



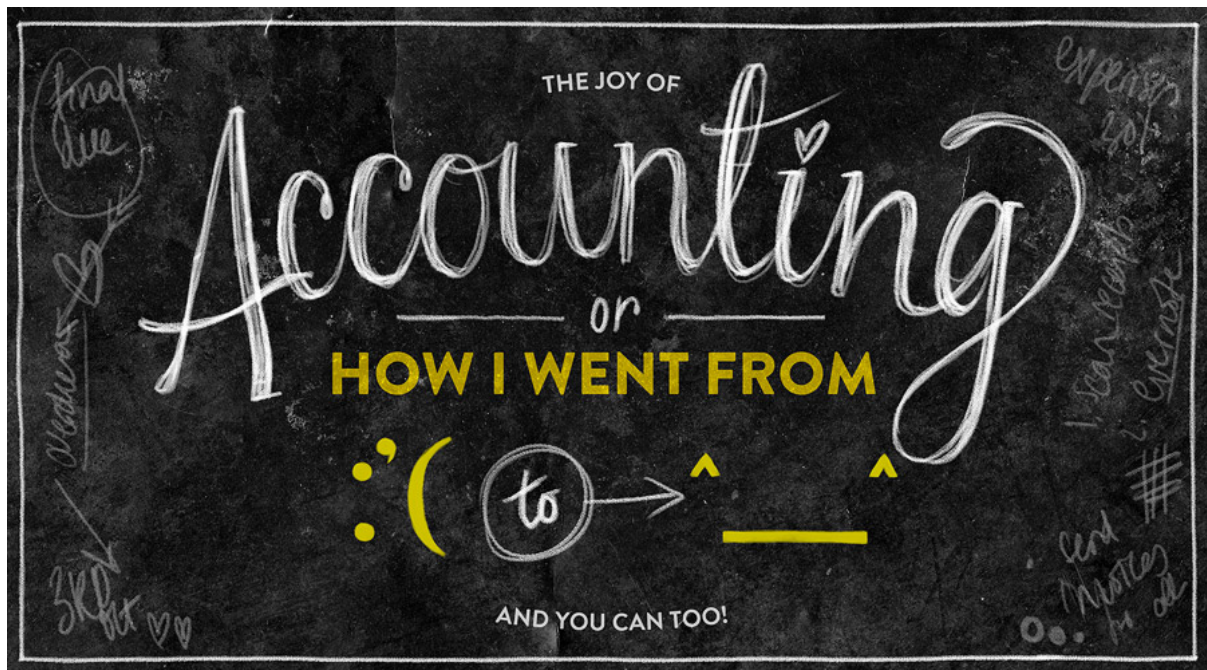
Accounting

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**GRADE 12
ACCOUNTING**

REVISION NOTES

SEPTEMBER 2020



- THEORY
- FORMATS
- EXAM TIPS
- SYLLABUS IN BRIEF
- DETAILED FINANCIAL INDICATORS

THEORY

ETHICS AND CORPORATE GOVERNANCE AND ROLE OF PROFESSIONAL BODIES

King Code III report

- Triple bottom line reporting
ECONOMIC
ENVIRONMENTAL
SOCIAL
- Good Governance are
Discipline (commitment to governance)
Transparency
Independence (not being susceptible to undue influences)
Accountability
Responsible management
Fairness in dealing with stakeholders
Social issues (outside world, the Environment, the wider Community)

The King code often serves to bring focus back to good basic principles. These affect:

EXPRESS AN OPINION ON THE FAIR PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

- Directors and their responsibilities
- Risk Management
- Internal Audit
- Integrated sustainability reporting
- Accounting and independent auditing
- Compliance and enforcement

Code of ethics (combined with suitable internal controls)

Code of ethics if contravened by an employee –

- Within a business written warning/dismissal for repeat offence
- Within the profession disciplinary hearing by professional body
Fine and or deregistration from professional body.
- Illegal or criminal activity Company or employee – civil/criminal court
Pay damages fine/jail sentence.

INTERNAL AUDIT

- Gathers audit evidence – accounting records
- Designs audit sample to be selected
- Sample transactions are tested through the process to check that expected information is produced by the accounting system.
- Audit report details any irregularities found and suggests additional controls.

Gathering evidence

- The people in the organisation involved in the steps in the transaction – critical path
- Source documents used in each step – trail of evidence
- Consequential posting to the ledgers
- Other steps to enhance internal control – reconciliation statements
Fixed asset register

THE INDEPENDENT AUDITOR'S REPORT

The independent auditor's role is to:

FAIR = Unbiased, not favouring any group of stakeholders

There are three types of independent auditor's audit report

CONTROLS

Controls are effective as a preventive measure only if the following conditions apply.

- Division of duties
- Proper documentation
- Proper authorisation
- Proper recording and follow-up

GAAP - Generally Accepted Accounting Practice
IFRS - International Financial Reporting Standards

General rules

- Business Entity rule
- Historical Cost rule
- Rule of prudence
- Matching concept
- Concept of materiality
- Going-concern concept

The general rules need to be more specific. The IFRS statements do exactly this and cover many specific and contentious issues such as depreciation, stock valuation, foreign exchange transactions etc.

UNQUALIFIED REPORT

Has not identified any concern relating to the fair presentation of financial statements. This is the audit report desired by shareholders

QUALIFIED REPORT

Identified a concern relating to the fair presentation of the financial statements. This will be disclosed to the shareholders

DISCLAIMER

The financial statements are not reliable. This is a refusal to express an opinion. This is a very undesirable report which will have further consequences for the company and directors



FORMATS – KNOW THESE WELL!

COMPANY FINANCIAL STATEMENTS

NAME OF BUSINESS: _____

INCOME STATEMENT (STATEMENT OF COMPREHENSIVE INCOME) FOR THE YEAR ENDED

	Note	
Sales		
Cost of sales		
Gross profit		
Other operating income		
Gross operating income		
Operating expenses		
Operating profit		
Interest income		
Profit before interest expense		
Interest expense		
Net profit before tax		
Income tax		
Net profit after tax		

NB:

DO NOT PUT ORDINARY SHARE DIVIDENDS INTO THE INCOME STATEMENT AND NO ASSETS/LIABILITY AMOUNTS...

NAME OF BUSINESS: _____

BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON

ASSETS	Note	
Non-current assets		
Fixed/Tangible assets	3	
Financial assets:		
• Fixed Deposit: YY Bank		
• Investments: BB Shares		
Current assets		
Inventory	4	
Trade and other receivables	5	
Cash and cash equivalents	6	
Total assets		
EQUITY AND LIABILITIES		
Shareholders' equity		
Ordinary share capital	7	
Retained income	8	
Non-current liabilities		
Loan: XX Bank		
Current liabilities		
Trade and other payables	9	
Bank Overdraft		
Total equity and liabilities		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED

<p>1. INTEREST INCOME Interest of Fixed Deposit, Interest on Overdue Debtors accounts, Interest on current, Interest on Savings.</p>	
<p>2. INTEREST EXPENSE Interest on Loan, Interest on overdue Creditors accounts, Interest on bank overdraft,</p>	

3. FIXED/TANGIBLE ASSETS

	Land & buildings	Vehicles	Equipment	Total
Carrying value at beginning of year				
Cost				
Accumulated depreciation				
Movements				
Additions at cost				
Disposals at carrying value				
Depreciation				
Carrying value at end of year				
Cost				
Accumulated depreciation				

4. INVENTORY

Trading stock

Consumable stores on hand

5. TRADE AND OTHER RECEIVABLES

Net trade debtors

Trade debtors

Provision for bad debts

Prepaid Expenses

Accrued Income

SARS (Income Tax) (if a debit balance at the end of the year)

6. CASH AND CASH EQUIVALENTS

Bank

Cash

Petty Cash

Cash Float

Fixed deposit maturing within the next financial year

7. ORDINARY SHARE CAPITAL	
AUTHORISED	
ordinary shares	
ISSUED	
ordinary shares in issue at beginning of financial year	
shares repurchased (average price R)	()
ordinary shares in issue at end of financial year	
8. RETAINED INCOME	
Retained income at beginning of year	
Net profit after tax for the year	
Repurchase of Shares	()
Dividends on ordinary shares	()
Paid	
Recommended	
Retained income at end of year	
9. TRADE AND OTHER PAYABLES	
Trade creditors	
Accrued expenses	
Income Received in advance	
SARS (Income Tax) (if a credit final balance)	
SARS (Paye)	
Creditors for salaries/wages	
Medical Aid	
UIF	
Pension Fund	
Loan: amount payable within the next financial year	
Shareholder for dividend	

Most pupils forget about two amounts here – Shareholders for dividend and SARS (Income tax) - remember these two amounts.

SPACE FOR NOTES MADE DURING SESSION:

NAME OF BUSINESS: _____

CASH FLOW STATEMENT FOR THE YEAR ENDED

	Note	
Cash flows from operating activities		
Cash generation from operations		
Interest paid		()
Dividends paid		()
Tax paid		()
Cash flows from investing activities		
Purchase of non-current assets		()
Proceeds of sale of non-current assets		
Cash flows from financing activities		
Proceeds from issue of share capital		
Payment of capital portion of long-term loan		()
Proceeds from long-term loan		
Net change in cash equivalents		
Cash and cash equivalents – beginning of year		
Cash and cash equivalents – end of year		

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED

1. Reconciliation between profit before taxation and cash generated from operations	
Profit before tax	
Adjustments in respect of:	
Depreciation	
Interest expense	
Operating profit before changes in working capital	
Changes in working capital:	
Increase/decrease in inventory	
Increase/decrease in debtors(Trade and other receivables)	
Increase/decrease in creditors (Trade and other payable)	
Cash generated from operations	

2. Cash and cash equivalents	Net change		
Fixed Deposit (maturing within 12 months)			
Savings account			
Bank			
Cash Float			
Petty Cash			

3. Dividends paid	
Amount owing at the end of the previous year	
Dividends paid and recommended	
Amount owing at the end of the current year	()
Amount paid	
4. Taxation paid	
Amount owing at the end of the previous year	
Income Statement amount	
Amount owing at the end of the current year	()
Amount paid	

Brackets will be opposite if amounts are not owing. They owe us at beginning = () amount at the end of the year owed to us – no bracket.

NOTE NO 3 AND 4 CAN ALSO BE IN LEDGER FORM – RECOMMENDED

SPACE FOR NOTES MADE DURING SESSION:

Alternate:

NAME OF BUSINESS: _____

BANK RECONCILIATION STATEMENT ON

Balance as per bank statement	
Outstanding deposits	
Outstanding cheques	
•	()
•	()
•	()
Balance as per bank account	

- THIS FORMAT HAS ONLY ONE COLUMN. SHOW A NEGATIVE BY MEANS OF A BRACKET.

NAME OF BUSINESS: _____

CREDITORS RECONCILIATION STATEMENT ON

	Debit	Credit
Balance as per BB Statement	xxxx	
Invoice wrongly debited		Xxxx
Outstanding cheque		Xxxxx
Balance as per creditors ledger		xxxxx
	xxxxxxxxx	xxxxxxxxx

Alternate:

NAME OF BUSINESS: _____

CREDITORS RECONCILIATION STATEMENT ON

Balance as per BB statement	
Invoice error (too much)	()
Outstanding cheque	()
Balance as per ledger account	

AGE ANALYSIS

90+ days	60+ days	30+ days	Current

SPACE FOR NOTES MADE DURING SESSION:

NAME OF MANUFACTURER: _____

PRODUCTION COST STATEMENT FOR THE PERIOD ENDED

	Note	
Direct / Prime costs		
Direct material costs		
Direct labour costs		
Factory Overheads		
Total manufacturing costs		
Work-in-process at beginning of the year		
Work-in-process at end of the year		()
Cost of production of finished goods		

INCOME STATEMENT FOR THE PERIOD ENDED

	Note	
Sales		
Cost of finished goods sold / Cost of sales		()
Gross profit		
Other costs		()
Selling & distribution costs		
Administration costs		
Net profit		

NOTES TO THE FINANCIAL STATEMENTS

1. DIRECT MATERIAL COSTS	
Opening stock	
Purchases (net)	
Carriage on Purchases	
Customs duty	
Closing stock	()
Direct material cost	

2. DIRECT LABOUR COSTS	
Factory wages	
Pension fund contributions	
Medical aid Fund contributions	
UIF Contributions	
DIRECT LABOUR COST	XXXXXXXX
3. FACTORY OVERHEAD COSTS	
Factory Maintenance	
Factory electricity	
Factory rent	
Depreciation on factory equipment	
Consumable stores *	
• *opening stock + bought – left over	
Factory overhead costs	XXXXXXXXXXXX
4. SELLING AND DISTRIBUTION COSTS	
Rent	
Depreciation	
Delivery vehicle expenses	
Commission to salespersons	
Selling and distribution costs	XXXXXXXXXXXX
5. ADMINISTRATION COSTS	
Wages	
Electricity	
Rent	
Depreciation	
Administration costs	XXXXXXXXXXXX

. 6 COST OF FINISHED GOODS SOLD / FINISHED GOODS	
Opening stock of finished goods	
Cost of finished goods produced during the year	
Closing stock of finished goods	()
Cost of finished goods sold / Cost of sales	

SPACE FOR NOTES MADE DURING SESSION:

NAME OF BUSINESS: _____

CASH BUDGET OF FOR THE PERIOD

RECEIPTS				Total
Cash Sales				
Receipts from debtors				
Total receipts [A]				
PAYMENTS				
Cash Purchases				
Payment to creditors				
Total payments [B]				
Cash surplus (shortfall) [A – B]				
Bank: opening balance				
Bank: closing balance				

- Under Cash Receipts = any cash received - sale of fixed asset (note- not the profit) the actual cash received.
- Under Cash Payments = any cash paid. Equipment bought and paid for. Etc.

Note: Know the difference between Cash Budget and the Projected Income Statement.

Examples: Depreciation will not go to the Cash budget , but will go to Income Statement
 Equipment bought and paid for will go to Cash Budget but NOT to Income Statement.
 Bad Debts and Discount Allowed and discount received will go to income statement NOT to Cash Budget.

NAME OF BUSINESS: _____

DEBTORS COLLECTION SCHEDULE FOR THE PERIOD

Total sales						
Cash sales						

Credit sales						
Debtors' collections						

Alternate:

NAME OF BUSINESS: _____

DEBTORS COLLECTION SCHEDULE FOR THE PERIOD

Credit sales				
<u>Debtors' collections</u>				
Cash receipts from debtors				

Alternate:

NAME OF BUSINESS: _____

DEBTORS COLLECTION SCHEDULE FOR THE PERIOD

	Credit sales			
Debtors collections				

NAME OF BUSINESS: _____

CREDITORS PAYMENT SCHEDULE FOR THE PERIOD

Payments to creditors				

NAME OF BUSINESS: _____

PROJECTED INCOME STATEMENT FOR THE PERIOD

				Total
Sales				
Cost of sales				
Gross profit				
Other operating income				
Gross operating income				
Operating expenses				
Operating profit/loss				
Interest income				
Profit/Loss before interest expense				
Interest expense				
Net profit/loss for the year				

SPACE FOR NOTES MADE DURING SESSION:

EXAM TIPS

Accounting is a PRACTISE subject - **Practise, Practise, Practise, Practise**

- Plan a work **time table** and go through each section. Spend more time on Companies – The mark allocation is the most in your final paper – do not cram – do not work the night before – make sure you have a **good night sleep** the night before.
- Make sure you have all the necessary **stationery** – take in an extra calculator.
- **READ** your question carefully – most mistakes are made because pupils have not read the question correctly.
- Show **ALL your working** – this is very important. The marker cannot allocate marks if your workings are not shown. If your final answer is wrong you will still get marks.
- Write clearly and neatly
- When answering theory questions do not “waffle” be concise and to the point.
- If you get stuck on one question – move on **TIME is of importance**. You can come back to the question later.
- Look at your time and mark allocation – stick to the time.
- Try attempt all the questions and maybe start with the sections you know well. This will save valuable time struggling with a topic that you find difficult
- BE POSITIVE, CONFIDENT AND CALM
- BELIEVE IN YOURSELF

GOOD LUCK FOR YOUR FINAL EXAMS

*May each new day bring a feeling
of excitement, joy and a wonderful sense of expectation.*

Expect the best and you'll get it

- Regina Hill

KNOW ALL THESE FORMULAS

No	Ratio Percentage	Formula	Relevant to:
1	Gross profit on Cost of sales	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times 100$	Profitability Operating efficiency
2	Gross profit on sales (turnover)	$\frac{\text{Gross profit}}{\text{sales}} \times 100$	Profitability Operating efficiency
3	Operating expenses on sales	$\frac{\text{Operating ex}}{\text{sales}} \times 100$	Operating efficiency
4	Operating Income on sales	$\frac{\text{Operating inc}}{\text{sales}} \times 100$	Profitability Operating efficiency
5	Net profit after tax on turnover	$\frac{\text{Net profit after tax}}{\text{sales}} \times 100$	Profitability Operating efficiency
6	Current Ratio	Current Assets: Current Liabilities	Liquidity
7	Acid Test ratio	Current asset- Trading stock : Current Liabilities	Liquidity
8	Rate of stock on turnover	$\frac{\text{Cost of sales}}{\text{Average stock}}$	Liquidity Operating efficiency
9	Stock holding period (in days)	$\frac{\text{Average stock}}{\text{Cost of sales}} \times 365$	Liquidity Operating efficiency
10	Debtors average payment period (in days)	$\frac{\text{Average debtors}}{\text{Credit sales}} \times 365$	Liquidity Operating efficiency
11	Creditors average payment period (in days)	$\frac{\text{Average creditors}}{\text{Credit Purchases}} \times 365$	Liquidity Operating efficiency
12	Solvency ratio	Total Assets : Total Liabilities	Solvency
13	Debt/equity ratio	Long-term liabilities : Shareholders equity	Risk gearing
14	Return on capital employed	$\frac{\text{Net profit before tax and interest on loans}}{\text{Average capital employed}} \times 100$	Return, gearing
15	Return on shareholders' equity	$\frac{\text{Net profit after tax}}{\text{Average shareholders' equity}} \times 100$	Return to shareholder
16	Earnings per share	$\frac{\text{Net profit after tax}}{\text{Number of issued shares}} \times 100$ (cents)	Return to shareholder
17	Dividends per share	$\frac{\text{Dividend paid and declared}}{\text{Number of issued shares}} \times 100$ (cents)	Return to shareholders
18	Net asset value per share	$\frac{\text{Ordinary shareholders equity}}{\text{Number of issued shares}} \times 100$	Share value

What is “average” = balance at the beginning + balance at the end /2.

Credit Purchases = If not given use the cost of sales amount.

Make sure you know the difference between these two formulas

Return on shareholders' equity and Return on Capital Employed

Return on shareholders' equity – compare to other investments

Return on Capital Employed – Look at debt equity ratio and interest on loan

LIQUIDITY –

- Current ratio
- Acid test ratio
- Debtors collection period
- Creditors payment period
- Stock turnover rate
- Stock holding period

A. FIXED/TANGIBLE ASSETS

All assets purchased are recorded in a Fixed Asset Register. Periodically the Fixed Asset Register is reconciled with a physical count of assets. Internal control and decision around replacing the assets can also be made at this time.

Control measure

- Log book
- Coded keys
- Signing in and out
- Enclosed garages
- Check list before and after use
- One person to take control – fixed asset manager.
- Regular services
- Disciplinary measured when asset misused
- Clear guideline on use of assets

SPACE FOR NOTES MADE DURING SESSION:

COVERAGE OF TOPICS – GRADE 12

<p>COMPANIES</p>	<ul style="list-style-type: none"> • Issuing of shares at issue price • Buying back of shares • Loans and interest (interest on mortgage loan is capitalized) • Income Tax • Dividends • Directors' fees • Audit fees • Trading stock deficit/surplus • Consumable stores on hand • Deprecation • Bad debts • Correction of errors/omissions • Accrued income • Income received in advance • Expenses prepaid • Accrued expenses • Provision for bad debts • Adjustments related to income tax • Adjustments related to the payment and declaration of dividends • Statement of Comprehensive Income • Statement of Financial Position • Statement of Cash Flows and notes using the indirect method only • Integrate ethical considerations • Apply GAAP principles and IFRS • Liquidity ratios • Solvency and gearing ratios • Return ratios
<p>THEORY</p>	<ul style="list-style-type: none"> • Briefly discuss the difference between a company and other forms of ownership with reference to liability, legal status, documentation required to form a company (MOI) and different kinds of companies • Role of Directors and independent/non-executive directors, auditors and the Audit committee • The difference between an internal auditors report and an external auditors report. • The difference between a qualified and unqualified external auditors report • What is audit evidence and how is audit evidence collected. • The need for Good Corporate Governance, which is based on the principles of good leadership and sustainability. Leadership principles of accountability, fairness, transparency, and sustainability in term of financial, society and the environment. • The role of the King Code in ensuring that companies. *look at and report on the sustainability and triple bottom line: their financial results as well as their impact on society and the environment. *the role of directors in ensuring good leadership
<p>ETHICS</p>	<ul style="list-style-type: none"> • Briefly understand the role of professional bodies SAICA and SAIPA. • Discuss briefly disciplinary and punitive measures that can be applied for non-compliance with the Code of Professional conduct. • Integrate ethical considerations roles of shareholders/directors, manipulation of share prices, corporate governance, etc. • Understand the legislation governing companies – basic principles in Companies Act, i.e. directors' performance evaluation, remuneration policies, conflict of interest, and responsibilities of directors.
<p>MANUFACTURING</p>	<ul style="list-style-type: none"> • Define and explain accounting concepts unique to a manufacturing business. • Prepare, present, analyse, interpret and report on cost information for manufacturing enterprises. • Prepare a production cost statement with notes for manufacturing costs • Prepare a short-form Statement of Income with trading statement and profit and loss statement; and notes for administration cost and selling and distribution cost. • Calculate gross profit on finished goods sold. • Calculate variable and fixed costs. Direct material and labour costs will always be regarded as variable but in assessment task the percent of fixed and variable amount must be given for manufacturing overheads, administration and selling and distribution costs. • Calculate the cost of a product using variable and fixed costs. • Calculate the cost per unit. Be careful of using this calculation if there was opening and closing stock of raw materials, work-in-process or finished goods stock. • Calculate contribution per unit • Calculate total cost of production. • Analyse the production cost statement to identify problem areas and areas where costs may be cut. • Make suggestions to reduce the manufacturing cost for the business. • Integrate ethical issues relating to manufacturing: product quality, product age, raw materials, support for local products, price-fixing, theft, fraud etc. • Integrate internal audit and control processes relating to manufacturing.

BUDGETS	<ul style="list-style-type: none"> • Complete and analyse a Projected Income Statement • Calculate, from a projected income statement, basic expected ratios; • Complete, Analyse, interpret and compare the cash budgets for sole traders and companies • Complete and analyse Debtors' collections/schedule • Complete and Analyse Creditors' payment/schedule • Analyse budget items in a cash budget and forecast income statement so as to: <ul style="list-style-type: none"> - Identify problem areas - Compare actual vs. budgeted figures - Suggest solutions for problems identified • Integrate internal audit and control processes by comparing budget to actual figures • Ratios relating to liquidity, profitability, solvency, gearing and rerun on capital employed. • Integrate ethical issues relating to budgeting and projections.
STOCK SYSTEMS	<ul style="list-style-type: none"> • Specific identification (of cost price per unit) • Periodic and perpetual stock recording systems. When assessing the periodic system, it must be stated whether this is used on a monthly or year basis to calculate cost of sales. • First in, first out (FIFO) and Weighted average as methods of valuing stock. • When using weighted averages and the perpetual stock recording system, the value of stock changes every time new stock is bought. • Integrate IFRS/GAAP principles and • Ethical issues integrate internal audit and control processes relating to inventories • Ratios relating to stock • Controls relating to stock/ethics
TANGIBLE ASSETS	<ul style="list-style-type: none"> • Complete and analyse the tangible asset note. • Interpret and report on the movement of fixed assets (age of assets replacement rate and lifespan of assets) • Integrate IFRS/GAAP principles relating to fixed assets. • Integrate ethical issues relating to fixed assets • Integrate internal audit and control processes relating fixed assets • Ratios related to borrowing of money to buy fixed assets • Completing and analysing a tangible asset note or asset register
VAT	<ul style="list-style-type: none"> • Calculate the amount payable to or receivable from the SARS. Complete of the VAT control ledger account from given information. • Debtors allowances, discount allowed and discount cancelled on r/d cheques and bad debts will be offset against output VAT. • Creditors allowances, discount received will be offset against input VAT • VAT on drawings and donations will be offset against input VAT • VAT on disposal of assets • Understand the concept of VAT returns and the standard procedure to calculate VAT for two-month period, to be paid on the 25th of the third month. • Understand the difference between the invoice basis and cash basis for calculating VAT • Integrate ethical issues relating to VAT • Integrate internal audit and control processes.
RECONCILIATIONS	<ul style="list-style-type: none"> • Analyse and interpret bank, debtors' and creditors' reconciliations: • Reconcile creditors' statements with their personal accounts • Reconcile debtors lists and creditors lists with control accounts • Analyse and interpret debtors' age analysis • Analyse and interpret bank statements and bank reconciliation statements. • Integrate ethical issues relating to cash, debtors and creditors: payment period, interest, credit rating, fraud etc. • Integrate internal audit and internal control issued relating to cash, debtors and creditors
CONTROL	<ul style="list-style-type: none"> • Identify and explain different types of accounting controls e.g. numbered source documents, electronic devices that limit the entry into specific areas • Identify a need for a control • Identify a viable control in a particular situation • Identify when an existing control is not working.

FINANCIAL INDICATORS

RATIO	PURPOSE
<ol style="list-style-type: none"> 1. GP on Cost of sales 2. GP on Turnover 3. Total Expenses on Turnover 4. Operating profit on turnover 5. Net profit after Tax on Turnover 	<ul style="list-style-type: none"> • Determine the level of profitability and operating efficiency of the business (How profitable is the business) • Verify the mark-up (Business policy on Gross Profit on Sales) • Check on control over expenses. • Check on control over stock/inventory (Applicable to periodic inventory system)

PROFITABILITY RATIOS/PERCENTAGES

RATIO	COMMENTS
<p>1. Gross profit on Cost of Sales</p> $\frac{\text{Gross profit} \times 100}{\text{Cost of sales}}$ <p>Answer = x %</p>	<p>Periodic Inventory System</p> <ul style="list-style-type: none"> • Verify mark-up • Compare with the previous year and determine the extent of the drop in percentage. <p>If the business uses the Periodic Inventory System and a Fixed Mark-up and the % mark-up is lower than as per policy, then the drop in mark-up can be attributed to the following:</p> <ul style="list-style-type: none"> • Trade discounts were offered to bulk buyers • Stock was discounted during a stock clearance sale • Errors in calculating mark-up • Theft of stock <p>If the business used a variable mark-up, the result would be an average mark-up of the previous year to see if there is an improvement or decline in the mark-up</p> <p>Continuous Inventory System(Perpetual)</p> <ul style="list-style-type: none"> • Verify mark-up • Compare with the previous year and determine the extent of the drop in percentage. <p>If the business uses the Perpetual/Continuous Inventory System and a Fixed Mark-up and the % mark-up is lower than as per policy, then the drop in mark-up cannot be attributed to theft of stock. It can be attributed to the following:</p> <ul style="list-style-type: none"> • Trade discounts were offered to bulk buyers • Stock was discounted during a stock clearance sale • Errors in calculating mark-up • Theft of stock is not applicable.
<p>2. Gross Profit on Turnover</p> $\frac{\text{Gross profit} \times 100}{\text{Turnover}}$ <p>Answer = x %</p>	<ul style="list-style-type: none"> • Check on GP Policy on Turnover to see if it is maintained • For very R1 of sales, x % was the gross profit • Compare with the previous year • A drop in % could be attributed to the same reasons as in the case of a drop in Gross profit on Cost of Sales

THE EFFECT OF TRADING STOCK ON GROSS PROFIT

Note: The business uses a fixed mark-up of 100 % on cost

TRADING STATEMENT	EXAMPLE 1	EXAMPLE 2
Opening stock	100 000	100 000
Purchases	450 000	450 000
Carriage of purchases	25 000	25 000
Customs duty	15 000	15 000
Import duties	10 000	10 000
TOTAL VALUE OF GOODS AVAILABLE FOR SALE	600 000	600 000
closing stock	(150000)	(90 000)
Cost of sales	450 000	510 000
Gross Profit	450 000	390 000
Sales	900 000	900 000
Gross Profit on Cost of Sales	100 %	76,5 %

STOCK CONTROL

Periodic Inventory System	Continuous Inventory System
<p>Fixed Mark-up</p> <ul style="list-style-type: none"> • Fixed mark-up will assist in monitoring stock • Calculation of GP on COS must indicate whether the mark-up is maintained • If the mark-up is lower it indicates there are stock shortages 	<p>Take physical stock and compare it with the balance on the Trading Stock account to establish stock shortages</p>
<p>Variable Mark-up</p>	

<ul style="list-style-type: none"> Stock shortages would be by comparing the average ark-up with the previous year <p>Other reasons for a drop in mark-up:</p> <ul style="list-style-type: none"> Goods were discounted during a period of sales Goods were discount to promote bulk sales 							
<p>3. Total Expenses on Turnover(sales)</p> $\frac{\text{Total expenses} \times 100}{\text{Turnover}}$	<ul style="list-style-type: none"> This shows what portion of the GP on Turnover is used for Operating expenses. Compare result with the previous year to see if the % is a lower (improvement in control over expenses) or if the % is higher (poor control over expenses) Identify specific expenses that need to be curbed Guard against decreasing salaries and wages to improve control over expenses. (Note that macroeconomics is not only about making a profit but it is also a social responsibility insofar as creating jobs is concerned. Advertising expenditure seen in relation to sales. 						
<p>4. Net Income after Tax on Turnover</p> $\frac{\text{Net Income after tax} \times 100}{\text{Turnover}}$	<ul style="list-style-type: none"> If the drop in % from GP on turnover to Net profit after Tax on turnover is very high, then the focus must be on curbing expense including interest expense since the cost of financing will have an effect on the ratio (see 3 above) Compare result with the previous year to assess whether there is an improvement or deterioration in the control over expense 						
RATIOS	PURPOSE						
<p>B. Liquidity Ratios</p> <ol style="list-style-type: none"> Current Ratio Acid Test Ratio Rate of stock Turnover Period for which enough Stock is on hand Debtors Average Collection Period Creditors' Average Payment period 	<p>To assess whether the business can pay off its immediate debts/its short-term obligations</p> <p>Make comparisons with the results of the previous year and comment on:</p> <ul style="list-style-type: none"> The cause and level of improvement OR deterioration <p>Points to consider when calculating ratios:</p> <ul style="list-style-type: none"> When calculating a ratio, the left side of the ratio must be divided by the right hand side of the ratio. Therefore, the right hand side of the ratio will always be equated to 1 i.e. the result would read x: 1 When calculating the Rate of Stock Turnover, the result would read "x times per year" (refer to 4, 5 and 6 below) <p>It is highly recommended that a period is calculated in days and not in months, it is easier to comment of the exact number of days than on a fraction of a month. Therefore, in the calculation multiply by 365 days to arrive at an answer in days.</p>						
Liquidity Ratios							
RATIO	COMMENTS						
<p>1. Current Ratio</p> <p>Current Assets : Current Liabilities</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;">Inventories</td> <td style="width: 50%;">Payables</td> </tr> <tr> <td>Receivables</td> <td>Bank overdraft</td> </tr> <tr> <td>Cash</td> <td></td> </tr> </table>	Inventories	Payables	Receivables	Bank overdraft	Cash		<ul style="list-style-type: none"> How much of current assets does the business have for every R1 of current liability? Is the business liquid? How does the result compare with the previous year? Will the business be able to pay its short-term debts? What can a higher ratio be attributed to? High stock levels Obsolete stock Inventory is valued at prices higher than the realistic value Increase in debtors through credit sales Increase in cash through loans What can a lower ratio be attributed to: Decrease in any of the current assets Or Increase in any of the current liabilities
Inventories	Payables						
Receivables	Bank overdraft						
Cash							
<p>2. Acid Test Ratio</p> <p>Current Assets – Inventories: Current Liabilities</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;">Receivables</td> <td style="width: 50%;">Payables</td> </tr> <tr> <td>Cash</td> <td>Bank overdraft</td> </tr> </table>	Receivables	Payables	Cash	Bank overdraft	<p>The acid Test Ratio is calculated to:</p> <ul style="list-style-type: none"> Assess the ability of the business to pay off its short-term debts without having to sell its stock (inventory) How much of current assets excluding stock does the business have for every R1 of current liability? Why is stock excluded? 		
Receivables	Payables						
Cash	Bank overdraft						

	<ul style="list-style-type: none"> ➤ Obsolete stock cannot be converted to cash quickly ➤ Stock may be over priced and cannot be sold quickly ➤ Generally, stock cannot be converted to cash quickly ➤ To determine the extent to which the business has invested in stock. How will this be determined? By examining the drop between the Current Ratio and the Acid Test Ratio <p>Other factors that can affect the ratio:</p> <ul style="list-style-type: none"> ➤ Cash invested in Fixed Deposits ➤ Debtors are taking too long to pay ➤ Creditors are being paid too soon. <p>How does the result compare with the previous year? Will the business be able to pay its short-term debts?</p>
<p>3. Rate of Stock Turnover</p> <hr/> <p>Cost of sales Average stock</p> <hr/> <p>Answer = x times per year</p>	<p>The Rate of Stock Turnover is calculated to check the liquidity and operating efficiency of the business by determining the number of time stock is replaced in a year.</p> <ul style="list-style-type: none"> ➤ A high stock turnover rate is advantageous and would result in: <ul style="list-style-type: none"> • Increased sales (Turnover) • Increased cash sales would improve cash flow (Money is available more quickly) • Increase in turnover would lead to profits being realized more quickly ➤ A lower stock turnover rate could be as a result of: <ul style="list-style-type: none"> • Stockpiling due to ageing, poor quality or changes in fashion • Wrong purchases • Wrong purchase policy (When must stock be replaced) • Poor sales • Economic circumstances <p>Consequences of stock piling:</p> <ul style="list-style-type: none"> • Incur costs for storage (rent etc.) Profits decrease • Cash is tied to stock that cannot be sold easily because it is outdated. Affects liquidity <p>How does this result compare with the previous year?</p>
<p>4. Period for which enough stock on hand</p> <hr/> <p>Average stock x 365 Cost of sales</p> <hr/> <p>Answer – x days</p>	<p>The period for which enough Stock is on Hand is calculated to help the business in planning and replenishing stock. This process involves:</p> <ul style="list-style-type: none"> • Adhering to the purchasing policies • Timeous placing of orders • Checking up on availability of stock <p>If the period is long it indicates that more working capital is tied up in stock (Working Capital = Current Assets- Current Liabilities) It must be noted that the type of business will also influence the period e.g.</p> <ul style="list-style-type: none"> • Clothing may be replaced seasonally. Approximately four time a year • Groceries and other food items may be replaced more rapidly that is, daily or weekly <p>How does this result compare with the previous year?</p>
<p>5. Debtors' average collection period</p> <hr/> <p>Average Debtors x 365 Credit Sales</p> <hr/> <p>Answer = X days</p>	<p>The debtors' collection period is calculated to determine whether debtors are complying with the credit terms policy.</p> <p>If the collection period exceeds the terms for collection in the policy, it means that the credit terms policy is not efficient and the consequences are as follow:</p> <ul style="list-style-type: none"> • The business would not have sufficient cash to meet its financial obligations for e.g. payment to creditors, paying salaries and other operating expenses. • The business would have to borrow as a result cash flow constraints and would have to pay interest on overdraft.

	<ul style="list-style-type: none"> Compare the result with the previous year and if the payment has worsened, it means that there is a regression in credit regulation. <p>If the collection period complies with the credit terms policy or it is shorter than the terms for collection it means that:</p> <ul style="list-style-type: none"> Offer settlement discounts Charge interest on overdue accounts Regular communication with debtors to settle their account. Communicate by: <ul style="list-style-type: none"> Sending out monthly statements Following-up telephonically or by SMS Escalating the account to senior credit controller if payment is not forthcoming. <p>N.B. The Debtors' Collection period must be shorter than the Creditors' Payment Period</p> <p>Important: How does this result compare with the credit terms policy? How does this result compare with the previous year?</p>
<p>6. Creditors' Average Payment period</p> <hr/> <p>Average Creditors x 365</p> <hr/> <p>Credit Purchases</p> <p>Answer = x Days</p>	<p>The creditors' payment period is calculated to determine the following:</p> <ul style="list-style-type: none"> Whether there is compliance with the credit terms facilities arranged with creditors Whether it is in keeping with the internal payment policy of the business so that: <ul style="list-style-type: none"> Settlement discounts are received Interest is not charged on overdue accounts Supplies are not halted due to late payment <p>A longer period of payment is always better because</p> <ul style="list-style-type: none"> It does not create financial constraints on the business Surplus cash could be invested and interest could be earned on it (Money Market account, 32-day call account etc.)
RATIO	PURPOSE
<p>C Solvency (refers to Shareholders' Equity)</p> <p>Solvency can be calculated as a ratio or as an amount</p> <p>Ratio = Total Assets: Total Liabilities</p> <p>Amount = Total Assets – Total Liabilities = Shareholders' Equity</p>	<p>This ratio tests the credit worthiness of the business and indicates whether the business can meet all its commitments.</p>
Solvency Ratios	
Ratio	Comment
Solvency	
Total Assets : Total Liabilities	
RATIO	PURPOSE
<p>D Gearing</p>	<p>This ratio is calculated to assess the extent to which the business is financed through loans as against won capital raised through the sale of shares. Hence, it indicates the degree of financial risk of the business.</p> <p>Note</p> <ul style="list-style-type: none"> Loans are subject to a finance cost viz. Interest on loan (Risk) Share capital is not subject to a cost <p>This shows the ratio between: Borrowed Capital and Own Capital (Non-current Liabilities) (Shareholders' Equity)</p> <ul style="list-style-type: none"> Loans Share Capital Retained Income

		IMPORTANT: Use this ratio to comment on Loans
Gearing Ratios/Percentages		
Ratio	Comment	
Debt to Equity ratio Borrowed Capital : Own Capital (Non-Current Liabilities) (Shareholders' Equity) > Loans > Share Capital > Retained Income Important: Use this ratio to comment on loans	This ratio tests the credit worthiness of the business and indicates the extent to which the business is geared (financed) by loans Credit providers are the interested parties: <ul style="list-style-type: none"> > Banks > Creditors High Gearing <ul style="list-style-type: none"> > High risk (disadvantageous) > Loans are high > Costly – interest has to be paid Low Gearing <ul style="list-style-type: none"> > Low risk (advantageous) > Regarded as creditworthy by banks Improvement in the ratio can be attributed to: <ul style="list-style-type: none"> • Increase in the number of shares issued • Decrease in loans through partial repayments How does the ratio compare with the previous year?	
RATIOS	PURPOSE	
E Return 1. Return on average Shareholders' Equity (ROSHE) 2. Return on Total Capital Employed (ROTCE) 3. Earnings per share (EPS) 4. Dividends per share (DPS) 5. Net Asset value per Share (NAV)	These ratios test the efficiency of the investment in the company. Comparisons against other forms of investments are crucial The information derived from these percentages assist the directors and shareholders in decision making insofar as the investment in the company is concerned.	
Return Ratio/Percentages		
Ratio/Percentage	Comment	
1. Return on Shareholders' Equity (ROSHE) $\frac{\text{Net income after Tax} \times 100}{\text{Average Shareholders' equity}}$ Answer = X %	This calculation is done to ascertain the Return on Shareholder' Equity. (Investment in the Company) <ul style="list-style-type: none"> • Check the profit on investment • Compare the result against the return on alternative investments • Compare the result against the previous year 	
2. Return on Total Capital Employed (ROTCE) $\frac{\text{Net Profit before Tax} + \text{Interest} \times 100}{\text{Average Capital Employed}}$ Answer = X % Capital employed = Shareholders' Equity + Non-current Liabilities	This ratio indicates whether the business has a return on capital employed that is higher or lower than the percentage paid on loans Important: Use this ratio to comment on loans Consider the following: Positive Gearing; (Favourable) <ul style="list-style-type: none"> • Applies when funds are borrowed at a relatively low interest rate in order to earn relative higher returns Negative Gearing; (Unfavourable) <ul style="list-style-type: none"> • Applied when funds are borrowed at a relatively higher interest rate and the difference between return earned on Capital Employed by utilizing borrowed funds is relatively narrowed down • Example: Interest on loan=15 % compared against the ROTCE of 22% • Applies when interest rates on loans are equal to or relatively higher than the return earned by the company Employed How does the result compare with the previous year?	
3. Earnings per share (EPS) $\frac{\text{Net income after Tax} \times 100}{\text{No of shares issued}}$ Answer = X cents per share Calculation as a percentage	This ratio refers to the return the company earned per share More specifically, it means that this is the amount that the company earned for every share invested in the company. This does not mean that the shareholder received this amount per share. <ul style="list-style-type: none"> • Because a portion of the earning is Retained for further expansion or unforeseen circumstances 	

$\frac{\text{EPS} \times 100}{\text{Price per Share}}$ <p>Answer = X %</p>	<ul style="list-style-type: none"> Shareholders do not receive the immediate benefit, that is the total benefit of the earning This calculation is used by shareholders to gauge the earning per share in relation to the market price of the share for investment purposes. <p>How does the result compare with the previous year?</p>
<p>4. Dividends per Share (DPS)</p> $\frac{\text{Total Dividends for the year} \times 100}{\text{No of Shares issued}}$ <p>Answer – x cents per share</p> <p>Note:</p> <p>Total dividends = Dividend paid (Interim) + Recommended (final) for the year.</p> <p>Calculation as a percentage</p> <hr/> $\frac{\text{DPS} \times 100}{\text{Price Per Share}}$ <p>Answer = X %</p>	<p>This ratio indicates that portion of the total earnings of the company that the shareholders received.</p> <p>The shareholder must compare their earning in the form of dividends with:</p> <ul style="list-style-type: none"> The results of the previous year Alternative investments (% earned) <p>Note:</p> <p>The difference between Earnings per share and Dividends per share is Retained Income</p> <p>EPS -DPS= Retained Income</p> <p>How does the result compare with the previous year</p>
<p>5. Net Asset Value per Share (NAV)</p> $\frac{\text{Ordinary Shareholders equity} \times 100}{\text{No of shares issued}}$ <p>Answer = X cents per share</p> <p>Note:</p> <p>Assets = Shareholders' Equity + Liability Shareholders' Equity = Assets – Liability</p> <p>Hence, Net Assets = Shareholders' Equity</p>	<p>Current curriculum stipulates FOUR values to shares:</p> <ul style="list-style-type: none"> Issue price Average price Market Price = The price at which the share is trading on the Securities Exchange Net asset value = This ratio indicates the value of the share according to the accounts and financial statements of the company, that is according to the books of the company. <p>How does the result compare with previous year?</p> <p>How does the result compare with the other values?</p>

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GRADE 12 ACCOUNTING

REVISION OCTOBER 2018

QUESTION BOOKLET



- A ASSET MANAGEMENT
- B RECONCILIATION AND AGE ANALYSIS
- C VAT
- D MANUFACTURING ACCOUNTS
- E CASH BUDGETS
- F ANALYSIS AND INTERPRETATION

A - ASSET MANAGEMENT

QUESTION 1

Posh Traders is a registered VAT vendor and uses the invoice basis to record VAT transactions. The business submits a VAT return on a bi-monthly basis, i.e. January, March, May, July, September and November. Posh Traders only buys supplies from other registered VAT vendors. VAT is charged at 14%.

Summary of the transactions effecting vehicles for the period 1 July 2014 to 30 June 2015:

1. On 1 July 2014 Posh Traders had the following vehicles:
 - Two delivery vehicles purchased on 1 October 2012 at R285 000 **each (including VAT)**.
2. Depreciation on vehicles is calculated at 20% per annum on the diminishing balance method. The accumulated depreciation on the two vehicles amounted to R160 000 on 30 June 2014, the last day of the previous financial year.
3. One of the vehicles was written off in an accident on 31 March 2015. The insurance company, BFix, agreed to pay out **R159 600 (including VAT) on 1 June 2015**.
4. Posh Traders replaced the delivery vehicle written off with a new delivery vehicle purchased on 1 June 2015 from Motor City for R360 000 (**excluding VAT**).

ANALYSIS AND INTERPRETATION OF THE ASSET REGISTER

QUESTION 2

BLACK AND WHITE TRANSPORT

Use the information given in the Asset Register to answer the questions.

TANGIBLE ASSET REGISTER			
ASSET: Vehicles		MAKE: Toyota	
DATE PURCHASED: 1 March 2013		REGISTRATION: GHE 345 94T	
DEPRECIATION: 25 %?		DATE SOLD:?	
SELLING PRICE: R1000 000		PROFIT/LOSS?	
DATE	DEPRECIATION	ACCUMULATED DEPRCIATION	BOOK VALUE
28 Feb 2014	550 000	550 000	1 650 000
28 Feb 2015	412 500	962 500	1 237 500
31 Oct 2015	206 250	1 168 750	1 031 250

QUESTION 3**PART B****TANGIBLE ASSET ANALYSIS (24 marks)**

The following Tangible asset note was found in the Statement of financial position of Xceleron Dealers on 28 February 2017.

	VEHICLES	MACHINERY
	R	R
Carrying value at the beginning of the year	580 450	28 800
Cost	960 000	240 000
Accumulated depreciation	(379 550)	(211 200)
MOVEMENTS DURING THE YEAR		
Additions		540 000
Disposals	(a)	–
Depreciation for the year	(b)	(64 799)
Carrying value at the end of the year	Do not calculate	504 001
Cost	Do not calculate	780 000
Accumulated depreciation	(c)	

Additional information:

- Depreciation is written off on Machinery at 20% p.a. using the fixed instalment method. Depreciation for the year on the old machinery amounted to R28 799.
- Depreciation is written off on Vehicles at 25% p.a. using the diminishing balance method.
- On 1 November 2016 an old vehicle, originally bought on 1 July 2014 for R450 000, was traded-in for R222 000 and a new vehicle costing R675 000 was purchased. The accumulated depreciation on the old vehicle sold was R168 750 on 1 March 2016.

B RECONCILIATIONS – CONTROLS AND AGE ANALYSIS

Managing Debtors

What is a Credit Policy?

- Credit offered effectively so as to be profitable for the business.
- Must include:
 - Criteria for credit approval
 - Credit limits
 - Terms
 - Discounts.

Control is therefore very important because if we do not manage our debtors effectively this can have a negative impact of our cash flow.

What can we do to encourage our debtors to pay us on time according to our credit policy?

- Use of settlement discounts
- Interest may be charged on overdue accounts
- Active management of overdue accounts by contacting the debtor directly, either with letters, emails or phone calls.

As part of internal control, it is necessary the bookkeeper draws up an age analysis of their debtors and creditors on a regular basis.

- Able to determine at a glance, whether the debtor are paying their accounts in the stipulated period or are taking longer periods to pay.
- Essential to know that credit term debtors are allowed.
- Age analysis is therefore a historical document – drawn up to show what the debtors owe for purchase in the past.
- Payments are made against the OLDEST BALANCE FIRST.

QUESTION 1

Gayle Lee, owner of Lee Stores has provided you with information relating to her business. She has asked for your advice on some issues. The financial year ends in February. David Hersch was appointed as new credit controller on 1 March 2015.

INFORMATION

Credit limits and credit policy of the business

- Debtors are granted limits of R30 000 each.
- Debtors have to settle their accounts 60 days after the date of purchase
- Accounts settled in the same month as the date of purchase are subject to 2 % discount.
- If a debtor does not settle within 120 days, the account is written off as bad debts.
- Interest at 18 % p.a. is charged if debtors do not pay within 90 days.

LEE STORES

Debtors Age analysis on 28 February 2016.

DEBTOR	TOTAL	CURRENT	30 – 60 DAYS	60 – 90 DAYS	90 DAYS +
B Brown	30 000	30 000			
P Pink	62 000	24 000	8 000	4 000	26 000
Y Yellow	18 200			18 200	
O Orange	23 200	18 400	4 800		
R Red	33 600	15 600	11 000	7 000	
	167 000	88 000	23 800	29 200	26 000

DEBTORS CONTROL ACCOUNT

2016 Feb	1	Balance	b/d	173 000	2016 Feb	28	Bank and discount all	CRJ	122 000
	28	Sales	DJ	105 000			Debtors All	DAJ	6 000
		Bank (R/D)	CPJ	19 400			Journal Credits(bad debts)	GJ	4 000
		Journal debits (Discount cancelled)	GJ	1 600			Balance	C/D	167 000
				299 000					299 000
	1	Balance	b/d	167 000					

QUESTION 2**INFORMATION RELATING TO Foxtrot Traders Limited:**

The following information relates to Foxtrot Traders Limited for the year ended 31 March 2015.

1. It is company policy to allow debtors 30 days credit.
2. Sales and collections for the year ended 31 March 2015:
 - Total sales for the year, R1 260 000.
 - 25% of sales are for cash, the remainder are on credit.
3. Debtors' age analysis on 31 March 2015:

Debtor	Credit limit R	Total due R	(March) Current R	(February) 30 days R	(January) 60 days R	(December) 90 days R
F. Laing	24 000	22 500	22 500			
G. Coetzee	45 000	46 500	18 000	6 000	3 000	19 500
A. Coulson	45 000	13 650			7 650	6 000
J. Tuko	45 000	17 400	13 800	3 600		
T. Wilson	45 000	24 750	11 250	8 250	5 250	
		124 800	65 550	17 850	15 900	25 500

4. Debtor T. Wilson's account as it appears in the debtors' ledger of Foxtrot Traders Limited for the period 1 January 2015 to 31 March 2015:

DATE	DETAILS	FOL	DEBIT	CREDIT	BALANCE
Jan 28	Invoice 487	DJ	5 250		5 250
Feb 1	Credit note 254	DAJ		750	4 500
	4 Invoice 535	DJ	18 000		22 500
	6 Receipt 380	CRJ		9 000	13 500
Mar 2	Invoice 629	DJ	15 750		29 250
	3 Receipt 484	CRJ		4 500	24 750

BANK RECONCILIATION AND INTERNAL CONTROL

CONTROLS RELATING TO RECONCILIATIONS

Bank reconciliation and creditor's reconciliation

- Comparison of a statement received from an external source to records of a business, is a significant aspect of applying internal control in the business.
- External information provides proof that the information recorded in the books of a business is correct.
- Valid – the internal auditor or independent auditor can be reasonably assured that the books of the business are reliable.

Debtors and Creditors Reconciliations – control account with the list of debtors or creditors.

- Internal auditors can reasonably be assured that the internal control is good if these agree.

Analysis of the information relating to an asset.

e.g., – Debtors Age Analysis – unethical behaviour and breaches of internal control can often be picked up from information, which does not fit the “norm” of the expected behaviour.

NB

FAVOURABLE BANK STATEMENT BALANCE = CREDIT BALANCE

FAVOURABLE BANK ACCOUNT BALANCE = DEBIT BALANCE

QUESTION 3

Study the Bank Reconciliation Statement and answer the questions that follow.

INFORMATION

Bank Reconciliation Statement of Pieterse Materials on 28 February 2015.

Favourable balance according to the bank statement	8 000
Outstanding deposits	3 000
Outstanding cheques	
No 840 (dated 5 September 2014)	2 200
No 1052 (dated 18 February 2015)	5 600
No 1065 (dated 15 March 2015)	4 300
Balance according Bank account	?

QUESTION 4 RECONCILIATIONS

(29 marks, 35 minutes)

The information below belongs to Tub's Groceries, a store that sells everything edible from cereal, meat, fresh fruit and vegetables to sweets and chocolates. Tub's Groceries banks at Gold Bank Ltd and is owned by Tubby Edwards. Their year-end is on 31 December.

Below is the November 2016 bank reconciliation statement that was drawn up by an inexperienced bookkeeper:

Bank reconciliation statement on 30 November 2016

Debit balance as per bank statement	11 350
Outstanding deposit	33 000
Outstanding cheques	7 800
No. 577 (18 April 2016)	600
No. 823 (31 July 2016)	5 000
No. 1033 (28 November 2016)	750
No. 1035 (20 January 2017)	?
Balance as per bank account	

Additional information relating to the bank reconciliation statement

- Cheque 823 was posted to Claws Alive, an animal shelter. The shelter closed down on 30 June due to lack of funding.
- Cheque 1033 was sent to a supplier, The Cereal Factory.
- Cheque 1035 was sent with a friend to Tubby's sister who is living in Canada. He dated the cheque for her birthday in January.

**The Cereal Factory
Statement of account**

Tub's Groceries
Waterway Flats
Lakeside Way

Acc no: 78
30 November 2016

Date		Details / Document no	Debit	Credit	Balance	
August	15	Invoice T57		7 500	7 500	
September	28	Invoice T89		8 300	15 800	
	29	Credit note C40	2 100		13 700	
October	3	Receipt 895	7 300		6 400	
November	10	Invoice T108		5 600	12 000	
	12	Credit note C47	1 400		10 600	
	19	Invoice T120		11 250	21 850	
	28	Receipt 1055	5 000		16 850	
			Current	30 days	60 days	90 days
			?	?	?	?
TERMS: 30 days after date of statement						
5% discount if paid within 10 working days of date of invoice						

Additional information relating to the creditor's statement above:

- Invoice T108 was entered incorrectly on the statement. It was actually for R6 500.
- Invoice T120 was issued to Tub Furniture Store.
- Tub's Groceries paid R2 000 via EFT into the account of The Cereal Factory on 30 November.

C – VAT

VAT CALCULATIONS

Calculating the price inclusive of vat

Price (incl. Vat) = Price (excl. Vat) x 114/100 or (x1.14)

Calculating the amount of VAT included in the VAT – inclusive amount

VAT = Price (incl. VAT) x 14/114

Calculating the price exclusive of VAT

Price (excl. Vat) = Price (incl. VAT) x 100/114 (or /1, 14)

SUMMARY

TRANSACTION	Effect on VAT payable to SARS	
	INCREASES	DECREASES
<ul style="list-style-type: none"> • Sales of goods • Services rendered • Other Income * • Sale of fixed assets • Bad Debts recovered <p><u>Vat adjustments</u></p> <ul style="list-style-type: none"> • Bad debts • Discount allowed • Goods returned by a customer 	√	√
<ul style="list-style-type: none"> • Purchase of goods • Expense items ** • Purchases of fixed assets • Purchases of consumable stores • Petty Cash Payments*** <p>Vat Adjustments</p> <ul style="list-style-type: none"> • Discount received • Goods returned to supplier (credit Allowances) • Drawing of stock • Dishonoured cheques (reversal of discount allowed) 	√	√

*Excludes interest income

** Excludes salaries and wages, fuel expenses and property taxes, interest expense

***Exclude staff refreshments

QUESTION 1

VAT

(15 marks; 9 minutes)

Kelfit Sport supplies various sporting equipment to gyms and sports retailers. The following information applies to the business:

- Kelfit is a registered VAT vendor, and charges VAT at 14%. They use the invoice basis to record VAT transactions.
- The gyms and sports retailers they supply are all registered VAT vendors.
- The business submits a VAT return bi-monthly, i.e. February, April, June, August, October and December.

Information:

Transactions and information relating to April 2017:

- 2.1.7 The bank returned debtor P. Astel's cheque for R2 432 marked R/D – insufficient funds. This cheque had been received in May in settlement of his account of R2 774.
- 2.1.8 All Sports Traders sold trading stock to Harvey Gym in May 2018. The tax invoice reflected VAT on the sale as R684; however, it was posted to the ledger as R864.
- 2.1.9 Disposed of a second-hand vehicle at a loss of R6 000 on the 30th June 2018. The book value of the vehicle as at the date of sale was R74 000. The depreciation on this vehicle had been recorded up to 30th June 2018. VAT input was claimed when the vehicle was originally bought.

D – MANUFACTURING COSTS

PRIME COSTS = Direct Raw Material + Direct Labour

FACTORY OVERHEADS = Indirect labour costs
 Indirect material costs (consumable stores)
 Factory rent
 Factory water and electricity
 Depreciation on factory equipment

TOTAL MANUFACTURING COSTS = Prime Costs + Factory Overheads.

BREAK-EVEN ANALYSIS

- Step 1 Determine the total fixed costs and variable cost per unit
 Step 2 Calculate the **contribution per unit = this is the difference between the selling price per unit and the variable cost per unit**
 Step 3 Divide the total fixed cost by the contribution per unit.

QUESTION 1 MANUFACTURING (50 marks; 30 minutes)

ZUKA Manufacturers is owned by Jonathan Zuka. The business manufactures one style of jacket and the financial year ends on 28 February 2018.

Information:

A. PRODUCTION

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

B. RAW MATERIALS

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

2. Stocks of raw materials 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 jackets	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	12 800 metres		R494 800
April 2017	7 000 metres	R34	R238 000
May 2017	3 600 metres	R42	R151 200
February 2018	2 200 metres	R48	R105 600

4. Return of raw materials during the year were as follows:

	Number of metres of fabric	Cost per metre	Total cost
May 2017	100	R42	?

C. EMPLOYEES

1. Jonathan employs the following individuals:

Details	Number of Employees	Basic monthly salary/wage per employee	Total annual cost of employment including benefits	Overtime	
				Hours	Rate
Employees in the production process	5	R5 000	?	180 hours for each worker	R70
Factory Foreman	1	R8 000	R106 560	-	-
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 UIF.
- Overtime and commissions are not subject to pension fund and UIF deductions or contributions.
- The five workers who make the jackets each worked 180 hours of overtime during the year at a rate of R70 per hour.

D. Stocks of finished goods on hand were:

	Number of jackets	Value per unit
Opening stock	110	R284
Closing stock	420	?

E. Analysis of total costs and unit costs:

	2018	2018	2017
	Total	Per unit	Per unit
Selling Price	?	R350	R350
Variable Costs:	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
Fixed Costs:	R350 200	R87,55	R83,54
Factory overhead cost	?	R67,55	R58,04
Administration cost	R80 000	R20,00	R25,50

2.1 PRODUCTION COST STATEMENT

You are provided with information relating to Mountain View Manufacturers for the financial year ended 30 June 2016. The business produces sports bags and sells them at a mark-up of 40% on cost.

REQUIRED

- 2.1.1 Complete the note for Factory Overhead Costs.
- 2.1.2 Prepare the Production Cost Statement for the year ended 30 June 2016. Where notes are not required, provide workings in brackets.

INFORMATION

1. Stock balances	30 June 2016	30 June 2015
Raw material stock	56 700	42 400
Work-in-progress stock	33 000	43 300

2. Transactions during the year

Raw materials purchased (cash and credit)	1 182 500
Cost of transporting raw materials to the factory	24 100
Unsatisfactory raw materials returned to suppliers	32 800
Water and electricity paid	137 000
Rent expense paid	296 000
Advertising expense	25 500
Insurance paid	30 000
Maintenance on factory plant and machinery	19 404
Depreciation on factory plant and machinery	32 390
Salaries and wages (see information no. 4)	?
Commission paid to sales staff	57 550

3. Additional information

- Factory indirect materials were bought for R53 360. Of this amount, R35 730 was used in the factory.
- Water and electricity must be split between the factory and the sales department in the ratio 3:1.
- 70% of the insurance expense relates to factory plant and equipment.
- Rent expense is allocated across various departments according to floor space. The floor space is as follows:

Factory	1 800 m ²
Sales department	900 m ²
Office block	300 m ²

4. Salaries and wages

Salaries and wages must be allocated to the Cost Account applicable to the specific employees. All employees are paid for 12 months or 52 weeks.

EMPLOYEES	EMPLOYEES IN PRODUCTION PROCESS	FACTORY FOREMAN	OFFICE CLERK	FACTORY CLEANERS
Number of employees	7	1	1	1
Basic salary/wage per employee	R6 400 per month	R9 500 per month	R5 500 per month	R950 per week
Overtime hours worked by each employee in the year	130 hours			
Overtime rate per hour	R57 per hours			
Bonus		13th cheque	13th cheque	10% of basic annual wage

2.2 UNIT COST AND BREAK-EVEN POINT

Stormers Manufacturers is a small business that manufactures rugby shirts, which are sold to supporters. Their financial year ended on 31 August 2016.

REQUIRED

- 2.2.1 Calculate the following:
- Direct material cost per unit, indicated by (a) in the table in information 3 below.
 - Factory overhead cost, indicated by (b) in the table in information 3 below.
- 2.2.2 Give a possible reason for the change in direct material cost per unit
- 2.2.3 Calculate the break-even point for the year ended 31 August 2016. The break-even point for the previous year was 23 064 units.

INFORMATION

1. During the financial year ended 31 August 2016, the business made and sold 42 000 shirts. Shirts are sold at a fix price of R60 each.
2. All the shirts were sold. There was no work-in-progress at the beginning or end of the financial year.
3. The following costs were identified. Some unit costs are also given.

Year ended	31 August 2016		31 August 2015
Units produced and sold	42 000		30 000
	TOTAL COST	UNIT COST	UNIT COST
Variable costs:	R1 722 000		
Direct material	R756 000	(a)	R21,80
Direct labour	R651 000	R15,50	R12,75
Selling and distribution	R315 000	R7,50	R7,80
Fixed costs:	R567 000		
Factory overheads	(b)	R9,00	R11,75
Administration	?	R4,50	R4,70

E CASH BUDGETS/INCOME STATEMENT

When preparing the **CASH BUDGET** the most important word to keep in mind is **CASH**

Cash Inflows – Receipts Section
 Cash Outflows – Payments Section
 Cash surplus or deficit for each month is determined.

When preparing a **PROJECTED INCOME STATEMENT**, the key word to keep in mind is **PROFIT** (no assets/liabilities)
 It reflects the estimated income and estimated expenses
 Estimated profit/loss of a business over the budget period.

QUESTION 1 BUDGETS (30 marks; 36 minutes)

A Clean Sweep is a cleaning business owned by Ella Broom. She runs five cleaning teams and has contracts to clean residential houses as well as office blocks. Each team is responsible for certain contracts that they then clean on a daily/weekly or monthly basis. Every team has a vehicle and a set of cleaning equipment allocated to them.

PROJECTED INCOME STATEMENT FOR A CLEAN SWEEP

	November 2017	December 2017	January 2018
Service income	C	D	763 182
• Residential services	A	?	?
• Commercial services	B	?	?
Cost of services		134 600	142 676
• Residential services		26 920	?
• Commercial services		107 680	?
Gross profit		572 050	620 506
Operating expenses		(522 110)	(534 610)
Wages and contributions		323 680	F
Rent expense		E	9 810
Advertising		?	G
Vehicle expenses		45 750	45 750
Insurance		7 500	H
Depreciation		21 900	21 950
Office expenses		?	I
Bad debts (5% of residential services)		6 710	6 961
Other		?	?
Operating profit		49 940	85 896
Interest expense		(3 455)	(3 315)
Net profit		46 485	82 581

Additional information

- 60% of the services are paid for in cash in the month of the service being offered.
- The remaining amount is collected as follows:
 - 25% of residential and commercial services in the month following the services;
 - 15% of commercial services in the 2nd month; and
 - 10% of residential services.
 - 5% of residential services are also written off as bad debts in the 2nd month following the service.
- They expect that their services will be in the ratio of 4 : 1 between residential and commercial.
- A Clean Sweep uses a mark-up of 425% on cost of services.

- The rent expense is increasing by 9% on 1 January.
- The wages and contributions expense is made up of the gross wages and contributions. The contributions are:
 - pension contribution (15%)
 - medical aid contribution (20%)
 - UIF contribution (1%)
 - The pension contribution is going up to 18% of the gross wages in January.
 - The workers will only be getting their increase in March.
- Anna, a worker, has requested that part of her December wage (R4 000) not be given in December, but given to her with January's wage. Ella agreed to this.
- A Clean Sweep is planning to buy a new industrial vacuum cleaner at the beginning of January for R7 500 cash. The % rate of depreciation remains the same throughout the budgeted period.
- Depreciation is calculated at 12% per annum on vehicles.
- A six-month contract was taken out to advertise in a magazine starting on 1 November 2017. The total amount of R12 000 was paid for this contract on 1 November 2017. The other advertising is paid by monthly debit orders to a total of R13 000 per month.
- There will be a 10% increase for insurance on 1 January.
- A Clean Sweep is planning to buy stationery worth R3 250 on account with The Book Co in January. Stationery is classified as an office expense. All the other office expenses are cash.
- Some vehicle expenses are paid for with cash and the rest are put on the account at Tip Top Garage. The ratio of cash to credit spending on the vehicle expenses is 1 : 5.
- The Book Co and Tip Top Garage are the only creditors that A Clean Sweep has. Ella pays both accounts on the last day of every month.

An extract from the CASH BUDGET FOR A CLEAN SWEEP

	January 2018
Payments	(???)
Cleaning materials	145 900
Wages and contributions	J
Advertising	K
Rent expense	9 810
Payment to creditors	L
Vehicle expenses	M
Insurance	8 250
Office expenses	24 550
Other	??
Vacuum cleaner	7 500
Surplus for the month	167 772
Balance at the beginning of the month	20 028
Balance at the end of the month	187 800

QUESTION 2 Budgets**(25 marks; 30 minutes)**

The information given below was extracted from the accounting records of Nottingham Traders. The financial year of Nottingham Traders ends annually on 30 September.

Information

1. Bank overdraft on 1 September 2018, R11 200.
2. Sales:
 - 30% of all sales are for cash and the remainder is sold on credit.
 - **Gross profit margin on sales, 40%.**
 - Total sales:

Actual Total Sales		Budgeted Total Sales
August 2018	September 2018	October 2018
R250 000	R?	R320 000

3. **Debtors:**
 - Credit terms are strictly 30 days from date of statement. Statements are posted to customers on the last day of the month.
 - A 2½% discount is offered to customers who settle their accounts in the same month as the month in which the goods were sold to them.
 - **Debtors collections:**
 - 60% of debtors settle their accounts in the same month in which they purchased the goods.
 - 38% settle in 30 days from date of statement.
 - 2% is written off as irrecoverable 30 days after date of statement.
4. **Drawings** - the owner withdraws the following from the business monthly:
 - Trading stock, R3 000
 - Cash, R7 000
5. **Purchases:**
 - The business maintains a fixed base level of stock.
 - 70% of all purchases is for cash and the remainder is purchased on credit.
 - The business receives a 10% cash discount on cash purchases; no settlement discount is received from suppliers.
 - Creditors are paid in full after 30 days, the month following the purchase transaction.
6. **Loan:**
 - In order to finance the purchase of new equipment, Nottingham Traders negotiated a short-term loan from Reality Bank for R250 000 on 1 September 2018. The terms of the loan agreement stipulated the following:
 - Interest is calculated at 14% p.a. and must be paid on the last day of the month.
 - R10 000 of the loan must be repaid monthly on the last day of the month. The first instalment must be paid on 30 September 2018.
7. **Fixed assets:**
 - New equipment costing R200 000 was purchased for cash on 1 October 2018.
 - Depreciation is provided for on equipment at 15% p.a. on cost price. Depreciation on this equipment amounts to R2 500 per month.

8. **Salaries and wages:**

- Nottingham Traders employs 6 employees.
The 6 employees are made up as follows:

	September	October
Manager earning a gross salary of	R15 000	R16 800
Receptionist earning a gross salary of	8 000	8 480
4 sales assistants each earning R10 000 per month	40 000	43 000
	63 000	68 280

- **Deductions:**
 - PAYE: 20% of gross salary
 - UIF: 1% of gross salary
- **Contributions:**
 - UIF: 1% of gross salary
- The Salaries journal appeared as follows in the books of the business for the period 30 September 2018 and 31 October 2018:

September 2018		October 2018	
Gross salary	63 000	Gross salary	68 280
Deductions:	(13 230)	Deductions:	(14 339)
• PAYE	12 600	• PAYE	13 656
• UIF	630	• UIF	683
Net salary	49 770	Net salary	53 941
Contributions:		Contributions:	
• UIF	630	• UIF	683

- The receptionist was on leave on 30 September and her net salary was only paid to her on 5 October 2018.

9. The sales assistants are paid a special commission of 1% on total sales. This commission does not form part of their monthly salaries. Commission is paid in the month following the month in which it is earned.

10. **Rent income:**

- Nottingham Traders rents out an unused studio to an estate agent at R7 500 per month.
- The owner of the estate agency only paid R3 750 in rent for September 2018. He has agreed to pay the difference together with the rent for October at the beginning of October.
- According to the lease agreement, the rent increases to R8 500 per month effective 1 October 2018.

12. Rate of inflation 5%.

F STOCK SYSTEMS

Inventory valuations – FIFO and weighted average
Inventory systems – Perpetual and Periodic systems

STOCK SYSTEMS

This is how stock is managed and controlled in the financial records. There are two systems that can be used

PERPETUAL STOCK SYSTEM	PERIODIC STOCK SYSTEM
<ul style="list-style-type: none">• Trading stock and cost of sales accounts are updated each time stock is bought and sold• The cost of goods sold (cost of sales) can be determined when stock is sold• The physical stocktaking can therefore be compared to the financial records (Trading stock account)• Stock deficits can easily be determined	<ul style="list-style-type: none">• The Purchases account is used to record stock bought• The sales account is used to record stock sold• The cost price of goods sold (cost of sales) is not available when stock is sold.• So, no ongoing record of stock is kept in the Trading Stock account• Cost of sales is only calculated at the end of a financial year• It is important to perform regular stocktaking to validate stock• It is very difficult to determine stock deficits

CALCULATION OF COST OF SALES – PERIODIC SYSTEM

Opening Stock	xxxx
Purchases (net)	xxxx
Carriage on Purchases	xxxx
Customs Duty	xxxx
Total stock available to sell	
Closing/Final stock	(xxx)
COST OF GOODS SOLD	XXXX

QUESTION 1 – Stock Valuation

[37 marks; 22 minutes]

You are provided with information related to Sheeran Rugby Balls Shop for the year ended 28 February 2016. The owner of the business is Ed Sheeran.

The business uses the perpetual inventory system and the FIFO method to value stock.

REQUIRED

- 1.1 Explain the meaning of the terms FIFO and Weighted Average stock valuation.
- 1.2 The selling price of the rugby balls was kept constant throughout the year. Calculate the selling price per rugby ball.
- 1.3 The owner, Ed Sheeran, is aware that some rugby balls had been stolen out of the storeroom during April 2015. No entry has been made.
 - Calculate the number of balls that are missing.
 - What double entry would you make in the general ledger to record this? Also provide the amount.
- 1.4 Value the stock on hand at the end of the year according to the FIFO method.
- 1.5 Calculate the following:
 - Cost of sales
 - Gross profit for the year
- 1.6 Sheeran is not sure when he should place an order for additional rugby balls.
 - How long can he expect the closing stock to last? Provide a calculation to support your answer.
 - What advice would you offer Sheeran in respect of the final stock? Provide TWO points.

INFORMATION

Accounting records relating to the rugby balls:

Details	Date	Number of balls	Unit price	Total
Opening stock	1 March 2015	750	R110	R82 500
		2 480		R340 800
Purchases	20 May 2015	800	R150	R120 000
	25 October 2015	1 200	R120	R144 000
	16 December 2015	480	R160	R76 800
Closing stock	28 February 2016	1 100	?	?
Sales	1 March 2015 to 28 February 2016	2 100	?	R430 500

Question 2

YOU ARE REQUIRED TO DO THE FOLLOWING;

- Answer questions and do calculations. (48)

Boards Unlimited sell two types of boards: White Boards and Chalk Boards. These boards are supplied to schools in the Gauteng area. They also provide the service of installing these boards for which they charge a fee. This fee is recorded as Installation Fee Income in the accounting records of the business.

White Boards are purchased from a manufacturer in Cape Town. Boards Unlimited are liable for any costs to transport the boards to their premises in Johannesburg. Chalk Boards are purchased from a manufacturer in Johannesburg and the business incurs no delivery costs for delivery of these boards to the premises of Boards Unlimited.

Boards Unlimited uses the following methods to value their boards:

- Chalk Boards: first-in-first out method (FIFO).
- White Boards: weighted average method.

Boards Unlimited uses the periodic inventory system to record stock in their accounting records.

Boards Unlimited also has two delivery vans, which are used to install the boards when sold.

- Delivery van 1 was purchased on 1 January 2012 for R250 000 (excluding VAT).
- Delivery van 2 was purchased on 1 February 2014 for R300 000 (excluding VAT).

Vehicles are depreciated at 20% p.a.

Information

1. The financial year of Boards Unlimited ends on 30 June 2015.
2. Fixed assets on 1 July 2014:

	Cost Price	Accumulated Depreciation	Carrying value
Delivery van 1	R250 000	106 000	R144 000
Delivery van 2	300 000	25 000	275 000

3. Stock on hand:

	30 June 2015			30 June 2014		
	Units	Price	Total	Units	Price	Total
Chalk Boards	60	?	R?	120	R550	R66 000
White Boards	90	?	?	65	700	45 500
			?			111 500

4. Purchases, transport costs, returns and donations of boards for the financial year ended June 2015. All prices exclude VAT and transport costs.

4.1 Purchases:

Chalk Boards				White Boards			
Date	Units	Price	Total	Date	Units	Price	Total
1 Aug 14	80	R550	R44 000	1 Sept 14	135	R750	R101 250
1 Dec 14	100	450	45 000	1 Dec 14	100	600	60 000
1 Mar 15	70	550	38 500	1 Feb 15	60	800	48 000
1 Jun 15	50	620	31 000	1 Jun 15	90	800	72 000
	300		158 200		385		281 250

4.2 **Transport costs:**

The delivery cost per White Board from Cape Town to Johannesburg was R100 for the financial year ended 30 June 2014. This cost will increase by 10% on 1 July 2014 and then remain constant throughout the financial year. Note: If goods are returned to the supplier because they are faulty, the transport cost is **not recovered**.

4.3 **Returns:**

10 White Boards bought on 1 February 2015 were found to be damaged on their arrival in Johannesburg. These units were returned to the supplier. The transport cost to return the boards to the supplier in Cape Town is for the account of Boards Unlimited.

4.4 **Donations:**

The owner donated 5 White Boards, which were purchased on 1 June 2015 to The Helping Hands Community School.

5. **Sales, excluding VAT and installation costs:**

	30 June 2015		
	Units	Price	Total
Chalk Boards	360	R1 188	R427 680
White Boards	320	R2 070	662 400
			1 090 080

5. Traded-in delivery van 1 for delivery van 3 on 1 May 2015 at a profit of R5 000. The cost price of delivery van 3 was R360 000 excluding VAT.

G – ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

QUESTION 1

INTERPRETATION OF FINANCIAL STATEMENTS

Johnsons Limited is a shoe store with 600 000 shares that are registered. This business has been very successful over the past three years.

It therefore extended its shop premises by building a new addition. In order to finance this, Johnsons Limited took out a loan for R500 000 on 1 September 2015.

There are no other loans in existence. The loan will be paid back in annual instalments of R50 000 on 1 September every year.

INFORMATION

JOHNSONS LIMITED.

EXTRACT FROM INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2015.

	2015	2014
Sales	1 440 000	1 080 000
Cost of sales	(1 200 000)	(900 000)
Gross Profit	240 000	180 000
Other operating income	5 400	3 750
Operating expenses	(72 945)	(68 550)
Operating Profit	172 455	115 200
Interest expense	(32 500)	-
Profit (loss) before tax	139 995	115 200
Income Tax	(48 984)	(40 320)
Net profit (loss) for the year	90 971	74 880

EXTRACT FROM THE BALANCE SHEET

	2015	2014
ASSETS		
Fixed Assets	1 260 000	681 640
Current assets	314 380	169 269
EQUITY AND LIABILITIES		
Capital and reserves	934 880	730 000
Ordinary share capital(400 000 shares in issue on 29/2/2015) 300 000 shares in issue on 28/2/2014)	850 000	630 000
Retained Income	84 880	100 000
Non-Current Liabilities	450 000	-
Loan: BB Bank	450 000	-
Current Liabilities	189 500	120 900
Trade and other Payables	189 500	120 900

EXTRACT FROM THE NOTES TO THE FINANCIAL STATEMENT

1. TRADE AND OTHER PAYABLES

	2015	2014
Trade Creditors	97 500	87 000
SARS (Paye)	3 750	3 450
SARS (Income Tax)	11 250	12 000
Shareholder for dividend	27 000	18 450
Short term loan	50 000	-
	189 500	120 900

RATIOS AND PERCENTAGES CALCULATED FROM THE FINANCIAL STATEMENTS

	2015	2014
Acid test ratio	1,36: 1	0,94 :1
Average debtors collection period	46 days	38 days
Average creditors payment period	?	50 days
Return on capital employed	15,9 %	15,7 %

QUESTION 2
FINANCIAL INDICATORS
ABRIDGED GROUP STATEMENTS OF FINANCIAL POSITION

	2015 Rm	2014 Rm
ASSETS		
Non-current assets	1 280	1 197
Current Assets	5 991	5 720
Inventories	787	670
Trade and other receivables	3 766	3 421
Other current assets	113	69
Cash and cash equivalents	1 325	1 560
Total assets	7 271	6 917
EQUITY AND LIABILITIES		
Total equity	6 219	5 981
Share capital	293	205
Retained earnings	5 026	5 776
Non-current liabilities	97	97
Current Liabilities	955	839
Trade and other payables	719	598
Provisions	71	73
Tax payable	165	168
Total equity and liabilities	7 271	6 917
Number of shares in issue (millions)	417.8	424.0
Key ratios		
Return on equity	39	40
Inventory turn (stock turnover rate – closing stock only) (times)	5.4	5.7

ABRIDGED GROUP STATEMENTS OF INCOME

	2015	2014
Sale of merchandise	9 765	8 830
Profit before tax	3 366	3 190
Tax expense	(958)	(965)
Profit for the period (net profit)	2 408	2 225
Earnings per share	?	526.3
Weighted average number of shares	421.9	422.8
Gross margin (gross profit margin) (%)	56.6	56.7

ABRIDGED GROUP STATEMENT OF CHANGES IN EQUITY

	2015	2014
Total equity at the beginning of the period	5 981	5 046
Profit for the period (net Profit)	2 408	2 225
Dividends	(1 527)	(1 282)
Shares issued	111	67
Shares repurchased	(754)	(83)
Total equity at the end of the period	6 219	5 981
Cents per share:		
Dividend	362	326
Final – payable/paid September	158	157
Interim – paid March/April	204	169

QUESTION 3
ON ANSWER SHEET

GOOD LUCK FOR YOUR FINAL EXAMS
IF YOU WANT THE PAST PAPERS FOR GDE AND IEB YOU MAY EMAIL ME
AT
aharmse@crawfordschools.co.za

GRADE 12

ACCOUNTING

2020

ANSWER BOOKLET

**ASSET MANAGEMENT
RECONS AND AGE ANALYSIS
VAT
MANUFACTURING
CASH BUDGETS
ANALYSIS AND INTERPRETION**

A. ASSET MANAGEMENT

QUESTION 1

REQUIRED:

Prepare the following ledger accounts in the accounting records of Posh Traders for the period 1 July 2014 to 30 June 2015. **Please note:** Only balance or close off the accounts on 30 June 2015, the last day of the financial year.

Accumulated depreciation on vehicles

ACCUMULATED DEPRECIATION ON VEHICLES									

WORKINGS:

ASSET DISPOSAL									

Complete the Property, plant and equipment (fixed assets) note to the financial statements on 30 June 2015. **Note:** Some figures have already been inserted in the note and are correct. Show workings in brackets so that part-marks can be awarded.

(10)

1.2

PROPERTY, PLANT & EQUIPMENT (FIXED ASSETS)	Vehicles
Carrying value at beginning of year	
Cost	
Accumulated depreciation	(160 000)
Movements	
Carrying value at end of year	
Cost	610 000
Accumulated depreciation	

QUESTION 2

Answer the following questions

What method of depreciation is used?	1
On what date did they sell the car?	1
They sold the car for cash. Calculate the profit or loss	3

QUESTION 3 TANGIBLE ASSET ANALYSIS (24 marks)

Refer to the Tangible asset note to answer the following questions.

1.1 On what date was the new machinery costing R540 000 purchased?

(4)

1.2 Showing a calculation, explain why the depreciation for the year on the old machinery amounted to R28 799.

(3)

1.3 Calculate the value (a) in the Tangible asset note that relates to the disposal.

(4)

1.4 Calculate the value (b) in the Tangible asset note:

(9)

1.5 Calculate the value (c) in the Tangible asset note:

(4)

B - RECONCILIARIONS – CONTROLS AND AGE ANALYSIS

QUESTION 1

<p>How can the preparation of debtor's age analysis assist the owner and credit controller in controlling debtors?</p> <ul style="list-style-type: none">••••	4
<p>When David started working at Lee Stores on 1 March 2015, the Debtors Control Account was R85 000. At the end of the financial year the balance is R167 000. Calculate the average debtor's collection in days for the financial year 1 March 2015 – 28 February 2016. Credit sales amounted to R680 000</p> <p>Should Gayle be happy with these results? Give two reasons for your answer. Consider the fact that debtors have 60 days to pay.</p> <ul style="list-style-type: none">••	6
<p>Gayle feels that the control of debtors has not been satisfactory since David was employed. Refer to the debtor's age analysis and the Debtors Control account provided and comment whether he should be concerned about the debtor's management. Quote specific information, two points from the debtor's age analysis and two point from the Debtors Control account.</p> <ul style="list-style-type: none">••••	3

QUESTION 2

T. Wilson does not agree with the age analysis sent to him and pointed out that his debt is not older than 30 days. Use the information given in T. Wilson's account in the debtors' ledger (see information point 4) to prepare the corrected age analysis for T. Wilson.

(7)

Current	30 days	60 days	90 days

QUESTION 3

In the Bank Reconciliation Statement, is the balance a debit or a credit according to the Bank Statement? Give a reason for your answer	2
Calculate the balance according to the bank account of Pieterse Materials on 28 February 2015.	6
Is the balance favourable or unfavourable according to the bank account	2
What must happen to cheque No 840 (dated 5 September 2014)	2
Where in the financial statements will you record cheque No 1065.	2

QUESTION 4

RECONCILIATIONS

(29 marks; 35 minutes)

4.1 There is one mistake in the bank reconciliation statement that has **not** been mentioned in the additional information. Describe this mistake and where it should have been recorded instead.

(2)

4.2 Calculate the bank account balance on 30 November 2016 after taking the errors and additional information into account, and state whether it is favourable or unfavourable. Show your workings.

(4)

4.3 Explain how cheque 1035 will be treated in the financial statements.

(2)

4.4 Tubby has heard that if a shop has credit sales they can sell much more than if they only sell for cash. He spoke to his sister about this and she advised him not to sell on credit. Give **three** reasons why his sister would advise him not to have credit sales.

- _____
- _____
- _____

(3)

4.2.5 Tubby wonders if he should hire an internal auditor for a month because the business seems to be having problems with the accuracy of their recording of cash transactions.

4.2.5.1

Explain what an internal auditor does.

2

4.2.5.2

List **two** types of audit evidence that could be looked at by an internal auditor and explain what they would be compared to, to check the accuracy of the cash transactions.

(4)

4.6 Use the statement from The Cereal Factory to draw up the debtor's age analysis as it should have appeared on the statement. Do **not** take the additional information into account.

Current	30 days	60 days	90 days

(4)

4.7 Use the additional information to draw up the creditor's reconciliation.

Incorrect balance as per statement	16 850

(4)

4.8 How could cheque 1033 be in the bank reconciliation statement if it was received by The Cereal Factory on 28 November? (This is not a mistake.)

1

4.9 Tubby is upset that he never received the discount when he paid on 3 October. Explain to Tubby why he was not granted the discount.

1

4.10 The Cereal Factory are concerned that Tub's Groceries are not keeping to their credit terms, but they do not want to lose them as a customer, which they might do if they start charging them interest. Discuss **two** other procedures they can put in place to increase their chances of Tub's Groceries keeping to the credit terms.

- ---
- ---

2

C – VAT

QUESTION 1 (15 marks; 9 minutes)

Refer to the information in the Information Booklet.

Calculate the amount owing to SARS in respect of VAT, at the end of April 2017 after taking the transactions given into account.

Transaction No	Amount owing to SARS
1.1	
1.2	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
Final Amount owing	

[15]

QUESTION 2 VAT (20 marks, 15 minutes)

Refer to the Information Booklet for information relating to the accounting records of All Sports Traders for June 2018.

Required:

Calculate the amount owing to SARS in respect of VAT at the end of June 2018 after taking the transactions into account.

NB: Clearly show if the vat is an increase + or a decrease – or ().

Transaction number (show calculations where necessary)	Amount owing to SARS
1	11 120
2	
3	
4	
5	
6	
7	
8	
9	

(15)

After only one year of trading, Gareth decided to close the business down because it was not doing well. Owing to the fact that there was very little cash they could only pay their creditor, Sport's Holding Ltd, 35 cents in every rand owed. Sport's Holding Ltd has agreed to write off the balance of their debt.

What double entry should the accountant process for the VAT of R1 512 relating to the writing off of this account?

ACCOUNT DEBIT: _____

ACCOUNT CREDIT: _____

(2)

Gareth bought a new car for his son to use to get to University on a daily basis. The cost of the car was R200 000 plus VAT of R28 000. He has recorded this in the name of All Sports Traders. As the external auditor, what comment would you make regarding this?

(3)

20

D – MANUFACTURING ACCOUNTS

QUESTION 1 MANUFACTURING

(50 marks; 30 minutes)

Refer to the Information Booklet for information relating to ZUKA Manufacturers.

Required:

- 1.1 Calculate the value of raw materials on hand on 28 February 2018 using the FIFO method. (5)

- 1.2 Calculate the value of raw material cost that would appear in the Production Cost Statement. (5)

- 1.3 Calculate the value of direct labour cost that would appear in the Production Cost Statement for the year ended 28 February 2018. (7)

- 1.4 The business produced 4 000 jackets 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.

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

- 1.4.2 Calculate the unit cost of production per jacket. (3)

- 1.4.3 Identify the number of metres of raw material fabric that appear to be missing. (5)

1.4.4 Apart from theft, give one most likely reason for this shortage. Using two points, advise Jonathan in this regard. (6)

Valid Reason:

Advice:

1.5 Calculate the cost of sales for the year ended 28 February 2018. (5)

1.6.1 Calculate the break-even point for the current financial year. (4)

1.6.2 The break-even point for 2017 was 2 273 units. Should Jonathan be satisfied or dissatisfied with the break-even point for 2018 calculated in 1.6.1? Briefly explain. (3)

1.7 Jonathan has agreed to allow one of his workers to use the machinery over weekends to make t-shirts to sell when he returns to his home in Botswana over Easter. The worker will pay a rental of R500 per weekend. Jonathan is not sure how he would account for this income – as operating income in his Statement of Income, or in some way in the Production Cost Statement. Suggest how you think this income should be treated, and why. (2)

QUESTION 2 – Manufacturing

[39 marks; 24 minutes]

2.1 PRODUCTION COST STATEMENT

2.1.1 Factory Overhead Cost

Factory maintenance	19 404
Depreciation	32 390

(12)

2.1.2 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

PRIMARY COST	
Factory overhead	
TOTAL PRODUCTION COST	
COST OF PRODUCTION FOR FINISHED GOODS	

(17)

2.2 UNIT COST AND BREAK-EVEN POINT

2.2.1 Calculate the following:

Direct material cost per unit, indicated by (a) in the table in information 3 in the information book.

(2)

Factory overhead cost, indicated by (b) in the table in information 3 in the information book.

(2)

2.2.2 Give a possible reason for the change in direct material cost per unit. (2)

2.2.3 Calculate the break-even point for the year ended 31 August 2016. The break-even point for the previous year was 23 064 units.

(4)

E BUDGETS

QUESTION 1 BUDGETS

(30 marks; 36 minutes)

Round off cents to the nearest Rand.

- 1.1 Calculate the missing figures denoted by the letters "A" to "I". The "?" do not need to be calculated.

A	
B	
C	
D	
E	
F	
G	
H	
I	

(9)

- 1.2 Write down two items that could be included in the cost of services.

- _____
- _____

(2)

- 1.3 Calculate the rate of depreciation used on the industrial vacuum cleaner.

--

(3)

- 1.4 Complete the Debtors' Collection Schedule for January 2018.

	Calculations	January 2018
November		
December		
January		–

(3)

- 1.5 Calculate the missing figures denoted by the letters "J" to "M". The "?" do not need to be calculated.

J	
K	
L	
M	

(5)

- 1.6 Ella is getting frustrated because the vacuums and carpet cleaners are being broken on a very regular basis. She knows that if she deducts the cost of repairs or the cost of new equipment off the workers' salaries, their motivation and attitude will deteriorate, so she cannot do this.

Suggest two things she can do to ensure the equipment lasts longer and to help prevent the workers from breaking the equipment.

- _____
- _____

(4)

- 1.7 Ella is considering expanding her business. Give three points she should consider when expanding, and explain whether you think she should expand or not.

- _____
- _____
- _____

Should they expand?

(4)

QUESTION 2 Budgets (25 marks; 30 minutes)

Refer to the Information Booklet for information relating to Nottingham Traders.

- 2.1 Complete the debtors' collection schedule by calculating the amounts missing denoted by an *. Note: Certain information has been filled in for you and this information is correct. **Do not calculate the amounts denoted by a ?.** (4)

	Total sales	Credit sales	Collections	
			September	October
August 2018	R250 000	R175 000	*	
September 2018	*	140 000	*	53 200
October 2018	320 000	*		131 040
			?	184 240

- 2.2 What amounts will appear in the Projected Statement of Income for the month ended 31 October 2018 for -

2.2.1 Discount allowed

(2)

--

2.2.2 Bad debts

(2)

--

2.3 Complete the Cash Budget for October 2018 by calculating the missing amounts denoted by an *. Note: Certain information has been filled in for you and this information is correct.
(13)

Cash receipts	October	Calculations:
Cash sales	*	
Cash receipts from customers	184 240	
Rent income	*	
Total cash receipts	292 490	
Cash Payments		
Cash purchases	*	
Payments to suppliers	*	
Instalment on loan	10 000	
Interest on loan	*	
Commission on sales	*	
Salaries	*	
PAYE	13 672	
UIF	*	
Drawings	7 000	
Equipment	200 000	
Other operating expenses	38 000	
Total cash payments	494 849	

2.4 Calculate the average annual increase that the receptionist received on her salary for October 2018. (2)

2.5 The receptionist is not happy with the increase that she received. She has approached you for help. Give her one reason why she should be happy with her increase. (2)

[25 marks]

F STOCK SYSTEMS

QUESTION 1 – Stock Valuation

[37 marks; 22 minutes]

1.1 Explain the meaning of the terms FIFO and Weighted Average stock valuation.

FIFO - _____

Weighted Average - _____

(4)

1.2 The selling price of the rugby balls was kept constant throughout the year. Calculate the selling price per rugby ball.

--

(3)

1.3 The owner, Ed Sheeran, is aware that some rugby balls had been stolen out of the storeroom during April 2015. No entry has been made.

- Calculate the number of balls that are missing.
- What double entry would you make in the general ledger to record this? Also provide the amount.

Account debited -
Account credited -
Amount -

(8)

1.4 Value the stock on hand at the end of the year according to the FIFO method.

--

(4)

1.5 Calculate the following:

Cost of sale

(8)

Gross profit

(3)

1.6 Sheeran is not sure when he should place an order for additional rugby balls.

- How long can he expect the closing stock to last? Provide a calculation to support your answer.

--

- What advice would you offer Sheeran in respect of the final stock? Provide TWO points.

QUESTION 2 (48 marks; 29 minutes)

Refer to the Information booklet for information relating to Boards Unlimited.

2.1

2.1.1 Calculate the value of Chalk Boards on hand on 30 June 2015. (3)

--

2.1.2 Calculate the value of the White Boards on hand on 30 June 2015. (8)

--

2.2

2.2.1 Calculate the gross profit achieved on the sale of the Chalk Boards for the year ended 30 June 2015. (5)

2.2.2 Calculate the profit mark-up achieved by Boards Unlimited on the sale of Chalk Boards for the year ended 30 June 2015. (3)

2.2.3 On average the business adds a profit mark-up of 140% to the cost price of Chalk Boards. Supply two reasons why the mark-up percentage calculated in 2.2.2 is different from the average mark-up added. (2)

- _____
- _____

.3

2.3.1 Bryson Mansoor, the owner of Boards Unlimited is concerned that a number of White Boards have gone missing. Are his concerns warranted? Show a calculation to prove/disprove that White Boards have gone missing. (5)

2.3.2 Explain one control measure that Bryson could implement to ensure that stock is not stolen. Note: You may not use security cameras as a control measure and your control measure must be applicable to the nature of the business. (2)

- _____

2.4 Refer to information point 2.1. Why do you think that the price of both Chalk Boards and White Boards decreased on 1 December 2015? (2)

3.5 Determine the method of depreciation that is being applied to delivery vehicles. Show a calculation to support your answer. (4)

Calculation:

Method of depreciation: _____

2.6 Supply two suitable reasons why you think that delivery van 1 was being traded in on delivery van 3. (2)

- _____

- _____

2.7 Calculate the price at which vehicle 1 was traded in on vehicle 3. Hint: Prepare the asset disposal account. (6)

2.8 What amount would be recorded in the Statement of Income for depreciation on 30 June 2015? (6)

Delivery van 1	
Delivery van 2	
Delivery van 2	

Total amount to be recorded in the Statement of Income: _____

G – ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

QUESTION 1

ANSWER THE FOLLOWING QUESTIONS

1. The Percentage operating profit before interest on turnover (sales) for 2014 was 10,67 %. Calculate the percentage operating profit before interest on turnover for 2015	3
2. The percentage net profit after interest (profit before tax on turnover was 10,6 7% for 2014. Calculate the percentage profit after interest (profit before tax) on turnover for 2015.	3
3. Comment what effect the renovations and expansion of shop premises has had on the business, referring to your calculation above.	6
4. Calculate the current ratio.	
5. Calculate the average creditors payment period if the credit purchases for 2015 amounted to 621 800. Use only trader creditors in your calculations.	4
6. Comment on the liquidity of the business and suggest two ways in which to improve the liquidity. Refer to the table with given ratios as well as your calculations in question 4 and 5 above.	

7. Calculate the interest rate paid on the loan.	5
8. Calculate the debt equity ratio.	4
9. Do you think it wise for the business to take out a loan to finance the expansion of its store? Refer to your calculations in question 7 and 8 as well as the ratio for return on capital employed on the given table.	6
10. How much has been paid to SARS for income tax during this year?	

11. Calculate the dividends per share (in cents).	8
12. The company offered R2.10 per share to a shareholder holding 50 000 ordinary shares. Advise the shareholder whether this offer must be accepted or not.	5
13. List two ways in which debtors could be encouraged to pay their debt earlier.	

QUESTION 2
FINANCIAL INDICATORS

Calculate the following:

Acid Test Ratio	3
Stockholding period for which stock is on hand	2
Average debtors' collection period	4
Gearing ratio (debt-equity ratio)	2
Return on equity of 39 % would have been calculated using which formula?	1
Return on average capital employed.	4
Cost of sales.	3
Earnings per share	2

Net asset value	2
If you had 10 000 shares in Truworths Limited, what amount would you have been paid out in September?	2
What does triple-bottom line reporting include?	3

QUESTION 3

If you were asked the following questions – what ratios would you consider?

<p>Did the business achieve its profit margin?</p> <ul style="list-style-type: none"> • •
<p>How well does the business control its overheads/expenses?</p> <ul style="list-style-type: none"> • • • <p>Will the business be able to pay short- term obligations (debts), such as bank overdraft, creditors and short term loans? How well did the business manage their working capital?</p> <ul style="list-style-type: none"> • • •

How effective the business manages its working capital will have an effect on its liquidity.

-
-
-
-

Do your assets exceed your liabilities

-

How is the business financed? Is the business credit worthy/low geared? Will the bank grant the business a loan?

-

Does the business offer a good return on the capital invested in the business?

-
-

How do we value the economic status of a company (Market value ratios)

-
-
-

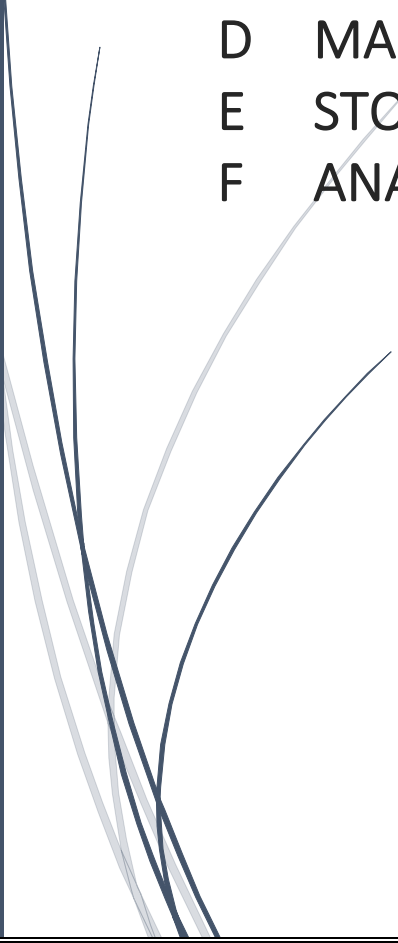


2020

GRADE 12

SEPTEMBER 2020

MEMORANDUM

- A ASSET MANAGEMENT
 - B RECONCILIATIONS AND AGE ANALYSIS
 - C VAT
 - D MANUFACTURING ACCOUNTS
 - E STOCK SYSTEMS
 - F ANALYSIS AND INTERPRETATION
- 

A - ASSET MANAGEMENT

1.1 Prepare the following ledger accounts in the accounting records of Posh Traders for the period 1 July 2014 to 30 June 2015. **Please note:** Only balance or close off the accounts on 30 June 2015, the last day of the financial year.

1.1.1 Accumulated depreciation on vehicles

(18)

ACCUMULATED DEPRECIATION ON VEHICLES									
				②	2014 July	1	Balance	B/d	✓ 160 000
2015 Mar	31	Asset disposal ✓	GJ	105 500 ✓					①
2015 June	30	Balance	C/d	120 000 ✓	2015 Mar	31	Depreciation ✓	GJ	25 500 ✓
									③
					June	30	Depreciation ✓	GJ	40 000 ✓
				225 500					225 500
					July	1	Balance	B/d	120 000 ✓

WORKINGS:

31 March 2015:

① $20/100 \times 9/12 \times (250\,000 - 80\,000) = 25\,500$

② $160\,000 / 2 = 80\,000 + 25\,500 = 105\,500$

30 June 2015:

• $20/100 \times (250\,000 - 80\,000) = 34\,000$ ✓✓

$20/100 \times 1/12 \times 360\,000 = 6\,000$ ✓✓] 40 000

As per working ①

Award two method marks if cost of R285 000 used instead of R250 000

1.1.2 Asset disposal

(10)

ASSET DISPOSAL									
				$100/114 \times 285\,000$					As per working 1.1.1
2015 Mar	31	Vehicles ✓	GJ	250 000 ✓✓	2015 Mar	31	Accumulated depreciation on vehicles ✓	GJ	105 500 ✓
									$100/114 \times 159\,600$
							Debtors for insurance ✓ / B-Sure	GJ	140 000 ✓✓
							Loss on sale of asset ✓	GJ	4 500 ✓
				250 000					250 000

1.2 Complete the Property, plant and equipment (fixed assets) note to the financial statements on 30 June 2015. **Note:** Some figures have already been inserted in the note. Show workings in brackets so that part-marks can be awarded.

(10)

PROPERTY, PLANT & EQUIPMENT (FIXED ASSETS)		Vehicles
Carrying value at beginning of year		340 000 ✓
Cost	$(100/114 \times 285\,000 = 250\,000 \times 2)$	500 000 ✓

Accumulated depreciation		(160 000)
Movements		
Additions at cost ✓		✓ 360 000
As per asset disposal account - see 1.1.2		
Disposals at carrying value ✓	(250 000 – 105 500)	☑ (144 500)
As per accumulated depreciation account - see 1.1.1		
Depreciation for the year ✓	(25 500 + 40 000)	☑ (65 500)
Carrying value at end of year		☑ 490 000
Cost		610 000
As per balance of accumulated depreciation account - see 1.1.1		
Accumulated depreciation		☑ (120 000)

50
50

QUESTION 2

Answer the following questions

What method of depreciation is used? $550\,000 \times 100 / 2200\,000 = 25\%$	1
On what date did they sell the car? 31 October 2015	1
They sold the car for cash. Calculate the profit or loss $2200\,000 - 1168750 = 1031250$ (BV) – $1000\,000 = 31250$ LOSS CP – ACC DEP = BV	3

QUESTION 3 TANGIBLE ASSET ANALYSIS (24 marks)

Refer to the Tangible asset note to answer the following questions.

1.1 On what date was the new machinery costing R540 000 purchased?

$540\,000 \times 20\% = 108\,000$ $64\,799 - 28\,799 = 36\,000$ $36\,000 / 108\,000 \times 12 = 4$ months Therefore 1 November 2016
--

(4)

1.2 Showing a calculation, explain why the depreciation for the year on the old machinery amounted to R28 799.

20% on 240 000 = 48 000 but machinery only worth 28 800, so it can only be depreciated by 28 799.

(3)

1.3 Calculate the value (a) in the Tangible asset note that relates to the disposal.

$450\,000 - 168\,750 = 281\,250 \times 25\% \times 8/12 = 46\,875$

$450\,000 - [168\,750 + 46\,875] = 234\,375$

(4)

1.4 Calculate the value (b) in the Tangible asset note:

Depreciation on asset sold 46 875
 Depreciation on new vehicle $675\,000 \times 25\% \times 4/12 = 56\,250$
 Depreciation on old but not sold vehicle (Cp 510 000 – Ad 210 800)
 $\times 25\% = 74\,800$
 Total 177 925

(9)

1.5 Calculate the value (c) in the Tangible asset note:

$379\,550 + 177\,925 - 215\,625 = 341\,850$

(4)

B - RECONCILIATIONS – CONTROLS AND AGE ANALYSIS

QUESTION 1

How can the preparation of debtor's age analysis assist the owner and credit controller in controlling debtors?	4
<ul style="list-style-type: none"> • Effective methods of credit control should be in place • Action can be taken against debtors who do not comply –charge interest • Bad debts can be minimized • Make decisions bases on age analysis • Form of internal control 	
When David started working at Lee Stores on 1 March 2015, the Debtors Control Account was R85 000. At the end of the financial year the balance is R167 000. Calculate the average debtor's collection in days for the financial year 1 March 2015 – 28 February 2016. Credit sales amounted to R680 000	6
$85000 + 167000/2 = 126000 \times 365/680\,000 = 67,63$ days Should Gayle be happy with these results? Give two reasons for your answer. Consider the fact that debtors have 60 days to pay.	3
<ul style="list-style-type: none"> • No taking 6 days longer than they should • No interest on overdue accounts has been charged 	
Gayle feels that the control of debtors has not been satisfactory since David was employed. Refer to the debtor's age analysis and the Debtors Control account provided and comment whether he should be concerned about the debtor's management. Quote specific information, two points from the debtor's age analysis and two point from the Debtors Control account.	
<ul style="list-style-type: none"> • 2 debtors over their credit limit • P Pink more than 60 days in arrear • No interest has been charged • Have not written off P Pink 	

QUESTION 2

Current	30 days	60 days	90 days
15 750✓	18 000 ✓	5 250✓	0
	(4 500) ✓	(750) ✓	
	(4 500)✓	(4 500)✓	
	9 000	0	

QUESTION 3

In the Bank Reconciliation Statement, is the balance a debit or a credit according to the Bank Statement? Give a reason for your answer A credit balance. The bank reflects all favourable balances as credits – this is because the bank owes money to the business (creditor of the bank)	2
Calculate the balance according to the bank account of Pieterse Materials on 28 February 2015. $8000+3000 - 2200 - 5600 - 4300 = (1100)$	6
Is the balance favourable or unfavourable according to the bank account An unfavourable balance. The business reflects all unfavourable balances as credit balances. According to the business, money is owed to the bank	2
What must happen to cheque No 840 (dated 5 September 2014) The cheque must be cancelled in the CRJ because it is no longer a legal tender. By March this cheque will be six months old and therefore stale. This cheque must not be entered in the Bank Reconciliation statement for February.	2
Where in the financial statements will you record cheque No 1065. Add it back to Creditors in the Trade and other payables add it back to Bank in Cash and Cash equivalents or if bank in overdraft subtract it.	2

QUESTION 4 RECONCILIATIONS (29 marks; 35 minutes)

- 4.1 *There is one mistake that has **not** been mentioned that is in the bank reconciliation statement. Describe this mistake and where it should have been recorded instead.*
Cheque 577 is stale and should have been cancelled in the CRJ. (2)
- 4.2 *Calculate the bank account balance on 30 November 2016 after taking the errors and additional information into account, and state whether it is favourable or unfavourable. Show your workings.*
 $- 11\ 350 + 33\ 000 - 5\ 000 - 750 = 15\ 900$ favourable (4)
- 4.3 *Explain how cheque 1035 will be treated in the financial statements.*
R750 will be added back to bank and subtract it from drawings (added back to owner's equity.) (2)
- 4.4 *Tubby has heard that if a shop has credit sales they can sell much more than if they only sell for cash. He spoke to his sister about this and she advised him not to sell on credit. Give **three** reasons why his sister would advise him not to have credit sales.*
People have to buy groceries anyway, so they will not buy much more on credit.
More chance of bad debts.
More paper work/telephoning, emailing, SMSing.
Hiring of extra people to keep control of the debtors.
Each reason (3)
- 4.5 *Tubby wonders if he should hire an internal auditor for a month because the business seems to be having problems with the accuracy of their recording of cash transactions.*
- 2.5.1 *Explain what an internal auditor does.*
An internal auditor will audit the procedures and processes: See whether they are effective and whether they are being followed, and suggest any improvements to management. (2)
- 2.5.2 *List **two** types of audit evidence that could be looked at by an internal auditor and explain what they would be compared to, to check the accuracy of the cash transactions.*
- Duplicate receipts – compare with the entries in CRJ.
 - Cheque counterfoils – with the entries in CPJ.
 - The bank statement – with the bank recon and CRJ and CPJ.
 - CPJ – with the documents they paid, e.g. Invoices or creditor statements. (4)
- Each audit evidence and what they are compared to.
- 4.6 *Use the statement from The Cereal Factory to draw up the debtor's age analysis as it should have appeared on the statement. Do **not** take the additional information into account.*

Current	30 days	60 days	90 days
5 600 – 1 400 +		8 300 – 2 100 –	7 500 – 7 300
11 250		4 800	– 200
= 15 450		= 1 400	= 0

(4)

- 4.7 *Use the additional information to draw up the creditor's reconciliation.*

Incorrect balance as per statement	16 850
Correction of invoice T108	900
Correction of invoice T120	(11 250)
EFT	(2 000)
	4 500

(4)

4.8 How could cheque 1033 be in the bank reconciliation statement if it was received by The Cereal Factory on 28 November? (This is not a mistake.) They may not have deposited it as yet.

It was delivered to Cereal Factory by hand, and they deposited it at the bank straight away, but it is still going through the bank process and has not yet appeared on the bank statement. (1)

4.9 Tubby is upset that he never received the discount when he paid on 3 October. Explain to Tubby why he was not granted the discount.

His oldest debt was more than 10 working days old. (1)

4.10 The Cereal Factory are concerned that Tub's Groceries are not keeping to their credit terms, but they do not want to lose them as a customer, which they might do if they start charging them interest. Discuss **two** other procedures they can put in place to increase their chances of Tub's Groceries keeping to the credit terms.

They can send (email) a statement every month.
They can phone to find out whether they received the statement.
They can SMS reminders.
They can phone and discuss payment.
Last resort – lawyer's letter.
Any procedure (not interest or discount unless they increased it) (2)

C – VAT

QUESTION 1 VAT

(15 marks; 9 minutes)

Refer to the information in the Information Booklet.

Calculate the amount owing to SARS in respect of VAT, at the end of April 2017 after taking the transactions given into account.

TRANSACTION NO.	Amount owing to SARS
1	5540√
1	(3200) √
2	260400√
3	(308) √√
4	546√
5	(138600) √√
6	(294) √
7	78√
8	42√√
9	21√√
	124 225 (√)

[15]

QUESTION 2 VALUE ADDED TAX

Transaction number	Amount owing to SARS
2.1.1	11 120
	- 6420
2.1.2	+ 912
2.1.3	- 2 996
2.1.4	+156
2.1.5	+84
2.1.6	+9 408
2.1.7	+42
2.1.8	- 180
2.1.9	+ 9 520 ←
	21 644

- Brackets = negative
No brackets = positive
- Where only 1 mark is awarded: both the sign & amount need to be correct
- Where 2 marks awarded:
1 mark for sign
1 mark for amount except for 1.1.9

(15)

2.2

ACCOUNT DEBIT: _____ Creditors' Control _____

ACCOUNT CREDIT: _____ Input VAT _____ (2)

2.3

- | |
|---|
| <ul style="list-style-type: none"> • Asset belongs to the business therefore should be for business use. • Business has carried the cost of the vehicle, VAT and insurance and is getting no benefit from the asset. • Unethical for A. Mbali to let her son use the vehicle. • Business entity concept applicable. • If the poor cash flow position of the business is mentioned. • The business has already been closed down and should not have purchased the vehicle. |
|---|

(3)

D - MANUFACTURING ACCOUNTS

QUESTION 1 (50 marks; 30 minutes)

1.1.1 Calculate the value of raw materials on hand on 28 February 2018 using the FIFO method. (5)

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

1.1.2 Calculate the value of raw material cost that would appear in the Production Cost Statement. (5)

$$700m \times R30 = 21\,000 + 494\,800 - 4\,200 - 193\,800 = 317\,800$$

1.2 Calculate the value of direct labour cost that would appear in the Production Cost Statement the year ended 28 February 2018. (7)

$$\begin{aligned} \text{Normal time} &= 5 \times 5\,000 \times 12 = R300\,000 \\ \text{Overtime} &= 180 \times 70 \times 5 = 63\,000 \\ \text{UIF + Pension} &= 300\,000 \times 11\% = 33\,000 \text{ or } 30\,000 + 3\,000 \\ &= 396\,000 \end{aligned}$$

1.3 The business produced 4 000 jackets 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.

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

$$317\,800 + 396\,000 + (67,55 \times 4\,000) = 984\,000$$

Raw M Direct L Factory o/h

1.3.2 Calculate the unit cost of production per jacket. (3)

$$984\,000 / 4\,000 = 246$$

1.4.1 Identify the number of metres of raw material fabric that appear to be missing. (5)

$$9\,100 - (1,8 \times 4\,000) = 1\,900 \text{ metres}$$

1.4.2 Apart from theft, give one most likely reason for this shortage. Using two points, advise Jonathan in this regard. (6)

Valid Reason: Wastage during production
Unskilled employees
Unusable materials/off cuts (Any 1 x ✓✓)

Advice: Better supervision during production
Control over allocation of raw materials
Training of employees
Use of good quality material (Any 2 x ✓✓)

1.5 Calculate the cost of sales for the year ended 28 February 2018. (5)

$$31\,240 + 984\,000 - (420 \times 246) = 911\,920$$

1.6.1 Calculate the break-even point for the current financial year. (4)

$$350\,200 / (350 - 215,95) = 350\,200 / 134,05$$

= 2612,45 / 2613 units ✓

- 1.6.2 The break-even point for 2017 was 2 273 units. Should Jonathan be satisfied or dissatisfied with the break-even point for 2018 calculated in 3.6.1? Briefly explain. (3)

Jonathan should be satisfied ✓
The business has produced 4 000 units while break-even is 2613 units- profits will increase. ✓✓
OR
Dissatisfied, break-even of 2613 units is higher than 2273 in 2017.

- 1.7 Jonathan has agreed to allow one of his workers to use the machinery over weekends to make t-shirts to sell when he returns to his home in Botswana over Easter. The worker will pay a rental of R500 per weekend. Jonathan is not sure how he would account for this income – as operating income in his Statement of Income, or in some way in the Production Cost Statement. Suggest how you think this income should be treated, and why. (2)

Income Statement:

Income is not usually accounted for in the Production Cost Statement.
The income does not relate to the t-shirts Jonathan has manufactured.
OR

Production Cost Statement income or deduction:

It reduces the actual cost of production.
It is an income that would not have been earned if he was not producing the t-shirts
Deduction from overhead costs as these can now be shared.
Any 1 x ✓✓

Total: 50 marks

QUESTION 2 – Manufacturing

[39 marks; 24 minutes]

PRODUCTION COST STATEMENT

2.1.1 Factory Overhead Cost

Factory maintenance	19 404
Depreciation	32 390
Water and electricity (137 000 x ¾) ✓✓	102 750
Rent expense (296 000 x 3/5) ✓✓	177 600
Insurance (30 000 x 70%) ✓✓	21 000
Salaries and wages (9 500 x 13 = 123 500) ✓✓ + (950 x 52 +10% = 54 340) ✓✓	177 840
Indirect material	35 730 ✓
	566 714 ✓

(12)

2.1.2 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

Direct material (42 400√ - 56 700√ + 118 500√ + 24 100√ - 32 800√)	1 159 500☑
Direct labour (7 x 6 400 = 44 800) √√ + (130 x 7 x 57 = 51 870) √√	589 470☑
PRIMARY COST	1 748 970☑
Factory overhead	566 714☑
TOTAL PRODUCTION COST	2 315 684☑
Work in progress – opening balance	43 300√
	2 358 984
Work in progress – closing balance	(33 000) √
COST OF PRODUCTION FOR FINISHED GOODS	2 325 984☑

(17)

2.2 UNIT COST AND BREAK-EVEN POINT

2.2.1 Calculate the following:

Direct material cost per unit, indicated by (a) in the table in information 3 in the information book.

$$756\,000 / 42\,000 = R18\sqrt{\sqrt{}}$$

(2)

Factory overhead cost, indicated by (b) in the table in information 3 in the information book.

$$9 \times 42\,000 = 378\,000\sqrt{\sqrt{}}$$

(2)

2.2.2 Give a possible reason for the change in direct material cost per unit.

(2)

New supplier / Closer supplier, less carriage / Negotiated for trade discount √√

2.2.3 Calculate the break-even point for the year ended 31 August 2016. The break-even point for the previous year was 23 064 units.

$$567\,000\sqrt{\sqrt{}} / (60\sqrt{\sqrt{}} - 41\sqrt{\sqrt{}}) = 29\,842,1$$

29 843√ units to be sold to reach break-even point.

(4)

E BUDGETS

QUESTION 1 BUDGETS

(30 marks; 36 minutes)

Round off cents to the nearest Rand.

1.1 Calculate the missing figures denoted by the letters "A" to "I". The "?" do not need to be calculated.

A	$6\,961 \times 100/5 = 139\,220$
B	$139\,220 \times 4 = 556\,880$ ☑
C	$A + B = 696\,100$ ☑
D	$134\,660 \times 5.52 = 706\,650$ OR $134\,600 + 572\,050$
E	$9\,810 \times 100 / 109 = 9\,000$
F	$323\,680 \times 139/136 = 330\,820$
G	$2\,000 + 13\,000 = 15\,000$
H	$7\,500 \times 1.1 = 8\,250$
I	$24\,550 + 3\,250 = 27\,800$

(9)

1.2 Write down two items that could be included in the cost of services.

- Any 2 cleaning material items, e.g. polish, jik, cloths, soap, upholstery cleaner, etc. (2)
- Any 2 ×

1.3 Calculate the rate of depreciation used on the industrial vacuum cleaner.

- $7\,500 \times \frac{?}{100} \times \frac{1}{12} = 50$
- $X = 8\%$ (3)

1.4 Complete the Debtors' Collection Schedule for January 2018.

	Calculations	January 2018
November	13 922 + 50 119	64 041
December		105 998
January		–
		170 039

(3)

1.5 Calculate the missing figures denoted by the letters "J" to "M". The "?" do not need to be calculated.

J	$F + R4\,000 = 334\,820$ ☑
K	13 000
L	$38\,125 + 3\,250 = 41\,375$
M	7 625

(5)

1.6 Ella is getting frustrated because the vacuums and carpet cleaners are being broken on a very regular basis. She knows that if she deducts the cost of repairs or the cost of new equipment off the workers' salaries, their motivation and attitude will deteriorate, so she cannot do this.

Suggest two things she can do to ensure the equipment lasts longer and to help prevent the workers from breaking the equipment.

- Service or maintain the equipment regularly.
- Let the workers buy/have the equipment when she replaces it.
- Give bonuses to teams who keep their equipment in good order.
- 2 x (4)

1.7 Ella is considering expanding her business. Give three points she should consider when expanding, and explain whether you think she should expand or not.

Points to consider:

- Her cash position (surplus).
- Whether she can find more contracts.
- Whether each team can make a profit.
- Whether she can find an affordable vehicle.
- Whether the team's income is going to cover the expense of depreciation of the vehicle and cleaning equipment.

Should they expand?

- Any reasonable opinion based on the points to consider. (4)

QUESTION 2 Budgets

(25 marks; 30 minutes)

Refer to the Information Booklet for information relating to Nottingham Traders.

Complete the debtors' collection schedule by calculating the amounts missing denoted by an *. Note: Certain information has been filled in for you and this information is correct. Do not calculate the amounts denoted by a ?.

(4)

	Total sales	Credit sales	Collections	
			September	October
August 2018	R250 000	R175 000	66 500✓	
September 2018	200 000✓	140 000	81 900✓	53 200
October 2018	320 000	224 000✓		131 040
			?	184240

Complete the Cash Budget for October 2015 by calculating the missing amounts denoted by an *. Note: Certain information has been filled in for you and this information is correct. Do not calculate the amounts denoted by a ?.

(14)

Cash receipts	October	Calculations:
Cash sales	96 000✓	Cash sales: (320 000 x 30%) = R96 000
Cash receipts from customers	184 240	Rent income: (3 750✓ + 8 500✓) = R12 250
Rent income	12 250	Purchases: Sept: (120 000 + 3000) = R123 000✓ Oct: (192 000 + 3 000) = R195 000✓
Total cash receipts	292 490	Cash purchases for Oct: • (195 000 x 70%✓) - 10%✓ = R122 850
Cash Payments		Payment to creditors for Oct: • (123 000 x 30%✓) = R36 900
Cash purchases	122 850	Interest on loan: 240 000✓ x 14% x 1 + 12✓ = R2 800
Payments to suppliers	36 900	Commission on sales: (200 000 x 1%) = R2 000
Instalment on loan	10 000	Salaries: (8 000 - 1 600 - 80) ✓ + 53 941✓ = R60 261
Interest on loan	2 800	UIF: (683 + 683) = R1 366
Commission on sales	2 000✓	
Salaries	60 261	
PAYE	13 672	
UIF	1 366✓	
Drawings	7 000	
Equipment	200 000	
Other operating expenses	38 000	
Total cash payments	494 849	

What amounts will appear in the Projected Statement of Income for the month ended 31 October 2018 for -

Discount allowed

(2)

✓ $(2,5 + 97,5) \times 11\,040 = R3\,360 \checkmark$ Or $60\% \times 224\,000 = R134\,400$ $2,5\% \times 134\,400 = R3\,360$
--

Bad debts

(2)

$140\,000 \times 2\% = R2\,800 \checkmark \checkmark$

Calculate the average annual increase that the receptionist received on her salary for October 2018.

(2)

✓ $480 \div 8\,000 \times 100 = 6\% \checkmark$
--

The receptionist is not happy with the increase that she received.

She has approached you for help. Give her one reason why she should be happy with her increase.

(2)

Reason to be happy with her increase: Higher than the rate of inflation which is 5%. ✓✓

F STOCK SYSTEMS

QUESTION 1 – Stock Valuation

[37 marks; 22 minutes]

1.1 Explain the meaning of the terms FIFO and Weighted Average stock valuation.

FIFO – Stock purchased first will be sold first ✓✓

Weighted Average – Value of all stock purchased over a period is added and average price per unit is calculated ✓✓

(4)

1.2 The selling price of the rugby balls was kept constant throughout the year. Calculate the selling price per rugby ball.

$$430\,500 \checkmark / 2\,100 \checkmark = R205 \checkmark$$

(3)

1.3 The owner, Ed Sheeran, is aware that some rugby balls had been stolen out of the storeroom during April 2015. No entry has been made.

- Calculate the number of balls that are missing.
- What double entry would you make in the general ledger to record this? Also provide the amount.

$$750 \checkmark + 2\,480 \checkmark - 2\,100 \checkmark - 1\,100 \checkmark$$

= 30 units stolen

Account debited – Loss due to theft ✓

Account credited – Trading stock ✓

$$\text{Amount} - 30 \times 110 = R3\,300 \checkmark \checkmark$$

(8)

1.4 Value the stock on hand at the end of the year according to the FIFO method.

$$480 \times 160 = 76\,800 \checkmark$$

$$620 \times 120 = 74\,400 \checkmark \checkmark$$

$$R151\,200 \checkmark$$

(4)

1.5 Calculate the following:

Cost of sale

$$(750 - 30 \checkmark \checkmark) \times 110 = 79\,200 \checkmark$$

$$800 \times 150 = 120\,000 \checkmark$$

$$580 \checkmark \times 120 = 69\,600 \checkmark$$

$$R268\,800 \checkmark$$

(8)

Gross profit

$$430\,500 \checkmark - 268\,800 \checkmark = 161\,700$$

(3)

1.6 Sheeran is not sure when he should place an order for additional rugby balls.

- How long can he expect the closing stock to last? Provide a calculation to support your answer.

$$151\,200 \checkmark / 268\,800 \checkmark \times 365 = 205,3 \text{ days} \checkmark \checkmark \text{ Stock on hand}$$

OR

$$268\,800 \checkmark / 151\,200 \checkmark = 1,78 \text{ times per year} \checkmark \checkmark \text{ Stock turnover rate}$$

- What advice would you offer Sheeran in respect of the final stock? Provide TWO points.

Stock on hand is too high. Stock turn-over is too slow. ✓ This could lead to high storage fees and increased risk of theft or damage to stock ✓✓

(7)

Question 2 (48 marks; 29 minutes)

Refer to the Information booklet on page 5 and 6 for information relating to Boards Unlimited.

2.1

2.1.1 Calculate the value of Chalk Boards on hand on 30 June 2015. (3)

$$\begin{aligned} 10 \times 550 &= 5\,500 \checkmark \\ 50 \times 620 &= 31\,000 \checkmark \\ &= R36\,500 \checkmark \end{aligned}$$

2.1.2 Calculate the value of the White Boards on hand on 30 June 2015. (8)

$$\begin{aligned} &\underline{45\,500 + 281\,250 + 42\,350 - 8\,000 - 4\,000} \\ &65 + 385 - 10 - 5 \\ &357\,100 \checkmark \checkmark \checkmark \\ &435 \checkmark \checkmark \\ &= R820,92 \\ &90 \checkmark \times R820,92 \checkmark = R73\,882,80 \checkmark \end{aligned}$$

2.2

2.2.1 Calculate the gross profit achieved on the sale of the Chalk Boards for the year ended 30 June 2015. (5)

$$\begin{aligned} \text{Sales: } &R427\,680 \checkmark \\ \text{COS: } &R66\,000 \checkmark + 158\,200 \checkmark - 36\,500 \checkmark = R187\,700 \\ \text{GP: } &R239\,980 \checkmark \end{aligned}$$

2.2.2 Calculate the profit mark-up achieved by Boards Unlimited on the sale of Chalk Boards for the year ended 30 June 2015. (3)

$$\begin{aligned} &(\checkmark) \\ &\frac{239\,980}{187\,700 \checkmark} \times \frac{100}{1} \\ &= 127,85\% \checkmark \end{aligned}$$

3.2.3 On average the business adds a profit mark-up of 140% to the cost price Chalk Boards. Supply two reasons why the mark-up percentage calculated in 3.2.2 is different from the average mark-up added. (2)

- A trade discount or cash discount could have been given. ✓
- A bulk discount could have been offered to school who bought a number of units. ✓
- Two for one specials etc.
- Coupons

3.3

3.3.1 Bryson Mansoor, the owner of Boards Unlimited is concerned that a number of White Boards have gone missing. Are his concerns warranted? Show a calculation to prove/disprove that White Boards have gone missing. (5)

$$\begin{aligned} &65 + 385 - 10 - 5 - 320 = 115 \checkmark \checkmark \checkmark \\ &115 - 90 \checkmark = 25 \checkmark \\ &\text{Or} \\ &65 + 385 - 5 - 90 = (345 \checkmark \checkmark \checkmark - 320 \checkmark) = 25 \checkmark \end{aligned}$$

3.3.2 Explain one control measure that Bryson could implement to ensure that stock is not stolen. Note: You may not use security camera's as a control measure and your control measure must be applicable to the nature of the business. (2)

- Stock should be locked in a storeroom and only opened by a supervisor to remove stock. ✓✓
- Proper document trail and authorisation for the removal of stock.
- Search vehicles before they leave the premises.
- Do stock checks on a regular basis.

3.4 Refer to information point 4.1 on page 5 of the information booklet. Why do you think that the price of both Chalk Boards and White Boards decreased on 1 December 2015? (2)

- End of year specials by suppliers. ✓✓
- Old stock being sold at a discount.
- Bulk discount

3.5 Determine the method of depreciation that is being applied to delivery vehicles. Show a calculation to support your answer. (4)

If cost price method was used total depreciation up until 30 June 2014 would be:

$$\frac{250\,000}{1} \times \frac{30}{12} \times 20\% \checkmark\checkmark$$

= R125 000 ✓

OR

30 June 2012: $20\% \times 250\,000 \times 6 \div 12 = 25\,000 \checkmark$
 30 June 2013: $20\% \times (250\,000 - 25\,000) = 45\,000 \checkmark$
 30 June 2014: $20\% \times (250\,000 - 70\,000) = 36\,000 \checkmark$

Method of depreciation: Diminished balance method ✓

3.6 Supply two suitable reasons why you think that delivery van 1 was being traded in on delivery van 3. (2)

- Delivery vehicle has become too expensive to maintain. ✓
- Keeps breaking down and repairs are costly. ✓
- Was involved in an accident.

3.7 Calculate the price at which vehicle 1 was traded in on vehicle 3. Hint: Prepare the asset disposal account. (6)

Vehicles	250 000 ✓	Acc dep on vehicles *	130 000
Profit on sale of asset	5 000 ✓	Creditors control	125 000 ✓
	255 000		255 000

✓
 $*(250\,000 - 106\,000) \times 10 \div 12 \times 20\% = 24\,000 \checkmark$
 $R106\,000 \checkmark + 24\,000 = R130\,000$

3.8 What amount would be recorded in the Statement of Income for depreciation on 30 June 2015? (6)

Delivery van 1	R24 000 ✓
Delivery van 2	$(300\,000 - 25\,000) \times 20\% \times 12 \div 12 = R55\,000 \checkmark\checkmark$
Delivery van 3	$360\,000 \times 20\% \times 2 \div 12 = R12\,000 \checkmark\checkmark$

Total amount to be recorded in the Statement of Income: R91 000 ✓

G – ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

QUESTION 1

ANSWER THE FOLLOWING QUESTIONS

<p>1. The Percentage operating profit before interest on turnover (sales) for 2014 was 10,67 %. Calculate the percentage operating profit before interest on turnover for 2015</p> <p>172455x100/1440000 = 11,98%</p>	3
<p>2. The percentage net profit after interest (profit before tax on turnover was 10,6 7% for 2014. Calculate the percentage profit after interest (profit before tax) on turnover for 2015.</p> <p>139995x100/1440000 = 9.72 %</p>	3
<p>3. Comment what effect the renovations and expansion of shop premises has had on the business, referring to your calculation above.</p> <p>Increase from 10,65 to 11.98 increase of 1.31. could be due shop enlargement</p> <p>NP after interest decreased from 10.67 – 9.72</p>	6
<p>4. Calculate the current ratio.</p> <p>314 380 : 189 500</p> <p>1.66 : 1</p>	
<p>5. Calculate the average creditors payment period if the credit purchases for 2015 amounted to 621 800. Use only trader creditors in your calculations.</p> <p>97500+87000 =</p> <p>9250X365/621800</p> <p>= 54.15 DAYS</p> <p>6. Comment on the liquidity of the business and suggest two ways in which to improve the liquidity. Refer to the table with given ratios as well as your calculations in question 4 and 5 above.</p> <p>Acid test ratio improved Debtors collection got worse from 38days to 46 days Creditors payment from 50 days to 54 days</p> <p>Debtors collection must improve if credit policy is 30 days Only pay creditors in 90 days if that is what the policy states Keep stock low</p>	4
<p>7. Calculate the interest rate paid on the loan.</p> <p>32500x100/500 000 = 6.5 % half year x 2 =</p> <p>13 %</p>	5
<p>8. Calculate the debt equity ratio.</p> <p>450 000 : 934 880</p> <p>0,48 : 1</p>	4
<p>9. Do you think it wise for the business to take out a loan to finance the expansion of its store? Refer to your calculations in question 7 and 8 as well as the ratio for return on capital employed on the given table.</p> <p>Lowly geared and credit worthy</p> <p>ROCE = 15, 9 % only 2,9 % higher that % of the loan – ROCE increased means we are using the money well</p> <p>DO NOT LOOK AT ROSE</p> <p>10. How much has been paid to SARS for income tax during this year?</p> <p>12000 + 48984-11250 = PAID = 49734</p>	6
<p>11. Calculate the dividends per share (in cents).</p> <p>100 000 90 971 NPAT</p>	8

(106091) Total dividends 84880 $106091/400\ 000 = 26.5\text{cents}$	
12. The company offered R2.10 per share to a shareholder holding 50 000 ordinary shares. Advise the shareholder whether this offer must be accepted or not. $934\ 880 \times 100 / 400\ 000 = 2.33$ No offer not acceptable at all. Below the NAV of R2.10	5
13. List two ways in which debtors could be encouraged to pay their debt earlier. Offer discounts for early payment Charge interest	

QUESTION 2

FINANCIAL INDICATORS

Calculate the following:

Acid Test Ratio 5204 : 955 5.45 : 1	3
Stockholding period for which stock is on hand $670 + 787 = /2 =$ $787 / 4238$ = 68 days	2
Average debtors' collection period $3766 + 3421 = /2$ 3593.5×365 = 134 days	4
Gearing ratio (debt-equity ratio) 97 : 6219 0.02 : 1	2
Return on equity of 39 % would have been calculated using which formula? NPAT/Average OSE	1
Return on average capital employed. $3366 / 6197 = 54\ %$	4
Cost of sales. Gross profit margin 56.6 $100 - 56.6 = \text{cos} = 43.6$ $9765 \times 56.6 / 100 = 5527$ $9765 - 5527 = 4238$	3
Earnings per share $2408 / 417.8$ = 576,35	2
Net asset value $6219 / 417.8$	2

= 1488,5cents	
If you had 10 000 shares in Truworths Limited, what amount would you have been paid out in September? 10 000 x 158 /100 = 15800	2
What does triple-bottom line reporting include?	3
Economic Environmental Social	

QUESTION 3

If you are asked the following questions – what ratios would you consider?

<p>Did the business achieve its profit margin?</p> <ul style="list-style-type: none"> • Gross profit on Cost of sales • Gross profit on Sales
<p>How well does the business control its overheads/expenses?</p> <ul style="list-style-type: none"> • Operating expenses on sales • Operating Income on sales • Net profit after tax on turnover <p>Will the business be able to pay short term obligations (debts), such as bank overdraft, creditors and short term loans? How well did the business manage their working capital?</p> <ul style="list-style-type: none"> • Current ratio • Acid test ratio • Net working capital Current Assets – Current liabilities
<p>How effective the business manages its working capital will have an effect on its liquidity.</p> <ul style="list-style-type: none"> • Stock turnover rate • Stock holding period • Average debtors collection period • Average creditors payment period
<p>Do your assets exceed your liabilities</p> <ul style="list-style-type: none"> • Solvency – Total assets : Total Liabilities
<p>How is the business financed? Is the business credit worthy/low geared? Will the bank grant the business a loan?</p> <ul style="list-style-type: none"> • Debt Equity ratio • Return on Capital Employed
<p>Does the business offer a good return on the capital invested in the business?</p> <ul style="list-style-type: none"> • RETURN OF OWNERS EQUITY •
<p>How do we value the economic status of a company (Market value ratios)</p> <ul style="list-style-type: none"> • NAV • DPS • EPS



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