



Province of the
EASTERN CAPE
EDUCATION

DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)

HOME SCHOOLING SELF-STUDY

SUBJECT	ACCOUNTING	GRADE	12	DATE	30 March – 16 April 2020
TOPIC	Companies	TERM 1 REVISION			
TIME ALLOCATION	2 Hours Per Activity	<p style="text-align: center;"><u>TIPS TO KEEP HEALTHY</u></p> <ol style="list-style-type: none"> 1. WASH YOUR HANDS thoroughly with soap and water for at least 20 seconds. Alternatively, use hand sanitizer with an alcohol content of at least 60%. 2. PRACTICE SOCIAL DISTANCING – keep a distance of 1m away from other people. 3. PRACTISE GOOD RESPIRATORY HYGIENE: cough or sneeze into your elbow or tissue and dispose of the tissue immediately after use. 4. TRY NOT TO TOUCH YOUR FACE. The virus can be transferred from your hands to your nose, mouth and eyes. It can then enter your body and make you sick. 5. STAY AT HOME. 			
COMPILER	T. Nobala				
INSTRUCTIONS	See Required Per Activity				

COMPANIES

HOW TO SCORE MARKS?

- **Format of financial statements:** sometimes marks are allocated for descriptions of items i.e. details and method marks are also allocated for totals and subtotals in the financial statements e.g. cash flow statement. These marks should be easily achieved by all candidates.
- **Income statement:** learners can easily earn part marks by simply transferring balances/totals from the pre-adjustment trial balance to income statement, method marks can also be earned by showing workings in brackets and work-with-marks can be earned for each step undertaken in the calculation of the net profit for the year. Marks can be earned also for correct handling of adjustments since most adjustment have been taught in grade 10 and 11

Income Statement

- memorize the format
- always write the pre adjustment figures in the income statement.
- always show your workings in brackets to earn part marks.
- if a figure must increase in the income statement it must be + with other figures and when it must be a decrease it must be – from the figures.
- remember to deduct debtors' allowances from sales
- if you sell cash or on credit as per adjustment the amount of the sales must be added on to sales.
- if sales increase cost of sales must also increase.
- if there are returns by a debtor → sales minus. Remember if sales are a **minus** cost of sales must also be a **minus**.
- remember that sales/returns at the end of the year changes the figure of the closing stock and then determine if there is a stock deficit at the end.
- **Depreciation**
 - # Cost price method – Take the cost price x by the %
 - # Diminishing balance – (Carrying value – Take the cost price – minus the accumulated depreciation x by the %
- remember the R1 rule
- Interest income/interest expense appear on the bottom part of the income statement.
- Adjustments- working from the bottom

Notes to the financial Statements

- memorize the format
- make sure you can do the following notes
 - Ordinary share capital (OSC)
 - Retained income (RI) (Adjustments- working from the bottom)
 - Trade and other receivables
 - Trade and other payables

NB: when you buy back shares the **average price** appears in the **OSC** note and the difference must appear in the **RI note**

- Remember to transfer the totals of these notes to the Balance Sheet (Statement of Financial Position)

Note for fixed assets

Always asked to calculate:

- a new asset purchased.
- asset disposed at carrying value
- depreciation
- carrying value = cost price less accumulated depreciation.

Balance Sheet

- memorize the format
- always write the pre - adjustment figures in the balance sheet.
- always show your **workings** in brackets to earn part marks.
- ratios are important to calculate certain Balance Sheet amounts.
- **For Example if current ratio** is given as 2:1 and the figure of the Current Liabilities has been calculated as R100 000 in the Balance Sheet then the missing figure of the **Current Assets would** be $R100\ 000 \times 2 = R200\ 000$ OR $R100\ 000 \times 2/1 = R200\ 000$ (Remember unknown/know rule)
- **Acid Test Ratio** can be used to calculate the **stock figure**.
- **Debt Equity Ratio** can be used to calculate either the **Shareholders' Equity** or **the Loan** figure.
- Total Capital Employed = Shareholders Equity + Loan.
- Adjustments- working from the bottom

Cash flow statement

- know the format
- inflow – money received- there will be no brackets in the amounts e.g. RX

- outflow – money paid- amounts will be in brackets (Rxx).
- CFS is usually asked in parts
- Be prepared to calculate missing figures for dividends paid/ income tax paid/purchase or disposal of tangible assets/loan/purchase or repurchase figure of the shares
- Purchase of Tangible assets = Tangible assets @ CV at the beg of year (as per B/S) – disposal at carrying value (as per adjustment or CFS if given) – depreciation (as per I/S current year figure-if given extract for 2 years) – Tangible assets @ CV at the end of year (as per B/S). **NOTE: Amount will always reflect outflow of cash.**
- Disposal of tangible asset = Tangible assets @ CV at the beg.. year (as per B/S) + additions at cost/purchase of Tangible assets (as per adjustment or CFS if given) – depreciation (as per I/S current year figure- if given extract for 2 years) – Tangible assets @ CV at the end of year (as per B/S). **NOTE: Amount will always reflect inflow of cash.**
- Always asked the change of the cash and cash equivalents – last 3 lines of the cash flow statement.

FINANCIAL INDICATORS

Ratios often asked to calculate

- memorize the formulae of the ratios (Formulae Sheet will not fully assist as subject of the formula is not given)
- Current ratio / Acid test ratio - must be x:1
- Debt equity ratio – must be x:1.
- ROSHE/ROTCE
- Net asset value per share.
- Dividend pay-out rate.

ANALYSIS AND INTERPRETATION

Basic Rule: (formulae, calculations and comments)

1. Always asked to comment on liquidity (6 ratios)

#Current ratio/acid test/debtors' collection/creditors

payment/stock turnover rate/period for which enough stock is on hand

2. Comment on gearing/loan/risk (2 ratios)

Debt equity and ROTCE.

compare it with the interest of loan

3. Buy back of shares if the price is fair or not.

#Compare it with the NAV and the market price of share.

EXTRACT FROM 2019 NSC DIAGNOSTIC REPORT

The benefit of instilling a questioning approach in Financial Accounting:

Examination papers might reflect new and innovative ways of extending candidates' insight on financial statements and information that falls within the scope of the syllabus. The following points of advice are intended to enable learners to prepare, analyse, interpret and evaluate the different financial statements more effectively.

- The skill of obtaining valid information on a variety of questioning techniques in preparing and interpreting financial Accounting information will be enhanced through use of previous examination papers.
- Teachers are strongly advised to devote time in class to focusing on the purpose and inter-relationship of the four main components of financial information provided in a question of this nature. This is to assist learners in developing the skill of readily identifying the information relevant to the sub-question, in contrast to a time-consuming exercise of studying or inspecting all the figures in every set of documents provided. Essentially, this is the skill of how to read financial statements and indicators strategically, intelligently and efficiently. This skill separates capable learners of the subject from average learners.

INCOME STATEMENT (Statement of Comprehensive Income)	CASH FLOW STATEMENT	BALANCE SHEET (Statement of Financial Position)	FINANCIAL INDICATORS
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- A questioning approach, with class collaboration, starting from the basic purposes of the various documents should be used, developing to further reflection on the specific information provided or needed. Examples of questions that should generate understanding of this financial information are: - What is the purpose of each of the above statements and indicators? Learners should appreciate links between the three financial statements, e.g. Sales is an income item in the Income Statement; the cash sales component will affect the cash in the Cash Flow Statement; credit sales not yet settled by customers will affect trade and other receivables in the Balance Sheet; and ultimately, Sales will also affect several of the financial indicators.

- Where in the statement/s would the following information be found?

Non-current & current assets	Income tax due & payable
Non-current & current liabilities	Financial gearing & risk
Income & expenditure	Share capital & retained income
Investments & interest earned	Earnings & dividends
Loans, repayments & interest	Cash resources
Unsold stock & holding period	

- As a result of the classroom discussions that should ensue from a motivated class, learners would be in a better position to verbalise their own thoughts on these concepts, thereby gaining further insight into the various concepts and greater confidence in navigating their way through the inter-connected set of financial statements

QUESTION 1: COMPANY FINANCIAL STATEMENTS (Income Statement)

You are provided with information from the records of Moonlight Ltd for the financial year ended 28 February 2019.

REQUIRED:**1.1 Refer to Information D**

1.1.1 Calculate the profit or loss on disposal of the computer on 31 August 2018. (6)

1.1.2 Calculate the total depreciation for the year. (9)

1.1.3 Suggest ONE internal control measure that the internal auditor can perform to verify the tangible assets figure in the Balance Sheet. (2)

1.2 Complete the Income Statement (Statement of Comprehensive Income) for the year ended 28 February 2019. (40)

INFORMATION:

A. The following balances/totals, amongst others, appeared in the books on 28 February 2019:

	R
Retained income	765 000
Loan: Derby Bank	2 110 000
Vehicles	1 520 000
Equipment	660 000
Accumulated depreciation on vehicles (1 March 2018)	484 500
Accumulated depreciation on equipment (1 March 2018)	178 000
Trading stock	1 287 000
Provision for bad debts (1 March 2018)	10 200
Sales	?
Cost of sales	7 540 000
Rent income	158 200
Directors fees	932 400
Audit fees	64 000
Salaries and wages	320 000
Insurance	56 250
Commission income	31 580
Bad debts	2 779

Interest expenses	?
Interest income	?
Sundry expenses	187 640

B. Adjustments and additional information

- (i) Goods are sold at a mark-up of 60% on cost price.
- (ii) A credit note for the return of merchandise sold for R12 480 was omitted from the Debtors Allowances Journal on the 15 February 2019. The goods were taken into stock, but no entries were made.
- (iii) Stock, costing R37 500 was stolen. The insurance company has agreed to pay out an amount of R26 250 which is still receivable.
- (iv) Stocktaking on 28 February 2019 reflected trading stock of R1 234 800 on hand.
- (v) A cheque for R10 150 was received from the trustee of a debtor who was declared insolvent. This represented a dividend of 40 cents in the Rand. The balance must be written off as bad debt.
- (vi) Provision for bad debts must be decreased to R9 700.
- (vii) The rent for February 2019 was still outstanding. The rent was increased by 10% on 1 November 2018.
- (viii) Income tax is calculated at 25% of the net profit.

- C. The loan statement received from Derby Bank on 28 February 2019 reflected the following:

	R
Balance at the beginning of the financial year	2 620 000
Repayments during the year (including interest)	510 000
Interest capitalised	?
Balance at the end of the financial year	2 398 200

D. Fixed Assets

- Included in the vehicle account is R950 000 for a delivery van which was purchased on the 1 December 2018. Vehicles are depreciated at 20% p.a. on cost.
- On 31 August 2018, a computer was taken over by Paul Cluver one of the directors, for personal use for R8 000 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. Equipment is depreciated at 20% p.a. on the diminishing balance

method.

FIXED ASSET REGISTER		
Page 22		
<i>Item: Aider computer</i>		
<i>Date purchased: 1 June 2015</i>		<i>Cost price: R30 000</i>
<i>Depreciation policy: 20% on diminishing method</i>		
DATE	CURRENT DEPRECIATION	ACCUMULATED DEPRECIATION
28 February 2016	R4 500	R4 500
28 February 2017	R5 100	R9 600
28 February 2018	R4 080	R13 680
31 August 2018	?	?

E. SHARE CAPITAL

On 28 February 2019 the company repurchased 125 000 shares at R0,50 above the average share price. Shareholders qualify for final dividends.

The share capital after the share buy-back consisted of 1 375 000 ordinary shares.

An interim dividend of R982 500 was paid on 1 September 2018.

A final dividend of 80 cents per share was declared on 28 February 2019.

QUESTION 2

WESTVILLE LTD

The following information relates to Westville Ltd. The financial year ended 28 February 2019.

REQUIRED:

- 2.1 Calculate the correct Net Profit after tax for the financial year ended (19) 28 February 2019.

INFORMATION:

- A. The following items appeared in the Pre-Adjustment Trial Balance on 28 February 2019:

Ordinary share capital (180 000 shares) 28 February 2019	R 909 000
Retained income (4 December 2018)	130 000
Loan: M.G.M Bank	1 140 000
Fixed asset at carrying value	?
Fixed deposit	700 000
SARS: Income Tax (Provisional tax payment)	267 000
Creditors control	43 000
Debtors control	44 800
Provision for bad debts	1 700
Trading stock	92 400
Consumable stores on hand (Packing material)	12 000
Bank overdraft	5 000
Petty cash	1 500

- B. On 4 December 2018, the directors approved the repurchase of 20 000 shares at R9.00 each. This transaction was properly recorded.
- C. The net profit before tax was incorrectly calculated as R1 449 200.
- D. The following information **was not** taken into account:
- (i) The director's fees of R625 000 was paid to two directors. One of the two directors requested his fees for March 2019 be paid in February 2019, due to financial problems. All two directors receive the same monthly salary.
 - (ii) 80% of the packing material were used during the financial year.
 - (iii) A debtor B. Zulu, who owes R1 200, has been declared insolvent his estate paid R480. This amount was received and not recorded. Write off the balance.
 - (iv) Rent income of R177 600 was received for 14 months. The rent was increased on 1 September 2018 by 10%.
 - (v) An interim dividend of R55 820 was paid on 1 September 2018, but was debited incorrectly to the salaries account.
 - (vi) A debtor with a credit balance of R1 000 on 28 February 2019 must be transferred to the Creditors ledger.

- (vii) The loan statement from KZN Bank reflected the following:

Balance at beginning of financial year	R 1 500 000
Repayment during the year (was recorded)	?
Interest capitalised	157 500
Balance at the end of financial year	1 140 000

The capital portion of the repayment of the loan for the next financial year remains the same as the current financial year.

- (viii) Outstanding cheque on the Bank Reconciliation Statement on 28 February 2019 included:

Cheque No.	Date of Cheque	Name of payee	Reason for cheque	Amount
401	21 Feb 2019	BB Stores	On account	R3 000

- (ix) Income tax amount to R255 000 and is equal to 30% of the net profit before tax.
- (x) A final dividend of 75 cents per share was declared on 28 February 2019.

- 2.2** The following information was taken from Khumalo Fashions Ltd. The financial years ended on 28 February 2019.

REQUIRED:

- 2.2.1 Complete the Income Statement for the year ended 28 February 2019.

(45)

INFORMATION

Balances on 28 February 2019	R
Balance sheet accounts	
Ordinary shareholder's capital	1 840 000
Retained income	213 260
Provision for Bad Debts (1 March 2018)	2 000
Loan from director	750 000
SARS: Income Tax	(Dr) 74 195
Nominal accounts	
Cost of Sales	?
Sundry expenses	?

EXTRACT FROM ANSWER BOOK**INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019**

Sales	1 225 700
Cost of sales	
Gross profit	
Other operating income	
Commission income (89 200)	
Gross operating income	
Operating expenses	
Bank charges (3 260)	
Bad debts (5 600)	
Discount allowed (2 940)	
Stationery (3 860)	
Insurance (14 250)	
Director's fees (50 000)	
Sundry expenses	
Operating profit	
Interest income (11 350)	
Profit before interest expense	
Profit before tax	
Profit after tax	

Additional information and Adjustments:

- A.** Included in the Sales amount was R56 000 received for goods sold to a school at a mark-up of only 25%. All other goods were sold at a mark-up percentage of 40%.
- B.** The following information from the February Bank Statement must still be taken into account:
- Bank charges, R340
 - Interest on current account, R670
 - R/D cheque from a debtor for R3 650 as settlement of his account of R4 050.
A cheque for stationery was entered in the journals as R778 instead of R878.
- C.** A debtor with an outstanding debt of R800 must be written off as irrecoverable.
- D.** Dresses to the value of R4 800 were damaged in transit. The insurance will cover 35% of the loss and will make a payment during March 2019. The balance is the business' loss.
- E.** A physical stock-take on 28 February 2019 showed:
- Stationery on hand, R280
 - Trading stock of R3 200 could not be accounted for during the stock-take.
- F.** An annual Insurance premium of R9 600 was paid and recorded on 1 June 2018.
- G.** The Provision for Bad Debts must be adjusted to R3 800.
- H.** Commission on certain old stock was calculated at R1 600 being 10% of the sale items. This must be adjusted to 6% due to the nature of the goods sold.
- I.** Provide for any outstanding directors fees.
- The directors receive the following annual fees: G. Khumalo R50 000 and R. Khumalo R60 000.
 - Since 1 November 2018 R. Khumalo has been renting a house that belongs to the company. The rent of R6 000 per month is to be offset against her director's fees. This transaction was not recorded. R. Khumalo has also not received any fee as yet.
- J.** Operating profit on Sales for the year was calculated as 25%.
- K.** Net profit after Tax on Sales for the year was calculated as 15%.
- L.** Tax was calculated at R78 795 for the year.

M. Loan from director:

- The balance of the loan on 1 March 2018 was R844 205.
- Interest on loan is capitalised.
- Payments made during the year, including interest, were R150 000.
- A loan repayment of R120 000 will be made on 1 July 2019.

N. Dividends declared on 27 February 2019 amounted to R16 000.

QUESTION 3

You are provided with information from the records of Moonlight Ltd for the financial year ended 28 February 2019.

REQUIRED:

3.1 Prepare the Retained income note on 28 February 2019. (10)

INFORMATION:

A. The following balances/totals, amongst others, appeared in the books on 28 February 2019:

	R
Retained income	765 000
Directors fees	932 400
Audit fees	64 000
Bad debts	2 779
Sundry expenses	187 640

B. Adjustments and additional information

- (i) Income tax is calculated at 25% of the net profit.
- (ii) Net profit for the year- R2 040 000

C. SHARE CAPITAL

On 28 February 2019 the company repurchased 125 000 shares at R0,50 above the average share price. Shareholders qualify for final dividends.

The share capital after the share buy-back consisted of 1 375 000 ordinary shares.

An interim dividend of R982 500 was paid on 1 September 2018.

A final dividend of 80 cents per share was declared on 28 February 2019.

3.2 WESTVILLE LTD

The following information relates to Westville Ltd. The financial year ended 28 February 2019.

REQUIRED:

3.2.1 Prepare the following notes to the Balance Sheet on 28 February 2019:

3.2.1.1 Trade and other receivables (11)

3.2.2.2 Retained income (13)

INFORMATION:

A. The following items appeared in the Pre-Adjustment Trial Balance on 28 February 2019:

Ordinary share capital (180 000 shares) 28 February 2019	R 909 000
Retained income (4 December 2018)	130 000
Loan: M.G.M Bank	1 140 000
Fixed asset at carrying value	?
Fixed deposit	700 000
SARS: Income Tax (Provisional tax payment) (dr)	267 000
Creditors control	43 000
Debtors control	44 800
Provision for bad debts	1 700
Trading stock	92 400
Consumable stores on hand (Packing material)	12 000
Bank overdraft	5 000
Petty cash	1 500

B. On 4 December 2018, the directors approved the repurchase of 20 000 shares at R9.00 each. This transaction was properly recorded.

C. The net profit before tax was incorrectly calculated as R1 449 200.

D. The following information **was not** taken into account:

(i) The director's fees of R625 000 was paid to two directors.

One of the two directors requested his fees for March 2019 be paid in February 2019, due to financial problems. All two directors receive the same monthly salary.

- (ii) 80% of the packing material were used during the financial year.
- (iii) A debtor B. Zulu, who owes R1 200, has been declared insolvent his estate paid R480. This amount was received and not recorded. Write off the balance.
- (iv) Rent income of R177 600 was received for 14 months. The rent was increased on 1 September 2018 by 10%.
- (v) An interim dividend of R55 820 was paid on 1 September 2018, but was debited incorrectly to the salaries account.
- (vi) A debtor with a credit balance of R1 000 on 28 February 2019 must be transferred to the Creditors ledger.
- (vii) The loan statement from KZN Bank reflected the following:

Balance at beginning of financial year	R 1 500 000
Repayment during the year (was recorded)	?
Interest capitalised	157 500
Balance at the end of financial year	1 140 000

The capital portion of the repayment of the loan for the next financial year remains the same as the current financial year.

- (viii) Outstanding cheque on the Bank Reconciliation Statement on 28 February 2019 included:

Cheque No.	Date of Cheque	Name of payee	Reason for cheque	Amount
401	21 Feb 2019	BB Stores	On account	R3 000

- (ix) Income tax amount to R255 000 and is equal to 30% of the net profit before tax.
- (x) A final dividend of 75 cents per share was declared on 28 February 2019.

QUESTION 4

You are provided with information relating to Dube Ltd for the financial year ended 28 February 2019.

REQUIRED:

4.1 Complete the following notes to the Balance Sheet (Statement of Financial Position) for:

- Ordinary share capital
- Retained Income

INFORMATION:**A. Shares**

- 305 000 shares were in issue at the end of the previous financial year, 28 February 2018.
- 5 000 shares were repurchased on 30 June 2018 from the estate of a deceased shareholder.
- 40 000 new shares were issued on 30 November 2018 at R5,10 per share.

B. Fixed assets

- An old vehicle was traded in at carrying value of R171 250 on 31 August 2018 against a new vehicle.
- No other transactions for fixed assets took place during the financial year.

B. Interest on loan and loan

- Interest on loan is capitalised.
- Instalments of R100 000 were paid this past financial year, interest included.
- Interest on loan is the only interest paid by the company for the financial year.

D. The following balances/totals were taken from the books on 28 February 2019:

	2019	2018
Income Statement		
Depreciation on vehicles	88 000	
Net profit before tax	655 000	
Income tax	183 400	

Balance Sheet		
Loan: Kruger Bank	753 200	790 000
SARS (Income tax)	(Cr) 16 150	(Dr) 14 200
Shareholders for dividends	149 600	90 000
Ordinary share capital	?	1 464 000
Retained income	?	67 500
Vehicles at carrying value	275 750	270 000
Cash Flow Statement		
Operating profit before changes in working capital	629 125	
Changes in working capital	(452 765)	
Interest paid	(63 200)	
Dividends paid	(204 000)	
Repurchase of shares	(25 000)	

4.2

FREEZA LIMITED

You are provided with information for the financial year ended 28 February 2019.

Complete the following for the financial year ended 28 February 2019.

4.2.1 Notes to the Balance Sheet (Statement of Financial Position) for:

- Ordinary share capital (8)
- Retained income (12)

4.2.2 Balance Sheet (Statement of Financial Position) (45)

INFORMATION:

A. **The following balances appeared in the books on 28 February 2019**

Creditors' control	R1 440 000
Debtors' control	1 060 000
Creditors' for salaries	71 000
Income receivable (Accrued income)	48 000
Cash at bank	132 000
SARS: Income tax (Provisional tax)	800 000

B. **Rent income:**
Rent income, R231 840 included the rent for March and April 2019.
Rent was increased by 7% on 1 October 2018.

C. **Fixed deposits:**
One of the fixed deposits, R350 000, matures on 30 September 2018. The rest matures in 2021.

D. **Fixed assets**

- Land and buildings amounted to R3 600 000 on 28 February 2019.
- Vehicles at book value amounted to R1 600 000 on 1 March 2018, depreciation is calculated at 10% p.a. on the diminishing balance method.
- All equipment was bought on 1 September 2015 at R1 200 000, depreciation is calculated at 15% on cost price.

E.. **Share capital:**

The authorized share capital comprises 2 000 000 ordinary shares.	
1 March 2018	700 000 shares were in issue.
1 June 2018	200 000 new shares were issued at R14,00 each
26 February 2019	60 000 shares were repurchased at R13,00 per share
28 February 2019	Share Capital amounted to R5 418 000

F. **Dividends:**

- Interim dividends of R268 000 were paid on 31 August 2018. This was correctly recorded.
- Final dividends of 70 cents per share were declared on 28 February 2019 and will be paid after the AGM in April 2019.

G. **Mortgage loan from ABC Bank:**

Balance at beginning of the year	R600 000
Interest capitalized	R16 000
Repayments including interest	R112 000

Note: Capital repayments will be the same in the next financial year

- H. **Net profit and tax:**
- The correct net profit before tax for the year ended 28 February 2019 was calculated to be R2 500 000 after making all the adjustments.
 - No entry has been made for income tax at the rate of 30% of the net profit.
- I. The current ratio is 1,5: 1 on 28 February 2019.

4.3 PHAMBILI LIMITED

The information below relates to Phambili Ltd. The financial year ended on 28 February 2019.

REQUIRED:

- 4.3.1 Prepare the following notes for the financial year ended 28 February 2019.
- (a) Ordinary share capital (11)
- (b) Retained income (11)
- 4.3.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2019. Where notes are not required, show ALL workings. (29)

INFORMATION:

- A Balances extracted from the accounting records on 28 February 2019 (unless otherwise stated).**

	R
Ordinary share capital (1 March 2018)	1 220 000
Retained income (1 March 2018)	355 500
Loan from VDS Bank	1 376 000
Fixed assets at carrying value	1 499 500
Fixed deposit: Sandton Bank	?
Trading stock	480 000
Creditors' control	177 500
Debtors' control	400 000
Packing material on hand	16 000
Accrued expenses (expenses payable)	10 000
Income received in advance (deferred income)	11 500
Bank (favourable)	1 010 100
Provision for bad debts (1 March 2018)	6 200
SARS: Income tax (provisional tax payments)	1 180 000
Ordinary share dividends	350 000

B Share capital:

- Phambili Ltd. is authorised to sell 6 000 000 ordinary shares.
- 500 000 shares were in issue on 1 March 2018.
- 900 000 new shares were issued on 1 August 2018 at R3,00 per share. This has been properly recorded.
- 150 000 shares were repurchased on 10 January 2019 from a disgruntled shareholder for 75 cents above the average share price. This transaction was not recorded. This shareholder does not qualify for final dividends.

C Dividends:

The Directors declared a final dividend of 50 cents per share on 28 February 2019.

D Provision for bad debts:

The provision for bad debts must be decreased to R5 400.

E Loan:

- The loan was received on 1 September 2016.

- This loan is to be repaid over 6 years in equal monthly instalments with effect from 1 October 2016. All payments have been made.
- Interest is not capitalised and has been paid in full.

F Taxation:

After taking into account all relevant information, taxation for the year was accurately calculated to be R1 148 000 at 28%.

4.4 COOPER LTD

You are provided with information for the financial year ended 30 June 2019.

REQUIRED:

4.4.1 Refer to **Information B**.

Calculate the missing amounts denoted by **(a)** to **(c)** in The (13
Fixed Asset Note for vehicles.)

4.4.2 Complete the Balance Sheet (Statement of Financial Position) (36
on 30 June 2019. Show ALL workings.)

INFORMATION:**A. Extract from the books on 30 June 2019:**

Balance sheet accounts section	R
Ordinary share capital	3 746 500
Retained income	?
Mortgage loan: Gaga Bank	752 000
Fixed assets at carrying value (balancing figure)	?
Trading stock	450 000
Debtors control	?
Provision for bad debts	17 200
Bank (favourable)	510 640
Petty cash	2 400
Fixed deposit: Shallow Bank (5,5% p.a.)	650 000
SARS (Income tax)	446 500
Creditors control	661 600
Nominal accounts section	
Rent income	176 880
Directors' fees	518 000
Dividends on ordinary shares (interim)	404 800

B. Extract from the Note for Fixed assets

	VEHICLES
Carrying value - Beginning	(a)
Cost	285 000
Accumulated depreciation	(91 200)
Movements	
Additions at cost	180 000
Disposals at carrying value	(b)
Depreciation	(c)
Carrying value - End	
Cost	
Accumulated depreciation	

Additional information in respect of fixed assets:

- Fixed assets consist of Land and buildings, Vehicles and Equipment.
- On 1 July 2018 Cooper Ltd had the following vehicles:
Two delivery vehicles purchased on 1 October 2016 at R142 500 each.
- Depreciation on vehicles is calculated at 20% per annum on the diminishing balance method.
- One of the vehicles was written off in an accident on 31 March 2019. The insurance company, BST Insure, agreed to pay out R79 800 on 31 July 2019.
- Cooper Ltd replaced the delivery vehicle written off with a new vehicle purchased on 1 June 2019 for R180 000. This was correctly recorded.

C. Share capital and dividends

- 80% of the 1 000 000 authorised shares were in issue on 30 June 2019.
- The directors declared a final dividend of 75 cents per share on 30 June 2019.

D. Trading stock and consumable stores on hand

- An invoice issued to a debtor has not been recorded in full. Obsolete goods were sold for R4 000 which is 20% below cost. The selling price was recorded correctly but not the cost price.
- Consumable stores on hand amounts to 15 300 on 30 June 2019.

E. Provision for bad debts has already been adjusted to 4% of the debtors of 2019.

- F. Loan from Gaga Bank**
R300 000 of the loan will be repaid during the next financial year.
- G. The following adjustments have not been taken into account:**
- The tenant has paid rent until 31 July 2019. The rent was increased by R1 320 from 1 April 2019.
 - The two directors earn the same monthly fees. Two month's fees are still outstanding to both the directors.
- H.** After the actual tax was calculated on the corrected net profit for the year, it was found that the provisional tax paid was R23 500 less than the actual tax.
- I.** The NAV per share on 30 June 2019 amounts to 636 cents per share after all adjustments and information were taken into account.

QUESTION 5

5.1 PHILA LTD

You are provided with information relating to Phila Ltd for the financial year ended 31 March 2019. The company is registered with an authorised share capital of 2 000 000 ordinary shares.

REQUIRED:

- 5.1.1 Calculate the following amounts for the Cash Flow Statement:
- Income tax paid
 - Dividends paid
 - Cost of new delivery vehicles purchased (14)
- 5.1.2 Prepare the sections for the Cash Flow Statement on 31 March 2019.
- Cash Effects of Financing Activities (9)
 - Net change in Cash and Cash equivalents (4)
- 5.1.3 Calculate the following financial indicators on 31 March 2019.
- Debt-equity ratio (3)

- Net asset value per share (3)
 - % Return on average shareholders' equity (4)
- 5.1.4 The management decided to change the mark-up % in the current financial year. Was this a good decision? Explain. Quote figures. (3)
- 5.1.5 Comment on the management of expenses. Quote TWO relevant financial indicators to support your comment. (4)
- 5.1.6 Comment on the issue price of the new shares issued on 30 June 2018. Was this fair? Quote figures. (6)
- 5.1.7 Comment on the dividend pay-out policy of the company by comparing 2018 to 2019 and quote relevant figures. (6)
- 5.1.8 Comment on the degree of risk and gearing of the business. Quote TWO financial indicators with figures. (6)
- 5.1.9 How many shares will a shareholder, having 45% of the issued share capital, have to buy to gain control of the company? (4)

INFORMATION:**A Information from the Income Statement for the financial year ended 31 March:**

	2019	2018
Sales	8 300 000	6 650 000
Cost of sales	5 187 500	3 800 000
Gross Profit	3 112 500	2 850 000
Net profit before taxation	1 240 000	931 000
Net profit after taxation	892 800	651 700
Interest on loan	211 000	
Depreciation	425 000	

B Extract from the Balance Sheet on 31 March:

	2019	2018
Fixed assets	10 152 700	7 915 400
Fixed deposit: SSB BANK	250 000	400 000
Shareholders' equity	9 209 000	6 458 200

Current assets (including stock)	794 500	681 300
Trading stock	430 000	198 000
Current liabilities	688 200	538 500
SARS (Income tax)	8 500 (Dr)	12 000 (Cr)
Cash & cash equivalents	0	45 300
Bank overdraft	34 200	2 000
Loan from Zipho Bank	1 300 000	2 000 000
Shareholders for dividends	378 000	300 000

C Share Capital and dividends

1 000 000	Ordinary shares on 1 April 2018	6 360 000
400 000	Shares issued on 30 June 2018 @ R8,60	?
(120 000)	Shares repurchased on 30 March 2019	?
1 280 000	Ordinary shares on 31 March 2019	8 960 000

- An amount of R168 000 above the average share price was paid to repurchase the shares on 30 March 2019.
- An interim dividend of 15 cents per share was paid on 30 September 2018.
- A final dividend was declared on 31 March 2019.

D Fixed Assets

- Old equipment valued at R389 500 was sold at carrying value.
- Extensions to land and buildings costing R2 250 000 were completed during the financial year.
- Additional delivery vehicles were also purchased.

E Financial indicators calculated on 31 March:

	2019	2018
Gross profit on cost of sales	60%	75%
Gross profit on sales	38%	43%
Operating expenses on sales	22%	23%
Operating profit on sales	16%	16%
Market price per share on the JSE	728 cents	630 cents

Net asset value per share	?	646 cents
Earnings per share	69 cents	62 cents
Dividends per share	41 cents	60 cents
% return on shareholders' equity	?	11%
% return on total capital employed	15,3%	13%
% interest rate on loans	13%	13%
Debt/Equity ratio	?	0,3 : 1
Current ratio	1,2 : 1	1,3 : 1
Acid-test ratio	0,5 : 1	0,9 : 1
Period for which stock is on hand	22 days	18 days
Average debtors' collection period	44 days	47 days

5.4 ZOLANI LTD

Information for the financial year ended 30 June 2019 is provided.

REQUIRED:

- 5.4.1 Calculate the missing amount denoted (a) to (d) in the Tangible/Fixed asset note: **(use information C)** (16)
- 5.4.2 Prepare the note for ordinary share capital for the year ended 30 June 2019. (6)
- 5.4.3 Calculate the following amounts that will appear in the Cash Flow Statement on 30 June 2019:
- Dividends paid (4)
 - Tax paid (4)
- 5.4.4 Prepare the cash effects of financing activities section to the Cash Flow Statement for the year ended 30 June 2019. (5)
- 5.4.5 The directors have taken significant decisions which will be reflected in the Cash Flow Statement. Identify TWO of these major

decisions and quote figures. In each case give one consequence of the decision to the business. (6)

5.4.6 Calculate the Percentage Operating Profit on Sales on 30 June 2019: (3)

5.4.7 The minority shareholders have raised their concern over directors and majority shareholder, by using their position of control over the business information to take unfair advantage in purchasing minority shareholders shares.

Briefly explain ONE consequence that might be faced by directors and ONE consequence for majority shareholder. (4)

INFORMATION:

A. Information extracted from the Income Statement on 30 June 2109:

Sales	3 400 000
Operating profit	952 000
Interest expense	56 000
Net profit before tax	810 000
Income tax	243 000

B. Figures extracted from the balance sheet and notes on 30 June:

	2019	2018
Fixed assets	?	?
Mortgage loan	650 000	310 000
SARS-Income tax	R45 000 (cr)	R28 000 (dr)
SARS-PAYE	9 100	7 000
Shareholders for dividends	290 000	230 000
Ordinary share capital	?	5 600 000
Retained income	710 000	490 000

C. Fixed / Tangible assets

	Buildings	Vehicles	Equipment
Carrying value at the beginning	1 100 000		(D)
Cost price	1 100 000	937 500	
Accumulated depreciation		(537 500)	(81 000)
Movements			
Additions	(A)	350 000	120 000
Disposal at carrying value		(C)	(0)
Depreciation		(B)	(25 350)
Carrying value at the end	1 900 000		

Cost price	1 900 000		300 000
Accumulated depreciation			

Additional information in respect of fixed assets:

- An extension to the office block was undertaken during the financial year.
- Equipment of R120 000 was purchased on 1 December 2018.
- The business had three vehicles at the beginning of the year. The following details appeared in the fixed asset register on 1 July 2018:

	VEHICLE 1	VEHICLE 2	VEHICLE 3
Cost price	500 000	437 500	350 000
Accumulated depreciation	(450 000)	(87 500)	-
Date of purchased	1 January 2014	1 July 2017	1 July 2018

NOTE:

- Vehicle 1 is old and is reaching the end of its useful life.
- Vehicle 2 was sold at its carrying value on 1 April 2019
- Depreciation: vehicles at 20% on cost
: equipment at 15% on diminished method

D. Share capital:

- 1 July 2018 issued share capital comprised 800 000 ordinary shares.
- 1 October 2018 additional 200 000 shares issued at R9,80 per share
- 31 March 2019 120 000 shares repurchased at R10 per share. The average price was R7.56.
- 30 June 2019 closing balance comprised 880 000 ordinary shares.

E. Dividends:

- Total dividends for the year amounted to R514 000
- An interim dividend was paid on 1 December 2018 and a final dividend was declared on 30 June 2019.

5.5 FINANCIAL INDICATORS OF TWO COMPANIES

Your friend is an existing shareholder of two companies that sell Books. He presents you with information of both companies.

REQUIRED:

- 5.5.1 Your friend is of the opinion that the liquidity position of Westlands Ltd. is better than that of Northwood Ltd. Quote TWO financial indicators (with figures) to support her opinion. (6)
- 5.5.2 Northwood Ltd. paid off a large portion of their loan during the financial year. Quote TWO financial indicators with relevant figures to show why this was not a good decision taken by the directors. (6)
- 5.5.3 Will the shareholders be satisfied with the price at which the new shares were issued for both companies? Explain. Quote relevant financial indicators and figures for each company. (4)
- 5.5.4 Your friend owns 30 000 shares in each of the companies.
- Calculate the dividends that he earned from each company. (2)
 - Compare and comment on the dividend pay-out policies of the two companies. Provide calculations in your explanation. (2)
 - Explain ONE reason for the dividend pay-out of each company. (4)

Information

A. Financial indicators

	Northwood LTD	Westlands LTD
Current ratio	3,6 : 1	2,4 : 1
Acid-test ratio	0,6 : 1	1,2 : 1
Stock turnover rate	4 times	8 times
Debt-equity ratio	0.2: 1	0,6 : 1
% return on average shareholders' equity	25,4%	14,5%
% return on total capital employed	18,4%	10,2%
% interest rate on loans	10,5%	10,5%
Market price per share on JSE	710 cents	910 cents
Net asset value per share	535 cents	1120 cents
Dividends per share	230 cents	245 cents
Earnings per share	350 cents	285 cents
Additional shares issued at	450 cents per share	1200 cents per share

- B. Both companies have issued 189 000 shares at the end of the current financial year.

Audit reports

- Unqualified – “fairly represent in all material”
- Qualified - “except”
- Disclaimer – “cannot express an opinion”

QUESTION 6**6.1 AUDIT REPORT**

You are provided with an extract from the audit report of the independent auditors of Moody Ltd.

REQUIRED:

- 6.1 .1 Briefly explain the role of an independent auditor. (2)
- 6.1.2 Explain why the independent auditors mentioned IFRS and the Companies Act in the audit report. (2)
- 6.1.3 Provide TWO possible consequences of this audit report on the market price of the shares. (4)

INFORMATION:**EXTRACT FROM THE AUDIT REPORT OF MOODY LTD****Independent Auditor's Responsibility**

We have audited the annual financial statements of Moody Ltd for the year ended 30 June 2019. These financial statements are the responsibility of the company's directors.

Basis for ... Opinion

The fixed assets of R1 564 000 in the Balance Sheet has been overvalued, with no reliable documentation or evidence to justify the revaluation.

Audit Opinion

In our opinion, except for the overvaluation of fixed assets, the financial statements fairly represent the financial position of the company on the 30 June 2019.

Titus & Tlou Chartered Accountants (SA) August 2019	25
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6.2 AUDITING

You are provided with an extract from the report of the independent auditors.

Audit Opinion – To the shareholders:

We have examined the financial statements as set out on Pages 23 to 89.

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company as at 28 February 2019 and the results of their operation and cash flows for the year ended are in accordance with International Financial Reporting Standards (IFRS), and in the manner as required by the Companies Act in South Africa.

Mxo and Frank
Chartered Accountants (SA)
Registered Accountants and Auditors
Midrand, 31 March 2019

REQUIRED:

- 6.2.1 Explain why the shareholders would be satisfied with this audit report. (2)
- 6.2.2 Tello Motlounge, the managing director, has informed the auditors that he intends to buy the unissued shares for himself without informing the other shareholders. What advice should the auditors give to Tello? Explain. (2)
- 6.2.3 Explain why the auditors found it necessary to stipulate the page numbers in the report. (2)
- 6.2.4 Explain TWO major consequences for Mxo and Frank should they be negligent in performing their duties. (4)

6.3 AUDIT REPORT

You are provided with an extract from the audit report of the independent auditors of Cooper Ltd. Read the report and answer the questions that follow.

To Shareholders

Point 1 We have audited the annual financial statements of Cooper Limited for the year ended 30 June 2019, set out on pages 25 to 51.....

Basis for Opinion

Point 2 An amount that was shown as additions to Land and buildings was for revaluations of the Buildings. No audit evidence was provided.

Opinion

Point 3 In our opinion, the financial statements fairly present the financial position of the company at 30 June 2019, except for the increase in the value of the fixed assets in the Balance Sheet.

REQUIRED:

6.3.1 Explain why the auditors did specifically address the report to shareholders? (2)

6.3.2 **Refer to point 1.**

Explain why the independent auditors referred to pages 25-51 in the report. (2)

6.3.3 **Refer to point 2.**

The directors claimed that the value of the buildings increased over the years and that the value must be increased and shown as additions in the fixed asset note.

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

6.3.4 **Refer to point 3.**

- The company received a/an (unqualified/qualified/disclaimer) audit report. (1)
- Give a reason for your answer. (1)

6.4 AUDIT REPORT

You are provided with an extract from the audit report of Graafwater Ltd.

REQUIRED:

- 6.4.1 Choose the correct word from those in brackets and explain your choice.
Graafwater Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.
- 6.4.2 Briefly indicate how this audit report would possibly affect the shares of Graafwater Ltd on the Johannesburg Securities Exchange (JSE). Mention TWO points.
- 6.4.3 You have been appointed as the external auditor of Graafwater Ltd. The managing director, Laetitia Witbooi, has asked you to reflect her directors' fees of R5 million under 'Salaries and wages' in the Income Statement. Would you agree to her request? Give a reason for your answer.

INFORMATION:

Audit Opinion

Because of the significance of the matter described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion the financial statements of Graafwater Limited for the year ended 29 February 2018.

Justin Williams, Chartered Accountants (CA)