



Western Cape
Government

Western Cape Education Department
Directorate: Curriculum FET

ACCOUNTING

Gr 12

2022 Study Pack

ACTIVITIES

&

CORE NOTES



Workbook

<https://wcedportal.co.za/eresource/213136>



Dear Grade 12 Accounting learner

The activities in this booklet have mostly been selected from the latest National past examination papers to ensure **all content** and the latest exam trends are covered. You will therefore be well prepared for tests and exams if you work through all the activities regularly and with dedication. Past exam questions prior to Nov 2019 included in the **2020 Revision Pack** are still relevant (*except Bank reconciliation*) and may be included in your revision / study programme.

The content for Paper 1 and Paper 2 are listed on **page 3**. It is important that your **revision /study programme** is based on these topics so that you are well prepared for each paper. **Note that Fixed assets and Inventory may be assessed in BOTH papers.**

In your preparation focus on:

- the core notes/tips for each topic that highlight what can be expected in exam questions. It also includes formats and basic information to strengthen your basic knowledge of the particular topic.
- the time allocated to each activity. Use this allocation to practice how to manage your exam writing time. Try to adopt time saving methods in order to work more effectively through an activity/exam question.
- Work EVERY DAY on one or more activity to build your Accounting confidence, especially after a topic has been completed in class.
- Other **exam tips** that you could practice regularly and apply when you **write a test or exam**:
 - ALWAYS read the instructions carefully before answering the question. ONLY do what is required.
 - Start with the questions you know best, e.g., Budgeting (some easy marks are available in this topic) to boost your confidence.
 - Do not spent too much time on a question. IF the allocated time is over, move on to a next question to earn more marks. Only come back to incomplete questions, if you have time to spare.
 - Underline certain words in the questions, so that you know exactly what the examiner expects, e.g., *quote figures; Give TWO points...*
 - SHOW ALL CALCULATIONS CLEARLY. You may use subheadings to label your calculations, e.g., 'depreciation', 'old' or 'new', etc.

Your *positive attitude* and your **drive to succeed** supported by hard work will ensure success in Accounting.

The WCED Accounting team

INDEX

TOPIC		Page No.
Companies (P1)	Core notes: Financial statements & Analysis and interpretation	4 - 11
	Activities 1 - 17 (<i>including P1 Fixed Assets & P1 Inventory</i>)	12 - 42
Fixed Assets	Core notes	43
	Activity 1-3 (<i>Activity 2 – 6 (Companies) also include P1 Fixed Assets</i>)	43 - 46
Inventory	Core notes	47
	Activities 1 - 5	48 - 56
Manufacturing / Cost accounting	Core notes	57
	Activities 1 - 5	58 - 66
Reconciliations	Core notes	67 - 69
	Activities (Bank, Debtors, Creditors)	69 - 81
Budgets	Core notes:	82
	Activities 1 - 5	83 - 93
VAT	Core notes	93
	Activities 1 - 8	94 - 96

GRADE 12: PAPER 1	
<i>Recording, Reporting and Evaluation of Financial Information & Corporate Governance</i>	
12.1.1	Concepts relating to companies
12.1.2	Concepts relating to GAAP & IFRS
12.1.3	Unique ledger accounts of companies & interpretation thereof
12.1.4	Accounting equation of companies
12.1.5	Adjustments & final accounts of companies; Trial balances
12.1.6	Income Statement (Statement of Comprehensive Income) of companies
12.1.7	Balance Sheet (Statement of Financial Position) & Notes of companies
12.1.8	Cash Flow Statement of companies
12.1.9	Analysis and interpretation of financial statements of companies *
12.1.10	Analysis and interpretation of published financial statements & audit report of companies
12.1.11	Valuation of fixed assets for reporting purposes including additions, depreciation & disposal
12.1.12	Inventory valuation for reporting purposes (FIFO, WA & Specific Identification)
12.1.13	Professional bodies & Code of conduct
12.1.14	Ethical behaviour and corporate governance in financial environments
12.1.15	Legislation governing companies (overview only)
12.1.16	Close corporations (not examinable)

GRADE 12: PAPER 2	
<i>Manufacturing, Forecasting & Internal Auditing and Control</i>	
12.2.1	Analysis & interpretation of reconciliations: bank, debtors, creditors, age-analysis
12.2.2	Value Added Tax - Input, Output & calculations
12.2.3	Manufacturing concepts
12.2.4	Manufacturing: Production Cost Statement & Notes; Abridged (short-form) Income Statement & Notes
12.2.5	Analysis & interpretation of cost information, unit costs & break-even point
12.2.6	Analysis & interpretation of Cash Budget for sole traders and companies
12.2.7	Analysis & interpretation of Projected Income Statement for sole traders and companies
12.2.8	Application of internal control & audit processes: cash, fixed assets, inventories, debtors, creditors, income & expenses (including salaries/wages) & including financial indicators #
12.2.9	Recording & control of fixed assets including depreciation & asset disposal
12.2.10	Perpetual and periodic stock systems; valuation and control of inventories
12.2.11	Ethical behaviour in financial environments

FINANCIAL INDICATORS FOR INTERNAL CONTROL AND MANUFACTURING (GRADE 12 PAPER 2)	
Gross profit on cost of sales	Stock turnover rate
Operating expenses on sales	Stockholding period
Operating profit on sales	Average debtors' collection period
Net profit on sales	Average creditors' payment period
Break-even point	

FINANCIAL INDICATORS FOR FINANCIAL REPORTING (GRADE 12 PAPER 1)	
Gross profit on sales	Gross profit on cost of sales
Net profit on sales	Operating profit on sales
Operating expenses on sales	Stock turnover rate
Solvency ratio	Stockholding period
Current ratio	Average debtors' collection period
Acid-test ratio	Average creditors' payment period
Return on shareholders' equity	Earnings per share
Return on total capital employed	Dividends per share
Debt-equity ratio (gearing)	Dividend pay-out rate
Net asset value per share	

MID-YEAR*, TRIAL AND FINAL EXAMS (two papers) (on 2 different days)	
Paper 1	Paper 2
150 marks; 2 hours	150 marks; 2 hours
Topics: Discipline 1 <i>Recording, reporting, evaluating</i>	Topics: Discipline 2 <i>Internal management and control processes</i>
Gr 12 Formula sheets included	Gr 12 Formula sheets included

* Midyear exams are subject to change in policy

Two-paper classification for questions and/or sub-questions in this revision booklet		
①	②	①/②
Paper 1	Paper 2	Both papers

PAPER 1

COMPANIES

COMPANY ACCOUNTS / FINANCIAL STATEMENTS ①

Company concepts

Authorised share capital		Issued Share capital		Shareholders' Equity (OSE)		Dividends (Interim / Final)	
Shareholders for dividends		Income tax		SARS (income tax)		Provisional tax	
(Earnings less Dividends)		Earnings per share (Net profit after tax <i>divided by</i> number of issued shares)					Retained income
Limited liability		CEO (Chief Executive Officer)		Directors (executive, non-executive, etc.)			Auditors (internal and independent/external)

Parties involved in companies

- Shareholders
- Directors/ Chief Executive officer (CEO) / CFO
- Internal auditor vs Independent auditors
- SARS

Documents/statements relating to companies

- Statement of Comprehensive Income
- Statement of Financial Position
- Cash flow statement
- Auditor's report
- Directors' report
- Tax assessment

COMPANY ACCOUNTS ①

Dr	SARS (Income tax)	Cr
Bank (payment of opening bal.)	Balance	b/d (opening)
Bank (provisional)	Income tax	(assessment for the year)
Bank (second payment)		
Balance c/d = CR Balance b/d (Payable TO SARS)	OR	Balance c/d = DR Balance b/d (Payable BY / Receivable from SARS)

Tax calculated for the year; amount in Statement of Comprehensive Income

Dr	Dividends on ordinary shares	Cr
Bank (interim dividend paid)	Balance	b/d (opening)
Shareholders for dividends (dividends declared, not paid yet)	Appropriation a/c	

- Interim dividend is paid during the year
- Final dividend is declared at end of year - will only be paid in the next fin. Year (=Shareholders for dividends)
- Calculate dividends: Number of ISSUED shares X cent per share declared for dividends

NOTES on other accounts and NOTES to financial statements: ①

- Appropriation account NEVER has a BALANCE
- Retained income has opening balance and closing balance
- **Retained Income NOTE** is just another format of the Retained Income account
- The opening balance for **Shareholders for dividends a/c** is the amount owed from previous year and the closing balance should be the final dividends DECLARED at end of this year. This balance is shown in **Trade and other payables**.

STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT) ①

Format

Sales (- Debtors allowances)		ADJUSTMENTS <ul style="list-style-type: none"> ALWAYS ADD: Accrued income; Accrued expenses ALWAYS SUBTRACT: Prepaid expenses; Income received in advance Goods returned by debtors: Add selling price to Debtors' allowance and subtract from Debtors' control in Balance sheet; the Cost of these goods to be subtracted from COS and add to Trading stock (in Balance sheet) Subtract: Consumable stores on hand from total in the trial balance Trading stock deficit/surplus - look out for adjustments affecting inventory Depreciation: Vehicles and Equipment - know the different methods to calculate depreciation for the year. Bad debts: look out for adjustments affecting debtors Provision for bad debts adjustment: bigger than the balance given (Expense); smaller than balance given (Income) Contributions to UIF/Medical aid/Pension funds must be ADDED to Salaries and wages Bad debt recovered: INCOME received from a debtor who was previously written off. Include as income. Insurance - use amount in the adjustment (outside the accounting period) and DEDUCT from Insurance
(less) Cost of sales	()	
Gross Profit	'A'	
Other operating income	'B'	
...	...	
...	...	
Gross operating income	'A+B'	
Operating expenses	() 'C'	
...	...	
...	...	
Operating profit	'(A+B) - C'	
(add) Interest income		
Profit before Interest expense		
(less) Interest expense	()	
Profit before Income tax		
(less) Income tax	()	
Net profit after income tax		

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ①

Format

ASSETS	
NON-CURRENT ASSETS	
Fixed assets	
Financial assets: Fixed deposit	
CURRENT ASSETS	
Inventory	
Trade & other receivables	
Cash & cash equivalents	
TOTAL ASSETS	
EQUITY & LIABILITIES	
CAPITAL & RESERVES	
Ordinary share capital	
Retained income	
NON-CURRENT LIABILITY	
Long term loan	
CURRENT LIABILITY	
Trade & other payables	
Bank overdraft (IF Bank has a credit balance)	
Short-term portion of loan	
TOTAL EQUITY & LIABILITY	

Cash & Cash equivalents includes Bank, Cash float, Petty cash, Savings account **and** the portion of the fixed deposit that matures. If Bank has an overdraft balance (CR balance) it will NOT be shown here, but in current liabilities.

Short term portion of the loan
If part of the loan is to be repaid (paid back) during the next 12 months, this amount must be deducted and added to current liabilities as a 'short-term loan'

ALWAYS show ALL calculations in brackets, where Notes are not required.



Assets

Non-current assets

- Fixed assets are always shown at book/carrying value (Know the format of the Fixed Asset Note)
- Fixed deposit (a portion may mature during the next financial year = subtract and add to Cash and Cash equivalents).

Current assets

- MUST be in correct order: Inventory; Trade & other receivables; Cash & cash equivalents
- **Inventory** includes consumable stores on hand
- **Trade & other receivables:**
 - Debtors (remember to DEDUCT provision for bad debts)
 - Could include the amount overpaid to SARS (DR balance)
 - ADD Accrued income and Prepaid expenses
- **Cash & cash equivalents:** (see the bubble on the previous page)

Equity / Capital & Reserves

Ordinary share capital

- **NEVER** add Authorised Share capital (in the note) or show it in the Statement of Fin. Position
- Note on Ordinary share capital: (KNOW the format)

Ordinary Share Capital Note (Format) (Authorised section not always required)

Authorised		
No. of registered shares	Ordinary shares	XXX (DO NOT ADD to amounts below)
Issued		
No. of issued shares (Beginning)	Ordinary shares at beginning of year	XXX
add No of new issues	Ordinary shares during the year	XXX
(subtract this No. of shares)	Ordinary shares repurchased at AVERAGE share price (R or c amount)	(XXX)
No. of issued shares (end)	Ordinary shares at end of the year	XXXX

Retained income note (Format)

Balance at beginning of the year	
(add) Net profit after tax	
(less) Repurchase of shares (No of repurchased shares x (buy back price minus average share price))	
Ordinary share dividends	
Paid (Interim dividend amount)	
Recommended (Final dividends declared OR Shareholders for dividends at end of year)	
Balance at the end of the year	

Current liabilities

- Trade and other payables include:
 - SARS amount (CR balance - we owe them)(Could be Income tax, PAYE, VAT)
 - Accrued expenses
 - Income received in advance
 - Shareholders for dividends (declared amount only)
 - Creditors for salaries + Contributions like UIF/Pension/Medical aid

EXAM TIPS:

- The Statement of Financial Position may be completed in 'parts', i.e. Assets or Equity and Liabilities only.
- Some subtotals and/or totals could be mathematically calculated where financial indicators are given, e.g. Acid test ratio is 0,8 : 1 **Required: Calculate Current Assets = Total current liabilities x 0,8** (NB: Current assets consist of Inventories + Trade and other receivables + Cash & Cash equivalents; therefore, any one of these figures can be mathematically calculated)

CASH FLOW STATEMENT ①

Basic concepts

Purpose of cash flow statement	Cash inflow	Cash outflow	Operating activities	Investing activities
Financing activities	Change in working capital			

CFS Format ①

Cash flow from operating activities	1	Directors' decisions in CFS that affect 'Cash' flow
Cash generated from operations		Ideally positive (business generates cash effectively)
Interest paid	()	Compulsory
Dividends paid	()	Decision
Income tax paid	()	Compulsory
Cash flow from Investing activities	2	Ideally negative (in brackets) to show growth/expansion
Purchase of fixed assets	()	Decision; <i>Large amount will have a negative effect on cash</i>
Proceeds from sale of assets		Decision; <i>to replace outdated technology / improve productivity (NEVER to make a 'profit!!!)</i>
Fixed deposits (Matures / Placed)		Decision
Cash flow from Financing activities	3	Ideally positive (funding inflow to finance investing activities)
Proceeds from shares issued		Decision;
Buying back of shares	()	Decision
Proceeds/Repayment of loan		Decision
Net change in cash & cash equivalent	(1 + 2 + 3)	Net result of the decisions
Cash & cash equivalent beginning of year		NOTE:
Cash & cash equivalent end of year		Major decisions are identified by LARGE amounts Expansion or growth may also be driven by market share and not only cash situation.

Note 1: Reconciliation between profit before tax and cash generated from operations

- Profit before tax - make sure you use the profit before tax from the Income Statement. If profit after tax is given, remember to ADD back tax.
- Adjustments i.t.o. Depreciation and Interest expense. These figures are taken directly from the Income statement and are ADDED to the profit before tax to give you the operating profit before changes in working capital.
- **Changes in working capital**
 - difference between the previous year and the current year's figures
 - exclude amount owed to Shareholders, Accrued interest and amount owed to SARS.
- **Dividends paid calculation**
 - Use the information from Retained Income note and/or Trade & other Payables (Shareholders for Dividends)
 - Total dividends for year (Interim + Final) plus amount owing at beginning of year minus amount owing at end of year
 - **OR** Interim dividends paid during the year PLUS Shareholders for dividends BEGINNING of the year.
- **Taxation paid calculation**

Use information from Income statement (IS), Trade and other receivables (SARS = Debit balance) and Trade and other payables (SARS = Credit balance). ONE of the following calculations must be used, depending on the balances of SARS at beginning of the year (or previous year) and end of the year:

 - Income tax (from IS) **ADD** SARS (*credit balance, previous year*) **LESS** SARS (*credit balance, end of year*)
 - Income tax (from IS) **ADD** SARS (*credit balance, previous year*) **ADD** SARS (*debit balance, end of year*)
 - Income tax (from IS) **LESS** SARS (*debit balance, previous year*) **LESS** SARS (*credit balance, end of year*)
 - Income tax (from IS) **LESS** SARS (*debit balance, previous year*) **ADD** SARS (*debit balance, end of year*)

▪ **Investing Activities**

- Information from Fixed/Tangible asset note; Combine/ Use TOTAL fixed assets, depending on how information was given.
- Calculation for assets purchased OR sold:

Fixed assets @ carrying value (<i>previous year/opening balances</i>)		1
Depreciation (from IS)	<i>less</i>	2
Assets purchased @ COST during the year*	<i>add</i>	3
Assets sold @ carrying value during the year ** (<i>ignore profit/loss on sale of asset</i>)	<i>less</i>	4
Fixed assets @ carrying value (<i>current year/closing balances</i>)	=	5

*IF assets purchased is not given, then calculate it: $5 + 4 + 2 - 1 =$ answer ('3') **in brackets** in CFS

IF assets sold is not given, then calculate it: $5 - 3 + 2 - 1 =$ answer ('4') **without brackets in CFS

- Investments: Fixed deposit made/placed: (use brackets); fixed deposit matures: NO brackets!

▪ **Financing Activities**

- Proceeds from shares issued during the year: NO Brackets (inflow)
- Shares bought back: SHOW brackets (outflow)
- Loans: Difference between current year and previous year:
 Current year more than previous year = NO Brackets - inflow
 Current year less than previous year = SHOW brackets - outflow (loan was paid)

▪ **Net change in Cash and cash equivalents**

ADD Operating activities PLUS Investing activities (IF it is negative, subtract!) PLUS Financing activities

ANALYSIS OF FINANCIAL STATEMENTS ①/②

Financial statements tell the 'story' of the company.
Analysing the statements helps to understand this story.

Making comments on financial indicators:

- **Compare:**
 - Goals set by the business, e.g., mark up% applied vs the mark-up actually reached
 - Indicators of the same business over two financial years (to determine the increase / decrease / trend)
 - Indicators of two or more businesses in the same industry
 - Interest rates of alternative investments with ROSHE
 - Interest rate of loans with ROTCHE
- **Suggest alternative** directions/actions to improve a declining situation

EXAM TIPS:

- You need to know the formula BUT do not write it down in the exams. (No marks are allocated for it - formula sheet is given ONLY to remind you of the correct formula to use)
- Problem solving (creative thinking and own opinion) is integrated in the analysis and interpretation questions.
- You may be required to analyse possible investment in two companies (compare risk, gearing, return on investment in both companies). [ENSURE that you understand financial gearing to be able to comment and compare effectively]
- You may also compare two financial years in one and/or two companies.

FINANCIAL INDICATORS

Financial statements are analysed to find answers to certain questions.
Structure your comments with these 'questions' (below) in mind

QUESTION	TERM	FINANCIAL INDICATOR	FORMULA
How profitable is the business; how well does it control its expenses and how effective is the business in its operation?	Profitability and operating efficiency	% Gross profit on sales 1/2	$\frac{GP}{Sales} \times 100 = \dots \%$
		% Gross profit on CoS 1/2	$\frac{GP}{CoS} \times 100 = \dots \%$
		% Operating profit on sales 1/2	$\frac{OP}{Sales} \times 100 = \dots \%$
		% Operating expenses on sales 1/2	$\frac{OE}{Sales} \times 100 = \dots \%$
		% Net income on sales 1/2	$\frac{NI}{Sales} \times 100 = \dots \%$
Can the business repay its short-term debts; is the operating capital being handled efficiently? Cash flow problems?	Liquidity	Current ratio 1	CA : CL
		Acid test ratio 1	(CA - Inventory) : CL (Debtors + Cash) : CL
		Stock turnover rate 1/2	$\frac{Cost\ of\ Sales}{Average\ Trading\ Stock}$ <i>The higher this number, the faster assets are turned into cash</i>
		Stock holding period 1/2	$\frac{Average\ Stock \times 12\ (365)}{Cost\ of\ Sales \quad 1\ (1)}$
		Debtors' collection period 1/2	$\frac{Average\ Debtors}{Credit\ Sales} \times 365$ <i>Aim is 30 days</i>
		Creditor's payment period 1/2	$\frac{Average\ Creditors}{Credit\ Purchases} \times 365$ <ul style="list-style-type: none">• Good, when it takes longer to repay creditors• Negotiate for 90 days to avoid interest
Can the business repay its debt?	Solvency	Owners' equity or Net assets (for sustainability/continuity) 1	Total assets : total liabilities
Do the owners earn a good return on their capital invested in the business?	Return on investment	Return on shareholders' equity (ROSHE) 1	$\frac{Net\ profit\ after\ Tax \times 100}{Average\ SHE}$ <i>Compare this % with alternative investments, e.g. fixed deposit interest %</i>
		Earnings per share (EPS) 1	$\frac{Net\ profit\ after\ Tax \times 100}{No.\ of\ shares\ issued \quad 1} = \dots c$ <i>It shows the profit per share available for sharing with shareholders</i>
		Dividends per share (DPS) 1	$\frac{Dividends}{No.\ of\ shares\ issued \quad 1} \times 100 = \dots c$ <i>It is the proportional share of the profit paid + owed to shareholders.</i> **EPS - DPS = retained profit per share for future expansion
		Net asset value per share (NAVPS) 1	$\frac{Total\ SHE}{No.\ of\ shares\ issued \quad 1} \times 100 = \dots c$ <ul style="list-style-type: none">- Compare to issued or ave. price of shares and to market (JSE) price of shares.- If the NAVPS increases, it shows that profits are retained; company is expanding and is wealth growing.- When company issues more shares, it should be at NAV to retain wealth.

To what extent is the business funded by borrowed capital, and to what degree does it affect the financial risk? Can the business borrow more money? Is it worth it?	Risk / gearing	Debt : Equity ratio ①	LT Liabilities : SHE = (... : 1) SHE = Share capital + Retained Inc - Creditworthiness = ability to obtain loans. - High risk/low creditworthiness = 0,5 : 1 to 1 : 1 (opt to issue shares) - Low risk /high creditworthiness = 0,1 : 1 to 0,4 : 1 (borrow more) - Compare this ratio before and after a change in loans to show the change in risk levels
	Return on total capital employed (ROTCE) ①	Net Inc before tax and int. x 100 Ave. capital employed 1 [Capital employed = SHE + LT loans] Compare to % interest on loans. - Higher = high leverage; loans are used to expand and improve return/ profit. - Lower = low leverage; loans not used effectively to improve return/profit. May not be able to repay loans with interest.	

NOTE:

Debt-Equity ratio shows risk and financial gearing (*relationship between debt (loans) and own capital (shareholders' equity)*):

- High risk relates to positive gearing (can expand/grow with loans obtained, although paying back may be challenging)
- Low risk relates to negative gearing (limited opportunities for expansion)

Financial Leverage refers to the USE of debt (loans) to accelerate (*like the 'gears' in a vehicle*) financial growth (wealth) and expanding business operations.

GR 12 FORMULA SHEET with explanatory notes

Familiarise yourself with the layout of the formula sheet to use it effectively in exams

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET			
	$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	PROFITABILITY
	$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$	
	$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	
SOLVENCY	Total assets : Total liabilities		Current assets : Current liabilities
	Current assets – Inventories) : Current liabilities		Non-current liabilities : Shareholders' equity
	(Trade & other receivables + Cash & cash equivalents) : Current liabilities		
	$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$	RISK (Debt-Equity ratio)
	$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales or credit purchases}} \times \frac{365}{1}$	
	$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	LIQUIDITY (excl. risk and solvency)
	$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales or credit purchases}} \times \frac{365}{1}$	
RETURN (ROSHE)	$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ <small>(*See note below)</small>	RETURN (EPS)
RETURN (ROTCE)	$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$		
NAV (share value)	$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$	RETURN (DPS)
RETURN (Interim DPS)	$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	RETURN (Final DPS)
DIV. Pay-out rate	$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$	DIVIDEND Pay-out % NP pd out as dividends
	$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$		BREAK-EVEN
NOTE: * In this case, if there is a change in the number of issued shares during a financial year, the weighted average number of shares is used in practice.			

AUDIT REPORTS ①

(More details are available in the 2020 Revision Pack)

Basic concepts

Internal auditor	external (independent) auditor	audit opinion	unqualified opinion	qualified opinion
disclaimer of opinion	audit sampling	audit evidence	internal audit report	external audit report

- External audit reports are included in the published Financial Statements of companies.
- Shareholders, employees and creditors need to TRUST and BELIEF the financial statements prepared by the internal auditors and approved by directors. Their 'relationship' with the company relies on these financial statements.
- External auditors issue an **OPINION** on the published financial statements based on their external audit after checking the reliability of the **sampled audit evidence**, e.g. internal controls that are in place, etc.
- **THREE types of external audit opinions** based on the auditors' findings:
 - **Unqualified** = a '*clean*' audit; there are no issues/challenges found; shareholders may believe the financial results reflected in the published financial statements.
 - **Qualified** = some issues were found that can make statements less credible. Directors will have an opportunity to explain or make changes to the statements.
 - **Disclaimer of opinion** = Auditors are not willing to issue any opinion as the financial information are too flawed and does not meet IFRS standards, which are '*auditing rules*' standardised for all auditors.
- Auditors should be registered with a **professional institution** (SAICA, SAIPA, ACCA, SAIBA, etc.) for the following reasons:
 - Professionally recognition to work (practice) as an independent auditor
 - Their qualifications are verified
 - Act/Work within a professional code of conduct to be ethical and trustworthy

CORPORATE GOVERNANCE ①

Basic concepts

Shareholders	directors	board of directors	executive directors	non-executive directors	management
committees	transparent & ethical management	management	control	CEO	CFO

In Gr 12 corporate governance entails:

- effective, responsible and ethical management of a company.
- a broader /deeper insight into managing and control in a company.
- **DIRECTORS** (on behalf of shareholders, the *owners* of the company) are responsible for managing companies.
- Directors may hold shares in the company (this depends on the MOA of the company)
- Directors are members of the **BOARD of DIRECTORS** who are collectively in charge of the management of a company's business operations.
- They make strategic (long term) and operational (short term) decision [see the Cash Flow Statement for some of the strategic decisions]
- Some management duties are given (delegated) to either individual directors or management committees.

Types of directors

- Executive directors: employed by the company; manage the day-to-day operations
- Non-executive ('outside') directors: they are not part of the executive team of directors but are part of the board of directors
- CEO (Chief Executive Officer): chairperson (leader) of the board of directors
- CFO (Chief Financial Officer): responsible for managing the company's financial strategies and operations; reports directly to the CEO.

Management and/or Work committees

- These committees ensure accountability and transparency in managing and operate the company.
- They manage/address certain challenges relevant to the company, such as environmental awareness, corruption and/or fraud, job creation, etc.
- Examples:
 - Audit committee; remunerations committee; social & ethics committee; risk committee

COMPANIES (Paper 1)

COMPANY TRANSACTIONS

ACTIVITY 1: TRANSACTION ANALYSIS AND AUDIT REPORT

(Q1, May/June 2021)

(20 marks; 15 minutes)

1.1 Choose the correct word from those given in brackets. Write only the word next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK

1.1.1 The concept of (limited/unlimited) liability ensures that shareholders are not responsible for the debts of the business in the event of bankruptcy.

1.1.2 When preparing financial statements, creditors will be reflected as trade and other (receivables/payables/equity).

1.1.3 The separate disclosing of significant items, such as interest expenses, is an application of the (prudence/materiality) GAAP principle

(3)

1.2 **ROCK-STONE LTD**

REQUIRED:

Analyse the transactions below according to the headings on the table provided in the ANSWER BOOK.

- Indicate *account debited* and *account credited* in the General Ledger and the effect on the accounting equation. Indicate an increase as +, a decrease as – and no effect as 0. Refer to the example provided
- Assume a favourable bank balance at all times.

Example: Bought stationery on credit, R3 200

NO.	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT	A	O	L
e.g.	Stationery	Creditors' Control	3 200	0	–	+

TRANSACTIONS:

1.2.1 Electronic funds transfers (EFT) totaling R136 000 were made to shareholders, being the amount owing to them at the end of the previous financial year.

1.2.2 The company received R450 000 for the issue of new shares.

1.2.3 The income tax assessment for the year was received. The income tax amount, R338 200, exceeded the provisional tax payments made.

(9)

1.3 **Independent audit report:**

You are provided with an extract of the audit report for Rock-Stone Ltd for the financial year ended 28 February 2021.

REQUIRED:

1.3.1 Identify the type of audit report that the company received. Give a reason for your answer.

(2)

1.3.2 Explain why the auditor referred to:

- Pages 8 to 23

(2)

- International Financial Reporting Standards and the Companies Act of South Africa

(2)

1.3.3 Name any TWO items of audit evidence that the auditors may have used.

(2)

INFORMATION:**Extract of the audit report:****To Shareholders****Basis of Opinion**

We conducted our audit in accordance with international standards on auditing.

We are independent of the company, as applicable to performing audits, and with other ethical requirements as per the professional code of conduct. The audit evidence we obtained was sufficient and appropriate.

Opinion

We have audited the financial statements, as set out on pages 8 to 23. These comprise the Statement of Comprehensive Income, Statement of Financial Position and the Cash Flow Statement for the year ended 28 February 2021.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the business as at the year then ended, its financial performance and cash flows, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Perun and Balan
Registered Auditors
30 May 2021

20

Activity 1

<https://wcedportal.co.za/eresource/208431>



STATEMENT OF COMPREHENSIVE INCOME

ACTIVITY 2: STATEMENT OF COMPREHENSIVE INCOME AND RETAINED INCOME NOTE (Q2, May/June 2021) (50 marks; 40 minutes)

PEYPER LIMITED

You are provided with information for the financial year ended 28 February 2021.

REQUIRED:

- 2.1 **Refer to Additional Information B(f).**
Calculate the value of the closing stock on 28 February 2021 using the weighted-average method. (5)
- 2.2 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2021.
(Some of the pre-adjustment figures have been entered for you.) (37)
- 2.3 Prepare the Retained Income Note on 28 February 2021. (8)

INFORMATION:**A. Extract from the Pre-adjustment Trial Balance on:**

Balance Sheet accounts section	28 Feb. 2021 R	29 Feb. 2020 R
Ordinary share capital	13 650 000	14 650 000
Retained income	?	2 978 000
Loan: Wonder Bank	1 439 600	2 150 000
Vehicles	?	1 546 000
Equipment	?	722 000
Accumulated depreciation on vehicles	?	858 000
Accumulated depreciation on equipment	?	269 500
Trading stock	2 000 000	
Debtors' control	382 000	
Provision for bad debts	?	9 800
SARS (Income tax)	520 000	
Nominal accounts section		
Sales	?	
Cost of sales	?	
Directors' fees	4 836 000	
Audit fees	497 200	
Advertising	342 400	
Sundry expenses	88 000	
Trading stock deficit	?	
Bad debts recovered	5 800	
Rent income	208 250	
Interest income (on fixed deposit)	?	
Salaries and wages	6 425 000	
Depreciation (on vehicle sold)	41 250	
Packing material	45 800	
Profit on sale of vehicle	?	
Bad debts	28 800	
Ordinary share dividends	672 000	

B. Additional information:

- (a) The mark-up achieved is 160% on cost. The correct gross profit is R14 881 600.
- (b) Packing materials used during the financial year was R39 700.
- (c) Received and recorded R9 750 from the insolvent estate of a debtor which paid out 65 cents in the rand. The remaining amount must be written off.
- (d) Adjust the provision for bad debts to R9 350
- (e) One of the employees was on sick leave and was omitted from the Salaries Journal for February 2021. Her salary details are as follows:

GROSS SALARY	DEDUCTIONS	NET SALARY	EMPLOYERS' CONTRIBUTION
?	30% of gross salary	R23 800	R4 500*

*Employers' contributions are debited to the Salaries and Wages account.

(f) **Stock valuation:**

The business sells sunglasses. The accountant has incorrectly calculated the closing stock amount which is reflected on the Trial Balance. The weighted-average method should have been used. This must be corrected.

The following details are applicable:

- **Stock of sunglasses:**

DATE	UNITS	TOTAL VALUE
1 March 2020	4 000	R2 433 000
28 February 2021	2 400	?

- **Purchases of sunglasses during the financial year**

DATE	UNITS	COST PRICE PER UNIT R	TOTAL PURCHASES R
31 May 2020	4 200	650	2 730 000
15 October 2020	4 800	790	3 792 000
11 February 2021	2 500	820	2 050 000
TOTAL	11 500		8 572 000

(g) The premises have been rented for the past five years. The rent for March 2021 has been received and recorded. Due to the lockdown, the rent was decreased by 25% per month for only three months from April to June 2020.

(h) **Loan: Wonder Bank**

- Fixed monthly repayments of R59 200 have been made and recorded for the financial year ended 28 February 2021.
- The loan statement reflected a balance of R1 652 000.
- Provide for interest on loan capitalised.

(i) An old delivery vehicle was sold for R88 400 cash on 31 December 2020. This has been correctly recorded.

Details of the delivery vehicle sold:

Cost price	R198 000
Accumulated depreciation on date of sale	R115 500

Provide for depreciation as follows:

- On vehicles at 25% p.a. on cost
- On equipment: R90 500

(j) The correct net profit after tax after all adjustments is R1 342 080. The income tax rate is 28% of the net profit before tax. Interest income is the balancing figure.

(k) **Shares and final dividends**

NOTE: The relevant entries have been made:

- 250 000 shares were repurchased at R4,25 per share on 30 November 2020.
- On 28 February 2021, the ordinary share capital comprised 3 412 500 shares.
- A final dividend of 36 cents per share was declared on 28 February 2021. All shareholders on the register at the financial year-end qualify for final dividends.

ACTIVITY 3: STATEMENT OF COMPREHENSIVE INCOME AND RETAINED INCOME NOTE
(Q1, NSC Nov 2020 (1) / Sep 2021) **(60 marks; 45 minutes)**

You are provided with information from the records of Victoria Limited for the year ended 30 June 2020. The company sells and repairs two types of fridges: the Icekool and the Freezo models.

REQUIRED:

3.1 **Refer to Information B(a):**

Calculate:

- Total depreciation for the year (7)
- Profit/Loss on sale of fixed asset (2)

3.2 **Refer to Information B(d):**

Calculate the loss on the Icekool fridges destroyed in the fire. (5)

NOTE: The relevant figures from Questions 3.1 and 3.2 must also be entered in the financial statement or note.

3.3 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 30 June 2020. (35)

3.4 Prepare the Retained Income Note to the Statement of Financial Position. (11)

INFORMATION:

A. Balances/totals, among other, from the books on 30 June:

Balance sheet accounts section	2020 R	2019 R
Ordinary share capital	10 150 000	10 500 000
Retained income	?	3 200 000
Mortgage loan: Silver Bank	1 984 000	2 300 000
Vehicles	4 220 000	
Equipment	968 000	
Accumulated depreciation on vehicles	?	1 325 000
Accumulated depreciation on equipment	?	327 000
Fixed deposit: JM Bank	1 520 000	
Trading stock	1 657 500	
Debtors' control	2 740 000	
Shareholders for dividends	?	427 500
SARS: Income tax (provisional payments)	120 000	
Creditors' control	652 000	
Nominal accounts section		
Sales	12 945 000	
Cost of sales	?	
Salaries and wages	2 740 000	
Audit fees	356 000	
Sundry operating expenses	252 500	
Directors' fees	1 279 000	
Service fee income	3 400 000	
Consumable stores	815 800	
Bad debts	196 000	
Advertising (Protea TV only)	123 200	
Interest on investments	165 000	
Dividends on ordinary shares	675 000	

B. Adjustments and additional information:

- (a) No entries have been made for depreciation and the disposal of the fixed asset.
- Vehicles are depreciated at 20% p.a. on the diminishing balance method.
 - Equipment is depreciated at 15% p.a. on cost price. Note that equipment was sold on 31 January 2020. Details are as follows:

Cost price	R40 000
Accumulated depreciation on 1 July 2019	R18 000
Selling price	R22 500

- (b) Two directors, Hlophe and Frey earn directors' fees:
- Frey has not been paid his full fees because of rent due by him to the company. No entry has been made for the rent yet.
 - Since 1 December 2019, Frey had rented part of the company property for personal use. The monthly rent of R13 000 must be offset against the directors' fees owed to him.
- (c) An entry of R28 800 was made for consumable stores returned to a creditor on 27 June 2020. The credit note from the creditor reflects an amount of only R21 600. The credit note is correct but has not been recorded yet. Consumable stores on hand at the year-end were R18 000.
- (d) Fridges are valued using the specific identification method. No entry has been made in respect of a fire that occurred in the storeroom. A number of Icekool fridges were destroyed and the insurance company will pay out 80% of the cost of the fridges destroyed. The stock record is as follows:

MODEL	OPENING STOCK	PURCHASES	COST PER UNIT	NUMBER OF UNITS SOLD	CLOSING STOCK
Icekool	200 units	1 400 units	R3 500	1 300 units	275 units
Freezo	0	640 units	R6 750	550 units	90 units

- (e) The business uses a mark-up of 60% on the cost of the fridges. Trade discounts granted on the sale of Freezo fridges, totaling R275 000, have been recorded.
- (f) R32 400 from the estate of an insolvent debtor was deposited into the bank account of the business. This represented 75 cents in the rand. The balance of his account must be written off.
- (g) Protea TV has been contracted to produce an advertisement and to broadcast it at a fixed monthly rate for the period 1 September 2019 to 31 August 2020.
- The amount paid to Protea TV includes a once-off fee of R26 000 paid in August 2019 for producing the video. The balance covers monthly advertising on TV for the 12 months commencing 1 September 2019.
- (h) Provide for interest on the mortgage loan. The statement received from Silver Bank indicates monthly repayments of R48 500. This includes capitalised interest.
- (i) The income tax rate is 28% of the net profit.
- (j) **Share capital and dividends:**
- 50 000 shares were repurchased at R9,60 each on 31 March 2020. These shares do not qualify for final dividends.
 - No new shares were issued in the current financial year.
 - 1 450 000 shares were in issue on 30 June 2020.
 - Interim dividends were paid on 31 December 2019.
 - Final dividends of 56c per share were declared on 30 June 2020.

ACTIVITY 4: FIXED ASSETS & STATEMENT OF COMPREHENSIVE INCOME

(Q1, NSC, Nov 2020 (2))

(60 marks; 45 minutes)

The information relates to Robbie Ltd for the financial year ended 28 February 2021.

REQUIRED:

- 4.1 **Refer to INFORMATION B(a) for fixed assets.**
Calculate the following:
- 4.1.1 The missing amounts denoted by (i) to (iii) on the Fixed Asset Note. (11)
- 4.1.2 Profit/Loss on the sale of equipment on 1 October 2020. (2)
- 4.2 **Refer to INFORMATION B(e) for trading stock.** (4)
Calculate the trading stock deficit.
- 4.3 Prepare the Statement of Comprehensive Income for the financial year ended 28 February 2021. (43)

INFORMATION**A. Extract from the Pre-adjustment Trial Balance on 28 February 2021:**

	R
Mortgage loan: Sufi Bank	1 005 500
Debtors' control	123 000
Trading stock	?
Provision for bad debts (1 March 2020)	7 030
Sales	?
Cost of sales	6 966 000
Salaries and wages	1 468 120
Directors' fees	3 330 000
Audit fees	91 000
Repairs	476 000
Rent income	173 000
Interest income	25 000
Interest on loan	?
Bad debts	19 200
Advertising	25 680
Sundry expenses	452 310
Ordinary share dividends	86 400

B. Adjustments and additional information**(a) Vehicles:**

- The business owns two vehicles on 28 February 2021. The second vehicle was purchased on 1 November 2020.
- Vehicles are depreciated at 15% p.a. on cost

Equipment:

- Depreciation is 20% p.a. on the diminishing-balance method
- Unused equipment was sold for R40 000 on 1 October 2020. Accumulated depreciation on the equipment sold was R36 600 on 1 March 2020.

Extract of the Fixed Asset Note

	VEHICLES	EQUIPMENT
Cost (1 March 2020)	460 000	360 000
Accumulated depreciation (1 March 2020)	(396 750)	(187 595)
CARRYING VALUE (1 March 2020)	(i)	172 405
Additions (at cost)	510 000	0
Disposals (at carrying value)	0	(iii)
Depreciation	(ii)	(31 281)
CARRYING VALUE (28 February 2021)		
Cost (28 Feb 2021)	970 000	285 000
Accumulated depreciation (28 Feb 2021)		

- (b) The business maintains a mark-up of 120% on cost. Note that trade discounts of R648 000 were granted to special customers.
- (c) The account of debtor B Melta, R800, must be written off.
- (d) Provision for bad debts must be adjusted to 5% of outstanding debtors.
- (e) Trading stock is valued on the weighted-average method. The Ledger Account and records reflect that 280 units should be on hand. However, the physical stock count reflects only 262 units on hand. The stock records are as follows:

	UNITS	UNIT PRICE	TOTAL
Stock at beginning of year	200	R3 600	R720 000
Purchased during the year	1 840	R4 100	R7 544 000
Returns: damaged units	40	R4 100	R164 000
Available for sale	2 000		R8 100 000
Stock units per records	280	?	?

- (f) 30% of the audit fees is still outstanding.
- (g) The monthly rent income did not change during the year. During February 2021 the tenant paid R9 000 for repairs to the premises and deducted this from his rent for February 2021. Repairs are the responsibility of the company, and this was not recorded. The rent for March 2021 was received in advance.
- (h) The company has four directors earning the same fee. One director resigned on 31 May 2020 and received his fees up to this date. Another director is still owed fees for January and February 2021.
- (i) Advertising consists of a contract with a newspaper for the entire financial year. Payments are monthly, however instalments were paid for 11 months only.
NOTE: The monthly rate decreased by R240 from 1 November 2020
- (j) The net profit after tax was accurately calculated at R1 054 000. The income tax rate is 32%.

60

Activity 2-4

<https://wcedportal.co.za/eresource/208436>



STATEMENT OF FINANCIAL POSITION

ACTIVITY 5: FIXED ASSETS AND FINANCIAL STATEMENTS

(Q4, SC 2020)

(65 marks; 50 minutes)

AVENGERS LTD

The information relates to the financial year ended 31 March 2020.

REQUIRED:

- 5.1 **Refer to Information B:**
Calculate the missing amounts denoted by (i) to (iv). (16)
- 5.2 Prepare the following notes to the Balance Sheet on 31 March 2020: (7)
- Ordinary share capital (8)
 - Retained income
- 5.3 Complete the Statement of Financial Position (Balance Sheet) on 31 March 2020.
Show workings. (34)

INFORMATION:

A. Amounts extracted from the books on 31 March:

BALANCE SHEET ACCOUNTS	2020 R	2019 R
Ordinary share capital	?	4 800 000
Retained income	?	1 181 250
Mortgage loan: Grandeur Bank	2 508 000	3 150 000
Fixed assets at carrying value	11 458 500	
Trading stock (balancing figure)	?	
Net trade debtors	881 000	
Bank (favourable)	454 000	
Creditors' control	1 318 000	
SARS: Income tax (provisional)	972 000	
Income received in advance	32 000	
Shareholders for dividends	889 200	752 000
Nominal accounts (pre-adjustment amounts)		
Commission income	29 920	
Rent expense	364 000	
Directors' fees	2 275 000	

B. Incomplete Fixed Asset Note:

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT
Carrying value (1 April 2019)		631 000	
Cost	(i)	1 281 000	
Accumulated depreciation		(650 000)	(200 000)
Movements			
Additions		625 000	
Disposals	(850 000)	0	(iii)
Depreciation		(ii)	(42 450)
Carrying value (31 March 2020)			
Cost	9 650 000		
Accumulated depreciation			(iv)

Land and buildings:

- A building, on a separate property, was sold at cost.

Vehicles:

- A new vehicle was bought on 1 January 2020.
- Vehicles are depreciated at 20% p.a. on cost.

Equipment:

- Old equipment, cost R21 000, was sold on 30 September 2019. The accumulated depreciation was R15 000 on 1 April 2019.
- Equipment is depreciated at 15% p.a. on the diminishing-balance method.

C. Share capital:

DATE	INFORMATION
1 April 2019	800 000 ordinary shares in issue
31 May 2019	400 000 ordinary shares issued
1 October 2019	60 000 ordinary shares repurchased <ul style="list-style-type: none"> • Average share price, R7,00 • Repurchase price per share, R10,80

D. Dividends:

- An interim dividend of 124 cents was paid on 30 September 2019.
- Final dividends were declared, R889 200

E. Mortgage loan: Grandeur Bank

- Fixed monthly repayments (including interest) have been made and correctly recorded
- Interest of R258 000 has not been recorded by the business yet.
- The capital repayment will remain the same over the next financial year.

F. The decrease in the provision for bad debts, R2 500, was not recorded.

G. Commission income for March 2020, R41 900, was still outstanding.

H. The company has three directors who earn the same monthly directors' fee. One director has not received his directors' fee for March 2020 yet.

I. Rent for April 2020 has been paid. The rent was increased by 25% on 1 January 2020

J. Net profit after tax and income tax:

- The correct net profit after tax after all adjustments is R2 534 400.
- Income tax is calculated at 28% of the net profit

ACTIVITY 6: STATEMENT OF FINANCIAL POSITION AND AUDIT REPORT

(Q4, NSC Nov 2019)

(65 marks; 50 minutes)**6.1 VISIV LTD**

The financial year ended on 28 February 2019.

REQUIRED:

6.1.1 Calculate:

- Amounts for **(i)** and **(ii)** in the Fixed Assets Register (5)
- Profit/Loss on sale of asset (2)
- Fixed assets carrying value on 28 February 2019 (4)

6.1.2 Calculate the correct net profit **after tax** for the year ended 28 February 2019. Indicate (+) for increase and (-) for decrease. (9)

6.1.3 Refer to Information A–H. Prepare the following on 28 February 2019:

- Retained Income Note (9)
- Statement of Financial Position (Balance Sheet). (27)

NOTE: Show workings. Certain figures are provided in the ANSWER BOOK.**INFORMATION:****A. Fixed assets:**

A delivery vehicle was sold on 31 October 2018, but no entries were made to record this transaction.

Details of vehicle sold:

Delivery Vehicle X43			
Date purchased: 1 March 2016			
Date sold: 31 October 2018		Sold for: R195 000 (cash)	
Depreciation rate: 25% p.a. (diminishing-balance method)			
	COST	DEPRECIATION	CARRYING VALUE
28 February 2017	R400 000	R100 000	R300 000
28 February 2018		75 000	225 000
31 October 2018		(i)	(ii)

B. List of balances/totals on 28 February 2019 (before taking into account all adjustments below):

Ordinary share capital	R8 152 000
Retained income (1 March 2018)	865 300
Mortgage loan: Prati Bank	1 758 000
Fixed assets (carrying value)	10 190 000
Fixed deposit: Prati Bank (balancing figure)	?
Trading stock	1 102 000
Net trade debtors	1 090 000
Bank (favourable)	?
SARS: Income tax (provisional tax payments)	155 000
Creditors' control	1 906 800

C. Net profit before tax, R822 700, was calculated **before correcting the following:**

- Provision for bad debts must be increased by R65 000.
- R9 800 of an advertising contract applies to the next financial year.
- A tenant paid rent of R334 000 for the period 1 March 2018 to 31 March 2019. Rent was increased by R3 000 per month from 1 January 2019.
- Depreciation and profit/loss on the vehicle sold must be recorded.
- A further R43 000 is owed for income tax.

D. Ordinary shares:

DATE	DETAILS
1 March 2018	2 000 000 shares in issue; total book value R7 600 000
31 May 2018	360 000 shares repurchased at R4,10 each
1 October 2018	800 000 new shares issued
28 February 2019	2 440 000 shares in issue

E. Dividends:

- Interim dividends were paid in September 2018, R295 200.
- Final dividends of 20c per share were declared on 28 February 2019.

F. A creditor with a debit balance of R7 600 must be transferred to the Debtors' Ledger.

G. An EFT payment for R75 000, dated 30 April 2019, was made to a supplier in February.

H. After processing all adjustments:

- The current ratio is 0,8 : 1.
- The current liabilities totalled R2 900 000.
- The current portion of the loan is the balancing figure.

6.2 AUDIT REPORT FOR YEAR-END 28 FEBRUARY 2019

The financial statements of Visiv Ltd (see QUESTION 6.1.3) were audited. You are provided with extracts from the audit report.

Extracts from the audit report:

Basis for audit report	
Point 1	We were unable to obtain sufficient audit evidence to support the amounts provided for certain income and expense items ...
Point 2	Furthermore, the repurchase of shares on 31 May 2018 is not in accordance with provisions of the Companies Act (Act 71 of 2008), as the liquidity of the company has been compromised ...
Opinion	
Point 3	Because of the significance of the matters described above, we do not express an opinion ...

REQUIRED:**6.2.1 Refer to Point 3.**

What type of audit report did the company receive?

(1)

6.2.2 Refer to Point 1.

Give TWO examples of audit evidence that the auditors would have required regarding this problem.

(2)

6.2.3 Refer to Point 2.

- Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion.
- Explain what the directors could have done to prevent this comment by the auditors. Provide TWO points.

(4)

(2)

65

ACTIVITY 7: STATEMENT OF FINANCIAL POSITION**(55 marks; 45 minutes)****(Q1, NSC Nov 2021 (P1))****JIMO LIMITED**

The information relates to the financial year ended 30 June 2021. The business sells formal clothing for men and women.

REQUIRED:**7.1 Refer to Information B.**

Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021. (5)

7.2 Refer to Information C.

Use the table provided to calculate the correct net profit after tax for the year ended 30 June 2021. Indicate '+' for increase and '-' for decrease. (12)

7.3 Refer to Information A-H.

Complete the following on 30 June 2021:

- Retained Income Note (5)
- Statement of Financial Position (Balance Sheet) (33)

NOTE:

- Adjustments from Information C also affect the Statement of Financial Position (Balance Sheet)
- Show workings. Certain figures are provided in the ANSWER BOOK.
- Figures are NOT required in the shaded areas.

INFORMATION:**A. List of balances, before taking into account all adjustments below:**

	30 June 2021 R	30 June 2020 R
Ordinary share capital	?	?
Retained income	3 240 000	
Mortgage loan: Best Bank	3 755 000	4 175 000
Trading stock	4 198 500	
SARS: Income tax (provisional tax)	1 200 000	
Net trade debtors	3 668 810	
Bank overdraft	?	
Petty cash and cash float	?	
Creditors' control	1 253 000	
Accrued income / Income receivable	8 000	
Shareholders for dividends	1 170 000	821 700

B. The accountant omitted the closing stock figure of formal suits in the trading stock balance provided in Information A.**NOTE:**

- The first-in-first-out (FIFO) method is used to value the stock of the formal suits.
- All other relevant entries have been recorded correctly.

The information relating to the stock of formal suits is as follows:

Balances:	QUANTITY	UNIT PRICE	TOTAL VALUE
1 July 2020	110	R1 900	R209 000
30 June 2021	240	?	?
Purchases:	760		R1 943 500
14 Nov. 2020	360	R2 350	R846 000
10 Feb. 2021	170	R2 600	R442 000
18 May 2021	230	R2 850	R655 500
Returns:			
25 May 2021	24	R2 850	R68 400

C. The net profit before tax, R4 918 950, was calculated before taking into account/ correcting the following:

- (i) Audit fees include R123 600 which was paid in advance for the next financial year.
- (ii) The repayments on the loan are fixed at R35 000 per month (including capitalised interest). Details on the loan statement:
 - 1 July 2020, R4 175 000
 - 30 June 2021, R4 028 000

(iii) **Rent income:**

Rent of R64 000 was received from a tenant for the period 1 July 2020 to 31 August 2021. This has been recorded. This amount takes into account a reduction of R750 per month from 1 May 2021. The year-end adjustment has not been made.

- (iv) After taking into account the correction above, it was determined that an additional R85 250 is still owed to SARS in respect of income tax for the year.

D. Shares and dividends:

- 26 000 shares were repurchased on 1 July 2020 at R3,00 above the average share price.
- The business did not pay interim dividends during the 2021 financial year.
- A final dividend of 65 cents per share was declared on 30 June 2021.
- 1 800 000 shares were in issue on 30 June 2021.

E. Debtors with credit balances totalling R11 000 must be transferred to the Creditors' Ledger.

F. On 30 June 2021, Jimo Ltd returned 10 ladies' coats to the supplier, Bargain Wholesalers. The selling price was R1 750 each. The mark-up was 25% on cost. No entry has been made.

G. A fixed monthly instalment of R35 000 (to cover loan repayments and interest) has to be paid over the full period of the loan. Interest will decline over the life of the loan. The interest on the loan budgeted for the next financial year is R234 000.

H. The following financial indicators were calculated on 30 June 2021:

Acid-test ratio	1,2 : 1
Net asset value per share (NAV)	540 cents

55

Activity 5-7

<https://wcedportal.co.za/eresource/209121>



CASH FLOW & FINANCIAL INDICATORS

ACTIVITY 8: FINANCIAL INDICATORS AND CASH FLOW STATEMENT

(Q2, NSC Nov 2020 (1) / Sep 2021)

(40 marks; 30 minutes)

- 8.1** Four statements/reports are provided as options in which each of the following items would appear. Choose the financial statement/report and write only the letter (A–D) next to the question numbers (8.1.1 to 8.1.3) in the ANSWER BOOK.

A	Cash Flow Statement
B	Statement of Comprehensive Income (Income Statement)
C	Statement of Financial Position (Balance Sheet)
D	Directors' Report

8.1.1. Verbal explanation of the activities of a company for the past year

8.1.2 Bad debts recovered

8.1.3 Net book value of fixed assets

(3 x 1) (3)

8.2 ORANGE LTD

The information relates to the financial year ended 29 February 2020.

REQUIRED:

8.2.1 Calculate the following financial indicators on 29 February 2020:

- Debt-equity ratio (3)
- Earnings per share (EPS) (4)
- Dividend pay-out rate (3)
- % return on average equity (ROSHE) (4)

8.2.1 Complete the Cash Flow Statement on 29 February 2020.

NOTE: All cash outflows must be shown in **brackets** to earn full marks.

(23)

INFORMATION:

A. Extract from the Statement of Comprehensive Income on 29 February 2020:

Depreciation	R 234 000
Interest expense	126 000
Income tax	415 200
Net income after tax	968 800

B. Extract from the Statement of Financial Position:

	29 February 2020	28 February 2019
Fixed assets (carrying value)	R 9 528 300	R 8 320 300
Fixed deposits	100 000	500 000
Current assets	1 002 000	755 000
Cash and cash equivalents	56 500	5 000
Bank overdraft	0	220 000
Shareholders' equity	8 980 300	7 411 500
Ordinary share capital	8 281 000	7 200 000
Retained income	699 300	211 500
Loan: BB Bank	900 000	1 200 000
Current liabilities	750 000	963 800
SARS: Income tax	(Dr) 4 500	(Cr) 23 800
Shareholders for dividends	120 000	160 000

C. Fixed assets:

- Old equipment was sold at carrying value, R48 000.
- Extensions to the buildings were completed during the financial year

D. Share capital:

On 1 March 2019, the ordinary share capital comprised 800 000 ordinary shares. A further 200 000 shares were issued on this date.

On 29 February 2020, the company repurchased 90 000 shares at R81 000 above the value of the shares based on the average share price of R9,10 per share. These shareholders qualified for final dividends.

E. Dividends and earnings:

	29 February 2020	28 February 2019
Interim dividends	28 cents	60 cents
Final dividends	12 cents	20 cents
Earnings per share	?	94 cents

40

ACTIVITY 9: SHARE CAPITAL, FINANCIAL INDICATORS & CASH FLOW STATEMENT

(Q2, NSC Nov 2021 (P1))

(35 marks; 25 minutes)

The information relates to Brewer Ltd for the financial year ended 28 February 2021.

REQUIRED:

- 9.1 Prepare the Ordinary Share Capital Note on 28 February 2021. (6)
- 9.2 Calculate the following financial indicators on 28 February 2021:
- % operating expenses on sales (2)
 - Dividend per share (4)
 - % return on average shareholders' equity (5)
- 9.3 Complete the Cash Flow Statement for the year ended 28 February 2021. Certain figures are provided in the ANSWER BOOK. (18)

INFORMATION:**A. Shares and dividends:**

DATE	DETAILS OF SHARES
1 March 2020	800 000 in issue
30 June 2020	100 000 new shares issued
1 January 2021	30 000 shares repurchased at R1,20 more than the average share price
28 February 2021	? shares in issue

- Interim dividend of R162 000 was paid on 30 September 2020
- A final dividend of 22 cents per share was declared on 28 February 2021.

B. Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2021:

Sales	R7 293 000
Cost of sales	4 862 000
Operating expenses	1 458 600
Net profit before tax	1 350 000
Net profit after tax	985 500

C. Extract from the Statement of Financial Position (Balance Sheet) on

	28 Feb. 2021 R	29 Feb. 2020 R
Petty cash and cash float	?	20 000
Ordinary shareholders' equity	8 038 100	6 450 000
Ordinary share capital	7 395 000	6 400 000
Retained income	643 100	50 000
Loan: Sharks Bank	1 650 000	2 200 000
SARS: Income tax	29 100	35 900
Shareholders for dividends	191 400	115 300
Bank overdraft	0	95 200

35

ACTIVITY 10: CASH FLOW AND INTERPRETATION

(Q5.2/5.3 SC 2020)

(66 marks; 50 minutes)

10.1 BOMBAY LTD

The information relates to Bombay Ltd for the financial year ended 29 February 2020.

REQUIRED:

- 10.1.1 Fill in the missing amounts on the Cash Flow Statement provided. Show workings. Indicate OUTFLOW in BRACKETS. (22)
- 10.1.2 Calculate the following financial indicators on 29 February 2020: (3)
- % operating profit on sales (3)
 - Acid-test ratio (5)
- NOTE: The current ratio is 1,6 : 1 (5)
- Net asset value (NAV) per share (5)

INFORMATION:

A. Extract from the Statement of Comprehensive Income (Income Statement) on 29 February 2020:

Sales	R4 824 000
Gross profit	1 608 000
Depreciation	312 600
Operating profit	1 122 500
Net profit before tax	984 000
Net profit after tax	688 800

B. Extract from the Statement of Financial Position (Balance Sheet) on 29 February

	2020 (R)	2019 (R)
Fixed assets (carrying value)	4 830 000	3 760 100
Current assets	?	962 000
Current liabilities	774 000	712 800
Trading stock	619 000	538 000
Bank	0	56 400
Petty cash	2 500	0
Ordinary share capital	5 880 000	5 360 000
Retained income	542 800	236 000
Loan: Kan Bank	950 000	1 300 000
SARS: Income tax	26 400 (Cr)	11 600 (Dr)
Shareholders for dividends	165 000	126 000
Bank overdraft	28 800	0

C. Share capital and dividends:

- The authorised share capital comprises 1 500 000 shares.
- On 1 March 2019, 60% of the authorised shares were in issue.
- On 30 June 2019, 200 000 additional shares were issued for R1 240 000
- On 29 February 2020, 120 000 shares were repurchased at R96 000 above the average share price.
- Total dividends paid and declared in the 2020 tax year were R286 000.

D. Fixed assets:

- Additions to buildings were completed during November 2018.
- Old equipment was sold at carrying value, R34 500

10.2 TWO COMPANIES: LULU LTD AND COCO LTD

Noah Lott won R5,6 m in the national lottery five years ago and then decided to invest R2,8 m in each of the two companies below, as follows:

Lulu Ltd	400 000 shares at R7,00 each	R2,8 m
Coco Ltd	100 000 shares at R28,00 each	R2,8 m

He wants your opinion on these companies.

NOTE: When answering the questions below, compare the information given and quote the relevant financial indicators of both companies (percentages, ratios and/or amounts)

INFORMATION

	LULU LTD		COCO LTD	
	2020	2019	2020	2019
Total number of shares	1 100 000 shares		700 000 shares	
Shares originally bought by Noah	400 000 shares		100 000 shares	
Noah's % shareholding	36%		14%	
Current market value per share	R9,50		R18,80	
Ordinary share capital	R9 900 000		R11 900 000	
Retained income	R1 890 000		R600 000	
Long-term loan	R9 432 000		R2 500 000	
Current ratio	1,7:1	1,6:1	4,2:1	4,8:1
Acid-test ratio	0,9:1	0,8:1	3,6:1	3,5:1
% operating profit on sales	16%	16%	14%	18%
Debt-equity ratio	0,8:1		0,2:1	
Net asset value per share	R10,72		R17,86	
Earnings per share (EPS)	273 cents	233 cents	171 cents	266 cents
Dividends per share (DPS)	110 cents		200 cents	
% return on equity (ROSHE)	25%	14%	9%	15%
% return on capital employed (ROTCE)	20%	12%	10%	14%
% Interest on loans	13%	13%	13%	13%
% Interest on fixed deposits	6%	6%	6%	6%

REQUIRED:

- 10.2.1 Explain which company has the better liquidity. Quote TWO financial indicators to support your opinion. (4)
- 10.2.2 Comment on the earnings per share and the % return on equity of Lulu Ltd. Give TWO reasons why the shareholders will be satisfied with these indicators. (5)
- 10.2.3 Comment on the market value of the shares in Coco Ltd. Explain TWO points. (4)
- 10.2.4 Compare the dividend pay-out rates of both companies and explain why the directors of EACH company decided on these pay-out rates. (4)
- 10.2.5 Noah says that the dividend of 110 cents per share he earned from Lulu Ltd is better than the dividend of 200 cents per share from Coco Ltd. Give ONE point to prove that he is incorrect. (4)
- 10.2.6 Comment on the risk and gearing of EACH company. Quote TWO financial indicators. (6)
- 10.2.7 Noah wants to buy shares in Lulu Ltd on the JSE at current market value to become the majority shareholder and CEO. Calculate how much Noah will have to pay for the shares that he needs. (4)

66

Activity 8-10

<https://wcedportal.co.za/eresource/209126>



INTERPRETATION OF FINANCIAL STATEMENTS

ACTIVITY 11: INTERPRETATION OF FINANCIAL STATEMENTS

(Q3, NSC Nov 2020 (2))

(35 marks; 30 minutes)

- 11.1 Choose the question from COLUMN B that matches a category of financial indicators in COLUMN A. Write only the letter (A–E) next to the question numbers (11.1.1 to 11.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
11.1.1	Liquidity	A	Is the business managing expenses effectively to increase profitability?
11.1.2	Risk and gearing	B	Is the investment in the company better than investing in a fixed deposit?
11.1.3	Return to shareholders	C	Will the company be able to pay off its current debts?
11.1.4	Operating efficiency	D	Will the company be able to pay off all its debts using existing assets?
		E	How is the company managing loans or borrowed capital?

(4 x 1) (4)

11.2 SCI-FI GEEKS LTD

The business trades in electronic equipment purchased from China. The information relates to the past two financial years, ended 31 March. The COVID-19 lockdown has negatively affected sales over the current financial year

REQUIRED:

11.2.1 Liquidity:

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO other financial indicators in your response. (6)

11.2.2 Dividends:

The directors changed the dividend policy for the current financial year.

- Comment on the dividend per share over the two years. Quote figures. (2)
- Explain the change in the dividend pay-out rate and give a reason for this change. Quote figures. (4)
- A shareholder felt that they should be satisfied with the dividends they received, as it is better than last year. Explain why you agree with him. Quote figures. (3)

11.2.3 Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures). (6)

11.2.4 Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures. (6)

11.2.5 The Cash Flow Statement reflected a positive change of R980 000. Provide TWO points why this should still be a concern to directors. Quote figures. (4)

INFORMATION**A. Financial indicators and additional information:**

	2021	2020
Mark-up % achieved	60%	60%
% net profit before tax on sales	13,9%	20,3%
Current ratio	2,4 : 1	1,1 : 1
Acid-test ratio	1,0 : 1	0,4 : 1
Stockholding period	102 days	32 days
Average debtors' collection period	46 days	31 days
Average creditors' payment period	60 days	60 days
Earnings per share	58 cents	130 cents
Dividends per share	72 cents	90 cents
Dividend pay-out rate	136,5%	69%
Debt-equity ratio	0,4 : 1	0,3 : 1
Return on average shareholders' equity	17,7%	31,6%
Return on total capital employed	23,2%	39%
Net asset value per share	332 cents	409 cents
Market price of shares on stock exchange	410 cents	540 cents
Interest rate on loans	13,5%	13,5%
Interest rate on fixed deposits	6,8%	7,8%

B. Share capital:

- On 1 April 2020 the company issued an additional 250 000 shares.
- On 31 March 2021 there were 1 250 000 shares in issue.

C. Extract from the Cash Flow Statement on 31 March:

	2021	2020
Cash flows from operating activities	(148 080)	910 000
Cash generated from operations	1 281 620	
Interest paid	(232 000)	
Taxation paid	(272 700)	
Dividends paid	(925 000)	
Cash flows from investing activities	101 580	(300 000)
Cash flows from financing activities	1 026 500	(100 000)
Sale of shares	375 000	0
Change in loan	651 500	(100 000)
Cash and cash equivalents: Net change	980 000	510 000
Opening	(330 000)	(840 000)
Closing	650 000	(330 000)

ACTIVITY 12: INTERPRETATION OF FINANCIAL INFORMATION

(Q3, NSC Nov 2021 (P1))

(40 marks; 30 minutes)

- 12.1 Choose a category of indicators from COLUMN B that matches the description in COLUMN A. Write only the letter (A–D) next to the question numbers (12.1.1 to 12.1.4) in the ANSWER BOOK

COLUMN A	COLUMN B
12.1.1 The benefit that shareholders receive for investing in a company	A liquidity B gearing
12.1.2 The ability of a business to pay off its short-term debts	C solvency D return on equity
12.1.3 The extent to which a company is financed on borrowed capital (loans)	
12.1.4 The ability of a business to settle all its debts using existing assets	

(4)

12.2 **FLEXI LTD AND BROOM LTD**

The information relates to two companies.

BACKGROUND INFORMATION:

- Both companies operate in the fashion clothing industry. The financial year ends on the last day of February each year.
- Bob Yates owns shares in both companies. On 1 November 2020, he convinced the board of directors of Flexi Ltd to repurchase 150 000 of his shares. He used the money received to purchase additional shares in Broom Ltd.

NOTE:

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

REQUIRED12.2.1 **Profitability:**

Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently and is thereby more profitable. (4)

12.2.2 **Dividends, earnings and returns:**

- Comment on the dividend pay-out policy of **Flexi Ltd**. Explain why this is an irresponsible change in policy. Provide TWO points. (4)
- Comment on the % return on shareholders' equity of EACH company. (4)
- A shareholder feels that earnings per share (EPS) in **Broom Ltd** are better than that in **Flexi Ltd**. Explain why you agree with him. (4)

12.2.3 **Shareholding of Bob Yates in both companies:**

- Comment on the price paid for the shares repurchased by **Flexi Ltd**. Provide TWO points (4)
- Calculate the number of shares that Bob purchased in **Broom Ltd** with the money he received from the share buyback at **Flexi Ltd** (2)
- Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. (4)

12.2.4 Financing strategies and gearing:

The directors of each company have taken deliberate decisions that are reflected in their Cash Flow Statements.

- Explain the decisions taken by the directors of **Broom Ltd** and how these will benefit the company. (4)
- Explain how the decisions taken by **Flexi Ltd** affected the risk and gearing of the business. Quote TWO financial indicators. (6)

INFORMATION:

A. Extracts from the accounting records at the end of each year:

	FLEXI LTD		BROOM LTD	
	Feb. 2021	Feb. 2020	Feb. 2021	Feb. 2020
Number of shares in issue	700 000	850 000	1 500 000	1 100 000
Funds used to repurchase	R1 980 000			
Repurchase price	R13,20			
Increase in share capital	0		R2 640 000	
Issue price of additional shares			R6,60	
Fixed assets purchased	R1 000 000		R2 200 000	
Increase (decrease) in loan	R4 500 000		(R400 000)	

B. Financial indicators, interest rate and market price of shares

	FLEXI LTD		BROOM LTD	
	Feb. 2021	Feb. 2020	Feb. 2021	Feb. 2020
% operating expenses on	17,5%	14,6%	13,6%	17,0%
% operating profit on sales	18,2%	21,9%	24,2%	20,5%
% net profit on sales	13,8%	18,0%	19,6%	16,0%
Debt-equity ratio	1,1 : 1	0,4 : 1	0,2 : 1	0,4 : 1
% return on capital employed	10,2%	16,1%	17,2%	14,7%
% return on shareholders' equity	7,6%	12,2%	14,1%	10,7%
Net asset value per share	1 081 cents	1 128 cents	632 cents	609 cents
Market price of shares	990 cents	1 130 cents	660 cents	615 cents
Interest rate on loans	13%	13%	13%	13%
Earnings per share	80 cents	138 cents	72 cents	65 cents
Dividends per share	92 cents	82 cents	48 cents	70 cents
Dividend pay-out rate	115%	59%	67%	108%

C. Shareholding of Bob Yates in both companies

	FLEXI LTD		BROOM LTD	
	2021	2020	2021	2020
Shares in each company	283 500	433 500	?	460 000
% shareholding in each company	?	51,0%	?	41,8%

ACTIVITY 13: INTERPRETATION OF FINANCIAL STATEMENTS

(Q3, NSC Nov 2020 (1) / Sep 2021)

(35 marks; 30 minutes)

You are provided with information of Solar-Style Ltd for the financial year ended 29 February 2020. The business provides solar panels to households to supplement their electricity supply.

REQUIRED

NOTE: Provide figures, financial indicators or calculations in EACH case to support your comments and explanations.

13.1 Solvency and liquidity:

13.1.1 Comment on the solvency of the company. Quote ONE financial indicator with figures. (2)

13.1.2 Explain why the directors are satisfied with the change in the liquidity of the company. Quote TWO financial indicators with figures. (4)

13.2 Earnings, return and share price on the JSE:

13.2.1 Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures. (4)

13.2.2 Comment on the share price on the JSE and how the % return and earnings per share have affected the share price. Quote figures (4)

13.3 Gearing:

Explain how the loan affected the risk and gearing and whether or not it was a good idea to increase the loan. Quote TWO financial indicators with figures. (7)

13.4 Shareholding:**Refer to Information D.**

The directors decided to offer the existing shareholders one share for every five shares they own on 1 September 2019, at a price of R6,50 each. Allen Mbatha currently owns 45% of the shares of Solar-Style Ltd. Allen was one of the few shareholders who decided to accept this offer

13.4.1 Explain how Allen's decision affected his % shareholding. Provide a calculation to support your explanation. (4)

13.4.2 Give TWO reasons why Allen might have made this decision. (4)

13.5 Dividends:

13.5.1 One of the directors feels that the dividend pay-out rate (%) should have remained constant. Give ONE possible reason (with figures) for her opinion. (3)

13.5.2 Refer to Information E

Explain (with figures) why one of the shareholders, Erna Naidoo, feels that the dividends she earns in Solar-Style Ltd is not as good as those that she earns in Netgen Ltd. (3)

INFORMATION:**A. Extract from the Financial Statements:**

	29 February 2020	28 February 2019
Net profit after tax	R 203 000	R 636 300
Non-current liability: Loan from Credbank	3 500 000	2 000 000

B. Financial indicators calculated:

	29 February 2020	28 February 2019
Debt-equity ratio	0,4 : 1	0,3 : 1
Acid-test ratio	0,8 : 1	2,6 : 1
Total assets to total liabilities	2,0 : 1	5,0 : 1
Stock turnover rate	6 times	3 times
Earnings per share (EPS)	72 cents	96 cents
Dividends per share (DPS)	48 cents	48 cents
Dividend pay-out rate	67%	50%
% return on average equity (ROSHE)	5,3%	8,7%
% return on total capital employed (ROTCE)	6,2%	11,6%
Net asset value per share (NAV)	877 cents	912 cents

C. Additional information:

	29 February 2020	28 February 2019
Market price of shares on JSE	840 cents	920 cents
Interest rate on investments	6,5%	6,5%
Interest rate on loans	10,5%	12,0%

D. Shareholding of Allen Mbatha in Solar-Style Ltd:

	Number of shares	Price per share
Total Solar-Style Ltd shares in issue:		
On 28 February 2019	800 000 shares	
On 29 February 2020	900 000 shares	
Shares purchased by Allen		
On 1 March 2015	360 000 shares	650 cents
On 1 September 2019	?	650 cents

E. Shareholding of Erna Naidoo in two companies:

	Solar-Style Ltd	Netgen Ltd
Dividends per share for 2020	36 cents	28 cents
Price she paid for her shares	820 cents	400 cents
Number of shares owned	30 000 shares	30 000 shares



**CORPORATE GOVERNANCE &
INTERPRETATION OF FINANCIAL INFORMATION**

ACTIVITY 14: INTERPRETATION OF FIN. STATEMENTS & CORPORATE GOVERNANCE

(Q4, June (SC) 2021)

(45 marks; 35 minutes)

- 14.1 Choose a description from COLUMN B that matches the type of director in COLUMN A. Write only the letter (A–C) next to the question numbers (14.1.1 to 14.1.3) in the ANSWER BOOK, e.g. 14.1.4 D.

COLUMN A		COLUMN B	
14.1.1	Executive director	A	member of the board but not responsible for daily management functions
14.1.2	Delinquent director	B	member of board who also has management responsibilities
14.1.3	Non-executive director	C	found guilty of serious misconduct

(3 x 1) (3)

14.2 LIBRA LIMITED

The business trades in computer hardware and software from international companies. The information relates to the past two financial years, ended 30 April.

Anton Buys is the CEO and there are five other directors in the company.

REQUIRED:

14.2.1 Refer to Information A.

The current ratio and acid-test ratio show that the company's liquidity position has deteriorated over the past two financial years.

Identify TWO other liquidity indicators which also show that the company is likely to have serious liquidity concerns in future. Explain ONE point in EACH case (with figures).

(4)

14.2.2 Refer to Information A and B.

The company increased the loan to finance the purchase of additional property in a new suburb. They hoped that this would improve the demand for their products.

- Comment on how the increase in the loan affected the risk and gearing in 2021. Quote TWO financial indicators. State ONE point in EACH case (with figures).
- Explain whether the decision to purchase additional property had the desired effect on demand for this product (with figures).

(6)

(3)

- 14.2.3 Explain why the public would still not be interested in buying the new shares at R6,00 per share in April 2021. Quote THREE financial indicators (excluding indicators stated in QUESTION 14.2.2). State ONE point in EACH case (with figures).

(9)

14.2.4 Refer to Information A and D.

At the AGM, many shareholders complained that the Remunerations Committee had been negligent in their duties and that Anton Buys did not deserve the fees that he was paid as CEO. State TWO different points to justify their opinion. Quote figures or financial indicators. (4)

14.2.5 Refer to Information A, B and C.

- Explain why the other directors were unhappy with the price paid for the shares repurchased from Anton Buys. State TWO points. Quote financial indicators or figures to support EACH point. (4)
- Give a calculation to show whether the repurchase of these shares affected Anton Buys' status as majority shareholder, or not. (3)

14.2.6 Refer to Information E.

- Explain what is meant by *good corporate governance* and explain why it is important to the shareholders. (3)
- Explain a possible reason why Anton Buys says he will vote against the proposal by Excellence Ltd. (2)
- The other directors feel that Anton Buys is abusing his position as CEO and majority shareholder.
 - Explain why you agree with them. (2)
 - Give the directors advice on how they should handle this. (2)

INFORMATION:**A. Financial indicators on 30 April:**

	2021	2020
Mark-up % achieved	60%	75%
% operating expenses on sales	44,1%	32%
Solvency ratio	1,8 : 1	2,1 : 1
Debt-equity ratio	0,7 : 1	0,2 : 1
Current ratio	0,6 : 1	1,1 : 1
Acid-test ratio	0,3 : 1	0,8 : 1
Stockholding period	78 days	43 days
Average debtors' collection period	58,9 days	32,6 days
Average creditors' payment period	75,6 days	63,6 days
Earnings per share	54 cents	102 cents
Dividends per share	25 cents	90 cents
Net asset value per share	732 cents	711 cents
Return on average shareholders' equity	4,9%	5,3%
Return on average capital employed	6,4%	9,1%

B. Additional information:

	2021	2020
Sales	R8 976 000	R11 550 000
Market price of shares on stock exchange	580 cents	610 cents
Interest rate on loans	12%	12%
Interest rate on fixed deposit	8%	8%

C. Share capital and shareholding of Anton Buys:

	2021	2020
Number of authorised shares	5 000 000 shares	
Number of shares in issue	2 450 000	2 400 000
Number of shares owned by shareholder, Anton Buys	1 240 000	1 270 000

- On 30 April 2020, the company had 2 400 000 shares in issue.
- At the directors' meeting on 1 May 2020, it was decided to repurchase 30 000 shares from the CEO, Anton Buys, at R12,00 per share. None of the other five directors supported this decision.
- A further 80 000 shares were issued on 30 June 2020. The listed issue price of the purchase was originally R6,00 per share. Due to a poor response from the public at this price, the directors agreed to sell these shares at R4,80 per share

D. Directors' fees:

	2021	2020
Director's fees paid to CEO	R2 900 000	R2 000 000
Total fees paid to 5 other directors	R3 000 000	R3 000 000

E. Proposal to purchase the unissued shares:

- Excellence Limited is a respected company with a reputation for **good corporate governance**. They have made an offer to purchase the remaining 2 550 000 shares in this company at a price which is considerably more than the current market value.
- Anton Buys says that he will **vote against this proposal**. The other directors feel strongly that this offer is very generous. They are in favour of accepting the offer.

45

ACTIVITY 15: CORPORATE GOVERNANCE

(Q4, NSC Nov 2020 (2))

(15 marks; 10 minutes)

Shareholders and employees associated with a company will be particularly interested in whether the company is well governed and managed by the directors.

At the AGM, the shareholders will elect two types of directors:

- **Executive directors:** They attend board meetings and work at the company on a full-time basis.
- **Non-executive directors:** They attend board meetings and do NOT work at the company

You are provided with four aspects of corporate governance that will be of concern to the stakeholders

REQUIRED**15.1 Audit Report:**

Explain why a qualified audit report is not a good reflection of a company. Provide TWO points.

(4)

15.2 The Board of Directors:

Explain why it is important for a company to include non-executive as well as executive directors on the Board of Directors.

(4)

15.3 The Remunerations Committee:

According to the Companies Act 2008 a company must have a Remunerations Committee.

Explain the role/responsibility of this committee and give a reason why this committee is necessary

(3)

15.4 Directors engage with clients on a regular basis in an effort to negotiate contracts and to increase sales and services

Explain why there should be a company policy that directors must declare to the Board all gifts, donations or favours received by them from clients. Provide TWO points

(4)

15

ACTIVITY 16: CORPORATE GOVERNANCE**(15 marks; 15 minutes)****(Q4, NSC Nov 2020 (1) / Sep 2021)**

- 16.1 Give ONE word/term for each of the following descriptions by choosing a word/term from the list below. Write only the word/term next to the question numbers (16.1.1 to 16.1.3) in the ANSWER BOOK

external auditors; internal auditors; shareholders; directors

16.1.1 Their role is to manage and control all aspects of the company's activities.

16.1.2 Their role is to express an unbiased opinion on the reliability of the information in the financial statements.

16.1.3 Their role is to assess the internal control measures in a company on an on-going basis. (3 x 1)

(3)

16.2 ELECTRONIC LTD

The information relates to Electronic Ltd. In recent months, Electronic Ltd has been receiving negative publicity in the national newspapers. A shareholder, Quinton Miller, is concerned about possible corruption in this company

REQUIRED:

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

Sustained (On-going) corruption, fraud and mismanagement will not take place at a listed company unless there is illegal or criminal collusion (dishonest collaboration) on the part of the board of directors and the auditors.

 [Paraphrased from @TheJaundicedEye, *Independent*, Saturday 7 March 2020]

(4)

16.2.2 Refer to the information on the next page.

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

Problem 1 Payment of directors' fees

(4)

Problem 2 Control and productivity of other employees

(4)

INFORMATION:

Information identified from the books of the company.

NOTE: Rand amounts are expressed in millions.

		% change	29 Febr 2020	28 Febr 2019
Directors' fees:				
Chief executive officer (CEO)	1	72%	R11,2 m	R6,5 m
Chief financial officer (CFO)	1	72%	R9,9 m	R5,8 m
Other full-time directors	12	8,3%	R39,0 m	R36,0 m
Other employees:				
Number of employees		19%	570 employees	480 employees
Salaries and wages		22%	R91,0 m	R74,4 m
General information:				
Gross profit		11%	R289,0 m	R260,0 m
Operating profit		(20%)	R61,0 m	R76,2 m
Operating profit per employee		(50%)	R0,1 m	R0,2 m
Net profit		(21%)	R41 m	R52 m

ACTIVITY 17: CORPORATE GOVERNANCE
(Q4, NSC Nov 2021)

(20 marks; 20 minutes)

- 17.1 Explain why a disclaimer audit report would be bad for a company's reputation. Provide TWO points. (4)
- 17.2 One of the most important decisions that shareholders have to make at the annual general meeting (AGM) is to appoint directors to serve on the board. (2)
- Explain why the shareholders have been given this responsibility. (2)
 - If you were a shareholder, what factors or characteristics would you want to find out about the directors who would get your vote? Explain TWO points and give a reason for EACH. (6)
- 17.3 A recent news report stated that a major company, Baxco Ltd, had been awarded a tender to supply equipment worth R20 m to a chain of private hospitals. The report accuses the CFO (chief financial officer) of that company of paying R2 m in cash to the CEO of the hospital group (4)
- As a shareholder, explain what you would say at the AGM. Provide TWO points. (4)
- 17.4 A major South African company has stated the following on its website and in its Directors' Report.

We have set up ways for employees and external stakeholders to report unethical conduct and incidents of individuals not complying with the company's ethical policies.

We have set up a tip-off phone line (call centre) controlled by an independent service provider.

All information will be treated confidentially. Whistle-blowers (informants) who submit genuine information will be protected and will remain anonymous

In your opinion, explain why this major company found it necessary to implement this policy. Provide TWO points (4)

(4)

20

Activity 14-17

<https://wcedportal.co.za/eresource/209136>



PAPER 1 & PAPER 2

FIXED ASSETS ①/②

Basic concepts

fixed asset | cost price | accumulated depreciation | carrying value | book value | movement of assets
 addition | disposal | depreciation | depreciation methods | profit on sale of asset | loss on sale of asset
 replacement value | residual value | fully depreciated | fixed asset note | fixed asset register | GAAP
 principles | historic cost | prudence | matching principle

ASSET DISPOSAL (GR 11 content revised in Gr 12)

Calculation of depreciation: ①/②

- Straight line / Fixed amount / % on cost
- Diminishing balance / % on Carrying value
- **NOTE:** Consider the **residual value** of OLD asset items still in use. It is usually R1 per item, but is determined by policy.
- An asset item will be **FULLY depreciated** in the LAST year of its useful life.

Dr	ASSET DISPOSAL ①/② <i>(useful for calculations)</i>	Cr
Vehicles/Equipment (original cost price of asset item sold)	Accumulated depr on ... (TOTAL over the life of the asset item) <i>(previous depr + proportional depr for the current year)</i>	
	Bank / Debtors control / Creditors Control / Donations / Drawings <i>(depend on how the asset was sold)</i>	
PROFIT on sale of asset	OR	LOSS on sale of asset

IMPORTANT INFORMATION ON ASSET DISPOSAL

- Profit on sale of asset will appear under **Income** in SCI (Statement of Comprehensive Income)
- Loss on sale of asset will appear under **Expenses** in SCI
- Proportional depreciation for this year must be **ADDED** to Depreciation in SCI.
- Asset disposal may also be assessed in the **Fixed Asset Note of the Balance sheet** under movements
- Cost price of sold item must be subtracted from the **COST** of total Assets at beginning of the year

Paper 1: Focus on the valuation and movement (acquire and disposal) of assets for financial statements
 Usually Included in the financial statement questions. **See Activities 2 - 6 above**

Paper 2: Focus on the management of fixed assets, i.e. the use / misuse / replacement / buy or rent, etc.
 Usually included in budgeting, inventory or a problem-solving type of question.

ACTIVITY 1: FIXED ASSETS (P1)

(21 marks; 15 minutes)

(Q5.3, Nov 2018)

MINDEW LIMITED

The financial year-end is 31 May 2018.

REQUIRED:

- 1.1 Calculate the missing figures indicated by **(i)** to **(v)** in the table below. (17)
- 1.2 Explain how the internal auditor should check that movable fixed assets were not stolen. (2)
- 1.3 Land and buildings were bought five years ago for R6 m. Property prices have increased by 20% since then. The directors want to increase the value of this asset and reflect a profit of R1 200 000 in the financial statements.

As an independent auditor, what advice would you give? Provide ONE point. (2)

INFORMATION FOR YEAR-END 31 MAY 2018:

A.	FIXED ASSETS	LAND AND BUILDINGS	COMPUTERS	EQUIPMENT	VEHICLES
	Carrying value: Begin	6 000 000	13 000	1 027 500	1 300 000
	Cost	6 000 000	108 000	1 250 000	2 100 000
	Accumulated depreciation	-	(95 000)	(222 500)	(800 000)
	Movements				
	Additions	(i)	0	172 500	0
	Disposals	0	0	0	(iv)
	Depreciation	0	(ii)	(iii)	(256 000)
	Carrying value: End				
	Cost				
	Accumulated depreciation				(v)

B. Land and buildings:

Grant Construction was paid R882 000 for building new offices (R610 000) and repairing windows (R272 000).

C. Computers:

- The three computers were all bought on the same day at R36 000 each.
- Depreciation is 33 $\frac{1}{3}$ % on cost.
- These computers are expected to last another two years.

D. Equipment:

- Additional equipment was purchased on 1 February 2018.
- Depreciation is 10% p.a. on cost.

E. Vehicles:

- Depreciation is 20% p.a. on carrying value.
- A vehicle was sold for cash at carrying value on 31 December 2017. The Fixed Assets Register reflected the following:

Cost	R176 000
Accumulated depreciation (1 June 2017)	R128 000

21

ACTIVITY 2: FIXED ASSETS NOTE ①**(8 marks; 10 minutes)**

(Q4.3, SC May/June 2019)

MVVS LTD

The information relates to the financial year ended 31 March 2019.

REQUIRED:

2.1 Complete the following note to the Statement of Financial Position (Balance Sheet):

- Fixed/Tangible Asset Note

(8)

INFORMATION:

Figures extracted from the Pre-adjustment Trial Balances on 31 March:

	2019	2018
	R	R
Land and buildings	12 500 000	12 500 000
Vehicles	1 377 000	750 000
Equipment	?	398 000
Accumulated depreciation on vehicles	?	475 000
Accumulated depreciation on equipment	?	117 500
Depreciation (on equipment sold)	1 750	

Adjustments and additional information:

Fixed assets and depreciation:

(i) Vehicles:

- Details for the three vehicles are as follows:

	Cost price	Accumulated depreciation 31 March 2018	Date purchased
1	R350 000	R315 000	1 October 2013
2	R400 000	R160 000	1 April 2016
3	R627 000		30 November 2018

- Vehicles are depreciated at 20% p.a. on cost.

(ii) Equipment:

- Equipment was sold for R9 600 cash on 31 August 2018. Only the following entries in respect of this sale were processed:

Cost price	28 000
Accumulated depreciation at the date of disposal	21 500
Depreciation for the current financial year	1 750

- Depreciation on the remaining equipment is calculated at R92 500 after taking all of the above into account.

8

ACTIVITY 3: FIXED ASSETS NOTE ②**(23 marks; 20 minutes)****(Q4.2, NSC Nov 2021 (P2))**

The following information relates to the fixed/tangible assets of Justime Footwear (Pty) Ltd. The financial year ended on 28 February 2021.

REQUIRED:

- 3.1 List THREE point for good internal control over movable fixed assets. (3)
- 3.2 **Refer to Information A and B.**
Calculate the cost of land and buildings purchased on 31 August 2020. (3)
- 3.3 **Refer to Information A and C.**
Calculate depreciation on the vehicle for the year ended 28 February 2021. (2)

3.4 **Refer to Information A and D.**

The business depreciates equipment at 30% p.a. on the diminishing- balance method. On 30 November 2020, they decided to trade in a photocopy machine for a new model.

- Calculate the loss on the photocopy machine that was traded in on 30 November 2020. (6)
- Calculate depreciation on the new photocopy machine and on the remaining old equipment for the year ended 28 February 2021. (7)

- 3.5 The CEO feels that the land and buildings are worth at least R10 000 000 and wants to adjust the figure in the Statement of Financial Position (Balance Sheet) accordingly. Explain why the auditor does not agree. (2)

INFORMATION:**A. Extract from Trial Balances on 28 February:**

	2021 R	2020 R
Balance Sheet accounts section		
Land and buildings	6 250 000	5 500 000
Vehicle	480 000	480 000
Accumulated depreciation on vehicles	?	450 000
Equipment	2 190 000	2 100 000
Accumulated depreciation on equipment	?	1 440 000

B. Land and Buildings:

Glamour Construction provided an invoice on 31 August 2020 after completing the new storage facilities. The full invoice amount was paid and debited to land and buildings. However, the auditor found that repairs to the old storeroom, R60 000, were included in the invoice. This has not been corrected.

C. Vehicles:

The company has only one vehicle. The depreciation rate is 25% p.a. on cost.

D. Equipment:

A photocopy machine was traded in on 30 November 2020 for R88 000 for a better model. The cost price of the new model that was delivered on 1 December 2020 was R410 000. The fixed asset register reflected the following:

Fixed Asset register:

Category:	Photocopy machine		
Model:	Clearfont X23		
Date purchased:	1 March 2019		
Cost price:	R320 000		
Depreciation rate:	30% on diminishing-balance method		
	Date	Depreciation	Carrying value
	28 February 2020	R96 000	R224 000
	30 November 2020	?	?

23

Activity 1-3

Fixed Assets:

<https://wcedportal.co.za/eresource/209141>


PAPER 2

INVENTORY 1/2

*[Paper 1: Inventory valuation for preparing / reporting in financial statements;
Refer to Activities 2 - 4 in Companies above for typical P1 Inventory questions]*

[Paper 2: Stock systems; Valuation, management and internal control of stock]

Basic concepts

Stock systems (Differences)	Perpetual stock system: Cost of sales is calculated at point of sale Periodic stock system: Cost of sales is calculated at end of financial year after physical stock taking		
Stock valuation methods (Differences)	FIFO	Weighted average	Specific identification
	- Based on the assumption that stock bought first will be sold first. Suitable for business selling separate items , e.g., computers, TVs, etc. - Stock with a limited shelf life may also be valued by this method.	- Used when selling large volumes (numbers) of identical small items, e.g., T-shirts, chocolates. - The average cost price of stock is used at all times.	- Used when selling small quantities where the cost of each item can be easily identified (looked up) in a register/catalogue. - Stock values are realistic as it is based on actual cost price of each item.

Calculation of closing stock

FIFO	Weighted average	Specific identification
Work from bottom up; Add carriage on purchases and subtract goods returned	$\frac{\text{Opening stock (R) + Purchases (R) - Returns + Carriage}}{\text{Opening units + Purchases (units) - Returns (units)}}$ = Answer in Rand Answer (R) X closing stock (units) = R...	Actual price of each unit or model on hand

Other calculations

	Periodic	Perpetual
Cost of sales	$\text{Opening stock} + \text{Purchases} + \text{Carriage} - \text{Returns} - \text{Closing stock}$	Based on mark-up % at point of sale
Gross Profit	Sales - Cost of sales	
Stolen goods	Opening units + Purchases units - Returns - Sold units - Closing units	

Financial indicators (Paper 1 OR Paper 2)

Mark-up %	$\frac{(\text{Sales} - \text{Cost of sales}) \times 100}{\text{Cost of sales}}$	Answer given as: ... %
Stock turnover rate	$\frac{\text{Cost of sales}}{\text{Average stock OR } \frac{1}{2}(\text{Opening stock} + \text{Closing stock})}$... times
Period/Days of stock on hand	$\frac{\text{Average stock}}{\text{Cost of sales}} \times \frac{365}{1}$... days

GAAP principles for inventories (Paper 1)

- Historical cost; - Rule of prudence

Internal control of stock (Paper 2)

Division of duties; Documentation; Authorisation; Physical security measures; changing suppliers, etc.

ACTIVITY 1: INVENTORY VALUATION
(Q3, NSC Nov 2019)**(45 marks; 35 minutes)**

George Grande is the majority shareholder and CEO of Grande Ltd. The company supplies hotels with cabinets and lamps.

The periodic system is used. The year-end is 30 September 2019.

REQUIRED:**CABINETS**

- 1.1 Calculate the value of closing stock for cabinets on 30 September 2019 using the first-in first-out method. (6)
- 1.2 In 2019, the company decided to extend the target market and to grant trade discounts to increase sales.
- 1.2.1 Calculate the % mark-up achieved in 2019. (4)
- 1.2.2 Provide TWO points (with figures) to prove that this decision achieved its aims. (4)
- 1.2.3 The CEO feels that this decision also negatively affected the company. (4)
- Provide TWO points (with figures) to support his opinion. (2)
 - Give the directors advice to solve this problem. Explain TWO points.

LAMPS

- 1.3 Calculate the stockholding period for lamps (use closing stock). (3)
- 1.4 George is concerned about the control of lamps. An investigation revealed that the store manager was supplying local boarding houses with lamps without documentation. (5)
- Calculate the number of missing lamps.
 - Give TWO suggestions to solve this problem. (4)

TELEVISION SETS

- 1.5 During April 2019, while George was in hospital, Bruce Swann (the chief financial officer) decided to include television sets in their product range. He was able to secure bulk discounts from Roseway on two TV set models, namely LYN and KYA.
- Calculate the value of the closing stock of TV sets on 30 September 2019 using the specific identification method. (7)
- 1.6 An employee of Roseway told George that Bruce received a 10% 'commission' from Roseway for buying excess stock. George wants to discuss this at the next board meeting.
- Explain THREE different concerns that George would have about this problem. (6)

INFORMATION:**A. Stock records of cabinets and lamps:**

	CABINETS			LAMPS	
	UNITS	UNIT PRICE	TOTAL	UNITS	TOTAL
Stock balances					
1 Oct. 2018	370	R800	R296 000	600	R108 000
30 Sep. 2019	280		?	265	R59 625
Purchases: 2019					
January	800	R920	R736 000	1 200	R240 000
April	1 200	R990	R1 188 000	1 800	R432 000
July	250	R1 100	R275 000	800	R210 000
Total	2 250		R2 199 000	3 800	R882 000
Returns	20	R1 100			
Sales				3 675	
Cost of sales					R930 375

B. Information relating to cabinets:

	2019	2018
Sales	R3 480 000	R3 375 000
Cost of sales	R2 170 500	R1 950 000
Units sold	2 320	2 500
Selling price per unit	R1 500	R1 400
% mark-up achieved	?	73%
Customers on record	37	26

C. Stock records of television sets:

	MODELS	UNITS	UNIT PRICE	TOTAL
Purchases				
May 2019	LYN	800	R6 000	R4 800 000
	KYA	950	R7 200	R6 840 000
July 2019	LYN	500	R6 000	R3 000 000
	KYA	500	R7 200	R3 600 000
TOTAL		2 750		R18 240 000
Sales				
	LYN	430	R8 400	R3 612 000
	KYA	540	R10 080	R5 443 200

ACTIVITY 2: INVENTORY VALUATION
(Q3, SC 2020)**(40 marks; 30 minutes)****2.1. CONCEPTS**

Complete the sentences by filling in the correct stock valuation method. Write only the answer next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

- 2.1.1 The ... method assumes that stock is sold in order of date purchased.
- 2.1.2 The ... method divides the total cost of goods available for sale by the number of units.
- 2.1.3 The ... method is used for very expensive, individually recognisable items.

(3 x 1) (3)

2.2 JJ FASHION HOUSE

JJ Fashion House uses the periodic stock system. Janine Naidoo owns the business.

REQUIRED**Refer to Information A: Jeans**

- 2.2.1 Calculate the following on 29 February 2020:
- Value of the closing stock using the weighted-average method (6)
 - Gross profit (4)
- 2.2.2 Calculate how long (in days) it will take to sell the closing stock of the jeans. (4)
- 2.2.3 Janine is considering a change in the method of valuing stock.
- Calculate the value of closing stock using the FIFO method. (7)
 - State ONE advantage of using the FIFO method (2)

Refer to Information B: Jackets

- 2.2.4 The owner is concerned about the theft.
- Calculate the number of jackets stolen. (4)
 - Give TWO solutions to solve the problem. (4)
- 2.2.5 The internal auditor is concerned about the stock levels and the selling price of jackets. Explain reasons for his concern, with FIGURES and give different advice in EACH case. (6)

INFORMATION:**A. Jeans:**

	UNITS	UNIT PRICE	TOTAL
Opening stock (1 March 2019)	240		R124 500
Purchases	3 150		R1 813 000
May 2019	1 300	R560	R728 000
October 2019	1 450	R580	R841 000
January 2020	400	R610	R244 000
Subtotal	3 390		R1 937 500
Returns from January purchases	130	R610	R79 300
Sales	2 880	R960	R2 764 800
Closing stock (29 February 2020)	380	?	?

B. Jackets:

	2020	2019
	(UNITS)	
Opening stock	1 760	
Purchases (less returns)	6 500	
Units available for sale	8 260	
Closing stock	2 980	
Units sold	5 020	
Weighted-average cost per unit	R700	R630
Selling price per unit	R1 450	R1 070
Stock-holding period	216 days	103 days
Mark-up % achieved	107%	70%

45

ACTIVITY 3: INVENTORY VALUATION**(35 marks; 30 minutes)**

(Q4, Nov 2020 (2))

3.1. CONCEPTS

Give ONE word/term for each of the following statements. Write only the word/term next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

periodic system; FIFO; perpetual system;
specific identification; weighted average

- 3.1.1 This method is most suitable for inexpensive goods purchased regularly.
 3.1.2 The closing stock balance is recorded at the most recent prices paid.
 3.1.3 Individual stock items are valued at the cost price on the purchase invoice.
 3.1.4 The cost of sales is recorded for every sales transaction.

(4 x 1) (4)

3.2 LOTUS ACCESSORIES

The owner is Alex Lotus. The business uses the first-in first-out method to value gas lamps. They decided to sell gas stoves as well, expecting a demand due to increased load shedding. The specific identification method is used to value these stoves.

The financial year-end is 30 April each year.

REQUIRED:

- 3.2.1 Calculate the following for the **gas lamps** on 30 April 2021:
- Value of closing stock (using FIFO) (6)
 - Stockholding period in days (using closing stock) (6)
- 3.2.2 Alex suspects that the stock of gas lamps is not well controlled.
Calculate the number of gas lamps missing. (4)
- 3.2.3 An investigation revealed that Alex's brother (employed at the store) orders gas lamps using the business ordering system and sells them privately to his friends. What should Alex say to his brother when dealing with this matter? Provide TWO points. (4)
- 3.2.4 Calculate the closing stock value for **gas stoves** on 30 April 2021 (using the specific identification method). (5)
- 3.2.5 Alex thinks he should stop selling gas stoves as they are causing a liquidity problem and the profit is low. (2)
- Provide figures to support his opinion. (2)
 - Explain TWO points to convince him NOT to discontinue trading in gas stoves. (4)

INFORMATION:**A. STOCK RECORDS FOR GAS LAMPS:**

	UNITS	UNIT PRICE (R)	AMOUNT (R)
Stock balance on 1 May 2020	230		R12 650
Purchases during the year:	2 770		R193 500
July 2020	650	R60	39 000
September 2020	800	R68	54 400
January 2021	1 100	R75	82 500
March 2021	220	R80	17 600
Returns (from March 2021)	40	?	?
Available for sale	2 960		
Stock balance: 30 April 2021	270	?	?
Total sales	2 180	R140	R305 200

B. STOCK RECORDS FOR GAS STOVES:**PURCHASES:**

MONTH	MODEL	UNITS	UNIT PRICE	AMOUNT
August 2020	B-LITE	80	R495	R39 600
October 2020	B-LITE	80	R495	R39 600
	SMART	100	R700	R70 000
February 2021	B-LITE	120	R495	R59 400
	SMART	60	R700	R42 000

SALES:

MODEL	UNITS SOLD	SELLING PRICE	AMOUNT
B-LITE	132	R790	R104 280
SMART	54	R980	R52 920

GROSS PROFIT AND MARK-UP:

MODEL	COST OF SALES	GROSS PROFIT	MARK-UP
B-LITE	R65 340	R38 940	60%
SMART	R37 800	R15 120	40%

35

ACTIVITY 4: INVENTORY VALUATION**(35 marks; 30 minutes)****(Q4, SC June 2021)**

- 4.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question numbers (4.1.1 to 4.1.4) in the ANSWER BOOK.
- 4.1.1 The (specific identification/first-in first-out) method assumes that the closing stock is valued at the most recent batches purchased.
- 4.1.2 The (periodic/perpetual) system requires a year-end stock count to be able to calculate cost of sales.
- 4.1.3 The (weighted-average/first-in first-out) method is suitable for similar goods that are bought in bulk.
- 4.1.4 The (periodic/perpetual) system requires that all products are scanned at the point of sale. (4)

4.2 GWEN BOUTIQUE

The information relates to ALUZE bags for the financial year ended 28 February 2021. The business uses the first-in first-out method to determine the value of these bags. The periodic inventory system is in use.

REQUIRED:

- 4.2.1 Calculate the following for the year ended 28 February 2021:
- Value of the closing stock (5)
 - Cost of sales (5)
- 4.2.2 **Stockholding period:**
- Calculate the average stockholding period (in days). (5)
 - Explain whether Gwen should be satisfied with this figure, or not. State TWO points.
- NOTE:** The average stockholding period on 29 February 2020 was **52 days**. (4)

4.3 PROBLEM-SOLVING**Refer to Information D.**

Gwen Boutique also sells jackets and jerseys. Gwen has provided the information and requested advice.

Identify TWO problems in EACH product for 2021. In each case, give ONE piece of advice to address the problem identified. (12)

INFORMATION:**A. Stock balances:**

DATE	UNITS	TOTAL VALUE (including carriage)
1 March 2020	420	R68 120
28 February 2021	380	?

B. Purchases and returns for the year:

DATE	UNITS	UNIT COST	TOTAL PURCHASE AMOUNT	CARRIAGE COST (per bag)	TOTAL COST (including carriage)
30 Jun. 2020	500	R155	R77 500	R12	R83 500
31 Oct. 2020	750	R160	R120 000	R13	R129 750
15 Feb. 2021	320	R170	R54 400	R15	R59 200
TOTAL	1 570				R272 450
Returns	20				R3 700

C. Sales:

Total sales amounted to R393 750 (1 590 bags).

D. Problem-solving:

	JACKETS		JERSEYS	
	2021	2020	2021	2020
Units: Opening stock	407	120	218	200
Units: Purchases	800	800	1 800	2 200
Units sold (gross) All sales are for cash.	550	500	1 970	2 260
Units returned by customers	0	0	90	78
Units: Closing stock	615	407	138	218
Stock turnover rate	0,9	1,9	10,6	10,4
Mark-up % achieved	75%	50%	25%	25%
	R	R	R	R
Cost price per item	360,00	360,00	170,00	160,00
Selling price	630,00	540,00	212,50	200,00
Income from sales deposited in the bank	346 500	268 920	349 500	436 400

ACTIVITY 5: INVENTORY VALUATION**(30 marks; 25 minutes)****(Q3, NSC Nov 2020 (1) / Sep 2021)**

On-Time Watches (Pty) Ltd has two shareholders, Lizzy and Patsy Ndou. The business sells watches. The periodic inventory system and the first-in-first-out (FIFO) method is used to value the watches. The financial year-end was 30 June 2020.

The business sold only one type of watch, the XS Sports, in the past. Even though these watches were selling well, Lizzy felt that the business was not earning enough profit. She convinced Patsy that importing exclusive watches (the Euroclox) would be a good solution for this problem.

REQUIRED:

- 5.1 Calculate the following for the imported Euroclox watches on 30 June 2020, using the FIFO method:
- The value of the closing stock (5)
 - Stock-holding period (in days) using the closing stock amount (3)
 - % mark-up on cost (3)
- 5.2 Patsy was still not convinced about the decision to import the Euroclox watches, but it appears that Lizzy's decision was beneficial to the business. In each case below, quote figures or indicators.
- 5.2.1 Compare the mark-up % achieved on each model and comment on how this has affected the sales and profitability of the two models. (4)
- 5.2.2 Compare the stock-holding period for each model and the demand for each model and comment on how these affected the management of the stock items of the two models. (4)
- 5.3 Lizzy is interested in finding out if the weighted-average method of valuing the Euroclox watches will result in a significantly different stock value.
- Calculate the value of the 270 watches using the weighted-average method. (5)
 - Explain the effect this would have on the gross profit. Quote figures. (2)
 - Explain why it would not be appropriate for her to use the weighted-average method for the new watches in the future. State TWO points (4)

INFORMATION:**A. Stock records for imported Euroclox watches:**

DATE	NUMBER OF UNITS	UNIT PRICE	TOTAL AMOUNT
Purchases:			
1 July 2019	200	R 1 615,50	R 323 100
30 September 2019	500	1 700	850 000
20 December 2019	1 200	1 900	2 280 000
25 March 2020	400	2 000	800 000
15 May 2020	250	2 400	600 000
Total purchases	2 550		R4 853 100
Returns: 15 May 2020	90		?
Available for sale	2 460		?
Stock on 30 June 2020	270		?
Sales	2 190	R2 700	R5 913 000
Cost of sales			R4 033 100

B. Information obtained from the financial records on 30 June 2020:

	EUROCLOX MODEL	XS SPORTS MODEL
Mark-up %	?	75%
Stock-holding period	?	120 days
Selling price per watch	R2 700	R560
Average cost price per watch	R1 842	R320
Average gross profit per watch	R858	R240
Gross profit	R1 879 900	R840 000
Sales of watches	R5 913 000	R1 960 000
Units sold	2 190 watches	3 500 watches
Closing units on hand	270 watches	1 381 watches

30

Activity 1-5**Inventory:**

<https://wcedportal.co.za/eresource/209146>



MANUFACTURING / COST ACCOUNTING

Basic concepts and calculations

Direct material cost (DMC)	Opening stock (OS)+ Purchases + Carriage on purchases - Closing stock (CS) = Raw materials used
Direct labour cost (DLC)	Normal wages (no. of workers x no. of hours x rate) ADD Overtime (no. of workers x no. of hours x rate) ADD UIF/Medical/Pension contributions
Factory / Manufacturing overheads (FOHC)	Indirect material (Opening stock (OS) + Purchases - Closing stock (CS)) Indirect labour (Cleaners, security, foreman) ADD contributions UIF/Pension Depreciation of Factory equipment Water & Electricity (Factory) All other factory expenses
Unit costs	Total cost divided by number of units produced
Fixed cost	FOHC + Administration costs (AC)
Variable cost	DMC + DLC + Selling & Distribution costs (SDC)

FORMAT OF THE PRODUCTION COST STATEMENT

Direct material cost	
+Direct labour cost	
=Prime cost	
+Factory overhead cost	
=Total cost of production	
+Work in process beg year	
-Work in process end year	()
=Total cost of production of finished goods	**

FORMAT OF THE ABRIDGED INCOME STATEMENT (short format)

Sales	
Less Cost of Sales (CoS)	(.....)
[OS + Cost of finished goods** - CS]	
Gross profit	
Selling & Distribution costs	
Administration costs	
Net profit	

ANALYSING PRODUCTION COSTS STATEMENTS

Calculating the cost per unit of certain cost items will reveal:

- = which costs are higher/ lower as the budgeted costs,
- = which items are exceptionally high and need to be controlled carefully
- = how costs compare to previous years.

Calculate the break-even point (BEP):

- = BEP determines the **quantity** produced where **no** profit or loss is shown;
- = Income generated from sales is just enough to **cover** costs.
- = **FORMULA:**

$$\frac{\text{TOTAL FIXED costs}}{\text{(selling price per unit - variable costs per unit)}} = \dots \text{Number of products/units}$$

Comment on BEP / production levels:

- = Compare BEP with the total number of units produced
e.g. In 2001 100 (BEP) of 1000 units BUT in 2002 80 (BEP) of 1000 units covered costs. Therefore, more effective production levels in 2002 as 20 less units covered costs (or more units available for profit). 900 units will earn a profit in 2001, but 920 units will earn a profit in 2002.
A drop / increase in production units and/or the BEP per year will influence your comment. It may help to work with %s... (2001: BEP was 10% and in 2002 BEP was 8% of total production = lower production costs)

POSSIBLE SOLUTIONS TO SAVE / DECREASE / CUT PRODUCTION COSTS:

- Bulk buying (buy in large quantities) to receive bulk discount
- Cash purchases to receive cash discounts
- Use alternative suppliers that offer more promising buying conditions
- Do a work study in the factory to determine whether the factory is using efficient production methods, e.g. reduce wastage of materials and labour time

ACTIVITY 1: MANUFACTURING**(40 marks; 35 minutes)****(Q1, NSC Nov 2019)**

Sihle Sangweni owns two separate factories that manufacture products according to orders received. There is no work-in-progress stock. The year-end is 28 February.

1.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

1.1.1 Wages of factory cleaners is a direct labour cost.

1.1.2 Delivery costs of finished goods to retailers are a selling and distribution cost.

1.1.3 Depreciation on office equipment is an administration cost.

(3 x 1) (3)

1.2 DESKS FACTORY**REQUIRED:**

1.2.1 Complete the Factory Overhead Cost Note. (8)

1.2.2 Calculate the total cost of production of finished goods. (5)

1.2.3 Sihle wants to produce an additional 1 500 desks, while maintaining the selling price and costs. (4)

1.3 CHAIRS FACTORY**REQUIRED:**

1.3.1 Provide a calculation to confirm the break-even point for 2019. (4)

1.3.2 Comment on the break-even point and the production level achieved. Quote figures. (4)

1.3.3 Raw material consists of wood only. In 2019 the cost is R120 per square metre (m²) and 1,2 m² of wood is needed to make one chair.

During the year, 22 000 m² wood was dispatched to the factory. Sihle feels that the wood raw material was not well controlled.

- Provide a calculation to support his opinion. (4)

- Identify TWO possible causes of this problem. Provide a solution for EACH. (4)

1.3.4 Give TWO reasons for the increase in direct labour cost. Provide a solution for EACH. Note that wages and salaries increased by 5% in the current financial year. (4)

INFORMATION:**A. DESKS FACTORY****Extract of pre-adjustment amounts on 28 February 2019**

	R
Indirect labour	296 500
Depreciation of factory plant	166 000
Advertising	24 500
Water and electricity	248 000
Rent expense	345 600
Insurance allocated to sales department	12 600
Factory sundry expenses	107 700

Adjustments to factory overheads for desks:

- Water and electricity for February 2019, R18 000, must be taken into account. 80% is allocated to the factory. The balance is an administration cost.
- Rent must be allocated according to floor area:
Factory: 810 m² Office: 180 m² Sales department: 90 m²
- 75% of insurance must be allocated to the factory. The balance applies to the sales department.

B. INFORMATION FOR BOTH FACTORIES

COSTS		DESKS 2019		CHAIRS (Unit costs)	
		Amount	Per unit	2019	2018
Variable	Direct material	R3 060 000	R340	R165	R124
	Direct labour	?	R160	R90	R70
	Selling and distribution	R720 000	R80	R50	R60
	Total variable costs		R580	R305	R250
Fixed	Factory overheads			R76	R75
	Administration	R360 000	R40	R20	R18

SELLING PRICES				
Per unit		R750	R390	R370

UNITS				
Produced and sold		9 000	16 000	15 000
Break-even point		8 471	18 071	12 400

40

ACTIVITY 2: MANUFACTURING
(Q1, SC 2020)**(45 marks; 35 minutes)**

- 2.1 Choose an example in COLUMN B that matches the cost category in COLUMN A. Write only the letter (A–E) next to the question numbers (1.1.1 to 1.1.5) in the ANSWER BOOK.

COLUMN A		COLUMN B	
2.1.1	Selling and distribution	A	raw material issued for production
2.1.2	Direct labour	B	bad debts
2.1.3	Administration	C	depreciation on factory machinery
2.1.4	Factory overhead cost	D	production wages
2.1.5	Direct material	E	bank charges

5 x 1 (5)

2.2 BERGVIEW MANUFACTURERS

This information relates to the financial year ended 29 February 2020. The business manufactures buckets.

REQUIRED:

Prepare the following on 29 February 2020:

- 2.2.1 Factory Overhead Cost Note (16)
- 2.2.2 Production Cost Statement (10)

INFORMATION:**A. Stock balances**

	29 February 2020 R	28 February 2019 R
Work-in-progress	?	130 000
Finished goods	140 000	155 500
Indirect material	14 300	12 400

B. Amounts extracted from the records on 29 February 2020

	R
Salary: factory foreman	150 000
Depreciation on factory equipment	145 000
Direct material cost	2 200 000
Direct labour cost	1 209 300
Indirect material purchased	33 100
Insurance	60 000
Water and electricity	115 000
Rent expense	113 000
Sales	6 500 000
Cost of sales (mark-up on cost: 60%)	?

- Insurance is shared by the factory, administration and the selling department in the ratio 3 : 2 : 1.
- Water and electricity for February 2020 is still outstanding, R12 000. The factory uses 80% of the water and electricity.
- Rent expense is distributed according to floor space used. The factory occupies 7 200 m² of the total floor space of 9 000 m²

2.3 EASY FOODS

Easy Foods manufactures snack bars. The financial year ends on 31 December.

REQUIRED:

- 2.3.1 Explain why the change in units produced affected the fixed costs per unit. (2)
- 2.3.2 Give TWO possible reasons for the increase in direct material cost per unit. (4)
- 2.3.3 Explain why the business should not be satisfied with the level of production and the break-even point. Compare and quote figures for both years. (6)
- 2.3.4 The owner, Mike, wants to reduce the weight of the snack bars from 80 grams to 75 grams while keeping the selling price at R12,50 each. Explain ONE reason against this option. (2)

INFORMATION:

	2019		2018	
	Total	Per unit	Total	Per unit
Sales	R675 000	R12,50	R617 500	R9,50
Variable costs	R472 500	R8,75	R390 000	R6,00
Fixed costs	R191 160	R3,54	R191 160	R2,70
Direct material cost	R270 000	R5,00	R279 500	R4,30
Break-even units	50 976		50 000	
Units produced and sold	54 000		65 000	

ACTIVITY 3: COST ACCOUNTING (MANUFACTURING)
(Q2, NSC Nov 2020 (2))

(50 marks; 40 minutes)

3.1 PERFECT FIT MANUFACTURERS

The business produces formal shirts. The financial year ended 28 February 2021.

REQUIRED:

- 3.1.1 Prepare the Production Cost Statement. (14)
- 3.1.2 Calculate:
- Gross profit earned on sale of shirts (5)
 - Mark-up % achieved on shirts (2)

INFORMATION:

A. Stock on hand:

	28 FEBRUARY 2021	1 MARCH 2020
Work-in-progress	?	R230 000
Finished goods	400 shirts, valued using FIFO method	900 shirts at R380 = R342 000

B. The bookkeeper calculated the costs below. Some errors were made.

Direct material cost	R1 575 000
Selling and distribution cost	R385 000
Administration cost	R256 400
Direct labour cost	?
Factory overhead cost	R518 800

C. Errors and omissions:

- Payment to Quick Deliveries, R75 000 for carriage on raw materials, was incorrectly allocated to selling and distribution cost.
- The entire insurance amount of R25 200 was transferred to the Administration Cost Account. Two-thirds (2/3) of this expense should be allocated to the factory.
- The Factory Overhead Cost Account included an amount of R117 600 for water and electricity. The bookkeeper had incorrectly allocated this expense to factory, administration, and selling and distribution in the ratio 6 : 3 : 1. The correct ratio is 5 : 4 : 1.

D. Prime cost: R2 550 000 (after adjustments)

E. Production and sales for the year:

- 7 600 shirts were produced at a unit cost of R420 each.
- 8 100 shirts were sold for R4 860 000.

3.2 LEATHER MANUFACTURERS

Leather Manufacturers is owned by Tello Andrews. They produce leather purses and leather jackets. The financial year ends on 28/29 February each year.

REQUIRED:

PURSES

- 3.2.1 Calculate the break-even point for purses for the year ended 28 February 2021. (4)
- 3.2.2 Comment on the level of production achieved and the break-even point for purses for 2021. Quote figures. (4)
- 3.2.3 Apart from inflation and wage increases, give TWO other possible reasons for the increase in the direct labour cost per unit for purses. (4)
- 3.2.4 Give TWO reasons for the decrease in the direct material cost per unit for purses. (2)

JACKETS

- 3.2.5 Although Tello was aware that importing leather for the jackets would increase the direct material cost per unit, he thought that this would improve the quality of the jackets.
- Explain why the direct material cost per unit for jackets would probably increase if raw material were imported. State TWO points. (2)
 - Provide figures to prove that Tello was correct about the effect this decision would have on the cost of the jackets. (2)
- 3.2.6 Calculate the % increase in the selling price of the jackets. (3)
- 3.2.7 Explain the impact of the increase in the selling price of jackets on the sales and profit. Quote figures or calculations. (4)
- 3.2.8 Tello wants to increase profits on jackets by an additional R250 000 in the next financial year. Assuming the cost structure remains the same, calculate the total number of additional units he must produce to achieve this target. (4)

INFORMATION:

	PURSES		JACKETS	
	2021	2020	2021	2020
Direct material cost per unit	R100	R125	R360	R180
Direct labour cost per unit	R135	R105	R280	R240
Selling and distribution cost per unit	R20	R30	R60	R45
Total variable cost per unit	R255	R260	R700	R465
Total fixed costs	R936 000	R836 000	R1 706 250	R2 000 000
Number of units produced and sold	24 000	22 000	3 750	5 000
Break-even number of units	?	20 900	3 631	6 350
Selling price per unit	R295	R300	R1 170	R780

ACTIVITY 4 COST ACCOUNTING**(35 marks; 25 minutes)****(Q2, SC Jun 2021)**

- 4.1 Choose a cost category from COLUMN B that matches a description in COLUMN A. Write only the letter (A–E) next to the question numbers (4.1.1 to 4.1.3) in the ANSWER BOOK, e.g. 4.1.4 F.

COLUMN A	COLUMN B
4.1.1 Commission to salespersons	A factory overhead cost
4.1.2 Wages of factory maintenance staff	B administration cost
4.1.3 Office stationery expenses	C direct labour cost
	D direct material cost
	E selling and distribution cost

(3 x 1) (3)

4.2 **MEISIES OUTFITTERS**

The business manufactures clothing products. The owner is Minnie Zitha. The information relates to school dresses which is one of the products they manufacture. Dresses are manufactured according to orders received and there is no work-in-progress. The financial year ended on 30 April 2021.

REQUIRED:4.2.1 **Refer to Information D.**

Complete the Factory Overhead Cost Note for the school dresses. (10)

4.2.2 Calculate the total cost of production of school dresses produced. (4)

4.2.3 Minnie is concerned about wastage of fabric in the dressmaking section. Calculate the cost of this wastage to the business. (5)

4.2.4 The internal auditor expressed concern about the direct labour cost for the school dresses.

- Explain the problem that is of concern to the auditor. Quote figures. (3)

- State TWO possible causes of this problem. (2)

4.2.5 Provide a calculation to confirm that the break-even point for the current financial year is 17 000 units. (3)

4.2.6 Comment on the level of production achieved and the break-even point calculated above. Quote figures. (2)

4.2.7 Calculate the extra profit that would be earned if an additional 500 dresses are made and sold. Assume that all costs are unchanged. (3)

INFORMATION:**A. Raw material stock (fabric used to make the dresses):**

Fabric is issued to the factory using the weighted-average method.

	UNITS (metres)	COST per metre	TOTAL COST
Stock of fabric on 1 May 2020	9 000	R14,20	R127 800
Fabric purchased during the year	33 000	R17,00	R561 000
	42 000		R688 800
Fabric issued to the factory	29 000	R16,40	R475 600

B. Production and sales:

- Manufacturing one dress requires 1,6 metres of fabric.
- 17 800 dresses were produced and sold during the financial year at R75 per dress.

C. Direct labour cost for the year:

	WORKERS	HOURS PER WORKER	RATE	TOTAL
Basic wage (normal time)*	8	1 250	R25	R250 000
Total overtime worked	8	720	R45	R259 200
Total employer's contributions				R26 250
TOTAL		1 970		R535 450

*Normal time comprises a 5-day week of 8 hours per day. The factory operates for 46 weeks each year.

D. Factory overhead costs:

The following costs were extracted from the records on 30 April 2021:

Factory rent expense	R122 400
Water and electricity	81 600
Insurance on factory equipment	20 720
Salary of the dressmaking supervisor	76 960
Delivery expenses	36 800
Wages of cleaners	155 760
Depreciation: dressmaking machines	30 300
Sundry factory expenses (dressmaking section)	10 670

- Factory rent is split according to floor space occupied. The dress-making section occupies 320 m² of the total factory space of 1 280 m².
- 15% of the total water and electricity account must be allocated to the dressmaking section.
- Insurance on factory equipment was paid up to 30 June 2021. Dress-making equipment comprises $\frac{1}{3}$ of the total factory equipment.
- Only one of the six cleaners, Susan, was allocated to the dressmaking section. Susan earns 10% less than the other five cleaners.

E. Additional information relating to the dressmaking section:

- Total variable costs amounted to R1 094 700 (R61,50 per unit)
- Fixed costs, comprising factory overhead costs and administration costs, totalled R229 500.

ACTIVITY 5 MANUFACTURING**(45 marks; 35 minutes)****(Q1, Sep 2021 / Nov 2020 (1))**

- 5.1 Choose the cost item in the list provided that matches the example below. Write only the cost item next to the question numbers (5.1.1 to 5.1.3) in the ANSWER BOOK.

indirect labour;	direct labour;	direct materials;	indirect materials
------------------	----------------	-------------------	--------------------

- 5.1.1 Cleaning materials used in the factory
 5.1.2 Salary of the factory foreman
 5.1.3 Cost of the raw materials used in the production process (3 x 1) (3)

5.2 **AFRESH CREATIONS**

Afresh Creations manufacture one type of bath towels. The financial year ended on 29 February 2020

REQUIRED:

- 5.2.1 Calculate the direct material cost. (4)
 5.2.2 Prepare the Production Cost Statement for the year ended 29 February 2020. (18)
 5.2.3 **Refer to Information C**

Normal time for all workers is 40 hours per week. The information provided in James' job card for the last week is a reflection of his attendance over the financial year

Identify TWO concerns regarding the above situation. Also provide ONE suggestion to address the concerns identified. (6)

INFORMATION:**A. Stock balances:**

	29 FEBRUARY 2020	1 MARCH 2019
Raw material stock	R 314 500	R 115 200
Work-in-progress stock	?	53 500

**B. Extract from the records on 29 February 2020:
(See Information C for adjustments.)**

Raw materials bought on credit	R 738 900
Damaged raw materials returned to suppliers	15 300
Factory overheads	322 100
Production wages (direct labour)	598 750

C. Additional information:

- One worker, James, was omitted from the Production Wages Register. Details from his job card for the last week in February 2020 are as follows:

Hours worked	Normal rate	Overtime hours	Overtime rate
30	R120	5	R180
Total employer's contribution amounts to 10% of gross wage.			

- Insurance of R15 880 was incorrectly omitted from factory overhead costs. This includes a premium of R2 220 paid for the period 1 January 2020 to 30 June 2020. This expense must be allocated between the factory and the sales department in the ratio 3 : 1
- The bookkeeper included R39 600 (75%) of the wages to cleaners in the factory overhead cost. Only 2/3 of this expense should be allocated to the factory.

- D. The business produced 22 500 towels during the financial year, at R60 per unit.

5.3 FRAGRANCE MANUFACTURERS

This business manufactures perfumes and shampoo. The owner, Marie Klasen, has compared the profit she earned over the past two years (2019 and 2020).

REQUIRED:

- 5.3.1 Identify ONE variable cost of each product that was not well controlled. Note that the inflation rate is 6%. Quote figures. In each case, give a solution for the problem identified. (6)
- 5.3.2 Provide a calculation to prove that the break-even point of 26 250 units for perfumes in 2020 is correct. (4)
- 5.3.3 Comment on the break-even point and level of production of perfumes. State TWO points with figures. (4)

INFORMATION:

A. UNIT COSTS AND SELLING PRICES

	PERFUMES (Unit costs)		SHAMPOO (Unit costs)	
	2020 R	2019 R	2020 R	2019 R
FIXED COSTS	36,75	30,00	18,48	22,00
Factory overhead cost				
Administration cost				
VARIABLE COSTS	108,00	88,00	50,00	38,50
Direct material cost	50,00	48,00	25,00	15,00
Direct labour cost	40,00	30,00	18,00	17,00
Selling and distribution cost	18,00	10,00	7,00	6,50
SELLING PRICE	150,00	140,00	90,00	80,00

B. UNITS AND BREAK-EVEN POINT

Total units produced and	30 000	35 000	12 500	10 000
Break-even point (units)	26 250	20 200	5 775	5 300

45

Activity 1-5

Manufacturing

<https://wcedportal.co.za/eresource/209151>


RECONCILIATIONS

BANK RECONCILIATION

Basic concepts

bank statement bank reconciliation statements electronic funds transfer (EFT) future-dated EFT outstanding deposit advantages of EFTs Bank (Ledger a/c): favourable (Dr) vs unfavourable (overdraft) bank balances (Cr) Bank statement: favourable (Cr) vs unfavourable (overdraft) bank balances (Dr)
--

	ITEM	PROCEDURE / RULE(S)
1.	EFT made/generated (payments)	Enter in CPJ
2.	Direct deposits / EFTs received	Enter in CRJ
3.	Outstanding/Late deposit (in CRJ; not in BS yet)	Enter in BRS (as an outstanding deposit)
4.	Outstanding / Future dated EFTs (<i>in CPJ, not in BS yet</i>)	Enter in BRS (as outstanding EFTs)
5.	Errors on EFTs (incorrect amount and/or payee) (<i>cancelled</i>)	Bookkeeper needs to inform the bank to cancel the EFT; Reverse entry in CRJ (<i>NB: An incorrect payee needs to pay back before the CRJ-entry can be made</i>)
6.	Bank charges - items debited on BS	Enter in CPJ as ONE total
7.	Interest on credit (favourable) balance received (<i>a credit entry on BS</i>)	Enter in CRJ
8.	Interest on overdraft (<i>a debit entry on BS</i>)	Enter in CPJ
9.	Debit- and stop orders (payments in BS)	Enter in CPJ
10.	Withdraw cash from business bank a/c (<i>per debit- and/or credit card for wages, petty cash, etc.</i>)	Enter in CPJ
11.	Debit- and/or credit card payments (instead of EFOs) to suppliers and/or at pay points	Enter in CPJ (in the same month as the payment)
12.	Errors in CPJ (<i>EFT entry too much / too little and posted as such</i>)	Too much: Enter difference in CRJ; Too little: Enter difference in the CPJ
13.	Bank errors (shown on the BS)	Enter in BRS (<i>Bank will show correction on the next BS</i>)
14.	Fraud or negligence	Transaction/Corrective entry(entries) will be determined by the type of fraud or negligence (EFT or deposits??)

Format of Bank Reconciliation (BRS)

	Dr	Cr
Balance on bank statement	<i>unfavourable</i>	<i>favourable</i>
CR outstanding deposits		X
DR outstanding EFTs*: 1	X	
2	X	
Cr or Dr Correction of error		
Balance of bank account	<i>favourable</i>	<i>unfavourable</i>
	Column Total	Column Total

'New' calculated Bank account balance taken FROM the updated Bank account in the ledger

* *Outstanding EFT made: EFT generated but it does not appear on the Bank statement yet*

Dr	Format of BANK account	Cr
Balance b/d (favourable)	OR Balance b/d (unfavourable)	
Total receipts CRJ	Total payments CPJ	
Balance c/o (Cr – Dr) (unfavourable)	OR Balance c/o (Dr – Cr) (favourable)	
TOTAL		TOTAL
Balance b/d (Dr – Cr) (favourable)	OR Balance b/d (Cr – Dr) (unfavourable)	

New calculated Bank account balance to be shown in BRS

Comments

EFTs (future-dated or post-dated) issued at the end of a financial year

In the Statement of Fin Position: ADD to Bank (Dr); ADD to Trade and other creditors.

SUBTRACT from Bank overdraft, ADD to Trade and other creditors

GAAP principal for writing off AMOUNT: Rule of Prudence (e.g. cash deposit recorded in CRJ but does not appear in Bank statement [cashier could have been robbed OR he/she is rolling over cash on a monthly basis])

Internal control to avoid such issues: Division of duties (one person handles cash, another makes deposits)

Ethics

Roll over of cash (using cash and then making deposits towards end of month)

EFTs generated without supporting documents

DEBTORS RECONCILIATIONS

Basic concepts

debtors' age analysis | debtors' control account | debtors' list | bad debts | bad debts recovered | interest on overdue accounts

Reconciliation: Balance of Debtors Control **MUST** be equal to the total of the Debtors List

Understand the debtors' cycle

Invoice (DJ)	Credit note (DAJ)	Receipt (CRJ)	Petty cash voucher (PCJ)	Journal vouchers (GJ)
Sold on credit	Goods returned by debtors	Debtors paid their debt	Small cash payments made on behalf of debtor(s)	Correction of incorrect posting/errors

Dr		Debtors' control		Cr	
Balance	b/d (opening)	Bank and Discount	CRJ		
Sales	DJ	Debtors allowance	DAJ		
Petty cash	PCJ	Journal credits	GJ		
Journal debits	GJ	Balance		o/d (closing)	

Debtors Ledger

	Fol	DR	CR	Bal
Balance	b/d			****
Invoice	DJ	***		+
Receipt	CRJ		***	-
Discount allowed	CRJ		***	-
Credit note	DAJ		***	-
Journal debits	GJ	***		+
Journal credits	GJ		***	-

How to reconcile (possible reasons for differences and how to act on it)

- **No entry in books:** correct an error in the control account and on list
- **Error on source documents:** correction in the control account and debtors' list
- **Posted to wrong debtors' account:** correct error in the debtors' list
- **Totals in journals are incorrect:** correct the total in the control account

Internal control

- Check creditworthiness / Limit bad debts by doing proper background investigation
- Each debtor must have an individual account
- Accurate/Complete records must be kept
- Send regular statements/ SMSs/ emails
- Give discounts for prompt payments
- Charge interest on overdue accounts / Hand over to lawyers

DEBTORS AGE ANALYSIS

TWO important items to look for when analysing debtor or credit management:

- Credit terms
- Credit limits

- This analysis provides details of amounts owed by debtors and for how long.
- Most businesses give debtors 30 days to pay. (credit term)
- 30 days may be determined on invoice OR statement basis.
- Statement basis - means 30 days from the date of the statement.

CREDITORS RECONCILIATIONS

Basic concepts

creditors' control account | creditors' list | interest on overdue accounts

Reconciliation: Creditors Control balance **MUST** be equal to the **total of the Creditors List**

A **Creditor's Ledger a/c** balance **MUST** correspond with **monthly statement received from a creditor**

Understand the creditors cycle

Source documents involved with Creditors

(and the effect of each on the Creditors' control (CC) and monthly statement (CMS))

Doc	Invoice (CJ)	Debit note (CAJ)	EFT made (CPJ)
<i>Reason for the doc</i>	Bought on credit	Goods returned to creditors	Payment made to creditor (may receive discount)
<i>Effect on CC and CMS</i>	Add to CC (cr) Add to CMS (dr)	Subtract from CC (dr) Subtract from CMS (cr)	Subtract from CC (dr) Subtract from CMS (cr)

Internal control

1. Decisions regarding:

- can supplier provide goods on a regular basis
- does supplier allow trade discount?
- payment terms
- does supplier give cash discounts

2. All items received - correct documents:

- Control if goods received correspond with the invoice when delivery is made
- Check for damaged items.
- If goods are damaged, return goods to supplier with a debit note
- If frequent problems occur, find alternative supplier

BANK RECONCILIATION (no cheques)

ACTIVITY 1: BANK RECONCILIATION

(Q1.3, NSC Mar 2017, adjusted)

(16 marks; 20 minutes)

The following information relates to Sizwe Traders for July 2016.

REQUIRED:

- 1.1 Calculate the correct balance of the Bank Account in the General Ledger on 31 July 2016. State if this balance is favourable or unfavourable. (8)
- 1.2 Prepare the Bank Reconciliation Statement on 31 July 2016. (6)
- 1.3 **Refer to Information D**
Explain ONE internal control measure that the business should implement to ensure that this will not happen in the future. (2)

INFORMATION:**A. Extract from the Bank Reconciliation Statement on 30 June 2016:**

Favourable balance as per Bank Statement	R42 555
Outstanding deposit: (dated 11 June 2016)	R37 800
Outstanding EFT:	
No. 305 (dated 3 August 2016)	R8 400

B. The balance in the Bank Account was provisionally calculated as a favourable balance of R16 785 on 31 July 2016, before taking into account the items listed below.

C. The following items appeared only on the July Bank Statement:

Interest earned on favourable bank balance, R285

Bank charges, R950

Unidentified debit order of R1 950. The bank promised to correct this error on the August 2016 Bank Statement.

D. EFT No. 374 appeared correctly on the Bank Statement as R8 450. The Cash Journal shows it as R4 850.

E. The outstanding deposit of R37 800 does not appear on the Bank Statement for July 2016. An investigation revealed that this money was never deposited. The cashier has disappeared.

F. The following entries were only in the Cash Journals for July 2016:

A deposit of R27 180 made on 31 July 2016

EFT No. 401 (dated 18 August 2016), R18 600

G. The balance on the Bank Statement on 31 July 2016 is the missing figure.

16

ACTIVITY 2: BANK RECONCILIATION AND INTERNAL CONTROL (30 marks; 25 minutes)
(Q1, Nov 2017, adjusted)

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

2.1.1 A favourable balance on the Bank Statement is indicated as a debit on the reconciliation statement.

2.1.2 A post-dated EFT made must be entered on the date generated.

2.1.3 An error on the bank statement is corrected in the bank reconciliation statement.

(3 x 1) (3)

2.2 MENZIES TRADERS

The given information relates to Menzies Traders for June 2017.

REQUIRED:

- 2.2.1 Calculate the following on 30 June 2017:
- Correct totals for the CRJ and CPJ
Bank account balance (14)
- 2.2.2 Prepare the Bank Reconciliation Statement on 30 June 2017. (9)
- 2.2.3 Explain the problem relating to deposits. Quote evidence. (4)
Explain TWO strategies to prevent this in future.

INFORMATION:

- A. The Bank Reconciliation Statement on 31 May 2017 showed the following:

Unfavourable balance on the Bank Statement	R1 450
Outstanding deposits:	
• 17 May 2017	30 000
• 31 May 2017	16 200
Outstanding EFTs:	
• 812 (dated 5 June 2017)	8 550
• 816 (dated 12 June 2017)	13 590
• 819 (dated 15 August 2017)	7 650
• 823 (dated 31 May 2017)	2 900
Favourable balance on the Bank account in the Ledger	R12 060

- B. Provisional Cash Journal totals on 30 June 2017:

- Cash Receipts Journal: R90 500
- Cash Payments Journal: R85 920

- C. Entries in the Cash Journals for June 2017 that do not agree with the June Bank Statement:

JOURNAL	DOCUMENT	DATE	DETAILS	AMOUNT
CRJ	EFT 850	11	Paintco	R5 500
	Deposit slip 451	25	Cash sales	R40 500

NOTE: EFT 850 was incorrectly entered in the CRJ instead of the CPJ.

JOURNAL	DOCUMENT	DATE	DETAILS	AMOUNT
CPJ	EFT 870	25	VN Ltd	R16 800
	EFT 871	30	SJ Stores	R2 250

- D. Items on the Bank Statement dated 30 June 2017 that do not agree with the June Cash Journals:

DATE	DETAILS	DEBIT	CREDIT
02	Deposit (17/5)		30 000
05	EFT 812	8 550	
09	Debit order (insurance)	2 290	
11	Direct transfer to Paintco (EFT 850)	5 500	
12	EFT 816	13 590	
16	Deposit (31/5)		16 200
18	Direct transfer from S Smit (rent)		16 500
22	EFT 823 (see note below)	9 200	
23	Direct deposit from B Blast (Debtor settled his debt of R795)	750	
24	Service fee	1 220	

NOTE:

EFT 823: Bank Statement figure is correct.

Service fees were overstated by R900. The bank will rectify the problem next month.

- E. The Bank Statement on 30 June 2017 reflected a balance of R?.

30

ACTIVITY 3: BANK RECONCILIATION

(Q1.3, May/Jun 2019, adjusted)

(20 marks; 15 minutes)

The following information relates to Thandeka Traders for May 2019.

REQUIRED:

- 3.1 Calculate the correct Bank Account balance on 31 May 2019. Indicate whether this is favourable or unfavourable. (8)
- 3.2 Prepare the Bank Reconciliation Statement on 31 May 2019. The bank statement balance is the missing figure. (8)
- 3.3 **Refer to Information B(iii).**
- State TWO internal control measures that the business can use to ensure that this will not happen in the future. (4)

INFORMATION:

- A. Before the bank statement was received, the Bank Account showed a favourable balance of R19 400 on 31 May 2019.

B. Extract from the Bank Reconciliation Statement on 30 April 2019:

Outstanding deposit (dated 23 April 2019):	R31 560
Outstanding payments:	
EFT (electronic funds transfer)	R15 400
EFT 705 (dated 30 June 2019)	R9 450

NOTE:

- (i) The EFT payment of R15 400 appears in the May Bank Statement.
- (ii) The outstanding deposit of R31 560 does not appear in the May Bank Statement. An investigation shows that this is cash paid by a debtor and has never been deposited. The amount must be written off.

C. The following items must also be taken into account:

c

- (i) Items appearing in the May Bank Statement but not in the journals:
 - Bank charges, R1 060
 - A deposit of R4 500 made by another business. The bank will correct this error in June 2019.
 - Interest on favourable balance, R313
- (ii) Items appearing in the journals but not in the May Bank Statement:
 - A deposit of R21 343 made on 31 May 2019
 - EFT 797 (dated 15 June 2019), R14 350
- (iii) An EFT payment appeared correctly in the Bank Statement as R5 678. The Cash Journal shows this EFT as R6 578.

20

ACTIVITY 4: BANK RECONCILIATION
(Q2, Nov 2019)**(30 marks; 20 minutes)**

The information relates to Klonex Traders.

REQUIRED:

- 4.1 The owner, Ben Joseph, realises that many people are now using electronic funds transfers (EFTs) instead of cheques.
 - 4.1.1 State THREE advantages of EFTs. (3)
 - 4.1.2 Janet, the bookkeeper, has been assigned the duty of processing and controlling all EFTs.
Explain TWO reasons why the internal auditor is concerned about this. (4)
- 4.2 Show changes in the Cash Journals for June 2019. (10)
- 4.3 Calculate the correct Bank Account balance on 30 June 2019. (4)
- 4.4 Prepare the Bank Reconciliation Statement on 30 June 2019. (9)

INFORMATION:**A. Extract: Bank Reconciliation Statement on 31 May 2019**

Outstanding deposit		R9 500
Outstanding EFTs		
No.	Date	
444	27 July 2019	R4 670
516	28 May 2019	R7 950
Favourable balance on Bank Account		R9 200

NOTE:

- The outstanding deposit appeared on the June Bank Statement.
- EFT 444 did not appear on the June Bank Statement.
- EFT 516 appeared on the June Bank Statement with the correct amount of R5 250.

B. Provisional totals in the Cash Journals on 30 June 2019 before receiving the Bank Statement:

- Cash Receipts Journal: R30 370
- Cash Payments Journal: R33 600

C. Entries in the Cash Journals NOT on the June Bank Statement:

- Deposit, R9 675
- EFT 526 (30 June 2019), R3 800
- EFT 527 (12 August 2019), R4 580

D. Entries on the June 2019 Bank Statement NOT in the Cash Journals:

DATE	DETAILS	R
15	Debit order: Micro Insurance*	1 125
	Debit order: Micro Insurance*	1 125
25	M Malan (EFT by tenant)	2 800
30	Interest income	130
30	Service fees	175

*Insurance appeared twice in error. This will be rectified next month.

E. Bank Statement balance on 30 June 2019: ...?

30

ACTIVITY 5 (BANK RECONCILIATION & INTERNAL CONTROL)
(Q2.2, SC 2020)**(27 marks; 21 minutes)**

The information relates to Plaston Traders for April 2020.

REQUIRED

- 5.1 Show the entries to be recorded in the Cash Journals. (10)
- 5.2 Calculate the Bank account balance in the ledger on 30 April 2020. (4)
- 5.3 Prepare the Bank Reconciliation Statement on 30 April 2020. (7)
- 5.4 As the internal auditor you are not happy with the control of cash in this business.
 - Explain TWO problems to confirm your concerns. Quote figures.
 - Give advice on how EACH problem can be avoided in future. (6)

INFORMATION**A. Information for the Bank Reconciliation Statement prepared on 31 March 2020**

Unfavourable balance as per Bank Statement		R19 500
Deposit in the Cash Journal, but not on March 2020 bank statement		50 400
EFTs entered in CPJ	Nr 615	22 500
	Nr 690	11 850
Unfavourable balance on the Bank account in the Ledger		350

NOTE: The deposit appeared on the bank statement on 3 April 2020.
EFT 690 was reflected on the April Bank Statement on 2 April 2020 as R14 550.
The Bank Statement was correct.

B Provisional Cash Journal totals on 30 April 2020 before receiving the April Bank Statement via email from the bank:

- Cash Receipts Journal (CRJ): R65 570
- Cash Payments Journal (CPJ): R64 790

C. Information on April 2020 Bank Statement not recorded in the April Cash Journals

	Debit	Credit
EFT (Z. Nkosi - tenant)		R31 350
Debit order (Quick Insurers)	R9 750	
EFT (X GlassFit - repairs to shop windows)	R2 975	
Interest		150
Internet banking fees	800	
Internet banking fees	800	

NOTE: The bank duplicated the internet banking fees in error. It will be corrected in May 2020.

D. Deposit entries In the April CRJ that did not agree with the April Bank Statement:

- R27 750 on 28 April 2020
- R44 000 on 29 April 2020. The Bank Statement reflected this as R33 500. An investigation revealed that the cash slips added to R44 000, but only R33 500 was deposited. The shortfall cannot be traced and must be written off

E. Entries In the April CPJ that did not appear In the April Bank Statement:

- EFT 880 (PNP Suppliers) 29 April, R8 600
- EFT 889 (P. Sithole - owner, for private use) on 30 April, R7 300

F. Bank Statement balance on 30 April 2020 is the balancing figure.

27

Bank Reconciliation
<https://wcedportal.co.za/eresource/209156>

Activity 1-5



DEBTORS' RECONCILIATION

ACTIVITY 1: DEBTORS' AGE ANALYSIS (Q2.3; SC 2020)

(8 marks; 7 minutes)

The information relates to Tonga Hardware.

REQUIRED:

- 1.1 Explain how the Debtors' Age Analysis will assist the business in managing debtors more effectively. (2)
- 1.2 Explain TWO separate problems highlighted by the age analysis. Provide evidence for EACH. (4)
- 1.3 State TWO strategies that Tonga Hardware can use to ensure that only reliable applicants are granted credit. (2)

INFORMATION:

- A. Debtors are granted 30 days to settle their accounts.
- B. Debtors' age analysis on 29 February 2020:

DEBTORS	CREDIT LIMIT	AMOUNT OWING	CURRENT AMOUNT	30 DAYS	60 DAYS	90 DAYS
N Nene	9 000	7 500	3 150	4 350		
P Palm	5 250	6 300	5 700	600		
D Duma	10 500	2 175	750			1 425
S Swart	19 500	18 750	1 500	4 500	6 750	6 000
	44 250	34 725	11 100	9 450	6 750	7 425

8

ACTIVITY 2: DEBTORS' AGE ANALYSIS & INTERNAL CONTROL (Q1.1; Feb/March 2018)

(8 marks; 10 minutes)

The information below relates to Witbank Hardware.

REQUIRED:

- 2.1 Explain why the debtors' age analysis is considered to be an effective internal control measure. State ONE point. (2)
- 2.2 Explain TWO different problems highlighted by the debtors' age analysis. In EACH case, provide the name of a debtor and figure(s). (6)

INFORMATION:

- A. Debtors are granted 30 days to settle their accounts.
- B. Debtors' age analysis on 31 October 2017:

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

8

ACTIVITY 3: DEBTORS' RECONCILIATION & AGE ANALYSIS
(Q2, NSC Nov 2020 (1) / Sep 2021)**(27 marks; 20 minutes)**

The information relates to Mamela Traders for September 2020.

REQUIRED:

- 3.1 Calculate the correct Debtors' Control balance on 30 September 2020. Show figures and indicate '+', '-' or 'no change' at each adjustment (8)
- 3.2 Calculate the correct total of the Debtors' List on 30 September 2020. (11)
- 3.3 Despite sending monthly statements timeously, the accountant noticed that this was not effective in improving debtors' collections. (4)
- **Refer to Information C.** Calculate the % of debtors who do not comply with the credit terms. (4)
 - **Refer to Information A.** Identify ONE other problem with regard to the control over debtors. (2)
 - Provide TWO suggestions to address the problems identified. (2)

INFORMATION:**A. Balances on 30 September 2020 before taking into account the errors and omissions:**

- (i) Debtors' control balance in the General Ledger, R100 310.
- (ii) **List of debtors' balances:**

	Credit Limit	Balance
D. Dlamini	R20 000	R27 000
G. Swardt	30 000	22 470
N. Nomandla	15 000	17 600
L. Vos	40 000	34 440
X. Meyer	10 000	(2 000)

B. Errors and omissions:

- (i) The total of the Debtors' Journal was overcast by R3 600.
- (ii) No entry was made for a sales invoice issued to Vos for R2 760.
- (iii) Interest of R230 must be charged on the overdue account of Swardt.
- (iv) Goods returned by Nomandla, R1 400, were posted to the wrong side of his account in the Debtors' Ledger. The entry in the General Ledger was correct.
- (v) The amount of R6 300 received from Dlamini was incorrectly recorded as R3 600 in the Cash Receipts Journal and posted as such to the Ledger Accounts.
- (vi) The balance of Meyer must be transferred to his account in the Creditors' Ledger

C. On 30 September 2020, the Debtors' Age Analysis revealed the following:

Balance	Current Month	30 days	60 days	90 days
R99 000	R15 420	R22 200	R44 500	R16 880

Credit terms: Debtors are granted 30 days to settle their accounts.

27

Activity 1-3**Debtors Reconciliation**<https://wcedportal.co.za/eresource/209161>

CREDITORS' RECONCILIATION

ACTIVITY 1: CREDITORS' RECONCILIATION

(13 marks; 10 minutes)

(Q1.2, NSC Nov 2020 (2))

Ekasi Traders buys goods on credit from Thembeke Suppliers.

REQUIRED:

- 1.1 Use the table provided to indicate changes to the:
- Creditors' Ledger Account in the books of Ekasi Traders
 - Creditors' Reconciliation Statement on 30 April 2021
- (9)
- 1.2 Refer to **Information C(c)** about Invoice 395. It was discovered that the purchasing manager, Bradley, had taken these goods for his personal catering business. The owner regards Bradley as a valued member of staff and does not regard this as theft.

What should the owner say to Bradley regarding this incident? Explain TWO points. (4)

INFORMATION

A. Creditors' Ledger Account in the books of Ekasi Traders

THEMBEKA SUPPLIERS (CL6)						
				DEBIT	CREDIT	BALANCE
2021	1	Balance	b/d			R81 000
April	12	Invoice 220			97 200	178 200
		EFT		40 500		137 700
	18	Debit Note 702		10 300		127 400
		Invoice 289			49 100	176 500
		Invoice 333			30 000	206 500
	24	Debit Note 877			9 700	216 200
	25	Journal voucher 585		6 400		209 800
	31	EFT and discount		92 600		117 200

B. Statement of account from Thembeke Suppliers

		<i>Ekasi Traders</i> 225 Crocodile Road		25 April 2021		
				DEBIT	CREDIT	BALANCE
2021	1	Balance				R81 000
April	12	Invoice 220		97 200		178 200
		Receipt 742			40 500	137 700
	18	Credit Note 791			13 100	124 600
		Invoice 333		30 000		154 600
	22	Invoice 395		12 500		167 100
	24	Credit Note 888			9 700	157 400

C. Errors, omissions and other information

- (a) Invoice 289 was incorrectly reflected in the account of Thembeke Suppliers in the Creditors' Ledger. These goods were purchased from Thami Suppliers.
- (b) Credit Note 791 was recorded incorrectly on the statement of account. This relates to the correct entry for Debit Note 702 in the Creditors' Ledger.
- (c) Invoice 395 on the statement of account was for goods ordered by Ekasi Traders.
- (d) Thembeke Suppliers also purchased goods on credit from Ekasi Traders. Ekasi Traders has transferred a debit balance from the Debtors' Ledger (Journal voucher 585). Thembeke Suppliers will include this on the next statement.
- (e) The transaction on 24 April 2021 is for merchandise returned to Thembeke Suppliers.
- (f) The statement of account reflects transactions up to 25 April 2021.

13

ACTIVITY 2: CREDITORS' RECONCILIATION**(20 marks; 15 minutes)**

(Q1.2, SC May/June 2021)

KHAYA STORES

Khaya Stores is owned by Peter Sithole. The business buys goods on credit from PN Suppliers. The business received a statement of account for February 2021.

REQUIRED:**2.1 Refer to Information A, B and C.**

Use the table that is provided.

Indicate the changes to the Creditors' Ledger account in the books of Khaya Stores and the statement received from PN Suppliers to take into account the errors and omissions on 28 February 2021.

Indicate + or – for each amount.

(12)**2.2 Refer to Information D.**

- State TWO benefits of using electronic funds transfers (EFTs) for payments to creditors. (2)
- The internal auditor feels that this incident of fraud should never have occurred in this business.
 - Explain why he feels this way. (2)
 - Explain how this could have been prevented. State TWO points. (4)

INFORMATION**A. Creditors' Ledger of Khaya Stores**

PN SUPPLIERS (CL8)					
DATE		DETAILS	DEBIT	CREDIT	BALANCE
			R	R	R
2021	1	Balance			86 900
Feb.	5	Invoice 353		18 800	105 700
	7	Debit note 72	600		105 100
	13	EFT 428	22 800		82 300
		Discount	1 140		81 160
	14	Invoice A417		6 100	87 260
	16	Invoice 390		11 800	99 060
	23	Invoice 401		8 900	107 960
	24	EFT 676	12 000		95 960
	25	Journal voucher 221	2 660		93 300
	27	Invoice 556		7 700	101 000

B. Statement of account received from PN Suppliers

Khaya Stores		25 February 2021			
228 Rhino Street					
DATE		DETAILS	DEBIT	CREDIT	BALANCE
			R	R	R
2021	1	Balance			86 900
Feb.	5	Invoice 353	10 800		97 700
	7	Credit note 109	600		98 300
	14	Receipt 632		22 800	75 500
	16	Invoice 390	12 980		88 480
	23	Invoice 401	8 900		97 380
	24	Receipt 961		12 000	85 380

C. Errors, omissions and other information:

- (i) Invoice 353 on 5 February 2021 was correct according to the statement.
- (ii) PN Suppliers made an error in recording the goods returned on 7 February 2021.
- (iii) Khaya Stores entered a discount with the EFT payment on 13 February 2021. PN Suppliers informed the business that they do not qualify for this discount.
- (iv) Invoice A417 in the Creditors' Ledger Account of PN Suppliers was for goods purchased from LM Suppliers.
- (v) The trade discount on Invoice 390 was not deducted by PN Suppliers.
- (vi) The bookkeeper transferred a debit balance from the Debtors' Ledger Account of PN Suppliers (Journal voucher 221) to their account in the Creditors' Ledger.
- (vii) The statement shows entries up to 24 February 2021 only.

- D. During an internal audit, the auditor noticed the following account in the Creditors' Ledger of Khaya Stores:

EXCESS TRADERS			CL24		
DATE		DETAILS	DEBIT	CREDIT	BALANCE
2021	20	Invoice 11 334		R120 000	R120 000
Feb.	22	EFT	R120 000		R0

It was discovered that an EFT payment of R120 000 was made to Frank Adams, the sole owner of Excess Traders. Further investigation by the internal auditor revealed that this business is not operational, and that Frank Adams is a close relative of the accountant of Khaya Stores.

20

Activity 1-2

Creditors Reconciliation

<https://wcedportal.co.za/eresource/209166>



BUDGETING

Basic concepts

budgeting | forecasting | cash budget | projected statement of comprehensive income (*aka projected income statement*) | budgeted (or projected) figures | actual figures | budget period | debtors' collection schedule | creditors payment schedule | cash from debtors | payments to creditors | cash sales | credit sales | cash purchases | credit purchases | cash surplus | cash shortfall

Debtors' collection schedule

- This schedule is based on **credit sales only**
- MAY be required to calculate total sales first and work back to credit sales
 e.g. If Cash sales is 80%, then total sales will be: $\text{Cash sales} \times \frac{100}{80}$
 Now calculate credit sales, which is 20% of total sales:
 = Total sales less cash sales
NB: ALTERNATIVE calculation to save time: $\text{Credit sales} = \text{Cash sales} \times \frac{20}{80}$
- REMEMBER to TOTAL the debtors' collection or creditors' payment schedule

Cash Budget

- You will not be required to prepare a complete cash budget, but you will be expected to analyse a cash budget and complete certain calculations.
- Only do calculations that are required.
- The *Receipts from debtors'* amount will be calculated in debtors' collection schedule
- Payments to creditors: amount **could** be calculated in Creditor's payment schedule OR directly in the budget.
- **REMEMBER:** Purchases are Cost of Sales (Cash or Credit) where purchases amounts are not given directly
- Any **deficit** (payments are more than receipts) must be indicated in brackets () and must be subtracted from a favourable or debit bank balance.
- The first month's closing balance is ALWAYS the opening balance of the second month.

Calculations

Mark-up %	$\frac{\text{Sales} - \text{Cost of sales}}{\text{Cost of sales}} \times 100$	Answer must be in: ...%
% Increase/Decrease	$\frac{\text{New amount} - \text{Old amount}}{\text{Old amount}} \times 100$...%
Given: Interest on loan: % p.a. and monthly interest amount Required: Calculate total Loan	$\frac{\text{Interest amount} \times 100}{\% \text{ interest}} \times 12 \text{ months}$ NB: Use the same calculation for fixed deposit	R

Items NOT in Cash budget (Non-cash items)

Depreciation; Bad debts; Discount allowed; Discount received

Projected Income Statement

Format for Projected Income Statement is similar to an Income Statement but is prepared per month for budget period.

Items NOT in Projected Income Statement

Purchase of assets; Purchase of stock; Receipts from debtors; Payments made to creditors; Drawings; Capital contributions; Issued shares; Buy back of shares

Internal control

- Compare the **actual** with the **budgeted** amounts. Possible problems related to expenses or income can be identified and recommendations made based on these comparisons.
- Decide whether the expense or income has been **well controlled/managed** or not.
- Identify the LINK between budgeted income and budgeted expense/payment items, e.g. Advertising & Sales; Consumable stores & Fee income; Delivery expenses & Sales;
- Comment on 'challenges' e.g. office expenses / delivery expenses & working from home during lockdown; buying or renting/leasing an asset; spending on services, e.g. cleaning services outsourced vs paying cleaners....

ACTIVITY 1 BUDGETING
(Q6, NSC Nov 2019)

(40 marks; 30 minutes)

The financial year-end of Carpets Galore (Pty) Ltd is 31 October 2019. Thembi Tsomi is the sole shareholder and director.

- 1.1 Indicate amounts in the appropriate blocks for the Cash Budget and Projected Income Statement for three months ending 31 January 2020.
- A printer costing R40 800 will be bought for cash on 30 November 2019. Depreciation will be R680 per month.
 - On 1 January 2020, R48 000 will be paid for a 12-month insurance contract.
 - A loan of R100 000 will be received from Viva Bank on 31 December 2019. This will be repaid in equal instalments over 20 months, commencing on 31 January 2020. Interest at 12% p.a. is paid monthly and is not capitalised. (11)
- 1.2 **Refer to Information A: Debtors' Collection Schedule.**
Thembi is preparing projections for the period commencing 1 November 2019. Thembi does not grant discount for early payment.
Calculate the % of debtors:
- Who settle their accounts in the 2nd month following the credit sales transaction month (3)
 - Written off as bad debts at the end of the 3rd month following the credit sales transaction month (4)
- 1.3 **Refer to Information B: Projected Income Statement for September and October.**
- 1.3.1 Office workers are unhappy with the increase that Thembi gave them on 1 October 2019. Explain what she should say to them. Provide TWO points. Quote figures or a calculation. (6)
- 1.3.2 Thembi pays her son, Jacob, to deliver and install carpets for customers. She budgets R2,80 per metre for this. Comment on the control of this expense. Quote figures or a calculation. (4)
- 1.3.3 A new competitor commenced trading in the area on 1 September 2019.
- Provide figures to illustrate the impact on sales in September. (2)
 - Explain THREE decisions that Thembi took in October in response to the new competitor. Quote figures or a calculation. (6)
- 1.3.4 Stock sold is replaced in the same month. 50% of the stock is bought on credit. Creditors are paid in the month following the purchases month to receive a 5% discount.
Calculate the **actual** amount payable to creditors in November 2019. (4)

INFORMATION:**A. Debtors' Collection Schedule for the period ending 31 January 2020:**

	CREDIT SALES	COLLECTIONS		
		NOV. 2019	DEC. 2019	JAN. 2020
August	R80 000	R17 600		
September	90 000	67 500	R19 800	
October	100 000		75 000	R22 000
November	120 000			90 000
			R94 800	R112 000

B. Information identified from the Projected Income Statement:

	SEPTEMBER 2019		OCTOBER 2019	
	Projected	Actual	Projected	Actual
Metres sold	5 000 m	3 800 m	5 000 m	6 000 m
Selling price per metre	R100	R100	R100	R88
Cost price per metre	R60	R60	R60	R60
Sales: cash	R400 000	R310 000	R400 000	R132 000
: credit	90 000	70 000	100 000	396 000
Total sales	490 000	380 000	500 000	528 000
Cost of sales	(300 000)	(228 000)	(300 000)	(360 000)
Gross profit	190 000	152 000	200 000	168 000
Director's fees	50 000	50 000	50 000	40 000
Wages: Office workers	9 200	9 200	9 200	11 040
Salary: Salesperson	20 000	20 000	20 000	0
Commission: Salesperson	0	0	0	52 800
Advertising	5 000	5 000	5 000	5 000
Packing materials	2 500	1 900	2 500	2 550
Delivery and installation of carpets	14 000	14 000	14 000	16 800
Staff training	15 000	0	15 000	40 000

40

ACTIVITY 2 BUDGETING
(Q6, SC 2020)**(35 marks; 30 minutes)**

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

2.1.1 Bad debts are an example of a payment in a Cash Budget.

2.1.2 A Projected Income Statement estimates the expected profit or loss for a specified period.

2.1.3 A decrease in a fixed deposit will be shown as a receipt in the Cash Budget.

(3 x 1) (3)

2.2 KURUMAN (PTY) LTD

John Peters is the majority shareholder and CEO. You are provided with information for the period ending 31 July 2020. There are five other shareholders.

Refer to Information A

2.2.1 • Calculate the missing amounts indicated by (i) and (ii) in the Debtors' collection schedule. (4)

• Calculate the percentage discount allowed to debtors who settle in the month of the sales transactions. (5)

2.2.2 Calculate the following budgeted amounts:

• Total sales for July 2020 (3)

• Payment to creditors during June 2020 (4)

• Additional loan to be acquired on 1 June 2020 (4)

- 2.2.3 The directors did not adhere to the Cash Budget during May 2020.
- Identify TWO overpayments in May 2020. Provide figures.
 - Give a valid reason for EACH overpayment identified, to support their decisions.
- (6)

Refer to Information E.

- 2.2.4 Why are the auditors concerned that the agreement with Tradecor is unethical or possibly a crime? Explain THREE points.
- (6)

INFORMATION

A. Sales and debtors' collection:

- Estimates of total sales for 2020:

April	R150 000
May	R165 000
June	?

- 25% of all sales are on credit. The rest is for cash.
- Debtors are expected to settle as follows
 - 60% within the same month of sale, subject to a cash discount allowed.
 - 38% in the month following the month of sale.
 - 2% of debts are written off in the 2nd month following the month of sale.
- Partially completed Debtors' Collection Schedule:

	CREDIT SALES	MAY	JUNE	JULY
May	R41 250	R23 760	(i)	
June	(ii)		R25 056	R16 530
July	R48 000			R27 648
				R44 178

B. Purchases of merchandise and payments to creditors:

- The business uses a fixed-stock base with stock sold being replaced monthly.
- The business uses a mark-up of 50% on cost.
- 20% of all merchandise is purchased for cash.
- Creditors are paid in full in the month following the month of purchase.

C. Loan and interest:

The loan from Bokke Bank will be increased on 1 June 2020. Interest at 20% p.a. is not capitalised and is payable at the end of each month.

D. Extract from the Cash Budget for the three months ending 31 July 2020:

	MAY		JUNE	JULY
	Budgeted R	Actual R	Budgeted R	Budgeted R
RECEIPTS				
Cash sales	123 750	142 400	130 500	144 000
Collection from debtors	38 010	26 000		44 178
Loan			?	
Sale of property	0	320 000		
Sale of old vehicle	40 000	95 000		
PAYMENTS				
Cash purchase of stock	22 000	18 000	23 200	?
Payment to creditors	80 000	80 000	?	?
Salaries	28 000	28 000	28 000	42 000
Advertising	5 600	8 400	5 600	5 600
Staff training			30 000	
Interest on loan	6 000	6 000	7 500	7 500
Vehicle maintenance	12 200	36 350	5 800	5 800
Purchase of vehicle	235 000	235 000	-	-
Rent expense	0	0	0	0
Security personnel	8 000	6 500	8 000	8 000

E. Agreement with Tradecor:

The CEO, John Peters, decided to sell one of the company's properties at book value. This property was originally bought for R320 000 in 1980. According to the sale agreement, the purchaser, Tradecor, would rent the property back to Kuruman (Pty) Ltd for R26 000 per month with effect from 1 June 2020.

The auditors of Kuruman (Pty) Ltd discovered that the sole owner of Tradecor is John Peters' wife. They regard this agreement as unethical and possibly a crime.

35

ACTIVITY 3: BUDGETING
(Q3, NSC Nov 2020 (2))**(40 marks; 30 minutes)**

Blossom (Pty) Ltd sells expensive ladies' dresses of high quality. They also repair dresses for customers, but they aim to break even on this service.

Customers are allowed to buy dresses for cash or on credit, but they are required to pay cash for all repairs.

The information relates to the budget period ending 31 May 2021.

REQUIRED:

- 3.1 Complete the Debtors' Collection Schedule for March to May 2021. (9)
- 3.2 Calculate the missing amounts indicated by (a) to (d) in the Cash Budget. (14)

3.3 Refer to Information G and H.**Advertising:**

- Explain the decisions that the directors took regarding the budgeted and actual expenditure for advertising in May 2021. Quote figures or calculations. (4)
- The directors ask you for a report on the effect that the advertising decisions have actually had on customers and sales in May 2021.
 - Provide TWO points that you would include in your report. Quote figures or calculations. (4)
 - Explain how the decline in the national economy has affected the average amount that customers spent in May 2021. Quote figures. (3)

Consumable stores:

Comment on whether the consumable stores have been well controlled or not. Quote figures or calculations. (2)

3.4 Refer to Information F and H.**Rental and customers:**

The owners of the property, Propco Ltd, informed the directors of Blossom Ltd of the increase in rent planned with effect from 1 April 2021.

In order to economise on rent, the directors asked the owners, Propco Ltd, for a reduction of the area rented from 1 May 2021. Propco Ltd agreed to this request. Calculate the reduction of the area rented (in square metres). (4)

INFORMATION:**A. Total sales and cost of sales:**

	MARCH	APRIL	MAY
Sales	R560 000	R630 000	R770 000
Cost of sales	320 000	360 000	440 000

- Goods are sold at a mark-up of 75% on cost.
- Credit sales are expected to be 65% of total sales.

B. Expected debtors' collection based on the past:

- 40% collected in the month of sale, less 6% discount for early payment
- 50% collected in the month following the month of sale
- 8% collected two months after the sale
- 2% regarded as uncollectable two months after the sale

C. Purchases of stock:

- All purchases of stock are on credit.
- Trading stock is replaced in the month of sale. A fixed stock level is maintained.
- Creditors are paid in full in the month after purchasing stock.

D. Loan from Janet Bloom:

- Janet Bloom has provided a loan to the business at an interest rate of 9% p.a. Interest is not capitalised and one-third of the loan is repaid to her on 31 December each year.
- As the company was still experiencing cash flow problems owing to the Coronavirus lockdown in 2020, Janet agreed to increase her loan to the business on 1 April 2021.

E. Salaries of sales assistants:

- The sales assistants all earn the same monthly salary.
- They were promised a 5% increase in salaries with effect from 1 April 2021.
- The business employed two sales assistants in March and planned to employ an additional assistant from 1 April 2021. The new assistant will not get the 5% increase this year.

F. Rent and number of customers:

- The directors secured premises in a local shopping mall from Propco Ltd with enough space to cater for the expected number of customers.
- Rent is charged per square metre according to the floor area. The rent increased by 11% p.a. commencing on 1 April.
- The following figures were identified for planning purposes:

	MARCH	APRIL	MAY
Floor area in square metres (m ²)	120 m ²	120 m ²	?
Rent expense per m ²	?	?	?
Expected average sales per customer	R7 000	R7 000	R7 000
Expected number of customers	80 customers	90 customers	110 customers

G. Extract from the Cash Budget:

	MARCH	APRIL	MAY
RECEIPTS	R	R	R
Cash sales	196 000	(a)	269 500
Cash from debtors	278 369	355 992	?
Fee income (for repairs)	15 000	15 000	15 000
Loan from Janet Bloom (see Information D)		(b)	
PAYMENTS			
Payments to creditors	220 000	320 000	360 000
Salaries of sales assistants (see Information E)	22 400	(c)	?
Wages of repair staff	9 000	10 000	10 000
Consumable stores (for repairs)	4 200	4 200	4 200
Interest on loan	1 365	2 625	2 625
Rent expense (see Information F)	(d)	39 960	39 960
Advertising	10 000	12 000	30 000
Audit fees			60 000

H. Comparison of budgeted figures to actual figures for May 2021:

	BUDGETED	ACTUAL
Number of customers	110 customers	135 customers
	R	R
Sales	770 000	690 000
Fee income (repair service)	15 000	21 000
Advertising	30 000	42 000
Consumable stores (for repairs)	4 200	5 520
Wages (for repair staff)	12 000	18 000
Audit fees	60 000	48 000
Rent expense	39 960	31 968
Salaries (shop assistants)	35 280	37 044
Delivery expenses	6 930	4 850
Packing material	19 250	13 480

ACTIVITY 4: BUDGETING
(Q3, SC June 2021)

(45 marks; 40 minutes)

- 4.1 Insert the relevant amount(s) for EACH transaction below into the appropriate columns for the following Cash Budget and Projected Income Statement for July 2021.

Example: Monthly telephone costs are expected to be R4 200.

NO.	CASH BUDGET FOR JULY		PROJECTED INCOME STATEMENT FOR JULY	
	RECEIPT	PAYMENT	INCOME	EXPENSE
e.g.		4 200		4 200

(8)

TRANSACTIONS FOR JULY 2021:

- 4.1.1 A three-month advertising contract for R6 000 will be paid on 1 July 2021. R2 000 of this amount relates to the next financial year.
- 4.1.2 On 1 July 2021, R45 000 will be invested in a fixed deposit at 8% interest p.a. Interest is not capitalised and is received at the end of each month.
- 4.1.3 Budgeted cash sales, R23 200 (cost of sales; R16 000).

4.2 **ANOKHI (PTY) LTD**

The business sells electrical appliances. The financial year ends on 30 April. Kayla Bester is the sole shareholder and CEO of the business.

REQUIRED:

- 4.2.1 Complete the Creditors' Payment Schedule for the budget period ending 31 July 2021. (9)
- 4.2.2 Calculate the amounts for **(a)** to **(d)** in the Cash Budget. (16)
- 4.2.3 Kayla extracted the following actual and budgeted figures for May 2021:

	BUDGETED	ACTUAL
Total sales	R882 000	R705 600
Cash from debtors	522 828	402 600
Advertising	35 280	35 280
Delivery expenses (ABC Deliveries)	57 330	51 200

Comment and quote figures on the:

- Effectiveness of the advertising
- Control over delivery expenses

Quote figures in EACH case. (6)

- 4.2.4 Kayla decided that the business will purchase a delivery vehicle on 1 June 2021.

- State TWO benefits of this decision. (2)
- Apart from the items reflected in the Cash Budget (Information F), list FOUR other items that Kayla should include in the budget. (4)

INFORMATION:**A. Total sales:**

ACTUAL SALES		BUDGETED SALES	
APRIL 2021	MAY 2021	JUNE 2021	JULY 2021
R878 400	R882 000	R918 000	R936 000

- B.** Credit sales comprise 60% of total sales.
- C.** Goods are sold at a mark-up of 80% on cost.
- D.** The business maintains a fixed-stock base level. Stock sold in a month is replaced in the same month. The cash purchases are 65% of total purchases.
- E.** Creditors are paid according to the following trend:
- 40% – settled in the month of purchase to earn 5% discount
 - 50% – settled in the month following the purchase month
 - 10% – settled in the second month after the purchase month

F. Extract: Cash Budget for the three months ended 30 July 2021:

	MAY 2021 R	JUNE 2021 R	JULY 2021 R
Receipts			
Cash sales	352 800	367 200	374 400
Cash from debtors	522 828	535 140	548 640
Rent income	15 500	15 500	(a)
Loan: Jane Investments	0	(b)	0
Payments			
Cash purchases	318 500	331 500	338 000
Payments to creditors	167 020	170 660	?
Salaries of sales assistants	41 000	41 000	(c)
Directors' fees	(d)	98 880	98 880
Advertising	35 280	36 720	37 440
Interest on loan	0	3 150	3 150
Delivery expenses (ABC Deliveries)	57 330	59 670	0
Delivery vehicle deposit		140 000	

- (a) Rent income is expected to increase by 9% p.a. from 1 July 2021.
- (b) The business has negotiated a loan which will be received on 1 June 2021. Interest at 13,5% p.a. is payable at the end of each month, commencing from 30 June 2021.
- (c) The business employed five sales assistants in May and June on the same salary scale. Three of them will receive an annual bonus of 75% of their earnings in July 2021. A part-time sales assistant will be employed during July 2021 and will earn 50% of the monthly amount applicable to the others.
- (d) Kayla earns directors' fees of R720 000 for the year. The company also employed another director, Martin, for the entire year. Martin will receive an increase of 8% p.a. on his directors' fees from 1 June 2021.

ACTIVITY 5: BUDGETS**(35 marks; 30 minutes)****(Q4, Sep 2021 / Nov 2020 (1))**

You are provided with information of Fantasy Laptops, a business owned by Ray Rennie, for the budget period December 2020 to February 2021.

The business sells various types of laptop computers and does not sell on credit. They also repair these items for customers at a fee

REQUIRED:**5.1 Refer to Information A and B.**

Complete the Creditors' Payment Schedule for February 2021. (7)

5.2 Refer to Information C and D.**Calculate:**

- % increase expected in security costs from 1 February 2021
- % commission paid to salespersons during February 2021
- Water and electricity budgeted for December 2020
- The loan repayment to be made on 31 December 2020 (12)

5.3 Refer to Information E.

The internal auditor has noticed that packing material was R800 overspent and consumable stores were R1 500 overspent.

Comment on the control of packing materials and consumable stores. Quote figures or calculations. (6)

5.4 Refer to Information D.

During the Coronavirus lock-down in April and May 2020, the business lost money because there were no sales and fee income. However, Ray had to continue making payments to keep the business afloat (as a going concern).

- Give ONE reason why he did not want to stop paying salaries and wages. (2)
- Identify ONE other payment in the list in Information D that he would not have been able to stop and give a reason. (2)
- Identify ONE payment in the list in Information D that he would have stopped and give a reason. (2)

5.5 Refer to Information F.

Ray Rennie, the owner, requires help in making a financial decision.

He is undecided as to whether he should lease or buy a delivery vehicle. His two options are reflected as Option X and Option Y

Apart from generating more sales or having the use of the vehicle, state TWO advantages of EACH option. (4)

INFORMATION:**A. Mark-up % and sales:**

A mark-up of 75% on cost is used to set the sales prices of the laptops.

ACTUAL SALES		PROJECTED SALES		
October 2020	November 2020	December 2020	January 2021	February 2021
R490 000	R490 000	R770 000	R560 000	R525 000

B. Purchases and payment to suppliers (creditors):

- All stock is bought on credit.
- Stock sold is replaced in the month of sales.
- Some creditors offer a discount for payment in the month of purchase.
- 50% is paid in the month of purchase to earn a 10% discount.
- 30% is settled in the month after the purchase transaction month.
- 20% is settled in the second month after the purchase transaction month

C. Information on specific items from the Cash Budget:

- **Security:** The guards are outsourced from Keepsafe Guarding.
- **Commission:** Salespersons are paid commission in the same month on sales only. They do not receive a fixed salary.
- **Water and electricity:** The expected increase from 1 January 2021 is 24%.
- **Loan and interest:** The loan from Delta Bank bears interest at 12,5% per year. Interest is not capitalised, and a fixed loan repayment is made on 31 December each year.
- **Consumable stores:** These are used to repair laptops for customers

D. Extract from the Cash Budget:

	December 2020	January 2021	February 2021
	R	R	R
Fee income: repair services	100 000	150 000	150 000
Interest on loan (12,5% p.a.)	9 375	8 125	
Repayment of loan	?		
Commission to salespersons	123 200	89 600	84 000
Consumable stores for repairs	42 000	63 000	63 000
Security	18 000	18 000	28 500
Water and electricity	?	18 600	18 600
Salaries and wages			
Packing materials			
Insurance			

E. The internal auditor identified the following figures for October 2020:

	Budgeted R	Actual R	Variance %
Sales	490 000	400 000	-18,4%
Fee income	85 000	126 000	+48,2%
Packing materials	22 000	22 800	+3,6%
Consumable stores	24 500	26 000	+6,1%

F. Options for securing a delivery vehicle:

Ray feels that he should buy a delivery vehicle for R520 000 or lease (hire) the vehicle on a monthly basis to enable his business to generate more sales after the Coronavirus lockdown. He has only R100 000 in his investments that he can use. These investments are currently earning interest at 6,5% p.a.

He has TWO options to consider:

Option X (buy the vehicle):

Purchase the vehicle by using the money in his investments and take out a new 5-year loan for R420 000 at a high interest rate. He will have to repay the loan over five years. Interest over the five years will be R176 000.

Option Y (hire/lease the vehicle):

Hire (lease) the vehicle from Sentinel Ltd for R15 000 per month over 60 months.

35

Activity 1-5

Budgeting

<https://wcedportal.co.za/eresource/209171>



VAT

Basic Concepts

- Compulsory / Voluntary registration
- VAT rate 15%.
- Zero-rated items + examples; Exempted items + examples
- Output VAT; Input VAT

Calculations:

Required	Calculation
VAT amount (exclusive total given)	Total x $\frac{15}{100}$
VAT amount (inclusive total given)	Total x $\frac{15}{115}$

OUTPUT VAT & INPUT VAT (Effect on the amount to SARS)

INPUT VAT		OUTPUT VAT	
Stock purchased	+	Sales	+
Discount received	()	Bad debts	()
Returns of purchases	()	Discount allowed	()
Water and electricity	+	Debtor's allowance	()
Drawings of stock	()		
TOTAL INPUT VAT <i>(receivable from SARS)</i>		TOTAL OUTPUT VAT <i>(payable to SARS)</i>	

+ = an increase; () = a decrease

VAT payable	=	Output VAT	-	Input VAT
VAT receivable	=	Input VAT	-	Output VAT

(Output VAT is less than Input VAT)

Ethics

- Incorrect / Missing documentation
- Claim VAT from SARS, although the vendor is not registered

ACTIVITY 1: VAT
(Q1, NSC Nov 2020 (2))

(12 marks; 9 minutes)

Amahle Traders is registered for VAT. The standard VAT rate is 15%.

REQUIRED:

- 1.1 Calculate the figures indicated by (a) to (d) in the table below. (9)
- 1.2 The internal auditor discovered that Amahle has been underpaying the amount due to SARS in respect of VAT, at each submission date. On enquiry, Amahle stated that she used the money to pay business expenses and adjusted the payments later. (3)
- Comment on this practice and give Amahle advice. (3)

INFORMATION:

	EXCLUDING VAT	INCLUDING VAT	VAT AMOUNT
Invoices received from suppliers	R78 000	R89 700	(a)
Discount received from suppliers	R12 400		(b)
Credit notes issued to customers		(c)	R210
Invoices issued to customers		R158 700*	(d)

* This includes sales for R9 200 which should have been sold at zero rate. The bookkeeper incorrectly included VAT of R1 200 on these goods

12

ACTIVITY 2: VAT
(Q2.1, SC 2020)

(8 marks; 6 minutes)

The following relates to Lunga Stores for the VAT period ended 30 April 2020. VAT at 15% applies to all goods.

REQUIRED:

Calculate the VAT amounts denoted by (i) to (iii) on the table. Indicate the effect of EACH answer on the amount payable to SARS. Refer to the example. (8)

INFORMATION:

- A. Amount owed to SARS on 1 April 2020, R5 500
- B. Amounts from April 2020 journals:

DETAILS	EXCLUDING VAT	INCLUDING VAT	VAT AMOUNT	EFFECT
Total sales	R544 500	R626 175	R81 675	Increase
Purchases of stock	174 900	201 135	(i)	?
Drawings of stock	32000		(ii)	?
Bad debts		7 015	(iii)	?

8

ACTIVITY 3: VAT
(Q2.2, NSC 2020 (1)/Sep 2021)

(13 marks; 10 minutes)

FOREVER TRADERS

Tom Smith is the sole owner. The information relates to the VAT period ended 31 August 2020. The standard VAT rate of 15% is applicable to all goods purchased and sold.

REQUIRED:

- 3.1 Calculate the VAT amount that is payable to SARS on 31 August 2020. (9)
- 3.2 During September, the accountant came across a document for furniture bought by Tom Smith for his personal home, for R46 000 cash. Tom said that R6 000 VAT included in this amount must be regarded as input VAT. Further investigation revealed that similar documents were regularly entered in the books over the past year.
- Advise the accountant on dealing with this matter. State TWO points. (4)

INFORMATION

- A. Amount due to SARS on 1 August 2020 is R31 470.
- B. **The following transactions appeared in the records for August 2020:**

DETAILS	EXCLUDING VAT	VAT AMOUNT	INCLUDING VAT
Total sales	R535 000	R80 250	R615 250
Purchases of stock	385 000	57 750	442 750
Discount received from suppliers	11 500	?	
Goods returned by debtors	22 500	?	25 875
Stock taken by owner at cost	9 600	?	
Debtors' accounts written off		?	36 800

13

ACTIVITY 4: VAT
(Q1.1, SC May/June 2021)

(15 marks; 10 minutes)

HILDA GROCERIES

Hilda Groceries are registered for VAT. The standard VAT rate of 15% is applicable to most goods.

REQUIRED:

- 4.1 Implementation of VAT:
- Explain why the government implemented VAT in South Africa. State ONE point. (2)
 - Explain why some products are zero-rated products. State ONE point. (2)
- 4.2 Calculate the amount payable to SARS in respect of VAT for the two months ended 30 April 2021. (11)

INFORMATION:

A. Balance due to SARS on 1 April 2021, R9 450

B. Transactions for April 2021:

	AMOUNT EXCLUDING VAT R	VAT AMOUNT R	AMOUNT INCLUDING VAT R
Total sales	412 000	?	473 800
Purchases of trading stock	230 000	?	
Discount allowed to debtors		1 890	
Goods returned by customers		?	19 320
Bad debts recovered		1 140	
Drawings of trading stock by the owner		1 380	

15

Activity 1-4

VAT

<https://wcedeportal.co.za/eresource/209176>

