

SENIOR SECONDARY INTERVENTION PROGRAMME 2013



GRADE 12

ACCOUNTING

TEACHER NOTES

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TEACHER NOTES

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TOPIC 1: COMPANIES - LEDGER ACCOUNTS**LESSON OVERVIEW**

- | | | |
|----|---------------------------------|------------|
| 1. | Introduce session: | 5 minutes |
| 2. | Typical exam questions Topic 1: | 30 minutes |
| | Typical exam questions Topic 2: | 30 minutes |
| 3. | Review/solutions/memo: | 25 minutes |

SECTION A: TYPICAL EXAM QUESTIONS**HINTS**

- Remember the new ledger accounts
- Income tax only comes about as an adjustment at the end of the year
- All provisional payments to SARS affect the bank account

QUESTION 1: 50 marks 30 minutes

COMPANY LEDGER ACCOUNTS

You are provided with information relating to Parboo Ltd for the year ended 29 February 2008. The company has an authorised share capital of 1 000 000 ordinary shares of R4,00 par value each. The Chief Executive Officer (CEO) is Ben Bhengu.

REQUIRED

- 1.1 Briefly explain what is meant by:
- Share capital (2)
 - Share premium (2)
 - Retained income (2)
- 1.2 Refer to information 6. Calculate the correct net profit before tax for the year. (6)
- 1.3 Prepare the following accounts in the ledger (the accounts must be properly closed off or balanced).
- SARS (Income tax) (11)
 - Appropriation account (15)
- 1.4 Consider information 4 regarding the permission granted to the directors to issue shares at their discretion. You are a shareholder but not a director. Provide one point in favour of granting the directors this permission and one point against. (4)
- 1.5 Refer to the extract from the newspaper article provided.
- Consider the complaint by Mary Moosa regarding Bhengu's directors' fees. Do you agree with her? Explain. (4)
 - Consider the complaint by Ken Kelly. Is Bhengu's response acceptable? What else could he have said? (4)

INFORMATION

- 1 The following balances appeared in the ledger at the beginning and end of the financial year:

	Beginning 1 Mar 2007	End 29 Feb 2008
Ordinary share capital (par value R4 each)	R2 400 000	R ?
Share premium	R 330 000	R 505 000
Retained income	R 454 000	R ?
SARS (Income tax)	R 38 600 (Credit)	R 11 500 (Debit)
Shareholders for dividends	R 270 000	R ?

2. Amounts owing in respect of the previous financial year to SARS and the Shareholders (for dividends) were paid on 10 June 2007.
3. Amounts paid on 31 August 2007:
- The first provisional tax payment of R187 500 for the 2008 financial year.
 - Interim dividend of 84 cents per share (the new shares issued on 1 Sept 2007 do not qualify for these interim dividends, but will receive final dividends. Refer to information note no 4 below).
4. The directors have been granted permission by the shareholders to issue new shares as and when required.

The directors decided to issue new shares at a premium of 125 cents during the year. The transactions were handled by New Bank and the relevant amount was received from Star Bank on 1 September 2007.

5. The second provisional tax payment of R220 000 was made on 29 Feb 2008.
6. At the year-end, the accountant calculated the net profit before tax to be R1 475 000 but, thereafter, he discovered that the following had not yet been taken into account:
- A donation of stock to the Chatsworth Youth Development programme, R70 000.
 - According to his contract, Ben Bhengu's directors fees are R110 000 per month. His fees for February had not been paid.
 - Although rent paid of R175 000 had been correctly recorded, it was discovered that these payments included rent for March and April 2008.
7. At the year-end, 29 February 2008, the directors recommended a final dividend of 110 cents per share. An entry must also be made for income tax for the year.
8. The following article appeared in the newspaper after the AGM:

Parboo Ltd shareholders take CEO to task**By Harry Digger, 10 June 2008**

There was certainly a lot of argument at the AGM of Parboo Ltd last week. The company distributes sports equipment and has built up a fine reputation amongst the public in recent years and has delivered impressive returns to shareholders over the past five years. However, this counted for nothing last night as CEO **Ben Bhengu** was called upon to answer a number of very direct questions.

One of the minority shareholders, **Mary Moosa**, questioned Bhengu's exorbitant directors' fees, saying these could not be justified. Bhengu responded by saying these had been approved by the remunerations committee and were based on the past and current performance of the company.

Another shareholder, **Ken Kelly**, also questioned the 'unnecessary waste of funds' that have been donated to the Chatsworth Youth Development programme, saying these funds could have been used to boost dividends to shareholders. Bhengu's response was that such expenditure was in line with the company's social responsibility objectives which had been unanimously approved by the entire board of directors.

The share price dropped 15% on the JSE yesterday.

[50]

SECTION B: SOLUTIONS AND HINTS TO SECTION A**QUESTION 1**

1.1

- **Share capital**

The capital provided by the shareholders at par value ✓✓

- **Share premium**

The amount above the par value paid by shareholders for their shares ✓✓

- **Retained income**

The amount of profit not distributed by the company to shareholders ✓✓

(6)

1.2 **Calculate the correct net profit for the year**

$$\begin{array}{ccccccccc} \checkmark & & \checkmark & & \checkmark & & \checkmark\checkmark & & \checkmark \\ 1\ 475\ 000 & - & 70\ 000 & - & 110\ 000 & + & 25\ 000 & = & 1\ 320\ 000 \end{array}$$

(6)

1.3

B4. SARS (INCOME TAX)

2007 Jun 10	Bank ✓		✓ 38 600	2007 Mar 1	Balance	b/d	✓ 38 600
2007 Aug 31	Bank ✓		✓ 187 500	2008 Feb 29	Income tax ✓		☑ 396 000
2008 Feb 29	Bank ✓		✓ 220 000		Balance	c/d	✓ 11 500
			446 100				446 100
2008 Mar 1	Balance	b/d	☑ 11 500				

F3. APPROPRIATION ACCOUNT

2008 Feb 29	Income tax ✓		☑☑ 396 000	2008 Feb 29	Profit & loss ✓		☑1 320 000
	Dividends ✓ 504 000 ✓✓ + 814 000 ✓✓		☑ 1 318 000		Retained inc ✓		✓ 454 000
	Retained income ✓		☑ 60 000				
			1 774 000				1 774 000

1.4 **Point in favour:** Any valid explanation, e.g. ✓✓

If the company needs funds urgently then this should not be delayed. It takes a while to convene a meeting of shareholders. Notice period required.

Point against: Any valid explanation, e.g. ✓✓

If the directors cannot be trusted to make the right decision, the issue of shares will affect the dividends to the existing shareholders and hence this could affect the share price.

(4)

1.5 *Any valid explanation, e.g.*

Yes / No with explanation ✓

Bhengu's fees are R1,32 m per year. This is equal to the net profit and seems unreasonable;

OR

Bhengu's fees have been transparently determined by the committee, goodwill and past performance has been taken into account. Dividends are good. ✓✓✓

Consider the complaint by Ken Kelly. Is Bhengu's response acceptable? What else could he have said?

Yes / No with explanation ✓

Corporate social investment is the responsible thing to do. They are in the business of selling sports equipment. The goodwill generated will lead to better chances of a sustainable business. ✓✓✓

(8)
[50]



Teacher Note: Stress the importance of showing all calculations to earn part marks.

SECTION C: HOMEWORK

QUESTION 1 **37 marks** **25 minutes** *(Taken from own question bank)*

You are provided with information relating to Phoenix Ltd for the year ended 28 February 2010.

REQUIRED

1. Post the relevant information to the ledger. Balance/close off the accounts.

Phoenix Ltd. began trading on 1 July 2010 with issued share capital of 300 000 ordinary shares of R2 each, at par value. The authorised share capital is 400 000 ordinary shares. In the 1st year of trading the after-tax income was R40 000. However, no dividends were declared in the first year.

On 31 December 2012 after six months of trading in the second financial year, the accountant calculated that the company had to pay R15 000 provisional income tax to the South African Revenue Services. On 31 December 2012, cheque no. 92 was issued to the South African Revenue Services (SARS).

On the same date, the directors declared and paid an interim dividend of 10 cents per share. The dividends were paid by cheque to the 30 shareholders listed in the share register.

On 30 June 2013, the last day of the accounting period, a second provisional tax payment of R35 000 was made to the SARS (cheque no. 210). After the completion of the audit, the following was determined:

- (a) The net income for the year amounted to R150 000.
- (b) The total income tax liability for the entire accounting period was R60 000.
- (c) The final dividend declared by the directors amounted to 15 cents per share.

[37]

SECTION D: SOLUTIONS TO HOMEWORK

1.1

GENERAL LEDGER OF PHOENIX LTD

(A) BALANCE SHEET ACCOUNTS SECTION

DR.		RETAINED INCOME				B2		CR.	
2013					2012				
June	30	Appropriation✓	GJ18	✓40 000	July	1	Balance	b/d	✓40 000
		Balance	c/d	✓55 000	2013				
					June	30	Appropriation✓	GJ18	✓55 000
				95 500					95 000
					2013				
					July	1	Balance	b/d	✓55 000

(7)

DR.		SARS-INCOME TAX				B12		CR.	
2012					2013				
Dec	31	Bank✓	CPJ12	✓15 000	June	30	Income tax✓	GJ18	✓60 000
2013									
June	30	Bank✓	CPJ18	✓35 000					
		Balance	c/d	10 000					
				60 000					60 000
					2013				
					July	1	Balance	b/d	✓10 000

(7)

DR.		SHAREHOLDERS FOR DIVIDENDS						B13		CR.	
						2013					
						June	30	Dividends on			
								Ordinary shares✓	GJ18	✓45 000	
(2)											

DR.		NOMINAL ACCOUNTS SECTION						N21		CR.	
		INCOME TAX									
2013						19	2013				
	June	30	SARS - Income tax✓	CPJ18	✓60 000		June	30	Appropriation✓	GJ18	✓60 000
(4)											

DR.		DIVIDENDS ON ORDINARY SHARES						N22		CR.	
2012						20.3					
	Dec.	31	Bank✓	CPJ12	✓30 000		June	30	Appropriation✓	GJ18	✓✓75 000
2013											
	June	30	Shareholders for dividends✓	GJ12	✓45 000						
					75 000					75 000	
(7)											

DR.		FINAL ACCOUNTS SECTION						F3		CR.	
		APPROPRIATION ACCOUNT									
2013						2013					
	June	30	Income tax✓	GJ18	✓60 000		June	30	Profit and loss✓	GJ18	✓150 000
			Dividends on ordinary Shares✓	GJ18	✓75 000			Retained income✓	GJ18	✓40 000	
			Retained income✓	GJ18	✓55 000						
					190 000					190 000	
(10)											
[37]											

TOPIC 2: COMPANIES ACCOUNTING EQUATION

Teacher Note: Ensure that learners are able to answer theory type of questions

SECTION A: TYPICAL EXAM QUESTIONS**HINTS**

- Learners must always answer in point form.
- Make sure learners know the theory on companies.
- Open ended questions do not have one correct answer.

QUESTION 1 **30 marks** **30 minutes** (*Adapted from New Era Study Guide*)

CASE STUDY – COMPANIES**BLUE LABEL DIRECTORS GUILTY OF DODGY SALES**

THABISO MOCHIKO

Daily News, Monday 14 April 2008

Three directors of listed firm, Blue Label Telecoms, were yesterday found guilty by the JSE of trading shares without permission. Selwyn Diamond was fined R100 000 while Sean Kaplan and Graeme Prosser were “privately censured.”

Prosser bought shares last November while Diamond and his spouse, and Kaplan’s wife sold millions of rands worth of stock in February. The dealings occurred in an open period but prior clearance from Blue Label’s designated director was not obtained, and the trades were not announced on the JSE’s Stock Exchange News Service (Sens) within 48 hours.

Prosser, Diamond and Kaplan work for a Blue Label subsidiary, the Prepaid Company. Diamond was fined R100 000 with R60 000 suspended for a year. If he breaches listing requirements again, he will have to pay the suspended fine and face further action, the JSE said. Diamond and Kaplan were found guilty of not telling their wives that the directors needed to be informed about trades.

The JSE said it viewed any breach of listings requirements in a very serious light and had informed Diamond of its “disappointment” at his conduct.

Prosser paid R2 million for 227 000 shares on November 14 at R8.81 each. The shares closed at R7 yesterday, so he has lost R410 000 on his investment.

While Blue Label said the directors’ conduct had caused it “damage and embarrassment”, their actions did not justify their dismissal or termination of their directorships.

“It is unfortunate that these share dealings have attracted so much adverse publicity,” said Blue Label’s joint chief executives, Mark and Brett Levy. “We are confident that lessons have been learnt.” To prevent a recurrence, all the company’s directors will attend a JSE workshop on the listing requirements this week.

Although director's associates did not need to get clearance to trade, the JSE said the directors had to be told when their associates dealt so the facts could be released on Sens.

QUESTIONS:

- 1.1 What is the role of directors in a company? Discuss at least 2. (4)
- 1.2 Explain the 2 different prices that are quoted for the shares, i.e. R8.81 and R7. Why is there a difference? (4)
- 1.3 Why do they say that Prosser has lost R410 000 on his investment? Explain fully. (4)
- 1.4 What did the 3 directors do that involved them being charged? Why is this wrong? (4)
- 1.5 What is the role of the JSE in the country? Discuss at least 2 roles using the above article as a guide. (4)
- 1.6 Why do you think the directors did not loose their directorships? (4)
- 1.7 The chief executives expressed their unhappiness concerning the adverse publicity. Do you agree with them and should incidents like this not be published? (6)

SECTION B: SOLUTIONS AND HINTS TO SECTION A
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QUESTION 1:**COMPANY****30 marks****30 minutes**

1.1	<ul style="list-style-type: none"> To run the day-to-day activities of the company. ✓✓ To report and be answerable to the shareholders. ✓✓ To manage the capital of the shareholders in accordance with good business principles. Etc. 	(4)
1.2	<ul style="list-style-type: none"> R8.81 was the price Prosser bought the shares for. ✓ R7 is the present market price. ✓ The demand for shares has fallen so the price has decreased. ✓✓ 	(4)
1.3	His investment on paper is worth less as the shares will be valued at the present market price. ✓✓ However, as he has not sold these shares, he has not physically lost the money yet. ✓✓	(4)
1.4	<ul style="list-style-type: none"> They engaged in buying and selling shares without obtaining permission from the directors concerned and then notifying the JSE of this transaction. ✓✓ For transparency and to ensure that directors are not trading due to privileged information (Inside Information). ✓✓ Also known as insider trading 	(4)
1.5	<ul style="list-style-type: none"> The JSE is a market place from where shares can be bought and sold. ✓✓ The JSE controls trading and transactions to ensure that brokers and companies operate within the boundaries of the regulations. ✓✓ 	(4)
1.6	While it was unethical to have entered into these transactions, nobody but themselves was affected. ✓✓ Probably also their first offence. ✓	(4)
1.7	Learners to give their own opinions. We operate in a country of free press ✓✓ where people are entitled to report on what they hear and also to read what goes on. ✓✓ Press reports control the ethics of people as they realize there are consequences to their actions, and that there is the possibility that it will be made public knowledge. ✓✓ (Any reasonable explanation.)	(6)

Teacher Note: Stress the importance of showing all calculations to earn part marks.

SECTION C: HOMEWORK

Teacher Note: Stress that as learners attempt the homework, they need to ensure that they are able to answer the questions in the allocated time frames. If they get stuck, they should refer either to the additional notes or their class teacher.

QUESTION 1**35 marks****20 minutes***(DoE Nov. 2008)***COMPANY CONCEPTS, RECORDS AND VAT**

You are provided with information relating to Garland Limited for the financial year ended 30 June 2008.

REQUIRED:

- 1.1 Briefly explain why a company has to have 'Limited' or 'Ltd' in its name. (2)
- 1.2 Briefly explain why Garland Ltd has to make special entries for VAT in its books. (2)
- 1.3 Analyse the transactions for the current financial year in the table provided. Show the account debited, account credited and the missing amounts. (25)
- 1.4 The company plans to issue the remaining unissued shares next year.
 - 1.4.1 How many shares will the company issue? (3)
 - 1.4.2 Gary Garland, the managing director, currently owns 230 000 shares in this company. What is the minimum number of shares Gary will have to buy to keep control of the company? (3)

BACKGROUND INFORMATION AND OPENING BALANCES

- The business was started in 2004 with an authorised share capital of 500 000 ordinary shares of R2,00 par value each.
- By 1 July 2007, the start of the current financial year, the business had issued 300 000 of these shares at par.

TRANSACTIONS FOR THE YEAR ENDED 30 JUNE 2008

Example: Directors' fees of R150 000 were paid.

1. Credit purchases of trading stock for the year amounted to R350 000, excluding VAT. The VAT amount is R49 000.
2. Cash sales for the year were R684 000 including VAT of 14%. The cost price of these goods was R400 000. The business uses the perpetual (continuous) inventory system.
3. Provisional tax payments totalling R143 550 were made to SARS.
4. Interim dividends of R24 000 were paid to the shareholders.
5. Further 120 000 shares were issued at a premium of 60 cents each.
6. The tax assessment for income tax for the year amounted to R154 356.
7. A final dividend of 17 cents per share was declared.

[35]

SECTION D: SOLUTIONS TO HOMEWORK: TOPIC 2: COMPANIES - ACCOUNTING EQUATION
QUESTION 1

- 1.1 Explanation ✓✓ expected responses:
- The owners' (shareholders') liability is limited to the amount they invested
 - The shareholders are not responsible for the debts of the company / the company is liable for its liabilities.
 - Limited liability.
 - A company is a legal person in its own right.
 - The Companies Act requires 'Ltd' in the name.
 - The company is a public company – *Interpretation of question: Candidates might respond that the company is a public one.*
- (2)

- 1.2 ✓✓
- Good explanation – include collection from customers & payment to suppliers / owed to or by SARS (2 marks) Satisfactory explanation – answered in part (1 mark)*
- Expected responses:
- The business has to pay VAT to suppliers & collect VAT from customers (2 marks)
 - The difference between input & output VAT must be calculated to pay over to SARS (2 marks)
 - Sales exceed the minimum for VAT registration (2 marks)
 - To record money owed to SARS / by SARS (2 marks)
 - Tax legislation / Registration with SARS (2 marks)
 - He is a VAT vendor (2 marks)
 - To record VAT collected from customers (1 mark)
 - To record VAT paid to suppliers (1 mark)
- (2)

1.3

	GENERAL LEDGER		AMOUNT
	Account debited	Account credited	
e. g.	Directors' fees	Bank	150 000
1.	Trading stock ✓	<u>Creditors control</u> ✓	350 000
	<u>VAT Input / VAT Control</u> ✓		49 000
2.	Bank ✓#	Sales ✓#	*☑ 600 000
		<u>VAT Output/VAT Control</u> ✓#	✓ 84 000
	Cost of sales ✓	Trading stock ✓	400 000
3.	<u>SARS (Income tax)</u> ✓	Bank ✓	143 550
4.	<u>Dividends on ordinary shares</u> ✓	Bank ✓	24 000
5.	Bank ✓	<u>Ordinary share capital</u> ✓ →	✓ 240 000
		<u>Share premium</u> ✓ →	✓ 72 000
6.	Income <u>tax</u> ✓	<u>SARS (Income tax)</u> ✓	154 356
7.	<u>Dividends on ordinary shares</u> ✓	<u>Shareholders for dividends</u> ✓	✓✓ 71 400 (1 mark: 51 000)

(25)

The company plans to issue the remaining unissued shares next year.

1.4

1.4.1

✓	✓	✓
$500\ 000 - 420\ 000 = 80\ 000$		
$(300\ 000 + 120\ 000)$		
$200\ 000 - 120\ 000 = 80\ 000$		

(3)

1.4.2

He needs to own at least 250 000 + 1 shares		
He currently owns 230 000 shares		
He needs to buy	20 000 + 1	✓✓✓ 3 or nil = 20 001
OR	20 000 + 100	= 20 100
OR	(51% of 500 000) - 230 000	= 25 000

(3)

TOTAL MARKS: 35

COMPANIES FINANCIAL STATEMENTS**LESSON OVERVIEW**

- | | | |
|----|------------------------|------------|
| 1. | Introduce session: | 5 minutes |
| 2. | Review Homework | 15 minutes |
| 3. | Typical exam questions | 40 minutes |
| 4. | Review/solutions/memo: | 30 minutes |

SECTION A: TYPICAL EXAM QUESTIONS**HINTS**

- Remember the new ledger accounts
- Income tax only comes about as an adjustment at the end of the year
- All provisional payments to SARS affect the bank account

SECTION A: TYPICAL EXAM QUESTIONS**HINTS**

- Learners must always answer in point form
- Make sure learners know the theory on companies
- Open ended questions do not only have one correct answer

QUESTION 1**55 marks***(Adapted from New Era Study Guide)***FINANCIAL STATEMENTS****1.1 SIMPHIWE LIMITED**

You are provided with the Pre-Adjustment Trial Balance of Simphiwe Limited. The company buys and sells uniforms, and they also repair uniforms for their customers, for which they charge a fee. These fees are credited to the Fee Income Account in the General Ledger.

REQUIRED

- 1.1.1 Refer to Information 2J below.
Calculate the profit or loss on disposal of the computer. Show workings. You may prepare an Asset Disposal Account to identify the figure. (8)
- 1.1.2 Complete the Income Statement for the year ended 30 September 2009. The notes to the financial statements are NOT required. (47)
- [55]

INFORMATION

**1. SIMPHIWE LTD
PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 SEPTEMBER 2009**

	DEBIT	CREDIT
Balance Sheet Accounts Section	R	R
Ordinary share capital		1 300 000
Share premium		170 730
Retained income (1 October 2008)		170 000
Loan from Stay Bank		90 000
Land and buildings at cost	1 628 520	
Vehicles at cost	220 000	
Equipment at cost	190 000	
Accumulated depreciation on vehicles (1 October 2008)		41 000
Accumulated depreciation on equipment (1 October 2008)		37 000
Debtors' control	36 600	
Creditors' control		17 960
Trading stock	479 000	
Bank		13 500
Petty cash	2 200	
SARS – Income tax	83 500	
Provision for bad debts		1 440
Nominal Accounts Section	R	R
Sales		2 720 000
Cost of sales	1 310 000	
Debtors' allowances	6 200	
Salaries and wages	162 000	
Discount allowed	905	
Fee income		104 750
Rent income		56 000
Insurance	11 000	
Sundry expenses	39 250	
Directors' fees	390 000	
Audit fees	53 705	
Consumable stores	24 000	
Interest income		2 500
Ordinary share dividends	88 000	

2. ADJUSTMENTS

- A. Prepaid expenses in respect of sundry expenses at the year- end, R3 200, have not been taken into account.
- B. On 30 September 2009, R580 was received from A. Ethic whose account had previously been written off as irrecoverable. The amount was entered in the Debtors' Control column in the Cash Journal.

- C. The provision for bad debts must be adjusted to R1 830.
- D. There were two directors at the start of the accounting period. Directors' fees have been paid for the first half of the accounting period. On 1 April 2009, a third director was appointed. All three directors earn the same monthly fee. Provide for the outstanding fees owed to the directors.
- E. Rent has been received for 14 months.
- F. The following credit note was left out of the Debtors Allowances Journal for September in error. The mark-up on goods sold was 50% on cost.

SIMPHIWE LTD		CREDIT NOTE 4533	
		28 Sept. 2009	
Credit: Supaclean Ltd PO Box 340, Westmead, 3610		Unit price	Total
24	Uniforms returned	R400	R9 600
	Reduction on fee charged for repair of uniforms		R 750
			<u>R10 350</u>

- G. A physical stock count on 30 September 2009 reflected the stock of uniforms on hand as R490 000.

The loan statement from Stay Bank reflected the following:

H.	Balance at beginning of financial year	R 150 000
	Repayments during the year	R 78 000
	Interest capitalised	R ?
	Balance at end of financial year	R 90 000

- I. Depreciation on vehicles is calculated at 20% p.a. on the diminishing-balance method.
- J. Depreciation on equipment is calculated at 10% p.a. on the cost price. Note that an item of equipment was taken over by one of the directors, Ivor Steele, on 30 June 2009 for personal use for R800 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.

FIXED ASSET REGISTER		Page 12	
Item: VYE Computer		Ledger Account: Equipment	
Date Purchased: 1 April 2006		Cost Price: R22 000	
Depreciation Policy: 10% p.a. on cost price			
Date	Depreciation calculations	Current Depreciation	Accumulated Depreciation
2006 30 September	$R22\ 000 \times 10\% \times \frac{6}{12}$	R1 100	R1 100
2007 30 September	$R22\ 000 \times 10\% \times \frac{12}{12}$	R2 200	R3 300
2008 30 September	$R22\ 000 \times 10\% \times \frac{12}{12}$	R2 200	R5 500
2009 30 June	?	R ?	R ?

K. Income tax for the year amounts to R63 280.

SECTION B: SOLUTIONS AND HINTS TO SECTION A

QUESTION 1: INCOME STATEMENT

57 marks

36 minutes

1.1.1 Calculate the profit or loss on disposal of the computer: No part marks

$$\begin{array}{r} \checkmark \\ 22\ 000 \end{array} - \begin{array}{r} \checkmark \\ 5\ 500 \end{array} - \begin{array}{r} \checkmark\checkmark\checkmark \\ 1\ 650 \end{array} - \begin{array}{r} \checkmark \\ 800 \end{array} = R14\ 050$$

OR

$$\begin{array}{r} \checkmark \\ 22\ 000 \end{array} - \begin{array}{r} \checkmark \\ (5\ 500 + 1\ 650) \end{array} - \begin{array}{r} \checkmark\checkmark\checkmark \\ 800 \end{array} = R14\ 050$$

OR

Cost price	22 000	✓
Accu depr (5 500 ✓ + 1 650 ✓✓✓)	7 150	
Carrying value	14 850	
Disposal/Bank	800	✓
Loss on sale of asset	14 050	✓✓

Asset disposal

<i>Equipment</i>	✓22 000	<i>Accu depr (5 500 ✓ + 1 650 ✓✓✓)</i>	7 150
Ignore details here		<i>Bank</i>	✓800
		<i>Loss on sale of asset</i>	✓✓14 050
	<u>22 000</u>		<u>22 000</u>

(8)

1.1.2 SIMPHIWE LTD

INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Sales (2 720 000 ✓ – 6 200 ✓ – 9 600 ✓) –R15 800: 2 marks	✓	2 704 200
	Cost of Sales (1 310 000 ✓ – 6 400 ✓) <i>Mark figures only</i>	✓	(1 303 600)
8	Gross Profit <i>Check operation, COS must be deducted</i>	<input checked="" type="checkbox"/>	1 400 600
	Other operating income <i>Check operation</i>	<input checked="" type="checkbox"/>	157 180
	Fee income (104 750 ✓ – 750 ✓)	✓	104 000
	Rent income (56 000 ✓ – 8 000 ✓)	✓	48 000
	Bad debts recovered	✓✓	580
12	Trading stock surplus (490 000 – [479 000 + 6 400]) <i>Ignore workings, 1 method mark for any figure</i>	<input checked="" type="checkbox"/> ✓✓	4 600
	Gross operating income		1 557 780
	Operating Expense <i>Check operation, mark figure only</i>	<input checked="" type="checkbox"/>	(1 331 350)
	Salaries and wages	✓	162 000
	Discount allowed	✓	905
	Insurance	✓	11 000
	Sundry expenses (39 250 ✓ – 3 200 ✓)	✓	36 050
	585 000		
	Directors fees (390 000 ✓ + 390 000 ✓ + 195 000 ✓)	✓	975 000
	Audit fees	✓	53 705
	Consumable stores	✓	24 000
	Provision for bad debts adjustment <i>No part marks</i>	✓✓	390
	Depreciation (1 650 <input checked="" type="checkbox"/> + 16 800 ✓✓ + 35 800 ✓✓) <i>See 4.1.1 @Any figure</i>	@ <input checked="" type="checkbox"/>	54 250
22	Loss on sale of asset <i>See 4.1.1</i>	<input checked="" type="checkbox"/>	14 050
	Operating profit		226 430
	Interest Income	✓	2 500
	Profit before interest expense/finance cost		228 930
	Interest expense / Finance cost <i>If no brackets accept the figure</i>	✓✓	(18 000)
	Profit before tax		210 930
	Income Tax <i>If no brackets accept the figure</i>	✓	(63 280)
5	Net Profit after tax <i>Check operation, tax and interest expense must be deducted</i>	<input checked="" type="checkbox"/>	147 650

(47)

TOTAL MARKS: 55

SECTION C: HOMEWORK

QUESTION 1**69 marks****42 minutes**

You are provided with information relating to Ruma Carpets. The business is owned by R Rugg. They sell, fit and repair carpets. Installation and repair fees are reflected as fee income. You are required to prepare the financial statements on 28 February 2009. The bookkeeper has entered the pre-adjustment figures but does not know how to process the adjustments.

REQUIRED

1.1 Income Statement for year ended 28 February 2009.

[69]

INFORMATION**RUMA CARPETS: PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2009**

Balance Sheet section	Debit	Credit
Capital		991 000
Drawings	360 000	
Bank	66 162	
Vehicles - at cost	666 000	
Accumulated depreciation on vehicles		299 700
Equipment - at cost	230 000	
Accumulated depreciation on equipment		95 000
Loan from Trusty Finance		210 000
Fixed deposits: Richnet Bank	160 000	
Trading stock	677 000	
Debtors control	255 000	
Provision for bad debts		16 000
Cash float	3 000	
Petty cash	2 000	
Creditors control		282 000
SARS (PAYE)		19 300
Medical Aid Fund		6 600
UIF		800

Nominal section		
Sales		3 060 000
Debtors allowances	510 000	
Cost of sales	1 800 000	
Fee income		1 045 000
Rent expense	90 400	
Salaries & wages	765 000	
Employer's contributions to UIF & Medical Aid	79 000	
Vehicle expenses	95 600	
Bank charges	28 000	
Bad debts	5 400	
Electricity & water	17 000	
Discount allowed	4 000	
Telephone	19 300	
Insurance	28 600	
Printing & stationery	17 700	
Consumable stores	132 000	
Interest income (on current bank account)		1 100
Sundry expenses	33 338	
	6 026 500	6 026 500

ADJUSTMENTS AND ADDITIONAL INFORMATION

- The water and electricity account for February has not yet been paid, R1 350.
- A cash customer, N Nokwe, paid R3 000 for installation fees in February, but the job will be done only in March 2009.
- The rent has been paid up to 30 April 20.9. Note that the rent was increased by R900 per month on 1 January 2009.
- During a burglary in February the following items were stolen:
 - Carpeting worth R60 000 (trading stock)
 - Consumable stores of R3 000.

The insurance company has agreed to pay out 80% of the loss, but this has not yet been received.

- A debtor, K Krumm, complained that the carpets that were fitted in his house in his absence were defective. Ruma Carpets issued a credit note for the following but this has not yet been recorded in the books:
 - Selling price of carpeting R22 000 (the cost price was R13 600)
 - Installation fee R2 600.

On closer inspection it was found that the entire batch of carpeting which had cost R48 000 was defective. This was returned to the manufacturer Carplex Ltd but no entry has been made. Mr Krumm is now using another carpet company.

6. The following items appeared in the bank statement for February 2009. These have not been entered in the books:
- Bank charges R2 100
 - Interest on current bank account R220
 - Dishonoured cheque R4 700 (this was originally received from a debtor H Hill in settlement of his debt of R5 000)
 - Stop-order for insurance premium for February 2009, R2 600.
7. Further bad debts of R4 000 are to be written off and the provision for bad debts is to be adjusted to 5% of trade debtors.
8. A physical count at the year-end reflects the following on hand at cost price:
- Trading stock R560 000
 - Consumable stores R18 500.
9. The business owned three identical vehicles which were all purchased on the same date. Depreciation is at 20% p.a. on cost. On 30 November 2008 one of the vehicles was taken over by partner M Matt at a market value of R96 300. No entry has been made to record depreciation or the sale of the vehicle.
10. New equipment costing R54 000 was bought on 1 January 2009. This has been properly recorded. Depreciation is to be calculated at 10% p.a. on the diminishing balance method.
11. The loan statement from Trusty Finance reflects the following:
- Balance on 1 March 2008 R284 000
 - Interest capitalised R ?
 - Repayments during the year including interest R74 000
 - Balance on 28 February 2009 R239 400
- All repayments have been debited to the loan account in the ledger but no entry has been made to record interest. According to the loan agreement the loan will be reduced by R54 000 over the next 12 months.
12. Interest of R8 800 has been earned on the fixed deposits but no entry has been made. The interest is capitalised. One of the fixed deposits valued at R32 000 will mature on 31 March 2009.
13. One employee has been left out of the Salaries Journal in error. He has not yet been paid. His details are:

GROSS SALARY	DEDUCTIONS			NET SALARY
	PAYE	Medical Aid	UIF	
R6 200	R1 018	R800	R62	R4 320

The business contributes on a Rand-for-Rand basis to Medical Aid and UIF.

SECTION D: SOLUTIONS TO HOMEWORK

1.1 RUMA CARPETS**INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2009**

	Note	R	
Sales (3 060 000 ✓ – 510 000 ✓ – 22 000 ✓)		2 528 000	✓
Cost of sales (1 800 000 ✓ – 13 600 ✓)		(1 786 400)	✓
Gross profit		741 600	✓
Other operating income		1 051 330	✓
Fee income (1 045 000 ✓ – 3 000 ✓ – 2 600 ✓)		1 039 400	✓
Provision for bad debts adjustment		4 430	✓
Profit on disposal of asset (222 000 ✓ - 133 200 ✓ - 96 300 ✓)		7 500	✓
Gross operating income		1 792 930	
Operating expenses		(1 462 750)	✓
Rent expense (90 400 ✓ – 14 200 ✓✓)		76 200	✓
Salaries & wages (765 000 ✓ + 6 200 ✓)		771 200	✓
Employer's contrib. to UIF & Medical Aid (79 000 ✓ + 800 ✓ + 62 ✓)		79 862	✓
Vehicle expenses		95 600	✓
Bank charges (28 000 ✓ + 2 100 ✓)		30 100	✓
Bad debts (5 400 ✓ + 4 000 ✓)		9 400	✓
Electricity & water (17 000 ✓ + 1 350 ✓)		18 350	✓
Discount allowed (4 000 ✓ – 300 ✓)		3 700	✓
Telephone		19 300	✓
Insurance (28 600 ✓ + 2 600 ✓)		31 200	✓
Printing & stationery		17 700	✓
Consumable stores (132 000 ✓ – 3 000 ✓ – 18 500 ✓)		110 500	✓
Sundry expenses		33 338	✓
Loss due to theft (60 000 ✓ + 3 000 ✓ – 50 400 ✓)		12 600	✓
Trading stock deficit		22 600	✓✓
Depreciation (33 300 ✓ + 88 800 ✓ + 8 100 ✓ + 900 ✓)		131 100	✓
Operating profit (loss)		330 180	✓
Interest income	1	10 120	✓
Operating profit before Interest expense		340 300	
Interest expense	2	(29 400)	✓
Net profit (loss)	7	310 900	✓

[69]

COMPANIES FINANCIAL STATEMENTS**LESSON OVERVIEW**

- | | | |
|----|---|------------|
| 1. | Introduce session: | 5 minutes |
| 2. | Review Homework | 15 minutes |
| 3. | Typical exam questions Question 1 | 48 minutes |
| | Activity 2: (Extra question for self study) | 12 min |
| 4. | Review/solutions/memo: | 30 minutes |

SECTION A: TYPICAL EXAM QUESTIONS**Teacher Note:**

- Learners must always answer in point form
- Make sure the learners know the theory on companies
- Open ended questions do not have one correct answer

QUESTION 1: 79 marks 48 minutes *(Adapted from New Era Study Guide)*

1.1 BOTSO-BOTSO STORES LTD

The financial year-end is 30 June. Their inexperienced accountant prepared the final accounts and the Post-closing Trial Balance of the business on 30 June 2009 without taking certain adjustments into account.

REQUIRED

- 1.1.1 Calculate the correct **net income after tax** after taking all the adjustments into account. (21)
- 1.1.2 Complete the following notes to the Balance Sheet on 30 June 2009:
- Retained income (Accumulated profits) (7)
 - Trade and other receivables (15)
 - Trade and other payables (14)
- 1.1.3 Complete the Balance Sheet on 30 June 2009.
(Show calculations in brackets where the notes are not required.) (22)
- [79]

FIGURES OBTAINED FROM THE POST-CLOSING TRIAL BALANCE ON 30 JUNE 2009	Debit R	Credit R
Ordinary share capital R2 per share		500 000
Retained income (1 July 2008)		85 000
Ordinary share premium		30 000
Fixed assets at book value	780 540	
Loan MAP Bank		140 200
Fixed deposit :Heeda Investments	30 000	
Trading stock	104 000	
Debtors' control	28 450	
Provision for bad debts		1 250
Bank		23 000
SARS: PAYE		3 200
SARS: Income tax	46 000	
Cash float	1 000	
Creditors' control		67 340
Net income before tax and additional adjustments		140 000
	989 990	989 990

ADDITIONAL INFORMATION

The accountant calculated the **net income before tax** to be R140 000. The following adjustments and other information were not taken into account:

- The amount due by debtor G.Galu, R700, must be written off as irrecoverable and the provision for bad debts must be adjusted to R1 105.
- A credit note from creditor Ngele Suppliers for merchandise returned on 28 June 2009 had not been entered, R820.
- A physical stocktaking on 30 June 2009 showed that the following were on hand:

Trading stock	R98 000
Consumable stores	<u>R 540</u>
	<u>R98 540</u>
- 50% of the fixed deposit at Heeda Investments will mature on 31 March 2010

5. The loan from MAP Bank has been debited with R44 400 that is 12 payments of R3 700 per month including the interest. The accountant has calculated that the following:

Beginning of the year (1 July 2008): R184 600

End of the year (30 June 2009): R162 124

An adjustment for interest must be made.

Over the next financial year this loan will reduce by R26 000.

6. Advertisements include an amount of R6 240 for a billboard advertisement at the Garwa High School for a period of two years commencing on 1 September 2008.
7. The salary of one employee Kala Hoendier was not taken into account in June 2009. His salary and all the amounts owing for salary deductions will be paid on 2 July 2009.

GROSS SALARY	DEDUCTIONS			NET SALARY
	SARS: PAYE	Pension Fund	UIF	
R10 000	R3 000	R900	R100	R6 000

The business contributes on a rand-for-rand basis to the Pension Fund and UIF. These contributions are not included in the totals above.

8. Income tax for the financial year has been calculated to be R42 500.
9. The directors declared a final dividend of 7½ cents per share

ACTIVITY 2 (Start in class – complete as self study)

Instructions:

1. Read through the question 2, taking careful note of the marks allocated for each question and the time you should spend on each question
2. Use your notes from the previous sessions to assist you to answer these questions
3. After 10 minutes you will be asked to stop working by your tutor, so that you can ask questions and to confirm you are on the right track
4. Complete the activity for homework and bring your answer to the next session

CASE STUDY: 20 marks 20 minutes

ESKOM BONUSES 'NOT ON'

Daily News, Monday 14 April 2008

Johannesburg: The Democratic Alliance said a comment by public enterprises minister Alec Erwin that Eskom executives deserved performance bonuses was laughable.

DA Spokesman Manie van Dyk said the executives did not deserve any bonus.

“Given the frequency with which power cuts have occurred and the 14% price hike of electricity, bonuses are not warranted,” Van Dyk said.

Speaking at a conference in Rustenburg last week, Erwin had said a decision to give the bonuses had been made and was supported because Eskom executives had done well in the past financial year.

“If we treat our senior executives badly, we will struggle to keep them. We must treat people fairly,” he said.

Van Dyk said Erwin’s comments showed that Eskom’s inability to supply power would have no bearing when bonuses were paid. – SAPA

QUESTIONS

- 2.1 Bonuses to executives are paid in many businesses. Why then is the DA arguing that the Eskom directors should not be receiving theirs? Discuss fully by referring to the current situation in the country. (6)
- 2.2 What do you understand by the term ‘performance bonuses’? Why do you think Eskom have decided to pay their directors performance bonuses? (4)
- 2.3 In view of your answer to no. 1 and 2 above do you believe it is unethical to pay the bonuses to the directors? Why? (4)
- 2.4 Why do businesses pay performance bonuses in lieu of salary increases? Discuss fully. (2)
- 2.5 From an internal control point of view how would the accountant keep track of what bonuses to pay out? Discuss fully. (4)

[20]

QUESTION 3: 55 marks**COMPANY BALANCE SHEET, AUDITING AND STOCK**

You are provided with information relating to Topical Ltd at their year-end 30 June 2008.

REQUIRED

- 3.1 Use the information provided to prepare the Balance Sheet of Topical Ltd on 30 June 2008. Show workings in brackets to earn part-marks. (43)
- 3.2 Auditing:
- 3.2.1 Briefly explain the difference in the work done by the internal auditor and the independent (external) auditor. (3)
- 3.2.2 Briefly explain how an auditor should check that the figures shown for equipment and stock in the financial statements are reasonable. (3)
- 3.2.3 What should the independent auditor do if he feels that the value for equipment is not reasonable? (3)
- 1.2.4 The independent auditor is aware that a new model of TV is now on the market. He knows that the TVs in stock at Topical Ltd cannot be sold at their normal selling price, and they probably would not be sold at their cost price either. What advice do you have for the auditor? Explain. (3)

INFORMATION

1. The following information appeared in the books for fixed/tangible assets on 30 June 2008:
- Land and buildings (cost) R198 000
 - Vehicles (cost) 234 000
 - Equipment (book/carrying value) 269 801
 - Accumulated depreciation on vehicles 233 999
 - Accumulated depreciation on equipment 52 200
2. The investment comprises a fixed deposit at Pretoria Bank, R347 548.
3. Inventories comprise trading stock only. There are no consumable stores on hand. The business sells only one type of TV set. During the year they sold 258 TV sets at a mark-up of 60%. The business uses the WEIGHTED AVERAGE method of valuing stock (round off to the nearest rand). Purchases from the manufacturers were in bulk as follows:

Date	Unit cost	Quantity	Total purchases
10 July 2007	R4 000	120	R480 000
24 November 2008	R4 800	160	R768 000
18 April 2008	R5 300	50	R265 000

4. The authorised share capital comprises 400 000 ordinary shares of R2 par value. To

date, 300 000 of these ordinary shares have been issued. Half of the issued shares were issued at a premium of 60 cents per share.

5. The following figures were obtained from the Retained Income note to the financial statements:

Retained income at the beginning of the year	R 114 000
Net income after tax	R 262 000
Interim dividends paid	R 51 000
Final dividends declared	22 cents per share

6. The loan statement from Sabie Bank reflected the following:

Balance at the beginning of the financial year	R 275 000
12 monthly payments of R6 100 each	R 73 200
Interest capitalised	R 32 500

Over the next financial year, the capital value of the loan will be reduced by R45 600.

7. The provision for bad debts is 5% of book debts. The following balances appeared in the ledger on 30 June 2008:

Debtors control	R 185 000
Creditors control	R 108 000
Income receivable (accrued)	R 3 800
Deferred income (received in advance)	R 6 400
Expenses payable (accrued)	R 7 300

8. No money is owed to SARS or owing by SARS for Income Tax at the end of the year.
9. The missing figure represents cash & cash equivalents.

[55]

QUESTION 4: COMPANY REPORTING 65 marks 39 minutes**4.1 SEBENZA LIMITED**

You are provided with information relating to Sebenza Limited. The company sells entertainment equipment.

REQUIRED

4.1.1 Answer the following questions:

4.1.1.1 Explain the following concept in relation to companies:

- Separate legal entity (2)
- Limited liability (2)

4.1.2 Calculate the correct net profit before tax (12)

4.1.3 The following note to the financial statements:

- Tangible Assets (10)

4.1.4 Complete the Balance Sheet on 31 December 2008 (Where the notes are not required, show workings in brackets.)
NB. Certain figures have been provided. (27)

INFORMATION

1. **Figures extracted from the Ledger accounts on 31 December 2008:**

Ordinary share capital (R5 par value)	R 800 000
Fixed deposit: Slamo Bank	30 000
Fixed deposit: Jigzo Bank	95 000
Creditors control	18 600
Petty cash	7 000
Ordinary Share Premium	80 000
Equipment	575 000
Accumulated depreciation on equipment	86 000
Mortgage loan from Palmbank	?
Bank	6 000(cr)
Depreciation	27 000
Directors fees	38 000

4. **Adjustments and additional information:**

The figures in the Pre-Adjustment Trial balance indicated that the net profit before tax amounted to R343 500 but the following adjustments have not been taken into account:

- 4.1 The company purchased additional equipment on credit for R170 000 on 31 December 2008. The equipment was delivered but no entry has been made.
- 4.2 Depreciation on equipment, R27 000 was entered in the books. On investigation it was found that the amount should have been R22 000.

- 4.3 The figure for Trade and other Receivables is **correct**. The bookkeeper, however, omitted the Trading Stock Deficit, R19 000 and the decrease in the provision for bad debts from R5 000 to R4 500 from the profit and loss account.
- 4.4 In terms of their contracts , the directors are entitled to the following fees for the year:
Snow R30 000 and White R23 000. White's fees have been paid in full. Snow has only been paid 50% of the amount due to her. Provide for Snow's outstanding amount.
- 4.5 Interest on the loan is capitalised. The loan statement from Palmbank on 31 December 2008 reflects the following:

Balance on 1 January 2008	320 000
Interest charged	47 600
Monthly payments including interest to Palmbank in terms of the loan agreement (12 months x R6 000)	72 000
Balance on 31 December 2008	?

- The interest for the year has not yet been entered in the books.
 - Capital repayments on the loan will amount to R8 500 per month in the next financial year.
- 4.6 The Fixed Deposit at Jigzo Bank will mature on 1 April 2009.
- 4.7 No amounts are due to SARS for income tax or VAT. Both these accounts have debit balances.
- 4.8 According to the bank statement, Cheque no. 786 for R2 000 issued to a creditor has not been presented for payment because it was post dated.
- 4.9 Sebenza Limited did not declare a final dividend due to poor economic conditions which impacted on profits for the year
- 4.10 The lease agreement with the new tenant included the following clause:
The rental of R2 400 per month for the period 1 April 2008 -31 December2008 should be used to upgrade existing equipment of Sebenza Limited. The tenant honoured the agreement and the equipment of Sebenza Limited was upgraded. No entries have been processed as yet.

4.2 CORPORATE GOVERNANCE & AUDITING

Study the statement below and then answer the questions, which follow.

DIFFERENCE BETWEEN AUDITING AND ACCOUNTING

Generally, accounting is the writing up of books and the preparation of financial statements, while auditing involves the verifying of incomes and expenditure and also the verification of assets and liabilities in order to enable the auditor to compile a report

- 4.2.1 Why are auditors referred to as 'independent' auditors? (2)
- 4.2.2 In the annual report a shortened Income Statement is presented. This is also referred to as the 'statutory' Income Statement. Explain why it is accepted accounting practice that a short form is provided instead of the full Income Statement. List two points. (4)
- 4.2.3 Mention one consequence for an independent auditor if he/she were negligent in performing his/her duties. (3)
- 4.2.4 The King Code, developed in South Africa, lists **seven important** characteristics for good governance: Discipline, independence, social issues and responsible management to name a few. Choose any **one characteristic not mentioned above** and briefly explain what is meant by it. (3)

(3)
[65]

SECTION B: SOLUTIONS AND HINTS TO SECTION A

QUESTION 1

1.1.1 CALCULATION OF CORRECT NET INCOME			
Net income before adjustments		140 000	
<i>Do not mark details One mark for operation (+ or –) & one mark for figure in each case. If figure cannot be identified then no marks. Use of brackets for negatives is acceptable. If no bracket or no sign, assume it is positive.</i>		Pluses R 34 325 8 marks	
		Minuses R 81 304 12 marks	Amount /
	+ / -		
Bad debts	✓	- 700	✓
Provision for bad debts	✓	+145	✓
Trading stock deficit	✓	- 5 180	✓
Consumable stores on hand	✓	+ 540	✓
Interest on loan	<input checked="" type="checkbox"/>	- 21 924	✓✓
Advertising	✓	+ 3 640	✓
*Salary * May be split or combined R11 000: 4 marks in total	✓	- 10 000	✓
*Pension & UIF contributions	✓	- 1 000	✓
Income tax	✓	- 42 500	✓
		63 021	✓ <input checked="" type="checkbox"/> Inspection

(21)

1.1.2 BOTSO-BOTSO STORES LTD	
NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2009	
RETAINED INCOME	
Balance at beginning of year	85 000 ✓
Net profit after tax the year	63 021 <input checked="" type="checkbox"/> 5.1.1
<i>Ordinary share dividends</i> ✓	18 750 ✓
Balance at end of year <i>Inspection</i>	129 271 ✓ <input checked="" type="checkbox"/>

(7)

TRADE AND OTHER RECEIVABLES/	
Trade debtors (28 450 ✓ - 700✓)	27 750 ✓
Provision for bad debts (1250 – 145)	(1 105) ✓✓
	<input checked="" type="checkbox"/> 26 645 <i>Inspection</i>
SARS: Income tax (46 000✓ – 42 500✓)	3 500 ✓
Prepaid expenses	3 640 ✓✓
\$\$\$ <i>May be directly in BS or as Cash & cash equivalents</i>	<input checked="" type="checkbox"/> 33 785 <i>Inspection</i>

(15)

TRADE AND OTHER PAYABLES/		
Trade creditors (67 340✓ - 820✓)	66 520	✓
Creditors for salaries	6 000	✓✓
SARS: PAYE/ (3 200✓ + 3 000✓)	6 200	✓
Pension fund	1 800	<input checked="" type="checkbox"/> ✓ If/ R900
UIF	200	<input checked="" type="checkbox"/> ✓ If R100
Shareholders for dividends / \$\$\$	18 750	✓
\$\$\$ <i>May be directly in BS</i>	99 470	<input checked="" type="checkbox"/> <i>Inspection</i>
** <i>Current portion of loan – alternative</i>		

(14)

1.1.3 BOTSE-BOTSE STORES LTD BALANCE SHEET AT 30 JUNE 2009		
ASSETS		
NON-CURRENT ASSETS		780 540 ✓
FINANCIAL ASSETS		
Fixed deposit Heeda Bank (30 000-15 000)		15 000 ✓ <input checked="" type="checkbox"/>
CURRENT ASSETS		148 325 <i>Inspection</i>
<i>Inventories</i>		98 540 ✓✓
Trade and other receivables/		<input checked="" type="checkbox"/> 33 785 <i>See Note</i>
Cash and cash equivalents/ (15 000+1000)		16 000 ✓
TOTAL ASSETS		<input checked="" type="checkbox"/> 943 865 <i>Inspection</i>

EQUITY AND LIABILITIES		
SHAREHOLDERS EQUITY		659 271 <input checked="" type="checkbox"/> <i>Inspection</i>
Ordinary shareholders equity		500 000 ✓
Ordinary share premium		30 000 ✓
Retained income		129 271 <input checked="" type="checkbox"/> <i>See Note</i>
NON-CURRENT LIABILITIES		136 124 <i>Any figure</i>
Loan MAP Bank (162 124 – 26 000)		136 124 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
CURRENT LIABILITIES		148 470 <input checked="" type="checkbox"/> <i>Inspection</i>
Trade and other creditors/		99 470 <input checked="" type="checkbox"/> <i>See Note</i>
Current portion of loan **		26 000 ✓✓
Bank overdraft/ (23 000 ✓ ✓)		23 000 ✓
** <i>Current portion of loan may be in the Note</i>		943 865 <input checked="" type="checkbox"/> <i>Inspection</i>

(22)

[79]

ACTIVITY 2: 20 marks 20 minutes**CASE STUDY – COMPANIES**

2.1	At present the country is experiencing an electricity shortage due to mismanagement and not keeping up with power supplies. ✓ ✓ Electricity charges have also increased considerably due to this mismanagement ✓ ✓ Therefore, the DA is arguing that the directors have also not performed well and should not receive bonuses. The public and businesses are suffering from the electricity shortage and the directors should not be benefiting at a time like this. Learners to give any reasonable explanation. ✓ ✓	(6)
2.2	Performance bonuses are paid for very good work / work achieved above the budget or expectations. ✓ ✓ Eskom feel their directors have performed well, despite the electricity shortage. ✓ ✓	(4)
2.3	Learners to give their own opinions but must be substantiated. ✓ ✓ ✓ ✓	(4)
2.4	To encourage workers to work extra hard / to give of their best / to go the extra mile, etc. ✓ ✓	(2)
2.5	Would have to have budgets with pre-determined criteria of what people should achieve. ✓ ✓ All work must then be monitored according to clear and transparent quarterly review assessment criteria in order to determine if the results were better and who was responsible for this. ✓ ✓ Any feasible answer.	(4)

[20]**QUESTION 3**

3.1 TOPICAL LTD / BPK		
BALANCE SHEET AT 30 JUNE 2008		R
ASSETS / BATES		
NON-CURRENT ASSETS		815 350 ✓
Fixed / Tangible assets 198 000 ✓ + 1 ✓ + 269 801 ✓		467 802 ✓
Financial assets		347 548 ✓

CURRENT ASSETS		555 650☑
Inventories 72✓ X R4 585✓✓		330 120☑
Trade and other receivables 185 000✓ – 9 250 ✓ + 3 800✓		179 550☑
Cash and cash equivalents		45 980☑☑
TOTAL ASSETS		1 371 000☑
EQUITY & LIABILITIES		
CAPITAL & RESERVES		949 000☑
Ordinary share capital 300 000 X R2		600 000✓✓
Ordinary share premium 150 000 X 60cents		90 000✓✓
Retained income (114 000✓ + 262 000✓ – 51 000✓)– 66 000✓		259 000☑
NON-CURRENT LIABILITIES		
Loan from Lowveld Bank 275000✓ - 73200✓ + 32500✓ – 45 600✓		188 700☑
CURRENT LIABILITIES		233 300☑
Trade and other payables 108 000✓ + 6 400✓ + 7 300✓		121 700✓
Current portion of loan		45 600✓✓
Shareholders for dividends		66 000☑☑
TOTAL EQUITY & LIABILITIES /		1 371 000☑

[43]

3.2.1	<p>Internal auditor: Is employed by a company to establish and monitor internal control an on on-going basis. Independent auditor: Is appointed by the shareholders to express an opinion on the annual financial statements. ✓✓✓</p> <p><i>MARKS; Excellent = 3 Good = 2 Satisfactory = 2</i></p> <p><i>Poor or wrong = 0</i></p>
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(3)

3.2.2	He should count the stock and the equipment. Control with stock sheets or fixed asset register. Check calculations at cost price. ✓✓✓ <i>MARKS; Excellent = 3 Good = 2 Satisfactory = 2 Poor or wrong = 0</i>	(3)
3.2.3	He will ask the directors to rectify the matter so that the financial statements fairly present the value. If they do not do this, he must qualify his audit report so that the readers can be aware that there is a problem. ✓✓✓ <i>MARKS; Excellent = 3 Good = 2 Satisfactory = 2 Poor or wrong = 0</i>	(3)
3.2.4	He should ensure that the directors revalue the stock at below cost price. He should compare the estimated value to market prices to assess reasonableness. A loss will be written off in the Income Statement. He should ensure that a note appears to the financial statements to explain the method of valuation. Rule of prudence applies. ✓✓✓ <i>MARKS; Excellent = 3 Good = 2 Satisfactory = 2 Poor or wrong = 0</i>	(3) [12]

[55]

QUESTION 4**4.1**

4.1.1.1	<ul style="list-style-type: none"> • Separate legal entity Good answer=2 Satisfactory=1 Incorrect=0 In law a company is regarded as a person separate from its owners- it has its own legal personality and has the same rights and responsibilities as an individual(✓ ✓) 	(2)
	<ul style="list-style-type: none"> • Limited Liability Good answer=2 Satisfactory=1 Incorrect=0 Shareholders cannot be held liable to pay the debts of the company beyond the amount that they have provided as capital. Their losses are limited to the amount contributed by them✓✓ 	(2)

SEBENZA LIMITED**4.1.2 Calculate the correct net profit**

Incorrect net profit before tax	✓343 500
Add:	
Depreciation	✓5 000
Provision for bad debts adjustment	✓500
Rent income	✓✓21 600
Less:	
Trading stock deficit	✓(19 000)
Director's fees	✓✓(15 000)
Interest on loan	✓(47 600)
	☑289 000

(10)

4.13 Notes to the financial statements on 31 December 2008

Tangible Assets	Equipment
Cost at the beginning year	✓575 000
Accumulated depreciation at beginning of the year (86 000✓-27 000✓)	*☑(59 000)
Carrying value at the beginning of the year	☑516 000
Movements	
Additions at cost(170 000✓+21 600✓)	☑191 600
Depreciation	✓(22 000)
Cost at the end of the year	☑766 600
Accumulated depreciation at end of the year	✓(81 000)
	☑685 600

*** NO METHOD MARK IF 86 000**

(12)

4.1.4 SEBENZA LIMITED

Balance Sheet on 31 December 2008

ASSETS		
Non-current assets		☑715 600
*Tangible assets	See 4.1.3	☑685 600
*Fixed Deposit: Slamo Bank		✓30 000
Current Assets		☑752 000
Inventories		500 000
Trade and other receivables		150 000
*Cash and Cash Equivalents(7 000✓+95 000✓)		✓102 000
TOTAL ASSETS		☑1 467 600
EQUITY AND LIABILITIES		
Ordinary Shareholders' Equity		✓962 400
*Ordinary Share Capital		✓800 000
*Ordinary Share Premium		✓80 000
Retained Income		82 400
Non-current liabilities		193 600
*Loan: Palmbank(295 600 ✓-102 000✓)		✓193 600
Current Liabilities		☑311 600
Trade and other payables(18 600✓+170 000✓+15 000✓+2 000✓)		☑205 600
*Short term Loan(8 500✓x12✓)		☑✓102 000
*Bank Overdraft(6 000✓-2 000✓)		☑4 000
TOTAL EQUITY AND LIABILITIES		☑1 467 600

(27)

4.2 CORPORATE GOVERNANCE & AUDITING

4.2.1	<p><i>Any valid point</i>✓✓</p> <p>They cannot be influenced by the company or its directors as their opinion might be called into question. They might be accused of bias if they are not independent. The shareholders do not have access to the books of the company. The auditors do it for them and cannot be biased when they do this</p>	(2)
4.2.2	<p><i>Any two valid points</i>✓✓ ✓✓</p> <ul style="list-style-type: none"> • Easier to understand • Contains material items only(immaterial items not shown) • Confidential information need not be disclosed 	(4)
4.2.3	<p>Good answer=3 Satisfactory=2 Poor=1 Incorrect=0</p> <ul style="list-style-type: none"> • He/she will not be re-appointed as an auditor • The affected party can lay complaints with professional bodies • He/she will face disciplinary procedures from SAICA AND IRBA✓✓✓ 	(3)
4.2.4	<p><i>Any one valid point</i></p> <p>Identify ✓ explanation✓✓</p> <ul style="list-style-type: none"> • Transparency-Information should not be hidden from shareholders and other interested stakeholders(e.g. SARS, Registrar of companies) they have legal rights to have the information • Accountability-if errors are made, the person responsible must own up and attempt to correct the matter • Fairness in dealing with stakeholders-The directors must not favour any one stakeholder over another e.g. employees versus shareholders- both have rights 	(3)

[65]

SECTION C: HOMEWORK

QUESTION 1: COMPANY REPORTING 70 marks 40 minutes**1.1 SABUSO LTD.**

You are provided with information relating to Sabuso Ltd.

REQUIRED

- 1.1.1 Calculate the correct net profit before tax. (12)
- 1.1.2 The following note to the financial statements. (8)
- Tangible Assets
- 1.1.3 Complete the Balance Sheet on 28 February 2008. (25)
- (Where notes are not required show workings in brackets.)
NB: Certain figures have been provided.
- 1.1.4 Answer the following questions:
- 1.1.4.1 (a) What is meant by a 'Statutory Income Statement'? (2)
- (b) Why is the Statutory Income Statement published by a company instead of the detailed Income Statement. (2 points) (4)
- 1.1.4.2 Briefly explain one of the concepts that constitute GAAP and give a practical example of its application. (4)
- 1.1.4.3 Certain individuals are of the opinion that the published financial statements are not an accurate representation of the affairs of a business. List 2 main points that could lead to this conclusion. (4)
- [59]

INFORMATION

- The following figures were identified from the ledger on 28 February 2008.

	R
Equipment	275 000
Accumulated Depreciation on Equipment	86 000
Loan : ABSA	?
Fixed Deposit : FNB	10 000
Fixed Deposit : Barclays	65 000
Retained Income (1 March 2007)	30 000
Ordinary Share Premium	27 500
Petty Cash	5 000
Creditors Control	16 600
Ordinary Share Capital	300 000
Bank	6 000 Cr
Depreciation	22 000
Director's Fees	18 000

• **ADJUSTMENTS AND ADDITIONAL INFORMATION:**

The figures in the Pre-Adjustment Trial Balance indicated the next profit before tax to be R377 200 but the following adjustments have not yet been taken into account:

- The company purchased additional equipment on credit for R70 000 on 28 February 2008. The equipment was received but no entry was made.
- Depreciation on equipment, R22 000 was recorded. On investigation it was revealed that the amount should have been R25 000.
- The bookkeeper has correctly calculated the Inventories and Trade and Other Receivables figures for the Balance Sheet.
He, however, omitted the Trading Stock surplus, R9 000 and an increase in the provision for bad debts R1 500 from the profit and loss account.
- In terms of their contracts, the directors are entitled to the following amounts each year:
Taylor R20 000 and Watson R18 000. Since 1 June 2007, Taylor has been renting an office from Sabuso Ltd. for his wife's business. Instead of paying rent he has asked for the rent to be offset against the Directors Fees he is paid. Any fees owing to him will be paid in the next financial year. The rent is R1 200 a month. As yet, no entries have been made for the rent. Watson's fees have been paid in full. Provide for Taylors fees and the amount still owing.

5. **The loan account from ABSA is reflected below.**

Loan : ABSA

2008					2007				
Feb	28	Bank	CPJ	72 000	March	1	Balance	b/d	320 000
		Balance	c/d	?	Feb	28	Interest on loan	GJ	51 200
				371 200					371 200
							Balance	b/d	?

- The interest on the loan was omitted from the profit and loss account.
 - Repayments including interest amounted to R6 000 per month.
 - Capital repayments on the loan will amount to R5 500 per month in the next financial year.
- The Fixed Deposit at Barclays will fall due on 1 April 2008.
 - No amounts are due to SARS for Income Tax or VAT. Both accounts have debit balances.
 - No final dividends were declared payable due to poor profits.

1.2 CORPORATE GOVERNANCE AND ETHICS: 11 marks

Study the information provided and then answers the questions that follow:

QUESTIONS**1.2.1 Refer to Example A.**

- (a) To which interested party is this report aimed? (1)
- (b) Who prepared this statement? (1)

1.2.2 Assume that you are a shareholder (of the company in **Example A**) and are dissatisfied with the company's performance. Shareholders have proposed a vote of no confidence in the Directors. What characteristics should shareholders look for in appointing the directors? List two points. (4)

1.2.3 Refer to example B

- (a) Give one reason why 'successful businesses build strong relationships with many stakeholders and social partners.' (2)
- (b) Explain why 'adherence by both employees and employers to given rules is good for business'. (Explain one good point) (3)

[11]

INFORMATION

EXAMPLE A	The financial performance is expected to improve during the year but additional cash and working capital will be required. The year-end cash balances are expected to increase and would facilitate a further return of cash to shareholders.
----------------------	---

EXAMPLE B	<p>Successful businesses need to build strong and vibrant relationships with many stakeholders and social partners. Adherence by both employees and employers to give rules is good for business. Ethics is a form of corporate advertising for the private as well as the public sector.</p> <p style="text-align: center;"><i>Dr Engelo Nicolaides (Senior Lecturer - University of Johannesburg)</i></p>
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QUESTION 2: 75 marks 40 minutes

COMPANY REPORTING

2.1 KAMBULO LTD

You are provided with information relating to Kambulo Ltd.

REQUIRED:

- 2.1.1 Complete the Balance Sheet on 30 June 2008. (35)
- 2.1.2 Joan Kambo currently owns 65% of the issued shares. The directors have decided to issue all the unissued shares on 10 January 2009. What is the minimum number of new shares Joan Kambo must buy in order to keep control of the company? (5)

INFORMATION:

- The authorised share capital comprises 800 000 ordinary shares of R4 par value each. By 30 June 2008, 500 000 shares had been issued as follows:
 - 200 000 of these shares were issued at par
 - 300 000 were issued at R5,40 each.
- The mortgage loan statement from Kwezi Bank reflected the following:
 - Balance on 1 July 2007, R830 000
 - Interest capitalised for the year, R94 200
 - Repayments of R12 600 per month (this is to cover interest and loan repayments)The capital sum of the loan is expected to reduce by R60 000 over the next financial year.
- The following balances were extracted from the post-adjustment trial balance on 30 June 2008:
 - Fixed assets at carrying value, R3 408 000
 - Creditors control, R280 000
 - Bank overdraft, R170 000
 - Cash float and petty cash, R8 000.
- There are two fixed deposits at the KZN Bank.
 - One, valued at R360 000, matures on 30 June 2009
 - The other, valued at R80 000, matures on 31 December 2007.
- The following financial indicators apply on the Balance Sheet date:
 - The debt / equity ratio is 0,2 : 1
 - The current ratio is 2 : 1
 - The acid-test ratio is 0,8 : 1.

2.2 CORPORATE GOVERNANCE & AUDITING

2.2.1 The following audit report was issued by the auditors of Kambulo Ltd:

Audit opinion – To the shareholders:

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 30 June 2008 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in South Africa.

Trew & Frank

Chartered Accountants (SA)

Registered Accountants and Auditors

Durban 25 July 2008

- (a) Why is this audit report addressed to the shareholders? (3)
- (b) What is the significance of the reference to the CA (SA) qualification? (2)
- (c) Briefly explain how the firm of Trew & Frank arrives at the opinion that they express in this report. Provide two points. (4)
- (d) Should the shareholders be satisfied with this report? Explain. (3)
- (e) What action would be taken by the professional bodies such as SAICA if Trew and Frank were accused of being negligent in issuing this opinion and what consequences could there be for Trew & Frank? (4)

2.2.2 Consider the following press article (this is based on an actual case):

CEO found guilty of insider-trading charges

Chief Executive Officer of Felon Ltd, YB Goode, will pay about R5-million and cannot serve as the director of a public company for five years under a court order announced on Monday. He had been found guilty of fraud and of contravening the Companies Act and regulations of the JSE.

The amount of R5-million relates to losses which he avoided on the sale of shares in Felon Ltd in December 2007. YB Goode sold Felon Ltd shares a day before the government announced it had declined to approve Felon's new drug for the treatment of cancer, Curex. The share price fell about 80% percent immediately following the government's refusal to approve the Curex drug.

The presiding judge found that YB Goode had been in possession of the privileged information about the government's decision before deciding to sell the shares. He had deliberately not communicated this information to the public, some of whom had consequently lost significant amounts of their retirement funds when the share price subsequently declined.

Felon Ltd announced last week that YB Goode's contract as CEO had been cancelled. Goode was earning R8-million per year in this post.

- (a) In your opinion, has YB Goode been treated fairly by the judge and the company Felon Ltd? Explain your reason briefly. (4)
- (b) If you were a major shareholder of Felon Ltd, what personal characteristics would you look for in appointing the CEO and other directors to prevent a similar problem in future? Provide two points. (4)
- (c) Consider the case of Joan Kambo buying more shares in Kambulo Ltd (see 5.1 above). As CEO, what should she do before buying the new shares? Explain briefly. (4)

2.2.3 South Africa is playing a leading role in promoting good corporate governance. The King Code is often used as a good example of this. One of the recommendations of the King Code is that companies should be required to reflect in their annual reports the contributions that they make to benefit the community at large e.g. social and environmental issues.

- (a) Provide an example of a company that has been complying with this aspect of the King Code. Briefly explain the contribution that this company is making to the community. (3)
- (b) You heard a comment that companies should be primarily concerned about the interests of the shareholders, not the greater community. Explain why this opinion would not be supported in modern times. (4)

[65]

[75]

SECTION D: SOLUTIONS TO HOMEWORK

QUESTION 1

1.1

1.1.1 Calculate the correct net profit before tax.

Incorrect net profit before tax		
Add:	377 200	✓
Trading Stock Surplus	9 000	✓✓
Rent income	10 800	✓✓
Less:		
Depreciation	(3 000)	✓
Provision for bad debts adjustment	(1 500)	✓
Directors Fees	(20 000)	✓✓
Interest on Loan	(51 200)	✓✓
Correct net profit before tax	321 300	☑ (12)

1.1.2 Sabuso Ltd.

Notes to the Financial Statements on 28 February 2008

Tangible Assets	Equipment
Cost at beginning of the year	275 000√
Accumulated depreciation at beginning of year	(64 000) √
Carrying value at beginning of year	211 000☑
Movements	
Additions at cost	70 000√
Depreciation	(25 000) √
Cost at end of year	345 000√
Accumulated depreciation at end of year	(89 000) √
Carrying value at end of year	256 000☑

(8)

1.1.3 Sabuso Ltd.

Balance Sheet on 28 February 2008

ASSETS	
Non-current assets	266 000☑
* Tangible assets	256 000☑
* Fixed Deposit : FNB	10 000√☑
Current assets	735 000☑
Inventories	480 000
Trade and Other Receivables	185 000
* Cash + Cash Equivalents (5 000√ + 65 000√)	70 000√
TOTAL ASSETS	1 001 000☑
EQUITY AND LIABILITIES	
Ordinary shareholders' equity	600 000√
* Ordinary Share Capital	300 000√

(9)

* Ordinary Share Premium	27 500✓	
Retained Income	272 500	(3)
Non-current liabilities		
* Loan : ABSA (299 200✓ - 66 000✓)	233 200✓	(3)
Current liabilities	167 800✓	
Trade and other payables (16 600 ✓ + 70 000✓ + 9 200✓)	95 800✓	
* Current portion on loan (5 500 X 12)	66 000✓✓	
* Bank Overdraft	6 000✓✓	(10)
TOTAL EQUITY AND LIABILITIES	1 001 000✓	[25]

1.1.4

1.1.4.1	(a) • Shortened Income Statement in terms of the Companies Act. ✓✓ Contains only disclosable Incomes and Expenses.	(2)
	(b) • Easier to understand. • Contains only material items (Immaterial Items not shown.) • Confidential information need not be shown. 2 X ✓✓	(4)
1.1.4.2	Name of Concept ✓ : List any one of Going-Concern, Matching, Materiality, Historic Cost, Prudence, Business Entity. Explanation: ✓✓ Explain one of the above. Example: ✓ Practical example	(4)
1.1.4.3	• Use of Historical Cost rule • Certain assets are not shown (goodwill, quality of management) • Time delay before publication (could be 6 months) • Directors' report often only focuses on positive aspects etc. 2 x ✓✓ • Might be abridged statements • Materiality, etc.	(4)

[59]

1.2 CORPORATE GOVERNANCE AND AUDITING

1.2.1	(a) Refer to Example A. To which interested party is this report aimed? Shareholders. ✓	(1)
	(b) Who prepared this report?	

	Directors✓ or Chairman	(1)
1.2.2	Qualifications, Leadership Skills, Management Skills, Gender Equity, Black Economic Empowerment, Honesty/Ethics, Proven track record etc.	(4)
	(Any 2 x ✓✓)	

1.2.3	Refer to Example B.	
	(a) (Any 1 x ✓✓)	
	<ul style="list-style-type: none"> Ethically correct to do so. (Put something back into the Community) Companies benefit from the communities they serve. Goodwill earned enhances companies' sustainability. 	
	<ul style="list-style-type: none"> Profits are likely to increase due to support of communities in the future. 	(2)
	(b) (Explain one good point)	
	<ul style="list-style-type: none"> Ethical conduct and integrity leads to long term (sustainable) success. (profitability) No-one wants to do business with people they don't trust. Creates good corporate culture (values and attitudes) Guide employees in dealing with each other, customers and other stakeholders, etc. 	
	(Any valid point ✓✓✓ well explained)	(3)

[11]**TOTAL MARKS: 70****QUESTION 2****2.1.1 KAMBULO LTD****BALANCE SHEET ON 30 JUNE 2008**

ASSETS		
Non-current assets	✓ 3 768 000	
Fixed assets	✓ 3 408 000	
Investment – Fixed deposit at KZN Bank	✓✓ 360 000	
Current assets (510 000 x 2)	✓✓ 1 020 000	(4)
Inventories (510 000 x 1,2) or (1 020 000 – [0,8 x 510 000])	✓✓ 612 000	
Trade & other receivables (0,8 x 510 000 = 408 000 – 88 00)	✓✓ 320 000	
Cash & cash equivalents (8 000 ✓ + 80 000 ✓)	✓ 88 000	
- TOTAL ASSETS	✓ 4 788 000	(10)

EQUITY & LIABILITIES		
Ordinary shareholders' equity	(713 000 <input checked="" type="checkbox"/> / 0,2 ✓)	<input checked="" type="checkbox"/> 3 565 000
Ordinary share capital	(500 000 ✓ x R4 ✓)	<input checked="" type="checkbox"/> 2 000 000
Share premium	(300 000 ✓ x R1,40 ✓)	<input checked="" type="checkbox"/> 420 000
Retained income		<input checked="" type="checkbox"/> 1 145 000
		(10)
Non-current liabilities	830 000 ✓ + 94 200 ✓ – 151 200 ✓ – 60 000 ✓	713 000
Mortgage loan from Kwezi Bank		<input checked="" type="checkbox"/> 713 000
		(5)
Current liabilities		<input checked="" type="checkbox"/> 510 000
Trade & other payables (* or 280 000 + 60 000)		<input checked="" type="checkbox"/> 280 000
Bank overdraft		<input checked="" type="checkbox"/> 170 000
Current portion of loan (* or shown as T&OP)		<input checked="" type="checkbox"/> 60 000
		(6)
TOTAL EQUITY & LIABILITIES		<input checked="" type="checkbox"/> 4 788 000
		[35]

2.1.2 Kambo currently owns = 65% of 500 000 = 325 000 shares

She needs to own at least =

400 001 shares or 51% of 800 000 = 408 000

She needs to buy = $400\ 001 - 325\ 000 = 75\ 001$

OR

If they sell in lots of 100, she needs = $400\ 100 - 325\ 000 = 75\ 100$

OR

If she buys 51%, she needs = $408\ 000 - 325\ 000 = 83\ 000$

(5)

2.2.1 (a) The auditors are appointed by the shareholders – they own the company but they do not have access to the books and records of the company.

Any reasonable explanation focusing on the separation of ownership (by shareholders) from control (by directors).

✓✓✓ Part-marks may be awarded for inadequate or incomplete answers.

(3)

(b) The audit has been done by professionals with a CA qualification. This provides assurance to the readers that the audit has been properly done.

Any reasonable explanation.

✓✓ Part-marks may be awarded for inadequate or incomplete answers.

(2)

- (c) They must assess the internal control.
They must do checks of a sample of transactions.

✓✓ ✓✓ Two marks per point.

(4)

- (d) Yes. ✓ Explanation: ✓✓

Any valid point – Possible responses:

It is an unqualified report,

The auditors have not mentioned any irregularities.

The financial statements comply with the law and regulations.

The auditors are properly registered and qualified.

(3)

- (e) Action by SAICA ✓✓ Possible consequence ✓✓ any valid point
Expected responses: SAICA to investigate the complaint & institute a disciplinary hearing.

Consequence: Trew & Frank could possibly be suspended or deregistered if found guilty of negligence. They could be prevented from auditing books of companies. They could also be sued by the complainant.

(4)

- 2.2.2 (a) Opinion: Yes / No ✓ – to be supported by valid reason.

Possible reasons: He deliberately sold these shares by misleading other people about the prospects of the company. By remaining quiet he implied that all was well.

✓✓✓ Any valid reason. Part-marks for incomplete reasoning.

(4)

- (b) Any valid points – two marks each. ✓✓ ✓✓

Expected responses:

Honesty or integrity

Accountability

Transparency

Awareness of the law e.g. Companies Act

(4)

- (c) Any two valid points.

Two marks each ✓✓ ✓✓ Part-marks for incomplete or unclear points.

Declare here interest/intention in buying the new shares

As CEO she must ensure that all information about the company is public knowledge.

Ensure that correct procedure has been followed.

(4)

2.2.3 South Africa is playing a leading role in promoting good corporate governance. The King Code is often used as a good example of this. One of the recommendations of the King Code is that companies should be required to reflect in their annual reports the contributions that they make to benefit the community at large e.g. social and environmental issues.

(a) Any plausible example ✓ Contribution ✓✓.

Standard Bank – supports sport such as Cricket ODIs

SA Breweries – entrepreneurship

Sasol – cultural heritage

Pick 'n Pay - conservation

(3)

(b) **Expected response:** Companies might make big profits for the shareholders, but cause problems for the wider community e.g. pollution. The public needs to know about this. Companies which abuse the environment or the community should not be supported.

(4)

Any plausible reason ✓✓✓✓ Part-marks for unclear responses.

[40]

[75]

CONSOLIDATION EXERCISES

Teacher Note: The intention of this session is for learners to do questions under exam conditions in the time allocated. Additional questions are provided for learners to complete for revision. Solutions for learners are in the Learner Homework booklets.

LESSON OVERVIEW

1.	Introduce session:	5 minutes
2.	Review of additional questions from previous session	10 minutes
3.	Typical exam questions Question 1:	25 minutes
3.	Review/solutions/memo Question 1:	10 minutes
4.	Typical exam questions Question 2:	40 minutes

SECTION A: TYPICAL EXAM QUESTIONS**HINTS**

- Remember the new ledger accounts
- Income tax only comes about as an adjustment at the end of the year
- All provisional payments to SARS affect the bank account

SECTION A: TYPICAL EXAM QUESTIONS**QUESTION 1****30 marks****25 minutes****RECONCILIATIONS & INTERNAL CONTROL**

You are provided with three examples of reconciliations done by employees in the accounting department of Soweto Stationers,

REQUIRED

Inspect the information provided, and then answer the questions that follow.

INFORMATION:

BANK RECONCILIATION STATEMENT	
ON 29 FEB 2008	
	<i>R</i>
Balance per bank statement	Credit 8 000
Outstanding deposit	3 000
Outstanding cheques	
No 1040 dated 13 Feb 2008	2 200
No 1052 dated 18 Aug 2008	8 000
No 1055 dated 28 Feb 2008	4 300
Balance per ledger account	?

EXAMPLE**A**

CREDITORS RECONCILIATION STATEMENT**ON 29 FEB 2008****EXAMPLE****B**

ACE WHOLESALERS	R
Balance per creditors statement for Feb	Debit 5 000
Invoices not reflected on statement	
Invoice No 225	7 200
Invoice No 287	3 100
Payments not reflected on statement:	
Dated 20 Jan 2008	6000
Dated 28 Feb 2008	3000
Returns not reflected on statement:	
Debit note No. 44	1 100
Balance per ledger account	?

RECONCILIATION OF CREDITORS CONTROL ACCOUNT TO CREDITORS LISTING ON 29 FEB 2005**EXAMPLE****C**

	R
Balance per Creditors Control account	46 000
Balances per Creditors Ledger	
Ace Wholesalers	?
Busta Furnishers	20 000
Camel Security Services	22 000
Dumbo CC	?
Difference	?

QUESTIONS

- 1.1 Briefly explain what you understand by the term 'internal control' and why it is important to apply this in a business. (3)
- 1.2 Briefly explain the purpose of each of reconciliation examples A, B & C prepared by employees of Soweto Traders. (6)
- 1.3 According to the bank statement, does this business have a favourable bank balance or a bank overdraft? Provide your reason. (2)
- 1.4 Calculate the Bank balance in the ledger of Soweto Stationers on 29 February 2008. (2)
- 1.5 List the main instructions you would give to an employee of Soweto Stationers when preparing a bank reconciliation statement. (6)
- 1.6 When preparing the financial statements of Soweto Stationers at the end of February 2008, what Bank balance would you reflect under Cash & cash equivalents? (2)
- 1,7 Calculate the correct amount owed to Ace Wholesalers by Soweto Stationers. (3)
- 1.8 Consider Example C. What advice would you give to the employee responsible for this reconciliation if a difference is detected at the end of the month? Explain briefly. (6)
- [30]

QUESTION 2**COMPANY REPORTING****53 marks****39 minutes****2.1 SEBENZA LIMITED**

You are provided with information relating to Sebenza Limited. The company sells entertainment equipment.

REQUIRED

- 2.1.1 Answer the following questions:
- 2.1.1.1 Explain the following concept in relation to companies:
- Separate legal entity (2)
 - Limited liability (2)
- 2.1.2 Calculate the correct net profit before tax. (10)
- 2.1.3 The following note to the financial statements:
- Tangible Assets (12)
- 2.1.4 Complete the Balance Sheet on 31 December 2008
(Where the notes are not required show workings in brackets.)
NB. Certain figures have been provided. (27)

INFORMATION**1. Figures extracted from the Ledger accounts on 31 December 2008:**

Ordinary share capital (R5 par value)	R 800 000
Fixed deposit: Slamo Bank	30 000
Fixed deposit: Jigzo Bank	95 000
Creditors control	18 600
Petty cash	7 000
Ordinary Share Premium	80 000
Equipment	575 000
Accumulated depreciation on equipment	86 000
Mortgage loan from Palmbank	?
Bank	6 000(cr)
Depreciation	27 000
Directors fees	38 000

2. Adjustments and additional information:

The figures in the Pre-Adjustment Trial balance indicated that the net profit before tax amounted to R343 500 but the following adjustments have not been taken into account:

- 2.1 The company purchased additional equipment on credit for R170 000 on 31 December 2008. The equipment was delivered but no entry has been made.
- 2.2 Depreciation on equipment, R27 000 was entered in the books. On investigation it was found that the amount should have been R22 000.
- 2.3 The figure for Trade and other Receivables is **correct**. The bookkeeper, however, omitted the Trading Stock Deficit, R19 000 and the decrease in the provision for bad debts from R5 000 to R4 500 from the profit and loss account.
- 2.4 In terms of their contracts, the directors are entitled to the following fees for the year:
Snow R30 000 and White R23 000. White's fees have been paid in full. Snow has only been paid 50% of the amount due to her. Provide for Snow's outstanding amount.
- 2.6 The Fixed Deposit at Jigzo Bank will mature on 1 April 2009.
- 2.7 No amounts are due to SARS for income tax or VAT. Both these accounts have debit balances.
- 2.8 According to the bank statement, cheque no. 786 for R2 000 issued to a creditor, has not been presented for payment because it was post dated.
- 2.9 Sebenza Limited did not declare a final dividend due to poor economic conditions which impacted on profits for the year.
- 2.10 The lease agreement with the new tenant included the following clause:
The rental of R2 400 per month for the period 1 April 2008 - 31 December 2008 should be used to upgrade existing equipment of Sabena Limited. The tenant honoured the agreement, and the equipment of Sebenza Limited was upgraded. No entries have been processed as yet.

QUESTION 3**55 marks****35 minutes***(DoE 2010)*

You are provided with information relating to Kanela Limited. The financial year-end is 28 February 2010.

REQUIRED:

- 3.1 Use the information below to prepare the Balance Sheet on 28 February 2010. All workings must be shown in brackets – the NOTES to the financial statements are not required. (41)
- 3.2 The Managing Director, Jan Kriel, currently owns 45% of the issued shares. The board of directors has decided to issue the unissued shares to the public. Jan wants to use this opportunity to gain control of the company.
- 3.2.1 How many shares would he have to buy to gain control of the company? (3)
- 3.2.2 Jan plans to purchase the shares himself at par value without advertising the shares to the public. The current market price of a share is R3,10. If you were a shareholder in this company would you be satisfied with this arrangement? Explain. (5)
- 3.3 Kanela Limited has donated funds to build a high school in the community and they have spent considerable amounts in cleaning up a river and a forest area which has been neglected.
- 3.3.1 Explain why large companies like Kanela Ltd are expected to be involved in such projects. (3)
- 3.3.2 Explain how the directors should reflect these projects in the annual report which is published for shareholders. (3)

INFORMATION:

- The authorised share capital comprises 1 000 000 ordinary shares of R2,00 par value each. By 28 February 2009, 600 000 ordinary shares had been issued at par. During the current financial year a further 200 000 shares were issued at a premium of R0,70 each.
- The following balances were extracted from the books on 28 February 2010:
 - Land & Buildings at cost, R1 800 000
 - Equipment at cost, R300 000
 - Creditors' control, R720 000
 - Debtors' control, R530 000
 - Creditors for salaries, R36 000
 - Income receivable, R24 000
 - Cash at bank, R66 000
- One of the fixed deposits, R175 000, matures on 30 September 2010. The rest matures in 2012.
- A loan from Easi Bank of R1 500 000 was originally received on 1 March 2008. This is to be repaid in equal monthly instalments over 5 years.

5. All the equipment was purchased on the same day, 1 October 2007. Depreciation is written off at 20% p.a. on cost price.
6. The following financial indicators apply at the end of the financial year.
 - The net asset value is R2,58 and the price on the JSE is R3,10
 - The current ratio is 1,5 : 1

[55]

SECTION B: SOLUTIONS AND HINTS TO SECTION A
QUESTION 1

- 1.1 The procedures and divisions of duties in place in an accounting department to ensure that all assets are safeguarded - essential to achieve profit objectives of the owners and to safeguard their investment
✓✓✓ (3)
- 1.2 Example A: To check the bank balance in a business' books to the external evidence (i.e. the bank statement). ✓✓
Example B: To check a creditor's balance in the Creditors Ledger to the external evidence (i.e. the Creditor's statement). ✓✓
Example C: To ensure that the work done by the General Ledger clerk agrees with the work done by the Creditors Ledger clerk. ✓✓ (6)
- 1.3 Favourable ✓ – in the bank's books it is a credit balance (i.e. the bank owes money to the business) ✓ (2)
- 1.4 R3 500 ✓✓ (2)
- 1.5 Tick off items that appear in the cash journals & bank statement
Correct errors in cash journals
Items which do not appear in the bank statement to be noted in the reconciliation
Balance the bank account in the ledger after posting from journals
Compare balance on ledger account to that of bank statement – outstanding items are the difference
Full understanding of processes – 5 or 6 marks
Understanding of most processes – 4 marks
Moderate understanding – 3 marks
Adequate understanding – 2 marks
Elementary understanding – 1 mark
No understanding – 0 marks (6)
- 1.6 R11 300 i.e. R8 000 more than answer to 1.4 ✓✓ (2)
- 1.7 R5 200 ✓✓✓ (3)

- 1.8 Check casting and posting of journal totals to control account
 Check postings of all entries from journals to Debtors Ledger
 Check opening balances from previous month
 Check calculation of closing balances

Full understanding of processes – 5 or 6 marks

Understanding of most processes – 4 marks

Moderate understanding – 3 marks

Adequate understanding – 2 marks

Elementary understanding – 1 mark

No understanding – 0 marks

(6)
[30]

QUESTION 2

2.1

2.1.1

2.1.1.1 Separate legal entity

Good answer=2 Satisfactory=1 Incorrect=0

In law a company is regarded as a person separate from its owners - it has its own legal personality and has the same rights and responsibilities as an individual(✓ ✓)

(2)

Limited Liability

Good answer=2 Satisfactory=1 Incorrect=0

Shareholders cannot be held liable for paying the debts of the company beyond the amount that they have provided as capital. Their losses are limited to the amount contributed by them✓✓

(2)

SEBENZA LIMITED

2.1.2 Calculate the correct net profit

Incorrect net profit before tax	✓343 500
Add:	
Depreciation	✓5 000
Provision for bad debts adjustment	✓500
Rent income	✓✓21 600
Less:	
Trading stock deficit	✓(19 000)
Director's fees	✓✓(15 000)
Interest on loan	✓(47 600)
	✓289 000

(10)

2.1.3 Notes to the financial statements on 31 December 2008

Tangible Assets	Equipment
Cost at the beginning year	✓575 000
Accumulated depreciation at beginning of the year (86 000✓ -27 000✓)	*☑(59 000)
Carrying value at the beginning of the year	☑516 000
Movements	
Additions at cost(170 000✓ +21 600✓)	☑191 600
Depreciation	✓(22 000)
Cost at the end of the year	☑766 600
Accumulated depreciation at end of the year	✓(81 000)
	☑685 600

* NO METHOD MARK IF 86 000

(12)

**2.1.4 SEBENZA LIMITED
Balance Sheet on 31 December 2008**

ASSETS	
Non-current assets	☑715 600
*Tangible assets (SEE 2.1.3)	☑685 600
*Fixed Deposit: Slamo Bank	✓30 000
Current Assets	☑752 000
Inventories	500 000
Trade and other receivables	150 000
*Cash and Cash Equivalents(7 000✓ +95 000✓)	✓102 000
TOTAL ASSETS	☑1 467 600

EQUITY AND LIABILITIES	
Ordinary Shareholders' Equity	✓962 400
*Ordinary Share Capital	✓800 000
*Ordinary Share Premium	✓80 000
Retained Income	82 400
Non-current liabilities	193 600
*Loan: Palmbank(295 600 ✓-102 000✓)	✓193 600
Current Liabilities	☑311 600
Trade and other payables(18 600✓+170 000✓+15 000✓+2 000✓)	☑205 600
*Short term Loan(8 500✓x12✓)	☑✓102 000
*Bank Overdraft(6 000✓-2 000✓)	☑4 000
TOTAL EQUITY AND LIABILITIES	☑1 467 600

(27)

[53]

QUESTION 3

3.1 KANELA LIMITED
BALANCE SHEET ON 28 FEBRUARY 2010

ASSETS		
Non-current assets		<input checked="" type="checkbox"/> 2 136 000
Fixed assets (1 800 000 ✓ + 300 000 ✓ – 145 000 ✓✓)		<input checked="" type="checkbox"/> 1 955 000
Investments		<input checked="" type="checkbox"/> 181 000
Current assets		<input checked="" type="checkbox"/> 1 584 000
✓ Inventories		<input checked="" type="checkbox"/> 789 000
✓ Trade & other receivables (530 000 ✓ + 24 000 ✓)		✓ 554 000
✓ Cash & cash equivalents (175 000 ✓ + 66 000 ✓)		✓ 241 000
TOTAL ASSETS	19	<input checked="" type="checkbox"/> 3 720 000
EQUITY & LIABILITIES		
Ordinary shareholders' equity		✓✓ 2 064 000
✓ Ordinary share capital (1 200 000 ✓ + 400 000 ✓)		✓ 1 600 000
✓ Share premium		✓✓ 140 000
✓ Retained income		<input checked="" type="checkbox"/> 324 000
Non-current liabilities		<input checked="" type="checkbox"/> 600 000
Loan from Easi-Bank (1 500 000 – 900 000)		✓✓ 600 000
Current liabilities		<input checked="" type="checkbox"/> 1 056 000
Trade & other payables (720 000 ✓ + 36 000 ✓)		✓ 756 000
✓ Current portion of loan		✓✓ 300 000
TOTAL EQUITY & LIABILITIES	22	<input checked="" type="checkbox"/> 3 720 000

(41)

3.2.1

He currently owns 45% of 800 000 shares = 360 000 ✓

He needs to own 50%+1 of 1 000 000 shares = 500 001 ✓ (accept 500 100 or 501 000)

He needs to purchase = 140 001 (accept 140 100 or 141 000)

(3)

3.2.2 No ✓

Explanation: ✓✓✓✓

Excellent explanation = 4 marks; Good explanation = 3 marks;
satisfactory explanation = 2 mark, Poor Explanation = 1 mark, incorrect = 0 marks

Candidates are expected to identify the ethical considerations, e.g., the issue should be in line with the memorandum and articles of association, or freely available to the public unless special circumstances apply such as a rights issue. The fact is that the issue price should be at current market value, or that the strategy to gain control of the company is inappropriate.

Expected response:

As this is a public company, the shares should be offered to the public. The shares should be issued at the current market value of R3,10 which will bring in R620 000 to the company. If Jan pays the par value, this would only amount to R400 000. He would, therefore, be benefiting while the other shareholders will be disadvantaged through dilution of the share price. Jan was not the majority shareholder before the issue of these shares. If he sells these shares to himself, he will have overall control of company decisions which will also impact on the other shareholders and directors.

(5)

3.3.1 Excellent explanation = 3 marks; Good explanation = 2 marks;
satisfactory explanation = 1 mark, incorrect = 0 marks

Expected responses:

- The King Code covers the triple bottom line concepts, i.e. economic, social and environmental responsibilities **OR**
- Big companies rely on communities and the world around them in order to sustain profits. The fact that they are giving back to the community, makes it the right thing to do.

(3)

3.3.2 Excellent explanation = 3 marks; Good explanation = 2 marks;
satisfactory explanation = 1 mark, incorrect = 0 marks

Expected responses:

The cost of these projects should be highlighted in the income statement or the notes to the financial statements. The directors should fully inform all readers of the financial statements about the nature of these projects and the good work in which the company is involved.

(3)

[65]

PART I: COMPANIES INTERPRETATION OF FINANCIAL STATEMENTS

Teacher Note: There are two parts to this session. Part 1 is designed to be done with the guidance of the tutor. Learners are not expected to complete Question 2 in class but need to do as much as possible in the time allocated. Part 2 is design as a self study.

LESSON OVERVIEW

- | | | |
|----|--|------------|
| 1. | Introduce session: | 5 minutes |
| 2. | Typical exam question: Question 1: | 35 minutes |
| 3. | Review/solutions/memo Question 1: | 15 minutes |
| 4. | Typical Exam Question: Question 2 | 20 minutes |
| 5. | Review progress on Question 2 / Hiints | 10 minutes |
| 6. | Topic 2: Self Study | |

SECTION A: TYPICAL EXAM QUESTIONS

QUESTION 1 **55 marks** **35 minutes** *(Adapted from New Era Study Guide)*

INTERPRETATION OF FINANCIAL INFORMATION

You are provided with information relating to Bhaga Toys Limited.

REQUIRED

- 1.1 A company's published annual report comprises five main parts. Match the components of the annual report in COLUMN 1 with the description in COLUMN 2. The first one has been done for you.
Write only the letter (A – E) next to the question number (1 – 5), for example 6 – C.

COLUMN 1		COLUMN 2	
COMPONENTS OF THE ANNUAL REPORT		DESCRIPTION	
1	Income Statement	A	this is a written verbal explanation of the operations of the company during a financial year
2	Balance Sheet	B	this reflects whether or not the shareholders can rely on the financial statements
3	Cash-Flow Statement	C	this reflects the profit/loss of the company for the year
4	Directors' Report	D	this reflects the effect of the operating,

			financial and investing activities on the cash resources
5	Independent Auditor's Report	E	this reflects the net worth of the company

(4)

1.2 Refer to information 1, 2 and 3 at the end of this question.

Calculate the following financial indicators for 2008:

- Acid-test ratio (4)
- Stock turnover rate (4)
- Debt/Equity ratio (3)
- Net asset value per share (4)
- Earnings per share (3)

1.3 Comment on the liquidity situation of the company. Quote THREE relevant financial indicators (actual ratios or percentages) to support your answer. (8)

1.4 The company directors feel that the shareholders should be very happy with the returns, earnings and dividends of the company. Quote THREE relevant financial indicators (actual ratios or percentages) to support their opinion. (6)

1.5 Refer to the market value per share. Many people feel that the market value of the share on the JSE indicates whether or not the directors are doing a good job. (2)

- Explain why the market value is so important in this regard.
If the company issued all its unissued shares next year, how much capital could they expect to raise for the company? Provide a calculation to support your opinion. Note that the authorised share capital comprises 1 000 000 ordinary shares of R2 par value. (4)

1.6 Rather than issue more shares, the directors are considering taking out additional loans. Quote TWO relevant financial indicators (actual ratios or percentages) to support their opinion. (4)

1.7 The auditors have told the directors that Directors' Fees must be shown separately in the financial statements and not as part of Salaries and Wages. The directors do not want to change this. What is your opinion on this problem? Explain. (3)

1.8 Refer to the newspaper article below.

JSE SUSPENDS WOODVIEW LTD OVER NO ANNUAL REPORT

[By Ima Snoop, 12 Feb. 2009]

The trading of shares of furniture company Woodview Ltd were suspended by the JSE Securities Exchange yesterday after the company failed to publish its annual report three months after the end of their financial year-end.

The CEO of Woodview Ltd put out a statement explaining that the auditors had withheld their report and that this was causing a delay.

The company postponed its AGM. The shareholders have not been informed of the reason for the postponement.

Prior to the JSE's action, the share price of Woodview Ltd dropped 30% to 140 cents per share.

The directors of Bhaga Toys Ltd are worried that a similar problem could occur in their company. Briefly explain why this would be a serious problem for the company. Name TWO points. (6)

INFORMATION

1. The following information was extracted from the Income Statement for 2008:

▪ Cost of sales	R976 000
▪ Interest on loan (interest 13% p.a.)	25 000
▪ Net profit before tax	750 000
▪ Net profit after tax	525 000

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

	2008	2007
Current ratio	4,1:1	2,1:1
Acid-test ratio	?	1,3:1
Stock turnover rate	?	8 times p.a.
Debtors collection period	30 days	30 days
Creditors payment period	90 days	60 days
Debt/Equity ratio	?	0,1:1
% return on average shareholders' equity (after tax)	33,3%	25%
% return on total capital employed (before tax)	44,3%	25,8%
Net asset value per share	?	213,6 cents
Market value per share	240 cents	220 cents
Dividends per share	20 cents	10 cents
Earnings per share	?	55,2 cents

3. BALANCE SHEET AS AT 30 JUNE 2008

	2008	2007
ASSETS		
<i>Non-current assets</i>	1 619 040	1 611 000
Fixed assets (carrying value)	1 619 040	1 611 000
<i>Current assets</i>	248 500	157 500
Inventory	99 500	62 500
Trade and other receivables	100 000	40 000
Cash and cash equivalents	49 000	55 000
TOTAL ASSETS	1 867 540	1 768 500

EQUITY AND LIABILITIES		
<i>Ordinary shareholders' equity</i>	1 657 040	1 495 000
Ordinary share capital (R2,00 par value)	1 525 000	1 400 000
Share premium	52 000	40 000
Retained income	80 040	55 000
<i>Non-current liabilities</i>	150 000	200 000
Mortgage loan: Tshwane Bank (13% p.a.)	150 000	200 000
<i>Current liabilities</i>	60 500	73 500
Trade and other payables	60 500	73 500
TOTAL EQUITY AND LIABILITIES	1 867 540	1 768 500

[55]

QUESTION 2: **70 marks** **45 minutes**

COMPANIES – CASH FLOW AND RATIOS

Clarens Ltd has an authorised share capital of 700 000 ordinary shares with a par value of 50 cents per share.

As at 28 February 2007, the end of the previous financial year, they had issued 450 000 ordinary shares all at par value.

REQUIRED: Using the information provided prepare the following:

- 2.1 The Asset Disposal Account on 31 August 2007. Refer to point 7 of the information provided. (9)
- 2.2 Answer the following questions:
- 2.2.1 Use the EPS (see No. 3 below) in order to calculate the number of new shares issued on 1 March 2007. (5)
- 2.2.2 Calculate the dividends per share for the year ended 29 February 2008. (4)
- 2.2.3 Discuss one reason why shareholders would be:
- happy with the dividend policy of this company, and
 - unhappy with the dividend policy of this company.
- Quote financial indicators to support your answer. (4)

- 2.3 Clarens Ltd shares are currently being traded on the stock exchange at R 0.85 per share and the Net Asset Value is R 0.62 per share. The directors have decided to issue the remainder of the authorised shares at R 0.75 cents each. Would you be willing to purchase additional shares at this price? Justify your answer by providing two reasons. (5)
- 2.4 Prepare the Cash Flow Statement for the year ended 29 February 2008 together with the note for cash generated from operations. Where notes are not required, show workings in brackets. (43)

INFORMATION

1. Figures extracted from the Income Statement of Clarens Ltd on 29 February 2008

Depreciation on Vehicles	R22 392
Depreciation on Equipment	R 5 728
Audit Fees	R38 000
Directors Fees	R90 000
Interest on loan from director (interest is capitalised)	R12 000
Net Income Before Tax	R180 000
Net Income After Tax	R126 000

2. New shares were issued on 1 March 2007, at a premium of 20 cents per share.
3. The earnings per share (EPS) for the year ended 29 February 2008 were 20 cents per share.
4. Interim dividends of R 50 400 were **paid** during the current financial year.
5. On 28 February 2007, Clarens Ltd had a loan from a director of R 75 000. The balance of this loan on 29 February 2008 is R 132 000. The loan agreement stipulates that interest is to be capitalized and that repayments of R 1 200 per month are to be made to the director. During the year the loan was also increased.
6. Figures extracted from the Balance Sheet of Clarens Ltd as at the end of February:

	2008	2007
Retained Income	R ?	R 52 200
Book value of total Tangible (Fixed) Assets	R 322 000	R 246 200
Creditors Control	R 35 000	R 28 000
SARS (Income Tax)	R 5 250 (dr)	R 4 000 (cr)
Shareholders for Dividends	R 88 200	R 40 000
Debtors Control	R 63 000	R 66 000
Inventories	R 116 150	R 86 200
Cash and cash equivalents	R ?	R 8 000 (cr)

7. On 30 November 2007, Clarens Ltd sold their only vehicle for cash. The vehicle was sold at book/carrying value. This vehicle was originally bought on 1 March 2005 for R 80 000. A new vehicle was purchased on the same day to replace the vehicle sold. All vehicles are depreciated at 20% p.a. using the cost price method.

These transactions have been recorded. No other tangible assets were bought or sold during the current financial year.

[70]

SECTION B: SOLUTIONS AND HINTS TO SECTION A

QUESTION 1

1.1

Column 1	Column 2
1	C
2	E ✓
3	D ✓
4	A ✓
5	B ✓

(4)

1.2 **Acid-test ratio**

$$R248\ 500 - R99\ 500 = R149\ 000 \quad \checkmark\checkmark$$

$$R149\ 000 : R60\ 500 \quad \checkmark = 2,46 : 1 \quad \checkmark \quad \text{or } 2,5:1$$

Stock turnover rate

$$R99\ 500 + R62\ 500 / 2 = R81\ 000 \quad \checkmark\checkmark$$

$$R976\ 000 \quad \checkmark / R81\ 000 = 12 \text{ times p.a.} \quad \checkmark$$

Debt/Equity ratio

$$R150\ 000 \quad \checkmark : R1\ 657\ 040 \quad \checkmark = 0,09 : 1 \quad \checkmark \quad \text{or } 0,1:1$$

Net asset value per share

$$R1\ 525\ 000 / 2 = 762\ 500 \text{ shares} \quad \checkmark\checkmark$$

$$R1\ 657\ 040 \quad \checkmark / 762\ 500 \times 100 \text{ cents} = 217,3 \text{ cents} \quad \checkmark$$

Earnings per share

$$R525\ 000 \quad \checkmark / 762\ 500 \quad \checkmark = 68,9 \text{ cents} \quad \checkmark$$

General comment $\checkmark\checkmark$ Good=2 Satisfactory=1 No/invalid comment 0

The liquidity is generally satisfactory although some of the indicators may be considered to be too high, e.g. current ratio should be lower; creditors should be paid in a shorter period.

Any THREE valid indicators named $\checkmark\checkmark\checkmark$

Ratios/percentages quoted for each $\checkmark\checkmark\checkmark$

Current ratio 2,1:1 \rightarrow 4,1:1

Acid-test ratio 1,3:1 \rightarrow 2,46:1

Stock turnover rate 8 times p.a. \rightarrow 12 times p.a.

Debtors collection period 30 \rightarrow 30 days

Creditors payment period 60 \rightarrow 90 days

(18)

1.3 *Any THREE valid indicators named ✓✓✓*

Ratios/percentages quoted for each ✓✓✓

Improvement in % return: 25% → 33,3%

Improvement in EPS: 55,2c → 68,9c

Increase in DPS: 10c → 20c

(8)

1.4 *Any THREE valid indicators named ✓✓✓*

Ratios/percentages quoted for each ✓✓✓

Improvement in % return: 25% → 33,3%

Improvement in EPS: 55,2c → 68,9c

Increase in DPS: 10c → 20c

(6)

1.5 *Responses may be expressed differently*

Any valid explanation

Explanation ✓✓

Good = 2 Satisfactory = 1 No/invalid explanation = 0

- The market value is the price at which shares are currently being sold.
- When the market price is higher than the par value, it is an indication to the shareholders that the company is doing well.

If the company issued all its unissued shares next year, how much capital could they expect to raise for the company? Provide a calculation to support your opinion. Note that the authorised share capital comprises 1 000 000 ordinary shares of R2 par value.

Authorised shares = 1 000 000

Issued shares = 1 525 000 / 2 = 762 500 ✓

Available shares = 1 000 000 – 762 500 = 237 500 ✓

Capital to be raised by the issue of unissued shares

= 237 500 x R2 ✓ = R475 000 ✓

(6)

1.6 Any TWO valid indicators named ✓✓

Ratios/percentages quoted for each ✓✓

- Return on capital employed for 2008 = 44,3%
- Current interest rate = 13%
- Debt : equity ratio decreased from 0,1:1 to 0,09:1 (4)

1.7 Any valid comment ✓✓✓

- Transparency regarding what the directors earn
- Shareholders have a right to know what directors earn (3)

1.8 Any TWO valid explanations ✓✓✓ ✓✓✓

- A delay would cause shareholders to become suspicious
- Shareholders would not vote for these directors next year
- New shareholders will avoid the company and share prices could drop
- The directors would be guilty of a criminal offence. In terms of the Company's Act they have to produce financial statements within three months
- It will affect the ability to raise capital/loans in future as investors will be suspicious

Excellent = 3 Good = 2 Weak = 1 No/invalid explanation = 0 (6)

[55]

QUESTION 2

2.1

General Ledger of Clarens Ltd ASSET DISPOSAL

2007				✓	2007		Accum Depr		✓✓✓
Nov	30	Vehicles ✓	Gj	80 000	Nov	30	on Vehicles ✓	Gj	44 000
							Bank ✓	CRJ	36 000
				✓					
				80 000					80 000

(9)

2.2.1 EPS = N.P after Tax / No of shares

$$\text{EPS} = 126\,000 \checkmark / X = 0.20 \checkmark$$

$$X = 630\,000 \text{ Shares}$$

$$630\,000 \checkmark - 450\,000 \checkmark = 180\,000 \text{ new shares issued } \checkmark$$

(5)

2.2.2

✓ ✓ ✓

$$\text{DPS} = (50\,400 + 88\,200) / 630\,000$$

$$\text{DPS} = 138\,600 / 630\,000 * 100$$

$$\text{DPS} = 22 \text{ cents per share } \checkmark$$

(4)

2.2.3 *One reason with financial indicator* ✓✓

Possible answer:

EPS of 20 c is a return of 40% on par value or 23.5% on current market price of 85 cents. This is much better than current investment rate. Those who are short term investors would be happy with such high dividends and not retaining profits as they will be selling their shares in the short term.

**Unhappy with the dividend policy of this company.
Quote financial indicators to support your answer.**

One reason with financial indicator ✓✓

Possible answers:

- EPS only 20 cents per share
- DPS is 22 cents per share
- Company has paid out all the earnings and has also used previously retained income for this year's dividend.
- Directors should be retaining some of the profits for future expansion

(4)

2.3 Yes / No ✓

Reference to market price ✓✓

Reference to Net Asset Value ✓✓

Any other logical reasons provided.

(5)

2.4 **Cash Flow Statement of Clarens Ltd for the year ended 29 February 2008**

	Note	
Cash Flows From Operating Activities:		34 520 ✓
Cash Generated from Operations	1	200 170 ✓
Interest Paid		(12 000) ✓
Dividends Paid (40 000 ✓ + 138 600 ✓ – 88 200 ✓)		(90 400) ✓
Income Tax Paid (4 000 ✓ + 54 000 ✓ + 5 250 ✓)		(63 250) ✓
Cash Flows From Investing Activities:		(103 920) ✓
Purchase of Tangible Assets (322 000 ✓ - (246 200 ✓ - 28 120 ✓ - 36 000 ✓))		(139 920) ✓
Proceeds from sale of tangible assets		36 000 ✓

Cash Flows From Financing Activities:		171 000 ✓
Increase in Loans (75000 ✓ + 12000 ✓ - 14400 ✓ + X = 132 000 ✓)		59 400 ☑
Decrease / Repayment of Loans		(14 400) ✓
Proceeds from issue of shares (180 000 ✓ x 0,70 [0,50 + 0,20] ✓✓)		126 000 ☑
Net Change in Cash Equivalents		101 600 ✓
Cash & Cash Equivalents at beginning of year		(8 000) ✓
Cash & Cash Equivalents at End of year		93 600 ✓

Notes to the Cash Flow Statement:

1. Reconciliation between profit before taxation and cash generated from operations:

Net profit Before Taxation	180 000 ✓
Adjust for the following:	40 120
Depreciation (22 392 + 5 728)	28 120 ✓✓
Interest on borrowed money	12 000 ✓
Operating Profit before changes in working capital	220 120
Changes in Working Capital:	(19 950)
Increase in Inventories	(29 950) ✓✓
Decrease in Debtors	3 000 ✓✓
Increase in Creditors	7 000 ✓✓
Cash Generated from Operations	200 170 ✓

(43)

[70]

SECTION C: HOMEWORK**QUESTION 1: 75 marks 45 minutes****CASH FLOW & INTERPRETATION OF A COMPANY**

The given information was extracted from the accounting records of Gr8 Xpectations Limited on 30 June 2009, the last day of their financial year. Gr8 Xpectations Limited is a public company listed on the Johannesburg Securities Exchange (JSE). They are based in Pretoria and they sell office equipment and stationery.

REQUIRED

- 1.1 What is the purpose of a cash flow statement? (2)
- 1.2 Calculate the missing figures in the cash flow statement. The missing figures are denoted (a) to (i). (18)
- 1.3 Study the completed cash flow statement and the notes to the cash flow statement and answer the following questions:
- 1.3.1 Why is depreciation added to the profit before taxation when the cash generated from operations is calculated? (2)
- 1.3.2 Why was more shares issued when the company made a profit? (2)
- 1.4 Calculate (to one decimal place), unless otherwise stated, the following financial indicators for the year ended 30 June 2009:
- 1.4.1 Mark-up percentage (gross profit percentage) on cost of sales (3)
- 1.4.2 Percentage return on average shareholders' equity (after tax) (4)
- 1.4.3 Earnings per share (3)
- 1.4.4 Net asset value per share (3)
- 1.4.5 Debt/equity ratio(2 decimal places) (3)

1.5 Profitability:

1.5.1 The business aims at a mark-up of 70% on cost. Provide THREE possible reasons why Gr8 Xpectations Limited has not achieved the intended mark-up? (3)

1.5.2 Recommend THREE internal control measures on how management can prevent theft of inventory (stock) by customers and employees. (3)

1.6 Liquidity:

1.6.1 Briefly explain the difference between the current ratio and the acid-test ratio. (2)

1.6.2 Comment on the liquidity of Gr8 Xpectations Limited. Quote any three relevant financial indicators from the question to support your opinion. (9)

1.7 You have decided to invest in Gr8 Xpectations Limited. Explain and quote any two financial indicators from the question to support your decision. (6)

1.8 Gr8 Xpectations introduced an employees' share scheme on 1 July 2004. The following distributions were made in terms of the scheme to eligible employees:

July 2004	50 shares per employee
December 2006	95 shares per employee
February 2009	165 shares per employee

One of the employees, I.M. Ntrouble, is experiencing financial difficulties and obtained permission from the directors of Gr8 Xpectations Limited to sell her incentive shares. She has been in the employ of Gr8 Xpectations Limited since January 2003.

1.8.1 How many shares would I.M. Ntrouble own on 30 July 2009? (3)

1.8.2 Calculate the total dividend she would have received in the 2009 financial year. (3)

1.8.3 Taking the market price into account, how much money would she receive if she decided to sell the shares on the JSE on 30 June 2009? (3)

- 1.8.4 During the annual general meeting (AGM) one of the shareholders was questioning the relevance of an employees' share scheme. As managing director of Gr8 Xpectations Limited, explain to the shareholder why this is necessary. (3)

INFORMATION

**GR8 XPECTATIONS
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009**

Sales	7 294 000
Cost of sales	(4 386 400)
Gross profit	2 907 600
Operating expenses	(1 359 640)
Depreciation	356 475
Sundry expenses	1 003 165
Profit before interest expense	1 547 960
Interest expense	(276 875)
Profit before tax	1 271 085
Taxation	(355 905)
Net profit (after tax) for the year	915 180

**GR8 XPECTATIONS
BALANCE SHEET AS AT 30 JUNE 2009**

	2009	2008
ASSETS		
Non-current assets	17 354 775	16 117 500
Property, plant & equipment	16 104 775	15 117 500
Financial assets	1 250 000	1 000 000
Current assets	1 716 575	1 384 350
Inventories	733 125	609 690
Trade and other receivables	819 875	774 660
Cash & cash equivalents	163 575	–
TOTAL ASSETS	19 071 350	17 501 850
EQUITY & LIABILITIES		
Ordinary shareholders' equity	16 941 490	14 581 310
Ordinary share capital (R8 par value)	10 600 000	9 540 000
Share premium	4 125 000	3 500 000
Retained income	2 216 490	1 541 310
Non-current liabilities	1 250 000	1 000 000
Mortgage loans	1 250 000	1 000 000

Current liabilities		879 860	1 920 540
SARS (Income tax)		169 310	231 765
Shareholders for dividends		530 000	500 000
Trade and other payables		180 550	399 740
Bank overdraft		–	789 035
TOTAL EQUITY & LIABILITIES		19 071 350	17 501 850

GR8 XPECTATIONS LIMITED**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009**

	Notes	R
Cash flows from operating activities		(a)
Cash generated from operations	1	1 516 595
Interest paid		(b)
Dividends paid		(c)
Taxation paid		(418 360)
Cash flows from investing activities		(906 250)
Purchase of non-current assets		(d)
Proceeds from sale of non-current assets		(e)
Increase in investments		(250 000)
Cash flows from financing activities		(f)
Proceeds from issue of shares		(g)
Proceeds from long-term borrowings		250 000
Net change in cash and cash equivalents		(h)
Cash and cash equivalents at beginning of year		(789 035)
Cash and cash equivalents at end of year		(i)

NOTES TO THE CASH FLOW STATEMENT

1. RECONCILIATION BETWEEN PROFIT BEFORE TAXATION AND CASH GENERATED FROM OPERATIONS	
Profit before taxation	1 271 085
Adjustments in respect of:	633 350
Interest paid	276 875
Depreciation	356 475
Operating profit before changes in working capital	1 904 435
Changes in working capital	(387 840)
Increase in inventories	(123 435)
Increase in trade and other receivables	(45 215)
Decrease in trade and other payables	(219 190)
Cash generated from operations	1 516 595

ADDITIONAL INFORMATION

1. New shares were issued on the first day of the current financial year.
2. Equipment was sold at carrying value during the year.
3. An additional building was erected at a cost of R1 000 000 during the year.
4. Dividends are as follows:

Details	Per share	Declared	Paid
Interim dividend 2009	30 cents	31 December 2008	31 December 2008
Final dividend 2009	40 cents	30 June 2009	25 August 2009

5. The market value of the shares on the JSE is 1100 cents on 30 June 2009. This represents an improvement of 5% from the previous year.
6. The following financial indicators were calculated for the past two years:

	2009	2008
% increase in sales	16,3%	12,5%
% mark-up on cost	?	68%
% operating expenses on sales	18,7%	22,5%
% net profit on sales	12,6%	12,2%
Current ratio	1,95 : 1	0,72 : 1
Acid-test ratio	1,12 : 1	0,40 : 1
Inventory (stock) turnover rate	3,3 times	5,9 times
Average debtors' collection period	66,5 days	77,5 days
Average creditors' payments period	60,4 days	100,7 days
% return on shareholders equity (after tax)	?	4,6%
% return on total capital employed (before tax)	10,1%	7,0%
Net asset value per share	?	1 223 cents
Dividends per share	70 cents	90 cents
Earnings per share	?	62,1 cents
Debt-equity ratio	?	0,07 : 1

[75]

SECTION D: SOLUTIONS TO HOMEWORK

QUESTION 1

1.1 Tool to analyse liquidity position of company – show why there has been a change in the balance in the bank account from one year to another. ✓✓ (2)

1.2

GR8 XPECTATIONS LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

<i>Full marks for answer – if incorrect, look at workings</i>	R	
Cash flows from operating activities (a)	(76 140)	✓
Cash generated from operations	1 516 595	
Interest paid (b)	(276 875)	✓
Dividends paid or 927 500 <i>If any one part correct</i> [530 000 ✓ – (1 325 000 x 0,7) ✓ – 500 000 ✓] (c)	(897 500)	☑
Taxation paid	(418 360)	
Cash flows from investing activities	(906 250)	
Purchase of non-current assets (d)	(1 000 000)	✓
Proceeds from sale of non-current assets 16 104 775 ✓ – (15 117 500 ✓ + 1 000 000 ✓ – 356 475 ✓) (e)	343 750	☑
Increase in investments	(250 000)	
Cash flows from financing activities (f)	1 935 000	✓
Proceeds from issue of shares 14 725 000 ✓ – 13 040 000 ✓ (g)	1 685 000	☑
Proceeds from long-term borrowings	250 000	

Net change in cash and cash equivalents	(h)	952 610	☑
Cash and cash equivalents at beginning of year		(789 035)	
Cash and cash equivalents at end of year	(i)	163 757	✓
			(18)

1.3 Study the completed cash flow statement and the notes to the cash flow statement and answer the following questions

1.3.1 *Good=2 Satisfactory=1 incorrect=0*

Depreciation is a **non-cash item** and has no influence on the cash flow of the entity – it is added to the profit before taxation to cancel the affect it had on the profit of the entity. ✓✓ (2)

1.3.2 Why were more shares issued when the company made a profit?

Any one ✓✓

A profit does not necessarily generate “cash” as it can include accrued income and accrued expenses.

Cash was needed to finance the dividend and the purchase of non-current assets (2)

1.4 Calculate (to one decimal place) the following financial indicators for the year ended 30 June 2009

Ratios must be in correct order

1.4.1 Mark-up percentage (gross profit percentage) on cost of sales

$$\begin{aligned} & \frac{\text{Gross profit}}{\text{Cost of Sales}} \times \frac{100}{1} \\ = & \frac{2\,907\,600 \checkmark}{4\,386\,400 \checkmark} \times \frac{100}{1} \\ = & 66,3\% \checkmark \end{aligned}$$

Give method mark for operation if one of components is correct. Accept only % (3)

1.4.2 Percentage return on average shareholders' equity (after tax)

$$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$$

$$= \frac{915\,180 \checkmark}{\frac{1}{2}(16\,941\,490 + 14\,581\,310)} \times \frac{100}{1}$$

$$= \frac{915\,180}{15\,761\,400 \checkmark \checkmark} \times \frac{100}{1}$$

$$= 5,8\% \checkmark$$

Give method mark for operation if one of components is correct. Accept only % (4)

1.4.3 Earnings per share

$$\frac{\text{Net income after tax}}{\text{Number of shares issued}} \times \frac{100}{1}$$

$$= \frac{915\,180}{10\,600\,000 \div R8} \times \frac{100}{1}$$

$$= \frac{915\,180 \checkmark}{1\,325\,000 \checkmark} \times \frac{100}{1}$$

$$= 69,1 \text{ cents } \checkmark$$

Give method mark for operation if one of components is correct (3)

1.4.4 Net asset value per share

$$\frac{\text{Ordinary shareholders' equity}}{\text{Number of shares issued}} \times \frac{100}{1}$$

$$= \frac{16\,941\,490 \checkmark}{1\,325\,000 \checkmark} \times \frac{100}{1}$$

As per 5.4.3

$$= 1278,6 \text{ cents } \checkmark$$

Give method mark for operation if one of components is correct (3)

1.4.5 Debt/equity ratio

Non-current liabilities : Shareholders' equity

$$1\,250\,000 \checkmark : 16\,941\,490 \checkmark$$

$$0,07 : 1 \checkmark$$

Give method mark for operation if one of components is correct. (3)

1.5 Profitability

- 1.5.1 *Any THREE – one mark each* ✓ ✓ ✓
 Inventory (stock) being stolen.
 Inventory taking not accurate.
 Selling prices incorrectly calculated.
 Old inventory not being written off but only excluded from inventory taking.
 Merchandise being sold for less than marked prices.
 Money being stolen.
Any other acceptable answer (3)

- 1.5.2 *Any three – one mark each* ✓ ✓ ✓
 Security scanners at door.
 Security check-point at door – check slip / invoice against items.
 Closed-circuit cameras
 Security check-point for employees.
Any other acceptable answer (3)

1.6 Liquidity:

- 1.6.1 The current ratio assesses the relationship between current assets and current liabilities to identify whether the business is likely to experience liquidity problems. ✓

 Acid-test ratio tests the ability of the business to settle short-term obligations without having to rely on the selling of inventory (which is less liquid than the other current assets), especially in conditions when the business is experiencing economic depression, a drastic decline in sales, etc. ✓ (2)
- 1.6.2 *Any three indicators – one mark each* ✓ ✓ ✓
Trends quoted for each – one mark each ✓ ✓ ✓
Accept one figure quoted plus description of trend
- | | | |
|---------------------------------|-----|-------------------------|
| Current ratio | – | 0,72 : 1 to 1,95 : 1 |
| Acid-test ratio | – | 0,40 : 1 to 1,12 : 1 |
| Inventory (stock) turnover rate | – | 5,9 times to 3,3 times |
| Average debtors' collection | – | 77,5 days to 66,5 days |
| Average creditors' payment | – | 100,7 days to 60,4 days |
| <i>General comment</i> | ✓✓✓ | |
- (9)

Can show separately for each indicator

Good=2 Satisfactory=1

Liquidity improved – indicators improved from 2008 to 2009.

1.7 *Any two indicators – one mark each* ✓ ✓

Description of trend – one mark each ✓ ✓

Indicators quoted – one mark each ✓ ✓

% return on shareholders equity – improved from 4,6% to 5,8%.

Net asset value per share – improved from 1 223 cents to 1278,6 cents.

Earnings per share – improved from 62,1 cents to 69,1 cents.

Market price of 1100 cents – less than issued price of 1272 cents.

Market price of 1100 cents – less than net asset value of 1278,6 cents. (6)

1.8

1.8.1 50 + 95 + 165

= 310 shares ✓✓✓ (3)

1.8.2 310 shares x 70 cents

= 21 700 cents / R217,00 ✓✓☑

Give method mark for operation if one of components is correct. (3)

1.8.3 310 shares☑ x 1100 cents✓

= 341 000 cents / R3 410 ☑

Give method mark for operation if one of components is correct. (3)

1.8.4 *Any one valid point – three marks* ✓✓✓

Excellent=3 Good = 2 Satisfactory = 1

E.g.

Motivation to employees to buy into the success of company – one of shareholders (owners) of company – will share in dividends. (3)

[75]

PART II: COMPANIES FINANCIAL STATEMENTS

Teacher Note: Make sure that learners answer in point form and that they know the theory on companies. They must remember that open ended questions do not have one correct answer. This part is given as self study.

SECTION A: TYPICAL EXAM QUESTIONS

QUESTION 1 **75 marks** **40 minutes**

COMPANY INTERPRETATION

You are provided with information relating to Fatti's Supermarkets Ltd, a public company listed on the JSE Securities Exchange.

REQUIRED

- 1.1 Complete the Cash Flow Statement for the year ended 30 June 2008 (18)
- 1.2 Calculate the following financial indicators for 2008:
- Operating profit on sales
 - Return on average shareholders' equity
 - Net asset value per share
 - Earnings per share
 - Stock turnover rate (23)
- 1.3 The number of directors and employees remained the same for the past two years. You are told that there is problem in this business – the employees feel that they are now working much harder and they are therefore dissatisfied.
- In your opinion, have the employees been treated fairly or not? Explain briefly. Provide two points, supporting your answer by quoting specific figures from the financial statements or the financial indicators.
- What advice would you offer to the directors in solving this problem? (9)
- 1.4 In your opinion, has the company controlled its working capital well, and is it in a good liquidity situation? Explain briefly, quoting specific figures from the financial statements or the financial indicators. (7)
- 1.5 As a shareholder in this company, you are satisfied with the return, earnings, dividends and share price of the company. Write a brief letter to the Managing Director / Chief Executive Officer (CEO), explaining why you are happy with the performance of the directors, and highlight areas where there could be improvement. Quote specific figures from the financial statements or the financial indicators to support your opinions. (18)

INFORMATION

Information extracted from the published financial statements for the past two years.
Note that figures are expressed in thousands of Rands.

	2008	2007
	R'000	R'000
Non-current assets	1 238 080	1 222 000
Fixed assets	898 080	922 000
Financial assets (Investments in shares)	340 000	300 000
Current assets	178 000	168 000
Inventories (all Trading stock)	59 000	125 000
Trade & other receivables	21 000	32 000
Cash & cash equivalents	98 000	11 000
Ordinary shareholders' equity	1 224 780	990 000
Ordinary share capital (R10 par value)	950 000	800 000
Share premium	140 000	80 000
Retained income	134 780	110 000
Non-current liability (Long-term loan, 12% p.a.)	100 000	300 000
Current liabilities	91 300	100 000
SARS (Income tax)	4 300	3 000
Shareholders for dividends	38 000	28 000
Expenses payable	2 000	6 000
Trade creditors & other payables	47 000	63 000

Information extracted from the Income Statement for the past two years

	2008	2007
	R'000	R'000
Sales	942 400	624 000
Cost of sales	(640 000)	(375 000)
Gross profit	302 400	249 000
Operating expenses	(160 000)	(130 000)
Salaries & wages (1 120 employees)	70 000	50 000
Directors fees (4 directors)	16 500	15 000
Depreciation	15 000	13 000
Other operating expenses	58 500	52 000
Operating profit	142 400	119 000
Interest on mortgage loan	(12 000)	(36 000)
Net profit before tax	130 400	83 000
Income tax	(39 120)	(29 050)
Net profit after tax	91 280	53 950

Additional information

- New shares were issued on the first day of the financial year.
- Fixed assets were sold at book value during the year for R160 000 000.
- The market value of the shares on the JSE on 30 June 2008 is R11,90. This represents a 15% improvement from the previous year.
- The tax rate for companies declined from 35% in 2007 to 30% in 2008.

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

	2008	2007
% Increase in sales	51%	2%
% Mark-up on cost	47%	60%
% Operating expenses on sales	17%	21,7%
% Operating profit on sales	?	15,8%
% Net profit on sales	9,7%	9,0%
% Return on shareholders' equity (after tax)	?	5,4%
% Return on total capital employed (before tax)	9,4%	8,5%
Net asset value per share	?	1238 cents
Dividends per share	70 cents	60 cents
Earnings per share	?	67,4 cents
Debt/Equity ratio	0,1 : 1	0,3 : 1
Current ratio	1,9 : 1	1,7 : 1
Acid-test ratio	1,3 : 1	0,4 : 1
Stock turnover rate	?	3 times

[75]

QUESTION 2 75 marks 50 minutes

COMPANIES – CASH FLOW AND RATIOS

Mackie Ltd has an authorised share capital of 900 000 ordinary shares with a par value of R3,00 per share.

As at 28 February 2007, the end of the **previous financial year**, they had issued 500 000 ordinary shares.

REQUIRED

- 2.1 Complete the fixed/tangible asset note in the Balance Sheet of Mackie Ltd as well as the Asset Disposal account by filling in all the missing figures
- Note that during the year a new vehicle was bought on 31 May 2007 and old equipment was sold at book value on credit. (20)
- 2.2 Complete the following parts of the Cash Flow Statement for the year ended 29 February 2008:
- Note to show the reconciliation between profit before taxation and cash generated from operations. (15)
 - Cash from financing activities (10)
 - Amount of cash paid to SARS (4)
- 2.3 Calculate the price at which the new shares were sold. (4)
- 2.4 Calculate the following to one decimal place on 29 February 2008:
- Net asset value per share (4)
 - Return on average ordinary shareholders equity (4)
 - Return on average total capital employed (4)
- 2.5 Some of the shareholders have issued a vote of no confidence in the directors regarding the performance and financial decisions made in the last year. Do you think they are justified in their decision? Quote at least 3 figures / financial indicators to support your answer. (10)

INFORMATION

1. Depreciation on the assets is as follows:
 - Vehicle at 15% p.a. on diminishing balance method.
 - Equipment R36 375 for the year ended 29 February 2008.
2. The following figures were extracted from the Income Statement:

Interest on loan from director (interest capitalised) R12 000
 Income Tax R54 000
 Net profit after tax R126 000
3. The new shares were issued on 1 March 2007.
4. On 28 February 2007, Mackie Ltd had a loan from a director of R 75 000 at an interest rate of 14% p.a. The balance of this loan on 29 February 2008 is R 132 000. The loan agreement stipulates that interest is to be capitalized and that repayments of R 1 200 per month are to be made to the director. During the year the loan was also increased.
5. Financial indicators for the year ended 28 February 2007:
 - Net asset value R2,64
 - Return on ordinary shareholders equity 9%
 - Return on total capital employed 12%
6. Current market price of the share on the JSE on 29 February 2008 is R3,20

7. Figures extracted from the Balance Sheet of Mackie Ltd as at the end of February:

	2008	2007
Ordinary share capital	R1 800 000	R1 500 000
Ordinary share premium	R97 500	R30 000
Retained Income	R 39 600	R 52 200
Loan from director	R132 000	R75 000
Creditors Control	R 35 000	R 28 000
SARS (Income Tax)	R 5 250 (dr)	R 4 000 (cr)
Shareholders for Dividends	R 88 200	R 40 000
Debtors Control	R 63 000	R 66 000
Inventories	R 116 150	R 86 200

[75]

SECTION B: SOLUTIONS AND HINTS TO SECTION A

QUESTION 1

1.1 FATTI'S SUPERMARKET LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

		R'000
Cash flow from operating activities	<input checked="" type="checkbox"/>	108 080
Cash generated from operations		214 400
Interest paid		(12 000)
Dividends paid (28 000✓ + 66 500✓✓ – 38 000✓)	✓	(56 500)
Income tax paid		(37 820)
Cash effects of investing activities	<input checked="" type="checkbox"/>	(31 080)
Purchase of fixed assets (922 000 000✓ – 160 000 000✓ – 15 000 000✓ – 898 080 000✓)	✓	(151 080)
Proceeds of sale of fixed assets		160 000
Increase in investments		(40 000)

Cash effects of financing activities	<input checked="" type="checkbox"/>	10 000
Proceeds of shares issued (150 000✓ + 60 000✓)	<input checked="" type="checkbox"/>	210 000
Loans repaid		200 000
Net change in cash & cash equivalents	<input checked="" type="checkbox"/>	87 000
Cash & cash equivalents at beginning of year		11 000
Cash & cash equivalents at end of year	<input checked="" type="checkbox"/>	98 000

(18)

1.2 CALCULATION OF FINANCIAL INDICATORS

WORKINGS:	ANSWER:
% Operating profit on sales $\frac{142\ 400}{942\ 400} \times 100 =$	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 15,1%
% Return on shareholders' equity (after tax) $\frac{91\ 280}{1\ 107\ 390} \times 100$	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 8,2%
Net asset value per share $\frac{1\ 224\ 780}{95\ 000}$	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 1289 cents
Earnings per share $\frac{91\ 280}{95000} \times 100$	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 96,1 cents
Stock turnover rate $\frac{640\ 000}{92\ 000}$	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 7 times

(23)

1.3 Candidates should identify:

Assessment increase in salaries & wages

Comparison to directors' fees

Comparison to sales or profits

Figures which should be quoted:

Directors' fees went up by 10% (from R15m to R16,5m)

Salaries and wages went up by 40% (from R50m to R70m)

Sales went up by 51% (from R624m to R942,4m)

Operating profit went up by 19,7% (from R119m to R142,4m)

Possible responses for advice:

Remuneration committee - transparency

Dialogue with staff representatives / union

	0 marks	1-2 marks	3 marks
Two valid points identified from the question	Non-existent	Incomplete or unclear ✓	Complete and clear ✓✓✓
Supported by quoted figures	Non-existent	Incomplete ✓	Complete and valid ✓✓✓
Valid advice provided	Non-existent	Incomplete ✓	Complete and clear ✓✓✓

(9)

1.4 Reasoned opinion expressed – Yes ✓

Quoting of improvement in current ratio from 1.7:1 to 1,79:1 ✓✓

Quoting of improvement in acid test ratio from 0,4:1 to 1,3:1 ✓✓

Quoting of improvement in stock turnover rate from 3 to 7 times ✓\$☑

\$ method mark for transfer of figure from 4.2 – the stock turnover rate (7)

1.5 Letter to indicate:

Improvement in ROSHE%

Improvement in EPS

Improvement in DPS

Payout rate - possibility of not retaining enough

Improvement in NAV

Undervalued on JSE – reason to be queried

All relevant issues raised for valid global opinion ✓✓✓✓✓✓

Financial indicators appropriately quoted ✓✓✓✓✓✓

Financial indicators correctly interpreted ✓✓✓✓✓✓

(18)

OR

Mention of trend in ROSE ✓ Quoting of ratios ✓

Mention of trend in ROCE ✓ Quoting of ratios ✓

Return on Shareholders' Equity improved from 5,4% to *8,2%

Return on Capital Employed improved from 8,55 to 9,4%

Valid comment made ✓

Shareholders should be happy with the above ratios. Had they invested their money elsewhere it would probably have been at a similar or less interest rate.

Earnings and dividends per share:

Mention of trend in EPS ✓ Quoting of ratios ✓

Mention of trend in DPS ✓ Quoting of ratios ✓

The EPS increased from 67,4 cents to *96,1 cents per share

The DPS increased from 60 cents to 70 cents per share

Valid comment made ✓

There has been an improvement in both these indicators. It is therefore evident that shareholders have received more in this financial year than they did in the previous financial year.

Share price:

Mention of trend in NAV ✓ Quoting of ratios ✓

Mention of trend in market value of shares ✓ Quoting of ratios ✓

The NAV improved from 1238 cents to *1289 cents.

The market value of the shares improved by 15% to R11,90.

Valid comment made ✓

There has been an improvement of NAV as well as the market price of shares which is a good indication of the share price.

Possible areas for future improvement:

Any valid suggestion for improvement ✓✓✓

Possible suggestions:

A concern however is that shareholders had paid R14 per share during this financial year which is considerably higher than the market value of R11,90. This means that the shares are undervalued on the JSE and should be investigated.

Although the sales have increased considerably from 2% in the previous financial year to 51% this year, the operating profit on sales indicate a decline from 15,8% to *15,1%.

* award mark for transfer of figure from 4.2

(18)

TOTAL: 75

QUESTION 2

NOTE TO THE BALANCE SHEET ON 28 FEBRUARY 2008

Tangible assets / Fixed assets

Vehicles

Equipment

Carrying value at beginning of year	370 000	260 000✓
Cost	480 000	390 000
Accumulated depreciation	(110 000)✓	(130 000)
Movements		
Additions at cost	150 000✓✓	0
Disposals at carrying value	0	(32 375)
Depreciation for the year 55500 + 16875	(72 375)✓✓✓	(36 375)
Carrying value at end of year	447 625☑	191 250☑
Cost	630 000	310 000✓✓
Accumulated depreciation	182 375✓✓	(118 750)✓✓

(15)

ASSET DISPOSAL

2007		Equipment		2007		Acc. Dep on equip✓	
Aug	31		80 000	Aug	31		47 625✓☑
						Debtors control	32 375✓✓
			80 000				80 000

(5)

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2008

Profit before taxation 126 000 + 54 000	180 000✓✓✓
Adjustment in respect of:	120 750
Depreciation 72 375☑ + 36 375✓	108 750☑
Interest expense	12 000✓
	300 750
Changes in working capital	(19 950)☑
Inventories	(29 950)✓✓
Debtors	3 000✓✓
Creditors	7 000✓✓
Cash effects of operating activities	280 800☑

(15)

CASH FLOWS FROM FINANCING ACTIVITIES	412 500☑
Ordinary share capital 300 000 + 67 500	367 500✓✓
Loan repayment	(14 400)✓✓
Loan raised 132 000✓ - (75 000✓ + 12 000✓ - 14 400✓)	59 400☑

(10)

2.2	INCOME TAX PAID	
	54 000✓ + 5 250✓ + 4 000✓	63 250✓

(4)

2.3	$367\,500\checkmark \div 100\,000\checkmark\checkmark = R3.68\checkmark$ OR 367,5 cents	(4)
2.4	<ul style="list-style-type: none"> Net asset value per share $\frac{1\,800\,000 + 97\,500 + 39\,600}{1\,800\,000 \div 3}$ $\frac{1\,937\,100\checkmark\checkmark}{600\,000\checkmark}$ $R3.23\checkmark$ <ul style="list-style-type: none"> Return on average ordinary share capital $\frac{126\,000}{(1\,937\,100 + 1\,582\,200) \div 2}$ $\frac{126\,000\checkmark}{1\,759\,650\checkmark\checkmark} \times 100$ $7.2\%\checkmark$ <ul style="list-style-type: none"> Return on total capital employed $\frac{180\,000 + 12\,000}{(2\,069\,100 + 1\,657\,200) \div 2}$ $\frac{192\,000\checkmark\checkmark}{1\,863\,150\checkmark} \times 100$ $10.3\%\checkmark$	(4)

2.5 Yes✓ or No (based on learner's figures)

Have raised a lot of capital (R412 500) that is not being utilised effectively in the company.✓✓✓

Net asset value R3.23 is shows an increase from last year of R2.64✓✓✓

The return on the ordinary shareholders equity is 7% which is below alternative investments✓✓✓ and below last year's return of 9%

Negative gearing – return (10.3%) is below the interest rate (14%) and below the return last year of 12%

Market value is R3.20 – below par value.

If NO then it must be qualified to earn the marks

(10)

[75]

SECTION C: HOMEWORK

QUESTION 1: **70 marks** **45 minutes**

(DoE Nov. 2008)

CASH FLOW AND INTERPRETATION OF A COMPANY

You are provided with information relating to Glebo Limited for the year ended 30 June 2008. Glebo Limited is a public company listed on the JSE Securities Exchange. They are based in Pretoria and they sell office stationery.

The directors of Glebo Limited decided to open new branches in Bloemfontein and Witbank halfway through the year.

Note:

- Answer the questions below.
- Where you are asked to comment on financial indicators you must quote the name of the relevant indicator as well as the figure, which is provided or calculated in the question for that indicator.

REQUIRED

- 1.1 Calculate the following financial indicators for 2008:
- 11.1 Debt/Equity ratio (3)
 - 1.1.2 Acid-test ratio (4)
 - 1.1.3 Stock turnover rate (4)
 - 1.1.4 % return on average shareholders' equity (after tax) (4)
 - 1.1.5 Net asset value per share (4)
- 1.2 Solvency and liquidity:
- 1.2.1 Briefly explain the difference between *solvency* and *liquidity*. (2)
 - 1.2.2 Comment on the solvency of this business. Quote a financial indicator from the question to support your opinion. (3)
 - 1.2.3 Comment on the liquidity of this business. Quote the financial indicators and the changes (trends) from the previous year to support your opinion. (10)
- 1.3 Returns and share price:
- 1.3.1 Comment on the earnings, dividends and % return. Quote financial indicators and the changes (trends) from the previous year to support your opinion. (6)
 - 1.3.2 You have been a shareholder since the company started many years ago. The price of the share on the JSE is now 350 cents which is a 6% increase over the past year. Would you be satisfied with the performance of the share price? Comment and compare this to a financial indicator from the question to support your opinion. (4)
- 1.4 Calculate the missing figures in the Cash Flow Statement. The missing figures are indicated (a) to (e). (12)
- 1.5 The Cash Flow Statement highlights some significant (important) decisions taken by the directors over the past year. Explain TWO of these significant decisions. Quote figures to support your answer. Also explain how these decisions would benefit the company and the shareholders. (8)
- 1.6 At the AGM, the directors announce that the company will:
- Conduct training of all employees in terms of morals and ethics
 - Donate funds towards cleaning up the environment
- Explain why this is necessary although this will cost the company a lot of money each year. State THREE points. (6)

**INFORMATION
GLEBO LIMITED**

EXTRACT FROM INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
Sales (70% of sales were on credit)	9 000 000	7 000 000
Cost of sales	5 625 000	4 070 000
Operating profit	1 423 200	947 600
Income tax	426 000	270 000
Net profit after tax	904 000	630 000

**GLEBO LIMITED
BALANCE SHEET AS AT 30 JUNE 2008**

	2008	2007
ASSETS		
Non-current assets	4 626 000	2 209 000
Fixed assets	4 326 000	1 489 000
Financial assets	300 000	720 000
Current assets	2 557 000	2 508 000
Inventories (all trading stock)	1 640 000	1 510 000
Trade and other receivables (all trade debtors)	810 000	960 000
SARS (Income tax)	0	18 000
Cash and cash equivalents	107 000	20 000
TOTAL ASSETS	7 183 000	4 717 000

EQUITY AND LIABILITIES		
Ordinary shareholders' equity	4 123 000	2 640 000
Ordinary share capital (R2,00 par value)	2 200 000	1 600 000
Share premium	710 000	200 000
Retained income	1 213 000	840 000
Non-current liabilities	1 980 000	700 000
Mortgage loan: Jozi Bank (13% p.a.)	1 980 000	700 000
Current liabilities	1 080 000	1 377 000
Trade and other payables (all trade creditors)	705 000	819 000
SARS (Income tax)	32 000	0
Shareholders for dividends	275 000	240 000
Bank overdraft	0	250 000
Current portion of loan	68 000	68 000
TOTAL EQUITY AND LIABILITIES	7 183 000	4 717 000

FINANCIAL INDICATORS

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

	2008	2007
Debt/Equity ratio	?	0,27:1
Total assets to total liabilities	2,2:1	2,3:1
Current ratio	2,4:1	1,8:1
Acid-test ratio	?	0,7:1
Stock-turnover rate	?	2,4 times
Debtors collection period	51 days	72 days
Creditors payment period	49 days	67 days
% return on average shareholders' equity (after tax)	?	23,9 %
% return on total capital employed (before tax)	43,3 %	39,7 %
Net asset value per share	?	330 cents
Dividends per share	57 cents	65 cents
Earnings per share	95,2 cents	78,8 cents

GLEBO LIMITED**CASH-FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008**

Cash effects of operating activities	744 000
Cash generated from operations	?
Interest paid	(134 000)
Dividends paid	(496 000)
Income tax paid	(a) ?

Cash effects of investing activities	(3 217 000)
Purchase of fixed assets for new branches	(3 357 000)
Proceeds of sale of fixed assets	140 000
Cash effects of financing activities	2 810 000
Proceeds of issue of shares	(b) ?
Proceeds of increase in mortgage loan	(c) ?
Proceeds of financial assets matured	420 000
Net change in cash equivalents	(d) ?
Cash equivalents – beginning of year	(230 000)
Cash equivalents – end of year	(e) ?

[70]

SECTION D: SOLUTIONS TO HOMEWORK

QUESTION 1

1.1 Calculate the following financial indicators for 2008:

Ratios must be in correct order

1.1.1 **Debt/Equity ratio**

$$\overset{\checkmark}{1\ 980\ 000} / \overset{\checkmark}{4\ 123\ 000}$$

$$= 0,48 : 1 \text{ or } 0,5 : 1 \quad \checkmark \text{ If any one part correct} \quad (3)$$

1.1.2 **Acid-test ratio**

$$(2\,557\,000 - 1\,640\,000) : 1\,080\,000$$

$$\text{OR } \overset{\checkmark}{(810\,000 + 107\,000)} : \overset{\checkmark}{1\,080\,000}$$

$$= 917\,000 : 1\,080\,000$$

$$= 0,8 : 1 \text{ or } 0,85 : 1 \quad \checkmark \text{ If any one part correct} \quad (4)$$

1.1.3 **Stock-turnover rate**

$$\frac{\overset{\checkmark}{5\,625\,000}}{1\,575\,000 \text{ or } 1\,640\,000}$$

$$= \overset{\checkmark\checkmark}{3,6 \text{ or } 3,57 \text{ times or } 3,4 \text{ times}} \quad \checkmark \text{ If any one part correct} \quad (4)$$

1.1.4 % return on average shareholders' equity (after tax)

$$\frac{\underline{904\,000}}{\frac{1}{2}(4\,123\,000 + 2\,640\,000)} \times \frac{\underline{100}}{1}$$

$$= \frac{\overset{\checkmark}{904\,000}}{3\,381\,500} \times \frac{\underline{100}}{1}$$

$$\checkmark \checkmark \text{ If any one part of denominator correct}$$

$$= 26,7\% \quad \checkmark \text{ If any one part correct} \quad (4)$$

1.1.5

Net asset value per share

$$\overset{\checkmark}{R\,4\,123\,000} / \overset{\checkmark\checkmark}{1\,100\,000} \text{ shares}$$

$$= 374,8 \text{ cents} / 375 \text{ cents} / R3,75 \quad \checkmark \text{ If any one part correct} \quad (4)$$

1.2 Solvency and liquidity:

1.2.1 **Solvency:** ability to pay off debts / ability to meet all debts in the long-term / TA:TL / $TA > TL$ ✓

Liquidity: ability to pay off current / short-term debts /

CA:CL / $CA > CL$ ✓ (2)

1.2.2 Opinion – solvent ✓ Indicator ✓✓

The business is solvent / satisfactory

Assets > Liabilities by 2,2:1

OR

Ratio decreased from 2,3:1 to 2,2:1 (3)

1.2.3 *Any four valid indicators* ✓ ✓ ✓ ✓ 1 mark each

Trends quoted for each ✓ ✓ ✓ ✓ 1 mark each

Current ratio 1,8:1 → 2,4:1

Acid-test ratio 0,7:1 → 0,8:1

Stock turnover rate 2,4 → 3,6

Debtors collection period 72 → 51 days

Creditors payment period 67 → 49 days

General comment ✓✓

Could be done separately for each indicator

Good=2 Satisfactory=1

Liquidity improved – the trends in indicators have generally improved (10)

1.3 Returns and share price:

1.3.1 Improvement in EPS✓: 78,8c → 95,2c / diff 16,4 c✓

Decline in DPS✓: 65c → 57c / diff 8c✓

Improvement in % return✓: 23,9% → 26,7% / diff 2,8%✓

Accept ROTCE: 43,3% → 39,7% / diff 3,6%

Could mention Dividend Payout rate: 57c out of 95,2c instead of DPS & EPS

(6)

1.3.2 **Opinion:** Yes ✓

Comment: Compare NAV to Market Price 374,8c > 350c ✓✓✓ (See 5.1.5) (undervalued – possible resignation of the CEO might be affecting this).

Quote NAV: Increased from 330c to 374,8c / diff 44,8c (See 5.1.5) (max 2 marks)

OR

Opinion: No (1 mark)

Comment: Only a 6% improvement in market price (1 mark)

(4)

1.4 *Full marks for answer – if incorrect, look at workings*

T-accounts or CFS notes can be used in certain cases

$$(a) = \overset{\checkmark}{R426\ 000} - \overset{\checkmark}{18\ 000} - \overset{\checkmark}{32\ 000} = \overset{\checkmark}{R376\ 000}$$

$$(b) = \overset{\checkmark}{R600\ 000} + \overset{\checkmark}{R510\ 000} = \overset{\checkmark}{R1\ 110\ 000}$$

$$\text{OR } \overset{\checkmark}{R2\ 910\ 000} - \overset{\checkmark}{R1\ 800\ 000} = \overset{\checkmark}{R1\ 110\ 000}$$

$$(c) = \overset{\checkmark}{R1\ 980\ 000} - \overset{\checkmark}{R700\ 000} = \overset{\checkmark}{R1\ 280\ 000}$$

☑ if any one part correct

$$\text{OR } \overset{\checkmark}{R2\ 810\ 000} - (\overset{\checkmark}{R1\ 110\ 000} + \overset{\checkmark}{R420\ 000}) = \overset{\checkmark}{R1\ 280\ 000}$$

(d) = R337 000 ✓

(e) = R107 000 ✓

(12)

1.5 Any two decisions – one mark each ✓ ✓

Quoting of figures – one mark each ✓ ✓

e.g.

- Investment in fixed assets for new branches R3 357 000
- Issue of new shares: R1 110 000 / 300 000 shares
- Extra loan: R1 280 000 – see 5.4 (b) and (c)
- Profits retained from operations: R744 000
- Financial assets matured: R420 000

Any valid explanation on benefits to the company and shareholders – figures not required: ✓✓✓✓

Excellent = 4 Good = 3 Satisfactory = 2 Poor = 1 Incorrect = 0

e.g.

- Expanding the company leads to more profits in the future
- The shareholders will earn more dividends and the share price will probably increase
- Extra loans affect debt/equity ratio – benefit from gearing effect
- To reduce the loan amount and reduce interest
- Making use of proceeds of additional shares to earn more profit

(8)

1.6 *Two marks for each separate point* ✓✓ ✓✓ ✓✓

Part-marks may be awarded if response is not clear or if the response is slightly off the point

Any three valid points, e.g.

- Training will improve customer service
- Will create better working environment – employees/unions happier
- Corporate responsibility towards the community – increase goodwill
- Published financial statements will look good
- Encourages new shareholders – favourable effect on share price
- Company gives to the community
- Improves company's image / profitability
- This is a form of publicity
- King Code advises this.

(6)

[70]

CASH BUDGETS**LESSON OVERVIEW**

1.	Introduce session:	5 minutes
2.	Typical exam questions Question 1:	20 minutes
3.	Review/solutions/memo Question 1:	10 minutes
4.	Typical exam questions Question 2:	30 minutes
5.	Review/solutions/memo Question 1:	15 minutes
6.	Begin Question 3 (complete as self study)	15 minutes

SECTION A: TYPICAL EXAM QUESTIONS**HINTS**

- Remember the new ledger accounts
- Income tax only comes about as an adjustment at the end of the year
- All provisional payments to SARS affect the bank account

SECTION A: TYPICAL EXAM QUESTIONS

QUESTION 1: **30 marks** **20 minutes** *(GDE Preparatory Exam 2008)*

CASH BUDGET OF A SOLE TRADER

You are provided with an incomplete Cash Budget and additional information relating to “The Smart Store”, a popular retail clothing store situated in a busy shopping centre in Wattsville.

The owner, Mrs N. Reddy, is very concerned about the drop in sales over the past months.

REQUIRED

- 1.1 Refer to the proposed Cash Budget, Debtors & Creditors Schedules as well as the additional information provided to calculate the figures labelled to (e). (18)

ADDITIONAL INFORMATION**1. Actual and Budgeted Sales Figures:**

	Actual		Budgeted	
	Aug	Sept	Oct	Nov
Total Sales	220 000	200 000	180 000	220 000
Cost Of Sales	176 000	160 000	144 000	176 000

- 20% of total sales are sold on credit each month.
- 65% of all stock is bought on credit.
- A fixed level of trading stock on hand is maintained throughout the year through replacement on a monthly basis.

2. Debtors are expected to pay their accounts as follows:

70 % in the month following the month of sale.

28 % in two months following the month of sale.

2 % to be written off in the 3rd month following the month of sale.

3. Creditors are paid in full in the month following the month of purchase to qualify for a 5% discount.**1.2**

1.2.1 Refer to the item, "Fixed Deposit (1 November)", as shown under the Receipts section of the Cash Budget. Explain what is expected to happen with regards to the Fixed Deposit on 1 November 2008 (2)

1.2.2 The Smart Store plans to purchase equipment during the budget period. Study the Cash Budget in order to calculate the total expected cost price of this equipment. (3)

1.2.3 The sales assistant has complained to Mrs Reddy about her proposed salary increase in November 2008.

- Give one point to support her opinion.
- Give one point against her opinion. (4)

1.2.4 At the end of October 2008, you compare the Actual figures against the Cash Budget figures and you notice differences on certain items. Provide ONE point of advice to Mrs Reddy in respect of **Advertising**:

	October Budget	October Actual	Difference
Advertising	R 2 000	R 600	– R1 400

(3)

Cash Budget of “The Smart Store” for October & November 2008

	October	November
RECEIPTS:		
Cash sales	144 000	(a)
Debtors collections	40 320	(c)
Fixed deposit (1 November)	-	20 000
Interest on fixed deposit (12% p.a.)	500	300
Other cash Income	?	?
PAYMENTS:		
Cash purchase of Trading stock	(b)	61 600
Payments to creditors	(d)	88 920
Deposit – purchase of equipment	3 000	-
Instalment payment – equipment (4 equal instalments)	-	4 700
Rent expense	16 000	17 440
Salary – shop manager	12 000	13 680
Salary – sales assistant	5 000	5 125
Consumable stores	11 000	12 080
Advertising	2 000	2 000
Interest on overdraft	315	-
Other cash operating expenses	?	?
Surplus / (Shortfall) for the month	(21 995)	18 855
Bank balance at beginning of the month	14 200	(e)
Bank balance at the end of the month	(7 795)	?

[30]

QUESTION 2: 50 marks 30 minutes

(DoE Nov. 2008)

BUDGETING AND CORPORATE GOVERNANCE**2.1 PRESENTATION OF A CASH BUDGET**

You are the accountant of Limpopo Traders and you have prepared the cash budget for the three months ending 31 March 2009, to present to the owner, Thabo Mkhize

REQUIRED

2.1.1 What is the main purpose of preparing a Cash Budget? (2)

2.1.2 At the end of October 2008 you identified the following figures. Explain what you would mention to Thabo about each of the following items at the end of October:

	October 2008	
	Budgeted	Actual
Repairs and maintenance	R23 000	R18 000
Telephone	R15 000	R24 000
Rent income	R72 000	R22 000
Advertising	R25 000	R25 000

(8)

2.1.3 Calculate the total sales that may be expected in February 2009. (4)

2.1.4 Prepare a Debtors Collection Schedule for the period ending 31 March 2009 to check the figures in the Cash Budget. (9)

2.1.5 Thabo is of the opinion that it would be a good idea to start selling on credit, but his shop manager disagrees. Give ONE point from the question to support Thabo's opinion, and ONE point against his opinion. Give figures to support your points. (6)

2.1.6 Refer to the complete Cash Budget for the three months ending 31 March 2009 (see below). Thabo cannot understand what the budget reflects and he asks you to highlight the important aspects.

Explain THREE points other than those mentioned in QUESTIONS 2.1.2 to 2.1.5 above. Give figures (or ratios/percentages) from the question to support your explanations. (9)

INFORMATION

1. **Credit sales:** Thabo decides to start selling on credit from 1 February 2009. Credit sales are expected to comprise 80% of all sales. The business uses a mark-up of 50% on cost at all times. Debtors are expected to pay as follows:
 - 10% pay in the same month as the credit sales transaction
 - 55% pay in the month following the credit sales transaction month
 - 28% pay in the second month following the credit sales transaction month
 - 7% is expected to be irrecoverable (bad debts)
2. **Mortgage loan:** Thabo decides to take out a mortgage loan on the property which the business bought for cash many years ago. Interest of 15% p.a. is capitalised (added to loan).

LIMPOPO TRADERS**CASH BUDGET FOR THREE MONTHS ENDING 31 MARCH 2009**

	2009 JANUARY	2009 FEBRUARY	2009 MARCH
RECEIPTS	675 000	1 176 600	1 093 600
Cash sales	600 000	144 000	162 000
Collection from debtors (see info.1 above)		57 600	381 600
Mortgage loan from ACE Bank (see info.2 above)		900 000	
Rent income	72 000	72 000	80 000
Interest on fixed deposit	3 000	3 000	
Fixed deposit maturing			470 000

PAYMENTS	771 700	960 470	1 240 780
Purchase of stock (all for cash)	400 000	480 000	540 000
Repayment of loan and interest		10 370	10 370
Bank charges	13 000	8 000	8 000
Insurance	7 700	7 700	10 010
Salaries	140 000	140 000	168 000
Wages	60 000	62 400	62 400
Telephone	16 000	16 000	16 000
Advertising	15 000	15 000	15 000
Sundry expenses	20 000	21 000	22 000
Purchase of vehicles			180 000
Vehicle expenses			9 000
Drawings by Thabo	100 000	200 000	200 000
Surplus (Deficit) for the month	(96 700)	216 130	(147 180)
Cash at beginning of month	55 000	(41 700)	174 430
Cash at the end of the month	(41 700)	174 430	27 250

2.2 CASE STUDY: PRESTIGE HOTELS LTD

You are provided with an extract from a newspaper article which is based on an actual case.

REQUIRED:

- 2.2.1 If you were a major shareholder in this company, what questions would you ask the managing director at the special meeting? Give TWO questions (6)
- 2.2.2 What should the managing director say at the special meeting to defend the board's decisions about the budget? Briefly explain TWO points. (6)

INFORMATION**PRESTIGE HOTELS LTD SLAMMED FOR INAPPROPRIATE DECISIONS**

[By Helen Brown, Daily Views, 24 Nov. 2007]

The decision by Prestige Hotels Ltd to sponsor the Far East International Soccer tournament to the tune of R5 million at a time when the company is seeking extra loans and finance from investors, has been criticised by some of the major shareholders and trade unions.

One of the major shareholders, Glyn Schroda, said this week that Prestige Hotels made an operating loss of R83 million during the 2006/2007 financial year, and that the budget for the new year shows huge cash shortfalls. She said that the managing director, Brand Schoon, needed to be held accountable and would have to explain the actions of the board at a special meeting called by shareholders next week. Trade union representative, Vally Pradeep, also criticised the company for not looking after its employees.

Prestige Hotels Ltd is the main sponsor and owns hotels in South Africa and the Far East. They will be providing free accommodation for players for the Far East International Soccer Tournament. Spectators will be required to pay for their own rooms.

'We are taking our strong South African brand to the rest of the world with this sponsorship; we are making our presence felt on the world stage,' said Schoon. Siswe Mashala, Chief Accountant of the company, said Prestige Hotels had reduced its sponsorships from more than 40 to only five sporting events, and had budgeted for 8% salary and wage increases.

[50]

QUESTION 3: 45 marks 30 minutes

(DoE March, 2009)

PROJECTED INCOME STATEMENT

You are provided with a Projected Income Statement for Riverside Traders for January and February 2009. The actual figures are also provided. The business is owned by Cheryl Rivers.

She uses a fixed mark-up percentage at all times and credit sales comprise 60% of all sales

RIVERSIDE TRADERS**PROJECTED INCOME STATEMENT FOR JANUARY AND FEBRUARY 2009**

	JANUARY BUDGET	JANUARY ACTUAL	FEBRUARY BUDGET	FEBRUARY ACTUAL
Sales	540 000	396 000	594 000	360 000
Cost of sales	300 000	220 000	330 000	200 000
Gross profit	240 000	176 000	264 000	160 000
Other income	47 000	34 000	53 000	44 000
Commission received	11 000	16 000	11 000	23 000
Rent income	36 000	18 000	42 000	21 000
Gross operating income	287 000	210 000	317 000	204 000
Operating expenses	(154 480)	(147 580)	(136 128)	(143 300)
Salary of the store manager	40 000	40 000	50 000	50 000
Wages of shop assistants	24 000	24 000	24 000	16 800
Sundry operating expenses	13 000	9 000	14 000	9 000
Motor vehicle expenses	12 000	13 200	12 000	13 200
Telephone	1 000	3 000	1 000	5 000
Security expenses	7 000	3 500	7 000	3 500
Trading stock deficit	0	18 000	0	12 000
Training of employees	30 000	10 000	0	0
Advertising	5 000	1 000	5 000	1 000
Discount allowed	2 000	0	2 000	0
Bad debts	6 480	11 880	7 128	10 800
Stationery	4 000	4 000	4 000	7 000
Depreciation	10 000	10 000	10 000	15 000
Operating profit	132 520	62 420	180 872	60 700
Interest income (6% p.a.)	12 000	12 000	12 000	9 000
Profit before interest expense	144 520	74 420	192 872	69 700
Interest expense (15% p.a.)	(37 500)	(37 500)	(37 500)	(37 500)
Net profit for the year	107 020	36 920	155 372	32 200

REQUIRED

- 3.1 Calculate the mark-up % that Cheryl uses for her business. (4)
- 3.2 Refer to the actual figures for February for Interest income and Depreciation.
In each case, give a probable reason why the actual figure is different from the budget for February. (4)
- 3.3 Cheryl is always worried about the internal control over three expenses in particular: Stationery, Telephone and Motor Vehicle Expenses (especially as the petrol price increased unexpectedly by 25% at the beginning of January).
Comment on whether or not these expenses have been well controlled. Quote figures to support your answer. (7)
- 3.4 Cheryl is concerned that she has to keep contributing more capital each month so that the business can settle its debts. Explain why the Projected Income Statement will not help her in identifying the reasons for this problem. (3)
- 3.5 Cheryl has also borrowed money to set up this business. She is not sure if she can afford the loan repayments which start in March. (4)
- Calculate the amount of the loan.
 - What advice would you give her regarding accessing funds in order to repay the loan? Name TWO points. (4)
- 3.6 Cheryl is concerned about the support she is getting from her customers. She is concerned about losing 'goodwill'. (2)
- Quote figures from the question which indicate that she appears to be losing customers.
 - Identify THREE points, with appropriate figures from the Projected Income Statement, which indicate that she has made mistakes in dealing with her customers. (6)
- 3.7 The shop assistants earn equal wages. Two of the six shop assistants resigned at the beginning of February. They have not been replaced. (3)
- Calculate the monthly salary earned by each shop assistant in January. (4)
 - Calculate the % salary increase that Cheryl granted the shop assistants in February. (4)
 - Give TWO reasons why they would not be happy with this increase. Quote evidence to support your answer. (4)

[45]

SECTION B: SOLUTIONS AND HINTS TO SECTION A

QUESTION 11.1 **Calculate the figures:**(a) **November 2008 Cash Sales figure**

$$20\,000 \times 0.8 = R\,176\,000 \checkmark\checkmark \quad (2)$$

(b) **October Cash Purchase of Trading Stock figure.**

$$144\,000 \times 0.35 = R\,50\,400 \checkmark\checkmark \quad (2)$$

(c) **November 2008 Debtors Collections figure.**

$$180\,000 \times 0.2 = 36\,000$$

$$36\,000 \times 0.7 = 25\,200$$

$$200\,000 \times 0.2 \times 28\% = 11\,200$$

$$25\,200 \checkmark\checkmark\checkmark + 11\,200 \checkmark\checkmark\checkmark = R\,36\,400 \checkmark \quad (7)$$

(d) **October 2008 Payments to Creditors figure**

$$160\,000 \checkmark \times 0.65 \checkmark = 104\,000 \checkmark$$

$$104\,000 \times 0.95 \checkmark = R\,98\,800 \checkmark \quad (5)$$

(e) **Bank balance of The Smart Store at the end of November 2008.**

$$18\,855 - 7\,795 = R\,11\,060 \checkmark\checkmark \quad (2)$$

1.2.1 **Any valid explanation** $\checkmark\checkmark$

A Fixed Deposit of R 20 000 will mature on 1 November 2008.

The money will be deposited into the businesses current banking account. (2)

$$1.2.2 \quad R 3\,000 + (R 4\,700 \times 4) = R 3\,000 \checkmark + R 18\,800 \checkmark \\ = R 21\,800 \checkmark \quad (3)$$

1.2.3 **One point to support her opinion**

Any valid point mentioned ✓✓

Her salary only expected to increase by 2½ % (this is way below the current CPI) while managers salary is expected to increase by 14%.✓

One point against her opinion

Any valid point mentioned ✓✓

Sales have been decreasing over the past months (stated in question and can be picked up from 6.1.1) and business are experiencing huge difficulties at present as a result of the weakening economy. (4)

1.2.4 → **Change in Advertising figures:**

Any one valid point ✓✓✓

Possible answers

- R 2000 was budgeted but only R 600 was spent.
- This could have been why the total sales decreased in October.
- Continuous advertising is important for continuous sales – especially now that it is nearing Holiday Season. (3)

[30]

QUESTION 2

2.1 **LIMPOPO TRADERS**

2.1.1 *Any valid answer ✓✓*

Good answer: 2 marks; Answered in part: 1 mark

If candidate confuses income (revenue) with receipts and expenditure with payments:

max 1 mark

Expected responses:

- To anticipate future receipts and payments (2 marks)
- To identify future bank balances (2 marks)
- To anticipate future cash movements (2 mark)
- To assist with control of / monitor receipts and payments (2 marks)
- Planning for the future (1 mark)
- To anticipate future receipts (1 mark)
- To anticipate future payments / how they will spend their money (1 mark) (2)

2.1.2 Any valid answer ✓✓ Figures not essential in answer

Good explanation: 2 marks; Satisfactory explanation: 1 mark

Expected responses to include a comparison of budget to actual (1 mark) & explanation (1 mark).

Repairs & maintenance:

Favourable variance (actual less than budget). Efficient and well controlled. Poor maintenance. ✓✓

Telephone:

Significantly overspent (actual more than budget). Extra control needed / tariff increase / unnecessary (private) calls not related to business. Unbudgeted items / unusual expenditure, e.g. deliberately done to create awareness of the business / follow up on problems. ✓✓

Rent income:

Significantly under budget (actual less than budget) / Budget was unrealistically high. Investigate shortfall, e.g. poor collection, tenant has left, etc. ✓✓
No marks if regarded as a payment.

Advertising: Good planning / Budget fully spent as expected (could assess whether this is valid expenditure e.g. did they need to spend it all? / did they need a bigger allocation?) ✓✓

(8)

2.1.3

$$\begin{array}{ccc} \checkmark & [\checkmark\checkmark] & \checkmark \\ 144\,000 \times 100 / 20 \text{ (i.e. } \times 5) & = & \text{R } 720\,000 \end{array}$$

$$\begin{array}{ccc} \checkmark & \checkmark & \checkmark \\ \text{OR } (57\,600 \times 100 / 10) + 144\,000 & = & \text{R } 720\,000 \end{array} \quad \checkmark$$

$$\begin{array}{ccc} \checkmark & \checkmark & \checkmark \\ \text{OR } 57\,600 \times 100 / 10 \times 100 / 80 & = & \text{R } 720\,000 \end{array} \quad \checkmark$$

$$\begin{array}{ccc} \checkmark & [\checkmark\checkmark] & \checkmark \\ \text{OR } 480\,000 \times 150 / 100 & = & \text{R } 720\,000 \end{array}$$

NB: This method applies only in the case of a fixed base stock policy

(4)

2.1.4

Wrong (9)

DEBTORS COLLECTION SCHEDULE FOR TWO MONTHS ENDING 31 MARCH 2009			
<i>* If 576 000 not shown, rework workings done by learner</i>	CREDIT SALES <i>* if 80% of 2.1.3</i>	COLLECTIONS:	
		FEBRUARY	MARCH
February credit sales	* <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 576 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> # 57 600	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> # 316 800
March credit sales	648 000		<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 64 800
	<i>Both totals-inspection</i> <input checked="" type="checkbox"/>	57 600	381 600

*columns:
no marks*#
*Inspection:
if 10% &
55% of
Feb credit
sales
figure*2.1.5 *Any valid answer* ✓✓✓
*previous responses**Figures are essential in answer – correspond to**Mention point: 1 mark; Figures must relate to the point: 2 marks***One point to support Thabo's opinion:** ✓✓✓Total sales are expected to increase / Extra customers (from R600 000)
to R720 000 (3 marks)**OR** They will earn extra gross profit of R40 000 (R240 000 instead of R200 000)
(3 marks)**One point against Thabo's opinion:** ✓✓✓The cash flow is severely affected (difficult to pay for stock, etc.) e.g. in
February cash collected from debtors and cash sales will be only
 $R144\ 000 + R57\ 600 = R201\ 600$ instead of R600 000 (3 marks)**OR** Bad debts of 7% are expected (3 marks)**OR** It takes 3 months to collect 93% of the credit sales (3 marks)**OR** Collection period is 3 months but stock is bought for cash (3 marks)**OR** Will severely affect cash balances / liquidity (1 mark)**OR** Increased administration costs / More people to be employed (1 mark) (6)

2.1.6 Any three valid answers ✓✓✓ ✓✓✓ ✓✓✓ *Figures/ratios/% are essential in answer*

Explain a point: 1 mark; Figures: 2 marks

Explanation may be limited description of item in cash budget – inferences not needed.

Cash on hand / Total Receipts or Payments: The cash on hand decreased from R174 430 to R27 250 in February and March respectively / Receipts increased from R675 000 to R1093 600 (similarly for payments). Despite the extra money received (e.g. through loan / fixed deposits) the business cash flow still seems disappointing.

Mortgage: A large part of the R900 000 bond is used to pay the operating expenses.

Fixed deposit maturing in March R470 000: The business is losing interest R3 000 because they have not reinvested these funds – used on running costs or drawings.

Cash purchases of stock (R400 000 for Jan etc): Could possibly buy on credit to allow more funds to flow in before creditors are paid.

Bank charges: Decreased by R5 000 due to less cash sales, i.e. lower cash deposit fees / Fewer credit card sales.

Insurance: Increased by R2 310 due to the addition of vehicles. Consider to look for a better insurance deal.

Salaries & wages: Salaries increased by 20% during March The salaries should only increase with inflation rate $\pm 7\%$. Wages increased by only 4% compared to 20% increase in salaries. Not fair.

Vehicle: Limit the vehicle expenses, R9 000 expense is very high for a new vehicle.

Drawings: The drawings affect ability to pay operating costs. Increase of 100% is excessive compared to the salaries and wages which increased by 20% and 4% respectively.

Sundry expenses: Increase by R1 000 per month (5% in Jan). Investigate if this is sufficient / necessary.

(9)

2.2 PRESTIGE HOTELS LIMITED

2.2.1 Any two valid and separate questions ✓✓✓ ✓✓✓

Valid response = 3 Invalid response = 0

Examples of expected responses (does not have to be in question form):

- How will this sponsorship benefit the company after a loss of R83m during the 2006/2007 financial year?
- What are the reasons for the loss of R83m?
- What are the reasons for retaining my shareholding in the company?
- What plans and control measures does management have in place to prevent another loss?
- What other plans does management have in place to decrease the operating loss / ensure a profit in future?
- How can you approve a sponsorship if a loan was needed?
- What response will be given to employees when only 8 % increase has been approved on their salaries?
- Why has the number of sponsorship events decreased significantly? Are they focusing on high-profile events only? Will it affect their overall profile? (6)

2.2.2 Any two valid and separate points ✓✓✓ ✓✓✓

Excellent = 3 Good = 2 Satisfactory = 1 Incorrect = 0

Examples of expected responses:

- In the long run the company and shareholders will benefit from increased profits when the marketing initiatives take effect.
- The decrease in sponsorship – reasons for this and effect on company
- Remuneration increases were given despite downturn in the economy – company's ability to sustain this
- Addressing social responsibility – King Code
- World wide exposure / publicity for the company – effect on future prospects
- Sponsorship is tax-deductible – effect to be ascertained – cost vs benefit (6)
- Free accommodation will attract others to stay in the same hotel.

[50]

QUESTION 3

3.1 **Calculate the mark-up % that Cheryl uses for her business.**

$$\begin{array}{ccc} \checkmark & \checkmark & \checkmark\checkmark \\ 240\,000 / 300\,000 \times 100 = 80\% \end{array}$$

Or: use figures from any of the other columns (4)

3.2 **Probable reason for interest income:**

The investment was decreased. ✓✓

Probable reason for depreciation:

More fixed/tangible assets were bought. ✓✓ (4)

3.3 **Comment on Stationery:**

Responses may be expressed differently

Part-marks can be awarded

Well controlled in January, but R3 000 over budget in February. This is possibly due to wastage/theft. ✓✓

Comment on Telephone:

Abuse is apparent. R2 000 over budget in January and R4 000 over budget in February. Not well controlled. ✓✓

Comment on Motor vehicle expenses:

Well controlled. The variance is only 10% (1 200/ 12 000) whilst the price of petrol increased by 25%. ✓✓✓ (7)

3.4 *Responses may be expressed differently* ✓✓✓

Excellent = 3; Good =2; Poor=1; Incorrect=0

Cash problems will be identified in the Cash Budget. The projected Income Statement reflects profit. Certain income items might not have been collected, while payments for debts are not reflected in the Projected Income Statement.

✓✓✓

(3)

3.5 Calculate the amount of the loan.

$$\begin{array}{cccc} \checkmark & \checkmark & \checkmark & \checkmark \\ 37\,500 / 0.15 \times 12 = R3\,m \end{array}$$

What advice would you give her regarding accessing funds in order to repay the loan? Name TWO points.

Any TWO valid points, e.g. ✓✓ ✓✓

- Liquidate the investment as the interest is only 6%
 - Admit a partner/member
 - Sell off unused property
 - Any other valid point
- (8)

3.6

Each point named: 1 mark; Figure provided: 1 mark

Jan. actual sales R396 000 Budgeted R540 000 ✓✓

OR Feb. actual sales R360 000 Budgeted R594 000

OR Feb. actual sales R360 000 are less than Jan R396 000

Identify THREE points, with appropriate figures from the Projected Income Statement, which indicate that she has made mistakes in dealing with her customers.

Any THREE valid points, e.g. ✓✓ ✓✓ ✓✓

- Advertising only R1 000 per month compared to R5 000 budget
 - Discount allowed is nil, despite R2 000 monthly budget – not granting discount, or debtors are paying too slowly to gain the benefit
 - The 80% mark-up at all times might be a problem in relation to prices of competitors – offer trade discounts
 - Security spent is 50% of the budget of R7 000 – this is causing shop-lifting as evidenced by trading stock deficits which were not budgeted.
 - Bad debts R11 880/R10 800 exceed the budget R6 480/R7 128 – indicates poor screening or poor collection.
- (8)

3.7 Calculate the monthly salary earned by each shop assistant in January.

$$\begin{array}{ccc} \checkmark & \checkmark & \checkmark \\ R24\ 000 / 6 = R4\ 000 \end{array}$$

Calculate the % salary increase that Cheryl granted the shop assistants in February.

$$R16\ 800 / 4 = R4\ 200 \quad \checkmark \qquad R4\ 000 \times 4 = R16\ 000$$

$$\text{Increase} = R4\ 200 - R4\ 000 \quad \checkmark = R200 \quad R16\ 800 - R16\ 000 = R800$$

$$\% \text{ increase} = 200 / 4000 \times 100 = 5\% \quad \checkmark \quad R800 / R16\ 000 = 5\%$$

Give TWO reasons why they would not be happy with this increase. Quote evidence to support your answer.

Any TWO valid points, e.g. ✓✓ ✓✓

- The manager received a 25% increase while the assistants received 5%
- The 5% increase is significantly less than the inflation rate of approximately 11%.
- The assistants who resigned were not replaced. The remaining assistants (11) probably have to work harder for a small increase.

[45]

SECTION C: HOMEWORK

QUESTION 1: 45 marks 35 minutes

(DoE Nov. 2009)

PROJECTED INCOME STATEMENT

Mike Camp owns Camping Traders, which sells camping equipment. They also charge fees (cash only) for repairing the equipment. You are provided with a Projected Income Statement for September and October 2009. The actual figures are also provided.

REQUIRED

- 1.1 Why is it a good idea to compare budgeted against actual figures? (2)
- 1.2 Mike budgeted to achieve a 60% mark-up on cost. However, owing to increased competition, he found it necessary to reduce his prices during the budget period.
 - 1.2.1 Calculate the mark-up % that Mike actually achieved in September. (3)
 - 1.2.2 Mike feels that the business benefited from the price reductions. Quote figures from the question to support his opinion. (2)

- 1.3 Over the past three months, Mike has needed to contribute capital in order to settle the debts of the business. Explain why the Projected Income Statement will not help him in identifying the reasons for this problem. (2)
- 1.4 On 1 September 2009, the business had a loan from Good Day Bank at an interest rate of 18% p.a.
- 1.4.1 Calculate the amount owing on the loan on 1 September 2009. (4)
- 1.4.2 On 1 October Mike decided to increase the loan by R1 million to purchase the shop premises instead of renting the premises. How has this decision affected the profit he is earning? Quote figures to support your answer. (6)
- 1.5 What is the main reason for the disappointing actual net profit in October? Provide a figure to support your answer. (3)
- 1.6 Mike budgeted to increase the number of shop assistants during October 2009. However, he changed his mind and decided to give the existing shop assistants an increase with effect from October and not employ any extra staff.
- 1.6.1 Calculate the percentage increase he granted the shop assistants in October 2009. (3)
- 1.6.2 In your opinion, was this a correct decision for the business as a whole? Briefly explain, quoting evidence from the question. (3)
- 1.7 Prepare a debtors' collection schedule for October. Use budgeted sales and the following information:
- 75% of sales are on credit
 - 40% pay in the month of sale and receive a 5% settlement discount
 - 50% pay in the first month after the date of sale
 - 8% pay in the second month after the date of sale
 - 2% is written off in the third month after the date of sale (9)
- 1.8 Provide TWO figures from the information below that indicate that Mike has not handled collection from debtors effectively. (4)
- 1.9 Apart from what has been mentioned in your previous answers, select TWO other operating expenses that Mike should investigate. Provide ONE point of practical advice in respect of each item. (4)

INFORMATION

CAMPING TRADERS

PROJECTED INCOME STATEMENT FOR SEPTEMBER AND OCTOBER 2009
(WITH COMPARATIVE ACTUAL FIGURES)

	SEPTEMBER BUDGET	SEPTEMBER ACTUAL	OCTOBER BUDGET	OCTOBER ACTUAL
Sales	320 000	372 000	352 000	387 500
Cost of sales	(200 000)	(240 000)	(220 000)	(250 000)
Gross profit	120 000	132 000	132 000	137 500
Other income	81 200	88 650	97 200	56 400
Sundry income	1 200	650	1 200	400
Fee income	80 000	88 000	96 000	56 000
Gross operating income	201 200	220 650	229 200	193 900
Operating expenses	(127 500)	(130 350)	(147 680)	(144 670)
Salary of the store manager	22 000	22 000	22 000	22 000
Wages of shop assistants	28 000	28 000	39 200	31 080
Sundry operating expenses	8 000	9 000	14 000	9 000
Rates on property	0	0	0	10 000
Telephone	2 000	3 000	1 000	5 000
Security expenses	5 000	3 500	7 000	3 500
Trading stock deficit	0	0	0	8 000
Rent expense	24 000	24 000	24 000	0
Advertising	5 000	1 000	5 000	1 000

Discount allowed	4 800	4 100	5 280	2 640
Bad debts	4 200	8 550	4 200	22 450
Consumable stores	14 500	17 200	16 000	18 000
Depreciation	10 000	10 000	10 000	12 000
Operating profit	73 700	90 300	81 520	49 230
Interest income	10 000	10 000	11 000	11 000
Profit before interest expense	83 700	100 300	92 520	60 230
Interest expense (18% p.a.)	(2 250)	(2 250)	(17 250)	(17 250)
Net profit for the month	81 450	98 050	75 270	42 980

[45]

SECTION D: SOLUTIONS TO HOMEWORK

QUESTION 1

1.1 Any valid explanation ✓✓

Possible responses:

- To reflect on whether your projected income and expenditure have been realistic
- To improve future projections
- To determine variances between projections and actual amounts (over-expenditure / income or under-expenditure/ income) (2)
- To be able to control income and expenditure on a monthly basis

1.2.1 ✓ ✓ *
 $132\ 000 / 240\ 000 \times 100 = 55\ %$ (3)

1.2.2 Any valid explanation ✓

Quoting of figures ✓

- Even though the mark-up is less than budgeted for, the gross profit of R132 000 in September exceeded the budget of R120 000 (October: R137 500 exceeded R132 000).
- Sales increased from R320 000 to R372 000. (2)
- Net profit increased from R81 450 to R98 050.

1.3 Good explanation = 2 marks; Satisfactory =1; Incorrect =0 ✓✓

Cash problems will be identified in the Cash Budget. The Projected Income Statement reflects profit. Certain income items may not have been collected, while payments for debts are not reflected in the Projected Income Statement.

(2)

1.4.1 ✓ ✓ ✓ *

$2\ 250 \times 100 / 18 \times 12 = R150\ 000$

(4)

1.4.2 Any three valid points: One mark each ✓ ✓ ✓

Quoting of figures: One mark each ✓ ✓ ✓

Possible responses:

- Interest on the additional loan = R15 000 leads to decrease in profits
- Saving on rent R24 000 p.m.
- Rates are now being incurred R10 000 In October which decreases profits
- Repairs and maintenance will be incurred in future and will lead to decreased profits.
- Capital profit in the future on assets bought.

(6)

1.5 ✓ ✓✓

Fee income R56 000 is less than the budgeted figure of R96 000.

(3)

1.6.1 $3\ 080 \checkmark / 28\ 000 \checkmark \times 100 = 11\% \checkmark^*$

(3)

1.6.2 Yes / No ✓

Evidence ✓✓

If yes: The wage increase of 11% cost the business a lot less than the extra shop assistants would have, i.e. 40%.

If no: The shop assistants will be required to accept a heavier workload without the additional assistants (this could demotivate them). Sales increase to R387 500 (R352 000 expected)

(3)

1.7 Debtors collection schedule

	Budgeted credit sales	October collections from debtors
August	R210 000	R16 800 ✓✓
September	R240 000	R120 000 ✓✓
October	R264 000 ✓✓	R100 320 ☑ ☑#
	# If 38% of credit sales	R237 120 ☑*

(9)

1.8

✓ ✓
Bad debts R9 250 or R8 550 exceed budget

✓ ✓
Discount allowed R2 640 or R4 100 is below budget

(4)

1.9

Good explanation = 2 marks; Satisfactory =1; Incorrect =0 ✓✓
✓✓ Any two operating expenses with valid discussions

- **Telephone:** Implement restrictions/code to restrict overuse of the telephone.
- **Consumable stores:** Record usage of consumable stores/put a person in charge to avoid/reduce wastage or theft.
- **Advertising:** Utilise the budget each month in order to maximise the effect on sales. Consider alternative forms of advertising that might be more effective e.g. brochures, special promotions, etc.
- **Security expenses:** This cannot be compromised. It affects other expenses e.g. Trading Stock deficit. Assess the work done by the security company to ensure efficiency.
- **Trading stock deficit:** Implement stricter control measures such as regular counts, security cameras, etc.
- **Depreciation:** Assess the reason for the increase. If purchase of extras assets was properly authorised then this is a legitimate overrun.

(4)

[45]

Teacher Note: There are two parts to this session. Topic 1:Vat is designed to be done with the guidance of the tutor. Topic 2 Stock Inventory and non-current assets is design as a self study in preparation for June Examinations.

LESSON OVERVIEW

1. Introduce session: 5 minutes
2. Typical exam questions Topic 1: 65 minutes
3. Review/solutions/memo: 20 minutes
4. Topic 2: Self Study

SECTION A: TYPICAL EXAM QUESTIONS

HINTS

- Remember the new ledger accounts
- Income tax only comes about as an adjustment at the end of the year
- All provisional payments to SARS affect the bank account

TOPIC 1: VAT

SECTION A: TYPICAL EXAM QUESTIONS

Teacher Note:

- Answers must always be in point form
- Make sure learners know how to calculate VAT
- Open ended questions do not have one correct answer

QUESTION 1: **25 marks** **15 minutes** *(DoE Exemplar 2 2008)*

VAT AND ETHICS

REQUIRED:

- 1.1 What is the difference between Output VAT and Input VAT? (4)
- 1.2 At what rate is VAT currently being charged in South Africa? (2)
- 1.3 Is the current rate of VAT being charged on all goods in South Africa? Explain. (5)
- 1.4 George Gummy the owner of Gummy Traders wants to know how much he owes SARS in respect of VAT for the two-month period July-August 2008. Calculate the amount owing to SARS based on the following figures:
Round off to the nearest cent

- Total sales for July and August, R880 800 (exclusive of VAT).
- Total purchases for July and August, R415 500 (inclusive of VAT).
- Purchase of equipment in July, R65 000 (inclusive of VAT). (10)

- 1.5 George Gummy regularly purchases goods from Sneaky Stores. The owner has offered you a special price of R6 800 including VA, instead of the normal price of R7 400, provided you pay cash and do not require a document. George is tempted, as this seems like a good offer. Advise him as to whether he should accept the offer. Explain briefly. (4)
[25]

QUESTION 2: **45 marks** **25 minutes** (*GDE Prep. Exam 2008*)

STOCK SYSTEMS AND VALUE ADDED TAX

2.1 STOCK SYSTEMS

You are provided with information relating to Vision Traders for the year ended 29 February 2008. The business sells only DSTV decoders. The periodic inventory system and the weighted average stock valuation method are in operation. They buy all their stock from one supplier.

REQUIRED

- 2.1.1 Explain **ONE** main difference between the periodic and continuous (perpetual) inventory systems. (4)
- 2.2.2 Using the weighted average stock valuation method, calculate the following:
- Value of closing stock on 29 February 2008 (12)
 - Gross Profit for the year ended 29 February 2008 (6)
- 2.1.3 Calculate the value of closing stock using the FIFO method. (5)
[27]

INFORMATION

1. Stock on 1 March 2007 (100 decoders) R55 600 (includes carriage on purchases).
2. Purchases during the year, 1150 units, for R747 500 were as follows:

May 2007	250 units at R630 each	R157 500
October 2007	800 units at R650 each	R520 000
January 2008	100 units at R700 each	R 70 000

3. Carriage on purchases during the year was charged at R25 per decoder by the supplier.
4. Returned 10 defective decoders purchased during January 2008 to the supplier. The supplier granted a full refund including carriage.
5. A selling price of R1 095 was maintained throughout the year. Sales amounted to R1 215 450.
6. On 29 February 2008, physical stock taking revealed stock of 130 decoders on hand.

2.2 VALUE ADDED TAX AND ETHICS

The following article appeared in a newspaper in a small rural town.

TROMP PHARMACY IN HOT WATER AGAIN

By Ina Prodd, 30 June 2008

Tromp Pharmacy has recently reopened after a week-long strike by its six employees after a dispute over poor wage increases. But owner and local entrepreneur Terry Tromp now has an even bigger fight on his hands with regard to allegations of unethical methods of setting the marked prices of the medicines he sells. The Pharmaceutical Society of South Africa (PSSA) is investigating.

A recently dismissed employee, Magda Klaar, revealed to the *Woodvlei News* that Tromp would revalue all his stock of medicines on hand at the latest replacement costs even if old stock had been bought at lower prices.

“He then adds a 100% mark-up as well as VAT on that value. He collects R100 000 per month from customers who are forced to buy their medicines from him as there is no other pharmacy within 50 km of Woodvlei,” a disgruntled Klaar said.

Klaar’s allegations in the press also attracted the interest of SARS who have received no VAT payments from Tromp since the pharmacy was established six months ago.

Tromp told the *Woodvlei News* that he was “fed up” with all the trouble the pharmacy had caused him. “I operate several successful businesses in Woodvlei, and I should be able to charge whatever I want to for my goods. In addition to the rapidly increasing cost of my stock, the biggest expenses are petrol and wages. I am seriously considering closing this business down. This is a lot of nonsense,” he said.

REQUIRED

- 2.2.1 How would you respond to Terry's comment in the last sentence about this is a lot of nonsense'? (3)
- 2.2.2 If you bought this business from Terry, what would you do differently? Explain two points that you would do differently and provide a reason for each point. (6)
- 2.2.3 Based on the information contained in this article, how much output VAT should Terry have declared to SARS? Provide a calculation to support your answer. (4)
- 2.2.4 Tromp Pharmacy is experiencing a cash flow problem and there is no money available to pay SARS. The bank account reflects an overdraft of R183 860 on 31 August 2008. You are the accountant, and the owner of Tromp Pharmacy approaches you to reduce the sales amount to an extent where the VAT input exceeds the VAT output so that the business receives a refund from SARS. As the accountant will you go along with this suggestion? Motivate your response by providing two reasons for your decision. (5)
[18]
[45]

QUESTION 3: 40 marks 25 minutes

(DoE Nov. 2009)

INVENTORY VALUATION, CONTROL AND VAT**3.1 INVENTORY VALUATION**

Laser Stores sell television sets to the public. The financial year ends on 28 February 2009. They are unsure which method to use in valuing their stock. The cost price of the product has changed significantly during the current year.

The owner Larry Laser has decided to keep selling the same model of TV set (*Mabona* TV sets, Model XC456), despite the fact that other shops are selling newer models.

REQUIRED

- 3.1.1 Calculate the value of closing stock using the FIFO (first-in-first-out) method. (6)
- 3.1.2 Calculate the value of closing stock using the weighted average method. (7)
- 3.1.3 Which method of stock valuation would you advise the owner to use? Give a reason for your answer. (3)
- 3.1.4 Calculate the gross profit on TV sets for the year based on the stock valuation method you advised in QUESTION 3.1.3. (4)
[20]

INFORMATION

The following information appeared in the records of Laser Stores for the year ended 28 February 2009. The business used a fixed selling price of R16 000 per TV set.

Information on stock of <i>Mabona</i> TV sets Model XC456	Number of TV sets	Value per unit	Total value
TV sets on hand on 1 March 2008	50	R11 000	R550 000
TV sets bought during the year	750		R8 090 000
May 2008	300	R12 000	R3 600 000
September 2008	250	R11 560	R2 890 000
February 2009	200	R8 000	R1 600 000
Subtotal	800		R8 640 000
TV sets sold during the year	440	R16 000	R7 040 000
TV sets on hand on 28 February 2009	360	?	?

3.2 CONTROL OF INVENTORY

Apart from TV sets, Laser Stores also sell other products. You are provided with information taken from their stock records on 28 February 2009. The owner Larry Laser is uncertain if he should be satisfied with control of all of these items.

REQUIRED

Comment on the stock control of each item, quoting figures to support your comment. In each case, offer Larry practical advice for the future.

[9]

INFORMATION:

Item	Number of units sold during the year	Number of units on hand per stock records at year-end	Number of units per physical count at year-end	Selling price per unit	Period of stock on hand
<i>Mabona</i> TV sets	440	360	360	R16 000	?
<i>Khuluma</i> Cellphones	2 250	150	100	R1 200	15 days
<i>Lalela</i> Radios	120	10	9	R100	27 days

3.3 VALUE-ADDED TAX

The following information was taken from the books of Laser Stores for February 2009. All goods bought and sold by Laser Stores are subject to 14% VAT

REQUIRED

Calculate the amount of VAT payable to/by SARS on 28 February 2009 and indicate whether the amount is payable to or receivable from SARS.

Show ALL workings. Ledger accounts for VAT are not required, but you may use this to arrive at your answer. [11]

INFORMATION:	1.1 Excluding VAT	Including VAT
Stock purchased by cheque	R1 760 000	?
Equipment purchased by cheque	R40 000	R45 600
Sales of goods for cash and on credit	?	R930 240
Goods returned by customers	R48 000	R54 720
Discount allowed to debtors on settlement of their accounts	R4 000	?
Drawings of stock by the owner	R24 000	R27 360
Bad debts	?	R18 240

[40]

SECTION B: SOLUTIONS AND HINTS TO SECTION A**QUESTION 1**

1.1 **Output VAT** - Output VAT is charged on goods sold ✓✓

Input VAT - Input VAT is charged on goods bought ✓✓

(4)

1.2 VAT = 14% ✓✓

(2)

1.3 No ✓

VAT is charged on zero-rated items at 0% ✓✓

VAT is not charged on VAT exempted items ✓✓

(5)

$$1.4 \quad \text{Output Vat } R880\,800 \checkmark \times 14/100 \checkmark = R123\,326,00 \checkmark$$

$$\text{Input VAT } R415\,500 \checkmark + R65\,000 \checkmark =$$

$$R480\,500 \checkmark \times 14 / 114 \checkmark$$

$$= R59\,008,77(8) \checkmark$$

$$\text{OR} \quad = R51\,026,32 + R7\,982,46$$

Amount payable to SARS = Output – Input

$$= R64\,317,23 \checkmark \checkmark \quad (10)$$

- 1.5 No, he should not accept the offer \checkmark
 Any valid explanation including the ethical aspect $\checkmark \checkmark \checkmark$
Possible explanation

It is unethical to accept offers like this, as it is obvious that Sneaky Stores will then not record this as a Sale and, therefore, not be reflecting the real Sales totals to SARS. The reputation of Gummy Stores is at stake.

(4)
[25]

QUESTION 2

2.2.1 Continuous (perpetual): stock figures are updated continuously

OR stock deficits identified easily and quickly. $\checkmark \checkmark$

Periodic: stock figures are not updated and can only be determined by taking stock

OR cannot detect deficits. $\checkmark \checkmark$ (4)

2.2.2 **Value of closing stock on 29 February 2008**

$$(55\,600 \checkmark + 747\,500 \checkmark - 7\,000 \checkmark + 28\,500 \checkmark) / (100 \checkmark + 1150 \checkmark - 10 \checkmark)$$

$$\checkmark \quad \checkmark$$

$$= 824\,600 / 1\,240$$

$$= 665 \checkmark \times 130 \checkmark$$

$$= R86\,450 \checkmark \quad (12)$$

Gross Profit for the year ended 29 February 2008

Trading account					
Opening stock	\checkmark	55 600	Sales	\checkmark	1 215 450
Purchases	\checkmark	740 500	Closing stock	\checkmark	86 560
Carriage on purchases	\checkmark	28 500			
Profit and loss (GP)	\checkmark	477 300			
		1 310 900			1 310 900

OR

CALCULATION:

$$1\ 215\ 450 \checkmark - (55\ 600 \checkmark + 740\ 500 \checkmark + 28\ 500 \checkmark) + 86\ 450 \boxtimes = 477\ 300 \boxtimes \quad (6)$$

$$2.1.3 \quad 90 \times 725 = 65\ 250 \checkmark \checkmark$$

$$40 \times 675 = 27\ 000 \checkmark \checkmark$$

$$65\ 250 + 27\ 000$$

$$= 92\ 250 \checkmark \quad (5)$$

2.2.1 Excellent answer = 3 marks; Good/Satisfactory = 2 marks; Poor = 1; Incorrect = 0
Expected responses, e.g.:

He owns the sole pharmacy in the area. He should be properly serving all the stakeholders (i.e. customers, community, employees, SARS) otherwise his business is not sustainable. (3)

2.2.2 Point 1: \checkmark Reason: $\checkmark \checkmark$ Point 2: \checkmark Reason: $\checkmark \checkmark$
Excellent point & reason = 3 marks; Good/Satisfactory = 2 marks; Poor = 1; Incorrect = 0

Expected responses – any two, e.g.:

- Establish a code of ethics for the business covering relationships with customers, expectations of conduct regarding staff members – engenders the confidence of the community
- Use a more responsible method of valuing stock and setting prices, e.g. FIFO with prices set accordingly; and use a more reasonable MU% - so that pricing is fair – generate goodwill
- Obey the law e.g. pay VAT when it is due – to avoid legal issues and avoid penalties (6)

2.2.3 \checkmark \checkmark \checkmark \boxtimes reasonableness
 $14/114 \times R100\ 000 \times 6 \text{ months} = R73\ 684,21 \quad (4)$

2.2.4 No \checkmark

Any two valid reasons $\checkmark \checkmark$ $\checkmark \checkmark$

Possible reasons:

- This is tax fraud
- It will be detected by SARS when a VAT audit is done
- Every claim for VAT input & output must be supported with documentation
- Risk of being prosecuted for tax fraud as this is a serious offence.
- The company could be charged penalties and interest and in addition fined or imprisoned (5)

[45]

QUESTION 3

$$\begin{aligned}
 3.1.1 \quad 200 \times R8\,000 &= R1\,600\,000 \checkmark\checkmark \\
 160\checkmark \times R11\,560\checkmark &= \underline{R1\,849\,600} \checkmark \\
 &R3\,449\,600 \checkmark^* \qquad\qquad\qquad (6)
 \end{aligned}$$

$$\begin{aligned}
 3.1.2 \quad \text{WA value per unit} &= R8\,640\,000 \checkmark / 800 \checkmark \\
 &= R10\,800 \checkmark \\
 \text{Value of closing stock} &= 360 \checkmark\checkmark \times R10\,800 \checkmark \text{ see above} \\
 &= R3\,888\,000 \checkmark^* \\
 \text{OR } 8\,640\,000 \checkmark\checkmark / 800 \checkmark\checkmark \times 360 \checkmark\checkmark &= R3\,888\,000 \checkmark \qquad\qquad\qquad (7)
 \end{aligned}$$

3.1.3 *Possible answers* *Decision* ✓ *Reason* ✓✓
 FIFO because TV sets are discrete units and it is easy to identify the cost price of each TV set.
Or:
 Weighted average method because the gross profit will be higher or there is no need to track the cost price on each TV set. (3)

3.1.4 Either based on FIFO:
 $R7\,040\,000 - (R8\,640\,000 - R3\,449\,600) = R1\,849\,600$
Or
Based on Weighted Average:
 $R7\,040\,000 - (R8\,640\,000 - R3\,888\,000) = R2\,288\,000$
To mark this:
 $\checkmark \qquad\qquad\qquad \checkmark \qquad\qquad\qquad \checkmark \checkmark^*$
 (Answer to 5.1.1 or 5.1.2) – R1 600 000 = Gross profit (4)

3.2 Each comment: one mark; quoting figures: one mark; advice: one mark.

Stock item	Comment and advice
<i>Mabona</i> TV sets	The stock is not selling well because new models are on the market. Too much stock on hand (360 units) compared to stock sales for the year (440 units). <i>Advice:</i> Reduce the price to clear the stock (cost is now R8 000) and stock new models. ✓✓✓
<i>Khuluma</i> Cell phones	The cell phones are selling well (2 250 sold) and the stock is relatively low (15 days). The control of stock is a problem (50 cell phones missing). <i>Advice:</i> Institute procedures to safeguard the stock e.g. special cabinets with one person controlling the keys. ✓✓✓
<i>Lalela</i> Radios	The radios are not selling well (only 10 per month) and they are low-profit items (R100 selling price). <i>Advice:</i> Discontinue selling the radios. It is not worth it. ✓✓✓

(9)

3.3

$$R246\,400 + 5\,600 + 6\,720 + 2\,240 + 560 - (R114\,240 + 3\,360) = R143\,920$$

OR

$$\text{Input VAT} = 246\,400 + 5\,600 = R252\,000$$

$$\text{Output VAT} = 114\,240 - 6\,720 - 560 + 3\,360 - 2\,240 = R108\,080$$

$$\text{Difference} = R143\,920$$

VAT CONTROL

Bank (Purchases)	✓ 246 400	Bank & Debtors' control	✓ 114 240
Bank (Equipment)	✓ 5 600		✓ 3 360
Debtors' control (Returns)	✓ 6 720	Sundry account	☑✓ 143
Sundry account (2 240 + 560)	✓✓ 2 800	Balance c/d	920
	<hr/> 261 520		<hr/> 261 520
Balance	b/d 143 920		

The amount is owed by SARS to Laser Stores ✓✓

(11)

[40]

SECTION C: HOMEWORK

QUESTION 1: **30 marks** **20 minutes** *(DoE Exemplar 2008)*

VALUE ADDED TAX

Manzini Stores, owned by Ivy Manzini, is registered for VAT under Category B (the invoice basis) on a one-month period. The business also only deals with other VAT-vendors.

You have been provided with the information from the journals for August 2008.

REQUIRED

- 1.1 What is meant by 'Value Added Tax' and at what rate is VAT is calculated? (2)
- 1.2 1.2.1 Calculate the VAT Output amount from the CRJ. (2)
- 1.2.2 Calculate the VAT Input amount from the CPJ. (3)
- 1.2.3 Calculate the VAT Output amount from the DJ (3)
- 1.3 Ivy is unsure how her bookkeeper should enter the VAT amounts in the ledger. Indicate to her how the VAT totals of the following journals will be posted to the General Ledger:
- CRJ
 - CPJ
 - DJ
 - GJ (12)
- 1.4 Calculate the amount of VAT to be paid over to SARS in respect of August 2008 (4)
- 1.5 Ivy does not have enough money in her bank account to pay SARS for the VAT. The bank balance is currently in overdraft at approximately R50 000. What advice would you offer her in order to:
- Solve the problem now?
 - Solve the problem in the future? (4)

INFORMATION FROM THE JOURNALS**1 1. Cash Receipts Journal**

- Total of Sales column R942 000
- Total of Debtors control column R420 000
- Total of Sundry accounts column Nil
- Total of VAT Output column R ?

2 Cash Payments Journal

- Total of Trading stock column R248 000
 - Total of Creditors control column R494 000
 - Total of Sundry accounts column (all Equipment) R580 000
- Note that Equipment is subject to VAT.

3 Debtors Journal

- Goods were sold on credit for R397 860 including VAT.

4 Debtors Allowance Journal

- Total of VAT Output column R6 930

5 Creditors Journal

- Total of VAT Input column R58 170

6 Creditors Allowances Journal

- Total of VAT Input column R7 210

7 General Journal

- 7.1 The owner took stock at cost price, R9 000, for personal use. The VAT on this item is R1 260.
- 7.2 A debtor D Dodge has disappeared. Write off his debt of R4 560 as irrecoverable. All items sold to D Dodge were subject to VAT of R560.

[30]

SECTION D: SOLUTIONS TO HOMEWORK: VAT
--

QUESTION 1

- 1.1 What is meant by 'VAT' and at what rate is VAT is calculated?
Tax on sales of goods (levied on the purchaser by the seller) ✓
14% ✓ (2)
- 1.2.1 Calculate the VAT Output amount from the CRJ.
14% of R942 000 = R131 880 ✓☑ see rate in 6.1 (2)
- 1.2.2 Calculate the VAT Input amount from the CPJ.
14% of (R248 000 + R580 000) = R115 920 ✓✓☑ see rate in 6.1 (3)
- 1.2.3 Calculate the VAT Output amount from the DJ.
 $14 / 114 \times R397\ 860 = R48\ 860$ ✓✓☑ see rate in 6.1 (3)
- a. Ivy is unsure how her bookkeeper should enter the VAT amounts in the ledger. Indicate to her how the VAT totals of the journals will be posted to the General Ledger by completing the table in the answer booklet. Some of the details have been entered for you.

Journal	Debit	Credit	Amount
CRJ	Bank	VAT output / control ✓	☑ R131 880
CPJ	VAT input / control ✓	Bank ✓	☑ R115 920
DJ	Debtors control ✓	VAT output / control ✓	☑ R48 860
DAJ	VAT output / control	Debtors control	R6 930
CJ	VAT input / control	Creditors control	R58 170
CAJ	Creditors control	VAT input / control	R7 210
GJ	Drawings ✓	VAT output / control ✓	R1 260
GJ	VAT output / control ✓	Bad debts ✓	R560

(12)

1.4

VAT CONTROL	
R115 920	R131 880
R6 930	R48 860
R58 170	R7 210
R560	R1 260
R181 580	R189 210
TO PAY = R7 630	
✓✓	
☑☑	
<i>If figures correctly transferred</i>	

(4)

1.5

- **Solve the problem now?**
Any valid answer, e.g. borrow funds, introduce capital ✓✓
- **Solve the problem in the future?**
Better budgeting – VAT charged to customers must be earmarked for repayment, not spent on assets such as equipment. ✓✓

(4)

TOTAL MARKS: 30

TOPIC 2: INVENTORY VALUATION AND NON CURRENT ASSETS

Make sure that learners are able to answer theory type of questions

SECTION A: TYPICAL EXAM QUESTIONS**Teacher Note:**

- Learners must always answer in point form
- Make sure learners know the theory on companies
- Open ended questions do not have one correct answer

QUESTION 1: **33 marks** **20 minutes** (*GDE Prep. Exam 2008*)

INVENTORY (STOCK) VALUATION

The following information was extracted from the accounting records of Goodie2Shoes.

INFORMATION

Goodie2Shoes buys and sells one type of shoes. The business uses the periodic inventory system and the weighted average method of valuing inventory.

Inventory (Stock):

- 145 pairs were on hand at R180 per pair on 1 August 2009.
- 125 pairs were purchased at R210 per pair on 7 August 2009.
- One of the suppliers was having a sale. Purchased 100 pairs for R11 000 on 20 August 2009.
- 110 pairs were imported at R230 per pair on 26 August 2009. Import duties paid was R3 610.
- 140 pairs were on hand on 31 August 2009.

Shoes are sold at R400 per pair.

REQUIRED

- 1.1 Calculate the weighted average value per unit on 31 August 2009. (9)
- 1.2 Calculate the value of the inventory (stock) on hand on 31 August 2009.
(Round off to the nearest Rand.) (3)
- 1.3 Draw up the trading account to determine the gross profit for the month ended 31 August 2009. (9)

- 1.4 The owner, Bongi Modiba, wants to sell her business. She approached you as the accountant of Goodie2Shoes and requested that you change their inventory (stock) valuation method to the FIFO method to create a higher profit and a higher closing inventory for the business to enable her to sell the business at a much higher price.
- 1.4.1 Calculate the value of the inventory (stock) on hand on 31 August 2009 by using the FIFO inventory (stock) valuation method. (7)
- 1.4.2 Will it be ethical for Bongi Modiba to change the inventory (stock) valuation method? Provide TWO reasons to support your answer. (5)
- [33]

QUESTION 2: **30 marks** **25 minutes** (*DoE Exemplar 2 2008*)

INVENTORIES

You are provided with information relating to Dean's Sport, a small business owned by Dean, that sells one type of soccer ball to spectators who attend soccer matches.

The business uses the periodic stock system. He sells the soccer balls for R120 each, although the cost price has been changing over the months. He has always made use of the FIFO method for valuing his stock.

REQUIRED

- 2.1 Calculate the value of the closing stock using the **FIFO** method. (7)
- 2.2 Calculate the gross profit made on the stock if the **FIFO** method is used. (7)
- 2.3 Dean has been told that he would make a larger gross profit if he used the **weighted average method** of valuing his stock. However, he feels it will make no difference to the overall profits of the business over a period of time. Do you agree? Explain your answer. You are not required to make any calculations. (4)
- 2.4 Dean is concerned, as the Gross Profit has decreased from last year. Discuss one possible reason for this based on the information given to you and provide a possible solution to this problem. (6)
- 2.5 Dean heard from a friend of his who did accounting at school that he should use the perpetual stock system instead of the periodic system. He is confused and has asked you for advice in this matter. Explain to him the difference and give him advice on which method he should use. (6)

INFORMATION

Dean has given the following information to you on all his purchases and sales over the last 3 months.

	Number of soccer balls	Unit price	Total
Opening stock 1 June 2008	30	R40	R1 200
Total purchases:	60		R3 800
June 2008	20	R55	R1 100
July 2008	25	R60	R1 500
August 2008	15	R80	R1 200
Sales of soccer balls: June – August 2008	70		

[30]

QUESTION 3: 35 marks 30 minutes*(DoE Nov. 2008)***FIXED ASSETS AND INTERNAL CONTROL**

You are provided with information in respect of Bloemfontein Hardware for the year ended 29 February 2008. The business is owned by Mike Moore and Milly Miles.

REQUIRED

- 3.1 Prepare the Asset Disposal Account for office equipment (computers) stolen on 30 June 2007 (see information 1 below). (12)
- 3.2 One of the office employees, Di Vulge, knows that the insurance policy only covers theft if there is evidence of forced entry. She also knows that Mike broke the security gate of the office to make the incident look like forced entry. She is not sure if Milly knows about this.
What advice would you give Di? Explain ONE point. (3)
- 3.3 Explain how and why the Fixed Assets Register will assist the internal auditor in his duties. (3)
- 3.4 In order to solve their cash flow problems, Mike has sold a portion of the premises at cost price. Milly disagrees with him on this.
Do you support Milly's opinion? Give a reason. (3)

- 3.5 The business owns three delivery vehicles. Refer to the information in respect of each delivery vehicle from the Fixed Asset Register (see information 4 below).
- Identify the cost price of delivery vehicle 3. (3)
 - Explain why delivery vehicle 2 is shown at a book value of R1,00 (one rand). (2)
- 3.6 As a service to their customers, the business delivers goods within Bloemfontein. They charge a flat rate of R250 per delivery. Clients pay cash directly to the drivers. A total of 3 680 deliveries was done during the year. The delivery service operated on 260 days during the year.
- You are the internal auditor and you are concerned about possible problems relating to the delivery vehicles and their drivers.
- Refer to the information in point 4 below. Identify and explain ONE major problem relating to each delivery vehicle or its driver. Quote figures from the information to support your answer. Provide a valid solution to each problem. (9)

INFORMATION

1. Office equipment and disposals:

Office equipment includes the office computers. Six of the office computers were stolen on 30 June 2007. These six computers were originally bought at a cost price of R13 200 each. The insurance company, Ace Insurers, only paid out R5 000 for each computer. These computers were replaced at a higher price on 31 August 2007

2. Delivery vehicles:

The business owns three delivery vehicles that they use to generate their income.

3. Information from the financial statements for year ended 29 February 2008:

FIXED ASSETS	Land & buildings	Office equipment	Vehicles
Carrying value at beginning of year	1 200 000	630 000	403 501
Cost	1 200 000	980 000	699 000
Accumulated depreciation		(350 000)	(295 499)
Movements	(700 000)	19 560	(111 000)
Additions		240 000	
Disposals at carrying value	(700 000)	(63 360)	
Depreciation		(157 080)	(111 000)
Carrying value at end of year	500 000	649 560	292 501
Cost	500 000	1 140 800	699 000
Accumulated depreciation		(491 240)	(406 499)

4. Information from the Fixed Assets Register and the accounting records on 29 February 2008:

Fixed Assets Register	Delivery vehicle 1	Delivery vehicle 2	Delivery vehicle 3
Date purchased	1 April 2007	1 January 1999	1 April 2005
Cost price of vehicle	R315 000	R144 000	?
Accumulated depreciation	R94 500	R143 999	R168 000
Carrying value	R220 500	R1	R72 000

Information from the accounting records	Delivery vehicle 1	Delivery vehicle 2	Delivery vehicle 3
Name of driver	Solly	Themba	Goldie
Number of days worked	210 days	260 days	260 days
Number of deliveries done	280 deliveries	2 100 deliveries	1 300 deliveries
Cash paid in by drivers	R70 000	R525 000	R275 000
Salary paid to drivers	R52 000	R52 000	R52 000
Fuel and maintenance costs for the year	R36 400	R430 500	R201 500
Fuel and maintenance costs per kilometre	R1,30	R2,05	R1,55

SECTION B: SOLUTIONS AND HINTS TO SECTION A

QUESTION 1

$$1.1 \quad 145 \times R180 = R26\,100 \checkmark$$

$$125 \times R210 = R26\,250 \checkmark$$

$$100 \times R110 = R11\,000 \checkmark$$

$$110 \times R230 = R25\,300 \checkmark$$

$$\underline{\hspace{2cm}} \quad \text{Import duties} = \underline{R\,3\,610} \checkmark$$

$$480 = R92\,260$$

$$\underline{R92\,260} \checkmark$$

$$480 \checkmark$$

$$= R192,21 \checkmark \square \quad (9)$$

1.2 *As per 6.1*

$$140 \checkmark \times R192,21 \square$$

$$= R26\,909 \square$$

Give method mark for operation if one of components is correct. (3)

1.3

TRADING ACCOUNT									
2009 Aug	31	Opening inventory	GJ	✓ 26 100	2009 Aug	31	(480 – 140 x R400) Sales	GJ	✓✓☑ 136 000
		Purchases * ¹	GJ	✓☑ 62 550			Closing inventory	GJ	☑ 26 909
		Import duties	GJ	✓ 3 610					<i>As per 6.2</i>
		Profit & loss	GJ	☑ 70 649					
		<i>Balancing figure</i>		162 909					162 909

*¹ R26 250 + R11 000 + R25 300

(9)

1.4

$$1.4.1 \quad 110 \times R230 = R25\,300 \quad \checkmark\checkmark$$

$$\text{Import duty} \quad R3\,610 \quad \checkmark$$

$$\frac{30}{140} \times R110 = \frac{R\,3\,300}{R32\,210} \quad \checkmark\checkmark$$

$$= R32\,210 \quad \checkmark\checkmark$$

Give method mark for operation if one of components is correct.

(7)

1.4.2 Unethical ✓

Reasons:

Two reasons – 2 marks each ✓✓ ✓✓

Good = 2 Satisfactory = 1 Incorrect = 0

Misrepresentation of actual profit and value of inventory to mislead prospective buyers – cannot be done without disclosing it in financial statements. ✓✓

Must apply in writing to SARS stating reason for change – SARS will not accept change to increase value of assets and profits to ensure higher selling price – any changes must also be disclosed in financial statements. ✓✓

(5)

[33]

QUESTION 2

2.1

90 – 70	=	20 balls	
15 ✓ x 80 ✓	=	R1 200 ✓	
5 ✓ x 60 ✓	=	<u>R 300</u> ✓	
20		R1 500 ✓	(7)

2.2

Trading account			
Opening stock ✓	1 200	Sales ✓✓	8 400
Purchases ✓	3 800	Closing stock ☑	1 500
Profit and loss ☑☑	4 900		

OR**CALCULATION:**

$$8\,400 \checkmark\checkmark - (1\,200 \checkmark + 3\,800 \checkmark + - 1\,500 \checkmark)$$

$$= R4\,900 \checkmark\checkmark \quad (7)$$

2.3 YES.✓ Closing stock of one year becomes the opening stock of the next year. Therefore, over a period of time the overall profit will balance out.✓✓✓ (4)

2.4 *Good explanation and quoting appropriate figures = 6*

Good explanation = 5 Reasonable = 3 Poor = 1 Incorrect = 0

Possible answer:

The selling price per soccer ball has remained the same (R120) but the cost price of the soccer balls has increased from R40 to R80. Therefore, less profit is being made. Mark-up % was 200% on the opening stock but only 50% on the purchases for August. (6)

2.5 Continuous (perpetual): stock figures are updated continuously **OR** stock deficits identified easily and quickly. ✓✓

Periodic: stock figures are not updated and can only be determined by taking stock **OR** cannot detect deficits. ✓✓

Any one valid measure ✓✓ *Possible answer*

It is easy to determine the cost price of the soccer balls and to detect theft and, therefore, it will be advisable to use the perpetual system (6)

[30]

QUESTION 3

3.1

ASSET DISPOSAL							
June	30	Equipment ✓	✓✓ 79 200	June	30	Accu Depr on Equip ✓	✓☑# 15 840
						* Bank ✓	✓✓ 30 000
						* Loss on disposal/theft of assets ✓	✓☑\$ 33 360
			79 200			# Any figure \$ Inspection	79 200

* If these two entries are combined to debit Insurance Claim/Debtors/the Loss account/Suspense, then 2 marks for relevant details and 4 marks for R63 360. (12)

3.2 Any one valid point provided it is ethical e.g. ✓✓✓

Excellent = 3 Good = 2 Satisfactory = 1 Unethical = 0

- She should take the morally and ethically correct action – advise Mike not to lay the insurance claim.
- Advise/find out if Milly knows about Mike's dishonesty – affects partners' relationship in the business
- Consider whistle-blowing issues – e.g. should she speak to Mike / advise Mike first / inform the partner or the insurance company (3)

3.3 Any valid response e.g. ✓✓✓

Excellent = 3 Good = 2 Satisfactory = 1 Incorrect = 0

- Assists internal control – he can check the physical existence of the assets and compare these to the register which must agree with the ledger – he will then be sure that all fixed assets are accounted for.
- Could see the complete history / life-span of the assets & their depreciation – for valuation of the asset & financial reporting. (3)

3.4 Yes ✓ Any valid reason ✓✓

Reasons for Yes:

- This will affect the operations of the business in future.
- Property is a growing investment which will appreciate in future – they should have sold it at a lot more than cost price / market value.
- The property should rather have been kept and a mortgage loan should have been taken out.

OR

No ✓ Any valid reason ✓✓

Reasons for No:

- If the property is not being properly utilised or is situated in an area where there is no appreciation in property values

Do not accept solving of cash flow problem as a reason (3)

3.5 ✓ ✓ ✓

$$R699\ 000 - (R315\ 000 + R144\ 000) = R240\ 000$$

$$\text{OR } R168\ 000 + R72\ 000 = R240\ 000$$

The delivery vehicle is very old and has been fully depreciated, but the business must reflect it at a value in the books / The vehicle is still in use and has not reached the end of its life-span although full depreciated

✓✓ *part-marks may be given*

Do not accept accu depr of R143 999 as an answer (5)

3.6 Delivery vehicle 1:

Any valid problem identified ✓ Quoting of relevant figure ✓

Possible responses:

- The driver has been lazy/not working too hard – only did 280 deliveries in the year.
- The driver is absent from work too often – 50 days away from work.
- The vehicle is not being utilised enough – only did 10% of the trips yet it has the lowest running costs (R1,30).
- The driver is being paid the same salary as other drivers despite only doing 10% of the work.
- Lack of internal control/This vehicle is running at a loss – income R70 000 less expenses R88 400 = R18 400 loss.

Any valid solution related to the problem identified above ✓

Possible responses

- Pay drivers per delivery – this will encourage them to work harder.
- Allocate this vehicle to the busiest driver.

Delivery vehicle 2:

Any valid problem identified ✓ Quoting of relevant figure ✓

Possible responses:

- The driver has been working too hard – did 8 deliveries per day (2100 / 260).
- This vehicle is old / has a high running cost yet it is used for 2 100 out of 3 680 deliveries.

Any valid solution related to the problem identified above ✓

Possible responses

- Allocate this vehicle to the least busy driver.
- Restrict usage of this vehicle.

Delivery vehicle 3:

Any valid problem identified ✓ Quoting of relevant figure ✓

Possible responses:

The driver has been fraudulent – fees collected are R50 000 short (R325 000 – R275 000).

Any valid solution related to the problem identified above ✓

Possible responses

- Conduct an internal audit of fees collected.
- Conduct a disciplinary enquiry against the driver.

(9)

SECTION C: HOMEWORK

QUESTION 1: 40 marks 24 minutes

(DoE Nov. 2009)

INVENTORY VALUATION AND CONTROL

You are provided with information relating to Banyana Traders, owned by David Hambeck, for the financial year ended 28 February 2009. The business is situated in Johannesburg.

David buys and sells soccer balls and jerseys. The business uses the periodic inventory system.

The soccer balls are bought from South African suppliers, and the soccer jerseys of different clubs and countries are imported from overseas.

David employs salespersons to control each item of stock:

- James controls and sells the soccer balls
- Cyril controls and sells the soccer jerseys

David has decided on the following accounting policies for valuing inventory:

- Soccer balls – Weighted-average method
- Soccer jerseys – First-in-first-out method (FIFO)

REQUIRED

- 1.1 Although this business has done well, David is considering closing it down and investing his capital in fixed property. State TWO points that he should consider before making a final decision. (4)
- 1.2 David suspects that a number of soccer balls have been shoplifted. Calculate the number of soccer balls stolen. (5)
- 1.3 Use the relevant information to calculate the closing stock value of:
- Soccer balls (using the weighted-average method)
 - Soccer jerseys (using the FIFO method)
- Show your workings to earn part-marks. (11)
- 1.4 Calculate the following for soccer jerseys (you may prepare a Trading Account to calculate these figures):
- Cost of sales (5)
 - Mark-up % on cost (4)
 - Stock turnover rate (5)
 -
- 1.5 If David decides to continue with this business, what advice would you offer him? State TWO points and quote financial indicators or specific information from the question to support your answer. (6)

INFORMATION**1. Inventories:**

The stocks were valued as follows at the beginning and end of the financial year:

Date	Soccer balls			Soccer jerseys		
	No. of units	Per unit	Total value	No. of units	Per unit	Total value
01/03/08	1 200	R120	R144 000	520	R320	R166 400
28/02/09	900	?	?	250	?	?

2. Purchases:

During the financial year ended 28 February 2009, the following stock items were purchased:

Date of purchases	Soccer balls			Soccer jerseys		
	No. of units	Per unit	Total value	No. of units	Per unit	Total value
31/03/08	1 300	R120	R156 000	400	R200	R 80 000
30/06/08	900	R150	R135 000	600	R225	R135 000
30/09/08	1 000	R175	R175 000	1 400	R255	R357 000
02/01/09	200	R180	R 36 000	100	R300	R 30 000
Totals	3 400		R502 000	2 500		R602 000

3. Carriage on purchases:

During the year, the business paid a total of R30 200 to transport soccer balls to the shop. The price of the soccer jerseys includes carriage.

4. Sales:

Items	Details	Total
Soccer balls	3 500 units at R320 each	R1 120 000
Soccer jerseys	2 770 units at R400 each	R1 108 000

5. **Financial indicators:**

Items	Mark-up % on cost	Stock turnover rate
Soccer balls	48,5%	3,9 times p.a.
Soccer jerseys	?	? times p.a.

[40]**SECTION D: SOLUTIONS TO HOMEWORK****QUESTION 1**1.1 *Any two valid and separate points, e.g. ✓✓ ✓✓***Beware of alternative wording which reflects the same point.****Beware that two separate points could be in the same sentence.**

- Soccer World Cup will be in SA soon – the business' merchandise will be relevant – keep the business operational until then (good profit opportunity for SWC)
- Financial implication to the business, future prospects
- Implications for staff – retrenchment
- Property prices are low and it is the right time to invest and cash in later / Property prices are expected to increase in the future
- Property can be rented out during the World Cup and in future the income for property is somewhat guaranteed
- Whether he will receive a good and fair value for his business

(4)

1.2 $200 ✓ + 3\ 400 ✓ - 3\ 500 ✓ - 900 ✓ = 200 ✓$

(5)

1.3 weighted average method:

$$\begin{array}{cccccc} \checkmark & & \checkmark \\ (144\ 000 + 502\ 000 + 30\ 200) / 4\ 600 \times 900 = R132\ 300 \end{array}$$

FIFO method:

$$\begin{array}{cccccc} \checkmark & & \checkmark & & \checkmark & & \checkmark & & \checkmark \\ (100 \times R300) + (150 \times R255) = R68\ 250 \end{array}$$

R30 000

R38 250

(11)

1.4 Calculate cost of sales:

See 2.3 Check operation, at least one part must be correct

$$\begin{array}{r} \checkmark \quad \checkmark \quad \checkmark \quad \quad \checkmark \\ 166\,400 + 602\,000 - 68\,250 = R700\,150 \end{array}$$

OR

1 accuracy mark [1 accuracy mark and 1 method mark] 1 method mark

$$R166\,400 + [R80\,000 + R135\,000 + R318\,750] = R700\,150$$

$$(520 \times R320) + [(400 \times R200) + (600 \times R225) + (1250 \times R255)] = R700\,150$$

Beware that more variations are possible

Calculate mark-up% on cost:

See above

$$= \frac{(1\,108\,000 \checkmark - 700\,150 \checkmark)}{700\,150 \checkmark} \times \frac{100}{1} \quad \text{See above}$$

OR

1 accuracy mark and 1 method mark

$$\frac{407\,850}{700\,150} \times \frac{100}{1}$$

Accept 58,2% or 58,25%

$$= 58,3\% \checkmark \checkmark \quad \text{Check operation, at least one part must be correct}$$

Calculate stock turnover rate:

See COS above

$$\frac{700\,150 \checkmark}{(68\,250 \checkmark + 166\,400 \checkmark) / 2}$$

See 2.3

$$= \frac{700\,150}{117\,325}$$

Accept 6 times

$$= 5,97 \text{ times } \checkmark \checkmark \quad \text{Check operation, at least one part must be correct}$$

OR

1 accuracy mark [1 accuracy mark and 1 method mark] 1 method mark

$R166\ 400 + [R80\ 000 + R135\ 000 + R318\ 750] = R700\ 150$

$(520 \times R320) + [(400 \times R200) + (600 \times R225) + (1250 \times R255)] = R700\ 150$

Beware that more variations are possible

(14)

1.5 Good advice = 2 marks; Satisfactory advice = 1 mark; Incorrect = 0 marks

Appropriate financial indicator/figures = 1 mark each

Any two valid and separate points:

Point 1: advice ✓✓ indicator ✓

Point 2: advice ✓✓ indicator ✓

Beware of alternative wording which reflects the same point.

Beware that two separate points could be in the same sentence.

Two marks for advice + one mark for figure:

- Implement tighter control measures over soccer balls – 200 balls were stolen
- Advertise to increase demand for the product especially balls because the turnover rate is low (3,9 times) compared to the jerseys (6 times)
- Sell only jerseys because the mark-up is higher (58,25% compared to 48,5%) and the turnover rate is better (6 times compared to 3,9 times)
- The business is carrying a lot of stock, particularly soccer balls – 900 on hand at end of year
- The stock for soccer balls must be turned over quicker – 3,9 times per annum.
- Should consider another supplier / importing them because the price increased by 50% from R120 to R180 (or by 22,5% from R120 to R147)
- Consider changing the mark-up % (increase / decrease) on the soccer balls from 58,3% to ensure higher sales rand amounts – during the SWC the customers will probably pay higher price
- Consider another delivery service to reduce the carriage from R8,88 per ball (R30 200 / 3 400 balls)

One mark for advice + one mark for figure:

- Advertise to increase sales of balls of R1 120 000
- Selling price of R320 must change if cost increases (this advice is worth only one mark, figure one mark)
- Consider importing the soccer balls if they will be of better quality (no mark for financial indicator in this case).

(6)
[40]