSE at current market value to become the majority shareholder and CEO. Calculate how much Musa will have to pay for the shares that he needs.
WORKINGS	ANSWER
$\frac{1100000}{2+1}$ $\frac{(550\ 001 - 400\ 000) \times R9,50}{150\ 001}$	R1 425 009,50
OR:	
$\frac{50\% + 100}{(550\ 100 - 400\ 000) \times R9,50}$ $150\ 100$	R1 425 950
OR	
$\frac{51\%}{(561\ 000 - 400\ 000) \times R9,50}$ $161\ 000$	R1 529 500
OR	
$14\% \times 1\ 100\ 000 \quad \text{or } 15\% \quad \text{or } 13,7\%$ $154\ 000 \times R9,50$	R1 463 000

ACTIVITY D1	
SOLUTION	
1.	
i	$2\,350\,000 - 840\,000$ $1\,510\,000$
ii	$195\,000 \times 10/100 \times 5/12 = 8\,125$ $640\,000 \times 10/100 \times 12/12 = 64\,000$ $28\,000 - 1 = 27\,999$ $36\,124$
iii	$252\,000 - 184\,000$ $68\,000$
2.	Equipment is sold ,the business must dispose it.
3.	30 Chairs were broken
	8 Desks were stolen
	R2000 was used in repairs as instead of buying new chair

ACTIVITY D2

I	$1\,860\,000 - 1\,200\,000 = 660\,000$
ii	$940\,000 - 450\,000 = 490\,000$
iii	$817\,000 - 490\,000 = 327\,000$
iv	$450\,000 + 530\,000 - 327\,000 = 653\,000$
V	$653\,000 + 817\,000 = 1\,470\,000$

2. asset disposal

Equipment	120 000		Accum dep	60 300
			creditors	79 700
			Loss on sale	2000
	142 000			142 000

Activity D3

i	$7\,690\,200 + 842\,200 = 8\,532\,400$
ii	$90\,000 - 38\,160 \times \frac{20}{100} = 7\,776$ $530\,000 - 264\,000 \times \frac{20}{100} = 53\,200 = 60\,976$
iii	$90\,000 - 38\,160 - 7\,776 = 44\,064$
iv	$236\,000 \times \frac{15}{100} \times \frac{4}{12} = 11\,800$ $884\,000 \times \frac{15}{100} = 132\,600 = 144\,400$
v	$419\,900 + 236\,000 - 144\,000 = 511\,900$

2. profit $50\,000 - 44\,064 = 5\,936$

Activity D 4		
2.1	$R\,16\,000 \times 12 \times 100 \div 20 \div 320\,000 = 3\text{ months (31 November/1 December)}$	





GENERAL LEDGER OF MFUSI STORES

STATEMENT OF FINANCIAL POSITION

BALANCE SHEET SECTION

Dr				Vehicles	Cr				
20.3 Mar	1	Balance	b/d	1000 000	20.3 Nov	31	Asset disposal	GJ	105 000
20.4 Dec	1	Creditors control	CJ	320 000	20.4 febr	28	Balance	c/d	1 215 000
				1 320 000					1 320 000
20.4 Mar	1	Balance	b/d	1 215 000					

Accumulated depreciation on equipment

20.3 Nov	31	Asset disposal	GJ	45 850	20.3 Mar	1	Balance	b/d	580 000
							depreciation	GJ	9 100
							Depreciation	GJ	16 000
20.4 Febr	28	Balance	c/d	629 600			Depreciation	GJ	70 350
				675 450					675 450
					Mar	1	Balance	b/d	

Nominal account section

Asset Disposal

20.3 Nov	31	Equipment	GJ	105 000	20.3 Nov	31	Accumulated depreciation	GJ	45 850
							Debtors control	DJ	52 150
					20.3 Nov	31	Loss on sale	GJ	7 000
				105 000					105 000

- 2.3 CEO N Ntuli used his position to influence asset manager by purchasing the asset of the company at the loss of R7 000

Prudence concepts conservative when making estimates or judgment

- 2.4 Currently the company is experiencing a cash flow problem

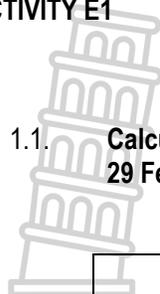
Company acquire a productive asset to generate cash flow ,paying R7000 a month will be affordable than unable to purchase asset $(R320\ 000-40\ 000)\div 40$ months



ACTIVITY E1

1

- 1.1. Calculate: Value of the closing stock of the Arctic TV sets using the FIFO method on 29 February 2024.



WORKINGS	ANSWER
$240 \times R\ 4\ 100 + 30 \times R\ 4\ 000$	1 104 000

- 1.12 Calculate: Stockholding period (in days) of the Arctic TV sets using the closing stock figure on 29 February 2024

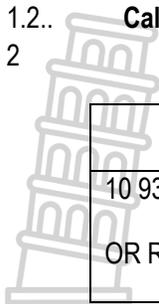
WORKING	ANSWER
$1\ 104\ 000 / 6\ 010\ 000 \times 365$	67 days
$270 / 1550 \times 365$	63,6 days

- 1.2.1 Calculate: Value of the closing stock of the Pacific TV sets on 29 February 2024 using the specific identification method

WORKING	ANSWER
$1\ 150 - 765 \times 9\ 300$	3 580 500



1.2.. **Calculate: Gross profit on the Caspian Smart TV sets on 29 February 2024**
2



WORKING	ANSWER
10 934 400 X [60/160]	
OR R 6 120 X 670	4 100 400

1.2.3

Comment on the quarterly sales of Pacific TV sets and explain whether or not Mandie's adjustment of the selling price was a wise decision. Quote figures or calculations.

Explanation or comment on decision

The reduction in price was not a wise decision because:
sales did not increase as expected / decline in sales over each quarter / money tied up instock / decline in gross profit over time.

Comparative figures

- Units sold dropped per quarter (from 250 or 245 units) to 160 (by 85) to 110 (by 50) / by 56%.
- Gross profit per unit declined in each quarter (from R4 200) to R1 000 to R500.
- Sales revenue declined (from R3 375 000) to R1 078 000 in the last quarter.
- Closing stock is 35 units more than opening stock (385 – 350).

1.2.4

Comment on the stockholding periods of the Pacific and Caspian TV sets. Quote figures or calculations.

Comment on Pacific

SHP of 184 days (6 months) is long, and it is an older model that will not be able to be sold in the future / A decrease in units sold resulted in high stock value of R3 580 500 and lower profits.

Comment on Caspian

SHP of 71 days (2,3 months) is acceptable as it is new, a durable product that can easily be sold / is in demand.

Explain how the different holding periods affect the business financially. Quote figures or calculations.

Explanation for Pacific

- Pacific places the business under strain / contributes to cash flow problems.
- High closing stock value of R3 580 500 and slower rate of sales (from 250 units) to 110 units. means that money is tied up in stock / requires more liquid assets / incurs additional expenses due to insurance / storage costs / possible obsolescence, damage.

Explanation for Caspian

- Caspian brand sells well; 340 & 330 in two quarters / sales revenue is high (R5 548 800 and R5 385 600 or R10 934 400); better gross profit (R4 100 400)



	<p>Explain what these periods indicate about the preferences of the customers. Quote figures or calculations.</p> <p>Explanation (mention both brands, or is implied) Customers not interested in the Pacific TVs (old technology) / might be negatively affected by the introduction of the newer brand / They prefer the newer, more expensive Caspian.</p> <p>Figures (comparison of each brand) Gradual lowering of SP (from R13 500) to R9 800 of Pacific did not influence customers. They are prepared to pay more for Caspian, R16 320 vs R9 800 for better quality, or later technology, better features / low sales: compare (110 to 330 / 160 to 340 / 270 to 670) units / Caspian sells faster; 83,75% of available units were sold whilst 66,5% of Pacific was sold.</p>
1.2.5	<p>Provide TWO points of advice to Mandie on how she can rectify the high stock level of some of her products without reducing prices offered to customers any further.</p>
	<p>TWO valid points</p> <ul style="list-style-type: none">• Transfer TVs to the other branch (Howick) to offer an alternative at that town.• Extend the target market / exploring other areas / guesthouses / hotels.• Sell them in bulk to other retailers (offer bulk discounts).• Introduce online sales as a cost-saving initiative.• Donations / Donate as part of corporate social responsibility / tax purposes.• Promote sales by advertising more regularly or creating package deals (combo's).• Offer more favourable terms (lower deposit / instalments). <p>Offer incentives to salespersons based on sales volume.</p>



ACTIVITY E2

2.1 MNGADI SHOP

2.1.1. Calculate the value of the closing stock on 29 February 2022, using the specific identification stock method.

MODEL	WORKINGS	ANSWER
ZIGI		R666 000
NAO	$(62 + 250 - 2)$ $310 - 245$ 65 x R5 200	R338 000
ZWI	18 $(9\ 600 \times 100/160)$ x R6 000	R108 000
	TOTAL	R1 112 000

2.1.2 Explain TWO different examples of how the division of duties could prevent an incident such as this from occurring again in the future.

An explanation of division of duties may be considered as an incomplete response.

Any TWO valid examples or duties that can be divided or delegated

Allocate each of the following tasks to different employees, whereby one person acts as a check for the other.

- Ordering and receiving stock
- Dispatching to sales and recording sales
- Follow up on documentation and authorisation
- Physical stock counts and reconciling to stock records;
- Inspect all physical stock leaving the premises against documentation (order forms, invoices, delivery notes)

Controlling access to storage facilities / stock or store room.



2.1.3

Provide TWO points that show that Milo and his customers are happy with the quality of the Gama Bikes. Quote figures.

- No (0) returns to suppliers (54 of King; 2 of Palo) is an indication of good quality.
- Higher mark-up of 60% does not deter customers / prepared to pay higher price / appeals to a select market (other products uses 50% mark-up)
- Highest sales revenue of R2 323 200 (R1 911 000 for Palo; R1 930 500 for King / R412 000 more than Palo; R392 500 more than King)
- Lowest closing stock value; R108 000 and / or 18 units on hand / or 7% of available stock / 242 of 260 units were sold / or 93% of available stock sold
- High turnover rate (13 times / 27 days) would prevent stock from becoming obsolete/ damaged/stolen/overtaken by newer models entering the market / cash not tied up in stock

POWDERED ENERGY DRINKS (1 kg TUBS)

2.1.4 Calculate the value of the closing stock on 29 February 2024, using the FIFO stock valuation method.

WORKINGS	ANSWER
$ \begin{array}{r} 180 - 30 \\ 150^* \quad \times \quad R483 \quad R72\,450 \\ \quad \quad \quad \quad \quad \quad (71\,250 + 1\,200) \\ \quad \quad \quad \quad \quad \quad 150 \times 475 \quad 150 \times 8 \\ 85 \quad \quad \times \quad R468 \quad R39\,780 \\ \quad \quad \quad \quad \quad \quad (39\,100 + 680) \\ \quad \quad \quad \quad \quad \quad 85 \times 460 \quad 85 \times 8 \\ \\ \text{OR: } R71\,250 + R39\,100 + R1\,880 \end{array} $	R112 230

2.1.5 Calculate the stockholding period (in days) on 29 February 2024. Use the closing stock figure.

WORKINGS	ANSWER
$ \frac{112\,230}{404\,140} \times 365 $	101,4 days

2.1.6 **Comment on your findings above. Provide TWO points, with figures. Note that the stockholding period for 2023 was 58 days.**

- The product is not selling / stock is selling at a slower rate than last year
- Cash tied up in stock / working capital / may have liquidity issues.
- This is a health product with a limited shelf-life / perishable / will end up being disposed or wasted.

Relevant figures / trend

SHP increased from 58 days to 101,4 days / by 43,4 days
OR from 58 days to 92,7 days / by 34,7 days
OR more than 3 months on shelves
OR the SHP is 35,4 days / 26,7 days above the shelf-life of 66 days.

2.1.7 **Milo has noticed that some of the stock of energy drinks has exceeded the shelf life (sell-by date). Identify the value of stock that Milo is referring to.**

R39 780

2.1.8 **Milo wants to sell the outdated stock at half the cost price. What advice would you offer him about this proposal? Provide TWO points.**

POINT 1	TWO points of advice
POINT 2	<ul style="list-style-type: none"> • Do not sell these products; it may create a poor image of the business / is hazardous to customers; consider the well-being or reaction of customers before making such proposals. • The business must absorb (write off) these products as a loss / destroy or dispose the outdated products and consider environmental issues. • Consider the long-term consequences of unethical or illegal actions (legal action / lack of continued support / drop in sales / lose trading licence / face criminal charges for malpractice) • Customers / users must be informed of sell-by-date (if the goods are going to be sold or donated) or if not considered to be harmful.

ACTIVITY A3

3.1.1

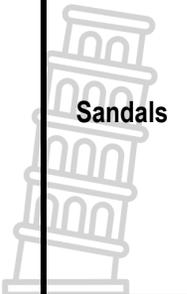
Calculate: Value of the closing stock on 29 February 2024	
WORKINGS	ANSWER
$ \begin{array}{r} 2\,346\,040 \text{ four marks} \\ 2\,182\,700 \text{ two marks} \\ 60 \times 900 \quad 2\,490 \times 25 \\ \hline 101\,090 + 2\,236\,700 - 54\,000 + 62\,250 \quad \times 420 \\ 2\,636\,206 + 2\,490 - 60 \\ \text{OR: } R890 \text{ six marks } \times 420 \end{array} $	R373 800

3.1.2

Calculate: Stock turnover rate	
WORKINGS	ANSWER
<p>Using units:</p> $ \frac{2\,216}{\frac{1}{2}(206 + 420)} $ <p>Using amounts:</p> $ \frac{1\,972\,240}{\frac{1}{2}(2\,346\,040 - 373\,800)} $	<p>7,1 times ;</p> <p>8,3 times</p>

3.1.3

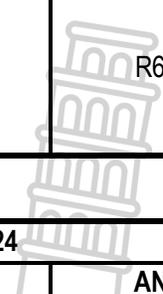
Comment on the stock turnover rates for boots and sandals and identify the major problem relating to EACH product. Quote figures.		
	COMMENT ON STOCK HOLDING RATE (WITH FIGURES)	IDENTIFY MAJOR PROBLEM
Boots	<ul style="list-style-type: none"> STR of 2 (average every 6 months) experiences slow sales / generating good gross profit (R1 122 300) Mark-up of 80% may be too high; expensive for customers – (exclusive clientele) 	<p>Too much stock on hand (62% of total closing stock) / Money tied up in stock (R708 400) will impact on liquidity / also a security risk / theft / can become obsolete.</p>

 <p>Sandals</p>	<ul style="list-style-type: none"> • STR is 76 (every 5 days); • Low mark-up of 33,3% makes this very affordable / in demand; hence sandals are a good seller 	<p>Business is not meeting the orders (3 600 not supplied (15 000 – 11 400) / Not enough stock on hand to meet orders / may run out of stock / Loss of revenue of R1 728 000 (could have a negative impact on liquidity.</p>
---------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

3.2.1

<p>List THREE points for good internal control over movable fixed assets.</p> <p>Any THREE valid points</p> <ul style="list-style-type: none"> ▢ Maintain an updated fixed asset register / depreciation / carrying value / condition ▢ Regular physical inspection / count the items / identification tags (barcodes) ▢ Service and maintenance plans, and ensure that this is done regularly ▢ Insurance plan to cover loss / damage / accidents ▢ Keep a log book and mileage / install tracking devices ▢ Note drivers / users in a register / authorisation for use / record of time in/out. ▢ Only trained personnel to use technical equipment ▢ Cameras to monitor use of equipment ▢ Secure premises for storage / locked garage / alarm system in premises

3.2.2

Calculate: Cost of land and buildings purchased on 31 August 2023	
WORKINGS	ANSWER
$6\,250\,000 - 5\,500\,000$ $R750\,000 - 60\,000$	 <p>R690 000</p>

3.2.3

Calculate: Depreciation on vehicle for year ended 29 February 2024	
WORKINGS	ANSWER
$R480\,000 \times 25\% = R120\,000; \text{ but carrying value is } R30\,000$	$R30\,000 - R1 = R29\,999$
<p>Maximum permitted: R30 000</p>	

4.1 LOTUS ACCESSORIES

4.1.1

Calculate: Value of closing stock for gas lamps (using FIFO)		Answer
Workings		
(220 – 40) (180 x R80) R14 400	(270 – 180) + (90 x R75)	R21 150
Calculate: Stockholding period in days of gas lamps (using closing stock)		
Workings		Answer
Using totals:		
21 150	x 365	42,5 days
12 650 + 193 500 – 3 200 – 21 150		Accept 42 or 43 days
181 800 (40 x 80)		
OR: Using units:		OR
<u>270</u> x 365		45,2 days
2 180		Accept 45 days
OR: <u>270</u> x 365		OR
(230 + 2 750 – 40 – 270)		36,9 days
or 2 940 – 270		Accept 37 days
2 670		
OR: <u>270</u> x 365		OR
(230 + 2 770 – 40 – 270)		36,6 days
or 2 960 – 270		Accept 37 days
2 690		

4.1.2 **Alex suspects that the stock of gas lamps are not well controlled. Calculate the number of gas lamps missing.**

Workings		Answer
230 + 2 750 – 40	230 + 2 770 –	490
2 940 – 2 180 – 270	40	
	2 960 – 2 180 – 270	OR 510

4.1.3 **What should Alex say to his brother when dealing with this matter? Provide TWO points.**

- His actions are unethical / illegal / theft / compromises business profitability
- Tell him he can face dismissal / disciplinary action
- He must reimburse Alex for the loss
- It is a conflict of interest / he is taking advantage of being a family member / enriching himself at the expense of the business and he must stop this practice
- He should not be expected to be treated differently and he will be subject to the rules and procedures of the business
- All stock movements must be recorded / declared in advance
- Output VAT not paid over to SARS (which is a criminal offence)

4.1.4 **Calculate the closing stock value for gas stoves (using the specific identification method) on 28 February 2024**

Workings		Answer
59 400 + 13 860	42 000 + 32 200	
280 – 132	160 – 54	
(148 x R495)	+ (106 x R700)	R147 460
73 260	74 200	

4.1.5 **Alex thinks he should stop selling gas stoves as they are causing a liquidity problem and the profit is low. Provide figures to support his opinion.**

Possible responses:

- Too much cash tied up in stock, R147 460
- Total profit on gas stoves is low R54 060 (R38 940 + R15 120)
- Low turnover rate / only 186 units sold, of 440 available / 42,3%.
- Too much stock on hand, 254 units.



Explain TWO points to convince him NOT to discontinue trading in gas stoves.

Any TWO valid points

- He is achieving a 60% profit on Super Hot and a 40% profit on Smart.
- He could reduce the mark-up to increase sales (recognising the state of the economy and his customers).
- These stock items are durable and can be sold in the future.
- The trend is to move towards gas because of load shedding – demand will increase in the future.
- Customers may not be aware that he is selling these products / he must advertise more extensively
- A variety of stock will attract more customers
- Gas is cheaper than electricity

ACTIVITY F1 COST ACCOUNTING MEMO

1.1.1

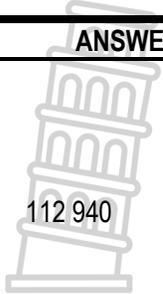
Calculate the value of raw materials issued to the factory for production.

$$\begin{aligned}
 & 228\,000 \\
 & 240\,000 - 12\,000 + 4\,560 \\
 & 1\,942\,500 \qquad 240\,000 \times ,95 \times 1,02 \\
 513\,500 + 2\,100\,000 - 157\,500 + 94\,500 + 232\,560 - 672\,020 \\
 & \qquad \qquad \qquad 2\,037\,000 \\
 = & 2\,111\,040
 \end{aligned}$$

513 500	157 500
2 100 000	672 020
94 500	
232 560	2 111 040

1.1.2

Calculate the depreciation on factory equipment:

WORKINGS	ANSWER
124 000 – 34 720	 112 940
AD: 89 280 x 20% x 5/12 = 7 440	
New: 215 000 x 20% x 6/12 = 21 500	
Old: = 84 000	

1.1.3 Prepare the Factory Overhead Cost Note for the year ended 29 February 2024.

Indirect Labour	74 742
Indirect materials (170 800 x 85%)	145 180
Rent (227 500 – 17 500) x 900/1 200	157 500
Sundry expenses (83 100 + 6 300) x 80%	71 520
Insurance (28 560 x 3) = 85 680 x 3/5	51 408
Water & electricity (13 000 + 18 810 + 5 400)	37 210
Depreciation on factory equipment see 1.1.2	112 940
	650 500

1.1.4 Determine the total sales for the year ended 29 February 2024.

$$229\,800 + 3\,313\,086 - 201\,300 = 3\,341\,586$$

$$3\,341\,586 \times 250/100 = 8\,353\,965$$

1.2 NCOME PENS

1.2.1 Calculate the break-even point for the year ended 29 February 2024.

$$\frac{2\,442\,375}{68}$$

$$104,10 - 36,10$$

$$= 35\,917,3 \text{ OR } 35\,918 \text{ units (NOTE: the answer should be in units not R)}$$

1.2.2 Explain whether the level of production achieved is satisfactory or not. Quote figures to support your opinion.

Compulsory (must mention production and BEP)

- The business produces 41 750 units, and the BEP is 35 918/ Produce 5 832 more than the BEP/making a profit on 5 832 units

TWO-mark options (If only production or only BEP is mentioned)

- Produce last year 42 500 and this year 41 750/750 less than last year BEP decreased from 40 034 to 35 918/by 4 116 units.



1.2.3

Ncomelicious is generally satisfied with the management of variable costs but is not pleased with the control over direct labour costs.

Justify his concern by quoting figures.

Direct labour cost increased from R9,80 to R14,70/by R4,90/50%.

Provide TWO suggestions he can implement to address the problem.

Possible answers:

- Train workers to work effectively
- Restrict overtime
- Better supervision by the foreman
- Pay workers per finished unit (piecework)

1.2.4

Ncomelicious is considering using computerised machinery as an alternative to manual labour. This may result in some workers losing their jobs.

Explain TWO points that he should consider before taking this step.

- Triple bottom line (They should not only consider their profit)/ Retrenching workers will add to poverty/Increased crime/unemployment within the community.
- Maintenance and installation of computerised machinery are costly and specialised. /Need to train workers to operate machinery.
- Computerised machinery will need constant power and the current load-shedding situation will bring production to a stand.
- Computerised machinery will need substantial initial capital investment, which can lead to cash flow pressure.

ACTIVITY F2 MEMO

2.1.

Choose an example from COLUMN B that matches a cost category in COLUMN A. Write only the letter (A-D) next to the question numbers 1.1.1 to 1.1.3) in the ANSWER BOOK, e.g. 2.1.4 E.

2.1.1	B
2.1.2	D
2.1.3	A

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 30 JUNE 2023	
Direct material cost	1 906 000
Direct labour cost (1 500 000 x 60/100)	900 000
Prime cost	2 806 000
Factory overhead cost (700 000 – 96 000 + 50 000)	654 000
Total cost of production	3 460 000
Work in process – beginning of the year	250 000
	3 710 000
Work in process – End of the year	(110 000)
Total cost of production of finished products (200 x 18 000)	3 600 000

ABRIDGED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2023	
Sales (16 900 x 270) OR [(5 000 + 18 000 – 6 100) x 270]	4 563 000
Cost of sales (900 000 + 2 380 000) OR 900 000 + (3 600 000 – 1 220 000)	(3 280 000)
Gross Profit	1 283 000
Administration	(380 000)
Selling and distribution	(470 000)
Net profit for the year	433 000

2.3.1.

Explain why it is important to calculate the expected break-even point for a business at the beginning of a financial year.
<ul style="list-style-type: none"> • Foresee any potential problems of low production. • No profits are made until breakeven is reached. • Determine the minimum number of units to be produced to prevent losses. • To produce enough products to set the production level that will cover all costs. • To identify whether productivity levels should be improved to ensure acceptable profit levels.

2.3.2.

Khathazile feels that she can improve the sales of calculators. Provide TWO suggestions on how this can be achieved.
<ul style="list-style-type: none"> • Decrease the mark-up % (or selling price) • Set targets for completion during normal time and try to reduce overtime pay. • Spend more money on advertising and sales promotion and explore new target markets • Allow customers to buy direct and offer discount

2.3.3.

Khathazile was concerned about the increase in the fixed cost per unit of calculators. What would you say to her? Provide ONE point and quote figures to support your answer.
<ul style="list-style-type: none"> • Production decreased by 800 units (40%) • Fixed costs are not influenced by the level of production (R210 000) • Fixed cost per unit will be much higher (from 120 to 175).

2.3.4.

Except for a general increase in wages due to inflation, give TWO other reasons for the increase in direct labour costs per unit. In each case, provide a practical solution to address this.	
POSSIBLE REASON	SOLUTION
Working slower/ De-motivated / Lazy workers / Lack of management.	Monitor normal working hours /Ensure workers complete set targets during normal time.
Overtime abused to get higher pay.	Monitor workers to ensure that they work efficiently during normal hours. / Claim overtime when necessary.
Load shedding	Energy backup system e.g. generators, solar panels
Lack of skills	Retraining / reskilling

2.3.5.

Khathazile wants to increase production by 700 units during the next financial year while maintaining costs. Calculate the additional profit that she will achieve.	
Workings	Answers
$700\sqrt{\times 203}$ $(540 - 337)$	142 100

ACTIVITY F3 MEMO

3.1 BLANKETS FOR HEALTH MANUFACTURERS

3.1.1	Calculate the value of the closing stock of raw materials.																			
	$3\ 600 \times 165 = 594\ 000$ $3\ 200 \times 170 = \underline{544\ 000}$ $1\ 138\ 000$																			
3.1.2	Calculate the direct material cost issued for production.																			
	$384\ 000 + 5\ 074\ 000 - 1\ 138\ 000 = 4\ 320\ 000$ <p style="text-align: center;">OR</p> $384\ 000 + 1\ 760\ 000 + 2\ 176\ 000 = 4\ 320\ 000$																			
3.1.3	Calculate the direct labour cost.																			
	$10 \times 1\ 920 \times 30 = 576\ 000 \quad + 5\ 760 = 581\ 760$ $560 \times 60 = 33\ 600$ $21\ 000 + 210 = \underline{21\ 210}$ $\underline{\underline{636\ 570}}$																			
3.1.4	Complete the production cost statement for the year ended 29 February 2024.																			
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Direct material cost</td> <td style="text-align: right;">4 320 000</td> </tr> <tr> <td>Direct labour cost</td> <td style="text-align: right;">636 570</td> </tr> <tr> <td>Prime cost</td> <td style="text-align: right;">4 956 570</td> </tr> <tr> <td>Factory overhead costs (254-24) = 230 x 16 160</td> <td style="text-align: right;">3 716 800</td> </tr> <tr> <td>Total manufacturing cost</td> <td style="text-align: right;">8 673 370</td> </tr> <tr> <td>Work in process at the beginning</td> <td style="text-align: right;">72 000</td> </tr> <tr> <td></td> <td style="text-align: right;">8 745 370</td> </tr> <tr> <td>Work in process at the end</td> <td style="text-align: right;">(45 370)</td> </tr> <tr> <td>Total cost of production of finished goods</td> <td style="text-align: right;">8 700 000</td> </tr> </table>	Direct material cost	4 320 000	Direct labour cost	636 570	Prime cost	4 956 570	Factory overhead costs (254-24) = 230 x 16 160	3 716 800	Total manufacturing cost	8 673 370	Work in process at the beginning	72 000		8 745 370	Work in process at the end	(45 370)	Total cost of production of finished goods	8 700 000	
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3.2 TIMELESS TIMBERWORKS

3.2.1	Calculate the break-even point for the year ended 31 October 2023.	
	WORKINGS	ANSWER
	$\begin{array}{r} \underline{548\,410} \quad + \quad \underline{247\,500} \\ 18,85 - 11,75 \\ (5,50 + 4,60 + 1,65) \\ \text{OR} \\ \underline{795\,910} \\ 7,10 \end{array}$	112 100 units
3.2.2	Calculate the units produced and sold for 2023.	
	WORKINGS	ANSWER
	$\begin{array}{ccc} \underline{607\,750} & \text{OR} & \underline{508\,300} & \text{OR} & \underline{182\,325} \\ 5,50 & & 4,60 & & 1,65 \end{array}$	110 500 units
3.2.3	Explain whether you think the owner, Phoebe, should or should not be concerned about the profitability and production level of her business. Provide TWO reasons and justify your answer by providing supporting figures.	
<p>The owner should be concerned because the business is not sustainable.</p> <ul style="list-style-type: none"> • BEP has been calculated at 112 100 units and they are only producing and selling 110 500 units. Therefore, they are 1 600 units short. Thus not making profit. • In 2021 the BEP was 78 000 units and they managed to produce and sell 98 000 units, thereby registering a profit on 20 000 units. 		



ACTIVITY G1

1.1 BANK RECONCILIATION

1.1.1 Update the CRJ and CPJ totals in the table provided and calculate. The correct bank account balance in the General Ledger on 31 May 2023. Show ALL workings.

Cash Receipts Journal (figures only)	Cash Payments Journal (figures only)
114 600	123 800
1 800	1 150
	1 840
	740
116 400	127 530

Bank Balance:

$12\ 800 + 116\ 400 - 127\ 530 = 1\ 670$ one part correct; ignore sign

1.1.2 Prepare the Bank Reconciliation Statement on 31 May 2023.

	Debit	Credit
Balance as per bank statement	31 130	
Outstanding deposits: 20/07		22 500
29/07		12 660
Deposit for rent not yet reflected		12 000
Outstanding EFT 778	16 200	
Error on statement / amount duplicated		1 840
Balance as per bank account	1 670	
	49 000	49 000

1.1.3	<p>Refer to INFORMATION D: Deposit of R22 500 on 20 May 2023.</p> <p>Explain why the accountant should be concerned about this deposit. Provide ONE point.</p>
<p>ONE valid point</p> <ul style="list-style-type: none"> • Deposit is late / not good business practice to keep cash (security risk) • Poor internal controls – lack of checks and balances / supervision • Possible lack of division of duties – person taking advantage / negligent • May contribute to poor management of cash – liquidity problems in future • Possible rolling of cash 	

ACTIVITY G2

2.1 BANK RECONCILIATION

2.1.1

CASH RECEIPTS JOURNAL		CASH PAYMENTS JOURNAL	
	Amount		Amount
Total	410 600	Total	386 350
	290		45 000
	6 250		1 800
			2 850
			3 700
	417 140		439 700

2.1.2

Calculate the correct bank balance on 31 July 2023.		
WORKINGS		ANSWER
100 150 + 417 140 – 439 700		77 590
OR		
100 150	439 700	
417 140	c/d 77 590	

2.1.3 BANK RECONCILIATION STATEMENT

	Debit	Credit
Balance per Bank Statement		67 890
Outstanding deposit		20 000
Outstanding EFT No. 152	11 200	
No. 153	2 800	
Correction of error		3 700
Balance per Bank Account	77 590	
	91 590	91 590

2.1.4

Explain why the rule of prudence will be used in accounting for fraudulent activities in the books and financial statements. Give ONE point.

- The business cannot guarantee that the amount will be recovered and must regard this transaction in a pessimistic light and take the conservative approach.
- The rule of prudence dictates a conservative approach in reporting financial information.

Explain how this type of fraudulent activity can be avoided in the future. Give ONE point.

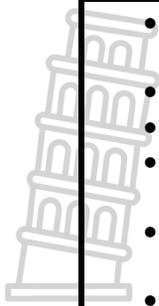
- Division of duties where one person will not perform multiple tasks.
- All transactions must be authorised.
- Set up a bank notification service for all transactions.

ACTIVITY G3

3.1.1

Provide THREE points for good internal control over creditors.

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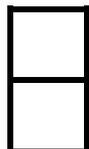
- Assess the efficiency of the creditors clerk in order to prevent errors from occurring.
- Ensure that creditors are paid on time to make use of discounts.
- Make full use of credit terms to assist cash flow.
- Division of duties amongst members of the accounting department so that one person serves as a check on another.
- Reconcile the balance on the creditors control account with the total of creditors' list to ensure accuracy on a monthly basis.
- The statement of account of individual creditors must be reconciled (agreed) with their accounts in the creditors' ledger.
- Conduct internal audits to minimise the possibility of fraud or error/Check documents (e.g. invoices and credit notes) to ensure accuracy of calculations and entries.
- Ensure that items ordered from creditors are correctly received (i.e. quantities, condition, price).
- Ensure that all purchases are correctly authorized (i.e. procurement policy).



CREDITORS RECONCILIATION

3.1.2

No.	Creditors' Ledger of Kweyama Traders	Statement of account received from Snenhlanhla Suppliers
Balance	R35 850	R58 800
A.		+ 4 200
B.	+ 1 750	
C.	- 1 000	
D.	(6 200 + 6 200) + 12 400	
E.		-14 000
TOTAL	49 000	49 000



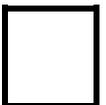
ACTIVITY G 4

CREDITORS RECONCILIATION

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

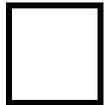
Total the columns to show the correct balance at the end of February 2023.

	CREDITORS LEDGER OF Ndinisa SUPPLIERS	STATEMENT FROM Mahlobo LEADERS
	21 130	32 600
A		13 300 – 11 200 + 2 100
B	+ 300	
C	- 500	
D	(3 035 + 3 035) + 6 070	
E		- 7 000 one mark; -700 one mark - 7 700
	27 000	27 000
	* <input checked="" type="checkbox"/> Operation one part correct. Both figures	



4.1.2 DEBTORS AGE ANALYSIS

Identify TWO problems shown in the Age Analysis below. Quote evidence and figures to support your answer. In each case suggest an internal measure to correct the problem.	
Identify a problem with evidence and figures	
Problem ✓	Figure(s) ✓
Internal control measures to correct the problem	
Advice ✓ ✓	
<p>Problem 1</p> <p>Certain debtors are <u>exceeding their credit limits</u>:</p> <ul style="list-style-type: none"> - Velaphi by R2 800/ 70% and - Ngema by R500/ 10% 	<ul style="list-style-type: none"> - Do not sell to debtors who exceed their credit limits. - Ensure debtors have credit available before selling to them.
<p>Problem 2</p> <p>Certain debtors are <u>exceeding their credit terms</u> i.e. taking longer than 30 days to pay:</p> <ul style="list-style-type: none"> - Velaphi with R1 200/ 30% / 30 days - Ngema with R4 500/ 90% / 60 days 	<ul style="list-style-type: none"> - Send reminders/statement of account to debtors - Charge interest on overdue accounts. - Offer discount for early settlement. - Consider legal action. - Sent letters of demand.



ACTIVITY G5

5.1 DEBTORS 'RECONCILIATION

5.1.1 CORRECTIONS TO THE DEBTORS CONTROL ACCOUNT

Current Debtors Control Account Balance	20 100
A.	-1 800
B.	+ 200
C.	- 900
D.	No change
E.	+1 400
Correct Debtors Control Account Balance	19 000

Must include R 20 100, Inspection, reasonable or see 2.1.2

5.1.2 DEBTORS LIST ON 30 SEPTEMBER 2013

-3 200 + 2 300 (1 point)	2 900
Sthembiso (3 800 - 900)	
Myende (7,400 + 200)	7 600
Ngobe (-1 900 + 1 400)	(500)
-1 600 (2 Points)	
Ntombifuthi (10 600 - 800- 800)	One part correct 9 000
Correct total of Debtors list	19 000



