

Study & Master

Accounting

CAPS



Teacher's Guide

Elsabé Conradie • Derek Kirsch • Mandy Moyce

Grade
12

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Grade 12 Teacher's Guide

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SECTION 1

INTRODUCTION

1. Subject objectives

It is essential that learners be made aware of the importance of Accounting and its relevant application in modern-day career choices where entrepreneurial skills are so vitally important. There should also be a concerted effort to nurture an interest and passion for this subject in every learner.

Every learner should have their individual talents and abilities taken into account so that this interest may be developed to each one's own full potential.

When teaching this subject, the following objectives should be achieved:

- To link the learners' prior knowledge to the new subject content through progression
- To approach the content in a meaningful manner with sufficient reference to real-life situations
- To present the content in such a way that learners understand the content, rather than just memorise subject matter
- To use a variety of presentation strategies
- To keep regular control over written work and to ensure that meaningful evaluations take place
- To provide regular homework tasks so that learners can consolidate and revise their work in this manner.

Moreover, it is our aim to convey to learners the knowledge and skills that will provide an appropriate basis from which to build a successful career or continue their studies in this subject area.

2. Books and portfolios

2.1 Exercise books

We recommend that learners should acquire the following exercise books for Grade 12 Accounting:

- A General Ledger
- An eight-column journal
- A three-column cash book.

A workbook is available in which all the columns for each activity are already drawn, and which will save considerable time, but not all learners will be able to afford this.

2.2 Learner portfolios

A B4 envelope will serve the purpose of a learner's portfolio very well. It takes up very little space in the classroom, is inexpensive and ensures that the assessment tasks of every learner are available for moderation in class in an ordered manner. The following information needs to appear on front of the envelope: Name and surname of the learner; grade and section; learning area and grade; subject teacher.

The portfolio also needs to contain the following divisions:

- Summaries / content / intervention page with statement of authenticity
- Control tests
- Examinations
- Case studies / presentations
- Project
- Informal assessments.

2.3 Intervention with learners

If a learner is repeatedly performing poorly or is creating problems, his or her parents or caregivers need to be contacted. Any interaction with the parents should be via letter or telephone, a record needs to be kept of all interaction and has to be forwarded to the relevant grade supervisor..

You should try to be available for extra classes for at least one hour per week – carefully record this as learner intervention.

The portfolios should never leave the classroom – the same applies to the worksheets once they have been placed in the portfolio. After every test or CASS activity, the learner intervention sheet (front page of the portfolio) needs to be sent to the parents for signature – this is to keep parents continually informed of the learner’s marks. Any intervention with the parent/learner should also be recorded on this sheet, if the parent should visit you during a parent evening.

2.4 Teacher portfolios

This portfolio should contain the following:

- Front page with relevant information
- Table of contents
- Subject guidelines
- Teacher timetable
- Mark sheets (the following information has to be indicated: Subject / learning area, grade, learner’s name and marks, date of completion for formal task, assessment sheet / subject of task / maximum mark that can be achieved)
- Assessment programmes
- Yearly planner and daily planner
- Proof of moderation (internal and external)
- Policy documents (Curriculum and Assessment Policy Statement for Accounting, The National Protocol for Assessment Grades R-12, National Policy pertaining to the Programme and Promotion Requirements of the National Curriculum statements Grades R-12, Education White Paper 6, Special Needs Education (May 2001)
- Sections for the following:
Accounting: Control tests, examinations, case studies, written reports, projects, informal assessments
The assessment matrix for both the exam paper and the marking memorandum should be included with each section
- Learner information and interaction with parents / intervention
- Departmental information and circulars (Continuous Assessment Guidelines document and Learning Areas / Subject guidelines)
- Memoranda of subject meetings.

3. What is Accounting?

From CAPS document

Accounting focuses on measuring performance and processing and communicating financial information about economic sectors. The discipline ensures that principles such as ethical behaviour, transparency and accountability are adhered to. It deals with the logical, systematic and accurate selection and recording of financial information and transactions, as well as the compilation, analysis, interpretation and communication of financial statements and managerial reports for use by interested parties.

The subject encompasses accounting knowledge, skills and values the focus on the **financial accounting**, **managerial accounting** and **auditing** fields. These fields cover a broad spectrum of accounting concepts and skills to prepare learners for a variety of career opportunities.

The table below indicates the main topics in the Accounting curriculum.

Curriculum	Topic
Financial accounting (weighting: 50–60%)	1. Accounting concepts (terminology, definitions, double entry, etc.)
	2. GAAP principles
	3. Bookkeeping (source documents, journals, ledgers, Trial Balances, etc.)
	4. Accounting equation
	5. Final accounts and financial statements (including adjustments and ratios)
	6. Salaries and wages
	7. Value-added tax (VAT)
	8. Reconciliations (bank, debtors and creditors)
Managerial accounting (weighting: 20–25%)	9. Cost accounting (manufacturing, etc.)
	10. Budgeting
Managing resources (weighting: 20–25%)	11. Indigenous bookkeeping systems (Grade 10 only)
	12. Fixed assets
	13. Inventory
	14. Ethics
	15. Internal controls

4. The purpose of Accounting

From CAPS document

Accounting learners will be able to:

- record, analyse and interpret financial and other relevant data in order to make informed decisions
- present and/or communicate financial information effectively by using Generally Accepted Accounting Practices (GAAP) in line with current developments and legislation
- develop and demonstrate an understanding of fundamental accounting concepts
- relate skills, knowledge and values to real-life situations in order to ensure the balance between theory and practice, in order to enter the world of work and/or to move to higher education, and to encourage self-development

- organise and manage their own finances and activities responsibly and effectively
- apply principles to solve problems in a judicious and systematic manner in familiar and unfamiliar situations, thus developing the ability to identify and solve problems in the context of the various fields of Accounting
- develop critical, logical and analytical abilities and thought processes to enable learners to apply skills to current and new situations
- develop the following characteristics:
 - ethical behaviour
 - sound judgement
 - thoroughness
 - orderliness
 - accuracy
 - neatness
- deal confidently with the demands of an accounting occupation manually and/or electronically.

5. Time allocation for Accounting on the timetable

From CAPS document

The teaching time for Accounting is 4 hours per week per grade on the timetable; that is, for Grades 10, 11 and 12.

6. Requirements to offer Accounting as a subject

From CAPS document

It is the **responsibility of the school** to provide the resources needed to offer Accounting as a subject.

6.1 Each learner should have:

- 6.1.1 A textbook
- 6.1.2 Accounting stationery or a workbook
- 6.1.3 A calculator.

6.2 The teacher should have:

- 6.2.1 A variety of textbooks to be used as references
- 6.2.2 Policies, e.g. a summary of the King Code III
- 6.2.3 A partnership agreement
- 6.2.4 Legislation, e.g. Companies Act No. 71 of 2008
- 6.2.5 Codes of professional bodies, e.g. SAICA and SAIPA Codes
- 6.2.6 SARS brochures
- 6.2.7 Bank brochures
- 6.2.8 Access to a computer and the Internet.

7. Overview and progression of topics

TOPIC	Grade 10	Grade 11	Grade 12
Indigenous bookkeeping systems	Comparison of bookkeeping systems of the informal and formal sectors	None	None
Ethics	Code of ethics and basic principles of ethics for businesses	Identification and analysis of ethical behaviour applicable to financial environments with reference to accountability, transparency and sustainability	<ul style="list-style-type: none"> • Role of professional bodies for accountants • Disciplinary and punitive measures for non-compliance with code of conduct • Policies governing ethical behaviour, viz. King Code III • Basic principles of the Companies Act
GAAP principles	Applicable to sole traders	Applicable to partnerships and non-profit organisations (clubs)	Applicable to companies
Internal control	Basic internal control processes	Demonstration of knowledge of internal audit processes, viz. division of duties, documentation, physical controls and internal audit	<ul style="list-style-type: none"> • Application of internal control and internal audit processes in a business environment • Understanding of the difference between the roles of internal and external auditors
Accounting concepts	Concepts related to sole traders	Concepts related to partnerships and clubs	Concepts related to companies and manufacturers
Bookkeeping	Bookkeeping process for sole traders	Unique entries and accounts for partnerships and clubs	Unique entries and accounts for companies
Reconciliations	Preparation of debtors and creditors lists to reconcile with the debtors and creditors control accounts	Preparation of reconciliation statements by reconciling to bank and creditors statements	Analysis and interpretation of bank, debtors and creditors reconciliations and age analysis
Accounting equation	Analysis of transactions of sole traders	Analysis of transactions of partnerships and clubs	Analysis of transactions of companies
Value-added Tax	Concepts of Value-added Tax	Calculations of Value-added Tax	Ledger accounts of Value-added Tax
Salaries and wages	Explanation, calculation and recording of salary and wage scales, payments in the journals and posts to the ledger	None	None
Fixed assets	Calculation and recording of depreciation	Recording of acquisition and disposal of fixed assets	Interpretation and reporting on movement, valuation and control of fixed assets
Inventory	Perpetual inventory system, concepts and entries in books	<ul style="list-style-type: none"> • Explanation of the differences between perpetual and periodic stock systems • Recording of transactions using periodic inventory system 	Validation and valuation of inventories using perpetual and periodic stock systems: <ul style="list-style-type: none"> • Specific identification (of cost price per unit) • First-in First out (FIFO) • Weighted average
Final accounts and financial statements	<ul style="list-style-type: none"> • Preparation of final accounts of sole traders • Preparation, analysis and interpretation of financial statements of sole traders 	<ul style="list-style-type: none"> • Preparation of final accounts of partnerships • Preparation, analysis and interpretation of financial statements of partnerships • Preparation of Statement of Receipts and Payments for clubs • Preparation of the financial statements of clubs • Differences in financial statements of partnerships and clubs 	<ul style="list-style-type: none"> • Preparation of final accounts of companies • Preparation, analysis and interpretation of financial statements of companies
Cost accounting	Cost concepts and basic calculations	Cost calculations and ledger accounts	Preparation, presentation, analysis and interpretation of production cost statement and unit costs
Budgeting	Budget concepts	Preparation and presentation of cash budgets and Projected Income Statements of sole traders	Analysis, interpretation and comparison of cash budgets and Projected Income Statements of sole traders and companies

8. What is assessment?

From CAPS document

Assessment is a continuous planned process of identifying, gathering and interpreting information about the performance of learners, using various forms of assessment.

Assessment should be both formal and informal. In both cases, regular feedback should be provided to learners that enhance their learning experience.

8.1 Informal assessment

Informal assessment is a daily monitoring of a learner's progress. This is done through observations, discussions, practical demonstrations, learner-teacher conferences, informal classroom interactions, etc. Informal assessment does not need to be recorded and learners or teachers can mark these assessment tasks.

Informal assessment is very important for learners to learn and reflect on their own performance and for teachers to identify learners who need support in certain areas of the work completed.

Informal assessment tasks are indicated in *italics* in the Daily Teaching Plan in *Section 2: Planning* of the Teacher's Guide.

8.2 Formal assessment

All assessment tasks that make up a formal programme of assessment for the year are regarded as Formal Assessment. Formal assessment tasks are marked and formally recorded by the teacher for progression and certification purposes. All Formal Assessment tasks are subject to moderation.

A programme of assessment should be included in the Teacher's Portfolio.

Grade 12 programme of assessment

Assessment	Term 1		Term 2		Term 3			Term 4		Total
	Written report ①	Test ②	Project ③	Mid-year examination ④	Test ⑤	Case study ②	Trial examination ②	Year-mark	End-of-year examination ④	
Total marks	50	100	50	300	100	50	300		300	
Convert to a mark out of:	10 (50 ÷ 5)	20 (100 ÷ 5)	20 (50 ÷ 2,5)	20 (300 ÷ 15)	10 (100 ÷ 10)	10 (50 ÷ 5)	20 (300 ÷ 15)	100	300	400

8.3 Forms of assessment

Different forms of assessment should be used as formal assessment tasks during the year.

Information regarding types of formal assessment tasks and when each should be completed are **underlined** in the Daily Teaching Plan in *Section 2: Planning* of this Teacher's Guide.

Examples of formal assessment tasks are provided in *Section 3: Assessment* in this Teacher's Guide.

The following are examples of different forms of assessment.

8.3.1 Presentation

Presentations can be written or oral, but there must be evidence of the presentation. All criteria used to assess the presentation must be discussed with the learners prior to the commencement of the presentation. Where the resources are available, the use of electronic presentations should be encouraged.

8.3.2 Report

A report is generally the written evidence of a survey, analysis or investigation. This will usually be shorter than a project and is specific as to the topic. For example, a business has come to you for advice on whether the business is experiencing liquidity problems. Often it implies consulting with an expert for advice on some problem – therefore it links very closely with problem-solving.

8.3.3 Case study

Learners are presented with a real-life situation, problem or incident that relates to a particular topic. They are expected to assume a particular role in articulating the position. They draw on their own experience, the experience of peers or prior learning to interpret, analyse and solve the problem(s).

Newspaper articles, magazine articles, television or radio presentations provide for excellent case studies. Learners read and/or listen, digest the information and then make informed decisions. Questions can be from lower order – direct quotes from the article – to higher order, when they are asked to analyse comments and possibly make suggestions. Case studies are a very good way of keeping the subject up to date and relevant.

8.3.4 Test

Two tests, written under controlled conditions, are prescribed for Grade 12. These tests should adhere to the following.

- Tests are completed by all learners in the same grade on the same day.
- All learners write the same test.
- The tests are completed under examination conditions.
- Questions comply with year-end examination standards.
- Where there is more than one teacher, agreement is reached on the scope, as well as the date and time of the test.
- Duration of each of these tests is at least one hour for 100 marks.
- Tests cover the different cognitive levels, as in the case of examinations.
- Tests also include “problem-solving” skills.
- Tests cover a range of integrated topics, as determined by the work schedule and assessment plan.
- Of the two tests, one should be written in Term 1 and the other in Term 3.

8.3.5 Project

The project is mandatory and only one project is recommended per year. When preparing a project, consider the following minimum requirements.

- Learners are given the necessary guidance prior to commencement of the project and progress is monitored.
- Certain aspects of the project are completed in class to enable teachers to monitor progress.
- All criteria used to assess project are discussed with learners.
- Generally, projects are given a longer period of time to complete as they involve some sort of research, consolidation and selection of relevant information and the preparation of a written document as evidence.
- Often projects can involve solving some form of problem.
- Research may form part of the project – the project is evidence of the research conducted. However, this may not always be the case. For example, the computerised accounting programme will not involve research but rather develop skills.

We suggest that the project is dealt with towards the end of the first term and handed in for submission during the second term.

8.3.6 Examination

Examinations are dealt with extensively in *Section 2: Planning* of this Teacher's Guide. However, here is some basic essential information with regards to examinations.

Problem-solving

Approximately 10% of all examinations should address problem-solving questions using critical and creative thinking. These include real-life problems within the context of the Accounting curriculum. The problem-solving questions must cover a range of cognitive skills (as discussed in Step 5 of How to set up an examination paper – *Section 3: Assessment tasks*). “Surface” problem-solving questions might involve recall or comprehension skills on familiar scenarios, while “deep” problem-solving questions will generally involve creative solutions in new and unfamiliar scenarios, all falling within the ambit of the Accounting curriculum.

While ratios and analysis can form very interesting problem-solving questions, the topic of problem-solving goes a lot further and should be integrated into all aspects of the curriculum as learners develop the skills to apply the knowledge acquired.

Here are some guidelines for dealing with “deep” problem-solving questions.

- Learners identify problems from the accounting information provided.
- Learners quote the relevant information to support their opinions on the problems.
- Learners provide valid and appropriate solutions.

SECTION 2

PLANNING

Accounting Grade 12 Annual Teaching Plan

TERM 1										
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10
Topic	Companies – Unique transactions	Companies – Final accounts, financial statements and notes (Income Statement, Balance Sheet, Cash Flow Statement)	Companies – Balance Sheet, Cash Flow Statement)	Companies – Final accounts, financial statements and notes (Income Statement, Balance Sheet, Cash Flow Statement)	Companies – Final accounts, financial statements and notes (Income Statement, Balance Sheet, Cash Flow Statement)	Companies – Final accounts, financial statements and notes (Income Statement, Balance Sheet, Cash Flow Statement)	Companies – Final accounts, financial statements and notes (Income Statement, Balance Sheet, Cash Flow Statement)	Companies – Final accounts, financial statements and notes (Income Statement, Balance Sheet, Cash Flow Statement)	Companies – Analysis and interpretation	Companies – Analysis of published financial statements and audit reports
Assessment	Written report	Informal	Informal	Informal	Informal	Informal	Informal	Informal	Test	Test
TERM 2										
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10
Topic	Ethics Fixed assets	Close corporations Internal controls	Inventory systems	Reconciliations	Value-added Tax (VAT)	Examinations	Examinations	Examinations	Examinations	Examinations
Assessment	Project	Informal	Informal	Informal	Informal	Informal	Informal	Informal	Mid-year examinations	Mid-year examinations
TERM 3										
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10
Topic	Cost Accounting – Production Cost Statement with notes, Income Statement, unit costs, break even	Production Cost Statement with notes, Income Statement, unit costs, break even	Production Cost Statement with notes, Income Statement, unit costs, break even	Budgeting	Revision	Examinations	Examinations	Examinations	Examinations	Examinations
Assessment	Test	Test	Case study	Case study	Case study	Case study	Case study	Case study	Trial examinations	Trial examinations
TERM 4										
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10
Topic	Revision and examination preparation	Revision and examination preparation	Revision and examination preparation	Examination	Examination	Examination	Examination	Examination	Examination	Admin and planning
Assessment	Informal	Informal	Informal	Final examination	Final examination	Final examination				

Grade 12 Accounting Daily Teaching Plan

TERM 1			
Week 1 (Companies – unique concepts, ledger accounts and bookkeeping)			
Period 1	Concepts of companies	Discuss concepts with regards to companies on pp.2–7. Do Activity 1.1 (p.8) with learners and mark. Discuss issuing of shares. Do example on p.9 on PowerPoint®. Homework: Activity 1.2 (p.10)	Textbook Chapter 1 pp.1–10 PowerPoint® presentation
Period 2	Company ledger accounts and bookkeeping	Mark Activity 1.2. Do Activity 1.3 (p.10) on the board. Discuss income tax and dividends using PowerPoint®. Do examples on p.12 and p.15. Homework: Activities 1.4 (p.14) and 1.5 (p.17)	Textbook Chapter 1 pp.10–18 PowerPoint® presentation
Period 3	Company ledger accounts and bookkeeping	Mark Activities 1.4 and 1.5. Discuss retained income using PowerPoint®. Do examples on pp.18–20. Homework: Activity 1.6 (p.20) and <i>informal assessment 1.1 (p.21)</i>	Textbook Chapter 1 pp.14–21 PowerPoint® presentation
Period 4	Company ledger accounts and bookkeeping	Mark Activity 1.6 and <i>informal assessment 1.1</i> . Do Activity 1.7 (p.25) on the board. Homework: Activity 1.8 (p.25)	Textbook Chapter 1 pp.14–25 PowerPoint® presentation
Week 2 (Companies – unique concepts, ledger accounts and bookkeeping)			
Period 1	Company ledger accounts and bookkeeping	Mark Activity 1.8. Do Activity 1.9 (p.25) in class and mark. Discuss interest capitalized (pp.26–27). Do example on p.28 on PowerPoint®. Homework: Activity 1.10 (p.30)	Textbook Chapter 1 pp.25–30 PowerPoint® presentation
Period 2	Company ledger accounts and bookkeeping	Mark Activity 1.10. Discuss directors' fees. Do example on p.31. Discuss audit fees. Do example on p.33. Discuss buying back shares. Do example on p.34. Homework: Activities 1.11 (p.32), 1.12 (p.34) and 1.13 (p.36)	Textbook Chapter 1 pp.30–37 PowerPoint® presentation
Period 3	Company ledger accounts and bookkeeping	Mark Activities 1.11, 1.12 and 1.13. Do Activity 1.14 (p.37) in class and mark. Homework: Activity 1.15 (p.38)	Textbook Chapter 1 pp.35–38 PowerPoint® presentation
Period 4	Company ledger accounts and bookkeeping	Mark Activity 1.15. Do Activity 1.16 (p.38) in class. Homework: Activity 1.17 (p.39)	Textbook Chapter 1 pp.38–39 PowerPoint® presentation
Week 3 (Companies – unique concepts, ledger accounts and bookkeeping)			
Period 1	Company ledger accounts and bookkeeping	Mark Activity 1.17. <i>Do informal assessment 1.2 (p.40) in class and mark.</i> <i>Identify learners who need support.</i>	Textbook Chapter 1 pp.39–40 PowerPoint® presentation
Period 2	Formal Assessment Task 1 IFRS and GAAP	Hand out Formal Assessment Task 1: Written report and discuss with learners (see p. 22 in this Teacher's Guide). Show learners where to find the information in Chapters 1–6. Discuss IFRS and GAAP (pp.43–44). Do Activity 2.1 (p.45) in class and mark.	Textbook Chapter 2 pp.42–45 PowerPoint® presentation

Period 3	GAAP Final accounts of a company	Discuss year-end adjustments on pp.46–54. Discuss new adjustments on pp.55–58. Discuss the Trial Balance on p.60. Do Activities 2.2 (p.58) and 2.3 (p.61) in class. Homework: Activity 2.4 (p.68)	Textbook Chapter 2 pp.45–68 PowerPoint® presentation
Period 4	Final accounts of a company	Mark Activity 2.4. Discuss reversal of adjustments on p.69. Do Activity 2.5 in class (p.70). Homework: Activity 2.6 (p.70)	Textbook Chapter 2 pp.68–72 PowerPoint® presentation
Week 4 (Final accounts, GAAP and IFRS)			
Period 1	Final accounts of a company	Mark Activity 2.6. <i>Do informal assessment 2.1 (p. 72) in class and mark. Identify learners that need support.</i>	Textbook Chapter 2 pp.70–72 PowerPoint® presentation
Period 2	Financial statements	Discuss financial statements of a company (p.74). Discuss examples on pp.75–79 in class. Discuss directors and audit reports (p.80). Do case study 3.1 (p.80) in class and mark. Homework: Activity 3.1 (p.82)	Textbook Chapter 3 pp.74–82 PowerPoint® presentation
Period 3	Financial statements	Mark Activity 3.1. Do example on pp.83–86. Homework: Activity 3.2 (p.86)	Textbook Chapter 3 pp.82–87 PowerPoint® presentation
Period 4	Financial statements	Mark Activity 3.2. Homework: Activity 3.3 (p.88)	Textbook Chapter 3 pp.86–89 PowerPoint® presentation
Week 5 (Final accounts / financial statements)			
Period 1	Financial statements	Mark Activity 3.3. Homework: Activity 3.4 (p.89)	Textbook Chapter 3 pp.88–91 PowerPoint® presentation
Period 2	Financial statements	Mark Activity 3.4. Homework: Activity 3.5 (p.91)	Textbook Chapter 3 pp.89–92 PowerPoint® presentation
Period 3	Financial statements	Mark Activity 3.5. Homework: Activity 3.6 (p.92)	Textbook Chapter 3 pp.91–94 PowerPoint® presentation
Period 4	Financial statements	Hand in Formal Assessment Task 1: Written report Mark Activity 3.6. Homework: <i>Informal assessment 3.1 (p.94)</i>	Textbook Chapter 3 pp.92–96 PowerPoint® presentation
Week 6 (Financial statements)			
Period 1	Financial statements	<i>Mark informal assessment 3.1. Identify learners that need support.</i> <i>Homework: Informal assessment 3.2 (p.96)</i>	Textbook Chapter 3 pp.95–97 PowerPoint® presentation
Period 2	Financial statements	<i>Mark assessment 3.2. Identify learners that need support.</i> Discuss Cash Flow Statements on pp.97–98. Do Activity 3.7 (p.98) orally in class. Do example on Cash Flow Statement on p.99 in class. Do Activity 3.8 (p.103) orally in class.	Textbook Chapter 3 pp.96–103 PowerPoint® presentation
Period 3	Financial statements	Do Activities 3.9 (p.104), 3.10 and 3.11 (p.107) in class. Homework: Activity 3.12 (p.109)	Textbook Chapter 3 pp.104–109 PowerPoint® presentation

Period 4	Financial statements	Mark Activity 3.12. Do Activities 3.13 and 3.14 (pp.111–112) in class. Do Activities 3.15, 3.16 and 3.17 (pp.113–116) in class. Homework: Activities 3.18 and 3.19 (p.116)	Textbook Chapter 3 pp.109–117 PowerPoint® presentation
Week 7 (Financial statements)			
Period 1	Financial statements	Mark Activities 3.18 and 3.19. Do Activity 3.20 (p.118) in class. Homework: Activity 3.21 (p.119)	Textbook Chapter 3 pp.116–120 PowerPoint® presentation
Period 2	Financial statements	Mark Activity 3.21. Homework: Activity 3.22 (p.121)	Textbook Chapter 3 pp.119–122 PowerPoint® presentation
Period 3	Financial statements	Mark Activity 3.22. Homework: Activity 3.23 (p.123)	Textbook Chapter 3 pp.121–124 PowerPoint® presentation
Period 4	Financial statements	Mark Activity 3.23. Homework: Activity 3.24 (p.125)	Textbook Chapter 3 pp.123–125 PowerPoint® presentation
Week 8 (Financial statements / analysis and interpretation of statements)			
Period 1	Financial statements	Mark Activity 3.24. Homework: <i>Informal assessment 3.3</i> (p.126) and case study 3.1 (p.127)	Textbook Chapter 3 pp.125–128 PowerPoint® presentation
Period 2	Financial statements	Mark case study 3.1. <i>Mark informal assessment 3.3. Identify learners that need support with Cash Flow Statements.</i>	Textbook Chapter 3 pp.126–128 PowerPoint® presentation
Period 3	Analysis and interpretation of financial statements of a company	Introduction to analysis and interpretation of financial statements of a company (pp.130–136). Do example on pp.137–143. Homework: Activities 4.1 and 4.2 (p.144)	Textbook Chapter 4 pp.130–146 PowerPoint® presentation
Period 4	Analysis and interpretation of financial statements of a company	Mark Activities 4.1 and 4.2. Homework: Activity 4.3 (p.147)	Textbook Chapter 4 pp.144–149 PowerPoint® presentation
Week 9 (Analysis and interpretation of statements)			
Period 1	Analysis and interpretation of financial statements of a company	Mark Activity 4.3. Homework: Activity 4.4 (p.149)	Textbook Chapter 4 pp.147–150 PowerPoint® presentation
Period 2	Analysis and interpretation of financial statements of a company	Mark Activity 4.4. Homework: Activity 4.5 (p.151)	Textbook Chapter 4 pp.149–151 PowerPoint® presentation
Period 3	Analysis and interpretation of financial statements of a company	Mark Activity 4.5. Homework: Activity 4.6 (p.152)	Textbook Chapter 4 pp.151–156 PowerPoint® presentation
Period 4	Analysis and interpretation of financial statements of a company	Mark Activity 4.6. Homework: Activity 4.7 (p.156)	Textbook Chapter 4 pp.152–157 PowerPoint® presentation

Week 10 (Analysis and interpretation of statements / published financial statements)			
Period 1	Analysis and interpretation of financial statements of a company	Mark Activity 4.7. Homework: Activity 4.8 (p.157)	Textbook Chapter 4 pp.156–158 PowerPoint® presentation
Period 2	Analysis and interpretation of financial statements of a company	Mark Activity 4.8. <i>Do informal assessment 4.1 (p.158) in class and mark. Identify learners that need support with analysis and interpretation of financial statements.</i> Discuss articles in case study 4.1 on pp.160–161.	Textbook Chapter 4 pp.157–161 PowerPoint® presentation
Period 3	Analysis of published financial statements and audit reports	Do Activity 5.1 (p.164) orally in class. Discuss the annual report and published financial statements on pp.164–177. Do Activities 5.2 and 5.3 (p.178) orally in class. Homework: Activity 5.4 (p.179)	Textbook Chapter 5 p.164 PowerPoint® presentation News papers Magazines
Period 4	Analysis of published financial statements and audit reports	Mark Activity 5.4. Discuss corporate governance on p.180. Do Activities 5.5 and 5.6 (pp.180–181) in class and mark. <u>Formal Assessment Task 3: Hand out project on the analysis and interpretation of published financial statements (see p.62 of this Teacher's Guide). Discuss marking rubric and guidelines with learners.</u>	Textbook Chapter 5 p.62 PowerPoint® presentation Newspapers
Formal Assessment Task 2: <u>Write a controlled test during March test series – 100 marks / 1 hour – on the financial statements and interpretation of financial statements.</u>			

Term 1: Formal assessment	
Report: Ethical behaviour, King Code, professional bodies and audit reports (Task 1)	115 marks
Controlled test (Task 2)	100 marks

TERM 2			
Week 1 (Ethics and Fixed assets)			
Period 1	Ethics	Discuss the role of professional bodies on pp.183–189. Discuss disciplinary procedures and punitive measures on p.189–191. Discuss the King Code on pp.191–196. Homework: Activities 6.1 (p.189), 6.2 (p.191) and 6.3 (p.197)	Textbook Chapter 6 p.182–197 PowerPoint® presentation
Period 2	Ethics	Mark Activities 6.1, 6.2 and 6.3. Discuss legislation governing companies on pp.197–201. Do Activity 6.4 (p.201) orally in class. Do case studies 6.1 and 6.2 in class and mark (pp.202–204).	Textbook Chapter 6 p.197–204 PowerPoint® presentation
Period 3	Fixed assets	Discuss theory with regards to assets, internal auditing of assets on pp.206–208. Do Activities 7.1 and 7.2 (pp.207–208) in class and mark. Discuss lifespan and age of assets on pp.209. Homework: Activities 7.3 (p.211), 7.4, 7.5 and 7.6 (pp.213–214)	Textbook Chapter 7 pp.206–211 PowerPoint® presentation

Period 4	Fixed assets	Mark Activities 7.3, 7.4, 7.5 and 7.6. Do Activities 7.7 and 7.8 (pp.214–216) in class and mark. Homework: <i>Informal assessments 7.1 and 7.2 (pp.216–217)</i> <u>Formal Assessment Task 3: Discuss the learners' progress with the assessment task. Answer possible questions.</u>	Textbook Chapter 7 pp.211–217 PowerPoint® presentation
Week 2 (Fixed assets/ Close Corporations/ Internal control)			
Period 1	Fixed assets	<i>Mark informal assessments 7.1 and 7.2. Identify learners that need support with fixed assets.</i>	Textbook Chapter 7 pp.216–217 PowerPoint® presentation
Period 2	Close Corporations	Discuss CCs on pp.219–223. Do Activities 8.1 (p.222) and 8.2 (p.224) orally in class. Discuss the differences between company and CC on p.224. Homework: <i>Informal assessment 8.1 (p.229)</i>	Textbook Chapter 8 pp.219–229 PowerPoint® presentation
Period 3	Close Corporations Internal control	<i>Mark informal assessment 8.1.</i> Discuss audit evidence, tests and procedures on pp.231–233. Homework: Activities 9.1 and 9.2 (p.234)	Textbook Chapter 8 p.229 PowerPoint® presentation Textbook Chapter 9 pp.231 – 234 PowerPoint® presentation
Period 4	Internal control	Mark Activities 9.1 and 9.2. Discuss audit sampling on pp.235–239. Do Activities 9.3 (p.238) and 9.4 (p.240) in class with learners. Discuss internal audit reports on pp.240–241. Homework: Activity 9.5 (p.241)	Textbook Chapter 9 pp.234 – 241 PowerPoint® presentation
Week 3 (Internal control/Inventory systems)			
Period 1	Internal control Inventory systems	Mark Activity 9.5. Discuss the role between internal and external auditors on pp.242–243. Do Activity 9.6 (p.243) in class and mark. Do case study 9.1 (p.244) in class and mark. Discuss control over stock and stock systems on p.247. Homework: Activities 10.1 (p.248) and 10.2 (p.250)	Textbook Chapter 9 pp.241–245 PowerPoint® presentation Textbook Chapter 10 pp.247–250 PowerPoint® presentation
Period 2	Inventory systems	Mark Activities 10.1 and 10.2. Discuss validation of stock, loss of stock, insurance, net realisable value and stock calculations. Discuss the FIFO method. Do example on p.252 using PowerPoint®. Homework: Activities 10.3 and 10.4 (p.254)	Textbook Chapter 10 pp.250–254 PowerPoint® presentation
Period 3	Inventory systems	<u>Formal Assessment 3: Hand in project.</u> Mark Activities 10.3 and 10.4. Do example on pp.254–255. Do Activity 10.5 (p.256) in class. Homework: Activity 10.6 (p.256)	Textbook Chapter 10 pp.254–256 PowerPoint® presentation
Period 4	Inventory systems	Mark Activity 10.6. Discuss the weighted average method. Do example on p.257. Do Activity 10.7 (p.258) in class. Homework: Activity 10.8 (p.259)	Textbook Chapter 10 pp.256–259 PowerPoint® presentation

Week 4 (Inventory systems)			
Period 1	Inventory systems	Mark Activity 10.8. Discuss how the methods affect the financial statements. Do example on p.260. Homework: Activity 10.9 (p.260)	Textbook Chapter 10 pp.259–260 PowerPoint® presentation
Period 2	Inventory systems	Mark Activity 10.9. Do example on p.262. Do Activity 10.10 (p.263) in class and mark. Homework: <i>Informal assessment 10.1 (p.264)</i>	Textbook Chapter 10 p.261–264 PowerPoint® presentation
Period 3	Inventory systems	<i>Mark Informal assessment 10.1.</i> <i>Do Informal assessment 10.2 (p.264) in class and mark.</i> <i>Homework: Informal assessment 10.3 (p.265)</i>	Textbook Chapter 10 p.264–266 PowerPoint® presentation
Period 4	Inventory systems	<i>Mark informal assessment 10.3. Identify learners that need support with inventory valuation.</i>	Textbook Chapter 10 p.265–266 PowerPoint® presentation
Week 5 (Reconciliations)			
Period 1	Reconciliations	Discuss example on pp.268–269. Do Activity 11.1 (p.270) with learners. Discuss example on pp.270–271 and internal control over debtors and creditors. Homework: Activities 11.2 (p.272) and 11.3 (p.274)	Textbook Chapter 11 pp.268–274 PowerPoint® presentation
Period 2	Reconciliations	Mark Activities 11.2 and 11.3. Discuss example on pp.275–277. Homework: Activities 11.4 and 11.5 (p.278)	Textbook Chapter 11 pp.272–278 PowerPoint® presentation
Period 3	Reconciliations	Mark Activities 11.4 and 11.5. Do Activity 11.6 (p.279) in class. Homework: Activity 11.7 (p.280)	Textbook Chapter 11 pp.278–281 PowerPoint® presentation
Period 4	Reconciliations	Mark Activities 11.6 and 11.7. Discuss debtors age analysis on p.281. Do example and Activity 11.8 (p.282) in class. Homework: Activities 11.9 and 11.10 (pp.283–284)	Textbook Chapter 11 pp.281–284 PowerPoint® presentation
Week 6 (Reconciliations)			
Period 1	Reconciliations	Mark Activities 11.9 and 11.10. Do example on pp.286–288. Homework: Activity 11.11 (p.288)	Textbook Chapter 11 pp.284–289 PowerPoint® presentation
Period 2	Reconciliations	Mark Activity 11.11. Do Activity 11.13 (p.291) in class. Homework: Activity 11.12 (p.290)	Textbook Chapter 11 pp.288–291 PowerPoint® presentation
Period 3	Reconciliations	Mark Activity 11.12. Discuss bank reconciliations on p.292. Do Activities 11.14 and 11.15 (pp.292–293) in class and mark. Homework: Activity 11.16 (p.296)	Textbook Chapter 11 pp.291–296 PowerPoint® presentation
Period 4		Mark Activity 11.16. Do Activities 11.17 and 11.18 (pp.296–297) in class and mark. Homework: <i>Informal assessments 11.1, 11.2, 11.3 and 11.4 (pp.298–302)</i>	Textbook Chapter 11 pp.296–302 PowerPoint® presentation
Week 7 (Reconciliations/ VAT)			
Period 1	Reconciliations	<i>Mark informal assessments 11.1, 11.2, 11.3 and 11.4. Identify learners that need support with reconciliations.</i>	Textbook Chapter 11 pp.298–302 PowerPoint® presentation

Period 2	VAT	Discuss theory with regards to VAT and do example on p.305. Do Activity 12.1 (p.307) in class orally. Do examples on pp.307–309. Do Activities 12.2 and 12.3 (pp.309–310) in class. Discuss risks and amount payable to SARS on p.311. Do example on pp.314–317. Homework: Activities 12.4 (p.312), 12.5 (p.317) and 12.6 (p.318)	Textbook Chapter 12 pp.304–318 PowerPoint® presentation
Period 3	VAT	Mark Activities 12.4, 12.5 and 12.6. Do examples on pp.319–322. Do Activities 12.7 and 12.8 (p.323) in class. Do example on pp.324–325. Homework: Activity 12.9 (p.326)	Textbook Chapter 12 pp.318–327 PowerPoint® presentation
Period 4	VAT	Mark Activity 12.9. Do Activity 12.10 (p.327) in class and mark. Discuss VAT 201 form. Do example on pp.331–337. Homework: Activity 12.11 (p.337)	Textbook Chapter 12 pp.327–338 PowerPoint® presentation
Week 8 (VAT)			
Period 1	VAT	Mark Activity 12.11. Do Activity 12.12 (p.338) in class and mark. Do example on p.339. Homework: Activities 12.13 and 12.14 (p.341)	Textbook Chapter 12 pp.337–342 PowerPoint® presentation
Period 2	VAT	Mark Activities 12.13 and 12.14. Homework: Activity 12.15 (p.342)	Textbook Chapter 12 pp.341–343 PowerPoint® presentation
Period 3	VAT	Mark Activity 12.15. Discuss ethical issues, risks and internal control relating to VAT on pp.343–346. Homework: <i>Informal assessment 12.1 (p.347)</i>	Textbook Chapter 12 pp.343–347 PowerPoint® presentation
Period 4	VAT	<i>Mark informal assessment 12.1. Identify learners that need support with VAT.</i>	Textbook Chapter 12 p.347 PowerPoint® presentation
Week 9–10			
Assessment task 4: Mid-year examination – minimum of 300 marks			
<u>The June exam paper should cover some of the following topics:</u>			
<ul style="list-style-type: none"> • <u>GAAP principles</u> • <u>Internal control and audit over debtors, creditors, cash, assets, the role of internal and external auditors</u> • <u>Ethics, professional bodies, King Code</u> • <u>Companies concepts, bookkeeping, final accounts</u> • <u>Financial statements – Income Statement, Balance Sheet, Cash Flow Statement</u> • <u>Analysis and interpretation of financial statements</u> • <u>Fixed assets</u> • <u>Close corporations</u> • <u>Reconciliations</u> • <u>VAT</u> 			

Term 2: Formal assessment	
Research project (Task 3)	60 marks
Mid-year examination (Task 4)	300 marks

TERM 3

Week 1 (Cost accounting / Manufacturing)			
Period 1	Cost accounting and Manufacturing	Discuss types of manufacturing costs on p.349. Do Activity 13.1 (p.351) in class. Discuss costs according to behaviour on p.352. Do Activities 13.2 (p.354) and 13.3 (p.355) in class. Discuss break-even analysis on p.355 and do example. Homework: Activities 13.4 and 13.5 (p.356)	Textbook Chapter 13 pp.349–356 PowerPoint® presentation
Period 2	Cost accounting and Manufacturing	Mark Activities 13.4 and 13.5. Discuss productivity on p.356. Do Activities 13.6 and 13.7 (p.357) in class and mark. Homework: Activity 13.8 (p.358) and <i>informal assessment 13.1 (p.358)</i>	Textbook Chapter 13 pp.356–359 PowerPoint® presentation
Period 3	Cost accounting and Manufacturing	Mark Activity 13.8 and <i>informal assessment 13.1</i> . Discuss manufacturing accounts in the General Ledger and the example on pp.360–366. Homework: Activity 13.9 (p.367)	Textbook Chapter 13 pp.358–369 PowerPoint® presentation
Period 4	Cost accounting and Manufacturing	Mark Activity 13.9. Discuss the Production Cost Statement on p.370. Do Activity 13.10 (p.373) in class. Homework: Activity 13.11 (p.373)	Textbook Chapter 13 pp.367–373 PowerPoint® presentation
Week 2 (Cost accounting / Manufacturing)			
Period 1	Cost accounting and Manufacturing	Mark Activity 13.11. Do Activity 13.12 (p.374) in class. Homework: Activity 13.13 (p.375)	Textbook Chapter 13 pp.373–375 PowerPoint® presentation
Period 2	Cost accounting and Manufacturing	Mark Activity 13.13. Discuss analysing financial figures on p.376. Do Activity 13.14 (p.377) in class. Homework: Activity 13.15 (p.379)	Textbook Chapter 13 pp.375–380 PowerPoint® presentation
Period 3	Cost accounting and Manufacturing	Mark Activity 13.15. Homework: Activity 13.16 (p.380)	Textbook Chapter 13 pp.379–381 PowerPoint® presentation
Period 4	Cost accounting and Manufacturing	Mark Activity 13.16. Homework: Activity 13.17 (p.382)	Textbook Chapter 13 pp.380–382 PowerPoint® presentation
Week 3 (Cost accounting / Manufacturing)			
Period 1	Cost accounting and Manufacturing	Mark Activity 13.17. Homework: Activity 13.18 (p.383)	Textbook Chapter 13 pp.382–384 PowerPoint® presentation
Period 2	Cost accounting and Manufacturing	Mark Activity 13.18. Homework: <i>Informal assessment 13.2 (p.384)</i>	Textbook Chapter 13 pp.383–385 PowerPoint® presentation
Period 3	Cost accounting and Manufacturing	<i>Mark informal assessment 13.2. Identify learners that need support.</i> Discuss ethical issues and internal control relating to manufacturing on p.386. Homework: Activity 13.19 (p.388), case studies 13.1 and 13.2 (p.389)	Textbook Chapter 13 pp.383–393 PowerPoint® presentation
Period 4	Cost accounting and Manufacturing	Mark Activity 13.19, case studies 13.1 and 13.2.	Textbook Chapter 13 pp.383–393 PowerPoint® presentation

Week 4 (Budgets)			
Period 1	Budgets	Discuss budgets on pp.395–398. Discuss Projected Income Statement on p.298. Do Activity 14.1 (p.400) in class. Homework: Activity 14.2 (p.401)	Textbook Chapter 14 pp.395–402 PowerPoint® presentation
Period 2	Budgets	Mark Activity 14.2. Do examples on pp.403–405. Homework: Activity 14.3 (p.407)	Textbook Chapter 14 pp.402–408 PowerPoint® presentation
Period 3	Budgets	Mark Activity 14.3. Do Activity 14.4 (p.408) in class. Homework: Activity 14.5 (p.409)	Textbook Chapter 14 pp.408–411 PowerPoint® presentation
Period 4	Budgets	Mark Activity 14.5. Do Activity 14.6 (p.411) in class. Homework: Activity 14.7 (p.413)	Textbook Chapter 14 pp.411–414 PowerPoint® presentation
Week 5 (Budgets)			
Period 1	Budgets	Mark Activity 14.7. Discuss cash budgets. Show example on p.416. Do Activity 14.8 (p.416) in class. Homework: Activity 14.9 (p.417)	Textbook Chapter 14 pp.413–417 PowerPoint® presentation
Period 2	Budgets	Mark Activity 14.9. Do example on p.418. Homework: Activity 14.10 (p.420)	Textbook Chapter 14 pp.417–420 PowerPoint® presentation
Period 3	Budgets	Mark Activity 14.10. Discuss analysing cash budgets and do example on p.423. Homework: Activity 14.11 (p.426)	Textbook Chapter 14 pp.420–426 PowerPoint® presentation
Period 4	Budgets	Mark Activity 14.11. Homework: Activity 14.12 (p.427)	Textbook Chapter 14 pp.426–429 PowerPoint® presentation
Week 6 (Budgets)			
Period 1	Budgets	Mark Activity 14.12. Homework: Activity 14.13 (p.428)	Textbook Chapter 14 pp.428–430 PowerPoint® presentation
Period 2	Budgets	Mark Activity 14.13. Discuss ethical challenges relating to budgets, internal control and risks on p.431. Homework: Activity 14.14 (p.430)	Textbook Chapter 14 pp.429–434 PowerPoint® presentation
Period 3	Budgets	Mark Activity 14.14. <i>Do informal assessment 14.1 (p.434) and mark. Identify learners that need support with budgets.</i>	Textbook Chapter 14 p.434 PowerPoint® presentation
Period 4	Budgets	Formal Assessment task 6: Do case study on Budgets in class (see p.152 of this Teacher's Guide).	
Week 7 (Revision)			
Period 1	Revision – bookkeeping of company and asset disposal	Do Activity 15.1 (p.437) in class and mark. Give memo of Activity 15.2 (p.437) for learners to do at home or at extra lessons. Homework: Activities 15.3 and 15.4 (pp.438–439)	Textbook Chapter 15 pp.437–440 PowerPoint® presentation
Period 2	Revision – Income statement	Mark Activities 15.3 and 15.4. Homework: Activity 15.5 (p.440)	Textbook Chapter 15 pp.440–441 PowerPoint® presentation

Period 3	Revision –Balance sheet	Mark Activity 15.5. Homework: Activity 15.6 (p.441)	Textbook Chapter 15 pp.441–442 PowerPoint® presentation
Period 4	Revision – Cash flow and analysis of statements	Mark Activity 15.6. Homework: Activity 15.7 (p.443)	Textbook Chapter 15 pp.441–445 PowerPoint® presentation
Week 8 (Revision)			
Period 1	Revision – Audit reports and asset disposal	Mark Activity 15.7. Hand out memos for Activities 15.8–15.10 (pp.445–450) for learners to do on their own or during extra lessons. Homework: Activities 15.11,15.12 and 15.13 (pp.451–453)	Textbook Chapter 15 pp.443–453 PowerPoint® presentation
Period 2	Revision – inventory valuation	Mark Activities 15.11, 15.12 and 15.13. Hand out memos for Activities 15.14 and 15.15 (pp.453–455). Do Activity 15.16 (p.455) in class and mark. Homework: Activities 15.17 and 15.18 (pp.456–457)	Textbook Chapter 15 pp.453–457 PowerPoint® presentation
Period 3	Revision – reconciliations	Mark Activities 15.17 and 15.18. Hand out memos of Activities 15.19 and 15.20 (pp.458–459) or do during extra lessons. Homework: Activities 15.21, 15.22 and 15.23 (pp.459–462)	Textbook Chapter 15 pp.458–462 PowerPoint® presentation
Period 4	Revision – VAT	Mark Activities 15.21, 15.22 and 15.23. Do Activity 15.30 (p.469) with learners in class. Hand out memos for the rest of the revision activities or do them during extra lessons (pp.462–474).	Textbook Chapter 15 pp.462–474 PowerPoint® presentation
Week 9 –10 (examination)			

Term 3: Formal assessment	
Control test (Task 5) – Cost accounting	100 marks
Case study (Task 6) – Budgeting	50 marks
Trial examination (task 7)	300 marks

TERM 4			
Week 1 till exam starts (Revision exercises)			
Period 1	Revision exercises	Work out example papers or previous November papers.	Teacher's Guide / Exemplar papers from department
Period 2	Revision exercises	Work out example papers or previous November papers.	
Period 3	Revision exercises	Work out example papers or previous November papers.	
Period 4	Revision exercises	Work out example papers or previous November papers.	

Term 4: Formal assessment	
End-of-year examination	300 marks

SECTION 3

ASSESSMENT TASKS

1. FORM OF ASSESSMENT: WRITTEN REPORTS

Report

A report is generally the written evidence of a survey, analysis or investigation. This will usually be shorter than a project and is specific to the topic, for example, a business has come to you for advice on whether the business is experiencing liquidity problems. Often it implies consulting with an expert for advice on some problem – therefore it links very closely with problem-solving.

Learners can also be asked to write a report after a field trip, for example after visiting a local factory.

Suggestions

- This assessment task should be done in the first term.
- Learners can be divided in groups of two or three, or it can be done individually.
- The teacher should discuss the requirements and marking rubric with the learners when handing out the task.
- Learners can complete the report at home, but the teacher should monitor their progress.
- The minimum total for the report should be 50 marks.

To the teacher:

Included in this file is the following report:

Report on ethical conduct, King Code, professional bodies, audit reports and internal control

This report should be handed out during Week 3 of the first term, and the learners should be given two weeks in which to work on it. The task should be collected during Week 5 of the first term. The teacher must guide and support learners during their research phase and constantly monitor their progress. The total mark for this assessment task is 115 and should be scaled down to a mark out of 50 according to the assessment guideline document.

Use the following formula:

Learner's mark $\times 50 \div 115$ to get a mark out of 50.

Assessment task: Written report

To be handed out to the learners

Ethical conduct, King Code, Professional bodies, Audit reports and internal control

Marks: 115

INSTRUCTIONS

1. Ethical behaviour

(40)

Following are examples of unethical behaviour with regards to companies.

Unethical behaviour	Explanation	Examples
Market manipulation	It involves a deliberate attempt to artificially increase or decrease a company's share price.	<i>Churning:</i> When a trader places both buy and sell orders at the same time to increase activity and therefore attract other investors. <i>Painting the tape:</i> When a group of traders create activity or rumours to drive up the price of stock <i>Cornering:</i> Purchasing enough of a particular stock to gain control of the supply and be able to set the price for it
Illegal insider trading	It involves buying or selling shares while possessing important confidential information about a company.	<i>Tipping information or using tipped information:</i> To do trading in order to make a profit or avoid losses
Price fixing	When companies on the same side in a market conspire to buy or sell a product or service at a fixed price, or manipulate the market by controlling supply and demand	If all cellphone service providers agree to sell airtime at the same rate per unit, higher than reasonable Or if those same service providers limit the amount of airtime available at certain times, and sell additional at a much higher price (as demand goes up, they control the selling price)
Corporate governance failure	When directors do not act in the best interest of the shareholders	<i>Accounting fraud:</i> When directors manipulate financial indicators to mislead shareholders <i>Disclosure violations:</i> When directors do not disclose accurate and complete financial statements
Conflict of interest	When there is a clash between professional obligations and personal interest.	Where an employee tries to perform a duty, but at the same time tries to achieve personal gain <i>Nepotism:</i> The practice of giving one's relatives unfair advantages when one has power
Bribery and corruption	When someone is guilty of dishonest practices, like bribery	When a person gives or receives something of value, like cash or gifts, for the purpose of influencing someone's actions or views

Read each of the following cases of illegal or unethical behaviour. State why it is illegal / unethical and what the consequences could be for the guilty party.

- GHK Ltd. purchased 250 000 tons of coffee beans, which caused the coffee bean prices to rise to their highest level ever.
- Two board members of Pegasus Ltd. were found guilty after it was discovered that they sold and re-purchased the same securities in order to generate activity and increase the price of their shares.
- The Chief Executive Officer (CEO) of a company learns before anyone else that the company is to be sued for R700m for selling harmful products. The CEO and two employees decide to sell their shares quickly before this news becomes public.
- An employee of a company starts a business that provides similar services to similar clients as those of her full-time employee.
- In order to secure a contract, one of the directors of a company offered a government official the use of a company vehicle for free.

- One of the managers of a company employed his son, who starts and finishes work when he wants and get a raise every year despite his poor performance.
- In 2006, after an investigation, it was found that major companies in the bread production industry in South Africa held meetings to discuss pricing, agree on price increases and the timing of such increases.
- The CEO of the company instructs the accountant to enter the costs involved in accommodation for the directors for holidays as 'marketing costs'.
- During the financial year a loan of R800 000 was granted to a company and paid into their account. The CEO instructs the accountant to show this as money received for services rendered, an income in the Income Statement.
- Due to negligence and trying to cut costs, a company spilled dangerous chemicals in a nearby river.

2. **The King Code /Report**

- 2.1 What is the purpose of the King Reports? (2)
- 2.2 What is the 'triple bottom line' that the King Code refers to? (3)
- 2.3 The work done by the internal and external auditor differs. Briefly explain the work done by each group. (4)

3. **Corporate Social Investment** (4)

Give an example and an explanation on how a company can apply Corporate Social investment. In your example, how does the company serve to uplift the community?

4. **Professional bodies** (15)

What do the following abbreviations stand for, what is the aim of each and what qualification does a person need to be a member of each?

- SAIGR
- SAIPR
- IRBA

5. What can happen to an auditor when that person, who is a member of SAICA, is guilty of **unprofessional or misconduct**? (8)

6. What is the purpose of the **International Financial Reporting Standards** (IFRS)? What is the difference between GAAP and IFRS? (6)

7. The King Report often mentions that a company should have good internal control measures. Name three risks with regards to fixed assets and name three control measures to minimise these risks. (12)

8. Audit reports

You are provided with the following extract taken from the report of the independent auditors. Read through it and answer the questions that follow.

(21)

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

Paragraph 1	We have audited the annual financial statements of Mbekwa Limited set out on pages 8 to 17 for the year ended 30 September 2012. <u>These financial statements are the responsibility of the company's directors.</u> Our responsibility is to express an opinion on these financial statements based on our audit.
Paragraph 2	An audit includes: Examining, on a test basis, <u>evidence supporting the amounts</u> in the financial statements; Assessing the <u>accounting principles used</u> and significant estimates made by management; Evaluating the overall financial statement presentation.
Paragraph 3	Audit opinion In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 30 September 2012 and the results of their operations and cash flows for the year ended, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in South Africa <i>Theron Du Plessis Chartered Accountants (SA) 12 November 2012</i>

- 8.1 Explain why it is important for the independent auditor to be a member of a professional body. (2)
- 8.2 Explain the difference between a qualified, unqualified and negative audit report. (6)
- 8.3 Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain. (2)
- 8.4 Refer to the underlined words in paragraph 2:
- (a) Give an example of 'evidence' that an auditor would use by illustrating the audit trail of stock purchases. (6)
- (b) Give ONE example of the 'accounting principles' he/she would assess as part of the audit with regards to stock specifically. Explain why the auditor would inspect this principle. (3)
- 8.5 Refer to paragraph 3. Explain why you should be satisfied with this audit opinion. (2)

Due date:

Assessment task: Written report ANSWER SHEET

To be handed out to the learners

Ethical conduct, King Code, professional bodies, audit reports and internal control

Marks: 115

NAME

1. Ethical behaviour

	Crimes or unethical practices?	Consequences for guilty persons?
GHK Ltd. purchased 250 000 tons of coffee beans, which caused the coffee bean prices to rise to their highest level ever		
Two board members of Pegasus Ltd. was found guilty after it was discovered that they sold and re-purchased the same securities in order to generate activity and increase the price of their shares.		
The Chief Executive Officer (CEO) of a company learns before anyone else that the company is to be sued for R700m for selling harmful products. The CEO and two employees decide to sell their shares quickly before this news becomes public.		
An employee of a company starts a business that provides similar services to similar clients as those of her full-time employee.		
In order to secure a contract, one of the directors of a company offered a government official the use of a company vehicle for free.		
One of the managers of a company employed his son, who starts and finishes work when he wants and get a raise every year despite his poor performance.		
In 2006, after an investigation, it was found that major companies in the bread production industry in South Africa held meetings to discuss pricing, agree on price increases and the timing of such increases.		
The CEO of the company instructs the accountant to enter the costs involved in accommodation for the directors for holidays as 'Marketing costs'.		
During the financial year a loan of R800 000 was granted to a company and paid into their account. The CEO instructs the accountant to show this as money received for services rendered, an income in the Income Statement.		
Due to negligence and trying to cut costs, a company spilled dangerous chemicals in a nearby river.		

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2. King Code/Report

2.1 What is the purpose of the King Reports?

	2
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2.2 What is the 'triple bottom line' that the King Code refers to?

	3
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2.3 The work done by the internal and external auditor differs. Briefly explain the work done by each group.

	4
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	5
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IRBA

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5. What can happen to an auditor when that person, who is a member of SAICA, is guilty of **unprofessional or misconduct**?

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8.1 Explain why it is important for the independent auditor to be a member of a professional body.

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8.2 Explain the difference between a qualified, unqualified and negative audit report.

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8.3 Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain.

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8.4 (a) Give an example of 'evidence' that an auditor would use by illustrating the audit trail of stock purchases.

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8.4 (b) Give ONE example of the 'accounting principles' he/she would assess as part of the audit with regards to stock specifically. Explain why the auditor would inspect this principle.

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8.5 Refer to paragraph 3. Explain why you should be satisfied with this audit opinion.

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Grand total:	<table border="1"><tr><td></td><td>115</td></tr></table>		115
	115		

Assessment task: Written report MARKING MEMORANDUM

To be used by the teacher

Ethical conduct, King Code, professional bodies, audit reports and internal control

Marks: 115

	Crimes or unethical practices?	Consequences for guilty persons?
GHK Ltd. purchased 250 000 tons of coffee beans, which caused the coffee bean prices to rise to their highest level ever	Market manipulation – an attempt to artificially increase the price of coffee beans – called cornering ✓✓	GHK Ltd. should face charges in court. If found guilty, they will be fined. The CEO could be disbarred from operating as director. ✓✓
Two board members of Pegasus Ltd. was found guilty after it was discovered that they sold and re-purchased the same securities in order to generate activity and increase the price of their shares.	Market manipulation = churning or painting the tape = creating activity to attract investors ✓✓	The two board members should face charges in court. If found guilty, they will be fined. They could be disbarred from operating as board members. ✓✓
The Chief Executive Officer (CEO) of a company learns before anyone else that the company is to be sued for R700m for selling harmful products. The CEO and two employees decide to sell their shares quickly before this news becomes public.	Illegal insider trading = selling shares while possessing confidential information ✓✓	They should face charges in court. The CEO could be disbarred from operating as director. If found guilty, they will have to pay back the profit they made from selling the shares and be fined. ✓✓
An employee of a company starts a business that provides similar services to similar clients as those of her full-time employee.	Conflict of interest = a clash between professional obligations and personal interest ✓✓	Stop this practice. Disciplinary hearing – could lose his job. Report to shareholders ✓✓
In order to secure a contract, one of the directors of a company offered a government official the use of a company vehicle for free.	This is bribery. ✓✓	Bribery or corruption is a criminal offence. Can be charged in court and face imprisonment, fines and forfeiture of their personal assets. ✓✓
One of the managers of a company employed his son, who starts and finishes work when he wants and get a raise every year despite his poor performance.	Conflict of interest – nepotism ✓✓	This must stop. Should be reported to board. ✓✓
In 2006, after an investigation, it was found that major companies in the bread production industry in South Africa held meetings to discuss pricing, agree on price increases and the timing of such increases.	Price fixing ✓✓	This will be reported to the competition commission. They can be severely fined. ✓✓
The CEO of the company instructs the accountant to enter the costs involved in accommodation for the directors for holidays as 'Marketing costs'.	Corporate governance failure. This is an unethical attempt to distort the figures in the financial statements. ✓✓	The CEO could be disbarred from operating as director. The accountant could face disciplinary action in the company. ✓✓
During the financial year a loan of R800 000 was granted to a company and paid into their account. The CEO instructs the accountant to show this as money received for services rendered, an income in the Income Statement.	This is unethical – definitely an attempt to distort figures in the financial statements as it inflates the profit figure and decreases liabilities. ✓✓	CEO will face legal charges – he can be disqualified as a director. The accountant could also face legal and disciplinary action. ✓✓
Due to negligence and trying to cut costs a company spilled dangerous chemicals in a nearby river.	Corporate governance failure Pollution – abuse of the environment The company did not act with responsibility towards the environment according to King III Report. ✓✓	The company will be severely fined. ✓✓

2. King Code/Report

2.1 What is the purpose of the King Reports?

It gives guidelines on how to implement good business practice in the business.
OR
It stimulates integrated corporate strategies that are driven towards truly sustainable businesses.
✓✓

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2.2 What is the 'triple bottom line' that the King Code refers to?

The impact a business has on all spheres in which it operates: economic ✓, social ✓ and environmental ✓

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2.3 The work done by the internal and external auditor differs. Briefly explain the work done by each group.

<u>Internal auditor:</u> Employed by the company and monitor the activities of the company on an ongoing basis
✓✓
<u>External auditor:</u> Employed by the shareholders to give an opinion on the financial statements of the company
✓✓

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3. Give an example and an explanation on how a company can apply Corporate Social investment. In your example, how does the company serve to uplift the community?

Any example ✓✓
Explanation ✓✓

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4. What do the following abbreviations stand for, what is the aim of each and what qualification does a person need to be a member of each?

SAICA

South African Institute for Chartered Accountants ✓
To look after and promote the interest of the Chartered Accounting profession in SA
OR
To promote accounting, protect independency, set high standards for professional behaviour
✓✓
B.Com + Post-graduate degree in Accounting + qualifying exam + 3 years' articles + ongoing professional development ✓✓

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SAIPA

South African Institute of Professional Accountants ✓
To look after the interest of accounting officers in SA ✓✓
Tertiary qualification in accounting + ongoing professional development ✓✓

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IRBA

Independent Regulatory Board of Auditors ✓
To promote and look after the interests of Registered Auditors in SA ✓✓
Public Practice exam + ongoing professional development ✓✓

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5. What can happen to an auditor when that person, who is a member of SAICA, is guilty of **unprofessional or misconduct**?

The punishment imposed by SAICA on a member found guilty of misconduct will depend on the severity of the offence. A member who is found guilty of a minor transgression may be:

- cautioned; or
- reprimanded; or
- fined.

If a member is found guilty of a more serious act of misconduct, the member may be:

- suspended from membership; or
- struck off the membership roll.

The Professional Conduct Committee has limited sentencing powers and may only caution, reprimand or fine an offending member. If the Professional Conduct Committee considers the offence to be so serious that it might warrant a more severe penalty, such as suspension, it will refer the matter to the Disciplinary Committee.

- All complaints must be lodged with *The Project Director: Legal Compliance and Discipline*.
- *The Project Director: Legal, Compliance and Discipline*, will first verify whether the person complained against (the accused) is a member of SAICA.
- If that person is a member of the Institute, *the Project Director: Legal, Compliance and Discipline* will consider the allegations.
- If there is a *prima facie* contravention of the by-laws, the accused will be notified of the complaint and given twenty-one (21) days to respond to the complaint.
- If the period within which to respond lapses without a response being received, or if a response is procured but is not satisfactory, then the matter will be referred either to:
 - the *Professional Conduct Committee* (PCC) – if the allegations relate to a general allegation of professional conduct, or
 - the *Disciplinary Committee* (DC) – if the matter relates to a serious allegation of misconduct.
- Where possible, SAICA shall seek to apply alternative dispute resolution measures, such as mediation and/or arbitration in an effort to exhaust all possible avenues prior to putting matters through one of the committees that adjudicate over matters (PCC or DC).

In instances where an accused provides the Institute with a response to a complaint against him/her and permits the Institute to share his/her response with the complainant, the complainant will be offered twenty-one (21) days to respond thereto. Thereafter, the matter shall either be resolved or referred to the appropriate committee for adjudication.

Any acceptable answer. Any 4 points × ✓✓

	8
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6. What is the purpose of the **International Financial Reporting Standards (IFRS)**? What is the difference between **GAAP and IFRS**?

Both IFRS and GAAP contain detailed statements covering specific areas of financial reporting. ✓✓
GAAP is specific for South Africa while as IFRS is a set of high-quality financial reporting standards that can be used in all countries. ✓✓
The use of IFRS in many countries around the world has enhanced the comparability of financial statements worldwide. ✓✓
Any acceptable answer

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8.3 Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain.

The auditor expresses an opinion, he/she does not prepare the financial statements OR
The auditor only checks on a test basis - the directors are responsible for the figures.
✓✓

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8.4 (a) Give an example of 'evidence' that an auditor would use by illustrating the audit trail of stock purchases.

Authorisation was given for purchases. ✓
Invoice received is compared with the delivery note and stock delivered. ✓
Invoice received is entered correctly in the journal. ✓
Journal is posted correctly in the ledgers. ✓
Ledgers posted correctly to the Trial Balance. ✓
Entered correctly in the statements. ✓

	6
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8.4 (b) Give ONE example of the 'accounting principles' he/she would assess as part of the audit with regards to stock specifically. Explain why the auditor would inspect this principle

Prudence principle ✓ = stock should be valued at its net realisable value ✓ = conservative approach ✓

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8.5 Refer to paragraph 3. Explain why you should be satisfied with this audit opinion.

The auditors have stated that they are satisfied with all aspects of the financial reporting by the directors. ✓✓

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Grand total:	115
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2. FORMS OF ASSESSMENT: CONTROLLED TESTS

Two tests, written under controlled conditions, are prescribed for Grade 12. These tests should adhere to the following:

- All classes in the same grade complete the tests on the same day.
- All learners write the same test and complete them under examination conditions.
- Questions must comply with year-end examination standards.
- Where there is more than one teacher, agreement must be reached on the scope, as well as the date and time of the test.
- Duration of each of these tests should be at least one hour.
- Total for the tests should be 100 marks.
- Tests should cover the different cognitive levels as in examinations.
- Tests should also include problem-solving questions.
- Test should cover a range of integrated topics.
- The two tests should be written, one in term 1 and another in term 3.

The tests should cover some of the following topics:

Controlled test 1 – Term 1:

- Cash Flow Statement
- Analysis and interpretation of financial statements

Controlled test 2 – Term 3:

- Production Cost Statement
- Calculating unit costs
- Calculating breakeven point
- Ethics

Assessment task: Controlled Test 1

Cash Flow Statement and analysis and interpretation of financial statements

Accounting

Grade 12

Date: March

Total: 100 marks

Time: 1 hour

You are provided with information relating to Qoba Ltd. for the financial year ended 28 February 2017. The authorised share capital of the company is 500 000 shares. On 28 February 2017 310 000 shares were in issue. Round off to two decimals if necessary.

Required

1. Refer to the note for Fixed/Tangible assets under Information
 - a. Calculate the fixed/tangible assets purchased. (4)
 - b. Prepare the Accumulated Depreciation on Equipment account for the period 1 March 2016 to 28 February 2017 in the General Ledger. (16)
2. Cash Flow Statement
 - a. Complete the note for reconciliation of net profit before tax and cash generated from operations. (19)
 - b. Complete the Cash Flow Statement for the year ended 28 February 2017. Where the note to the Cash Flow Statement was not required, show the calculations in brackets. (24)
3. Calculate the following financial indicators for 2017:
 - a. Debt : equity ratio (Debt : Shareholders' equity) (3)
 - b. Acid test ratio (4)
 - c. Earnings per share (4)
4. Comment on the debt : equity ratio and the return on capital employed. Quote the figures of these financial indicators and comment on each. (4)
5. Comment on the liquidity position of the company on 28 February 2017. Has liquidity improved or deteriorated? Use at least THREE financial indicators from the table to motivate your answer. (7)
6. At the end of the 2016 financial period the directors were very concerned about the cash-flow of the company. Is there an improvement with regards to cash flow and liquidity at the end of the 2017 financial period? List at least TWO significant changes or decisions that affected the position of the company. Quote figures and ratios to support your answer. (8)
7. The market price of the shares on the JSE was R6,05 on 28 February 2017. Would you be satisfied as a shareholder? Explain by quoting figures and giving comment on financial indicators with regards to share price, earnings and dividends. (7)

Information

The following were extracted from the financial statements on 28 February 2017

BALANCE SHEET	2017	2016
Shareholders' equity	1 775 520	1 281 030
Share capital (310 000 shares issued end of 2017) (225 600 shares issued end of 2016)	1 676 760	1 178 800
Retained income	98 760	102 230
Loan (16% interest p.a.)	165 000	450 000
Current liabilities	135 605	151 440
Trade and other payables	135 605	139 100
Bank overdraft	–	12 340
Current assets	252 055	185 470
Inventory	95 075	134 500
Trade and other receivables	64 300	50 070
Cash and cash equivalents	92 680	900

INCOME STATEMENT	2017	2016
Net profit before tax	451 770	302 000
Income tax	176 240	93 640
Interest expense	47 600	72 000

NOTES FROM THE FINANCIAL STATEMENTS

FIXED/ TANGIBLE ASSETS	Land and buildings	Vehicles	Equipment
Carrying value beginning of the year	1 426 000	226 600	44 400
Cost	1 426 000	340 000	90 000
Accumulated depreciation	0	(113 400)	(45 600)
MOVEMENTS			
Additions at cost	?	0	5 000
Disposals at carrying value	0	0	?
Depreciation	0	(25 320)	?
Carrying value end of the current year	1 586 000	201 280	36 790
Cost	1 586 000	340 000	83 000
Accumulated depreciation	0	(138 720)	(46 210)

Notes

- Equipment with a cost price of R12 000 and accumulated depreciation of R5 000 on 1 March 2016 was sold at the carrying value on 31 August 2016.
- The new equipment was purchased on 28 February 2017.
- Depreciation on equipment is provided at 15% on the diminishing balance method.
- No vehicles was purchased or sold during the year.
- Extensions to land and building were made during the year.

TRADE AND OTHER RECEIVABLES

	2017	2016
Trade debtors	63 100	44 200
Accrued income	1 200	1 000
SARS (income tax)	-	4 870
	64 300	50 070

TRADE AND OTHER PAYABLES

	2017	2016
Trade creditors	34 715	65 900
Accrued expenses	2 900	3 200
SARS (income tax)	7 990	-
Shareholders for dividends	90 000	70 000
	135 605	139 100

1. FINANCIAL INDICATORS

	2017	2016
Debt : equity ratio	?	0,35 : 1
Return on average capital employed	27,2%	21,7%
Current ratio	1,8 : 1	1,2 : 1
Acid test ratio	?	0,34 : 1
Debtors collection period	35 days	40 days
Rate of stock turnover	11,2 times	7 times
Earnings per share	?	81 cents
Dividends per share	90 cents	88 cents
Net asset value per share	R5,73	R5,68

ASSESSMENT TASK: CONTROLLED TEST 1 ANSWER SHEET
Cash Flow Statement and analysis and interpretation of financial statements

Accounting
Grade 12
Date: March

Total: 100 marks
Time: 1 hour

1.a. Calculate the fixed/tangible assets purchased.

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1.b. **General Ledger of Qoba Limited**

Dr				Accumulated Depreciation on Equipment				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		

	16
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Show calculations here:

2.a.

Note to the Cash Flow Statement

Reconciliation between profit before tax and cash generated by operations

Net income before tax	451 770
Adjustment for:	
Interest expense	47 600
Operating profit before changes in current capital	
Changes in working capital	
Cash generated by activities	

	19
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Use the *Appropriation* account to show the calculation for share dividends:

Dr		Appropriation account						Cr	
Date	Details	Fol.	Amount	Date	Details	Fol.	Amount		

2.b.

QOBA LTD.

CASH FLOW STATEMENT for the YEAR ENDED 28 FEBRUARY 2017

Cash flow from operating activities	
Cash flow from investment activities	
Cash flow from financing activities	
Cash and cash equivalents end of previous year	(11 440)
Cash and cash equivalents end of current year	92 680

	24
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3.a. Debt : equity ratio

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	3
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3.b. Acid test ratio

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3.c. Earnings per share

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4. Comment on the debt : equity ratio and the return on capital employed. Quote the figures of these financial indicators and comment on each.

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5. Comment on the liquidity position of the company on 28 February 2017. Has liquidity improved or deteriorated? Use at least THREE financial indicators from the table to motivate your answer.

	7
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6. At the end of the 2016 financial period the directors were very concerned about the cash-flow of the company. Is there an improvement with regards to cash flow and liquidity at the end of the 2017 financial period? List at least TWO significant changes or decisions that affected the position of the company. Quote figures and ratios to support your answer.

Is there an improvement with regards to cash flow?

TWO SIGNIFICANT CHANGES / DECISIONS:

	8
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7. The market price of the shares on the JSE was R6,05 on 28 February 2017. Would you be satisfied as a shareholder? Explain by quoting figures and giving comment on financial indicators with regards to share price, earnings and dividends.

	7
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ASSESSMENT TASK: CONTROLLED TEST 1 MEMORANDUM
Cash Flow Statement and analysis and interpretation of financial statements

Accounting
Grade 12
Date: March

Total: 100 marks
Time: 1 hour

1. a. Calculate the fixed/tangible assets purchased.

Land and buildings (1 586 000 – 1 426 000) = 160 000 ✓✓
 Equipment 5 000 ✓
 165 000 ✓

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1. b. **General Ledger of Qoba Limited**

Dr		Accumulated Depreciation on Equipment						Cr	
Date	Details	Fol.	Amount	Date	Details	Fol.	Amount		
2016 Aug 31	Asset disposal ✓		✓✓✓ 5 525	2016 Mar 01	Balance	b/d	✓ 45 600		
	Balance	Cf	✓ 40 600	Aug 31	Depreciation ✓		✓✓✓ 525		
			46 125				46 125		
				Sep 01	Balance	Bd	(✓) 40 600		
				2017 Feb 28	Depreciation ✓		✓✓✓ 5 610		
							(✓) 46 210		

	16
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Calculations:

Depreciation on sold equipment – 31 August 2016:

$$(12\ 000 - 5\ 000) \times 15\% \times \frac{6}{12} = R525$$

Depreciation on old equipment on 28 February 2017:

$$[(90\ 000 - 12\ 000) - 40\ 600] \times 15\% = R5\ 610$$

2. a.

Note to the Cash Flow Statement

Reconciliation between profit before tax and cash generated by operations

Net income before tax	451 770
Adjustment for:	
Interest expense	47 600
Depreciation (525 ✓ + 5 610 ✓ + 25 320 ✓)	31 455
Operating profit before changes in current capital	(✓) 530 825
Changes in working capital	(✓) (11 160)
Decrease in inventory (134 500 ✓ – 95 075 ✓)	✓ 39 425
Increase in debtors (64 300 ✓ – (50 070 ✓ – 4 870 ✓))	✓ (19 100)
Decrease in creditors [(139 100 ✓ – 70 000 ✓) – (135 605 ✓ – 90 000 ✓ – 7 990 ✓)]	✓ (31 485)
Cash generated by activities	(✓) 519 665

	19
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Calculations:

Dr		Appropriation account						Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2017					2017				
Feb	28	Income tax		176 240	Feb	28	Profit and loss		451 770
		Share dividends		279 000			Retained income		102 230
		Retained income		98 760					
				<u>554 000</u>					<u>554 000</u>

Work back to share dividends

2.b.

QOBA LTD.

CASH FLOW STATEMENT for the YEAR ENDED 28 FEBRUARY 2017

Cash flow from operating activities	(✓)49 685
Cash generated by activities	(✓)519 665
Interest paid	✓ (47 600)
Dividends paid (-279 000 ✓✓✓✓ - 70 000 ✓ + 90 000 ✓)	(259 000)
Income tax paid (-176 240 ✓ + 4 870 ✓ + 7 990 ✓)	(163 380)
Cash flow from investment activities	(✓)(158 525)
Fixed assets purchased	(✓)(165 000)
Proceeds of asset disposal (12 000 ✓ - 9 025 (✓))	6 475
Cash flow from financing activities	(✓)212 960
Proceeds from shares issued [(1 550 000 ✓ - 1 128 000 ✓) + (126 760 ✓ - 50 800 ✓)]	497 960
Payment of loan (450 000 ✓ - 165 000 ✓)	(285 000)
Net change in cash and cash equivalents	✓104 120
Cash and cash equivalents end of previous year	(11 440)
Cash and cash equivalents end of current year	<u>92 680</u>

	24
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3.a.

Debt : equity ratio
Non-current liabilities : shareholders' equity
165 000 ✓ : 1 775 520 ✓
= 0.09 : 1 ✓

	3
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3.b.

Acid test ratio
Current assets - inventory : current liabilities
(252 055 ✓ - 95 075 ✓) : 135 605 ✓
= 1,16 : 1 ✓

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3.c. **Earnings per share**

$$\frac{\text{Net profit after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$$

$$\frac{(451\,770 - 176\,240) \checkmark}{(1\,550\,000 \div 5) \checkmark} \times \frac{100}{1}$$

$$\frac{275\,530}{310\,000} \times 100$$

= 88,88 \checkmark cents per share \checkmark

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4. **Comment on the debt : equity ratio and the return on capital employed. Quote the figures of these financial indicators and comment on each.**

The debt : equity ratio improved from 0,35 : 1 to 0,09 : 1, \checkmark
 which means the company is very low geared and relies mostly on own capital and not foreign capital. \checkmark

The return on capital employed increased from 21,7% to 27,2%. \checkmark
 This indicated that the company are earning more on the money(capital) they employ (use) in the business – it is higher than the interest rate on the loan of 16% - very good. \checkmark

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5. **Comment on the liquidity position of the company on 28 February 2017. Has liquidity improved or deteriorated? Use at least THREE financial indicators from the table to motivate your answer.**

Liquidity has improved. \checkmark

- Current ratio has improved from 1,2 to 1,8 : 1 from 2016 to 2017.
- Acid test ratio has improved from 0.34 to 1,16 : 1 from 2016 to 2017.
- The rate of stock turnover increase from 7 times to 11,2 times per year and this would have had an positive effect on the liquidity.
- Debtors' collection improved from 40 days to 35 days, but is still below the ideal time of 30 days.

$\checkmark \checkmark \checkmark \times 3$ for any acceptable answer

	7
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6. **At the end of the 2016 financial period the directors were very concerned about the cash-flow of the company. Is there an improvement with regards to cash flow and liquidity at the end of the 2017 financial period? List at least TWO significant changes or decisions that affected the position of the company. Quote figures and ratios to support your answer.**

Is there an improvement with regards to cash flow?
 There is an improvement in cash flow as the bank balance increased from a negative balance of R11 440 to a positive balance of R92 680. That results in an inflow of R104 120. $\checkmark \checkmark$

TWO SIGNIFICANT CHANGES / DECISIONS:

- The business sold off excess stock – stock decreased from R134 500 to R92 100 and this had a positive effect on the cash flow
- Cash generated from operations is a positive amount of R519 665 which means that the business generates cash from its operating activities.
- The loan was repaid, which means the short term loan as well as the interest on loan decreased – this will have a positive effect on the cash flow as well as the liquidity
- The company issued shares – part of it was used to repay the loan and purchase fixed assets, but the rest had a positive influence on the cash flow and liquidity, as cash increased

$\checkmark \checkmark \checkmark \times 2$ for any acceptable change / decision

7.

The market price of the shares on the JSE was R6,05 on 28 February 2017. Would you be satisfied as a shareholder? Explain by quoting figures and giving comment on financial indicators with regards to share price, earnings and dividends.

Yes, I would be satisfied. ✓

The market price is R6,05, which is above the net asset value of R5,73 on 28 February 2017.

✓✓

Earnings per share increased from 81 cents to 88,8 cents in 2017 ✓✓

Dividends per share increased slightly from 88 cents to 90 cents ✓✓

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ASSESSMENT TASK: CONTROLLED TEST 2

Heading: Manufacturing, unit costs and breakeven point and Budgets

Accounting

Grade 12

Date: September

Total: 100 marks

Time: 1 hour



Question 1 Cost accounting

(52 marks: 31 minutes)

SECTION A: PRODUCTION COST STATEMENT

[38]

You are provided with information relating to Hippo Rock Manufacturers for the financial year ended 28 February 2019.

This business produces soccer jerseys, and sells these at a mark-up of 50% on cost. They use the perpetual stock system for finished goods and the periodic stock system for raw materials and indirect materials.

Required

- 1.1 Calculate the value of raw materials that was issued to the factory for the year ended 28 February 2019. You may prepare the Raw Material Stock account to assist with your calculations. (6)
- 1.2 Prepare the note for Factory overhead cost for the year ended 28 February 2019. (22)
- 1.3 Prepare the Production Cost Statement for the year ended 28 February 2019. (10)

Information

- The following balances appeared, among others, in the General Ledger of Moore & Son at the beginning and end of the financial year:

	1 March 2018	28 February 2019
Raw material stock	162 300	197 300
Work-in-process stock	123 000	109 800
Finished goods stock	87 500	112 400
Factory indirect material stock	6 220	7 130
Factory equipment	260 800	236 800

Transactions during the year:

Purchase of raw materials	1 022 900
Carriage of purchase on raw materials	19 640
Factory indirect material purchased	77 800
Wages to factory employees who make the jerseys	954 000
UIF contribution for factory employees	9 540
Salary paid to factory foreman	78 000
Wages paid to factory cleaner	38 000
Commission paid to sales staff	123 000
Maintenance of factory equipment	32 000
Water and electricity paid (see additional information)	187 000
Rent paid (see additional information)	110 500
Sundry expenses: Factory	192 800
Sundry expenses: Administration staff	330 000
Sundry expenses: Sales department	189 000
Factory equipment purchased on 1 January 2019	24 000

Additional information and adjustments

- An amount of R3 800 was still outstanding on the water and electricity account for February 2019. Seventy per cent (70%) of all the water and electricity was used in the factory.
- The rent expense is to be split across the various departments according to floor area – the factory accounts for 800 square metres, the administration offices 200 square metres and the sales department 300 square metres.
- Depreciation on factory equipment must be brought into account at 10% per annum on the cost price. Take note that new equipment was purchased on 1 January 2019, but no equipment was sold during the year.

SECTION B: UNIT COST AND BREAKEVEN ANALYSIS

[14]

Required

- 1.4 Compare the unit costs of 2019 with those of 2018. Some of the unit costs have been affected by inflation. In each of the following cases give a possible reason (other than inflation) for the change:
- Direct material cost per unit (2)
 - Direct labour cost per unit (2)
 - Factory overhead cost per unit (2)
- 1.5 Calculate the breakeven point for 2019. (5)
- 1.6 Comment on the breakeven point calculated in question 1.5. Should the business be satisfied with the number of units produced? Explain. (3)

Information

- ZZZ Manufacturers made and sold 38 000 beds during the year ended 31 December 2019. They produced 20 000 beds in the previous year.
- Beds were sold at a fixed price of R540 in 2019 and at R500 in 2018.
- All items finished were sold. There was no work-in-process at the beginning or end of the financial year.
- The following totals and unit costs were identified:

	2019 38 000 units produced		2018 20 000 units produced	
	Total cost	Unit cost	Total cost	Unit cost
Variable cost	12 553 300	330,35	6 414 000	320,70
Direct material cost	5 897 600	155,20	3 210 000	160,50
Direct labour cost	6 270 000	165	3 000 000	150
Selling and distribution cost	385 700	10,15	204 000	10,20
Fixed cost	1 035 880	27,26	909 400	45,47
Factory overhead cost	715 920	18,84	636 000	31,80
Administration cost	319 960	8,42	273 400	13,67
Total cost	13 589 180	357,61	7 323 400	366,17



Elon Traders, a business that buys and sells toys, uses the perpetual stock system and a profit mark up of 50% on cost price.

Required

Study the Cash Budget below and answer the questions which follow.

ELON TRADERS

CASH BUDGET FOR THE PERIOD 1 NOVEMBER 2018 TO 31 JANUARY 2019

CASH RECEIPTS	November	December	January
Collections from debtors	?	?	?
Cash sales	252 000	648 000	252 000
Interest on current account	400		348
Proceeds from fixed deposit		49 440	
TOTAL RECEIPTS	?	?	?
CASH PAYMENTS			
Cash purchases of stock	?	216 000	66 000
Payment to creditors	212 800	?	478 800
Wages to bookkeeper	20 800	20 800	20 800
Rent paid	17 000	17 000	18 700
Salaries to employees	176 000	162 000	174 960
Other operating expenses	33 200	34 400	35 600
Drawings	60 000	60 000	78 000
Deposit on new vehicle		70 000	
Instalment on new vehicle			39 000
Interest on overdraft		1 350	
TOTAL PAYMENTS	?	767 750	911 860
Cash surplus (deficit)	(170 440)	173 530	(e)
Bank balance at the beginning of month	80 440	(b)	(f)
Bank balance at the end of month	(a)	(c)	(g)

Questions

2.1 Complete the debtors collection schedule using the information below.

(10)

- Sales and cost of sales

	Actual sales	Budgeted sales	Cost of sales
October 2018	480 000		320 000
November 2018	420 000		280 000
December 2018		1 080 000	720 000
January 2019		420 000	220 000

- 40% of the total sales is sold on credit.
- Debtors are expected to pay their accounts as follows:
30% settle their accounts in the same month as the credit sale.
68% settle in the month following the transaction month.
2% is to be written off.

2.2 Using the information below:

(8)

- Calculate the cash purchase of stock during November.
- How much will be paid to creditors during December?

Additional information

A fixed level of trading stock on hand is maintained throughout the year through replacement on a monthly basis.

- Purchases of stock:
70% of stock is bought on credit.
Creditors are paid in full in the month following the month of purchase to qualify for a 5% settlement discount.

- 2.3 Calculate (a)–(g) as indicated on the Cash Budget. (10)
- 2.4 Explain the possible reasons for the increase in sales in December and contrast it against November's and January's sales. (4)
- 2.5 Study the salaries and wages figure from the Cash Budget. Salaries to employees should have increased because sales increased in December? Mr Elon's is of the opinion that his staff should not get extra pay for overtime worked. Is he acting ethically? (4)
- 2.6 Give one possible reason why Elon Traders could have cashed in on their fixed deposit. (3)
- 2.7 Mr Elon, the owner of Elon Traders, discovered a new supplier that can supply him with toys at a much cheaper price. A product that he bought from his previous supplier for R30 and sold for R45, can be bought from this new supplier for R23,50. Mr Elon is considering changing to this new supplier but keeping his selling price at R45.
- a. Should he consider keeping his selling price at R45 even though he is getting the product at a cheaper price? (3)
 - b. Explain TWO factors he should consider before changing suppliers. (6)

SECTION B

1.4 Compare the unit costs of 2019 with those of 2018. Some of the unit costs have been affected by inflation. In each of the following cases give a possible reason (other than inflation) for the change:

1.4 a) Direct material cost per unit:

1.4 b) Direct labour cost per unit:

1.4 c) Factory overhead cost per unit:

	2 × 3
--	-------

1.5 Calculate the breakeven point for 2019.

Fixed cost

	5
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1.6 Comment on the breakeven point calculated above. Should the business be satisfied with the number of units produced? Explain.

	3
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Question 2

ELON TRADERS

2.1 DEBTORS COLLECTION SCHEDULE

CREDIT SALES		November	December	January
October 2018	192 000	130 560		
November 2018	168 000	50 400		
December 2018	432 000	0		
January 2019	168 000	0		
		180 960		

	10
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2.2 a. Calculate the cash purchase of stock during November.

b. How much will be paid to creditors during December?

	8
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2.3

Cash surplus (deficit)	(170 440)	173 530	
Bank balance at the beginning of month	80 440		
Bank balance at the end of month			

	10
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2.4 Explain the possible reasons for the increase in sales in December and contrast it against November's and January's sales.

	4
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2.5 Study the salaries and wages figure from the Cash Budget above. Salaries to employees should have increased because sales increased in December? Mr Elon's is of the opinion that his staff should not get extra pay for overtime worked. Is he acting ethically?

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	4
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2.6 Give one possible reason why Elon Traders could have cashed in on their fixed Deposit.

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	3
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2.7 Mr Elon, the owner of Elon Traders, discovered a new supplier that can supply him with toys at a much cheaper price. A product that he bought from his previous supplier for R30 and sold for R45, can be bought from this new supplier for R23,50. Mr Elon is considering changing to this new supplier but keeping his selling price at R45.

Should he consider keeping his selling price at R45 even though he is getting the product at a cheaper price?

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	3
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Explain TWO factors he should consider before changing suppliers.

--

	6
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ASSESSMENT TASK: CONTROLLED TEST 2 MEMORANDUM
Heading: Manufacturing, unit costs and breakeven point and Budgets

Accounting
 Grade 12
 Date: September

Total: 100 marks
 Time: 1 hour

» **Question 1**

SECTION A

1.1 Calculate the value of raw materials that was issued to the factory for the year ended 28 February 2019. You may prepare the *Raw Material Stock* account to assist with your calculations.

$R162\,300 + 1\,022\,900 + 19\,640 - 197\,300 = R1\,007\,540$

Or

Dr		Raw Material Stock		Cr	
Balance	b/d	162 300	Raw materials issued		1 007 540
Purchases		1 022 900	Balance	c/d	197 300
Carriage		19 640			
		<u>1 204 840</u>			<u>1 204 840</u>
Balance	b/d	197 300			

6

1.2 **Factory overheads**

Indirect material used $(6\,220 + 77\,800 - 7\,130)$	76 890
Indirect labour $(78\,000 + 38\,000)$	116 000
Maintenance of factory equipment	32 000
Water and electricity $(187\,000 + 3\,800) \times 70\%$ (if R130 900)	133 560
Rent expense $(110\,500 \times \frac{800}{1\,300})$	68 000
Sundry expenses	192 800
Depreciation $[(236\,800 \times 10\%) + (24\,000 \times 10\% \times \frac{2}{12})]$	24 080
	<u>643 330</u>

22

1.3 **Production Cost Statement for the year ended 28 February 2019**

Prime / Direct cost	✓ 1 971 080
Direct material cost	✓ 1 007 540
Direct labour cost $(954\,000 + 9\,540)$	963 540
Factory overhead cost	✓ 643 330
Total manufacturing cost	✓ 2 614 410
Balance of work-in-process beginning of the year	✓ 123 000
	2 737 410
Balance of work-in-process end of the year	✓ (109 800)
Cost of production of finished goods	✓ 2 627 610

10

SECTION B

1.4

Compare the unit costs of 2019 with those of 2018. Some of the unit costs have been affected by inflation. In each of the following cases give a possible reason (other than inflation) for the change:

1.4 a) Direct material cost per unit:

The business buys raw materials from a different supplier at cheaper prices ✓✓

or

Direct materials was used more efficiently – less wastage

1.4 b) Direct labour cost per unit:

Wages per hour has increased – wage increase ✓✓

Or

They had to work more overtime at 1,5 times normal time tariff

Or

Employees were less productive

1.4 c) Factory overhead cost per unit:

A greater number of units was produced than in 2010, therefore factory overheads per unit will decrease as it is a fixed cost ✓✓

Or

Better control over expenses

	2 × 3
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1.5

Calculate the breakeven point for 2019.

$$\begin{aligned}
 & \frac{\text{Fixed cost}}{\text{Contribution per unit}} \\
 & = \frac{1\,035\,880 \checkmark \checkmark}{(540 \checkmark - 330,35 \checkmark)} \\
 & = \frac{1\,035\,880}{209,65} \\
 & = 4\,941 \text{ units} \checkmark
 \end{aligned}$$

	5
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1.6

Comment on the breakeven point calculated above. Should the business be satisfied with the number of units produced? Explain.

They should produce 4 941 units to break even, but has produced 38 000 units in the year. ✓

They could be satisfied as they exceeded the BEP by a significant quantity. ✓✓

	3
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Question 2

ELON TRADERS

2.1 DEBTORS COLLECTION SCHEDULE

CREDIT SALES		November	December	January
October 2018	192 000	130 560	0	0
November 2018	168 000	50 400	✓✓ 114 240	
December 2018	432 000	0	✓✓ 129 600	✓✓ 293 760
January 2019	168 000	0	-	✓✓ 50 400
		180 960	(✓)243 840	(✓) 344 160

	10
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2.2 a. Calculate the cash purchase of stock during November.

$$R280\,000 \checkmark \times \frac{30}{100} \checkmark = R84\,000 \checkmark$$

b. How much will be paid to creditors during December?

$$R280\,000 \checkmark \times \frac{70}{100} \checkmark = R186\,200 \checkmark$$

$$R186\,200 \times 95\% \checkmark = R176\,890 \checkmark$$

	8
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2.3

Cash surplus (deficit)	(170 440)	173 530	✓✓(315 352)*
Bank balance at the beginning of month	80 440	✓(90 000)	✓83 530
Bank balance at the end of month	✓✓(90 000)	✓✓ 83 530	✓✓(231 822)

$$* R596\,508 - 911\,860 = R315\,352$$

	10
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2.4 Explain the possible reasons for the increase in sales in December and contrast it against November's and January's sales.

The business sells toys and December is a time when customers buy toys. ✓✓ The actual sales in November are particularly low and January's sales are expected to be in line with that of November. ✓✓

	4
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2.5 Study the salaries and wages figure from the Cash Budget above. Salaries to employees should have increased because sales increased in December? Mr Elon's is of the opinion that his staff should not get extra pay for overtime worked. Is he acting ethically?

Mr Elons is not acting ethically. His staff members are loyal to him and they should get extra pay for overtime worked. ✓✓

It is against labour laws not to pay employees overtime if they worked for it. ✓✓

	4
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2.6 Give one possible reason why Elon Traders could have cashed in on their fixed Deposit.
They bought a new vehicle for the business and had to pay a deposit of R70 000 for the vehicle. They needed the money from the fixed deposit to help pay for the deposit. ✓✓✓

	3
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2.7 Mr Elon, the owner of Elon Traders, discovered a new supplier that can supply him with toys at a much cheaper price. A product that he bought from his previous supplier for R30 and sold for R45, can be bought from this new supplier for R23,50. Mr Elon is considering changing to this new supplier but keeping his selling price at R45.

Should he consider keeping his selling price at R45 even though he is getting the product at a cheaper price?

No ✓

He is acting unethically. He should reduce his selling price and still make the same profit mark-up of 50%. If he sells the goods at the same price he will be making a profit mark-up of 90%. ✓✓

	3
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Explain TWO factors he should consider before changing suppliers.

He must check whether the goods are of the same quality as his previous suppliers goods. ✓✓✓

He must ensure that the new supplier will have enough stock to deliver and that the new supplier is not a "fly-by-night" business. ✓✓✓

He must ensure that he will be getting the same service as from the previous supplier and that he will be able to build a relationship with the new supplier. ✓✓✓

Any two acceptable answers × ✓✓✓

	6
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3. FORMS OF ASSESSMENT: PROJECTS

The project is mandatory and only one project is recommended per year.

When preparing a project, consider the following minimum requirements:

- Learners are given the necessary guidance prior to commencement of the project and progress is monitored.
- Certain aspects of the project are completed in class to enable teachers to monitor progress.
- All criteria used to assess project are discussed with learners.
- Generally, projects are given a longer period of time to complete as they involve some sort of research, consolidation and selection of relevant information and the preparation of a written document as evidence.
- Often projects can involve solving some form of problem.
- Research may form part of the project – the project is evidence of the project conducted. However, this may not always be the case. For example, the computerised accounting programme will not involve research but rather develop skills.

Suggestions

- The project should be handed out and discussed with learners towards the end of the first term.
- Projects are to be handed in during the second term.
- The teacher should monitor progress during the term.

Marks

- This project is out of 60 marks but CAPS requires a mark out of 50. To scale down the mark from 60 to 50, apply the following formula:

Mark awarded to learner \div 60 \times 50 = new mark out of 50

Assessment task: Research Project

Analysis and interpretation of financial statements

Accounting Grade 12

Total: 60 marks

INSTRUCTIONS

Use the published financial statements of any company and prepare the analysis and interpretation of the financial statements.

Do research on the following:

1. Advantages and disadvantages of a company when comparing a CC and a partnership
2. Procedure with the purchase and selling of shares
3. Formation procedure of a public company when comparing a CC or partnership
4. Study the published statements of the company you have chosen and give a report on / show the following:

4.1 Information on the company:

What product do they offer?

At what price are the shares registered and what is the issued share capital?

What is the market value of the shares at the moment?

4.2 Calculations and comments

Profit margin of the company – gross profit as percentage of turnover

Cost control of the company

Liquidity of the company

Debt/owner's equity ratio (gearing) and solvency of the company

Returns earned by the company and the shareholders

Note: All calculations must be shown. Answers only will not earn any marks.

4.3 Directors' and audit reports

Explain the purpose of a directors' report and an audit report is and give a short summary of your chosen company's directors' and audit reports.

4.4 In terms of the King Report, state if the company shows **commitment to the local community and environment.**

Requirements that the project must comply with:

- Must have a front page, a table of contents and bibliography with specific Internet addresses.
- Must consist of a minimum of four typed or six written A4 pages.
- Must be stapled neatly; no need to bind it in a special way. No Flip files.
- Must staple this page to your project. You will be penalised if you lose this page.
- The specific company's financial statements you chose must be attached.
- No information may be copied directly from any source; therefore, information must be interpreted and rewritten in your own words as far as possible.
- It must be your **own work**.

Name:

Due date:

Assessment rubric

Section	0-1	2	3	4-5	Mark achieved
General guidelines	The requirements and instructions have not been met or handed in late.	One or two of the requirements are fulfilled.	Half of the requirements have been met.	The requirements are fully fulfilled. Handed in on time.	
Technical quality	Bad technical presentation, untidy. Little effort.	An attempt has been made. Neat but shortcoming still exists.	Good presentation, made full use of available sources.	Excellent presentation, technically well-prepared. Lots of effort has been made; impressive final product.	
Advantages and disadvantages	No advantages and disadvantages mentioned.	Advantages and disadvantages mentioned.	Adequate explanation of advantages and disadvantages given.	A detailed explanation of advantages and disadvantages given.	
Procedure with the purchase & sale of shares	The procedure with purchase & sale of shares was explained badly.	The procedure with purchase & sale of shares was explained reasonably.	The procedure with purchase & sale of shares was well explained.	The procedure with purchase & sale of shares was explained very well.	
Formation procedure of company	Procedures are not explained/ explained badly.	Procedures are explained incompletely.	Procedures are explained reasonably in full.	Procedures are fully explained.	
Information from the chosen company	Information from the company is explained badly and statement is not attached.	Information from the company is explained and statement is not attached.	Information from the company is explained reasonably and statement is attached.	Information from the company is explained very well and statement is attached in full.	
Directors' & Audit Reports	Is not able to write a report; insight lacking.	Is able to write a report; insight lacking.	Is able to write a relevant report with good insight.	Is able to write a relevant report with in depth presentation with good insight.	
Commitment to the local community and environment	No examples provided.	Involvement in community and environment only mentioned.	Involvement in community and environment mentioned and described.	Involvement in community and environment described and opinion given.	
	0-3	4-6	7-8	9-10	
Calculations and analysis of financial statement	Calculations incomplete and mostly wrong.	All calculations complete and 50% correct.	All calculations complete and 75% correct.	All calculations complete and between 80-100% correct.	
Comments on calculations	Poor comments made that show no understanding.	Some comments are relevant.	Good comments made but lack depth and insight.	Excellent comments with good insight shown.	
TOTAL MARK					/60

4. FORMS OF ASSESSMENT: EXAMINATIONS

Step-by-step process on how to set up an examination paper

Step 1 Know the total value of the examination paper:

For mid-year examinations

	Number of papers	Time allocation	Marks	Topics
Grade 10	1	2 hours	200 marks	In proportion to time devoted to each topic (as indicated in the work schedule)
Grade 11	1	3 hours	300 marks	
Grade 12	1	3 hours	300 marks	

For trial examination (Grade 12 only)

	Number of papers	Time allocation	Marks	Topics
Grade 12	1	3 hours	300 marks	Full scope

Final examination

	Number of papers	Time allocation	Marks	Topics
Grade 10	1	3 hours	300 marks	Full scope Externally set
Grade 11	1	3 hours	300 marks	
Grade 12	1	3 hours	300 marks	

Step 2 Know the content that is stipulated for the grade you are setting the examination paper for:

Content stipulated specifically for the grade	80%
Content stipulated in previous grades, which impacts on the assessment of subsequent grades	20%

For example, when setting a Grade 11 examination paper, 80% must be examined on Grade 11 work and the other 20% on Grade 10 work (only the work that impacts on Grade 11).

Step 3 Determine the weighting of the curriculum. The exam must be set according to this weighting:

Accounting curriculum	Weighting	Approximate mark of exam paper
Financial accounting	50–60%	150–180 marks
Managerial accounting	20–25%	60–75 marks
Managing resources	20–25%	60–75 marks

The table below indicated the main topics in the Accounting curriculum:

Curriculum	Topic
Financial accounting	1. Accounting concepts (terminology, definitions, double entry, etc.)
	2. GAAP principles
	3. Bookkeeping (source documents, journals, ledgers, Trial Balances, etc.)
	4. Accounting equation
	5. Final accounts and financial statements (including adjustments and ratios)
	6. Salaries and wages
	7. Value-added tax (VAT)
	8. Reconciliations (bank, debtors and creditors)
Managerial accounting	9. Cost accounting (manufacturing, etc.)
	10. Budgeting
Managing resources	11. Indigenous bookkeeping (Grade 10 only)
	12. Fixed assets
	13. Inventory
	14. Ethics
	15. Controls

Please note that while some of the topics are examined independently, topics such as Ethics and Internal Controls must be integrated throughout.

Step 4 Determine which topics can be examined independently, and then determine the nature of each question; in other words, should it be factual, data response, critical evaluation, problem solving, application of knowledge, real-life situations, etc.

Step 5 Consider the cognitive levels when setting questions. Your examination paper must cater for a range of cognitive levels and learner abilities as shown below according to Bloom's revised taxonomy:

Cognitive level	Skill	Percentage of examination paper
Basic thinking skills	<ul style="list-style-type: none"> Factual recall Low-level comprehension Low-level application 	30% of the paper
Moderately high thinking skills	<ul style="list-style-type: none"> More advanced application Interpretation Low-level analysis 	40% of the paper
Higher order thinking skills	<ul style="list-style-type: none"> Advanced analytical skills Evaluation Creative problem-solving 	30% of the paper

Problem solving

Approximately 10% of all examinations should address problem-solving questions using critical and creative thinking. These include real-life problems within the context of the Accounting curriculum. The problem-solving questions must cover a range of cognitive skills mentioned in this step. 'Surface' problem-solving questions might involve recall or comprehension skills on familiar scenarios, while 'deep' problem-solving questions will

generally involve creative solutions in new and unfamiliar scenarios, all falling within the ambit of the Accounting curriculum.

While ratios and analyses can form very interesting problem-solving questions, the topic of problem-solving goes a lot further and should be integrated into all aspects of the curriculum as that learners develop the skills to apply the knowledge acquired.

Here are some guidelines for dealing with ‘deep’ problem-solving questions:

- Learners identify problems from the accounting information provided.
- Learners quote the relevant information to support their opinions on the problems.
- Learners provide valid and appropriate solutions.

Step 6 Use the following table to help you set your examination paper according to the different cognitive levels. Fill in the marks to make up the range of abilities.

Question	Low	Medium	High
Q1			
Q2			
Q3			
Q4			
Q5			
Q6			
Q7			
Q8			
Total mark			
Desired mark	30% = 90 marks	40% = 120 marks	30% = 90 marks

Step 7 Decide on the structure of each question according to the above cognitive level requirements. Your question should contain there “action” words.

Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
Define	Explain	Draw up	Compare	Interpret	Comment
Identify	Distinguish	Construct	Analyse	Do	Recommend
Demonstrate	Interpret	Post		Report on	Motivate
List		Prepare		Discuss	
Name		Calculate		Compare	
		Determine		Advise	
		Apply			

Step 8 Draw up the question and the memorandum simultaneously. Once you memorandum is complete, compile an answer book for the examination paper.

Step 9 Have the question and memorandum moderated before you have it printed. Ensure that the mark allocation for each question is correct, that there is enough space for the answers and that the numbering agrees with the examination paper.

Use the following table to assist you in ensuring that your examination paper was set according to the guidelines as in the CAPS document:

Grade 12 examination requirements:

Examination	No. of Papers	Time	Marks	Content
Mid-year examination	1	3 hours	300 marks	GAAP principles, Internal control and audit over debtors, creditors, cash and assets, The role of internal and external auditors, Ethics, professional bodies and King code Companies concepts, bookkeeping, final accounts Financial statements – Income statement, Balance sheet, Cash flow statement, Analysing and interpretation of financial statements, Fixed assets Close corporations, Reconciliations, VAT
Trial examination	1	3 hours	300 marks	Full scope
End of year examination	1	3 hours	300 marks	Full scope (externally set)

Layout of exam paper:

Question	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Topic	Marks							
Financial accounting								
Managerial accounting								
Managing resources								
Total								
								/300

INSTRUCTIONS

1. This question paper consists of FIVE compulsory questions. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer the questions.
3. Where applicable workings must be shown in order to achieve part-marks.
4. Candidates will forfeit marks for:
 - Important dates which are omitted
 - Using non-standardised abbreviations
 - Overwriting figures
 - Superfluous entries / foreign items
 - Using Tippex®
5. Non-programmable calculators may be used.
6. You may not use green or red ink but you may use a dark pencil.
7. You must attempt to comply with the suggested time allocation guide.

Question 1: 18 marks; 11 minutes	
The topic of the question is:	The subjects covered are:
Fixed assets and interpretation	Managing resources <ul style="list-style-type: none"> • Analyse and report on the disposal of assets
QUESTION 2: 42 marks; 25 minutes	
The topic of the question is:	The subjects covered are:
Debtors and bank reconciliations	Financial accounting <ul style="list-style-type: none"> • Analyse and interpret reconciliations
Question 3: 92 marks; 55 minutes	
The topic of the question is:	The subjects covered are:
Company concepts, financial statements and audit reports	Financial accounting <ul style="list-style-type: none"> • Concepts • Prepare financial statements of a company • Audit reports Managerial Accounting <ul style="list-style-type: none"> • Professional bodies
Question 4: 85 marks; 51 minutes	
The topic of the question is:	The subjects covered are:
Cash Flow Statements Interpretation of financial statements of a company & ratios	Financial accounting <ul style="list-style-type: none"> • Prepare financial statements of a company • Analyse the financial statements of a company
Question 5: 42 marks; 25 minutes	
The topic of the question is:	The subjects covered are:
Inventory valuations and validations	Managing resources <ul style="list-style-type: none"> • Validate and calculate inventories • Apply internal auditing processes • Code of ethics



Question 1 Fixed assets

(18 marks; 11 minutes)

Required

- 1.1 The bookkeeper insists that the *Asset Disposal* account is a Balance Sheet account. The reasoning is that because this account deals with assets it has to be a Balance Sheet account. Explain whether you agree with him or not. (2)
- 1.2 Give two possible reasons for disposing of tangible assets. (2)
- 1.3 Complete the missing details in the ledger account marked [1] – [6] (6)
- 1.4 The depreciation rate on equipment is 15% p.a. on cost. The bookkeeper made a mistake when updating the depreciation on the sold equipment by calculating the amount for the entire year. Correct the error and determine the profit/loss on disposal of the asset. (4)
- 1.5 Take the information from question 1.4 into account. State the amount that will be shown in the Tangible Asset note for ‘Disposals at carrying value’. (2)
- 1.6 Where in the financial statements is the R700 (or adjusted figure as per question 1.4) recorded? (2)

Information

The following is the *Asset Disposal* account of Rheeder Suppliers to record the sale of equipment for cash, prepared by a careless bookkeeper. The financial year starts on 01 March 2014.

Dr		Asset Disposal						Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2014					2014		Accumulated depreciation on equipment		
Aug	31	[1]	[2]	12 000	Aug	31		GJ	5 640
							[3]	CRJ	[4]
							[5]	[6]	700
				12 000					12 000



Question 2 Reconciliations and Internal Control

(63 marks; 38 minutes)

2.1 DEBTORS RECONCILIATION AND INTERNAL CONTROL [32 marks]

You are provided with information regarding Lawrence Traders. The bookkeeper made a few mistakes when reconciling the Debtors Control account with the Debtors List.

Required

- 2.1.1 New customers of Lawrence Traders are required to provide personal details, such as proof of residence, before opening an account. Explain why this is necessary. Name TWO points. (4)
- 2.1.2 Prepare the correct Debtors List on 31 May 2012. (16)
- 2.1.3 Show how you would adjust the *Debtors Control* Account, using the format provided in the Answer Book. (12)

Information

- The bookkeeper made a number of errors when preparing the *Debtors Control* account in the General Ledger.
- The Debtors List and the *Debtors Control* account did not reconcile.
- The difference is R6 400.

The following summary was prepared on 31 May 2012:

Balance of the Debtors Control account	R68 108
Total of the Debtors List	R61 708
W Nortje	14 080
Wilson & Co	44 378
De La Bat Distributors	2 720
S Crous	530

Errors on the account of W Nortje

- Interest on the account was calculated incorrectly. Adjust for an additional R86 interest. No entry has been made.
- An invoice issued to W Nortje for R924 has not been entered at all.

Errors on the account of Wilson & Co

- Wilson & Co claim that they paid R8 900 last month, but this is not reflected on their statement. An investigation revealed that the payment was received from Wilson & Co, but incorrectly posted to the account of another debtor, De La Bat Distributors.
- An invoice of R3 200 was incorrectly reflected in the Debtors Ledger as a credit entry. The control account in the General Ledger is correct.

Additional errors

- The account of S Crous must be written off as a bad debt. No entry has been made.
- De La Bat Distributors are reflected in the Debtors Ledger as well as the Creditors Ledger. Their credit balance of R1 645 in the Creditors Ledger must be offset against their account in the Debtors Ledger.

2.2 BANK RECONCILIATION

[31 marks]

You are provided with information relating to Lawrence Traders for April 2012.

Required

- 2.2.1 Calculate the balance of the *Bank* account on 1 April 2012. (3)
- 2.2.2 Calculate the correct totals for the CRJ and CPJ for April 2012 by completing the tables provided in the Answer Book. (12)
- 2.2.3 Complete the Bank Reconciliation Statement on 30 April 2012. (13)
- 2.2.4 The owner is concerned about the deposit of R31 200 that does not appear on the bank statement for March or April 2012. Does he have reason to be concerned? (3)

Information

The Bank Reconciliation Statement on 31 March 2012 reflected the following:

Balance per bank statement	R 1 142 (dr)
Outstanding deposit (dated 4 March 2012)	R31 200
Outstanding deposit (dated 31 March 2012)	R10 900

Outstanding cheques:

- No. 4 556 (dated 12 December 2011) R3 600
- No. 5 211 (dated 26 April 2012) R1 300
- No. 5 213 (dated 31 May 2012) R29 000

On 30 April the bank statement showed a positive balance of R21 890.

When the April bank statement from ABC Bank was compared with the Cash Receipts Journal (CRJ) and Cash Payments Journal (CPJ) for April, the following were noted:

Item 1	A deposit of R10 900 appeared on the bank statement for April 2012, but not in the April journals.
Item 2	Cheque no. 4556 is stale and must be cancelled. The cheque was issued to Rainbow Children's Home as a donation, but got lost in the post.
Item 3	Cheque no. 5211 for R1 300 appeared on the bank statement for April 2012 as R3 100. Upon investigation it was found that the cheque was issued to Pen & Paper Stationers for stationery of R3 100. The bookkeeper made the mistake.
Item 4	A debtor deposited R1 107 directly into the bank account to settle his debt of R1 230. This appeared on the bank statement but not in the journals.
Item 5	Bank charges of R233 and interest on the credit balance of R104 appeared on the bank statement, but not in the journals.
Item 6	A sundry entry of R34 appeared on the bank statement on 15 April 2012. This is a fraudulent entry by a bank employee. The R34 also appeared on the bank statements of 15 February and 15 March and Lawrence Traders recorded these amounts as 'bank charges' in the CPJ for February and March. AB Bank has agreed to reverse all three amounts immediately. (This R34 is not included in the R233 by item 5.)
Item 7	Cheque no. 5429 for R5 600 appeared in the CPJ but not on the bank statement.
Item 8	A deposit of R14 200 appeared in the CRJ on 30 April, but not on the bank statement. The bank statement was closed off on 29 April 2012.



Question 3 Companies – Concepts, Financial Statements and Audit Reports

(92 marks; 55 minutes)

3.1 MATCHING ITEMS – COMPANY CONCEPTS

[10 marks]

The information below was extracted from the financial records of HB Limited.

Required

Concepts relating to companies are listed in COLUMN A and explanations are listed in COLUMN B. Choose an explanation from COLUMN B that matches a concept in COLUMN A. Write only the letter (A – E) next to the question number (3.1.1 – 3.1.5) in the Answer Book.

COLUMN A		COLUMN B	
3.1.1	Limited liability	A.	Guidelines for the preparation of financial statements of companies to ensure a degree of consistency
3.1.2	Good corporate governance	B.	Financial statements are prepared on the assumption that the company will continue operating for the foreseeable future.
3.1.3	GAAP and IFRS	C.	The ethical and responsible manner in which a company is managed and directed.
3.1.4	Going concern	D.	Assets are recorded at the original purchase price unless otherwise stated.
3.1.5	Historical cost	E.	The liability of shareholders is limited to the amount of capital invested in the company.

(5 × 2 = 10)

3.2 AUDIT REPORTS

[7 marks]

- 3.2.1 Why is it important for an external auditor to be 'independent'? (2)
- 3.2.2 Why is it important for an external auditor of a public company to be a member of a professional body, such as SAICA? (2)
- 3.2.3 You have been appointed as the external auditor of HP Limited. The managing director, Albert Human, has asked you to reflect his director's fees of R1,2 million under Salaries and Wages in the Income Statement. Would you agree to his request? Give a reason. (3)

3.3 FINANCIAL STATEMENTS AND FIXED ASSETS

[75 marks]

You are provided with information relating to HB Limited for the year ended 30 June 2013.

Required

- 3.3.1 Prepare the Income Statement for the year ended 30 June 2013. (45)
- 3.3.2 Complete the following notes to the financial statements:
 - Fixed assets (21)
 - Trade and other creditors (9)

Information

Figures extracted from the Pre-adjustment Trial Balance on 30 June 2013
(Note: Not all the accounts are provided):

	Debit	Credit
Ordinary share capital (R10 per share)		2 800 000
Vehicles	320 000	
Equipment	154 000	
Accumulated depreciation on vehicles		155 000
Accumulated depreciation on equipment		76 200
Trading stock	219 546	
Debtors control	43 000	
Provision for bad debts		1 900
Creditors control		78 900
Mortgage loan from YZ Bank		300 000
Consumable stores on hand on 1 July 2012	1 034	
SARS (income tax)	60 000	
Sales		3 109 650
Cost of sales	2 066 600	
Debtors allowances	9 650	
Rent income		40 900
Directors' fees	312 000	
Audit fees	21 900	
Salaries and wages	354 000	
UIF contribution	3 680	
Consumable stores	4 890	
Bank charges	5 870	
Bad debts	3 560	
Sundry expenses	42 322	

Adjustments and additional information

- The rent income was increased by R800 on 1 March 2013. The tenant has not yet paid the rent for June 2013.
- The bookkeeper forgot to write back consumable stores on hand on 1 July 2012.
- According to a physical stocktaking done on 30 June 2012 the following were on hand:
 - Trading stock R218 700
 - Consumable stores R1 320
- The details of an employee, R Subiso, who had been employed on 1 June 2013, was omitted from the Salaries Journal for June 2013. The details were as follows:

Gross salary	Deductions			Contribution
	PAYE	P.F.	UIF	UIF
11 000	1 760	900	150	150

- The following entries appeared on the June bank statement, but had not been recorded in the books of the company:

- 4.8 Will an investor be interested in buying shares in this company? Quote figures for TWO financial indicators, other than those discussed above, to support this opinion and comment on each. (6)

Information

Fixed assets

The following transactions have been correctly recorded in the books and are reflected in the balances below:

- A vehicle was sold at carrying value for R12 000 cash (the original cost was R23 000 and the accumulated depreciation at the date of disposal was R11 000).
- Equipment was purchased for R24 000 during the year.
- An additional storeroom was built during the year.

Extract from the Income Statement

	2012	2011
Sales (this includes credit sales of R426 320 for 2012)	R608 820	R600 600
Cost of sales	405 880	400 400
Net profit before tax	210 000	154 800
Interest expense: Interest on loan	9 750	12 000
Depreciation	?	24 000
Income tax	73 500	54 180

Extracts from the Post-closing Trial Balances on 28/29 February

	2012	2011
Shareholders' equity	600 000	401 500
Ordinary share capital	500 000	340 000
Retained income	100 000	61 500
Long-term liabilities (15% p.a.)	50 000	80 000
Fixed deposit	–	10 000
Land and buildings	375 490	204 560
Vehicles at carrying value	138 400	184 540
Equipment at carrying value	118 320	122 320
Trading stock	103 450	53 350
Debtors control	64 150	52 650
Cash	11 360	–
Bank overdraft	–	8 500
Creditors control	87 760	90 530
Expenses accrued / payable	16 800	12 750
SARS (income tax)	3 410 (Cr)	4 140 (Cr)
Shareholders for dividends	53 200	30 000

The following financial indicators have been calculated:

	2012	2011
Current ratio	1,1 : 1	0,7 : 1
Acid test ratio	0,47 : 1	0,36 : 1
Stock turnover rate	5,2 times	5,3 times
Days stock on hand	71 days	70 days
Debtors collection period	?	55 days
Creditors payment period	60 days	60 days
Debt : Equity ratio	?	0,2:1
Return on average capital employed	38,8%	34,6%
Return on shareholders' equity	?	25,1%
Earnings per share	?	50 cents
Dividends per share	39 cents	38 cents
Net asset value per share	R2,40	R2,36

**5.1 INVENTORY SYSTEMS****[30 marks]**

You are provided with information relating to Nkewu Traders owned by Siphokazi Nkewu. The business sells one type of leather bag that she imports from Australia. The financial year ends 30 June. The business uses the weighted average method to value their stock which uses the periodic stock system.

Required

- 5.1.1 Calculate the value of the closing stock on 30 June 2012 using the weighted average method. (6)
- 5.1.2 Calculate the following for the year ended 30 June 2012:
- Cost of sales (9)
 - Gross profit (9)
- 5.1.3 Use the figures in question 5.1.2 to calculate the percentage profit achieved on cost of sales. (3)
- 5.1.4 Calculate the rate of stock turnover for 2012. (4)
- 5.1.5 In the previous financial year the gross profit was R360 000, the mark-up percentage on cost price was 120% and the rate of stock turnover was six times per year. Refer to your calculations in questions 5.1.3 and 5.1.4 and comment whether the change in mark-up percentage was a good decision by Siphokazi. (4)
- 5.1.6 Siphokazi wants to know what the value of the closing would have been, had she used the FIFO method for stock valuation, and how this would influence the gross profit (will it be more or less). Show calculations. (4)

Information**Stock records of leather bags**

Date	Number of units	Price per unit (including import duties)	Total value
1 July 2011	430	R130	R55 900
30 June 2012	210	?	?

Purchases of leather bags

During the financial year ending 30 June 2012 the following leather bags were purchased:

Date	No. of units	Cost price per unit	Total purchases	Import duties per unit	Total import duties
30 September 2011	600	R140	84 000	R10	6 000
1 November 2011	800	R150	120 000	R10	8 000
12 January 2012	500	R145	72 500	R12	6 000
15 May 2012	300	R160	48 000	R12	3 600
TOTAL	2 200		324 500		23 600

Returns of leather bags

Twenty bags from the November purchases that were not of good quality were returned to the supplier. They apologised and credited the business account with R3 200 (the cost price as well as the import duties).

Sales

There were 2 400 leather bags sold during the year for R720 000. The selling price was kept constant at R300 per bag.

5.2 PROBLEM SOLVING

[12 marks]

Thobani Allah is the owner of Cell-T, who sells cellular phones. She has three different branches that are managed by Peter, Sarah and Siphho. She is concerned that the branches are not running effectively and gave you the following information to analyse for March 2012.

Required

Identify ONE problem at each branch. Quote figures to support the problem identified and give Thobani advice on how to solve the problem in each case.

(12)

Information

	Branch 1 Peter	Branch 2 Sarah	Branch 3 Siphho
Sales	310 000	170 000	400 000
Returns from customers for the month	15 500	21 000	20 000
Stock on hand	60 days	20 days	120 days
Days worked per week	Monday to Friday	Monday to Sunday	Monday to Sunday
Stock stolen/lost in the month	4 units	3 units	15 units
Advertising	R5 000	R10 000	R12 000

ACCOUNTING

Grade 12

June _____

Answer Book

Name of learner:

Educator:

Question	Topic	Total mark	Mark achieved
1	Fixed assets and interpretation	18	
2	Reconciliations	63	
3	Company concepts, financial statements and audit reports	92	
4	Cash Flow Statements and ratios	85	
5	Stock systems and problem solving	42	
		300	



Question 1

1.1	The bookkeeper insists that the <i>Asset Disposal</i> account is a Balance Sheet account. The reasoning is that because this account deals with assets it has to be a Balance Sheet account. Explain whether you agree with him or not.

	2
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1.2	Give two possible reasons for disposing of tangible assets.

	2
--	---

1.3	Complete the missing details in the ledger account marked [1] – [6].
	[1]
	[2]
	[3]
	[4]
	[5]
	[6]

	6
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1.4	The depreciation rate on equipment is 15% p.a. on cost. The bookkeeper made a mistake when updating the depreciation on the sold equipment by calculating the amount for the entire year. Correct the error and determine the profit/loss on disposal of the asset.

	4
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1.5	Take the information from question 1.4 into account. State the amount that will be shown in the Tangible Asset note for 'Disposals at carrying value'.

	2
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1.6	Where in the financial statements is the R700 (or adjusted figure as per question 1.4) recorded?

	2
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Question total:

	18
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Question 2

2.1 DEBTORS RECONCILIATION AND INTERNAL CONTROL

2.1.1	New customers of Lawrence Traders are required to provide personal details, such as proof of residence, before opening an account. Explain why this is necessary. Name TWO points.

	4
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2.1.2	Prepare the correct Debtors List on 31 May 2012.												
	<table border="1"> <thead> <tr> <th style="text-align: left;">Debtors List on 31 May 2012</th> <th style="text-align: center;">R</th> </tr> </thead> <tbody> <tr> <td>W Nortje</td> <td></td> </tr> <tr> <td>Wilson & Co</td> <td></td> </tr> <tr> <td>De La Bat Distributors</td> <td></td> </tr> <tr> <td>S Crous</td> <td></td> </tr> <tr> <td></td> <td></td> </tr> </tbody> </table>	Debtors List on 31 May 2012	R	W Nortje		Wilson & Co		De La Bat Distributors		S Crous			
Debtors List on 31 May 2012	R												
W Nortje													
Wilson & Co													
De La Bat Distributors													
S Crous													

	16
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2.1.3	Adjust the <i>Debtors Control</i> account.																											
	<table border="1"> <thead> <tr> <th style="text-align: center;">Amount</th> <th style="text-align: center;">Account debited</th> <th style="text-align: center;">Account credited</th> </tr> </thead> <tbody> <tr><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td></tr> </tbody> </table>	Amount	Account debited	Account credited																								
Amount	Account debited	Account credited																										

	12
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2.2.4	The owner is concerned about the deposit of R31 200 that does not appear on the bank statement for March or April 2012. Does he have reason to be concerned?

	3
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**Question
total:**

	63
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» Question 3

3.1 MATCHING ITEMS – COMPANY CONCEPTS

3.1	Choose an explanation from COLUMN B that matches a concept in COLUMN A.												
	<table border="1"> <thead> <tr> <th>COLUMN A</th> <th>COLUMN B</th> </tr> </thead> <tbody> <tr> <td>3.1.1</td> <td></td> </tr> <tr> <td>3.1.2</td> <td></td> </tr> <tr> <td>3.1.3</td> <td></td> </tr> <tr> <td>3.1.4</td> <td></td> </tr> <tr> <td>3.1.5</td> <td></td> </tr> </tbody> </table>	COLUMN A	COLUMN B	3.1.1		3.1.2		3.1.3		3.1.4		3.1.5	
COLUMN A	COLUMN B												
3.1.1													
3.1.2													
3.1.3													
3.1.4													
3.1.5													

	10
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3.2.1	Why is it important for an external auditor to be ‘independent’?

	2
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3.2.2	Why is it important for an external auditor of a public company to be a member of a professional body, such as SAICA?

	2
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3.2.3	You have been appointed as the external auditor of HP Limited. The managing director, Albert Human has asked you to reflect his Directors' fees of R1,2 million under Salaries and Wages in the Income Statement. Would you agree to his request? Give a reason.

	3
--	---

3.3.2

Notes to the financial statements

1. FIXED ASSETS

	Vehicles	Equipment
Carrying value on 1 July 2012		
Cost price		
Accumulated depreciation		
Movements		
Additions at cost price		
Asset disposal at carrying value		
Depreciation		
Carrying value on 30 June 2013		
Cost price		
Accumulated depreciation		

	21
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2. TRADE AND OTHER CREDITORS

Trade creditors	78 900

	9
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Question total:

	92
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Question 4

4.1

General Ledger of Giovanni Traders Ltd.

Dr				Appropriation Account				B6		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2012					2012					
Feb	29				Feb	29				

	5
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4.2

Notes to the Cash Flow Statement

4.2.1 Reconciliation between profit before tax and cash generated by operations	
Net profit before tax	
Adjustment for:	
Interest expense	
Depreciation	
Operating profit before changes in working capital	
Changes in working capital	
Cash generated by activities	

	17
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4.2.2

Dividends paid

Amount in financial statements	
Balance at the beginning of the year	
Balance at the end of the year	

	5
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Calculations:

4.3

GIOVANNI TRADERS LTD.

CASH FLOW STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2012

Cash flow from operating activities	
Cash generated by activities	
Interest paid	
Cash flow from investment activities	
Fixed assets purchased	
Proceeds of asset disposal	
Cash flow from financing activities	
Net change in cash & cash equivalents	
Cash and cash equivalents at the beginning of the year	
Cash and cash equivalents end of current year	

	22
--	-----------

4.4	Calculate the number of new ordinary shares that were issued on 30 April 2011.

	3
--	----------

4.5.1	Debtors collection period for 2012

	4
--	----------

4.5.2	Debt : Equity ratio

	3
--	----------

4.5.3	Return on shareholders' equity

	4
--	----------

4.5.4	Earnings per share

	4
--	----------

4.6	Comment on the liquidity position for 2012. Quote three relevant financial indicators to support your answer.

	8
--	----------

4.7	An existing shareholder is disappointed with the price of R2 at which the new shares were sold. Quote a financial indicator to support his opinion and comment on it.

	4
--	----------

4.8	Will an investor be interested in buying shares in this company? Quote figures for TWO financial indicators, other than those discussed above, to support this opinion and comment on each.

	6
--	----------

Question total:

	85
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Question 5

5.1 INVENTORY SYSTEMS

5.1.1	Calculate the value of the closing stock on 30 June 2012 using the weighted average method.

	6
--	---

5.1.2	Calculate the following for the year ended 30 June 2012:
	Cost of sales
	Cost of sales
	Gross profit

	9
--	---

5.1.3	Use the figures in question 5.1.2 to calculate the percentage profit achieved on cost of sales.

	3
--	----------

5.1.4	Calculate the rate of stock turnover for 2012.

	4
--	----------

5.1.5	In the previous financial year the gross profit was R360 000, the mark-up percentage on cost price was 120% and the rate of stock turnover was 6 times per year. Refer to your calculations in questions 5.1.3 and 5.1.4 and comment whether the change in mark-up percentage was a good decision by Siphokazi.

	4
--	----------

5.1.6	Siphokazi wants to know what the value of the closing would have been, had she used the FIFO method for stock valuation, and how this would influence the gross profit (will it be more or less). Show calculations.
	Value of closing stock – FIFO
	Influence on gross profit

	4
--	----------

5.2 PROBLEM SOLVING

	Problem (quote figures)	Solution/Advice
BRANCH 1: Peter		
BRANCH 2: Sarah		
BRANCH 3: Siphokazi		

	12
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Question total:	42
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Grand total:	300
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Grade 12	Marking memorandum	Time: 3 hours
June	Accounting	Marks: 300

» Question 1

1.1	The bookkeeper insists that the <i>Asset Disposal</i> account is a Balance Sheet account. The reasoning is that because this account deals with assets it has to be a Balance Sheet account. Explain whether you agree with him or not.
	Disagree ✓
	It is a nominal account. <i>Asset Disposal</i> is created to calculate the profit or loss on the disposal of the asset ✓ as a convenience account.

	2
--	---

1.2	Give two possible reasons for disposing of tangible assets.
	Old ✓
	Outdated/Obsolete ✓
	There is no longer any use for it ✓
	<i>Any two or any other suitable reason</i>

	2
--	---

1.3	Complete the missing details in the ledger account marked [1] – [6].
	[1] Equipment ✓
	[2] GJ ✓
	[3] Bank ✓
	[4] R12 000 – R700 – R5 640 = R5 660 ✓
	[5] Loss on sale of asset ✓
	[6] GJ ✓

	6
--	---

1.4	The depreciation rate on equipment is 15% p.a. on cost. The bookkeeper made a mistake when updating the depreciation on the sold equipment by calculating the amount for the entire year. Correct the error and determine the profit/loss on disposal of the asset.
	$R12\ 000 \times 15\% \times \frac{6}{12} = R900$
	$R12\ 000 - R5\ 660(\checkmark) - (5\ 640 - 900\checkmark) = R1\ 600\checkmark$ (Loss) \checkmark
	OR $R12\ 000 - [(5\ 640 - 1\ 800) + 900]\checkmark = R7\ 260\checkmark$
	$R7\ 260 - 5\ 660 = R1\ 600\checkmark$ (loss) \checkmark

	4
--	----------

1.5	Take the information from question 1.4 into account. State the amount that will be shown in the Tangible Asset note for 'Disposals at carrying value'.
	$R12\ 000 - [(5\ 640 - 1\ 800) + 900] = R\ 7\ 260\checkmark(\checkmark)$

	2
--	----------

1.6	Where in the financial statements is the R700 (or adjusted figure as per 1.4) recorded?
	Income Statement – under operating expenses $\checkmark\checkmark$

	2
--	----------

Question total:	18
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Question 2

2.1 DEBTORS RECONCILIATION AND INTERNAL CONTROL

2.1.1	New customers of Lawrence Traders are required to provide personal details, such as proof of residence, before opening an account. Explain why this is necessary. Name TWO points.
	<p>Possible explanation:</p> <ul style="list-style-type: none"> • They need to know the address so that they can send statements to debtors to ensure that they pay on time. • If debtors do not pay accounts and the business needs to take legal action, they need the address to serve legal documents to them. • The National Credit Act requires a business to check whether potential debtors can afford to purchase on credit. Addresses are part of the personal history of a customer. <p>Any 2 × ✓✓</p>

	4
--	---

2.1.2	Prepare the correct Debtors List on 31 May 2012.												
	<table border="1"> <thead> <tr> <th>Debtors List on 31 May 2012</th> <th>R</th> </tr> </thead> <tbody> <tr> <td>W Nortje (14 080✓ + 86✓ + 924✓)</td> <td>15 090✓</td> </tr> <tr> <td>Wilson & Co (44 378✓ – 8 900✓ + 3 200✓ + 3 200✓)</td> <td>41 878✓</td> </tr> <tr> <td>De La Bat Distributors(2 720✓ + 8 900✓ – 1 645✓)</td> <td>9 975✓</td> </tr> <tr> <td>S Crous (530 – 530✓)</td> <td>0✓</td> </tr> <tr> <td></td> <td>66 943✓</td> </tr> </tbody> </table>	Debtors List on 31 May 2012	R	W Nortje (14 080✓ + 86✓ + 924✓)	15 090✓	Wilson & Co (44 378✓ – 8 900✓ + 3 200✓ + 3 200✓)	41 878✓	De La Bat Distributors(2 720✓ + 8 900✓ – 1 645✓)	9 975✓	S Crous (530 – 530✓)	0✓		66 943✓
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S Crous (530 – 530✓)	0✓												
	66 943✓												

	16
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2.1.3	Adjust the <i>Debtors Control</i> account.																		
	<table border="1"> <thead> <tr> <th>Amount</th> <th>Account debited</th> <th>Account credited</th> </tr> </thead> <tbody> <tr> <td>R86✓</td> <td>Debtors control ✓</td> <td>Interest received ✓</td> </tr> <tr> <td>R924✓</td> <td>Debtors control ✓</td> <td>Sales ✓</td> </tr> <tr> <td>R530✓</td> <td>Bad debts ✓</td> <td>Debtors control ✓</td> </tr> <tr> <td>R1 645✓</td> <td>Creditors control ✓</td> <td>Debtors control ✓</td> </tr> <tr> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Amount	Account debited	Account credited	R86✓	Debtors control ✓	Interest received ✓	R924✓	Debtors control ✓	Sales ✓	R530✓	Bad debts ✓	Debtors control ✓	R1 645✓	Creditors control ✓	Debtors control ✓			
Amount	Account debited	Account credited																	
R86✓	Debtors control ✓	Interest received ✓																	
R924✓	Debtors control ✓	Sales ✓																	
R530✓	Bad debts ✓	Debtors control ✓																	
R1 645✓	Creditors control ✓	Debtors control ✓																	

	12
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2.2 BANK RECONCILIATION

2.2.1	Calculate the balance of the <i>Bank</i> account on 1 April 2012.
	$(R31\ 200 + 10\ 900) - (1\ 142 + 3\ 600 + 1\ 300 + 29\ 000)$ ✓✓ OR $R31\ 200 + 10\ 900 - 1\ 142 - 3\ 600 - 1\ 300 - 29\ 000$ ✓✓ $= R7\ 058$ (debit) ✓

	3
--	----------

2.2.2		CRJ	CPJ
	Incorrect totals	130 210	107 322
	Donation	✓✓ 3 600	
	Stationery		✓✓ 1 800
	Debtors control	✓✓ 1 107	
	Interest	✓ 104	
	Bank charges		✓ 233
	Fraudulent entry	✓✓ 68	
		✓ 135 089	✓ 109 355

	12
--	-----------

2.2.3

Bank Reconciliation Statement on 30 April 2012

	Debit	Credit
Credit balance according to bank statement		✓✓ 21 890
Credit outstanding deposits:		✓✓ 31 200
		✓✓ 14 200
Credit outstanding cheques:		
No. 5213	✓✓ 29 000	
No. 5429	✓✓ 5 600	
Fraudulent entry		✓✓ 102
Debit balance according to <i>Bank</i> account	✓ 32 792	
	67 392	67 392

	13
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2.2.4	The owner is concerned about the deposit of R31 200 that does not appear on the bank statement for March or April 2012. Does he have reason to be concerned?
	Yes ✓, all deposits should be made the same day. ✓✓ He should investigate the reasons for the deposit not made.

	3
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Question total:	63
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» Question 3

3.1 MATCHING ITEMS – COMPANY CONCEPTS

3.1	Choose an explanation from COLUMN B that matches a concept in COLUMN A.												
	<table border="1"> <thead> <tr> <th>COLUMN A</th> <th>COLUMN B</th> </tr> </thead> <tbody> <tr> <td>3.1.1</td> <td>E. ✓✓</td> </tr> <tr> <td>3.1.2</td> <td>C. ✓✓</td> </tr> <tr> <td>3.1.3</td> <td>A. ✓✓</td> </tr> <tr> <td>3.1.4</td> <td>B. ✓✓</td> </tr> <tr> <td>3.1.5</td> <td>D. ✓✓</td> </tr> </tbody> </table>	COLUMN A	COLUMN B	3.1.1	E. ✓✓	3.1.2	C. ✓✓	3.1.3	A. ✓✓	3.1.4	B. ✓✓	3.1.5	D. ✓✓
COLUMN A	COLUMN B												
3.1.1	E. ✓✓												
3.1.2	C. ✓✓												
3.1.3	A. ✓✓												
3.1.4	B. ✓✓												
3.1.5	D. ✓✓												

	10
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3.2.1	Why is it important for an external auditor to be ‘independent’?
	Any valid explanation = ✓✓ Partially correct answer = ✓
	Because of the separation of ownership of a company (by shareholders) from the control of a company (by directors)
	It is essential that the external auditor be free to express an unbiased opinion that is not influenced by others.
	Because the Companies Act requires the auditor to be independent
	Because independence gives credibility to his report (it enables others to rely on the report)

	2
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3.2.2	Why is it important for an external auditor of a public company to be a member of a professional body, such as SAICA?
	Any valid explanation = ✓✓ Partially correct answer = ✓
	Assurance of his knowledge of accounting and auditing principles and procedures (all technical aspects and legislation)
	Disciplinary procedures should he be negligent in his duties (code of conduct / code of professional practice)
	Ensures standardisation of treatment of financial statements (IFRS)

	2
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3.2.3	You have been appointed as the external auditor of HP Limited. The managing director, Albert Human has asked you to reflect his Directors' fees of R1,2 million under Salaries and Wages in the Income Statement. Would you agree to his request? Give a reason.
	Opinion: No ✓ Any valid reason ✓✓ One mark for partially correct answer.
	This is a material amount which is of interest to the shareholders who have appointed the directors and it should therefore be shown separately in the financial statements (concept of materiality).
	It is a disclosable item (according to Companies Act) – not ethical to hide the amount.
	Transparency is an important characteristic in corporate governance.

	3
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3.3

FINANCIAL STATEMENTS AND FIXED ASSETS

Income Statement of HB Ltd. for the year ended 30 June 2013		
Sales (3 109 650✓ – 9 650✓)		3 100 000
Cost of sales	✓	(2 066 600)
GROSS PROFIT	✓	1 033 400
Other income	(✓)	47 205
Rent income (40 900✓ + 4 300✓✓)		45 200
Bad debts recovered	✓✓	1 300
Profit with asset disposal (4 125✓ + 3 000✓ – 6 600✓)		525
GROSS OPERATING PROFIT		1 080 425
Operating expenses	(✓)	(804 425)
Directors' fees	✓	312 000
Audit fees	✓	21 900
Salaries and wages (354 000✓ + 11 000✓)		365 000
UIF contribution (3 680✓ + 150✓)		3 830
Consumable stores (4 890✓ + 1 034✓ – 1 320✓)		4 604
Bank charges (5 870 ✓ + 523✓)		6 393
Bad debts		3 560
Sundry expenses		42 322
Trading stock deficit (219 546 ✓ – 218 700✓)	✓	846
Depreciation (660✓✓ + 22 110✓✓ + 17 000✓✓ + 4 000✓✓)		43 770
Provision for bad debts adjustment	✓✓✓	200
OPERATING PROFIT (LOSS)	(✓)	276 000
Interest expense	✓✓	(33 000)
Profit (loss) before tax	(✓)	243 000
Income tax	✓	(68 040)
NET PROFIT (LOSS) FOR THE YEAR	✓	174 960

45

<p>Rent income $8y + 3(y + 800) = R40\ 900$ $y = R3\ 500$ $R3\ 500 + 800 = R4\ 300$</p>	<p>Depreciation Sold equipment: $R6\ 600 \times 15\% \times \frac{8}{12} = R660$ Old equipment: $R147\ 400 \times 15\% = R22\ 110$ Old vehicles: $(R240\ 000 - 155\ 000) \times 20\% = R17\ 000$ New vehicles: $R80\ 000 \times 20\% \times \frac{3}{12} = R4\ 000$</p>	<table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th colspan="4">ASSET DISPOSAL</th> </tr> </thead> <tbody> <tr> <td>Equity</td> <td>6 600</td> <td>Acc Depr.</td> <td>4 125</td> </tr> <tr> <td>Profit</td> <td>525</td> <td>Bank</td> <td>3 000</td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	ASSET DISPOSAL				Equity	6 600	Acc Depr.	4 125	Profit	525	Bank	3 000				
ASSET DISPOSAL																		
Equity	6 600	Acc Depr.	4 125															
Profit	525	Bank	3 000															

3.3.2

Notes to the financial statements

1. FIXED ASSETS

	Vehicles	Equipment
Carrying value on 1 July 2012	✓ 85 000	✓ 77 800
Cost price	✓ 240 000	✓ 154 000
Accumulated depreciation	✓ (155 000)	✓ (76 200)
Movements		
Additions at cost price	✓ 80 000	-
Asset disposal at carrying value	-	✓✓ (2 475)
Depreciation	✓✓ (21 000)	✓✓ (22 770)
Carrying value on 30 June 2013	✓ 144 000	✓ 52 555
Cost price	✓ 320 000	✓ 147 400
Accumulated depreciation	✓✓ (176 000)	✓✓ (94 845)

	21
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2. TRADE AND OTHER CREDITORS

Trade creditors	78 900
SARS(PAYE)	✓ 1 760
SARS (income tax) (68 040 ✓ – 60 000 ✓)	8 040
Pension fund	✓ 900
UIF (150 ✓ + 150 ✓)	300
Creditors for salaries	✓ 8 190
Shareholders for dividends	✓✓ 126 000
	224 090

	9
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Question total:	92
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» Question 4

4.1

General Ledger of Giovanni Traders Ltd.

Dr				Appropriation Account				B6		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2012 Feb	29	Income tax	✓	73 500	2012 Feb	29	Retained income	✓	61 500	
		Ordinary dividends	✓	98 000			Profit and loss	✓	210 000	
		Retained income	✓	100 000						
				271 500					271 500	

	5
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4.2

Notes to the Cash Flow Statement

4.2.1 Reconciliation between profit before tax and cash generated by operations		
Net profit before tax		✓ 210 000
Adjustment for:		
Interest expense		✓ 9 750
Depreciation (34 140 ✓✓✓ + 28 000 ✓✓✓)		62 140
Operating profit before changes in working capital		281 890
Changes in working capital		(✓) (60 320)
Increase in inventory (103 450 ✓ – 53 350 ✓)		(50 100)
Increase in receivables (64 150 ✓ – 52 650 ✓)		(11 500)
Increase in payables [(87 760 ✓ + 16 800 ✓) – (90 530 ✓ + 12 750 ✓)]		1 280
Cash generated by activities		221 570

	17
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4.2.2

Dividends paid

Amount in financial statements	(✓)(98 000)
Balance at the beginning of the year	✓✓ (30 000)
Balance at the end of the year	✓✓ 53 200
	(74 800)

	5
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Calculations:**Depreciation**

	Vehicles	Equipment
Carrying value – beginning of year	184 540	122 320
Additions	–	24 000
Asset disposal	(12 000)	–
Depreciation – work back to these amounts	(34 140)	(28 000)
Carrying value end of the year	138 400	118 320

4.3

GIOVANNI TRADERS LTD.**CASH FLOW STATEMENT for the YEAR ENDED 29 FEBRUARY 2012**

Cash flow from operating activities	(✓) 62 790
Cash generated by activities	✓ 221 570
Interest paid	✓ (9 750)
Dividends paid	(✓) (74 800)
Income tax paid (4 140 ✓ + 73 500 ✓ – 3 410 ✓)	(74 230)
Cash flow from investment activities	(✓) (172 930)
Fixed assets purchased (24 000 ✓ + 170 930 ✓✓)	
(194 930)	
Proceeds of asset disposal	✓ 12 000
Decrease in fixed deposit	✓✓ 10 000
Cash flow from financing activities	(✓) 130 000
Proceeds from shares issued (500 000 ✓ – 340 000 ✓)	160 000
Decrease in loan (80 000 ✓ – 50 000 ✓)	(30 000)
Net change in cash & cash equivalents	(✓) 19 860
Cash and cash equivalents end of previous year	✓ (8 500)
Cash and cash equivalents end of current year	✓ 11 360

4.4	Calculate the number of new ordinary shares that were issued on 30 April 2011.
	$\frac{160\,000}{2} \checkmark\checkmark = 80\,000 \checkmark$

	3
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4.5.1	Debtors collection period for 2012
	$\frac{\frac{1}{2}(52\,650 + 64\,150) \checkmark\checkmark}{426\,320 \checkmark} \times \frac{365}{1}$ $= \frac{58\,400}{426\,320} \times \frac{365}{1}$ $= 50 \text{ days } \checkmark$

	4
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4.5.2	Debt : Equity ratio
	$50\,000 \checkmark : 60\,000 \checkmark$ $= 0,08 : 1 \checkmark$

	3
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4.5.3	Return on shareholders' equity
	$\frac{(210\,000 - 73\,500) \checkmark\checkmark}{\frac{1}{2}(600\,000 + 401\,500) \checkmark} \times \frac{100}{1}$ $= \frac{136\,500}{500\,750} \times \frac{100}{1}$ $= 27,3\% \checkmark$

	4
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4.5.4	Earnings per share
	$\frac{136\,500}{(170\,000 + 80\,000)} \times \frac{100}{1}$ $\frac{136\,500 \checkmark}{250\,000 \checkmark\checkmark} \times \frac{100}{1}$ $= 54,6 \text{ cents } \checkmark$

	4
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4.6	Comment on the liquidity position for 2012. Quote three relevant financial indicators to support your answer.
	<p>The liquidity position improved, but it is still not good. ✓✓</p> <p>Quoting figures – any three of the following (3 × ✓✓)</p> <p>The current ratio improved from 0,7 : 1 to 1,1 : 1. ✓✓</p> <p>The acid test ratio increased from 0,36 : 1 to 0,47 : 1. The liquid assets do not cover the current liabilities. ✓✓</p> <p>Stock turnover rate was constant. ✓✓</p> <p>Debtors collection period improved slightly from 55 days to 50 days. ✓✓</p> <p>Creditors payment period stayed constant on 60 days. ✓✓</p> <p>The improvement of the ratio is because of the bank account that now has a positive balance. ✓✓</p>

	8
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4.7	An existing shareholder is disappointed with the price of R2 at which the new shares were sold. Quote a financial indicator to support his opinion and comment on it.
	<p>The shares are worth R2,40 according to the net asset value per share. ✓✓</p> <p>The company could have raised more capital if they sold it at a higher price. ✓✓</p>

	4
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4.8	Will an investor be interested in buying shares in this company? Quote figures for TWO financial indicators, other than those discussed above, to support this opinion and comment on each.
	<p>Yes / No ✓✓</p> <p>Reasons for Yes:</p> <ul style="list-style-type: none"> • The return on capital employed increased from 34,6% to 38,8%. • The return on shareholders' equity improved from 25,1% to 27,3%. • Earnings per share increased from 50 cents to 54 cents. • Dividends per share increased from 39 cents to 38 cents. <p>Reasons for No:</p> <ul style="list-style-type: none"> • The liquidity situation of the business does not look good, current ratio 1,1 : 1. • The business will struggle to meet short-term obligations. • Concern about future growth. <p>(2 quotes × ✓✓)</p>

	6
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Question total:	85
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Question 5

5.1 INVENTORY SYSTEMS

5.1.1	Calculate the value of the closing stock on 30 June 2012 using the weighted average method.
	$\frac{55\,900 + 324\,500 + 23\,600 - 3\,200}{430 + 2\,200 - 20}$ $= \frac{400\,800}{2\,610}$ $= R153,56$ $210 \times R153,56 = R32\,247,60 \text{ (R32\,248,28)}$

	6
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5.1.2	Calculate the following for the year ended 30 June 2012:																					
	<table border="1"> <tr> <td colspan="3">Cost of sales</td> </tr> <tr> <td>Opening stock</td> <td>✓</td> <td>55 900,00</td> </tr> <tr> <td>Purchases</td> <td>✓</td> <td>324 500,00</td> </tr> <tr> <td>Returns</td> <td>✓</td> <td>(3 200,00)</td> </tr> <tr> <td>Import duties</td> <td>✓</td> <td>23 600,00</td> </tr> <tr> <td>Closing stock</td> <td>(✓)</td> <td>(32 247,60)</td> </tr> <tr> <td>Cost of sales</td> <td>✓</td> <td><u>368 552,40</u></td> </tr> </table>	Cost of sales			Opening stock	✓	55 900,00	Purchases	✓	324 500,00	Returns	✓	(3 200,00)	Import duties	✓	23 600,00	Closing stock	(✓)	(32 247,60)	Cost of sales	✓	<u>368 552,40</u>
Cost of sales																						
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Purchases	✓	324 500,00																				
Returns	✓	(3 200,00)																				
Import duties	✓	23 600,00																				
Closing stock	(✓)	(32 247,60)																				
Cost of sales	✓	<u>368 552,40</u>																				
	<table border="1"> <tr> <td colspan="3">Gross profit</td> </tr> <tr> <td>Sales</td> <td>✓</td> <td>720 000,00</td> </tr> <tr> <td>Cost of sales</td> <td>(✓)</td> <td>(368 552,40)</td> </tr> <tr> <td>Gross profit</td> <td>✓</td> <td><u>351 447,60</u></td> </tr> </table>	Gross profit			Sales	✓	720 000,00	Cost of sales	(✓)	(368 552,40)	Gross profit	✓	<u>351 447,60</u>									
Gross profit																						
Sales	✓	720 000,00																				
Cost of sales	(✓)	(368 552,40)																				
Gross profit	✓	<u>351 447,60</u>																				

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5.1.3	Use the figures in question 5.1.2 to calculate the percentage profit achieved on cost of sales.
	$\frac{351\,447,60}{368\,552,40}$ $= 95,4\%$

	3
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5.1.4	Calculate the rate of stock turnover for 2012.
	$\frac{368\,552,40}{\frac{1}{2}(55\,900 + 32\,247,60)}$ $= \frac{344\,952,50}{44\,073,80}$ $= 8,4 \text{ times}$

	4
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5.1.5	In the previous financial year the gross profit was R360 000, the mark-up percentage on cost price was 120% and the rate of stock turnover was 6 times per year. Refer to your calculations in questions 5.1.3 and 5.1.4 and comment whether the change in mark-up percentage was a good decision by Siphokazi.
	Yes, the sales increase because the rate of stock of turnover increased from 6 to 8,4 times per year. ✓✓ Gross profit increased from R350 000 to R351 447,60. ✓✓

	4
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5.1.6	Siphokazi wants to know what the value of the closing would have been, had she used the FIFO method for stock valuation, and how this would influence the gross profit (will it be more or less). Show calculations.
	Value of closing stock – FIFO $210 \times (R160 + R12) = R36\ 120$ ✓✓
	Influence on gross profit: Gross profit will be more. ✓✓

	4
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5.2 PROBLEM SOLVING

	Problem (quote figures)	Solution/Advice
BRANCH 1: Peter	Not enough spent on advertising ✓✓	The sales of Branch 1 can increase if they spent more on advertising and open the shop on from Mondays to Sundays. ✓✓
BRANCH 2: Sarah	Sales are poor (R170 000 compared to R310 000 and R400 000). ✓✓ Returns are high (12% compared to 5% in other branches). Too little stock on hand.	Sarah does not have enough stock on hand – she should investigate why there are so many returns. ✓✓
BRANCH 3: Siphokazi	Problem: control over stock. ✓ 15 units of stock stolen in a month. ✓	Siphokazi has a lot of stock on hand (120 days) – he can sell some of the excess stock and improve control over stock. ✓✓

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Question total:	42
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Grand total:	300
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INSTRUCTIONS

1. This question paper consists of FIVE compulsory questions. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer the questions.
3. Where applicable workings must be shown in order to achieve part-marks.
4. Candidates will forfeit marks for:
 - Important dates which are omitted
 - Using non-standardised abbreviations
 - Overwriting figures
 - Using Tippex®
5. Non-programmable calculators may be used.
6. You may not use green or red ink but you may use a dark pencil.

QUESTION 1: 34 marks; 20 minutes	
The topic of the question is:	The subjects covered are:
Reconciliations and internal control	Financial Accounting <ul style="list-style-type: none"> • Reconciliation Managing resources <ul style="list-style-type: none"> • Internal control
QUESTION 2: 54 marks; 32 minutes	
The topic of the question is:	The subjects covered are:
Manufacturing	Managerial accounting <ul style="list-style-type: none"> • Analyse and report on cost information • Prepare production statement
QUESTION 3: 78 marks; 46 minutes	
The topic of the question is:	The subjects covered are:
Financial statements of a company and audits	Financial information <ul style="list-style-type: none"> • Prepare financial statements, analyse and interpret Managing resources <ul style="list-style-type: none"> • Ethics
QUESTION 4: 60 marks; 35 minutes	
The topic of the question is:	The subjects covered are:
Company cash flow, asset disposal and ratios	Financial information <ul style="list-style-type: none"> • Prepare financial statements, analyse and interpret
QUESTION 5: 35 marks; 21 minutes	
The topic of the question is:	The subjects covered are:
Budgets	Managerial accounting <ul style="list-style-type: none"> • Prepare a debtors collection schedule • Analyse and interpret a Cash Budget Managing resources <ul style="list-style-type: none"> • Code of ethics
QUESTION 6: 39 marks; 26 minutes	
The topic of the question is:	The subjects covered are:
Stock valuation and VAT	Financial information <ul style="list-style-type: none"> • VAT accounts and calculations Managing resources <ul style="list-style-type: none"> • Calculate and validate inventories • Apply internal control and audit processes



Claire Darwin, the financial director of Hamilton Ltd., is preparing information for the external auditors. While putting the information together she discovers a few issues that concern her:

- There is a possibility that cash is being stolen from the business.
- The employee responsible for purchases, Mr Joe Crooke, also handles the creditors' payments. Claire suspects that he had defrauded Hamilton Ltd. by ordering personal goods for himself from the creditors. Hamilton Ltd. has paid for these goods.

Required

Study the information provided. Then answer the questions that follow.

Information**Bank Reconciliation Statement on 30 September 2012**

	Debit	Credit
Balance according to bank statement	31 876	
Credit outstanding deposit (28 September 2012)		14 989
Credit outstanding deposit (12 August 2012)		21 332
Debit cheques not presented for payment:		
No. 2213 (dated 4 April 2012) (donation)	600	
No. 2217 (dated 2 September 2012) (purchases of equipment)	2 390	
No. 2234 (dated 15 October 2012) (payment of creditor)	8 700	
Balance according to <i>Bank</i> account	?	?

Creditor's reconciliation

A statement of account received from a creditor, Taylor Traders, on 28 September 2012, reflects that Hamilton Ltd. owes them R16 290. According to Hamilton Ltd., the amount outstanding is only R7 380.

On investigation, it was found that:

- Returns recorded as R970 in the Creditors Ledger of Hamilton Ltd. were recorded as R790 in the statement of account received from Taylor Traders. Hamilton Ltd. has made an incorrect entry.
- An invoice of R1 600 was incorrectly recorded as a debit note by Hamilton Ltd.
- Hamilton Ltd. received a discount of R50 on a payment of R500 on 14 September 2012. Taylor Traders however only entered the payment of R500 and not the R50 discount. They will correct the error.
- An invoice received from Taylor Traders was correctly recorded by Hamilton Ltd. as R2 050. In the statement received from Taylor Traders it was incorrectly recorded as R5 020.
- The following transactions took place after the statement of account, received from Taylor Traders, was closed off on 28 September:
Goods purchased for R5 490
A payment made to Taylor Traders for R8 000.

QUESTIONS**Relating to bank reconciliations:**

- 1.1 Calculate the balance according to the *Bank* account on 30 September 2012. State if the bank account is positive or overdrawn. (3)

- 1.2 What entry will the bookkeeper have to make with regards to cheque no. 2213 if it is still not presented for payment in the next month? This cheque was issued to the Eagle Fishing Club during April 2012 as a donation. (2)
- 1.3 Write down the number of the cheque that is post-dated. How should this cheque be treated in the financial statements if it was the end of the financial year? (3)
- 1.4 Explain why Claire might think that cash is being stolen from the business. (2)
- 1.5 If you suspected that the bookkeeper was stealing money, explain three ways you will look for audit evidence to back up your suspicion. (6)

Relating to creditors reconciliations:

- 1.6 Use the table in the Answer Book to indicate the differences that were discovered when comparing the account of Taylor Traders in the Creditors Ledger with the statement of account received from them. Write only the amounts. Calculate the correct balance/total at the end. (14)
- 1.7 What internal control measures can be taken to prevent employees from defrauding the creditor system? Name two. (4)

» Question 2 Manufacturing and Cost Accounting (54 marks; 32 minutes)

You are provided with information relating to Thobani's T-shirt Manufacturers for the year ended 29 February 2012.

SECTION A [10 marks]

Required

- 2.1 Match the work that a person would do in a manufacturing business with the description of the employee and the division/department the cost would be allocated to. Write only the letter (A–E and X–Z) next to the question number (2.1.1–2.1.5) in the Answer Book. (10)

Column A		Column B		Column C	
	Work done		Description of employee		Division / Department
2.1.1	Makes the product or operates the machine that makes the product	A.	Foreman/ Foreperson	X.	Factory
2.1.2	Does the books of the business and prepare the financial statements	B.	Sales representative	Y.	Administration
2.1.3	Ensures that raw materials and finished goods are not stolen and that the factory is productive	C.	Receptionist	Z.	Selling and distribution
2.1.4	Does the marketing of the product	D.	Direct labourer		
2.1.5	Answers the telephone and manages appointments	E.	Bookkeeper		

SECTION B [36 marks]

Required

- 2.2 Prepare the following:
- 2.2.1 Production Cost Statement for the year ended 29 February 2012, with notes for direct material cost, factory overheads and sales and distribution cost. Where notes are not asked, show calculations in brackets. (33)
- 2.2.2 Calculate the cost of sales for the year ended 29 February 2012. (3)

Information

The following were on hand at the beginning and end of the financial year:

	1 March 2011	29 February 2012
Raw material stock	R12 400	R9 800
Work-in-process stock	R6 530	?
Finished goods stock	R10 689	R16 288
Indirect material:		
Factory indirect materials	R1 290	R1 980
Packing material	R1 090	R1 220

The following purchases were made during the year:

- Material to produce the T-shirts, R136 700. A further R10 300 was paid for carriage on these purchases.
- Indirect material for factory, R12 400
- Packing material, R5 300. These are treated as part of distribution cost.
- Office stationery, R1 200

Employees' remuneration is as follows:

Direct labour	R172 000, including contributions.
Factory foreman	Earns a salary of R6 000 per month. He receives a UIF contribution of 1% and a pension contribution of 2% on his gross salary.
Office employees	Total of R197 000, including contributions
Sales representative	Earns commission of 10% on sales

Provide for depreciation on the assets. The fixed assets register shows the following:

	Cost price	Accumulated depreciation	Depreciation rate
Factory equipment	R130 000	R31 900	20% on the cost price
Office equipment	R42 000	R12 100	10% on the diminishing balance
Delivery vehicle	R140 000	R124 000	15% on cost price (note that the delivery vehicle is very old)

- Rent for the year was R108 000. This is to be apportioned according to floor area: Factory, 500 square metres; Office, 250 square metres, Sales department, 150 square metres.
- Water and electricity for the administration department amounted to R6 840, for the factory R12 300 and for the sales and distribution department, R3 210.
- During the year the business produced 10 000 T-shirts and sold 9 890 T-shirts.
- The cost of production per finished T-shirt was R50,90.
- Goods were sold for cash, R840 650.

SECTION C

[8 marks]

Required

- 2.3.1 Calculate the breakeven point for the year ended 29 February 2012. (5)
- 2.3.2 Comment on the breakeven point. Should the business be satisfied with the number of units that are currently produced? Explain. (3)

Information

	Total	Per unit
Sales	R840 650	R85
Variable cost	R448 044	R44,95
Fixed cost	R422 200	R42,49



Question 3 Company concepts, financial statements and audit report

(78 marks; 46 minutes)

3.1 COMPANY CONCEPTS AND AUDIT REPORTS

[8 marks]

Choose an example from COLUMN B that matches the concept relating to companies in COLUMN A. Write only the letter (A–E) next to the question number (3.1.1–3.1.5) in the Answer Book. (8)

COLUMN A		COLUMN B	
3.1.1	Directors' Report	A.	This is an opinion issued by a qualified person to state whether the financial statement can be relied upon or not.
3.1.2	Independent Auditors Report	B.	In our opinion, the financial statements fairly represent the financial position of the company at 30 June 2011, except for the marketing expense in the Income Statement which could not be verified, as no documentation existed for this expenditure.
3.1.3	Qualified report	C.	This is a document which explains the performance of the company and major decisions that were taken.
3.1.4	Unqualified report	D.	In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 29 February 2012 in accordance with IFRS and in the manner required by the Companies Act in South Africa.

3.2 COMPANY STATEMENTS

[70 marks]

You are provided with information relating to Broomstix Ltd., a public company that sells cleaning materials. The financial year ends 28 February 2014.

Required

- 3.2.1 Complete the Income Statement for the year ended 28 February 2014. (42)
- 3.2.2 Show the following notes to the Balance Sheet:
 - 3.2.2.1 Trade and other receivables (9)
 - 3.2.2.2 Trade and other payables (7)
- 3.2.3 Complete the Equity and Liabilities section of the Balance Sheet on 28 February 2014. Where the notes to the Balance Sheet are not asked, show calculations in brackets. (12)

Information**BROOMSTIX LTD.****PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2014**

	Debit	Credit
Balance Sheet accounts		
Ordinary share capital (150 000 shares)		750 000
Retained income		46 300
Land and buildings	1 130 000	
Vehicles	180 000	
Equipment	58 000	
Accumulated depreciation on vehicles		74 000
Accumulated depreciation on equipment		26 800
Mortgage loan from EC Bank		154 000
Trading stock	330 000	
Debtors control	37 000	
Provision for bad debts		2 110
Bank		23 891
Petty cash	1 000	
Creditors control		52 830
SARS (income tax)	226 630	
Nominal accounts		
Sales		3 846 200
Debtors allowances	26 200	
Cost of sales	2 011 300	
Rent income		66 000
Salaries and wages	431 000	
Insurance	28 000	
Packing material	19 220	
Consumables	9 760	
Directors' fees	300 000	
Audit fees	70 000	
Bank charges	15 320	
Discount allowed	6 100	
Sundry expenses	32 580	
Interest on overdraft	4 021	
Dividends on ordinary shares	126 000	
	5 042 131	5 042 131

Adjustments and additional information

- A debtor returned goods that he did not order. The selling price was R6 480 and the mark-up was 80% on cost.
- The directors are owed a further R50 000 and the auditors are owed another R12 000.
- The bank statement for March 2014 arrived after the Trial Balance had been drawn up. The following items have not been entered:
Bank charges, R1 090
Interest on overdraft, R438
A dishonoured cheque of R1 800, received from a debtor in payment of his account of R2 000
- Rent has been received for 15 months.
- The provision for bad debts must be adjusted to 5% of outstanding debtors.

- The amount for insurance includes an annual insurance of R2 700 that was paid on 1 October 2013.
- The physical stock count at the end of the year revealed the following:
Trading stock, R331 500
Packing materials, R1 890
- Depreciation is to be written off at the following rates:
On equipment at 10% p.a. on cost. Note that new equipment costing R12 000 was bought on 1 September 2013 and properly recorded.
On vehicle at 20% p.a. on the diminishing balance
- Interest on the mortgage loan is capitalised (added to the loan). The loan statement reflects that interest of R16 940 has not been recorded in the books of the company. During the next 12 months the loan will be reduced by R30 000.
- One of the employees took an advance of R2 000 on his salary of March 2014, as his daughter was getting married. No entry has been made of this.
- A final dividend of 80 cents per share has been declared at the end of the financial year.
- Income tax must be recorded at 28% of net profit.



Question 4 Cash Flow Statement, asset disposal and analysis and interpretation

(60 marks; 35 minutes)

The information was extracted from the financial records of MC Traders on 30 June 2013, the end of the financial year. They are authorized to issue 600 000 shares. By 30 June 2013 they have issued 270 000 of these shares.

Required

- 4.1 Prepare the *Asset Disposal* account in the General Ledger of MC Traders on 31 December 2012. (8)
- 4.2 Show the note for reconciliation between profit before taxation and cash generated from operations to the Cash Flow Statement for the year ended 30 June 2013. (13)
- 4.3 Complete the Cash Flow Statement for the year ended 30 June 2013. Note that some of the amounts have already been entered in the Answer Book. If the note to the Cash Flow Statement is not required, please show calculations in brackets. (15)
- 4.4 Calculate the following financial indicators for 2013:
 - 4.4.1 Acid test ratio (4)
 - 4.4.2 Debt : Equity ratio (4)
 - 4.4.3 Net asset value per share (3)
- 4.5 Comment on the liquidity situation of the company. (6)
- 4.6 The company wants to expand their operations in the next financial year and therefore they will need more fixed assets such as land and buildings. How do you suggest should they finance this? Give two options and explain why you suggest this. (4)
- 4.7 One of the shareholders of MC Traders was offered R2,80 per share. Should he accept this offer? (3)

Information

The following totals were extracted from the financial statements:

Balance Sheet	2013	2012
Share capital	810 000	660 000
Retained income	133 130	135 360
Land and buildings	700 000	700 000
Equipment	290 000	260 000
Accumulated depreciation on equipment	157 700	133 200
Loan: AB Bank (11% interest on loan)	90 000	130 000
SARS (income tax)	6 770(cr)	8 760(dr)
Debtors	134 900	156 700
Creditors	268 900	234 600
Inventory	356 000	124 000
Cash and cash equivalents	45 600	98 700
Shareholders for dividends	60 000	55 000

Income Statement balances

	2012	
Net profit (loss) after tax	129 670	
Income tax	62 066	

Fixed assets

Equipment purchased on 1 July 2010 for R40 000, was sold on 31 December 2012 at the carrying value. Depreciation on equipment is calculated at 15% p.a. on the cost price.

Financial indicators

	2013	2012
Current ratio	1,6 : 1	1,3 : 1
Acid test ratio	?	0,9:1
Stock holding period	129 days	67 days
Debt : equity ratio	?	0,16:1
Percentage return on capital employed	21%	21%
Net asset value per share	?	361,53 cent



Question 5 Budgets

(35 marks; 21 minutes)

Click-Click Camera is a small business in the town mall that sells cameras and accessories.

At the end of November 2012, Click-Click Camera compared their actual results with their projected figures. They then used these to prepare figures for the budget for December 2012.

Required

Study the information provided. Then answer the questions that follow.

Information

Extract from the Projected Income Statement for Click-Click Camera

	Projected figures for Nov 2012	Actual figures for Nov 2012	Projected figures for Dec 2012
Sales	120 000	80 000	150 000
Cost of sales	(80 000)	(59 250)	(100 000)
Advertising	10 000	3 000	10 000
Repairs and maintenance of delivery vehicle	500	6 400	500
Telephone	1 200	3 458	1 200
Rent expense	6 500	6 500	7 020
Stationery	500	500	500

Extract from the Cash Budget for Click-Click Camera

	Budget for Nov 2012	Actual figures for Nov 2012	Budget for Dec 2012
RECEIPTS			
Collection from debtors	72 000	40 000	90 000
PAYMENTS			
Purchases of trading stock	80 000	20 000	40 000
Advertising	10 000	3 000	2 000
Stationery	5 600	5 000	120

Extract from an article in the magazine *Shop Talk – South Africa*, November 2012

The upheaval in world economic markets, high interest rates and slowing economic growth are all contributing to many South African businesses having a decrease in turnover. Especially businesses selling luxury items are feeling the chill of the economic climate ...

QUESTIONS

- 5.1 Some items such as stationery could appear in both the Projected Income Statement and the Cash Budget, but the amounts are different in the two statements. Explain why. (2)
- 5.2 Name two possible reasons for the actual sales being much less than the predicted sales for November 2012. (4)
- 5.3 Do you think Click-Click Camera was realistic in their prediction for sales for December 2012? Explain. (3)
- 5.4 The mark-up percentage predicted for November 2012 was 50% on cost price. Calculate the mark-up that was actually achieved. Give two possible reasons for the difference. (8)
- 5.5 With what percentage is the business expecting the rent to increase on 1 December 2012? (3)
- 5.6 Collections of debtors:
- 5.6.1 Does this business have a good policy with regards to collection from debtors? Explain. (3)
- 5.6.2 State two points how they can improve the credit policy. (4)
- 5.7 Comment on each of the following items with regards to the following:
- The amount projected and the actual amount for November
 - The projection/budget for December 2012
- 5.7.1 Telephone (4)
- 5.7.2 Purchases of trading stock (4)



Question 6 Inventory and VAT

(39 marks; 26 minutes)

Charlotte's Chocolate Factory is a business that buys and sells one type of chocolate, Fifi Bars. It is owned by Lisa Brink and Sarah Raal.

Required

Refer to the information provided to answer the questions that follow.

Information

- The business has been operating since 1 July 2011 and is registered for VAT. VAT returns are submitted every two months.
- The first financial year ends on 30 June 2012.
- Chocolate purchases for July 2011 to April 2012 amounted to R360 704 (excluding VAT) for a total of 24 000 Fifi Bars. The chocolate cost R13 (excluding VAT) per slab in July 2011, and the price has risen steadily since then.

Summary of transactions that took place during May and June 2012

	Value (VAT exclusive)	VAT @ 14%
Sales for May and June 2012 (70% cash; 30% credit)	R144 000	R20 160
Discount allowed to customers	R1 200	R168
Bad debts written off	R7 200	R1 008
Chocolate slabs purchased on credit		
4 May 2011: 1 600 slabs @ R16 each	R25 600	R3 584
5 June 2012: 1 200 slabs @ R17 each	R20 400	R2 856
Returns to creditors (80 slabs @ R17 each)	R1 360	R190,40
Other purchases and payments	R36 000	R5 040

- The information in bullet 2 above was used to prepare the *VAT Control* account on 30 June 2012:

Dr		VAT Control						Cr	
Date		Details	Fol.	Amount	Date	Details	Fol.	Amount	
2012					2012				
May	15	Bank	CPJ	9 840	May	01 Balance	b/d	9 840	
2012					2012				
Jun	30	(6.1.5)	CRJ	168	Jun	30 (6.1.4)	CRJ	14 112	
		Debtors control	GJ	1 008		Debtors control	DJ	6 048	
		Creditors control	CJ	6 440		(6.1.6)	CAJ	190,40	
		Bank	CPJ	5 040					
		Balance	c/d	?					
				?				?	
					2012				
					Jul	01 Balance	b/d	?	

- The quality of the chocolates is very important. If chocolates are melted, slightly squashed or damaged in any way, it is written off to a Damaged Stock account and given to employees.
- The periodic stock system is in use. 1 400 slabs are on hand on 30 June 2012, after some stock had to be written off in June 2012.

QUESTIONS

Relating to VAT:

- 6.1 Choose the most correct answer for each of the following.
(Refer to the first three bullets of the information provided.) (12)
- 6.1.1 It is compulsory for a business to register as a VAT vendor when they have a turnover of more than:
A R200 000
B R300 000
C R500 000
D R1 000 000
- 6.1.2 The amount payable to SARS is calculated by saying:
A Output VAT – Input VAT
B Input VAT – Output VAT
C Output VAT + Input VAT
- 6.1.3 The balance of R9 840 on 1 May 2012 in the *VAT Control* account represents the VAT payable for:
A July 2011 to April 2012
B March and April 2012
C April 2012
D May and June 2012
- 6.1.4 The missing detail for the amount of R14 112 on the credit side of the *VAT Control* account is:
A Bank
B Cost of Sales
C Debtors control
D Sales
- 6.1.5 The missing detail for the amount of R168 on the debit side of the *VAT Control* account is:
A Bank
B Debtors control
C Sales
D Discount allowed
- 6.1.6 The missing detail for the amount of R190,40 on the credit side of the *VAT Control* account is:
A Creditors allowances
B Creditors control
C Bank
D Discount received
- 6.2 Calculate the amount payable to SARS on 30 June 2012. (2)

Relating to stock systems and valuation:

- 6.3 Lisa and Sarah cannot agree on the stock valuation method that should be used to value the stock on 30 June 2012. (Refer to information provided.)
- 6.3.1 Calculate the weighted average price per unit (excluding VAT) for the year ended 30 June 2012. (5)
- 6.3.2 Calculate the value of closing stock on hand (excluding VAT) on 30 June 2012 using the weighted average method. (3)
- 6.3.3 Calculate the value of closing stock on hand (excluding VAT) using FIFO. (5)

- 6.4 Lisa would like to alternate between using a weighted average and a FIFO method, depending on which will result in the higher cost of sales. However, Sarah thinks FIFO is most suitable for the business.
- 6.4.1 Why do you think Lisa wants to increase the value of cost of sales in the financial statements? (2)
- 6.4.2 The bookkeeper does not agree with Lisa's suggestion. He says it does not comply with the requirements of International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Practice (GAAP). Why not? (2)
- 6.4.3 Do you agree with Sarah's suggestion of using FIFO? Explain. (3)
- 6.5 Sarah suspects that more chocolates are being written off by the bookkeeper and given to employees than is necessary.
- 6.5.1 What is a risk with regards to this type of product (chocolates) and what internal control measure can be put into place to prevent this risk? (3)
- 6.5.2 Suggest one possible control measure to prevent theft of chocolates being disguised as damaged stock. (2)

ACCOUNTING

Grade 12

September _____

Answer Book

Name of learner:

Educator:

Question	Topic	Total mark	Mark achieved
1	Reconciliation	34	
2	Manufacturing	54	
3	Financial statements of a company and audits	78	
4	Company cash flow and ratios	60	
5	Budgets	35	
6	Stock control & VAT	39	
		300	

Report mark calculations

September examination		300		75
Assessment task: Control test		100		25
Assessment task: Written report		110		
Report mark				100



Question 1

1.1	Calculate the balance according to the <i>Bank</i> account on 30 September 2012. State if the bank account is positive or overdrawn.

3

1.2	What entry will the bookkeeper have to make with regards to cheque no. 2213 if it is still not presented for payment in the next month? This cheque was issued to the Eagle Fishing Club during April 2012 as a donation.
	Debit
	Credit

	2
--	----------

1.3	Write down the number of the cheque that is post-dated. How should this cheque be treated in the financial statements if it was the end of the financial year?

	3
--	----------

1.4	Explain why Claire might think that cash is being stolen from the business.

	2
--	----------

1.5	If you suspected that the bookkeeper was stealing money, explain three ways you will look for audit evidence to back up your suspicion.

	6
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**Question 2****SECTION A****[10 marks]**

2.1	Match the work that a person would do in a manufacturing business with the description of the employee and the division/ department the cost would be allocated to. Write only the letter (A–E and X–Z) next to the question number (2.1.1–2.1.5) in the Answer Book.		
	Work done	Description of employee (A, B, C, D or E)	Division/ Department (X, Y or Z)
2.1.1	Makes the product or operates the machine that makes the product		
2.1.2	Does the books of the business and prepare the financial statements		
2.1.3	Ensures that raw materials and finished goods are not stolen and that the factory is productive		
2.1.4	Does the marketing of the product		
2.1.5	Answers the telephone and manages appointments		

	10
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SECTION B

2.2.1

THOBANI'S T-SHIRT MANUFACTURERS**PRODUCTION COST STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2012**

Direct costs	
Direct material cost	
Direct labour cost	
Factory overheads	
Total manufacturing cost	
Work-in-process at the beginning of the year	6 530
Work-in-process at the end of the year	
Cost of production of finished goods	

	7
--	----------

DIRECT MATERIAL COST

Raw materials at the beginning of the year	12 400
Raw material stock at the end of the year	(9 800)

	2
--	----------

FACTORY OVERHEADS

	12
--	-----------

SELLING AND DISTRIBUTION COST

	12
--	-----------

2.2.2	Calculate the cost of sales for the year ended 29 February 2012.

	3
--	----------

SECTION C

[8 marks]

2.3.1	Calculate the breakeven point for the year ended 29 February 2012.

	5
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2.3.2	Comment on the breakeven point. Should the business be satisfied with the number of units that are currently produced? Explain.

	3
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Question total:	54
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Question 3

3.1 COMPANY CONCEPTS AND AUDIT REPORTS

3.1	Choose an example from COLUMN B that matches the concept relating to companies in COLUMN A. Write only the letter (A–E) next to the question number (3.1.1–3.1.5) in the Answer Book.
3.1.1	
3.1.2	
3.1.3	
3.1.4	

	3
--	----------

3.2 COMPANY STATEMENTS

3.2.1

Broomstix Ltd.		
Income Statement for the year ended 28 February 2014		
Sales		
Cost of sales		
GROSS PROFIT		
Other income		
Rent income		
GROSS OPERATING INCOME		
Operating expenses		
Salaries and wages		431 000
Insurance		
Packing material		
Consumables		9 760
Directors' fees		
Audit fees		
Bank charges		
Discount allowed		
Sundry expenses		32 580
OPERATING PROFIT (LOSS) BEFORE INTEREST EXPENSE		
Interest expense		
Profit (loss) before tax		837 800
Income tax		
NET PROFIT (LOSS) FOR THE YEAR		603 216

	42
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3.2.2

NOTES TO THE BALANCE SHEET

1. TRADE AND OTHER RECEIVABLES

Trade debtors	
Provision for bad debts	
Net trade debtors	

	9
--	----------

2. TRADE AND OTHER CREDITORS

Trade creditors	52 830

	7
--	----------

3.2.3

EQUITY AND LIABILITIES	
Shareholders' equity	1 153 516
Share capital	750 000
Retained income	403 516
Non-current liabilities	
Mortgage loan from EC Bank	
Current liabilities	
Trade and other payables	
TOTAL EQUITY AND LIABILITIES	

	12
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Question total:	78
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» Question 4

4.1

General ledger of MC Traders Ltd.

Dr				Asset Disposal				Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2012 Dec	31				2012 Dec	31			

	8
--	----------

Calculations

4.2

Notes to the Cash Flow Statement

Reconciliation between profit before tax and cash generated by operations	
Net profit before tax	
Adjustment for:	
Interest expense	14 300
Depreciation	39 500
Operating profit before changes in working capital	
Changes in working capital	
Cash generated by activities	

	13
--	-----------

4.3

MC TRADERS LTD.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

Cash flow from operating activities	
Cash generated by activities	
Interest paid	(14 300)
Tax Paid	
Dividends paid	(126 900)
Cash flow from investment activities	
Fixed assets purchased	(70 000)
Proceeds of asset disposal	
Cash flow from financing activities	
Net change in cash and cash equivalents	
Cash and cash equivalents at the beginning of the year	
Cash and cash equivalents end of current year	

	15
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4.4.1	Acid test ratio

	4
--	----------

4.6	The company wants to expand their operations in the next financial year and therefore they will need more fixed assets such as land and buildings. How do you suggest should they finance this? Give two options and explain why you suggest this.

	4
--	----------

4.7	One of the shareholders of MC Traders was offered R2,80 per share. Should he accept this offer?

	3
--	----------

Question total:	60
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» Question 5

5.1	Some items such as stationery could appear in both the Projected Income Statement and the Cash Budget, but the amounts are different in the two statements. Explain why.

	2
--	----------

5.2	Name two possible reasons for the actual sales being much less than the predicted sales for November 2012.

	4
--	----------

5.3	Do you think Click-Click Camera was realistic in their prediction for sales for December 2012? Explain.

	3
--	----------

5.4	The mark-up percentage predicted for November 2012 was 50% on cost price. Calculate the mark-up that was actually achieved. Give two possible reasons for the difference.
	Mark-up actually achieved
	Reasons

	8
--	----------

5.5	With what percentage is the business expecting the rent to increase on 1 December 2012?

	3
--	----------

5.6.1	Does this business have a good policy with regards to collection from debtors? Explain.
	Yes / No
	Explanation

	3
--	----------

5.6.2	State two points how they can improve the credit policy.

	4
--	----------

5.7	Comment on each of the following items with regards to the following: <ul style="list-style-type: none"> • The amount projected and the actual amount for November • The projection/budget for December 2012
5.7.1	Telephone

	4
--	----------

5.7.2	Purchases of trading stock

	4
--	----------

Question total:	35
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» **Question 6**

6.1	Choose the most correct answer for each of the following. (Refer to the first three bullets of the information provided.)		
6.1.1		6.1.4	
6.1.2		6.1.5	
6.1.3		6.1.6	

	12
--	-----------

6.2	Calculate the amount payable to SARS on 30 June 2012.

	2
--	----------

6.3.1	Calculate the weighted average price per unit (excluding VAT) for the year ended 30 June 2012.

	5
--	----------

6.3.2	Calculate the value of closing stock on hand (excluding VAT) on 30 June 2012 using the weighted average method.

	3
--	----------

6.3.3	Calculate the value of closing stock on hand (excluding VAT) using FIFO.

	5
--	----------

6.4.1	Why do you think Lisa wants to increase the value of cost of sales in the financial statements?

	2
--	----------

6.4.2	The bookkeeper does not agree with Lisa's suggestion. He says it does not comply with the requirements of International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Practice (GAAP). Why not?

	2
--	----------

6.4.3	Do you agree with Sarah's suggestion of using FIFO? Explain.
	Yes / No
	Reason

	3
--	----------

6.5.1	What is a risk with regards to this type of product (chocolates) and what internal control measure can be put into place to prevent this risk?
	Risk
	Internal control

	3
--	----------

6.5.2	Suggest one possible control measure to prevent theft of chocolates being disguised as damaged stock.

	2
--	----------

Question total:	39
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Grade 12	Time: 3 hours
September	Accounting
	Marks: 300

» Question 1

1.1	Calculate the balance according to the <i>Bank</i> account on 30 September 2012. State if the bank account is positive or overdrawn.
	R31 876 + 600 + 2 390 + 8 700 – 14 989 – 21 332 = R7 245 ✓✓ overdraft ✓

	3
--	---

1.2	What entry will the bookkeeper have to make with regards to cheque no. 2213 if it is still not presented for payment in the next month? This cheque was issued to the Eagle Fishing Club during April 2012 as a donation.
	Debit: Bank ✓
	Credit: Donations ✓

	2
--	---

1.3	Write down the number of the cheque that is post-dated. How should this cheque be treated in the financial statements if it was the end of the financial year?
	No. 2234 ✓
	Add to <i>Bank</i> ✓
	Add to <i>Creditors Control</i> ✓

	3
--	---

1.4	Explain why Claire might think that cash is being stolen from the business.
	The bank reconciliation shows a missing (outstanding) deposit since 12 August 2012.
	It appears that rolling of cash is occurring.
	✓✓ (Any acceptable answer)

	2
--	---

1.5	If you suspected that the bookkeeper was stealing money, explain three ways you will look for audit evidence to back up your suspicion.
	Compare receipts to deposit slips.
	Check the bank statement and bank reconciliation to see if all transactions are recorded.
	Look for cash payments that have not been properly authorised.
	Check authenticity of source documents.
	(Any acceptable answer) (✓✓ × 3)

	6
--	----------

1.6	Use the table in the Answer Book to indicate the differences that were discovered when comparing the account of Taylor Traders in the Creditors Ledger with the statement of account received from them. Write only the amounts. Calculate the correct balance / total at the end.																											
	<table border="1"> <thead> <tr> <th></th> <th>Creditors Ledger of Hamilton Ltd.</th> <th>Reconciliation statement of Taylor Traders</th> </tr> </thead> <tbody> <tr> <td>Balance</td> <td>R7 380</td> <td>R16 290</td> </tr> <tr> <td>1.</td> <td>R180 ✓✓</td> <td></td> </tr> <tr> <td>2.</td> <td>R3 200 ✓✓</td> <td></td> </tr> <tr> <td>3.</td> <td></td> <td>(50) ✓✓</td> </tr> <tr> <td>4.</td> <td></td> <td>(2 970) ✓✓</td> </tr> <tr> <td>5.</td> <td></td> <td>5 490 ✓✓</td> </tr> <tr> <td></td> <td></td> <td>(8 000) ✓✓</td> </tr> <tr> <td>Balance</td> <td>R10 760 (✓)</td> <td>R10 760 (✓)</td> </tr> </tbody> </table>		Creditors Ledger of Hamilton Ltd.	Reconciliation statement of Taylor Traders	Balance	R7 380	R16 290	1.	R180 ✓✓		2.	R3 200 ✓✓		3.		(50) ✓✓	4.		(2 970) ✓✓	5.		5 490 ✓✓			(8 000) ✓✓	Balance	R10 760 (✓)	R10 760 (✓)
	Creditors Ledger of Hamilton Ltd.	Reconciliation statement of Taylor Traders																										
Balance	R7 380	R16 290																										
1.	R180 ✓✓																											
2.	R3 200 ✓✓																											
3.		(50) ✓✓																										
4.		(2 970) ✓✓																										
5.		5 490 ✓✓																										
		(8 000) ✓✓																										
Balance	R10 760 (✓)	R10 760 (✓)																										

	14
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1.7	What internal control measures can be taken to prevent employees from defrauding the creditor system? Name two.
	Division of duties – same person should not be ordering goods and paying creditors.
	Spot checks should be done to compare invoices and payments with entries in the journals.
	(Any acceptable answer) (✓✓ × 2)

	4
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Question total:	34
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Question 2

SECTION A

2.1	Match the work that a person would do in a manufacturing business with the description of the employee and the division / department the cost would be allocated to. Write only the letter (A–E and X–Z) next to the question number (2.1.1–2.1.5) in the Answer Book.		
	Work done	Description of employee (A, B, C, D or E)	Division/Department (X, Y or Z)
2.1.1	Makes the product or operates the machine that makes the product	D ✓	X ✓
2.1.2	Does the books of the business and prepare the financial statements	E ✓	Y ✓
2.1.3	Ensures that raw materials and finished goods are not stolen and that the factory is productive	A ✓	X ✓
2.1.4	Does the marketing of the product	B ✓	Z ✓
2.1.5	Answers the telephone and manages appointments	C ✓	Y ✓

	10
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SECTION B

2.2.1

THOBANI'S T-SHIRT MANUFACTURERS

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2012

Direct costs	(✓) 321 600
Direct material cost	(✓) 149 600
Direct labour cost	✓ 172 000
Factory overheads	✓ 184 170
Total manufacturing cost	505 770
Work-in-process at the beginning of the year	6 530
	512 300
Work-in-process at the end of the year	✓ (3 300)
Cost of production of finished goods	✓✓ 509 000

	7
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DIRECT MATERIAL COST

Raw materials at the beginning of the year	12 400
Purchases	✓ 136 700
Carriage on purchases	✓ 10 300
Raw material stock at the end of the year	(9 800)
	149 600

	2
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FACTORY OVERHEADS

Indirect material (1 290 + 12 400 – 1 980)	✓✓✓ 11 710
Factory foreman (72 000 + 720 + 1 440)	✓✓✓ 74 160
Depreciation (130 000 × 20%)	✓✓ 26 000
Rent (108 000 × $\frac{500}{900}$)	✓✓ 60 000
Water and electricity	✓ 12 300
	(✓) 184 170

	12
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SELLING AND DISTRIBUTION COST

Packing material (1 090 + 5 300 – 1 220)	✓✓✓ 5 170
Commission (840 650 × 10%)	✓✓ 84 065
Depreciation (140 000 – 124 000 – 1)	✓✓✓ 15 999
Rent (108 000 × $\frac{150}{900}$)	✓✓ 18 000
Water and electricity	✓ 3 210
	(✓) 126 444

	12
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2.2.2	Calculate the cost of sales for the year ended 29 February 2012.
	$R10\,689 + 509\,000 - 16\,288$ $= R503\,401$

	3
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SECTION C

[8 marks]

2.3.1	Calculate the breakeven point for the year ended 29 February 2012.
	$\frac{422\,200}{85 - 44,95}$ $= \frac{422\,200}{40,05}$ $= 10\,542 \text{ (10\,541,8) units}$

	5
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2.3.2	Comment on the breakeven point. Should the business be satisfied with the number of units that are currently produced? Explain.
	No
	They are produced 10 000 units and sold 9 890 units. That is less than the breakeven point, which means they will be making a loss.
	<i>(Any acceptable answer)</i>

	3
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Question total:	54
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» Question 3

3.1 COMPANY CONCEPTS AND AUDIT REPORTS

[8 marks]

3.1	Choose an example from COLUMN B that matches the concept relating to companies in COLUMN A. Write only the letter (A–E) next to the question number (3.1.1–3.1.5) in the Answer Book.		
3.1.1	C	3.1.3	B
3.1.2	A	3.1.4	D

	3
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3.2 COMPANY STATEMENTS

3.2.1

Broomstix Ltd.		
Income Statement for the year ended 28 February 2014		
Sales (3 846 200 ✓ – 26 200 ✓ – 6 480 ✓)		3 813 520
Cost of sales (2 011 300 ✓ – 3 600 ✓ ✓)		(2 007 700)
GROSS PROFIT	(✓)	1 805 820
Other income	(✓)	53 284
Rent income (66 000 ✓ – 13 200 ✓ ✓)		52 800
Provision for bad debts: adjustment	✓ ✓ ✓	484
GROSS OPERATING INCOME		1 859 104
Operating expenses	(✓)	(999 905)
Salaries and wages		431 000
Insurance (28 000 ✓ – 1 575 ✓ ✓)		26 425
Packing material (19 220 ✓ – 1 890 ✓)		17 330
Consumables		9 760
Directors fees (300 000 ✓ + 50 000 ✓)		350 000
Audit fees (70 000 ✓ + 12 000 ✓)		82 000
Bank charges (15 320 ✓ + 1 090 ✓)		16 410
Discount allowed (6 100 ✓ – 200 ✓)		5 900
Sundry expenses		32 580
Depreciation (21 200 ✓ ✓ + 4 600 ✓ ✓ + 600 ✓ ✓)		26 400
Trading stock deficit (330 000 ✓ + 3 600 ✓ – 331 500 ✓)		2 100
OPERATING PROFIT (LOSS) BEFORE INTEREST EXPENSE	(✓)	859 199
Interest expense (4 021 ✓ + 438 ✓ + 16 940 ✓)		(21 399)
Profit (loss) before tax		837 800
Income tax (837 800 × 28%) of (603 216 × [28/72])	✓	(234 584)
NET PROFIT (LOSS) FOR THE YEAR		603 216

	42
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Calculations for adjustments:

Depreciation on equipment:

$$R46\,000 \times 10\% = R4\,600$$

$$R12\,000 \times 10\% \times \frac{6}{12} = R600$$

Depreciation on vehicles:

$$(R180\,000 - 74\,000) \times 20\% = R21\,200$$

3.2.2

NOTES TO THE BALANCE SHEET

1. TRADE AND OTHER RECEIVABLES

Trade debtors (37 000 ✓ + 2 000 ✓ – 6 480 ✓)	32 520
Provision for bad debts	✓ (1 626)
Net trade debtors	(✓) 30 894
Creditors for salaries	✓✓ 2 000
Prepaid expenses	✓ 1 575
	(✓) 34 469

	9
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2. TRADE AND OTHER CREDITORS

Trade creditors	52 830
Accrued expenses (50 000 ✓ + 12 000 ✓)	62 000
Income received in advance	✓ 13 200
Shareholders for dividends (150 000 × $\frac{80}{100}$)	✓✓ 120 000
SARS (income tax) (234 584(✓) – 226 630 ✓)	7 954
	255 984

	7
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3.2.3

EQUITY AND LIABILITIES	
Shareholders' equity	1 153 516
Share capital	750 000
Retained income	403 516
Non-current liabilities	
Mortgage loan from EC Bank (154 000 ✓ + 16 940 ✓ – 30 000 ✓)	140 940
Current liabilities	315 203
Trade and other creditors	(✓) 255 984
Short-term loan	✓✓ 30 000
Bank overdraft (23 891 ✓ + 1 090 ✓ + 438 ✓ + 1 800 ✓ + 2 000 ✓)	29 219
TOTAL EQUITY AND LIABILITIES	✓ 1 609 659

	12
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Question
total:

	78
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Question 4

4.1

General ledger of MC Traders Ltd.

Dr				Asset Disposal				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2012 Dec	31	Equipment ✓		✓ 40 000	2012 Dec	31	Accumulated depreciation on equipment ✓		✓✓✓ 15 000		
	31				2012 Dec	31	Bank ✓		✓ 25 000		
				<u>40 000</u>					<u>40 000</u>		

	8
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Calculations

$$\begin{array}{l}
 30/06/2010 \quad R40\,000 \times 15\% \quad = R6\,000 \\
 30/06/2011 \quad R40\,000 \times 15\% \quad = R6\,000 \\
 31/12/2011 \quad R40\,000 \times 15\% \times \frac{6}{12} \quad = R3\,000
 \end{array}
 \left. \vphantom{\begin{array}{l} \\ \\ \\ \end{array}} \right\} R15\,000$$

4.2

Notes to the Cash Flow Statement

Reconciliation between profit before tax and cash generated by operations	
Net profit before tax (129 670 + 62 066)	✓✓ 191 736
Adjustment for:	
Interest expense	14 300
Depreciation	39 500
Operating profit before changes in working capital	(✓) 245 536
Changes in working capital	(✓) (175 900)
Decrease in debtors (156 700✓ – 134 900✓)	✓ 21 800
Increase in stock (356 000✓ – 124 000✓)	✓ (232 000)
Increase in creditors (268 900✓ – 234 600✓)	✓ 34 300
Cash generated by activities	69 636

	13
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4.3

MC TRADERS LTD.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

Cash flow from operating activities	(✓) (118 100)
Cash generated by activities	✓ 69 636
Interest paid	(14 300)
Tax paid (62 066 – 8 760 – 6 770) or (8 760 – 62 066 + 6 770)	✓✓✓ (46 536)
Dividends paid	(126 900)
Cash flow from investment activities	(✓) (45 000)
Fixed assets purchased	(70 000)
Proceeds of asset disposal	(✓) 25 000
Cash flow from financing activities	(✓) 110 000
Proceeds from shares issued (810 000✓ – 660 000✓)	150 000
Payment on loan (130 000✓ – 90 000✓)	(40 000)
Net change in cash and cash equivalents	✓ (53 100)
Cash and cash equivalents at the beginning of the year	✓ 98 700
Cash and cash equivalents end of current year	✓ 45 600

	15
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4.4.1	Acid test ratio
	$536\,500 - 356\,000 : 335\,670$ $= 180\,500 \checkmark\checkmark : 335\,670 \checkmark$ $= 0,5 : 1 \checkmark$

	4
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4.4.2	Debt : Equity ratio
	$90\,000 \checkmark : (810\,000 + 133\,310) \checkmark\checkmark$ $90\,000 : 943\,310$ $= 0,095 : 1 \checkmark$

	4
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4.4.3	Net asset value per share
	$\frac{943\,310 \checkmark}{270\,000 \checkmark} \times \frac{100}{1}$ <p>= 349,37 cents ✓</p> <p>OR</p> <p>= R3,49</p>

	3
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4.5	Comment on the liquidity situation of the company.
	The current ratio increased from 1,3 : 1 to 1,6 : 1 ✓ but the acid test ratio decreased from 0,9 : 1 to 0,5 : 1 in 2012. ✓
	The reason for this is the increase in stock.
	The stock holding period increased from 67 days to 129 days. ✓✓
	They should sell off excess stock – too much stock on hand – it can become obsolete – will have positive influence on cash flow situation. ✓✓

	6
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4.6	The company wants to expand their operations in the next financial year and therefore they will need more fixed assets such as land and buildings. How do you suggest should they finance this? Give two options and explain why you suggest this.
	They can issue more shares ✓ – they have only issued 270 000 of the 600 000 authorised shares. ✓
	They can take out a loan ✓ – their debt : equity ratio is 0,095 : 1 and the return on capital employed is 21%, while the interest on loan is only 11%. ✓

	4
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4.7	One of the shareholders of MC Traders was offered R2,80 per share. Should he accept this offer?
	No ✓
	The shares are worth R3,49 and he is only offered R2,80 per share ✓✓

	3
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**Question 5**

5.1	Some items such as stationery could appear in both the Projected Income Statement and the Cash Budget, but the amounts are different in the two statements. Explain why.
	The Cash Budget predicts the inflow / outflow of cash whereas the Projected Income Statement shows the predicted income earned or expense incurred for that period.
	e.g. All the stationery will be bought in October, but only used over the next couple of months. ✓✓

	2
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5.2	Name two possible reasons for the actual sales being much less than the predicted sales for November 2012.
	The economic climate
	The advertisements not taking place – spent R7 000 less on advertisements than planned
	Prediction was unrealistic
	(Any acceptable answer) (✓✓ × 2)

	4
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5.3	Do you think Click-Click Camera was realistic in their prediction for sales for December 2012? Explain.
	Yes ✓
	In December clients will spent more because it is the Christmas holidays. ✓✓
	OR No ✓
	The economic climate is not good – people as spending less money on luxury items such as cameras. ✓✓

	3
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5.4	The mark-up percentage predicted for November 2012 was 50% on cost price. Calculate the mark-up that was actually achieved. Give two possible reasons for the difference.
	<p>Mark-up actually achieved:</p> $\frac{80\,000 \checkmark - 59\,250 \checkmark}{59\,250 \checkmark} \times \frac{100}{1}$ $= \frac{20\,750}{59\,250} \times \frac{100}{1}$ $= 35\% \checkmark$
	Reasons:
	They gave discounts to clients in order to increase their stock turnover.
	Increase in the cost price from suppliers while the selling price stayed the same.
	(Any acceptable answer) (✓✓ × 2)

	8
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5.5	With what percentage is the business expecting the rent to increase on 1 December 2012?
	$\frac{7\,020 - 6\,500 \checkmark}{6\,500 \checkmark} \times \frac{100}{1}$ $= \frac{520}{6\,500} \times \frac{100}{1}$ $= 8\% \checkmark$

	3
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5.6.1	Does this business have a good policy with regards to collection from debtors? Explain.
	Yes/No: No ✓
	Explanation:
	They only collected 56% of the debtors they predicted/budgeted.
	They only collected R40 000 instead of the budgeted figure of R72 000.
	Sales is 33% less than predicted, but debtors is 44,4% less than predicted.
	(Any acceptable answer) (✓✓ × 2)

	3
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5.6.2	State two points how they can improve the credit policy.
	Do credit background check on customers before allowing credit purchases.
	Credit limit – debtors are not allowed to purchase more than a certain amount on credit.
	Discount for early payment / interest on overdue accounts.
	(Any acceptable answer) (✓✓ × 2)

	4
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5.7	Comment on each of the following items with regards to the following: <ul style="list-style-type: none"> • The amount projected and the actual amount for November • The projection/budget for December 2012
5.7.1	Telephone
	The business does not have good control over this expense. They spent R2 258 (188%) more than predicted/budgeted. ✓✓
	The projection for December should be adjusted or they should investigate the over-spending on telephone expenses – are employees using it for personal use? ✓✓

	4
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5.7.2	Purchases of trading stock
	They spent 75% less on purchases and sales was only 33% less than predicted. ✓✓ OR They are purchasing R60 000 less than the budget (R20 000 instead of R80 000).
	They are planning to purchase only R40 000 in December. They are not replenishing stock. This could lead to shortages in stock and losing clients. ✓✓

	4
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Question total:	35
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» Question 6 Inventory and VAT

(39 marks; 26 minutes)

6.1	Choose the most correct answer for each of the following. (Refer to the first three bullets of the information provided.)		
6.1.1	D ✓✓	6.1.4	A ✓✓
6.1.2	A ✓✓	6.1.5	B ✓✓
6.1.3	B ✓✓	6.1.6	B ✓✓

	12
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6.2	Calculate the amount payable to SARS on 30 June 2012.
	R7 694,40 ✓✓

	2
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6.3.1	Calculate the weighted average price per unit (excluding VAT) for the year ended 30 June 2012.
	$\frac{360\,704 + 25\,600 + 20\,400 - 1\,360}{24\,000 + 1\,600 + 1\,200 - 80}$ $= \frac{405\,344}{26\,720}$ $= R15,17$

	5
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6.3.2	Calculate the value of closing stock on hand (excluding VAT) on 30 June 2012 using the weighted average method.
	1 400 ✓ × R15,17 ✓ = R21 238 ✓

	3
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6.3.3	Calculate the value of closing stock on hand (excluding VAT) using FIFO.
	$(1\,200 - 80) 1\,120 @ R17 = R19\,040$ $(1\,400 - 1\,120) 280 @ R16 = R4\,480$ $R19\,040 + R4\,480 = R23\,520$

	5
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6.4.1	Why do you think Lisa wants to increase the value of cost of sales in the financial statements?
	It decreases gross profit / net profit and therefore decreases tax liability. ✓✓

	2
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6.4.2	The bookkeeper does not agree with Lisa's suggestion. He says it does not comply with the requirements of International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Practice (GAAP). Why not?
	The business must stay consistent from one year to the next in order to compare results.
	Not ethically correct to manipulate profit by changing policies
	(Any acceptable answer) ✓✓

	2
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6.4.3	Do you agree with Sarah's suggestion of using FIFO? Explain.
	Yes ✓
	Reason: The nature of the product dictates that one should use FIFO / Chocolate will lose its quality over time – its perishable. ✓✓
	OR
	No ✓ All stock will be displayed at the same time, allowing customers to choose at random. Cheaper product –will sell large quantities. Weighted average better. ✓✓

	3
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6.5.1	What is a risk with regards to this type of product (chocolates) and what internal control measure can be put into place to prevent this risk?
	Risk: they can be damaged (melted/squashed) quite easily ✓
	Internal control: Keep the stock at a cool temperature – refrigeration/air conditioning
	Should be stored in sturdy boxes / Manager supervises handling of stock / restricted access ✓✓

	3
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6.5.2	Suggest one possible control measure to prevent theft of chocolates being disguised as damaged stock.
	Write-offs to be authorised by either Lisa or Sarah.
	Incentives for reduced wastage
	Division of duties – between manager and employees
	Wasted stock can be sold to employees at a reduce price, rather than given, etc. ✓✓

	2
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Question total:

	39
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5. FORMS OF ASSESSMENT: CASE STUDIES

Learners are presented with a real-life situation, problem or incident that relates to a particular topic. They are expected to assume a particular role in articulating the position. They draw on their own experience, the experience of peers or prior learning to interpret, analyse and solve the problem(s).

Newspaper articles, magazine articles, television or radio presentations provide for excellent case studies. Learners read and/or listen, digest the information and then make informed decisions. Questions can be from lower order – direct quotes from the article – to higher order when they are asked to analyse comments and possibly make suggestions. Case studies are a very good way of keeping the subject up to date and relevant.

Assessment: Case study on budgets

MARKS: 50

TIME: 5 hours (not in teaching plan)

This case study looks at the Cash Budget of a company which is not showing good cash management. The CEO has asked you to investigate the problem and write a report to her on your findings. This is an individual task and requires you to study the Cash Budget thoroughly and do certain important calculations.

Section A

The CEO of Megaphone Ltd. is not happy about the fact that the company will be showing a bank overdraft at the end of the budgeted period August 2018. She has asked you, the CFO, to explain to the board of directors why the company is budgeting for an overdraft.

You are part of the financial advisory team that will draw up a report to present to the CEO and the board, justifying why the company is budgeting for a bank overdraft at the end of August.

Required

1. Use the Cash Budget provided to calculate the following:
 - a. The percentage cash sales and the percentage cash purchases maintained by the company
 - b. The percentage increase in Directors' Fees and Wages and Salaries in July 2018. (You will need to include all of this information in your report.) (no marks)
2. Which amounts contributed to the significant improvement in the bank balance at the end of June and July 2018? Explain. (6)
3. Write a report to the CEO to highlight the following:
 - a. Should the CEO be concerned about the cash projections for the three months? Give reasons. (4)
 - b. What are the areas of concern? Mention and explain at least five points. (15)
 - c. How can the company improve on the situation? List at least five points. (15)

Information
MEGAPHONE LTD.
CASH BUDGET FOR THREE MONTHS ENDING 31 AUGUST 2018

	Jun	Jul	Aug
RECEIPTS			
Cash sales	160 200	171 000	189 000
Receipts from debtors	333 618	356 529	384 562
Ordinary share capital	–	393 000	–
Loan received – 15% p.a.	300 000	–	–
Proceeds from fixed deposit	120 000	–	–
Sale of redundant equipment	–	–	44 573
TOTAL RECEIPTS	913 818	920 529	618 135
PAYMENTS			
Cash purchases	267 000	285 000	270 000
Payments to creditors	63 000	66 750	71 250
Interest on loan	–	–	3 750
Directors remuneration	210 000	241 500	241 500
Audit fees	30 000	–	–
Sundry expenses	84 000	87 000	90 000
Income tax	–	–	114 000
Dividends	–	–	261 000
Wages and salaries	150 000	159 000	159 000
TOTAL PAYMENTS	804 000	839 250	1 210 500
Cash surplus (deficit)	109 818	81 279	(592 365)
Bank balance at beginning of month	(36 000)	73 818	155 097
Bank balance at end of month	73 818	155 097	(437 268)

DEBTORS COLLECTION SCHEDULE		Jun	Jul	Aug
Month	Credit Sales			
April 2018	319 200	47 880	0	0
May 2018	352 800	176 400	52 920	0
June 2018	373 800	109 338	186 900	56 070
July 2018	399 000	0	116 709	199 500
August 2018	441 000	0	0	128 992
TOTALS		333 618	356 529	384 562

Additional information

- A fixed stock base is maintained.
- The business works on a mark up of 60% on cost.
- The business budgets for 5% bad debts, written off after the second month after the sales took place.
- The terms of the credit agreement with debtors state that they have 30 days in which to pay, but past trends show that it takes 60 days to collect the money from the debtors.
- Debtors are allowed a discount of 2,5% for early settlement.
- All creditors are paid within 30 days.
- The financial year ends on the last day of February each year.

Section B

Required

4. At the end of June 2018 the CFO asks you to compile a report on the following:
- a. Areas in which the company performed well (4)
 - b. Areas where there are still problems (6)

This report will be discussed at the next board meeting.

Information

	Jun budget	Jun actual
RECEIPTS		
Cash sales	160 200	169 200
Receipts from debtors	333 618	235 200
Loan received – 15% p.a.	300 000	300 000
Proceeds from fixed deposit	120 000	120 000
TOTAL RECEIPTS	913 818	824 400
PAYMENTS		
Cash purchases	267 000	300 600
Payments to creditors	63 000	90 000
Directors remuneration	210 000	210 000
Audit fees	30 000	36 000
Sundry expenses	84 000	60 000
Wages and salaries	150 000	150 000
TOTAL PAYMENTS	804 000	846 600
Cash surplus (deficit)	109 818	(22 200)
Bank balance at beginning of month	(36 000)	(36 000)
Bank balance at end of month	73 818	(58 200)

Answer sheet: Case study on budgets

Hand out to learners

Section A

Question 1 **is not for marks** but it helps you to formulate answers for the question which follow:

1. a. Percentage cash sales and the percentage cash purchases maintained by the company

Cash sales

Cash purchases

1. b. Percentage increase in Directors' Fees and Wages and Salaries in July 2018

Directors' fees

Wages and salaries

2. Which amounts contributed to the significant improvement in the bank balance at the end of June and July 2018? Explain. (6)

3. a. Should the CEO be concerned about the cash projections for the three months? Give reasons. (4)

3. b. What are the areas of concern? Mention and explain at least five points. (15)

1. b. Percentage increase in Directors' Fees and Wages and Salaries in July 2018

Directors' fees 241 500 – 210 000 = 31 500	$\frac{31\,500}{210\,000} \times \frac{100}{1} = 15\%$
Wages and salaries 159 000 – 150 000 = 9 000	$\frac{9\,000}{150\,000} \times \frac{100}{1} = 6\%$

2. Which amounts contributed to the significant improvement in the bank balance at the end of June and July 2018? Explain. (6)

The loan of R300 000 ✓✓ was received during June as well as the proceeds from the fixed deposit of R120 000 ✓✓ which expired.
In July additional ordinary shares to the value of R393 000 ✓✓ were sold to the public.

3. a. Should the CEO be concerned about the cash projections for the three months? Give reasons. (4)

Most learners will say yes and will comment on the fact that the company starts off in June with an overdraft of R36 000 and ended off with a projected overdraft of R437 268 in August.
Even though there were significant injections of cash by way of the loan, fixed deposit and additional shares, the company will still realise an overdraft at the end of August.
2 × 2 ✓✓ for any feasible points, whether yes or no.

3. b. What are the areas of concern? Mention and explain at least five points. (15)

5 × ✓✓✓ for any of the following discussion points:

- Only 30% of sales are for cash.
- 5% of debtors do not settle their accounts at all and must be written off.
- Debtors do not stick to the terms of the credit agreement and pay in 60 days instead of 30 days.
- 80% of purchases are for cash.
- Creditors are being paid in 30 days, far sooner than debtors are settling.
- Interest was only paid from August, which will have the effect of increasing the loan amount.
- Directors have received a 15% increase in July.
- Employees only received a 6% increase in July.
- High dividends are paid to shareholders.
- Business seems to be profitable because provisional income tax is being paid, yet cash flow is negative.
- And so on.

✓ for naming the point ✓✓ for discussing the point and showing understanding

If learner discusses by comparing, the following then 5 marks for each discussion item:

- Debtors (credit sales) vs cash sales
- Creditors (credit purchases) vs cash purchases
- Directors fees vs Wages and Salaries
- Dividends and provisional income tax

3. c. How can the company improve on the situation? List at least five points. (15)

- Encourage debtors to pay earlier – offer a higher discount than 2,5% for early settlement.
 - Charge debtors interest on overdue accounts.
 - Offer trade discounts for cash sales.
 - Increase the percentage of credit purchases.
 - Re-negotiate the terms of the credit agreement with creditors.
 - Negotiate discount when paying creditors early.
 - Decrease expenses.
 - Directors to take a lower increase; 15% is too high.
 - If possible rather sell more shares than taking out a loan.
 - Pay a lower dividend or even no interim dividend.
 - And so on.
- ✓ for naming the point; ✓✓ for discussing the point and showing understanding

Section B

4. a. Areas in which the company has performed well: (4)
- Cash sales were higher. ✓✓
 - Sundry expenses were lower. ✓✓
4. b. Areas where there are still problems: (6)
- Debtors are not meeting their commitments. ✓✓
 - Higher cash purchases ✓✓
 - Higher payments to creditors ✓✓
 - Bank overdraft is realised instead of a positive bank balance. ✓✓
 - Audit fees are higher. ✓✓
- Any other reasonable answer 3 × ✓✓*

SECTION 4

NOTES/TIPS FOR TEACHERS

CHAPTER 1: Financial accounting of companies – concepts, unique ledger accounts and bookkeeping

Progression of this topic

Grade 10: Concepts, ledger accounts and bookkeeping of sole traders

Grade 11: Concepts, ledger accounts and bookkeeping of partnerships

Grade 12: Concepts, ledger accounts and bookkeeping of companies

Requirements for this chapter

- Define and explain accounting concepts unique to companies
- Complete the bookkeeping of companies
- Complete transactions for companies, including issuing of shares at issue price, buying back of shares, capitalising loans and calculating income tax, dividends and directors' fees
- Analyse and indicate the effect of transactions on the accounting equation of a company
- Integrate ethical considerations relating to companies – roles of shareholders and directors, manipulation of share prices, corporate governance, etc.
- Apply GAAP principles and IFRS.

Difficulties often experienced by learners with this chapter

- A lot of these concepts are totally foreign to some the learners and should be discussed in class.
- They often find it hard to follow the bookkeeping trail from journals, to ledger, to trial balance to financial statements.
- Buying back of shares is a new, abstract concept that learners will find hard to understand.
- Interest capitalised should be explained step-by-step.

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- You can get them interested in these new concepts by telling them how the JSE operates and maybe getting a stockbroker to come and talk to them.
- Follow the accounting trail with them step-by-step on the board from the journals, to the ledger accounts, to the Trial Balance and the financial statements.
- Explain the effect and reason of all new concepts on the accounting equation.
- The written report in this Teachers Guide is a great way for the learners to discover some of these concepts themselves.
- Integration:
 - All the GAAP principles should be integrated and are often mentioned throughout this chapter.
 - Ethical issues should be discussed and integrated throughout this chapter

CHAPTER 2: Financial accounting of companies – Final accounts, Post-closing Trial Balance, IFRS and GAAP

Progression of this topic

Grade 10: Preparation of final accounts of sole traders

Grade 11: Preparation of final accounts of partnerships

Grade 12: Preparation of final accounts of companies

Requirements of this chapter

- Explain the accounting cycle and accounting period
- Define and explain International Financial Reporting Standards (IFRS) and General Accepted Accounting Practice (GAAP), including all concepts, rules and principles
- Complete the bookkeeping of companies
- Do all the required year-end adjustments, including Trading stock deficit/surplus, consumable stores on hand, depreciation (on cost price/straight line, on diminishing balance methods), bad debts and bad debts recovered, correction of errors/omissions, accrued income (receivable), income received in advance (deferred), expenses prepaid, accrued expenses (payable), provision for bad debts, interest capitalised and adjustments related to income tax and to the payment and declaration of dividends
- Prepare the final accounts of a company: Trading account, Profit and loss account and Appropriation account
- Prepare the Pre-Adjustment, Post-Adjustment and Post-Closing Trial Balance
- Reversing adjustments, i.e. accruals, income received in advance and prepayments

Difficulties often experienced by learners with this chapter

- The learners often find the adjustments very difficult.
- The necessity of doing closing transfers and adjustments must be emphasised.

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- Do all the different GAAP principles at the beginning of the chapter.
- Let them learn steps for the closing transfers; the learners understand better when given steps to follow.
- When doing revision of adjustments, show the writing back of the adjustment as well – do this step by step on the board, not on transparency, using different colour pens to write in balances, adjustments and closing transfers.
- Use T-accounts and timelines when explaining adjustments.
- Do the first activity of each new adjustment with them on the board and then give the next activity for homework – once again, repetition is important.
- When showing learners the short cuts to do adjustments on the Pre-adjustment Trial Balance, show it on a transparency; do not only tell them, show them.
- Integration:
 - All the GAAP principles should be integrated and are often mentioned throughout this chapter.
 - Internal control over stock can be integrated when doing trading stock deficit, and control over assets when doing depreciation etc.

CHAPTER 3: Financial accounting of companies – Financial statements

Progression of this topic

Grade 10: Preparation of financial statements of sole traders

Grade 11: Preparation of financial statements of partnerships

Grade 12: Preparation of financial statements of companies

Requirements of this chapter

- Prepare the financial statements of a company
- Do the following yearend adjustments: Trading stock deficit/surplus; Consumable stores on hand, Depreciation (on cost price/straight line, on diminishing balance methods), Bad debts and Bad debts recovered and the correction of errors/omissions, Accrued income (receivable) / Income received in advance (deferred), Expenses prepaid / Accrued expenses (payable), Provision for bad debts, Adjustments related to income tax and to the payment and declaration of dividends
- Integrate reporting and control of fixed assets
- Integrate ethical considerations relating to companies – roles of shareholders and directors, manipulation of share prices, corporate governance, etc.
- Integrate internal audit and control processes relating to companies
- Apply GAAP principles and IFRS:

Difficulties often experienced by learners with this chapter

- The learners often find the adjustments very difficult.
- The format of the Income Statement, Balance Sheet, Cash Flow Statement and notes needs to be precise – learners should learn this by heart.

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- Start by showing them the bigger picture using the accounting cycle (PowerPoint®).
- Do the first Income Statement, Balance Sheet and Cash Flow Statement on the board with them, step by step.
- After that you can use transparencies or PowerPoint® presentations.
- Use T-accounts and time lines to explain the adjustments.
- Integration:
 - All the GAAP principles should be integrated and are often mentioned throughout this chapter.
 - Internal control can be integrated throughout this chapter.

CHAPTER 4: Financial accounting of companies – analysis and interpretation of financial statements

Progression of this topic

Grade 10: Analysis and interpretation of financial statements of sole traders

Grade 11: Analysis and interpretation of financial statements of partnerships

Grade 12: Analysis and interpretation of financial statements of companies

Requirements of this chapter

- Calculate and comment on the following financial indicators: Gross profit on sales, Gross profit on cost of sales, Net profit on sales, Operating expenses on sales, Operating profit on sales, Current ratio, Acid test ratio,

Stock turnover rate, Stock holding period, Average debtors collection period, Average creditors collection period, Solvency ratio, Debt equity ratio, Return on shareholders' equity, Return on total capital employed, Net asset value per share, Dividends per share, Earning per share

- Integrate reporting and control of fixed assets
- Integrate ethical considerations relating to companies – roles of shareholders and directors, manipulation of share prices, corporate governance, etc.
- Integrate internal audit and control processes relating to companies

Difficulties often experienced by learners with this chapter

- Giving comments on the results found
- When to use which financial indicator

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- Use the PowerPoint® presentation or write on the board and a transparency simultaneously to show the learners where to get the information they need to do the analysis.
- When talking about the comments on results found, give learners different scenarios on which they might need to comment.
- Give learners a summary of the different formulas/ ratios and let them write a class test so that they can learn these.
- Integration – Internal control over stock, assets, debtors and creditors can be integrated throughout this chapter.

CHAPTER 5: Financial accounting of companies – analysis of published financial statements

Progression of this topic

Grade 10: None

Grade 11: None

Grade 12: Analysis of a company's published financial statements and annual reports

Requirements of this chapter

- Analyse and interpret the published Statement of Comprehensive Income of a public company
- Analyse and interpret the published Statement Financial Position of a public company
- Analyse and interpret the published Statement of Cash Flows of a public company
- Analyse and interpret the published Directors' Report of a public company
- Analyse and interpret the published Independent Auditor's Report of a public company
- Discuss issues of good corporate governance
- Discuss the ethical issues arising from corporate governance

Difficulties often experienced by learners with this chapter

- Learners might struggle with the new terminology, especially the terminology in the published financial statements.

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- Help learners with the difficult terms, you might want to get a finance dictionary for you classroom.

- Work through this chapter before you hand out the project as this chapter will equip them with enough knowledge to complete the project.
- Suggested methods of teaching this chapter:
 - Use relevant examples and try and find a variety of different published financial statements.
 - Class discussion is important as it will expand the learners understanding of the terminology and financial language.
- Integration: This chapter fits well with Chapters 1 to 4 and the understanding of these chapters is important in order to have meaningful discussions when dealing with this chapter.

CHAPTER 6: Ethics

Progression of this topic

Grade 10: Code of ethics and basic principles of ethics for businesses

Grade 11: Identification and analysis of ethical behaviour applicable to financial environments with reference to accountability, transparency and sustainability

- Grade 12:**
- Role of professional bodies for accountants
 - Disciplinary and punitive measures for non-compliance with code of conduct
 - Policies governing ethical behaviour, such as King Code III
 - Basic principles contained in Companies Act

Requirements of this chapter

- Understand the role of professional bodies
- Demonstrate knowledge of disciplinary and punitive measures that are applied for non-compliance with the Code of Professional Conduct
- Understand the King Code III policies governing ethical behaviour in the financial environment
- Understand various aspects of the legislation governing companies prescribed in the Companies Act, including:
 - Legislation relating to directors
 - Business rescue
 - Dispute resolution
 - The appointment of a social and ethics committee
 - Provisions relating to transparency and accountability

Difficulties often experienced by learners with this chapter

- Comprehension and understanding of new terminology
- Introduction of many new concepts
- Difficulty in relating to the practical application of these concepts

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- In this chapter, new terminology and many new concepts are introduced, so it may take a while for learners comprehend this section. We suggest that you pay special attention to explanations and practical examples in order to help the learners understand the new terms and become comfortable with the new concepts.
- Suggested methods of teaching this chapter:
 - Role play
 - Group or class discussion
 - Case studies
 - Newspaper articles.

- Integration: This topic is integrated with other topics in the Learner's Book, so many of the concepts discussed in this chapter will be reinforced later in the year. These concepts should become clearer once they are dealt with in relation to other topics in later chapters.

CHAPTER 7: Interpretation and reporting on the movement of fixed assets

Progression of this topic

Grade 10: Record the acquisition of fixed assets and calculation and depreciation of fixed assets

Grade 11: Record the disposal of fixed assets

Grade 12: Interpretation and reporting on the movements of fixed assets

Requirements of this chapter

- Make informed decisions on the outcome of the movement of fixed assets
- Determine the age of an asset
- Determine the lifespan of an asset
- Interpret on the asset disposal process
- Report on asset disposal
- Calculate how often an asset needs to be replaced
- Know what the GAAP principles are with regards to fixed assets
- Relate to ethical issues pertaining to fixed assets
- Understand and discuss internal audit and internal control processes with regards to fixed assets

Difficulties often experienced by learners with this chapter

- Learners must have thorough knowledge of the work dealt with in Grades 10 and 11 in order to undertake this higher order process of interpreting the movement of fixed assets.
- The concept of asset disposal, especially during the year, is always a difficult process to understand.
- The terminology and understanding of the difference between accumulated depreciation and depreciation is what they struggle with as well as the historical cost concept.

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- Use real-life examples when explaining this section of work especially when explaining the audit and control processes.
- Do thorough revision of the asset disposal process taught in Grade 11 but don't spend too much time on it.
- Reinforce the terminology of this section especially the understanding thereof.
- Suggested methods of teaching this chapter:
- Class discussions on the role of the fixed asset manager, control of fixed assets and audit processes.
- Find examples where mismanagement of assets took place and discuss.
- Use case studies in order to relate this content to real-life situations.
- Use newspaper articles in order to facilitate discussion.
- Look at newspaper advertisements in order for them to get an understanding of the actual value of certain assets.
- Integration: The chapters on ethics, controls and GAAP are often integrated into this section.

CHAPTER 8: Financial accounting of close corporations

Progression of this topic

Grade 10: None

Grade 11: None

Grade 12: Definition and explanation of accounting concepts unique to close corporations

Requirements of this chapter

- Define and explain the following concepts unique to a close corporation:
 - Founding statement
 - Members
 - Loans to members
 - Loans from members
 - Distribution to members
- Compare a close corporation and a public company and know the differences with regards to:
 - Formation
 - Ownership
 - Distribution of profits
 - Taxation
- Compare the financial statements of a public company and a CC and know the differences.

Difficulties often experienced by learners with this chapter

- Identifying the differences in the financial statements of companies and close corporations, particularly with regards to terminology.
- Learners must have a good understanding of the financial statements of a company in order to compare it to that of a close corporation.

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- This is a purely theoretical chapter, no bookkeeping.
- Allow learners to study the theory and gain an understanding of the work.
- Suggested methods of teaching this chapter:
 - Use real-life examples when discussing this chapter.
 - Use the CCs Act to help explain this chapter.
- Remember that CCs are being phased out but as long as they are around they will remain relevant in the curriculum.

CHAPTER 9: Internal control

Progression of this topic

Grade 10: Basic internal control processes

Grade 11: Demonstration of knowledge of internal audit concepts, processes and procedures

Grade 12:

- Application of internal control and internal audit processes in a business environment
- Understanding the difference between the roles of internal and external auditors

Requirements of this chapter

- Demonstrate knowledge of the application of internal control and internal audit processes in a business environment relating to:
 - Gathering audit evidence
 - Audit sampling

- Internal audit reports
- Accountable management of resources
- Understand the difference between the roles of internal and external auditors.

Difficulties often experienced by learners with this chapter

- Comprehension and understanding of many new concepts
- Difficulty in relating to the practical application of these concepts

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- In this chapter many new concepts are introduced, so it may take a while for learners comprehend this section. We suggest that you pay special attention to explanations and practical examples in order to help the learners understand and become comfortable with the new concepts.
- Suggested methods of teaching this chapter:
 - Role play
 - Group or class discussion: In these discussions the learners can:
 - Identify the potential risks associated with various business activities
 - Suggest various internal control procedures that could be used to protect the business against these risks
 - Draw up a list of the types of internal audit procedures that could be used to assess whether these internal controls are managing the risks effectively.
 - Case studies
 - Newspaper articles
- Integration: This topic is integrated with other topics in the Learner's Book, so many of the concepts discussed in this chapter will be reinforced later in the year. These concepts should become clearer once they are dealt with in relation to other topics in later chapters.

CHAPTER 10: Inventory systems

Progression of this topic

Grade 10: Recording stock using the perpetual stock system

Grade 11: Recording stock using the periodic stock system

Grade 12: Validation and valuation and calculation of inventories of businesses using the perpetual and periodic stock systems

Requirements of this chapter

- Know the difference between an stock administrative system and an stock valuation system
- Know the difference between the Perpetual and Periodic stock administrative systems
- Know how to value stock using the FIFO method of stock valuation
- Know how to value stock using the weighted average method of stock valuation
- Understand what the specific identification (of cost price per unit) is
- Apply GAAP principles with regards to stock
- Apply ethics and internal control and audit processes with regards to stock

Difficulties often experienced by learners with this chapter

- They often struggle with the different approaches between the two methods, FIFO and weighted average method.

- They struggle to apply the different methods when using the perpetual or periodic methods.

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- Help them understand that the stock systems are valuation methods; in other words, calculating gross profit and the FIFO and weighted average methods are valuation methods or how to calculate the value of closing stock.
- Suggested methods of teaching this chapter:
 - Start this chapter with revision and an understanding of the perpetual and periodic systems.
 - Then introduce the FIFO and weighted average methods.
 - Learners must do lots of practice activities in order to master this section.

CHAPTER 11: Reconciliations

Progression of this topic

Grade 10: Preparation of Debtors and Creditors Lists to reconcile with the *Debtors Control* and *Creditors Control* accounts

Grade 11: Reconciliation of bank statement with Cash Journals in order to prepare the Bank Reconciliation Statement

Grade 12: Analysis and interpretation of bank, debtors and creditors reconciliations

Requirements of this chapter

- Understand the Debtors Control and Creditors Control accounts
- Understand the Debtors and Creditors Lists
- Reconcile the Debtors and Creditors Lists with the control accounts
- Reconcile creditors statements with their personal accounts in the Creditors Ledger
- Analyse and interpret the debtors age analysis
- Analyse and interpret bank statements and Bank Reconciliation Statements

Difficulties often experienced by learners with this chapter

- In order for learners to master this section they must have a good understanding of the work covered in Grades 10 and 11 (see progression above).
- The only new aspects in this section in Grade 12 are the reconciliation of creditors' accounts with the Creditors Ledger and the debtors age analysis.
- Learners find the volume of the work in this chapter difficult to master. If they struggle they must revisit their Grades 10 and 11 understanding and try and master that first.

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- In this chapter learners are only supposed to analyse and interpret bank, debtors and creditors reconciliations. Explain to them what it means to analyse and interpret.
- Suggested methods of teaching this chapter:
 - Explain this chapter in sections starting with bank reconciliation first. There will be no time to go back and redo the Grade 11 work, so encourage learners to revise by themselves.

- Go through each sub-section systematically by doing creditors and debtors separately.
- Integration: The chapters on ethics and internal control fit well here so integrate this into your discussions when introducing each sub-section.

CHAPTER 12: Value-added Tax (VAT)

Progression of this topic

Grade 10: Concepts of value-added tax

Grade 11: Calculations of value-added tax

Grade 12: *VAT Control* ledger account

Requirements of this chapter

- Calculate the amount payable to or receivable from the South African Revenue Services (SARS)
- Complete the *VAT Control* ledger account from given information
- Integrate ethical, internal control and internal audit issues relating to VAT

Difficulties often experienced by learners with this chapter

- Some learners may get confused with the difference between output tax and input tax.
- Also many learners have difficulty understanding and accounting for VAT adjustments.

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- This chapter relies on a good understanding of the basic principles of VAT and the VAT calculations, which were introduced in Grades 10 and 11. Therefore, we have included a fairly comprehensive revision sections at the beginning of the chapter. We suggest that you use this section to help your learners to consolidate their knowledge before you proceed with the new Grade 12 content.
- VAT adjustments: Although it is useful for your learners to have a basic understanding of how VAT adjustments affect output and input tax, the main focus should be on whether the adjustment increases or decrease the amount of VAT payable to SARS.
- Calculating the amount of VAT payable to or receivable from SARS: Although we have shown both methods of dealing with VAT adjustments in this calculation, it may be easier for some learners to choose one method and stick to it.
- Completing the *VAT Control* account: emphasise to your learners, that when the amount of VAT payable to SARS increases this account must be credited and when the amount of VAT payable to SARS decreases, it must be debited.
- Suggested methods of teaching this chapter:
 - Role play: For example, put learners into groups representing VAT vendors, debtors and creditors (suppliers). The VAT vendors can then pretend to purchase goods and services from the creditors and sell products to the debtors. They should then calculate the VAT amounts included in each of the transactions and determine whether the amounts should be accounted for as input or output tax. They can then pretend to write off debts as irrecoverable, receive and allow discounts and return goods. For each of these transactions, the learners should calculate the VAT amounts and determine the method that should be used to account for the VAT adjustment.

Finally, they can calculate the amount payable to or receivable from the SARS and draw up the *VAT Control* account for the period.

- Remember, “practice makes perfect”, so try to get your learners to complete as many of the activities in this chapter as possible.

CHAPTER 13: Cost Accounting and manufacturing businesses

Progression of this topic

Grade 10: Cost concepts and basic calculations

Grade 11: Cost calculations and ledger accounts

Grade 12: Preparation, presentation, analysis, interpretation and reporting on cost information for manufacturing enterprises

Requirements of this chapter

- Define and explain concepts unique to a manufacturing business
- Prepare a Production Cost Statement with notes for manufacturing costs
- Prepare a short form Income Statement with notes for administration cost and selling and distribution costs
- Calculate the following: Gross profit on finished goods sold, Variable and fixed cost, Cost of production using variable and fixed cost, Cost per unit, Contribution per unit, Breakeven point, Total cost of production
- Integrate ethical issues relating to manufacturing such as: product quality, product age, productivity, raw materials, support for local products, price fixing, theft and fraud
- Integrate internal control and audit processes relating to manufacturing.

Difficulties often experienced by learners with this chapter

- Comprehension and understanding of new terminology and concepts
- Understanding and calculating the breakeven point
- Understanding how to allocate and record the manufacturing costs in the various General Ledger accounts and notes of a manufacturing business

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- Show the relation between the General Ledger accounts and the statements and notes. For example, the *Raw material stock* account is exactly the same as the note for *Direct material cost*. The *Work-in-process* account is the same as the Production Cost Statement.
- Suggested methods of teaching this chapter:
 - Role play: For example, put learners into groups and let each group choose a product that is manufactured. The groups must then identify examples of each of the different types of costs involved in the manufacturing process for that product.
 - Practical activities: such as manufacturing popcorn or fudge and then performing breakeven calculations based on real information
- If possible, arrange an outing to a local factory so that the learners can get a real sense of the different types of costs involved in the manufacturing environment.
- The best way to master the preparation of statements is to practise. So get your learners to complete as many of the activities in this chapter as possible. Remember to provide them with solutions so that they can identify and learn from their mistakes.

CHAPTER 14: Budgeting

Progression of this topic

Grade 10: Budget concepts

Grade 11: Preparation and presentation of Cash Budgets and Projected Income Statements of sole traders

Grade 12: Analysis, interpretation and comparison of Cash Budgets and Projected Income Statements of sole traders and companies

Requirements of this chapter

- Analyse, interpret and compare Projected Income Statements for sole traders or companies
- Analyse, interpret and compare Cash Budgets for sole traders or companies
- Integrate ethical issues relating to budgeting and projections
- Integrate internal audit and control processes relating to budgets and projections by comparing budget to actual figures

Difficulties often experienced by learners with this chapter

- Even learners who are strong at drawing up Cash Budgets and Projected Income Statements often struggle when it comes to analysing, interpreting and comparing the information presented in these budgets.
- Learners often have difficulty in writing well-structured answers when required to provide an explanation for the questions asked in this section.
- Learners also often do not provide sufficient information when answering these types of questions.

Suggestions, tips and tricks for teaching this chapter and overcoming difficulties of learners

- In order to analyse, interpret and compare budgets, it is very important for learners to first be able to draw up budgets. Therefore, we have included some revision of the Grade 11 work in this chapter. We suggest that you use the revision activities to help your learners to consolidate their knowledge before you proceed with the new Grade 12 content.
- Although the types of questions that are asked in this section may vary considerably, it is important that your learners develop a standard approach to answering many of these questions. (e.g. when answering comparison type questions: learners should provide the amount by which the item increased/decreased; the percentage increase/decrease; the reason for the change; whether this had a positive or negative impact on the business and the corrective action that could be taken.)
- Suggested methods of teaching this chapter:
 - Role play: For example, put learners into groups and each group must pretend to be holding a management/board meeting in which they discuss the actual results of a business and compare these results to the business's budgets (use past exam paper questions if possible).
Learner should try to:
 - Identify any positive and negative results/variations;
 - Provide reasons for any significant variations; and
 - Suggest actions that should be taken by management to rectify any problem areas.
- As mentioned in Grade 11, learners should always bear in mind that the Cash Budget is used to forecast the future cash position of a business and thus only involves expected cash transactions; whereas the Projected Income Statement is used to predict the future profitability of a business, and thus deals with expected income and expenses.

SECTION 6

SOLUTIONS TO ACTIVITIES

CHAPTER 1

Financial accounting of companies – concepts, unique ledger accounts and bookkeeping

» Activity 1.1

LB page 8

Column A: Person / Institution		Column B: Description	
1.	promoters	B.	the initial group of people who decided to start a company
2.	shareholders	E.	the owners of a company and who have voting rights
3.	Registrar of Companies	K.	issues a registration certificate so that a company can start doing business
4.	independent auditor	F.	expresses an opinion on the financial statement and indicates whether the reader can rely on the financial statements
5.	Chief Executive Officer (CEO)	H.	the managing director who controls the work of the other directors
6.	SARS	G.	the institution to which a company must pay tax on the profit earned
7.	company secretary	I.	attends all Board and sub-committee meetings and ensures that all the legal matters relating to a company are attended to
8.	JSE	A.	provides a market where shares can be traded freely under a regulated procedure
9.	executive director	C.	involved in the day-to-day management of the company and a member of the Board
10.	non-executive director	D.	a member of the Board not involved in the day-to-day management of the company; brings independent judgment to the Board
11.	Social and Ethics Committee	J.	attends all Board and sub-committee meetings and ensures that all the legal matters relating to a company are attended to

» Activity 1.2

LB page 10

1. Cash Receipts Journal of Xoseka Ltd. for July 2019

CRJ

Doc. no.	Day	Details	Fol.	Analysis of receipts	Bank	Sundry accounts	
						Amount	Details
	31	Shareholders	B1	420 000	420 000	420 000	Ordinary share capital
					B6		

2.

General Ledger of Xoseka Ltd.

Dr				Ordinary Share Capital				B1		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
					2019 July	31	Bank	CRJ	420 000	

Dr				Bank				B6		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
2019 Jul	31	Ordinary share capital	CRJ	420 000						

3. Effect on the accounting equation

Assets		Owner's Equity		Liabilities	
Effect	Reason	Effect	Reason	Effect	Reason
+420 000	Cash increase	+420 000	Increase in ordinary share capital		

4.

Xoseka Traders Ltd.

NOTES TO THE FINANCIAL STATEMENTS

7. ORDINARY SHARE CAPITAL

AUTHORISED		
Number of ordinary authorised shares: 110 000 shares		
ISSUED		
0 ordinary shares in issue at 01 July 2019		
60 000 additional shares issued during the financial year at issue price R7,00 each		420 000
60 000 ordinary shares in issue at 30 June 2020		<u>420 000</u>



Activity 1.3

LB page 10

1. General Journal of Francken Traders Ltd. for May 2018

GJ

Doc. no.	Day	Details	Fol.	Debit	Credit
	31	Bank	B6	301 000	
		Ordinary Share capital	B1		301 000
		(Issued 70 000 shares @ R4,30 each)			

2.

General Ledger of Francken Ltd.

Dr				Ordinary Share Capital				B1		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
					2018 Mar	01	Balance	b/d	200 000	
					May	31	Bank	CRJ	301 000	
									<u>501 000</u>	

3. Effect on the accounting equation

Assets		Owner's Equity		Liabilities	
Effect	Reason	Effect	Reason	Effect	Reason
+301 000	Cash increase	+301 000	Increase in ordinary share capital		

4.

Francken Limited

NOTES TO THE FINANCIAL STATEMENTS

7. ORDINARY SHARE CAPITAL

AUTHORISED		
Number of ordinary authorised shares: 140 000 shares		
ISSUED		
50 000 ordinary shares in issue at 01 March 2018		200 000
70 000 additional shares issued during the financial year at issue price R4,30 each		301 000
120 000 ordinary shares in issue at 28 February 2019		501 000



Activity 1.4

LB page 14

- The entry for this transaction can be done in the General Journal or the Cash Payments Journal.

General Journal of Tungata Traders Ltd. for May 2018

GJ

Doc. no.	Day	Details	Fol.	Debit	Credit
	28	Income tax		171 000	
		SARS (income tax)			171 000
		(570 000 × 30%)			

Cash Payments Journal of Tungata Traders Ltd. for 2020/21

CPJ

Date	Day	Details	Fol.	Bank	Sundry accounts	
					Amount	Details
2020 Aug	31	SARS		91 000	91 000	SARS (income tax)
2021 Feb	28	SARS		86 000	86 000	SARS (income tax)

- Effect on the accounting equation

Date	Assets		Owner's Equity		Liabilities	
	Effect	Reason	Effect	Reason	Effect	Reason
2020 31 Aug	-91 000	Cash decreased			-91 000	Debt to SARS decrease
2021 28 Feb	-86 000	Cash decreased			-86 000	Debt to SARS decrease
2021 28 Feb			-171 000	Income tax – decrease remaining profit	+171 000	Debt to SARS increase

3.

General Ledger of Tungata Traders Ltd.

Dr				SARS (Income Tax)				B12		Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2020	Aug	31	Bank	CPJ	91 000	2021	Feb	28	Income tax (570 000 × 30%)	GJ	171 000
2021	Feb	28	Bank	CPJ	86 000				Balance	c/d	6 000
					177 000						177 000
2021	Mar	01	Balance	b/d	6 000	2022	Feb	28	Income tax (620 000 × 30%)		186 000
	Aug	31	Bank	CPJ	82 000						
2022	Feb	28	Bank	CPJ	94 000						
			Balance	c/d	4 000						
					186 000						186 000
						2022	Mar	01	Balance	b/d	4 000

Dr				Income Tax				N22		Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2021	Feb	28	SARS (income tax)	GJ	171 000	2021	Feb	28	Appropriation account	GJ	171 000
					171 000						171 000
2022	Feb	28	SARS (income tax)	GJ	186 000	2022	Feb	28	Appropriation account	GJ	186 000
					186 000						186 000

4.

NOTES TO THE FINANCIAL STATEMENTS ON 28 FEBRUARY 2021

5. TRADE AND OTHER RECEIVABLES

Trade debtors	–
SARS (income tax)	6 000

NOTES TO THE FINANCIAL STATEMENTS ON 28 FEBRUARY 2022

8. TRADE AND OTHER PAYABLES

Trade creditors	–
SARS (income tax)	4 000



Activity 1.5

LB page 17

- The entry for this transaction can be done in the General Journal or the Cash Payments Journal.

General Journal of Tungata Traders Ltd. for February 2021

GJ

Doc. no.	Day	Details	Fol.	Debit	Credit
	28	Dividends on ordinary shares		54 400	
		Shareholders for dividends			54 400
		(Final dividends declared (160 000 × $\frac{34}{100}$))			

Cash Payments Journal of Tungata Traders Ltd. for August 2020

CPJ

Doc. No.	Day	Details	Fol.	Bank	Sundry accounts	
					Amount	Details
	31	Shareholders		25 600	25 600	Dividends on ordinary shares

$$160\,000 \times \frac{16}{100}$$

2. Effect on the accounting equation

Date	Assets		Owner's Equity		Liabilities	
	Effect	Reason	Effect	Reason	Effect	Reason
2020 31 Aug	-25 600	Cash decrease	-25 600	Dividends – distribution of profit		
2021 28 Feb			-54 400	Dividends – distribution of profit	+54 400	Debt to Shareholder for dividends increase

3.

General Ledger of Tungata Traders Ltd.

Dr				Shareholders for Dividends				B13		Cr	
Date	Details	Fol.	Amount	Date	Details	Fol.	Amount				
2021 Apr 02	Bank	CPJ	54 400	2021 Feb 28	Dividends on ordinary shares	GJ	54 400				
			<u>54 400</u>								<u>54 400</u>
				2022 Feb 28	Dividends on ordinary shares	GJ	72 000				

Dr				Dividends on Ordinary Shares				N24		Cr	
Date	Details	Fol.	Amount	Date	Details	Fol.	Amount				
2020 Aug 31	Bank (160 000 × 0,16)	CPJ	25 600	2021 Feb 28	Appropriation account	GJ	80 000				
2021 Feb 28	Shareholders for dividends (160 000 × 0,34)	GJ	54 400								
			<u>80 000</u>								<u>80 000</u>
2021 Aug 31	Bank (160 000 × 0,18)	CPJ	28 800	2022 Feb 28	Appropriation account	GJ	100 800				
2022 Feb 28	Shareholders for dividends (160 000 × 0,45)	GJ	72 000								
			<u>100 800</u>								<u>100 800</u>

4.

NOTES TO THE FINANCIAL STATEMENTS ON 28 FEBRUARY 2021

8. TRADE AND OTHER PAYABLES

Trade creditors	–
Shareholders for dividends	54 400

NOTES TO THE FINANCIAL STATEMENTS ON 28 FEBRUARY 2022

8. TRADE AND OTHER PAYABLES

Trade creditors	–
Shareholders for dividends	72 000



1. **General Ledger of Zoey Ltd.**

Dr				Appropriation account				F3		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2020					2020					
Feb	29	Income tax	GJ	159 600	Feb	29	Profit and loss account	GJ	532 000	
		Dividends on ordinary shares	GJ	148 960			Retained income	GJ	210 000	
		Retained income	GJ	433 440						
				742 000					742 000	

Dr				Retained Income				B2		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2020					2019					
Feb	29	Appropriation account	GJ	210 000	Mar	01	Balance	b/d	210 000	
					2020					
					Feb	29	Appropriation account	GJ	433 440	

2. **General Journal of Zoey Ltd. for February 2020**

GJ

Doc. no.	Day	Details	Fol.	Debit	Credit
	29	Retained income		210 000	
		Appropriation account			210 000
		(Write back Retained income from previous year)			
		Profit and loss account		532 000	
		Appropriations account			532 000
		(Carry net profit over from profit and loss to appropriation account)			
		Appropriation account		742 000	
		Income tax			159 600
		Dividends on ordinary shares			148 960
		Retained income			433 440
		(Calculate new balance for retained income)			

3.

NOTE TO FINANCIAL STATEMENTS ON 29 FEBRUARY 2020

8. RETAINED INCOME

Balance on 1 March 2019	210 000
Net profit after tax (532 000 – 159 600)	372 400
Dividends	(148 960)
Balance on 29 February 2020	433 440



Marks: 24

Time: 12 minutes

Column A: Concept		Column B: Explanation	
1.	Authorised shares	K.	the maximum number of shares a company is permitted to issue according to its MOI ✓✓
2.	Issued shares	J.	the number of shares that a company has decided to issue up to a certain date ✓✓
3.	Issue price	G.	the price at which shares are sold ✓✓
4.	Dividends	A.	the portion of the earnings distributed to the shareholders ✓✓
5.	Interim dividends	F.	dividends that are paid during the financial year ✓✓
6.	Final dividends	H.	dividends that are declared, but not yet paid, at the end of the financial year ✓✓
7.	Income tax	C.	the portion of the profit that the government is entitled to and is paid over to SARS ✓✓
8.	Provisional income tax	L.	payments that are made to SARS during the financial year (six months after financial year-end) ✓✓
9.	Legal entity	B.	an entity that has the capacity to enter into agreements or contracts, assume obligations, incur and pay debts, sue and be sued in its own right, and to be held responsible for its actions ✓✓
10.	Limited liability	D.	the investor is not personally responsible for the debts and obligations of the company ✓✓
11.	Separation of ownership from control	I.	shareholders own the company, but the directors run the company ✓✓
12.	Retained income	E.	a portion of the earnings that are kept by the company for future use ✓✓

[12 × 2 = 24]



Activity 1.7

1. Cash Payments Journal of Alexi Traders Ltd. for February 2023

CPJ

Doc. no	Day	Name of Payee	Fol.	Bank	Sundry accounts	
					Amount	Details
368	31	SARS	B8	58 700	58 700	SARS (income tax)
369	31	Shareholders	N22	70 000	70 000	Dividends on ordinary shares

2. General Journal of Alexi Traders Ltd. for February 2023

GJ

Doc. no.	Day	Details	Fol.	Debit	Credit
	28	Income tax	N21	84 000	
		SARS (income tax)	B8		84 000
		(Income tax for the year taken into account)			
		Dividends on ordinary shares	N22	60 000	
		Shareholders for dividends	B9		60 000
		(A dividend of 15% of share capital declared)			
		Appropriation account	F3	280 000	
		Income tax	N21		84 000
		Dividends on ordinary shares	N22		130 000
		Retained income	B2		66 000
		(Closing transfers)			

3.

General Ledger of Alexi Traders Ltd.

Dr				Retained Income				B2		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
					2023 Feb	28	Appropriation account	GJ	66 000	

Dr				SARS (Income Tax)				B8		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
2022 Aug	31	Bank	CPJ	58 700	2023 Feb	28	Income tax	GJ	84 000	
2023 Feb	27	Bank	CPJ	21 300						
	28	Balance	c/d	4 000						
				<u>84 000</u>					<u>84 000</u>	
					2023 Mar	01	Balance	b/d	4 000	

Dr				Shareholders for Dividends				B9		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
					2023 Feb	28	Dividends on ordinary shares	GJ	60 000	

Dr				Income Tax				N21		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
2023 Feb	28	SARS (income tax)	GJ	<u>112 000</u>	2023 Feb	28	Appropriation account	GJ	<u>112 000</u>	

Calculation of dividends

$$R100\,000 \times 0,70 = R70\,000$$

$$R400\,000 \times 15\% = R60\,000$$

Dr				Dividends on Ordinary Shares				N22		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
2022 Aug	31	Bank	CPJ	70 000	2023 Feb	28	Appropriation account	GJ	130 000	
2023 Feb	28	Shareholders for dividends	GJ	60 000						
				<u>130 000</u>					<u>130 000</u>	

Dr				Appropriation account				N23		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
2013 Feb	28	Income tax	GJ	84 000	2013 Feb	28	Profit and loss	GJ	280 000	
		Dividends on ordinary shares	GJ	130 000						
		Retained income	GJ	66 000						
				<u>280 000</u>					<u>280 000</u>	

General Ledger of Ngoma Limited

Dr				Retained Income				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2020					2019						
Feb	29	Appropriation account	GJ	29 600	Mar	01	Balance	b/d	29 600		
					2020						
					Feb	29	Appropriation account	GJ	213 600		

Dr				SARS (Income Tax)				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Mar	15	Bank	CPJ	5 300	Mar	01	Balance	b/d	5 300		
					2020						
Aug	01	Bank	CPJ	54 780	Feb	29	Income tax	GJ	108 000		
2020											
Feb	25	Bank	CPJ	61 040			Balance	c/d	7 820		
				121 120					121 120		
2020											
Mar	01	Balance	b/d	7 820							

Dr				Shareholders for Dividends				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Mar	15	Bank	CPJ	17 500	Mar	01	Balance	b/d	17 500		
					2020						
					Feb	29	Dividends on ordinary shares	GJ	40 000		

Dr				Income Tax				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2020					2020						
Feb	29	SARS (income tax)	GJ	108 000	Feb	29	Appropriation account	GJ	108 000		

Dr				Dividends on Ordinary Shares				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2020						
Sep	17	Bank	CPJ	20 000	Feb	29	Appropriation account	GJ	60 000		
2020											
Feb	29	Shareholders for dividends	GJ	40 000							
				60 000					60 000		

Dr				Appropriation account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2020					2020						
Feb	29	Income tax	GJ	108 000	Feb	29	Profit and loss	GJ	352 000		
		Dividends on ordinary shares	GJ	60 000			Retained income	GJ	29 600		
		Retained income	GJ	213 600							
				381 600					381 600		



General Ledger of Popeye Ltd.

Dr				Ordinary Share Capital				B1		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
					2020 Mar	01	Balance	b/d	275 000	
					Nov	30	Bank	CRJ	35 000	
									<u>310 000</u>	

Dr				Retained Income				B2		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2021 Feb	28	Appropriation account	GJ	48 750	2020 Mar	01	Balance	b/d	48 750	
					2021 Feb	28	Appropriation account	GJ	289 250	

Dr				SARS (Income Tax)				Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2020 Mar	01	Balance	b/d	6 780	2021 Feb	28	Income tax	GJ	138 000
Aug	31	Bank	CPJ	53 200					
2021 Feb	27	Bank	CPJ	73 520					
		Balance	c/d	4 500					
				<u>138 000</u>					<u>138 000</u>
					2021 Mar	01	Balance	b/d	4 500

Dr				Shareholders for Dividends				Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2020 Mar	12	Bank	CPJ	58 000	2020 Mar	01	Balance	b/d	58 000
					2021 Feb	28	Dividends on ordinary shares	GJ	54 000

Dr				Income Tax				Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2021 Feb	28	SARS (income tax)	GJ	138 000	2021 Feb	28	Appropriation account	GJ	138 000

Dr				Dividends on Ordinary Shares				Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2020 Sep	15	Bank	CPJ	27 500	2021 Feb	28	Appropriation account	GJ	81 500
2021 Feb	28	Shareholders for dividends	GL	54 000					
				<u>81 500</u>					<u>81 500</u>

Dr				Appropriation account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2021					2021						
Feb	28	Income tax	GJ	138 000	Feb	28	Profit and loss	GJ	460 000		
		Dividends on ordinary shares	GJ	81 500			Retained income	GJ	48 750		
		Retained income	GJ	289 250							
				<u>508 750</u>					<u>508 750</u>		

» Activity 1.10

LB page 30

1. General Ledger of Lindiwe Ltd.

Dr				Loan: AB Bank				B10				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount						
2017					2016										
Feb	28	Bank	CPJ	18 000	Mar	01	Bank	CRJ	100 000						
		Balance	c/d	92 500	2017										
				<u>110 500</u>	Feb	28	Interest on loan	GJ	10 500						
									<u>110 500</u>						
					2017										
					Mar	01	Balance	b/d	92 500						

Dr				Interest on Loan				N13				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount						
2017					2017										
Feb	28	Loan: AB bank	GJ	10 500	Feb	28	Profit and loss account	GJ	10 500						
				<u>10 500</u>					<u>10 500</u>						

2. Effect on the accounting equation

Date	Assets		Owner's Equity		Liabilities	
	Effect	Reason	Effect	Reason	Effect	Reason
Payments on loan during the year	-18 000	Cash in bank decrease			-18 000	Loan decrease
28 Feb 2017 Interest capitalised			-10 500	Interest on loan is an expense	+10 500	Loan increased

3.

Extract from Statement of Financial Position on 28 February 2017

OWNER'S EQUITY AND LIABILITIES	
Non-current liabilities	
Loan: AB Bank (92 500 – 18 000)	74 500
Current liabilities	
Short-term portion of loan: AB Bank	18 000



Activity 1.11

LB page 32

1. Cash Payments Journal of KLR Ltd. for June 2019

CPJ

Doc. no	Day	Details	Fol.	Bank	Sundry accounts	
					Amount	Details
877	30	P Dinggaan		131 000	131 000	Directors' fees

2. Effect on the accounting equation

Date	Assets		Owner's Equity		Liabilities	
	Effect	Reason	Effect	Reason	Effect	Reason
2019 30 Jun	-131 000	Cash decrease	-131 000	Directors' fees – expense		

3.

General Ledger of KLR Ltd.

Dr				Bank				B10		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
					2019 Jun	30	Directors' fees	CPJ	131 000	

Dr				Directors' fees				N12		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
2019 Jun	30	Bank	CPJ	131 000						



Activity 1.12

LB page 34

1. General Journal of KLR Ltd. for February 2018

GJ

Doc. no.	Day	Details	Fol.	Debit	Credit
	28	Audit fees		9 760	
		Accrued expense			9 760
		(Audit fees payable)			

2. Effect on the accounting equation

Date	Assets		Owner's Equity		Liabilities	
	Effect	Reason	Effect	Reason	Effect	Reason
2018 Feb			-9 760	Audit fees – expense	+ 9 760	Accrued expenses increase

3.

General Ledger of KLR Ltd.

Dr				Accrued Expenses				B21		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
					2018 Feb	28	Audit fees	GJ	9 760	

Dr				Audit fees				N13		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
2018 Feb	28	Accrued expenses	GJ	9 760						

1. General Ledger of SJ Ltd.

Dr				Ordinary Share Capital				B1		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Oct	31	Bank		90 000	Jul	01	Balance	b/d	600 000	
		Balance	c/d	510 000						
				<u>600 000</u>					<u>600 000</u>	
					2018					
					Nov	01	Balance	b/d	510 000	

Dr				Retained Income				B2		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Oct	31	Bank		6 000	Jul	01	Balance	b/d	78 900	

Dr				Bank				B6		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
					2018					
					Oct	31	Ordinary share capital and Retained income		96 000	

2. Effect on the accounting equation

Date	Assets		Owner's Equity		Liabilities	
	Effect	Reason	Effect	Reason	Effect	Reason
Buy back of shares	-96 000	Cash decrease	-90 000	Ordinary share capital decrease		
			-6 000	Retained income decrease		

3.

SJ LIMITED

NOTES TO THE FINANCIAL STATEMENTS ON 30 JUNE 2019

7. ISSUED SHARE CAPITAL

200 000 ordinary shares in issue at 1 July 2018	600 000
30 000 ordinary shares bought back during the financial year	(90 000)
170 000 ordinary shares in issue at 30 June 2019	<u>510 000</u>

General Ledger of ACE Ltd.

Dr				Ordinary Share Capital				B1		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2017					2017					
Nov	01	Bank		125 000	Mar	01	Balance	b/d	1 250 000	
		Balance	c/d	1 125 000						
				<u>1 250 000</u>					<u>1 250 000</u>	
					2017					
					Dec	01	Balance	b/d	1 125 000	

Dr				Retained Income				B2				Cr					
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount	Date		Details		Fol.	Amount
2017	Nov	01	Bank		15 000	2017	Mar	01	Balance	b/d	162 150						
2018	Feb	28	Appropriation account		147 150												
					<u>162 150</u>						<u>162 150</u>						
						2018	Feb	28	Appropriation account		236 750						

Dr				Loan: XY Bank				B8				Cr					
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount	Date		Details		Fol.	Amount
2018	Feb	28	Bank		28 800	2017	Mar	01	Balance	b/d	120 000						
			Balance	c/d	104 400	2018	Feb	28	Interest on loan		13 200						
					<u>133 200</u>						<u>133 200</u>						
						2018	Mar	01	Balance	b/d	104 400						

Dr				SARS (Income Tax)				B12				Cr					
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount	Date		Details		Fol.	Amount
2017	Mar	01	Balance	b/d	7 665	2018	Feb	28	Income tax		146 400						
	Aug	31	Bank		63 000												
2018	Feb	27	Bank		71 000												
		28	Balance	c/d	4 735												
					<u>146 400</u>						<u>146 400</u>						
						2018	Mar	01	Balance	b/d	4 735						

Dr				Shareholders For Dividends				B13				Cr					
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount	Date		Details		Fol.	Amount
2017	Mar	30	Bank		60 000	2017	Mar	01	Balance	b/d	60 000						
					<u>60 000</u>						<u>60 000</u>						
						2018	Feb	28	Dividends on ordinary shares		162 000						

Dr				Interest On Loan				N19				Cr					
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount	Date		Details		Fol.	Amount
2018	Feb	28	Loan: XY Bank		13 200	2018	Feb	28	Profit and loss account		13 200						
					<u>13 200</u>						<u>13 200</u>						

Dr				Audit Fees				N20				Cr					
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount	Date		Details		Fol.	Amount
2017	Mar	30	Bank		5 200	2017	Mar	01	Accrued expenses		5 200						
					<u>5 200</u>						<u>5 200</u>						
2018	Feb	28	Accrued expenses		6 450	2018	Feb	28	Profit and loss account		6 450						
					<u>6 450</u>						<u>6 450</u>						

Dr				Income Tax				N21				Cr	
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount		
2018						2018							
Feb	28	SARS(income tax)			146 400	Feb	28	Appropriation account			146 400		
					<u>146 400</u>						<u>146 400</u>		

Dr				Dividends On Ordinary Shares				N22				Cr	
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount		
2017						2018							
Sep	30	Bank			90 000	Feb	28	Appropriation account			252 000		
2018													
Feb	28	Shareholders for dividends			162 000								
					<u>252 000</u>						<u>252 000</u>		

$$R500\ 000 \times 0,18 = R90\ 000$$

$$R450\ 000 \times 0,36 = R162\ 000$$

Dr				Appropriation Account				F3				Cr	
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount		
2018						2018							
Feb	28	Income tax			146 400	Feb	28	Retained income			147 150		
		Dividends on ordinary shares			252 000			Profit and loss account			488 000		
		Retained income			236 750								
					<u>635 150</u>						<u>635 150</u>		

» Activity 1.15

LB page 38

1. Cash Payments Journal of Mega Ltd. for the year ended 29 February 2020 CPJ

Date		Name of payee		Bank	Sundry accounts	
					Amount	Details
2019	10	SARS		4 790	4 790	SARS(income tax)
Mar		Shareholders		18 000	18 000	Shareholders for dividends
Apr	01	TYJ Chartered Accountants		9 900	9 900	Audit fees
Jun	30	H Dingaan		43 200	43 200	Directors' fees
Aug	25	SARS		44 120	44 120	SARS(income tax)
Oct	18	Shareholders		54 000	54 000	Dividends on ordinary shares
Dec	01	Shareholders		44 000	41 000	Ordinary share capital
					3 000	Retained income
2020						
Feb	15	SARS		29 700	29 700	SARS(income tax)

2. Entries in the General Journal of Mega Ltd. for the year ended
29 February 2020

GJ

Doc. no.	Day	Details	Fol.	Debit	Credit
2019 Mar	01	Accrued expenses		9 900	
		Audit fees			9 900
		(Reversal of adjustment)			
2020 Feb	27	Interest on loan		31 500	
		Loan: AB Bank			31 500
		(Interest on loan capitalised)			
Feb	28	Profit and losses		260 000	
		Appropriation accounts			260 000
		(Transfer of net profit)			
		Retained income		122 789	
		Appropriation account			122 789
		(125 789 – 3 000)			
		Income tax		78 000	
		SARS(income tax)			78 000
		(Tax for the year)			
		Dividends on ordinary shares		106 000	
		Shareholders for dividends			106 000
		(Final dividends declared)			
		Appropriation account		382 789	
		Income tax			78 000
		Dividends on ordinary shares (54 000 + 106 000)			160 000
		(Closing transfers)			144 789



Activity 1.16

LB page 38

No.	Assets		Owner's Equity		Liabilities	
	Effect	Reason	Effect	Reason	Effect	Reason
1.	+500 000	Cash increased	+500 000	Ordinary share capital increased		
2.	-54 000	Cash decreased			-54 000	Debt to shareholders for dividends decreased
3.	-34 600	Cash decreased			-34 600	Debt to SARS decreased
4.	-132 000	Cash decreased	-132 000	Dividends - division of profits		
5.	-23 100	Cash decreased	-23 100	Directors' fees – expense		
6.	-153 000	Cash decreased	-150 000	Ordinary share capital decreased		
			-3 000	Retained income decreased		
7.			-16 700	Interest on loan – expense	+16 700	Loan increased

No.	Assets		Owner's Equity		Liabilities	
	Effect	Reason	Effect	Reason	Effect	Reason
8.			-8 600	Audit fees – expense	+8 600	Accrued expenses increased
9.			-111 800	Dividends – division of profits	+111 800	Debt to shareholders for dividends increased
10.			-67 800	Income tax – decrease in net profit	+67 800	Debt to SARS increased

» **Activity 1.17**

LB page 39

Date	General Ledger			Accounting equation		
	Account debited	Account credited	Amount	Assets	Owner's equity	Liabilities
2014 12 Mar	SARS (income tax)	Bank	7 982	-7 982	0	-7 982
20 Mar	Shareholders for dividends	Bank	35 000	-35 000	0	-35 000
30 Mar	Audit fees	Bank	7 900	-7 900	-7 900	0
30 Apr	Bank	Ordinary share capital	128 000	+128 000	+128 000	0
31 Jul	SARS (income tax)	Bank	36 120	-36 120		-36 120
31 Aug	Dividends on ordinary shares	Bank	36 000	-36 000	-36 000	
30 Sep	Directors' fees	Bank	22 800	-22 800	-22 800	
31 Jan	Ordinary share capital	Bank	32 000	-32 500	-32 500	
	Retained income	Bank	500			
28 Feb	Interest on loan	Loan: LK Bank	26 250		-26 250	+26 250
	Income tax	SARS (income tax)	104 200		-104 200	+104 200
	Dividends on ordinary shares	Shareholders for dividends	70 000		-70 000	+70 000

» **Informal assessment 1.2**

LB page 40

Marks: 35

Time: 25 minutes

General Ledger of Carlton Ltd.

1.

Dr		Ordinary Share Capital						Cr
Date	Details	Fol.	Amount	Date	Details	Fol.	Amount	
				2017 Mar	01 Balance	b/d	✓ 720 000	
				2017 Sep	15 Bank	CRJ	✓✓ 212 500	
							✓✓ 932 500	

[5]

2.

Dr				SARS (Income Tax)				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2017	Mar 01	Balance	b/d	✓ 9 450	2018	Feb 28	Income tax ✓	GJ	✓ 93 000		
	Aug 31	Bank ✓	CPJ	✓ 42 400							
2018	Feb 27	Bank ✓	CPJ	✓ 38 100							
		Balance	c/d	✓ 3 050							
				<u>93 000</u>					<u>93 000</u>		
					2018	Mar 01	Balance	b/d	✓ 3 050		

[9]

3.

Dr				Dividends on Ordinary Shares				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2017	Aug 31	Bank ✓	CPJ	✓✓ 90 900	2018	Feb 28	Appropriation account ✓	GJ	✓✓✓ 139 875		
2018	Feb 28	Shareholders for dividends ✓	GJ	✓✓✓ 48 975							
				<u>139 875</u>					<u>139 875</u>		

[11]

4.

Dr				Appropriation account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2018	Feb 28	Income tax ✓	GJ	✓ 93 000	2018	Feb 28	Profit and loss ✓	GJ	✓ 310 000		
		Dividends on ordinary shares ✓	GJ	✓ 139 875			Accumulated profit ✓	GJ	✓ 99 000		
		Accumulated profit ✓	GJ	✓ 176 125							
				<u>409 000</u>					<u>409 000</u>		

[10]

CHAPTER 2

Financial accounting of companies – Final accounts, Post-closing Trial Balance, IFRS and GAAP

» Activity 2.1

LB page 45

Column A		Column B	
1.	Business entity concept	E.	If the owner's insurance is paid with a business cheque, it will be entered in the books as drawings.
2.	Historical cost rule	A.	An asset will be entered in the assets account at its original cost price.
3.	Rule of prudence	F.	Inventory will always be shown at its lowest of cost price or net realisable value, and not at the amount the business can possibly receive for it upon sales.
4.	Matching concept	C.	Stationery unused at the end of a financial year will be seen as an asset and not an expense for that financial period.
5.	Materiality principle	D.	All information relevant for decision making should be provided – irrelevant information should not be highlighted.
6.	Going concern concept	B.	It must be assumed that a business will continue for the foreseeable future as this could affect the valuation of assets such as inventory and stationery on hand.

» Activity 2.2

LB page 58

	Adjustment	Account debited	Account credited	Amount
1.	On 1 June 2018 the business received R560 from debtor, V Buhrman, previously been written off as a bad debt. The bookkeeper incorrectly posted the amount to the <i>Debtors Control</i> account.	Debtors control	Bad debts recovered	R560
2.	Goods with a selling price of R752 were returned by debtor C Taylor. No entry was made of this transaction. The business uses a mark-up of 60% on cost price.	Debtors allowances	Debtors control	R752
		Trading stock	Cost of sales	R470
3.	After taking the transaction above into account, the <i>Trading Stock</i> account in the business's books shows a balance of R61 700. According to a physical stock take on 30 June 2018 the trading stock on hand is R58 600.	Trading stock deficit	Trading stock	R3 100
4.	Stationery worth R1 090 was not used during the financial year.	Consumable stores on hand	Stationery	R1 090
5.	Depreciation on equipment should be calculated at 10% per annum on the cost price. The cost price of equipment is R67 900 and the accumulated depreciation on equipment is R32 100.	Depreciation	Accumulated depreciation on equipment	R6 790
6.	Depreciation on vehicles should be calculated at 15% per annum on the diminished balance. The cost price of vehicles is R130 000 and the accumulated depreciation on vehicles is R46 800.	Depreciation	Accumulated depreciation on vehicles	R12 480

	Adjustment	Account debited	Account credited	Amount				
7.	Debtor G Baxter, who owes the business R1 040, has been declared insolvent. We received 30c in the rand on 29 June 2018. The rest should be written off as a bad debt. No entry has been made in this regard.	Bank	Debtors control	R312				
		Bad debts	Debtors control	R728				
8.	Provision for bad debts should be increased by R103.	Provision for bad debts: adjustment	Provision for bad debts	R103				
9.	Received the following from the bank:	Fixed deposit: QT bank	Interest on fixed deposit	R640				
	<table border="1"> <thead> <tr> <th colspan="2">Statement of fixed deposit at QT Bank</th> </tr> </thead> <tbody> <tr> <td>Balance on 1 July 2017</td> <td>8 000</td> </tr> <tr> <td>Interest capitalised</td> <td>640</td> </tr> <tr> <td>Balance on 30 June 2018</td> <td>8 640</td> </tr> </tbody> </table> <p>The interest must be entered in the business's books.</p>				Statement of fixed deposit at QT Bank		Balance on 1 July 2017	8 000
Statement of fixed deposit at QT Bank								
Balance on 1 July 2017	8 000							
Interest capitalised	640							
Balance on 30 June 2018	8 640							
10.	Rent of R3 900 has been received from a tenant one month in advance, for July 2018.	Rent income	Income received in advance	R3 900				
11.	An amount of R8 000 is owed to the independent auditor for his services.	Audit fees	Accrued expense	R8 000				
12.	An annual insurance premium of R7 800 was paid on 1 September 2017. It expires on 31 August 2018.	Prepaid expense	Insurance	R1 300				
13.	Income tax for the year is calculated at 28% of net profit. See <i>Appropriation</i> account below for net profit.	Income tax	SARS (income tax)	R249 200 (R890 000 × 28%)				
14.	The interim dividend paid during the financial year was R240 000. This was entered in the books. On 30 June 2018 the directors declared a final dividend of 186c per share.	Dividends on ordinary shares	Shareholders for dividends	R279 000 (150 000 × $\frac{186}{100}$)				

2. General Ledger of Thobani Traders Ltd.

Dr		Appropriation account				F3		Cr
Date	Details	Fol.	Amount	Date	Details	Fol.	Amount	
2018 Jun 30	Income tax	GJ	249 200	2018 Jun 30	Profit and loss account	GJ	890 000	
	Dividends on ordinary shares (140 000 + 279 000)	GJ	419 000		Retained income	GJ	198 700	
	Retained income	GJ	420 500					
			1 088 700				1 088 700	

» Activity 2.3

LB page 61

- $R1\ 200\ 000 / 300\ 000$ shares = R4 per share
- Authorised shares – Issued shares = $500\ 000 - 300\ 000 = 200\ 000$ shares available
- Debit: *Bank*
Credit: *Ordinary share capital*
- They need to retain some of the profit in order to pay shareholders for dividends in the next financial year and to use in expanding the company activities.
- For transparency; so that the shareholders can see what amount were paid towards directors' fees

6. *Profit and Loss* account
7. The internal auditor will make sure that all internal control measures of the company are in place and effective. The internal auditor is an employee of the company and is paid a salary by the company. The independent auditor is not an employee of the company and does not earn a salary at the company. The independent auditor verifies the credibility and reliability of the financial statements.
8. The directors serving on the audit committee will appoint and independent auditor. But the appointment must be approved by the shareholders at the AGM.
9. Debit: *Audit fees*
Credit: *Accrued expenses*
10. The provisional tax payments were R3 208 more than the income tax for the year.
11. $R212\ 912 \times \frac{100}{28} = R760\ 400$
12. $R212\ 912 + R3\ 208 = R216\ 120$
13. SARS (*Income Tax*) will have a credit balance; in other words, it's a liability, and the business owes SARS money.
14. $R249\ 000 - R159\ 000 = R90\ 000$ interim dividends was paid
15. $\frac{159\ 000}{300\ 000} = 53\text{c}$ per share

» Activity 2.4

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1.

Board Limited

Post-adjustment Trial Balance as at 28 February 2019

Balance Sheet accounts	Debit	Credit
Ordinary share capital		180 000
Retained income		10 000
Equipment	56 500	
Accumulated depreciation on equipment (16 200 + 8 060)		24 260
Vehicles	86 000	
Accumulated depreciation on vehicles (23 000 + 8 600)		31 600
Loan: HP Bank (17% p.a.)		50 000
Trading stock (190 000 + 1 980 – 3 980)	188 000	
Debtors control (105 000 – 4 950 – 3 120)	96 930	
Provision for bad debts		14 000
Bank	14 000	
Cash float	1 000	
Creditors control		36 800
SARS (income tax) (60 400 – 65 177)		4 777
Accrued expenses (3 750 + 2 125)		5 875
Accrued income	2 400	
Prepaid expenses	1 500	
Consumable stores on hand	1 300	
Shareholders for dividends		25 600

Nominal accounts		
Sales		920 000
Cost of sales (392 000 – 1 980)	390 020	
Debtors allowances (8 500 + 4950)	13 450	
Commission income (20 000 + 2 400)		22 400
Interest on current account		1 200
Rent paid	44 000	
Salaries and wages	90 000	
Insurance	12 500	
Interest on loan (6 375 + 2 125)	8 500	
Bad debts (19 200 + 3 120)	22 320	
Directors' fees (150 000 – 1 500)	148 500	
Audit fees (13 925 + 3 750)	17 675	
Sundry expenses (8 200 – 1 300)	6 900	
Dividends on ordinary shares (12 800 + 25 600)	38 400	
Trading stock deficit	3 980	
Provision for bad debts adjustment	800	
Depreciation (8 600 + 8 060)	16 660	
Income tax	65 177	
	1 326 512	1 326 512

2. General Ledger of Board Limited

Dr Retained Income Cr								
Date		Details	Fol.	Amount	Date	Details	Fol.	Amount
2019 Feb	28	Appropriation account	GJ	10 000	2018 Mar	Balance	b/d	10 000
					2019 Feb	Appropriation account	GJ	74 718

Dr SARS (Income Tax) Cr								
Date		Details	Fol.	Amount	Date	Details	Fol.	Amount
2019 Feb	28	Balance	b/d	60 400	2019 Feb	Income tax	GJ	65 177
		Balance	c/d	4 777				
				65 177				65 177
					2019 Mar	Balance	b/d	4 777

Dr Dividends on Ordinary Shares Cr								
Date		Details	Fol.	Amount	Date	Details	Fol.	Amount
2019 Feb	28	Balance	b/d	12 800	2019 Feb	Appropriation account	GJ	38 400
		Shareholders for dividends	GJ	25 600				
				38 400				38 400

Dr				Trading account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Feb	28	Cost of sales (392 000 – 1 980)	GJ	390 020	Feb	28	Sales (920 000 – 8 500 – 4 950)	GJ	906 550		
		Profit and loss account	GJ	516 530							
				<u>906 550</u>					<u>906 550</u>		

Dr				Profit and Loss account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Feb	28	Rent expense	GJ	44 000	Feb	28	Trading account	GJ	516 530		
		Salaries and wages	GJ	90 000			Rent income (20 000 + 2 400)	GJ	22 400		
		Insurance	GJ	12 500			Interest on current account	GJ	1 200		
		Interest on loan (6 375 + 2 125)	GJ	8 500							
		Bad debts (19 200 + 3 120)	GJ	22 320							
		Directors' fees (150 000 – 1 500)	GJ	148 500							
		Audit fees (13 925 + 3 750)	GJ	17 675							
		Sundry expenses (8 200 – 1 300)	GJ	6 900							
		Trading stock deficit	GJ	3 980							
		Provision for bad debts adjustments	GJ	800							
		Depreciation (8 600 + 8 060)	GJ	16 660							
		Appropriation account	GJ	168 295							
				<u>540 130</u>					<u>540 130</u>		

Dr				Appropriation account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Feb	28	Income tax	GJ	65 177	Feb	28	Profit and loss	GJ	168 295		
		Dividends on ordinary shares	GJ	38 400			Retained income	GJ	10 000		
		Retained income	GJ	74 718							
				<u>178 295</u>					<u>178 295</u>		

3.

Board Limited**Post-closing Trial Balance as at 28 February 2019**

	Debit	Credit
Balance Sheet accounts		
Ordinary share capital		180 000
Retained income		74 718
Equipment	56 500	
Accumulated depreciation on equipment		24 260
Vehicles	86 000	
Accumulated depreciation on vehicles		31 600
Loan: HP Bank (17% p.a.)		50 000
Trading stock	188 000	
Debtors control	96 930	
Provision for bad debts		14 000
Bank	14 000	
Cash float	1 000	
Creditors control		36 800
SARS (income tax)		4 777
Shareholders for dividends		25 600
Accrued expenses (3 750 + 2 125)		5 875
Accrued income	2 400	
Consumables on hand	1 300	
Prepaid expenses	1 500	
	447 630	447 630

**Activity 2.5**

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General Ledger of Board Ltd.**Balance Sheet accounts**

Dr				Accrued Expenses				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Mar	01	Audit fees		3 750	Mar	01	Balance	b/d	5 875		
		Interest on loan		2 125							
				<u>5 875</u>					<u>5 875</u>		

Dr				Accrued Income				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Mar	01	Balance	b/d	2 400	Mar	01	Rent income		2 400		
				<u>2 400</u>					<u>2 400</u>		

Dr				Consumable Stores On Hand				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Mar	01	Balance	b/d	1 300	Mar	01	Stationery		1 300		
				<u>1 300</u>					<u>1 300</u>		

Dr				Prepaid Expenses				Cr			
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount
2019						2019					
Mar	01	Balance		b/d	1 500	Mar	01	Directors fees			1 500
					<u>1 500</u>						<u>1 500</u>

Nominal accounts

Dr				Audit Fees				Cr			
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount
						2019					
						Mar	01	Accrued expenses			3 750

Dr				Interest On Loan				Cr			
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount
						2019					
						Mar	01	Accrued expenses			2 125

Dr				Rent Income				Cr			
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount
2019											
Mar	01	Accrued income			2 400						

Dr				Stationery				Cr			
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount
2019											
Mar	01	Consumable stores on hand			1 300						

Dr				Directors' Fees				Cr			
Date		Details		Fol.	Amount	Date		Details		Fol.	Amount
2019											
Mar	01	Prepaid expenses			1 500						



1. General Journal of Zola Ltd. for June 2019

GJ

Date	Details	Fol.	Debit	Credit
30	Stationery		244	
	Consumable stores on hand			244
	Consumable stores on hand		390	
	Stationery			390
	Trading stock deficit		2 400	
	Trading stock			2 400
	(107 600 – 105 200)			
	Audit fees		80 000	
	Accrued expense			80 000
	Rent income		5 550	
	Income received in advance			5 550
	(27 750 × $\frac{3}{15}$)			
	Prepaid expenses		2 600	
	Insurance			2 600
	(7 800 × $\frac{4}{12}$)			
	Interest on loan		20 040	
	Loan: ASD Bank			20 040
	Provision for bad debts		324	
	Provision for bad debts - adjustment			324
	(28 300 × 4% = 1 132) (1 456 – 1 132)			
	Depreciation		26 700	
	Accumulated depreciation on vehicles			20 800
	Accumulated depreciation on equipment			5 900
	((140 000 – 36 000) × 20% = 20 800 59 000 × 10% = 5 900)			
	Income tax		203 812	
	SARS (income tax)			203 812
	Dividends on ordinary shares		140 000	
	Shareholders for dividends			140 000
	Ordinary share capital		60 000	
	Retained income		3 000	
	Bank			63 000

2.

Zola Ltd.

Post-Adjustment Trial Balance as at 30 June 2019

	Fol.	Debit	Credit
Balance Sheet accounts			
Ordinary share capital (800 000 – 60 000)			740 000
Retained income (230 802 – 3 000)			227 802
Loan: ASD Bank (167 000 + 20 040)			187 040
Land and buildings		1 422 000	
Vehicles		140 000	
Equipment		59 000	
Accumulated depreciation on vehicles (36 000 + 20 800)			56 800
Accumulated depreciation on equipment (13 000 + 5 900)			18 900
Trading stock (107 600 – 2 400)		105 200	
Debtors control		28 300	
Provision for bad debts (1 456 – 324)			1 132
Bank (95 928 – 63 000)		32 928	
Petty cash		2 000	
Creditors control			63 294
SARS (income tax) (198 000 – 203 812)			5 812
Consumable stores on hand (1 March 2018)		390	
Accrued expense			80 000
Income received in advance			5 550
Prepaid expense		2 600	
Shareholders for dividends			140 000
Nominal accounts			
Sales			4 977 280
Cost of sales		3 100 000	
Debtors allowances		17 280	
Rent income (27 750 – 5 550)			22 200
Interest on current account			1 488
Salaries and wages		580 000	
Stationery (3 210 + 244 – 390)		3 064	
Insurance (21 000 – 2 600)		18 400	
Advertisements		30 000	
Directors fees		340 000	
Bank charges		19 562	
Bad debts		4 346	
Sundry operating expenses		31 600	
Dividends on ordinary shares (118 000 + 140 000)		258 000	
Trading stock deficit		2 400	
Provision for bad debts: adjustment			324
Audit fees		80 000	
Interest on loan		20 040	
Depreciation (20 800 + 5 900)		26 700	
Income tax		203 812	
		6 727 622	6 727 622

General Ledger of Zola Ltd.
Balance Sheet accounts

Dr				Ordinary Share Capital				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Jun	30	Bank		60 000	Jun	30	Balance	b/d	800 000		
		Balance	c/d	740 000							
				<u>800 000</u>					<u>800 000</u>		
					2019						
					Jul	01	Balance	b/d	740 000		

Dr				Retained Income				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Jun	30	Bank		3 000	Jun	30	Balance	b/d	230 802		
		Appropriation account		227 802							
				<u>230 802</u>					<u>230 802</u>		
					2019						
					Jun	30	Appropriation account		493 890		

Dr				SARS (Income Tax)				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Jun	30	Balance	b/d	198 000	Jun	30	Income tax		203 812		
		Balance	c/d	5 812							
				<u>203 812</u>					<u>203 812</u>		
					2019						
					Jul	01	Balance	b/d	5 812		

Dr				Dividends On Ordinary Shares				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Jun	30	Balance	b/d	118 000	Jun	30	Appropriation account		258 000		
		Shareholders for dividends		140 000							
				<u>258 000</u>					<u>258 000</u>		

Dr				Stationery				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Jun	30	Balance	b/d	3 210	Jun	30	Consumable stores on hand		390		
		Consumable stores on hand		244			Profit and loss		3 064		
				<u>3 454</u>					<u>3 454</u>		

Dr				Trading Account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Jun	30	Cost of sales		3 100 000	Jun	30	Sales (4 977 280 – 17 280)		4 960 000		
		Profit and loss		1 860 000							
				<u>4 960 000</u>					<u>4 960 000</u>		

Dr				Profit And Loss Account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Jun	30	Salaries and wages		580 000	Jun	30	Trading account		1 860 000		
		Stationery		3 064			Rent income		22 200		
		Insurance		18 400			Interest on current account		1 488		
		Advertisements		30 000			Provision for bad debts -adjustment		324		
		Directors fees		340 000							
		Bank charges		19 562							
		Bad debts		4 346							
		Sundry operating expenses		31 600							
		Trading stock deficit		2 400							
		Audit fees		80 000							
		Interest on loan		20 040							
		Depreciation		26 700							
		Appropriation account		727 900							
				<u>1 884 012</u>					<u>1 884 012</u>		

Dr				Appropriation Account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Jun	30	Income tax		203 812	Jun	30	Profit and loss		727 900		
		Dividends on ordinary shares		258 000			Retained income		227 802		
		Retained income		493 890							
				<u>955 702</u>					<u>955 702</u>		

Zola Ltd.

Post-Closing Trial Balance as at 30 June 2019

	Fol.	Debit	Credit
Balance Sheet accounts			
Ordinary share capital (800 000 – 60 000)			740 000
Retained income			493 890
Loan: ASD Bank (167 000 + 20 040)			187 040
Land and buildings		1 422 000	
Vehicles		140 000	
Equipment		59 000	
Accumulated depreciation on vehicles (36 000 + 20 800)			56 800
Accumulated depreciation on equipment (13 000 + 5 900)			18 900
Trading stock (107 600 – 2 400)		105 200	
Debtors control		28 300	
Provision for bad debts (1 456 – 324)			1 132
Bank (95 928 – 63 000)		32 928	
Petty cash		2 000	
Creditors control			63 294
SARS (income tax) (198 000 – 203 812)			5 812
Consumable stores on hand (1 July 2018)		390	
Accrued expense			80 000
Income received in advance			5 550
Prepaid expense		2 600	
Shareholders for dividends			140 000
		<u>1 792 418</u>	<u>1 792 418</u>

**Marks: 20****Time: 10 minutes**

- 1.1 FALSE – net profit is calculated in the Profit and Loss account ✓✓
- 1.2 FALSE – it is a distribution of net profit ✓✓
- 1.3 TRUE ✓✓
- 1.4 TRUE ✓✓
- 1.5 TRUE ✓✓
- 1.6 FALSE – Interim dividend are paid during the year – final dividends are declared end of the year. ✓✓
- 1.7 TRUE ✓✓ (7 × 2)
- 2.1 It is a reversal of adjustment – rent that was received in advance in the previous financial year. ✓✓
- 2.2 Year end adjustment – deduct R2 233 from the Rent Income account for rent received in advance. ✓✓
- 2.3 $\frac{2\,233 - 2\,030}{2\,030} \times \frac{100}{1} = 10\%$ ✓✓ (3 × 2)

» Case study 3.1

1. All directors and employees
- 2.1 Conflict of interest is when there is a clash between professional obligations and personal interest where an employee tries to perform a duty, but at the same time tries to achieve personal gain.
- 2.2 Insider trading is an illegal practice where an employee uses confidential information to do trading on the stock exchange to his/her own advantage.
- 2.3 Illegal anti-competitive activities such as an attempt to monopolise a trade, or price-fixing
- 2.4 Corruption is when someone is guilty of dishonest practices, like bribery. Bribery is when a person gives or receives something of value, like cash or gifts, for the purpose of influencing someone’s actions or views.
3. Conflict of interest, accepting inappropriate gifts, unacceptable business conduct
4. Compliance with laws and regulations and ethical conduct principles
5. They have a toll-free Ethics Line where employees can report any activity of fraud, theft, breach of ethics or other risks. They also have awareness programmes to make employees aware of unethical behaviour.
6. After an investigation, the guilty party will have a hearing, after which the person can be warned, fined or dismissed.
- 7.

Column A		Column B	
1.	Engaged with government departments to explore co-operative ventures to address alcohol abuse	C.	Responsible drinking
2.	Supported numerous education for employment initiatives (in addition to Stellemploy and Bergzicht) including sponsoring bursary schemes at higher education institutes	A.	Sustaining our communities
3.	A number of initiatives including skills training, succession planning, retention strategies, internships and bursaries have been implemented to address transformation	E.	Economic equity
4.	Implemented the Greenhouse Gas reporting database for all South African operations and submitted their first report to the Carbon Disclosure Project (CDP)	B.	Preserving our environment
5.	A plan to address certain aspects of King III was approved for implementation during 2011 and progress was monitored by the audit and risk committee and reported to the Board	D.	Good corporate governance



Column A		Column B	
1.	Income Statement	B.	Reflects the financial results (profit/loss) for the company for the financial period
2.	Statement of Financial Position (Balance Sheet)	C.	Gives the status of the company's assets, owner's equity and liabilities
3.	Cash Flow Statement	D.	Shows the movement of cash in terms of operating, investing and financing activities and the effect it had on the liquid funds of the company
4.	Directors' report	E.	A written, verbal explanation, of a company's operations during a financial year
5.	Independent Audit report	A.	Reflects whether or not the shareholders can rely on the financial statements
6.	Certificate of Incorporation	I.	A document issued by the Registrar of Companies that indicates the formation of a new legal entity; allows a company to start trading
7.	Memorandum of Incorporation (MOI)	J.	A document that sets out rights, duties and responsibilities of shareholders, directors and others within and relation to a company
8.	Shares register	K.	A record that is kept of every shareholder and the number of shares he/she owns
9.	Tax assessment	H.	A document issued by SARS that states the amount of income tax a company needs to pay
10.	Notice of AGM	G.	An invitation to shareholders to a formal meeting that is held once a year
11.	Prospectus	F.	Used to advertise a company and to give information to potential shareholders
12.	Companies Act	M.	Regulates all matters pertaining to companies
13.	The King III Report	L.	A report on corporate governance in South Africa



1.

Bobby Limited**INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019**

	Note	R
Sales (863 210 – 9 710)		853 500
Cost of sales		(448 990)
Gross profit		404 510
Other operating income		(56 765)
Rent income (29 900 – 2 300)		27 600
Commission received (22 740 + 4 900)		27 640
Provision for bad debts adjustments		225
Profit on sale of assets		1 300
Gross operating income		461 275
Operating expenses		(297 584)
Packaging material (7 452 – 988)		6 464
Bad debts (1 870 + 700)		2 570
Insurance (12 000 – 2 100)		9 900
Salaries and wages		102 450
Municipal services		13 670
Bank charges		987
Telephone		9 363
Directors' fees		106 800
Audit fees		15 630
Trading stock deficit		1 910
Depreciation (5 000 + 22 840)		27 840
Operating profit (loss)		163 691
Interest expense	2	(11 600)
Profit (loss) before tax		152 091
Income tax		(59 230)
Net profit (loss) for the year	8	92 861

Bobby Limited**STATEMENT OF FINANCIAL POSITION AT 28 FEBRUARY 2019**

	Note	R
ASSETS		
NON-CURRENT ASSETS		519 060
Fixed/tangible assets	3	519 060
CURRENT ASSETS		99 633
Inventories	4	60 308
Trade and other receivables	5	38 825
Cash and cash equivalents	6	500
TOTAL ASSETS		618 693
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		437 071
Share capital	7	363 260
Retained income	8	73 811
NON-CURRENT LIABILITIES		82 900
Mortgage loan		82 900
CURRENT LIABILITIES		98 722
Trade and other payables	9	89 600
Bank overdraft (11 522 – 2 400)		9 122
TOTAL EQUITY AND LIABILITIES		618 693

Bobby Limited**NOTES TO THE FINANCIAL STATEMENTS AT 28 FEBRUARY 2019****2. INTEREST EXPENSE**

On loans	11 600
	11 600

3. FIXED/TANGIBLE ASSETS

	Land and buildings	Vehicles	Equipment	Total
Carrying value at beginning of year	400 000	114 200	33 800	548 000
Cost	400 000	160 000	50 000	610 000
Accumulated depreciation		(45 800)	(16 200)	(62 000)
Movements				
Disposals at carrying value			(1 100)	(1 100)
Depreciation		(22 840)	(5 000)	(27 840)
Carrying value at end of year	400 000	91 360	27 700	519 060
Cost	400 000	160 000	43 000	603 000
Accumulated depreciation		(68 640)	(15 300)	(83 940)

4. INVENTORIES

Trading stock	59 320
Consumable stores on hand	988
	60 308

5. TRADE AND OTHER RECEIVABLES

Trade debtors (34 200 – 700)	33 500
Provision for bad debts	(1 675)
Net trade debtors	31 825
Expenses prepaid	2 100
Income accrued (receivable)	4 900
	38 825

6. CASH AND CASH EQUIVALENTS

Bank	–
Petty cash	500
	500

7. ORDINARY SHARE CAPITAL

AUTHORISED	
Number of ordinary authorised shares: 500 000 shares	
ISSUED	
110 000 ordinary shares in issue at the beginning of the year	238 260
50 000 additional shares issued during the financial year at issue price R2,50 each	125 000
160 000 ordinary shares in issue at the end of the year	363 260

8. RETAINED INCOME

Balance at the beginning of the year	52 950
Net profit after tax for the year	92 861
Dividends on ordinary shares	(72 000)
Paid	40 000
Recommended/Declared	32 000
Balance at the end of the year	73 811

9. TRADE AND OTHER PAYABLES

Trade creditors	27 240
Expenses accrued (payable)	15 630
Income received in advance (deferred)	2 300
Shareholders for dividends	32 000
SARS – income tax (59 230 – 46 800)	12 430
	89 600



1.

Queen Traders Limited

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

	Note	R
Sales (1 275 128 – 1 953)		1 273 175
Cost of sales		(910 805)
Gross profit		362 370
Other operating income		28 806
Rent income (32 900 – 4 700)		28 200
Profit on sale of assets		580
Provision for bad debts adjustments		26
Gross operating income		391 176
Operating expenses		(309 868)
Telephone		7 670
Water and electricity		8 960
Bad debts (1 214 + 280)		1 494
Insurance (16 800 – 5 040)		11 760
Stationery (1 750 – 215)		1 535
Rental expense		28 420
Bank charges		2 824
Wages		93 845
Directors' fees		110 000
Audit fees		15 200
Trading stock deficit (35 423 – 34 845)		578
Depreciation (8 832 + 18 750)		27 582
Operating profit (loss)		81 308
Interest income	1	4 000
Profit (loss) before income expense		85 308
Interest expense	2	(7 856)
Profit (loss) before tax		77 452
Income tax		(39 352)
Net profit (loss) for the year	8	38 100

2.

Queen Traders Limited

BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AT 28 FEBRUARY 2018

	Note	R
ASSETS		
NON-CURRENT ASSETS		563 078
Fixed/tangible assets	3	509 328
Fixed deposit: Unibank		53 750
CURRENT ASSETS		103 324
Inventories	4	35 060
Trade and other receivables	5	13 854
Cash and cash equivalents	6	54 410
TOTAL ASSETS		666 402
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		527 409
Share capital	7	403 750
Retained income	8	123 659
NON-CURRENT LIABILITIES		35 000
Loan from King Bank		35 000
CURRENT LIABILITIES		103 993
Trade and other payables	9	93 993
Short-term loans		10 000
TOTAL EQUITY AND LIABILITIES		666 402

3.

Queen Traders Limited

NOTES TO THE FINANCIAL STATEMENTS AT 28 FEBRUARY 2018

1. INTEREST INCOME

On investments	3 750
On current bank account	250
	4 000

2. INTEREST EXPENSE

On loans	7 700
On overdraft	156
	7 856

3. FIXED/TANGIBLE ASSETS

	Land and buildings	Vehicles	Equipment	Total
Carrying value at beginning of year	324 000	68 750	46 080	438 830
Cost	324 000	125 000	72 000	521 000
Accumulated depreciation		(56 250)	(25 920)	(82 170)
Movements				
Additions	100 000			100 000
Disposals at carrying value			(1 920)	(1 920)
Depreciation		(18 750)	(8 832)	(27 582)
Carrying value at end of year	424 000	50 000	35 328	509 328
Cost	424 000	125 000	64 760	603 760
Accumulated depreciation		(75 000)	(29 432)	(104 432)

4. INVENTORIES

Trading stock	34 845
Consumable stores on hand	215
	35 060

5. TRADE AND OTHER RECEIVABLES

Trade debtors (7 480 – 280)	7 200
Provision for bad debts	(288)
Net trade debtors	6 912
SARS – income tax (41 254 – 39 352)	1 902
Expenses prepaid	5 040
	13 854

6. CASH AND CASH EQUIVALENTS

Bank (51 540 + 2 500)	54 040
Cash float	250
Petty cash	120
	54 410

7. ORDINARY SHARE CAPITAL

AUTHORISED	
Number of ordinary authorised shares: 125 000 shares	
ISSUED	
70 000 ordinary shares in issue at the beginning of the year	297 500
25 000 additional shares issued during the financial year at issue price R4,25 each	106 250
95 000 ordinary shares in issue at the end of the year	403 750

8. RETAINED INCOME

Balance at the beginning of the year	190 059
Net profit after tax for the year	38 100
Dividends on ordinary shares	(104 500)
Paid	42 750
Recommended/Declared	61 750
Balance at the end of the year	123 659

9. TRADE AND OTHER PAYABLES

Trade creditors	24 568
Expenses accrued (payable)	2 975
Income received in advance (deferred)	4 700
Shareholders for dividends	61 750
	93 993

» Activity 3.4

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1.

Simlin Limited

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019

	Note	R
Sales (772 500 – 500)		772 000
Cost of sales		(437 500)
Gross profit		334 500
Other operating income		61 540
Rent income (65 280 – 5 280)		60 000
Discount received		1 100
Bad debts recovered		290
Provision for bad debts adjustment		150
Gross operating income		396 040
Operating expenses		(253 140)
Bank charges		3 040
Directors' fees		70 000
Audit fees		14 460
Salaries and wages (105 000 + 4 000)		109 000
Pension fund contribution (920 + 40)		960
Bad debts (710 + 800)		1 510
Stationery (860 – 100)		760
Discount allowed		940
Insurance (12 000 – 4 620)		7 380
Trading stock deficit [(42 480 + 250) – 42 340]		390
Depreciation (2 400 + 10 500 + 31 800)		44 700
Operating profit (loss)		142 900
Interest expense	2	(13 000)
Profit (loss) before tax		129 900
Income tax		(48 580)
Net profit (loss) for the year	8	81 320

2.

Simlin Limited

BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AT 28 FEBRUARY 2019

	Note	R
ASSETS		
NON-CURRENT ASSETS		803 100
Fixed/tangible assets	3	803 100
CURRENT ASSETS		154 090
Inventories	4	42 440
Trade and other receivables	5	39 770
Cash and cash equivalents	6	71 880
TOTAL ASSETS		957 190
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		849 820
Share capital	7	830 000
Retained income	8	19 820
NON-CURRENT LIABILITIES		50 000
Loan from Help Us Bank		50 000
CURRENT LIABILITIES		57 370
Trade and other payables	9	47 370
Short-term loans		10 000
TOTAL EQUITY AND LIABILITIES		957 190

3.

Simlin Limited

NOTES TO THE FINANCIAL STATEMENTS AT 28 FEBRUARY 2019

1. INTEREST INCOME

On loans	13 000
----------	--------

3. FIXED/TANGIBLE ASSETS

	Land and buildings	Vehicles	Equipment	Total
Carrying value at beginning of year	660 000	106 000	11 800	777 800
Cost	660 000	200 000	16 000	876 000
Accumulated depreciation		(94 000)	(4 200)	(98 200)
Movements				
Additions		70 000		70 000
Depreciation		(42 300)	(2 400)	(44 700)
Carrying value at end of year	660 000	133 700	9 400	803 100
Cost	660 000	270 000	16 000	946 000
Accumulated depreciation		(136 300)	(6 600)	(142 900)

4. INVENTORIES

Trading stock	42 340
Consumable stores on hand	100
	42 440

5. TRADE AND OTHER RECEIVABLES

Trade debtors	37 000
Provision for bad debts	(1 850)
Net trade debtors	35 150
Expenses prepaid	4 620
	39 770

6. CASH AND CASH EQUIVALENTS

Bank	70 380
Cash float	800
Petty cash	700
	71 880

7. ORDINARY SHARE CAPITAL

AUTHORISED	
Number of ordinary authorised shares: 600 000 shares	
ISSUED	
450 000 ordinary shares in issue at the beginning of the year	930 000
50 000 additional shares issued during the financial year at issue price R2 each	(100 000)
400 000 ordinary shares in issue at the end of the year	830 000

8. RETAINED INCOME

Balance at the beginning of the year	18 500
Net profit after tax for the year	81 320
Dividends on ordinary shares	(80 000)
Paid	60 000
Recommended/Declared	20 000
Balance at the end of the year	19 820

9. TRADE AND OTHER PAYABLES

Trade creditors (11 000 + 250)	11 250
Expenses accrued (payable)	3 000
Income received in advance (deferred)	5 280
Shareholders for dividends	20 000
SARS – income tax (if a credit balance)	3 580
SARS (PAYE) (220 + 850)	1 070
Creditors for salaries	3 070
Pension Fund (80 + 40)	120
	47 370



1. **General Ledger of WOW Traders Ltd.**

Dr				Appropriation account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2022					2022						
Feb	28	Income tax	GJ	63 875	Feb	28	Profit and loss	GJ	148 422		
		Dividends on ordinary shares	GJ	22 000			Retained income	GJ	29 637		
		Retained income	GJ	92 184							
				178 059					178 059		

2.

WOW Traders Ltd. Limited
BALANCE SHEET AT 28 FEBRUARY 2022

	Note	R
ASSETS		
NON-CURRENT ASSETS		221 414
Fixed/tangible assets	3	171 414
Financial assets		
Fixed deposit: VIP Bank		50 000
CURRENT ASSETS		41 216
Inventories	4	14 322
Trade and other receivables	5	8 698
Cash and cash equivalents	6	18 196
TOTAL ASSETS		262 630
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		217 184
Share capital	7	125 000
Retained income	8	92 184
NON-CURRENT LIABILITIES		8 000
Mortgage loan from POW Bank		8 000
CURRENT LIABILITIES		37 446
Trade and other payables	9	25 446
Short-term loans		12 000
TOTAL EQUITY AND LIABILITIES		262 630

WOW Traders Ltd.**NOTES TO THE FINANCIAL STATEMENTS AT 28 FEBRUARY 2022****3. FIXED/TANGIBLE ASSETS**

	Land and buildings	Vehicles	Equipment	Total
Carrying value at beginning of year	150 000	23 200	236	173 436
Cost	150 000	26 000	2 950	178 950
Accumulated depreciation		(2 800)	(2 714)	(5 514)
Movements				
Additions			1 200	1 200
Depreciation		(2 600)	(622)	(3 222)
Carrying value at end of year	150 000	20 600	814	171 414
Cost	150 000	26 000	4 150	180 150
Accumulated depreciation		(5 400)	(3 336)	(8 736)

4. INVENTORIES

Trading stock	12 847
Consumable stores on hand	1 475
	14 322

5. TRADE AND OTHER RECEIVABLES

Trade debtors	6 800
Provision for bad debts	(252)
Net trade debtors	6 548
SARS – income tax (65 000 – 63 875)	1 125
Expenses prepaid	675
Income accrued (receivable)	350
	8 698

6. CASH AND CASH EQUIVALENTS

Bank	17 446
Cash float	750
	18 196

7. ORDINARY SHARE CAPITAL

AUTHORISED	
Number of ordinary authorised shares: 200 000 shares	
ISSUED	
90 000 ordinary shares in issue at the beginning of the year	114 000
10 000 additional shares issued during the financial year at issue price R1,10 each	11 000
100 000 ordinary shares in issue at the end of the year	125 000

8. RETAINED INCOME

Balance at the beginning of the year	29 637
Net profit after tax for the year (148 422 – 63 875)	84 547
Dividends on ordinary shares	(22 000)
Paid	7 000
Recommended/Declared	15 000
Balance at the end of the year	92 184

9. TRADE AND OTHER PAYABLES

Trade creditors	7 897
Expenses accrued (payable)	1 049
Income received in advance (deferred)	1 500
Shareholders for dividends	15 000
	25 446



Activity 3.6 (challenge)

LB page 92

1.

LEX LTD.

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

Sales (2 260 720 – 3 520 – 2 880)		2 254 320
Cost of sales (1 254 000 – 1 600)		(1 252 400)
Gross profit		1 001 920
Other income		120 351
Income from repairs (108 660)		108 660
Rent income (10 530 + 990)		11 520
Profit with asset disposal		171
Gross operating income		1 122 271
Operating expenses		(878 610)
Wages and salaries (170 000 + 5 000)		175 000
Pension fund contribution (12 450 + 400)		12 850
Advertisements (8 120 – 4 000)		4 120
Sundry expenses		670 000
Provision for bad debts adjustment		101
Trading stock deficit		1 090
Depreciation (891 + 14 558)		15 449
Gross operating profit (loss)		243 661
Interest expense (7 200 + 2 100)		(9 300)
Profit (loss) before tax		234 361
Income tax		(96 701)
Net profit (loss) for the year		137 660

Calculations

Rent income:

$$4x + 7(x \times \frac{110}{100}) = R10\ 530$$

$$x = 900 \times \frac{110}{100} \rightarrow 990$$

Depreciation on sold equipment:

$$(12\ 000 - 2\ 280) \times 10\% \times \frac{11}{12} = R891$$

Depreciation on old equipment:

$$[(245\ 000 - 12\ 000) - (89\ 700 + 891 - 3\ 171)] \times 10\% = R14\ 558$$

		Asset Disposal	
Equity	12 000	Acc. Depreciation	3 171
Profit	171	Debtors control	9 000

2.

LEX LTD.

BALANCE SHEET ON 28 FEBRUARY 2018

ASSETS		
NON-CURRENT ASSETS		1 131 022
Fixed assets (1 000 000 + (245 000 - 89 700) – (12 000 – 891 – 2 280) – (891 + 14 558))		1 131 022
CURRENT ASSETS		383 758
Inventories (190 540 + 1 600 – 1 090)		191 050
Cash and cash equivalents (132 100 + 1 200)		133 300
Trade and other debtors		59 408
TOTAL ASSETS		1 514 780
EQUITY & LIABILITIES		
SHAREHOLDERS' EQUITY		134 520
Ordinary share capital		1 267 990
Retained income		74 530
NON-CURRENT LIABILITIES		60 000
Loan: AB bank (70 000 – 10 000)		60 000
CURRENT LIABILITIES		112 260
Trade and other creditors (34 760 + 2 100 + 1 600 + 200 + 400 + 3 200 + 60 000)		102 260
Current portion of loan		10 000
TOTAL EQUITY AND LIABILITIES		1 514 780

3.

LEX LTD.

NOTES TO THE FINANCIAL STATEMENTS

3.1

TRADE AND OTHER RECEIVABLES

Trade debtors (25 300 – 2 880 + 9 000)	31 420
Provision for bad debts	(1 121)
Net trade debtors	30 299
Income accrued	990
Expenses prepaid	4 000
SARS (income tax) (120 820 – 96 701)	24 119
	59 408

3.2

Share capital

AUTHORISED	
Number of ordinary authorised shares: 30 000 shares	
ISSUED	
Ordinary shares in issue at the beginning of the year	932 990
50 000 additional shares issued during the financial year at issue price R6,70 each	335 000
Ordinary shares in issue at the end of the year	1 267 990

3.3

Retained Income

Balance at the beginning of the year	66 870
Net profit (loss) after tax for the year	137 660
Dividends on ordinary shares	(130 000)
Paid	70 000
Declared	60 000
Balance at the end of the year	74 530



Informal assessment 3.1

LB page 94

Marks: 62

Time: 45 minutes

1. **General Ledger of Jumaats Ltd.**

Dr				Trading Stock				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019 Feb	28	Balance	b/d	✓ 112 673	2019 Feb	28	Loss due to fire ✓		✓ 5 300		
							Trading stock deficit ✓		✓✓ 3 173		
							Balance	c/d	✓ 104 200		
				112 673					112 673		
2019 Mar	01	Balance	b/d	✓ 104 200							

[8]

2. **Problem:**

They do not have control over who enters the store room and safety measures in the store room are not good. ✓✓
 Trading stock deficit could be due to theft. ✓✓

Solution:

Store room should be locked – only one person allowed access. ✓✓ [6]

3.1 Matching principle ✓✓

3.2 Materiality principle ✓✓ [4]

4.

JUMAATS LTD.

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019

Sales (4 326 592 – 1 708)	✓✓	4 324 884
Cost of sales	✓	(2 700 120)
Gross profit	(✓)	1 624 764
Other income	(✓)	103 870
Current income (89 760 + 310)	✓✓	90 070
Rent income (14 300 – 1100)	✓✓	13 200
Bad debts recovered	✓✓	600
Gross operating income		1 728 634
Operating expenses		(1 296 382)
Wages and salaries	✓	810 000
Pension fund contribution	✓	8 100
Advertisements	✓	20 000
Insurance (12 300 – 2 520)	✓✓✓	9 780
Water and electricity (19 788 + 899)	✓✓	20 687
Telephone	✓	11 642
Directors fees	✓	310 000
Audit fees	✓	26 200
Sundry expenses (39 200 – 112)	✓✓	39 088
Provision for bad debts adjustment	✓✓	192
Loss due to fire	✓✓	5 300
Trading stock deficit	(✓)	3 173
Loss with asset disposal (4 800✓ – 3 380✓✓ – 1 000✓)		420
Depreciation (31 520✓✓ + 280✓✓)		31 800
Operating profit (loss)	(✓)	432 252
Interest income	✓✓✓	3 000
Profit (loss) before tax	(✓)	435 252
Income tax	✓	(139 280)
Net profit (loss) after tax	(✓)	295 972

[44]



Marks: 70

Time: 45 minutes

1. **General Ledger of PIC Ltd.**

Dr				SARS (Income Tax)				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2014					2014						
Mar	12	Bank ✓		✓ 4 879	Mar	01	Balance	b/d	✓ 4 879		
Jun	30	Bank ✓		✓ 34 890	2015						
Oct	25	Bank ✓		✓ 44 600	Feb	28	Income tax ✓		✓ 127 980		
2015											
Feb	15	Bank ✓		✓ 21 900							
	28	Balance	c/d	✓ 26 590							
				<u>132 859</u>					<u>132 859</u>		
					2015						
					Mar	01	Balance	b/d	✓ 26 590		

[13]

Dr				Dividends on ordinary shares				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2014					2015						
Aug	31	Bank ✓		✓ 55 000	Feb	28	Appropriation account ✓		✓ 78 200		
2015											
Feb	28	Shareholders for dividends ✓		✓✓ 23 200							
				<u>78 200</u>					<u>78 200</u>		

[7]

Dr				Appropriation account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2015					2015						
Feb	28	Income tax ✓		✓ 127 980	Feb	28	Profit and loss account ✓		✓ 289 000		
		Dividends on ordinary shares ✓		✓ 78 200			Retained income ✓		✓ 46 321		
		Retained income ✓		✓ 129 141							
				<u>335 321</u>					<u>335 321</u>		

[10]

2.
PIC Limited
EXTRACT FROM THE BALANCE SHEET AT 28 FEBRUARY 2015

	Note	R
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		✓ 743 941
Share capital ✓	1	✓ 614 800
Retained income ✓	2	✓ 129 141
NON-CURRENT LIABILITIES		180 000
Loan from AB Bank ✓		✓✓✓ 180 000
CURRENT LIABILITIES		✓ 108 910
Trade and other payables ✓	3	✓ 88 910
Short-term loans ✓		✓ 20 000
TOTAL EQUITY AND LIABILITIES		<u>✓ 1 032 851</u>

[15]

3.

PIC Limited

NOTES TO THE FINANCIAL STATEMENTS AT 28 FEBRUARY 2015

1. ORDINARY SHARE CAPITAL

AUTHORISED	
Number of ordinary authorised shares: ✓ 500 000 shares	
ISSUED	
250 000 ordinary shares in issue at the beginning of the year ✓	✓ 530 000
40 000 additional shares issued during the financial year ✓	✓✓ 84 800
290 000 ordinary shares in issue at the end of the year ✓	✓ 614 800

[8]

2. RETAINED INCOME

Balance at the beginning of the year	✓ 46 321
Net profit (loss) after tax for the year	✓ 161 020
Dividends on ordinary shares	✓ (78 200)
Paid	✓ 55 000
Recommended	✓ 23 200
Balance at the end of the year	✓ 129 141

[6]

3. TRADE AND OTHER PAYABLES

Trade creditors	✓ 36 980
Expenses accrued (payable) ✓	✓ 1 250
Income received in advance (deferred) ✓	✓ 890
Shareholders for dividends ✓	✓ 23 200
SARS – income tax ✓	✓✓ 26 590
	✓ 88 910

[11]



Activity 3.7

LB page 98

1. It identifies where the money came from (inflow) and what the money was spent on (outflow).
2. A payment of any expense; this must be a non-cash item.
3. Money is borrowed therefore the company will receive money. This is an inflow of cash.
4. Money is invested therefore the company will deposit the money into a fixed deposit, which is an outflow of cash.
5. Any two of the following:
 - Bad debts
 - Depreciation
 - Trading stock deficit
 - Discount allowed
 - Any other non-cash item
6. Advantages are:
 - Shareholders can distinguish between operating, investing and financing activities.
 - They can see whether the business is a generator of cash through its operations.
 - They can see whether the business is investing in future growth or capital development projects.
 - They can monitor the sale of additional shares and borrowed capital.

Column A	Description	Where found: Income Statement or Balance Sheet	Where found in the Cash Flow Statement	In which General Ledger account it will be found
a	Profit before tax	Income Statement	Note 1	Appropriation
b	Depreciation	Income Statement	Note 1	Accumulated depreciation
c	Interest expense	Balance Sheet and Note 4	Note 1	Interest on loan Interest on overdraft
d	Inventory	Note 10	Note 1	Trading stock Consumable stores on hand
e	Trade debtors	Balance Sheet and Note 6	Note 1	Debtors control Accrued income Prepaid expenses
f	Trade creditors	Balance Sheet and Note 9	Note 1	Creditors control Accrued expenses and IRIA
g	Bank	Note 6	Note 2	Bank
h	Cash float	Note 6	Note 2	Cash float
i	Petty cash	Note 6	Note 2	Petty cash
j	Dividends on ordinary shares	Note 8	Note 3	Dividends on ordinary shares Appropriation
k	Dividends paid	Note 9	Note 3	Dividends on ordinary shares
l	Dividends declared	Note 8 and Note 9	Note 3	Dividends on ordinary shares Shareholders for dividends
m	Taxation	Income Statement	Note 4	Income tax SARS (income tax)
n	SARS (income tax)	Note 9	Note	SARS (income tax)
o	SARS (income tax)	Note 5	Note 4	SARS (income tax)
p	Land and buildings	Note 3	Note 5	Land and buildings
q	Vehicles	Note 3	Note 5	Vehicles
r	Equipment	Note 3	Note 5	Equipment
s	Disposal of tangible assets	Note 3	Note 1	Asset disposal
t	Ordinary share capital	Balance Sheet and Note 7	Note 2	Ordinary share capital
u	Fixed deposit expired	Balance Sheet	Note 2	Fixed deposit
v	Mortgage bond	Balance Sheet	Note 1 and Note 5	Mortgage bond

Reconciliation of profit before tax and cash generated from operations

Profit before tax	151 690
Adjustment for:	
Depreciation	15 000
Interest paid	12 650
Operating profit before changes in working capital	179 340

Changes in working capital	(7 615)
Decrease in inventory (82 000 – 71 500)	10 500
Increase in receivables (65 920 + 1 000) – (78 160 + 1 250)	(12 490)
Decrease in payables (72 350 + 310) – (66 800 + 235)	(5 625)

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

Profit before tax	77 390
Adjustment for:	
Depreciation (5 800 + 4 300)	10 100
Interest paid (4 000 + 250)	4 250
Operating profit before changes in working capital	91 740
Changes in working capital	(38 280)
Increase in inventory	(25 000)
Increase in receivables	(4 080)
Decrease in payables	(9 200)
Cash generated from operations	53 460

Reconciliation of profit before tax and cash generated from operations

Profit before tax (146 434 + 30 956)	177 390
Adjustment for:	
Depreciation (9 080 + 8 780)	17 860
Interest paid [(20 000 × 9,5%) + (14 000 × 9,5% × $\frac{6}{12}$) + 250]	2 815
Operating profit before changes in working capital	198 065
Changes in working capital	(42 795)
Increase in inventory (53 400 – 97 500)	(44 100)
Decrease in receivables (62 150 + 2 000) – (48 610 + 3 000)	12 540
Decrease in payables (41 215 + 1 750) – (30 750 + 980)	(11 235)
Cash generated from operations	155 270

Calculations

Depreciation

Accumulated depreciation on vehicles			Accumulated depreciation on equipment			
	b/d	25 720	AD	7 760	b/d	21 790
	Dep	*9 080	c/d	22 810	Dep	*8 780
		34 800				

$$R34\ 800 - 25\ 720 = R9\ 080$$

$$R15\ 000 - 7\ 240 = R7\ 760$$

Interest on mortgage bond

$$R20\ 000 \times \frac{9,5}{100} \times \frac{6}{12} = R950$$

$$R34\ 000 \times \frac{9,5}{100} \times \frac{6}{12} = \frac{1\ 615}{2\ 565}$$

» **Activity 3.13**

LB page 111

2. CASH AND CASH EQUIVALENTS

	Net change	2009	2008
Bank (121 070 – 55 021)	66 049	121 070	55 021
Petty cash	–	750	750
Cash float	400	1 000	600
	66 449	122 820	56 371

» **Activity 3.14**

LB page 112

2. CASH AND CASH EQUIVALENTS

	Net change	2009	2008
Bank (15 200 – 2 130)	(17 330)	(2 130)	15 200
Petty cash	200	800	600
Cash float	–	1 100	1 100
	(17 130)	(230)	16 900

» **Activity 3.15**

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3. DIVIDENDS PAID

Dividends for year as reflected in financial statements	(75 000)
Balance at the beginning of the year	(18 000)
Balance at the end of the year	35 000
Dividends paid	(58 000)

» **Activity 3.16**

LB page 114

3. DIVIDENDS PAID

Dividends for year as reflected in financial statements	(427 500)
Balance at the beginning of the year	(180 000)
Balance at the end of the year	227 500
Dividends paid	(380 000)

» **Activity 3.17**

LB page 116

4. INCOME TAX PAID

Income tax for year as reflected in financial statements	(27 230)
Balance at the beginning of the year	Cr (5 236)
Balance at the end of the year	Cr 3 461
Income tax paid	(29 005)

» **Activity 3.18**

LB page 1116

4. INCOME TAX PAID

Income tax for year as reflected in financial statements	(14 460)
Balance at the beginning of the year	Dr 4 810
Balance at the end of the year	Cr 2 890
Income tax paid	(6 760)

4. INCOME TAX PAID

Income tax for year as reflected in financial statements		(30 956)
Balance at the beginning of the year	Cr	(4 026)
Balance at the end of the year	Dr	(2 410)
Income tax paid		(37 392)

» **Activity 3.20**

5. FIXED ASSETS PURCHASED

Land and buildings (650 000 – 590 000)	(60 000)
Vehicles	(100 000)
Equipment (82 100 – 72 100)	(10 000)
	(170 000)

Vehicles			
b/d	365 000	Asset disposal	125 000
Bought	*100 000	c/d	340 000

Calculation

$$R125\ 000 + 340\ 000 - 365\ 000 = R100\ 000$$

» **Activity 3.21**

Brimstone Limited

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019

	Note	R
Cash effects of operating activities		81 960
Cash generated (utilised) from operations	1	295 060
Interest paid		(26 600)
Dividends paid	3	(115 200)
Income tax paid	4	(71 300)
Cash effects of investing activities		(271 640)
Purchase of fixed assets	5	(280 000)
Proceeds from sale of fixed assets		8 360
Cash effects of financing activities		80 000
Proceeds from shares issued		120 000
Long-term loans received/paid		(40 000)
Net change in cash and cash equivalents	2	(109 680)
Cash and cash equivalents at the beginning of the year	2	169 680
Cash and cash equivalents at the end of the year	2	60 000

Brimstone Limited
NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED
28 FEBRUARY 2019

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

Net profit before taxation	270 000
Adjustments in respect of:	
Depreciation	7 680
Interest expense	26 600
Operating profit before changes in working capital	304 280
Cash effects of changes in working capital	(9 220)
Change in inventory	(3 460)
Change in receivables	57 708
Change in payables	(63 468)
Cash generated from operations	295 060

2. CASH AND CASH EQUIVALENTS

	Net change	2019	2018
Bank	(109 680)	60 000	169 680

3. DIVIDENDS PAID

Dividends for year as reflected in financial statements	(108 000)
Balance at the beginning of the year	(43 200)
Balance at the end of the year	36 000
Dividends paid	(115 200)

4. INCOME TAX PAID

Income tax for year as reflected in financial statements	(67 500)
Balance at the beginning of the year	Cr (10 200)
Balance at the end of the year	Cr 6 400
Income tax paid	(71 300)

5. FIXED ASSETS PURCHASED

Land and buildings	(200 000)
Vehicles	(80 000)
	(280 000)



Crafty Furn Limited
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019

	Note	R
Cash effects of operating activities		107 700
Cash generated (utilised) from operations	1	265 760
Interest paid		(26 000)
Dividends paid	3	(60 060)
Income tax paid	4	(72 000)
Cash effects of investing activities		(366 000)
Purchase of fixed assets	5	(390 000)
Proceeds from sale of fixed assets		24 000
Cash effects of financing activities		290 000
Proceeds from shares issued		240 000
Long-term loans received/paid		50 000
Net change in cash and cash equivalents	2	31 700
Cash and cash equivalents at the beginning of the year	2	(17 500)
Cash and cash equivalents at the end of the year	2	14 200

Crafty Furn Limited
NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED
28 FEBRUARY 2019

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

Net profit before taxation	220 200
Adjustments in respect of:	
Depreciation (21 000 + 64 000)	85 000
Interest expense (18 000 + 8 000)	26 000
Operating profit before changes in working capital	331 200
Cash effects of changes in working capital	(65 440)
Change in inventory (144 600 – 141 440)	3 160
Change in receivables (81 600 – 95 500)	(13 900)
Change in payables (75 700 – 21 000)	(54 700)
Cash generated from operations	265 760

2. CASH AND CASH EQUIVALENTS

	Net change	2019	2018
Bank	30 700	10 700	(20 000)
Cash float	800	3 000	2 200
Petty cash	200	500	300
	31 700	14 200	(17 500)

3. DIVIDENDS PAID

Dividends for year as reflected in financial statements	(65 060)
Balance at the beginning of the year	(35 000)
Balance at the end of the year	40 000
Dividends paid	(60 060)

4. INCOME TAX PAID

Income tax for year as reflected in financial statements		(90 000)
Balance at the beginning of the year	Dr	7 000
Balance at the end of the year	Cr	11 000
Income tax paid		(72 000)

5. FIXED ASSETS PURCHASED

Land and buildings		(160 000)
Vehicles		(150 000)
Equipment		(80 000)
		(390 000)

Calculations

1. Equipment				Accumulated depreciation on equipment						
Balance	b/d	194 000	Asset disposal	50 000	Asset disposal	26 000	Balance	b/d	54 000	
Bought		80 000	Balance	c/d	224 000	Balance	c/d	49 000	Depreciation	21 000

Selling price of equipment sold

R50 000 – 24 000 = **R26 000** (carrying value = selling price)

2. Vehicles				Accumulated depreciation on vehicles				
Balance	b/d	329 000				Balance	b/d	109 000
Bought		150 000				Depreciation		64 000
		479 000						173 000

3. Appropriation account			
Income tax	90 000	Profit and loss	220 200
Dividends on ordinary shares	65 060	Retained income	75 000
Retained income	140 140		

4. Interest on loan

$$R150\,000 \times \frac{16}{100} \times \frac{6}{12} = R18\,000$$

$$R200\,000 \times \frac{16}{100} \times \frac{6}{12} = R8\,000$$



Paarl Outdoor LTD.

1. CASH FLOW STATEMENT FOR THE YEAR ENDED 30 NOVEMBER 2019

	Note	
Cash effects from operating activities		124 975
Cash generated from operations	1	1 043 225
Interest paid		(36 850)
Dividends paid	3	(436 000)
Income tax paid	4	(445 400)
Cash effects from investment activities		(155 000)
Purchases of assets	5	(240 000)
Proceeds from asset disposal (150 000 – 65 000)		85 000
Fixed deposit matured		10 000
Cash effects from financing activities		174 000
Proceeds from shares issued (2304 000 – 2100 000)		204 000
Loan decrease		(30 000)
Net change in cash and cash equivalents	2	143 975
Cash and cash equivalents at the beginning of the year	2	(55 000)
Cash and cash equivalents at the end of the year	2	88 975

NOTES TO THE CASH FLOW STATEMENT

1. RECONCILIATION OF NET INCOME BEFORE TAX AND CASH GENERATED FROM OPERATIONS.

Net profit before tax		957 000
Adjustments in respect of:		
Depreciation		56 000
Interest expense(19 250 + 17 600)		36 850
Operating profit before change in working capital		1 049 850
Cash effect of change in working capital		(6 625)
Change in stock		(129 800)
Change in receivables(550 000 + 10 000) -(455 000 + 15 000)		80 000
Change in payables (414 700 +8 800) - (370 700 + 9 625)		43 175
Cash generated from operations		1 043 225

Calculating net profit before tax

Dr	Appropriation account	Cr	
Income tax	450 000	Retained income	12 000
Dividends	484 000	Profit and loss	957 000
Retained income	35 000		
	<u>969 000</u>		<u>969 000</u>

2. CASH AND CASH EQUIVALENTS

	Net change	2019	2018
Cash and cash equivalents	143 975	88 975	(55 000)

3. DIVIDENDS PAID

Amount in financial statements(308 000 + 176 000)	(484 000)
Balance at the beginning of the year	(128 000)
Balance at the end of the year	176 000
Dividends paid	(436 000)

4. INCOME TAX PAID

Amount in income statement	(450 000)
Balance at the beginning of the year	2 200
Balance at the end of the year	2 400
	(445 400)

Dr	SARS (income tax)		Cr
Balance b/d	2 200	Income tax	450 000
Bank	445 400		
Balance c/f	2 400		
	450 000		450 000
		Balance	b/d 2 400

5. FIXED ASSETS PURCHASED

Carrying value beginning of year	1 732 625
Plus additions – <i>work back to this amount</i>	250 000
Less asset disposal	(85 000)
Less depreciation	(56 000)
Carrying value end of the year	1 841 625



Activity 3.24

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1.

General Ledger of Joele Ltd.

Dr		Asset Disposal				B6		Cr
Date	Details	Fol.	Amount	Date	Details	Fol.	Amount	
2019 Nov 30	Vehicles		80 000	2019 Nov 30	Accumulated depreciation on vehicles		44 000	
					Bank		36 000	
			80 000				80 000	

Calculations

$$1 \text{ March } 2017 - 28 \text{ Feb } 2018: 80\,000 \times 20\% = 16\,000$$

$$1 \text{ March } 2018 - 28 \text{ Feb } 2019: 80\,000 \times 20\% = 16\,000$$

$$1 \text{ March } 2019 - 30 \text{ Nov } 2019: 80\,000 \times 20\% \times \frac{9}{12} = \frac{12\,000}{44\,000}$$

2.

Dr				Appropriation Account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2020					2020						
Feb	29	Income tax		54 000	Feb	29	Retained income		52 200		
		Dividends on ordinary shares		138 600			Profit and loss		180 000		
		Retained income		39 600							
				<u>232 200</u>					<u>232 200</u>		

3.

JOELE LIMITED**Cash Flow Statement for the year ended 28 February 2020**

	Notes	
Cash effects from operating activities		34 520
Cash from operations	1	200 170
Interest paid		(12 000)
Dividends paid		(90 400)
Income tax paid		(63 250)
Cash effects from investing activities		(103 920)
Fixed assets purchased		(139 920)
Proceeds on sale of fixed assets		36 000
Cash effects from financing activities		171 000
Proceeds from shares issued (180 000 × 70c)		126 000
Loan payments		(14 400)
Loan increase (75 000 + 12 000 + new loan – 14 400 = 132 000)		59 400
Net change in cash and cash equivalents		101 600
Cash and cash equivalents at beginning of year		(8 000)
Cash and cash equivalents at end of year		<u>93 600</u>

NOTES TO THE CASH FLOW STATEMENT**1. RECONCILIATION BETWEEN PROFIT BEFORE TAXATION AND CASH GENERATED FROM OPERATION**

Net profit Before taxation		180 000
Adjustments in respect of:		40 120
Depreciation		28 120
Interest expense		12 000
Operating profit before changes in working capital		220 120
Cash effect of changes in working capital		(19 950)
Increase in inventory		(29 950)
Decrease in receivables		3 000
Increase in payables		7 000
Cash generated from operations		<u>200 170</u>

2. CASH AND CASH EQUIVALENTS

	Net change	2020	2019
Cash and cash equivalents	101 600	93 600	(8 000)

3. DIVIDENDS PAID

Amount in financial statements (50 400 + 88 200)	(138 600)
Balance beginning of year	(40 000)
Balance end of year	88 200
	(90 400)

4. INCOME TAX PAID

Amount in income statement	(54 000)
Balance beginning of year	(4 000)
Balance end of year	(5 250)
	(63 250)

5. FIXED ASSETS PURCHASED

Carrying value beginning of year	246 200
Plus additions– <i>work back to this amount</i>	139 920
Less asset disposal	(36 000)
Less depreciation	(28 120)
Carrying value end of the year	322 000



Informal assessment 3.3

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Marks: 58

Time: 40 minutes

Liberty Limited

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	R
Cash effects of operating activities		66 043
Cash generated (utilised) from operations ✓	1	223 055
Interest paid ✓		(48 200)
Dividends paid ✓	3	(54 000)
Income tax paid ✓	4	(54 812)
Cash effects of investing activities ✓		(340 000)
Purchase of fixed assets ✓	5	(340 000)
Cash effects of financing activities ✓		230 000
Proceeds from shares issued ✓✓✓		60 000
Long-term loans received/paid ✓✓✓		170 000
Net change in cash and cash equivalents ✓	2	(43 957)
Cash and cash equivalents at the beginning of the year ✓	2	38 157
Cash and cash equivalents at the end of the year ✓	2	✓ (5 800)

[17]

Liberty Limited

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

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

Net profit before taxation ✓	150 430
Adjustments in respect of:	
Depreciation (79 000 – 35 200) ✓✓✓	43 800
Interest expense ✓	48 200
Operating profit before changes in working capital ✓	242 430
Cash effects of changes in working capital ✓	(19 375)
Change in inventory (30 600 – 45 800) ✓✓✓	(15 200)
Change in receivables (48 285 – 56 240) ✓✓✓	(7 955)
Change in payables (56 320 – 60 100) ✓✓✓	3 780
Cash generated from operations ✓	223 055

[17]

2. CASH AND CASH EQUIVALENTS

	Net change	2019	2018
Bank	✓ (43 957)	✓ (6 000)	✓37 957
Cash float	-	✓200	✓200
	✓(43 957)	(5 800)	38 157

[6]

3. DIVIDENDS PAID

Dividends for year as reflected in financial statements ✓✓	(60 000)
Balance at the beginning of the year ✓✓	(18 000)
Balance at the end of the year ✓✓	24 000
Dividends paid	(54 000)

[6]

4. INCOME TAX PAID

Income tax for year as reflected in financial statements	✓✓ (60 172)
Balance at the beginning of the year	Cr ✓✓ (1 840)
Balance at the end of the year	Cr ✓✓ 7 200
Income tax paid	(54 812)

[6]

5. FIXED ASSETS PURCHASED

Land and buildings (450 000 – 230 000) ✓✓	(220 000)
Vehicles and equipment (300 000 – 180 000) ✓✓	(120 000)
	(340 000)

[4]

Calculation for interim dividend

$$R400\ 000 \times 0,09 = R36\ 000$$



1.	Short explanation of case	Unethical behaviour	Consequences
	Batt Bros – market was inflated because of false press releases	Market manipulation – painting the tape	Sanctions against the respondents of more than R40 million
	GHJ Energy – employees used confidential information for personal gain	Illegal insider trading	The respondents received market bans and monetary penalties of two to three times the amounts they gained through their insider trading
	Capital G Financial Services – tipping of confidential information	Illegal insider trading	Pay an administrative penalty of R2,1 million
	Extreme Real Estate – not disclosing important information in financial statements	Corporate governance failure – disclosure violations	Penalties totalling R350 000
	Kanton - they inflated earnings and hid debt.	Corporate governance failure – misstatement of financial information	
	Maureng - he touted the stock in an internet blog where he alluded to conversations with the CEO of PEC who stated that important good news was about to surface about the company while he purchased large volumes of the stock	Market manipulation – painting the tape	Fined R280 000

CHAPTER 4

Financial accounting of companies – analysis and interpretation of financial statements

» Activity 4.1

LB page 144

Financial indicator	Formulae / ratio:	Indication of...
% Gross profit on cost of sales (turnover)	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	Mark-up %
% Gross profit on sales (turnover)	$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	Mark-up %
% Operating profit on sales (turnover)	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	Control over expenses (Cost control)
% Net profit on sales (turnover)	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$	Control over expenses (Cost control)
% Operating expenses on sales (turnover)	$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	Control over expenses (Cost control)
Current ratio	Current assets : Current liabilities	Liquidity
Acid test ratio	$\frac{(\text{Current assets} - \text{Inventory})}{\text{Current liabilities}}$	Liquidity
Net working capital	Current assets – Current liabilities	Liquidity
Stock turnover rate	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$	Control over stock
Stock holding period	$\frac{\text{Average stock}}{\text{Cost of sales}} \times \frac{12}{1}$	Control over stock
Average debtors collection period	$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	Control over debtors
Average creditors payment period	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365}{1}$	Control over creditors
Solvency ratio	Total asset : Total liabilities	If assets exceed liabilities
Debt: Equity ratio	$\frac{\text{Long term liabilities}}{\text{Shareholders' equity}}$	Degree of financial risk. How business is financed
Return on shareholders' equity	$\frac{\text{Net profit after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	How much the owners earned on the capital invested in business
Return on total capital employed (ROACE)	$\frac{\text{Profit before tax} + \text{finance cost (EBIT)}}{\text{Average capital employed}} \times \frac{100}{1}$	How effective funds used through operating activities were
Net asset value per share (NAVPS)	$\frac{\text{Shareholders' equity}}{\text{Number of shares issued}} \times \frac{100}{1}$	The price that can be charged for a share – value per share
Dividends per share (DPS)	$\frac{\text{Dividends on ordinary shares}}{\text{Number of shares issued}} \times \frac{100}{1}$	The amount paid out to shareholder per share
Earnings per share (EPS)	$\frac{\text{Net profit after tax}}{\text{Number of shares issued}} \times \frac{100}{1}$	The income earned per share

$$1. \text{ Percentage gross profit on cost price} = \frac{\text{gross profit}}{\text{cost price}} \times \frac{100}{1}$$

2012	2011
$\frac{748\,440}{1\,496\,880} \times \frac{100}{1}$	$\frac{776\,040}{1\,293\,400} \times \frac{100}{1}$
= 50%	= 60%

Comments

- It decreased by 10%.
- It could be because of the following: the business decided to lower profit percentage; sales, incorrect stocktaking, stock loss due to theft or damage (periodic inventory system only).

$$2. \text{ Percentage net profit of turnover} = \frac{\text{net profit}}{\text{turnover}} \times \frac{100}{1}$$

2012	2011
$\frac{196\,720}{2\,245\,320} \times \frac{100}{1}$	$\frac{99\,336}{2\,069\,440} \times \frac{100}{1}$
= 8,8%	= 4,8%

Comments

- The ratio improved by 4% especially due to lower interest, as the loan decreased, thus the cost control is better.
- It is nevertheless still low. For every R1 sales, 8,8 cents remains as profit.

$$3. \text{ Stock turnover rate} = \frac{\text{cost of sales}}{\text{average stock}} \times \frac{100}{1}$$

$$= 1\,496\,880 / \frac{1}{2}(27\,860 + 35\,140) \times \frac{100}{1}$$

$$= \frac{1\,496\,880}{31\,500} \times \frac{100}{1}$$

$$= 47,52 \text{ times per year}$$

Comments

- The stock turnover rate increased from 2011 to 2012, from 42 to 47,52 times a year.
- This should help to increase the profitability of the company.
- The increase in rate of stock turnover could be because of a decrease in mark-up percentage.

4. Solvency

$$\begin{aligned} & \text{Total assets : total liabilities} \\ & = 893\,020 : (40\,000 + 122\,100) \\ & = 893\,020 : 162\,100 \\ & = 5,5 : 1 \end{aligned}$$

Comment

- Total assets cover total liabilities 5,5 times in 2012 and the company's solvency is therefore very good.

5. Current ratio

$$\begin{aligned} & \text{current assets : current liabilities} \\ & \mathbf{2012} \qquad \qquad \qquad \mathbf{2011} \\ & 75\,220 : 122\,100 \qquad \qquad 80\,490 : 183\,090 \\ & = 0,62 : 1 \qquad \qquad \qquad = 0,4 : 1 \end{aligned}$$

Comments

- The current ratio has improved slightly from 2011 to 2012.
- It is however very low. Not enough current assets to cover current liabilities.
- The company may find it problematic to honour short-term obligations.
- They urgently need to address this problem, by getting more cash on hand.

6. Debtors collection period

$$\begin{aligned} & \frac{\text{average debtors}}{\text{credit sales}} \times \frac{365}{1} \\ &= \frac{\frac{1}{2}(38\,821 + 32\,863)}{211\,935} \times \frac{365}{1} \\ &= \frac{35\,842}{211\,935} \times \frac{365}{1} \\ &= 61,7 \text{ days} \end{aligned}$$

Comments

- The company must try to collect all debts within 30 days – its credit control is not good.
- The company could improve this problem by awarding discount to customers who pay quickly, or by charging interest on all overdue accounts.
- This could be the reason they are having liquidity problems.

7. Creditors payment period

$$\begin{aligned} & \frac{\text{average creditors}}{\text{credit purchases}} \times \frac{365}{1} \\ &= \frac{\frac{1}{2}(62\,300 + 127\,570)}{987\,064} \times \frac{365}{1} \\ &= \frac{94\,935}{987\,064} \times \frac{365}{1} \\ &= 35 \text{ days} \end{aligned}$$

Comment

- The company must negotiate a term of 60–90 days with creditors to pay off debts.

8. Debt/shareholders' equity

$$\begin{aligned} & \text{Long term liabilities : shareholders' equity} \\ &= 40\,000 : 730\,920 \\ &= 0,05 : 1 \end{aligned}$$

Comments

- The debt/shareholders' equity ratio is very good.
- The company has a low gearing, and is creditworthy.
- Although the company is struggling with short-term obligations, its own capital is much more than its borrowed capital.

9. Return on average shareholders' equity

$$\begin{aligned} & \frac{\text{net profit after tax}}{\text{average shareholder's equity}} \times \frac{100}{1} \\ &= \frac{196\,720}{\frac{1}{2}(730\,920 + 564\,200)} \times \frac{100}{1} \\ &= \frac{196\,720}{647\,560} \times \frac{100}{1} \\ &= 30,4\% \end{aligned}$$

Comments

- The return on average shareholders' equity has improved significantly from 2011 to 2012.
- It shows shareholders that the money invested in the company is used effectively.

10. Return on average capital employed

$$\begin{aligned} & \frac{\text{profit before interest expense}}{\text{average capital employed}} \times \frac{100}{1} \\ &= \frac{314\,720}{\frac{1}{2}(730\,920 + 40\,000 + 564\,200 + 160\,000)} \times \frac{100}{1} \\ &= \frac{314\,720}{747\,560} \times \frac{100}{1} \\ &= 42\% \end{aligned}$$

Comments

- The company has a yield of 42% on capital employed.
- It is much more than the interest paid on borrowed capital.
- The company is yielding a good return on the capital employed.

$$11. \text{ Earnings per share (EPS)} = \frac{\text{net profit after tax}}{\text{number of shares issued}} \times \frac{100}{1}$$

2012	2011
$\frac{196\,720}{100\,000} \times \frac{100}{1}$	$\frac{99\,336}{92\,000} \times \frac{100}{1}$
= 196,72c per share	= 107,97c per share

Comments

- The EPS improved by 88,75c per share from 2011 to 2012.
- It can probably be ascribed to the profitability of the company, which has increased considerably.

$$12. \text{ Dividends per share (DPS)} = \frac{\text{dividends on ordinary shares}}{\text{number of shares issued}} \times \frac{100}{1}$$

2012	2011
$\frac{80\,000}{100\,000} \times \frac{100}{1}$	$\frac{50\,000}{92\,000} \times \frac{100}{1}$
= 80c per share	= 54,3c per share

Comments

- The dividends per share increased by 25,7c from 2011 to 2012.
- The shareholders should be satisfied.
- It indicates that the directors have confidence in the sustainable growth of the company.

$$13. \text{ Net asset value per share} = \frac{\text{shareholder's equity}}{\text{number of shares issued}} \times \frac{100}{1}$$

2012

$$\frac{730\,920}{100\,000} \times \frac{100}{1}$$

$$= 730,9c$$

2011

$$\frac{564\,200}{92\,000} \times \frac{100}{1}$$

$$= 613,3c$$

Comments

- The net asset value per share increased by 117,6c from 2011 to 2012.
- This means the shares are now worth more.
- This can be compared to the market price.



Activity 4.3

LB page 147

$$1. \text{ Percentage gross profit on sales} = \frac{\text{gross profit}}{\text{sales}} \times \frac{100}{1}$$

2013

$$\frac{352\,000}{375\,000 + 341\,000} \times \frac{100}{1}$$

$$\frac{352\,000}{716\,000} \times \frac{100}{1}$$

$$= 49,2\%$$

2012

$$\frac{340\,000}{365\,000 + 315\,000} \times \frac{100}{1}$$

$$\frac{340\,000}{680\,000} \times \frac{100}{1}$$

$$= 50\%$$

Comments

- The gross profit percentage decreased from 2012 to 2013.
- It could be ascribed to sales, incorrect stock takes, stock loss due to theft or damage (periodic inventory system only).

$$2. \text{ Operating expenses as percentage on sales} = \frac{\text{operating expenses}}{\text{sales}} \times \frac{100}{1}$$

2012

$$\frac{150\,350}{716\,000} \times \frac{100}{1}$$

$$= 21\%$$

2011

$$\frac{156\,335}{680\,000} \times \frac{100}{1}$$

$$= 23\%$$

Comment

- Cost control improved marginally from 2013 to 2013 as far as operating expenses are concerned – note that interest expense increased dramatically.

$$3. \text{ Number of months' stock on hand}$$

$$\frac{\text{average stock}}{\text{cost of sales}} \times \frac{12}{1}$$

$$= \frac{\frac{1}{2}(47\,770 + 30\,120)}{364\,000} \times \frac{12}{1}$$

$$= \frac{38\,945}{364\,000} \times \frac{12}{1}$$

$$= 1,3 \text{ months' stock on hand}$$

Comment

- The company must be careful for the old stock to become obsolete.

4. Current ratio
 - a. Current ratio = current assets : current liabilities
 = 104 000 : 94 500
 = 1,1 : 1
 - b. Acid test ratio = (current assets – stock) : current liabilities
 = (104 000 – 47 770) : 94 500
 = 56 230 : 94 500
 = 0,6 : 1

Comments

- The liquidity ratios do not look good.
- The company will have a hard time meeting its short-term responsibilities.
- The current assets do not cover the current liabilities.

5. Debtors collection period

$$\begin{aligned} & \frac{\text{average debtors}}{\text{credit sales}} \times \frac{365}{1} \\ &= \frac{\frac{1}{2}(53\,926 + 51\,726)}{375\,000} \times \frac{365}{1} \\ &= \frac{52\,826}{375\,000} \times \frac{365}{1} \\ &= 51 \text{ days} \end{aligned}$$

6. Creditors payment period

$$\begin{aligned} & \frac{\text{average creditors}}{\text{credit purchases}} \times \frac{365}{1} \\ &= \frac{\frac{1}{2}(54\,500 + 42\,300)}{379\,775} \times \frac{365}{1} \\ &= \frac{48\,400}{379\,775} \times \frac{365}{1} \\ &= 46,5 \text{ days} \end{aligned}$$

7. Suggestions for improving liquidity

- The company must try to meet its profitability targets, for example, by improving its stock control.
- Cost control must improve by cutting operating expenses where possible.
- Rate of stock turnover could improve.
- Debtors must pay sooner (within 30 days).

8. Debt/shareholders' equity ratio

$$\begin{aligned} & \text{Long-term liabilities : shareholders' equity} \\ &= 400\,000 : 286\,000 \\ &= 1,4 : 1 \end{aligned}$$

Comments

- The company has a high gearing and is not creditworthy.
- This is a high risk – highly geared.

9. Additional shares should be issued for the following reasons:
- The company already has a high gearing and is not creditworthy.
 - If a loan were to be taken out, it would make the situation worse, as the company is already struggling to meet short-term obligations – the interest and payments associated with a loan will be a negative factor.
 - Loan capital is already more than own capital – issuing shares would improve the situation.
 - It will also improve their liquidity situation.

10. Return on average shareholders' equity

$$\begin{aligned} & \frac{\text{net profit after tax}}{\text{average shareholder's equity}} \times \frac{100}{1} \\ &= \frac{82\,500}{\frac{1}{2}(286\,000 + 258\,500)} \times \frac{100}{1} \\ &= \frac{82\,500}{272\,250} \times \frac{100}{1} \\ &= 30,3\% \end{aligned}$$

11. Return on average capital employed

$$\begin{aligned} & \frac{\text{profit before interest expense}}{\text{average capital employed}} \times \frac{100}{1} \\ &= \frac{201\,650}{\frac{1}{2}(286\,000 + 258\,500 + 400\,000 + 140\,000)} \times \frac{100}{1} \\ &= \frac{201\,650}{542\,250} \times \frac{100}{1} \\ &= 37,2\% \end{aligned}$$

Comments

- The company achieved a yield of 37,2% on capital employed.
- It is considerably more than interest paid on loan capital.

12. Earnings per share (EPS) = $\frac{\text{net profit after tax}}{\text{number of shares issued}} \times \frac{100}{1}$

2013	2012
$\frac{82\,500}{83\,000} \times \frac{100}{1}$	$\frac{85\,465}{83\,000} \times \frac{100}{1}$
= 99,4c per share	= 102,9c per share

Comment

- The EPS decreased from 2012 to 2013.

13. Dividends per share (DPS) = $\frac{\text{dividends on ordinary shares}}{\text{number of shares issued}} \times \frac{100}{1}$

2013	2012
$\frac{55\,000}{83\,000} \times \frac{100}{1}$	$\frac{78\,490}{83\,000} \times \frac{100}{1}$
= 66,3c per share	= 94,6c per share

Comments

- The dividends per share decreased from 2012 to 2013.
- The shareholders may feel unhappy.

$$14. \text{ Net asset value per share} = \frac{\text{shareholders' equity}}{\text{number of shares issued}} \times \frac{100}{1}$$

2013

$$\frac{286\,000}{83\,000} \times \frac{100}{1}$$

$$= 344,6c$$

2012

$$\frac{258\,500}{83\,000} \times \frac{100}{1}$$

$$= 311,5c$$

Comments

- Net asset value per share has increased by 33,1c from 2012 to 2013.
- In 2013 it is 44,6c above par value.



Activity 4.4

LB page 149

- $(120\,700 - 60\,700) : 80\,000$
 $= 60\,000 : 80\,000$
 $= 0,75 : 1$
 - The acid test ratio increased from 2018 to 2019.
 - They don't have enough liquid assets to cover current liabilities.
 - The company may struggle to meet short-term obligations.
- Any two of the following measures are acceptable:
 - Arrange quicker collection from debtors.
 - Negotiate period of 90 days with creditors to pay back debts.
 - Increase rate of stock turnover.
- $150\,000 : (225\,000 + 75\,000)$
 $= 150\,000 : 300\,000$
 $= 0,5 : 1$
- Favourable. The learners should motivate their answers as follows:
 - The company has a low gearing and is creditworthy – own capital is twice as much as loan capital.
 - Return on capital employed is 26,3%, while finance charges related to loans are only 14,5%.
- Any one of the following recommendations is acceptable:
 - Issue shares for the full R200 000 taking into consideration that the company is registered to issue 400 000. Currently, only 100 000 shares are issued.
 - The company is struggling to meet short-term obligations – a loan and the associated interest will increase this burden.

OR

 - Issue shares for R100 000 and take out a loan for R100 000. In this way the balance between debt/shareholders' equity remains positive.
- $\frac{200\,000 + 25\,000 + 75\,000}{100\,000} \times \frac{100}{1}$
 $= \frac{300\,000}{100\,000} \times \frac{100}{1}$
 $= 300c$
 No, I would not consider selling for R2,80 per share, since the net asset value per share is R3.
- EPS

$$= \frac{97\,500}{100\,000} \times \frac{100}{1}$$

$$= 97,5c \text{ per share}$$

DPS

$$= \frac{50\,000}{100\,000} \times \frac{100}{1}$$

= 50c per share

Yes, shareholders can be satisfied. Of the 97,5 cents profit per share, the shareholders are paid 50 cents.



Activity 4.5

LB page 151

1. $\frac{420\,000 - 300\,000}{1,5}$

$$= \frac{120\,000}{1,5}$$

= 80 000 shares

2. Current ratio

- It has improved from 0,84 : 1 to 1,11 : 1.

Acid test ratio

- It has increased from 0,38 : 1 to 0,47 : 1.
- The liquidity of the company has improved, but it is still not acceptable.
- They should try to increase the acid test ratio to at least 1 : 1, so that there is enough liquid assets to cover current liabilities.

3. $\frac{\text{average inventory}}{\text{cost of sales}} \times \frac{365}{1}$

$$= \frac{\frac{1}{2}(63\,350 + 103\,450)}{405\,880} \times \frac{365}{1}$$

$$= \frac{83\,400}{405\,880} \times \frac{365}{1}$$

= 75 days

4. $\frac{\text{average debtors}}{\text{credit sales}} \times \frac{365}{1}$

$$= \frac{\frac{1}{2}(52\,650 + 64\,150)}{426\,150} \times \frac{365}{1}$$

$$= \frac{58\,400}{426\,320} \times \frac{365}{1}$$

= 50 days

5. $\frac{\text{net profit after tax}}{\text{number of shares issued}}$

$$= \frac{210\,000 - 73\,500}{420\,000 \div 1,50}$$

$$= \frac{136\,500}{280\,000}$$

= 48,75c/share

6. $\frac{\text{net profit after tax}}{\text{average shareholder' equity}} \times \frac{100}{1}$

$$= \frac{136\,500}{\frac{1}{2}(300\,000 + 40\,000 + 60\,000 + 420\,000 + 80\,000 + 100\,000)} \times \frac{100}{1}$$

$$= \frac{136\,500}{500\,000} \times \frac{100}{1}$$

= 27,3%

7. Net asset value per share

$$\frac{\text{shareholders' interest}}{\text{number of shares issued}} \times \frac{100}{1}$$

$$= \frac{420\,000 + 80\,000 + 100\,000}{280\,000} \times \frac{100}{1}$$

$$= \frac{600\,000}{280\,000} \times \frac{100}{1}$$

$$= 2,14 \text{ cents per share}$$

No, the shares are worth more than R2,00.

8. • They can sell off excess stock before it becomes obsolete (more than 2 months' stock on hand).
• They should try to collect debtors within 30 days.

» **Activity 4.6 (challenge)**

LB page 89

1. a. Date of additional loan

$$100\,000 \times \frac{20}{100} \times \frac{12}{12} = 20\,000$$

$$20\,000 \times \frac{20}{100} \times \frac{x}{12} = 1\,000 \text{ (interest on the additional loan)}$$

$$\frac{4\,000x}{12} = 1\,000$$

$$333,3x = 1\,000$$

$$x = 3 \text{ months}$$

Therefore, 31 November or 1 December 2010

b. Current ratio

$$235\,960 : 38\,010$$

$$= 6,2 : 1$$

Acid test ratio

$$(109\,560 + 23\,800) : 38\,010$$

$$= 3,5 : 1$$

c. Gearing ratio as on 28 February 2011

$$120\,000 : 756\,550$$

$$= 0,16 : 1$$

d. Return on average shareholders' equity on 28 February 2011

$$\frac{214\,200 - 85\,680}{\frac{1}{2}(546\,110 + 756\,550)} \times \frac{100}{1}$$

$$= \frac{128\,520}{651\,330} \times \frac{100}{1}$$

$$= 19,7\%$$

2. **Comments**

- Liquidity has improved.
- There are enough current assets to cover current liabilities.
- The company will be able to pay current liabilities.

3. a. $\frac{201\,600}{360\,000} \times 100$

$$= 56 \text{ cents per share}$$

b. Net asset value per share

$$\frac{756\,550}{1\,060\,000} \times \frac{100}{1}$$

$$= 71 \text{ cents per share}$$

Comment

- No, my shares are worth much more than 65 cents. The value of the share is 71 cents. I will be able to get more for my shares.

- c. Yes, I would consider buying this share.
Any five of the following reasons could be given:
- The market value of 80 cents per share is above the net asset value of 71 cents per share.
 - Market sentiment is high for this particular share and company.
 - This company has a low gearing. (A favourable debt equity ratio)
 - They are paying out a fair dividend of 11 cents per share.
 - This company is very liquid. (They have enough current assets in order to pay current liabilities.)
 - If I were to buy this share for 80 cents, I might be overcapitalising because the net asset value is only 71 cents.
 - The return on average shareholders' equity is quite average, 19,7%.
- d. The following three investments were made:
- Some of it was used to finance operating activities. There was a negative cash flow of R41 620 from its operations.
 - They purchased additional tangible assets.
 - It was used to repay the bank overdraft.
- e. *Any two of the following reasons:*
- The vehicle could have been too old and maintenance costs could have been too high.
 - It was on longer of any use to the company and was replaced by a newer model.
 - It could also have been too heavy on fuel.
- f. For two reasons:
- Depreciation is a non-cash item.
 - It decreases the net profit in the Income Statement.
- g. The business could have purchased more stock and therefore cash would have decreased.
- h. The following activities should be mentioned:
- The fixed deposit expired.
 - An additional loan was acquired.
 - Shares were sold.
 - A vehicle/ tangible asset was sold.
- i. Debtors (*any three of the reasons below*)
- There is more outstanding debt in 2011 than in 2010.
 - The debt collection policy must be monitored to ensure that debtors will pay during the next financial year.
 - Debtors are not paying their debt soon enough.
 - The business could have slacked on their credit policy by allowing too much debt and by not verifying the creditworthiness of debtors.
- Creditors (both reasons)
- There was an outflow of cash to creditors during the current year.
 - Although the company is maintaining its creditworthiness it might be paying its creditors too soon.
- j. Shareholders should be happy as they are earning a good return on their investment. However, the business should retain some of its profits for future development projects.

1. Comments on liquidity
Opinion: The company does not have any liquidity problems.
Reason: The operating capital ratio has increased and meets the accepted average of 2 : 1.
 The acid test ratio has increased and meets the accepted average of 1 : 1.
 The stock turnover velocity has increased.
2. Explanation to the director with regards to operating profit and net profit
 - The difference was caused by an increase in interest expense.
 - Operating profit was calculated before interest expense and net profit after interest expense.
 - The increase in interest expense is as a result of an increase in loans.
 - The increase in the debt/owner's equity interest ratio indicates an increase in loans.
 - The decrease in solvability indicates an increase in loans.
3. Advice with regards to loan
 - Borrow the money.
 - The debt/owner's equity interest ratio has increased of 0,09 : 1 to 0,34 : 1.
 - If a loan is taken out, this will increase even further, but the business will still be low-gearred.

OR

- Do not borrow the money.
 - The return on total capital employed has decreased by 32% to 23%.
 - The loan has an interest rate of 19%, which is still slightly below the rate of 23%.
4. Explanation on the performance of the company:
 - Return on shareholders' interest has decreased by 37% to 32%.
 - This is, however, still higher than the interest that could be earned on alternative investments.
 - DPS has increased of 19c to 25c.
 - This means that less income was retained in the company as more payments in the form of dividends were made to the shareholders.
 - EPS has decreased by 35c to 30c.
 - However, this is still reasonable when one takes into account is that the market value per share has also decreased.
 - Shareholders should be satisfied if they look at DPS, but less satisfied when observing return on shareholders' interest and EPS.
 5. Purchase of additional shares:
Opinion: Yes
Two reasons:
 - DPS has increased.
 - NAV has increased.
 - The price at which shares are offered is less than the market price and NAV.

OR*Opinion:* No*Two reasons:*

- VPA has decreased.
- Although the price offered is less than the market value, the market value has gone down.



1.

Geco Limited

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2011

	Note	R
Cash effects of operating activities		29 130
Cash generated (utilised) from operations (100 000 + 58 000 + 27 380 – 37 870)	1	147 510
Interest paid		(27 380)
Dividends paid (–60 000 – 22 000 + 28 000)	3	(54 000)
Income tax paid (–23 000 – 10 000 – 4 000)	4	(37 000)
Cash effects of investing activities		(187 000)
Purchase of fixed assets (320 000 – 180 000) + (58 000 – 40 000)	5	(210 000)
Proceeds from sale of fixed assets (40 000 – 17 000)		23 000
Cash effects of financing activities		198 000
Proceeds from shares issued (678 000 – 440 000)		238 000
Long-term loans received/paid (170 000 – 130 000)		(40 000)
Net change in cash and cash equivalents (31 000 + 9 000)	2	40 130
Cash and cash equivalents at the beginning of the year	2	(9 000)
Cash and cash equivalents at the end of the year	2	31 130

Calculations

1. R28 000 + 30 000 = R58 000
2. R27 000 + 380 = R27 380

Dividends paid

Amount in financial statements	(60 000)
Balance on the last day of previous year	(22 000)
Balance on the last day of current year	28 000
	(54 000)

Appropriation account

Dividends on ordinary shares	60 000	Profit and loss	100 000
Income tax	23 000	Retained income	56 000
Retained income	73 000		

Taxation paid

Amount in Income Statement	(23 000)
Balance on the last day of previous year	Cr (10 000)
Balance on the last day of current year	Dr (4 000)
	(37 000)

Vehicles			Accumulated depreciation on vehicles		
Balance b/d	200 000	Asset disposal	40 000	Balance b/d	38 000
		Balance c/d	160 000	Asset disposal	17 000
				Balance c/d	49 000
				Depreciation	28 000

2. Acid test ratio

$$R210\ 000 + 30\ 130 + 1\ 000 + 4\ 000 + 320 = R245\ 450$$

$$R130\ 000 + 28\ 000 + 400 = R158\ 400$$

$$245\ 450 : 158\ 400$$

The acid test ratio is 1,55 : 1.

Comments

- Liquidity has improved from 2010 to 2011.
- The company has sufficient current assets to cover current liabilities. This was not the case in 2010.
- The company seems to have sold more on credit in 2011 and therefore has a higher outstanding debt. The company must ensure that it collects this debt in the next year so that liabilities can be paid.

3. Net asset value

$$\frac{620\ 000 + 58\ 000 + 73\ 000}{775\ 000} \times \frac{100}{1}$$

$$= \frac{751\ 000}{775\ 000}$$

$$= 97 \text{ cents per share}$$

4. a. Average debtors collection period

$$\frac{\frac{1}{2}(150\ 000 + 210\ 000)}{1\ 295\ 100} \times \frac{365}{1}$$

$$= \frac{180\ 000}{1\ 295\ 100} \times \frac{365}{1}$$

$$= 51 \text{ days (The accepted average is 30 days.)}$$

Comments

- The company should encourage debtors to pay sooner because on average debtors are paying within 51 days, whereas the accepted average for debtors is 30 days.
- They could encourage timeous payment by granting discounts for early payment or by charging interest on overdue accounts.

b. Average creditors payment period

$$\frac{\frac{1}{2}(130\ 000 + 210\ 000)}{541\ 200} \times \frac{365}{1}$$

$$= \frac{125\ 000}{541\ 200} \times \frac{365}{1}$$

$$= 84 \text{ days (The accepted average is 90 days.)}$$

Comment

- They are paying creditors within 84 days, which is acceptable because the accepted average is 90 days. By doing this they are avoiding being charged interest and are earning discount for prompt payment.

5. Average stock

$$(73\ 000 + 61\ 000) \div 2$$

$$= 67\ 000$$

Cost of sales

$$1\ 295\ 100 \times \frac{100}{180}$$

$$= 719\ 500$$

$$= \frac{719\ 500}{67\ 000}$$

$$= 11 \text{ times per year}$$

1.1 General Ledger of White Water Adventures

Dr				Accumulated Depreciation on Vehicles				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2010					2010						
Aug	31	Asset disposal		✓✓ 60 000	Mar	01	Balance	b/d	✓ 118 000		
		Balance	c/d	✓ 67 000	Aug	31	Depreciation		✓ 9 000		
				<u>127 000</u>					<u>127 000</u>		
					Sep	01	Balance	b/d	✓ 67 000		
					2011						
					Feb	28	Depreciation		✓✓ 13 000		
									<u>80 000</u>		

[8]

Accumulated depreciation on the vehicle sold

Cost price – carrying value = accumulated depreciation

$$R110\ 000 - 50\ 000 = R60\ 000$$

1.2

Dr				Asset Disposal				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2010					2010						
Aug	31	Vehicles		✓ 110 000	Aug	31	Accumulated depreciation on vehicles		✓ 60 000		
							Bank		✓ 50 000		
				<u>110 000</u>					<u>110 000</u>		

[3]

1.3

Dr				Appropriation account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2011					2011						
Feb	28	Income tax		✓ 58 800	Feb	28	Profit and loss		✓ 196 000		
		Dividends on ordinary shares		✓✓ 58 690			Retained income		✓ 157 220		
		Retained income		✓ 235 730							
				<u>353 220</u>					<u>353 220</u>		

[6]

Accumulated depreciation on equipment

Balance	11 700
Depreciation	<u>12 600</u>
	<u>24 300</u>

2.1–2.3

White Water Adventures Limited

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2011

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

Net profit before taxation	✓ 196 000
Adjustments in respect of:	
Depreciation (9 000 ✓ + 13 000 (✓) + 12 600 ✓✓)	34 600
Interest expense	✓ 17 500
Operating profit before changes in working capital	✓ 248 100
Cash effects of changes in working capital	(✓) (38 800)
Change in inventory ✓ (189 000 – 204 000)	✓✓ (15 000)
Change in receivables ✓ (148 400 – 181 300)	✓✓ (32 900)
Change in payables ✓ (74 300 – 83 400)	✓✓ 9 100
Cash generated from operations	(✓) 209 300

[18]

2. INCOME TAX PAID

Income tax for year as reflected in financial statements	✓ (58 800)
Balance at the beginning of the year	Cr ✓✓ (9 900)
Balance at the end of the year	Dr ✓✓ (6 800)
Income tax paid	✓ (75 500)

[6]

3. DIVIDENDS PAID

Dividends for year as reflected in financial statements	(✓) (58 690)
Balance at the beginning of the year	✓✓ (20 000)
Balance at the end of the year	✓✓ 35 000
Dividends paid	(✓) (43 690)

[6]

3.

4. CASH FLOW FROM FINANCING ACTIVITIES

Cash flow from financing activities	✓ 165 000
Proceeds from shares issued (575 000 + 350 000)	✓✓ 225 000
Payment of long-term loans (200 000 – 140 000)	✓✓ (60 000)

[5]

4.1 Profit mark-up on credit sales

$$430\,000 - 268\,750 = 161\,250$$

$$\frac{161\,250 \checkmark}{268\,750 \checkmark} \times \frac{100}{1}$$

$$= 60\% \checkmark$$

Comments

- It is costlier to administer credit sales. ✓
- The costs incurred to administer credit sales thus increase operating expenses. ✓

[5]

4.2 Net asset value per share on 28 February 2011:

$$\begin{aligned} \text{number of shares} &= 200\,000 + \left(\frac{575\,000 - 350\,000}{2,25}\right) \\ &= 200\,000 + 100\,000 \\ &= 300\,000 \text{ shares } \checkmark\checkmark \\ \frac{575\,000 + 235\,730}{300\,000} \times \frac{100}{1} &= \frac{810\,730 \checkmark\checkmark}{300\,000} \times \frac{100}{1} \\ &= 270,24 \text{ cents } \checkmark \end{aligned}$$

[5]

4.3 Comments

- Shares were sold at R2,25 per share.
- Shares were sold for less than the net asset value of 270 cents per share.
- Investors bought shares at a very good price.
- The company wanted to ensure that the shares were bought and therefore offered the shares at a reasonable price.
- The NAV per share is always lower than the market price, because assets are valued at historical cost.

(Any four)

[4]

4.4 Any two of the following ways are acceptable:

- The loan was repaid.
- Tangible assets were purchased.
- Additional stock was purchased.
- The bank overdraft was repaid.

[2 × 2]

4.5 Average debtors collection period for the year ended 28 February 2011

$$\begin{aligned} \frac{148\,400 + 181\,300}{430\,000} \times \frac{365}{1} \\ = \frac{164\,850 \checkmark\checkmark}{430\,000 \checkmark} \times \frac{365}{1} \\ = 139,93 \text{ rounded up to } 140 \text{ days } \checkmark \end{aligned}$$

[4]

4.6 Any three of the following options are acceptable:

- Collect outstanding debts from debtors within 30 days.
- Charge interest on overdue accounts.
- Allow discounts for prompt payment.
- Send out a reminder as soon as an account is overdue.
- Increase cash sales.
- Negotiate a longer payment period with creditors.
- Hold a sale and try to encourage cash payment only.
- Sell more shares.

[2 × 3]



Case study 4.1

LB page 160

Teacher: Ask three learners to each read an article aloud in class. Ask the rest of the class to make observations, stating whether the article was positive or negative, and quoting extracts from the articles to support their answer.

CHAPTER 5

Financial accounting of companies – analysis of published financial statements

» Activity 5.1

LB page 164

1. The **Statement of Comprehensive Income** reflects the operating profit, income tax and net profit for the financial year.
2. The **Statement of Financial Position** reflects the net worth of the company as well as its assets and liabilities.
3. The **Statement of Cash Flows** shows how the operating activities of the company have affected the liquid funds of the company.
4. The **Independent Auditor's Report** expresses in verbal terms how the company has performed over the past year and explains other information not found in the financial statements.
5. The **Directors' Report** expresses an opinion on whether the financial statements of the company are reliable or not.

» Activity 5.2

LB page 178

1. The independent auditor expresses an opinion on the fair presentation of the financial statements. They look after the interest of the shareholders by examining the financial report presented by the company's directors to verify or discredit the validity of the report.
2. The directors appoint the independent auditor at the AGM and the audit and risk committee must verify the independence of the auditing company.
3. **An unqualified audit report** – also known as a clean report means that the external auditor finds the financial statements to be free from discrepancies and that it gives a true and fair view of the financial reporting framework used in preparing and presenting the financial statements.

A qualified audit report – is issued when the external auditor encounters one or two situation that do not comply with GAAP however the rest of the financial statements are fairly presented.

4. Qualified report
5. An adverse audit report is issued when the external auditor determines that the financial statements of the company being audited are materially misleading and when considered as a whole do not conform to the principles of GAAP.

Shareholders will become suspicious of the competence of the directors and might not vote for them at the next annual general meeting. They will lose confidence in the ability of the company to run the company well. The directors are hiding information from the shareholders and this is illegal. They could face criminal charges.

- a. Liquidity ratios affected are: current ratio, acid test ratio and average debtors collection period. These will reflect higher more favourable results improving the liquidity results.

Market value ratios are: net asset value and earnings per share. These will also appear higher and show favourable results.

The solvency ratio will also be inflated by the decision.

- b. Matching principal – not writing off the debt or providing for bad debts in the applicable year when the debt was incurred.
Concept of materiality – The directors neglected to disclose the information which had a relevant effect on the financial statements.

» Activity 5.3

LB page 178

1. An unqualified report
2. They should be satisfied.
The financial statements are fairly presented and no irregularities were found.
3. The auditors are saying that they only take responsibility for the pages that were specified in their Auditor's Report.
4. Because the general public can invest in a public company, the shareholders have to be assured that the company is looking after their investment. The company's financials must be audited to reassure shareholders that their investment is safe. The auditing company must be an outside, independent firm who has not vested interest in the company they are auditing.
5.
 - a. She should inform her manager and she needs to be taken off the team. She might be biased in her audit opinion and this is seen as a familiarity threat to the independence and objectivity of the audit.
 - b. No it would not be an objective audit and will bring to question the independence of the audit.

» Activity 5.4

LB page 179

1. An adverse opinion
2. Shareholders will become suspicious of the competence of the directors and might not vote for them at the next AGM. They will lose confidence in the ability of the company to run the company well. The directors are hiding information from the shareholders and this is illegal. They could face criminal charges.
3. It is the requirements of the auditing standards as the IFRS sets the standards for the preparation of financial statements. It also enables financial statements of different companies to be compared in South Africa and in other countries. Financial statements are uniformly prepared and auditing companies audit all companies according to the same standard and set principles.
4. Auditors must be governed by a professional code of conduct to which they are held accountable. This professional body, like SAICA, accredits the qualification of the auditor and lays down the code of conduct to which they must adhere. They are answerable to this code and their professionalism is questioned when they infringe this code.
5. They could be reprimanded by their company and professional body, depending on the severity of the infringement they could also have their names struck off the professional body's role and will not be able to practice as a CA (Chartered Accountant) again.

6.

Section extracted from an audit report	Message the auditor is conveying to the shareholders
We have audited the annual financial statements of Murray and Solomon <u>set out on pages 20 – 41</u> for the year ended 31 December 2020.	The auditors are only responsible for and report on the pages in the annual financial statement as set out in their audit report.
These <u>financial statements are the responsibility</u> of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.	The auditor is saying that they did not prepare the financial statement and that it was the responsibility of the directors. It is merely their responsibility to express an opinion on the statements presented to them.
An audit includes: <ol style="list-style-type: none"> Examining on a <u>test basis, evidence supporting the amounts</u> in the financial statements; Assessing the <u>accounting principles used</u> and significant estimates made by management; Evaluating the <u>overall financial statement presentation</u> ... 	<ol style="list-style-type: none"> The auditor is saying that they only tested a sample of the accounting records (source documents, bank statements, financial records, etc.) to prove the amounts as presented in the statements. These amounts were tested against the GAAP principals as laid out in IFRS. The financial statements are presented in an acceptable way according to the prescribed format as laid out in the Companies Act.
Audit opinion: In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 June 2020 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act in South Africa.	Unqualified opinion The auditors are communicating that the company's financials are "clean", unbiased and fairly presented. This is the best report a company can get from an auditor.



Activity 5.5

LB page 180

Column A		Column B	
1.	Accountability	H.	Being held answerable for ensuring that the daily operations of the company are exercised diligently and with due care in order to achieve the best possible outcome for all
2.	comply with legislation	E.	Adhering to what is laid down in the Companies Act and the laws of the country
3.	Transparency	I.	All relevant information must be disclosed to shareholders and nothing must be hidden from them
4.	Risk management	J.	Expecting in advance that the company might face danger and threats and planning in such a way as to avoid them
5.	Independence	F.	Being free from influence, bias and conflict of interest
6.	Fairness in dealing with stakeholders	C.	Treating everyone equitably and not favouring any particular party above the other
7.	Sensitivity to social and environmental issues	D.	When making a decision, having a consideration for any factor that might impact society at large
8.	Responsible management	G.	Taking responsibility for something that should be carried out as part of the duties at work
9.	Fraud	A.	An intentional manipulation of information or data in order to commit a crime
10.	Ethical decisions	B.	All decisions are made and are guided by set values and principles

- The board of directors must ensure good corporate governance within the organisation.
- Discipline, responsibility, fairness, social responsibility, transparency and accountability
- The King Code III refers to a multi-faceted range of stakeholders.
Individual – the company's employees, suppliers, financial institutions, shareholders, etc.
Societal – the company's competitors, neighbouring shops, schools, hospitals, environmental issues, etc.
Economic – job creation, imports and exports, buying proudly South African
Social – sports clubs, recreational centres, etc.
Every company has a corporate responsibility to govern their affairs in the best interest of all and not to just be concerned about the bottom line.
- Prima Clothing Ltd. should consider the view of the environmentalists. They will be viewed in a negative light if they just continue with construction without doing an environmental impact assessment. This matter could end up in court and would give them a bad name. Good corporate governance encourages societal and environmental awareness.
- Societal and environmental issues

For the teacher:

Calculations for the analysis of the audit financial statement of Shoprite Holdings Ltd.

Margin ratios:

Gross profit on sales

2011

$$\frac{14\,673\,369}{72\,297\,777} \times \frac{100}{1}$$

$$= 20,3\%$$

2010

$$\frac{13\,524\,592}{67\,402\,440} \times \frac{100}{1}$$

$$= 19,7\%$$

Gross profit on cost of sales

2011

$$\frac{14\,673\,369}{57\,624\,408} \times \frac{100}{1}$$

$$= 25,5\%$$

2010

$$\frac{13\,524\,592}{54\,147\,848} \times \frac{100}{1}$$

$$= 24,5\%$$

Net profit on sales

2011

$$\frac{2\,529\,542}{72\,297\,777} \times \frac{100}{1}$$

$$= 3,5\%$$

2010

$$\frac{2\,287\,296}{67\,402\,440} \times \frac{100}{1}$$

$$= 3,4\%$$

Operating expenses on sales

*added together Depreciation + amortisation + Operating leases + Employee benefits + Other expenses

2011

$$\frac{*12\,542\,516}{72\,297\,777} \times \frac{100}{1}$$

$$= 17,3\%$$

2010

$$\frac{*11\,340\,279}{67\,402\,440} \times \frac{100}{1}$$

$$= 16,8\%$$

Operating profit on sales

2011	2010
$\frac{3\,907\,718}{72\,297\,777} \times \frac{100}{1}$	$\frac{3\,387\,037}{67\,402\,440} \times \frac{100}{1}$
= 5,4%	= 5,0%

Liquidity and efficiency ratios:

Current ratio

2011	2010
11 357 577 : 12 450 311	10 416 433 : 10 985 656
= 0,9 : 1	= 0,95 : 1

Acid test ratio

2011	2010
4 301 710 : 12 450 311	4 301 895 : 10 985 656
= 0,35 : 1	= 0,39 : 1

Stock holding period

*average stock used

**average stock not used

2011	2010
$\frac{6\,585\,197^*}{57\,624\,408} \times \frac{365}{1}$	$\frac{6\,114\,638^{**}}{54\,147\,848} \times \frac{365}{1}$
= 41,7 days	= 41,2 days

Stock turnover rate

2011	2010
$\frac{57\,424\,408}{6\,585\,197}$	$\frac{54\,147\,848}{6\,114\,538}$
= 8,75 times	= 8,86 times

Financial leverage ratios:

Solvency ratio

2011	2010
20 703 757 : 13 560 307	17 991 697 : 12 019 681
= 1,5 : 1	= 1,5 : 1

Debt : equity ratio

*borrowings

2011	2010
23 578* : 7 143 450	18 914* : 5 972 016
= 0,003 : 1	= 0,003 : 1

Return ratios:

Return on average shareholders' equity

*average equity

**average equity not used

2011	2010
$\frac{2\,529\,542}{6\,557\,733^*} \times \frac{100}{1}$	$\frac{2\,287\,296}{5\,972\,016^{**}} \times \frac{100}{1}$
= 38,6%	= 38,3%

Return on average capital employed

*average capital employed

**average capital employed not used

2011

$$\frac{3\,876\,368 + 125\,964}{6\,581\,588^*} \times \frac{100}{1}$$

$$= 68,1\%$$

2010

$$\frac{3\,399\,088 + 93\,690}{5\,993\,550^{**}} \times \frac{100}{1}$$

$$= 58,3\%$$

Market value ratios:

Net asset value per share

2011

$$\frac{7\,143\,450\,000}{543\,479\,460} \text{ (obtained from report)}$$

$$= 1\,314,4$$

Earnings per share

2011: This amount was given in the statement of comprehensive income.

Dividends per share

2011: This amount was given in the notes to the statements in the report.



Activity 6.1

LB page 189

1. a. Learners should provide several relevant points such as:
 - Professional bodies provide assurance of the quality of their members, which provides employers, clients and the general public with confidence in the ability and professional competence of their members.
 - Professional bodies set educational standards.
 - Professional bodies development of curricula.
 - Professional bodies accredit training institutions.
 - Professional bodies provide and distribute learning material.
 - Professional bodies set and administer professional admission examinations.
 - Professional bodies assess practical experience.
 - Professional bodies award qualifications.
- b. Learners should provide several relevant points such as:
 - Professional bodies provide their members with on-going support and training in order to ensure that they remain up to date with the latest developments in their profession.
 - Professional bodies organise conferences, seminars and workshops.
 - Professional bodies publish professional journals or magazines.
 - Professional bodies distribute newsletters.
 - Professional bodies maintain website and update content on a regular basis.
 - Professional bodies provide a network for professionals to meet and discuss their field of expertise.
- c. Learners should provide several relevant points such as:
 - Professional bodies usually prescribe a code of conduct for their members.
 - This code sets out the standards of professional and ethical behaviour that are required by their profession.
 - Members are required to adhere strictly to this code.
 - The code of conduct is enforced by the disciplinary function of the professional body.
 - The disciplinary function of the professional body investigates complaints against members, implements disciplinary procedures and takes action against members found guilty of non-compliance or improper conduct

2.

Professional body	Abbreviation	Professional title	Designation
The South African Institute of Chartered Accountants	SAICA	Chartered Accountant	CA(SA)
The South African Institute of Professional Accountants	SAIPA	Professional Accountant	Professional Accountant (SA)
The Independent Regulatory Board for Auditors	IRBA	Registered Auditor	RA
The Institute of Internal Auditors South Africa	IIA SA	Internal Auditor	CIA
The Chartered Institute of Management Accountants	CIMA	Management Accountant	ACMA

3. a. Integrity requires accountants and auditors to be honest, open and straightforward in all their professional and business relationships. It is essential that accountants and auditors adhere to this principle, since their clients and various other interested parties rely on the information and opinions that they provide to be truthful and accurate.
- b. Objectivity requires accountants and auditors to not allow bias, conflict of interest or undue influence of others to override professional or business judgments. It is essential that accountants and auditors adhere to this principle, since their clients and various other interested parties rely on the information and opinions that they provide to be impartial and fair.
- c. Professional competence requires accountants and auditors to maintain their professional knowledge and skill at the level required of their profession. It is essential that accountants and auditors adhere to this principle, since their clients expect to receive competent professional services based on up to date technical and professional standards.
- d. Confidentiality requires accountants and auditors to respect the confidentiality of information acquired as a result of professional and business relationships. It is essential that accountants and auditors adhere to this principle, since their clients rely on them to not disclose any such information to third parties without proper authority (unless there is a legal or professional duty to disclose such information).

» Activity 6.2

LB page 191

1. The purpose of professional body's disciplinary function is to ensure that the members of the professional body behave professionally and ethically and to protect the public from unscrupulous practices and unprofessional or unethical conduct from its members. This is achieved by:
 - enforcing the professional bodies code of conduct
 - investigating complaints against members
 - implementing disciplinary procedures
 - taking action against members found guilty of non-compliance or improper conduct.
2. *Any three of the following examples of misconduct:*
 - Breach of professional confidentiality – disclosing confidential information to a third party without authority to do so.
 - Unethical conduct – any conduct that is immoral or dishonest in any way.

- Conflict of interest or improper relationships – providing professional services to a client on a matter, which is at odds with own personal financial interests of the professional or the interests of another client.
 - Criminal convictions – being convicted of a crime
 - Excessive charging – charging exorbitant fees, which are well above the rates recommended or prescribed by the professional body.
 - Unprofessional conduct – acting in an unprofessional manner.
 - Pretending to be a CA(SA) when not qualified – pretending or claiming to be a registered chartered accountant, which is in fact a criminal offence.
 - Failure to uphold professional competence and due care in the performance of professional’s duties – providing professional services without having the necessary skills or acting in a reckless, irresponsible or careless manner.
 - Unauthorised advertising – advertising that is not permitted by the professional body.
 - Breach of the Continuing Professional Development Policy – not adhering to the rules and requirements of the professional body relating on-going training and skills development.
3. The punitive measures in order of severity (starting with the least severe and ending with the most severe) are:
 - cautioned
 - reprimanded
 - fined
 - suspended
 - struck off.
 4. A criminal offence



Activity 6.3

LB page 197

1. **King III principle being applied:** *“The board should ensure that the company is and is seen to be a responsible corporate citizen.”*
 Good governance: The board is upholding the company’s duty of good corporate citizenship, by helping the local community. The board is also ensuring that the company is seen to be a good corporate citizen by branding the soccer jerseys with the company name and logo; this will help to enhance the company’s reputation and promote its public image.
2. **King III principle not being applied:** *“The board should appreciate that strategy, risk, performance and sustainability are inseparable.”*
 Unethical behaviour: Dumping waste in into a river is unethical. The board is thus not fulfilling its ethical responsibility and social obligation to ensure that the company operates in a sustainable manner and consider the interests of society. Furthermore, this strategy shows that the boards’ lack of appreciation that strategy, risk, performance and sustainability are inseparable. Besides being unethical, the companies overall economic performance will be affected by the bad publicity and due to poor environmental and social performance.
3. **King III principle not being applied:** *“The board should ensure the integrity of the company’s integrated report.”*
 Poor governance: The board should ensure that the company prepares an annual integrated report, which discloses the company’s economic, social and environmental performance in a transparent manner. The board has not fulfilled this responsibility and has failed in its obligation to ensure

the integrity of the company's integrated report. The board should ensure that the company's annual integrated report discloses:

- the positive social performance regarding the sponsorship; and
- the negative environmental performance relating to the dumping of waste.

4. **King III principle not being applied:** *“Companies should remunerate directors and executives fairly and responsibly.”*

Unethical behaviour: Directors should certainly be well paid as they usually perform a vital role in ensuring the success of a company; they often work extremely hard and they carry a huge burden of responsibility. However, paying directors exorbitant amounts, particularly when a company hasn't performed well, is unethical. Directors should be remunerated fairly and remuneration policies should be linked to their contribution to company performance.

5. **King III principle being applied:** *“The board should ensure that the company's ethics are managed effectively.”*

Good governance: The board is upholding its responsibility to build, promote and sustain an ethical corporate culture in the company. The board is ensuring that the code of conduct is adhered to by all members of the company and that the company's ethical standards are integrated into all the company's strategies and operations.

» **Activity 6.4**

LB page 201

1. C. 2. G. 3. F. 4. B. 5. H. 6. A. 7. E. 8. D.

» **Case study 6.1**

LB page 202

1. The social and ethics committee is required to monitor the company's activities relating to issues such as social and economic development; good corporate citizenship and the environment. The social and ethics committee must inform the board of any matters that require the board's attention and must report to the shareholders at the company's annual general meeting.
2. “The board should provide effective leadership based on an ethical foundation” and “The board should ensure that the company's ethics are managed effectively”.
3. In terms of the Companies Act and King III, directors have a duty and a responsibility to manage the company's ethics. However, directors often have limited opportunity to personally assess the business's ethical behaviour and risk. They thus need to ensure that there are independent processes in place to measure and monitor the ethics of the company. The directors can then use this information to make informed decisions and take action to improve the company's ethics.
4. *Any three of the following:*
 - Fines – a company may be fined for carrying out an unethical act (e.g. polluting)
 - Legal settlements – legal action may be taken against a company over an ethical issue and may result in the company having to pay a legal settlement.
 - Falling share price – bad publicity regarding a company's ethics can have a negative effect on a company's share price

- Eroded market and customer confidence – bad publicity regarding a company’s ethics can cause customers to lose confidence in the company. These customers may choose to rather use a competitor’s products or services and thus the company will lose some of its share of the market.
5. *Any five of the following:*
 - It increases brand equity.
 - It favours easier access to capital.
 - It favours a lower cost of capital.
 - It enhances employee commitment.
 - It enhances customer loyalty.
 - It supports the recruitment and retention of top talent for employees and the board.
 - It supports good stakeholder relationships.
 6. Many sources of competitive advantage can be easily and quickly copied. However, an ethical culture and reputation offers a source of competitive advantage that cannot be easily copied, cannot be bought and takes a long time to establish.



Case study 6.2

LB page 203

1.
 - a. The remuneration to be paid to directors
The company’s remuneration policy
 - b. The remuneration to be paid to directors
 - c. The new Companies act stipulates that “a company may pay remuneration to its directors for their service as directors, provided that such remuneration may only be paid in accordance with a special resolution approved by the shareholders within the preceding two-year period.”
 - d. King III principle: “Companies should remunerate directors and executives fairly and responsibly.”
2.
 - a. A special resolution is a binding decision requiring the support of at least 75% of the shareholders’ votes.
 - b. A non-binding advisory vote is a vote that is merely used to indicate the shareholders’ opinion on a matter, but which is not binding on the company (i.e. it is not enforceable).
3.
 - a. Transparency
 - b. Accountability
4.
 - a. The social and ethics committee
 - b. The primary function of the social and ethics committee is to monitor the company’s activities relating to, amongst other, social and economic development; good corporate citizenship; the environment; consumer relationships and certain employment-related matters.
5. Any appropriate reason, such as:
 - Shareholders who were not in favour of the pay increase sold their shares.
 - Shareholders sold their shares because they felt that this would have a negative impact on the profits of the company.
 - The news of the pay increase made the shares less attractive to potential investors.
 - The negative publicity surrounding this announcement has scared away shareholders and potential investors.

CHAPTER 7

Interpretation and reporting on the movement of fixed assets

» Activity 7.1

LB page 207

1.

No.	General Ledger		Transaction
	Account debited	Account credited	
e.g.	Equipment	Bank	Bought equipment for cash
a.	Vehicles	Creditors Control	Bought a vehicle on credit
b.	Creditors Control	Equipment	Returned equipment to a creditor
c.	Equipment	Capital	Owner gave equipment to the business as her capital contribution
d.	Land and Buildings	Mortgage Bond	Bought a building and took out a mortgage loan to finance the purchase
e.	Bank	Equipment	Received a refund on defective equipment returned

- $R245\ 000 + 525 + 2\ 150 = R247\ 675$
- c. R185 000
- No he cannot. Although the actual value is R160 000 he only paid R85 000 for the vehicle. He will be committing fraud because he will be inflating the vehicle in his books. According to the historical cost principle, the asset must be recorded at its original cost not its original value. He will not be applying double entry because his bank account will decrease (credit) by R85 000 but he wants to increase (debit) his vehicles account by R160 000.
- Enter the asset in the asset register.
Insure the asset.
Safeguard the asset against theft. Fit a tracking device when buying a vehicle, etc.

» Activity 7.2

LB page 208

- A book in which all asset owned by the business is recorded.
- She will be able to refer to the fixed assets register to determine the age of the asset. This will assist her in ensuring that the assets are being maintained properly. The fixed asset register will also help her with taking proper physical stock of the assets. She will know how many item need to be in the business. This will ensure that items don't get stolen.

3.

Column A		Column B	
1.	Assets are recorded in the books at their original cost.	E.	Historical cost principle
2.	The collective amount written off against the assets cost price over a period of time.	D.	Accumulated depreciation
3.	Assets which makes the administrative process easy to manage	F.	Equipment
4.	Assets which are bought for the purpose of generating an income	B.	Fixed assets
5.	The imputed expense written off against the asset's cost price every year	A.	Depreciation

4. a. Mike could face disciplinary action for taking equipment without permission and benefiting from it financially.
- b. No, the equipment does not belong to him so he cannot hire it out and benefit from it. The equipment belongs to the company he works for.
- c. Put policies in place and explain them to staff (educate staff)
If staff use equipment for work purposes then the equipment must be returned to a senior member of staff and record must be kept of who took equipment.
Equipment must be kept in a safe place and only certain members of staff must be allowed to access the equipment.
Any other reasonable answer
- d. To ensure that assets are not being stolen
To ensure that they are being used efficiently and not being abused
To ensure that assets get maintained regularly and that they are in proper working order
To check when assets need to be replaced



Activity 7.3

LB page 211

	Historical cost price	Accumulated depreciation	Carrying value
Vehicle A	R145 000	R87 000	R58 000
Vehicle B	R230 000	R69 000	R161 000

Depreciation on Vehicle A – $R145\ 000 \times [10/100] = R14\ 500$

Depreciation on Vehicle B – $R230\ 000 \times [10/100] = R23\ 000$

1. a. $\frac{R145\ 000}{R14\ 500} = 10$ years (useful life)
- b. $\frac{R87\ 000}{R14\ 500} = 6$ years (age of asset)
- c. $R195\ 000 - 161\ 000 = R34\ 000$ (replacement rate of vehicle B)
2. a. The historical cost principle
- b. Prudence principle
- c. Assets – Liabilities = Net Worth

If the company increases the value of the building then assets will increase, liabilities will stay the same and therefore net worth will increase.

Teacher: Learners can use any figures to explain as long as net worth increases.

- Company might not need two vehicles.
They might want to replace one with a newer model.
The vehicle might be becoming too expensive to maintain.
They might want a bigger or smaller vehicle because the current one is not meeting their needs.

Any valid answer

- So that it can plan as to when a new asset must be bought.
It is costly for businesses to keep old, outdated assets as they become very expensive to maintain.
Old assets damage and break easily. This can affect operational efficiency.
- They would need to know how long they would keep an asset before they need to replace it.
It helps in planning for the future.
They will want to get the most out of the asset, in other words the best economic benefit for the time that they own the asset.



Activity 7.4 (baseline assessment)

LB page 213

- The cost price method was applied.
Annual depreciation is the same amount (R6 750) each year and is calculated at 10% on the cost price.
- $\frac{67\,500}{6\,750} = 10$ years
- 1 March 2001 to 1 March 2013
= 12 years
- Any of the reasons below:
 - The business needed to upgrade and buy a newer model.
 - The vehicle was old and maintenance costs could have been too high.
 - The vehicle was no longer useful to the business.
- Yes, they kept this vehicle for 12 years while the useful life was 10 years.
They made R15 000 profit on the sale of this vehicle, so it must have been in a good condition.



Activity 7.5 (baseline assessment)

LB page 213

- The diminishing balance method was used.
The depreciation amount decreases from year to year and is calculated at 20% on the carrying value.
- 1 September 2017 to 1 March 2021
= $3\frac{1}{2}$ years
- They could have replaced this vehicle for a newer more modern model.
The vehicle could no longer be useful to the business.
(This vehicle was only $3\frac{1}{2}$ years old, so high maintenance costs could not be a reason for selling the vehicle.)
- Selling price – carrying value = profit
R75 000 – 73 728 = R1 272 profit was made on the sale of the vehicle.
- No. This vehicle was only $3\frac{1}{2}$ years old. Although they made a profit of R1 272 on the sale of the vehicle, they could have kept it for much longer.
They did not make good use of this vehicle.

Fixed asset register of Tandi's Builders		Folio 7	
Description: Makita bench saw			
Date of purchase: 01 March 2016		Date sold: 29 February 2020	
Purchased from: Tools for Africa		Sold to: Peter's Wood Works	
Cost: R3 500		Sold for: R1 500 on credit	
Depreciation: 10% p.a. on the diminishing balance			
Date	Depreciation	Accumulated depreciation	Carrying value
28 February 2017	350,00	350,00	3 150,00
28 February 2018	315,00	665,00	2 835,00
28 February 2019	283,50	948,50	2 551,50
29 February 2020	255,15	1 203,65	2 296,35

2. Selling price – carrying value = loss
R1 500 – 2 296,35 = R796,35 is a loss on sale of the asset
3. The owner will be able to be more productive and manufacture more stock items.
The business will earn more profits.
4. a. Computers will have a higher depreciation rate because they lose value faster than vehicles.
b. Computers will be replaced more often because of rapid technological advancements and new innovations in the computer industry.

» Activity 7.7 (challenge)

1. The business purchased two vehicles.
2. One was bought on credit and the other in cash.
3. They sold one vehicle on 1 September 2020.
4. They kept this vehicle for one year.
5. The vehicle probably did not meet the business's needs.
6. It must have been traded in, because a new vehicle was purchased on credit on the same day that the old vehicle was sold.
7. The selling price of the vehicle

General Ledger of West Manufacturing (Pty) Ltd.

Dr		Asset Disposal				B6		Cr
Date	Details	Fol.	Amount	Date	Details	Fol.	Amount	
2020 Sep	01 Vehicles	GJ	60 000	2020 Sep	01 Accumulated depreciation on vehicles	GJ	12 000	
	Profit on sale of asset	GJ	6 000		Creditors control	GJ	54 000	
			<u>66 000</u>				<u>66 000</u>	

8. Yes. The business had this vehicle for just one year and received only R6 000 less than what they originally paid for it.

1. **General Ledger of Mkefa Resources Ltd.**

Dr				Asset Disposal				Cr			
Date		Details	Fol.	Amount	Date	Details	Fol.	Amount			
2021					2021						
Aug	31	Equipment	GJ	1 400	Aug	31	Accumulated depreciation on equipment	GJ			780
							Debtors control	GJ			620
				<u>1 400</u>							<u>1 400</u>

Cost price: $R11\ 400 + 2\ 300 - 12\ 300 = R1\ 400$

Accumulated depreciation on equipment: $R3\ 420 + 1\ 230 - 3\ 870 = R780$

- Account debited: *Depreciation*
Account credited: *Accumulated depreciation on vehicles*
- Effect of transaction on accounting equation

Assets	Owner's Equity	Liabilities
+ 62 500	0	+ 62 500

- $R300\ 000 + 120\ 250 + 8\ 430 = R428\ 680$ will be disclosed.
- According to the prudence concept

» **Informal assessment 7.1 (challenge)**

Marks: 31

Time: 15 minutes

3. **FIXED / TANGIBLE ASSETS**

	Land and buildings	Vehicles	Equipment	Total
Carrying value at beginning of year	1 850 000	✓ 48 000	✓ 82 960	✓ 1 980 960
Cost price	1 850 000	480 000	✓ 170 000	2 500 000
Accumulated depreciation	–	✓ (432 000)	(87 040)	(519 040)
Movements:				
Additions	✓ 450 000	–	✓ 23 000	473 000
Disposals at carrying value	–	–	(16 384)	(16 384)
Depreciation	–	(47 999)	✓ (16 592)	✓ (64 591)
Carrying value at end of year	2 300 000	✓ 1	✓ 72 984	✓ 2 372 985
Cost	2 300 000	480 000	143 000	2 923 000
Accumulated depreciation	--	✓ (479 999)	(70 016)	✓ (550 015)

[14]

Calculations

- (a) $R2\,300\,000 - 1\,850\,000 = R450\,000$
- (b) $R473\,000 - 450\,000 = R23\,000$
- (c) $R2\,500\,000 - 480\,000 - 1\,850\,000 = R170\,000$
- (d) $R170\,000 - 87\,040 = R82\,960$
- (e) $R82\,960 \times 20\% = R16\,592$
- (f) $R143\,000 - 70\,016 = R72\,984$
- (g) $R480\,000 \times 10\% = 48\,000 \times 9 \text{ years} = R432\,000$

If the vehicle is depreciated at 10% on cost and the depreciation for the current year is R47 999 then we must have had the vehicle for 9 years. 10% on cost implies that the lifespan is 10 years.

- (h) $R480\,000 - 423\,000 = R48\,000$
- (i) $R432\,000 + 47\,999 = R479\,999$
- (j) $R480\,000 - 479\,000 = 1$

2. Any asset must hold value in the books. An asset will be depreciated up to R1 and in the last year it will not be depreciated to its full value but to R1 below that (e.g. R47 999 instead of R48 000). ✓✓ [2]

3. **Asset Disposal**

Equipment (170 000 + 23 000 - 143 000) ✓✓✓50 000	Accumulated depreciation on equipment (50 000 - 16 384) ✓✓33 616 Donation ✓✓16 384
50 000	50 000

[7]

4.1 Shareholder A did not want to sell the equipment because he is aware of his social responsibility and felt that donating the equipment will:
 Give the business a good name. ✓
 They can write off the donation as a tax write off which reduces the tax liability. ✓
 The company is adhering to good corporate governance and is socially aware. ✓ [3]

4.2 Shareholder B wants to make a profit of R7 200. This will increase the company's income in the Income Statement, thus increasing the net profit. Because the company will show a higher net profit the company is more likely to be able to borrow money and will show a high return on profits. ✓✓✓ [3]

5. It would have increased operating profits and net profits on the Income Statement. ✓ It would have increased cash and cash equivalents on the Balance Sheet. ✓ [2]

CHAPTER 8

Financial accounting of close corporations

» Activity 8.1

LB page 222

1. Legal entity: The business and the owner are two separate economic entities. The business has legal persona and in the eyes of the law it can enter into legal agreements with other businesses.
2. Limited liability: The owners of the business with limited liability are not liable for the debts of the business. Their personal assets cannot be attached if the business goes bankrupt. The business is totally liable for its own debts.
3. Members
4. Minimum of 1 and maximum of 10
5. Founding statement (CK1 form)
6. More flexible to run / easier to administer
Easier to form and less expensive to operate
Suitable for smaller businesses
Can be owned by 1 to 10 members
Legal entity
7. Close Corporations Act (69 of 1984)
8. It dissolves only when insolvent or deregistered. A CC will continue to operate even if one of the members sells their members interest or dies.
9. An Accounting Officer
10. A CC does not have to submit audited financial statements.

» Activity 8.2

LB page 224

	Public company	Close corporation
Founded by completing a ____.	Memorandum of Association	Founding Statement
Name of business must end with ____.	Ltd.	CC
Number of owners	No limit	1 to 10
What are the owners referred to as?	Shareholders	Members
____ are responsible for the day-to-day management.	Directors	Members
Legal persona? (yes/no)	Yes	Yes
Continuity	Unlimited continuity	Unlimited continuity
Liability of the owners	Shareholders have limited liability for the debts of the company	Members have limited liability for the debts of the CC
Share of the profits is called ____.	a dividend	distribution to members
Taxation	The company is liable for the tax on net profit.	The CC is liable for the tax on net profit.
Auditing financial statements	Must submit audited financial statements to the registrar	Is not required to submit audited financial statements



Marks: 25

Time: 15 minutes

- 1.1 Rent income: Crouch ✓
Salary: Owen ✓
Remuneration: Accounting officer ✓ [3]
- 1.2 Directors' fees ✓ [1]
- 1.3 Yes, it is not a requirement for a CC to be audited but if they are audited then they will have an expense called Audit Fees in the Income Statement. ✓✓ [2]
- 2. Loans to members are an asset and interest income is earned on the loans. A member needing money will borrow it from the CC and pay the CC interest on the loan. ✓✓
Loans from members are a liability and the CC pays interest on the loan. If the CC needs money it can borrow from a member and pay interest to the member on the borrowed money. The interest is usually lower than a bank will charge. ✓✓ [4]
- 3. Loans to members are a non-current asset. ✓
Members' contributions are the capital the members contribute. ✓
Loans from members are a non-current liability. ✓ [3]
- 4.1 Notes 4, 8, 9, 10, 12 ✓✓✓✓✓ [5]
- 4.2 Notes 1, 2, 11 ✓✓✓ [3]
- 4.3 Notes 3, 5, 6, 7 ✓✓✓✓ [4]

CHAPTER 9

Internal control

» Activity 9.1

LB page 234

Column A Audit procedure		Column B Description	
1.	Inspection	C.	a physical examination of records
2.	Observation	E.	monitoring activities being performed
3.	Inquiry	G.	asking employees questions about the duties they perform
4.	Re-performance	F.	re-performing tasks that have already been performed
5.	Confirmation	A.	verifying internal records against data received from an external source
6.	Analytical review	D.	includes ratio analysis, trend analysis and comparisons with historical information and forecasts
7.	Reconciliation	B.	comparing two sets of similar data and resolving the differences between them

» Activity 9.2

LB page 234

1. Audit evidence is the information that internal auditors gather during the course of an audit, which they use to form their conclusions and to support their opinions and recommendations.
2. Sufficient, reliable, relevant and useful
3.
 - a. tests of control
 - b. tests of detail
4. Compliance tests involve the review of internal control processes to determine whether the controls are working as intended and are being adhered to and applied correctly. These tests provide evidence regarding the existence and effectiveness of the internal controls.
Substantive tests involve testing, checking and verifying the detail and accuracy of financial and operating information. These tests provide evidence regarding the completeness, validity and correctness of the information.
5.
 - a. Confirmation
 - b. Re-performance
 - c. Analytical review
 - d. Reconciliation
 - e. Observation
 - f. Inspection
 - g. Inquiry

» Activity 9.3

LB page 238

1. Because it is not feasible or practical for internal auditors to test and check every transaction, document and record of a business

2.

Statistical sampling	Non-statistical sampling
Objective approach	Subjective approach
Based on mathematics	Based on auditor's judgement
Sample is expected to be representative of the population.	Sample is not intended to be representative of the population.
Audit sample is selected randomly .	Audit sample is purposely biased .
Generally more time consuming and thus more expensive.	Generally less time consuming and thus less expensive.
Not appropriate for small populations	Can be applied to small populations

3.

Column A: Sampling term		Column B: Description	
1.	Population	D.	the entire set of items that are being considered for testing
2.	Population size	C.	the total number of items in the population
3.	Audit sample	A.	the set of items selected for testing
4.	Audit sample size	E.	The total number of items in the audit sample
5.	Sample selection	B.	the process that is used to select the audit sample



Activity 9.4

LB page 240

Column A: Sampling technique		Column B: Description	
1.	Random number sampling	F.	Audit sample items are selected on a completely random basis.
2.	Systematic or interval sampling	E.	Audit sample items are selected using a fixed interval between selections, with a random start.
3.	Stratified sampling	A.	A population is divided into sub-groups and then independent audit samples are selected from each of sub-groups.
4.	Cluster sampling	C.	Audit sample items are selected by randomly selecting bunches of naturally grouped items.
5.	Judgmental sampling	B.	Audit sample items are specifically selected by the internal auditor and are thus purposely biased or skewed.
6.	Haphazard sampling	D.	Audit sample items are selected at random without following a structured or statistical approach.



Activity 9.5

LB page 241

- To provide assurance on those areas where risks are being effectively managed and controlled
 - To document and highlight those areas where risk management and control is inadequate
 - To provide recommendations for improvement in those areas where the management and control of risk was found to be inadequate

2. Management (or the audit committee or the board of directors)
3. a. The internal auditors report conveys the internal auditors' recommendations for improvement to management and thus plays an important role in convincing management to take action. The internal audit report reflects the value, quality and image of the entire internal auditing function, and is often the main source of contact that senior management has with internal auditing.
- b. An internal auditors report should:
 - be prepared and issued on time
 - contain information that is accurate and complete
 - be clearly written, logical and easily understood
 - be convincing, yet concise and to the point
 - be written in an objective and constructive manner.
4. Interim reports are reports that are made during the course of the audit.
5. • Inform management of a significant finding that requires immediate attention
- Update management on the progress of a lengthy audit
- Notify management of a significant change in the scope of the audit

» Activity 9.6

LB page 243

1. chief audit executive
2. independent
3. appropriate, sufficient, effectively deployed
4. monitor
5. accountable
6. internal auditing
7. external auditing
8. independent contractors
9. shareholders
10. financial
11. activities audited
12. financial
13. periodically / yearly / annually
14. public
15. co-operation / collaboration

» Case study 9.1 (challenge)

LB page 244

1. The use of recycling material to manufacture products
The use of renewable energy
2. *Any two of the following:*
 - By using recycling material they reduce their production costs.
 - By using renewable energy they reduce their production and operational costs.
 - The business received free publicity because people are interested in businesses that are environmentally conscious and that operate in a sustainable manner.
 - The sales of the business increased because people like to support businesses that are environmentally conscious and that operate in a sustainable manner.

3. CIA – Certified Internal Auditor
Professional body – The Institute of Internal Auditors South Africa (IIA SA)
4. CA – Chartered Accountant
Professional body – The South African Institute of Chartered Accountants (SAICA)
5. No. It will not be physically viable or economically beneficial to perform such extensive testing anymore.
6. Audit sampling
7. The following are some of the points that should be included in the report to management:

Appropriateness of internal audit resources

- Themba and Sally are both relatively inexperienced internal auditors.
- Themba has valuable experience and expertise relating to internal control systems and procedures in a manufacturing enterprise.
- As a CA, Sally should have valuable technical knowledge and expertise in accounting.
- However, neither has much knowledge of statistics or experience in auditing computer-based systems.

Recommendations

The skill deficiencies relating to statistics (for audit sampling) and auditing computer-based systems should be addressed by either:

- sending Themba and/or Sally for further training in these areas; or
- employing additional internal auditors who are suitably skilled in these areas; or
- outsourcing these functions to an internal auditing firm with the necessary expertise.

Sufficiency of internal audit resources

- There are only two internal auditors, which seems insufficient for a business that has such a high volume of sales and is growing so quickly.
- The internal auditors are already working long hours and over weekends to complete the audit on time.
- However, the internal auditors are managing to examine and test a reasonably large volume of documents and records.

Recommendations

- Suitable audit sampling techniques should be used in order to reduce the volume of testing that is required.
- The business should employ more internal auditing staff as the current internal auditors are already stretched and the business is growing rapidly.

Effective deployment of internal audit resources

- Themba has a fair amount of experience and expertise to internal control systems and procedures in a manufacturing enterprise, but is mainly involved with auditing financial records.
- Sally, as a qualified CA, should have good technical knowledge relating to accounting, but is mostly involved in assessing the adequacy of the operational controls and procedures of the business.

Recommendations

- Based on Themba's skills and experience, he would probably be better suited to assessing the adequacy of the operational procedures and controls of the business.
- Based on Sally's expertise and knowledge, she would probably be better suited to auditing the financial records of the business.

» **Activity 10.1**

LB page 248

1. Rate of stock turnover
$$\frac{\text{cost of sales}}{\text{average stock}}$$
$$= \frac{536\,000 + 264\,200 - 47\,720}{\frac{1}{2}(192\,840 + 155\,430)}$$
$$= \frac{752\,480}{174\,135} = 4,3 \text{ times per year}$$
2. Methods to improve stock turnover (*any two of the following*):
 - Effective advertising campaigns
 - Sell items at discount prices
 - Negotiate bigger discounts from suppliers and pass those discounts on to customers
 - Improve on guarantees – provide an effective after-sales service
 - Sell quality products at good prices
3. Disadvantages (*any two of the following*):
 - A lot of your cash may be tied up in the stock.
 - Storage problems may occur, insurance costs on stored items might be high.
 - Storage space, which could have been used for offices, and so on, is taken up by too much stock.
 - Stock could become obsolete.
 - Stock control must be effective because items received should be dispatched (sold) first.
 - High potential for stock loss/trading stock deficit (refer to the current figure of R69 570).
4. Steps to minimise stock theft:
 - Better control of documents. Get authorisation from the owner before items can be purchased/ordered and returned.
 - Division of duties (a different person ordering and another person returning stock) – employ another worker.
 - Exercise proper control/supervision over the employee.
 - Do random follow-ups with creditors.
 - Do unannounced/random stock counts.
5. She would do a physical stock taking and compare the outcome to the *Trading Stock* account.
 - She could do an internal audit on her books. Compare order forms with delivery notes and invoices.
 - She could employ an external auditing firm to do an audit for her.
6. Internal control measures:
 - Control over the entrance and exit of employees
 - Have security check points where the parcels of employees can be inspected.
 - Any trading stock that is not suitably documented should be confiscated and the employees reported.

- Store detectives could be employed.
- Stock required from the storeroom should be recorded and signed for by the store manager.
- The storeroom must be properly supervised during working hours and locked outside working hours.

7. Creditors payment period

$$\begin{aligned} & \text{average creditors/ credit purchases} \times \frac{365}{1} \\ &= \frac{\frac{1}{2}(87\,500 + 62\,500)}{784\,640} \times \frac{365}{1} \\ &= \frac{75\,000}{784\,640} = 34,9 \text{ days} \end{aligned}$$

Comments

- On average, creditors should be repaid within 90 days.
 - The business is repaying its creditors within 35 days.
 - They are probably receiving discounts for early payment, but could experience cash flow problems if goods are sold on credit and debtors don't pay on time.
 - They must use the concession allowed to them by creditors and pay as close to 90 days as possible.
- 8.
- What the clerk was doing is theft.
 - He cannot order items through the business and then take it home for his own use.
 - Lisa could reprimand him and make him pay back the amount taken for own use.
 - Lisa could lay a criminal charge against him.
 - He could lose his job.
 - He could go to jail.

» **Activity 10.2**

LB page 250

1.

Question	Perpetual	Periodic
Which account is debited when stock is purchased?	The Trading Stock account is debited.	The Purchases account is debited.
How is cost of sales determined?	Cost of sales determined at every sale using the profit mark-up percentage.	Cost of sales is only calculated at the end of a particular period after closing stock is determined.
How is closing stock determined?	The balance in the <i>Trading Stock</i> account at the end of a period is the closing stock amount.	Closing stock amount is only determined by doing a physical stock count.
How is stock validated at the end of a period?	Stock is validated by comparing the book value as in the <i>Trading Stock</i> account and comparing it with the physical stock count at the end of a period.	It is difficult to validate stock because the physical stock count is taken to be the closing stock.

2.

Perpetual		Periodic	
Advantage	Disadvantage	Advantage	Disadvantage
Used when a business sells expensive items with a relatively low stock turnover (jewellery or cars)		Used when a business sell a variety of inexpensive items with a high stock turnover (groceries)	
	Bookkeeping process complicated because cost of sales is calculated each time an item is sold	Bookkeeping process easy to administer	
Easy to calculate stock deficit			Not easy to calculate stock deficit
Can determine the value of stock on hand at any given time by checking the trading stock closing balance			Cannot determine the value of stock on hand, only when a stocktaking is done

3.

Trading account			
Cost of sales	220 000	Sales	385 000
Profit and loss (Gross profit)	<u>165 000</u>	(140 000 + 248 150 – 3 150)	
	385 000		385 000

4.

Trading account			
Opening stock	24 500	Sales	385 000
Purchases	211 200	Closing stock	17 200
(120 100 + 93 060 – 1 960)			
Carriage on purchases	1 500		
Profit and loss (Gross profit)	<u>165 000</u>		
	402 200		402 200

5.

Cost of sales

Opening stock	24 500
+ Purchases	211 200
+ Carriage on purchases	1 500
– Closing stock	(17 200)
= Cost of sales	220 000



Activity 10.3

LB page 254

1.

Number of units on hand at beginning of year	20
+ Purchases during the financial year (25 + 13 + 21)	59
– Returns	–
= Number of units available to be sold	79
– Number of units sold during the period	(49)
= Number of units on hand at the end of the year	30

2.

	Available	Sold	On hand
Beds on hand on 1 March 2019	20	-20	
March 2019	25	-25	
August 2019	13	-4	= 9
December 2019	21		= 21
	79	-49	= 30

If 30 beds are on hand then:

$$\begin{array}{r}
 9 \text{ @ } R900 = R8\ 100 \\
 \underline{21 \text{ @ } R950 = R19\ 950} \\
 \mathbf{30} \qquad \qquad \qquad \mathbf{R28\ 050}
 \end{array}$$

Activity 10.4

LB page 254

No.	Opening stock	Purchases	Sales	No. of unsold units	Value of closing stock
1.	85 @ R20	100 @ R22 140 @ R25	180 @ R45	5 @ R22 140 @ R25	R3 610
2.	30 @ R300	20 @ R310 40 @ R320 15 @ R330	80 @ R600	R10 @ R320 15 @ R330	R8 150
3.	7 @ R60	19 @ R64 14 @ R70	30 @ R250	10 @ R70	R700
4.	3000 @ R12	1 500 @ R14 1 700 @ R17	4 200 @ R60	300 @ R14 1 700 @ R17	R33 100



Note to teacher:

When you calculate the number of items sold, you eliminate from top to bottom.

When you calculate the number of items on hand, you eliminate from bottom to top.

Calculations

1.

Available	Sold	On hand
85	-85	
100	-95	= 5 @ R22
140		= 140 @ R25
325	-180	= 145

2.

Available	Sold	On hand
30	-30	
20	-20	
40	-30	= 10 @ R320
15		= 15 @ R330
105	-80	= 25

3. $\frac{700}{R70} = 10$ units on hand

$10 + 30 - 19 - 14 = 7$ units at beginning of period (opening stock)

4. $3\ 000 + 1\ 500 + 1\ 700 = 6\ 200 - 300 - 1\ 700 = 4\ 200$ units sold



1. First in first out
- 2.

	Number of caps	Unit price per cap	Total value
Opening stock on 1 March 2018	1 400	③ R35	R49 000
Total purchases	① 6 700		⑤ R265 200
April	2 300	R38	④ R87 400
July	2 600	R40	④ R104 000
November	1 800	R41	④ R73 800
Sales for the year	② 5 400	R75	R405 000

Calculations

- ① Number of caps purchased during the year:
 $2\ 300 + 2\ 600 + 1\ 800 = 6\ 700$

- ② Number of caps sold during the year:
 $\frac{405\ 000}{R75} = 5\ 400$

- ③ $\frac{R49\ 000}{1\ 400} = R35$

- ④ $2\ 300 \times R38 = R87\ 400$
 $2\ 600 \times R40 = R104\ 000$
 $1\ 800 \times R41 = R73\ 800$

- ⑤ $R87\ 000 + R104\ 000 + R73\ 800 = R265\ 200$

3. Number of unsold caps and the cost price of the caps on hand.

$$1\ 400 + 6\ 700 - 5\ 400 = 2\ 700$$

900 @ R40 each

1 800 @ R41 each

4. Total value of stock on hand (closing stock) on 28 February 2019.

$$900 \times R40 = R36\ 000$$

$$\underline{1\ 800} \times R41 = \underline{R73\ 800}$$

$$\underline{2\ 700} \qquad \underline{R109\ 800}$$

5. Cost price of the caps sold (cost of sales) for the period:

$$\text{Caps sold} = 5\ 400$$

$1\ 400 \times R35 = R49\ 000$

$2\ 300 \times R38 = R87\ 400$

$1\ 700 \times R40 = R68\ 000$

$$R49\ 000 + 87\ 400 + 68\ 000 = R204\ 400$$

6. Gross profit on 28 February 2019:

Trading account			
Cost of sales	204 400	Sales	405 000
Profit and loss (gross profit)	200 600		
	<u>405 000</u>		<u>405 000</u>

	Number of TV sets	Unit price per TV set	Total value
Opening stock on 1 March 2018	30	R1 380	R41 400
Total purchases for the year	108		(a) R156 660
April	20	R1 450	R29 000
September	(1) 45	R1 480	(b) R66 600
January	43	R1 420	(c) R61 060
Returns of defective stock bought during January	3	1 420	R4 260
Sales for the year	59	R3 500	(d) R206 500

1. Sing Bravo TV sets bought during September:

$$108 - 20 - 43 = 45$$

2. Calculations:

$$(a) R29\ 000 + 66\ 600 + 61\ 060 = R156\ 660$$

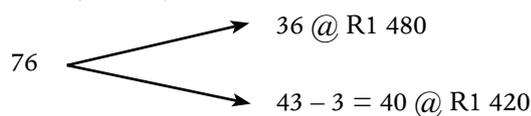
$$(b) 45 \times R1\ 480 = R66\ 600$$

$$(c) 43 \times R1\ 420 = R61\ 060$$

$$(d) 59 \times R3\ 500 = R206\ 500$$

3. Number of unsold TV sets and their cost price:

$$30 + (108 - 3) = 135 - 59 = 76 \text{ TV sets on hand}$$



4. Total value of stock on hand (closing stock) on 28 February 2014:

$$36 \times R1\ 480 = R53\ 280$$

$$40 \times R1\ 420 = R56\ 800$$

$$\underline{76} \qquad \underline{110\ 080}$$

5. Gross profit on 28 February 2015 if the company uses the periodic stock system:

Trading account			
Opening stock	41 400	Sales	206 500
Purchases (156 660 - 4 260)	152 400	Closing stock	110 080
Profit and loss (gross profit)	<u>122 780</u>		
	316 580		316 580

6. Cost price of the TV sets sold (cost of sales) for the financial year 28 February 2015:

Opening stock	41 400
+ Purchases	152 400
- Closing stock	(110 080)
Cost of sales	<u>83 720</u>

7. Number of missing TV sets:

$$76 - 72 = 4 \text{ TV sets are missing}$$

How could the TV sets have gone missing?

- TV sets could have been stolen.
- An incorrect amount could have been entered in the books. Too much could have been entered into the stock records thus inflating the purchases amount.

- Stock could have been returned and no entry could have been made.
 - TV sets could have been sold and delivered and no entry was made.
 - Too little TVs could have been delivered, for example, 15 were delivered but 20 were entered into the books according to the invoice.
- 8.
- Safeguard stock against theft.
 - Ensure that there are proper internal control measures in place.
 - Ensure that items are correctly entered into the appropriate journal and that the purchase and sale of goods are properly recorded.
 - Division of labour – ensure that there are different people involved in the different aspects of stock control, for example: the person who receives and counts the goods must not be the same person entering the invoices into the books.
 - Ensure that different people check the items received.

» Activity 10.7

LB page 258

- The **weighted average cost per unit** for the Comfy Night mattresses on 29 February 2020:
 Total value of units available to be sold: $R15\ 000 + 52\ 900 = R67\ 900$
 Number of units available to be sold: $20 + 59 = 79$
 $\frac{67\ 900}{79} = R859,49$ weighted average cost
- Value of Comfy Night mattresses on hand (closing stock) as on 29 February 2020:
 $30 \times R859,49 = R25\ 784,70$

Teacher: Compare these results with the answer in Activity 10.3

	FIFO (Activity 10.3)	Weighted average
Number of items on hand	30	30
Cost price per unit	9 @ R950 21 @ R950	30 @ R859,70
Value of closing stock	R28 050	R25 784,70

You can see that the value of closing stock is higher when FIFO is used. The weighted average will be lower when the price variation between opening and closing stock differs dramatically. In this activity the opening stock was amount R750 and the closing stock amount was R950. This variation affects the weighted average.

» Activity 10.8

LB page 259

- a. Value of closing stock on 28 February 2018:

	Number of units	Purchases	Returns	Total value of units available to be sold
Opening stock	65			R23 725
	155	R56 875	R1 825	R55 050
April @ R350	58	R20 300	R700	R19 600
October @ R375	57	R21 375	R1 125	R20 250
February @ R380	40	R15 200		R15 200
Custom duty (155 × R15)				R2 325
	220		-5	R81 100

$$(R23\ 725 + 56\ 875 - 1\ 825 + 2\ 325) \div (65 + 155 - 5)$$

$$\frac{R81\ 100}{215} = R377,21 \text{ weighted average cost per unit}$$

$$70 \times R377,21 = R26\ 404,70 \text{ value of closing stock}$$

b. Gross profit for the year ended 28 February 2018

Trading account			
Opening stock	23 725,00	Sales	87 000,00
Purchases (56 875 - 1 825)	55 050,00	Closing stock	26 404,70
Custom duty	2 325,00		
Profit and loss (gross profit)	<u>32 304,70</u>		
	113 404,70		113 404,70

Note to teacher:
Custom duty of R15 per unit increases the value of stock purchased and must be added in to the cost of the stock.

2. $30 @ (R375 + R15) = R11\ 700$
 $40 @ (R380 + R15) = R15\ 800$
70 **R27 500**
3. $70 - 67 = 3$ pairs of running shoes are missing.
4. Value of the missing pairs of running shoes:
 $3 \times R377,21 = R1\ 131,63$
5.
 - Nick must maintain put better internal control measures in place.
 - He must split the duties of his staff (division of duties).
 - All goods received must be checked against the invoices received.
 - Stock must be kept in a safe and secure environment.
 - Stock must be physically checked on a regular basis.
 - Proper record must be kept of stock bought and sold.
 - Nick must put limited amounts of stock on the shop floor and monitor the stock room access.

Activity 10.9

LB page 260

Note to teacher:
Carriage on purchases of R100 per unit increases the value of stock purchased and must be added into the calculation.

1. $25 \times (R3\ 400 + R100) = R87\ 500$
2. Cost of sales amount using FIFO method:

Cost of sales	333 250
Opening stock	160 000
Purchases	248 250
Carriage	12 500
Closing stock	(87 500)
3. Gross profit using the FIFO method of stock valuation:

$$= \text{Sales} - \text{Cost of sales}$$

$$= 760\ 000 - 333\ 250$$

$$= 426\ 750$$

	Weighted average	FIFO
Closing stock	R84 150	R87 500
Cost of sales	R336 600	R333 250
Gross profit	R423 400	R426 750

- a. If he uses the FIFO method he will show a higher closing stock in the financial statements. His assets show a higher value and this higher value will have a positive impact on the current ratio, Solvency ratio and the Net Asset Value calculation.

His cost of sales amount will be lower thus increasing gross profit. This will show a higher profit mark-up percentage calculation.

Because gross profit is higher, net profit will be higher so they will pay higher taxes on their profits. However, declaring higher gross profit shows that the business is profitable and this will attract investors.

- b. No, won't be able to manipulate the financial records in order to reflect positive results. It is unethical and goes against the code of conduct adhered to by SAICA.

Manipulating the figures is fraud and shows a lack of business ethic.

There is no sound accounting reason for changing the method of stock valuation.

It is important that the financial records are consistent from one year to the next so that financial information can be compared.

The differences are insignificant over a long period of time.



Activity 10.10

LB page 263

1.

Transaction	No of units	Price per unit	Total value	Closing stock
Watches on hand on 1 August	400	R150	R60 000	
Purchase on 10 August	300	R170	R51 000	
Purchase 18 August	200	R190	R38 000	70 @ R190 = R13 300
Purchase 27 August	150	R220	R33 000	140 @ R220 = R30 800
Returns on 29 August	(10)	R220	(2 200)	
Sales for the month	(830)		R501 100	
Watches on hand on 31 August	210			210

Closing stock:

$$R13\ 300 + 30\ 800 = R44\ 100$$

2.

Transaction	No. of units	Cost price per unit
Watches on hand on 1 August	400	@ R150 = R60 000
Purchase on 10 August	300	@ R170 = R51 000
On hand after purchase		$\frac{R60\ 000 + R51\ 000}{700} = \mathbf{R158,57}$
Sales @ R590	(450)	Cost of sales $450 \times R158,57 = R71\ 356,50$
On hand after sale	250	@ R158,57 = R39 642,50
Purchase 18 August	200	@ R190 = R38 000
On hand after purchase		$\frac{39\ 642,50 + 38\ 000}{450} = \mathbf{R172,54}$
Sales @ R620	(380)	Cost of sales $380 \times R172,54 = R65\ 565,20$
On hand after sale	70	@ R172,54 = R12 077,80
Purchase 27 August	150	@ R220 = R33 000
Returns on 29 August	(10)	@ 220 = R2 200
On hand after purchase		$\frac{12\ 077,80 + 33\ 000 - 2\ 200}{210} = \mathbf{R204,18}$
Watches on hand on 31 August	210	@ 204,18 = R42 877,80 (closing stock)

From the calculation above: $210 @ R204,18 = R42\ 877,80$

3.

	FIFO	Weighted average
Closing stock	R44 100	R42 877,80
Cost of sales	R60 000 + R51 000 + (130 × R190) R135 700	R71 356,50 + R65 565,20 = R136 921,70
Gross profit	R501 100 – R135 700 = R365 400	R501 100 – R136 921,70 = R364 178,30
Average stock turnover rate	$\frac{R135\,700}{R52\,050}$ 2,6 times per month	$\frac{136\,921,70}{51\,438,90}$ 2,7 times per month



Rate of stock turnover:

$$\frac{\text{Cost of sales}}{\text{Average stock}} = \text{_____ times per month/year}$$

Average stock:

$$\frac{\text{Opening stock} + \text{closing stock}}{2}$$

Sales for the month: R265 500 + 235 600 = **R501 100**

Recommendations for each method

FIFO method

- Easier to administer
- Shows better results on the financial statements
- Closing stock and gross profit higher.
- Will make sure that stock does not expire or get old because the stock bought first will be sold first.
- No real difference made in rate of stock turnover.
- The method chosen depends on the business industry and the type of product sold.

Weighted average method

- Closing stock is based on a weighted average cost price.
- If prices differ substantially then the average will be affected by the price gap.
- When prices don't differ substantially there is no real difference in cost price.
- Easy to administer except when perpetual stock system is used.
- Lower gross profit so less tax will be paid on net profit.



Informal assessment 10.1

LB page 264

Marks: 30

Time: 15 minutes

1. Number of bags sold during the year:

$$\frac{R150\,000 \checkmark}{250 \checkmark} = 600 \text{ bags } \checkmark \quad [3]$$

2.1 Number of bags that went missing:

$$\begin{aligned} 240 + 575 - 15 &= 800 \text{ (units available to be sold) } \checkmark \\ 800 - 600 \text{ (sales)} &= 200 \text{ closing stock according to the books } \checkmark \\ 200 - 180 \text{ (stock taking)} &= 20 \text{ bags were stolen } \checkmark \end{aligned}$$

Value of missing bags:

$$20 \times R115 = R2\,300 \checkmark \checkmark \quad [5]$$

Entry to be made in books:

2.2 Debit: *Stock loss* ✓

Credit: *Purchases* ✓ [2]

$$\begin{array}{r}
 3. \quad 25 \times R110 = R2\,750 \checkmark\checkmark \\
 175 - 20 \text{ (stolen bags)} \checkmark \quad \underline{155} \times R115 = \underline{R17\,825} \checkmark\checkmark \\
 \underline{180} \qquad \qquad \underline{R20\,575} \text{ Closing stock} \checkmark\checkmark [7]
 \end{array}$$

4.1 Cost of sales:

$$\begin{array}{r}
 240 \times R95 = R22\,800 \checkmark \\
 210 \times R100 = R21\,000 \checkmark \\
 190 - 12 - 25 = \underline{150} \times R110 = \underline{R16\,500} \checkmark \\
 \underline{600} \qquad \qquad \underline{60\,300} \checkmark \qquad [4]
 \end{array}$$

4.2 Gross profit on 28 February 2017:

$$\begin{array}{r}
 \text{Sales} \quad R150\,000 \checkmark \\
 \text{Cost of sales} \quad \underline{R60\,300} \checkmark \\
 \text{Gross profit} \quad \underline{R89\,700} \checkmark \qquad [3]
 \end{array}$$

5. Number of days the remaining stock will be on hand:

$$\begin{array}{r}
 \frac{21\,688}{60\,300} \times \frac{365}{1} \checkmark\checkmark \\
 131 \text{ days} / 4,3 \text{ months} \checkmark\checkmark \\
 \text{Layla will have to buy more stock during June 2017} \checkmark \text{ because she} \\
 \text{will run out of stock during July 2017.} \checkmark \qquad [6]
 \end{array}$$

» Informal assessment 10.2

LB page 264

Marks:30

Time: 15 minutes

	Units	Price per unit	Total value
Sales	5 600	R18,50	R103 600
Opening stock (includes carriage)	300	5,20	R1 560
Purchases	5 950		R34 060
March 2018	3 575	R5,60	R20 020
October 2018	1 050	R5,80	R6 090
January 2019	1 325	R6,00	R7 950
Carriage on purchases		50 cents	R2 975
Damaged mugs written off	30	R6,00	R180
Closing stock	620	?	?

$$1. \quad 5\,950 \checkmark - 3\,575 \checkmark - 1\,325 \checkmark = 1\,050 \checkmark \qquad [4]$$

$$2. \quad R1\,560 + (34\,060 - 180) + 2\,975 = R38\,415$$

(value of goods available for sale) $\checkmark\checkmark$

$$300 + (5\,950 - 30) = 6\,220 \text{ (number of units available for sale)} \checkmark$$

$$\frac{38\,415}{6\,220}$$

$$= R6,18 \text{ (weighted average cost per unit)} \checkmark\checkmark$$

$$620 \times R6,18 = R3\,831,60 \text{ (closing stock)} \checkmark \qquad [6]$$

3. Gross profit calculation:

Trading account			
Opening stock	✓ 1 560,00	Sales	✓ 103 600,00
Purchases (34 060 – 180)	✓✓ 33 880,00	Closing stock	✓ 3 831,60
Carriage on purchases	✓ 2 975,00		
Profit and loss (gross profit)	✓ 69 016,60		
	✓ 107 431,60		✓ 107 431,60

[9]

4. Opening stock + (purchases – stock written off) + carriage on purchases – closing stock ✓
 $R1\ 560 + (R34\ 060 - R180) + R2\ 975 - R3\ 831,60 = R34\ 583,40$ ✓✓ [3]

5. Mark-up percentage:
 $\frac{69\ 016,60}{34\ 583,40} \times \frac{100}{1}$ ✓
 = 199,6 % (Profit is almost double the cost price) ✓ [3]

Note to teacher:

Profit mark-up %

$$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$$

6. Average stock turnover rate:
 $\frac{34\ 583,40}{\frac{1}{2}(1\ 560 + 3\ 831,60)}$ ✓✓
 = 12,8 / 13 times per year ✓ [5]

» **Informal assessment 10.3 (challenge)**

LB page 265

Marks: 20

Time: 10 minutes

1. Yes, Mary does the ordering. ✓
 Kavish checks the items received and compares the delivery note with the invoice. ✓
 Mary captures the invoice on computer. ✓
 Siby checks Mary and Kavish's work. ✓
 Nigel unpacks the goods and marks them with the selling price and oversees the stocktaking process. ✓
 I believe that enough was done to divide the stock process.
 (any four marks) [4]

2.
Office desks

Stock item	Units ordered by Mary as on the invoice	Units received by Kavish as on the delivery note	Units entered by Mary into the books	Units sold as per sales invoices	Number of units on hand as in the books	Units as per physical stock taking
Office desks	50	49	49	32	17	18

According to Nigel there are 18 office desks on the shop floor but according to the books there are only 17. Mary ordered 50 desks but according to Kavish only 49 arrived, however, the extra desk did arrive and it was picked up during stocktaking that it had arrived. ✓✓

Filing cabinets

Stock item	Units ordered by Mary as on the invoice	Units received by Kavish as on the delivery note	Units entered by Mary into the books	Units sold as per sales invoices	Number of units on hand as in the books	Units as per physical stock taking
Filing cabinets	250	240	250	205	35	35

According to Mary 250 cabinets were ordered but according to Kavish only 240 were delivered. Mary entered 250 in the books even though only 240 arrived. ✓✓

Boardroom tables

Stock item	Units ordered by Mary as on the invoice	Units received by Kavish as on the delivery note	Units entered by Mary into the books	Units sold as per sales invoices	Number of units on hand as in the books	Units as per physical stock taking
Boardroom tables	55	60	55	35	25	25

According to Mary 55 tables were ordered but according to Kavish 60 were delivered. According to the sales invoices and the physical stock records 60 tables were delivered. ✓✓ [6]

- Kavish and Mary are not doing their jobs properly neither is Siby who is supposed to check their work. ✓✓

Recommendations:

Take disciplinary action against Mary, Kavish and Siby.

Nigel is the store manager should take responsibility for the problem.

Get an external auditor to check the books and resolve the problems. [6]

(Any two ✓✓)

- Siby is not doing his job correctly. ✓✓ [2]

- Account debited: *Trading Stock Deficit* ✓

Account credit: *Trading Stock* ✓ [2]

» Activity 11.1

LB page 270

1. No. *Any two of the following reasons:*
 - The dishonoured cheque on 21 March
 - The goods returned on 20 March
 - The debtor owes more at the end of the month than at the beginning of the month.
 - His opening balance is due since 1 February. He is not paying his account regularly.
2. The debtor did not pay his account promptly.
3. Discourage
They have not yet paid up the previous month's balance. They have 30 days in which to settle their debts and they have not.
4.
 - He is a bad payer.
 - Advise them not to sell to him until he has settled his debt in full.
 - He buys for R975 and then returns almost half of the items bought (R450).
5. By charging interest on overdue accounts
Don't sell anything to the debtor unless the account is settled.
6. $R2\ 550 \times \frac{100}{170} = R1\ 500$
7. *Any two of the following:*
 - The drawer had not signed the cheque.
 - The amount in words does not match the amount in figures.
 - The debtor is deceased or insolvent.
 - The cheque is post-dated.
8. $(R2\ 550 - 450) = 2\ 100 \times \frac{3}{100} = R63$ (He will only qualify for a discount on the amount that is settled within 30 days.)
9.
 - To show the individual transactions with its various debtors and to determine which debtor owes what amount (individual balances)
 - A Debtors List will be drawn up from the individual balances and this total will be compared with the balance in the Debtors Control account.
10.
 - Send out regular statements.
 - Make telephone calls to debtors who are outstanding for more than a month.
 - Don't sell to the debtor unless he settles his account.
 - Reduce his credit limit.
 - Hand him over to a collection agency.
 - Charge interest on the overdue account.

» Activity 11.2

LB page 272

1. *Any four of the following (or any other acceptable item):*
 - trading stock
 - stationery
 - repairs

- equipment
 - packaging material
2. The owner could have purchased something on credit for his personal use, or he could have had a repair done on credit for his personal use.
 3. *Any three of the following:*
 - interest paid
 - transfer of account
 - correction of error
 4. The following *two* reasons:
 - Discount received is included in the Creditors control column and therefore is already posted.
 - Discount received is a non-cash item.
 5. $R76\ 600 \times \frac{4}{100} = R3\ 064$
 $R76\ 600 - 3\ 064 = R73\ 536$
 6. A duplicate debit note
 7. *Any one of the following (or any other physical item bought on credit):*
 - trading stock
 - stationery
 - equipment
 - packaging material
 8. *Any one of the following:*
 - I would compare the balance to the Creditors List.
 - I would add all the final amounts in the Creditors Ledger.
 9. Liability
 10.
 - All invoices must be checked against the delivery notes and order forms.
 - Division of labour
 - Pay accounts regularly and on time.
 - Reconcile the Creditors List to the Creditors Control account.
 - Reconcile the creditor's ledger account to the statement received from the creditor.



Activity 11.3

LB page 274

Suggested answers

- Expenses could have been too high. That is why, although his sales increased, his net profit decreased.
- Theft of stock could have taken place that is why his trading stock deficit increased by 25%. Another reason for such a high deficit is that goods could have been marked incorrectly (selling price) or there was no proper control of his purchases documents.
- Debtors are not paying, therefore his bad debts increased.
- He is paying his creditors too soon. On average debtors are taking 50 days to pay while creditors are being paid within 35 days, although they receive a discount. This could cause cash-flow problems.
- His stock turnover has slowed down. This could cause problems with his perishable stock (food items should not be kept for too long). Stock could go old and perish, which will lead to a loss in income.

Recommendations

- Have the accountant point out expenses which could be reduced.
- Implement better control measures around stock. Install surveillance cameras to detect theft. Do more regular stock counts. Implement stricter measures around staff access to stock. Ensure that the stock controller is documenting the purchase and sale of stock correctly.

Regarding debtors, creditors and stock:

- Send out regular reminders. Contact debtors who owe money for more than two months. Do thorough credit checks before allowing credit to debtors. Do not sell to them unless they have paid you. Allow incentives such as discounts for early payment and charge interest for late payment.
- Do not pay creditors so soon. It is good to maintain a good credit record with creditors, but try to negotiate a better credit payment period.
- In order to increase the rate of stock turnover, the business could have a sale in order to attract more people to the store. Advertise more and improve on customer service.

» **Activity 11.4**

LB page 278

General Ledger of Hyper Fitment Centre

Dr				Debtors Control				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2012					2012						
Apr	01	Balance	b/d	30 200	Apr	30	Bank and discount allowed (62 548 + 2 500 – 320)	CRJ	64 728		
	30	Sales (59 920 – 5 580)	DJ	54 340			Debtors allowances (2 884 – 200)	DAJ	2 684		
		Bank (R/D)	CPJ	1 500			Journal credits	GJ	556		
		Journal debits	GJ	140			Balance	c/d	18 212		
				86 180					86 180		
2012											
May	01	Balance	b/d	18 212							

Debtors List on 30 April 2012

Debtor	Debit	Credit
D Kempte (13 025 – 5 580)	7 445	
O Miller (–260 + 520)	260	
T Charamba (7 884 + 890)	8 774	
N Naiker (4 233 – 2 500)	1 733	
Total	18 212	

» **Activity 11.5**

LB page 278

No.	Debtors Control account		Debtors List	
	Debit	Credit	Debit	Credit
1.			136 – Kwela	136 – Kweleta
2.				700 – Debtors list
3.	160 – Sales			
4.	500 – Sales		500 – V Vuthela	
5.	200 – Journal debits		200 – S Voss	
6.			90 – Y Vye	
7.			720 – P Prickly	
8.			50 – P Leo	
9.	200 – Journal debits		200 – Z Wizmann	
10.	135 – Bank (R/D) 15 – Journal debits		150 – A Adven	

Dr				Creditors Control				Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2013 Apr	30	Bank and discount received (99 120 – 130)	CPJ	98 990	2013 Apr	01	Balance	b/d	23 590
		Sundry returns (1 540 + 185)	CAJ	1 725		30	Sundry purchases (101 000 – 240)	CJ	100 760
		Journal debits	GJ	408			Bank (refunds)	CRJ	280
		Balance	c/d	23 697			Journal credits (150 + 40)	GJ	190
				124 820					124 820
					2013 May	01	Balance	b/d	23 697

Creditors List

Incorrect balance:	R23 986
–	R54
+	R40
–	R90
–	<u>R185</u>
	<u>R23 697</u>

Transaction	Creditors Control	Creditors List
Example When the Creditors List was added up a casting error occurred resulting in the total of the creditors list being under cast by R700.		+ 700
Provisional balances at the end of the month	116 910	91 805
1. When the Creditors List was added up a casting error occurred resulting in the total of the Creditors List being overcast by R1 000.		– 1 000
2. A purchase made from Cyber Computers for R6 200 was not recorded into the books at all.	+ 6 200	+ 6 200
3. A return of stock to MyStock Stores, R1 650, was recorded in the Creditors Allowances Journal but was posted as R6 510 to the account of MyStock Stores in the Creditors Ledger.		+ 4 860
4. The bookkeeper credited the total of the Creditors Control column in the Cash Payments Journal to the Creditors Control account by mistake, R8 760	+ 17 520	
5. An amount in the Creditors Control column of the Creditors Journal was not posted to the account of Big Music Store in the Creditors Ledger, R3 725		+ 3 725
Amended balances after adjustments and corrections	105 590	105 590

1. It means that the debtor whose amount is current bought during the statement month, for example, if the statement month is June then the current amounts are sales to debtors during June.
2. It means that it has been 90 days since the month during which they bought the goods, for example, Mpikanisi Builders bought during June 2016. During June balance would be current, during July their balance would be 30 days old and during August their balance would have been 60 days old.

3. Javu Roofing Contractors and Masinge Plumbers. They are both within the 60 days that the business gives them to settle their debt.
4. Mpikanisi Builders
5. $R10\ 600 \times 12\% \times \frac{3}{12} = R318$
6. $R10\ 800 \times 96\% = R10\ 368$ (100 – 4 = 96%)
7. No they don't because 38,84% of their debt is overdue. Debtors are given 60 days in which to settle their debts and R14 380 has not been collected within the prescribed time. Of the 38,84% that is overdue, 28,63% is outstanding for 90 days or more which means that this amount will be handed over to the attorneys.
8.
 - Send out regular reminders to debtors.
 - Charge interest on overdue accounts.
 - Make sure that debtors know that they will be handed over to the attorneys if they do not pay their account on time, which could result in them being blacklisted.
 - Provide incentives by giving discounts on early payment.
 - Have a preferential Debtors List and give them extra discount on purchases because they keep their accounts up to date.
9. Yes, Mpikanisi Builders. They could face possible blacklisting if they do not settle their debt with the attorneys.
10. No, they have an amount that is overdue for more than 60 days. They are not conducting their account well and unless they bring it up-to-date they will not be allowed further credit.

» Activity 11.9

LB page 283

1. The Debtors Age Analysis is drawn up so that the business can have a global overview of their debtors' outstanding balances.
2.
 - Which debtor owes what amount and for how long
 - Which debtor needs to be given a discount, charged interest or handed over to the attorneys for collection
 - To monitor debtors' purchasing habits and how much of their credit limit they have accessed
 - To be able to determine what percentage of debtors is current or overdue over the ageing schedules period.
3. T Abrahams and G Smith
4.
 - There should be policies in place that monitors the approval of credit to customers.
 - When a customer applies for credit, a background credit check must be done in order to check on the customer's past credit track record.
 - The debtors clerk must send out regular statements to debtors. Interest must be charged on overdue accounts.
5. M Naidoo and B Mtsi

» Activity 11.10

LB page 284

1. The following can be determined:
 - How long debtors' accounts are overdue
 - On which debtors' accounts interest must be charged and for what period
 - Which debtors must be allowed discounts for early payment
 - Which debtors must be handed over to the attorneys
 - Which debtors are keeping their accounts up to date.

2. R18 948
3. T Charamba
4. Since December 2017
5. No, they are allowing too many debtors to be in arrears. Of the five debtors, only one is up to date.
6. $R4\ 065 + 3\ 322 + 1\ 620 = R9\ 007$
 $\frac{9\ 007}{18\ 948} \times 100 = 47,53\%$
 48% of debtors are overdue.
7. Any one of the following:
 - Charge a higher percentage interest on overdue accounts.
 - Send out regular reminders to debtors whose accounts are overdue.
8. Check:
 - the CRJ and duplicates of receipts for January
 - the debtors age analysis at the end of December
 - N Naiker's account in the Debtors Ledger for December and January in order to verify his outstanding balance.
9. Yes, C Mobarra. His account is overdue by more than 90 days. This means he could be blacklisted.
10. $R3\ 125 \times \frac{5}{100} = R156,25$



Activity 11.11

LB page 288

1.–2.

Creditor Ledger of Lebo's Boutique

Milly's Clothing Wholesalers						
Date		Details	Fol.	Debit (-)	Credit (+)	Balance
2019 June	30	Incorrect balance	b/d			20 029
		Invoice no. 345 (4 920 – 4 290)	GJ	630		19 399
		Correction of invoice no. 134	GJ	2 887		16 512
		Interest on overdue account	GJ		12	16 524

3.

Lebo's Boutique

Creditors' Reconciliation Statement of Milly's Clothing Wholesalers

Description	Debit (+)	Credit (-)	Balance
Balance as per statement on 29 June			16 102
Discount not recorded on statement		1 055	15 047
Correction of invoice no. 396 (4 090 – 3 681)		409	14 638
Invoice no. 401 not recorded on statement	1 886		16 524

4. Internal control and business ethics questions:
 - a. **Scenario 1**
 - Segregation of duties (division of labour) – the bookkeeper should not do so many tasks with regards to creditors. Different people must perform the various tasks.
 - Internal audits – the business must employ an internal auditor to check and verify transactions.
 - Do regular checks of the invoices, delivery notes and order forms to prevent theft or fraud.
 - Regularly check the Creditors Ledger against the creditor's statement.

b. **Scenario 2**

This is theft. Milly’s wholesalers will realise that six dresses were delivered and charge Lebo for the additional dress. She should have sent the sixth dress back so that Lebo does not get charged for it. She is acting unethically and is ruining good customer relations between Milly and Lebo. The bookkeeper must return the dress to Milly together with a debit note acknowledging that too much stock was received.

» **Activity 11.12**

LB page 290

Creditor Ledger of SMS Stores

BBM Traders						
Date		Details	Fol.	Debit (-)	Credit (+)	Balance
2019 July	30	Incorrect balance	b/d			12 120
		Correction of invoice no. 1246 (4 350 – 3 450)	GJ	900		11 220
		Discount cancelled	GJ		1 250	12 470
		Interest on overdue account	GJ		156	12 626
		Correction of error	GJ	600		12 026
		Correction of credit note no. 1032 (370 × 2)	GJ	740		11 286
		Trade discount allowed not recorded	GJ	800		10 486

SMS Stores

Creditors Reconciliation Statement of BBM Traders

Description	Debit (+)	Credit (-)	Balance
Balance as per statement on 26 July			13 886
Invoice no. 1248 to be recorded	2 000		15 886
Cheque no. 834 not on statement		5 000	10 886
Debit note no. 682 not on statement		400	10 486

» **Activity 11.13**

LB page 291

Neutt Suppliers

Creditors Reconciliation Statement of Thaver Stores

Balance as per statement on 29 October received from Thaver Stores	3 650	debit
Invoice no. 234 not reflected on statement	+2 150	
Discount not reflected on statement	-230	
Correction of credit note no. 76 (380 × 2)	-760	
Debit note no. 34 in ledger account not reflected on statement	-120	
Payment in Ledger account not reflected on statement	-1 120	
Balance as per the account of Thaver Stores in the Creditors Ledger of Neutt Suppliers on 31 October	3 570	



1.

Column A		Column B	
1.	Post-dated cheque	H.	A cheque dated for a date in the future
2.	Bank charges	L.	Fees charged by the bank for administering the business's banking account
3.	Outstanding cheque	F.	Cheque that was issued but has not yet presented for payment by the payee
4.	Bank Reconciliation Statement	A.	A statement which contains the amounts which appear in the CRJ and CPJ but not on the current bank statement
5.	Stale cheque	J.	A cheque that is older than six months
6.	Debit order	B.	Permission given to a third party to access money in the business's account
7.	Outstanding deposit	I.	A deposit that is not on the current bank statement but appears in the CRJ
8.	Dishonoured cheque	K.	A cheque that has been returned to the business's bank and which is unpaid
9.	Stop order	C.	Permission given to the business's bank to pay a third party
10.	Direct deposit	E.	Money that is put directly into the business's account by someone who owes them money
11.	Bank statement	D.	A statement received from the bank which details the business's transaction with them
12.	Bank overdraft	G.	A facility whereby the business can use more money than they have in their current banking account

- 2.1 A favourable (positive) balance on the bank statement is shown as a **credit** balance on the Bank Reconciliation Statement.
- 2.2 A favourable balance in the bank account is shown as a **debit** on the Bank Reconciliation Statement.
- 2.3 An overdrawn (unfavourable) balance on the bank statement is shown as a **debit** balance on the Bank Reconciliation Statement.
- 2.4 An overdrawn balance in the bank account is shown as a **credit** on the Bank Reconciliation Statement.
- 2.5 On the bank statement all deposits are **credited** and all payments are **debited**.
- 2.6 On the bank account all deposits are **debited** and all payments are **credited**.

3.

No.	Item	Procedure
3.1	A stale cheque	Cancel in the CRJ
3.2	A post-dated cheque received	No entry in the CRJ. Enter in the post-dated cheque register.
3.3	A post-dated cheque issued	Enter in the CPJ and BRS
3.4	A dishonoured cheque	Cancel in the CPJ
3.5	Entries appearing on the bank statement but not in the CRJ	Enter in the CRJ
3.6	Entries appearing on the bank statement but not in the CPJ	Enter in the CPJ
3.7	Entries appearing in the CRJ but not on the bank statement	Enter on the BRS in the credit column
3.8	Entries appearing in the CPJ but not on the bank statement	Enter on the BRS in the debit column

4.
 - The drawer (person issuing the cheque) has no money in his/her account.
 - There is an error on the cheque.
 - The cheque was not signed.
 - The cheque has the incorrect date on it or it was post-dated.
 - The drawer has deceased and his/her account has been closed.

Any other acceptable answer

5. The bank statement reflects our transactions with the bank and is an important external document used to confirm the accuracy of transactions recorded in our cash journals and the balance in our banking account.

Reconciling the bank's records with our records results in the business having a more realistic reflection of its money available and as a result the business can plan its spending better.

6.
 - Outstanding deposits
 - Cheques not yet presented for payment
 - Errors on the bank statement
 - Errors in the cash journals
 - Stale cheques
 - Dishonoured cheques
 - Items not in journals but on bank statement which needs to be updated into the journals

» Activity 11.15

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1.–2.

Liberty Ltd.

Bank Reconciliation Statement on 31 May 2020

	Debit	Credit
Debit balance as per bank statement	5 000	
Credit outstanding deposits		3 960 ✓
Debit outstanding cheques:		
no. 54	580	
no. 126	2 080	
no. 127	2 240 ✓	
no. 130	3 900	
Credit balance as per bank account		9 840
	13 800	13 800

Cash Receipts Journal of Liberty Ltd. for June 2020

Doc no.	Day	Details	Analysis of receipts	Bank	Debtors control	Discount allowed	Sales	Cost of sales	Sundry accounts	
									Amount	Details
✓	01	Sales	3 480				3 480	1 260		
07		S Williams	3 520	7 000 ✓	3 600	80				
08	15	T Mbewu	1 420						1 420	Rent income
✓		Sales	3 460	4 880 ✓			3 460	1 120		
✓	22	Sales	6 500				6 500	3 090		
09		T Ramsamy	600	7 100 ✓	625	25				
✓	30	Sales	4 600	4 600			4 600	1 860		
				23 580	4 225	105	18 040	7 330	1 420	

Cash Payments Journal of Liberty Ltd. for June 2020

Doc no.	Day	Details	Bank	Debtors control	Discount allowed	Sales	Sundry accounts	
							Amount	Details
131	02	PNA Stationers	2 400 ✓				2 400	Stationery
132	08	Brook Transport Company	600 ✓	600				
133	08	Smart Suppliers	13 000 ✓	13 000				
134	14	Telkom	740 ✓				740	Telephone
135	18	Mkefa Wholesalers	2 440		2 500	60		
136	22	DJ Suppliers	2 240 ✓		2 240			
137	28	Cash	400 ✓				400	Drawings
138	29	Reliable CC	2 650		2 780	130		
			24 470	13 600	7 520	190	3 540	

Liberty Ltd. 18 Brooke Road Boksburg 2120 For period: 01/06/2020 – 29/06/2020		ABBA BANK National Building Johannesburg 5000		
Bank statement				
Current account		Account number 1 9550 2364 8		
Details	Debit	Credit	Date	Balance
Balance			01/06	-5 000,00
Deposit		3 960,00 ✓	01/06	-1 040,00
Cheque 127	2 240,00 ✓		01/06	-3 280,00
Deposit		7 000,00 ✓	02/06	3 720,00
Cheque 131	2 400,00 ✓		03/06	1 320,00
Direct deposit – from A Brown, settlement of account		4 200,00	03/06	5 520,00
Cheque 132	600,00 ✓		10/06	4 920,00
Deposit		4 880,00 ✓	16/06	9 800,00
Cheque 134	740,00 ✓		16/06	9 060,00
Interest	19,00		20/06	9 041,00
Deposit		7 100,00 ✓	23/06	16 141,00
Cheque 126	2 800,00		23/06	13 341,00
Cheque 136	2 240,00 ✓		25/06	11 101,00
Cheque 133	13 000,00 ✓		25/06	-1 899,00
Dishonoured cheque – T Mbewu (for rent income)	1 420,00		25/06	-3 319,00
Debit order – to Sanlam for insurance premium	850,00		27/06	-4 169,00
Debit order – to Libliffe for owners personal insurance	475,00		27/06	-4 644,00
Interest		24,00	28/06	-4 620,00
Cheque 1835	355,00		28/06	-4 975,00
Stop order – to ABBA Bank for loan repayment	2 500,00		29/06	-7 475,00
Cheque 137	400,00 ✓		29/06	-7 875,00
Service fees	180,00		29/06	-8 055,00
Cash handling fee	18,00		29/06	-8 073,00
Interest	10,00		29/06	-8 083,00
Direct deposit – from T Mbewu for the rent for June		1 420,00		-6 663,00

3.

Cash Receipts Journal		Cash Payments Journal	
Details	Amount	Details	Amount
Total	b/d	Total	b/d
	23 580		24 470
Debtors control	4 200	Interest (19 + 10)	29
Interest on current account	24	Creditors control – correction of cheque no. 126 (2 800 – 2 080)	720
Rent income	1 420	Rent income	1 420
Creditors control	580	Insurance	850
		Drawings	475
		Loan: ABBA Bank	2 500
		Bank charges	198
	29 804		30 662

4. Balance as per the bank account
 $-R9\ 840 + 29\ 804 - 30\ 662 = -R10\ 698$

5.

Bank Reconciliation Statement of Liberty Ltd. at 30 June 2020

	Debit	Credit
Debit balance as per bank statement	6 663	
Credit outstanding deposits		4 600
Debit outstanding cheques:		
no. 130	3 900	
no. 135	2 440	
no. 138	2 650	
Credit incorrect debit on bank statement		355
Credit balance as per bank account		10 698
	15 653	15 653

» **Activity 11.16**

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Catz cc

Bank Reconciliation Statement on 31 May 2013

	Debit	Credit
Debit balance as per bank statement	4 390	
Credit outstanding deposits		2 810
Debit outstanding cheques:		
no. 551	140	
no. 661	312	
no. 662	494	
Credit incorrect deposit		880
Credit amount incorrectly debited		600
Credit balance as per bank account		1 046
	5 336	5 336

1.

	Explanation of the differences found:	CRJ	CPJ	Bank Reconciliation Statement	
				Debit	Credit
1.	A deposit of R22 100 appeared on the bank statement on 1 April but not in the CRJ.				
2.	A deposit of R24 000 appeared in the CRJ on 30 April but not on the bank statement.				✓
3.	A direct deposit from a debtor for R1 760 in payment of her account appeared on the bank statement only.	✓			
4.	Bank charges of R260 appeared on the bank statement only.		✓		
5.	The bank statement reflected a dishonoured cheque of R890.		✓		
6.	Cheque no. 652 n the BRS for March was issued on 16 October 2018. This cheque is stale and must be cancelled.	✓			
7.	Cheque no. 867 which was issued on 18 February 2019 and cheque no. 924 dated 5 April appeared on the bank statement but not in CPJ.				
8.	Cheque no. 920 appears on the BRS for March and not on the bank statement for April.			✓	
9.	The following cheques, issued to creditors, appeared in the CPJ and not on the bank statement: no. 930 for R2 450 dated 13 April 2019 no. 931 for R860 dated 10 May 2019			✓	

2. It is important to prepare the bank statement each month so that discrepancies can be resolved as soon as they arrive. Transactions also take place directly between the bank and business clients / suppliers so it is important that the business detects these deposits, stop orders and debit orders. The bank also deducts from and adds amounts to our account and we have to acknowledge those transactions in our books. The bank reconciliation process will also reveal outstanding deposits and cheques not presented for payment.

3.

Bank Reconciliation Statement of Osizweni Bakery for April 2019

Credit balance as per the bank statement		3 200
Credit outstanding deposits		24 000
Debit outstanding cheques:		
no. 920	1 375	
no. 930	2 450	
no. 931	860	
Balance as per the bank account	22 515	
	27 200	27 200

4. The value of the cheque will be:
added back to the bank in the Cash and cash equivalents note
added back to creditors control in the Trade and other payables note.

- Cheque no. 212 for R620 and dated 12 September 2018. This cheque is stale and expired on 12 February already. It must be cancelled in the CRJ.
- Credit – Debits
 $R9\ 820 + R215 - R6\ 155 - R230 - R1\ 390 - R765 = R7\ 650$
 The stale cheque must not be considered because it must be cancelled.
- Overdrawn

4. The value of the cheque will be:
 - added back to the bank in the Cash and cash equivalents note
 - added back to creditors control in the Trade and other payables note.
5. Because cheque no. 432 is legal tender and according to the GAAP principal of matching the payment must be matched to this financial year because it is legal tender in this financial year.
Cheque no. 441 will only become legal tender on 31 March and therefore the payment will only take place in the following financial year so the payment must be matched to the next financial year.
6. It is an incorrect debit so money was deducted from our account. They could have debited someone else's cheque against our account. A debit order could have been incorrectly debited against our account. They could have deducted too much bank charges or interest from our account, etc.
7. Hold it over in the BRS for April.
8. This money was received and deposited, but only after the bank had drawn up the bank statement. This deposit should appear on the bank statement for March.
9. It should appear on the bank statement and no further entries should be made.
10. This is a post-dated cheque received and it should not be entered into the books at all. This cheque was entered into the post-dated cheques received register and will only be entered into the CRJ when it becomes legal tender on 15 March 2019.

» Informal assessment 11.1

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Marks: 31

Time: 20 minutes

General Ledger of Joe's Wholesale Store

Dr				Debtors Control				Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2014 Feb	01	Balance (42 740 ✓ – 1 440 ✓)	b/d	41 300	2014 Feb	28	Bank and discount allowed	CRJ	✓ 57 120
		Sales	DJ	✓ 65 324			Debtors allowances (2 000 ✓ – 40 ✓)	DAJ	(✓) 1 960
		Bank (R/D)	CPJ	✓ 600			Journal credits	GJ	✓ 1 060
		Journal debits (1 680 ✓ + 1 280 ✓)	GJ	(✓) 2 960			Balance	c/d	✓ 50 404
		Petty cash	PCJ	✓ 360					
				110 544					110 544
2014 Mar	01	Balance	b/d	(✓) 50 404					

[15]

Debtors List on 28 February 2014

Debtors	Debit	Credit
S Ntshingila	14 988	
H Brits (10 760 ✓ – 200 ✓✓)	10 560	
N Klaver (11 456 ✓ + 360 ✓)	11 816	
D Balfour (9 040 ✓ – 800 ✓)	8 240	
G Shaban (3 870 ✓ – 270 ✓✓)	3 600	
E Bosch (–1 280 ✓ + 1 280 ✓)	–	
M Zwane (1 600 ✓ – 400 ✓✓)	1 200	
Total	(✓) 50 404	

[16]

**Marks: 30****Time: 45 minutes**

The following are *suggested* answers only. Use them as guidelines to assess the report.

The rubric that follows after the answers may be used to allocate the marks.

1. No, R19 626 is still owed by debtors. Of this, R12 876 is two months overdue. Debtors should pay within 30 days, but this does not seem to be the case. On the whole, most debtors are taking more than 30 days to settle their accounts. Creditors are being paid on time because no amount is overdue for more than 90 days. This would mean that the business qualifies for discounts and is not paying interest on overdue accounts. The business retains its creditworthy status.
2. Suggestions should include the following:
 - Send out regular reminders to debtors.
 - Tighten up the credit sales policy and debt collection policy.
 - Do thorough background credit checks on all new customers wanting to buy on credit.
 - Do not sell to customers who are overdue until their debt is repaid.
 - Charge a higher percentage interest on overdue accounts.
3. The following measures could be taken:
 - Improve customer relations with debtors.
 - Find out why debtors are overdue.
 - Check whether the inventory being sold is of a good quality and whether debtors are experiencing any problems in this regard.
4. No, they should also rely on cash sales and perhaps have a higher percentage cash sales than credit sales.
5. Use the following guidelines when assessing the letter:
 - The structure of the letter must be formal, that is, a formal business-like writing style must be used (check with a colleague from the Languages department of your school).
 - The letter must be persuasive and encourage the debtor to pay his/her account.
 - The letter must not contain any threatening language.
 - It must outline the details of the debt as well as measures to be taken if the debt is not settled.
 - It must be completed on a company letterhead, which the learner should have designed. Evaluate the design for creativity, neatness, detail (name of company, address and all relevant contact details, and so on).

Assessment rubric for written report

Criteria	Inadequate	Partial	Adequate	Satisfactory	Meritorious	Outstanding	Marks
Marks	1	2	3	4	5	6	
Interpreting the information	Could not interpret the information	Could partially interpret the information	Could generally interpret the information	Could interpret the information, but lacked detail	Very good interpretation of the information	Excellent interpretation of the information	
Analysing the information and making suggestions.	Could not analyse or make any suggestions	Could analyse but suggestions lacked detail	Could analyse; made only a few suggestions	Could analyse information and suggest; motivation lacked detail	Could analyse; made good suggestions; sound motivation	Could analyse; made excellent, well-motivated suggestions	
Giving advice to the owner	Could not give advice	Advice given, but not valid	Advice adequate	Could advise; lacked detail	Very good advice	Excellent advice	
Stating own opinion	Could not express own opinion	Found it hard to express own opinion	Tried to express own opinion; some were good	Good, could express own opinion	Very good, opinion shows insight	Excellent, opinion shows much insight	
The letter	Very poor, did not follow guidelines	Poor, some guidelines met	Good, some guidelines met	Good, most guidelines met	Very good, most guidelines met	Excellent, all guidelines met	
Total marks							/30

» Informal assessment 11.3

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Marks: 20

Time: 15 minutes

No.	Error or omission	Reconciliation	
Incorrect balance on statement on 31 May 2020		Statement: 35 250	
Incorrect balance in ledger account on 31 May 2020		Ledger account 3 600	
1.	Mfingo Traders forgot to record the discount of R1 650 received for early payment. This amount appeared in the ledger account but not on the statement.		✓✓(1 650)
2.	An invoice appeared on the statement but not in the ledger account. It was discovered that this invoice for R3 000 was for another creditor but was charged on our statement by mistake.		✓✓✓(3 000)
3.	A 10% trade discount was given on a purchase of R25 200. The statement amount of R22 680 is correct. The business did not consider the trade discount and entered the full amount of R25 200 in the ledger account.	✓✓✓(2 520)	
4.	A return of R7 800 made to the creditor was debited on the statement instead of being credited. The creditor will correct the entry.		✓✓✓✓(15 600)
5.	An invoice for R3 600 appears in the ledger account but not on the statement.		✓✓3 600
6.	A cheque for R17 400 appears in the ledger account but not on the statement.		✓✓(17 400)
7.	The statement shows an amount of R120 which is interest on overdue account charged to us. This amount does not appear in the ledger account.	✓✓120	
		✓1 200	✓1 200

[20]

Note to teacher:

In the creditor's ledger account, a credit entry will be seen as a positive amount and a debit entry will be seen as a negative amount. The negative amount will appear in brackets.

On the Creditors Reconciliation Statement, a debit entry is seen as a positive amount and a credit entry will be seen as a negative amount. The negative amount will appear in brackets.



Informal assessment 11.4

LB page 302

Marks: 40

Time: 25 minutes

No.	Cash journals		Bank Reconciliation Statement		No entry
	CRJ	CPJ	Debit	Credit	
Example				2 400	
1.			✓✓✓ 3 640		
2.					✓✓ 7 618
3.					✓✓ 580
4.		✓✓✓ 1 672			
5.	✓✓✓ 1 440				
6.		✓✓✓ 136			
7.		✓✓✓ 850	✓✓✓ 850		
8.	✓✓✓ 3 700	✓✓✓ 3 700	✓✓✓ 3 700		
9.	✓✓✓ 224 ✓✓✓ 1 500				
10.				✓✓✓ 239	

[40]

CHAPTER 12

Value-added Tax (VAT)

» Activity 12.1

LB page 307

- VAT is the abbreviation for value-added tax, which is an indirect tax that is charged whenever goods are sold or services are rendered, by a registered VAT vendor.

2.

Column A VAT terms		Column B Description	
1.	Compulsory registration	C.	VAT registration by a business whose annual income exceeds R1 million
2.	Voluntary registration	G.	VAT registration by a business whose annual income is less than R1 million, but more than R50 000
3.	Standard rate	A.	The normal rate at which VAT is charged when goods are sold or services are rendered, by a registered VAT vendor
4.	Zero-rated items	B.	Goods or services on which VAT is charged at a rate of 0%
5.	Exempt items	F.	Goods or services on which no VAT is charge
6.	Output tax	E.	The VAT charged by a vendor when it sells goods or renders services
7.	Input tax	D.	The VAT charged to or paid by a vendor in acquiring goods or services from another VAT vendor

- Any four zero-rated items such as:

Brown bread, maize products, rice, milk, milk powder, milk blends, fruit, vegetables, lentils, dried beans, legumes, vegetable oil, eggs, canned pilchards, paraffin, petrol, diesel, the export of moveable goods or the international transport of passengers and goods.

Any two exempt items such as:

Financial services, rental of a private residence, transportation of people by road or rail, educational services when supplied by the State or childcare services

- VAT payable to SARS = Output tax – Input tax
- a. Table showing input tax and output tax for April 2018:

Transactions	Input tax	Output tax
Total sales		18 830
Total purchases of trading stock	9 030	
Stationery purchased	210	
Fees received for repair work done		5 068
Electricity paid	336	
Equipment purchased	2 786	
Accounting fees paid	1 120	
Total	13 482	23 898

$$\begin{aligned}
 \text{b. VAT payable to SARS} &= \text{Output tax} - \text{Input tax} \\
 &= \text{R}23\,898 - \text{R}13\,482 \\
 &= \text{R}10\,416
 \end{aligned}$$

- The vendor is entitled to claim the difference as a VAT refund from SARS.

1. a. Price (excl. VAT) = R2 300 + (2 300 × 50%) = R3 450
Price (incl. VAT) = R3 450 × $\frac{114}{100}$ = R3 933
- b. Price (excl. VAT) = R4 680 + (4 680 × 120%) = R10 296
Price (incl. VAT) = R10 296 × $\frac{114}{100}$ = R11 737,44
- c. Price (excl. VAT) = R9 360 + (9 360 × 33 $\frac{1}{3}$ %) = R12 480
Price (incl. VAT) = R12 480 × $\frac{114}{100}$ = R14 227,20
2. a. VAT = R712,50 × $\frac{114}{100}$ = R87,50
- b. VAT = R395,50 × $\frac{114}{100}$ = R48,57
- c. VAT = R1 999,95 × $\frac{114}{100}$ = R245,61
- d. No VAT is included; brown bread is an exempt item.
3. a. Price (excl. VAT) = R220 + (220 × 25%) = R275
Price (incl. VAT) = R275 × $\frac{114}{100}$ = R313,50
- b. Price (excl. VAT) = R275 + (275 × 60%) = R440
[Note: R275 must be used, not R313,50]
Price (incl. VAT) = R440 × $\frac{114}{100}$ = R501,60
- c. Input tax = R313,50 – 275 = R38,50
Output tax = R501,60 – 440 = R61,60
VAT payable to SARS = R61,60 – 38,50 = R23,10

Alternative method:

$$\text{VAT payable to SARS} = (R440 - R275) \times \frac{114}{100} = R23,10$$

No.	Cost price	% mark-up on cost	Selling price (excl. VAT)	VAT (at 14%)	Selling price (incl. VAT)
1.	R375,00	40%	R525,00	R73,50	R598,50
2.	R600,00	50%	R900,00	R126,00	R1 026,00
3.	R920,00	60%	R1 472,00	R206,08	R1 678,08
4.	R1 350,00	20%	R1 620,00	R226,80	R1 846,80
5.	R1 500,00	50%	R2 250,00	R315,00	R2 565,00

1. two
2. Category A
3. Category B
4. input tax
5. output tax
6. VAT 201
7. 25th
8. payments
9. refund
10. penalty
11. 10%
12. interest
13. invoice basis
14. invoices
15. payments basis
16. payments

» Activity 12.5

Account for VAT as output tax	Account for VAT as input tax	No VAT should be recorded for this transaction	
		Transaction	Reason
Sold goods on credit	Paid for advertising	Paid interest on loan	Exempt item
Bad debts recovered	Bought a new computer	Paid wages in cash	Not subject to VAT
Sold goods for cash	Bought goods on credit	Bought cakes for a staff party	Vendor is the end user
Issued invoice for services rendered	Bought stationery	Bought goods from a non-vendor	No VAT charged
Sold equipment	Paid rent expense	Sold five bottles of milk	Zero-rated item
	Paid for repairs out of petty cash	Paid salaries	Not subject to VAT
	Paid insurance	Paid for petrol	Zero-rated item
		Paid rates	Zero-rated item

» Activity 12.6

No.	VAT calculation	Output tax	Input tax	VAT payable to SARS
1.	$R1\ 710 \times \frac{14}{114} = R210$		+ R210	- R210
2.	$R513 \times \frac{14}{114} = R63$	+ R63		+ R63
3.	$R456 \times \frac{14}{114} = R56$		+ R56	- R56
4.	$R4\ 104 \times \frac{14}{114} = R504$	+ R504		+ R504
5.	$R4\ 326,30 \times \frac{14}{114} = R531,30$		+ R531,30	- R531,30
6.	$R31,35 \times \frac{14}{114} = R3,85$		+ R3,85	- R3,85
7.	No VAT: interest income is exempt			R0
8.	$R273,60 \times \frac{14}{114} = R33,60$	+ R33,60		+ R33,60
9.	No VAT: Wages is not subject to VAT			R0
10.	$R7\ 660,80 \times \frac{14}{114} = R940,80$		+ R940,80	- R940,80

1. a. output tax
b. decrease
c. output tax
d. input tax
2. a. input tax
b. increase
c. input tax
d. output tax
3. a. output tax
b. decrease
c. output tax
d. input tax
4. a. input tax
b. input tax
c. increase
d. input tax
e. output tax

No.	VAT calculation	Output tax	Input tax	VAT payable to SARS
e.g.	$R5\,700 \times \frac{14}{114} = R700$	+ R700		+ R700
1.	$R2\,736 \times \frac{14}{114} = R336$	+ R336		+ R336
2.	$R3\,933 \times \frac{14}{114} = R483$		+ R483	- R483
3.	* $R136,80 \times \frac{14}{114} = R16,80$	- R16,80 OR + R16,80		- R16,80
4.	$R300 \times \frac{14}{114} = R42$	+ R42 OR - R42		+ R42
5.	$R513 \times \frac{14}{114} = R63$	+ R63 OR - R63		+ R63
6.	$R136,80 \times \frac{14}{114} = R16,80$ (as in 3.)	+ R16,80 OR - R16,80		+ R16,80
7.	** $R171 \times \frac{14}{114} = R21$	+ R21 OR - R21		+ R21
8.	$R2\,736 \times \frac{14}{114} = R336$	- R336 OR + R336		- R336

* Discount allowed = $R2\,736 \times 5\% = R136,80$

** Discount received = $(R3\,933 - R513) \times 5\% = R171$



Calculation of VAT payable to or receivable from SARS for the two month period ending 28 February 2018:

Output tax	R19 355
Total sales of books ($R146\,604 \times \frac{14}{114}$)	R18 004
Discount received from suppliers ($R3\,192 \times \frac{14}{114}$)	R392
Books returned to suppliers	R637
Books taken by Bennie for his own use ($R2\,622 \times \frac{14}{114}$)	R322
Less: Input tax	R14 133
Total purchases of books ($R66\,400 \times \frac{14}{100}$)	R9 296
Total expenses	R3 458
New bookshelves purchased ($R9\,850 \times \frac{14}{100}$)	R1 379
VAT payable to SARS	R5 222

Alternative solution using the setting off approach:

Output tax	R18 004
Total sales of books ($R146\,604 \times \frac{14}{114}$)	R18 004
Less: Input tax	R12 782
Total purchases of books ($R66\,400 \times \frac{14}{100}$)	R9 296
Total expenses	R3 458
New bookshelves purchased ($R9\,850 \times \frac{14}{100}$)	R1 379
Discount received from suppliers ($R3\,192 \times \frac{14}{114}$)	(R392)
Books returned to suppliers	(R637)
Books taken by Bennie for his own use ($R2\,622 \times \frac{14}{114}$)	(R322)
VAT payable to SARS	R5 222



1. Calculation of VAT payable to or receivable from SARS for the two month period ending 30 September 2018:

Output tax	R8 337
Goods sold for cash ($R28\,500 \times \frac{14}{100}$)	R3 990
Goods sold on credit ($R30\,438 \times \frac{14}{114}$)	R3 738
Discount received from creditors ($R1\,425 \times \frac{14}{114}$)	R175
Goods returned to suppliers ($R1\,350 \times \frac{14}{100}$)	R189
Drawings of stock ($R1\,750 \times \frac{14}{100}$)	R245
Less: Input tax	R8 393
Credit purchases of goods ($R34\,300 \times \frac{14}{100}$)	R4 802
Goods return by customers ($R2\,394 - 2\,100$)	R294
Bad debts ($R912 - 800$)	R112
Computer purchased ($R5\,529 \times \frac{14}{114}$)	R679
General expenses [$(R26\,700 - 8\,800) \times \frac{14}{100}$]	R2 506
VAT payable to SARS	(R56)
OR: VAT receivable from SARS	R56

Alternative solution using the setting off approach:

Output tax	R7 322
Goods sold for cash ($R28\,500 \times \frac{14}{100}$)	R3 990
Goods sold on credit ($R30\,438 \times \frac{14}{114}$)	R3 738
Goods return by customers ($R2\,394 - 2\,100$)	(R294)
Bad debts ($R912 - 800$)	(R112)
Less: Input tax	R7 378
Credit purchases of goods ($R34\,300 \times \frac{14}{100}$)	R4 802
Computer purchased ($R5\,529 \times \frac{14}{114}$)	R679
General expenses [$(R26\,700 - 8\,800) \times \frac{14}{100}$]	R2 506
Discount received from creditors ($R1\,425 \times \frac{14}{114}$)	(R175)
Goods returned to suppliers ($R1\,350 \times \frac{14}{100}$)	(R189)
Drawings of stock ($R1\,750 \times \frac{14}{100}$)	(R245)
VAT payable to SARS	(R56)
OR: VAT receivable from SARS	R56

2. VAT 201 form
3. 25 October 2018
4. The annual income of Tahir Traders must be less than R1 million, but more than R50 000.
5. Tahir Traders purchases all of its supplies from registered VAT vendors, which means that they are paying VAT on all of their purchases. By being registered for VAT, they can claim the input VAT that they are charged against the output VAT that they collect from their customers.
6. *Any appropriate reason, such as:*
 - They could charge their customers slightly less, which may have a positive impact on sales.
 - They would make more gross profit on the prices that they are currently charging their customers.
 - They may not want the administrative burden of accounting for VAT.
 - There is no benefit to their customers, since the customers are end users and can not claim the VAT that they pay.
7. a. *Any three appropriate points, such as:*
 - Fatima should tell her son that would be illegal / fraudulent / unethical / dishonest.
 - Fatima should tell her son that SARS has control measures to detect such fraudulent actions.
 - Fatima should tell her son that SARS may audit her business and uncover the fraud.
 - Fatima should tell her son that SARS discovers the fraud that she will be punished and that her reputation will be ruined.
- b. *Any two appropriate consequences, such as:*
 - Fatima could be sent to jail.
 - Fatima could be fined and/or charged additional tax.
 - Fatima reputation and the reputation of Tahir Traders could be ruined.

» **Activity 12.11**

LB page 338

1. **General Ledger of Nkosi Traders**
Balance Sheet accounts

Dr					VAT Control			B1		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Apr	30	Bank	CPJ	32 512	Apr	01	Balance	b/d	7 349	
		Petty cash	PCJ	67		30	Bank	CRJ	47 568	
		Creditors control	CJ	41 117			Debtors control	DJ	63 331	
		Debtors control	DAJ	7 897			Creditors control	CAJ	5 002	
		Journal debits	GJ	533			Journal credits	GJ	715	
		Balance	c/d	41 839						
				123 965					123 965	
					2018					
					May	01	Balance	b/d	41 839	

2. R41 839 is payable to SARS (credit balance in the VAT Control account)

**General Ledger of Fannie Furnishers
Balance Sheet account**

Dr				VAT Control		B1				Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
May	01	Balance	b/d	2 683	May	31	Bank	CRJ	14 392	
	31	Bank	CPJ	11 340			Debtors control	DJ	8 400	
		Petty cash	PCJ	224			Creditors control	CAJ	532	
		Debtors control	DAJ	560			Journal credits	GJ	455	
		Creditors control	CJ	12 502			Balance	c/d	4 174	
		Journal debits	GJ	644						
				<u>27 953</u>					<u>27 953</u>	
2018										
Jun	01	Balance	b/d	4 174						

Therefore R4 174 is receivable from SARS (debit balance in the VAT Control account).

Workings

- Balance b/d (1 May 2018) = 29 121 – 26 438 = R2 683
- Bank (CPJ) = (R62 500 + 18 500) × $\frac{14}{100}$ = R11 340 **or**
= R120 880 – (62 500 + 12 150 + 16 390 + 18 500) = R11 340
- Debtors control (DJ) = R60 000 × $\frac{14}{100}$ = 8 400 **or** R68 400 – 60 000 = R8 400
- Creditors control (CAJ) = R4 332 × $\frac{14}{114}$ = R532

**General Ledger of TJ Traders
Balance Sheet account**

Dr				VAT Control		B1				Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Bank	CPJ	10 878	Feb	01	Balance	b/d	7 070	
		Creditors control	CJ	10 080		28	Bank	CRJ	7 392	
		Debtors control	DAJ	826			Debtors control	DJ	12 768	
		Journal debits	GJ	1 064			Creditors control	CAJ	924	
		Balance	c/d	5 698			Journal credits	GJ	392	
				<u>28 546</u>					<u>28 546</u>	
					2018					
					Mar	01	Balance	b/d	5 698	

Therefore VAT of R5 698 is payable to SARS (credit balance in the VAT Control account).

Workings

- Bank (CPJ) = R4 018 + 4 816 + 2 044 = R10 878
- Debtors control (DAJ) = R6 726 × $\frac{14}{114}$ = R826
- Journal debits (GJ) = R294 + (R6 270 × $\frac{14}{114}$) = R1 064

General Ledger of Ntombi's Nursery
Balance Sheet account

Dr				VAT Control				B1		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
May	31	Bank	CPJ	4 942	May	01	Balance	b/d	3 670	
		Creditors control	CJ	12 278		31	Bank	CRJ	15 638	
		Debtors control	DAJ	546			Debtors control	DJ	6 062	
		Petty cash	PCJ	63			Creditors control	CAJ	854	
		Journal debits	GJ	861			Journal credits	GJ	931	
		Balance	c/d	8 465						
				27 155					27 155	
					2018					
					Jun	01	Balance	b/d	8 465	

Workings

- Bank (CRJ) = $R127\ 338 \times \frac{14}{114}$
= R15 638
- Debtors control (DJ) = $R49\ 362 - 43\ 300$
= R6 062
- Bank (CPJ) = $(R23\ 000 \times \frac{14}{100}) + (R2\ 394 + 3\ 990 + 7\ 638) \times \frac{14}{114}$
= $R3\ 220 + 1\ 722 = R4\ 942$
- Creditors control (CJ) = $R99\ 978 - 87\ 700$
= R12 278
- Debtors control (DAJ) = $R3\ 900 \times \frac{14}{100}$
= R546
- Creditors control (CAJ) = $R6\ 954 \times \frac{14}{114}$
= R854
- Petty cash (PCJ) = $(R360 + 90) \times \frac{14}{100}$
= R63 or $R768 - (360 + 255 + 90)$
= R63
- VAT on discount allowed to debtors = $R2\ 223 \times \frac{14}{114}$
= R273
- VAT on discount received from suppliers = $R5\ 016 \times \frac{14}{114}$
= R616
- VAT on drawings of goods = $R2\ 250 \times \frac{14}{100}$
= R315
- VAT on bad debts = $(R6\ 384 \times 0,75) \times \frac{14}{114}$
= R588
- Journal debits (GJ) = VAT on discount allowed + VAT on bad debts
= $R273 + 588 = R861$
- Journal credits (GJ) = VAT on discount received + VAT on drawings of goods
= $R616 + 315$
= R931



- The VAT 201 form of Grogin's Grocery Store for the two month period ending 28 February 2018:

	Amount (incl. VAT)	VAT
CALCULATION OF OUTPUT TAX		
Standard rate (excluding capital goods) (sales)	R95 760	R11 760
Standard rate (only capital goods)	–	–
Zero rate	R30 780	–
Exempt and non-supplies	–	–
Adjustments: Change in use (drawings of goods)	R2 850	R350
Other (goods returned to suppliers)	R3 648	R448
TOTAL OUTPUT TAX		R12 558
CALCULATION OF INPUT TAX		
Capital goods or services supplied to you (computer)	R5 700	R700
Goods supplied to you (goods purchased)	R32 604	R4 004
Other goods or services supplied to you (expenses)	R16 530	R2 030
Tax on adjustments: Change in use	–	–
Bad debts	R4 389	R539
Other (goods returned by customers)	R1 254	R154
TOTAL INPUT TAX		R7 427
AMOUNT PAYABLE		R5 131

Workings

- VAT on sales = $R95\,760 \times \frac{14}{114} = R11\,760$
 - VAT adjustment for drawings of goods = $R2\,500 \times \frac{14}{100} = R350$
 - VAT adjustment for goods returned to suppliers = $R3\,200 \times \frac{14}{100} = R448$
 - VAT on computer purchased = $R5\,700 \times \frac{14}{114} = R700$
 - Total standard rated goods purchased (excl. VAT) = $(R36\,800 + 20\,400) \times 75\% = R42\,900$
 - Total standard rated goods purchased from VAT vendors (excl. VAT) = $R42\,900 \times \frac{2}{3} = R28\,600$
 - VAT on standard rated goods purchased = $R28\,600 \times \frac{14}{100} = R4\,004$
 - VAT on expenses paid = $(R22\,900 - 8\,400) \times \frac{14}{100} = R2\,030$
 - VAT adjustment for bad debts = $R4\,389 \times \frac{14}{114} = R539$
 - VAT adjustment for goods returned by customers = $R1\,254 \times \frac{14}{114} = R154$
- The bad news: According to Greg's calculations, SARS owed the business a refund of R735; however the correct calculation shows that the business actually owes SARS R5 131.
The good news: If Greg had submitted the incorrect VAT 201 return form, the business may have been charged penalties and interest for underpaying VAT / claiming a refund that wasn't due. This will be avoided now.

3.

General Ledger of Grogin's Grocery Store Balance Sheet accounts

Dr					VAT Control					B1		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount			
2018					2018							
Feb	28	Bank	CPJ	5 733	Feb	28	Bank	CRJ	9 408			
		Creditors control	CJ	1 001			Debtors control	DJ	2 352			
		Debtors control	DAJ	154			Creditors control	CAJ	448			
		Journal debits	GJ	539			Journal credits	GJ	350			
		Balance	c/d	5 131								
				12 558					12 558			
					2018	01	Balance	b/d	5 131			

Workings

- Bank (CRJ) = R11 760 × 80% = R9 408
- Debtors control (DJ) = R11 760 × 20% = R2 352
- Bank (CPJ) = R700 + (R4 004 × 75%) + 2 030 = R5 733
- Creditors control (CJ) = R4 004 × 25% = R1 001

» Informal assessment 12.1

LB page 347

Marks: 50

Time: 25 minutes

1. Calculation of VAT payable to or receivable from SARS for March 2018:

Output tax	✓ R21 175
Goods sold for cash $(R106\ 818 \times \frac{14}{114})$	✓✓ R13 118
Goods sold on credit $(R25\ 550 \times \frac{14}{100})$	✓✓ R3 577
Goods returned to suppliers $(R10\ 545 \times \frac{14}{114})^*$	✓✓ R1 295
Discount received from creditors $(R7\ 296 - 6\ 400)^*$	✓✓ R896
Office equipment sold on credit $(14\ 100 \times \frac{14}{100})$	✓✓ R1 974
Drawings of stock $(R2\ 250 \times \frac{14}{100})^*$	✓✓ R315
Less: Input tax	✓ R9 618
Credit purchases of goods $(R33\ 972 - 29\ 800)$	✓✓ R4 172
Goods return by customers $(R1\ 200 \times \frac{14}{100})^\#$	✓✓ R168
Expenses paid $(R3\ 670 + R2\ 380 + 3\ 550 + 2\ 700) \times \frac{14}{100}$	✓✓ R1 722
Petty cash payments $(R250 + 50) \times \frac{14}{100}$	✓✓ R42
Office equipment bought by cheque $(25\ 308 \times \frac{14}{114})$	✓✓ R3 108
Bad debts $(R3\ 306 \times \frac{14}{114})^\#$	✓✓ R406
VAT payable to SARS	✓ R11 557

[27]

Note: These items (*) could have alternatively been set-off against input tax, while these items (#) could have alternatively been set-off against output tax, as shown below:

Output tax	✓ R18 095
Goods sold for cash ($R106\,818 \times \frac{14}{114}$)	✓✓ R13 118
Goods sold on credit ($R25\,550 \times \frac{14}{100}$)	✓✓ R3 577
Office equipment sold on credit ($14\,100 \times \frac{14}{100}$)	✓✓ R1 974
Goods return by customers ($R1\,200 \times \frac{14}{100}$) #	✓✓ (R168)
Bad debts ($R3\,306 \times \frac{14}{114}$) #	✓✓ (R406)
Less: Input tax	✓ R6 538
Credit purchases of goods ($R33\,972 - 29\,800$)	✓✓ R4 172
Expenses paid ($R3\,670 + 2\,380 + 3\,550 + 2\,700 \times \frac{14}{100}$)	✓✓ R1 722
Petty cash payments ($R250 + 50 \times \frac{14}{100}$)	✓✓ R42
Office equipment bought by cheque ($R25\,308 \times \frac{14}{114}$)	✓✓ R3 108
Goods returned to suppliers ($R10\,545 \times \frac{14}{114}$) *	✓✓ (R1 295)
Discount received from creditors ($R7\,296 - 6\,400$) *	✓✓ (R896)
Drawings of stock ($R2\,250 \times \frac{14}{100}$) *	✓✓ (R315)
VAT payable to SARS	✓ R11 557

[27]

2.

General Ledger of PSL Traders Balance Sheet accounts

Dr				VAT Control				B1		Cr
Date	Details		Fol.	Amount	Date	Details		Fol.	Amount	
2018 Mar	01	Balance	b/d	✓ 5 370	2018 Mar	31	Bank	CRJ	✓ 13 118	
	31	Bank	CPJ	✓✓ 4 830			Debtors control	DJ	✓✓ 5 551	
		Creditors control	CJ	✓ 4 172			Creditors control	CAJ	✓ 1 295	
		Debtors control	DAJ	✓ 168			Journal credits	GJ	✓✓ 1 211	
		Petty cash	PCJ	✓ 42						
		Journal debits	GJ	✓ 406						
		Balance	c/d	6 187						
				21 175					21 175	
					2018 Apr	01	Balance	b/d	✓ 6 187	

[14]

Workings

- Bank (CPJ) = $R1\,722 + 3\,108 = R4\,830$
 - Debtors control (DJ) = $R3\,577 + 1\,974 = R5\,551$
 - Journal credits (GJ) = $R896 + 315 = R1\,211$
3. $R6\,187$ ✓ VAT is payable to ✓ SARS [2]
4. The debit balance in the VAT Control account on 1 March 2018 was most likely due to PSL Traders purchasing a large amount of stock ✓ during February 2018. This is indicated by the following:

- The purchases of goods amount was relatively low (R29 800 excl. VAT) compared to the sales of goods amount (R119 250 excl. VAT) in March 2018, which indicates that PSL Traders probably had large volumes of merchandise in stock from the previous month. (✓✓)
- The discount received from creditors was relatively high (R6 400 excl. VAT). Since Striker likes to pay creditors within 30 days, we can assume that the discount amount probably relates to goods that were purchased on credit in February 2018. If we assume that PSL Traders received a 4% early settlement discount, then the total credit purchases in February 2018 might have been as much as R160 000 (excl. VAT) $[R6\ 400 \times \frac{100}{4}]$. (✓✓)
- The amount for goods returned to suppliers is very high (R10 545 incl. VAT) relative to the goods purchased amount (R33 972 incl. VAT) for March 2018. This indicates that most of the goods that were returned were probably bought in February 2018. (✓✓)

Other significant factors that may have also contributed towards the input tax being greater than the output tax for February 2018 include the following:

- Sales may have been relatively low during February 2018. (✓)
- A relatively expensive fixed asset, such as a delivery vehicle, may have been purchased during February 2018. (✓)
- A large amount of consumable goods may have been purchased during February 2018. (✓)
- Expenses may have been usually high during February 2018. (✓)
- Any other appropriate answer. (✓)

Note: The tick marks in brackets indicate that various answers may be accepted, up to a maximum of 6 marks. [7]

CHAPTER 13

Cost Accounting and manufacturing businesses

» Activity 13.1

LB page 351

1. Direct material costs = R18 870 + 6 000 + 530 + 600 + 1 500 = R27 500
2. Direct labour costs = R16 000
3. Prime cost = R27 500 + 16 000 = R43 500
4. Factory overhead costs = R5 000 + 2 000 + 500 + 4 500 + 11 400
= R23 400
5. Total manufacturing costs = R43 500 + 23 400 = R66 900
6. Unit price per canoe
= $\frac{R66\,900}{30}$
= R2 230
7. Selling price
= R2 230 × $\frac{170}{100}$
= R3 791

» Activity 13.2

LB page 354

	Cost	Cost behaviour
1.	Glass fibre for canoe	Variable
2.	Rent for the factory	Fixed
3.	Resin (glue) used in building the canoe	Variable
4.	Wages for workers building canoes (paid per unit completed)	Variable
5.	Cost of a mould per canoe	Semi-fixed
6.	Water and electricity	Semi-variable
7.	Salary of secretary	Fixed

» Activity 13.3

LB page 355

1.

No. of units	Sales income	Fixed costs	Variable costs	Total manufacturing costs	Profit (Loss)	Unit cost/product
5	17 000	23 400	7 250	30 650	(13 650)	6 130
8	27 200	23 400	11 600	35 000	(7 800)	4 375
10	34 000	23 400	14 500	37 900	(3 900)	3 790
12	40 800	23 400	17 400	40 800	–	3 400
14	47 600	23 400	20 300	43 700	3 900	3 121
20	68 000	23 400	29 000	52 400	15 600	2 620

Wayne has to sell 12 canoes per month to break even.

2. As the business produce more units, the cost price per unit decreases.

» Activity 13.4

LB page 356

$$\begin{aligned}\text{Contribution per unit} &= \text{Selling price per unit} - \text{Variable cost per unit} \\ &= \text{R}3\,400 - \text{R}1\,450 \\ &= \text{R}1\,950 \\ \text{Breakeven point} &= \frac{\text{R}23\,400}{\text{R}1\,950} \\ &= 12 \text{ units}\end{aligned}$$

» Activity 13.5

LB page 356

- $$\begin{aligned}\text{Selling price per unit} &= \frac{\text{R}449\,750}{1\,285} \\ &= \text{R}350 \\ \text{Variable cost per unit} &= \frac{\text{R}257\,000}{1\,285} \\ &= \text{R}200\end{aligned}$$
- $$\begin{aligned}\text{Contribution per unit} &= \text{Selling price per unit} - \text{Variable cost per unit} \\ &= \text{R}350 - \text{R}200 \\ &= \text{R}150\end{aligned}$$
- $$\begin{aligned}\text{Breakeven point} &= \frac{90\,000}{150} \\ &= 600 \text{ units}\end{aligned}$$

» Activity 13.6

LB page 367

- $$\begin{aligned}\text{Contribution per unit} &= \text{R}140 - 65 = \text{R}75 \\ \text{Breakeven point:} &= \frac{1\,312\,000}{75} \\ &= 17\,493 \text{ units}\end{aligned}$$
- No, the number of units produced was less than the breakeven point – they made a loss.
- Productivity decreased.
Overtime was paid for wages.

» Activity 13.7

LB page 357

- $$\begin{aligned}\text{Prime cost} &= \text{direct material} + \text{direct labour} \\ &= \text{R}37\,100 + \text{R}60\,000 \\ &= \text{R}97\,100\end{aligned}$$
- $$\begin{aligned}\text{Factory overhead costs} &= \text{indirect material} + \text{indirect labour} + \text{other overheads} \\ &= \text{R}900 + \text{R}4\,000 + \text{R}600 + \text{R}2\,000 + \text{R}400 \\ &= \text{R}7\,900\end{aligned}$$
- $$\begin{aligned}\text{Fixed costs} &= \text{R}4\,000 + \text{R}600 + \text{R}2\,000 + \text{R}400 \\ &= \text{R}7\,000 \\ \text{Variable costs} &= \text{R}37\,100 + \text{R}900 + \text{R}60\,000 \\ &= \text{R}98\,000\end{aligned}$$
- a.
$$\begin{aligned}\text{Total manufacturing costs} &= \text{prime cost} + \text{factory overhead costs} \\ &= \text{R}97\,100 + \text{R}7\,900 \\ &= \text{R}105\,000\end{aligned}$$

$$\begin{aligned} \text{b. Total manufacturing costs} &= \text{fixed costs} + \text{variable costs} \\ &= \text{R7 000} + \text{98 000} \\ &= \text{R105 000} \end{aligned}$$

$$\begin{aligned} 5. \text{ Variable costs per unit} &= \frac{\text{R98 000}}{1\ 000} \\ &= \text{R98} \end{aligned}$$

$$\begin{aligned} \text{Contribution/unit} &= \text{sales} - \text{variable costs/unit} \\ &= \text{R130} - \text{98} \\ &= \text{R32} \end{aligned}$$

$$\begin{aligned} \text{Breakeven point} &= \frac{\text{fixed costs}}{\text{contribution per unit}} \\ &= \frac{7\ 000}{32} \\ &= 218,75 \\ &\therefore 219 \end{aligned}$$

No. of units	Sales income	Fixed costs	Variable costs	Total manufacturing costs	Profit (Loss)
200	26 000	7 000	19 600	26 600	(600)
210	27 300	7 000	20 580	27 580	(280)
220	28 600	7 000	21 560	28 560	40
230	29 900	7 000	22 540	29 540	360

Rainbow Macs has to sell 220 raincoats to break even.

$$6. \text{ Unit cost per raincoat} = \frac{105\ 000}{1\ 000} = 105$$

$$\begin{aligned} 7. \text{ Profit percentage per raincoat} \\ &= \frac{130 - 105}{105} \times 100 \\ &= 23,8\% \end{aligned}$$

» Activity 13.8 (challenge)

LB page 358

1. a. Prime costs

$$\begin{aligned} &= \text{R90} + \text{180} + \text{1 620} + \text{105} \\ &= \text{R1 995} \end{aligned}$$
 - b. Total manufacturing costs

$$\begin{aligned} &= \text{R1 995} + \text{50} + \text{120} + \text{20} + \text{1 050} \\ &= \text{R3 235} \end{aligned}$$
 - c. Unit cost per candle

$$\begin{aligned} &= \frac{\text{R3 235}}{400} \\ &= \text{R8,09} \end{aligned}$$
 - d. Profit percentages

$$\begin{aligned} &= 10 - 8,09 \times 100 \\ &= 23,6\% \end{aligned}$$
2. Darling could sell her candles at a higher profit percentage to justify her efforts. She should also try to increase her total sales per month, which will result in a decrease in the unit price per candle.



Marks: 14

Time: 5 minutes

Column A		Column B	
1.	Direct material cost	D.	Wood used to produce chairs ✓✓
2.	Direct labour cost	E.	Wages paid to the factory workers. ✓✓
3.	Factory overhead costs	G.	Depreciation on factory equipment. ✓✓
4.	Selling and distribution cost	C.	Fuel for the delivery vehicle. ✓✓
5.	Administration cost	F.	Stationery for the office. ✓✓
6.	Fixed cost	B.	Manufacturing costs that do not vary according to changing levels of production ✓✓
7.	Variable cost	A.	Manufacturing costs that vary according to the number of units produced ✓✓

[7 × 2 = 14]



Activity 13.9

General Ledger of Creative Gear CC
Balance Sheet accounts

Dr				Raw Material Stock				B6				Cr						
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	Date		Details	Fol.	Amount				
2017	Mar	01		Balance	b/d				32 500	2018	Feb	28		Raw material issued				338 100
2018	Feb	28		Bank					189 600					Balance	c/o			40 000
				Creditors control					156 000									
									378 100									378 100
2018	Mar	01		Balance	b/d				40 000									

Dr				Work-in-Process				B7				Cr						
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	Date		Details	Fol.	Amount				
2017	Mar	01		Balance	b/d				12 600	2018	Feb	28		Finished goods stock				744 130
2018	Feb	28		Direct material cost					338 100					Balance	b/d			9 750
				Direct labour cost					296 010									
				Factory cost					107 170									
									753 880									753 880
2018	Mar	01		Balance	b/d				9 750									

Dr				Finished Goods Stock				B8				Cr						
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	Date		Details	Fol.	Amount				
2017	Mar	01		Balance	b/d				29 600	2018	Feb	28		Cost of sales				748 550
2018	Feb	28		Work-in-process					744 130					Balance	b/d			25 180
									773 730									773 730
2018	Mar	01		Balance	b/d				25 180									

Dr		Consumables on Hand				B9		Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2017					2018				
Mar	01	Balance	b/d	3 120	Feb	28	Indirect material		3 120
2018									
Feb	28	Indirect material		3 970					

Nominal accounts

Dr		Sales				N1		Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2018					2018				
Feb	28	Trade account		1 122 825	Feb	28	Balance	b/d	1 122 825

Dr		Cost of Sales				N2		Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2018					2018				
Feb	28	Finished goods stock		748 550	Feb	28	Trade account		748 550

Dr		Raw Materials Issued				N3		Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2018					2018				
Feb	28	Raw material stock		338 100	Feb	28	Direct material		338 100

Dr		Indirect Materials				N4		Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2017					2018				
Mar	01	Consumables on hand	b/d	3 120	Feb	28	Factory cost		9 470
2018									
Feb	28	Bank		10 320			Consumables on hand		3 970
				13 440					13 440

Dr		Salaries and Wages				N5		Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2018					2018				
Feb	28	Balance	b/d	423 000	Feb	28	Direct labour cost		289 000
							Factory cost		42 000
							Administration cost		92 000
				423 000					423 000

Dr		Skills Development Levies				N6		Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2018					2018				
Feb	28	Balance	b/d	2 890	Feb	28	Direct labour cost		2 890

Dr		Unemployment Insurance Fund Contributions				N7		Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2018					2018				
Feb	28	Balance	b/d	4 120	Feb	28	Direct labour cost		4 120

Dr				Repairs and Maintenance				N8		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Balance	b/d	13 000	Feb	28	Factory cost		11 500	
							Sales and distribution cost		1 500	
				<u>13 000</u>					<u>13 000</u>	

Dr				Rent expense				N9		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Balance	b/d	28 000	Feb	28	Factory cost		20 000	
							Administration cost		8 000	
				<u>28 000</u>					<u>28 000</u>	

Dr				Rates and Taxes				N10		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Balance	b/d	7 800	Feb	28	Factory cost		5 200	
							Administration cost		2 600	
				<u>7 800</u>					<u>7 800</u>	

Dr				Stationery				N11		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Balance	b/d	960	Feb	28	Administration cost		960	

Dr				Insurance				N12		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Balance	b/d	12 000	Feb	28	Factory cost		9 000	
							Administration cost		3 000	
				<u>12 000</u>					<u>12 000</u>	

Dr				Telephone				N13		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Balance	b/d	22 000	Feb	28	Administration cost		22 000	

Dr				Depreciation				N14		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Balance	b/d	25 000	Feb	28	Factory cost		10 000	
							Sales and distribution cost		12 000	
							Administration cost		3 000	
				<u>25 000</u>					<u>25 000</u>	

Dr				Advertising				N15		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Balance	b/d	1 024	Feb	28	Sales and distribution cost		1 024	

Dr				Bad Debts				N16		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Balance	b/d	1 230	Feb	28	Sales and distribution cost		1 230	

Dr				Commission Paid				N17		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Balance	b/d	7 000	Feb	28	Sales and distribution cost		7 000	

Dr				Fuel				N18		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Balance	b/d	9 800	Feb	28	Sales and distribution cost		9 800	

Dr				Banking Charges				N19		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Balance	b/d	14 230	Feb	28	Administration cost		14 230	

Cost accounts

Dr				Direct Material Cost				C1		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Raw material issued		338 100	Feb	28	Work-in-process		338 100	

Dr				Direct Labour Cost				C2		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Wages		289 000	Feb	28	Work-in-process		296 010	
		Skills development levy		2 890						
		Unemployment Insurance Fund contribution		4 120						
				296 010					296 010	

Dr				Factory Overhead Cost				C3		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Salaries		42 000	Feb	28	Work-in-process		107 170	
		Repairs and maintenance		11 500						
		Rent expense		20 000						
		Rates and taxes		5 200						
		Insurance		9 000						
		Depreciation		10 000						
		Indirect material		9 470						
				107 170					107 170	

Dr				Administration Cost				C4		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Salaries		92 000	Feb	28	Profit and loss account		145 790	
		Rent expense		8 000						
		Rates and taxes		2 600						
		Stationery		960						
		Insurance		3 000						
		Telephone		22 000						
		Depreciation		3 000						
		Bank charges		14 230						
				<u>145 790</u>					<u>145 790</u>	

Dr				Sales and Distribution Cost				C5		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Repairs and maintenance		1 500	Feb	28	Profit and loss account		32 554	
		Depreciation		12 000						
		Advertisements		1 024						
		Bad debts		1 230						
		Commission paid		7 000						
		Delivery vehicle expenses		9 800						
				<u>32 554</u>					<u>32 554</u>	

Final accounts

Dr				Trade account				F1		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Cost of sales		748 550	Feb	28	Sales		1 122 825	
		Profit and loss account		374 275						
				<u>1 122 825</u>					<u>1 122 825</u>	

Dr				Profit and Loss account				F2		Cr
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount	
2018					2018					
Feb	28	Administration cost		145 790	Feb	28	Trade account		374 275	
		Sales and distribution cost		32 554						
		Appropriation account		195 931						
				<u>374 275</u>					<u>374 275</u>	



Creative Gear CC

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

	Note	R
Direct material cost	1	338 100
Direct labour cost	2	296 010
Prime cost		634 110
Factory overhead cost	3	107 170
Total cost of production		741 280
ADD: Work-in-process at beginning of year		12 600
		753 880
LESS: Work-in-process at end of year		(9 750)
Cost of production of finished goods		744 130

Creative Gear CC

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

	Note	R
Sales		1 122 825
Less: Cost of sales		(748 550)
Gross profit (loss)		374 275
Selling and distribution cost	4	(32 554)
Administration cost	5	(145 790)
Net profit (loss)		195 931

Creative Gear CC

NOTES TO THE PRODUCTION COST STATEMENT AND INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

1. DIRECT (RAW) MATERIALS COST

Balance at the beginning of the year	32 500
Purchases (156 000 + 189 600)	345 600
Carriage inwards	–
	378 100
Less: Balance and the end of the year	(40 000)
	338 100

2. DIRECT LABOUR COST

Factory wages	289 000
Skills development levy	2 890
Unemployment Insurance Fund contribution	4 120
	296 010

3. FACTORY OVERHEAD COST

Indirect material (3 120 + 10 320 – 3 970)	9 470
Indirect labour	42 000
Repairs and maintenance	11 500
Factory rent	20 000
Water and electricity	5 200
Insurance	9 000
Depreciation on factory equipment	10 000
	107 170

4. COST OF FINISHED GOODS SOLD

Opening stock: Finished goods	29 600
Plus: Manufacturing costs of finished goods	744 130
Less: Closing balance of finished goods	(25 180)
Cost of finished goods sold	748 550

5. SELLING AND DISTRIBUTION COST

Advertising	1 024
Repairs and maintenance: delivery vehicle	1 500
Depreciation: Delivery vehicle	12 000
Bad debts	1 230
Commission on sales	7 000
Vehicle expenses	9 800
	32 554

6. ADMINISTRATION COST

Rent: Office	8 000
Office salaries	92 000
Water and electricity: Office	2 600
Stationery	960
Insurance	3 000
Telephone	22 000
Depreciation on office equipment	3 000
Bank charges	14 230
	145 790



Activity 13.11

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ESETHU MANUFACTURERS

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019

	Note	R
Direct material cost	1	496 200
Direct labour cost	2	338 780
Prime cost		834 980
Factory overhead costs	3	302 124
Total cost of production		1 137 104
<i>Plus</i> Work-in-process at beginning of year		11 335
		1 148 439
<i>Less</i> Work-in-process at end of the year		(12 360)
Cost of production of finished goods		1 136 079

NOTES TO THE PRODUCTION COST STATEMENT

1. DIRECT (RAW) MATERIALS COST

	R
Balance at the beginning of year	67 224
Purchases (389 200 + 79 332)	468 532
	535 756
<i>Less</i> Balance end of the year	(39 556)
Raw materials issued	496 200

2. DIRECT LABOUR COST

	R
Direct wages	338 780
	338 780

3. FACTORY OVERHEAD COST

	R
Indirect wages	105 600
Indirect material(1 590 +70 890 – 1 056)	71 424
Rent expense	48 000
Insurance	16 000
Maintenance	32 500
Depreciation	28 600
	302 124

» Activity 13.12

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Bounce Manufacturers

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017

	Note	R
Direct material cost	1	409 400
Direct labour cost	2	231 290
Prime cost		640 690
Factory overhead cost	3	156 670
Total cost of production		797 360
ADD: Work-in-process at beginning of year		7 200
		804 560
LESS: Work-in-process at end of year		(7 660)
Cost of production of finished goods		796 900

Bounce Manufacturers

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017

	Note	R
Sales		1 060 000
Less: Cost of sales		(795 000)
Gross profit (loss)		265 000
Selling and distribution cost	4	(95 900)
Administration cost	5	(175 950)
Net profit (loss)		(6 850)

Bounce Manufacturers

NOTES TO THE PRODUCTION COST STATEMENT AND INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017

1. DIRECT (RAW) MATERIALS COST

Balance at the beginning of the year	14 100
Purchases (252 000 + 159 200)	411 200
Carriage inwards	9 060
	434 360
Less: Balance and the end of the year	(24 960)
	409 400

2. DIRECT LABOUR COST

Direct wages	229 000
Unemployment Insurance Fund contribution	2 290
	231 290

3. FACTORY OVERHEAD COST

Indirect material (3 700 + 18 240 – 3 450)	18 490
Indirect labour (14 730 + 48 000)	62 730
Insurance	8 200
Water and electricity	6 050
Depreciation on factory equipment	15 000
Factory maintenance	10 200
Factory rent	36 000
	156 670

4. COST OF FINISHED GOODS SOLD

Opening stock: Finished goods	16 520
Plus: Manufacturing costs of finished goods	796 900
Less: Closing balance of finished goods	(18 420)
Cost of finished goods sold	795 000

5. SELLING AND DISTRIBUTION COST

Salaries	86 000
Bad debts	1 200
Commission on sales	8 700
	95 900

6. ADMINISTRATION COST

Office salaries	138 000
Insurance	4 800
Printing and stationery	1 700
Water and electricity	1 250
Depreciation on office equipment	2 600
Sundry administration cost	8 400
Rent expense: Offices	19 200
	175 950



Activity 13.13

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Tshiwula Manufacturers

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

	Note	R
Direct material cost	1	621 500
Direct labour cost	2	363 600
Prime cost		985 100
Factory overhead cost	3	229 060
Total cost of production		1 214 160
ADD: Work-in-process at beginning of year		16 200
		1 230 360
LESS: Work-in-process at end of year		(14 360)
Cost of production of finished goods		1 216 000

Tshiwula Manufacturers
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

	Note	R
Sales		1 800 000
Less: Cost of sales		(1 200 000)
Gross profit (loss)		600 000
Selling and distribution cost	4	(205 600)
Administration cost	5	(236 480)
Operating profit (loss)		157 920
Finance cost		(32 000)
Net profit (loss)		125 920

Tshiwula Manufacturers
NOTES TO THE PRODUCTION COST STATEMENT AND INCOME STATEMENT
FOR THE YEAR ENDED 28 FEBRUARY 2018

1. DIRECT (RAW) MATERIALS COST

Balance at the beginning of the year	64 000
Purchases (500 000 + 90 000)	590 000
Carriage inwards (25 000 + 4 500)	29 500
	683 500
Less: Balance and the end of the year	(62 000)
	621 500

2. DIRECT LABOUR COST

Direct wages	360 000
Skills development levy	3 600
	363 600

3. FACTORY OVERHEAD COST

Indirect labour (14 500 + 90 000)	104 500
Insurance	14 800
Water and electricity (13 200 × 80%)	10 560
Depreciation on factory equipment	37 000
Factory maintenance	4 600
Factory rent (72 000 × 80%)	57 600
	229 060

4. COST OF FINISHED GOODS SOLD

Opening stock: Finished goods	110 600
Plus: Manufacturing costs of finished goods	1 216 000
Less: Closing balance of finished goods	(126 600)
Cost of finished goods sold (1 800 000 × $\frac{100}{150}$)	1 200 000

5. SELLING AND DISTRIBUTION COST

Salaries	172 000
Advertising	18 200
Commission expenses	13 600
Bad debts	1 800
	205 600

6. ADMINISTRATION COST

Office salaries	196 000
Insurance	5 200
Stationery	1 440
Water and electricity (13 200 × 20%)	2 640
Depreciation on office equipment	2 500
Sundry administration cost	14 300
Rent expense (72 000 × 20%)	14 400
	236 480

» Activity 13.14

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Cost per unit / Indicator	How to calculate	How will you comment on your answer?
Direct material cost per unit (DMC/unit)	$\frac{\text{Direct material cost}}{\text{Number of units produced}}$	Indicates what the cost for the material of one unit is. If the prices from suppliers increase, this figure will increase. If the cutting of raw material is carefully planned and there is less cut-off material this figure will decrease.
Direct labour cost per unit (DLC/unit)	$\frac{\text{Direct labour cost}}{\text{Number of units produced}}$	Tells us if the manufacturing of the product is labour-intensive or not. It is also an indication of the productivity of employees.
Direct cost per unit	$\frac{\text{Prime cost}}{\text{Number of unit produced}}$	Indicates how effective the manufacturing process is. This should not increase too much from one year to the next. A business will first look at this to determine prices for quotations.
Factory overhead costs per unit (FOC/unit)	$\frac{\text{Factory overhead costs}}{\text{Number of units produced}}$	Will decrease if the business can manage to produce more units, as factory overhead costs are a fixed cost.
Cost of finished goods per unit	$\frac{\text{Cost of production of finished goods}}{\text{Number of units produced}}$	Will also decrease if the factory is more productive. This is the total cost per unit.
Percentage gross profit on cost of sales	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times 100$	What percentage profit the business made per item.
Selling price per unit	$\frac{\text{Sales for the year}}{\text{Number of units sold}}$	It is the average price that the units were sold for during the year.
Selling and distribution cost per unit (SDC/unit)	$\frac{\text{Selling and distribution cost}}{\text{Number of units sold}}$	Will increase if more sales take place, but the SDC/unit will stay the same, as this is a variable cost.
Administration cost per unit (AC/unit)	$\frac{\text{Administration cost}}{\text{Number of units sold}}$	Will decrease if more sales take place, as this is a fixed cost. This concept is called economies of scale, i.e. as more are produced, constant administration costs are shared over a greater number of units.
Total fixed cost	FOC + AC	Use this in calculating breakeven point.
Variable cost per unit	DMC/unit + DLC/unit + SDC/unit	Use this in calculating breakeven point.
Contribution per unit	Selling price per unit – Variable cost per unit	The part of selling price that is left over after the cost to produce and sell it is deducted. This is used to pay for fixed costs.
Breakeven point	$\frac{\text{Total fixed costs}}{\text{Contribution per unit}}$	The amount of units that much be produced to break even – not make a loss.

1. Direct raw material cost per unit

$$= \frac{\text{direct material cost}}{\text{total units produced}}$$

$$= \frac{763\,950}{12\,307}$$

$$= R62,07$$

Possible reasons for change in DMC/unit:

- The business is using another supplier which offers better prices.
- The planning is better – less cut-off material.

2. Direct labour costs per unit

$$= \frac{\text{direct labour cost}}{\text{total units produced}}$$

$$= \frac{770\,000}{12\,307}$$

$$= R62,57$$

Possible reasons for change in DMS/unit:

- Wage increases/overtime.
- The workers are less productive – they produce less product for the same wage.

3. Total direct (prime) costs per unit

$$= \frac{\text{total direct cost}}{\text{total units produced}}$$

$$= \frac{763\,950 + 770\,000}{12\,307}$$

$$= R124,64$$

4. Factory overhead costs cost per unit

$$= \frac{\text{factory overhead cost}}{\text{total units produced}}$$

$$= \frac{66\,750}{12\,307}$$

$$= R5,4$$

5. Cost of finished goods per unit

$$= \frac{\text{production cost of finished goods}}{\text{total units produced}}$$

$$= \frac{1\,599\,910}{12\,307}$$

$$= R130$$

6. Sales and distribution costs per unit

$$= \frac{\text{sales and distribution cost}}{\text{total units sold}}$$

$$= \frac{68\,900}{12\,000}$$

$$= R5,74$$

7. Administration costs per unit

$$= \frac{\text{administration cost}}{\text{total units sold}}$$

$$= \frac{330\,400}{12\,000}$$

$$= R27,53$$

8. Variable costs per unit

$$= \text{DMC/unit} + \text{DLC/unit} + \text{SDC/unit}$$

$$= 62,07 + 62,57 + 5,74$$

$$= R130,38$$

9. Fixed costs

$$= \text{factory overhead costs} + \text{administration costs}$$

$$= 66\,750 + 330\,400$$

$$= 397\,150$$

10. Contribution per unit

$$= \text{selling price per unit less total variable costs per unit}$$

$$= 200 - 62,07 - 62,57 - 5,74$$

$$= 69,62$$

11. Breakeven point

$$= \frac{\text{fixed cost}}{\text{contribution per unit}}$$

$$= \frac{397\,150}{69,62}$$

$$= 5\,705 \text{ units}$$



Activity 13.16

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1. a.

Mokhele Manufacturers Ltd.

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2014

	Note	R
Direct material cost	1	292 160
Direct labour cost	2	139 500
Prime cost		431 660
Factory overhead cost	3	134 360
Total cost of production		566 020
ADD: Work-in-process at beginning of year		17 720
		583 740
LESS: Work-in-process at end of year		(13 740)
Cost of production of finished goods		570 000

b.

Mokhele Manufacturers Ltd.

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2014

	Note	R
Sales		900 000
Less: Cost of sales		(572 736)
Gross profit (loss)		327 264
Selling and distribution cost	4	(86 600)
Administration cost	5	(145 320)
Net profit (loss)		95 344

Mokhele Manufacturers Ltd.

**NOTES TO THE PRODUCTION COST STATEMENT AND INCOME STATEMENT
FOR THE YEAR ENDED 28 FEBRUARY 2014**

1. DIRECT (RAW) MATERIALS COST

Balance at the beginning of the year	71 800
Purchases (272 000 – 1 300)	270 700
Carriage inwards	1 300
Custom duties	18 100
	361 900
Less: Balance and the end of the year	(69 740)
	292 160

2. DIRECT LABOUR COST

Direct wages	138 200
Unemployment Insurance Fund contribution	1 300
	139 500

3. FACTORY OVERHEAD COST

Indirect material (6 400 + 13 280 – 3 600)	16 080
Indirect labour	58 900
Sundry factory expenses	8 260
Rates and taxes (7 980 ÷ 2)	3 990
Insurance (8 960 ÷ 2)	4 480
Water and electricity (10 200 × $\frac{3}{4}$)	7 650
Vehicle maintenance and fuel (14 860 ÷ 2)	7 430
Depreciation on factory equipment ((210 000 – 89 000) × 20%)	24 200
Depreciation on factory vehicles ((88 000 – 20 600) × 10%) ÷ 2	3 370
	134 360

4. COST OF FINISHED GOODS SOLD

Opening stock: Finished goods	84 280
Plus: Manufacturing costs of finished goods	570 000
Less: Closing balance of finished goods	(81 544)
Cost of finished goods sold (1 800 000 × $\frac{100}{150}$)	572 736

5. SELLING AND DISTRIBUTION COST

Advertising	9 800
Vehicle maintenance and fuel (14 860 ÷ 2)	7 430
Salaries	66 000
Depreciation: vehicles ((88 000 – 20 600) × 10%) ÷ 2	3 370
	86 600

6. ADMINISTRATION COST

Stationery	2 900
Office salaries	129 600
Rates and taxes (7 980 ÷ 2)	3 990
Insurance (8 960 ÷ 2)	4 480
Water and electricity (10 200 × $\frac{1}{4}$)	2 550
Depreciation on office equipment	1 800
	145 320

2. a. $\text{Cost of finished goods/unit} = \frac{\text{production cost of finished goods}}{\text{number of units produced}}$
 $= \frac{570\,000}{15\,000}$
 $= R38$
- b. $\text{Variable costs per unit} = \frac{\text{direct cost} + \text{sales and distribution cost}}{\text{number of units produced}}$
 $= \frac{292\,160 + 139\,500 + 86\,600}{15\,000}$
 $= R34,55$
- c. $\text{Contribution per unit} = \text{selling price per unit} - \text{total variable costs per unit}$
 $= R60 - 34,55$
 $= R25,45$
- d. $\text{Fixed costs} = \text{factory overhead costs} + \text{administration costs}$
 $= R134\,360 + 145\,320$
 $= R279\,680$
- e. $\text{Breakeven point} = \frac{\text{total fixed cost}}{\text{contribution per unit}}$
 $= \frac{279\,680}{25,45}$
 $= 10\,989 \text{ units}$

» Activity 13.17

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1.

Jenkins Manufacturers Ltd.

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2015

	Note	R
Direct material cost	1	334 348
Direct labour cost	2	295 356
Prime cost		629 704
Factory overhead cost	3	283 466
Total cost of production		913 170
ADD: Work-in-process at beginning of year		25 760
		938 930
LESS: Work-in-process at end of year		(18 930)
Cost of production of finished goods		920 000

Jenkins Manufacturers Ltd.
NOTES TO THE PRODUCTION COST STATEMENT AND INCOME STATEMENT
FOR THE YEAR ENDED 28 FEBRUARY 2015

1. DIRECT MATERIALS COST

Balance at the beginning of the year	43 890
Purchases	333 866
Carriage inwards	11 322
	389 078
Less: Balance and the end of the year	(54 730)
	334 348

3. FACTORY OVERHEAD COST

Indirect material (5 879 + 15 660 – 6 229)	15 310
Indirect labour (41 964 + 86 700)	128 664
Rent expense	76 400
Maintenance	33 870
Sundry expenses	6 822
Depreciation on factory equipment	22 400
	283 466

4. COST OF FINISHED GOODS SOLD

Opening stock: Finished goods	60 720
Plus: Manufacturing costs of finished goods	920 000
Less: Closing balance of finished goods	(65 136)
Cost of finished goods sold	915 584

2. a. Direct raw material cost per unit

$$= \frac{\text{direct material cost}}{\text{total units produced}}$$

$$= \frac{334\,348}{10\,000}$$

$$= 33,43$$

b. The owner should investigate what the increase in DMC/unit can be attributed to.

- He could maybe look for other suppliers.
- Is the cutting of raw material effective or are there too many off-cuts?

c. Total production cost/unit

$$= \frac{\text{total production cost of finished goods}}{\text{total units produced}}$$

$$= \frac{920\,000}{10\,000}$$

$$= 92$$

d. Gross profit

$$= \text{sales} - \text{cost price of finished goods sold}$$

$$= 1\,281\,818 - 915\,584$$

$$= 366\,234$$

e. Profit margin on cost price

$$= \frac{\text{gross profit}}{\text{cost price of finished goods sold}} \times 100$$

$$= \frac{366\,234}{915\,584} \times 100$$

$$= 40\%$$

f. The profit margin will increase, because the cost/unit will decrease.

» **Activity 13.18**

LB page 383

Malan Manufacturers Ltd.

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2016

	Note	R
Direct material cost	1	601 000
Direct labour cost	2	209 916
Prime cost		810 916
Factory overhead cost	3	390 100
Total cost of production		1 201 016
ADD: Work-in-process at beginning of year		44 000
		1 245 016
LESS: Work-in-process at end of year		(36 000)
Cost of production of finished goods		1 209 016

Malan Manufacturers Ltd.

NOTES TO THE PRODUCTION COST STATEMENT AND INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2016

1. DIRECT (RAW) MATERIALS COST

Balance at the beginning of the year	64 000
Purchases	590 000
Carriage inwards (9 000 + 650)	9 650
	663 650
Less: Balance and the end of the year (62 785 – 135)	(62 650)
	601 000

2. DIRECT LABOUR COST

Direct wages (200 000 + 5 800)	205 800
Unemployment Insurance Fund contribution (2 000 + 58)	2 058
Skills development levy (2 000 + 58)	2 058
	209 916

3. FACTORY OVERHEAD COST

Indirect material (1 200 + 17 200 – 1 000)	17 400
Indirect labour	140 000
Insurance	13 900
Water and electricity (65 200 × 85%)	55 420
Sundry expenses	74 000
Maintenance	14 880
Depreciation on factory equipment ([900 000 – 180 000] × 10% + [50 000 × 10%] × $\frac{6}{12}$)	74 500
	390 100

4. COST OF FINISHED GOODS SOLD

Opening stock: Finished goods	48 000
Plus: Manufacturing costs of finished goods	1 209 016
Less: Closing balance of finished goods	(57 000)
Cost of finished goods sold	1 200 016

2. a. Direct material cost per unit
- $$= \frac{\text{direct material cost}}{\text{total units produced}}$$
- $$= \frac{601\,000}{210\,000}$$
- $$= 2,86$$
- b. Direct labour costs per unit = $\frac{\text{direct labour cost}}{\text{total units produced}}$
- $$= \frac{209\,916}{210\,000}$$
- $$= 1$$
- c. Cost price of finished goods sold = $\frac{1\,209\,016}{207\,615}$
- $$= R5,82$$
- d. Sales and distribution costs per unit = $\frac{\text{sales and distribution cost}}{\text{total units sold}}$
- $$= \frac{145\,200}{207\,615}$$
- $$= 0,7$$
3. The product is not labour-intensive. The cost price per unit is R5,82, of which the labour costs per unit amount to R1, which is around 17%.
4. Contribution per unit = sales/unit – DMC/unit – DLC/unit – SDC/unit
- $$= 12 - 2,86 - 1 - 0,7$$
- $$= 7,44$$
- Breakeven point = $\frac{\text{fixed cost}}{\text{contribution per unit}}$
- $$= \frac{390\,100 + 320\,800}{7,44}$$
- $$= 95\,551 \text{ units}$$
5. The SDC/unit for the previous year is also R0,70 per unit, the same as the current year. The owner need not be concerned as the higher number of sales attributed to the increase in S and DC sales and distribution cost is a variable cost.

Marks: 80

Time: 50 minutes

1.1

Happy Hiker Manufacturers**PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017**

	Note	R
Direct material cost	1	✓592 000
Direct labour cost	2	✓363 870
Prime cost		✓955 870
Factory overhead cost	3	✓358 850
Total cost of production		✓1 314 720
ADD: Work-in-process at beginning of year		✓46 500
		1 361 220
LESS: Work-in-process at end of year		✓(41 220)
Cost of production of finished goods		✓1 320 000

[8]

1.2

Happy Hiker Manufacturers**INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017**

	Note	R
Sales		✓1 976 400
Less: Cost of sales		✓(1 317 600)
Gross profit (loss)		✓658 800
Selling and distribution cost	4	✓(285 000)
Administration cost	5	✓(209 480)
Net profit (loss)		✓164 320

[6]

Happy Hiker Manufacturers**NOTES TO THE PRODUCTION COST STATEMENT AND INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017****1. DIRECT (RAW) MATERIALS COST**

Balance at the beginning of the year	✓25 000
Purchases	✓588 000
Carriage inwards	✓8 900
Custom duties	✓12 500
	634 400
Less: Balance at the end of the year	✓(42 400)
	592 000

[5]

2. DIRECT LABOUR COST

Direct wages	✓360 000
Unemployment Insurance Fund contribution	✓3 870
	363 870

[2]

3. FACTORY OVERHEAD COST

Indirect material (1 600 + 29 400 + 1 350 – 1 820)	✓✓✓✓ 30 530
Indirect labour (64 000 + 120 000)	✓✓ 184 000
Depreciation on factory equipment	✓ 46 000
Factory rent (96 000 × $\frac{1\,500}{2\,000}$)	✓✓ 72 000
Insurance (24 000 × $\frac{1\,500}{2\,000}$)	✓✓ 18 000
Water and electricity (10 400 × 80%)	✓✓ 8 320
	358 850

[13]

4. COST OF FINISHED GOODS SOLD

Opening stock: Finished goods	✓ 67 200
Plus: Manufacturing costs of finished goods	✓ 1 320 000
Less: Closing balance of finished goods	✓ (69 600)
Cost of finished goods sold	1 317 600

[3]

5. SELLING AND DISTRIBUTION COST

Salaries	✓ 110 000
Depreciation: delivery vehicle	✓ 4 600
Advertising	✓ 18 400
Commission on sales	✓ 134 000
Rent expense (96 000 × $\frac{300}{2\,000}$)	✓✓ 14 400
Insurance (24 000 × $\frac{300}{2\,000}$)	✓✓ 3 600
	285 000

[8]

5. ADMINISTRATION COST

Office salaries	✓ 180 000
Depreciation on office equipment	✓ 12 000
Stationery	✓ 3 400
Rent expense (96 000 × $\frac{200}{2\,000}$)	✓✓ 9 600
Insurance (24 000 × $\frac{200}{2\,000}$)	✓✓ 2 400
Water and electricity (10 400 × 20%)	✓✓ 2 080
	209 480

[9]

2. Cost of finished goods per unit

$$= \frac{\text{production cost of finished goods}}{\text{number of units produced}} \checkmark$$

$$= \frac{1\,320\,000 \checkmark}{3\,300}$$

$$= R400 \checkmark$$

[3]

3. Variable costs per unit

$$= \frac{\text{direct cost} + \text{sales and distribution cost}}{\text{number of units produced}} \checkmark$$

$$= \frac{955\,870 \checkmark + 285\,000 \checkmark}{3\,300} \checkmark$$

$$= R376,02 \checkmark$$

[5]

4. Contribution per unit
 = selling price per unit – total variable costs per unit ✓
 = R600 – 376,02 ✓
 = R223,98 ✓ [3]
5. Fixed costs
 = factory overhead costs + administration costs ✓
 = R358 850 + 209 480 ✓
 = R568 330 ✓ [3]
6. Breakeven point
 = $\frac{\text{fixed cost}}{\text{contribution per unit}}$ ✓
 = $\frac{568\ 330}{223,98}$ ✓
 = 2 537 backpacks ✓ [3]
7. Profit margin on cost price
 = $\frac{200}{400} \times \frac{100}{1}$ ✓✓
 = 50% ✓ [3]
8. • The direct material cost/unit increased from R160/unit in 2016 to R179/unit in 2017. This can be because the cost of the direct materials increased or the employees are less effective in cutting the material more off-cuts. ✓✓
 • The direct labour cost/unit decreased from R120/unit in 2016 to R110/unit in 2017. The workers are more productive and producing more units in the same time. ✓✓
 • The factory overhead cost/unit decreased from R121/unit in 2016 to R109/unit in 2017. This is because more units are produced – the economics of scale concept. Factory overhead costs cost is fixed – as more units is produced the factory overhead cost is shared over a greater number of units. ✓✓
 • The owner should investigate the reason for increase in DMC/unit, but he should feel satisfied that his factory is more productive and selling more products. ✓✓
 (Any 3 × 2 marks) [6]

» Activity 13.19

LB page 388

First let learners read through article about Proudly South African campaign in the Learner's Book.
 Then have a class discussion on why it is important to support local products.

» Case study 13.1

LB page 389

- Suppliers must buy their products from South African manufacturers (or manufacture the products in South Africa).
- Overseas (they are being imported)
- This is a growing industry in South Africa and is great opportunity to create jobs for people in our country instead of spending all this money overseas.

4. Government is offering to grant subsidies (financial support) to suppliers who localise their products.
5. Government is trying to promote the use of sustainable energy in South Africa, in an effort to protect the environment and cater for the growing demand for energy.
6. The money used to fund this programme is part of government expenditure and therefore needs to be planned and budgeted for in the government budget.



Case study 13.2

LB page 389

1. Price fixing
2. The four main manufacturers of tyres in South Africa were found guilty of price-fixing, after they agreed on price increases, timing of price increases and implementation thereof.
3. Apollo Tyres had to pay a penalty of R45 million.
4. The Commission initiated this case following a complaint lodged by a fleet owner, alleging that the local tyre manufacturers simultaneously adjusted their prices around the same time and within the same parameters.
5. Passenger tyres, light truck/commercial tyres, trucks and bus tyres, off the road tyres, agricultural tyres and earthmover tyres in South Africa
6. The main customers of these products are tyre dealers who purchase tyres for resale to consumers, vehicle manufacturers who purchase tyres for new vehicle models and the government which procures tyres for state owned vehicles and fleets through a tender process managed by the State Tender Board

CHAPTER 14

Budgeting

» Activity 14.1

LB page 400

Gadla Traders

Projected Income Statement for the two months January and February 2019

	January 2019	February 2019
Sales $(390\,000 \div 12) \times 120\%$ $(39\,000 + 6\,000)$	39 000	45 000
Cost of sales $(39\,000 \times 66\frac{2}{3}\%)$ $(45\,000 \times 66\frac{2}{3}\%)$	(26 000)	(30 000)
Gross profit $(39\,000 \times 33\frac{1}{3}\%)$ $(45\,000 \times 33\frac{1}{3}\%)$	13 000	15 000
Other operating income	1 550	1 700
Rent income $(18\,000 \div 12)$ $(1\,500 \times 110\%)$	1 500	1 650
Discount received $(600 \div 12)$	50	50
Gross operating income	14 550	16 700
Operating expenses	(5 650)	(5 345)
Bad debts $(720 \div 12)$ $(60 + 50)$	60	110
Insurance $(2\,400 + 1\,200) \div 12$	300	300
Advertising (45×2) (45×3)	90	135
Salaries and wages $(42\,000 \div 12)$ $(3\,500 - 400)$	3 500	3 100
Other operating expenses $(18\,000 \div 12)$	1 500	1 500
Depreciation $(2\,400 \div 12)$	200	200
Net profit (loss) for the month	8 900	11 355

Vuvuzela Traders
Projected Income Statement for March and April 2018

	March 2018	April 2018
Sales $(480\,000 \div 12) \times 120\%$ (48 000 × 110%)	48 000	52 800
Cost of sales $(48\,000 \div 160\%)$ (52 800 × 50%)	(30 000)	(26 400)
Gross profit	18 000	26 400
Other operating income	2 410	2 755
Rent income $(2\,000 \times 115\%)$ (2 300 × 115%)	2 300	2 645
Discount received $(1\,200 \div 12) \times 110\%$	110	110
Gross operating income	20 410	29 155
Operating expenses	(12 084)	(12 410)
Wages and salaries $(72\,000 \times 105\%) \div 12$	6 300	6 300
Discount allowed $(48\,000 \times 40\% \times 2\frac{1}{2}\%)$ (52 800 × 40% × 2½%)	480	528
Stationery $(4\,800 \times 105\%) \div 12$	420	420
Bad debts	384	422
Telephone $(9\,600 \times 125\%) \div 12$	1 000	1 000
Insurance $(2\,400 \div 12)$ [200 + (1 440 ÷ 6)]	200	440
Water and electricity $(12\,000 \times 105\%) \div 12$	1 050	1 050
Depreciation $[(120\,000 + 15\,000) \times 20\%] \div 12$	2 250	2 250
Operating profit	8 326	16 745
Interest expense $(80\,000 \times 18\%) \div 12$ (60 000 × 18%) ÷ 12	(1 200)	(900)
Net profit for the month	7 126	15 845

Calculation of rent income for March 2018:

Let rent income for March 2017 = r

$$\begin{aligned} \text{Then: } r + 11 \left(r \times \frac{115}{100} \right) &= 27\,300 \\ 13,65r &= 27\,300 \\ r &= 2\,000 \end{aligned}$$

Therefore rent income for March 2018 = $2\,000 \times 115\%$
 = R2 300

- Any two of the following:
 - Telephone
 - Depreciation
 - Sundry operating expenses
- Packing materials; Discount allowed; Bad debts
- Discount allowed; Depreciation; Bad debts
- Any two appropriate items such as:
 - Capital contributions
 - Proceeds received from shares issued

- Proceeds from the sale of a fixed asset
- Loan amount received
- Fixed deposit matured
- Cash purchase of assets
- Cash withdrawals by owner
- Loan amounts repaid
- Investments in a fixed deposit

$$5. \text{ Mark-up percentage on cost} = \frac{R49\,600}{R124\,000} \times \frac{100}{1} = 40\%$$

(or $\frac{R54\,400}{R136\,000}$ or $\frac{R64\,000}{R160\,000}$)

$$6. \text{ Credit purchases in March 2018} = R124\,000 \times 75\% = R93\,000$$

$$\text{Creditors to be paid in April 2018} = R93\,000 \times 80\% = R74\,400$$

$$\text{Discount rate} = \frac{R3\,720}{R74\,400} \times \frac{100}{1} = 5\%$$

OR

$$\text{Credit purchases in April 2018} = R136\,000 \times 75\% = R102\,000$$

$$\text{Creditors to be paid in May 2018} = R102\,000 \times 80\% = R81\,600$$

$$\text{Discount rate} = \frac{R4\,080}{R81\,600} \times \frac{100}{1} = 5\%$$

$$7. \text{ Rental per office in March 2018} = R12\,000 \div 2 = R6\,000$$

$$\text{Rental for three offices (using March 2018 rental)} = R6\,000 \times 3 = R18\,000$$

$$\text{Percentage increase of annual rental} = R19\,620 - \frac{18\,000}{R18\,000} \times \frac{100}{1} = 9\%$$

8. a. Mohammed intends to increase the amount that he pays his current employees; or

Mohammed intends to employ more staff.

$$b. \text{ The increase in salaries May 2018} = R20\,000 - 14\,000 = R6\,000$$

If this was intended to be an increase paid to the current staff, then the percentage increase would be as follows:

$$\frac{R6\,000}{R14\,000} \times \frac{100}{1} = 42,9\%$$

This would be an unusually large increase and is thus fairly unlikely to be the case.

Therefore, it is more likely that the additional R6 000 has been budgeted to cover the cost of employing another person. Also, one would assume that a new employee would often earn less than the existing employees, which is the case here (R6 000 compared to R7 000).

$$9. a. \text{ Instalment amount} = \text{Fixed deposit amount}$$

$$= (R500 \times 12) \div 7,5\%$$

$$= R80\,000$$

- b. If the loan is reduced by R80 000, the interest will decrease by:

$$R2\,150 - R1\,350 = R800 \text{ per month}$$

$$\text{or } R800 \times 12 = R9\,600 \text{ per annum}$$

$$\text{Therefore, the interest rate charged on the loan} = \frac{R9\,600}{R80\,000} \times \frac{100}{1}$$

$$= 12\%$$

$$c. \text{ Balance of the loan on 31 May 2018} = (R1\,350 \times 12) \div 12\%$$

$$= R135\,000$$



$$1. \text{ Variance percentage (May 2018)} = \frac{R8\,620 - 6\,600}{R6\,600} \times \frac{100}{1} = 30,6\%$$

$$\text{Variance percentage (June 2018)} = \frac{R8\,880 - 6\,600}{R6\,600} \times \frac{100}{1} = 34,5\%$$

The actual motor vehicle expense was over budget by 30,6% and 34,5% in May 2018 and June 2018 respectively. The fact that Denny didn't increase the budget amount in June 2018 shows that he probably felt that the budget figures were fair and realistic. Therefore the significant increase in costs indicates that this expense is not being adequately controlled.

2. Driving recklessly or speeding – this would increase the wear and tear of the engine, the tyres and the exhaust; it would also result in petrol being used inefficiently and may result in damage to the body of the vehicle. Using the vehicle for personal trips – this would increase the petrol consumption and add to the general wear and tear of the vehicle.

$$3. \text{ Monthly depreciation on vehicles} = \text{Cost price of the old delivery van} \\ \times 10\% \div 12 = R2\,250$$

$$\text{Cost price of the old delivery van} = (R2\,250 \times 12) \div 10\% \\ = R270\,000$$

$$4. \text{ 1 January 2013 to 30 June 2018} = 5\frac{1}{2} \text{ years or 66 months}$$

Total accumulated depreciation to 30 June 2018

$$= R270\,000 \times 10\% \times 5\frac{1}{2}$$

$$= R148\,500$$

OR

Total accumulated depreciation to 30 June 2018

$$= R2\,250 \times 66$$

$$= R148\,500$$

Carrying value of the old delivery van on 30 June 2018

$$= R270\,000 - 148\,500$$

$$= R121\,500$$

5. Interest rate charged on the loan

$$= \frac{R1\,800 \times 12}{R180\,000} \times \frac{100}{1}$$

$$= 12\%$$

6. Increase in loan

$$= R330\,000 - 121\,500$$

$$= R208\,500$$

Increase in interest on loan per month

$$= R208\,500 \times 12\% \div 12$$

$$= R2\,085$$

7. Average motor vehicle expenses (May to June 2018)

$$= \frac{1}{2}(\text{R}8\,620 + 8\,880)$$

$$= \text{R}8\,750$$

Average services and repairs (May to June 2018)

$$= \text{R}8\,750 - 5\,200$$

$$= \text{R}3\,550$$

Monthly depreciation on the new delivery van

$$= \text{R}330\,000 \times 10\% \div 12$$

$$= \text{R}2\,750$$

Expected monthly petrol cost for the new delivery van

$$= \text{R}5\,200 \times 85\%$$

$$= \text{R}4\,420$$

Additional monthly insurance for the new delivery van

$$= \text{R}4\,500 \times 20\%$$

$$= \text{R}900$$

Comparative analysis of the cost per month of the two vehicles:

COSTS	Old delivery van	New delivery van
Depreciation	2 250	2 750
Additional insurance	-	900
Motor vehicle expenses	8 750	4 420
- Petrol cost	5 200	4 420
- Services and repairs	3 550	-
Additional interest on loan	-	2 085
Total expected cost per month	11 000	10 155

The comparative analysis shows that if Denny sells the old delivery van and buys the new one, then the costs of the business will decrease by R845 (R11 000 – 10 155) per month. Therefore, recommend that Denny replace the old delivery van with the new one.

» **Activity 14.5 (challenge)**

LB page 409

1. Percentage gross profit on sales

$$= \frac{\text{R}125\,000}{\text{R}375\,000} \times \frac{100}{1} = 33\frac{1}{3}\%$$

$$\text{or } \frac{\text{R}135\,000}{\text{R}405\,000} \text{ or } \frac{\text{R}137\,500}{\text{R}412\,500}$$

2. Percentage increase in rent income

$$= \frac{\text{R}6\,665 - 6\,200}{\text{R}6\,200} \times \frac{100}{1}$$

$$= 7,5\%$$

3. a. The trend shows a fairly steady increase in discount received.
 b. The sales are forecast to increase in each month of the budget period. Therefore, since stock is replenished, the projected purchases will increase in a similar fashion. Since all goods are bought on credit, the amount owed to creditors will also be expected to increase in each of the months. Since creditors are paid in the month following the purchases, the amount paid to creditors and the discount received from creditors will also be expected to follow a similar trend.
4. a. Salary of each shop assistant (July 2018) = R60 000 ÷ 5 = R12 000
 b. Wages of each casual worker (July 2018) = R19 500 ÷ 3 = R6 500
 c. Percentage increase in salaries (August 2018)

$$= \frac{R66\ 000 - 60\ 000}{R60\ 000} \times \frac{100}{1}$$

$$= 10\%$$

 d. Percentage increase in wages (August 2018)

$$= \frac{R21\ 840 - 19\ 500}{R19\ 500} \times \frac{100}{1}$$

$$= 12\%$$

 e. Yes, on the whole these increases are fair. The increases are pretty generous and are above inflation. The shop assistants may feel slightly aggrieved that the casual workers are set to receive a marginally higher percentage increase. However, the casual workers are starting from a lower base amount (R6 500 as opposed to R12 000), so Josephine may be trying to assist them a little bit more. Furthermore, the shop assistants will receive an additional R1 200 each, compared to the extra R780 that each of the casual workers will be paid.
 f. Decrease in salaries amount (September 2018)

$$= R66\ 000 - R52\ 800$$

$$= R13\ 200$$

 Increase in wages amount (September 2018)

$$= R29\ 120 - R21\ 840$$

$$= R7\ 280$$

 The decrease in the salaries of R13 200 is equivalent to the new salary amount of each of the shop assistants (R12 000 + R1 200). So it is likely that one of the shop assistants will be leaving the business at the end of August and that there will only be four shop assistants employed during September 2018.
 The increase in the wages of R7 280 is equivalent to the new wages amount of each of the casual workers (R6 500 + R780). So it is likely that an additional casual worker will be employed at the beginning of September 2018.
5. Electricity portion of water & electricity amount (August 2018)

$$= R7\ 500 - R2\ 100$$

$$= R5\ 400$$

$$\begin{aligned} & \text{Electricity portion of water \& electricity amount (September 2018)} \\ & = R8\ 580 - R2\ 100 \\ & = R6\ 480 \end{aligned}$$

Percentage increase in the electricity tariff

$$\begin{aligned} & = \frac{R6\ 480 - 5\ 400}{R5\ 400} \times \frac{100}{1} \\ & = 20\% \end{aligned}$$

6. a. Variance percentage for Telephone

$$\begin{aligned} & = \frac{R3\ 720}{R4\ 650} \times \frac{100}{1} \\ & = + 80\% \end{aligned}$$

Actual figure for Advertising

$$\begin{aligned} & = R8\ 000 - R6\ 800 \\ & = R1\ 200 \\ & \text{or } R8\ 000 \times 15\% = R1\ 200 \end{aligned}$$

- b. The sales for the month were R45 000 less than expected, which is 12% under budget. This is a significant difference and Josephine should investigate the reasons for this urgently. The fact that the advertising budget was badly under-utilised (only 15% of the advertising budget was used) may have had a major impact on the sales results.

The telephone expense exceeded the projected figure by R3 720, which is 80% over budget. This is significantly over budget and should be investigated urgently. Employees may be using the telephone for lengthy/international personal calls.

Recommendations: Josephine needs to ensure that the advertising budget is properly utilised and see whether this helps the business to achieve the projected sales figures. Control measures need to be implemented or improved in order to maintain proper control over the telephone expense. If, after these steps have been taken, these items are still vastly different from the budgeted amounts, then Josephine will probably need to adjust her projections.

7. Yes, the advertising budget was fully utilised in both months. This seems to have had the desired effect on sales, given that the sales amount for August 2018 was only slightly under budget, while in September 2018 sales exceeded the budgeted amount. In addition, the telephone expense improved dramatically in August 2018 (marginally over budget) and was well under budget in September 2018.

8. a. Decrease in interest expense per month

$$\begin{aligned} & = R2\ 250 - R2\ 100 \\ & = R150 \end{aligned}$$

Decrease in interest expense per year

$$\begin{aligned} & = R150 \times 12 \\ & = R1\ 800 \end{aligned}$$

$$\begin{aligned} & \text{Instalment amount} \\ & = \text{decrease in loan amount} \\ & = R1\,800 \div 15\% = R12\,000 \end{aligned}$$

$$\begin{aligned} \text{b. Increase in interest income per month} \\ & = R1\,500 - R1\,200 \\ & = R300 \end{aligned}$$

$$\begin{aligned} & \text{Increase in interest income per year} \\ & = R300 \times 12 \\ & = R3\,600 \end{aligned}$$

$$\begin{aligned} & \text{Interest rate on the fixed deposit} \\ & = \frac{R3\,600}{R40\,000} \times \frac{100}{1} \\ & = 9\% \end{aligned}$$

$$\begin{aligned} \text{c. Total loan amount on 31 July 2018} \\ & = (R2\,250 \times 12) \div 15\% \\ & = R180\,000 \end{aligned}$$

$$\begin{aligned} & \text{Total fixed deposit on 31 July 2018} \\ & = (R1\,200 \times 12) \div 9\% \\ & = R160\,000 \end{aligned}$$

9. The interest rate on the loan (15%) is higher than the interest rate on the fixed deposit (9%), so Josephine should rather reduce the loan than increase the fixed deposit.

At the beginning of August 2018, Josephine should rather use the R40 000, which she was planning to invest in the fixed deposit, to reduce the loan from R180 000 to R140 000. At the same time she should withdraw R140 000 from the fixed deposit and use those fund to pay off the balance of the loan. Thus the loan would be paid off and the fixed deposit balance would be R20 000 (R160 000 – R140 000). Therefore, for August 2018 there would be no interest expense and interest income would be R150 (R20 000 × 9% ÷ 12).

At the end of August 2018, she can then increase the fixed deposit by investing the R12 000 that she was planning to use to fund the annual instalment on the loan. This would mean that in September 2018, the interest income increase to R240 (R32 000 × 9% ÷ 12) and there would be no interest expense.

	Current projection		New projection	
	August 2018	September 2018	August 2018	September 2018
Interest income	1 500	1 500	150	240
Interest expense	(2 250)	(2 100)	0	0
Net effect on profit	(750)	(600)	150	240

Thus net profit would increase by R900 in August 2018 and by R840 from September 2018 onwards.

1. a. Percentage mark-up on cost = $\frac{R25m - R20m}{R20m} = 25\%$
- b. The directors may feel that at a higher mark-up:
 - Many of the retailers would not be prepared to buy their products.
 - The increase in price charged to the retailers would be passed on to the customers, which would have a negative impact on sales volumes.
 - The decrease in volume of sales would outweigh the benefits of the greater profit margin.
 - The interests of the local craftsmen and craftswomen who they are trying help would be prejudiced, since:
 - o the decrease in sales volumes would result in less income for the craftsmen and craftswomen, which would be unethical and go against the values of the company
 - o in order to keep the price charged to the retailers the same as it currently is, the company would have to pay the craftsmen and craftswomen less for their products, which would be contrary to company's values and ethics.
2. Salaries – internal auditors are employees of the company and thus receive a salary from the company. Audit fees reflect the charged by or amount paid to the external auditors.
3. a. The budget amount for audit fees for the year ended 28 February 2018 of R37 400 was most probably calculated based on the previous year's audit fees of R34 000.
The budget amount shows an increase of R3 400 from the previous year's actual amount, which is an increase of 10%
- b. Percentage over budget of audit fees

$$= \frac{R72\,930 - 37\,400}{R37\,400} \times \frac{100}{1}$$

$$= 95\%$$
- c. The Independent Regulatory Board for Auditors (IRBA)
- d. The punishment imposed by the IRBA would depend on the severity of the misconduct. If it was a once of case of excessive charging, then the IRBA would probably either cautioned, reprimanded or fine the external auditing firm. If it was found that the external auditing firm had been regularly over charging its clients, then the firm may be suspended, or even possibly struck-off, from membership of the IRBA.
4. a. Percentage increase in directors' fees

$$= \frac{R763\,000 - 700\,000}{R700\,000} \times \frac{100}{1}$$

$$= 9\%$$

- b. Yes, I think the shareholders will vote in favour of the proposed increase in directors' fees.

Reasons:

- The shareholders are pleased with the company's performance and the work that the directors have done.
- The actual sales for the year ended 28 February 2018 were R2,5m (or 10%) more than expected.
- The profit after tax exceeded expectations by R291 600 (R1 584 000 – 1 292 400), which is almost 23% more than the budgeted amount.
- An increase of 9% is very fair, especially given that the company is planning to increase salaries for the year ending 28 February 2019 by $\frac{R1,935m - R1,72m}{R17,2m} \times \frac{100}{1} = 12,5\%$
- The Projected Income Statement forecast an increase in profit of more than 26% in the year ending 28 February 2019.

- c. The Companies Act (71 of 2008)

- d. King III: "Companies should remunerate directors and executives fairly and responsibly."

5. Forecast tax for the year ending 28 February 2019
= R2 865 000 – R2 005 500
= R859 500

Expected company tax rate for the year ending 28 February 2019

$$= \frac{R859\,500}{R2\,865\,000} \times \frac{100}{1}$$
$$= 30\%$$

6. The success of a company should be determined based on its economic, social and environmental performance. Africa Home Grown Ltd. has performed very well in each of these areas:
- *Economic performance* – the company's sales and profits for the year ended 28 February 2018 were well above the projected amounts.
 - *Social performance* – the company helps underprivileged craftsmen and craftswomen in South Africa to make a better living. It also provides interest-free short-term financing to help these people to expand their production.
 - *Environmental performance* – the company helps to preserve the environment by employing a strict policy of only buying products that are made using sustainable practices.

Thus, the shareholders Africa Home Grown Ltd. would be pleased with all of these aspects relating to the company's performance.

1. Any two suitable answers such as:
 - To determine whether the business has performed as expected
 - To control operating activities by identifying variances and taking corrective actions
 - To determine whether the projections are realistic
 - To improve future projections

2. a. Percentage mark-up on cost

$$= \frac{R165\,000}{R165\,000} \times \frac{100}{1}$$

$$= 100\%$$

- b. Yes. $\frac{R145\,200}{R145\,200} \times \frac{100}{1} = 100\%$

- c. Percentage under budget

$$= \frac{R330\,000 - 290\,400}{R330\,000} \times \frac{100}{1}$$

$$= 12\%$$

This is significantly under budget and was the main reason for the business's poor performance in March 2018.

- d. **Strategy:** Siphon reduced the percentage mark-up on cost to 80%.

The percentage mark-up on cost projected for April 2018

$$= \frac{R176\,000}{R220\,000} \times \frac{100}{1}$$

$$= 80\%$$

By reducing the mark-up percentage, the selling price of the goods would be less than normal (or discounted). Siphon used this strategy to attract customers and to hopefully increase the gross profit by increasing the volume of sales.

Strategy: Siphon increased the advertising of the business.

The advertising budget of R12 000 was under-utilised by R7 000 in March 2018. The increase in the budget amount to R18 000 for April 2018 indicates that Siphon intended to advertise more during April 2018. This was done to attract more customers. An advertising campaign may have been carried out in to inform the public that the prices would be discounted during April 2018.

- e. Yes. The sales for April 2018 exceeded the forecast figure by more than 4,5% (or R18 000 over budget). The gross profit was R8 000 more than the budgeted amount and exceeded the gross profit from March 2018 by almost 27%. The advertising expense was over budget by R2 000, however this was more than adequately covered by the additional gross profit that was generated.
- f. The fee income for carpentry services rendered. This was R3 200 or 16% more than the budgeted amount and was over 40% more than the fee income amount from March 2018. This was most likely due to the fact that there were more customers at the hardware store during April 2018 and some of them would have required the carpentry services that the business provides. This may also have been partly due to the carpentry services being mentioned in the advertising.

3.
 - a. It was the end of the financial year, which is a busy time for most businesses. A lot of administration work needs to be done; accounts need to be finalised; stock counts need to be performed; etc.
 - b. Yes. The trading stock deficit amount of R9 200 for March 2018 indicates that the physical control of trading stock was very poor during that month. This amount was much greater than the R300 that was forecast for trading stock deficit. This is also more than the R5 500 that it costs the business to employ a security guard.
 - c. Siphon hired a new security guard (the actual amount for Salary - security guard for April 2018 was R5 500)
 - d. The trading stock deficit amount for April 2018 was only R450. Although this was 50% over budget, it was a vast improvement from March 2018.
4.
 - a. The forecast amount for discount allowed was R3 300, but the actual discount allowed amount was only R1 230 in March 2018. This indicates that debtors are not paying their debts promptly. The actual bad debts for March 2018 amounted to R7 640, which was way above the budgeted amount of R2 200. This is almost 3,5 times the budgeted amount and indicates that too many debtors are not paying their debts at all.
 - b. *Any suitable internal control measures, such as:*
 - Screening/ credit checks on customers before allowing them to buy on credit
 - Setting credit limits, especially for new customers
 - Improving billing procedures – e.g. ensuring that monthly statements are sent out on time
 - Improving follow-up procedures – e.g. phoning debtors to remind them to pay their accounts on time.
 - Increasing the discount offered to debtors for early payments.
 - Ensuring that interest is charged on overdue accounts.
 - Employing the services of a lawyer or debt collecting agency to assist with troublesome collections.
 - c. Yes, there was some improvement. The actual discount allowed amount for April 2018 was R4 180, which was more than the budgeted amount R3 960. This indicates that more debtors were paying their accounts promptly. The bad debts amount of R5 130 was still significantly more than the budgeted amount of R2 640; however this is less than 2 times the budgeted amount which shows an improvement from March 2018. Furthermore, most of the debts written off in April 2018 probably relate to debts that originated before the new internal control measures were implemented.
 - d. The business may encounter cash flow problems
5.
 - a. Percentage over budget of telephone expense in April 2018

$$= \frac{R4\ 320 - 4\ 000}{R4\ 000} \times \frac{100}{1}$$

$$= 8\%$$

- b. The budgeted amount of R4 000 for April 2018 was increased (by 25%) from the forecast amount of R3 200 in March 2018. This indicates that Siphon probably felt that the budgeted amount in March was unrealistic.
The actual amount of R4 320 for April 2018 was significantly less than the actual amount of R5 600 in March 2018. This indicates that Siphon probably took steps to improve the internal controls relating to the telephone usage.
6. a. The actual motor vehicle expense for March 2018 was R3 600 (or 90%) over budget. This indicates either poor planning or poor control or a combination of the two. The fact that the budget amount was increased by R500 in April 2018, show that Siphon probably felt that the budget for March was unrealistic. The actual motor vehicle expense decreased somewhat in April 2018, which indicates an improvement in control. However, the actual amount was slightly more than 50% over budget, which indicates that this expense is still not being controlled adequately.
- b. The actual amounts for water and electricity, for both March 2018 and April 2018, were slightly under budget. This indicates that water and electricity was accurately forecasted and well controlled during the budget period.
7. The forecast for the insurance expense was most likely based on an existing contract with an insurance provider. The future monthly premiums would be predetermined and stipulated in this contract.

» **Activity 14.8**

LB page 416

1.
Boland Traders Ltd.
Debtors Collection Schedule for the three months ending 28 February 2018

Month	Credit sales		Collections			Bad debts	Outstanding debts
			Dec 2017	Jan 2018	Feb 2018		
October 2017	R14 600	× 15%	2 190				
		× 5%				730	
November 2017	R22 400	× 50%	11 200				
		× 15%		3 360			
		× 5%				1 120	
December 2017	R68 400	× 30% × 95%	19 494				
		× 50%		34 200			
		× 15%			10 260		
		× 5%				3 420	
January 2018	R9 600	× 30% × 95%		2 736			
		× 50%			4 800		
		× 20%					1 920
February 2018	R15 600	× 30% × 95%			4 446		
		× 70%					10 920
			32 884	40 296	19 506	5 270	12 840

2.

Boland Traders Ltd.

Creditors Payment Schedule for the three months ending 28 February 2018

Month	Credit purchases		Payments		
			Dec 2017	Jan 2018	Feb 2018
September 2017	R14 600	× 40%	5 840		
October 2017	R18 000	× 60%	10 800		
		× 40%		7 200	
November 2017	R45 400	× 60%		27 240	
		× 40%			18 160
December 2017	R6 600	× 60%			3 960
			16 640	34 440	22 120

- The company's credit control is relatively good, but could be improved. The company should try to get all debtors pay their debts within the month of purchase. The 5% of debts that have been written off as uncollectible is also a concern. The company should implement control measures to protect against the risk of bad debts, such as thorough screening of customers before allowing credit, setting credit limits and strict collection procedures.
- The benefit of a 60-to-90-day payment term is that the business is able to sell stock before paying for it. For example, the company bought a large amount of stock on credit in November 2017 and then had the whole of December 2017 to sell this stock before having to start paying for it in January 2018. This means that the company could carry relatively high levels of stock in December, without incurring major cash flow problems.

Activity 14.9

LB page 417

1.

Moerat Traders

Debtors Collection Schedule for the period of 1 December 2017 to 28 February 2018

Month	Credit sales		Collections			Bad debts	Outstanding debts
			Dec 2017	Jan 2018	Feb 2018		
October 2017	R120 000	× 17%	20 400				
		× 3%				3 600	
November 2017	R131 400	× 50%	65 700				
		× 17%		22 338			
		× 3%				3 942	
December 2017	R186 000	× 30% × 95%	53 010				
		× 50%		93 000			
		× 17%			31 620		
		× 3%				5 580	
January 2018	R168 000	× 30% × 95%		47 880			
		× 50%			84 000		
		× 20%					33 600
February 2018	R114 000	× 30% × 95%			32 490		
		× 70%					79 800
			139 110	163 218	148 110	13 122	113 400

2. Sales for November 2017

$$= R131\,400 + 66\,600$$

$$= R198\,000$$

Cost price of trading stock sold in November 2017

$$= R198\,000 \times \frac{100}{150}$$

$$= R132\,000$$

Withdrawal of trading stock sold in November 2017

$$= R3\,000$$

Total purchases for November 2017

$$= R132\,000 + 3\,000$$

$$= R135\,000$$

Credit purchases for November 2017

$$= R135\,000 \times 75\%$$

$$= R101\,250$$

Amount payable to creditors during January 2018 = R101 250



Activity 14.10

LB page 420

1.

Delta Stores

Cash budget for the two months July and August 2018

	July 2018	August 2018	Total
RECEIPTS			
Cash sales	152 000	100 000	252 000
Cash from debtors	142 380	175 650	318 030
May (96 000 × 15%)	14 400	–	
June (126 000 × 50%) (126 000 × 15%)	63 000	18 900	
July (228 000 × 30% × 95%) (228 000 × 50%)	64 980	114 000	
August (150 000 × 30% × 95%)	–	42 750	
Cash from sale of vehicle (25 000 – 11 200 – 2 800)	–	11 000	11 000
Rent income (27 600 ÷ 12) (2 300 × 110%)	2 300	2 530	4 830
TOTAL RECEIPTS	296 680	289 180	585 860
PAYMENTS			
Cash purchases of stock	45 900	30 300	76 200
Payments to creditors	76 800	100 800	177 600
Repayment of loan (50 000 ÷ 10)	5 000	–	5 000
Interest on loan (50 000 – 5 000) × 18% × $\frac{3}{12}$	2 025	–	2 025
Packaging material (380 000 × 1%) (250 000 × 1%)	3 800	2 500	6 300
Salaries	12 800	12 800	25 600
Drawings (4 500 – 1 500)	3 000	3 000	6 000
Other operating expenses	9 900	10 230	20 130
TOTAL PAYMENTS	159 225	159 630	318 855
CASH SURPLUS/DEFICIT	137 455	129 550	267 005
BALANCE AT BEGINNING OF PERIOD	(83 878)	53 577	(83 878)
CASH ON HAND AT END OF PERIOD	53 577	183 127	183 127

Calculations

	May 2018	Jun 2018	Jul 2018	Aug 2018
Total sales (turnover)	160 000	210 000	380 000	250 000
Cash sales (40%)	64 000	84 000	152 000	100 000
Credit sales (60%)	96 000	126 000	228 000	150 000
Cost of sales (60% of turnover)	96 000	126 000	228 000	150 000
Add: Withdrawal of trading stock			1 500	1 500
Total purchases	96 000	126 000	229 500	151 500
Cash purchases (20%)	19 200	25 200	45 900	30 300
Credit purchases (80%)	76 800	100 800	183 600	121 200

2. If the business can achieve the budgeted sales targets, then the move and other changes that were made would definitely have been worthwhile. The overdraft will then be cleared during July 2018 and by the end of August 2018, the bank account should show a favourable balance of around R183 127. This means that the business's cash flow problems will be solved.



Activity 14.11

LB page 426

1. Percentage increase of annual rental

$$= \frac{R8\ 580 - 7\ 800}{R7\ 800} \times \frac{100}{1}$$

$$= 10\%$$

2. December and January are school holiday months. This means the business will be significantly busier than in February, when the holiday-makers have left.

3. $R120\ 000 \times \text{interest rate} \times \frac{1}{12} = R1\ 400$

Therefore: Interest rate

$$= \frac{R1\ 400 \times 12}{R120\ 000} \times \frac{100}{1}$$

$$= 14\%$$

4. Stock purchases = cost of sales

Stock purchases for December

$$= R169\ 400 + 72\ 600$$

$$= R242\ 000$$

Mark-up percentage on cost price

$$= \frac{R338\ 800 - 242\ 000}{R242\ 000} \times \frac{100}{1}$$

$$= 40\%$$

5. $(R12\ 000 - R9\ 000) \div 2 = R1\ 500$ each

Yes, it was a good idea, as the café was busy and the extra help was probably necessary. Also the additional R3 000 that was spent each month did not have a major impact on the cash flow of the business.

6. Cash deficit = R392 910 – 140 000 = R252 910
The cash deficit was mainly due to the construction of the restaurant section, the purchase of the vehicle and the decrease in sales.
7. Bank balance on 28 February 2018
= (R99 000 + 205 480 – 21 100 – 252 910)
= R30 470
8. The busy months for Lindsay's café are December and January, but she still needs adequate cash flow for the rest of the year. For this reason, she should take care with what she does with the surplus cash on 28 February 2018. Furthermore, the Cash Budget shows that even without the payments for the construction of the restaurant section and the purchase of the vehicle, the business would still be expected to experience a cash deficit in February 2018 of R34 910. If this trend continues in March 2018, then the bank account will be in overdraft by the end of March 2018.



Activity 14.12

LB page 427

1. A. Cash purchases of stock (March 2017)
= R165 600 ÷ 180% × 30%
= R27 600
- B. Payments to creditors (May 2017)
= R194 400 ÷ 180% × 70% × 95%
= R71 820
- C. Cash surplus/deficit (May 2017)
= R147 840 – R234 657
= – R86 817
- D. Balance at beginning of period (May 2017)
= – R4 397 + R16 970
= R12 573
- E. Cash on hand at end of period (May 2017)
= – R86 817 + R12 573
= – R74 244
2. Total purchases in May 2017
= R26 400 ÷ 30%
= R88 000
- Total cash sales in May 2017 before discount
= R88 000 × 180%
= R158 400
- Percentage discount applied in May 2017
= $\frac{R158\,400 - 134\,640}{R158\,400} \times \frac{100}{1}$
= 15%
3. Rental per square metre (March 2017) = R14 400 ÷ 48 m² = R300
4. Size of smaller office = R13 200 ÷ (R300 × 110%) = 40 m²

5. Number of shares that had been issued by 28 February 2017
 = R10 500 ÷ 0,15
 = 70 000
6. Inflation rate (on 28 February 2017)
 = Percentage increase in Sundry operating expenditure
 = $\frac{R19\ 845 - 18\ 900}{R18\ 900} \times \frac{100}{1}$
 = 5%
7. Percentage increase of wages to employees (April 2017)
 = $\frac{R55\ 212 - 51\ 600}{R51\ 600} \times \frac{100}{1}$
 = 7%

Percentage increase of directors' fees (April 2017)

$$= \frac{R35\ 100 - 26\ 000}{R26\ 000} \times \frac{100}{1}$$

= 35%

Arguments for: Yes to strike

- The employees received an increase of 7%, while the directors received an increase of 35% – this is unfair / unethical.
- The employees only received on average R4 300 per month before the increase (R4 601 after increase), while the directors received R13 000 (R17 550 after increase)
- With the increased competition in the market, the company cannot afford to increase the directors' fees by 35% as this might put the future of the company and the jobs of the employees in jeopardy.

Arguments against: No to strike

- The employees received an increase of 7%, which is above the inflation rate of 5%.
 - The directors take on a much greater risk, workload and responsibility and that is why their remuneration is so much higher.
 - With the increased competition in the market, the company cannot afford to increase wages by more than 7%.
8. • Arrange / extend overdraft with the bank
 • Take out a loan
 • Issue more shares
 • Withdraw funds from the fixed deposit



1. a. Number of days' stock on hand

$$= \frac{\frac{1}{2}(\text{R}152\,300 + 144\,780)}{\text{R}768\,000} \times 365$$

$$= 70,6 \text{ days}$$

b. Average debtors collection term

$$= \frac{\frac{1}{2}(\text{R}60\,000 + 75\,000)}{\text{R}1\,152\,000} \times 0,5 \times 365$$

$$= 42,8 \text{ days}$$

c. Average creditors payment term

$$= \frac{\frac{1}{2}(\text{R}75\,800 + 66\,870)}{\text{R}768\,000} \times 0,8 \times 365$$

$$= 42,4 \text{ days}$$

Comments

- There is between 60 and 90 days' stock on hand as planned.
- Debts are collected over 42,8 days instead of within 30 days. This means that the business's credit control is not good, and should be addressed to improve liquidity.
- Creditors are paid much sooner than the 60 days allowed. Vuyiseka should rather pay her creditors closer to 60 days, as it would also improve liquidity.

2.

Vuyiseka Boutique
Cash Budget for the period 1 March 2019 to 31 May 2019

	March 2019	April 2019	May 2019
RECEIPTS			
Cash sales [60 480 + (3 840 × 50%)]	57 600	60 480	62 400
Cash from debtors	57 360	82 848	56 856
Outstanding debts on 28 February 2019	30 000	28 200	–
March	27 360	25 920	–
April (60 480 × 45%)	–	28 728	27 216
May (62 400 × 50% × 95%)	–	–	29 640
TOTAL RECEIPTS	114 960	143 328	119 256
PAYMENTS			
Cash purchases of stock (62 400 × 2 × $\frac{100}{150}$ × 20%)	15 360	16 128	16 640
Payments to creditors (60 480 × 2 × $\frac{100}{150}$ × 80%)	75 800	61 440	64 512
Drawings	10 000	10 000	10 000
Loan repayment	–	–	60 000
Interest on loan	1 625	1 625	875
Relocation costs	30 000	–	–
Sundry operating expenses	14 500	14 500	14 500
TOTAL PAYMENTS	147 285	103 693	166 527
CASH SURPLUS/DEFICIT	(32 325)	39 635	(47 271)
BALANCE AT BEGINNING OF PERIOD	11 200	(21 125)	18 510
CASH ON HAND AT END OF PERIOD	(21 125)	18 510	(28 761)

3. a. The Cash Budget forecasts that Vuyiseka Boutique will encounter liquidity problems during the budget period, most notably in March 2019 and May 2019. The cash flow of the business should improve during April 2019. The liquidity problems can primarily be ascribed to the cost of the relocation to the mall in March 2019 and the repayment of the loan in May 2019. The late payment of debtors and early payment to creditors will also contribute to the liquidity problems of the business during the budget period.
 - b. The following advice is acceptable:
 - Vuyiseka should make arrangements for an overdraft facility for March and May.
 - She should decrease her drawings until the cash flow has improved.
 - She should make sure that the debtors pay within 30 days.
 - She should also increase cash sales and pay creditors closer to 60 days.
4. Average sales for the year ended 28 February 2019
 = R1 152 000 ÷ 12
 = R96 000

Total budgeted sales for March 2019
 = R57 600 × 2
 = R115 200

Total budgeted sales for April 2019
 = R60 480 × 2
 = R120 960

Based on previous year's average sales:
 Percentage increase in sales for March 2019

$$= \frac{R115\,200 - 96\,000}{R96\,000} \times \frac{100}{1}$$

$$= 20\%$$

Based on the sales for March 2019:
 Percentage increase in sales for April 2019

$$= \frac{R120\,960 - 115\,200}{R115\,200} \times \frac{100}{1}$$

$$= 5\%$$

5. Trade debtors on 28 February 2019 = R60 000
 Forecast collection for March 2019 = R30 000
 Percentage expected to be collected in March 2019

$$= \frac{R30\,000}{R60\,000} \times \frac{100}{1}$$

$$= 50\%$$

Forecast collection for April 2019 = R28 200
 Percentage expected to be collected in April 2019

$$= \frac{R28\,200}{R60\,000} \times \frac{100}{1}$$

$$= 47\%$$

No collection forecast for May 2019, therefore we can assume that the remaining R1 800 or 3% is expected to be written off as irrecoverable.

6. 1 May 2019

The expected decrease in interest on loan for May 2019

$$= R1\ 625 - 875$$

$$= R750$$

And: Interest on R60 000 at 15% p.a. for 1 month

$$= R60\ 000 \times 15\% \div 12$$

$$= R750$$

Therefore it must be expected that the loan will be repaid at the beginning of May 2019.

7. **Cash sales**

The cash sales for both months were 20% more than expected. This is a very good result for the business and indicates that it was a good decision to move to the local shopping mall.

Cash from debtors

Vuyiseka has not taken the increase in sales during March 2019 and April 2019 into account in her analysis of the collections for debtors. Based on the actual figures the collections from debtors that should have been achieved are as follows:

	March 2019		April 2019	
	Original budget	Adjusted budget	Original budget	Adjusted budget
Cash from debtors	57 360	62 832	82 848	93 778
Outstanding debts on 28 Feb 2019	30 000	30 000	28 200	28 200
March (adjusted = original × 120%)	27 360	32 832	25 920	31 104
April (adjusted = original × 120%)	–	–	28 728	34 474

Therefore, a more accurate comparison between the actual and the budgeted figures relating to collections is as follows:

	March 2019		April 2019	
	Budgeted	Actual	Budgeted	Actual
Cash from debtors	62 832	55 160	93 778	81 750

This shows that collections for March 2019 were actually R7 672 or 12,2% under budget, while the collections for April 2019 were actually R12 028 or 12,8% less than expected. These amounts are significantly under budget and therefore Vuyiseka should not be satisfied with her collections from debtors. She needs to take action to improve the internal control procedures and policies relating to the collection of debts from debtors.

Payments to creditors

Similarly, the budgeted amount for payments to creditors for April 2019 should have been adjusted. The increase in sales during March 2019 would have also resulted in the purchases for March 2019 increasing by 20%. Since creditors are paid in the month following the purchase of stock, the expected payments to creditors for April 2019 should have been 20% more than in the original budgeted amount, as follows:

Adjusted budgeted amount for payments to creditors (April 2019)

$$= R61\ 440 \times 120\%$$

$$= R73\ 728$$

Thus, the actual amount for payments to creditors in April 2019 of R73 680 is only R48 under budget. This is less than 0,1% below budget and is thus insignificant. Vuyiseka should not be concerned about the payments to creditors for April 2019; in fact she should be pleased since this indicates that the payments to creditors are being well controlled.



Activity 14.14

LB page 430

1. The initial budgeted advertising cost is R25 000. I do not agree completely with George's strategy. It would probably be more effective if a relatively large amount is spent initially (maybe between R10 000 and R15 000), but then follow-up advertising should have been done in the months thereafter using the remainder of the budgeted amount.
2. No, I don't think it would be a wise option, since he will withdraw too much money from the business. If he increases his withdrawals by 50%, then would be taking R90 000 ($R20\ 000 \times 150\% \times 3$) in three months, which is 45% of his contributed capital. George should wait until his business is well established before making more drawings. If he withdraws too much money too soon, his business might encounter cash flow problems later on. His budget for April 2018 looks promising and if these projections materialise and continue in May 2018, then he can consider increasing his drawings at that stage.

3. Credit sales percentage

$$= \frac{R348\ 000 - 261\ 000}{R348\ 000} \times \frac{100}{1}$$

$$= 25\%$$

4. Credit purchases in February

$$= (R348\ 000 \times \frac{100\%}{200\%}) - 87\ 000$$

$$= R87\ 000$$

Percentage discount received in March 2018

$$= \frac{R87\ 000 - 82\ 650}{R87\ 000} \times \frac{100}{1}$$

$$= 5\%$$

5. Credit sales for February

$$= R348\ 000 \times 25\%$$

$$= R87\ 000$$

Percentage debts collected in March 2018

$$= \frac{R43\ 500}{R87\ 000} \times \frac{100}{1}$$

$$= 50\%$$

The collection of 50% of debts after one month is reasonable. It would, however, improve the business's cash flow if this percentage could be increased.

6. Any two of the following problems should be identified and suitable suggestions should be offered for solving each problem:
- The sales were 15% more than the amount budgeted for, but purchases decreased by 3%. George therefore has not replaced his monthly stock. He may run out of stock because he did not replace it. George should therefore make sure that all stock sold is replaced within the same month.
 - It seems that George has given his floor manager a raise (or a bonus), because the sales were more than anticipated. This is a good policy, but it is unethical to increase the floor manager's salary and not the shop assistants' salaries as well. A possible solution is to increase the shop assistants' salaries by the same percentage. Because the business is running well, George can afford it. This will win the respect and trust of his personnel.
 - The amount paid for sundry expenses was R15 525 more than the budgeted amount or 9% over budget. This may have been largely due to George under-estimating the initial start-up costs of the business. However, George needs to take steps to ensure that the business's spending on expenses is adequately controlled, because overspending on expenses will have a negative effect on the liquidity and the profitability of his business.

» Informal assessment 14.1

LB page 434

Marks: 30

Time: 30 minutes

1. Percentage increase of salaries and wages

$$= \frac{R59\,400 - 54\,000}{R54\,000} \checkmark\checkmark \times \frac{100}{1}$$

$$= 10\% \checkmark$$

[3]

2. The rent increases on 1 April. ✓

[1]

3. No ✓, depreciation is a non-cash transaction. ✓

[2]

4. Number of shares to be issued in March 2018

$$= \frac{R210\,000}{R4} \checkmark\checkmark$$

$$= 52\,500 \text{ shares } \checkmark$$

[3]

5. Dividend per share = $\frac{R54\,000}{200\,000} \checkmark\checkmark \times 100 = 27 \text{ cents } \checkmark$

[3]

6. $\frac{R1\,000}{R50\,000} \checkmark = \frac{R1\,020}{R51\,000} \checkmark = 0,02 \text{ or } 2\% \checkmark$

Therefore, sundry administrative expenses will increase by 2% each month. ✓

[4]

7. Loan amount $\times 15\% \times \frac{1}{12} = R750 \checkmark\checkmark$

$$\text{Loan amount} \times 15\% = R750 \times 12 = R9\,000$$

$$\text{Loan amount} = R9\,000 \div 15\% = R60\,000 \checkmark\checkmark$$

[4]

8. *Accept any two valid suggestions, such as:*
- The company has a sound bank balance – some of the funds could be used. (✓✓)
 - A further 47 500 authorised shares could be issued. (✓✓)
 - The company could increase the loan amount. (✓✓) [4]
9. **Cash sales:** *accept any valid comment and any appropriate piece of advice, such as:*
- The cash sales were R9 000 less than budgeted (✓) / almost 4% under budget. (✓).
 - This should be investigated in order to ascertain the cause of the decrease in cash sales, such as more customers buying on credit, a decrease in advertising, etc. (✓)
 - This should be taken into consideration in future in order to prevent over budgeting. (✓)
- Collection of debts:** *accept any valid comment and any appropriate piece of advice, such as:*
- Debt collection was poorly managed and handled. (✓)
 - The collections were R28 000 below budgeted (✓) / almost 23% under budget (✓).
 - This is a serious problem should definitely be addressed (✓) and controls measures relating to granting credit and collections should be improved (✓).
- Sundry administrative expenses:** *accept any valid comment and any appropriate piece of advice, such as:*
- Sundry administrative expenses were overspent by R18 130 on the budget amount. (✓)
 - This is more than 36% over budget. (✓)
 - The directors will have to introduce better control measures to stop overspending (✓), or they will have to do research to establish whether the budget is sufficient for the purposes of the company (✓). [6]

CHAPTER 15

Revision activities

All the activities in this chapter are challenge activities.

» Activity 15.1 Companies: General Ledger

LB page 437

1. General Ledger of Matrix Ltd.

Dr				SARS (Income Tax)				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2020						
Aug	31	Bank	CPJ	52 000	Feb	29	Income tax	GJ	69 600		
		Balance	c/f	17 600							
				<u>69 600</u>					<u>69 600</u>		
					2020						
					Mar	01	Balance	b/d	17 600		

2.

Dr				Shareholders for Dividends				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
					2020						
					Feb	29	Dividends on ordinary shares	GJ	35 000		

3.

Dr				Income Tax				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2020					2020						
Feb	29	SARS (income tax)	GJ	<u>69 600</u>	Feb	29	Appropriation account	GJ	<u>69 600</u>		

4.

Dr				Dividends on Ordinary Shares				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2020						
Sep	30	Bank	CPJ	18 000	Feb	29	Appropriation account	GJ	53 000		
2020											
Feb	29	Shareholders for dividends	GJ	35 000							
				<u>53 000</u>					<u>53 000</u>		

5.

Dr				Appropriation account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2020					2020						
Feb	29	Income tax	GJ	69 600	Feb	29	Profit and loss	GJ	232 000		
		Dividends on ordinary shares	GJ	53 000			Retained income	GJ	80 000		
		Retained income	GJ	189 400							
				<u>312 000</u>					<u>312 000</u>		



1. General Ledger of Ngwenya Ltd.

Dr				Ordinary Share Capital				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2011					2011						
Oct	31	Bank		60 000	Mar	01	Balance	b/d	600 000		
		Balance	c/d	540 000							
				<u>600 000</u>					<u>600 000</u>		
					2012						
					Mar	01	Balance	b/d	540 000		

2. Loan: AB Bank

Dr				Loan: AB Bank				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2012					2011						
Feb	29	Bank		31 200	Mar	01	Balance	b/d	120 000		
		Balance	c/d	102 000	2012						
				<u>133 200</u>	Feb	29	Interest on loan		13 200		
									<u>133 200</u>		
					2012						
					Mar	01	Balance	b/d	102 000		

3. SARS (Income Tax)

Dr				SARS (Income Tax)				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2011					2012						
Mar	01	Balance	b/d	2 198	Feb	29	Income tax		135 648		
Aug	31	Bank		43 100							
2012											
Feb	27	Bank		79 200							
		Balance	c/d	11 150							
				<u>135 648</u>					<u>135 648</u>		
					2012						
					Mar	01	Balance	b/d	11 150		

4. Dividends On Ordinary Shares

Dr				Dividends On Ordinary Shares				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2011					2012						
Sep	02	Bank		36 000	Feb	29	Appropriation account		141 000		
2012											
Feb	29	Shareholders for dividends		105 000							
				<u>141 000</u>					<u>141 000</u>		

5. Appropriation Account

Dr				Appropriation Account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2012					2012						
Feb	29	Income tax		135 648	Feb	29	Profit and loss		423 900		
		Ordinary share dividends		141 000			Retained income		125 100		
		Retained income		272 352							
				<u>549 000</u>					<u>549 000</u>		



1.

No.	General Ledger		Amount
	Account debited	Account credited	
1.	Asset disposal	Vehicles	R80 000
	Accumulated depreciation on vehicles	Asset disposal	R40 832
	Debtors control	Asset disposal	R42 000
	Asset disposal	Profit with asset disposal	R2 832
2.	SARS (income tax)	Bank	R9 870
3.	Shareholders for dividends	Bank	R45 000
4.	SARS (income tax)	Bank	R78 900
5.	Ordinary share dividends	Bank	R28 000
6.	Bank	Share capital	R481 000
7.	Income tax	SARS (income tax)	R297 900
8.	Ordinary share dividends	Shareholders for dividends	R 172 800

2.

General Ledger of Sinazo Ltd.

Dr				Appropriation account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2011 Feb	28	Income tax		297 900	2011 Feb	28	Retained income/ Accumulate profit		121 900		
	28	Ordinary share dividends (172 800 + 28 000)		200 800			Profit and loss		662 000		
		Retained income/ Accumulate profit		285 200							
				<u>783 900</u>					<u>783 900</u>		

Calculations Asset disposal:

$$R80\ 000 \times 20\% \times \frac{6}{12} = R8\ 000$$

$$R72\ 000 \times 20\% = R14\ 400$$

$$R57\ 600 \times 20\% = R11\ 520$$

$$R46\ 080 \times 20\% \times \frac{9}{12} = R6\ 912$$

3.

SINAZO LIMITED

NOTES TO THE FINANCIAL STATEMENTS ON 28 FEBRUARY 2011

ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL	
Number of ordinary shares: 600 000 shares	

ISSUED SHARE CAPITAL	
350 000 ordinary shares in issue at the beginning of the year	1 081 400
130 000 shares issued during the year @ R3,70 each	481 000
480 000 shares in issue at the end of the year	1 562 400

» Activity 15.4 Company ledger accounts and asset disposal LB page 438

1. $R800\ 000 \times 3,4 = R2\ 720\ 000$

2. Number of shares issued

$4\ 000\ 000 + 800\ 000 = 4\ 800\ 000$ issued shares

Shareholders' equity:

$= R4\ 800\ 000 \times \frac{319}{100}$

$= R15\ 312\ 000$

Ordinary share capital

$15\ 200\ 000 (12\ 480\ 000 + 2\ 720\ 000)$

Accumulated profit

$\frac{112\ 000}{15\ 312\ 000}$

3.

General Ledger of Beyers Ltd.

Dr				SARS (Income tax)				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Mar	15	Bank		42 000	Mar	01	Balance		42 000		
Aug	31	Bank		168 000	2020						
2020					Feb	29	Income tax		398 400		
Feb	26	Bank		280 800			Balance	c/d	50 400		
				490 800					490 800		

Dr				Depreciation				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2020						
Jul	01	Accumulated depreciation on vehicles		5 376	Feb	29	Profit and loss		259 548		
2020											
Feb	29	Accumulated depreciation on vehicles		139 872							
		Accumulated depreciation on equipment		114 300							
				259 548					259 548		

Calculations:

Sold vehicle:

$$(\text{R}140\,000 - 59\,360) \times 20\% \times \frac{4}{12} = \text{R}5\,376$$

Old vehicles:

$$(\text{R}880\,000 - 324\,640) \times 20\% = \text{R}111\,072$$

New vehicle:

$$\text{R}216\,000 \times 20\% \times \frac{8}{12} = \underline{\text{R}28\,800}$$

$$\underline{\text{R}139\,872}$$

Dr				Asset Disposal				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2019					2019						
Jul	01	Vehicles		140 000	Jul	01	Accumulated depreciation on vehicles		64 736		
							Creditors control		74 000		
							Loss with asset disposal		1 264		
				<u>140 000</u>					<u>140 000</u>		

Dr				Appropriation Account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2020					2020						
Feb	29	Income tax		398 400	Feb	29	Retained income		8 400		
		Dividends on ordinary shares		402 000			Profit and loss		904 000		
		Retained income		112 000							
				<u>912 400</u>					<u>912 400</u>		

Ordinary share dividends:

Interim dividends

R210 000

Final dividends (4 800 000 x 4/100)

R192 000**R402 000**

4.

BEYERS LTD.**NOTES TO THE FINANCIAL STATEMENTS**

FIXED/TANGIBLE ASSETS		
	Vehicles	Equipment
Carrying value end of previous year	636 000	341 520
Cost price	1 020 000	672 000
Accumulated depreciation	(384 000)	(330 480)
Movements		
Additions at cost price	216 000	180 000
Asset disposal at carrying value	(75 264)	-
Depreciation	(145 248)	(114 300)
Carrying value end of current year	631 488	407 220
Cost price	1 096 000	852 000
Accumulated depreciation	(464 512)	(444 780)

5. The loan increased.
 Proceeds from shares issued
 Working capital combination changed – less stock / more creditors
6. Interim dividend = $\frac{210\,000}{4\,000\,000} = 5,25$ cents
 N Kaden received:
 31 August: $30\,000 \times \frac{5,25}{100} = \text{R}1\,575$
 28 February: $40\,000 \times \frac{4}{100} = \text{R}1\,600$
R3 175



Activity 15.5 Companies: Financial statements

LB page 440

1.

Kota Traders Ltd.

Income Statement for the year ended 29 February 2020

	Note	R
Sales		1 363 200
Cost of sales		(604 800)
Gross profit		758 400
Other operating income		299
Profit on disposal of assets		180
Provision for bad debts adjustment		119
Gross operating income		758 699
Operating expenses		(564 736)
Insurance		6 744
Water and electricity (6 384 + 516)		6 900
Telephone		7 572
Salaries		284 000
Bad debts (846 + 234)		1 080
Rates and taxes		2 530
Bank charges		1 970
Directors' fees (216 000 + 9 000)		225 000
Audit fees		3 980
Depreciation (18 000 + 4 000 + 1 220)		23 220
Trading stock deficit		1 740
Operating profit (loss)		193 963
Interest expense (9 600 + 1 200)		(10 800)
Profit (loss) before tax		183 163
Income tax		(79 119)
Net profit (loss) after tax		104 044

2.

Kota Traders Ltd.

NOTES TO THE BALANCE SHEET ON 29 FEBRUARY 2020

8. RETAINED INCOME

Balance at the beginning of the year	188 537
Net profit (loss) after tax for the year	104 044
Dividends on ordinary shares	(92 000)
Paid	50 000
Recommended/Declared	42 000
Balance at the end of the year	200 581

9. TRADE AND OTHER PAYABLES

Trade creditors (35 473 + 10 000 + 2 100)	43 373
Expenses accrued (payable) (516 + 9 000 + 1 200)	10 716
Shareholders for dividends	42 000
SARS – income tax	6 578
	102 667

3. *Any reasonable answer, e.g.*

The car must have a log book that accounts for every kilometer travelled. Employees must be instructed to leave computers at work, unless they have work to do at home.

If they have to work at home, they should log their hours and what was done, and the supervisor must sign these off.

You could have a special password on the computer linked to a user that records the time spent on the computer. This can be sent to a central monitor and checked by the supervisor / manager on a weekly / monthly basis.

» Activity 15.6 Companies: Financial statements

LB page 441

1.

General Ledger of Nkewu Limited

Dr		Appropriation account						Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2016					2016				
Jun	30	Income tax		112 600	Jun	30	Retained income		320 000
		Dividends on ordinary shares (70 000 + 98 000)		168 000			Profit and loss		406 800
		Retained income		446 200					
				726 800					726 800

Dividends declared on 30 June 2016 / shareholders for dividends

$$R700\,000 \times \frac{14}{100} = R98\,000$$

2.
NKEWU LIMITED
NOTES TO THE BALANCE SHEET ON 30 JUNE 2016

a.
ORDINARY SHARE CAPITAL

AUTHORISED	
Number of ordinary authorised shares: 90 000 shares	
ISSUED	
620 000 ordinary shares in issue at the beginning of the year	2 282 000
80 000 additional shares issued during the financial year at issue price R4,20 each	336 000
700 000 ordinary shares in issue at the end of the year	2 618 000

b.
TRADE AND OTHER PAYABLES

Trade creditors	79 400
SARS (income tax) (112 600 – 105 000)	7 600
SARS(PAYE)	4 480
Pension Fund	1 090
Expenses accrued (798 + 442)	1 240
Income received in advance	2 750
Shareholders for dividends	98 000
	194 560

Calculations for rent income:

$$5x + 8\left(x \times \frac{110}{100}\right) = R34\ 500$$

$$13,8x = R34\ 500$$

$$x = R2\ 500$$

$$x \times \frac{110}{100} = R2\ 750$$

3.

NKEWU LIMITED**BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON 30 JUNE 2016**

ASSETS	
Non-current assets	3 482 830
Fixed / Tangible assets	3 462 830
Financial assets:	
Fixed deposit: LK Bank (30 000 – 10 000)	20 000
Current assets	215 930
Inventories (134 780 + 1 090)	135 870
Trade and other receivables (36 000 – 1 440 + 1 300)	35 860
Cash and cash equivalents (34 200 + 10 000)	44 200
TOTAL ASSETS	3 698 760
EQUITY AND LIABILITIES	
Capital and reserves/Shareholders' equity	3 064 200
Ordinary share capital	2 618 000
Retained income	446 200
Non-current liabilities	380 000
Loan: WS Bank (440 000 – 60 000)	380 000
Current liabilities	254 560
Trade and other payables	194 560
Short-term loan (122 600 – 62 600)	60 000
TOTAL EQUITY AND LIABILITIES	3 698 760

1.

JABU INVESTMENTS LIMITED**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019**

	Note	R
Cash effects of operating activities		152 597
Cash generated (utilised) from operations	1	309 794
Interest paid		(18 450)
Dividends paid	3	(54 000)
Income tax paid	4	(84 747)
Cash effects of investing activities		(122 570)
Purchase of fixed assets	5	(125 000)
Proceeds from sale of fixed assets		2 430
Cash effects of financing activities		30 000
Proceeds from shares issued		75 000
Long-term loans received/paid		(45 000)
Net change in cash and cash equivalents	2	60 027
Cash and cash equivalents at the beginning of the year	2	73 920
Cash and cash equivalents at the end of the year	2	133 947

JABU INVESTMENTS LIMITED**NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019****1. RECONCILIATION BETWEEN NET PROFIT BEFORE TAX AND CASH GENERATED FROM OPERATIONS**

Net profit before taxation	188 750
Adjustments in respect of:	
Depreciation (7 250 + 3 440)	10 690
Interest expense	18 450
Operating profit before changes in working capital	217 890
Cash effects of changes in working capital	91 904
Change in stock (254 600 – 155 801)	98 799
Change in receivables [26 205 – (53 500 – 1 460)]	(25 835)
Change in payables (45 825 + 3 825 + 4 350) – (65 705 + 4 365 + 2 870)	18 940
Cash generated from operations	309 794

2. CASH AND CASH EQUIVALENTS

	Net change	2019	2018
Bank	60 027	133 947	73 920

3. DIVIDENDS PAID

Dividends for year as reflected in financial statements	(71 250)
Balance at the beginning of the year	(54 000)
Balance at the end of the year	71 250
Dividends paid	(54 000)

4. INCOME TAX PAID

Income tax for year as reflected in financial statements		(80 037)
Balance at the beginning of the year	Cr	(3 250)
Balance at the end of the year	Dr	(1 460)
Income tax paid		(84 747)

5. FIXED ASSETS PURCHASED

Land and buildings		(100 000)
Vehicles		(25 000)
		(125 000)

Calculations

1		Equipment		Accumulated depreciation on equipment	
Balance b/d	52 500	Asset disposal	8 000	Asset disposal	5 570
		Balance c/d	44 500	Balance c/d	15 970
				Balance b/d	18 100
				Depreciation	3 440

Selling price of equipment sold

R8 000 – 5 570 = R2 430 (carrying value = selling price)

2		Vehicles		Accumulated depreciation on vehicles	
Balance b/d	30 000			Balance b/d	13 500
Bought	25 000			Depreciation	7 250
	<u>55 000</u>				<u>20 750</u>

2. Creditors payment period for the year ended 30 June 2019

$$\frac{\frac{1}{2}(65\,705 + 45\,825)}{704\,450} \times \frac{365}{1}$$

$$= \frac{55\,765}{704\,450}$$

$$= 29 \text{ days}$$

Comments

- Creditors payment period has decreased from 40 days to 29 days.
- They are not making use of the 90 days concession during which creditors are allowed to be paid.
- They are paying creditors back sooner than debtors are paying them.
- This is not good for the liquidity and cash-flow of the business.

3. Debt equity ratio for the year ended 30 June 2019

$$80\,000 : 431\,838$$

$$= 0,19 : 1$$

4. Return on average capital employed

$$\frac{188\,750 + 18\,450}{478\,107} \times \frac{100}{1}$$

$$= 43,3\%$$

5. Yes, the business has a favourable debt equity ratio, which is well 0,19 : 1. Capital is employed wisely and is earning a good return of 43,3%.

The interest rate of 16% is much less than the return on capital, therefore the interest on the loan can be serviced.

6. Any one of the following reasons is acceptable:

- They might want to see whether the business is making the profits that they say they are and what percentage of the profits was paid out as dividends; in other words, how the profits have been appropriated.

- The above information is important in order to determine whether the increase either given or proposed to workers is fair.
- They would also be interested to know how much the business is retaining for later expansion purposes, in other words, they are interested in the future growth potential of the business.

7. There are 75 000 issued shares.

$$\frac{71\,250}{75\,000} \times \frac{100}{1}$$

$$= 95 \text{ cents per share} \times 4\,000$$

$$= R3\,800 \text{ in respect of dividends}$$

Activity 15.8 Companies

LB page 445

1. a.–c.

General Ledger of Mazerata Ltd.

Dr				SARS (Income Tax)				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2011 July	15	Bank		35 000	2011 Jul	01	Balance	b/d	35 000		
Dec	31	Bank		140 000	2012 Jun	30	Income tax		332 000		
2012 Jun	28	Bank		234 000			Balance	c/d	42 000		
				<u>374 000</u>					<u>374 000</u>		
2012 Jul	01	Balance	b/d	42 000							

Dr				Depreciation				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2011 Jul	01	Accumulated depreciation on vehicles*		5 376	2011 Jun	30	Profit and loss		219 298		
2012 Jun	30	Accumulated depreciation on vehicles**		118 672							
		Accumulated depreciation on equipment***		95 250							
				<u>219 298</u>					<u>219 298</u>		

Dr				Asset Disposal				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2011 Nov	01	Vehicles		140 000	2011 Nov	01	Accumulated depreciation on vehicles		**64 736		
							Creditors control		74 000		
							Loss on sale of vehicle		1 264		
				<u>140 000</u>					<u>140 000</u>		

$$* \quad R140\,000 - 59\,360 = 80\,640 \times \frac{20}{100} \times \frac{4}{12} = R5\,376$$

$$** \quad R59\,360 + 5\,376 = R64\,736$$

$$*** \quad R850\,000 - 140\,000 = R710\,000$$

$$R320\,000 + 5\,376 - 64\,736 = R260\,640$$

$$R710\,000 - 260\,640 = 449\,360 \times \frac{20}{100} = R89\,872$$

$$R216\,000 \times \frac{20}{100} \times \frac{8}{12} = R28\,800$$

$$R89\,872 + 28\,800 = R118\,672$$

2.

FIXED/TANGIBLE ASSETS

	Vehicles	Equipment
Carrying value at beginning of year	530 000	284 600
Cost	850 000	560 000
Accumulated depreciation	(320 000)	(275 400)
Movements		
Additions	216 000	* 150 000
Disposals at carrying value	(75 264)	
Depreciation	(124 048)	(95 250)
Carrying value at end of year	546 688	339 350
Cost	926 000	710 000
Accumulated depreciation	(379 312)	(370 650)

$$* \quad R560\,000 - 275\,400 = 284\,600 - 95\,250 = R189\,350$$

$$R339\,350 - 189\,350 = R150\,000$$

3. a.

DIVIDENDS PAID

Dividends for year as reflected in financial statements	(330 000)
Balance at the beginning of the year	(210 000)
Balance at the end of the year	180 000
Dividends paid	360 000

Dividends paid

Last year's dividend 210 000

This year's dividend 180 000

Total **390 000**

b. Proceeds from issue of shares

(100 000 × R3) R300 000

Proceeds from loan

([750 000 + 35 000] - [480 000 + 20 000]) R285 000

Total **R585 000**

4. a. Shareholders equity = NAV per share × 400 000 issued shares

$$= 319 \times 400\,000$$

$$= R1\,276\,000$$

Retained income = R1 276 000 - 1 200 000

$$= R76\,000$$

b.

Dr				Appropriation account				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2012					2012						
Jun	30	Income tax		332 000	Jun	30	Retained income		52 000		
		Dividends on ordinary shares		330 000			Profit and loss		686 000		
		Retained income		76 000							
				<u>738 000</u>					<u>738 000</u>		

- c. They issued more shares and received an additional R300 000.
They borrowed more money and received an additional R285 000.
Not all expenses are cash expenses (depreciation).
Changes in working capital may have increased cash.

d. **Dividends earned**

3 000 shares × 50 cents per share	
($\frac{150\,000}{300\,000}$)	1 500 (interim dividend)
4 000 shares × 45 cents per share	<u>1 800 (final dividend)</u>
Total	<u>3 300</u>

- e. • Her 4 000 shares were purchased for R3. That is an investment of R12 000. She earned a dividend of R3 300, which is a return of 28% on her investment. This is a good return on her investment.
- The market value of the share is higher than the NAV so there is some potential in this share.
 - The fact that the company borrowed more money and sold more shares shows that they intend expanding and this could benefit her further investment in the long term.
 - I would advise her to purchase more shares because she is making a good return on her investment. The company is making good profits and has retained a substantial amount of its profits for further capital development projects (expansions).



Activity 15.9 Companies

LB page 447

1. a.

RECONCILIATION BETWEEN NET PROFIT BEFORE TAX AND CASH GENERATED FROM OPERATIONS

Net profit before taxation	458 000
Adjustments in respect of:	
Depreciation	76 000
Interest expense	99 000
Operating profit before changes in working capital	633 000
Cash effects of changes in working capital	108 400
Change in inventory	(34 000)
Change in receivables	307 000
Change in payables	(164 600)
Cash generated from operations	<u>741 400</u>

1. b.

DIVIDENDS PAID

Dividends for year as reflected in financial statements (136 600 + 60 000)	(196 600)
Balance at the beginning of the year	(75 000)
Balance at the end of the year	60 000
Dividends paid	<u>(211 600)</u>

1. c.

INCOME TAX PAID

Income tax for year as reflected in financial statements	(137 400)
Balance at the beginning of the year	(29 000)
Balance at the end of the year	48 000
Income tax paid	<u>(118 400)</u>

2. a.

Cash flow from financing activities

Proceeds from shares issued*	400 000
Repayment of the loan	(150 000)
	250 000

* $100\,000 \times R4 = R400\,000$

2. b.

Cash flow from investing activities

Additions to land and buildings	(586 000)
Proceeds from the sale of equipment (550 000 – 76 000 – 434 000)	40 000
	(546 000)

3. a. **Net asset value per share**

Calculation

$$\frac{2\,125\,000}{400\,000} \times \frac{100}{1}$$

Answer

532 cents

Comments

- The net asset value per share decreased from the previous year, from 534 cents to 532 cents per share.
- The NAV has decreased due to the new shares that were issued during the course of the year.

b. **Earnings per share**

Calculation

$$\frac{320\,600}{400\,000} \times \frac{100}{1}$$

Answer

80 cents per share

Comments

- It is satisfactory.
- It has however decreased from last year – return was 24,5% on the price per share and is now only 20%.
- Although the company earned more profits it sold more shares, that is why the EPS decreased.

c. **Comments**

- The offer is for R5,50 while the NAV is only R5,32. The reason could be that the investor wants to gain control over the company and wants to purchase as many shares as possible in order to do so.
- There could be a sudden demand for the shares which will drive up the market price further. The investor wants to ensure that he buys his shares soon before the price increases.

d. **Debt equity ratio**

Calculation

$$350\,000 : 2\,125\,000$$

Answer

0,16 : 1

Comments

- Ratio has improved from last year (from 0,32 : 1 to 0,16 : 1).
- The company has a low gearing.
- Easy to attract loans
- Below the accepted average

e. Comments

- Yes
- The return on shareholders' equity (17,2%) is higher than the interest rate of the loan.
- The additional loan will increase the debt equity ratio, but the company was offered the loan and do not have to apply for the loan.
- The acceptable NAV and EPS will make the additional loan worthwhile.



Activity 15.10 Cash flow and interpretation

LB page 449

1.

SYLCO LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

	Note	R
Cash effects of operating activities		209 520
Cash generated (utilised) from operations	1	807 525
Interest paid(9 000 + 50 960 – 3 000)		(56 960)
Dividends paid(381 900 + 42 000 – 57 000)	3	(366 900)
Income tax paid(176 095 + 4 500 – 6 450)	4	(174 145)
Cash effects of investing activities		(94 020)
Purchase of fixed assets(1 383 000 – 274 980 – 78 900 – 1 578 120)	5	(549 000)
Proceeds from sale of fixed assets		180 000
Investments matured/placed		274 980
Cash effects of financing activities		15 000
Proceeds from shares issued (1 200 000 + 120 000 – 1 425 000 – 210 000)		315 000
Long-term loans received/paid		(300 000)
Net change in cash and cash equivalents	2	130 500
Cash and cash equivalents at the beginning of the year	2	16 500
Cash and cash equivalents at the end of the year	2	147 000

RECONCILIATION BETWEEN NET PROFIT BEFORE TAX AND CASH GENERATED FROM OPERATIONS

Net profit before taxation	586 165
Adjustments in respect of:	
Depreciation	78 900
Interest expense	50 960
Operating profit before changes in working capital	716 025
Cash effects of changes in working capital	91 500
Change in inventory	97 500
Change in receivables	18 000
Change in payables	(24 000)
Cash generated from operations	807 525

2. Calculation of financial indicators

Working *Answer*

% operating profit on sales

$$\frac{600\,000}{2\,784\,000} \times 100 \qquad 21,5\%$$

% return on average shareholders' equity

$$\frac{410\,070}{\frac{(1\,828\,170 + 1\,485\,000)}{2}} \times 100$$

$$\frac{410\,070}{1\,656\,585} \times 100 \qquad 24,7\%$$

Net asset value per share

$$\frac{1\,828\,170}{142\,500} \qquad 1\,283 \text{ cents}$$

Earnings per share

$$\frac{410\,070}{142\,500} \times 100 \qquad 288 \text{ cents}$$

Rate of stock turnover

$$\frac{1\,740\,000}{\frac{1}{2}(187\,500 + 90\,000)}$$

$$\frac{1\,740\,000}{138\,750} \qquad 12,5 \text{ times}$$

3. Yes. The increase resulted in gross profit increasing by R740 000.

4. Yes

Directors' fees increased by 32%.

Salaries and wages increased by only 8%.

Sales increased so workers worked harder to achieve higher sales.

Operating profit went up by 50%, workers were more efficient with expenses.

Note: Teachers should ensure that:

- Valid reasons are given and/or that opinion/conclusion was stated.
- Learners considered the increase in salaries and wages and compared this to the increase in directors' fees.
- Learners identified how the increase in sales affected workers.
- Learners identified how the increase in profits should have affected workers.

No

Directors are entitled to earn more than workers. They have the skill, qualifications, education and have invested more in the company. The 8% increase is higher than the current inflation rate, so it is fair. An average of R7 000 per worker is higher than the minimum wage stipulated by the government.

5. Yes

Current ratio increased slightly – from 1,7 : 1 to 1,9 : 1.

Acid test ratio increased substantially – from 0,4 : 1 to 1,3 : 1.

This can be attributed to the increase in cash in the bank, which had a favourable effect on this ratio.

The company is more liquid than the previous year.

6. The letter should show the Following:

- The improvement in the return on average shareholders' equity.
- The improvement in EPS and DPS and how this is beneficial to the company.
- The improvement in DPS and how this benefits the company and shareholders.
- Dividend payout and the possibility of not accumulating enough profits.
- The improvement in NAV and how this could benefit the company and the market value of the shares.
- Concern as to why the share is undervalued on JSE and why it is so.

Note: Teachers should ensure that:

- All relevant issues were raised.
- All the appropriate financial indicators quoted.
- The financial indicators were correctly interpreted.
- The letter has a formal structure and uses formal language.

7. *Audit report:* to ensure directors are reporting properly

AGM: to express opinions and appoint responsible people as directors and to be involved in the decision-making process



Activity 15.11 Audit report

LB page 451

1. Directors / Financial directors
2. Shareholders. It is the money that the shareholders invested in the business; that is, governed by the directors.
3. To protect the shareholders
To ensure that it is a fair reflection of the financial statements
To ensure that the directors are not misrepresenting the figures
(Any acceptable answer)
4. The auditors have stated that they are satisfied with all aspects of the financial reporting by the directors.
Complies with IFRS and Companies Act
The auditors have not stated the report is qualified or withheld
(Any acceptable answer)
5. So that readers of the financial statements can have confidence in his opinion
Assurance to the public that he/she is well trained on an on-going basis
(Any acceptable answer)

6. The auditor would verify that assets exist physically.
Source documents (e.g. invoices) could be compared to entries in books.
Bank statements
Stock sheet counts
(Any acceptable answer)
7. IFRS sets the standards for preparing the financial statements.
By applying IFRS the financial statements of different companies can be compared to each other.
8. Yes, this will affect the audit. The independent auditor may not be involved, in any way, with an employee of the company.

Advice

- They should declare conflict of interest.
- The audit company should not longer audit the company's books.
- Michelle must quit her job.

» Activity 15.12 Audit report

LB page 451

1. The independent auditor expresses an opinion on the fair presentation of the financial statements. He will also check if internal control is effective and that no fraud takes place.
Watchdog role – look after the interests of the shareholders. The shareholders of a company need to have confidence in the company's ability to look after their investment.
2. Qualified report: Donation expenses need to be investigated and explained as it could not be verified.
3. They are only responsible for the pages stipulated in the auditors' report.
4. a. The independent auditor belongs to a professional body and needs to comply with its standards by doing his job properly. Expenses are not being fairly presented, as *Donations* is overstated by R50 000.
Transparency and accountability are two important principles that need to be adhered to.
- b. Consequences:
They could be disciplined/fined/suspended.
They could be held liable (sued) by the shareholders, if they are found negligent in performing their duties.
He could lose clients as his integrity will be questioned.
5. Examine the financial records of the business – external audit.
Assess the internal control of the business with regards to assets.
Inspect the fixed assets register and verify if the assets exist.
Assess the accounting principles used by the business.
6. Triple bottom line
7. Class discussion – any acceptable answer e.g. Pick n Pay conservation; Woolworths organic farming; Standard Bank supports cricket; Sasol cultural heritage
- 8.

Case 1	Insider trading
Case 2	Market manipulation
Case 3	Pollution of the environment



1. $R72\ 000 \times 20\% = 14\ 400$
 Accum Deprec. = 28 000
 42 400

2. **General Ledger of Ralgiant Traders**

Dr		SARS (Income Tax)				Cr	
Date	Details	Fol.	Amount	Date	Details	Fol.	Amount
2020 Feb 29	Vehicles		100 000	2020 Feb 29	Acc. Deprec. on vehicles	GJ	42 400
					Creditors control		35 000
					Loss on asset disposal		32 600
			<u>100 000</u>				<u>100 000</u>

3. Extract from note for Fixed/tangible assets

Movements	180 000
Disposal @ carrying value (100 000 – 42 400)	(57 600)
Depreciation (320 000 – 88 900) × 20%	(46 220)

4.
 - Knowledge of procurement procedures
 - Knowledge of internal control of fixed assets
 - Knowledge of insurance and maintenance of assets



1. The computers and printers were stolen.
 The computers and printers were written off/ obsolete, but this was never entered in the business's books.
(Any acceptable answer)
2. He can do physical stocktaking by comparing the invoices with the books in the library.
 The duty for ordering the books and the duty for receiving the books and comparing it with the invoice should be split between two separate personal.
(Any acceptable answer)
3.
 - a. $(8 + 8 + 8 + 3) \times R600 = R16\ 200$
 - b. Number of pages printed = $27 \times 800 = 21\ 600$
 Cartridges used in network printer = $21\ 600 \div 3\ 500 = 6,17$
 Amount spent on cartridges = $6,17 \times R1\ 550 = R9\ 565,71$
 - c. **Advantages**
 - The amount spent on ink cartridges will be a lot less.
 - Only one printer to maintain and repair.**Disadvantages**
 - It is a very expensive printer.
 - If it breaks, none of the teachers can print.*(Any acceptable answer)*

Report: Equipment for the year ended 28 February 2018**Details: Beginning of the year:**

On 1 March 2017 the business had equipment that originally cost R81 000.

The accumulated depreciation at this date was R38 400.

The carrying value was R42 600.

Details of equipment bought and sold:

On 31 August 2017, used equipment was traded in on new equipment that cost R30 000.

The used equipment was sold for R27 000 (81 000 + 30 000 – 84 000).

Accumulated depreciation on 31 August 2017 is R22 950 (27 000 – 4 050).

Profit on sale of equipment R4 950

The equipment was traded in on 31 August for R9 000 (R27 000 + R4 950 – R22 950).

Depreciation for the year:

Old equipment: $R54\,000 \times 10\% = R5\,400$

New equipment: $R30\,000 \times 10\% \times \frac{6}{12} = R1\,500$

Equipment traded in: $R27\,000 \times 10\% \times \frac{6}{12} = R1\,350$

Total depreciation: R8 250

Details: End of the year

On 28 February 2018 we had equipment that originally cost R84 000.

The accumulated depreciation on equipment at this date was R23 700.

The book value is R60 300.

2. a. The business has made a loss whereas it could have made a profit.
- b. A profit on the sale would have resulted in a higher profit than what is the case with a loss having been recorded.
The bank balance would have been greater.
- c. Yes or No
Yes because this has resulted in less profit and therefore less tax would have been paid even though it is a sole trader, where the owner pays tax in his private capacity.
OR
No as the business belongs to the owner and while he is losing profit he is gaining equipment.

1.

Date	Purchases	Sales	Cost of sales	Price per unit	Stock on hand
Sep 2011	On hand 175 × R90,00				175 × R90,00
Oct	300 × R92,00			$\frac{(175 \times R90,00) + (300 \times R92,00)}{(175 + 300)}$ = $\frac{43\,350}{475}$ = $\frac{R91,26}{\text{unit}}$	475 × R91,26
Dec		420	420 × R91,26 = R38 329,20		55 × R91,26
Feb 2012	400 × R97,50			$\frac{(55 \times R91,26) + (400 \times R97,50)}{(55 + 400)}$ = $\frac{44\,019,30}{455}$ = R96,75	455 × R96,75
Mar		436	436 × R96,75 = R42 183,00		19 × R96,75
Apr	441 × R95,00			$\frac{(19 \times R96,75) + (441 \times R95,00)}{(19 + 441)}$ = $\frac{43\,733,25}{460}$ = R95,07	460 × R95,07
Jun		402	402 × R95,07 = R38 218,14		58 × R95,07
Aug	442 × R96,75			$\frac{(58 \times R95,07) + (442 \times R96,75)}{(58 + 442)}$ = $\frac{48\,277,56}{500}$ = R96,56	500 × R96,56

2. Cost of sales = R38 329,20 + 42 183,00 + 38 218,14 = R118 730,34
 Gross profit = Sales – Cost of sales
 = 442 660 – 118 730,34
 = R323 929,66

» Activity 15.17 Stock valuation and control

SECTION A: STOCK VALUATION

1. First in first out
 2. $\frac{188\,500}{65} = R2\,900$
 3. $170 \times R3\,360 \Rightarrow R571\,200$
 $\frac{60}{230} \times R3\,600 \Rightarrow \frac{216\,000}{787\,200}$

4.–5.

Sales	2 451 600
Cost of sales	(1 451 700)
Opening stock	188 500
Purchases (2 072 000 – 21 600)	2 050 400
Closing stock	(787 200)
Gross profit	999 900

SECTION B: PROBLEM SOLVING AND CONTROL OVER STOCK

Branch	Problem	Advice
Michausdal	Even though Rukshar spend the most on advertising, R50 000 – her sales are not the most – 1 170 units. The reason could be poor management of stock – she ran out of stock when there was still a demand.	Order more stock so as not to run out of stock. OR Her advertising strategy should be reconsidered.
Seaview	Even though Thabo has advertised a lot, R32 000, it has not been effective. His sales are the least of all, 525 units. Thabo is not working hard enough OR He has too much stock on hand, R1 575 units, while he sold only 525 units. Stock will become obsolete – outdated OR He made a net loss of R 33 000.	Thabo need to advertise more effectively to increase sales. OR Instead of paying managers a set monthly salary, they should be paid commission on sales. OR Transfer excess stock to Michausdal.
Blue Mountains	Theft occurring – 98 units missing Loss/deficit of $98 \times 1\,050 = R102\,900$	Investigation with regards to missing stock Poor management/internal control over stock Do regular stock checks

» Activity 15.18 Stock valuation and profits

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$$\begin{aligned}
 1. \quad & (3 \times R1\,380) + (15 \times R1\,400) \\
 & = R4\,140 + 21\,000 \\
 & = R25\,140
 \end{aligned}$$

2.

Sales $(28 \times R2\,200) + (17 \times R2\,200)$	99 000
Cost of sales	(61 100)
Opening stock $(25 \times 1\,340)$	33 500
Purchases $(23 \times 1\,380) + (15 \times 1\,400)$	52 740
	86 240
Closing stock	(25 140)
GROSS PROFIT	37 900

3. a.

Date		Units sold	Units purchased	Units on hand
01 Feb	Opening stock			$25 \times 1\,340$
05 Feb	Purchases		$23 \times 1\,380$	$\frac{(25 \times 1\,340) + (23 \times 1\,380)}{48}$ 48 @ R1 359,17
10 Feb	Sales	$28 \times R1\,359,17$		$20 \times R1\,359,17$
18 Feb	Purchases		$15 \times 1\,400$	$\frac{(20 \times 1\,359,17) + (15 \times 1\,400)}{35}$ 35 @ R1 376,67
26 Feb	Sales	$17 \times R1\,376,67$		$18 \times R1\,376,67$
Balance of trading stock: $18 \times 1367,67$				R24 780,06
OR Average price $= \frac{(25 \times 1\,340) + (23 \times 1\,380) + (15 \times 1\,400)}{63}$ = R1 368,89				OR $18 \times 1\,368,89$ = R24 640

b.

Sales	99 000	00
Cost of sales (28 × 1 359,17) + (17 × 1 376,67)	(61 460	15)
GROSS PROFIT	37 539	85



Activity 15.19 Stock valuation and ethics

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- Periodic: Stock values are not updated and can only be calculated with the help of a stock taking
OR cannot trace shortages.
 Perpetual: Stock values are continuously updated
OR stock shortages are identified easily and quickly.

$$\begin{aligned}
 2. \quad a. \quad & \frac{R824\,600}{(1\,140 + 100)} \\
 & = \frac{824\,600}{1\,240} \\
 & = R665 \\
 & R665 \times 130 = R86\,450
 \end{aligned}$$

b.

Sales	1 215 450
Cost of sales	(738 150)
Opening stock	55 600
Net purchases(747 500 – 7 000)	740 500
Carriage on purchases(1 140 × R25)	28 500
	824 600
Less: Closing stock	(86 450)
GROSS PROFIT	477 300

$$\begin{aligned}
 3. \quad a. \quad & 90 \times R725 = R65\,250 \\
 & 40 \times R675 = \underline{R27\,000} \\
 & \quad \quad \quad \underline{\underline{R92\,250}}
 \end{aligned}$$

b.

Sales	1 215 450
Cost of sales	(732 350)
Opening stock	55 600
Net purchases(747 500 – 7 000)	740 500
Carriage on purchases(1 140 × R25)	28 500
	824 600
Less: Closing stock	(92 250)
GROSS PROFIT	R483 100

- No, if it's to manipulate the profit.
 Yes, if it's a more reliable way of recording stock.

$$\begin{aligned}
 1. \text{ Average price of stock available} \\
 &= \frac{(7\,280 + 22\,406 + 1\,322)}{(52 + 152)} \\
 &= \frac{31\,008}{204} \\
 &= R152
 \end{aligned}$$

Value of closing stock = $31 \times R152 = R4\,712$

2.

Opening stock	7 280
Purchases	22 406
Carriage on purchases	1 322
Closing stock	(4 712)
Cost of sales	26 296

OR

$$\begin{aligned}
 \text{Number of units sold} &= 96 + 77 = 173 \\
 173 \times R152 &= R26\,296
 \end{aligned}$$

$$\begin{aligned}
 3. \text{ Sales} &= R21\,504 + 18\,480 = R39\,984 \\
 \text{Gross profit} &= R39\,984 - 26\,296 = R13\,688
 \end{aligned}$$

$$\begin{aligned}
 4. \frac{13\,688}{26\,296} \times 100 \\
 &= 52,05\%
 \end{aligned}$$

$$\begin{aligned}
 5. \frac{\text{Cost of sales}}{\text{Average stock}} \\
 &= \frac{26\,296}{\frac{1}{2}(7\,280 + 4\,712)} \\
 &= 4,39 \text{ times}
 \end{aligned}$$

6. *Any two reasons for not achieving profit mark-up:*

- The prices of the suppliers increased, while the selling price of the kettles stayed the same.
- Mistakes could have been made in the books.
- Carriage on purchase increased the cost price which decreased the profit.

Any two ways to improve control over stock:

- Stock items received should be checked against those listed on the invoice.
- Lost, stolen or destroyed items must be reported immediately.
- Access to stock should be limited and supervised.
- Detailed stock records should be maintained and periodically checked by physical stock takes.
- Entries in the books should be checked by a second person other than the bookkeeper.

7. Yes, she can continue selling this range of kettles as the rate of stock turnover increased from 3,5 times per year to 4,39 times per year.



1. **General Ledger of Gary's Super Store**

Dr				Creditors Control				Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2020 Jun	30	Bank and discount received (31 104 + 20)	CPJ	31 124	2020 Jun	01	Balance (46 352 – 430)	b/d	45 922
		Sundry returns	CAJ	940		30	Sundry purchases (34 020 + 2 720)	CJ	36 740
		Journal debits	GJ	234			Bank (refunds)	CRJ	1 010
		Balance	c/d	51 536			Journal credits (126 + 36)	GJ	162
				83 834					83 834
					2020 Jul	01	Balance	b/d	51 536

Creditors List on 30 June 2020

Creditors	Debit	Credit
Osman's Wholesalers (-36 + 36)		-
BP Stores (26 852 + 2 720)		29 572
Steve West Traders (12 374 + 130)		12 504
Highland Ltd. (4 080 – 100)		3 980
MJ Motors (5 500 – 20)		5 480
		51 536

2. Yes.

Any three of the following reasons are acceptable (figures and amounts must be included in the reasons):

- The amount for purchases is almost equal to accounts paid.
- The business has received discounts of R864, therefore it is paying accounts on time.
- Returns to creditors of R940 are quite low, compared to the purchases of R36 740.
- The opening balance of R45 922 almost equals the closing balance of R51 536, which means that the business is keeping purchase levels constant.

3. *Any of the following reasons are acceptable:*

- The debit balance of R430 on 1 June could have been refunded.
- Discounts that should have been received for early payment could have been paid in cash.
- A creditor could have overpaid and therefore the overpayment was received back in cash.



1.

Creditors Ledger of Joseph Stores

ADAM DEALERS						
Date		Details / Document no.	Fol.	Debit	Credit	Balance
2015						
Mar	31	Balance				18 187
		Incorrect invoice		900		19 087
		Incorrect invoice		490		19 577
		Interest			97	16 894

2.

Creditors Reconciliation Statement of Adam Dealers on 31 March 2015

	Debit	Credit
Debit balance according to statement of account	21 044	
Credit note incorrect		400
Discount not entered		250
Payment after 29 March		3 500
		16 894
	21 044	21 044



No.	Cash Journals		Bank Reconciliation Statement		No entry
	CRJ	CPJ	Debit	Credit	
Example	2 000				
1.		100			
2.					675
3.	350				
4.			6 450		
5.		1 650			
6.		70			
7.		432			
8.			4 500		
9.		125			
10.	750	750	750		



- Improves internal control by minimising fraud or error because records are checked by somebody else.
 - Improves internal control by identifying outstanding deposits and cheques.
 - To compare the books of the business with that of the bank in order to detect errors and/or dishonesty at an early stage

2.

CRJ	CPJ
412 300	376 900
117	24 000
4 100	967
2 100	1 094
	13 000
	900
418 617	416 861

3.

Malan Traders

Bank Reconciliation Statement on 31 August 2012

	Debit	Credit
Credit balance according to bank statement		21 136
Credit outstanding deposit		26 100
Debit cheques not yet presented:		
No. 754	11 976	
No. 801	4 260	
No. 803	2 300	
Debit balance according to <i>Bank</i> account	28 700	
	47 236	47 236

4.
 - Set up a disciplinary hearing for George Faults to answer to the allegations.
 - Recover what is possible from his salary that is owing to Malan Traders.
 - Institute legal action against him.
 - Terminate his employment with the firm.
 - Lay a charge against George Faults at the police station and get a case number.

5. George Faults was responsible for all the vital activities relating to receipts, deposits and payments. Duties should be divided among employees so that one employee serves as a check on another.



Activity 15.25 Debtors reconciliations, debtors age analysis and internal control

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1. General Ledger of Dreyer Traders

Dr				Debtors Control				Cr			
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount		
2018	01	Balance	b/d	74 200	2018	31	Bank and discount allowed	CRJ	30 890		
Mar	31	Sales (43 372+ 500)	DJ	43 872			Debtors allowances (2 450 – 90)	DAJ	2 360		
		Bank	CPJ	880			Journal credits	GJ	9 800		
		Journal debits (268 + 630)	GJ	898			Balance	c/d	76 800		
				119 850					119 850		
2018	01	Balance	b/d	76 800							
Apr											

2. AGE ANALYSIS OF DEBTORS ON 31 MARCH 2018

Debtors	Current	> 30 days	> 60 days	> 90 days	Total debt
A Bestbier (4 600 + 90 - 430)	4 260	1 500			5 760
I Gaidien(9 000 + 200)	9 200	11 500	3 000	7 200	30 900
M Theron (12 700 + 630)	13 330			21 000	34 330
S Muller (5 380 + 430)	5 810				5 810
TOTALS	32 600	13 000	3 000	28 200	76 800

- Debtors Gaidien and Theron are already 90 days in arrears yet goods are still being sold to them on credit.
37% of debtors are 90 days in arrears – the business has to try to collect debtors within 30 days.
Any acceptable answer
- No further credit sales should be made to debtors who are in arrears with their payments.
Allow discounts to debtors who pay on time.
Raise interest on outstanding amounts.
Send regular statements of account to debtors to remind them to pay.
Any acceptable answer
- This is not acceptable.
The business should check if a debtor is credit worthy before selling on credit.
Any acceptable answer



Activity 15.26 Reconciliations, age analysis and internal control

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- To identify individual debtors who may be problematic
To identify who is not adhering to the credit terms
To identify which debtors' accounts should be charged with interest
To identify which debtors are eligible for discount
Allows business to review how collections are being made

2. $100 - 46,5 = 53,5\%$

3. 13,8%

4. $\frac{878}{17\,560} \times 100$
 $= 5\%$

5. $\frac{0,5(17\,560 + 7\,880)}{62\,740} \times 365$
 $= 74 \text{ days}$

6. • Yes, mention made of information in article.
• Debt collection period has increased from 45 days to 74 days.
• Only 46,5% of debtors are collected within 30 days – this supports information in the article where debtors have extended credit terms to 60–90 days.
• The percentage provision for bad debts is not enough (5%) – 13,8% of debtors are in 90+ days column, therefore it's doubtful their money will be collected.
• Sales to debtors who are over their credit limit – debtors Passerini's and L Dale

Any acceptable answer

7. • Increase credit terms for customers, but charge interest.
• Contact debtors who appear to be having difficulties in paying accounts.
• Stricter applications – not allowing new accounts in current climate – consumer slowdown
• Enforce credit limits – don't let people buy on credit if they have defaulted on payment.

Any acceptable answer

8. • Bank account has gone from a positive balance to an overdraft – petty cash decreased as well.
• Bank reconciliation shows a deposit that's been outstanding for a long time – January 2012
• Rolling of cash might be occurring – new receipts used to provide cash for previous deposits

Any acceptable answer

9. • Do an investigation / audit.
• Look for cash payments that have not been properly authorized.
• Compare the receipts to the deposit slips.
• Check the bank statement and bank reconciliation to see if all transactions are accurately recorded.
• Reconcile the petty cash.
• Check authenticity of source documents.
• If found guilty, have a disciplinary hearing, dismiss employee, charge with fraud.

Any acceptable answer



1. Output VAT minus input VAT
2. VAT 201 form
3. It is unethical not to include VAT in quotations.
The customers will be unhappy when VAT is not included.
- 4.

	GENERAL LEDGER		Amount
	Account debited	Account credited	
e.g.	<i>Trading stock</i>	<i>Creditors Control</i>	<i>R9 250</i>
	<i>VAT Control or VAT Input</i>	<i>Creditors Control</i>	<i>R1 295</i>
4.1	Stationery	Creditors control	280
	VAT Control or VAT Input	Creditors control	39,20
4.2	Debtors control	Sales	3 800
	Debtors control	VAT Control or VAT Output	532
4.3	Bank	Debtors control	986
	Discount allowed	Debtors control	100
	VAT Control or VAT input	Debtors control	14
4.4	Bad debts	Debtors control	600
	VAT Control / VAT input	Debtors control	84
4.5	VAT Control /VAT Input	Bank	55 099



No.	Account debited	Account credited	Amount
1.	Trading stock	Creditors control	17 800
	VAT Input / VAT control	Creditors control	2 492
2.	Bank	Sales	6 900
	Bank	VAT Output / VAT control	966
	Cost of sales	Trading stock	4 600
3.	Bank	Debtors control	5 130
	Discount allowed	Debtors control	500
	VAT Input/ Output / Control	Debtors control	70

General Ledger of Mafutha Stationers
Balance Sheet accounts

Dr		VAT Control				B1		Cr	
Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2018					2018				
Sep	01	Balance	b/d	1 831	Sep	30	Bank	CRJ	11 232
	30	Bank	CPJ	4 907			Debtors control	DJ	2 520
		Petty cash	PCJ	53			Creditors control	CAJ	189
		Creditors control	CJ	3 556			Journal credits	GJ	91
		Debtors control	DAJ	168					
		Journal debits	GJ	238					
		Balance	c/d	3 279					
				14 032					14 032
					2018	01	Balance	b/d	3 279
					Oct				

Therefore R3 279 is payable to SARS on 30 September 2018 (credit balance in the *VAT Control* account).

Workings

- Debtors control (DJ)
 - = (R12 000 × 150%) × $\frac{14}{100}$
 - = R2 520
- Creditors control (CJ)
 - = R28 956 – (22 300 + 3 100)
 - = R3 556 or R28 956 × $\frac{14}{114}$
 - = R3 556
- Debtors control (DAJ)
 - = R1 200 × $\frac{14}{100}$
 - = R168
- Creditors control (CAJ)
 - = R1 539 × $\frac{14}{114}$
 - = R189
- Journal debits (GJ)
 - = VAT on bad debts
 - = R1 938 × $\frac{14}{114}$
 - = R238
- Journal credits (GJ)
 - = VAT on drawings of goods
 - = R650 × $\frac{14}{100}$
 - = R91

**Bergh Manufacturers****PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2022**

	Note	R
Direct material cost	1	194 631
Direct labour cost		165 000
Prime cost		359 631
Factory overhead cost	2	107 977
Total cost of production		467 608
ADD: Work in progress at beginning of year		6 540
		474 148
LESS: Work in progress at end of year		(5 780)
Cost of production of finished goods		468 368

Bergh Manufacturers**TRADE STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2022**

	Note	R
Sales		874 460
Less: Cost of sales	3	(471 469)
Gross profit (loss)		402 991

Bergh Manufacturers**NOTES TO THE PRODUCTION COST STATEMENT AND INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2022****1. DIRECT (RAW) MATERIALS COST**

Balance at the beginning of the year	32 645
Purchases	189 720
Carriage inwards	5 678
	228 043
Less: Balance and the end of the year	(33 412)
	194 631

2. FACTORY OVERHEAD COST

Indirect labour	11 963
Indirect material (6 472 + 9 520 – 7 985)	8 007
Electricity	28 960
Insurance	8 750
Maintenance	10 887
Depreciation	39 410
	107 977

3. COST OF FINISHED GOODS SOLD

Opening stock of finished goods	29 875
Cost of finished goods manufactured during the year	468 368
	498 243
Closing stock of finished goods	(26 774)
Cost of finished goods sold	471 469

1. Total fixed costs
 = factory overheads + administration costs
 = R268 000 + 321 600
 = R589 600

2. Variable cost
 = direct material cost + direct labour cost + sales and distribution costs
 = R200 000 + 360 000 + 184 000
 = R744 000

Variable cost per unit sold

$$= \frac{774\,000}{80\,000}$$

$$= R9,30$$

3.

Direct material cost	200 000
Direct labour cost	360 000
Factory overheads	<u>268 000</u>
Cost of finished goods	<u>828 000</u>
Cost of sales	

$$= \frac{828\,000}{1} \times \frac{80\,000}{100\,000}$$

$$= R662\,400$$

Sales	1 664 000
Cost of sales	<u>(662 400)</u>
Gross profit (loss)	1 001 600
Sales and distribution costs	(184 000)
Administration costs	<u>(321 600)</u>
Net profit (loss)	<u>496 000</u>

$$\text{Net profit per unit} = \frac{496\,000}{80\,000}$$

$$= R6,20$$

4. Contribution per unit
 = selling price per unit – variable cost per unit
 = 20,80 – 9,30
 = 11,50

$$\text{Breakeven point} = \frac{\text{fixed cost}}{\text{margin income per unit}}$$

$$= \frac{589\,600}{11,50}$$

$$= 51\,270 \text{ units}$$

1. I would recommend this. She can earn additional income of R10 000, if she sells the packets at R10 each – she will also win over the goodwill of the community because she goes to the trouble to deliver. This is also a method introduce her product to people. The additional expense is very low, compared to the additional income.

2. **Her options:**

- Charge a high price per packet, R20, to show that her quality is good.
- Charge an average price, R15, in order to get a foot into the market.
- Charge as little as possible, R10, thus making a huge difference in the market.

Recommendation:

Charge R15 in the shop and R10 for schools and businesses to which they deliver.

3. The three factors that she should take into account:

- Will she have enough cash available to buy and to keep the extra stock?
- If she weighs up the saving of R1 per packet against the cost of the loan at 13% interest, is it still worth her while?
- Does she have enough room for storing the extra stock?

4. **Suggestion:** Spread the expense over the first three months.

- In the first month Palesa does not have that much cash available that she is able to spend every last cent.
- She wants to make clients aware of her business, and she would like to keep reminding them about it.

Her expenses will increase because of advertisements, but her income will hopefully also increase as a result.

5. • Her expenses will be more because of the additional salary of R4 000, but her sales will also increase if this person wishes to do additional marketing at businesses and schools.
- She could encourage the assistant by paying a basic salary, but also commission on all sales.

6.

The Nutty Nut

PROJECTED INCOME STATEMENT

Sales	40 000
LESS: Cost of sales	(18 000)
Gross profit	22 000
LESS: Operating expenses	(9 020)
Rent expense	3 500
Depreciation	100
Sundry expenses	1 680
Insurance	440
Petrol	600
Advertisements	700
Salary of assistant	4 000
Operating profit (loss)	10 980
LESS: Interest expense	(259)
Net profit (loss)	10 721

Money required

$$= R21\ 000 + 3\ 500 + 1\ 680 + 440 + 600 + 700 + 4\ 000 + 12\ 000 - 20\ 000$$
$$= 23\ 920$$

$$\text{Loan: } R23\ 920 \times 13\% \times \frac{1}{12} = R259$$

» **Activity 15.33 Budgets**

LB page 472

1.

DEBTORS COLLECTION SCHEDULE OF FRAMED FOR THE PERIOD ENDING APRIL 2018

Month	Credit sales	DEBTORS COLLECTION		
		February 2018 R	March 2018 R	April 2018 R
December	280 000	50 400		
January	430 000	258 000	77 400	
February	360 000	69 120	216 000	64 800
March	330 000		63 360	198 000
April	330 000			63 360
TOTALS		377 520	356 760	326 160

2. Calculations

Wages:

$$\frac{1\ 008}{14\ 440} \times 100 = 7\%$$

Salaries:

$$\frac{4\ 800}{32\ 000} \times 100 = 15\%$$

Comments:

- A 7% increase in wages is reasonable and in line with inflation.
- The increase in Salaries of 15% is a whole lot more, however. It may lead to discontent among wage earners and salary earners.

Any reasonable answer

$$3. \quad 150\ 000 \times \frac{\text{interest}}{100} \times \frac{1}{12} = R1\ 375$$

Interest = 11% p.a.

4. a. Credit / cash sales

Total sales were R60 000 more than budgeted, but of this amount, 89% was on credit instead of 75%.

It could cause serious cashflow problems.

b. Debtors collection

R151 008 less than budget was collected from debtors.

It can lead to cashflow problems.

OR

The business has to change their credit policy.

c. Purchase of trading stock
 R168 600 more than budgeted was spent on trading stock.
 The reason for this could be because the business has more sales, but they have to be careful not to tie up too much cash in stock.

d. Advertisements
 R18 000 more than budgeted was spent on advertising.
 The business could have underbudgeted.

OR

The increase in advertising led to higher turnover.

e. Repairs and maintenance
 The business under-spent or over-budgeted by R14 700.
 The business must make sure that they service their fixed assets properly – a lack of care could lead to far higher costs.

OR

The expenses related to the repairs and maintenance are well-managed.

» **Activity 15.34 Budgets**

LB page 473

1.

DEBTORS COLLECTION SCHEDULE FOR THE PERIOD JULY TO SEPTEMBER 2019

	July	August	September
May: 70 000 × 18%	12 600		
June: 78 000 × 30%	23 400		
78 000 × 18%		14 040	
July: 80 000 × 50% × 96%	38 400		
80 000 × 30%		24 000	
80 000 × 18%			14 400
Aug: 82 000 × 50% × 96%		39 360	
82 000 × 30%			24 600
Sep: 90 000 × 50% × 96%			43 200
	74 400	77 400	82 200

2. 2%

$$3. \frac{(1\,900 - 1\,786)}{1\,900} \times 100 = 6\%$$

$$4. \frac{(15\,984 - 14\,800)}{14\,800} \times 100 = 8\% \text{ increase}$$

Yes, she is planning to give them more than the suggested 5%.

$$5. \frac{(100 \times 12)}{20\,000} \times 100 = 6\%$$

OR

$$\frac{100}{20\,000} \times 100 \times 12 = 6\%$$

6. a. Sales
The budget for cash sales is R352 800 while the actual cash sales was R224 100.
The budget for credit sales is R252 000 while the actual credit sales is R387 900.
According to the budget, 58% of sales should be cash and 42% on credit, while with the actual figures 37% is on cash and 63% is on credit.
Nicolene might experience cash-flow problem if she does not find a way to convince customers to rather buy for cash.
- b. Collection from debtors
The collection from debtors should be R232 000 and it is only R190 000.
She should actually have received more from debtors than the budget, as the credit sales were so much more.
Nicolene would have to improve her credit control and try to collect debtors within 30 days, otherwise she will have cash-flow problems.
- c. Purchases of trading stock
The budgeted figure for purchases of stock is R378 000, while the actual purchases is only R200 000.
Nicolene's total sales are more or less the same as what she budgeted for therefore the purchases of stock should also be the same.
Problem: she is not replenishing the stock and therefore she might run out of stock and lose customers/business.
- d. Telephone
She spent R1 200 (2 700 – 1 500) more on telephone expenses than she budgeted for.
She either under budgeted or is not controlling this expense effectively.

MODERATION OF ASSESSMENT

Moderation refers to the process that ensures that the assessment tasks are fair, valid and reliable.

Moderation should be implemented at school, district, provincial and national levels. Comprehensive and appropriate moderation practices must be in place for the quality assurance of all subject assessments.

Moderation at the school will be carried out by the head of department responsible for the subject. Teachers' portfolios and evidence of learner performance must be moderated to ensure that a variety of assessment tasks have been used to address the curriculum and that assessment covered a range of cognitive levels.

All assessment tasks should be moderated before it is handed out to learners. After an assessment task has been marked, at least three learners' tasks should be moderated.

The following moderation templates are provided to assist the teacher in the moderation process:

- Template for the assessment of teacher portfolios
- Template for the moderation of learner portfolios
- Template for the moderation of examination papers / tests
- Tracking moderation tool
- Template for learner portfolio: contents / consolidation / intervention.

Learner portfolio: Contents/Consolidation/Intervention ACCOUNTING Grade 12

Name:	Your goal for Accounting for the year:		
Contact detail of parents:	Home:	Work:	Cell phone:

CASS activities	Date	Total mark	Mark achieved	%	Comment of teacher/parent	Signature parent	Signature moderator	Calculation of year mark
Term 1								
Written report								/10
Control test								/10
Term 2								
Project								/20
Mid-year examination								/20
Term 3								
Case study								/10
Control test								/10
Trial examination								/10
TOTAL FOR YEAR MARK								
End-of-year examination								/300
TOTAL								/400

Statement of Authenticity:

I hereby declare that ALL items in my portfolio are my own original work, and that where I have used any other source, I have given credit to it. These items were also not previously handed in for assessment / moderation.

Signature of learner:

SECTION 8**ANSWER SHEET TEMPLATES****FORMAT FOR INCOME STATEMENT FOR COMPANY**

Name of business Limited

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2018

	Note	R
Sales		
Cost of sales		
Gross profit		
Other operating income		
Fee income (from services rendered)		
Rent income		
Profit on sale of assets		
Bad debts recovered		
etc.		
Gross operating income		
Operating expenses		
Salaries and wages		
Audit fees		
Directors' fees		
Depreciation		
Sundry expenses		
etc.		
Operating profit (loss)		
Interest income	1	
Profit (loss) before interest expense		
Interest expense	2	
Profit (loss) before tax		
Income tax		
Net profit (loss) after tax	8	

FORMAT FOR BALANCE SHEET FOR COMPANY

Name of business Limited

BALANCE SHEET AT 31 MARCH 2018

	Note	R
ASSETS		
NON-CURRENT ASSETS		
Fixed / tangible assets	3	
Financial assets		
CURRENT ASSETS		
Inventories	4	
Trade and other receivables	5	
Cash and cash equivalents	6	
TOTAL ASSETS		
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Share capital	7	
Retained income	8	
NON-CURRENT LIABILITIES		
Loan from ...		
Loan from ...		
CURRENT LIABILITIES		
Trade and other payables	9	
Bank overdraft		
Current portion of loan <i>(could be replaced by Note 10)</i>		
TOTAL EQUITY AND LIABILITIES		

FORMAT FOR NOTES TO THE FINANCIAL STATEMENTS FOR COMPANIES

Name of business Limited

NOTES TO THE FINANCIAL STATEMENTS AT 31 MARCH 2018

1. INTEREST INCOME

On fixed deposit	
On savings account	
On current bank account	
On overdue debtors	

2. INTEREST EXPENSE

On loan from	
On overdraft	
On overdue creditors	

3. FIXED / TANGIBLE ASSETS

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

4. INVENTORIES

Trading stock	
Consumable stores on hand	

5. TRADE AND OTHER RECEIVABLES

Trade debtors	
Provision for bad debts	
Net trade debtors	
SARS – income tax	
Expenses prepaid	
Income accrued (receivable)	
Deposits paid for water and electricity	

6. CASH AND CASH EQUIVALENTS

Fixed deposits (maturing within 12 months)	
Savings account	
Bank	
Cash float	
Petty cash	

7. ORDINARY SHARE CAPITAL

AUTHORISED	
Number of ordinary authorised shares: _____ shares	
ISSUED	
_____ ordinary shares in issue at the beginning of the year	
_____ additional shares issued during the financial year at issue price R _____ each	
_____ ordinary shares in issue at the end of the year	

8. RETAINED INCOME

Balance at the beginning of the year	
Net profit (loss) after tax for the year	
Dividends on ordinary shares	
Paid	
Recommended	
Balance at the end of the year	

9. TRADE AND OTHER PAYABLES

Trade creditors	
Expenses accrued (payable)	
Income received in advance (deferred)	
Shareholders for dividends	
SARS – income tax	
Creditors for salaries	
Unemployment Insurance Fund (UIF)	
Pension Fund	
Medical Aid Fund	

FORMAT FOR CASH FLOW STATEMENTS FOR COMPANIES

Name of business Limited

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2018

	Note	R
Cash effects of operating activities		
Cash generated (utilised) from operations	1	
Interest paid		
Dividends paid	3	
Income tax paid	4	
Cash effects of investing activities		
Purchase of fixed assets	5	
Proceeds from sale of fixed assets		
Investments matured / placed		
Cash effects of financing activities		
Proceeds from shares issued		
Long-term loans received / paid		
Net change in cash and cash equivalents	2	
Cash and cash equivalents at the beginning of the year	2	
Cash and cash equivalents at the end of the year	2	

FORMAT FOR NOTES TO THE CASH FLOW STATEMENTS FOR COMPANIES

Name of business Limited

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2018

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

Net profit before taxation		
Adjustments in respect of:		
Depreciation		
Interest expense		
Operating profit before changes in working capital		
Cash effects of changes in working capital		
Change in inventory		
Change in receivables		
Change in payables		
Cash generated from operations		

2. CASH AND CASH EQUIVALENTS

	NET CHANGE	YEAR 2	YEAR 1
Bank			
Cash float			
Petty cash			

3. DIVIDENDS PAID

Dividends for year as reflected in financial statements	
Balance at the beginning of the year	
Balance at the end of the year	
Dividends paid	

4. INCOME TAX PAID

Income tax for year as reflected in financial statements	
Balance at the beginning of the year	
Balance at the end of the year	
Income tax paid	

5. FIXED ASSETS PURCHASED

Land and buildings	
Vehicles	
Equipment	

WORKINGS

FA AT NET BOOK VALUE

Start	
Add: Buy	
Less: Sell	
Less: Depreciation	
= End	

FORMAT FOR PRODUCTION COST STATEMENT FOR MANUFACTURING

Name of manufacturer

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 31 MARCH 2018

	Note	R
Direct material cost	1	
Direct labour cost	2	
Prime cost		
Factory overhead cost	3	
Total cost of production		
ADD: Work in progress at beginning of year		
LESS: Work in progress at end of year		
Cost of production of finished goods		

FORMAT FOR INCOME STATEMENT FOR MANUFACTURING

Name of manufacturer

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2018

	Note	R
Sales		
Less: Cost of sales		
Gross profit		
Selling and distribution cost	4	
Administration cost	5	
Net profit		

FORMAT FOR NOTES TO THE INCOME STATEMENT FOR MANUFACTURING

Name of manufacturer

NOTES TO THE PRODUCTION COST STATEMENT AND INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2018

1. DIRECT (RAW) MATERIALS COST

Balance at the beginning of the year	
Purchases	
Carriage inwards	
Less: Balance and the end of the year	

2. DIRECT LABOUR COST

Direct wages	
Pension, medical and UIF benefits	

3. FACTORY OVERHEAD COST

Factory indirect wages	
Pension, medical and UIF benefits	
Factory rent	
Depreciation on factory equipment	

4. SELLING AND DISTRIBUTION COST

Commission on sales	
Advertising	
Bad debts	

5. ADMINISTRATION COST

Office salaries	
Pension, medical and UIF benefits	
Depreciation on office equipment	

FORMAT FOR CASH BUDGET

Name of business

CASH BUDGET FOR THE PERIOD 1 JANUARY 2018 TO 31 MARCH 2018

[actual & variance columns optional]

	JAN 2018	FEB 2018	MAR 2018	Total budget	Actual	Variance
RECEIPTS						
Cash sales						
Collections from debtors						
TOTAL RECEIPTS						
PAYMENTS						
Cash purchases of stock						
Payments to creditors						
TOTAL PAYMENTS						
CASH SURPLUS/DEFICIT						
BALANCE AT BEGINNING OF MONTH						
CASH ON HAND AT END OF MONTH						

DEBTORS COLLECTION SCHEDULE FOR THE PERIOD 1 JANUARY 2018 TO 31 MARCH 2018

	Credit sales	Collections Jan 2018	Collections Feb 2018	Collections Mar 2018
November 2017				
December 2017				
January 2018				
February 2018				
March 2018				



Study & Master

Accounting

Study & Master Accounting Grade 12 has been especially developed by an experienced author team according to the Curriculum and Assessment Policy Statement (CAPS). This new and easy-to-use course helps learners to master essential content and skills in Accounting.

The comprehensive Learner's Book includes:

- case studies which deal with issues related to the real world, and move learners beyond the confines of the classroom
- margin notes to assist learners with new concepts – especially GAAP flashes, that give learners guidance on General Accepted Accounting Practice
- examples with solutions after the introduction of each new concept.

The Teacher's Guide includes:

- a daily teaching plan, divided into the four terms, that guides the teacher on what to teach per day and per week
- moderation templates to assist teachers with assessment
- solutions to all the activities in the Learner's Book.

Elsabé Conradie, a 2012 runner up for the National Teaching Awards for Excellence in Secondary Teaching in the Western Cape, had her successes as an educator highlighted when five of her Grade 12 learners were amongst the WCED top 10 Accounting learners. **Mandy Moyce** is an experienced Accounting teacher and subject head for Accounting and is currently the deputy principal at the school where she teaches. **Derek Kirsch** taught Accounting, Business Studies and Computer Studies before starting his own business developing educational software. He is responsible for the innovative PowerPoint® presentation included with this material.



PROUD PARTNERS

