

SENIOR SECONDARY INTERVENTION PROGRAMME 2013



education

Department: Education

GAUTENG PROVINCE

GRADE 12

ACCOUNTING

LEARNER HOMEWORK SOLUTIONS

The SSIP is supported by



TABLE OF CONTENTS

LEARNER HOMEWORK SOLUTIONS

SESSION	TOPIC	PAGE
1	Topic 1: Companies Ledger Accounts Topic 2: Companies Accounting Equation	3 – 6
2	Companies Financial Statements	7
3	Companies Financial Statements	8 – 13
4	Consolidation	14 – 19
5	Part I: Companies – interpretation of financial statements Part II: Companies – interpretation of financial statements	20 – 28
6	Cash Budgets	29 – 31
7	Topic 1: VAT Topic 2: Stock Inventory and non-current assets	32 – 36

SOLUTIONS TO HOMEWORK

TOPIC 1: COMPANIES - LEDGER ACCOUNTS

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]	

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

SOLUTIONS TO HOMEWORK

COMPANIES FINANCIAL STATEMENTS

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]

SOLUTIONS TO HOMEWORK

COMPANIES FINANCIAL STATEMENTS

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	✓
		(9)
EQUITY AND LIABILITIES		
Ordinary shareholders' equity	600 000	✓
* Ordinary Share Capital	300 000	✓
* 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	<p>(a) • Shortened Income Statement in terms of the Companies Act. √√ Contains only disclosable Incomes and Expenses. (2)</p> <p>(b) • Easier to understand. • Contains only material items (Immaterial Items not shown.) • Confidential information need not be shown. 2 X √√ (4)</p>	
1.1.4.2	<p>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)</p>	
1.1.4.3	<ul style="list-style-type: none"> • 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	<p>(a) Refer to Example A. To which interested party is this report aimed? Shareholders. √ (1)</p> <p>(b) Who prepared this report? Directors√ or Chairman (1)</p>	
1.2.2	<p>Qualifications, Leadership Skills, Management Skills, Gender Equity, Black Economic Empowerment, Honesty/Ethics, Proven track record etc. (Any 2 x √√) (4)</p>	

1.2.3	<p>Refer to Example B.</p> <p>(a) (Any 1 x √√)</p> <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. • Profits are likely to increase due to support of communities in the future. (2) <p>(b) (Explain one good point)</p> <ul style="list-style-type: none"> • Ethical conduct and integrity leads to long term (sustainable) success. (profitability) 	
-------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--

<ul style="list-style-type: none"> No-one wants to do business with people they don't trust. Creates good corporate culture (values and attitudes)
<ul style="list-style-type: none"> 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
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 – 88 000)		☑☑	320 000
Cash & cash equivalents (8 000 ✓ + 80 000 ✓)		✓	88 000
- TOTAL ASSETS		☑	4 788 000
EQUITY & LIABILITIES			
Ordinary shareholders' equity (713 000 ☑ / 0,2 ✓)		☑	3 565 000
Ordinary share capital (500 000 ✓ x R4 ✓)		✓	2 000 000
Share premium (300 000 ✓ x R1,40 ✓)		✓	420 000
Retained income		☑	1 145 000
Non-current liabilities 830 000 ✓ + 94 200 ✓ – 151 200 ✓ – 60 000 ✓			713 000
Mortgage loan from Kwezi Bank		✓	713 000
Current liabilities		☑	510 000
Trade & other payables (* or 280 000 + 60 000)		✓	280 000
Bank overdraft		✓	170 000
Current portion of loan (* or shown as T&OP)		✓✓	60 000
TOTAL EQUITY & LIABILITIES		☑	4 788 000

(4)

(10)

(10)

(5)

(6)

[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]

SOLUTIONS TO CONSOLIDATION EXERCISES**CONSOLIDATION****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]

SOLUTIONS TO HOMEWORK

PART I: COMPANIES INTERPRETATION OF FINANCIAL STATEMENTS

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	(c)	(897 500)	☑
or 927 500 <i>If any one part correct</i> [530 000 ✓ – (1 325 000 x 0,7) ✓ – 500 000 ✓]			
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	(e)	343 750	☑
16 104 775 ✓ – (15 117 500 ✓ + 1 000 000 ✓ – 356 475 ✓)			
Increase in investments		(250 000)	
Cash flows from financing activities		1 935 000	✓
Proceeds from issue of shares	(g)	1 685 000	☑
14 725 000 ✓ – 13 040 000 ✓			
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]

SOLUTIONS TO HOMEWORK**PART II: COMPANIES FINANCIAL STATEMENTS****QUESTION 1**

1.1 Calculate the following financial indicators for 2008:

Ratios must be in correct order

1.1.1 **Debt/Equity ratio**

$$\frac{1\ 980\ 000}{4\ 123\ 000}$$

= 0,48 : 1 or 0,5 : 1 *If any one part correct* (3)

1.1.2 **Acid-test ratio**

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

OR $(810\ 000 + 107\ 000) : 1\ 080\ 000$

= 917 000 : 1 080 000

= 0,8 : 1 or 0,85 : 1 *If any one part correct* (4)

1.1.3 **Stock-turnover rate**

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

= 3,6 or 3,57 times or 3,4 times *If any one part correct* (4)

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

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

= $\frac{904\ 000}{3\ 381\ 500} \times \frac{100}{1}$

If any one part of denominator correct (4)

= 26,7% *If any one part correct*

1.1.5

Net asset value per share

✓ ✓✓
R 4 123 000 / 1 100 000 shares

= 374,8 cents / 375 cents / R3,75 *If any one part correct* (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]

SOLUTIONS TO HOMEWORK**CASH BUDGETS****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 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> #
	# If 38% of credit sales	R237 120 <input checked="" type="checkbox"/> *

(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]

SOLUTIONS TO HOMEWORK**TOPIC 1: 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

SOLUTIONS TO HOMEWORK**TOPIC 2: INVENTORY VALUATION AND NON CURRENT ASSETS****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:

$$\begin{array}{cccccc} \checkmark & & \checkmark & & \checkmark & & \checkmark & & \checkmark & & \checkmark & & \checkmark \\ (144\ 000 + 502\ 000 + 30\ 200) / 4\ 600 \times 900 = R132\ 300 \end{array}$$

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*

$$\begin{array}{cccccc} \checkmark & & \checkmark & & \checkmark & & \checkmark \\ 166\ 400 + 602\ 000 - 68\ 250 = R700\ 150 \end{array}$$

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

$$= \frac{(1\,108\,000 \checkmark - 700\,150 \checkmark)}{700\,150 \checkmark} \times \frac{100}{1}$$

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 % $\checkmark \checkmark$ 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 times $\checkmark \checkmark$ 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]