



education

Department:

Education

PROVINCE OF KWAZULU-NATAL

CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS)

LEARNER ASSISTANCE REVISION DOCUMENT

GRADE 12

ACCOUNTING

2020

PREFACE

This document is intended to assist the Accounting progressed learners with the Grade 12 entire curriculum implemented in the classroom to pass the examination assessments.

The document covers the following:

- All the topics throughout the year
- Assessment Activities

The aim of this document is to support learners so as to enable them to understand better the content. Assessment activity will guide learners on what and how to focus on per topic to be ready to pass the examination. Covering all these aspects will empower the learners with relevant strategies to study various topics in Accounting Grade 12.

The Curriculum Grade 10 – 12 Directorate acknowledges the contribution made in conceptualizing and producing this document by the KwaZulu-Natal Department of Education Accounting Subject Advisers and Top Teachers.

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STRATEGIES AND NOTES**FINAL ACCOUNTS OF COMPANIES****APPROPRIATION ACCOUNT**

- Profit and Loss – Net profit before tax (Cr side)
- Retained income at the beginning – Consider buy back of shares (Cr side)
- Dividends – Dividends for the year (Interim plus final dividends) (Dr side)
- Income Tax – Income tax for the year (Dr side)
- Retained income at the end of year – (Dr side)
- Lastly emphasise the importance of contra accounts e.g. Net profit is not a contra account but always referred as Profit and loss

FINANCIAL STATEMENTS:**A: INCOME STATEMENT**

- Structure – What to add and when to subtract i.e. expense is always subtracted (-) and income always positive (+). Show all workings in order to earn part marks.
- Always copy information (All) from the Nominal Account Section except Dividends; Debit side are expenses credit side are incomes but do not misplace interests as operations of a business.
- From the Balance Sheet Account Section, NO items must be taken; only use figures needed in the adjustment e.g. Provision for Bad debts - to determine Provision for bad debts adjustment, trading stock to determine surplus or deficit, fixed asset for depreciation
- Adjustments to take note of: double entry principle is applied (what is in IS must appear in BS)

Sales (+) or return (-)

- Omitted Invoice/ Credit sales – (add to sales with SP also add to cost of sales with CP)
- Omitted credit note/ Returns - Subtract the sales with SP also subtract cost of sales with cost price)
- Trade discounts will affect sales negatively not cost of sales.

NB double entry principle must be applied

Rent Income - Always calculate it in three ways: as advance then this will be subtracted from Trial balance figure if less than 12 months it is accrued (add it).

- Rent received for 14 months = Amount divided by 14
- Rent increased by amount during a year we cannot just divide because monthly payments are not equal so increase is given e.g. R500 as an increase for 5 months ($500 \times 5 = R2\ 500$) then subtract this amount from rent amount (on Pre- Adjustment) and divide by number of months to get the amount of rent before the increase thereafter add R500 as an increase per month.
- Rent increased by 10% for 4 months whereas it was received for 14 months. $100 + 10\% \text{ increase} = 110\%$, $110\% \times 4 = 440\% + (100\% \times 10 \text{ months}) 1000\% = 1440\%$. Take amount of rent $\times 220\%$ (110×2) DIVIDE BY 1440% you will get the amount of rent after the increase.

Bad debt written off adjustment (+)

- When a debtor is failing to pay amount his debt need to be written off which will + bad debtors.

Provision for bad debt adjustment calculated by 5%

- Take Debtors control + credit sales/ -returns –written off $\times 5\%$ then compare with previous provision if its increasing write under expenses if decreasing income

Accrued expense= expense not yet been paid during a current year (+)

- Salary- employee omitted (*add the gross salary and employer's contribution to salaries NOT deduction sometimes contributions have them in the face of IS so add contributions to contributions*)
- Directors fees - company had 2 directors and were paid for 1st half of a year.

Prepaid= expense paid before time (-)

- An annual Insurance premium mid-year, meaning that the other months belongs to next year
NB: take only annual insurance $\times 6/12$ not pre adjustment figure.

Depreciation it's a decrease in a value of an asset by 10% example

- Straight line method = cost price x % x months/ 12.
- Asset sold calculate depreciation for sold and remaining
- Asset purchased calculate depreciation for new and old

Loan statement – is used to calculate interest on loan for a year.

- Formula is balance at end + repayment – beginning = interest

Interest Income a money due to the business from fixed deposit

- Always calculate the correct amount due then work back to what has been received from Pre- Adjustment Trial Balance.

Stock loss = when a stock is damaged or stolen and not recoverable only some part of it will be.

- R10 000 stock stolen insurance agreed to pay 80 % of It loss due to theft will be 10 000 x20/100) R2 000
- OR insurance paid R80 000 which is 80% of the claim stock loss will R8 000 X 20/80

TRADING STOCK DEFICIT (SHORTAGE)/SURPLUS (EXCESS extra)

- Trading stock purchased (trial balance) – end – stock damage/stolen- stock sold not recorded+ stock returned) = deficit or surplus

Consumable Stores used is what was used by a business from what was purchased**To calculate purchased (trial balance)–on hand (adj) = used**

Income tax =amount needed by SARS (-) where 28% is for income tax

- Give profit after tax x 28/72 or profit before x 28/100

NB: BE ABLE TO WORK FROM BOTTOM UP

B: BALANCE SHEET**STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)**

- YOU MUST KNOW THE FORMAT

Non current Assets

Noncurrent assets are a company's **long-term investments** or long-term assets that have a useful life of more than one year. Noncurrent assets cannot be easily converted to cash.

Non-current assets include:

Land and buildings (Property), vehicles and equipment

Cost price less accumulated depreciation plus value of new assets bought less depreciation less carrying value of assets sold/disposed.

Investment /fixed deposit

Always subtract investment maturing within 12 months after year end and add to cash and cash equivalents.

Current assets represent the value of all assets that can be converted to cash and are used to fund the ongoing operations of the company and pay current expenses.

Inventory

(stock remaining/on hand) (trading stock, consumable stores, stationery, packing material)

Trade and other receivables

(Debtors control less provision for bad debts plus accrued (receivable) income plus prepaid expenses and SARS INCOME TAX RECEIVABLE ie Provisional tax payment being greater than income tax expense from the statement of comprehensive income

Cash and cash equivalents

(Dr Bank, cash float, petty cash and current portion of fixed deposit i.e fixed deposit maturing within 12 months Total assets are a sum of NON CURRENT ASSETS and CURRENT ASSETS.

Equity

Shareholders equity for your grade 12 will be made of two items:

Ordinary share capital and retained income

Buy back must be authorized and be in line with Companies Act of 2008 Section 46.

The company must satisfy the liquidity requirements before and immediately after buy back

The company must satisfy the solvency requirements before and immediately after buy back.

The board of directors have authorized and adopted the distribution in a resolution

Buy back will affect both Ordinary share capital and retained income

For ordinary share capital, average issue price may be used.

For retained income, amount above average must be used.

Repurchase price/ buy back will be total amount paid for the repurchase of share

Liabilities

What Are **Noncurrent Liabilities**?

Noncurrent liabilities, also called long-term liabilities or long-term debts. These liabilities have obligations that become due after/beyond twelve months in the future,

A loan to be repaid within 12 months after the financial year end will be subtracted from and be put as current portion of loan/short term portion of loan under current liabilities.

As opposed to **current liabilities** which are short-term debts with maturity dates within the following twelve month period.

Trade and other payables (creditors control, accrued (*payable*) expenses, income received in advance (deferred income) creditors for salaries (*net salary*) for UIF, PENSION, MEDICAL, (*deductions and employers' contributions*) Shareholders for dividends (taken from final dividends)

Current portion of loan/ short term portion of loan (subtracted from Loan or mortgage loan.)

SARS: Income tax (when provisional income tax payment is less than income tax expense from the statement of comprehensive income.

C: CASH FLOW STATEMENT

- **PURPOSE**

To show where the funds come from and how they are used.

- **FORMAT**

It is very important for learners to know the format for Cash Flow Statement and Notes.

Inflows- receive money, no brackets or + sign

Outflows- pay money, figure must be in brackets () or - sign.

- **NOTES TO THE CASH FLOW STATEMENT(Note 1)**

1. RECONCILIATION BETWEEN PROFIT BEFORE TAX AND CASH GENERATED FROM OPERATIONS.

- Start with profit **BEFORE** tax.- **inflow (+)**

- Adjustments in respect of:

Depreciation (Non cash)

Interest expense

NB: Depreciation must be added back to the profit before tax as it non cash flow items. Interest will be disclosed on the face of the cash flow.

- Profit before changes in working capital is found by adding **profit before tax, depreciation and interest expense.**

- Changes in working capital

Changes in inventories – increase (**outflow**) / decrease (**inflow**).

Changes in receivables (**exclude SARS (INCOME TAX)** – increase (**outflow**) / decrease (**inflow**).

Changes in payables (**exclude SARS (INCOME TAX)** and **Shareholders for Dividends** – increase (**inflow**) / decrease (**outflow**).

Note the following format:

Reconciliation between profit before tax and cash generated from operations.

Net profit before tax	XXX
Adjustment for :	
Depreciation	XXX
Interest on loan/expense	XXX
Profit before changes in working capital	XXX
Changes in Working capital	XXX
Increase / Decrease in inventory (XXX-XXX)	XXX
Increase / Decrease in debtors / receivables	XXX
Increase / Decrease in creditors / payables	XXX
Cash generated from operations	XXX

2. INTEREST PAID (interest on loan **ACCRUED**)

- Amount at the beginning
- Plus amount as per income statement
- Minus amount at the end.
- Equals to interest paid

N.B YOU CAN ALSO DRAW A LEDGER ACCOUNT / LOAN ACCOUNT FOR THIS CALCULATION.

INTEREST PAID (interest on loan **PREPAID**)

- Amount at the beginning
- Minus amount as per income statement
- Plus amount at the end.
- Equals to interest paid.

N.B you can also draw a ledger account / loan account for this calculation.

- If interest on loan is **not accrued or prepaid** just take the one from the extract of the income statement as it is.

TAXATION PAID / INCOME TAX PAID

SARS (income tax)

beginning	income tax amount from income statement	end
DR/ receivables/ current assets negative (-)	always positive (+)	DR/ receivables/ current assets positive (+)

SARS (income tax)

Beginning	income tax amount from income statement	end
CR/ payables/ current liabilities positive(+)	always positive (+)	DR/ receivables/ current assets negative (-)

N.B you can also draw a ledger account for this calculation. i.e SARS (income tax) account.

3. DIVIDENDS PAID

- Shareholders for dividends at the beginning Plus interim dividends

OR

- Shareholders for dividends at the beginning + TOTAL DIVIDENDS for the year, i.e **interim plus final**. - Shareholders for dividends at the end = Equals to dividends paid.

4. PURCHASES/DISPOSAL OF FIXED ASSETS

- Carrying value at the beginning - depreciation - disposals + purchases = carrying value at the end

THE CASH FLOW STATEMENT ITSELF.

- It has got THREE (3) activities. Namely:
 - Cash Flows from **operating activities**
 - Cash Flows from **investing activities**
 - Cash Flows from **financing activities**
- Under **Operating Activities** we have 4 entries, namely:
 - Cash generated from operations – **Inflow (+)**
 - Interest paid – **Outflow (-)**
 - Taxation paid - **Outflow (-)**
 - Dividends paid - **Outflow (-)**
 - All simplified as **OITD**.
- Under **Investing Activities** we have 3 entries, namely:
 - Purchases of fixed assets - **Outflow (-)**
 - Sale/disposal of fixed assets - **Inflow (+)**
 - Increase in investment / fixed deposit - **Outflow (-)** Decrease in investment / fixed deposit – **Inflow (+)**
- Under **Financing Activities** we have 3 entries, namely:
 - Sale of shares **during the year** – **Inflow (+)**
 - Repurchasing/ buy back of shares – **Outflow (-)** **N.B use the repurchase amount [shares bought back x repurchasing price (average price + above average price)]**
 - Increase in loans - **Inflow (+)** / Decrease in loans – **Outflows (-)**
 - Increase in investment / fixed deposit - **Outflow (-)** Decrease in investment / fixed deposit – **Inflow (+)**
- **NET CHANGE IN CASH AND CASH EQUIVALENTS**
 - cash and cash equivalents at the beginning (**don't forget to take note of bank overdraft at the beginning of the year**)
 - cash and cash equivalents at the end (**don't forget to take note of bank overdraft at the end of the year**)
 - NB: CASH AND CASH EQUIVALENTS NOTE INCLUDES BANK (FAVOURABLE), PETTY CASH AND CASH FLOAT.**

The complete format of the cash flow statement format

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2020

CASH FLOW FROM OPERATING ACTIVITIES	XXXX
Cash generated from operations (copy and paste the answer from note 1)	XXXX
Interest paid (copy and paste the answer from note 1)	(XXXX)
Taxation paid	(XXXX)
Dividends paid	(XXXX)
CASH FLOW FROM INVESTING ACTIVITIES	XXXX
Purchases of fixed assets	(XXXX)
Sale of fixed assets	XXXX
Increase of fixed deposit – (outflow) / decrease of fixed deposit – inflow).	XXXX
CASH FLOW FROM FINANCING ACTIVITIES	XXXX
Sale of shares	XXXX
Shares bought back	(XXXX)
Increase of loans – (inflow) / Decrease of Loans - (Outflow)	XXXX
NET CHANGE IN CASH AND CASH EQUIVALENTS	XXXX
CASH AND CASH EQUIVALENTS AT BEGINNING	XXXX
CASH AND CASH EQUIVALENTS AT THE END	XXXX

NB : The cash flow statement can also be assessed in sections where learners will not be expected to complete the entire cash flow statement but only required sections.

The cash flow statement can also be used to identify **significant/major decisions** taken by the directors of the company.

Learners must use figures from the cash flow statement to respond to this question. **Biggest** amounts from the cash flow statement must be used to respond to this question.

They must also be able to know the effects / consequences of these decisions in a company.

Most of the time these decisions are based on the following:

Purchases of fixed assets – (**outflow of cash**) / generating capacity of income in future.

Issuing of shares – (**inflow of cash**)

Repayment of loan – (**outflow of cash**)

N.B Learners must quote figures when stating these decisions.

ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

COMMENTING ON FINANCIAL INDICATORS

Steps to follow when you are required to comment on financial indicators:

- Consider what the question is asking you to analyse (e.g. liquidity)
Decide on relevant financial indicator(s)
- Name the financial indicator(s), giving figures or ratios or percentages.
- Compare the current year indicator(s) with that of the previous year
Say whether it has increased or decreased
If given **TWO** companies don't say whether it has **increased or decreased**
Compare TWO companies
- If ;possible, provide general comments

HINT: Use short sentences and point form when commenting.

Things to look out for when making comments.

PROFITABILITY

1. Gross Profit on sales

Compare with the previous year

Must show increase when compared with the previous year

2. Gross Profit on Cost of Sales

Mark up on cost price must equal to the targeted mark-up%, if not it could be the results of

- Shrinkage
- Products not correctly marked
- Theft
- Discounts

3. Net Profit on cost of sales

Compare with the previous year

Must show increase when compared with the previous year

4. Operating expenses on sales

Compare with the previous year

The trend is favourable if it is **DECREASING** or at least consistent

5. Operating profit on sales

Compare with the previous year

The trend is favourable if it is **INCREASING** or at least consistent

LIQUIDITY**6. Current ratio**

Compare with the previous year

Must be more than 1:1

It should not be too high as this means cash is tied up instead of being used effectively

Must show steady increase as compared to the previous year

7. Acid Test ratio

Compare with the previous year

Must be at least 1:1

If it is too low the business may not be able to meet its short term obligations

This ratio must show a steady **increase** as compared to the previous year

8. Stock turnover rate

Compare with the previous year

Stock is turned over a number of times per year

If it shows increase means stock is sold faster

9. Stock holding period

Compare with the previous year

The faster the sales occur, the fewer the number of days stock is kept.

This ratio must show a **DENCREASE** as compared to the previous year

10. Average debtors collection period

A generally accepted period is 30 days or less.

It must show a **DENCREASE** as compared to the previous year

11. Creditors Payment period

A generally accepted period is 90 days

It is informed by the credit terms of the supplier

It must show an **INCREASE** as compared to the previous year

12. SOLVENCY'

A business is solvent if the ratio is 1:1 or more

A business is insolvent if the ratio is less than 1:1

It must show an **INCREASE** as compared to the previous year

RETURN**13. Return on Shareholders equity (ROSHE)**

Compare with interest rate on alternative investment (such as fixed deposit) – use current year

Note: Do **not** compare ROSHE only and interest rate only

14. Earnings per share (EPS)

If it shows an increase means the company has growth potential.

It must show an **INCREASE** as compared to the previous year

15. Dividends per share (DPS)

Earnings are distributed to shareholders as dividends, but some are earnings are retained for future growth. This ratio may also be used to determine the dividend policy of the company.

To comment: Calculate the % using the formula $EPS/DPS \times 100$

Then compare previous year with current year

If it shows an increase means the directors are making shareholders happy by distributing more dividends.

If it shows a decrease means the directors have plans for growth by distributing less dividends.

16. Net Asset Value per share

Key: Must always start with JSE price

If JSE price **LESS** than NAV : Shares are **undervalued** in the market

If JSE price **MORE** than NAV shares are **overvalued** in the market

If given TWO companies do the above for each company
DO NOT COMPARE NAV ONLY AND JSE PRICE ONLY

FINANCIAL RISK AND GEARING

17. Debt/Equity ratio

Focus on the Current year

Risk (If debt equity ratio is above 0,5 - becomes risky and below 0,5 – low risk)

18. Return on Total Capital Employed

Focus on Current year

Compare interest rate with returns (Gearing) (If returns are more than interest rate it's a positive gearing, If returns are less than interest rate it's a negative gearing)

If two companies do the above in each company

Key: ROTCE less INTEREST RATE ON LOAN = POSITIVE/NEGATIVE GEARING

If the answer is negative it's a negative gearing and if the answer is positive it's a positive gearing.

D: AUDIT REPORTS:

- Explain the various Audit Reports
- Explain the role and difference between Internal and External Auditor
- The consequences for an auditor if She/he agrees to an unethical request.
- Why the independent Auditor belongs to the professional body?
- List other interested parties / users of the financial statements

E: INVENTORIES:

E: MASTERING INVENTORY [STOCK] VALUATION METHODS AND SYSTEMS

➤ WHAT SHOULD LEARNERS EXPECT TO BE TESTED ON THIS TOPIC? [OBJECTIVES]

- What is stock?
- Why stock is so important in the business?
- Difference between periodic and perpetual inventory systems
- Difference between stock valuation methods
- Calculating stolen units [number]
- How to calculate value of closing stock using each method?
- Calculation of cost of sales (using formula and using traditional method)
- Take into consideration the multi-questioning [remember to practice stock ratios]
- Problem type questions on stock

➤ TEACH THEM

- Stock are the items bought with an intention to re-sell them to make profit
- Stock are the possessions of the business, stock is a liquid investment (**current asset**) since the business is expecting to make profit out of selling stock within short period of time. **It has to be fully protected [internal controls]**
- Once stock is purchased and reached a receiving point in the business, it has to be controlled.
- Introduce stock systems (one of the internal controls on stock)
 - ♥ What is a stock system? Stock system is the way that is used to control the movement of stock in the business
 - ♥ How many stock systems do we have in business? We have two stock systems
 - ♥ Name them. Perpetual inventory systems and periodic stock system
 - ♥ Perpetual inventory system – cost of sale is calculated every time when stock is sold
 - ♥ Periodic inventory system – cost of sales is calculated at the end of the period

Principle of Consistency

Stock valuation method ←

- ♥ FIFO – stand for First in first out
- ♥ FIFO – closing stock is valued at the most recent cost price or old stock will be sold first and new stock will form a part of closing stock
- ♥ Weighted Average method – closing stock is valued at weighted cost price
- ♥ Specific identification method – closing stock will be recorded at a specific price that stock was originally bought

Calculating missing units ←

Opening units + units purchased – units returned – units sold = missing units

Trading stock deficit [I/S]

Matching principle

How to calculate value of closing stock using FIFO

Follow 3 steps

1. Update the units and cost price
2. Allocate number of units using closing units, please indicate dates [bottom up]
3. Then multiply number of units with cost price

How to calculate cost of sales using FIFO [traditional format]

1. Update the units and cost price
2. Allocate number of units using units sold, please indicate dates [from top to bottom]
3. Then multiply number of units with cost price

How to calculate value of closing stock using weighted Average method

1. Employ the formula: WAM = $\frac{\text{Total cost price of units available to be sold}}{\text{Total number of units available to be sold}}$

$$\frac{[OB + PURCHASE - RETURNS-donations + COP]}{OU + UP - UR - donated units - UNITS STOLEN} = \text{WEIGHTED COST P.U X NUMBER OF UNITS AT THE END} = \text{VALUE OF CLOSING STOCK}$$

How to calculate cost of sales using weighted average method

1. Total cost price of units available to sold – value of closing stock = cost of sales [calculation depends on calculation above]

How to calculate value of closing stock using Specific identification method

N/B: PLEASE MAKE SURE THAT YOU separate the units (ITEMS ARE INDEPENDENT)

1. UNITS PURCHASED – UNITS RETURNED TO THE SUPPLIER – UNITS STOLEN – UNITS SOLD = UNITS UNSOLD (LEFT) X COST PRICE FOR THAT ITEM

How to calculate cost of sales using Specific identification method

1. Units sold x cost price = cost of sales [remember that items are independent]

How to master the financial indicators calculations (intergration)

1. Know the formula [advantage]
2. Correct substitution [earn marks]
3. Complete calculation correctly

Problem type questions on stock [learners need to know that they should investigate]

1. Units stolen [opening units + units purchased – units returned – units sold – closing units]
2. Cash theft [compare cash deposited and cash received ← (units sold x cost price)]
3. Look for lower sales

F: FIXED ASSETS OR TANGIBLE ASSETS OR NON-CURRENT ASSETS

- Tangible assets of the business cannot be converted into cash in the current (within 12 months) or upcoming financial year.
- These items are *not intended for resale* but are acquired for generating income for the business. Examples of tangible assets are: land and building, equipment and vehicles
- These assets are shown on the balance sheet at their book value or carrying value- cost price less **accumulated depreciation**

DEPRECIATION

Depreciation: Vehicles and Equipment lose their value because of wear and tear over their life span

Depreciation is calculated on all fixed assets (except land and buildings)

Two methods used to calculate depreciation

1. Fixed instalment method \ straight line method \ cost price method
 - A fixed amount of depreciation is written off annually.
 - The amount of depreciation will be the same every year

The formula to calculate depreciation on cost price method is as follows _____ Cost price x % x Time

Diminishing balance method / book value \ carrying value \ declining/reducing balance method or decreasing value method

- The amount of depreciation will decrease from year to year, as depreciation is calculated on the book value of the assets.

The formula to calculate depreciation on diminishing balance method is as follows.

Cost price – accumulated depreciation = carrying value x % x Time

INTERNAL CONTROL OVER FIXED ASSETS

- There must be efficient control over and use of fixed assets
- *Assets register* must be *updated* regularly.
- *Records* must be *kept* of all fixed assets
- Fixed assets are procured with proper authorization
- Fixed assets are not written off and disposed without proper authorization.
- Physical counting of assets
- Rotation of the employees.
- Division of duties

ACCOUNTING PRINCIPLES USED ON FIXED ASSETS OR TANGIBLE ASSETS

- **Historical cost principle:** assets are valued at original cost.
- **Matching principle:** depreciation and for profit \ loss on sale of assets
- **The concept of materiality**

Questions normally asked and how to get easy marks

1. What is a fixed asset register?

– It is a book in which all the assets owned by the business are recorded.

2. Explain how this register assists the internal auditor

- Can cross-check the physical count of assets to the register

3. Calculation of Missing Figures in the Tangible assets

- **Cost price (beg) = cost price –end + cost of asset sold – Cost of new asset (Addition)**
- **Cost price beg = accumulated depreciation (beg) + carrying value (beg)**
- **Cost price (end) = cost price (beg) – cost if asset sold + Cost of new asset (addition)**
- **CARRYING VALUE BEG = cost price beg –accumulated depreciation**
- **Carrying value at the end = CV beg + Addition – disposal –Depreciation**
- **Carrying value (end) = cost price end – accumulated depreciation end**

- Addition cost = cost price beg – cost price end
- Disposal (cv) = cost price (asset sold) - accumulated depreciation (asset sold)
- Depreciation = accumulated depreciation (beg) – accumulated depreciation (end)
- Accumulated depreciation (beg) = cost price (beg) – carrying value beg
- Accumulated depreciation at the beg = accumulated depreciation end – depreciation
- Accumulated depreciation (end) = accumulated depreciation at the beg + depreciation
- Accumulated depreciation (end) = accumulated depreciation beg – accumulated depreciation (sold)+ depreciation.

ASSET DISPOSAL (asset sold)

Asset disposal account has 6 given marks: Dr Equipment / Vehicles with given cost

Cr accumulated depreciation with given amount

Cr Bank/debtors control/ creditors control/ drawings

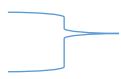
- Contra Details should be written in full where possible
- Possible method of disposal and contra details

Method of disposal	Contra detail in ledger
Donated	Donation
Sold on credit	Debtor’s control
Sold for cash	Bank
Taken by owner for personal use	Drawings
Traded-in	Creditor’s control
Stolen / Destroyed	Portion / amount received from insurance – Bank Claim not yet received – Debtors for insurance

G: COST ACCOUNTING / MANUFACTURING

MANUFACTURING COST

- In this business we working out the value of our inventory by calculating **how much it cost us to make the goods?**
- In order to calculate how much our inventory are worth and how much our cost of goods came to.
- We need to calculate how much it costs us to manufacture the finished goods.
- The manufacturing Cost Statement: Is a report showing the various costs involved when manufacturing finished goods.
- The purpose of the manufacturing statement is to help management analyse their costs of production and use this information to effectively plan their future manufacturing so as to minimize costs and maximize profit.
 - **HOW TO DO THE PRODUCTION COST STATEMENT STEP BY STEP :**
 - a. **Read the question through writing all the figures in brackets next to the wording. Then do the adjustments/additional information straight on to the Answer Sheet.**
 - b. **As you read the question through write in the missing wording and any figures you find next to the wording. Then concentrate on the adjustments.**
 - c. **Adjust the figures on the question paper and then write in the wording and the figures in brackets at the same time.**
- Manufacturing costs are divided into **Three broad categories:**
 - A. Direct materials
 - B. Direct labour
 - C. Overheads



Are conversion costs of product

TWO CATERGIRIES OF COSTS

1. Variable costs
 - A variable cost **changes** according to the number of units manufactured/sold.
 - There are **Three variable costs:**

a. Direct materials

- These are the raw physical materials we buy in order to make something, e.g. wood used to make furniture. This will include all costs of buying the raw material e.g. the cost of transporting it to the factory and custom duty, if imported. The greater the number of units produced, the greater the total cost of the materials.

b. Direct labour

- This refers to the wages paid to the workers who actually make the product.
- They will be paid on a per unit basis, if they make the whole unit, or on an hourly basis. This means that the more units they produce or hours they work, the more they will be paid. However, if they are on strike they will be paid nothing. This will include all contributions by the business to the pension fund, the medical aid and the Unemployment insurance fund.

NB: THESE TWO COSTS ARE PRIME COSTS, I.E. THE FIRST TO BE INCURRED WHEN MAKING A PRODUCT.

c. Selling and distribution costs

- The salaries or commission paid to sales personnel would be a large part of this cost.
- Advertising costs, delivery expenses, Depreciation on delivery vehicles, bad debts, rental of shop space, etc. are also included here.

2. Fixed costs

- A fixed cost **stays the same** irrespective of the number of units produced. For example: rent and insurance will not increase if more units are made, nor will they decrease if workers go on strike.

There are **TWO fixed costs**:

a. Factory Overheads cost

- These are all the **Other expenses/** costs involved in running a factory, e.g Indirect materials, indirect labour, factory rent, insurance and all the other costs of running the factory as well as depreciation of the machinery.

b. Administration costs

- This refers to the costs/expense incurred in running the offices where the CEO, the accountant, bookkeepers and secretaries work.
- Their salaries, including all contributions by the business to the pension fund, the medical aid and the unemployment insurance fund are administration costs. The rental of this office space, insurance, electricity, and all other costs of running the office, as well as depreciation of office equipment, must be included in this cost.

OTHER CONCEPTS:

● Indirect materials

- Classified as Factory overheads cost, these are the materials used to keep the factory clean and machines in good running order e.g. mops, oils etc.

● Indirect labour

- Classified as Factory overhead cost, these are the people who work in the factory, but **do not make the products**.
- They are the cleaner, the storeman, who is in charge of receiving the raw materials from the supplier and distributing them to the workers. Production will continue whether they are there or not.

● Finished goods

- These products have been **completed** and are ready for sale.
- Physically they will be in the selling and distribution area (shop). The total cost of the finished goods sold will become "Cost of sales" in the Income Statement (Statement of comprehensive income).

● Total cost of production

- This is the total of the **direct materials cost and**
- The **direct labour cost and**
- The **factory overhead cost**

Of the products which were worked on in this accounting period-some of which were not finished

- **Work- in –progress/process stock**

- These are the products which were **not finished** at the end of the accounting period, and therefore are not yet ready for sale. They will be completed at the beginning of the next accounting period, so they will be in the factory.
- An adjustment must be made if there is work- in –progress at the beginning and/or end of the year, before the cost of production of finished goods can be calculated.

- **THE BREAK- EVEN POINT**

- Every manufacturer needs to work out at what point the business will break even.
- This means he/she must know the minimum number of units he needs to produce and sell just to cover costs of production.
- Break- even point: **fixed costs/ contribution per unit (selling price per unit- variable costs per unit)**

H: RECONCILIATIONS

BANK / DEBTORS / CREDITORS

BANK RECONCILIATION

- Why is it important to prepare bank reconciliation statement?
- What are we reconciling i.e. bank and our books (CRJ, CPJ and bank account)?
- Identify the differences
- Update our journals (own books); only entries that appeared in the bank statement but not in our books
- Prepare bank reconciliation statement; only entries that appeared in our books but not in the statement
- How does the bank look at us? it depends on balances i.e. Favourable balance – an Asset and Unfavourable-Liability
- How do you treat a stale cheque (six months old)?
 - Cancel in the CRJ using old cheque number
 - Record in the CPJ using new cheque number

DEBTORS AND CREDITORS RECONCILIATIONS

General overview:

HINTS:

- Identify the problem (is this an error or omission)
- Errors are corrected where they occurred
- Omissions are entered or recorded where they were omitted (not recorded)
- Casting or totalling error only affects control account
- If something was not recorded at all, will affect BOTH control account and list
- Posting error only affects LIST

AGE ANALYSIS

Problems on age analysis

Credit term

- Rectify it by charging interest

DEBTORS RECONCILIATION / AGE ANALYSIS**Credit limit**

This should not be exceeded

The debtor need to pay first before they could buy on credit

Method

- Demonstrate how debtors control account is prepared as compared debtors list which is extracted from debtors' ledger.
- This will enable the learners to understand why we saying debtors control is a summary of a list and these two must correspond.
- Importance of screening debtors before granting credit, documents required for screening of debtors

Basic concepts

- Credit term> is the agreement between the buyer and seller that lists timing and amount of payments the buyer will make in the future
- Credit limit> is a maximum amount of credit that is extended to the debtor and is set according to affordability of an individual.
- Age analysis> assist the business in identifying the age of the debt for each and every debtor
- One must know what a debtor, a person is or a business owing (the business). They owe the business money which is its asset.
- On the Debit side of the Debtors we record the following
 - Increase in Debtors
 - Credit Sale of goods
 - Interest charged on overdue
 - Dishonoured cheque
 - When an item is under cast

NOTE: All the above increase the debtors account

- On the Credit side of the Debtors we record the following
 - Goods returned/Allowances
 - Discount Granted
 - Bad Debts
 - When an item is overcast

NOTE: All the above decreases Debtors Control

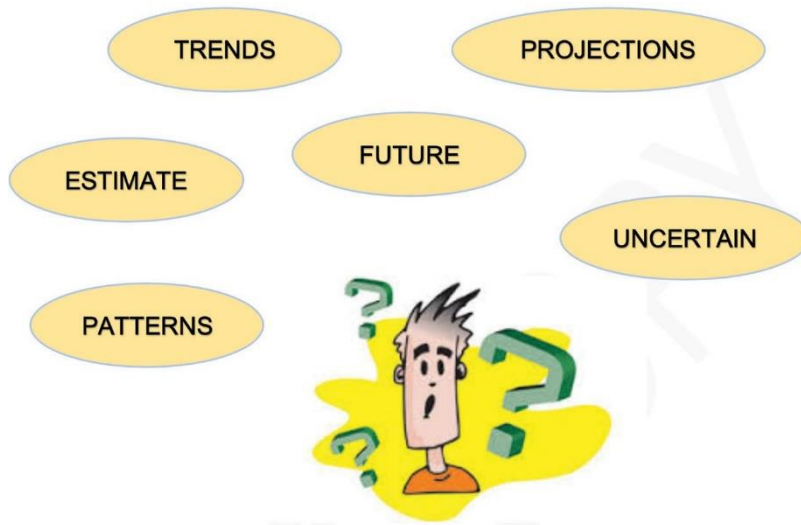
I: VAT**CONCEPTS / CALCULATIONS**

- Vat Rate
- VAT categories
- Difference between Vat input/output
- Vat Receivable/Payable = Vat Control

J: BUDGETS

Overview of the topic: Budgeting

What are some of the words that come to mind?



Discuss the words that are confusing Piet.

Make a list of other relevant words/ terms that came up in your discussion/ brainstorming session.

An **EXPLANATION** that highlights the purpose of budgeting:

Budgeting is an internal control tool that involves projecting business results, using existing business information as well as other external factors, making adjustments and taking decisions to achieve the objectives of the business

Start-up Activity: Do I understand the difference between Receipts, Payments, Income and Expenses?



Place the correct amount in the respective column/s. Amounts can apply to more than one column.

NO	INFORMATION	CASH BUDGET		PROJECTED INCOME STATEMENT	
		RECEIPT	PAYMENT	INCOME	EXPENSE
(a)	Cash sales are expected to be R7 400 per month at a 25% mark-up on cost.				
(b)	An old computer with a carrying value of R4 400 will be sold for R2 500 cash in the next month.				
(c)	Depreciation on equipment is estimated to be R950 per month.				
(d)	An annual insurance premium of R5 200 is paid by cheque. R1 200 of the payment is for the next financial year.				

What are we expected to cover in Grade 12?

• **Back to basics**

- o Concepts and terminology from previous Grades.
- o The difference between the Cash Budget and the Projected Income Statement.
- o Purpose of preparing a Cash Budget or a Projected Income Statement.

• Arithmetical ability

- o Calculate missing amounts in the budget.
- o Calculate amount/s for specific items using information from the budget, such as the loan balance or the total cost of a vehicle purchased.

▶ The answers are usually: specific amounts, percentages, increases, decreases or ratio relationships.

• Analysis and Interpretation

- o Compare Actual vs Budgeted figures:

- ▶ Provide possible reasons for differences.
- ▶ Provide solutions (internal controls).

Consider ethical issues in terms of cash management and adherence to the budget.

Problem solving:

- ▶ Control of cash, debtors, creditors, stock
- ▶ Business decisions such as buy/rent fixed assets, sales and profitability.



1. Unpacking the sections of the budget:

1.1 Sales and collection from debtors



EXAMPLE: Cash sales amounts to 30% of total sales.

Calculate the missing amounts.

	TOTAL SALES 100%	CASH SALES 30%	CREDIT SALES 70%
March	320 000	96 000	224 000
April	350 000		245 000
May	365 000	109 500	
June		120 000	

RECEIPT-TREND FROM DEBTORS: (Must equal 100% of credit sales)

- Percentage of credit sales, over 2, 3 or 4 months.
- First portion (part) collected in the month of sale or in the month following the sales month:
 - o Is there a discount offered for receipts in the first month?
 - o Is provision made for bad debts?

EXAMPLE: The trend in the way debtors settle their accounts is as follows: 20% pay in the month of sale and receive a 5% discount.

35% pay in the month following the month of sale. 40% pay two months after the sales month.

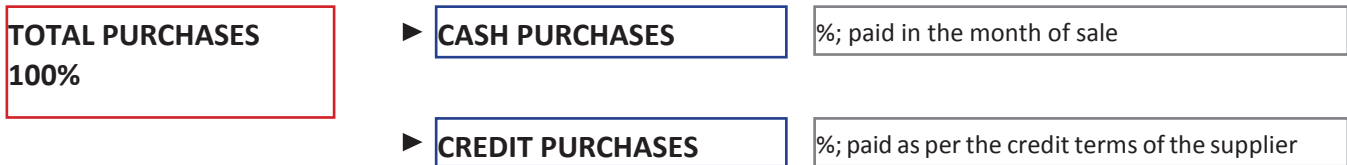
The balance are bad debts.

Debtors' Collection Schedule:

redit Sales R		224 000 Collected in:		
		March	April	May
		20%	35%	40%
Actual	March	224 000	89 600	
	April	245 000	85 750	98 000
Expected	May	255 000	48 545	89 425
	June	280 000		53 200
			223 895	240 625

245 000 Collected in:

1.2 Purchases and payments to creditors



At times, payment is made early to take advantage of a discount.

TOTAL PURCHASE AMOUNTS: (two possible options)

1. AMOUNTS ARE GIVEN				
Purchase amounts are provided in the question.				
Cash purchases are 20% of total purchases.				
Information:				
	March	April	Cash Purchases	20%
Sales	72 000	83 200	March	9 000
			45 000 x 20%	
Purchases	45 000	52 000	April	10 400
			52 000 x 20%	

2. COST OF SALES IS THE TOTAL AMOUNT PURCHASED				
The business maintains a base stock and stock is replaced monthly.				
Cash purchases are 20% of total purchases.				
The business uses a profit mark-up of 50% on cost.				
Information:				
	March	April	Cash Purchases	20%
Sales	102 000	88 500	March	13 600
			102 000 x 100/150 x 20%	
Purchases	?	?	April	11 800
			88 500 x 100/150 x 20%	

DO THE CALCULATIONS:

- The business maintains a base stock. Stock is replaced monthly.
- Calculate the cash and credit purchases for the three months.
- Identify the amount that will be paid in May 2017.
- Total sales: 2017



March	April	May
R320 000	R350 000	R365 000

- Profit mark-up is **60%** on cost.
- **20%** of purchases are paid for in cash.
- Creditors are paid **two months after** the month of purchase.

	TOTAL SALES	COST OF SALES 100%	Cash purchases 20%	Credit purchases 80%
MARCH	320 000			
APRIL	350 000			
MAY	365 000			

Amount to be paid in May 2017:	
---------------------------------------	--

LET'S PRACTICE: (Sales and Purchases)

The following information appeared in the books of **Mouse Traders: REQUIRED:**

- 1.1 Complete the Debtors' Collection Schedule for June and July 2018.
- 1.2 Complete the section of the Cash Budget to show cash sales, cash from debtors, cash purchases and payments to creditors.

INFORMATION:

A. The business uses a profit mark-up of 75% on cost.

B. Sales:

- Cash Sales account for 20% of total sales.
- Debtors pay according to the following pattern:
 - ▶ 30% in the month of sales, subject to a 5% discount.
 - ▶ 50% in the month following the sales month.
 - ▶ 18% two months after the sales month.

C. Purchases:

- The business maintains a base stock. Stock is replaced in the same month that sales take place.
- Credit purchases makes up 60% of total purchases.
- Creditors are paid two months after the month of purchase.

D. Schedule of total sales:

MARCH	APRIL	MAY	JUNE	JULY
R61 250	R73 500	R64 750	R78 750	R70 000

ACTIVITY A1: FINANCIAL STATEMENTS AND AUDIT REPORT

(61marks;45 minutes)

1.1 CONCEPTS

REQUIRED:

1.1.1 Give **ONE** purpose of the *IFRS*. (2)

1.2 AQUA LIMITED

The information provided relates to Aqua Ltd. for the year ended 28 February 2018.

REQUIRED:

1.2.1 Prepare the Income Statement for the year ended 28 February 20 (45)

1.2.2 Prepare the following notes to the Balance Sheet:

(a) Ordinary share capital (7)

(b) Retained income (9)

INFORMATION:

A. The following balances/totals appeared in the records of Aqua Ltd. on 28 February 2018:

	R	
Ordinary share capital	5 824 000	
Retained income	1 525 000	
Vehicles (cost price)	880 000	
Accumulated depreciation on vehicles	164 000	
Equipment	760 000	
Accumulated depreciation on equipment	650 000	
Trading Stock	1 534 000	
Debtors' control	521 300	
Provision for bad debts (1 March 2017)	22 000	
Fixed deposit: Joy Bank	450 000	
Creditors' control	786 800	
Loan: Life Bank	450 000	
Bank	129 400	(Dr)
SARS: Income tax	150 000	(Dr)
SARS: PAYE	44 800	
Pension fund	15 800	
Salaries and wages	821 000	
Directors fees	840 000	
Audit fees	66 000	
Pension fund contribution	81 000	
Sundry expenses	243 418	
Bad debts	12 100	
Rent income	234 950	
Interest on fixed deposit	27 000	
Consumable stores	39 500	
Dividends on ordinary shares	55 000	

- B. The gross profit for the year ended 28 February 2018 was calculated at R2 720 000. They mark up their stock by 85% on cost.
- C. A debtor, J. Violet, has been declared insolvent. His estate paid 40c in the Rand, amounting to R450. This was already received and recorded in the books. The difference must be written off as irrecoverable.
- D. On 28 February 2018, R2 400 was received from A. Petunia, whose account had previously been written off. This transaction has not been recorded.
- E. Provision for bad debt must be decreased to R20 900.
- F. One quarter (¼) of the audit fees on 28 February 2018 is still payable.
- G. An employee was omitted from the Salaries Journal. His salary details are as follows:

Deductions		Employer contribution	Net salary
PAYE	Pension	Pension	
R2 880	R1 950	R3 900	R10 538

- H. Stock to the value of R15 000, purchased on credit, was returned to the suppliers. No entry was made of this transaction in the books.
- I. A physical stock count on 28 February 2018 showed the following:
 - Trading stock on hand, R1 531 000
 - Consumable stores used, R39 000
- J. Rent is received in advance for three months. Rent was increased by R1 250 on 1 November 2017.
- K. Depreciation is to be written off as follows:
 - On vehicles at 20% p.a. on the diminishing-balance method. A new vehicle has been purchased on 31 December 2017 for R300 000. This transaction has been recorded.
 - On equipment at 15% p.a. on the cost-price method.
- L. The loan statement from Life Bank reflected the following:

Balance at beginning of financial year	R948 000
Repayments during the year	R423 000
Balance at the end of financial year	R600 000

- Interest is capitalised.
 - R250 000 is to be paid off on the loan in the next financial year.
- M. R7 740 is still due to SARS for income tax.
- N. **Share capital and dividends:**
 - The business was registered with an authorised share capital of 3 000 000 ordinary shares.
 - 2 000 000 ordinary shares were in issue at the beginning of the financial year.
 - A further 250 000 new ordinary shares were issued on 10 March 2017 at 250 cent per share.
 - The company decided to buy back 10 000 shares from a deceased shareholder on 27 February 2018. A cheque for R31 000 was issued for these shares. These shareholders qualify for final dividends.
 - A final dividend of 25 cents per share was declared on 28 February 2018.

ACTIVITY A1

1.1	1.1.1	Give ONE purpose of the <i>IFRS</i> ?
-----	-------	---------------------------------------

1.2.1 **AQUA LTD.
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018**

Gross profit	2 720 000
Other operating income	
Gross operating income	
Operating expenses	
Sundry expenses	243 418
Directors' fees	840 000
Operational profit	
Interest income	
Interest expense	
Profit before tax	
Net profit (loss) for the year	368 060

3.2.2	(a) ORDINARY SHARE CAPITAL	
	<u>Authorised shares:</u>	
	3 000 000 ordinary shares	
	<u>Issued share capital:</u>	
2 000 000	Ordinary shares on 1 March 2017	
250 000		
(10 000)		
	Ordinary shares on 28 February 2018	5 824 000

(b) RETAINED INCOME	
Balance on 1 March 2017	1 525 000
Net profit after income tax	368 060
Ordinary share dividends	
Balance on 28 February 2018	

ACTIVITY A2: FIXED ASSETS, INCOME STATEMENT AND AUDIT REPORT (66 marks; 40 minutes)

2.1 CONCEPTS

Choose a category from the list provided for each example below. Write only the category next to the numbers (3.1.1 – 3.1.4) in the ANSWER BOOK.

non-current asset; current liability; expense; equity; current asset; income
--

- 2.1.1 Retained income
- 2.1.2 Amount due by SARS in respect of income tax for the year
- 2.1.3 Extensions to land and buildings
- 2.1.4 An increase in the Provision for Bad Debts (4)

2.2 YASHPAL LTD

The information relates to the financial year ended 28 February 2018.

REQUIRED:

- 2.2.1 **Refer to Information A:**
Calculate the figures denoted by (i) to (iii) on the Fixed Asset note. (11)
- 2.2.2 Prepare the Asset Disposal account on 1 January 2018. (5)
- 2.2.3 Prepare the Income Statement for the year ended 28 February 2018. (46)

INFORMATION:

A. Fixed Assets:

	VEHICLES	EQUIPMENT
Cost (1 March 2017)	838 000	622 000
Accumulated depreciation (1 March 2017)	(420 000)	(264 000)
Carrying value (1 March 2017)	(i)	358 000
<i>Movements:</i>		
Additions	216 000	0
Disposals	0	(iii)
Depreciation	(ii)	(35 400)
Carrying value (28 February 2018)		
Cost (28 February 2018)		517 000
Accumulated depreciation (28 February 2018)		

- A new vehicle was purchased on 1 October 2017.
- Vehicles are depreciated at 15% on cost.
- Old equipment were sold on 1 January 2018 for R26 250, cash. A profit of R4 250 was made on this sale.

B. Balances/totals extracted from the Pre-adjustment Trial Balance on 28 February

2018:

Loan: GT Bank	R 542 000
Fixed deposit (8% p.a. interest)	195 000
Debtors control	112 245
Provision for bad debts	7 480
Trading stock	728 400
Sales	?
Cost of sales	4 250 000
Directors fees	336 500
Salaries and wages	222 700
Fee income	79 350
Audit fees	19 450
Rent expense	146 080
Packing material	43 730
Discount received	14 280
Bad debts	23 555
Sundry expenses	?

C. ADDITIONAL INFORMATION AND ADJUSTMENTS:

- (a) A credit sales invoice for R32 200 was not taken into account. Goods are sold at a profit mark-up of 75% on cost.
- (b) Stock-taking on 28 February 2018 revealed the following stock on hand:
 - Trading stock, R706 350
 - Packing material, R3 880
- (c) A debtor who owed R17 300 was declared insolvent. His estate paid 35 cents to the Rand and this was correctly recorded. The remaining balance must be written off as irrecoverable.
- (d) The provision for bad debts must be adjusted to 5% of debtors.
- (e) Directors' fees of R23 500 were still outstanding on 28 February 2018.
- (f) 50% of the audit fees were paid to the external auditor. The balance will be settled in March 2018.
- (g) Rent paid includes the rent for March 2018. Note that the rent increased by 7% on 1 December 2017.
- (h) The loan statement received on 28 February 2018 reflected an outstanding balance of R565 800. Interest, capitalised, was not taken into account.
- (i) Take into account interest on fixed deposit at 8% p.a. This investment was made on 1 September 2017.
- (j) After taking into account all the adjustments, the income tax for the year at 29% of the net profit amounted to R560 860.

ACTIVITYA 2: FIXED ASSETS, INCOME STATEMENT AND AUDIT REPORT

2.1

2.1.1	
2.1.2	
2.1.3	
2.1.4	

2.2 YASHPAL LTD

2.2.1 Refer to Information A:

	WORKINGS	ANSWER
(i)		
(ii)		
(iii)		

2.2.2

ASSET DISPOSAL (N12)

2.2.3 Income Statement for the year ended 28 February 2018

Sales	
Cost of sales	
Gross profit	
Other income	
Fee income	79 350
Gross income	
Operating expenses	
Operating profit	
Profit before interest expense	
Net profit before income tax	
Income tax	
Net profit after tax	

ACTIVITYA 3: FINANCIAL STATEMENTS: COMPANIES**(45 MARKS; 30 MINUTES)**

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

REQUIRED:

- 3.1 Complete the Income Statement (Statement of Comprehensive Income) for the year ended 28 February 2019.

(45)

INFORMATION:

The following balances and totals were extracted from the Pre-adjustment Trial Balance of Nongweleza Ltd on 28 February 2019:

Balance Sheet Accounts Section	
Ordinary share capital (3 060 000 shares issued)	10 710 000
Retained income	800 000
Mortgage Loan: MM Bank	1 200 000
Land and buildings	3 800 000
Vehicles	2 800 000
Equipment	950 000
Accumulated depreciation on vehicles (1 March 2018)	1 350 000
Accumulated depreciation on equipment (1 March 2018)	450 000
Fixed Deposit: MM Bank	900 000
Creditors Control	660 000
Debtors Control	458 500
Trading stock	1 500 000
Provision for bad debts (1 March 2018)	21 985
Pension fund	45 400
SARS: PAYE	64 100
SARS: Income tax (provisional tax payments)	190 000
Nominal Accounts Section	
Sales	6 200 000
Cost of sales	3 000 000
Debtors allowances	20 000
Audit fees	33 800
Insurance	21 000
Bad debts	14 000
Directors fees	260 000
Rent income	128 740
Salaries and wages	1 220 000
Pension fund contributions	36 200
Interest on loan	30 000
Interest on fixed deposit	?
Packing material	22 000
Bad debts recovered	2 760

Bank charges	3 200
Sundry expenses	?
Ordinary share dividends	180 000

ADJUSTMENTS AND ADDITIONAL INFORMATION:

- A. An invoice was issued on 28 February 2019, to a debtor, for a credit sale of R80 000 upon which a trade discount of 20% was granted. These goods were sold at cost plus 60% profit mark-up. No entries were made for this transaction.
- B. A credit note was issued to a debtor on 27 February 2019 for merchandise returned, R70 000. The cost price of these goods was R43750. This was not recorded.
- C. On 28 February 2019, R2 400 was received from J Smith, whose account had previously been written off as irrecoverable. The amount was entered in the debtor's column in the CRJ. This must be corrected.
- D. The provision for bad debts must be adjusted to 4% of good book debts.
- E. Packing material to the value of R18 000 was used during the year ended 28 February 2019.
- F. A physical stock taking on 28 February 2019 reflected that stock to the value of R1 400 000 was on hand.
- G. The directors' fees for R260 000 is still outstanding.
- H. An employee's details were omitted from the Salaries Journal. He has not been paid. His details are as follows:

Deductions		Employer's contribution	Net salary
PAYE	Pension	Pension	
2 880	1 950	3 900	10 538

- I. The rent has been received three months in advance. The monthly rent increased by 10% on 1 November 2018.
- J. An old vehicle was sold for cash on 31 December 2018 for R13 001. No entries have been made. Vehicles are depreciated at 20% p.a. on cost. The fixed asset register for the vehicle sold revealed the following:

Cost price	294 000
Accumulated depreciation at the beginning of the year	270 000

- K. Make provision for depreciation as follows:
 On vehicles at 20% p.a. on cost.
 On equipment at 10% p.a. on the diminishing balance method. A new computer was purchased on 1 January 2019 for R36 000. This was properly recorded.
- L. Operating profit amounted to R618 000.
- M. Final dividends were declared at 8 cents per share.
- N. Income tax of R186 000 was calculated at 30% of the net profit. This must still be brought into account.

INFORMATION:

1. The following figures were identified at the end of the financial year on 30 June 2019.

	R
Ordinary share capital (see Information 2 below)	2 648 000
Retained income (30 June 2019)	945 000
Shareholders for dividends (see Information 4 below)	?
Fixed deposit at Supa Bank (see Information 5 below)	60 000
Mortgage loan from Supa Bank (see Information 7 below)	?
Fixed/Tangible assets	4 021 000
Debtors' control	45 000
Creditors' control	85 200
Creditors for salaries	12 300
Provision for bad debts (see Information 6 below)	?
SARS (Income tax – provisional tax payments)	400 000
SARS (PAYE)	6 650
Expenses payable (accrued)	7 200
Income receivable (accrued)	7 950
Bank (favourable balance)	28 450
Trading stock	129 600
Consumable stores on hand	5 600

2. The authorized share capital comprises 1 000 000 ordinary shares.
70 % shares were already issued at the beginning of the financial year.
On 1 January 2019, 100 000 ordinary shares were issued to the public at R3,80 each. This has been properly recorded and is included in the figures above.
3. The net profit before tax for the year ended 30 June 2019 was calculated to be R1 250 000.
No entry has been made for income tax at the rate of 30% of the net profit
4. Dividends were as follows:
- Interim dividends of 20 cents per share were paid on 31 December 2018.
 - Final dividends of 35 cents per share were declared on 30 June 2019.
5. One third of the fixed deposit matures on 31 August 2019.
6. Provision for bad debts is maintained at 5% of debtors.
7. The loan statement from Supa Bank on 30 June 2019 reflects the following:

LOAN STATEMENT ON 30 JUNE 2019 SUPA BANK	
Balance on 1 July 2018	R384 000
Interest charged	57 600
Monthly payments in terms of the loan agreement (12 x R8 800) (These monthly payments include interest and capital repayments of the loan)	105 600
Balance on 30 June 2019	R336 000
The monthly capital repayments of the loan will remain constant until the loan is fully repaid.	

5.1.1 MAHAYE LIMITED

BALANCE SHEET ON 30 JUNE 2019

ASSETS	
NON-CURRENT ASSETS	
CURRENT ASSETS	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
CAPITAL AND RESERVES	
	2 648 000
	945 000
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
TOTAL EQUITY AND LIABILITIES	

ACTIVITY B 2: BALANCE SHEET, INTERPRETATION AND ETHICS**(65 marks; 40 minutes)**

You are presented with information from the records of Mnyandu Limited. The financial year-end is 28 February 2020.

REQUIRED:

- 2.1 Prepare the following notes to the Balance Sheet:
- 2.1.1 Share capital (9)
- 2.1.2 Retained income (11)
- 2.2 Prepare the Balance Sheet (Statement of Financial Position) on 28 February 2020. Where notes are (26)
- 2.3 Calculate the return on average shareholders' equity for 2020. (5)
- 2.4 From 2019 to 2020 the directors made a deliberate decision to change the policy on the distribution of profits in the form of dividends. Comment on this change. Quote financial indicators or figures to support your answer.
- 2.5 Comment on whether the shareholders should be satisfied with the percentage return and the market price of their shares. Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trends. Give an additional comment in each case.
- 2.6 The external auditors, Hassan and Jacob, have employed Janet to work on the audit of Mnyandu Ltd. Janet owns 10 000 shares in Mnyandu Ltd.
- Explain why this is a problem and give a valid solution. (4)

INFORMATION:

- A. The authorised share capital consists of 750 000 ordinary shares.
On 1 March 2019, only 60% of the shares were in issue.
- B. The following amounts were extracted from the records at the beginning of the financial year and at the end of the financial year unless otherwise stated:

	28 Feb. 2020	28 Feb. 2019
Ordinary share capital	?	3 215 000
Retained income (31 Jan. 2020)	?	105 000
Total ordinary shareholders' equity	?	3 537 500
Fixed assets (Consider information F)	3 346 000	
Fixed deposit: Sam Bank	650 000	
Loan: William Bank	482 600	
Inventories	275 400	
Debtors' Control	243 500	
Creditors' Control	62 460	
Cash in the bank and petty cash	336 600	
Income received in advance (Rent)	12 120	
Prepaid expenses (Insurance)	7 600	
Provisional income tax payments	299 980	
Interim dividends paid on 31 Aug. 2019	270 000	

- C. On 1 November 2019, the company issued a further 80 000 shares at R9,50 per share.
- D. On 31 January 2020, the directors decided to repurchase 75 000 ordinary shares from

the estate of a shareholder who had died. These shares were bought back at R2.90 above the average price and this was correctly recorded in retained income.

E. On 1 January 2020, a final dividend of 40 cents per share was declared.

F. A vehicle was sold for cash at its carrying value on 31 May 2019. The Details of the asset sold have to be accounted for.

Cost price: R140 000

Date purchased: 1 March 2018

Rate of depreciation: 20% p.a. on the diminishing-balance method

FINANCIAL YEAR END	DEPRECIATION	ACCUMULATED DEPRECIATION
28 February 2019	28 000	28 000
31 May 2019	5 600	33 600

G. The loan statement from William Bank received on 28 February 2020 reflected interest capitalised at R81 400. This was not recorded in the books. The business expects to settle R 112 800 of the outstanding balance in the next financial year.

H. After all the above adjustments were taken into account the net profit before tax was calculated to be R1 161 000. The income tax is calculated at 30% of net income before tax.

I. Financial indicators on 28 February:	2020	2019
Earnings per share (EPS)	170 cents	82 cents
Dividends per share (DPS)	100 cents	82 cents
Net asset value (NAV)	846 cents	786 cents
Return on shareholders' equity (ROSHE)	?	18,3%

J. Additional information:	2020	2019
Market price of Vijay Ltd shares on JSE	1 032 cents	1 060 cents
Interest rate on alternative investments	9%	9%

ACTIVITY B 2

2.1 2.1.1 SHARE CAPITAL

AUTHORISED SHARE CAPITAL

750 000 ordinary shares

ISSUED SHARE CAPITAL

_____	Ordinary shares in issue on 1 March 2019	
80 000	Ordinary shares issued during the Year	
(75 000)	Ordinary shares re-purchased (average price of _____)	
_____	Ordinary shares in issue on 28 February 2020	

3.1.2 RETAINED INCOME

Balance on 1 March 2019	
Ordinary share dividends	
Balance on 28 February 2020	

2.2 MNYANDU LIMITED

**BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON
28 FEBRUARY 2020**

ASSETS	
Non-current assets	
Financial asset: Fixed deposit	650 000
Current assets	
Inventories	275 400
Trade and other receivables	
Cash and cash equivalents	336 600
TOTAL ASSETS	
EQUITY AND LIABILITIES	
Shareholders' equity	
Non-current liabilities	
Current liabilities	
TOTAL EQUITY AND LIABILITIES	

2.3 Calculate the return on average shareholders' equity for 2020.

2.4 From 2019 to 2020 the directors made a deliberate decision to change the policy on the distribution of profits in the form of dividends. Comment on this change. Quote financial indicators or figures to support your answer.

2.5 Comment on whether the shareholders should be satisfied with the percentage return and the market price of their shares. Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trends. Give an additional comment in each case.

2.6 The external auditors, Hassan and Jacob, have employed Janet to work on the audit of Mnyandu Ltd. Janet owns 10 000 shares in Mnyandu Ltd. Explain why this is a problem.

Give a valid solution.

ACTIVITY B 3: CONCEPTS, BALANCE SHEET AND AUDIT REPORT

(65 marks; 40 minutes)

3.1 CONCEPTS

Choose an explanation from COLUMN B that matches a concept in COLUMN A. Write only the letter (A–D) next to the ACTIVITY B number (4.1.1–4.1.4) in the ANSWER BOOK. (4)

COLUMN A		COLUMN B	
3.1.1	Shareholder	A	monitors control measures to prevent mismanagement and fraud
3.1.2	Director	B	owners of the company
3.1.3	Internal auditor	C	expresses an opinion on the financial statements of a company appointed by the shareholders to manage the company
3.1.4	External auditor	D	

3.2 PARADISE LIMITED

The information below relates to Paradise Ltd. The financial year ended on 29 February 2016.

REQUIRED:

- 3.2.1 Prepare the following notes for the year ended 29 February 2016:
 - Ordinary share capital (6)
 - Retained income (10)
- 3.2.2 Prepare the Balance Sheet (Statement of Financial Position) on 29 February 2016. Show ALL workings. (35)

INFORMATION:

A. List of balances extracted from the accounting records of Paradise Ltd on 29 February 2016, the end of the financial year, unless otherwise stated.

	R
Ordinary share capital (See Information B.)	?
Retained income (20 February 2016)	1 414 000
Loan from Helpu Bank (See Information E.)	1 155 000
Fixed assets at carrying value (1 March 2015)	14 235 500
Fixed deposit: Sandton Bank	?
Trading stock (balancing figure)	?
Creditors' control	478 000
Debtors' control	356 000
Provision for bad debts (1 March 2015)	16 000
Bank (favourable)	?
Accrued expenses (expenses payable)	12 000
Prepaid expenses	6 800
SARS: Income tax (provisional tax payments)	1 012 000

B. Share capital:

- Paradise Ltd is authorised to sell 5 000 000 ordinary shares.
- 3 000 000 shares were in issue on 1 March 2015, the beginning of the financial year, R6 000 000.
- 1 000 000 new shares were issued on 1 December 2015 at a market-related value of R5,00 per share.
- 200 000 shares were repurchased on 20 February 2016 from a shareholder who was relocating to another country. Amount above average was treated correctly in retained income. A payment of R770 000 was made on 20 February 2016.

C. Dividends:

- The directors paid an interim dividend of 28 cents per share on 28 August 2015.
- A final dividend of 44 cents per share was declared on 29 February 2016. All shares (including the shares repurchased on 20 February 2016) qualify for final dividends. These dividends will be paid on 31 March 2016.

D. Net profit before tax:

- After taking into account all relevant information, the net profit before tax was accurately calculated to be R3 800 000.
- Income tax at the rate of 28% must still be brought into account.

E. Loan Helpu Bank:

HELPU BANK: Loan statement on 29 February 2016	
Balance on 1 March 2015	R1 575 000
Interest charged	
Repayments to Helpu Bank during the year	R 500 000
Balance on 29 February 2016	R1 155 000

F. Provision for bad debts:

The provision for bad debts must be maintained at 5% of the outstanding debtors.

G. Fixed assets and depreciation:

- No fixed assets were purchased or sold during the financial year.
- Depreciation on fixed assets is calculated at 20 % on carrying value method.

H. The following financial indicators were calculated after all adjustments had been taken into account:

Current ratio	1,3 : 1
Acid-test ratio	0,8 : 1

ACTIVITY B 3

3.1 CONCEPTS

3.1.1		<table border="1" style="margin-left: auto; margin-right: auto;"> <tr><td style="width: 20px; height: 20px;"></td></tr> <tr><td style="width: 20px; height: 20px; text-align: center;">4</td></tr> </table>		4
4				
3.1.2				
3.1.3				
3.1.4				

3.2 PARADISE LIMITED

3.2.1 Ordinary share capital

			<table border="1" style="margin-left: auto; margin-right: auto;"> <tr><td style="width: 20px; height: 20px;"></td></tr> <tr><td style="width: 20px; height: 20px; text-align: center;">6</td></tr> </table>		6
6					

Retained income

Balance at beginning of year		<table border="1" style="margin-left: auto; margin-right: auto;"> <tr><td style="width: 20px; height: 20px;"></td></tr> <tr><td style="width: 20px; height: 20px; text-align: center;">10</td></tr> </table>		10
10				
Ordinary share dividends				
Balance at end of year				

3.2.2 BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON 29 FEBRUARY 2016

ASSETS		
NON-CURRENT ASSETS		
Fixed deposit: Sandton Bank		
CURRENT ASSETS		3 538 600
TOTAL ASSETS		
EQUITY AND LIABILITIES		
ORDINARY SHAREHOLDERS' EQUITY		
Ordinary share capital		
NON-CURRENT LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables		
TOTAL EQUITY AND LIABILITIES		

35

ACTIVITY B4: COMPANY FINANCIAL STATEMENTS AND AUDIT REPORT

(65 marks; 40 minutes)

4.1 CONCEPTS

Match the concepts in Column A with the descriptions in Column B. Write only the letter (A – E) next to the ACTIVITY B number (3.1.1 – 3.1.5) in the ANSWER BOOK. (5)

COLUMN A		COLUMN B	
4.1.1	Income Statement	A	This is an annual document which explains the performance of the company and the major decisions that were taken.
4.1.2	Balance Sheet	B	This reflects the funds which have come into a company (or have been utilised by it) through its operating, investing or financing activities.
4.1.3	Cash Flow Statement	C	This reflects the profit or loss earned as a result of the operations of the company for a year.
4.1.4	Directors' Report	D	This is an opinion issued on whether or not the financial statements can be relied upon.
4.1.5	Independent Auditors' Report	E	This reflects the assets, liabilities and net worth (equity) of the company.

4.2 AMARA LIMITED

The following information relates to Amara Limited. The financial year ended on 28 February 2017.

REQUIRED:

4.2.1 Refer to Information B.

Calculate the Net Profit after Tax. (10)

4.2.2 Prepare the following notes to the Statement of Financial Position for the year ended 28 February 2017.

- Ordinary Share Capital (9)
- Retained Income (10)

4.2.3 Prepare the Statement of Financial Position for the year ended 28 February 2017. (31)

INFORMATION:

A. Extract of a list of Balances/Totals on 28 February 2017

Balance Sheet Accounts Section	R
Ordinary share capital	?
Retained income (1 March 2016)	540 000
Land and Buildings	5 002 000
Equipment (1 March 2016)	562 500
Accumulated depreciation on equipment (1 March 2016)	112 500
Fixed Deposit: GP Bank	260 000
Trade and other receivables	696 000
Cash float	12 000
Loan: GP Bank	1 140 000
Creditors' Control	294 600
Bank Overdraft	52 000
SARS: Income Tax	300 000
Nominal Accounts Section	
Rent income	177 600
Dividends on ordinary shares	96 000

B. Net Profit for the year

The Internal Auditor found that the following adjustments were NOT taken into account when the Net Profit before Tax, R1 024 400 was calculated.

- The telephone accrued expense, R3 000 for February 2017.
- Insurance prepaid expense of R4 500.
- Rent Income for March and April 2017 was already received. The rent was increased on 1 September 2016 by 10%. The Rent Income account showed an amount of R177 600 in the General Ledger.
- Stationery of R500 was on hand on 28 February 2017.
- The Income Tax for the year is calculated at 28% of net profit before tax.

C. Shares and Dividends

- (i) Authorised share capital comprises 400 000 ordinary shares.
- (ii) On 1 March 2016: 160 000 shares for R4 000 000 were in issue.
- (iii) On 31 August 2016: The directors decided to buy back 50 000 shares from the family of a deceased shareholder, at R 1 500 000. These shares are NOT entitled to final dividends.
- (iv) On 1 January 2017: 100 000 shares were issued at R17,50 each.
- (v) The directors declared a final dividend of 80 cents per share on 28 February 2017.

D. Fixed Assets

- (i) Equipment, R250 000 was purchased on 28 February 2017. No equipment was sold during the year.
- (ii) The depreciation on equipment is calculated at 20% on diminishing balance method

E. Non-current Liabilities

The loan statement from GP Bank reflected the following:

Balance at beginning of financial year	R1 500 000
Repayments during the year	R?
Interest capitalised	R157 500
Balance at end of financial year	R1 140 000

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

ACTIVITY B 4: COMPANY FINANCIAL STATEMENTS AND AUDIT REPORT

4.1 CONCEPTS

Match the concepts in Column A with the descriptions in Column B.	
4.1.1	
4.1.2	
4.1.3	
4.1.4	
4.1.5	

4.2 AMARA LIMITED

4.2.1 Calculate the Net Profit after Tax.

	R
Incorrect Net Profit before Tax	1 024 400
Net profit before tax	
Income Tax	
Net Profit after tax	

4.2.2 ORDINARY SHARE CAPITAL

AUTHORISED	
Number of authorised ordinary shares: 400 000 shares	
ISSUED	
	R
160 000 Ordinary shares at the beginning of the year	4 000 000

RETAINED INCOME	R
Balance at the beginning of the year	540 000
Balance at the end of the year	

4.2.3 AMARA LIMITED
BALANCE SHEET AS AT 28 FEBRUARY 2017

ASSETS	R
NON-CURRENT ASSETS	
CURRENT ASSETS	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY	
NON-CURRENT ASSETS	
CURRENT LIABILITIES	
TOTAL EQUITY AND LIABILITIES	

CASH FLOW STATEMENT

ACTIVITY C 1: ZUMA LTD

The following information relates to Zuma Ltd for the financial year ended 31 October 2020.

REQUIRED:

- 1.1.1 State ONE purpose of a Cash Flow Statement. (2)
- 1.1.2 Complete the Cash Flow Statement for the year ended 31 October 2020. Some of the figures have already been entered for you. (27)

INFORMATION:

A. Extract from the Income Statement for the year ended 31 October 2020:

Depreciation	154 000
Interest on loan	336 000
Net profit before tax	1 938 600
Income tax	560 000
Net profit after tax	1 378 600

B. Figures identified from the Balance Sheet on 31 October:

	Average	2020	2019
	R	R	R
Fixed assets at carrying value		10 041 000	8 878 000
Fixed deposit: Granite Bank		760 000	1 000 000
Non-current liability: Loan from Bhapu Bank	2 625 000	2 450 000	2 800 000
Current assets		1 186 600	1 191 200
Current liabilities		1 236 000	1 359 200
Ordinary shareholders' equity	7 605 800	8 301 600	6 910 000
Retained income		1 021 600	960 000
Ordinary share capital		7 280 000	5 950 000

C. Figures extracted from the notes to the Balance Sheet on 31 October:

	2020	2019
	R	R
Shareholders for dividends	656 000	595 000
SARS (Income tax)	Debit 28 500	Credit 41 750
Debtors' control	527 000	816 200
Creditors' control	580 000	374 000
Bank	Debit 174 500	Credit 348 450
Petty cash	5 000	3 000
Trading stock	451 600	372 000

ACTIVITY C1

1.1 **ZUMA LTD**

1.1.1 State ONE purpose of a Cash Flow Statement.

1.1.2 **CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2020**

CASH FLOW FROM OPERATING ACTIVITIES	
Cash generated from operations	2 844 200
Interest paid	(336 000)
CASH FLOW FROM INVESTING ACTIVITES	
Fixed assets purchased	(1 360 000)
Change in fixed deposit	240 000
CASH FLOW FROM FINANCING ACTIVITIES	
NET CHANGE IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS AT BEGINNING	
CASH AND CASH EQUIVALENTS AT END	179 500

ACTIVITYC 2

The information given below was extracted from the financial statements of BULWER LTD, distributors of traditional clothes.

REQUIRED:

2.1 Prepare the following:

2.1.1 Complete the note for reconciliation between profit before taxation and cash generated from operations.

(6)

2.1.2 Prepare the Cash-Flow Statement for the year ended 28 February 2020.

(22)

2.1.3 The directors have taken significant decisions during the year which have obviously affected the cash balance.

List THREE of these by quoting figures from the Cash Flow Statement in each case. State why each of these decisions will have an important effect on the future results of the company. (6)

INFORMATION:

1. Extract from the Income Statement for the year ended 28 February 2020

Sales	7 650 000
Depreciation	160 000
Interest expense (loan)	140 000
Net income before tax	844 200
Income tax	260 400
Net profit after tax	?

2. Balance Sheet on 28 February 2020

ASSETS	2020	2019
Non-current assets	5 894 200	4 300 000
Fixed assets	4 950 000	3 700 000
Investments/financial assets	944 200	600 000
Current assets	626 500	664 700
Inventories	175 000	241 900
Trade debtors and other receivables (2.1)	408 000	368 000
Cash and cash equivalents	43 500	54 800
TOTAL ASSETS	6 520 700	4 964 700
EQUITY AND LIABILITIES		
Shareholders' equity	5 189 000	3 321 000
Ordinary share capital	3 900 000	2 400 000
Retained income	1 289 000	921 000
Non-current liabilities	680 000	900 000
Loan	680 000	900 000
Current liabilities	651 700	743 700
Trade creditors and other payables (2.2)	391 700	543 700
Shareholders for dividends	?	200 000
TOTAL EQUITY AND LIABILITIES	6 520 700	4 964 700

2.1 Trade debtors and other receivables

	2020	2019
Trade debtors	398 000	353 000
Prepaid expenses	10 000	-
SARS (income tax)	-	15 000
	408 000	368 000

2.2 Trade creditors and other payables

	2020	2019
Trade creditors	368 700	508 700
Accrued expenses	-	35 000
SARS (income tax)	23 000	-
	391 700	543 700

3. Additional Information**3.1 Fixed Assets**

Land and buildings were bought for R1 600 000.

- Vehicles were sold at book value.
- No other fixed/tangible assets were sold or purchased during the year.

3.2 Ordinary Shares

- 2 000 000 shares have been authorized.
- 500 000 ordinary shares were in issue at the end of the previous financial year, 28 February 2019.
- 200 000 ordinary shares were issued on 1 November 2019 at R9 per share.
- 50 000 ordinary shares were repurchased from an unhappy shareholder over and above the average price by R4 on 28 February 2020.

3.3 Dividends

- Interim dividends of 20 cents per share was declared and paid on 1 September 2019.
- Final dividends of 30 cents per share were declared on 28 February 2020. The shareholder who also bought back his 50 000 shares qualified for this final dividend.

ACTIVITY C2

2.1.1 Cash generated from operations	
Adjustment in respect of:	
Depreciation	
Interest expenses	

2.1.2. BULWER LTD

Cash Flow Statement for the year ended 28 February 2020.

CASH FLOWS FROM OPERATING ACTIVITIES	
Interest paid	(140 000)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of non-current assets	(1 600 000)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash and cash equivalents at the end of the year.	43 500

2.2

The directors have taken significant decisions during the year which have obviously affected the cash balance. List THREE of these by quoting figures from the Cash Flow Statement in each case. State why each of these decisions will have an important effect on the future results of the company.

Decision taken (quote figures)	Effect on the company in future

ACTIVITY C3

CASH FLOW STATEMENT

3.1 The following information relates to SUNCITY Ltd. The company has an Authorised Share Capital of 1 500 000 ordinary shares, and the financial year ends on 31 October each year.

REQUIRED:

- 3.1.1 Prepare the following notes to the Balance Sheet for the financial year ended 30 October 2020.
 - Ordinary Share Capital (8)
 - Retained Income (10)
- 3.1.2 Calculate the amount that would appear on the Cash Flow Statement for:
 - Taxation paid (4)
 - Dividends paid. (4)
- 3.1.3 Prepare the following note to the Cash Flow Statement:
 - Cash generated from operating activities. (15)
- 3.1.4 Prepare the following sections of the Cash Flow Statement:
 - Cash flow from investing activities (8)
 - Cash flow from financing activities. (5)
 - Net change in cash and cash equivalents (4)

INFORMATION:**A. SHARE CAPITAL AND DIVIDENDS:**

- The issued share capital on 1 November 2019 consisted of 460 000 shares of R2,20 each.
- 160 000 Additional shares were issued on 1 November 2019 for R383 000.
- 10 000 shares were bought back from a shareholder on 31 October 2020 at a price of R0, 25 above average price. These shares do qualify for the final dividend.
- Dividends paid:

Interim dividend paid on 31 May 2019	R72 000
--------------------------------------	---------

B. FIXED ASSETS :

Equipment was disposed at carrying value during the year.

New fixed assets were purchased for R720 000 during the year.

C. Extract from the Income Statement for the year ended 31 October 2020:

Depreciation	R156 800
Operating expenses	1 242 000
Operating income	1 021 200
Interest expense	46 000
Income tax	292 710
Net profit before tax	975 700

D. Extract from the Balance Sheet of SUNCITY Ltd. on 31 October 2020.

	2020	2019
Fixed assets at carrying value	R1 734 190	R1 201 500
Financial Assets		
Investments	800 000	860 000
Current assets	376 000	325 400
Inventories	112 000	164 000
Trade and other receivables:	128 000	158 000
Trade debtors	119 800	102 000
SARS: Income tax	8 200	-
Expenses prepaid		56 000
Cash and cash equivalent	136 000	3 400
Shareholders' equity	2 276 590	1 427 600
Ordinary Share Capital	1 372 500	1 012 000
Retained income	?	415 600
Long- term liabilities		
Loan	400 000	480 000
Current liabilities	233 600	479 300
Trade and other payables:	233 600	265 800
Trade creditors	104 000	154 000
SARS: Income tax	-	23 800
Shareholders for dividends	120 000	88 000
Income received in advance	9 600	
Bank overdraft		213 500

ACTIVITY C3.

3.1 SUNCITY LTD.

**3.1.1 ORDINARY SHARE CAPITAL
AUTHORISED:**

1 500 000	Ordinary shares
-----------	-----------------

ISSUED:

460 000	Ordinary shares in issue at the beginning of the year	1 012 000

RETAINED INCOME

Retained income at the beginning	415 600
Retained income at the end of the year	

3.1.2 Calculate the amount that would appear in the Cash Flow Statement for:

Taxation paid	

Dividends paid	

3.1.3 Prepare the following note to the Cash Flow Statement

Net profit before tax	975 700
Adjustment for :	
Profit before changes in working capital	
Changes in Working capital	
Cash generated from operating activities	

3.1.4

Cash flows from investing activities	

Cash flows from financing activities	

Net change in cash equivalents	
Cash and cash equivalents – beginning of year.	
Cash and cash equivalents – end of year	

ACTIVITY C4

CALCULATIONS, NOTE FOR FIXED ASSET AND CASH FLOW STATEMENTS

You are provided with information for the financial year ended 29 February 2020 taken from the books of Bhapu Ltd. a public company listed on the Johannesburg Securities Exchange (JSE).

REQUIRED:

- 4.1 Refer to information **A** and **B**:
 - 4.1.1 Calculate the cost price of the delivery vehicle that was traded in on 31 August 2019. (4)
 - 4.1.2 Calculate the amount for which this vehicle was traded in on 31 August 2019. (5)
 - 4.1.3 Complete the Fixed Asset Note on 29 February 2020. (18)
- 4.2 Prepare the Cash Flow Statement for the year ended 29 February 2020. (Where applicable, show calculations / workings in brackets to earn part marks.) (27)
- 4.3 Refer to the Cash Flow Statement that you prepared in 4.2 above:

Mention TWO major decisions reflected in the statement and support the decision by quoting relevant figures. Also indicate ONE possible point of impact that each decision would have on the company's future operations. (6)

INFORMATION:

A. Incomplete Fixed Asset Note on 29 February 2020:

	Land and Buildings	Vehicles	Equipment
Carrying value at the beginning of the year	5 715 000	660 000	?
Cost	5 715 000	1 120 000	?
Accumulated depreciation	(0)	(460 000)	?
Movements			
Additions	?	450 000	?
Disposals	?	?	(0)
Depreciation		(157 800)	?
Carrying value at the end of the year	6 015 000	?	?
Cost	6 015 000	1 270 000	265 000
Accumulated depreciation	(0)	?	?

B. Fixed/Tangible Assets

Land and buildings

A security office, cost price R400 000, was completely destroyed in a fire. Instead of repairing the old security office, the insurance claim and additional funds were used to build a new security office in a different place on the property.

Vehicles

A delivery vehicle bought on 1 March 2017 for R? was sold for cash on 31 August 2019. A new vehicle costing R450 000 was bought on the same day.

Depreciation on vehicles is written off at 20% p.a. on the diminished balance or carrying value.

Equipment

Timza T Ltd. bought all equipment on 1 June 2016. On 1 December 2019 the company bought a new printing machine. No equipment was sold during the year.

Depreciation on equipment is written off at 18% p.a. on cost.

C. Extracts from the Balance Sheet on 29 February:

	2020	2019
Fixed Assets:		
Land and buildings (cost)	6 015 000	5 715 000
Vehicles (cost)	1 270 000	1 120 000
Equipment (cost)	265 000	200 000
Accumulated depreciation on vehicles	?	(460 000)
Accumulated depreciation on equipment	?	?
Current Assets:		
Inventory	115 520	199 140
Trade and other receivables	567 250	456 050
Debtors control	524 700	456 050
SARS (Income tax)	42 800	0
Cash and cash equivalents	95 512	4 740
Shareholders' equity:	6 314 687	5 726 000
Share capital	5 355 000	4 500 000
Retained income	959 687	1 226 000
Mortgage Loan: WD Bank	800 000	200 000
Current Liabilities:		
Trade and other payables	585 050	1 120 530
Creditors control	436 400	398 630
Income received in advance	12 650	0
Shareholders for dividends	136 000	690 000
SARS (Income tax)	0	31 900
Bank overdraft	0	89 400

D. Extracts from the Income Statement for the year ended 29 February 2020:

Sales (after all adjustments)	R 2 500 000
Depreciation	196 725
Interest expense	143 000
Net profit before tax (after all adjustments)	1 494 375
Income tax	569 688
Net profit after tax	924 687

E. Share capital

The company's authorised share capital consists of 500 000 ordinary shares and these were issued as follows:

- Three hundred thousand (300 000) ordinary shares were issued in 2010 for 1 500 cents each.
- One hundred thousand (100 000) ordinary shares were issued on 30 April 2019 for 1 800 cents each.
- Sixty thousand (60 000) ordinary shares were bought back for 2 000 cents per share on 31 October 2019.

F. Dividends

	Financial year-end:	
	2020	2019
Interim dividends	R800 000	R320 000
Final dividends	R136 000	R690 000

ACTIVITY C4

4.1.1	Calculate the cost price of the delivery vehicle traded in on 31 August 2019.
4.1.2	Calculate the amount for which this vehicle was traded in on 31 August 2019.

4.1.3 FIXED ASSET NOTE

	Land and Buildings	Vehicles	Equipment
Carrying value at the beginning of the year	5 715 000	660 000	
Cost	5 715 000	1 120 000	200 000
Accumulated depreciation	(0)	(460 000)	
Movements			
Additions (at cost)		450 000	
Disposals (at carrying value)			(0)
Depreciation	(0)	(157800)	
Carrying value at the end of the year	6 015 000		
Cost	6 015 000	1 270 000	265 000
Accumulated depreciation	0		

4.2

BHAPU LIMITED	
CASH FLOW STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2020	
	R
Cash effects of operating activities	
Cash effects of investing activities	
Fixed asset purchased	
Proceeds from asset disposals	
Cash effects of financing activities	
Net change in cash and cash equivalents	
Cash and cash equivalents at beginning of year	
Cash and cash equivalents at end of year	95 512

4.3

Refer to the Cash Flow Statement that you prepared in 4.2 above. Mention TWO major decisions reflected in the statement and support the decision by quoting relevant figures. Also indicate ONE possible point of impact that each decision would have on the company's future operations.

6

Decision with figures	Impact on future business Operations

ACTIVITY C 5

IMBIZA LTD AND UKHAMBALTD

The financial indicators and other information given refer to TWO different companies, Imbiza Ltd and Ukhamba Ltd. Both companies are listed on the stock exchange.

NOTE: When answering the questions below, quote the relevant financial indicators with actual figures (percentages/ratios and/or amounts).

REQUIRED:

- 5.1 Which company is NOT handling its working capital effectively? Explain what the main problem is in respect of their working capital, by quoting TWO financial indicators. (7)
- 5.2 The companies have made different decisions regarding the use of loans. Comment on the degree of risk and financial gearing. Give ONE financial indicator in EACH case for EACH company. (7)
- 5.3 The dividend policy used by each company has been maintained for the past four years. Explain the policy used by EACH company. Provide figures to support your explanation in EACH case. (6)
- 5.4 Should EACH company be satisfied with its share price on the JSE? Explain. Provide figures. (6)

INFORMATION:

The following financial indicators/other information is from the records of Grayson Ltd and Joni Ltd on 31 March 2019, the financial year-end:

	IMBIZALTD	UKHAMBALTD
Current ratio	1,65 : 1	4,40 : 1
Acid-test ratio	1,20 : 1	0,85 : 1
Stock-holding period	38 days	184 days
Return on average shareholders' equity (ROSHE)	16,1%	8,9%
Debt-equity ratio	0,85 : 1	0,1 : 1
Return on average total capital employed (ROTCE)	27	4%
Earnings per share (EPS)	540 cents	730 cents
Dividends per share (DPS)	528 cents	292 cents
Net asset value per share (N)	1 200 cents	425 cents
Market price per share on the JSE	875 cents	763 cents
Interest rate on loans	1	14%
Interest rate on fixed deposits	8	8%
Percentage dividend pay-out	9	40%

5.1 Which company is NOT handling its working capital effectively? Explain what the main problem is in respect of their working capital,

5.2 The companies have made different decisions regarding the use of loans. Comment on the degree of risk and financial gearing. Give ONE financial indicator in EACH case for EACH company.

5.3 The dividend policy used by each company has been maintained for the past four years. Explain the policy used by EACH company. Provide figures to support your explanation in EACH case (6)

5.4 Should EACH company be satisfied with its share price on the JSE? Explain. Provide figures. (6)

ACTIVITY C6

INTERPRETATION AND ANALYSIS

You are provided with information relating to Radebe Ltd for the financial year ended 31 December 2018.

REQUIRED:

- 6.1 Comment on the following financial indicators and supply ONE possible reason for the change in each. Quote figures.
 - (a) % gross profit on the cost of sales. (3)
 - (b) % operating expenses on sales (3)

NOTE: The intended mark-up is 60% on cost.
- 6.2 From 2017 to 2018 the directors made a well-considered decision to change the policy on the distribution of profit in the form of dividends. Explain this change. Quote figures or calculations to support your answer. (4)
- 6.3 Shareholders are satisfied with the issue price of the new shares. Quote TWO financial indicators with figures to support this statement. (4)
- 6.4 One of the directors feels that the loan should be paid as soon as possible. Do you agree? Quote TWO financial indicators with figures to support your opinion. (5)
- 6.5 The shareholders should be satisfied with the return on their investment and the companies' earnings. Explain TWO financial indicators with figures to support this opinion. (4)

INFORMATION:

The following financial indicators were calculated:

INDICATORS	31 December 2018	31 December 2017
% gross profit on cost of sales	56%	47%
% operating expenses on sales	18%	23%
Return on shareholders' equity	20%	9,5%
Return on capital employed	26%	16%
Debt/equity ratio	0,06 : 1	0,28 : 1
Earnings per share	50 cents	42 cents
Dividends per share	28 cents	42 cents
Net asset value per share	648 cents	525 cents
Interest rate on loan	18%	13%
Interest rate on investment	7%	6%
Issue price of new shares	873 cents	798 cents
Market value per share on JSE	763 cents	853 cents

6.5 **The shareholders should be satisfied with the return on their investment and the companies' earnings. Explain TWO financial indicators with figures to support this opinion.**

D: AUDIT REPORT:

ACTIVITY D1 (KZN SEPT 2014 Q.2)

1.1 AUDIT CONCEPTS

REQUIRED:

Choose the audit opinion from COLUMN B that best describes the audit report in COLUMN (3)

A. Write the letter (A – C) next to the question number (1.1.1 – 1.1.3) in the ANSWER BOOK.

COLUMN A (report)	COLUMN B (opinion)
1.1.1 Qualified audit report	A In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Shabba Ltd as at 28 February 2013.
1.1.2 Unqualified audit report	B We have not been able to obtain sufficient audit evidence to provide for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Kothule Ltd for the year ended 28 February 2013.
1.1.3 Disclaimer Report	C In our opinion, except for the effect of the unauthorised interest-free loan to the Chief Executive Officer, the annual financial statements present fairly, in all material respects, the financial position of Dai Ltd.

1.2 CORPORATE GOVERNANCE AND INTERNAL CONTROL

You are provided with an extract from the report of the independent auditors for Zodwa Ltd for the financial year ending 28 February 2014.

Audit opinion- To the shareholders

We have examined the financial statements set out on pages 10 to 30.

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 28 February 2014 and results of their operations and cash flows for the year ended, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act in South Africa.

John & Sydwel
Chartered Accountants (SA)
Registered Accountants and Auditors
15 April 2015

1.2.1 Explain why the above-mentioned report will be regarded as an unqualified report. (2)

- 1.2.2 Explain **TWO** major consequences for John and Sydwell should they be negligent in performing their duties. (4)
- 1.2.3 Provide **TWO** actions that John and Sydwell will have to take to verify the Fixed/Tangible Assets figure in the Balance Sheet? (4)
- 1.2.4 The Director in charge was given a new laptop by Brats Computers on 31 March 2014. Brats Computers have tendered to supply computers to Zodwa Ltd next year. Comment on whether or not this will affect the audit report next year. Explain. (4)
- 1.2.5 Some of the stocks comprise chemicals that will reach their sell-by date on 31 May 2014. The storeroom manager says that he will pour these into a nearby river so that they can be washed away. Comment and also offer advice to the directors. (4)

ACTIVITY D2 (NC 2015 Q.3)**2.1 AUDITORS' REPORT AND BUSINESS ETHICS**

- 2.1.1 Who is responsible to see to it that the financial statements are drawn up? (2)
- 2.1.2 To which main group of people should the auditors address their report and why is the report directed to this group of people? (3)
- 2.1.3 The auditor's report refers to the International Financial Reporting Standards (IFRS). Explain why the auditors have to bring the IFRS into account when they give their opinion. (2)
- 2.1.4 Refer to the following extract from the independent **auditors' report** of Langberg Limited.

“According to us, the financial statements, in all material respects, fairly present the financial position of Langberg Ltd as at 30 June 2015, and the results of the financial operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in South Africa.”

- Should the shareholders be satisfied with the auditor's report? Give ONE reason for your answer. (3)
- 2.1.5 If the auditors neglect to fulfill their duties, it could have serious consequences for them. Discuss TWO advantages for the shareholders of Langberg Limited that all auditors should be members of a professional body. (4)
- 2.1.6 J. Mei, the auditor's partner, who does the auditing at Langberg Limited, is going to marry A. Mabote, the financial director at Langberg Limited. (5)
- Would this influence the audit of Langberg Limited in any way? Give a reason for your answer.
 - What advice will you give J. Mei?

ACTIVITY E1: STOCK SYSTEMS AND VALUATION (36 marks; 25 minutes)

1.1 INVENTORY VALUATION

You are provided with information relating to 4th Industrial Traders for the financial year ended 31 August 2018. The business is owned by Oratile and managed by Zinhle, who is responsible for running the shop.

The business buys and sells Smart watches, which are manufactured in South Africa. They use the **periodic inventory system** and the **weighted average method to value the stock**.

REQUIRED:

- 1.1.1 Calculate the following for the financial year ended 31 August 2018. (11)
- Value of closing stock (11)
 - Gross profit (6)
- 1.1.2 Oratile has found that Zinhle changed the supplier of Smart watches in January without informing him. He discovered that the new supplier of Smart watches is a family member of Zinhle. (4)
- What advice would you offer to Oratile in this regard? State TWO points. (4)

INFORMATION:

A. STOCK BALANCES

	UNITS	TOTAL
1 September 2017 (Opening stock)	206	R31 570
31 August 2018 (Closing stock)	160	?

B PURCHASES DURING THE YEAR

MONTH	UNITS	UNIT COST	CARRIAGE (per unit)	TOTAL (Including carriage)
November 2017	265	R135	R5,00	R37 100
January 2018	380	R142	R8,00	R57 000
April 2018	190	R156	R9,00	R31 350
June 2018	170	R168	R12,00	R30 600
TOTAL	1 005			R156 050

- C. RETURNS OF SMART WATCHES:** (These were sent to the supplier and a refund for the cost price plus carriage was obtained).

RETURNS OF FAULTY SMART WATCHES	UNITS	UNIT COST	CARRIAGE (per unit)	TOTAL (Including carriage)
From January purchases	5	R142	R8,00	R750
From April purchases	4	R156	R9,00	R660
From June purchases	2	R168	R12,00	R360
TOTAL	11			R1 770

- D. 10 Smart watches from the November 2017 batch were donated to a local school for prizes to athletes.
- E. 993 units were sold during the financial year at a fixed selling price of R220 each.

1.2 MANAGEMENT OF INVENTORIES

Apart from Smart watches, 4th Industrial Traders also sells Smart phones and Smart cameras. You are provided with information taken from their stock records on 31 August 2018.

REQUIRED:

- 1.2.1 Oratile has experienced problems with stock theft and has installed security cameras. Despite this, he is sure that Smart watches are still being stolen. Provide a calculation to prove that Smart watches are being stolen. Give TWO points of advice. (9)
- 1.2.2 Oratile is unsure whether he is charging the right prices for the Smart phones and Smart cameras. Give him advice on EACH product. Quote figures. (6)

INFORMATION:

	SMART WATCHES (UNITS)	SMART PHONES (UNITS)	SMART CAMERAS (UNITS)
Number of units sold	993	895	370
Opening stock	206	125	120
Closing stock	160	140	210
Purchases (less returns and donations)	984	940	460

Weighted average cost price per unit		R5 500	R1 560
Selling price per unit		R6 875	R2 808
Mark-up%		25%	80%
Stock holding period		21 days	207 days

ACTIVITY E1 STOCK VALUATION

(36 marks; 25 minutes)

1.1 INVENTORY VALUATION

Calculate the value of the closing stock on 31 August 2018.

1.2 Calculate the gross profit on 31 August 2018.

1.1.2 Oratile has found that Zinhle changed the supplier of smart watches in January without

informing her. He discovered that the new supplier of smart watches is a family member of Zinhle.

What advice would you offer to Oratile in this regard? State TWO points.

1.2 MANAGEMENT OF INVENTORIES

1.2.1 Provide a calculation to prove that smart watches are being stolen.

Give TWO points of advice.

1.2.2 Oratile is unsure whether he is charging the right prices for the Smart Phones and Smart Cameras. Give him advice on EACH product. Quote figures.

PRODUCT	ADVICE WITH FIGURES
Smart phones	
Smart cameras	

ACTIVITY E2: INVENTORY VALUATION (35 marks; 20 minutes)

Omega Electronics is a business that sells televisions. The business is owned by Ching Lee. They make use of the **WEIGHTED AVERAGE method for stock valuation and use the periodic inventory system**. The financial year ended on 28 February 2019. The mark-up is **25%** on cost price.

REQUIRED:

- 2.1 Calculate the following on 28 February 2019:
 - 2.1.1 Value of the closing stock. (10)
 - 2.1.2 Gross profit for the year ended. (5)
- 2.2 The owner and the accountant disagree on the method of stock valuation.

The accountant wants to use the FIFO method.

- 2.2.1 Calculate the stock value on 28 February 2019 using the FIFO method. (7)
- 2.2.2 Explain the effect on gross profit if the FIFO method is used. (2)
- 2.2.3 As an internal auditor, explain the benefits of using the FIFO method to the owner and the accountant. State TWO points. (4)
- 2.3 Ching Lee feels that she was not able to achieve her targeted mark-up % for 2019.
 - Do (or perform) a calculation to confirm whether she is correct. (3)
 - Provide TWO suggestions that can be implemented in order to improve profitability. (4)

INFORMATION:

A. Stock of television sets:

Date:	Details:	Total:
1 March 2018	49 units	R195 424
28 February 2019	220 units	?

B. Purchases and returns of television sets during the year.

	No of units	Total
Purchases:		
July 2018	200 units @ R4 680 each	R936 000
Oct 2018	388 units @ R5 145 each	1 996 260
Jan 2019	200 units @ R5 512 each	1 102 400
	788 units in total	4 034 660
Returns:		
7 units from the January 2019 purchases.		

C. Sales for the year, R3 450 300.

ACTIVITY E2: STOCK VALUATION**(35 marks; 20 minutes)****2.1**

Calculate the following on 28 February 2019:

2.1.1

Value of closing stock (Weighted Average Method).	
Workings	Answer

2.1.2

Gross profit for the year ended.	
Workings	Answer

2.3 Ching Lee feels that she was not able to achieve her targeted mark-up % for 2019.

Do (or perform) a calculation to confirm whether she is correct.

Workings	Answer

Provide TWO suggestions that can be implemented in order to improve profitability.

2.2.1

Calculate the stock value on 28 February 2019 using the FIFO method.

Workings	Answer

2.2.2

Explain the effect on gross profit if the FIFO method is used.

2.2.3

As an internal auditor, explain the benefits of using the FIFO method to the owner and the accountant. State TWO points.

ACTIVITY E3: INVENTORY SYSTEM

(34 marks; 20 minutes)

The information provided is from the accounting records of Clanwilliam Ltd.

The company sells cooler boxes and tents. The financial year ended on 28 February 2018.

The business uses **the periodic inventory system** and the **weighted average method of stock valuation** for cooler boxes and **the specific identification method** for tents.

REQUIRED:

3.1 Explain the difference between the **specific identification** and the **weighted average** methods of valuing stock. (2)

COOLER BOXES:

3.2 Provide a calculation to show the number of missing cooler boxes on 28 February 2018. (4)

3.3 Calculate the following in respect of cooler boxes:

The value of closing stock (3)

Cost of sales of cooler boxes (5)

Gross profit on cooler boxes (3)

3.4 The manager feels that the business is more efficient in controlling stock.

3.4.1 Calculate the stock holding period (in days) of cooler boxes for 2018.

Use the closing stock. (4)

3.4.2 Comment on your findings in response to the manager’s opinion (3)

TENTS:

3.5 Calculate the value of the closing stock of tents. (4)

3.6 The mark-up percentage on tents is 25% on cost. Calculate the total sales of tents for the financial period. (6)

INFORMATION: COOLER BOXES

A Value of Stock on hand

Date	No. of Items	Unit Price	Total (R)
01 March 2017	520	R60	31 200
28 February 2018	850	?	?

B Purchases of cooler boxes

Date	PURCHASES		
	No. of Items	Unit Price	Total (R)
August 2017	1 600	R64	102 400
February 2018	2 700	R70	189 000
TOTAL	4 300		291 400

C. SALES OF COOLER BOXES: 3 900 units were sold for R387 000.

D RETURNS:

20 damaged cooler boxes costing R60 each were returned to the supplier. The supplier only agreed to give an allowance of **R1 000** due to late notification.

E.

Financial Indicators	2018	2017
Stock Holding Period	?	125 days
Stock Turnover Rate	5.7 times	2.9 times

TENT RANGE	STOCK ON HAND 1 MARCH 2017	PURCHASES DURING THE YEAR	PRICE PER TENT	NUMBER OF TENTS SOLD DURING THE YEAR
1. Bush Baby	14	-	R1 260	14
2. Leopard	10	32	R1 400	28
3. Lizard	7	28	R1 680	28
4. Buffalo	8	34	R1 540	35

ACTIVITY E3 INVENTORY SYSTEM (34 marks; 20 minutes)

3.1	Explain the difference between the specific identification method and weighted average method of valuing stock.
	Specific identification method
	Weighted average method

3.2	Provide a calculation to show the number of missing cooler boxes.

3.3	Calculate the following in respect of cooler boxes:
	The value of the closing stock of cooler boxes
	Cost of sales of cooler boxes
	Gross profit on cooler boxes

3.4.1	Calculate the Stock Holding Period in days for cooler boxes for 2018. Use closing Stock in your calculation.
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3.4.2	Comment on your findings in response to the manager's feelings.
-------	---

3.5	Calculate the value of the closing stock of tents.
-----	--

3.6	If the mark-up percentage is 25% on cost price, calculate the total sales of tents for the period.
-----	--

ACTIVITY E4: STOCK VALUATION METHOD, INTERNAL CONTROL & ETHICS (37 marks; 25 minutes)

The statements below relate to stock valuation methods.

REQUIRED:

- 4.1 Choose the description from COLUMN B that best describes the stock valuation method in COLUMN A. Write only the letter (A–C) next to the question number (2.1.1–2.1.3) in the ANSWER BOOK.

COLUMN A		COLUMN B	
4.1.1	Specific identification	A	Oldest stock is sold before latest purchases.
4.1.2	First-in-first out (FIFO)	B	Total value of goods divided by number of units available for sale to calculate value of closing stock.
4.1.3	Weighted average	C	Stock is valued based on actual cost prices.

(3)

4.2 **Westhuizen Traders**

The business buys and sells generators. The business uses the periodic inventory system and the **FIFO (first in first out)** method to value stock.

REQUIRED:

- 4.2.1 Calculate the value of the following on 30 June 2016:
- Closing stock (6)
 - Cost of sales (6)
- 4.2.2 The owner suspects that generators had been stolen.
- Calculate the number of generators stolen. (5)
 - Give TWO points of advice. (4)
- 4.2.3 The owner, Mrs Westhuizen, is considering changing to the weighted-average cost method.
- Calculate the value of closing stock using the weighted- average cost method. (9)
 - The owner, Mrs Westhuizen, thinks that changing to the weighted-average method will lessen her tax burden. She approaches you for advice. Provide TWO points of advice in this regards. (4)

INFORMATION:

A. Stock balances:

Date	No. of generators	Unit price	Total
1 May 2016	60	2 300	138 000
30 June 2016	80	?	?

B. Purchases for the period 1 May 2016 – 30 June 2016

Date	No. of generators	Unit price	Total
5 May 2016	90	2 500	225 000
31 May 2016	30	2 800	84 000
18 June 2016	70	2 900	203 000
Total purchases	190		512 000
Returns to suppliers: Bought on 18 June 2016	5		

Carriage on purchases, R 26 000 was paid on the purchases for 5 May.
No carriage on purchases was paid on the rest of the purchases.

C. Sales for the period 1 May 2016 – 30 June 2016

Date	No. of generators	Unit price	Total
May 2016	100	3 400	340 000
June 2016	62	3 600	223 200
Total sales	162		563 200

ACTIVITY E4

4.1 Choose the description from COLUMN B that best describes the stock valuation method in COLUMN A.

4.1.1	
4.1.2	
4.1.3	

4.2 Calculate the following on 30 June 2016:

4.2.1

Closing stock	
Cost of sales	
4.2.2	The owner suspects that generators had been stolen. Calculate the number of generators stolen.
	Give TWO points of advice

4.2.3

Calculate the value of closing stock using the weighted-average cost method.

The owner, Mrs Westhuizen, thinks that changing to the weighted-average method will lessen her tax burden. She approaches you for advice. Provide TWO points of advice.

F: TANGIBLE ASSET

ACTIVITY F1

MVELASE LIMITED

NOTE TO THE BALANCE SHEET ON 30 JUNE 2019

TANGIBLE ASSET NOTE

	LAND AND BUILDINGS	EQUIPMENT	VEHICLES
Carrying value – 1 July 2018	R 930 000	R 220 000	R 519 200
Cost	930 000	561 000	814 000
Accumulated depreciation	0	(341 000)	(294 800)
Movements			
Additions at cost	*	*	0
Disposal at carrying value	0	0	*
Depreciation	0	*	(98 890)
Carrying value – 30 June 2019	1 580 000	*	*
Cost	1 580 000	616 000	*
Accumulated depreciation	0	*	*

MOYANE TRADERS

You are presented with the Fixed Assets note of **Moyane Traders** for the financial year ended 30 June 2018.

REQUIRED:

- 2.1 Calculate the amounts denoted by A to F on the note. Show all workings to earn part
- 2.2 Calculate the total accumulated depreciation on the equipment sold
- 2.3 When was the new vehicle purchased? (Show workings.)
- 2.4 Provide a suitable reason why the business would sell a portion of their fixed property

INFORMATION: FIXED ASSETS

	PROPERTY	VEHICLES	EQUIPMENT
Cost (1 July 2017)	1 980 000	B	176 000
Accumulated Depreciation (1 July 2017)	0	(132 000)	E
CARRYING VALUE (1 July 2017)	1 980 000	C	96 200
Movements			
Additions		250 000	
Disposals	A		F
Depreciation		D	(20 050)
CARRYING VALUE (30 June 2018)	1 550 000	481 500	54 150
Cost (30 June 2018)	1 550 000	720 000	131 000
Accumulated Depreciation (30 June 2018)	0	(238 500)	(76 850)

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

ACTIVITY F 3

You are provided with information of Loyal Limited, a public company. The financial year is on 30 June 2017.

end

REQUIRED:

- 3.1 Prepare the Asset Disposal Account on 31 December 2016 in the General.
- 3.2 Complete the Note for Fixed (Tangible) Assets on 30 June 2017.

Information

- 1. Equipment bought on 30 June 2014 for R40 000 was sold for cash on 31 December 2016 at carrying value. New equipment was purchased on 01 February 2017 for R160 000. Depreciation on equipment is written off at 15% p.a. on cost price.

Balance Sheet	2017	2016
Land and buildings	2 764 000	4 139 000
Equipment at cost	420 000	300 000
Accumulated depreciation on equipment	?	135 000
Loan (16%)	280 000	650 000
SARS (Income tax)	(Cr) 9 000	(Dr) 6 400
Shareholders for dividends	53 200	38 500

Activity F 3:

3.1 ASSET DISPOSAL					
2016 Dec. 31			2016 Dec 31		

3.2	FIXED (TANGIBLE) ASSETS	Land and Buildings	Equipment
		R	R
	Carrying value at beginning of year	4 139 000	165 000
	Cost	4 139 000	300 000
	Accumulated depreciation	0	(135 000)
	Movements		
		0	160 000
	Carrying value at end of year		
	Cost		
	Accumulated depreciation		

ACTIVITY F4

The information provided below was taken from the books of BURGERS LIMITED., a public company.

REQUIRED:

- 4.1 Refer to Information C. Complete the Fixed Asset Note for the year ended 28 February 2016.
- 4.2 Prepare the investing sections of the Cash Flow Statement for the year ended 28 February 2016.

INFORMATION:

A. Extract from the Income Statement for the year ended 28 February 2016.

Depreciation	?
Interest expense	180 500
Sundry expenses	453 600
Net profit before tax	?
Income tax	475 500
Net profit after tax	?

B. Extract from the Balance Sheet on 28 February:

	2016	2015
Land and Buildings	6 800 000	6 800 000
Vehicles	1 350 000	?
Equipment	?	425 000
Accumulated depreciation on vehicles	?	480 000
Accumulated depreciation on equipment	?	90 000

C Fixed Asset Note

	Vehicles	Equipment
Carrying value at the beginning of the year		335 000
Cost		425 000
Accumulated depreciation	(480 000)	(90 000)
Movements		
Additions at cost	450 000	200 000
Disposals at carrying value	0	
Depreciation		
Carrying value at the end of the year		
Cost	1 350 000	
Accumulated depreciation		

Additional information to fixed assets

1 Vehicles

A new delivery van was bought for R450 000 on 1 November 2015. No vehicles were disposed of or sold during the financial year. Depreciation on vehicles is written off at 15% p.a. on the diminished balance.

2 Equipment

A printer bought for R75 000 on 1 March 2013 was traded in at carrying value for a new one costing R200 000 on 31 August 2015. Depreciation on equipment is written off at 10% p.a. on the cost price.

ACTIVITY F4

ANSWER BOOK

4.1 FIXED ASSET NOTE

	Vehicles	Equipment
Carrying value on 28 February 2015		335 000
Cost		425 000
Accumulated depreciation	(480 000)	(90 000)
Movements		
Additions (at cost)	450 000	200 000
Disposals (at carrying value)		
Depreciation		
Carrying value on 28 February 2016		
Cost	1 350 000	
Accumulated depreciation		

4.2 EXTRACT FROM THE CASH FLOW STATEMENT

Cash flows from investing activities	

MANUFACTURING, CONCEPTS AND NOTES

ACTIVITY G1 (50 marks; 30 minutes)

REQUIRED:

1.1 Use the words in the block below to complete the statements that follow. Write only the answer next to the question number (1.1.1–1.1.3) in the ANSWER BOOK.

Prime costs; Fixed costs; Variable costs; Break-even point;
Factory overhead costs; Unit costs; Diminishing costs

- 1.1.1 ... are expenses that are incurred to run a factory, but none of them are directly involved in the making of a product. (1)
- 1.1.2 ... indicates the number of units to be produced to avoid making a loss. (1)
- 1.1.3 ... do not change even if the quantity produced by the factory changes. (1)

1.2 THE MOOLAS SCHOOLS FACTORY SHOP

Celester Ntuli is the owner of this business which produces and sells school Blazers. The information below relates to pairs of Blazer that her factory is producing, among other items of school Blazer.

REQUIRED:

- 1.2.1 Prepare the Factory Overheads Note. (22)
- 1.2.2 Calculate the following on 29 February 2020:
 - Direct material cost (7)
 - Direct labour cost (4)

INFORMATION:

A. Balances:

	29 February 2020	1 March 2019
Raw materials stock	221 000	264 500
Work-in-progress	345 800	123 410
Finished goods	?	628 400
Indirect material	11 000	5 500

B. Transactions for the financial year ended 29 February 2020:

Purchases: Raw materials	1 110 800
Purchases: Indirect materials	46 000
Carriage on purchases of raw materials	43 300
Maintenance	45 000
Advertising	25 000
Rent expense	129 408
Depreciation on: Factory equipment	37 500
Delivery vehicles	43 000

C. Additional information:

- The bookkeeper forgot to record an invoice for R200 000 on which a trade discount of 30% was received for raw material purchased.
- Three quarters ($\frac{3}{4}$) of the indirect materials were used in the factory.
- Salaries and wages include the following:
 - Salary of the factory foreman, R391 680
 - Salaries to the administration staff, R402 000
 - Earnings by the factory workers are reflected in the following totals from the Wages Journals:

Deductions			Employer's contributions	Net wages
PAYE	UIF	Pension		
R120 000	R9 300	R74 400	R55 800	R735 600
Total deductions = R203 700				

Contributions regarded as part of factory wage costs.

- Indirect wages:
 - Five (5) casual workers clean the factory at R45 an hour. They each worked 192 hours of normal time. Two (2) of them worked 40 hours of overtime each at the normal rate plus 50%.
- The maintenance account was debited in error with a payment for telephone, R10 000. 80% of maintenance relates to the factory.
 - Rent expense included rent for March 2016. Rent was increased by R768 per month from 1 October 2015. Rent is proportionally allocated to the various departments according to floor space occupied:
 - Factory 600 square metres
 - Administration offices: 250 square metres
 - Sales department: 150 square metres

1.3 **CASH AND CARRY FACTORY SHOP**

This business is owned by Jack Maphonya. He requires your assistance. In each case, quote figures to support your opinion.

REQUIRED:

1.3.1 Break-even point: (4)

- Calculate the break-even point. (4)
- Will Jack be satisfied with this? Explain.

1.3.2 Refer to the specific unit costs. (2)

- Explain why the fixed costs per unit decreased. (2)
- Identify ONE specific factory cost that improved. Provide TWO possible reasons for the improvement. (4)

INFORMATION:

	2020	2019
Total units produced and sold	12 000 units	10 000 units
Break-even point in units	?	9 000 units
Selling price per unit	R260,00	R220,00
TOTAL VARIABLE COSTS	R1 956 000	R1 560 000
VARIABLE COSTS PER UNIT	R163,00	R156,00
Direct material cost per unit	R85,00	R90,00
Direct labour cost per unit	R53,00	R41,00
Selling and distribution cost per unit	R25,00	R25,00
TOTAL FIXED COSTS	R576 000	R576 000
FIXED COST PER UNIT	R48,00	R57,60
Factory overhead cost per unit	R34,67	R41,60
Administration cost per unit	R13,33	R16,00

1.1 Make use of the words in brackets to complete the statements. Write the answer only next to the question number.

1.1.1	
1.1.2	
1.1.3	

3

1.2.1 Factory Overheads Cost

22

1.2.2 Calculate the following on 29 February 2020:

Direct material cost	
Direct labour cost	

7

4

1.2.3. Calculate the break-even point.

4

Will Mark be satisfied with this? Explain.

4

1.3.2 Explain why the fixed costs per unit decreased. Quote figures.

2

Identify one specific factory cost that improved. Quote figures.

Provide two possible reasons for this.

4

2.1 KK SOAP MANUFACTURERS

The business produces and sells one type of Lifeboy soap.

REQUIRED:

2.1.1 Prepare the Production Cost Statement on 29 February 2020. (15)

2.1.2 Calculate the Net Profit on 29 February 2020. (5)

INFORMATION:

A. Stock on hand:

	29 February 2020 R	1 March 2019 R
Work-in-progress	84 600	37 600
Finished goods stock	315 000	127 000

B. The following was extracted from the financial records of Lifeboy Soap Manufacturers on 28 February 2019, the end of the financial year.

	R
Administration cost	810 000
Direct material cost	1 770 000
Factory overhead cost	327 000
Selling and distribution cost	603 000
Direct labour cost	?
Sales	6 390 000
Cost of sales	3 337 000

C. ADDITIONAL INFORMATION

- Factory cleaning materials costing R10 000 was erroneously included in the direct material costs. Correct the error.

2.2 IRON MANUFACTURERS

The business produced and sold 4 100 Irons for the year ended 2020. The following information was extracted from their books:

28 February

REQUIRED:

- 2.2.1 Calculate the break-even point for the year ended 29 February 2020. (6)
- 2.2.2 Should the business be satisfied with the number of units that are currently produced? Explain. (3)
- 2.2.3 Despite the fact that there was an increase in the price of direct material, the direct material cost per unit decreased from R32 to R27. Give a valid reason for the decrease. (4)
- 2.2.4 Despite the fact that there was no increase in wages during the year, the direct labour cost per unit increased from R20 to R28. Give a valid reason for the increase. (2)

INFORMATION:

	R
Sales	615 000
Direct material cost	110 700
Factory over heads cost	246 000
Selling and distribution cost	61 500
Direct labour cost	114 800
Administration cost	102 500

Additional information

- Selling price per unit amounts to R150.

ACTIVITY G 2

2.1.1

Production Cost Statement on 29 February 2020	
Direct Materials Cost	
Direct Labour Cost	
Prime Cost	
Work-in Progress at the beginning of the year	
Work-in Progress at the end of the year	
Cost of Production of Finished Good	

2.1.2

Calculate the Net profit

Calculate the Net profit

2.2.1

Calculate the break-even point for the year ended 29 February 2020.

Calculate the break-even point for the year ended 29 February 2020.

6

2.2.2

**Should the business be satisfied with the number of units that are currently produced?
Explain.**

Should the business be satisfied with the number of units that are currently produced? Explain.

3

2.2.3

Despite the fact that there was an increase in the price of direct material, the direct material cost per unit decreased from R32 to R27. Give TWO valid reasons for the decrease.

4

2.2.4

Despite the fact that there was no increase in wages during the year, the direct labour cost per unit increased from R20 to R28. Give a valid reason for the increase.

2

ACTIVITY G 3: MANUFACTURING AND INVENTORY (50 marks; 30 minutes)

3.1 Identify ONE cost account for each of the descriptions from the list below. Write only the answer next to the question numbers (3.1.1 to 3.1.5) in the ANSWER BOOK.

variable cost; factory overhead cost; direct labour cost; indirect labour cost; direct material cost; indirect material cost; selling and distribution cost; fixed cost; administration cost
--

- 3.1.1 This cost stays the same, even when the number of items manufactured changes.
- 3.1.2 The cost of raw materials that are not directly involved in manufacturing products.
- 3.1.3 Bad debts for the accounting period.
- 3.1.4 Selling and distribution cost as well as direct material cost and direct labour cost are also referred to as ...
- 3.1.5 Rent expenses of the office for the accounting period.

(5)

3.2 SIBAYA MANUFACTURERS

You are provided with information relating to Sibaya Manufacturers, a business manufacturing heart rate monitors for athletes. The financial year ends on 29 February 2020.

REQUIRED:

- 3.2.1 Calculate the value of the raw material on hand on 29 February 2020, using the weighted-average method. (4)
- 3.2.2 Calculate the value of the direct material issued for production. (3)
- 3.2.3 Prepare the note for Factory overhead cost. (12)
- 3.2.4 Prepare the Production Cost Statement for the year ended 29 February 2020. Show all calculations in brackets. (14)

INFORMATION:

A.

Stock on hand	29 February 2020	29 February 2019
	R	R
Indirect material cost	2 730	4 500
Work-in-progress	?	65 050
Finished goods	80 500	101 450

B. **Direct material:**

	Units	Total Amount
Stock on hand 1 March 2018	500	55 000
Purchases:	9 020	1 135 000
Jun 2018	1 250	137 500
Sept 2018	4 560	592 800
Dec 2018	3 210	404 700
Total available for production	9 520	1 190 000
Stock on hand 28 February 2019	560	?

C. Other costs:

	R
Direct labour cost	467 720
Factory overhead cost	616 280
Selling and distribution cost	16% of sales
Administration cost	92 500
Sales	6 282 375
Cost of finished goods sold	2 512 950

D. The following items must still be taken into account:

Indirect material

Indirect material bought during the year was R260 000.

At the end of the year it was discovered that indirect material in the factory costing R1 750 had been stolen. The material is insured and the insurance will pay out R1 130 in March 2019. No entries have been made to record this theft. The net loss on the theft must be treated as an Administration cost.

Indirect material used is divided between the factory, administration and selling and distribution departments in the ratio of 1 : 1 : 3.

The monthly insurance premium increased by 10% on 1 January 2019.

Insurance paid for the year amounted to R124 992 and this included insurance paid in advance for March and April 2019. Insurance of R59 520 was allocated to selling and distribution, and R7 440 to administration.

Salary and wage expenses were incurred:

Direct Labour	Gross salaries and wages	Deductions	Contributions	
			Medical aid	UIF
Factory	312 850	15 750	7 002	2 428

3.3 CORICRAFT WOOD

Coricraft Wood is a small manufacturing business that produces laser craft wood products.

REQUIRED:

- 3.3.1 Calculate the break-even point for the year ended 31 October 2019. (6)
- 3.3.2 Calculate the units produced and sold for 2019. (2)
- 3.3.3 Explain whether you think the owner, Jonny, should or should not be concerned about the profitability and production level of her business. Provide TWO reasons and justify your answer by providing supporting figures. (4)

INFORMATION:

- A. Every year all the goods produced, are sold.
- B. Information taken from the financial records of Coricraft Wood:

	31 October 2019	
	Total cost	Unit cost
Direct material cost	607 750	R5,50
Direct labour cost	508 300	R4,60
Selling and distribution cost	182 325	R1,65
Factory overhead cost	548 410	
Administration cost	247 500	

	31 October 2019	31 October 2018
Selling price per unit	R18,85	R15
Units produced and sold	?	98 000
Break-even point	?	78 000

ACTIVITY G 3

3.1

3.1.1	
3.1.2	
3.1.3	
3.1.4	
3.1.5	

5

3.2 SIBAYA MANUFACTURERS

3.2.1 Calculate the value of the raw material on hand on 28 February 2019, using the weighted-average method.

Calculation	Answer

4

3.2.2 Calculate the value of the direct material issued for production.

Calculation	Answer

3

3.2.3 Prepare the note for Factory overhead cost.

	R
Factory overhead cost	616 280
Indirect material	
Insurance	

12

3.2.4 PRODUCTION COST STATEMENT ON 29 FEBRUARY 2020

	R	
Direct material cost		
Direct labour cost		
Prime cost		
Factory overhead cost		
Manufacturing cost		
Work-in-progress: Beginning	65 050	
Work-in-progress: End		
Total cost of production		14

3.3 CORICRAFT WOOD

3.3.1	Calculate the break-even point for 2019.		
			6
3.3.2	Calculate the units produced and sold for 2019.		
	Calculation	Answer	
			2

3.3.3 Explain whether you think the owner, Jonny, should or should not be concerned about the profitability and sustainability of her business. Provide TWO reasons and justify your answer by providing supporting figures.

4

ACTIVITY G 4:

(55 marks; 30 minutes)

4.1 NDOBE MANUFACTURERS

The following information relates to Ndobe Manufacturers, a small business that manufactures photo frames. The financial year ended on 30 April 2019.

REQUIRED:

- 4.1.1 Prepare the Production Cost Statement for the year ended 30 April 2019. (18)
- 4.1.2 Complete the abridged (shortened) Income Statement to calculate the net profit for the year ended 30 April 2019. (10)

INFORMATION:

A.	Stock records	30 APRIL 2019	30 APRIL 2018
	Raw material stock	R58 560	R37 600
	Work-in-process stock	?	R142 000

- Purchases of raw materials for the financial year amounted to R555 000.
- Defective material valued at R21 000 was returned to suppliers.

B. The business produced 39 000 units at a cost of R45 each.

C. The following information was calculated on 30 April 2019.

	R
Direct material cost	?
Direct labour cost	716 960
Factory overhead cost (See D below.)	468 450
Selling and distribution cost (See D below.)	609 850
Administration cost (See D below.)	443 950
Cost of production of finished goods	?
Gross profit	1 250 000

D. The following items must be taken into account:

- Administration cost includes the annual insurance premium of R22 750; however, 60% must be allocated to the factory.
- Factory overhead cost includes the full amount of rent paid, R36 300. However, this should have been allocated according to floor area. The areas are: factory 400 square metres, office 120 square metres, shop 80 square metres.

4.2 **UNIT COSTS AND BREAK-EVEN ANALYSIS**

Mjosti Manufacturers is a business that produces pencil cases. Jill is concerned about his cost of production.

REQUIRED:

- 4.2.1 Explain the difference between *fixed cost* and *variable cost*. (4)
- 4.2.2 Calculate the break-even point for 2019. (6)
- 4.2.3 Comment on the break-even point and the level of production for 2018 and 2019. (6)
Explain why the owner should be satisfied or not.
- 4.2.4 Identify the variable cost that should be of great concern to the owner. Explain (4)
and provide a calculation to support your answer.
- 4.2.5 Despite the fact that there was a decrease in the fixed costs per unit, the owner is (7)
still not satisfied with his control over the fixed costs. Explain and provide calculation(s) to support his opinion.

INFORMATION:

	PENCIL CASES UNIT COSTS	
	2019	2018
Variable costs	R11,60	R11,00
Direct material cost	6,03	5,80
Direct labour cost	4,05	3,50
Selling and distribution cost	1,52	1,70
Fixed cost	R5,40	R5,50
Factory overhead cost	3,50	3,65
Administration cost	1,90	1,85
Selling price per unit	R17,80	R16,50
	Units	Units
Units produced and sold	80 000	65 000
Break-even units	?	65 000

NOTE: Take the inflation rate of 8% into account.

ACTIVITY G 4

4.1 NDOBE MANUFACTURERS

4.1.1 PRODUCTION COST STATEMENT ON 30 APRIL 2019

Direct labour cost	716 960
Prime cost	
Total manufacturing cost	
Work in process at beginning of year	142 000
Cost of production of finished goods	

18

4.1.2

Complete the abridged (shortened) Income Statement to calculate the net profit for the year ended 30 April 2019.

Gross profit	1 250 000
Net profit	

10

4.2 UNIT COSTS AND BREAK-EVEN ANALYSIS

4.2.1

Explain the difference between *fixed cost* and *variable cost*.

4

4.2.2

Calculate the break-even point for 2019.

6

4.2.3

Comment on the break-even point and the level of production for 2018 and 2019. Explain why the owner should be satisfied or not.

6

4.2.4

Identify the variable cost that should be of great concern to the owner. Explain and provide a calculation to support your answer.

4

4.2.5

Despite the fact that there was a decrease in the fixed costs per unit, the owner is still not satisfied with his control over the fixed costs. Explain and provide calculation(s) to support his opinion.

7

BANK RECONCILIATION

ACTIVITY H1

[28 marks, 20 minutes]

1.1 The following items appeared in the Bank reconciliation statement of Mzini Stores on 30 June 2015; the end of their financial year.

[20 marks]

	R
Overdraft on bank statement	9 000
Outstanding deposit	28 600
Outstanding cheques	
No. 426 (dated 8 December 2014)	2 800
No. 727 (dated 2 April 2015)	1 780
No. 762 (dated 4 July 2015)	9 200
No. 763 (dated 30 June 2015)	1 520
Incorrect credit on Bank statement	4 800
Balance as per Bank account	?

QUESTIONS	ANSWERS
What does overdraft mean?	
Does outstanding deposit have a debit or a credit balance?	
Do the outstanding cheques have a debit or a credit balance?	
What information can one get from the dates of the outstanding cheques?	
When does a cheque become stale?	
Is cheque 426 treated correctly on the bank reconciliation statement?	
How should it be treated?	
How will you treat cheque 762 at the end of the financial year?	
What GAAP principle is applied here?	
Give possible reason for the entry of R4 800	
Why is posted dated cheque received by Star Traders not entered on the Bank Reconciliation statement?	
What happens if a post-dated cheque received is deposited in the bank account?	
What do you understand by the term 'internal control'?	
Why is it important to apply internal control?	
Why preparing reconciliations is important for internal control	

1.2. Prepare the correct Bank Reconciliation Statement at 30 June 2013

BANK RECONCILIATION STATEMENT AT 30 JUNE 2013		
	Debit	Credit
	R	R
_____ balance as per bank statement		
_____ deposit yet to be credited by bank		
_____ outstanding cheques		
•		
•		
•		
•		
_____ correction of error		
_____ balance as per Bank account		

BANK RECONCILIATION & PROBLEM-SOLVING

2.1 BANK RECONCILIATION

You are provided with information relating to the accounting records of Mkongwa Traders.

REQUIRED:

2.1.1. Explain why it is vitally necessary to prepare a Bank Reconciliation Statement in each month. (2)

2.1.2. Explain how cheque (s) no **1596** and no **1632** as post-dated cheques issued should be treated when preparing financial statements on 30 June 2016. Refer to Bank Reconciliation Statement for June 2016. Include actual figures in your answer. (4)

2.1.3. Study the given items. Show, whether these items will be entered in the;

- Cash Receipts Journal
- Cash Payments Journal
- Or whether no entry will be made in the journals. Place an **X** in the column to indicate this.

Show the amount that will be entered in the journal where appropriate.

(The first item has been done for you). (9)

2.1.4. Prepare the Bank Reconciliation Statement on 31 July 2016. (7)

2.1.5. In August 2016, the internal auditor discovered that the outstanding deposit of R20 500 on the Bank Reconciliation Statement on 31 July 2016 appeared as R5 500 on the Bank statement, (Item 3). The amount on the B/S is correct. List ONE concern that you have as an internal auditor. Provide ONE suitable control measure to prevent this from happening in the future. Explain fully. (3)

INFORMATION:

A. Bank Reconciliation Statement of Mkongwa Traders on 30 June 2016.

Dr Balance as per Bank Statement	3 700
Dr Balance as per Bank Account	2 000
Outstanding deposit	18 200
Outstanding cheques	
No 1329 (dated 12 January 2016)	2 100
No 1596 (dated August 2016)	7 000
No 1632 (dated 31 July 2016)	3 400

B. After comparing the July bank statement with the Cash Journals for July, the following differences were noted:

- Item 1** The bank statement showed a favourable balance of R21 370 on 31 July 2016.
- Item 2** A deposit of R18 200 appears on the bank statement on 1 July 2016, but not in the journals for July 2016.
- Item 3** A deposit of R20 500, dated 10 July appears in the Cash Receipts Journal for July 2016, but not on the bank statement for July 2016.
- Item 4** An EFT for R5 300 for rent received from T Mbutu only appeared on the bank statement.
- Item 5** Bank charge for R1 450 appears on the bank statement, but not in the journals for July 2016.
- Item 6** The bank statement reflected a dishonoured cheque for R720. The cheque was received in settlement from a debtor who owed R770.
- Item 7** Cheque no.1329 issued as a donation to Siyakhula Creche was cancelled and replaced with cheque no.1640 on 25 July 2016. The donation was increased by R400. The cheque was delivered to the crèche on 1 August 2016. No entries were made.
- Item 8** Cheque no.1632, dated 31 July 2016, appeared on the bank statement, but not in the journals for July 2016.
- Item 9** Cheque no.1690 for R6 100, dated 28 July 2016, appears in the Cash Payments Journal, but not on the bank statement

2.1. PROBLEM-SOLVING

Two of Myende Trader's customers complained.

- A debtor, B Ndlovu, informed Myende traders that something strange happened when he settled his account of R7 500 in cash. The cashier, L Nyawose handed him a receipt that did not look like the normal receipts issued by Myende Traders. Upon investigation of Debtors' statement, it was discovered that an entry was made in the General Journal to reduce the account. Myende Traders also checked the Cash Receipts Journal and found that there was no record of R7 500.
- Debtor, T Cele complained that her statement from the business reflects a payment of R4 000 instead of R5 500. Upon investigation into Cash Receipts Journal reflect that a payment of R4 000 and a discount of R1 500 were given.

REQUIRED:

In relation to two scenarios above, provide Myende traders with an advice on the following aspects:

- 2.2.1. The problem that exists in this business. (3)
- 2.2.2. Why is this not an acceptable practice? (3)
- 2.2.3. How would the owner solve the problem? Provide THREE points by explaining fully. (9)

You are provided with information relating to SA Traders. The bookkeeper has made a few errors when reconciling the Debtors' Control Account to the Debtors' List.

REQUIRED:

- 3.1 SA Traders requires their new customers to provide personal details, including proof of residence, before opening accounts. Briefly explain why this is necessary. Name TWO points
- 3.2 Prepare the correct Debtors' List on 31 August 2016 and show how you would adjust the Debtors' Control Account using the format provided. (26)

INFORMATION:

- 1. The bookkeeper discovered that he had made a number of errors when preparing the Debtors' Ledger Accounts.
- 2. The Debtors' Control Account and the Debtors' List did not reconcile. The difference is R6 470. The following summary was prepared on 31 August 2016:

Balance of the Debtor's Control Account	R70 663
Total of the Debtors' List	77 133
Sunnyside Traders	17 600
Thembisa Traders	55 473
Tildai Suppliers	3 400
Mondo Stores	660
Difference	R6 470

- 3. **Errors on the account of Sunnyside Traders**
 - Interest on the account was calculated incorrectly. Adjust for an additional R165 interest.
 - VAT at 14% was omitted on Invoice 868 dated 31 July 2016. Total sales, excluding VAT, amounted to R16 500.
- 4. **Errors on the account of Thembisa Traders**
 - A credit note of R3 080 was incorrectly reflected in the Debtors' Ledger Account as a debit entry. The General Ledger is correct.
 - Thembisa Traders claim that they paid R13 200 last month, but that this is not reflected on their statement. Investigations revealed that Thembisa Traders' payment was incorrectly posted to the account of another debtor, Sunnyside Traders.
 - Thembisa Traders had issued a dishonoured cheque for R2 750 in settlement of an amount of R3 100. The CRJ and CPJ entries were correctly recorded. The cancellation of the discount was not reflected in the Debtors' Ledger Account. The control account is correct.
- 5. **Additional errors reflected on the Debtors' Reconciliation Statement**
 - Mondo Stores', a debtor, debt of R660 has been written off as irrecoverable. The amount was posted to the Debtors' Control account but not to the debtor's personal account.

ACTIVITY I1

VAT (MIP 2016)

(24 Marks;15 Minutes)

1. What is VAT? (2)
2. Match each of the terms in Column A with the Appropriate description in Column B
Write down only the numbers (1-7) and corresponding letters (A-G) (7)

Column A – VAT terms		Column B – Description	
1.	Compulsory registration	A.	The normal rate at which VAT is charged when goods are sold or services are rendered, by a registered VAT vendor.
2.	Voluntary registration	B.	Goods or services on which VAT is charged at a rate of 0%
3.	Standard rate	C.	VAT registration by a business whose annual income exceeds R1million
4.	Zero-rated items	D.	The VAT charged to or paid by a vendor in acquiring goods or services from another VAT vendor
5.	Exempt items	E.	The VAT charged by a vendor when it sells goods or renders services
6.	Output tax	F.	Goods or services on which no VAT is charged
7.	Input VAT	G.	VAT registration by a business whose annual income is less than R1million, but more than R50 000.

2. Harry’s Hardware & Restoration Store is a registered VAT vendor. The business sells general hardware supplies and repairs wooden furniture. The following is a summary of the business’s transactions for April 2015

Transactions	Amount (including VAT)	Amount (excluding VAT)
Total sales	R153 330	R18 830
Total purchases of trading stock	R 73 530	R 9 030
Stationery purchased	R 1 710	R 210
Fees received for repair work done	R 41 268	R 5 068
Electricity paid	R 2 736	R 336
Equipment purchased	R 22 686	R 2 786
Accounting fees paid	R 9 120	R 1 120

- a. Compile a table showing input tax and output tax from the transactions for April 2015 (11)
- b. Calculate the amount of VAT payable to SARS for April 2015 (4)

ACTIVITY I 2: VAT AND ETHICS (Extracted from Northern Cape Sept. 2015)

VAT AND ETHICS

REQUIRED:

Read the given information and answer the questions that follow.

- 5.1. Why would Bankhara not wish to produce proof of sales? (2)
- 5.2 How would this affect Bankhara Stores' VAT return? (2)
- 5.3 As Bankhara is experiencing cash flow problems at the moment, he has decided to go with this proposal. Advise him on the implication of his decision. (4)

INFORMATION:

One of Bankhara Stores' customers has offered to pay cash for all goods he purchases from him if he does not charge VAT on the sales. Bankhara stated that he would then not be able to produce the cash register roll to show these sales.

ACTIVITY I3: VAT and Ethics

1.1 Concepts (20 Marks: 10 Minutes)

Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question numbers (1.1.1 to 1.1.5) in the ANSWER BOOK.

- 1.1.1 (Exempted items/Zero-rated items) are items the law says must not be taxed. (
- 1.1.2 VAT is (an indirect/a direct) tax. (
- 1.1.3 When a business buys goods it has to pay (output/input) VAT on these items. (
- 1.1.4 The VAT rate can be changed by (SARS/the Minister of Finance). (

1.2 You are provided with information relating to Pro Party Shop for the VAT period ended 28 February 2019. The standard VAT rate of 15% is

REQUIRED:

- 1.2.1 Calculate the amount owing to SARS in respect of VAT at the end of February 2019 after taking the transactions into account. (
- 1.2.2 Pro Party Shop is experiencing cash flow problems and there is no money available to pay SARS. The bank account shows an overdraft of R52 110 on 31 January 2019. The directors have asked the accountant to reduce the sales amount so that the business will then receive a refund from SARS. Must the accountant go along with this suggestion? Give ONE reason for your decision. (

INFORMATION:

Transactions for February:

- A. Balances on 15 February:
 - VAT output account, R59 325
 - VAT input account, R33 585
- B. Bought stationery on credit for R3 220 (VAT R420).
- C. Trading stock sold for cash, R30 800 (excluding VAT).
- D. Settled the amount owing, R25 300, to Dolphin Traders by cheque, less 5% discount.
- E. Bought 92 costumes @ R500 each (VAT inclusive) from Funny Clothes Ltd received Invoice 1702.

- F. Returned 10 faulty costumes together with Debit Note 87 to Funny Clothes Ltd. The VAT on this return amounted to R560.
- G. The bank returned a debtor's cheque for R2 050, marked R/D – insufficient funds. This cheque had been received last month in settlement of her account of R2 280.
- H. In January, 4 costumes were sold to a primary school for R1 894. The tax invoice reflected VAT on sales as R247. This was posted to the ledger as R427.

ACTIVITY I1 ANSWER SHEET

1.1. Concepts

1.1.1	
1.1.2	
1.1.3	
1.1.4	
1.1.5	

BUDGETS:

Activity J1: BUDGETING

(35 marks; 20 minutes)

You are provided with information relating to Brakpan Stationers. The business is owned by Vukile Radebe and his wife, Lydia. The shop is managed by Alvin Alberts, however he has been offered a job by a competitor at an increased salary.

REQUIRED:

- 1.1. Explain the importance of comparing budgeted figures with actual figures achieved for the same period. (2)
- 1.2 Calculate the missing amounts (indicated by **a**, **b** and **c**) in the Debtors' Collection Schedule for the budgeted period March to May 2019. (4)
- 1.3 Calculate the following budgeted figures:
 - 1.3.1 Total sales for March 2019 (2)
 - 1.3.2 Amount for payments to creditors during May 2019 (4)
 - 1.3.3 Salaries of the shop assistants for April 2019 (3)
 - 1.3.4 The percentage increase in the salary of the manager expected in May 2019 (3)
 - 1.3.5 Amount of the additional loan expected to be acquired on 1 April 2019 (3)
- 1.4 An official of the local municipality has offered to recommend Brakpan Stationers to supply stationery to the value of R500 000. However, he will only do this if Vukile pays him R20 000 in cash. Give Vukile advice in this regard. State TWO points. (4)
- 1.5 Vukile's wife is angry that he has not been adhering to the cash budget. Vukile says that he deliberately did not keep to the budget because he wanted to improve the overall results of the business.
 - Identify THREE over-payments in April. Provide figures to support your answer. Provide a valid reason for each over-payment to support Vukile's decisions. (6)
 - Explain how this difference of opinion with his wife can be avoided in future. (2)
 - State TWO other strategies that Vukile and his wife could consider in future to improve the results of the business. (2)

INFORMATION**A. Sales and debtors' collection:**

- The TOTAL sales for April 2019 and May 2019 have been estimated as follows:

April 2019	70 000
May 2019	78 750

80% of all sales are for cash. The rest is on credit.

- Debtors are expected to pay as follows:
 - 60% within the same month of sale, subject to a 4% discount
 - 38% in the month following the month of sale
 - 2% of debts are written off in the second month following the month of sale
- Debtors' collection schedule:**

	CREDIT SALES R	2019 MARCH R	2019 APRIL R	2019 MAY R
February	31 500	11 970		
March	10 500	(a)	3 990	
April	14 000		8 064	(b)
May	(c)			
		18 018	12 054	

B. Purchases of merchandise and payment to creditors:

- The business works on a fixed-stock base where the stock sold in a month is replaced at the end of that month.
- The business uses a mark-up of 75% on cost.
- 70% of all merchandise is purchased on credit.
- Creditors are paid in full in the month following the month of purchase.

C. Salaries:**Shop assistants**

- The business has 12 shop assistants employed on equal pay in March 2019. Nine of the shop assistants are entitled to a bonus equal to 80% of the monthly salary during April 2019.
- All shop assistants will receive a general increase during May 2019.

D. Loan:

An additional loan will be taken from Atlantic Bank on 1 April 2019 at 14% p.a. interest.

E. Extract from the Cash Budget for the three months ending 31 May 2019:

RECEIPTS	MARCH	APRIL		MAY
	Budgeted	Budgeted	Actual	Budgeted
Cash sale of stock	42 000	56 000	59 200	63 000
Collection from debtors	18 018	12 054	12 800	?
Rent income	5 600	6 160	6 160	6 160
Additional loan acquired	0	?	?	0
PAYMENTS				
Cash purchase of stock	9 000	12 000	28 000	13 500
Payment to creditors	58 500	21 000	21 000	?
Salaries of shop assistants	102 000	?	?	110 160
Salary of manager	16 000	16 000	40 000	19 200
Interest on loan (14% p.a.)	6 300	7 175	7 175	7 175
Delivery expenses (for deliveries to customers)	9 200	9 200	0	9 200
Insurance (paid annually)	0	27 000	27 000	-
Advertising	0	0	0	20 000
Purchase of vehicle	0	0	180 000	0
Vehicle expenses	0	0	4 000	4 000
Sundry expenses	5 300	5 300	5 300	5 800

Activity J1

1.1 Explain the importance of comparing budgeted figures with actual figures achieved for the same period.

1.2 Calculate the missing amounts (indicated by a, b and c) in the Debtors' Collection Schedule for the budgeted period March to May 2019.

a	
b	
c	

1.3 Calculate the following:**1.3.1**

Calculate the budgeted total sales for March 2019.

1.3.2

Calculate the amount budgeted for payments to creditors during May 2019.

1.3.3

Calculate the budgeted salaries of the shop assistants for April 2019.

1.3.4

Calculate the % increase in the salary of the manager expected in May 2019.

1.3.5

Calculate the amount of the additional loan expected to be acquired on 1 April 2019.

1.4

An official of the local municipality has offered to recommend Brakpan Stationers to supply stationery to the value of R500 000. However, he will only do this if Vukile pays him R20 000 in cash.

Give Vukile advice in this regard. State TWO points.

1.5

Identify THREE over-payments in April. Provide figures to support your answer. Provide a valid reason for each over-payment to support Vukile's decisions.

	Over-payment with figures	Valid reason
1		
2		
3		

Explain how this difference of opinion with his wife can be avoided in future.

State TWO other strategies that Vukile and his wife could consider in future to improve the results of the business.



Activity J2: BUDGETING**(40 marks; 25 minutes)**

You are provided with the incomplete Debtors' Collection Schedule and Cash Budget of Zeppe Bazaar.

REQUIRED:

- 2.1 Calculate the expected monthly percentage of goods sold on credit. (4)
- 2.2 Complete the Debtors' Collection Schedule for March 2019. (5)
- 2.3 The owner wants to improve the control over debtors. Credit terms are 30 days.
- 2.3.1 Explain why the owner is concerned. Give TWO reasons with supporting figures. (4)
- 2.3.2 Suggest ONE solution for this problem. (2)
- 2.4 Calculate the following:
- 2.4.1 (a) and (b) as provided in the budget. Use budgeted figures in your calculations. (11)
- 2.4.2 The percentage increase in rent on 1 March 2019 (4)
- 2.4.3 The amount of the interest on the investment expected to be received in March 2019 (4)
- 2.5 **Refer to Information H.**
Identify TWO payments that you consider to be poorly managed in February 2019. In EACH case, give a suggestion to improve the internal control of the items identified. (6)

INFORMATION:**A.** The Debtors' Collection Schedule for February and March 2019

MONTH	CREDIT SALES	FEBRUARY	MARCH
December 2016	74 000	16 280	
January 2017	68 000	27 200	?
February 2017	70 000	24 010	?
March 2017	64 000		?
Cash from debtors		67 490	?

B. Debtors are expected to pay as follows:

- 35% is paid in the month of sale. They receive a 2% discount.
- 40% is paid in the month following the sales month.
- 22% is paid two months after the sales month.
- 3% is bad debts.

- C.** All goods are sold at a profit mark-up of 25% on cost.
- D.** Stock sold is replaced in the month of sale (a stock base is maintained).
- E.** All stock is purchased on credit. Creditors are paid in the month following the month of purchase to receive a 5% early settlement discount.
- F.** The business employs four sales assistants on the same salary scale. They will receive an inflationary increase of 7,5%, effective from 1 March 2019. An additional sales assistant will be employed on 1 March 2019, but she will not receive the increase.
- G.** A fixed deposit matures on 31 March 2019. This will be received together with interest at 8% p.a. for the last quarter of its term.

H. EXTRACT FROM BUDGET FOR FEBRUARY 2019 AND MARCH 2019

	FEBRUARY		MARCH
	BUDGETED	ACTUAL	BUDGETED
Receipts			
Cash sales	17 500	18 640	16 000
Cash from debtors	67 490	43 870	?
Rent income	11 200	11 200	12 544
Fixed deposit (including interest)	-	-	16 830
Payments			
Payments to creditors (for stock)	68 000	68 000	(a)
Salaries: office staff	19 000	19 000	20 900
Salaries: sales assistants	20 800	20 800	(b)
Municipal services	10 600	10 600	11 000
Drawings	3 000	5 500	3 000
Stationery	1 200	2 600	1 200
Loan instalment	5 000	5 000	5 000
Maintenance of office equipment	3 800	1 500	3 800
Advertising	2 400	1 000	2 400

I. DEBTORS' AGE ANALYSIS ON 28 FEBRUARY 2019

Total owed	30 days	60 days	90 days	90+ days
R110 400	R53 000	R32 000	R17 800	R7 600
	48%	29%	16%	7%

Activity J2

2.1 Calculate the expected monthly percentage of goods sold on credit.

4

2.2 **Debtors Collection Schedule for March 2019**

MONTH	CREDIT SALES	FEBRUARY	MARCH
December 2018	74 000	16 280	
January 2019	68 000	27 200	*
February 2019	70 000	24 010	*
March 2019	64 000		*
Cash from debtors		67 490	*

2.3.1 Explain why the owner is concerned. Give TWO reasons with supporting figures.

2.3.2 Suggest ONE solution for this problem.

2.4.1

		WORKINGS	ANSWER
(a)	Payment to creditors		
(b)	Salaries of sales assistants		

2.4.2 Calculate the percentage increase in rent on 1 March 2019.

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2.4.3 Calculate the amount of the interest on investment expected to be received in March 2019.

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2.5 Identify TWO payments that you consider to be poorly managed in February 2019. In EACH case, give a suggestion to improve the internal control of the items identified.

PAYMENT	ADVICE

ACTIVITY J3: CASH BUDGET AND PROJECTED INCOME STATEMENT (50 marks; 30 minutes)**3.1 BRUCE TRADERS**

Benny Bruce owns Bruce Traders. You are provided with information for two months.

REQUIRED:

Complete the Cash Budget for November and December 2019. Certain figures have been entered for you.

(25)

INFORMATION:

A. Extract from the Projected Income Statement:

	NOVEMBER 2019	DECEMBER 2019
Sales	R1 050 000	R997 500
Cost of sales	600 000	570 000
Commission income	7 000	8 000
Sundry expenses	22 500	?
Depreciation	2 200	2 200
Wages and salaries	?	256 000
Bad debts	19 500	34 125
Advertisements	0	11 000
Discount allowed	20 475	18 900
Interest expense (9% p.a.)	3 780	3 510

B. ADDITIONAL INFORMATION:

- (i) Cash sales amount to 40% of all sales.
- (ii) A mark-up of 75% on cost is maintained. Stock is replaced in the same month as sales.
- (iii) 20% of all purchases of stock are bought for cash.
- (iv) All creditors are paid in full in 30 days (in the month following the purchase).
- (v) Commission is received one month after it is earned. Commission is budgeted to increase by R1 000 per month.
- (vi) Sundry expenses consist of cash items only. It is expected to decrease by 8% each month.
- (vii) Wages and salaries for December 2019 include a bonus of R40 000 for the manager. A wage and salary increase of 8% for all employees will be applied from 1 December 2019.
- (viii) Advertisements will appear in a newspaper on the first day of each month, commencing on 1 December. Payment to cover three advertisements will be made in full on 15 November.
- (ix) The interest rate is 9% p.a. Interest is not capitalised and is paid monthly. A portion of the loan will be repaid on 30 November 2019.

3.2 SLEEPEZI BEDS (PTY) LTD

You are provided with information for two months ending 31 October 2019. The business sells one type of bed.

REQUIRED:

- 3.2.1 Calculate the percentage increase in the amount budgeted for salaries and wages for October 2019. Should the employees be satisfied with this? Explain. (3)
- 3.2.2 The financial director is pleased with the work being done by the bookkeeper and internal auditor. Identify an expense that indicates that he is correct. Explain your answer. (3)
- 3.2.3 A competitor, BB Beds, which sells only for cash, opened a store nearby on 1 October 2019. (4)
- Comment on how the new competitor has affected the sales of Sleepenzi Beds. Provide figures. (9)
 - Explain how Sleepenzi Beds has responded to this problem. Provide THREE points. Provide figures.
- 3.2.4 Cash balances: (2)
- Comment on the cash balances. Provide figures.
 - Explain how the directors can improve the cash balances in future. Explain TWO points. (4)

INFORMATION:**A.** Expected sales, cost of sales and deliveries:

- The business budgets on selling 300 beds per month.
- The cost price of each bed is R3 000 and the selling price is R5 000. No discounts are allowed.
- The stock of beds is replaced in the month of sale.
- Suppliers are paid in the month of purchase.
- The business uses Cape Deliveries to deliver the beds to each customer.

B. Extract from the Cash Budget:

	SEPTEMBER 2019		OCTOBER 2019	
	PROJECTED	ACTUAL	PROJECTED	ACTUAL
Cash surplus (deficit) for month	110 000	125 000	120 000	(440 000)
Cash at beginning of month	105 000	105 000	215 000	230 000
Cash at end of month	215 000	230 000	335 000	(210 000)

C. Extract from the Projected Income Statement:

	SEPTEMBER 2019		OCTOBER 2019	
	PROJECTED	ACTUAL	PROJECTED	ACTUAL
Number of beds sold	300 beds	320 beds	300 beds	240 beds
Cash sales	1 200 000	1 280 000	1 200 000	300 000
Credit sales	300 000	320 000	300 000	900 000
Total sales	1 500 000	1 600 000	1 500 000	1 200 000
Cost of sales	(900 000)	(960 000)	(900 000)	(720 000)
Gross profit	600 000	640 000	600 000	480 000
Operating expenses	(313 000)	(323 000)	(407 600)	(374 960)
Directors' fees	80 000	80 000	80 000	36 000
Salaries and wages	30 000	30 000	31 800	31 800
Advertising	10 000	10 000	10 000	40 000
Delivery costs (Cape Deliveries)	150 000	160 000	150 000	168 000
Audit fees	0	0	90 000	50 000
Rent expense	28 000	28 000	30 800	34 160
Sundry expenses	15 000	15 000	15 000	15 000
Operating profit	287 000	317 000	192 400	105 040

Activity J3

3.1 BRUCE TRADERS

CASH BUDGET FOR NOVEMBER AND DECEMBER 2019

CASH BUDGET	NOVEMBER 2019 R	DECEMBER 2019 R
CASH RECEIPTS:		
Cash sales		399 000
Cash from debtors	536 025	597 975
Commission income		
Total receipts		
CASH PAYMENTS:		
Cash purchases of stock		114 000
Payments to creditors	520 000	
Sundry expenses	22 500	
Total payments	935 280	874 210
Surplus (deficit)	26 745	
Opening bank balance	(56 000)	
Closing bank balance	(29 255)	

3.2 SLEEPEZI BEDS (PTY) LTD 3.2.1

Calculate the percentage increase in the amount budgeted for salaries and wages for October 2019.

Should the employees be satisfied with this? Explain.

3

3.2.2 financial director is pleased with the work being done by the bookkeeper and internal auditor. Identify an expense that indicates that he is correct.

Explain your answer.

3

3.2.3 Comment on how the new competitor has affected the sales of Sleepezi Beds. Provide figures.

Explain how Sleepezi Beds has responded to this problem. Provide THREE points. Provide figures.

Point 1		
Point 2		
Point 3		

3.2.4 Comment on the cash balances. Provide figures.

Explain how the directors can improve the cash balances in future. Explain TWO points.