

# SENIOR SECONDARY IMPROVEMENT PROGRAMME 2012



**GAUTENG PROVINCE**

Department: Education

REPUBLIC OF SOUTH AFRICA

**GRADE 12**

**ACCOUNTING**

**LEARNER NOTES**

The SSIP is supported by



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## LEARNER NOTES

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**SESSION 12****TOPIC: CONSOLIDATION****SECTION A: TYPICAL EXAM QUESTIONS****Learner Note:**

- Always answer in point form
- Make sure you learn your theory on companies
- Open ended questions do not have one correct answer

**QUESTION 1:                      72 marks                      45 minutes**

**COMPANIES REPORTING AND RATIO ANALYSIS**

World Champions Limited is a public company listed on the Johannesburg Securities Exchange.

**REQUIRED**

- 1.1 Calculate the following Income Statement figures for the financial year ended 30 June 2010.
- |                             |     |
|-----------------------------|-----|
| 1.1.1. Income tax           | (4) |
| 1.1.2. Net income after tax | (4) |
- 1.2 Equity and Liabilities section of the Balance Sheet on 30 June 2010, with notes for:
- (a) Retained income (Distributable reserves)
- (b) Ordinary share capital
- Note:** All current liabilities must be shown directly on the face of the balance sheet and changes must be shown in brackets to earn part marks. (40)
- 1.3 Calculate the following ratios on 30 June 2010:
- |  |     |
|--|-----|
| 1.3.1. Debt : Equity ratio in 2010                 | (3) |
| 1.3.2. Return on average shareholders' equity 2010 | (5) |
| 1.3.3. Net asset value per share 2010              | (3) |
- 1.4 Comment on World Champion Limited's use of the mortgage loan. (Refer to appropriate financial indicators and the debt : equity ratio in your answer.) (6)
- 1.5 Should the shareholders be satisfied with the current listed price on the J.S.E. of R5,60? (Refer to the original price and the price at which new shares were issued in your answer.) (7)

**INFORMATION****1. Income Tax**

- Provisional tax payments were made as follows:
  - 31 December 2009, R172 000
  - 30 June 2010, R148 000
- SARS (Income Tax) ledger account reflects a credit balance of R20 000 on 1 July 2010 a debit balance of R17 600 on 30 June 2010.
- Income tax rate is 27% of net income

**2. Authorised Share Capital:** comprises 1 000 000 ordinary shares of R3 each.

**3. Equity and Liabilities on 1 July 2009**

	<b>31 June 2010</b>	<b>1 July 2009</b>
• Ordinary Share Capital	?	R1 860 000
• Share premium	?	R560 000
• Retained Income	R.....	R1 340 000
• Ordinary Shareholders Equity		R3 760 000
• Mortgage Loan	?	R1 600 000

**4. New Shares Issued**

240 000 ordinary shares were issued on the 31 December 2009 at a price of R4,50.

**5. Dividends**

On 31 December 2009 a dividend of 20 cents per share was paid. A final dividend of 30 cents per share was declared payable on 30 June 2010.

**6. Mortgage Loan**

- In terms of the loan agreement World Champions Limited must pay a fixed amount of R22 600 per month. (Capital and interest)
- Interest is capitalised on the loan account as determined by the change in interest rates. Interest for the year ended 30 June 2010 amounts to R204 000.
- In the financial year ended 30 June 2011 the loan is expected to decrease by R100 000.

**INFORMATION:****7. Balances in the General Ledger on 30 June 2010**

Accrued Income (Receivable)	R30 000
Accrued Expenses	R24 000
Deferred Income (Received in advance)	R70 000
Prepaid Expenses	R11 000
Debtors Control	R350 000
Creditors Control	R316 000
Bank (Credit)	R54 000

## 8. Financial Indicators

Current Interest on Mortgage Loan	13%
Return on Capital Employed (2010)	21,8%
Debt : Equity ratio (2009)	0,43:1
Current market price of shares on J.S.E.	R5,60

### QUESTION 2:

77 marks

46 minutes

### COMPANIES CASH FLOW, AUDIT AND GOVERNANCE

The information was taken from the accounting records of Super-Diski Limited for the years ended February 2009 and February 2010. The company has authorised share capital of 700 000 ordinary shares of R1,50 each.

#### REQUIRED:

- 2.1 Prepare the following for the purposes of the Cash Flow Statement for 2010.
  - 2.1.1. Appropriation account (11)
  - 2.1.2. Calculation of tangible assets purchased. (2)
  - 2.1.3. Calculation of depreciation on
    - (a) Equipment (3)
    - (b) Vehicles (4)
  - 2.1.4. Reconciliation between profit before taxation and cash generated from operations. (14)
  - 2.1.5. Calculation of dividends paid. (4)
- 2.2 Determine the increase or decrease in cash for the year without preparing the Cash Flow Statement. (3)
- 2.3 A new shareholder purchased 1200 shares on 1 March 2010. How much did she pay? (4)
- 2.4 List one important measure that Super-Diski Limited could implement to improve internal control over tangible assets. (2)
- 2.5 The Cash Flow Statement forms part of the published financial statements of a public company. Apart from the Income Statement and the Balance Sheet, list 2 other statements that need to be published as a legal requirement. (2)

- 2.6 Refer to the budgeted forecast figures in the information provided (Information (C))
- (a) Comment on the proposed increase in salaries (7%) and directors' fees (20%).  
Mention in each case one point the management team would have considered when determining the % increase. (4)
- (b) Half of the advertising budget will be spent between April and June 2010 preceding the Soccer World Cup and the balance between October and December 2010. List one point in support of this strategy and one point of advice against this strategy. (4)
- (c) List one advantage of the planned increase of funds to corporate social responsibility. (2)
- (d) Comment on the budgeted increase in water and electricity. List one point. (2)
- 2.7 List 2 items that could be included in a Forecast Income Statement but not included in a cash budget. (2)
- 2.8 Explain the main difference between the preparation of a Cash Flow Statement and a Cash Budget of Super-Diski Limited. (3)
- 2.9 Why is it important for an independent auditor to have a CA (SA) qualification? (2)
- 2.10 In what way does the role of an independent auditor differ from that of an internal auditor? (3)
- 2.11 An audit report should contain the following words. In each case, explain why these three statements are important to the reader of the audit report.
- The financial statements fairly present the financial position. (2)
  - In accordance with International Financial Reporting Standards (2)
  - In the manner required by the Companies Act. (2)
- [77]

## INFORMATION

### (A)

<b>Information extracted from the Income Statements for the years ended February 2009 and February 2010</b>		
	<b>2010 R</b>	<b>2009 R</b>
Net income before tax	420 000	309 600
Interest on loan	19 500	24 000
Depreciation	?	48 000
Income tax	147 000	108 360

**(B)****Information extracted from the Post Closing Trial Balance on 28 February 2010**

	<b>2010</b> <b>R</b>	<b>2009</b> <b>R</b>
Ordinary share capital (nominal value per share R1,50)	840 000	600 000
Share premium	160 000	80 000
Retained income	200 000	120 000
Long-term liabilities (15% p.a.)	100 000	160 000
Land and buildings	798 980	409 120
Equipment at carrying value	188 640	244 640
Vehicles at carrying value	276 800	369 080
Trading stock	206 900	126 700
Debtors' control	128 300	105 300
Cash	22 720	
Bank overdraft		20 000
Creditors' control	175 520	181 060
Accrued expenses	33 600	25 500
South African Revenue Services (income tax)	5 220 (Cr)	8 280 (Cr)
Shareholders for dividends	108 000	60 000

**NOTE:** A vehicle was sold at book value for R24 000 cash but no vehicles were purchased. No equipment was sold or purchased during the year.

**(C)** The directors and management team have prepared the following budgeted forecast figures for the next financial year.

	<b>Actual</b> <b>28 February 2010</b>	<b>Budgeted</b> <b>28 February 2011</b>	<b>%</b> <b>Change</b>
Salaries & Wages	700 000	749 000	7% increase
Directors' fees	1 000 000	1 200 000	20% increase
Advertising	40 000	46 000	15% increase
Corporate social responsibility	10 000	13 000	30% increase
Water & Electricity	36 000	45 000	25% increase
Audit fees	50 000	55 000	10% increase

**SECTION C: HOMEWORK****QUESTION 1:****40 marks****25 minutes****MANUFACTURING AND AUDIT REPORTS**

1.1 You are provided with information relating to Pandora Manufacturers, owned by Phillip Pandora, for the year ended September 2009. The business manufactures two products: suitcases and sports bags.

**REQUIRED**

- 1.1.1 Identify one major item of each of the following in a manufacturing business:
- Factory overhead costs
  - Selling and distribution costs
- (2)
- 1.1.2 Calculate the following in respect of suitcases for 2009:
- The unit cost of production
  - The variable cost per unit
- (5)  
(3)
- 1.1.3 Calculate the break even point for the suitcases in 2009. (5)
- 1.1.4 Identify TWO costs which have not been well controlled in respect of suitcases during this financial year. Quote appropriate figures to support your answer. In each case provide a possible solution to this trend. (8)
- 1.1.5 Phillip is considering producing only one line instead of the current two. Advise Phillip about whether he should retain the manufacturing of suitcases or sports bags. Provide appropriate figures from the question to support your answer. (7)

## INFORMATION

1.

	<b>Sports bags (2009)</b>	<b>Suitcases (2009)</b>	<b>Suitcases (2008)</b>
	<b>Total cost</b>	<b>Total cost</b>	<b>Total cost</b>
<b>Variable costs</b>	<b>R520 000</b>	<b>R660 000</b>	<b>R470 000</b>
Direct material cost	R240 000	R330 000	200 000
Direct labour cost	R160 000	R264 000	240 000
Selling & distribution cost	R120 000	R66 000	30 000
<b>Fixed costs</b>	<b>R280 000</b>	<b>R650 000</b>	<b>R430 000</b>
Administration cost	R60 000	R250 000	220 000
Factory overhead cost	R220 000	400 000	210 000
Break-even point	1 867 units	?	1 623 units
Selling price per unit	R280,00	R520,00	R500
No. of units produced	4 000 units	2 500 units	2 000
No. of orders placed	4 000 units	3 000 units	2 000

## 1.2 AUDIT REPORT

You are provided with information relating to CD Manufacturers Limited.

## REQUIRED

- 1.2.1 What is the purpose of an independent audit report, and who is it addressed to? (3)
- 1.2.2 Explain the difference between a qualified and an unqualified audit report? (4)
- 1.2.3 The independent auditors want to qualify the report. What consequences could there be for the company or its directors? List THREE points. (3)

[40]

<b>SECTION C: SOLUTIONS AND HINTS TO SECTION A</b>
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**QUESTION 1:                      72 marks                      45 minutes**

**COMPANIES REPORTING AND RATIO ANALYSIS**

1.1	
	<b>1.1.1 Income Tax</b>
	$172\,000\checkmark + 148\,000\checkmark - 17\,600\checkmark = 302\,400\checkmark$ (4)
	<b>1.1.2 Net Income after tax</b>
	Net income before tax = $302\,400 \div 0,27 = R1\,120\,000\checkmark$
	Less Income tax = R302 400 <input checked="" type="checkbox"/>
	Net Income after tax = R817 600 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
	<b>OR</b>
	$R302\,400 / 27 \times 73 = 817\,600$ (4)

1.2 World Champions Limited			
<b>Balance Sheet on 30 June 2010</b>			
<b>EQUITY &amp; LIABILITIES</b>	Note		
<b>CAPITAL &amp; RESERVES</b>		5 227 600	<input checked="" type="checkbox"/>
Ordinary Share Capital	7	2 580 000	<input checked="" type="checkbox"/>
Share Premium (560 000 $\checkmark$ + 360 000 $\checkmark\checkmark$ )		920 000	<input checked="" type="checkbox"/>
Retained Income	9	1 727 600	<input checked="" type="checkbox"/>
<b>NON-CURRENT LIABILITIES</b>			
Mortgage Loan (1 600 000 $\checkmark$ + 204 000 $\checkmark$ )		1 432 800	<input checked="" type="checkbox"/>
- 271 200 $\checkmark\checkmark$ - 100 000 $\checkmark$			
<b>CURRENT LIABILITIES</b>		822 000	
TOP (316 000 $\checkmark$ + 24 000 $\checkmark$ + 70 000 $\checkmark$ )		410 000	<input checked="" type="checkbox"/>
Current Portion on Loan *		100 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
Shareholders for dividends *		258 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
Bank Overdraft		54 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		7 482 400	<input checked="" type="checkbox"/> (24)

\* Could be part of TOP.

## NOTES TO THE FINANCIAL STATEMENTS

<b>7</b>	<b>ORDINARY SHARE CAPITAL</b>		
	<b>AUTHORISED</b>		
✓	1 000 000 Ordinary Shares @ R3 each	3 000 000	✓
	<b>ISSUED</b>		
✓	620 000 Ordinary Shares @ R3 at the beginning of the year	1 860 000	✓
✓	240 000 Ordinary Shares @ R3 during the year	720 000	✓
✓	860 000 Ordinary Shares @ R3 at the end of the year	2 580 000	✓

(8)

<b>9</b>	<b>RETAINED INCOME</b>		
	Balance at beginning of year	1 340 000	✓
	Net profit (loss) after tax for the year	817 600	✓
	Dividends on ordinary shares	430 000	☑
	Interim dividends paid	172 000	✓✓
	Final dividends recommended	258 000	✓✓
	Balance at end of year	1 727 600	✓

(8)

<b>1.3</b>	<b>Calculate the following ratios on 30 June 2010.</b>
	1.3.1 Debt : Equity ratio
	1 432 800 ☑ : 5 227 600 ☑
	= 0,27 : 1 ☑
	(3)
	1.3.2 Return on Average Shareholders' Equity
	$\frac{817\,600\checkmark}{(3\,760\,000\checkmark + 5\,227\,600)\checkmark} \div 2 \times 100$
	= 817 600 / 4 493 800 X 100 ✓ = 18.19%✓
	(5)
	1.3.3 Net Asset Value per share
	$\frac{5\,227\,600\checkmark}{860\,000\text{ shares}\checkmark}$
	= R6,08 ✓ or 608 cents.
	(3)

1.4	<b>(Refer to appropriate ratios and the Debt : Equity ratio in your answer.</b>
	<p>Wise to use the loan. ✓</p> <p>ROCE of 21,8% is greater than 13% interest on loan. ✓</p> <p>Positive gearing effect. ✓✓</p> <p>Debt Equity has decreased from 0,43:1 to 0,27:1 ✓</p> <p>Risk has decreased. ✓</p> <p>Positive gearing effect and lower risk.</p> <p>Company could earn more profit by making use of additional loans. (6)</p>

1.5	<p>No they should not be entirely satisfied. ✓</p> <p>NAV is R6,08. ✓</p> <p>The price on JSE is undervalued at R5,60. ✓</p> <p>New shares were issued at R4,50 ✓ which is lower than the JSE and NAV. ✓</p> <p>New shareholders ✓ will be satisfied with the lower premium paid.</p> <p>Existing shareholders ✓ will not be satisfied. (7)</p>
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**QUESTION 2:****77 marks****46 minutes****COMPANIES CASH FLOW, AUDIT AND GOVERNANCE****2.1.1****GENERAL LEDGER OF SUPER-DISKI LIMITED  
FINAL ACCOUNTS SECTION**

<b>GENERAL LEDGER OF SUPER-DISKI LIMITED</b>											
<b>Dr</b>		<b>APPROPRIATION ACCOUNT</b>							<b>F3</b>		
<b>Cr</b>											
2010 Feb	28	Income Tax ✓		147 000	✓	2010 Feb	28	Profit & Loss ✓		420 000	✓
		Dividends on Ordinary Shares ✓		193 000	✓ <input checked="" type="checkbox"/>			Retained Income ✓		120 000	✓
		Retained Income ✓		200 000	✓						
				540 000						540 000	

(11)

2.1.2 Land and Buildings  $798\,980 - 409\,120 = 398\,860$  ✓✓ (2)

2.1.3 (a) **Calculation of Depreciation on Equipment.**

$$244\,640 ✓ - 188\,640 ✓ = 56\,000 ✓$$

$$\text{OR / } 188\,640 - 244\,640 = -56\,000 \quad (3)$$

(b) **Calculation of Depreciation on Vehicles.**

$$369\,080 ✓ - 24\,000 ✓ - 276\,800 ✓ = 68\,280 ✓$$

$$\text{OR/ } 276\,800 - 369\,080 + 24\,000 = -68\,280 \quad (4)$$

2.1.4

### NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 20.2

<b>Reconciliation between profit before taxation and cash generated from operations</b>	420 000	✓
Adjustment in respect of:	143 780	
Depreciation (56 000 <input checked="" type="checkbox"/> + 68 280 <input checked="" type="checkbox"/> )	124 280	<input checked="" type="checkbox"/>
Interest on loan	19 500	✓
<b>Operating profit before changes in working capital</b>	563 780	<input checked="" type="checkbox"/>
<b>Changes in working capital</b>	( )	<input checked="" type="checkbox"/>

↑ Inventories	(80 200)	
↑ TOR (Debtors) ( 128 300 - 105 300 )	(23 000)	✓ <input checked="" type="checkbox"/>
↓ TOP (Creditors) ( 33 600 - 25 500 ) + (175 520 - 181 060 )	(2 560)	✓ <input checked="" type="checkbox"/>
✓	✓	<input checked="" type="checkbox"/>

= (outflow) link to ↑ ↓ or (14)

2.1.5 Dividends on Ordinary Shares (See Appropriation Account) = R193 000

$$\text{PAID} = 193\,000 \text{  - } 108\,000 ✓ + 60\,000 ✓ = 145\,000 \text{ }$$

(4)

2.2 Increase ✓ (- 20 000 to 22 720) = 42 720 ✓✓ (3)

2.3	Premium on new shares = 80 000 No. of new shares issued = 160 000 Therefore, PAR (R1,50) ✓ + Premium (50c) ✓✓ = R2 ☑	(4)
2.4	<ul style="list-style-type: none"> <li>• Make use of Fixed Asset Registers</li> <li>• Tangible Asset Manager</li> <li>• Ensure TA properly maintained, etc. (Any one X ✓✓ )</li> </ul>	(2)
2.5	Directors Report ✓ Audit Report ✓	(2)
2.6	<b>Comment on Budgeted Forecast figures (Information (C))</b>	
(a)	<b>Salaries : (7% increase)</b> Management would have considered inflation rate when determining increase etc. ✓✓	(2)
	<b>Directors Fees (20% increase)</b> Management would have considered the positive performance of directors in improved financial results or wish to retain services of directors, etc. ✓✓	(2)
(b)	<b>Advertising: (Half April to June, Half October to December)</b> <b>One point in support of strategy:</b> Strategy aims to boost seasonal consumption and take advantage of peak season periods and to counter competition, etc. ✓✓	(2)
	<b>One point of advice against this strategy:</b> Strategy is aimed at seasonal consumption. Advertising should be aimed at boosting sales throughout the year, etc. ✓✓	(2)
(c)	<b>Corporate Social Responsibility. (One advantage of planned increase)</b> Could boost image of the business in the community and attract new customers and increase sales, etc. ✓✓	(2)
(d)	<b>Water &amp; Electricity (Comment on budgeted increase - List one point)</b> Above inflation increase to accommodate Eskom price hikes to finance improvements in its infrastructure. ✓✓	(2)

2.7	Depreciation✓ Bad Debts✓ (Discount allowed, discount received, trading stock deficit / surplus, provision for bad debts adj.) etc.	(2)
2.8	Cash Flow reports past ✓ cash flows. Cash Budget focuses on future✓ forecasts of projected cash flows. ✓ impression	(3)
2.9	The reader of the audit report must be confident of its accuracy. CA (SA) implies the auditor has adequate knowledge. ✓✓	(2)
2.10	Independent auditor: appointed by shareholders to express opinion on the reliability of financial statements. ✓ Internal auditor appointed by directors to ensure internal control. ✓ ✓ impression	(3)
2.11	<b>Audit Report</b> <ul style="list-style-type: none"> <li>• <b>The financial statements present the financial position fairly:</b> Not all transactions are checked. The financial position must not be biased to any group of people, etc. ✓✓</li> <li>• <b>In accordance with International Financial Reporting standards:</b> SA must be in line with International standards. Investors from outside SA will have an interest in South African companies, etc ✓✓</li> <li>• <b>In the manner required by the Companies Act:</b> Shareholders, Directors and Auditors must comply with the legal requirements as laid out in the Companies Act. ✓ etc.</li> </ul>	(2) (2) (2)

[77]

**SESSION 17****TOPIC: CREDITORS RECONCILIATION****SECTION A: TYPICAL EXAM QUESTIONS****Teacher Note:**

- Always answer in point form
- Make sure you know the theory on companies
- Open-ended questions do not have one correct answer

**QUESTION 1:                      35 marks                      20 minutes**

**CREDITORS RECONCILIATION**

You are the internal auditor of Valentine Stores, a gift shop owned by Mark Masuku. The Creditors Control Account and Creditors List were prepared by the bookkeeper, Ditzzy Donald. The postings from the journals have been done, but you have noted a number of errors and omissions.

**REQUIRED**

- 1.1 The Creditors Control Account reflected a balance of **R61 417** while the total of the Creditors List from the Creditors Ledger reflected a total of **R59 387**. Briefly explain why it is important that these two figures agree. (2)
- 1.2 Refer to Information 2: Errors and Omissions below.
  - 1.2.1 List the corrections that the bookkeeper must make to the Creditors Control Account in the General Ledger. The first one has been done for you as an example. If no entry is applicable, you must write 'NO ENTRY'. (11)
  - 1.2.2 Prepare a correct Creditors List on 31 July 2009. Show workings in brackets to earn part-marks. (16)
- 1.3 Provide THREE points for good internal control over creditors. (6)

**INFORMATION****1. CREDITORS LIST ON 31 JULY 2009**

	<b>Debit</b>	<b>Credit</b>
Khan Traders	R563	
Thankful Stores		R30 560
Connel Ltd		R10 890
Yolisa Wholesalers		R18 500
<b>TOTALS</b>	<b>R563</b>	<b>R59 950</b>
		<b>= R59 387</b>

**2. ERRORS AND OMISSIONS**

- A. A credit invoice for trading stock purchased from Connel Ltd for R3 400 on 28 July 2009 was not recorded at all. (See solution in ANSWER BOOK.)
- B. Stock purchased on credit from Connel Ltd, R7 200, was incorrectly posted to the account of Yolisa Wholesalers.
- C. Interest of R258 must be brought into account on the overdue account of Connel Ltd.
- D. The debit balance of Khan Traders must be transferred to their account in the Debtors Ledger.
- E. Goods of R8 350 returned to Thankful Stores were incorrectly treated as a credit purchase and posted accordingly.
- F. A discount of R230 received from Yolisa Wholesalers was incorrectly posted to the Creditors Ledger as R320. The General Ledger is correct.
- G. The amount of R2 100 reflected as a refund in the Creditors' Control Account was in fact received from a debtor, S Steyn, whose account had previously been written off as bad debt.
- H. An amount of R80 in the Creditors' Allowances Journal for trading stock returned was posted to the wrong side of a creditor's account, Thankful Stores.
- I. VAT of R490 was omitted from an invoice of equipment bought from Yolisa Wholesalers.

[35]

**SECTION B: HOMEWORK****QUESTION 1****DEBTORS COLLECTION AND CASH BUDGET      30 marks      18 minutes**

Africa Ceramics is owned by Joe Tyler. He sells a wide range of ceramic tiles. The following information was extracted from the books:

**REQUIRED**

- 1.1 Complete and total the Debtor' Collection Schedule for November and December 2009. (13)
- 1.2 Refer to Information 3 below. Compare the budgeted figures to the actual figures for October to comment on each of the following. State TWO points in each case.
- Advertising
  - Repairs and maintenance
  - Delivery expenses (6)
- 1.3 Joe is pleased that the number of customers has increased. You do not share his opinion that this increase in customers is good.
- (a) Explain TWO problems you have identified and quote figures from the question to support your answer. (4)
- (b) Give ONE point of advice in each case. (4)
- 1.4 By looking at the Cash Budget in Information 3 and assuming all other items are in line with the budget, would you expect the bank balance at the end of October to be favourable or unfavourable? Give a reason for your answer. (3)

## INFORMATION

## 1. DEBTORS COLLECTION SCHEDULE OF AFRICA CERAMICS FOR THE PERIOD ENDING 31 DECEMBER 2009

Month	Credit sales R	DEBTORS' COLLECTION		
		October 2009 R	November 2009 R	December 2009 R
August	360 000	64 800		
September	540 000	270 000		
October	450 000	129 600		
November	420 000			
December	420 000			
<b>TOTALS</b>		<b>464 400</b>		

## 2. EXPECTED COLLECTION FROM DEBTORS

- 75% of all sales are expected to be on credit.
- 30% of debtors settle accounts during the transaction month to benefit from a 4% discount for prompt payment.
- 50% of debtors settle accounts in the month following the transaction month.
- 18% settle accounts during the second month after the transaction month.
- 2% is written off as irrecoverable after 60 days.

## 3. BUDGETED AND ACTUAL FIGURES

At the end of October, the following actual figures were identified and compared to the budgeted figures:

From the Projected Income Statement:	OCTOBER BUDGET R	OCTOBER ACTUAL R
Total sales	600 000	672 000
Cash sales	150 000	70 000
Credit sales	450 000	602 000
From the Cash Budget:	OCTOBER BUDGET R	OCTOBER ACTUAL R
Collections from debtors	464 400	238 588
Purchase of trading stock	375 000	420 000
Advertising	15 000	25 000
Repairs and maintenance	16 500	3 800
Delivery expenses	20 000	42 000
Bank balance at end of month	120 000	?

[30]

**SECTION C: SOLUTIONS AND HINTS TO SECTION A**
**1.1 Briefly explain why it is important that the balance of the Creditors' Control Account should agree with the total in the Creditors' List.**

Good explanation = 2 marks; Poor explanation = 1 mark; Incorrect = 0 marks ✓✓

A poor explanation simply lists or mentions a point without an explanation of that point

A good explanation mentions and explains the point

**For two marks:**

- The control account is a summary of the creditors list therefore the two have to agree otherwise there is an error
- To facilitate good internal control whereby one process serves as a check on another (i.e. division of duties)
- To check that the recording and posting has been done correctly
- To detect and correct any omissions, errors and/or fraud
- To control the individual creditors accounts so that correct payments are made to them
- To ensure correct information before making payment to creditors

**For one mark:**

- To facilitate internal control
- To control the individual creditors accounts
- To check accuracy
- Both record the same information (2)

**1.2 List the corrections that the bookkeeper must make to the Creditors Control Account in the General Ledger. The first one has been done for you as an example. If no entry is applicable, you must write 'NO ENTRY'.**

The tick must apply to the figure and the positive/negative effect. Assume no + sign is positive.

<b>Balance</b>		<b>R61 417</b>
<b>A</b>		<b>+ R3 400</b>
<b>B</b>	+R7 200 ✓ – R7 200 ✓ <b>OR</b> No entry <b>OR</b> 0 (2 marks)	
<b>C</b>		+ R258 ✓
<b>D</b>		+ R563 ✓
<b>E</b>	–R8 350 ✓ □ – R8 350 ✓ <b>OR</b> – R16 700 (2 marks)	
<b>F</b>		No entry ✓
<b>G</b>		– R2 100 ✓
<b>H</b>		No entry ✓
<b>I</b>		+ R490 ✓
<b>Final balance</b>		<b>R47 328 ✓</b>

(11)

## 1.2.2 CREDITORS LIST ON 31 JULY 2009

	Debit	Credit
Khan Traders (DR563 – 563)		NIL/0
Thankful Stores (30 560 ✓ – [8 350 + 8 350] <input checked="" type="checkbox"/> – 160 ✓) -16 700 See 1.2.1E	*Inspect operation any one part	R13 700 <input checked="" type="checkbox"/>
Connel Ltd (10 890✓ + 3 400✓ + 7 200 ✓ + 258 ✓)	correct but adjustment made	R21 748 <input checked="" type="checkbox"/>
Yolisa Wholesalers (18 500 ✓ – 7 200 ✓ + 90 ✓ + 490 ✓)		R11 880 <input checked="" type="checkbox"/>
<b>TOTALS</b> operation	* Inspect	R59 950

(16)

## 1.3 Provide THREE points for good internal control over creditors.

Any three valid and separate points ✓✓ ✓✓ ✓✓

Beware of alternative wording which reflects the same point.

Beware that two separate points could be in the same sentence.

Expected responses for 2 marks:

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

(6)

**[35]**

**SESSION 18****TOPIC: COMPANY REPORTING****SECTION A: TYPICAL EXAM QUESTIONS****Teacher Note:**

- Answer in point form
- Make sure you know the theory on companies
- Open-ended questions do not have one correct answer

**QUESTION 1****COMPANY REPORTING****65 marks****30 minutes****1.1 INCOME STATEMENT**

You are provided with information relating to Samora Sports Limited. The company sells sports equipment and repairs equipment for their customers.

**REQUIRED**

Prepare the Income Statement for the year ended 30 June 2008 after taking all the adjustments and additional information into account.

**[50]****INFORMATION****1. Figures extracted from the Pre-Adjustment Trial Balance on 30 June 2008:**

Ordinary share capital (R5 par value)	R 1 200 000
Fixed deposit	160 000
Trading stock	215 000
Debtors control	39 090
Equipment (for office and shop)	224 000
Accumulated depreciation on office and shop equipment	130 000
Mortgage loan from Credbank	281 200
Sales	1 703 200
Debtors allowances	17 000
Cost of sales	?
Service fee income (in respect of repair services)	297 140
Rent income	105 000
Interest income	11 200
Salaries and wages	234 750
Employers' contributions to Pension Fund and UIF	53 200
Audit fees	30 000

Directors fees	230 000
Consumable stores	51 100
Bank charges	5 240
Sundry expenses	?

## 2. Adjustments and additional information:

The auditors have identified the following errors or omissions:

- 2.1 The auditors are owed a further R28 000 after completing the audit.
- 2.2 Bank charges of R310 reflected on the June 2008 bank statement have not yet been entered in the books.
- 2.3 A credit note issued to a debtor, A Mona, dated 28 June 2008 was not recorded in the books. The credit note was for:
- Goods returned by A Mona, R 6 200 (the cost was R4 800)
  - Price reduction on unsatisfactory repair of a tennis racket, R540
- 2.4 The stock count on 30 June 2008 revealed the following on hand:
- Trading stock, R202 000
  - Consumable stores, R900
- 2.5 An employee was left out of the Salaries Journal for June 2008. The details from his pay-slip were:

Gross salary	R6 000
PAYE deduction (18%)	(1 080)
Pension deduction (7,5%)	(450)
UIF	(60)
Net salary	<u>R4 410</u>

The business contributions were:

- Pension Fund: 10,5% of gross salary
  - UIF: Rand-for-rand basis
- 2.6 The tenant paid the July and August rent in June 2008. The rent was increased by R700 per month on 1 January 2008.
- 2.7 Provide for depreciation on office and shop equipment at 10% p.a. on the diminishing-balance method. Note that new shop equipment costing R30 000 was purchased half-way through the financial year (this was properly recorded).

- 2.8 Interest on the loan was capitalised. The loan statement from Credbank on 30 June 2008 reflects the following:

<b>CREDBANK</b>	
<i>Loan statement on 30 June 2008</i>	
Balance on 1 July 2007	R332 800
Interest charged	?
Monthly payments to Credbank in terms of the loan agreement (12 months x R4 300)	R 51 600
Balance on 30 June 2008	R326 000

The interest expense for the year has not yet been entered in the books.

- 2.9 Use the following percentages to calculate the missing figures:
- Mark-up % achieved: 60% on cost
  - Operating profit on sales: 20%
  - Income tax rate: 30% of net profit

## 1.2 CORPORATE GOVERNANCE AND AUDITING

The following audit report was issued by the auditors of Samora Sports Ltd:

**Audit opinion – To the shareholders:**

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

**I.M. Wright & Associates**  
**Chartered Accountants (SA)**  
**Registered Accountants and Auditors**  
**Pretoria 10 August 2008**

- 1.2.1 Why does the Companies Act make it a requirement for public companies to be audited? (2)
- 1.2.2 Although this audit opinion is addressed to the shareholders, other interested persons will also want to read it.  
 Name ONE other person who would be interested in this audit opinion, and give a reason for his/her interest in the opinion. (3)

- 1.2.3 At the AGM, one of the shareholders says that he is not happy with the words 'fairly present' in the audit report. He wants the auditors to say that the financial statements are 'correct in all respects'.  
What explanation should be given to this shareholder? State ONE point. (3)
- 1.2.4 The directors are not happy with the high audit fees reflected in the Income Statement.  
Explain why improvement in internal control will have a positive effect on the external auditors' fees. State ONE point. (3)
- 1.2.5 SAICA is one of the main professional bodies governing accountants in this country. Explain TWO of the main roles performed by SAICA. (4)  
[65]

## SECTION B: HOMEWORK

### QUESTION 1

#### FINANCIAL STATEMENTS AND AUDIT

**70 marks****42 minutes**

#### 1.1 SIMPHIWE LIMITED

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

#### REQUIRED:

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

## INFORMATION

## 1. SIMPHIWE LTD

## PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 SEPTEMBER 2009

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

## 2. ADJUSTMENTS

- A. Prepaid expenses in respect of sundry expenses at the yearend, R3 200, have not been taken into account.
- B. On 30 September 2009, R580 was received from A Ethic, whose account had previously been written off as irrecoverable. The amount was entered in the Debtors Control column in the Cash Journal.
- C. The provision for bad debts must be adjusted to R1 830.
- D. There were two directors at the start of the accounting period. Directors' fees have been paid for the first half of the accounting period. On 1 April 2009, a third director was appointed. All three directors earn the same monthly fee. Provide for the outstanding fees owed to the directors.
- E. Rent has been received for 14 months.
- F. The following credit note was left out of the Debtors Allowances Journal for September in error. The mark-up on goods sold was 50% on cost.

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

- G. A physical stock count on 30 September 2009 reflected the stock of uniforms on hand as R490 000.
- H. The loan statement from Stay Bank reflected the following:

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

- I. Depreciation on vehicles is calculated at 20% p.a. on the diminishing-balance method.
- J. Depreciation on equipment is calculated at 10% p.a. on the cost price. Note that an item of equipment was taken over by one of the directors, Ivor Steele, on 30 June 2009 for personal use for R800 cash. The relevant page from the Fixed Asset Register is provided below. No entries have been made in respect of the disposal of this asset.

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

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

1.2 You are provided with the following extract taken from the report of the independent auditors.

<b>EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS</b>	
Paragraph 1	We have audited the annual financial statements of Simphiwe Limited set out on pages 8 to 17 for the year ended 30 September 2009. <u>These financial statements are the responsibility of the company's directors.</u> Our responsibility is to express an opinion on these financial statements based on our audit.
Paragraph 2	<b>An audit includes:</b> <ul style="list-style-type: none"> <li>• Examining, on a test basis, <u>evidence supporting the amounts</u> in the financial statements;</li> <li>• Assessing the <u>accounting principles used</u> and significant estimates made by management;</li> <li>• Evaluating the overall financial statement presentation.</li> </ul>
Paragraph 3	<b>Audit opinion</b> In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 September 2009 and the results of their operations and cash flow for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 1973 (Act 61 of 1973) in South Africa.
<i>Bailey &amp; Nokwe, Chartered Accountants (SA) 10 Nov. 2009</i>	

**REQUIRED**

- 1.2.1 Explain why it is important for the independent auditor to be a member of a professional body. (2)
- 1.2.2 Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain. (2)
- 1.2.3 Refer to the underlined words in paragraph 2.
- (a) Give ONE example of 'evidence' that an auditor would use. (2)
- (b) Give ONE example of the 'accounting principles' he/she would assess as part of the audit. Explain why the auditor would inspect this principle. (3)
- 1.2.4 Refer to paragraph 3. Explain why you would be satisfied with this audit opinion. (2)
- 1.2.5 Refer to the disposal of the computer for R800 in Information 2J of QUESTION 1.1. Another director, Sam Smith, has complained that Ivor Steele has acted unethically in taking over the computer for R800. Ivor disagrees. (4)
- (a) Give ONE opinion to support Sam.
- (b) Give ONE opinion to support Ivor.

[70]

<b>SECTION C: HINTS AND SOLUTION TO SECTION A</b>
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**QUESTION 1****1.1 SAMORA SPORTS LIMITED**

*NB: If pre-adjustment figure is shown as the final answer, the relevant mark is still given  
If final figures are correct award full marks - if incorrect, mark workings – if no workings in this case no marks*

*Foreign items, i.e. Balance Sheet items – 1 each (max -2)*

*If interest is shown at top & bottom, apply –1 max for placement if marks are earned*

<b>INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008</b>	
Sales 1 703 200 ✓ – 17 000 ✓ – 6 200 ✓	✓ 1 680 000
Cost of sales <i>If = Sales / 1.6</i>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> (1 050 000)
Gross profit <i>If = Sales - COS</i>	<input checked="" type="checkbox"/> 630 000
Other income <i>Inspection</i>	<input checked="" type="checkbox"/> 386 000
Service fee income 297 140 ✓ – 540 ✓	✓ 296 600
Rent income 105 000 ✓ – ✓ 15 600 ✓✓	✓ 89 400
<i>Do not accept Interest here</i>	
	1 016 000
Operating expenses <i>Inspection, brackets not essential</i>	<input checked="" type="checkbox"/> (680 000)
Salaries and wages 234 750 ✓ + 6 000 ✓	✓ 240 750
Employer's contributions 53 200 ✓ + 690 ✓	✓ 53 890
Audit fees 30 000 ✓ + 28 000 ✓	✓ 58 000
Directors' fees	✓ 230 000
Consumable stores 51 100 ✓ – 900 ✓	✓ 50 200
Bank charges 5 240 ✓ + 310 ✓	✓ 5 550
Sundry expenses <i>Inspection - reasonable</i>	<input checked="" type="checkbox"/> 15 910
Trading stock deficit 13 000 + 4 800 <i>Any figure</i>	<input checked="" type="checkbox"/> ✓ ✓ 17 800
Depreciation 6 400 ✓✓ + 1 500 ✓ / 4 700 + 3 200	✓ 7 900
<i>Do not accept Interest here</i>	
Operating profit <i>If = 20% of Sales (either pre- or post-adj)</i>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 336 000
Interest income	✓ 11 200
	347 200
Interest expense	✓ ✓ (44 800)
Net profit before tax <i>Inspection, inspect operations applied</i>	<input checked="" type="checkbox"/> 302 400
Income tax <i>If = 30% of NP, brackets not essential</i>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> (90 720)
Net profit after tax <i>Inspection – if tax deducted</i>	<input checked="" type="checkbox"/> 211 680

**[50]**

**1.2.1 Why does the Companies Act make it a requirement for public companies to be audited?**

*Any one valid reason ✓✓*

To protect the shareholders / separation of ownership from control

OR Public funds are used

OR To ensure that it is a fair reflection of financial statements

OR To ensure that directors are not misrepresenting the figures

OR To be accountable to stakeholders e.g. shareholders, SARS

OR To discourage fraud

(2)

**1.2.2 Name ONE other person who would be interested in this audit opinion, and give a reason for his/her interest in the opinion.**

*Any one of the other stakeholders ✓ Reason ✓✓*

Shareholders not acceptable in this answer

- **Prospective investors** (Financial Institutions) – To make investments
- **Lenders** – To see whether the company is solvent and security for their loans
- **Suppliers** – To see if amounts owed can be paid
- **SARS** – To calculate the tax accurately
- **Competitors** – To compare results
- **Trade unions** – For wage negotiations / job security
- **Board of directors / CFO** – To assess performance
- **Government** – For statistical information
- **Registrar of Companies** – To comply with legislation

(3)

**1.2.3 At the AGM, one of the shareholders says that he is not happy with the words 'fairly present' in the audit report. He wants the auditors to say that the financial statements are 'correct in all respects'.**

**What explanation should be given to this shareholder? State ONE point.**

*Any one valid explanation ✓✓✓*

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

Expected responses:

- Auditors give reasonable assurance because they do not check everything in the books of the company (sampling test only).
- Cost factor / time-consuming – if everything checked.

(3)

**1.2.4 The directors are not happy with the high audit fees reflected in the Income Statement. Explain why improvement in internal control will have a positive effect on the external auditors' fees. State ONE point.**

*Any one valid explanation that indicates less time spent on the audit ✓✓✓*

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

- Internal auditors will reduce mistakes made by employees
- External auditors will spend less time auditing the books.
- Admin should be in place – documents filed correctly.

(3)

**1.2.5 SAICA is one of the main professional bodies governing accountants in this country. Explain TWO of the main roles performed by the SAICA.**

*Any two valid reasons ✓✓ ✓✓*

- Disciplinary procedure against member who is negligent
- Compliance with Code of Ethics / credibility
- Compliance with GAAP and IFRS
- Professional development / training / updated circulars
- Ensure high competence levels
- Control qualifications
- Market the profession
- Investigate complaints against members

(4)  
[65]

**SESSION 15****TOPIC: MANUFACTURING****SECTION A: TYPICAL EXAM QUESTIONS****Learner Note:**

- Answer in point form
- Make sure you know the theory on companies
- Open-ended questions do not have one correct answer

**QUESTION 1****50 marks****30 minutes****MANUFACTURING**

The information below was extracted from the financial records of Valley Manufacturers which is owned by Java. The business manufactures one style of raincoat. The financial year ends on 28 February 2010.

**REQUIRED**

- 1.1 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question numbers
- 1.1.1 Fixed costs remain unchanged in relation to the number of units produced within a period of time. (2)
- 1.1.2 The salary of the factory foreman will be regarded as a direct-labour cost. (2)
- 1.1.3 Factory rent will be regarded as a variable cost. (2)
- 1.1.4 Prime cost is calculated by adding direct-material cost and direct-labour cost. (2)
- 1.1.5 Advertising will be classified as an administration cost. (2)
- 1.2 Refer to Information B.
- Calculate the following:
- 1.2.1 The value of raw materials on hand on 28 February 2010 using the FIFO method (5)
- 1.2.2 The value of raw material cost that would appear in the Production Cost Statement (4)

- 1.3 Refer to Information C.  
Calculate the value of direct-labour cost that would appear in the Production Cost Statement for the year ended 28 February 2010. (7)
- 1.4 The business produced 4 000 raincoats during the year. There was no work-in-process at the beginning or at the end of the year. Factory overhead costs amounted to R67,55 per unit. Calculate the following:
- 1.4.1 The total production cost of finished goods (5)
- 1.4.2 The unit cost of production (per raincoat) (3)
- 1.5 Java asks you to further investigate the control over raw materials.
- 1.5.1 Identify the number of metres of raw material fabric that appear to be missing. (5)
- 1.5.2 Apart from theft, give ONE most likely reason for this shortage.  
What advice could you offer Java in this regard? Name ONE point. (4)
- 1.6 Break-even point:
- 1.6.1 Calculate the break-even point for the current financial year. (4)
- 1.6.2 The break-even point for 2009 was 2 273 units. Should Java be satisfied or dissatisfied with the break-even point for 2010 calculated in QUESTION 3.6.1? Briefly explain. (3)

## INFORMATION

### A. Production:

Number of raincoats produced last year	4 500 units
Number of raincoats produced this year	4 000 units

### B. Raw materials:

#### 1. Usage

Java has done a study of the manufacturing process and has found that it should take 1,8 metres of fabric to make one raincoat.

#### 2. Stocks of raw material on hand were:

	Number of metres of fabric	Cost per metre
Opening stock	700 metres	R30
Raw materials issued to the factory for the production of raincoats	9 100 metres	?
Closing stock	4 300 metres	?

3. Purchases of raw materials during the year were as follows:

	Number of metres of fabric	Cost per metre	Total cost
Purchases	12 700 metres		R490 600
April 2009	7 000 metres	R34	R238 000
November 2009	3 500 metres	R42	R147 000
February 2010	2 200 metres	R48	R105 600

C Employees:

1. Java employs the following individuals:

Details	Number of employees	Basic monthly salary/wage per employee	Total cost of employment including benefits	Overtime	
				Hours	Rate
Employees in the production process	5	R5 000	?	180 hours (each worker)	R70
Factory foreman	1	R8 000	R112 000	-	-
Salesman	1	R4 000	?	-	-

2. Employment benefits and overtime

- Employment benefits are allocated to the cost account applicable to the salaries/wages of the specific employees.
- All employees are registered with the business' pension fund and the UIF. Deductions are made from the basic salary for the pension fund (8%) and the UIF (1%). The employer contributes 10% towards the pension fund and 1% to the UIF.
- Overtime and commissions are not subject to pension fund and UIF deductions or contributions.
- The five workers who make the raincoats each worked 180 hours of overtime during the year at a rate of R70 per hour.

D. **Stocks of finished goods on hand were:**

	<b>Number of raincoats</b>	<b>Value per unit</b>
Opening stock	110	R284
Closing stock	420	R246

E. **Analysis of total costs and unit costs:**

	<b>2010</b>	<b>2010</b>	<b>2009</b>
	<b>Total</b>	<b>Per unit</b>	<b>Per unit</b>
Selling price	R1 400 000	R350	R350
<b>Variable costs:</b>	R863 800	R215,95	R184,60
Direct-material cost	?	?	R63,30
Direct-labour cost	?	?	R82,20
Selling and distribution cost	R150 000	R37,50	R39,10
<b>Fixed costs:</b>	R350 200	R87,55	R83,54
Factory overhead cost	?	R67,55	R58,04
Administration cost	R80 000	R20,00	R25,50

[50]

<b>SECTION B: HOMEWORK</b>
----------------------------

**QUESTION 1****MANUFACTURING****55 marks****33 minutes****1.1 BAKONA BIN MANUFACTURERS**

You are provided with information relating to Bakona Bin Manufacturers for The year ended 28 February 2009.

The business makes and sells only one type of product, namely plastic rubbish bins.

**REQUIRED**

- 1.1.1 Prepare the following notes to the Production Cost Statement:
- Direct/Raw material cost (7)
  - Direct labour cost (7)
  - Factory overhead cost (16)
- 1.1.2 Prepare the Production Cost Statement. (10)
- 1.1.3 Calculate the unit cost of production per plastic bin completed. (3)

**INFORMATION****1. Units produced:**

58 000 bins were completed during the financial year.
---

**2. Stock balances:**

	<b>1 March 2008</b>	<b>28 February 2009</b>
Direct/Raw material stock	R57 900	R34 200
Work-in-process stock	169 500	120 600
Factory indirect material stock	8 100	7 400

**3. Transactions for the year:**

	<b>R</b>
Raw material purchased for cash and on credit	1 622 700
Defective raw material returned to suppliers	23 100
Carriage on raw materials purchased	28 800
Salaries:	
• Factory foreman	241 000
• Office workers	270 000
Wages:	
• Office workers	48 000
• Factory workers in the production process (see Information 4 below)	?
UIF contributions (to be allocated to each specific cost account):	
• Factory workers in the production process	11 520
• Factory foreman	2 410
• Office workers	2 700
Factory indirect material purchased	125 900
Sales of finished goods (R120 per unit)	7 800 000
Commission to salespersons (10% of sales)	?
Advertising	145 000
Factory maintenance	85 000
Bad debts	8 400
Rent to be allocated in proportion to floor space (see Information 5 below)	133 000
Bins stolen (rand value)	960
Water and electricity (see Information 6 below)	36 000
Depreciation on factory equipment	52 000
Sundry administration expenses	150 800
Sundry factory expenses	25 000

**4 Factory workers in the production process:**

Number of factory employees working directly on the bins (unchanged throughout the year)	12 employees
Number of normal hours worked by each factory worker during the year	1 600 hours
Number of overtime hours worked by each factory worker during the year	240 hours
Wage rate (normal)	R 60 per hour
Wage rate (overtime)	R100 per hour

**5. Floor space:**

	<b>Factory</b>	<b>Office</b>	<b>Sales dept.</b>
Square metres	1 200 sq. metres	600 sq. metres	600 sq. metres

**6. Water and electricity:**

15% of the amount is allocated to the office and 25% to the sales department.  
The rest applies to the factory.

**1.2 KOOL MANUFACTURERS**

This business makes plastic vuvuzelas.

The information below relates to the year ended 30 June 2009.

Number of vuvuzelas produced	12 000
Sales for the year (all manufactured units were sold)	R480 000
Total fixed costs	R210 000
Total variable costs	R300 000

- 1.2.1 Give ONE example of a fixed cost and ONE example of a variable cost. (2)
- 1.2.2 Explain why it is important to calculate the expected break-even point for a business before the start of a financial year. (2)
- 1.2.3 Use the figures above to calculate the break-even point. (5)
- 1.2.4 Comment on your calculation in QUESTION 1.2.3. What advice would you offer Kool Manufacturers? Briefly explain. (3)
- [55]

**SECTION C: HINTS AND SOLUTION TO SECTION A**

**QUESTION 1**

1.1

1.1.1 True ✓✓

1.1.2 False ✓✓

1.1.3 False ✓✓

1.1.4 True ✓✓

1.1.5 False ✓✓

(10)

1.2.1 **Calculate the value of raw materials on hand on 28 February 2010 using the FIFO method.**

$$105\,600 \checkmark + (2\,100 \checkmark \checkmark \times R42 \checkmark) = 193\,800 \checkmark$$

(5)

- 1.2.2 **Calculate the value of raw material cost that would appear in the Production Cost Statement.**  
 $21\ 000 \checkmark + 490\ 600 \checkmark - 193\ 800 \checkmark = 317\ 800 \checkmark$  (4)
- 1.3 **Calculate the value of direct-labour cost that would appear in the Production Cost Statement for the year ended 28 February 2010.**  
 Normal time =  $5 \times 5\ 000 \times 12 = R300\ 000 \checkmark \checkmark$   
 Overtime =  $180 \times 70 \times 5 = R63\ 000 \checkmark \checkmark$   
 UIF + Pension =  $300\ 000 \times 11\% = R33\ 000 \checkmark \checkmark$   
 R 396 000 ✓ (7)
- 1.4.1 **Calculate the total production cost of finished goods.**  
 $317\ 800 \checkmark + 396\ 000 \checkmark + (67,55 \checkmark \times 4\ 000 \checkmark)$   
 = R984 000 ✓ (5)
- 1.4.2 **Calculate the unit cost of production (per raincoat).**  
 $R984\ 000 \checkmark / 4\ 000 \checkmark = R246 \checkmark$  (3)
- 1.5.1 **Identify the number of metres of raw material fabric that appear to be missing.**  
 $9\ 100 \checkmark - (1,8 \checkmark \times 4\ 000 \checkmark) = 1\ 900 \text{ metres } \checkmark \checkmark$  (5)
- 1.5.2 **Apart from theft, give ONE most likely reason for this shortage.**  
 Valid reason ✓✓  
 Possible reasons:  
 ○ Wastage during production  
 ○ Unskilled employees  
 ○ Unusable materials/off-cuts
- What advice could you offer Java in this regard? Name ONE point.**  
 Advice ✓✓  
 ○ Better supervision during production  
 ○ Control over allocation of raw materials  
 ○ Training of employees  
 ○ Use good quality material (4)
- 1.6.1 **Calculate the break-even point for the current financial year.**  
 Fixed costs/(SP per unit – Variable costs per unit)  
 =  $350\ 200 \checkmark / (350 \checkmark - 215,95) \checkmark$   
 =  $350\ 200 / 134,05$   
 = 2 612,45  
 = 2 613 units ✓ (4)
- 1.6.2 **The break-even point for 2009 was 2 273 units. Should Java be satisfied or dissatisfied with the break-even point for 2010 calculated in QUESTION 1.6.1? Briefly explain.**  
 Java should be satisfied. ✓  
 The business has produced 4 000 units while break even is 2 613 units. ✓✓  
 OR Dissatisfied ✓ the break even of 2 613 units is higher than 2 273 in 2009. ✓✓ (3)

(3)  
**[50]**