

# ACCOUNTING

**GRADE 12**

2024















# LAST PUSH

**TEACHER AND LEARNER  
CONTENT MANUAL**



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# BUDGETS

## CASH BUDGET

### Examination Guidelines

EXAMINABLE CONTENT FOR GRADE 12 ACCOUNTING	
GRADE 12: PAPER 2	
Managerial Accounting, Internal Auditing & Control	
Analysis & Interpretation of cash budget for sole traders and companies • Analysis & Interpretation of Projected Income Statement for sole traders and companies	Topic 5

### Outcomes

At the end of the topic learners should be able to:

- Analyse and interpret the cash budget for sole traders and companies
- Analyse and interpret the projected income statement for sole traders and companies
- Calculate and comment on the financial indicators related to budget

Cash Position	Appropriate management action
Short term surplus	Pay creditors early to obtain discount. Attempt to increase sales by increasing debtors and stocks. Make short-term investments.
Short term deficits	Increase creditors. Reduce debtors. Arrange an overdraft.
Long term surplus	Make long-term investments. Expand operations Diversify. Replace / update fixed asset
Long term deficit	Raise long-term finance, i.e. issue shares. Consider shut down or disinvestments opportunities.

## Tips on budgeting

- You may not be required to prepare a full cash budget, but only missing figures to assess your knowledge of the format of a budget as well as your arithmetic skills (+, -, x, ÷)
- Only do the calculations required - do not 'question' an amount given. It is sometimes given for a purpose so that you cannot 'guess' the calculation by manipulating given figures.
- It may be necessary to complete a debtors' collection or creditors' payment schedules - know these in order to do it in rough IF necessary.
- NB: Purchases = Cost of Sales (cash or credit) where purchases amounts are not given.
- Any deficit (payments are more than receipts) must be indicated in brackets ( ) and must be subtracted from a positive bank balance (added to a negative bank balance).
- One month's closing balance is ALWAYS the opening balance of the next month.
- A Cash Budget for a sole trader OR a company may be required. The only difference is the items included:
- Company budgets will plan for:
  - Receipts: Issuing of new shares
  - Payments: Buy back of shares; pay out of dividends; directors fees; audit fees

## Calculations

<b>Mark-up %</b>	$\frac{\text{Sales} - \text{Cost of sales}}{\text{Cost of sales}} \times 100$	<b>Answer must be in:</b> ...%
<b>% Increase/Decrease</b>	$\frac{\text{New amount} - \text{Old amount}}{\text{Old amount}} \times 100$	...%
<i>Given:</i> Interest on loan: % p.a. and amount <i>Required: Calculate Loan amount</i>	Amount of interest x $\frac{100}{\text{months}}$ x 12 % interest NB: Use the same calculation for a fixed deposit	<b>R ....</b>

### Items NOT in Cash budget (Non-cash items)

Depreciation; Bad debts; Discount allowed; Discount received

### Projected Income Statement

Format for Projected Income Statement is similar to an Income Statement, but is prepared per month.

### Items NOT in Projected Income Statement

Purchase of assets; Purchase of stock; Receipts from debtors; Payments made to creditors; Drawings; Capital contributions; Issued shares; Buy back of shares

### Internal control

- Compare the **actual** with the **budgeted** amounts. Possible problems related to expenses or income can be identified and recommendations made based on these comparisons.
- Decide whether the expense or income has been **well controlled**/managed or not.

## Activity 1

You are provided with information relating to VIVO Computers owned by Thando Shai.

### REQUIRED:

1.1 Thando compared the budgeted figures to the actual figures for August 2022.

Thando is not concerned about the overspending in advertisement. Explain why this is so. Quote figures. (3)

	BUDGETED	ACTUAL
Sales	122 500	147 000
Advertising	12 000	16 500
Payment to creditors	64 900	0

1.2 Complete the Creditors Payment Schedule for November 2022. (8)

1.3 Calculate the missing figures (i) TO (vii) in the Cash Budget. (21)

1.4 State ONE consequence that the business might face should they not pay the amount due to creditors in September 2022. (2)

1.5 Thando wants to replace an old equipment in December 2022 but does not have the cash available. The cost of new equipment amounts to R195 000. The new items are expected to last 5 years. Options are:

- Request a friend to become an equal partner through contributing a capital of R195 000.
- Lease the equipment from Rifo Computers at R7 250 per month.
- Acquire a new loan of R195 000 at an interest rate of 15% p.a. to be repaid over 24 months.

Briefly explain ONE advantage and ONE disadvantage of EACH option. (6)

### INFORMATION:

#### A. Sales, purchases of stock and cost of sales:

Total sales:

Actual	August	R120 000
	September	R135 000
Projected	October	R150 000
	November	R180 000

- 40% of sales are cash, the rest is on credit.
- The mark-up is 50% on cost.
- Stock is replaced on a monthly basis.
- 25% of purchases are cash; the rest is on credit.

#### B. Creditors payment:

It is expected that creditors will be paid as follows:

- 75% are paid in the month of purchases to receive a 5% discount.
- 15% are paid in the month after purchases.
- 10% are paid in the second month after purchases.

**C. Delivery expenses:**

Thando pays Speedo Deliveries to deliver goods to customers free of charge. He budgets a fixed percentage of monthly sales for this expense.

**D. Salaries and wages:**

Employees receive an increase of 7,5% from 1 November 2022.

**E. Loan:**

Part of the loan will be repaid on 1 November 2022. Interest of 15% p.a. is paid monthly and is not capitalised.

**F. Extract from Cash Budget for October and November 2022.**

<b>RECIEPTS</b>	<b>OCTOBER</b>	<b>NOVEMBER</b>
Cash sales	(i)	72 000
Collection from debtors	78 300	89 550
Rent income	7 500	7 750
Additional capital to be contributed		
Commission income		
<b>PAYMENTS</b>		
Cash purchase of stock		(ii)
Payment to creditors	74 200	
Delivery expenses of goods to customers	9 000	(iii)
Salaries and wages	(iv)	38 700
Stationery		
Telephone	1 000	1 000
Training of staff	2 500	2 500
Advertising	1 500	1 800
Repayment of loan		(v)
Interest on expense	2 100	1 500
Sundry expense	3 300	3 400
Drawings		

**G. After finalising the budget, the following was identified:**

	<b>OCTOBER</b>	<b>NOVEMBER</b>
Cash surplus or deficit for the month	(24 350)	(vii)
Cash at beginning of month		53 250
Cash at end of month	(vi)	(10 950)

## Activity 1 Answer Book

1.1

Thando is not concerned about the overspending in advertisement. Explain why this is so. Quote figures.

3

### 1.2. CREDITORS PAYMENT SCHEDULE

MONTH	CREDIT PURCHASES	OCTOBER	NOVEMBER
August	R60 000	6 000	
September	R67 500	10 125	
October		53 438	
November	R90 000		
		69 653	

8

1.3

	CALCULATION	AMOUNT
(i)	Cash sales	
(ii)	Cash purchases of stock	
(iii)	Delivery expenses	
(iv)	Salaries and wages	
(v)	Repayment of loan	
(vi)	Cash at end of month	
(vii)	Cash surplus or deficit for the month	

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1.4

State ONE consequence that the business might face should they not pay the amount due to creditors in September 2022.

2

1.5 Briefly explain ONE advantage and ONE disadvantage of each option.

OPTION	ADVANTAGE	DISADVANTAGE
Request a friend to become a partner		
Lease the equipment from Rifo		
Acquire a new loan		

6



## Activity 2

### 2.1 Explain why:

2.1.1 Bad debts will not appear in a cash budget. (1)

2.1.2 A cash budget is an effective internal control mechanism. (2)

### 2.2 MARIE (PTY) LTD

The company is registered with an authorised share capital of 800 000 ordinary shares.

#### REQUIRED:

#### 2.2.1 Refer to Information A and B

Calculate the collection from debtors during September 2022. (7)

2.2.2 Calculate the missing amounts denoted by (i) to (iv) on the extract Cash Budget provided in Information E. (13)

2.2.3 Calculate the % increase in salaries and wages. (3)

2.2.4 Provide TWO reasons why the company decides to invest in staff training. (2)

#### 2.2.5 Refer to Information J.

Marie has decided to change the sales strategy due to low turnover during the Covid-19 pandemic.

- Comment on the new approach regarding cash and credit sales. (2)

- Explain TWO disadvantages of the approach adopted. (4)

- Comment on the actual and budgeted figures for advertising and packing material. Quote figures. (6)

#### INFORMATION:

##### A.

	JULY R	AUGUST R	SEPTEMBER R
Credit sales	364 000	382 200	354 900
Cost of sales figures:	320 000	336 000	312 000

##### B. Debtors pay according to the following trend:

50% of debtors pay in the month of sales and receive a 4% discount.

30% pay in the month following the sales month.

18% pay in the second month after the sales month.

Bad debts accounts for 2%

C. Cash sales is 35% of total sales.

D. Purchases and payment to creditors:

- Stock sold is replaced in the month of sale.
- Cash purchases amounts to 25% of total purchases.
- Creditors for stock purchases are paid in the second month following the purchase (60 days)

**E. Extract of the Cash Budget for the two months:**

	<b>AUGUST</b>	<b>SEPTEMBER</b>
<b>Receipts</b>		
Cash Sales	205 800	191 100
Cash from Debtors		
Rent Income	(i)	13 878
Additional shares	465 000	
<b>Payments</b>		
Cash purchases of stock	84 000	78 000
Payment to creditors	225 000	(ii)
Salaries and wages	134 300	142 358
Repayment of loan		(iii)
Interest on loan	3 300	2 750
Advertising	17 640	16 380
Packing material	35 280	32 760
Delivery expenses	41 160	38 220
Ordinary share dividends		(iv)
Staff training		70 000

F. The rent will increase by 8% p.a. from 1 September 2022.

G. Part of the loan will be re-paid on 1 September 2022. Interest on loan at 11% p.a. is payable on the last day of each month and is not capitalised.

H. On 1 July 2022, there were 480 000 ordinary shares in issue.

Additional shares will be issued on 1 August 2022 at R6,20 per share.

Interim dividends of 15 cents per share is payable on 30 September 2022, to all shares on the share register.

I. Advertising is a fixed percentage of budgeted cash sales.

Delivery to customers is outsourced to Victor Reliable

**J. Budgeted and Actual figures for July 2022:**

<b>BUDGET ITEMS</b>	<b>BUDGETED R</b>	<b>ACTUAL R</b>
Cash sales	196 000	50 400
Credit sales	364 000	285 600
Total sales	560 000	336 000
Advertising	16 800	13 440
Packing material	33 600	18 500

## Activity 2 Answer Book

### 2.1 Explain why:

#### 2.1.1

Bad debts will not appear in a cash budget

(1)

#### 2.1.2

A cash budget is an effective internal control mechanism.

(2)

### 2.2.1 DEBTORS COLLECTION SCHEDULE

Month	Credit sales	AUGUST	SEPTEMBER
JUNE	360 000	64 800	
JULY	364 000	109 200	
AUGUST	382 200	183 456	
SEPTEMBER	354 900		
RECEIPTS FROM DEBTORS		357 456	

(7)

**2.2.2 Calculate:**

<b>WORKINGS</b>	<b>ANSWER</b>
(i) Rent income: August	
(ii) Payment to creditors: September	
(iii) Repayment of loan: September	
(iv) Ordinary share dividends: September	

**(13)****2.2.3 Calculate: % increase in salaries and wages.**

<b>WORKINGS</b>	<b>ANSWER</b>

**(3)****2.2.4**

**Provide TWO reasons why the company decides to invest in staff training.**

**(2)**

### 2.2.5

**Comment on the new approach regarding cash and credit sales.**

**(2)**

**Explain TWO disadvantages of the approach adopted.**

**(4)**

**Comment on actual and budgeted figures for the following items:**

<b>ADVERTISING</b>	
<b>PACKING MATERIAL</b>	

**(6)**

### Activity 3

#### PROJECTED INCOME STATEMENT (45 marks; 25 minutes)

You are provided with information relating to Mabuso's Auto Repairs for the period

1 March 2023 to 30 April 2023. The business is owned by Vusi Mabuso.

- All transactions are strictly cash.
- The financial year ends on 30 April each year.
- The business repairs vehicles for which they charge service fees.
- If the repairs require new spare parts, these are charged to each customer's account separately.
- Consumable stores are used for repairing the vehicles. There is no charge for these items.

#### REQUIRED:

3.1 Calculate the:

- 3.1.1 Mark-up percentage on spare parts used in the Projected Income Statement for March 2023 (3)
- 3.1.2 % decrease in service fee income expected in April 2023 (3)
- 3.1.3 Additional space (in square metres) the business will rent from April 2023 (4)
- 3.1.4 Interest rate on the fixed deposit (5)

3.2 Comment on the control of stock and explain how Vusi intends to correct this. Quote figures. (4)

3.3 Vusi is considering changes to the fixed assets owned by the business.

- 3.3.1 Vusi is thinking of purchasing the business premises rather than renting them. State ONE advantage and ONE disadvantage of this option. (4)
- 3.3.2 Vusi offers a free delivery service of spare parts to customers but plans to discontinue this service on 31 March 2023. State TWO points to support this decision. (4)
- 3.3.3 Calculate the cost of the new vehicle that he plans to purchase on 1 April 2023. (4)

#### 3.4 Refer to information E.

You are provided with the projected and actual figures for February 2023.

Quote figures in your explanation in EACH case below.

- 3.4.1. Explain whether Water and electricity has been well controlled, or not. (3)
- 3.4.2. Explain whether you agree with Vusi's decision not to use the full budget for Advertising. (3)

3.4.3 Explain whether Consumable stores have been well controlled, or not. (4)

3.4.4 Explain how Vusi's decision about the mark-up percentage on spare parts has affected the business. (4)

**INFORMATION:**

**A. Extract from the Projected Income Statement for the period 1 March 2023 to 30 April 2023:**

	<b>MARCH 2023</b>	<b>APRIL 2023</b>
	<b>R</b>	<b>R</b>
Service fee income from customers	150 000	136 500
Profit on sale of spare parts	22 875	31 500
Sales	53 375	76 500
Cost of sales	(30 500)	(45 000)
Other operating income		
Profit on disposal of delivery vehicle	8 000	0
<b>Gross operating income</b>		
<b>Operating expenses</b>		
Rent expense (see B below)	6 000	9 200
Water and electricity	5 200	5 200
Motor vehicle expenses	7 500	1 500
Security expenses	5 000	9 200
Advertising	4 700	4 700
Consumable stores (used for repair service)	30 000	30 000
Repairs and maintenance of equipment	15 000	0
Depreciation on vehicles (see D below)	3 000	9 000
Depreciation on equipment	1 500	1 500
Trading stock deficit	14 000	2 000
<b>Operating profit</b>		
Interest on fixed deposit (see C below)	5 700	2 700
Net profit		

**B.** Rent expense is calculated on a fixed amount per square metre. The business will rent 75 square metres in March 2023. On 1 April 2023 additional floor space will be rented at the same rate due to expansion.

**C.** A fixed deposit of R450 000 will mature on 31 March 2023



**D. Vehicles:**

ITEM	COST PRICE	ACCUMULATED DEPRECIATION: 31/03/2023	DEPRECIATION RATE AND METHOD
Delivery vehicle	R240 000	R108 000	15% p.a. on cost
Audi Q7	?	0	

The delivery vehicle will be sold on 31 March 2023. The Audi Q7 vehicle will be purchased on 1 April 2023 and used by the owner.

**E. Figures provided for February 2023:**

	PROJECTED R	ACTUAL R
Water and electricity (*see note below)	4 500	5 000
Advertising	4 700	1 800
Service fee income	150 000	127 500
Consumable stores	30 000	36 450
Sale of spare parts	128 700	97 200
Cost of sales	78 000	54 000
Profit on sale of spare parts	50 700	43 200
Mark-up percentage (on cost)	65%	80%

**\*NOTE:** The water and electricity tariff unexpectedly increased by 15% from 1 February 2023.

### Activity 3 Answer Book

3.1.1

Calculate the mark-up percentage on spare parts used in the Projected Income Statement for March 2023.

3

3.1.2

Calculate the % decrease in service fee income expected in April 2023.

3

3.1.3

Calculate the additional space (in square metres) the business will rent from April 2023.

4

3.1.4

Calculate the interest rate on the fixed deposit.

5

3.2

Comment on the control of stock and explain how Vusi intends to correct this. Quote figures.

4

3.3.1

Vusi is thinking of purchasing the business premises rather than renting them. State ONE advantage and ONE disadvantage of this option.

Advantage:

Disadvantage:

4

3.3.2

Vusi offers a free delivery service of spare parts to customers but plans to discontinue this service on 31 March 2023.

State TWO points to support this decision.

4

3.3.3

Calculate the cost of the new vehicle that he plans to purchase on 1 April 2023.

4

**3.4.1**

**Explain whether Water and electricity has been well controlled, or not**

**3.4.2**

**Explain whether you agree with Vusi's decision not to use the full budget for Advertising.**

**[3]**

**3.4.3**

**Explain whether Consumable stores have been well controlled, or not.**

**[4]**

**3.4.4**

**Explain how Vusi's decision about the mark-up percentage on spare parts has affected the business.**

## Activity 4

### PROJECTED INCOME STATEMENT AND INTERNAL CONTROL

(40 marks; 25 minutes)

The Happy Holiday Shop is owned by Jim Jambo. You are provided with extracts from the Projected Income Statement which Jim prepared for the three months ending 31 December 2022. He has included a column for the actual expenses that he has incurred in October.

#### REQUIRED:

4.1. **Explain** why it is important for Jim to prepare a Projected Income Statement. (2)

4.2. Calculate the percentage increase in sales he expects in December. Explain why he has budgeted for this increase. (4)

4.3 Mark-up: During October a competitor opened a shop in the same area. Jim decided to adjust his mark-up percentage immediately to counter the new competitor.

- Calculate the mark-up percentage he actually achieved in October. (3)
- Explain whether or not it was a good idea to change the mark-up percentage from its original target.

4.4 Calculate the following figures in the Projected Income Statement:

- Rent income for November 2022 (Refer to Additional Information 1.)
- Advertising for December 2022 (Refer to Additional Information 2.)
- Interest expense for November 2022 (Refer to Additional Information 1.) (10)

4.5 Refer to the actual and budgeted figures for October 2022.

- Identify the THREE overhead expenses that have been poorly controlled by Jim. Quote figures to support your answer. (6)
- What advice would you offer Jim to improve his internal control over these overhead expenses? Explain. (2)

4.6 Refer to Additional Information 3. Jim is of the opinion that he could benefit financially if he accepts Samuel's offer. State THREE points that would have a positive effect on his Projected Income Statement for January 2023 if he accepts the offer. Give figures or information from the question to support your answer (6)

4.7 Jim is also conscious of the fact that there are negative points if he accepts the offer. State TWO points that Jim should consider before finalizing his decision to sell the property. Explain. (4)

**INFORMATION:****HAPPY HOLIDAY SHOP****EXTRACT FROM THE PROJECTED INCOME STATEMENT FOR THE THREE MONTHS ENDED 31 DECEMBER 2022**

	<b>BUDGET</b>	<b>ACTUAL</b>	<b>BUDGET</b>	<b>BUDGET</b>
	<b>OCT. 2022</b>	<b>OCT. 2022</b>	<b>NOV. 2022</b>	<b>DEC. 2022</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Sales	590 000	710 500	590 000	708 000
Cost of sales	368 750	490 000	368 750	442 500
Gross profit	221 250	220 500	221 250	265 500
Rent income	5 200	5 200	?	?
Salaries	?	?	?	?
Maintenance of property	4 000	7 000	4 000	4 000
Municipal rates on property	1 000	1 000	1 000	1 000
Telephone	1 500	1 200	1 500	1 500
Water and electricity	1 200	5 600	1 200	1 200
Advertising	4 000	4 000	4 000	?
Stationery	?	?	?	?
Trading stock deficit	8 000	12 300	8 000	8 000
Interest expense (15% p.a.)	(12 500)	(12 500)	?	(11 250)

**ADDITIONAL INFORMATION:**

1. Jim bought the land and buildings for R1,2 million in 2021.

- He rents out an unused portion of this property to a tenant. The rent will increase by 5% on 1 November 2022.
- Jim had received a loan from his brother to pay for the land and buildings.

The balance of this loan was R1 million on 1 October 2022. The interest rate is 15% p.a., and the loan is reduced by R50 000 per month on the last day of the month. Interest is paid monthly and is not capitalised.

2. Currently Jim places five advertisements per month in the local newspaper. He plans to increase this to eight advertisements in December. The rate per advertisement will increase by 10% on 1 December 2022.

3. Jim would like to improve his projected net income and is considering a proposal from a local businessman, Samuel Davids.

- Samuel is prepared to purchase all the land and buildings of the business from Jim for R1,5 million during December 2022 and rent it to him for R10 500 per month.
- Jim is interested in this offer as he knows that this will enable him to repay the loan from his brother in full on 1 January 2023 (the loan on this date will be

R850 000). He will also be able to invest the surplus funds in a fixed deposit at 6% p.a.

### Activity 4 Answer Book

4.1

Explain why it is important for Jim to prepare a Projected Income Statement.

[2]

4.2

Calculate the percentage increase in sales he expects in December.

Explain why he has budgeted for this increase.

4

4.3

Calculate the mark-up percentage he actually achieved in October

Explain whether or not it was a good idea to change the mark-up percentage from its original target.

[3]

4.4

Calculate the following figures in the Projected Income Statement:

	WORKINGS	ANSWER
Rent income for November 2022		
Advertising for December 2022		
Interest expense for November 2022		

[10]

4.5

Refer to the actual and budgeted figures for October 2022. Identify the **THREE** overhead expenses that have been poorly controlled by Jim. Quote figures to support your answer. [6]

What advice would you offer Jim to improve his internal control over these overhead expenses? Explain. [2]



**4.6**

**Jim is of the opinion that he could benefit financially if he accepts Samuel's offer. State THREE points that would have a positive effect on his Projected Income Statement for January 2023 if he accepts the offer. Give figures or information from the question to support your answer.**

**Point 1:**

**Point 2:**

**Point 3:**

**[6]**

**4.7**

**Jim is also conscious of the fact that there are negative points if he accepts the offer. State TWO points that Jim should consider before finalizing his decision to sell the property. Explain.**

**Point 1:**

**Point 2:**

## Activity 5

### QUESTION 5: BUDGETING

(35 marks; 30 minutes)

You are provided with the Cash Budget and related information of Leboya Stores for the two months ended 30 November 2023, owned by Lebo Yarona.

#### REQUIRED:

- 5.1** Identify TWO items in the Cash Budget that will not appear in the Projected Statement of Comprehensive Income. (2)
- 5.2** Credit terms allow debtors to settle their account by the end of the month following the month of sale. Discounts are granted to debtors who pay in the same month as sale. Bad debts are not applicable.
- 5.2.1 Complete the Debtors' Collection Schedule. (9)
- 5.2.2 Calculate the missing figures indicated by (a) – (e) in the Cash Budget (20)
- 5.3** Comment on the internal controls regarding collection from debtors and the payment to creditors. Give TWO points. (4)

#### INFORMATION:

- A** Cash sales amounts to 40% of total sales.
- B** **Collection from debtors occur as follows:**
- 50% in the month of sale, subject to 5% discount.
  - 30% in the month following the sale.
  - 20% in the second month following the sale.
  - No bad debts are budgeted for.
- C** **Cost of sales and purchases:**
- Goods are marked-up by 25% on cost.
  - Stock is replaced in the same month (a base stock is maintained).
  - 80% of stock is bought on credit. Creditors are paid in full in the month following the month of purchase.
- D** The business invested money in a fixed deposit account on 1 October 2021. Interest is received monthly, calculated at 8% p.a. R30 000 of this fixed deposit matures on 31 October 2023.

**E** Salaries and wages are expected to remain the same for the budget period. Staff members on leave in November will get their pay, totaling R46 500 at the end of October.

**F** Commission income will increase by 7, 5% from 1 November 2023.

**G Debtors' collection**

**Incomplete Debtors Collection Schedule**

MONTH	CREDIT SALES R	OCTOBER R	NOVEMBER R
August	90 000	18 000	
September	93 000	27 900	?
October	?	47 025	?
November	105 000		?
			?

**H Cash budget for the two months ended 30 November 2023.**

	October R	November R
<b>Receipts</b>		
Cash sales	66 000	(a)
Cash from debtors		
Commission income	(b)	25 800
Interest on fixed deposit	600	(c)
Fixed deposit	30 000	
<b>TOTAL RECEIPTS</b>		
<b>Payments</b>		
Cash purchases of trading stock	26 400	28 000
Payments to creditors	(d)	105 600
Insurance	7 300	9 100
Bank charges	2 025	
Salaries and wages	216 500	(e)
Sundry expenses	4 050	4 200
<b>TOTAL PAYMENTS</b>		

## Activity 5 Answer Book

5.1

**Identify TWO items in the Cash Budget that will not appear in the Projected Statement of Comprehensive Income.**

2

5.2.1

### DEBTORS COLLECTION SCHEDULE

MONTH	CREDIT SALES	OCTOBER	NOVEMBER
August	90 000	18 000	
September	93 000	27 900	
October		47 025	
November	105 000		

9

5.2.2 Calculate the figures indicated by (a) – (e) in the Cash Budget.

NO.	WORKINGS	ANSWER
(a)	Cash sales	
(b)	Commission income	
(c)	Interest on fixed deposit	

20

(d)	Payment to creditors	
(e)	Salaries and wages	

5.3

**Comment on the internal controls regarding the collection from debtors and the payment to creditors. Provide TWO points.**

4

TOTAL MARKS
35

# VALUE ADDED TAX(VAT)

## Key Concepts/Terminology

1. Input Vat- Is the VAT charged to or paid by a vendor in acquiring goods or services from another VAT vendor.
2. Output Vat- Is the VAT charged by a vendor when it sells goods or renders services.
3. Vat Control- Summary of Input and Output Vat
4. Vat Payable to SARS- Amount of Vat payable to SARS.
5. Vat Receivable from SARS- Amount of Vat receivable from SARS.
6. Standard Rate- - Is the normal rate at which Vat is charged (currently 15%)

## Examinable Content:

- Concepts and Theory
- Calculations
- Ledger Accounts
- Ethical issues

## Activity 1

### 1 TT TRADERS

#### REQUIRED:

- 1.1 Taking into account the errors and omissions, calculate the amount that is either payable to or receivable from SARS on 30 June 2022. The current VAT rate is 15%.

#### INFORMATION:

- A. Amount due to SARS on 1 June 2022, R7 590.  
B. Details in respect of VAT for June 2022:

Extracted from the journals:

DETAILS	EXCLUDING VAT	VAT	INCLUDING VAT
	R	R	R
Sales	158 000		181 700
Total purchases	89 040		
Returns from debtors			6 647
Returns to suppliers		760	
Owners drawings			713
Discounts allowed to debtors		1 125	

## Activity 2 Answer Book

TT TRADERS

1.1

Calculate the VAT amount payable to/receivable from SARS on 30 June 2022.



## Activity 2

Calculate the amount owing to SARS in respect of VAT at the end of February 2022 after taking transactions 1 to 5 into account. Clearly state whether the amount would be added or subtracted by using a (+) or (-) sign.

(7)

### Transactions and Information:

1. The VAT Control Account reflected that Macrozone Sports owed SARS an amount of R8 120 on 1 February 2022.
2. The owner took sports equipment for his personal use. The VAT on this transaction amounted to R912.
3. Returned defective goods to the supplier. The debit note reflected an amount of R1 680 (VAT exclusive).
4. R4 200 (VAT exclusive) worth of stock was stolen during a burglary. The insurance paid R2 300 (VAT inclusive) of the claim.
5. Macrozone Sports disposed of a second-hand vehicle at a loss of R6 000 on 28 February 2022. The book value of the vehicle as at date of sale was R74 000. The depreciation on this vehicle had been recorded up to the 28 February 2022. Input VAT was claimed when this vehicle was originally bought.

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## Activity 2 Answer Book

- 2.1 Calculate the amount owing to SARS in respect of VAT at the end of February 2022 after taking transactions 1–5 into account. Clearly state whether the amount would be added or subtracted by using a (+) or (-) sign.

NO.	VAT AMOUNT OWING TO SARS
1.	R 8 120
2.	
3.	
4.	
5.	

### Activity 3

The following entries relates to Aquella Stores for the VAT period ended 31 July 2022. VAT at 15% applies to all goods.

**REQUIRED:**

- 3.1 Explain why the government in SA made certain goods to be zero-rated.
- 3.2 Taking into account the error and omission, calculate the VAT amount that is either payable to SARS on 31 July 2022.
- 3.3 You are in charge of internal auditing. Peter, the owner of the business, purchased a new laptop in August 2022 for R14 720 as a birthday present for his daughter using a business EFT. The laptop will be used for personal purposes. The laptop, according to Peter, must be recorded as a VAT item in the business's books.

Explain what you would say to Peter. Provide TWO points.

**INFORMATION:**

- A. Amount owed to SARS on 1 July 2022, R89 600.
- B. **Amounts from the Journals on 31 July 2022:**

	EXCLUDING VAT	INCLUDING VAT	VAT AMOUNT
Cash sales	560 000	644 000	84 000
Credit purchases of stock	194 000	223 100	29 100
Reversal of discount to a debtor		3 450	?

- C. **The following error was noted:**  
VAT on sales was recorded incorrectly. Certain goods with a selling price of R55 000 (excluding VAT) should have been recorded as zero-rated items.

### Activity 3 Answer Book

#### VAT

3.1

Explain why the government in SA made certain goods to be zero-rated.

2

3.2

Taking into account the error and omission, calculate the VAT amount that is either payable or receivable from SARS.

	Answer

8

3.3

Explain what you would say to Peter. Provide TWO points.

4

## STATEMENT OF COMPREHENSIVE INCOME

### Activity 1

#### ACTIVITY 1 CORRECT NET PROFIT

(23 marks;17min)

##### 1.1 OREO LTD

The financial year ended on 29 February 2024

##### REQUIRED:

1.1.1 Calculate:

- Amounts for **(i)** and **(ii)** in the Fixed Assets Register (5)
- Profit/Loss on sale of asset (2)
- Fixed assets carrying value on 28 February 2024 (4)

1.1.2 Calculate the correct net profit **after tax** for the year ended 29 February 2024. Indicate **(+)** for increase and **(-)** for decrease.  
(12)

## INFORMATION

### A. Fixed assets:

A delivery vehicle was sold on 31 October 2023, but no entries were made to record this transaction.

Details of the vehicle sold:

<b>Delivery Vehicle HYR972EC</b>			
<b>Date purchased :1 March 2021</b>			
<b>Date sold :31 October 2023</b>			
<b>Sold for: R175 000(cash)</b>			
<b>Depreciation rate :20%p.a. (diminishing balance method)</b>			
<b>Date</b>	<b>COST</b>	<b>DEPRECIATION</b>	<b>CARRYING VALUE</b>
28 February 2022	R300 000	R60 000	R240 000
28 February 2023		48 000	192 000
31 October 2023		(i)	(ii)

### B. List of balances/totals on 29 February 2024 (before taking into account all adjustments below):

Ordinary share capital	<b>R8 152 000</b>
<b>Retained income (1 March 2023)</b>	<b>865 300</b>
<b>Mortgage loan: SAH Bank</b>	<b>1 758 000</b>
<b>Fixed assets (carrying value)</b>	<b>10 170 000</b>
<b>Fixed deposit: SAH Bank</b>	<b>?</b>
<b>Trading stock</b>	<b>1 102 000</b>
<b>Net trade debtors</b>	<b>1 090 000</b>
<b>Bank (favourable)</b>	<b>?</b>
<b>SARS: Income tax (provisional tax payments)</b>	<b>156 000</b>
<b>Creditors' control</b>	<b>1 906 800</b>

### C. Net profit before tax, **R922 800**, was calculated **before** correcting the following:

- Provision for bad debts must be increased by R68 000.
- R9 900 of an advertising contract applies to the next financial year.
- A tenant paid rent of R332 500 for the period 1 March 2023 to 31 March 2024. Rent was increased by R2 500 per month from 1 January 2024.
- Depreciation and profit/loss on the vehicle sold must be recorded.
- Stock to the value of R7 400 was destroyed in a fire. The insurance company agreed to pay R6 500.
- A further R43 000 is owed for income tax.

## Activity 1 Answer Book

1.1.1

<b>(i) Depreciation for the current year</b>	
<b>Workings</b>	<b>Answer</b>
	[3]
<b>(ii) Carrying value of vehicles sold</b>	
<b>Workings</b>	<b>Answer</b>
	[2]
<b>Calculate: Profit/loss on sale of asset</b>	
<b>Workings</b>	<b>Answer</b>
	[2]
<b>Calculate: Fixed assets at carrying value on 29 February 2024</b>	
<b>Workings</b>	<b>Answer</b>
	[4]

1.1.2

Calculate the correct net profit after tax for the year ended 29 February 2024. Indicate (+) for increase and (-) for decrease.	
Workings	Answers
Incorrect Net Profit before tax	922 800
Correct net profit after tax	



## Activity 2

### CORRECT THE NET PROFIT (22 marks :17 marks)

#### GLODINA LTD

The information relates to Glodina Limited, and the financial year ended on 30 June 2023. The business uses the perpetual (Continuous) inventory system.

#### REQUIRED:

- 2.1 Calculate the correct net profit after tax for the year ended 30 June 2023. Indicate a + for an increase and a – for a decrease. (22)

#### INFORMATION

- A. The net profit before tax of R1 089 238 was determined before taking into account the following information:
- (i) Provision for bad debts must be adjusted to R 7 800.
  - (ii) An invoice was issued on 30 June 2023 for R8 712; a 10% trading discount was allowed. Goods were sold with a mark-up of 60%. No entry has been made to this transaction.
  - (iii) The auditor discovered that the trading stock deficit of R5 600 was a trading stock surplus.
  - (iv) Consumable goods on hand at the end of the financial year amounted to R5 400.
  - (v) The director's fees paid for the year amounted to R648 000. The company has FIVE directors who receive the same fee. One of the directors asked the company to only pay out his fees for the last six months in July 2023, when he plans to go on an overseas vacation.
  - (vi) GU Builders was paid R120 000 for the construction of a storeroom (R90 000) and repairs to the building (R30 000). The entire amount was debited to land and buildings in error.
  - (vii) Rent for July 2024, R3 300, received in advance.
  - (viii) Advertising includes a six-month contract for R7 200 with the local newspaper. This amount was paid for the period 1 May 2023 to October 2023
  - (ix) Income tax amounts to R333 564 for the year.

## Activity 2 Answer Book

## 2.1

[illegible]

### Activity 3

#### MILO LIMITED-CORRECT NET PROFIT

The information relates to Milo Ltd for the financial year ended 31 December 2023. The accountant of Milo Ltd, Millie, calculated a net profit before tax of R1 738 780. During the internal audit it was discovered that the net profit before tax is incorrect as not all the adjustments were considered.

#### REQUIRED:

Refer to Information A-C.

- 3.1 Calculate the correct net profit after tax for the year ended 31 December 2024 (24)

#### INFORMATION:

- A** Millie Ltd is authorised to issue 300 000 ordinary shares.  
A total 188 000 ordinary shares were in issue on 31 December 2023
- B** The following list of balances appeared in the books of Millie Ltd on 31 December 2023, **BEFORE** the additional adjustments given below were taken into account.

	R
Ordinary share capital	4 700 000
Retained income (1 January 2023)	580 000
Loan: SAH Bank	880 000
Land and Buildings	3 450 000
Equipment	2 950 000
Accumulated depreciation on Equipment	425 000
Trading Stock	1 240 000
Debtors' control	490 000
Provision for bad debts (1 January 2023)	18 940
Prepaid expenses	4 800
Accrued income	6 820
SARS: Income tax (DR)	313 500
Creditors' control	68 000
Accrued expenses	1 400
Income received in advance	15 000
Bank (CR)	28 000
Net profit before tax	1 738 780

- C** The following adjustments and additional information had **NOT** been considered when the net profit before tax of R1 738 780 was calculated.

- On reviewing the improvement in the “slow paying debtors” it was decided to decrease the provision for bad debts to R13 640.
- According to the profit and loss account insurance includes an annual premium of R59 680 which was paid on 1 March 2023.
- Millie forgot to record the interest from the loan statement. Interest is **NOT** capitalised. The terms of the loan agreement require a R240 000 capital repayment each year.

The loan statement showed the following:

Balance on 1 January 2023	R1 120 000
Repayments (capital & interest)	R 319 200
Balance on 31 December 2023	R 880 000

- On 31 December the rent income collected was R 109 800. This includes rent for January and February 2024.
- Equipment:
  - Equipment is depreciated at 20% p.a. using the diminishing balance method.
  - The accountant, in error processed the depreciation on the cost price method at 20% and posted the amount of R390 000 for depreciation to the general ledger. Correct the error.
  - Additional equipment costing R 1 000 000 was purchased on 31 December 2023 and recorded correctly.
- Income tax is calculated at 30% on profit.
- A final dividend of 50 cents per share was declared on 31 December 2023.No interim dividend was paid during the financial year.

# Activity 3 Answer Book

**3.1 Calculate the correct net profit after tax for the year ended 31 December 2023. Indicate a '+' for increase and '-' for decrease.**

[illegible]

## STATEMENT OF FINANCIAL POSITION

### Activity 1

**QUESTION 1: STATEMENT OF FINANCIAL POSITION:** (60 marks; 50 minutes)

#### 1.1 CONCEPTS

Choose an explanation from COLUMN B that matches a concept in COLUMN A. Write only the letter (A-E) next to the question number (1.1.1-1.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.1.1 Shareholder	A Monitors control measures to prevent mismanagement and fraud.
1.1.2 Director	B Owners of the company.
1.1.3 Internal auditor	C Expresses an opinion on the reliability financial statements of a company.
1.1.4 External auditor	D Appointed by the shareholders to manage the company.
	E Founders of a company.

(4)

## 1.2 PSJ LIMITED

The financial year ended on 29 February 2024.

### REQUIRED:

- 1.2.1 Complete the following Notes to the Statement of Financial Position:
- Ordinary share Capital (8)
  - Retained income (8)
- 1.2.2 Prepare the Statement of Financial Position on 29 February 2024. (40)

### INFORMATION:

#### A. Extract from the records on 29 February 2024:

	R
Ordinary share capital	9 510 000
Retained income	793 000
Loan from director	?
Land and Buildings	8 532 560
Equipment at cost	600 000
Accumulated depreciation on equipment	?
Fixed deposit: ABA Bank (9% p.a.)	806 000
Creditors' control	1 441 000
Debtors' control	1 067 800
Cash at bank	132 000
Creditors for salaries	72 000
Income receivable (accrued income)	48 000
Income received in advance	6 600
SARS: Income tax (provisional payments)	390 000

**B. Share capital and dividends:**

<b>Authorised share capital:</b> 3 000 000 ordinary shares	
<b>Issued share capital:</b>	
1 March 2023	40% of the authorised ordinary shares had been issued
1 September 2023	The directors paid an interim dividend of 35 cents per share
1 November 2023	40 000 shares were repurchased at 25% (R60 000) above the average price. This transaction was recorded
1 December 2023	300 000 new shares were issued
28 February 2024	The directors declared a final dividend of 7 cents per share to all shareholders on the register.

**C. Net profit and Income Tax:**

Income tax for the financial year was calculated as R408 800. This is 28% of the net profit before tax.

**D. Fixed assets:**

All the equipment was purchased on the same day, 1 October 2021. Depreciation is written off at 20% p.a. on cost price. There were no other changes in fixed assets. Current depreciation has been recorded.

**E. Fixed deposit:**

The fixed deposit is invested with ABA Bank. Note that 25% of the fixed deposit will mature on 31 August 2024, while the balance will mature in 2026.

**F. Loan from the director:**

A loan of R3 000 000 from one of the directors was originally received on 1 March 2022. This loan is to be repaid in equal monthly instalments over 5 years. All payments up to the 28 February 2024 were made. Interest is not capitalised.

**G. Transfer from Debtors' Ledger:**

A debtor's debit balance of R1 000 in the Debtor's Ledger must be transferred to his account in the Creditors Ledger.



## Activity 1 Answer Book

1.1

1.1.1	
1.1.2	
1.1.3	
1.1.4	

4

1.2 PSJ LIMITED

1.2.1 ORDINARY SHARE CAPITAL

1 460 000	Ordinary shares at the end	9 510 000

8

RETAINED INCOME NOTE ON 29 FEBRUARY 2024

Ordinary share dividends	
Interim dividends	420 000
Balance on 29 February 2024	793 000

8

**PSJ LIMITED**

**1.2.2 STATEMENT OF FINANCIAL POSITION ON 29 FEBRUARY 2024.**

<b>ASSETS</b>	
<b>NON-CURRENT ASSETS</b>	
Fixed assets (8 532 560	
<b>CURRENT ASSETS</b>	
Trade and other receivables (1 067 800	
<b>TOTAL ASSETS</b>	
<b>EQUITY AND LIABILITIES</b>	
Ordinary Shareholders' equity	
<b>NON-CURRENT LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>	

40

<b>TOTAL MARKS</b>	<b>60</b>
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## STATEMENT OF FINANCIAL POSITION OF MT WHITE LTD

### Activity 2

- 2.1 Equity and Liabilities section of the Statement of Financial Position (Balance Sheet). Show ALL workings in brackets (23)

#### INFORMATION:

The following balances/totals appeared in the books on 29 February 2024:

	R
Ordinary shares capital	?
Retained income (29 February 2024)	468 000
Mortgage Loan: Best Bank	?
Trading Stock	370 870
Creditors' control	203 100
Provision for bad debts (1 March 2023)	2 140
SARS Income Tax (provisional payments)	323 888
Deposit from tenant	12 000
Sales	?
Cost of sales	?
Rent income	130 200
Audit fees	25 000
Insurance	103 500
Sundry expenses	?
Dividends on ordinary shares	340 000

#### Adjustments and additional information:

- A** Mt White Ltd operates on a 60% mark-up policy on all sales. Last year's sales amounted to R6 500 000. Mt White Ltd is pleased to announce a 20% increase in sales for the year ending February 2024. There were no sales returns for the year.
- B** According to a physical stocktaking, trading stock on hand amounted to R358 240.
- C** A debtor's account with a credit balance of R3 400 must be transferred to his account in the creditors' ledger.
- D** Decrease the provision for bad debts by R230.

- E** A vacant storeroom was rented to a tenant on 1 March 2023. On 1 December 2023 the rent was decreased by 7.5%. Provide for the outstanding rent for February 2024.
- F** Mt White Ltd paid a 40% deposit on their audit fees for the year. The balance will be settled on 5 March 2024.
- G** An annual insurance policy was taken out on 1 August 2023 at R11 500 per month.
- H** The loan statement from Best Bank reflects the following:

<b>BEST BANK LOAN STATEMENT ON 29 FEBRUARY 2024</b>	
Balance at the beginning of the financial year	R1 250 000
Fixed monthly repayments including interest	45 200
Interest expense (capitalised)	220 500

- Interest for the next financial year is expected to be R 150 000.
  - Part of the loan will be repaid in the next financial year.
- I** Sundry expenses is the missing figure in the income statement.
- J** The income tax which amounted to R340 088 was calculated at a rate of 28% of the net profit.
- K** Shares and Dividends
- The authorised ordinary share capital consists of 800 000 shares, of which 60% was in issue.
  - Total dividends for the year amounted to R445 600.
- L** The following financial indicators were calculated on 28 February 2024.
- Operating profit on sales is 15%.
  - Net asset value per share is 720 cents.

## Activity 2 Answer Book

**Mt WHITE LIMITED**

**2.1 STATEMENT OF FINANCIAL POSITION AS AT 29 FEB 2024**

**EQUITY AND LIABILITIES SECTION OF THE BALANCE SHEET**

<b>SHAREHOLDERS' EQUITY</b>		
Ordinary share capital		
Retained income	468 000	
<b>NON-CURRENT LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables		
<b>TOTAL EQUITY AND LIABILITIES</b>		

23

### Activity 3

#### BCM TRADING LIMITED

- 3.1 Prepare the Ordinary Share Capital Note on 30 June 2024. (7)
- 3.2 Prepare the Retained Income Note on 30 June 2024. (8)
- 3.3 Complete the Equities and Liabilities section of the Statement of Financial Position (Balance Sheet) on 30 June 2024. (19)

#### INFORMATION:

**A. List of balances/totals on 30 June 2024:**

BALANCE SHEET ACCOUNTS SECTION	
Ordinary Share Capital	6 775 000
Retained income (1 July 2023)	1 190 264
Mortgage loan: Custom Bank	354 000
Fixed assets	6 169 000
Fixed deposit: Custom Bank	390 000
Trading stock	817 450
Debtors' control	742 488
Provision for bad debts (1 July 2023)	10 600
SARS: Income tax (provisional payments)	300 000
Creditor's control	166 800
Prepaid expenses	3 350
Income received in advance	5 450

**B. The net profit before tax of R1 089 238 was determined BEFORE taking into account the following information:**

- i. Provision for bad debts must be adjusted to R7 800.
- ii. An invoice was issued on 30 June 2024 for R8 712; a 10% trading discount was allowed. Goods were sold with a mark-up of 60%. No entry has been made to this transaction.
- iii. The auditor discovered that the trading stock deficit of R5 600 was a trading stock surplus.
- iv. Consumable goods on hand at the end of the financial year amounted to R5 400.
- v. Directors' fees paid for the year amounted to R648 000. The company has FIVE directors who receive the same fee. One of the directors asked the company to only pay out his fees for the

last six months in July 2024, when he plans to go on an overseas vacation.

- vi. BE Builders was paid R120 000 for the construction of a storeroom (R90 000) and repairs to the building (R30 000). The entire amount was debited to land and buildings in error.
- vii. Rent for July 2024, R3 300, received in advance.
- viii. Advertising includes a six-month contract for R7 200 with the local newspaper. This amount was paid for the period 1 May 2024 to 31 October 2024.
- ix. Income tax amounts to R333 564 for the year.

**C. Dividends and shares:**

- i. Interim dividends of R110 000 were paid on 31 December 2023.
- ii. Share capital

1 July 2023	3 000 000 shares were issued (R3 900 000).
30 September 2023	250 000 shares were repurchased at R2,50 each from an existing shareholder (R625 000). It has been recorded.
30 June 2024	1 000 000 new shares were issued at R3,20 each. It has been recorded.

- iii. The directors declared a final dividend of 10 cents per share on 30 June 2024. Shares issued on 30 June 2024 do not qualify for final dividends.

- D. A creditors' debit balance of R2 600 in the Creditors' Ledger must still be transferred to his account in the Debtors' Ledger.
- E. The company wants to pay off R9 250 per month on their loan in the next financial year.

## Activity 3 Answer Book

### BCM TRADING LIMITED

3.1

SHARE CAPITAL		
3 000 000	Shares issued at the beginning of the year	3 900 000
	Shares at the end of the year	6 775 000

7

3.2

RETAINED INCOME	
Balance at the beginning of the year	1 190 264
Dividends	
Interim	110 000
Balance at the end of the year	

8



3.3 BCM TRADING LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2024

EQUITY AND LIABILITIES		
ORDINARY SHAREHOLDERS' EQUITY		
Ordinary share capital	6 775 000	
Retained income		
NON-CURRENT LIABILITIES		
Loan: Custom Bank		
CURRENT LIABILITIES		
Trade and other payables (166 800		
TOTAL EQUITY AND LIABILITIES		19

60

## CASHFLOW STATEMENT

### CASH FLOW STATEMENT AND FINANCIAL INDICATORS

#### Activity 1

(35 marks; 25 minutes)

You are provided with information relating to BERTA Limited. The financial year ends on 29 February 2024.

#### REQUIRED:

- 1.1 Complete the note in respect of the reconciliation of net profit before tax with cash generated from operations. (7)
- 1.2 Calculate missing figures labelled (A) to (F) in the Cash Flow Statement. (17)
- 1.3 Calculate the following financial indicators on 29 February 2024.
  - 1.3.1 Net asset value per share (3)
  - 1.3.2 Debt/ Equity ratio (3)
  - 1.3.3 Return on average capital employed (5)

#### INFORMATION:

- A. Extract from the Statement of Comprehensive Income for the year ended 29 February 2024

	R
Sales	12 105 000
Net profit before tax	1 310 000
Interest on loan	252 000
Depreciation	453 000
Income tax	393 000

**B. Extract from the Statement of Financial Position of BERTA Ltd for the two years on 28/29 February:**

	<b>2024</b>	<b>2023</b>
	<b>R</b>	<b>R</b>
<b>Non - current assets</b>	2 764 500	2 374 000
Fixed assets	2 631 200	2 274 000
Fixed deposit	133 300	100 000
<b>Current assets</b>	2 548 000	1 088 000
Inventories	254 000	272 000
Trade and other receivables	1 638 000	770 000
Cash and cash equivalents	656 000	46 000
<b>Total assets</b>	<b>5 312 500</b>	<b>3 462 000</b>
<b>Shareholders Equity and Liabilities</b>		
Shareholders' equity	2 875 500	1 652 000
Ordinary share capital	2 191 700	1 378 500
Retained income	683 800	273 500
<b>Non - current liabilities</b>	1 800 000	1 000 000
Loan: First Bank (18% p.a.)	1 800 000	1 000 000
<b>Current liabilities</b>	637 000	810 000
Trade and other payables	637 000	810 000
<b>Total Equity and Liabilities</b>	<b>5 312 500</b>	<b>3 462 000</b>

**C. Ordinary share capital:**

	<b>2024</b>
	<b>R</b>
675 000 shares in issue at the beginning of the year	1 378 500
375 000 new shares issued on 1 March 2023	?
40 000 shares repurchased on 29 February 2024	86 800
1 010 000 shares in issue at the end of the year	2 191 700

- On 29 February 2024, 40 000 shares were repurchased at 33 cents above the average price.

**D. Trade and other receivables:**

	<b>2024</b>	<b>2023</b>
	<b>R</b>	<b>R</b>
Trade debtors	1 592 000	770 000
SARS: Income tax	46 000	0

**E. Trade and other payables:**

	<b>2024</b>	<b>2023</b>
	<b>R</b>	<b>R</b>
Trade creditors	479 500	692 500
SARS : Income tax	0	95 000
Shareholders for dividends	157 500	22 500

**F. CASH FLOW STATEMENT: BERTA LIMITED**

Cash effects from operating activities	
Cash generated from operations	
Interest paid	
Dividends paid	A
Taxation paid	B
Cash effects from investing activities	
Purchase of fixed assets	
Proceeds from the sale of fixed assets	
Change in investment	C
Cash effects from financing activities	
Proceeds from shares issued	D
Repurchase of shares	E
Change in loan	
Net change in cash and cash equivalents	F
Cash and cash equivalents at the beginning of the year	46 000
Cash and cash equivalents at the end of the year	656 000

## Activity 1 Answer Book

### BERTA LIMITED

#### 1.1 CASH GENERATED FROM OPERATIONS NOTE

Net profit before tax	1 310 000
Adjustments for:	
Depreciation	453 000
Interest expense	252 000
Operating profit before changes in working capital	2 015 000
Changes in working capital	
Cash generated from operations	

7

#### 1.2 Cash Flow Statement: BERTA LIMITED

A. Dividends paid	
WORKINGS	ANSWER
B. Taxation paid	
WORKINGS	ANSWER

5

4

C. Change in investments	
WORKINGS	ANSWER

1

D. Proceeds from shares issued	
WORKINGS	ANSWER

2

E. Repurchase of shares	
WORKINGS	ANSWER

3

F. Net change in cash and cash equivalents	
WORKINGS	ANSWER

2

1.3.1 Calculate the following financial indicators:

Net asset value per share	
WORKINGS	ANSWER

3

Debt / Equity ratio	
WORKINGS	ANSWER

3

Return on average capital employed

WORKINGS	ANSWER

5

TOTAL MARKS
35

## Activity 2

### CASH FLOW STATEMENT & FINANCIAL INDICATORS

(45 marks; 36 minutes)

#### 2.1 CONCEPTS

Choose the correct term to complete each of the following statements. Write only the term next to the question numbers (2.1.1 to 2.1.4) in the **ANSWER BOOK**.

statement of comprehensive income; current asset; non-current asset;  
statement of financial position; net working capital

2.1.1 Consumable stores on hand is a/an ...

2.1.2 A fixed deposit that will mature in two years is a/an ...

2.1.3 The difference between current assets and current liabilities is ...

2.1.4 The statement reflecting the financial results of the company is called a/an ... (4)

#### 2.2 EDROVALE LTD

Information for the financial year ended 30 June 2024 is provided.

##### REQUIRED:

2.2.1 Prepare the Ordinary Share Capital Note to Statement of Financial Position. (7)

2.2.2 Calculate the following amounts for the Cash Flow Statement. Show workings.

- Income tax paid (5)
- Proceeds from the sale of fixed assets (5)

2.2.3 Complete the following sections to the Cash Flow Statement

- Cash flow from financing activities (5)
- Net change in cash and cash equivalents (4)

2.2.4 The Cash Flow Statement reflects a significant inflow of cash through financing activities. The Cash Flow Statement highlights ways in which the directors used this inflow. Identify TWO ways, with figures (exceeding R500 000). Explain how this will benefit to the company. (6)



2.2.5 Calculate the following financial indicators on 30 June 2024:

- % return on average capital employed (ROTCE)

**(Average capital employed amount to R11 433 075)** (5)

- Dividend per share (4)

**INFORMATION:**

**A. Share Capital**

- On 1 September 2023, the directors issued a further 80 000 ordinary shares at R12,74.
- On 1 February 2024 the company repurchased 40 000 shares from a disgruntled shareholder. An EFT for R539 200 was made to the shareholder. The average share price at the time was R12,07

**B. Dividends**

- Interim dividends of 38 cents per share were paid on 15 December 2023.
- Final dividends of R310 200 were declared on 30 June 2024.

**C. Extract from the Statement of Comprehensive Income for the year ended 30 June 2024**

	<b>R</b>
Depreciation	185 400
Interest expense (on loan)	214 500
Net profit after tax (income tax is calculated at 30% of the net profit)	1 025 850

**D. Extract from the Statement of Financial Position on 30 June 2024:**

	<b>2024</b>	<b>2023</b>
	<b>R</b>	<b>R</b>
Fixed assets (carrying value) *	13 163 580	12 646 080
Fixed deposit: Flay Bank	225 000	150 000
Current assets	?	876 450
Inventories	554 200	271 500
Debtors	432 450	550 500
SARS: Income tax	0	16 950
Cash and cash equivalents	?	37 500
Shareholders' equity	11 844 500	?
Ordinary share capital	11 345 800	?
Retained income	498 700	212 250
Loan: Home Bank	2 100 000	1 275 000
Current liabilities	830 400	1 385 280
Creditors	487 500	631 500
Shareholders for dividends	310 200	540 000
SARS: Income tax	32 700	0
Bank overdraft	0	213 780

**\*Fixed assets at the cost price of R870 600 were purchased during the year.**

## Activity 2 Answer Book

2.1	Choose the correct term to complete each of the following statements. Write only the term next to the question numbers (2.1.1 to 2.1.4) in the ANSWER BOOK.		
2.1.1			
2.1.2			
2.1.3			
2.1.4			

4

### 2.2 EDROVALE LIMITED

2.2.1	Prepare the Ordinary Share Capital Note to Statement of Financial Position.		
<b><u>AUTHORISED:</u></b>			
1 000 000 Ordinary shares			
<b><u>ISSUED:</u></b>			
940 000	Ordinary shares in issue on 28 February 2024	11 345 800	

7

2.2.2

Calculate the following amounts for the Cash Flow Statement.  
Show workings.

Income tax paid

WORKINGS	ANSWER

5

Proceeds from sale of assets

WORKINGS	ANSWER

5

2.2.3

Complete the following sections to the Cash Flow Statement:

**CASH EFFECTS FROM FINANCING ACTIVITIES**

<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	
Repurchase of shares	(539 200)

5

**NET CHANGE IN CASH AND CASH EQUIVALENTS**

<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>566 550</b>

4

2.2.4	The Cash Flow Statement reflects a significant inflow of cash through financing activities. The Cash Flow Statement highlights ways in which the directors used this inflow. Identify TWO ways, with figures (exceeding R500 000). Explain how this will benefit to the company.						
<table border="1"><thead><tr><th>CRUCIAL DECISION</th><th>EFFECT OF DECISION</th></tr></thead><tbody><tr><td></td><td></td></tr><tr><td></td><td></td></tr></tbody></table>		CRUCIAL DECISION	EFFECT OF DECISION				
CRUCIAL DECISION	EFFECT OF DECISION						

6

2.2.5	Calculate the following financial indicators on 30 June 2024:
-------	---

% Return on average capital employed (ROTCE) (Average capital employed amount to R11 433 075)					
<table border="1"><thead><tr><th>WORKINGS</th><th>ANSWER</th></tr></thead><tbody><tr><td></td><td></td></tr></tbody></table>		WORKINGS	ANSWER		
WORKINGS	ANSWER				

5

Dividend per share					
<table border="1"><thead><tr><th>WORKINGS</th><th>ANSWER</th></tr></thead><tbody><tr><td></td><td></td></tr></tbody></table>		WORKINGS	ANSWER		
WORKINGS	ANSWER				

4

**Activity 3****CASH FLOW STATEMENT AND FINANCIAL INDICATORS****(35 marks; 28 minutes)**

**The information relates to Kei River Ltd for the financial year ended 30 June 2024.**

**REQUIRED:**

- 3.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2024: (4)
- 3.2 Calculate the following figures in the 2024 Cash Flow Statement:
  - 3.2.1 Taxation paid (4)
  - 3.2.2 Fixed assets purchased (6)
  - 3.2.3 Shares issued (2)
  - 3.2.4 Funds used for the repurchased shares (2)
  - 3.2.5 Net change in cash and cash equivalents (4)
- 3.3 Calculate the following:
  - 3.3.1 Earnings per share (4)
  - 3.3.2 Debt-equity ratio (3)
  - 3.3.3 Return on average capital employed (6)

A.

**Information from the financial statement on 30 June:**

	<b>2024</b>	<b>2023</b>
	<b>R</b>	<b>R</b>
Depreciation	16 645	22 000
Interest expenses	120 000	123 000
Fixed assets (carrying value)	1 541 940	944 800
Financial assets	130 000	190 000
<b>Shareholders' equity</b>	<b>2 499 900</b>	<b>1 117 500</b>
Ordinary share capital	2 375 000	1 000 000
Retained income	124 900	117 500
Loan	350 000	1 070 000
Inventory	1 125 000	1 145 000
Trade and other receivables	1 115 000	1 143 000
Cash and cash equivalent	88 900	2 500
Trade and other payables	1 150 940	1 070 800
Bank overdraft	-	153 000
<b>Total capital employed</b>	<b>2 849 900</b>	<b>2 187 500</b>



B.

**NOTES TO THE BALANCE SHEET:**

	<b>2024</b>	<b>2023</b>
	<b>R</b>	<b>R</b>
<b>TRADE AND OTHER RECEIVABLES</b>	1 115 000	1 143 000
Debtors Control	1 102 000	1 130 000
Accrued Income	9 000	6 000
Prepaid Expenses	4 000	3 000
SARS: Income Tax	0	4 000

<b>TRADE AND OTHER PAYABLES</b>	1 150 940	1 070 800
Creditors Control	1 043 565	1 047 300
Accrued expenses	7 000	9 500
SARS: Income Tax	10 375	0
Shareholders for dividends	260 000	14 000

**ADDITIONAL INFORMATION:**

**A. Share capital and dividends.**

- The company is registered with an authorised share capital of 300 000 ordinary shares.
- On 30 June 2023 there were 100 000 shares in issue.
- 100 000 additional shares issued at R15 on 1 January 2024.
- On 30 June 2024, 10 000 shares were repurchased from the estate of a deceased shareholder at R3,50 above the average price.
- The interim dividends of 20 cents per share was declared and paid on 15 December 2023. The final dividends were declared on 30 June 2024.

**B. Sale of equipment.**

Cost price	R40 000
Accumulated depreciation to date sold	R20 570
Date sold	1 April 2022
Selling price (at carrying value)	?

**C. Income tax.**

- Income tax for the year amounted to R197 600.
- Net profit after tax; R322 400.

### Activity 3 Answer Book

- 3.1 Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2024:

Net profit before tax	
Adjustment in respect of:	
Operating profit before changes in working capital	

4

- 3.2.1 Calculate: Taxation paid

WORKINGS	ANSWER

4

- 3.2.2 Calculate: Fixed assets purchased

WORKINGS	ANSWER

6

3.2.3

**Calculate: Shares issued**

<b>WORKINGS</b>	<b>ANSWER</b>

<b>2</b>

3.2.4

**Calculate: Funds used for the repurchase of shares**

<b>WORKINGS</b>	<b>ANSWER</b>

<b>2</b>

3.2.5

**Calculate: Net change in cash and cash equivalents**

<b>WORKINGS</b>	<b>ANSWER</b>
<b>Net change in cash and cash equivalents</b>	
<b>Cash and cash equivalents at the beginning</b>	
<b>Cash and cash equivalents at the end</b>	

<b>4</b>

3.3.1

**Calculate: Earning per share**

<b>WORKINGS</b>	<b>ANSWER</b>

4

3.3.2

**Calculate: Debt-equity ratio**

<b>WORKINGS</b>	<b>ANSWER</b>

3

3.3.3

**Calculate: Return on average capital employed**

<b>WORKINGS</b>	<b>ANSWER</b>

6

## Ratio analysis and interpretation

### GROUPING OF FINANCIAL INDICATORS TO ANSWER TYPICAL EXAM TYPE QUESTIONS

1	Comment on the profitability (operating efficiency) of the business.	Profitability ratios – related to sales. <b>Income Statement</b>
2	Comment on the liquidity of the business.... Is the business able to pay its short-term debts?	Current assets and current liabilities. <b>Balance Sheet</b>
3	Do you agree with the business paying back /taking out a loan? Explain. Gearing (high/low, positive/negative) financial leverage	Debt Equity to assess degree of risk. Return on total capital employed compared to Interest rate by banks. <b>Balance Sheet and Income Statement</b>
4	The existing shareholders are happy/not happy with their returns...	Return on shareholders' equity (ROSHE) Dividends per share (DPS) Earnings per share (EPS) <b>Balance Sheet and Income Statement</b> Return on alternative investments
5	Your friend wants to buy shares in the business. What advice would you offer? Comment on the price paid to buy back shares	Net asset value (NAV) Market price of shares (JSE) <b>Balance Sheet</b>

## Activity 1

### INTERPRETATION OF FINANCIAL INFORMATION (40 marks; 35 minutes)

The information relates to Maukloof Ltd. The company sells high-quality solar panels to businesses and homeowners to generate electricity. The financial year ends on 28/29 February each year.

#### REQUIRED

**NOTE:** Where comments or explanations are required, you must:

- **Quote financial indicators and trends, with figures**
- **Give a reason or an explanation on the relevant financial indicators**

#### 1.1 Mark-up percentage

Explain how the customers reacted to the change in the mark -up percentage and whether this benefitted the company or not. (4)

#### 1.2 Profitability and operating efficiency:

Comment on the operating efficiency of the company over the past two years. Quote TWO financial indicators. (4)

#### 1.3. Financial risk and gearing

1.3.1 One of the shareholders cannot understand why the debt-equity ratio increased in 2024 despite the increase in the loan. Provide him with an explanation. (2)

1.3.2 The chief financial officer (CFO) is of the opinion that the increase in the loan was a good decision. Apart from the debt-equity ratio, provide TWO points to support his opinion, including ONE relevant financial indicator. (4)

#### 1.4 Returns, earnings and dividends:

1.4.1. Comment on whether the shareholders should be satisfied with the return on their investment. Provide TWO points, including ONE financial indicator. (4)

1.4.2. Comment on the earnings per share (EPS) and explain its impact on the dividend-pay out policy adopted by directors. (4)

#### 1.5 Share price on the stock exchange:

Comment on the performance of the share price on the Johannesburg Stock Exchange (JSE). Provide TWO points, with figures and trends. (4)

## 1.6 Shareholding of Brian:

- 1.6.1 Brian owns shares in Maukloof Ltd. He is pleased with his investment in the shares of this company. Provide TWO points, with figures or calculations to support this opinion. (4)
- 1.6.2 The company plans to issue additional shares equal to 20% of the issued share capital, in the next financial year to existing shareholders. Allan has indicated that he will not take up this offer. Explain how this decision will affect his % shareholding. Provide a calculation or figures to support your explanation. (6)

## 1.7 Bonuses for directors and other employees of Maukloof Ltd:

Bonuses for directors and other employees are included in the company's budget. Shareholders will be required to vote at the AGM on whether these bonuses should be paid or not.

Apart from the points provided above, state TWO different factors that will influence shareholders to vote in favour of approving such bonuses. (4)

## INFORMATION:

### A. Financial indicators and additional information:

	29 Feb 2024	28 Feb 2023
Current Ratio	1,8:1	4,3:1
Acid-test ratio	0,9:1	2,5:1
Debt-equity ratio	0,2:1	0,3:1
Earnings per share (EPS)	224 cents	113 cents
Dividends per share (DPS)	90 cents	90 cents
Dividend pay- out rate	40%	80%
% return on average equity (ROSHE)	15,6%	8,0%
% return on total capital employed (ROTCE)	19,7%	11,0%
Net Asset Value per share (NAV)	1 543 cents	1 413 cents
Solvency ratio	2,5:1	3,6:1
% operating expenses on sales	22,0%	28,0%
% operating profit on sales	15,6%	10,2%
% net profit after tax on sales	13,5%	8,8%
% mark up	60%	40%
Number of directors and other employees	38	43
Number of customers	245	280
Average sales per customer	R160 000	R120 000
Market Price of shares on JSE	1 610 cents	1 342 cents
% interest rate on investments	7%	7%
% interest rate on loans	13%	13%



**B Extracts from Cash Flow Statement:**

	29 Feb 2024	28 Feb 2023
Cash generated from operations	R6 785 000	R3 863 500
Proceeds from shares issued	R2 800 000	0
Increase in loan	R1 000 000	R4 000 000
Fixed assets purchased	0	R750 000
Fixed assets sold*	R1 100 000	0
*Unproductive fixed assets were sold		

**C Shareholding of Brian in Maukloof Ltd:**

	Maukloof Ltd
Shares in issue on 29 February 2024	700 000
Number of shares owned by Ashwin	360 000
Purchase price per share paid by Ashwin	780 Cents
Dividends earned per share	90 cents

## Activity 1 Answer Book

1.1

**Explain how the customers reacted to the change in in the mark-up percentage and whether this benefitted the company or not.**

4

1.2

**Comment on the operating efficiency of the company over the past two years. Quote TWO financial indicators.**

4

1.3.1

**One of the shareholders cannot understand why the debt-equity ratio increased in 2024 despite the increase in the loan. Provide him with an explanation.**

2

1.3.2

**The chief financial officer (CFO) is of the opinion that the increase in the loan was a good decision. Apart from the debt-equity ratio, provide TWO points to support his opinion, including ONE relevant financial indicator.**

4

1.4.1

**Comment on whether the shareholders should be satisfied with the return on their investment. Provide TWO points, including ONE financial indicator.**

4

1.4.2

**Comment on the earnings per share (EPS) and explain its impact on the dividend-pay out policy adopted by directors. (4)**

4

1.5

**Comment on the performance of the share price on the Johannesburg Stock Exchange (JSE). Provide TWO points, with figures and trends.**

4

1.6.1

**Brian owns shares in Maukloof Ltd. He is pleased with his investment in the shares of this company. Provide TWO points, with figures or calculations to support this opinion.**

4

1.6.2

**The company plans to issue additional shares equal to 20% of the issued share capital, in the next financial year to existing shareholders. Allan has indicated that he will not take up this offer. Explain how this decision will affect his % shareholding. Provide a calculation or figures to support your explanation.**

6

1.7

**Bonuses for directors and other employees are included in the company's budget. Shareholders will be required to vote at the AGM on whether these bonuses should be paid or not. Apart from the points provided above, state TWO different factors that will influence shareholders to vote in favour of approving such bonuses.**

4

## Activity 2

### INTERPRETATION OF FINANCIAL INFORMATION

(30 marks; 25 minutes)

You are provided with information relating to Flagstaff Limited. The financial year ended on 29 February 2024.

#### REQUIRED

- 2.1 A company's published annual report comprises five main parts. Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (2.1.1 to 2.1.5) in the ANSWER BOOK.
- 2.1.1 The statement of financial position indicates whether the shareholders can rely on the financial statements.
- 2.1.2 The directors' report is a written, verbal explanation of the operations of the company during a financial year.
- 2.1.3 The cash flow statement reflects the net worth of the company.
- 2.1.4 The independent auditors' report reflects the effect of the operating, financial and investing activities on the cash resources.
- 2.1.5 The statement of comprehensive income reflects the profit/loss of the company for the financial year. (5)
- 2.2 Refer to the market value per share. Many people feel that the market value of the share on the JSE indicates whether the directors are doing a good job.
- Explain why the market value is so important in this regard.
  - If the company issued all its unissued shares the following year, how much capital could it expect to raise for the company? Provide a calculation to support your opinion. Note that the authorised share capital comprises 1 000 000 ordinary shares. The shares will be issued at 10% more than the current market price. (7)
- 2.3 Rather than issue more shares, the directors are considering taking out additional loans. Quote TWO relevant financial indicators (actual ratios or percentages) to support their opinion. (6)
- 2.4 Kyle Johns, one of the shareholders, is currently the owner of 400 000 shares. What will happen to his shareholding if all the unissued shares are issued? Show calculations to support your answer. (6)

- 2.5 On 1 March 2023, additional shares were issued at R3,00 each. Quote and explain relevant financial indicators with figures to show why the existing shareholders will be satisfied with this price. (6)

### INFORMATION

- A. The following financial indicators were calculated for the past two years ended 28/29 February:

	2024	2023
Current ratio	4,1 : 1	2,1 : 1
Acid-test ratio	2,5 : 1	1,3 : 1
Debt-equity ratio	0,1 : 1	0,1 : 1
% Return on average shareholders' equity	33,3%	25,0%
% Return on total capital employed	44,3%	25,6%
Net asset value per share	217,3 cents	213,6 cents
Dividends per share	20 cents	10 cents
Earnings per share	68,9 cents	55,2 cents

- B. Other relevant information for the past two years ended on 28/29 February:

	2024	2023
Market price per share	240 cents	210 cents
Interest rate on loan	13%	13%
Number of shares in issue	762 500	700 000

## Activity 2 Answer Book

2.1

2.1.1	
2.1.2	
2.1.3	
2.1.4	
2.1.5	

5

2.2

**Explain why the market value is so important in this regard.**

**If the company issued all its unissued shares the following year, how much capital could it expect to raise for the company?**

7



2.3

Rather than issue more shares, the directors are considering taking out additional loans. Quote TWO relevant financial indicators (actual ratios or percentages) to support their opinion.

6

2.4

Kyle Johns, one of the shareholders, is currently the owner of 400 000 shares. What will happen to his shareholding if all the unissued shares are issued? Show calculations to support your answer.

6

2.5

On 1 March 2023 additional shares were issued at R3,00 each. Quote and explain relevant financial indicators with figures to show why the existing shareholders will be satisfied with this price.

6

30

## QUEENSTOWN LTD AND JAMESTOWN LTD

Arthur Ngunga owns shares in Queenstown limited. Both companies are in the same industry.

The financial year of each company ends on the last day of February each year.

### REQUIRED:

#### 3.1 QUEENSTOWN LTD

##### 3.1.1 Liquidity:

Explain why Arthur Ngunga should be satisfied on the liquidity position of Queenstown Ltd. Quote **TWO** financial indicators with figures.

##### 3.1.2 Risk and gearing:

Explain whether the company is managing risk and gearing efficiently. Quote relevant indicators (with figures and trends) to support your comment.

##### 3.1.3 Dividend pay-out policy:

As a shareholder you are concerned about the dividend pay-out policy.

- Calculate the dividend pay-out rate for this current year.
- Provide ONE reason for your concern about the current dividend pay-out policy

#### 3.2 JAMESTOWN LTD

##### 3.2.1 Returns on Investment:

Explain whether the shareholders should be satisfied with the returns on their investment or not. Quote **ONE** financial indicator (with figures) to support your opinion

##### 3.2.2 Re-purchase of shares:

Explain whether the company paid a fair price for the shares repurchased. Provide TWO financial indicators (with figures) in your comment.

### 3.3 Shareholding of Arthur Ngunga:

Arthur Ngunga has R800 000 and intends to invest in new shares.

Both companies have decided to issue additional shares on 1 March 2024, at the existing market price on 29 February 2024.

- 3.3.1 Calculate Arthur's % shareholding in Queenstown Ltd and comment on your findings.
- 3.3.2 Arthur wants to maintain his % shareholding in Queenstown Ltd after the issue of additional shares. Calculate the minimum number of shares he should buy in Queenstown Ltd and the amount he would have to spend.
- 3.3.3 Would you advise Arthur to buy the additional shares in Queenstown Ltd or to rather invest in Jamestown Ltd. Provide ONE point, with reason.

#### QUEENSTOWN LTD AND JAMESTOWN LTD

### 3.1 QUEENSTOWN LTD

- 3.1.1 Explain why Arthur Ngunga should be satisfied on the liquidity position of Queenstown Ltd. Quote TWO financial indicators with figures.

6

3.1.2

Explain whether the company is managing risk and gearing efficiently. Quote TWO relevant indicators (with figures and trends) to support your comment.

6

3.1.3

As a shareholder you are concerned about the dividend pay-out policy.

- Calculate the dividends pay-out rate for this current year.

2

- Provide ONE reason for your concern about the current dividend pay-out policy.

2

## 3.2 JAMESTOWN LTD

3.2.1

Explain whether the shareholders should be satisfied with the returns on their investment or not. Quote ONE financial indicator (with figures) to support your opinion.

4

3.2.2

Explain whether the company paid a fair price for the shares repurchased. Provide TWO financial indicators (with figures) in your comment.

4

**3.3 Shareholding of Arthur Ngunga:**

Arthur Ngunga has R800 000 and intends to invest in new shares.

Both companies have decided to issue additional shares on 1 March 2024, at the existing market price on 28 February 2024

3.3.1

Calculate Lee's % shareholding in Queenstown Ltd and comment on your findings.

Comment:

5

3.3.2

Arthur wants to maintain his % shareholding in Queenstown Ltd after the issue of additional shares. Calculate the minimum number of shares he should buy in Queenstown Ltd and the amount he would have to spend.

4

3.3.3

Would you advise Arthur to buy the additional shares in Queenstown Ltd or to rather invest in Jamestown Ltd. Provide ONE point, with reason. (2)

2

<b>TOTAL MARKS</b>	<b>35</b>
--------------------	-----------

## Activity 4

### QUESTION 4: INTERPRETATION OF FINANCIAL INFORMATION (26 MARKS; 20 MINUTES)

Your friend, Nomble is an existing shareholder of two companies that sell similar products. She asks for your help in analysing the information of the company and explaining it to her.

**PLEASE NOTE:** Where comments or explanations are required, cite financial indicators, figures, and trends to support your answer.

- 4.1 According to your friend, the liquidity of Khan Ltd is better than that of Fezeka Ltd. Quote **TWO** financial indicators (with figures) to support her opinion (6)
- 4.2 Which company makes the most use of loans? Quote and explain the financial indicators to support your answer. Explain whether this is a good idea or not. (6)
- 4.3 Should Nomble be satisfied with the price at which the new shares for Fezeka Ltd. issued? **Quote** and **explain TWO financial indicators** to support your answer. (4)
- 4.4 Nomble owns 20 000 shares in each of the companies.
  - 4.4.1 Calculate the dividend she earned from each company. (2)
  - 4.4.2 Compare the dividend pay-out policies of the two companies. Explain your answer with calculations. (4)
  - 4.4.3 Nomble has already owned the shares in the two companies for a year. Nomble asks you to help determine which of the two companies gives her the best return (dividend) per share on her investment. Should she be satisfied with the company's dividend declaration? (4)

## INFORMATION

### Financial indicators and other indicators

	FEZEKA LTD	KHAN LTD	
Current ratio	3.6:1	2.4:1	
Acid test ratio	0.6: 1	1.2: 1	
Inventory turnover rate	4 times	8 times	
Market value per share on JSE	655 cents	230 cents	
Net asset value per share	605 cents	225 cents	
Earnings per share (EPS)	713 cents	179 cents	
Dividend per share (DPA)	437 cents	182 cents	
% return on shareholders' equity	25.6%	13.5%	
% return on total capital employed	18.4%	10.1%	
Debt-Equity Ratio	0.6: 1	1.5: 1	
% interest rate on loan	11%	11%	
Additional shares issued	590 cents per share		

## Activity 4 Answer Book

4.1

According to your friend, the liquidity of Khan Ltd is better than that of Fezeka Ltd. Quote two financial indicators (with figures) to support her opinion

6

4.2

Which company makes the most use of loans? Quote and explain the financial indicators to support your answer. Explain whether this is a good idea or not.

6

4.3

Should Nomble be satisfied with the price at which the new shares for Fezeka Ltd. issued? Quote and explain TWO financial indicators to support your answer.

4

4.4.1

Calculate the dividend she earned from each company.

2



4.4.2

**Compare and comment on the dividend pay-out policies of the two companies. Explain your answer with calculations.**

--

4

4.4.3

**Nomble has already owned the shares in the two companies for a year. Nomble asks you to help determine which of the two companies gives her the best return (dividend) per share on her investment. Should she be satisfied with the company's dividend?**

--

4

**Activity 1****AUDIT REPORTS**

You are provided with extracts from the independent audit reports of Metsi Ltd and Just Water Ltd.

**Extract from audit report of Metsi Ltd:**

In our opinion, the financial statements fairly present, in all material respects, the financial position of this company on 28 February 2022 and the results of their operations and cash flow for the year ended under International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

**Extract from audit report of Just Water Ltd:**

We found that the internal control procedures were not adhered to – and that documentation did not exist for a significant portion of the transactions tested.

Because of the significance of the matter described in the previous paragraph, we could not obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Therefore, we do not express an opinion on the financial statements for the year ended 28 February 2022.

**REQUIRED:**

1.1 Comment on the audit reports of both companies. If you want to buy shares in a company, explain how the report will affect your decision concerning the shares you would purchase in the company. In which company would you invest? (5)

1.2 The board of directors has different committees with different functions. Choose the function in **COLUMN B** that matches the committee in **COLUMN A**. Write only the letter (**A–D**) next to the question numbers

(1.2.1 to 1.2.4) in the **ANSWER BOOK**.

COLUMN A	COLUMN B
1.2.1 Audit committee	A. Review salaries, bonuses and other earnings.
1.2.2 Remuneration committee	B. Responsible for performing risk assessment regularly.
1.2.3 Social and ethics committee	C. Ensure that the appointment of an auditor complies with the Companies Act and the legislation.
1.2.4 Risk committee	D. Monitor the impact of the public activities and their products or service to the environment, health and public safety.

1.3 The purpose of a business rescue plan is to provide a company with temporary supervision and protection against its creditors, to give them a 'breathing space' to reorganise and restructure its financial affairs. Name **TWO** parties who might be affected by a business rescue plan. (2)

1.4 Who is the audit report addressed to? Give a reason for your answer. (2)

1.5 Give **TWO** examples of audit evidence that the auditors would have required to complete the audit. (2)

[15]

## Activity 1 Answer Book

1.1

**Comment on the audit reports of both companies. If you want to buy shares in a company, explain how the report will affect your decision concerning the shares you would purchase in the company.**

**In which company should you rather invest?**

1.2

1.2.1		1.2.3	
1.2.2		1.2.4	

1.3

**The purpose of a business rescue plan is to provide a company with temporary supervision and protection against its creditors, to give them a 'breathing space' to reorganise and restructure its financial affairs. Name TWO parties who might be affected by a business rescue plan.**

1.4

**Who is the audit report addressed to? Give a reason for your answer.**

1.5

**Give TWO examples of audit evidence that the auditors would have required to complete the audit.**

## Activity 2

### CORPORATE GOVERNANCE (15 marks; 15 minutes)

2.1 The following are three types of reports which can be issued after the financial statements of a company had been audited.

Qualified report: Disclaimer of opinion: Unqualified report:

- Which type of audit report will discourage shareholders to buy shares in a company? (1)
- Provide TWO reasons why shareholders will not be interested to buy shares in such a company. (4)

2.2 Explain why company's financial statements have to be audited by independent auditors. Provide TWO points. (4)

2.3 The following was reported to the company.

One of the directors, the Chief Financial Officer (CFO) and the Independent Auditor of the company seems to be good friends as they meet socially every second week.

As a shareholder, why would you be concerned by this kind of relationship? Explain **THREE** points (one for each person involved as indicated in the ANSWER BOOK). (6)

## Activity 2 Answer Book

### AUDIT REPORTS

#### 2.1

Which type of audit report will discourage shareholders to buy shares in a company?

Provide TWO reasons why shareholders will not be interested to buy shares in such a company.

#### 2.2

Explain why a company's financial statements have to be audited by independent auditors. Provide TWO points.

#### 2.3 Concern over the kind of relationship between a director, Chief Financial Officer (CFO) and independent auditor.

As a shareholder, why would you be concerned by this kind of relationship? Explain THREE points (one for each person involved).

Director	
Chief Financial Officer	
Independent Auditor	

### Activity 3

**3.1 Choose an explanation in COLUMN B that matches the term in COLUMN A.**

**Write only the letters (A–F) next to the question numbers (3.1.1 to 3.1.5) in the ANSWER BOOK.**

COLUMN A		COLUMN B	
3.1.1	External Auditor	A	Auditors' report states: "In our opinion financial statements are a true reflection and are fully reliable..."
3.1.2	Internal Auditor	B	Appointed to give an unbiased opinion on the reliability of the financial statements.
3.1.3	Unqualified Audit Report	C	Auditors' report states: "Except for a few minor aspects all figures are reliable and trustworthy..."
3.1.4	Qualified Audit Report	D	Employed by a company to ensure good internal control procedures.
3.1.5	Disclaimer Audit Report	E	Appointed by Parliament to conduct regular audits of national and provincial departments.
		F	Auditors' report states: "We have not been able to obtain sufficient audit evidence to provide for an audit opinion on the financial statements."

### 3.2 AFRICAN LTD.

An extract from a recent newspaper article that featured African Ltd. is **provided**.

Use the information presented and your knowledge on companies to answer the questions.

#### REQUIRED:

#### 3.2.1 Governance:

What do you understand by the concept "basic governance"? (2)

#### 3.2.2 Directorship:

Provide TWO points why the High Court did label Thokozile as a delinquent director? (2)

#### 3.2.3 Concerns of shareholders:

As a concerned shareholder, what questions would you raise at a meeting with the Board of Directors?

Provide TWO different questions. In EACH case explain an appropriate reason.

(3 x 2) (6)

## INFORMATION:

<b>Extract: COURT TAKES ACTION AGAINST FORMER AFRICAN LTD DIRECTOR.</b>
---

Advocate Cathy in her closing argument said the former chairperson of the Board Thokozile blocked, delayed, and obstructed important initiatives to turn the company around. She ran up losses of R16,8 billion as chair of African Ltd. She broke the law and flouted the basic governance.
--

The evidence in Court showed a pattern of repeated misconduct, dishonesty, obstruction, and interference, improperly inserting middleman contributing to many governance failures.
--

She was declared a delinquent director by the High Court. As a consequence, she is effectively banned from holding any directorship position for life.
--

[15]



### Activity 3 Answer Book

3.1.1	
3.1.2	
3.1.3	
3.1.4	
3.1.5	

[5]

### 3.2 AFRICAN LTD.

#### 3.2.1 Governance:

What do you understand by the concept “basic governance”?

[2]

#### 3.2.2 Directorship:

Provide TWO points why the High Court did label Thokozile as a delinquent director?

[2]

### 3.2.3

#### Concerns of shareholders:

**As a concerned shareholder, what questions would you raise at a meeting with the Board of Directors?  
Provide TWO different questions. In EACH case explain an appropriate reason.**

QUESTIONS YOU WOULD RAISE WITH DIRECTORS		ONE REASON FOR EACH QUESTION
QUESTION		
QUESTION		

6

<b>TOTAL MARKS</b>
15

### Activity 3

#### **CORPORATE GOVERNANCE AND AUDIT OF A COMPANY** **(15 marks; 12 minutes)**

4.1 The board of directors have different committees with different functions.

Choose the function in COLUMN B that matches the committee in COLUMN A.

Write only the letter (A–D) next to the question numbers (4.1.1 to 4.1.4) in the ANSWER BOOK.

4.1.1	Remunerations committee	A	Ensure that the appointment of an auditor complies with the Companies Act and the legislation.
4.1.2	Risk committee	B	Monitor the impact of the public activities and their products or service to the environment, health and public safety.
4.1.3	Audit committee	C	Responsible for performing risk assessment regularly.
4.1.4	Social and Ethics committee	D	Review salaries, bonuses and other earnings.

4.2 To whom is the audit report addressed? Give a reason for your answer. (2)

4.3 The following is an extract from the independent auditor's report of Thyme Ltd.

In our opinion the financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2022.

4.3.1 Identify the type of audit report issued by the auditor. Provide ONE reason for your answer. (3)

4.3.2 Explain the impact of such a report on the image of the company. State ONE point. (2)

4.4 Show master Ltd received one of the tenders to build houses worth R12 million in the Giyani community. The Chief Financial Officer (CFO) of Show master Ltd offers to pay 10% of the amount in cash to the Chief Executive Officer (CEO) of the housing project if awarded the tender. The CFO wants to disclose this as corporate social responsibility.

Mention possible implications for the CEO of the housing project, should he accepts this offer. Explain TWO points. (4)

[15}

## Activity 4 Answer Book

**4.1**    The board of directors have different committees with different functions.  
Choose the function in COLUMN B that matches the committee in COLUMN A. Write only the letter (A–D) next to the question numbers (4.1.1 to 4.1.4) in the ANSWER BOOK

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4

**4.2**    To whom is the audit report addressed? Give a reason for your answer.

2

**4.3**    The independent auditor's report of Thyme Ltd.

**4.3.1**    Identify the type of audit report issued by the auditor. Provide ONE reason for your answer.

3

**4.3.2**    Explain the impact of such a report on the image of the company. State ONE point.

2

4.4	<p>Show master Ltd received one of the tenders to build houses worth R12 million in the Giyani community. The Chief Financial Officer (CFO) of Show master Ltd offers to pay 10% of the amount in cash to the Chief Executive Officer (CEO) of the housing project if awarded the tender. The CFO wants to disclose this as corporate social responsibility.</p> <p>Mention possible implications for the CEO of the housing project, should he accepts this offer. Explain TWO points.</p>

4

TOTAL MARKS
15

## RECONCILIATIONS

### Activity 1

#### 1.1 Bank Reconciliation

The information relates to YME Traders, owned by Saul Sanders. The business receives the official Bank Statement on the 25<sup>th</sup> of each month.

##### REQUIRED

- 1.1.1 Calculate the correct Bank Account balance on 30 June 2024 (8)
- 1.1.2 Prepare the Bank Reconciliation Statement on 30 June 2024 (6)
- 1.1.3 Saul has been convinced by his bank manager that he should use online banking for his business, particularly as this makes payments easier through the use of electronic fund transfer (EFTs). Saul is planning on employing Donna to be responsible for all matters relating to online banking.  
Explain **TWO** important instructions that Saul should give to Donna to ensure that corruption does not occur with regard the processing of EFTs

##### INFORMATION

- A. The bookkeeper calculated the provisional bank balance as a positive R9 050 on 30<sup>th</sup> June 2024 using the opening Bank Account balance and totals from the Cash Receipts Journal (CRJ) and Cash Payments Journal (CPJ), before receiving the June 2024 Bank Statement.

#### B. Figures from the Reconciliation Statement on 31 May 2024

Unfavourable balance as per Bank Statement		R1 550
Outstanding deposits	16 May 2024	4 000
	23 May 2024	15 000
Outstanding EFTs	633	7 800
	636	5 480
Favourable bank Account balance as per General Ledger		4 170

##### NOTE

- The deposit on 16 May 2024 for R4 000 and EFT 633 for R7 800 appeared on the June Bank Statement.
- The deposit on 23 May 2024 appeared as R10 000 on the bank statement. The cashier at the time was dismissed for theft, and this amount has to be written off.
- EFT 636 appeared on the bank statement with the correct amount of R4 580.

- C. Comparison of the June 2024 Bank Statement with the Cash Journals revealed the following:

- (i) Bank charges, on the Bank Statement, amounted to R310
- (ii) A debit order, for advertising R1780, was not recorded in the CPJ and was duplicated on the Bank Statement. The Bank will correct the error next month.
- (iii) The Bank Statement reflected a direct deposit into the business bank account for R25 000. This is an error by the payer. The Bank will reverse the error next month.
- (iv) Interest on fixed deposit, R1 060, appeared on the statement but not in the journals.
- (v) A deposit of R17 500 appeared in the CRJ, dated 27 June 2024
- (vi) EFT 819 for R11 880 was recorded in the CPJ on 28 June 2024

D. The June 2024 Bank Statement reflected the following balance R?

## 1.2. DEBTORS RECONCILIATION

Simon Stores is a general dealer selling shoes for cash and on credit

### REQUIRED:

Calculate the correct balance for EACH debtor on the list provided. Negative balances must be shown in brackets or with a '-' sign. (12)

### INFORMATION:

#### A. Extract from debtors list( before errors and omissions):

A Andrews	DL1	R27 750
B Bentley	DL2	(400)
C Cook	DL3	19 300
D Dolly	DL4	2 900

#### B. Errors and omissions

- (i) A receipt, R9 000, from Andrews was posted in error to the Debtors Ledger Account of Bentley.
- (ii) Goods returned by Dolly, R7 100, were recorded correctly in the DAJ. This, however, was posted as R710 to his account in the Debtors ledger.
- (iii) An invoice for R3000 to Cook was correctly recorded in the DJ. This, however, was erroneously posted as a receipt to his account in the Debtors ledger.
- (iv) During a sales promotion at Simon Stores, Cook bought goods on credit for R2 400 after being granted a 25% trade discount. However, the bookkeeper entered the gross amount in error to the DJ and posted this accordingly to the Debtors Ledger.

[30]

## Activity 1 Answer Book

### 1.1 BANK RECONCILIATION

#### 1.1.1 Calculate the correct Bank Account Balance on 30 June 2024

WORKINGS	ANSWER

#### 1.1.2 Bank Reconciliation Statement On 30 June 2024

	Debit	Credit

#### 1.1.3

Explain TWO important instructions that Saul should give to Donna to ensure that corruption does not occur with regard to the processing of EFTs

POINT 1	
POINT 2	

### 1.2 EXTRACT: LIST OF DEBTORS

DEBTOR	WORKINGS	BALANCE
A. Andrews	27 750	
B. Bentley	(400)	
C. Cook	19 300	
D. Dolly	2 900	

TOTAL MARKS
30



## Activity 2

### BANK RECONCILIATION

(30 marks; 25 minutes)

**2.1. Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.**

- 2.1.1 A credit balance on the Bank Statement means that the business has a positive balance in the bank.
- 2.1.2 A debit card may be used to withdraw cash from an ATM.
- 2.1.3 A bank overdraft is a short-term loan that is transferred into the business current bank account. (3)

### 2.2 VIOLET STORES

The information was extracted from the records of the business for April 2023.

- Violet uses the official Bank Statement which is available on the 25th of each month to complete the monthly reconciliation process.
- She also uses her EFT transaction records (renumbered) to complete the Cash Payments Journal.

#### REQUIRED:

- 2.2.1. Update the totals for the Cash Receipts Journal and Cash Payments Journal for April 2023. Use the table provided in the ANSWER BOOK. (10)
- 2.2.2 Calculate the correct Bank Account balance on 30 April 2023. (4)
- 2.2.3 Prepare the Bank Reconciliation Statement on 30 April 2023. (9)
- 2.2.4 Violet noticed problems with the depositing of cash. Explain TWO measures that she can use to address these problems. (4)

#### INFORMATION:

**A. Extract from the Bank Reconciliation Statement on 31 March 2023:**

Favourable balance as per Bank Statement	R12 200
Deposits not on Statement: 18 March 2023	23 600
28 March 2023	37 200
Outstanding EFTs: EFT 768	5 480
EFT 769	17 800
Favourable balance as per bank account	49 720

- The outstanding deposit on 18 March 2023 appeared on the April 2023 Bank Statement.
- The deposit on 28 March 2023 appeared as R22 200. An investigation revealed that the cashier has disappeared with the outstanding amount. It was decided to write off the outstanding amount.
- Both the EFTs were on the April Statement, but EFT 768 appeared with the correct amount of R4 580. The provisional totals in the Cash Journals before receiving the Bank Statement

**B. The provisional totals in the Cash Journals before receiving the Bank Statement:**

**Cash Receipts Journal: R115 600      Cash Payments Journal: R217 800**

**C. Information on the April 2023 Bank Statement**

None of these items appeared in the April Cash Journals:

Debit order: Brylet Municipality	R2 880
Cash handling fees	R220
Deposit: Y Marigold	R8 400
Deposit: Bentley Microloans	R65 000
Cash withdrawal	R740
Investment matured	R18 300
EFT transaction fees	R360
EFT transaction fees	R360

**D. Additional Information:**

- in error. The debit order to Brylet Municipality was for water and electricity.
- Y Marigold, the tenant, deposited the monthly rent.
- The deposit from Bentley Microloans did not relate to the business. The bank was informed of this error.
- The cash withdrawal of R740 was for fuel for the owner's vehicle.
- The EFT transaction fees were duplicated on the Bank Statement

**E. The Cash Journals reflected the following entries that did not appear on the April 2023 Bank Statement:**

- Deposit of R22 500 on 30 April 2023

- EFT 883 for R9 520 for stationery purchased
- EFT 884 for R12 530 for repairs to the buildings

F. Bank Statement balance on 30 April 2023: R?

## Activity 2 Answer Book

2.1

2.1.1	
2.1.2	
2.1.2	

2.2

### VIOLET STORES

#### 2.2.1. UPDATE THE CASH JOURNALS FOR 30 APRIL 2023

CASH RECEIPTS JOURNAL			CASH PAYMENTS JOURNAL	
	Amount			Amount
Total	115 600		Total	217 800

2.2.2.

#### Calculate the correct Bank Account balance on 30 April 2023.

Workings	Answer

2.2.3

#### BANK RECONCILIATION STATEMENT ON 30 APRIL 2023

	DEBIT	CREDIT

**2.2.4**

**Violet noticed problems with the depositing of cash. Explain TWO measures that she can use to address these problems.**

TOTAL MARKS
30

### Activity 3

## RECONCILIATIONS: BANK AND CREDITORS (40 marks; 32 minutes)

### 3.1 BANK RECONCILIATION

The information relates to Rainbow Suppliers. The business is owned by Thami Louw.

They update their records after receiving the Bank Statement on the 25th of each month. Efts are renumbered according to date order before recording in journals.

#### REQUIRED:

- 3.1.1 Show the entries that must be recorded in the Cash Journals by completing the table provided in the ANSWER BOOK. (9)
- 3.1.2 Calculate the correct bank balance in the ledger on 31 July 2023 (4)
- 3.1.3 Prepare the Bank Reconciliation Statement on 31 July 2023.
- 3.1.4 Explain TWO concerns the owner should mention to the bookkeeper relating to the internal control over cash resources. Quote figures. In each case, explain a strategy to prevent such problems in future. (6)

#### INFORMATION:

##### A. Bank Reconciliation Statement on 30 June 2023:

Favourable balance as per Bank Statement		R18 450
Outstanding Deposits	Dated 10 June 2023	12 600
	Dated 25 June 2023	15 000
Outstanding EFTs	No. 613	13 400
	No. 614 (dated 29 July 2023)	6 950
Favourable balance as per Bank Account in the Ledger		25 700

**NOTE:** On comparing the July 2023 Bank Statement, received from RSA Bank, with the Bank Reconciliation Statement of June 2023, the following were noted:

- The outstanding deposit of R15 000 did not appear on the July Bank Statement. An investigation revealed that this money was never deposited. The cashier cannot account for the cash.
- EFT no. 613 was correctly reflected as R14 300 on the July Bank Statement.
- The other outstanding amounts from the previous month appeared on the July Bank Statement.

**B. The provisional totals in the Cash Journals, before receiving the July 2023 Bank Statement reflected:**

<b>CASH RECEIPTS JOURNAL</b>	<b>CASH PAYMENTS JOURNAL</b>
<b>R510 600</b>	<b>R484 450</b>

**C. The following items on the July 2023 Bank Statement must still be recorded:**

- (i) Transaction fees, R1 425
- (ii) Interest on favourable bank balance, R145.
- (iii) A direct deposit of R6 250 from a tenant.
- (iv) A debit order of R1 850 for the monthly insurance appeared twice on the Bank Statement. The bank will rectify the problem next month.
- (v) A debit card payment of R2 700 for a battery for the business vehicle. Thami, the owner, neglected to submit the transaction slip to the bookkeeper.

**D. The following entries were in the Cash Journals after the 25 July 2023:**

- A deposit of R10 000 on 28 July 2023
- EFT no. 652, R5 650 (dated 29 July 2023)
- EFT no. 655, R1 445 (dated 30 July 2023)

E. Bank Statement balance on 31 July 2023: R?

### **3.2. CREDITORS RECONCILIATION**

The **Creditors' Control Account and Creditors' List** of Titus Stores were prepared by an inexperienced bookkeeper.

**REQUIRED:**

**3.2.1**

Indicate the changes that must be made in the **Creditors' Control Account and Creditors' List** to take into account the errors and omissions noted. Indicate an increase with a (+) or decrease with a (-) next to each amount. (9)

**3.2.2**

The owner of Titus Stores is not satisfied with the service and quality of goods ordered from creditor Spring Ltd. Explain TWO factors that he must consider before changing to another supplier. (4)

**INFORMATION:**

**A. Balance and total:**

<b>Creditors' control balance</b>	<b>Creditors list total</b>
R70 650	R32 600

**B. Errors and omissions noted:**

- (i) The total of the Creditors' List was undercast by R900.
- (ii) A credit purchase from Mello Suppliers for R3 720 was not recorded in the books of the business.
- (iii) Trading stock returned to Spring Ltd, R7 200, was entered correctly in the Creditors Allowances Journal (CAJ) but was posted as R2 700 to the creditor's ledger account.
- (iv) The Creditors Control total in the Cash Payments Journal is R16 400. The bookkeeper credited this to the Creditors Control account by mistake.
- (v) An invoice for R8 850 for stock purchased from Milly Market on account has been correctly recorded in the Creditors Journal but has not been posted to their account in the Creditors ledger.

[40]



## Activity 3 Answer Book

### 3.1

#### 3.1.1 BANK RECONCILIATION

CASH RECEIPTS JOURNAL		CASH PAYMENTS JOURNAL	
Details	Amount	Details	Amount
<b>Total</b>	<b>R510 600</b>	<b>Total</b>	<b>R484 450</b>

#### 3.1.2

Calculate the correct bank balance in the ledger on 31 July 2023.

WORKINGS	ANSWER

#### 3.1.3

**Bank Reconciliation Statement on 31 July 2023**

	Debit	Credit
Balance per Bank Statement		
Outstanding EFTs		
Balance per Bank Account		

#### 3.1.4

**Explain TWO concerns the owner should mention to the bookkeeper relating to the internal control over cash resources. Quote figures. In each case, explain a strategy to prevent such problems in future.**

Concern with evidence	Strategy

### 3.2 CREDITORS RECONCILIATION

	Creditors' Control	Creditors' List
Provisional balance/total	R70 650	R32 600
(i)		
(ii)		
(iii)		
(iv)		
(v)		

(9)

#### 3.3.2

The owner of Titus Stores is not satisfied with the service and quality of goods ordered from creditor Spring Ltd. Explain TWO factors that he must consider before changing to another supplier.

(4)

(40)

## Activity 4

### 4.1 CREDITORS' RECONCILIATION

Candy Stores buys goods on credit from Awesome Suppliers.

#### REQUIRED:

Use the table provided to indicate the changes that must be made:

- In the Creditors' Ledger Account in the books of Candy Stores.
- In the Creditors' Reconciliation Statement on 28 February 2023.

Show a '+' for increases and a '-' for decreases next to each amount. (10)

#### INFORMATION:

The balance on the statement of account received from Awesome Suppliers did not correspond to the balance of their account in the Creditors' Ledger.

A. Balance of Awesome Suppliers in the Creditors' Ledger: R52 900.

B. Statement of account received from Awesome Suppliers:

AWESOME SUPPLIERS			No. 2169		
205 Pineridge Crescent Gqeberha 5820					
Debtor: Candy Stores 25 February 2023					
DATE		DETAILS	DEBIT	CREDIT	BALANCE
Jan.	26	Balance			45 300
	28	Receipt 110		12 000	33 300
Feb.	01	Invoice A12	14 600		47 900
	03	Credit Note 34	800		48 700
	10	Receipt 0076		12 000	36 700
		Discount allowed		600	
	18	Invoice 588	16 340		52 440
	24	Invoice 1132	54 820		107 260
	25	Delivery	1 540		108 800

C. An investigation revealed the following errors and omissions:

- Invoice A12 was incorrectly recorded as R16 400 in the creditor's ledger account. The amount on the statement is correct.
- Credit note 34 was for damaged goods returned on 2 February 2023.
- Candy Stores recorded the discount as R1 200. Awesome Suppliers indicated that the business was only entitled to R600, as reflected on the statement.
- Awsome Suppliers granted a 5% trade discount on Invoice 588. Candy Stores did not take this into account when posting to the Creditors Ledger.

- (v) Invoice 1132 on the statement was for goods that Awesome Suppliers sold to Sweets Galore.
- (vi) Awesome Suppliers charges a delivery fee to all its customers. This was not recorded in the creditor's ledger account.

## 4.2 BANK RECONCILIATION

The information appeared in the books of Donald Traders for May 2023.

### REQUIRED:

- 4.2.1. Calculate the correct bank account balance by completing the table provided in the ANSWER BOOK. (12)
- 4.2.2 Prepare the Bank Reconciliation Statement on 31 May 2023. (7)
- 4.2.3 Provide ONE suggestion on how the problem of counterfeit (fake) notes can be prevented. (2)
- 4.2.4 Donald was concerned about the outstanding deposits. Provide TWO internal control measures that he can implement to address this concern. (4)

### INFORMATION:

#### A. Extract: Bank Reconciliation Statement on 30 April 2023

Deposit not yet recorded: 18 April 2023	R 24 300
27 April 2023	7 100
EFT not on statement: No. 245	11 300
No. 246	6 750
Favourable balance as per bank account	8 800

### NOTE:

- The deposit on 18 April 2023 and EFT No. 245 appeared on the bank statement for May 2023 with the correct amounts reflected above.
  - The deposit on 27 April 2023 appeared on the statement as R5 000 due to counterfeit notes being included in the deposit. This amount must be written off as the money will not be recovered.
  - EFT 246 was on the May 2023 statement with the correct amount of R6250.
- B. Provisional totals from the Cash Journals on 31 May 2023:

<b>Cash Receipts Journal</b>	<b>R76 270</b>	<b>Cash Payments Journal</b>	<b>R88 625</b>
----------------------------------	----------------	----------------------------------	----------------

**C Information on the bank statement not in the May 2023 Cash Journals:**

Bank charges	R 235
Debit order for the monthly insurance	1 140
Direct deposit by the tenant for rent	4 600
Deposit by debtor in settlement of account of R7 500	7 030
Deposit by Uzu Technical College * This is an error on the statement as the business does not deal with this college. This will be rectified on the next statement.	15 00

**Information in the May 2023 Cash Journals not on the statement:**

Outstanding deposits: 19 May 2023 R11 400

26 May 2023 R10 800

Outstanding EFT No. 658 R 6 900

- The balance as per statement was R?

[35]

## Activity 4 Answer Book

4.1

### CREDITORS RECONCILIATION

	CREDITORS' LEDGER ACCOUNT	STATEMENT OF ACCOUNT
Balance b/f	52 900	108 800
(i)		
(ii)		
(iii)		
(iv)		
(v)		
(vi)		

10

### 4.2.1 BANK RECONCILIATION

CASH RECEIPTS JOURNAL	CASH PAYMENTS JOURNAL
76 270	88 625
Bank Account balance:	

12

4.2.2

BANK RECONCILIATION STATEMENT ON 31 MAY 2023		
	Debit	Credit

7

4.2.3

**Provide ONE suggestion on how the problem of counterfeit (fake) notes can be prevented.**

2

4.2.4

**Donald was concerned about the outstanding deposits. Provide TWO internal control measures that he can implement to address this concern.**

<b>POINT 1</b>	
<b>POINT 2</b>	

4

<b>TOTAL MARKS</b>
35

## Activity 5

### DEBTORS'-, CREDITORS'- AND BANK RECONCILIATION

(40 marks; 30 minutes)

#### 5.1 DEBTORS AND CREDITORS' RECONCILIATION

The information supplied below was taken from the books of North Traders.

##### REQUIRED:

Use the information supplied and show how each item, in the additional information would affect the debtors and/or creditors (errors and omissions). Show the effect by indicating + and/or – signs, followed by the amount in the table provided. (15)

##### INFORMATION:

The following balances and totals appear in the general and subsidiary ledgers on 28 February 2023:

Debtors' Control	R36 100	Debtors' List	R36 730
Creditors' Control	R47 550	Creditors' List	R46 020

##### Additional Information:

1. An invoice for R2 950 received from a supplier Kong Traders, was properly recorded in the appropriate journal and General Ledger but was not posted to their account.
2. An EFT for R4 500 was received from a debtor whose account was previously written off as irrecoverable. It was mistakenly recorded in the Debtors' Control column of the Cash Receipts Journal and posted as such to the General Ledger and the Debtors' Ledger.
3. An invoice for R400 received from Sisha Wholesalers was correctly entered in the relevant journal, but wrongly posted to the account of another creditor, Nyama Wholesalers.
4. B. Berg's account of R4 600 is four months overdue. North Traders charged this account with 15% interest per annum for four months. No entries were made.
5. The bank statement showed an EFT for R920 which was received from a debtor O Olga, in full payment of her debt of R970. The bookkeeper credited R920 to the Debtors control account and reduced O Olga's account with R290.



6. A debtor, C Cake, returned goods worth R980. The bookkeeper inadvertently recorded this in the Creditors' Allowances Journal. He also posted it to the Creditors Control account, but did not post it to the Debtors or Creditors ledger.
7. A debit note for R220 was received from a creditor, XY Traders, in respect of trade discount which they had granted. The bookkeeper entered this in the correct journal, but posted it to the wrong side of XY Traders' account in the Creditors ledger. The General Ledger is correct.

## 5.2. BANK RECONCILIATION

Stadig Industries has J Joubert as a bookkeeper, responsible for depositing money into the bank and processing EFT receipts and payments. He has left the country and cannot be traced. You are required to prepare the Bank Reconciliation for August 2023.

The bank statement was received from PP Bank via email on 27 August 2023.

### REQUIRED:

- 5.2.1 Use the table provided in the ANSWER BOOK to calculate the final totals of the Cash Journals on 31 August 2023. (11)
- 5.2.2 Calculate the correct bank balance in the ledger on 31 August 2023. (4)
- 5.2.3 Prepare the Bank Reconciliation Statement on 31 August 2023. (7)
- 5.2.4 An investigation revealed that the deposit of R31 210, dated 9 July 2023, did not appear in the July and August Bank Statements. This was in respect of cash received, that Joubert never deposited. You advised the owner to write off this amount.
  - State the GAAP principle that applies to this decision.
  - Explain TWO procedures, besides division of duties, to be implemented to prevent such a loss in future. (3)

### INFORMATION:

#### A. Extract from the Bank Reconciliation Statement on 31 July 2023:

Outstanding deposit: 9 July 2023	R31 210
30 July 2023	12 105
Outstanding EFT's: No 121 (dated 28 July 2023)	4 716
No 122 (dated 30 July 2023)	8 111
Favourable balance according to the Bank account in the ledger of the business	146 800

- The outstanding deposit of R12 105 dated 30 July 2023 and EFT 121, appeared on the Bank Statement for August 2023.
  - EFT 122 appears on the August Bank Statement as R6 311. The Bank Statement is correct.

- The outstanding deposit of R31 210 on 9 July 2023 was never deposited; it seems to be stolen and must be written off.

**B. On 31 August 2023, the provisional totals in the journals before the reconciliation were:**

CASH RECEIPTS JOURNAL	CASH PAYMENTS JOURNAL
R389 504	R287 000

**C. The following information of the August 2023 Bank Statement from PP Bank, did not appear in the August Cash Journals:**

- A deposit of R31 100 from Alcatel Bank is a fixed deposit that matured together with the interest.
- Service fees of R391.
- An ATM withdrawal of R2 150 by the owner for personal use was incorrectly entered in the CPJ as R5 120.
- A debit order to The City Municipality for R28 115 for water, electricity and utilities.
- The direct deposit received from a debtor G Tapiwa of R4 800, in settlement of his account of R5 000.

**D. The following items reflected differences between the bank statement and the journals, and must also be considered:**

- EFT 211, for R1 025 in favour of Micoh Motors was recorded in the appropriate journal. PP Bank however, reflected it twice on the August Bank Statement. The bank informed us that they will rectify it on the next Bank Statement.
- On 25 August 2023, Stadig Industries received proof of a direct deposit into the business's bank account from debtor, N Neon, for R2 910. This is a payment on his account. The bookkeeper entered this in the CPJ. This receipt has not yet appeared on the bank statement.

**E. The following entries appeared in the August 2023 Cash Journals but did not appear on the Bank Statement for August 2023:**

**Payments after the 27th of August were:**

- EFT 322 for R7 140 dated 28 August 2023.
- A deposit of proceeds from cash sales of R16 878 on 31 August 2023.

**F. The Bank Statement of 27 August 2023 showed a bank balance of R?**

## Activity 5 Answer Book

DEBTORS' AND CREDITORS' RECONCILIATION				
	Debtors		Creditors	
Item	Debtors control	Debtors list	Creditors control	Creditors list
<b>Balance/Totals</b>	<b>36 100</b>	<b>36 730</b>	<b>47 550</b>	<b>46 020</b>
1				
2				
3				
4				
5				
6				
7				

15

### 5.2.1.BANK RECONCILIATION

CASH RECEIPTS JOURNAL			CASH PAYMENTS JOURNAL	
Total	389 504		Total	287 000

11

### 5.2.2

Calculate the correct Bank balance in the ledger on the 31 August 2023.	
WORKINGS	ANSWER

4

### 5.2.3

7

### 5.2.4

**State the GAAP principle that applies to this decision:**

3

<b>TOTAL MARKS</b>
<b>40</b>

## Activity 6

### DEBTOR'S AGE ANALYSIS AND INTERNAL CONTROLS

#### GRASSY TRADERS

You are provided with information concerning internal control over the debtors of Grassy Traders. Study the given account of Thandi Moi in the Debtors' Ledger of Grassy Traders:

#### REQUIRED:

6.1.1 To maintain internal control over the debtors, it is important that the accountant checks at the end of the month that the balance of the Debtors' control account and the total of the Debtors' List are equal.

- Explain why the Debtors' control account balance should agree with the Debtors' List total. (2)
- Explain TWO processes the bookkeeper should follow if he discovers a difference between the Debtor's control account balance and the Debtors' List total. (4)

6.1.2 Identify THREE internal control problems relating to the management of the account of debtor Thandi Moi. Quote figures for each problem. (6)

Grassy Traders					
<b>Statement no: 2850</b>			<b>Statement date: 28</b>		
<b>February 2023</b>					
<b>To: Thandi Moi</b>					
<b>Credit limit: R60 000</b>					
Date		Transactions	Debit	Credit	Balance
2022 Nov	1	Balance			15 700
	5	EFT		14 130	1 570
		Discount		1 570	Nil
	10	Invoice 473	16 680		16 680
Dec	2	Invoice 491	12 560		29 240
	3	Credit note 52		1 230	28 010
2023 Jan	4	Invoice 526	9 780		37 790
	31	Delivery charges	118		37 908
Feb	19	Invoice 576	15 620		53 528
	28	Delivery charges	152		53 680
<b>Terms:</b>					
<ul style="list-style-type: none"> <li>• 5% discount if paid within 30 days of the statement date.</li> <li>• Debt must be fully paid within 60 days of the statement date.</li> <li>• Interest is charged at 2% per month on balances 90 days overdue.</li> </ul>					

Age analysis:	90 Days	60 Days	30 Days	Current	Amount owing
	16 680	11 330	9 898	15 772	53 680

## Activity 6 Answer Book

### 6.1 DEBTORS AGE ANALYSIS AND INTERNAL CONTROL

Explain why the Debtors' control account balance should agree with the Debtors' List total.

Explain TWO processes the bookkeeper should follow if he discovers a difference between the Debtors' control account balance and the Debtors' List total.

Identify THREE internal control problems relating to the management of the account of debtor Thandi Moi. Quote figures for each problem.

(12)

### 6.2 DEBTORS' AGE ANALYSIS

Explain THREE different problems highlighted by the debtors' age analysis. Provide the name of a debtor and figure(s) in EACH case.

Problem	Name of debtor and figures

Provide TWO points to support the internal auditor's concern that Nandi's job description could lead to potential fraud.

--

(10)

## ACTIVITY 6.2

### DEBTORS' AGE ANALYSIS

Liya Stores sells on credit to Debtors. The payment terms to debtors is 30 days.

#### REQUIRED:

##### 6.2.1 Refer to Information A

Explain THREE different problems highlighted by the debtors' age analysis. Provide the name of a debtor and the figure(s) in EACH case. (6)

##### 6.2.2 Refer to information B

Provide TWO points to support the internal auditor's concern that Nandi's job description could lead to potential fraud. (4)

#### A. The following age analysis was compiled on 31 July 2023:

Debtor	Credit Limit	Balance	Current	30 days	60 days	More than 90 days
Joy	52 000	45 000	18 000	7 000	20 000	
Monica	22 000	29 000	3 000	26 000		
Zinnia	16 000	12 500	12 500			
Divine	6 000	6 000	2 000			4 000
Other debtors		146 300	55 244	48 192	30 148	12 716
TOTALS		238 800	90 744	81 192	50 148	16 716
		100%	38%	34%	21%	7%

B. Nandi, a member of the sales staff, is also responsible for:

- Collecting cash from customers who choose to pay cash.
- Receiving goods returned and issuing credit notes to customers who return goods.

The internal auditor is not happy with Nandi's job description as he feels it has the potential for fraud, which could lead to loss of cash and trading stock.

# INVENTORY

## Calculations Expected in exams

- Number of items on hand
- Number of items stolen
- The value of stock on hand
  - Cost of sales
  - Gross profit
- Average mark-up achieved
  - Unit price

## Financial Indicators

- ❖ Gross profit on cost of sales
- ❖ Gross profit on turnover
- ❖ Stock holding period

## STOCK RECORDING SYSTEMS

### PERPETUAL SYSTEM

- Has a Trading Stock account and a Cost of Sales account
- Stock-take done to verify stock deficit/surplus

### PERIODIC SYSTEM

- Trading Stock is recorded in a Purchases account (N)
- Stock-take done to establish stock balance (Closing stock / unsold)
- Cost of sales must be calculated

### IMPORTANT CALCULATIONS

$$\text{Cost of Sales} = \text{Opening Stock} + \text{Net Purchases*} + \text{Carriage on Purchases} - \text{Closing Stock}$$

$$\text{CLOSING STOCK (IN UNITS)} = \text{Opening Stock} + \text{Purchases} - \text{Returns} - \text{Sales}$$

VALUE

$$\text{GROSS PROFIT} = \text{Sales} - \text{Cost of Sales}$$

$$\text{MISSING ITEMS (units)} = \text{opening stock} + \text{Purchases} - \text{returns} - \text{sales} - \text{closing stock}$$



## STOCK HOLDING PERIOD

check if you must use the closing stock (final stock) or the average stock.

Use the formula from Formula List:

## INVENTORY VALUATION METHODS

<b>First In First Out(FIFO)</b>	<b>Weighted Average</b>	<b>Specific Identification</b>
The stock received/purchased first is sold first ▪ Cost of sales is represented by earliest purchases ▪ Closing stock is represented by latest purchases. Suitable for goods of short shelf life.	Low cost, similar value goods ▪ The average cost is applied – after every movement of stock ▪ The method evens out effects of price(cost) fluctuations	Dissimilar items of inventory or unique identifiable products ▪ High value goods justify detailed records (jewellery/vehicles) ▪ Cost of sales and Closing balance relates to the cost of the specific units sold or in stock

## Activity 1

### INVENTORY SYSTEMS (35 marks; 25 minutes)

Somicious Sneakers is a business that sells designer sneakers. The financial year ends on 30 June 2022. The business uses the periodic stock system and the weighted average method to value their stock.

#### REQUIRED:

##### 1.1 Calculate the following for the year ended 30 June 2022

- 1.1.1 Value of the closing stock using the weighted average method. (11)
- 1.1.2 Stock turnover rate (Use the average stock). (5)

##### 1.2 Stock of sneakers

- 1.2.1 Provide a calculation to indicate whether theft of stock is a problem in the business. (5)
- 1.2.2 Provide ONE suggestion to the owner to improve control over stock. (2)

#### INFORMATION:

##### A. Stock records of designer sneakers.

Date	Number of units	Price per unit (including carriage)	Total value
1 July 2021	430	R 1 300	R559 000
30 June 2022	210	?	?

##### B. Purchase of designer sneakers for the year ended 30 June 2022:

Date	Number of units	Cost price per unit	Purchases	Carriage on purchases	Total cost
		R	R	R	R
30 Sept '21	600	1 400	840 000	4 300	844 300
1 Nov '21	800	1 500	1 200 000	5 600	1 205 600
11 Jan '22	500	1 450	725 000	3 460	728 460
15 May '22	300	1 600	480 000	2 140	482 140
	<b>2 200</b>		<b>3 245 000</b>	<b>15 500</b>	<b>3 260 500</b>

**C. Returns of designer sneakers:**

120 pairs of sneakers from the November purchases were returned to the supplier Somicious Sneakers. Only purchase price was refunded.

**D. Sales:**

There were 2 230 pairs of sneakers sold during the year for R6 690 000. The selling price was kept constant at R3 000 per pair.

### 1.3 PROBLEM SOLVING

James Molefe owns three bicycle shops, Shop A, Shop B and Shop C. He appointed a manager for each of these shops. You are supplied with information regarding each of the shops. He wants to improve the financial results of these shops and is asking your advice.

#### REQUIRED:

- 1.3.1 Comment on the price adjustment policy in shops B and C. Provide ONE reason (with figures) to justify the manager's decision. (3)
- 1.3.2 Identify ONE other different problem (with figures) relating to each branch. In each case provide a possible solution. (9)

#### INFORMATION:

Each store calculates their price at cost price plus 60%. Managers are allowed to adjust prices by 5% up or down.

	SHOP A	SHOP B	SHOP C
Name of Managers	Todd	Mpho	Dalson
Targeted profit mark-up	60%	60%	60%
Mark-up achieved	60%	50%	65%
Sales	400 000	510 000	247 500
Cash sales	180 000	510 000	24 750
Credit sales	220 000	Nil	222 750
Number of employees	5	10	3
Gross profit	150 000	170 000	97 500
Period stock on hand	120 days'	60 days'	60 days'
Creditors' payment period	30 days'	60 days'	90 days'
Debtors' collection period	30 days'	None	90 days'
Bad debts	2 200	None	22 275

# Activity 1 Answer Book

**1.1 Calculate the following for the year ended 30 June 2022:**

### 3.1.1 Value of the closing stock using the weighted average method

[illegible]

11

### 1.1.2 Stock turnover rate (Use the average stock)

[illegible]

5

## 1.2 Stock of sneakers

**1.2.1 Provide a calculation to indicate whether theft of stock is a problem in the business.**

[illegible]

5

- 1.2.2 Provide ONE suggestion to the owner to improve control over stock.

--

2

### 1.3 PROBLEM SOLVING

- 1.3.1 Comment on the price adjustment policy in shops B and C.  
Provide ONE reason with figures to justify manager's decision.

--

3

- 1.3.2 Identify ONE problem (with figures) with regard to each branch with a possible solution.

SHOP	IDENTIFY A PROBLEM	POSSIBLE SOLUTION
Shop A		
Shop B		
Shop C		

9

35

**Activity 2****INVENTORY VALUATION****(30 Marks; 20 Minutes)**

Matrix Traders sell three different types of laptops: Lexus, Granite and Vision. They use the periodic inventory system and the specific identification method to value stock.

**REQUIRED:**

2.1.1 Explain the following valuation methods:

- FIFO (2)
- Specific identification (2)

2.1.2 Calculate the cost price per laptop on hand on 1 October 2019. (2)

2.1.3 Calculate the value of the closing stock on 30 September 2020. (9)

**INFORMATION:**

The following information is in respect of the year ended 30 September 2020:

**A. Opening stock:**

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
1 Oct. 2019	Lexus	118	?	R413 000

**B. Purchases and returns:**

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
<b>PURCHASES:</b>				
Dec. 2019	Granite	410	R3 750	R1 537 500
Mar. 2020	Vision	630	R4 650	R2 929 500
<b>RETURNS:</b>				
Mar. 2020	Vision	20	R4 650	(R93 000)
Net purchases				R4 374 000

**C. Sales for the year**

MODEL	UNITS	AMOUNT
Lexus	118	R598 850
Granite	356	R2 229 375
Vision	502	R4 247 775
		R7 076 000

## 2.2 MANAGEMENT OF INVENTORIES

You are provided with information from the books of Kyle's Office Equipment for the year ended 29 February 2020. The business sells office desks, chairs and printers.

Kyle took certain decisions at the beginning of the 2020 financial year.

### REQUIRED:

Provide relevant figures for ALL the questions below.

#### 2.2.1 Desks:

- What decision did Kyle take regarding the selling price of the desks? (2)
- How has this decision affected the business? State TWO points (4)

#### 2.2.2 Chairs:

Was it a good idea for Kyle to change to a cheaper supplier of chairs? Explain TWO points. (5)

#### 2.2.3 Printers:

Kyle significantly reduced the selling price of printers in the 2020 financial year in response to a new competitor who sells the same model at R1 200.

Based on the information below, provide TWO separate suggestions to Kyle to improve the profit on printers in 2021.

(4)

### INFORMATION:

	DESKS		CHAIRS		PRINTERS	
	2020	2019	2020	2019	2020	2019
Orders received from customers	300	370	770	730	925	615
Gross units sold	300	365	770	730	725	615
Returns by customers	0	5	90	0	15	15
Selling price	R2 520	R1 920	R490	R714	R975	R1 326
Cost price	R1 400	R1 200	R350	R510	R780	R780
Mark-up %	80%	60%	40%	40%	25%	70%
Gross profit	R336 000	R259 200	R95 200	R148 920	R138 450	R327 600
Stock turnover rate	6,0	7,2	4,0	4,0	11,8	10,0

(30)



## **Activity 2 Answer Book**

### **2.1 INVENTORY VALUATION**

#### **2.1.1**

**Explain the FIFO valuation method.**

**Explain the specific identification valuation method.**

[4]

#### **2.1.2**

**Calculate the cost price per laptop on hand on 1 October 2019.**

[2]

#### **2.1.3**

**Calculate the value of the closing stock on 30 September 2020.**

## **MANAGEMENT OF INVENTORIES [9]**

### **2.2.1 Desks:**

**What decision did Kyle take regarding the selling price of the desks?  
Provide figures.**

**[2]**

**How has this decision affected the business? State TWO points. Provide figures.**

**[4]**

### **2.2.2 Chairs:**

**Was it a good idea for Kyle to change to a cheaper supplier of chairs?**

**YES/NO: \_\_\_\_\_**

**Explain TWO points. Provide figures.**

**[5]**

### **2.2.3 Printers:**

**Based on the information given, provide TWO separate suggestions to Kyle to improve the profit on printers in 2021.**

**Suggestion 1 (with figures):**

**Suggestion 2 (with figures):**

**[4]**

### Activity 3

#### INVENTORY VALUATION

(28 marks)

#### STOCK VALUATION

- 3.1 Choose a word/term from the list, for each of the descriptions below. Write only the word/term next to the number (3.1.1 to 3.1.4) in the ANSWER BOOK.

perpetual ; specific identification ; weighted-average ; periodic ; first-in-first-out

- 3.1.1 The method that assumes that stock is sold in the order purchased.
- 3.1.2 This system ensures that cost of sales is calculated at the point of sale.
- 3.1.3 Stock items are assigned a unique or individual value.
- 3.1.4 This method is suited for low-value goods that are purchased in bulk. 4)

3.2 **LYON STORES**

The business, owned by Lyon, sells one type of leather purse. The business uses the weighted-average method and the periodic stock system to value stock.

**REQUIRED:**

**Refer to Information A:**

- 3.2.1 Calculate the following for the financial year ended 28 February 2023:
- Value of the closing stock (7)
  - Number of units missing (4)
- 3.2.2 Explain TWO strategies that Lyon could use to address the problem of customers stealing items. (2)
- 3.2.3 The average stockholding period is **73,7 days**. Explain whether Lyon should be concerned about this. Provide ONE point. (2)

**Refer to Information B:**

During October Lyon introduced two brands of laptop (computer) bags.

- 3.2.4 Calculate the cost of sales of laptop bags. (5)
- 3.2.5 Lyon was confused as to why the Coma bag sales are better than Komfi. Provide TWO possible reasons. (4)

**INFORMATION:****A. Leather purses:**

	Date	Number of purses	Cost price per purse	Total value
<b>Stock balances</b>	1 March 2022	480		R71 040
	28 Feb 2023	360		?
<b>Purchases</b>	May 2022	450	R155	R 69 750
	August 2022	800	R180	144 000
	October 2022	500	R195	97 500
	January 2023	250	R205	51 250
	<b>TOTAL</b>	<b>2 000</b>		<b>362 500</b>
<b>Returns</b>	January 2023	30	R205	6 150
<b>Carriage on purchases</b>	Total carriage of R20 960 was paid for purchases during the year. Lyon Stores were not reimbursed for carriage on returns.			
<b>Sales</b>	2 050 units were sold at R295 each.			

**B. Laptop (computer) bags:**

Brand (model) name	KOMFI	COMA
Units purchased	200	300
Cost price per unit	R680	R920
Total purchases amount	R136 000	R276 000
Units sold	112	220
Selling price per unit	R1 190	R1 380
Total sales amount	R133 280	R303 600

## Activity 3 Answer Book

## STOCK VALUATION

### 3.1

<b>3.1.1</b>	
<b>3.1.2</b>	
<b>3.1.3</b>	
<b>3.1.4</b>	

4

**3.2.1 Calculate the following on 28 February 2023:**

<b>Value of closing stock (using weighted average)</b>	
<b>WORKINGS</b>	<b>ANSWER</b>
<b>Number of units missing</b>	
<b>WORKINGS</b>	<b>ANSWER</b>

7

4

**3.2.2 Explain TWO strategies that Lyon could use to address the problem of customers stealing items.**

POINT 1	
POINT 2	

2

- 3.2.3 The average stockholding period is 73,7 days. Explain whether Lyon should be concerned about this. Provide ONE point.

2

- 3.2.4 Calculate the cost of sales on laptop bags.

WORKINGS	ANSWER

5

- 3.2.5 Lyon was confused as to why the Coma bag sales are better than Komfi. Provide TWO possible reasons.

REASON 1	
REASON 2	

4

TOTAL MARKS
28

## Activity 4

### 4.1 INVENTORY VALUATION

You are provided with information relating to Cases for Places for the 2020 financial year. The business sells handbags and suitcases. You are provided with figures relating to the lcug handbags. They use the periodic inventory system and the weighted average method to value stock.

#### REQUIRED:

4.1.1 Calculate the value of the closing stock on 29 February 2020. (10)

4.1.2 Calculate the following for the year ended 29 February 2020:

- Cost of sales (3)
- Gross profit (3)
- Average stock-holding period (in days) (5)

4.1.3 Should the owner be satisfied with the stock-holding period calculated above? Explain. Quote figures. (3)

**NOTE:** The stock-holding period for 2019 was 65 days.

#### INFORMATION:

##### A. Stock balances:

DATE	UNITS	TOTAL (including carriage)
1 March 2019	90	R25 640
29 February 2020	194	?

##### B. Purchases:

DATE	UNITS	COST PRICE PER UNIT (excluding carriage)	TOTAL
15 March 2019	350	R280	R 98 000
20 July 2019	624	R310	R193 440
9 September 2019	1 095	R290	R317 550
10 February 2020	515	R300	R154 500
<b>TOTAL</b>	<b>2 584</b>		<b>R763 490</b>

**C. Carriage on purchases:**

Spot-on Deliveries transports the handbags to the business at a fixed cost of R20 per handbag. This rate remained unchanged.

**D. Returns:**

60 of the handbags purchased on 9 September 2019 were returned. The supplier credited the business with the cost price per item. No refund was received for carriage on purchases of these returns.

**E. Sales:** 2 420 units at R450 each

**4.2 FIT & SLIM**

Fit & Slim is an outlet of Sports Galore Wholesalers. Stock is valued using the FIFO method. The following figures have been given to the owner but he is not happy as the actual figures as per stocktaking and the figures of the Trading Stock records in the books do not agree.

**REQUIRED:**

Identify ONE different problem in respect of the manner in which each product is managed. Quote figures to support your answer. In each case offer practical advice.

(9)

	<b>Gym towels</b>	<b>Golf caps</b>	<b>T-shirts</b>
Opening stock in unit	120	80	150
Purchases in units	5 600	960	1 200
Sales in units for the year	4 800	840	930
Closing stock in units	810	200	420
Selling price per unit	R45	R125	R350
Period of stock on hand	50 days	70 days	215 days
Cash deposited for the year	R216 000	R100 000	R325 500



## Activity 4 Answer Book

### 4.1.1 CASES FOR PLACES

Calculate the value of closing stock on 29 February 2020.

10

### 4.1.2 Calculate the cost of sales.

3

Calculate the gross profit.

3

Calculate the average stock-holding period (in days).

5

**4.1.3** Should the owner be satisfied with the stock-holding period calculated above? Explain. Quote figures. NOTE: The stock-holding period for 2019 was 65 days.

3

4.2

Identify ONE different problem in respect of the manner in which each product is managed. Quote figures to support your answer. In each case offer practical advice.

	Problem with figures	Possible solution
Gym towels		
Golf caps		
T-shirts		

9

MARKS
29

## Activity 5

### INVENTORY VALUATION (24 marks)

#### 5.1 INVENTORY VALUATION

Battery Hub, owned by Thando Sithole, sells two types of AA 6-pack unit batteries, **TURBO** and **SUPERCHARGE**. The business uses the **periodic inventory system** to record their stock.

- FIFO method is used for **TURBO**
- Weighted average method is used for **SUPERCHARGE**

#### REQUIRED:

5.1.1 Calculate the following for **TURBO AA 6-pack units**:

- The value of the closing stock on 31 August 2023. (6)

5.1.2 Calculate the average stock-holding period. Note that the cost of sales amounted to R483 750 for the year ended 31 August 2023. Comment on your findings above. (6)

5.1.3 The owner is concerned about the sales of **SUPERCHARGE** AA 6-pack units and is considering to discontinue this product line.

Calculate the following for **SUPERCHARGE AA 6-pack units** for the year ended 31 August 2023:

- The value of the closing stock. (5)
- The cost of sales of the **SUPERCHARGE** AA 6-pack units. (3)

5.1.4 Give TWO reasons why the owner must discontinue the sales of **SUPERCHARGE** AA 6-pack units. (4)

#### INFORMATION:

##### A. Stock valuation methods:

- **FIFO method** for **TURBO** AA 6-pack units
- **Weighted average method** for **SUPERCHARGE** AA 6-pack units

##### B. Stock records showed the following balances:

	Turbo AA 6-pack units			Supercharge AA 6-pack units		
Date	Number of units	Price per unit	Total value	Number of units	Price per unit	Total value
1 Sep 2022	2 000	R20	R40 000	800	R35	R28 000
31 Aug 2023	13 500	?	?	1 850	?	?

**A. The following purchases and returns were reflected during the year:**

	Turbo AA 6-pack units			Supercharge AA 6-pack units		
	Number of units	Price per unit	Total value	Number of units	Price per unit	Total value
<b>TOTALS:</b>	<b>35 000</b>		<b>756 000</b>	<b>3 000</b>		<b>120 200</b>
Sep 2022	(1 000)	R20	(20 000)	500	R35	R17 500
Nov 2022	17 000	R20	R340 000	-	-	
Feb 2023	7 000	R22,50	R157 500	1 000	R39, 70	R39 700
May 2023	9 000	R23	R207 000	-	-	-
May 2023	(2 000)	R23	(R46 000)	1 500	R42	R63 000
July 2023	5 000	R23,50	R117 500	-	-	-

**B. Sales for the year were reflected as follows:**

Turbo AA 6-pack units			Supercharge AA 6-pack units		
Number of Units	Selling price	Total value	Number of units	Selling Price	Total value
23 500	R35	R822 500	1 950	R75	R146 250

**C. Due to good internal control measures, there were no missing items.**

# Activity 5 Answer Book

## 5.1 INVENTORY VALUATION

6

6

5.1.3	<p>The owner is concerned about the sales of <b>SUPERCARGE AA 6-pack</b> units and is considering to discontinue this product line.</p> <p>Calculate the following for <b>SUPERCARGE AA 6-pack</b> units for the year ended 31 August 2023:</p>
-------	---

The value of the closing stock.

5

The cost of sales of the <b>SUPERCARGE AA 6-pack</b> units.

3

5.1.4	<p>Give <b>TWO</b> reasons why the owner must discontinue the sales of <b>SUPERCARGE AA 6-pack</b> units.</p>

4

## FIXED/TANGIBLE ASSETS

### ACTIVITY 1: MANAGEMENT OF FIXED ASSETS

(25 marks; 20 minutes)

#### REQUIRED:

- 1.1 Refer to the information to calculate the missing figures/parts indicated on the Fixed Asset Register.
- (i) The purchase price of the Mahindra Truck (2)
  - (ii) The rate of depreciation (3)
  - (iii) Determine/Calculate the date of purchase. (5)
  - (iv) Depreciation for the year ended 29 February 2024 (2)
  - (v) Accumulated depreciation on 29 February 2024 (2)
  - (vi) Book/Carrying value on 29 February 2024 (2)
- 1.2 Peter van Wyk wants to know why it is important to have an asset register for the business. Give ONE reason. (1)
- 1.3 Comment on the use and condition of the Kia Truck and how the business should manage this vehicle and why. (2)
- 1.4 Patrick is concerned about the use of vehicles in the business. A number of vehicles have excess mileage and are in poor condition. The fuel expense is very high in Patrick's opinion. Explain THREE internal control measures to manage the vehicles of the business more efficiently. (6)

#### INFORMATION:

#### Fixed Asset Register

Van Wyk's Transportation Services			No.4
General Ledger Account: Vehicles		Date of purchase: (iii)	
Item: Mahindra Truck		Registration: JJG 548 EC	
Supplier: Reddy Motors		Purchase price: (i)	
Depreciation method and rate: (ii)			
Details of depreciation:			
Date	Depreciation	Accumulated depreciation	Book Value/Carrying Value
(iii)	?	?	?
28 Feb 2022	96 000	144 000	176 000
28 Feb 2023	96 000	240 000	80 000
29 Feb 2024	(iv)	(v)	(vi)



**Additional information:**

- The fixed asset register is for the Mahindra truck (JJG 548 EC).
- The business purchased the truck a few years ago from Reddy Motors.
- The current mileage on the truck is 232 372 km.
- The truck is depreciated on the fixed instalment method.

## ANSWER BOOK

### ACTIVITY 1: MANAGEMENT OF FIXED ASSETS (minutes)

(25 marks; 20

1.1

(i) The purchase price of the Mahindra Truck	
WORKINGS	ANSWER

2

(ii) The rate of depreciation	
WORKINGS	ANSWER

3

(iii) Determine/Calculate the date of purchase.	
WORKINGS	ANSWER

(iv) Depreciation for the year ended 29 February 2024	
WORKINGS	ANSWER

2

(v) Accumulated depreciation on 29 February 2024	
WORKINGS	ANSWER

2

(vi) Book/Carrying value on 29 February 2024	
WORKINGS	ANSWER

2

1.2

<b>Peter van Wyk wants to know why it is important to have an asset register for the business. Give ONE reason.</b>

1

1.3

<b>Comment on the use and condition of the Mahindra Truck and how the business should manage this vehicle and why.</b>

2

1.4

**Peter is concerned about the use of vehicles in the business. A number of vehicles have excess mileage and are in poor condition. The fuel expense is very high in Peter's opinion. Explain THREE internal control measures to manage the business' vehicles more efficiently.**

6

25

## Activity 2

### TANGIBLE ASSETS NOTE

(19 marks:15 minutes)

#### DUNDEE LTD

The information relates to the financial year ended February 2023

#### REQUIRED:

#### 2.1 Refer to Information B (i)

Calculate the missing amounts denoted by (a) to (d) on the Fixed Asset Note (19)

#### B. Additional information and adjustments

##### (i) FIXED OR TANGIBLE ASSETS

	Building	Vehicles	Equipment
Carrying value at the beginning of the year	1516 400	330 000	61 100
Cost price	1516 400	900 000	615 000
Accumulated depreciation		(570 000)	(553 900)
Movements			
Additions	(a)	411 000	(d)
Disposal	-	(b)	-
Depreciation		(c)	66 099
Carrying value at the end of the year	2946 400		
Cost price			
Accumulated depreciation			

- A vehicle, cost R180 000, was sold on 31 December 2021 for R70 000 cash. Accumulated depreciation on the vehicle sold was R62 400 on 1 March 2022.
- The new vehicle was purchased on 31 December 2022.
- Vehicles are depreciated at 20% p.a. on diminishing balance.
- New equipment was bought on 1 January 2023.
- Equipment is depreciated at 10%p.a. on cost

## ANSWER BOOK

### ACTIVITY 2

2.1

CALCULATION		ANSWER
(a)		
(b)		
(c)		
(d)		

### Activity 3

#### CHEFS TRADING LTD.

(15 marks:10minutes)

The information relates to Chefs Trading Limited, and the financial year ended on 30 June 2023. The company trades in specialty products used by chefs.

#### REQUIRED:

3.1 Complete the outstanding amounts in the Fixed Asset note. (See information A)

#### INFORMATION A

##### Fixed assets:

##### A.1 Equipment:

- Equipment is depreciated at 20% p.a. using the diminishing balance method.
- The accountant incorrectly calculated the depreciation on the cost price method at 20% and the amount of R390 000 for depreciation was recorded in the general ledger. Fix the error.
- Additional equipment with a cost price of R1 000 000 was purchased on 1 April 2022 and correctly recorded.

##### A.2

##### Vehicles:

- The business owned only one vehicle on 1 July 2022. A new vehicle was purchased on 1 May 2023. But not yet recorded.
- Depreciation is calculated at 10% p.a. on cost price and depreciation for the year was calculated at R56 099. No entry has been made for this yet.

##### A.3

R450 000 was paid to Jaco Builders. R435 000 for the construction of a storage room and the rest paid for repairs to the building. The entire amount was debited against the land and buildings.

	LAND AND BUILDINGS	EQUIPMENT	VEHICLES
Carrying value at the beginning of the year			50 100
Cost price		(A)	614 000
Accumulated depreciation		(B)	(563 900)
<b>Movements:</b>	(E)	1000 000	
Additions			(D)
Disposal at carrying value			
Depreciation		(C)	(56 099)
Carrying value at the end of the year			
Cost price			
Accumulated depreciation			

**ACTIVITY 3****ANSWER BOOK****COMPLETE THE OUTSTANDING AMOUNTS IN THE FIXED ASSETS NOTE**

CALCULATION		ANSWER
A		[1]
B		[2]
C		[5]
D		[6]
E		[1]



## COST ACCOUNTING

### BREAK- EVEN ANALYSIS

#### Common misconceptions

- Some students have a misconception of thinking that increase in Break Even Point is good. ***An increase in Break Even means we now need to produce more units of goods to cover costs.***
- Comments on unit costs also confuse learners especially how level of production affects Fixed Cost per unit. ***Students must always compare number of units produced to break-even point.***

	Variable Costs	Fixed Costs
<b>Assumed Behaviour</b>	Change with level of production	Do not change with level of production
<b>Components</b>	Direct Material Costs Direct Labour Costs Selling and Distribution Costs	Factory Overheads Costs Administration Costs

**NB** Fixed costs **per unit** changes as the number of units produced increase or decrease.

Number of Units Produced	Variable Costs	Variable Cost per unit	Fixed Costs	Fixed Cost per unit
10 000	R120 000	R12	R90 000	R9
20 000	R240 000	R12	R90 000	R4,50

### Unit Costs

#### Improving Direct Material per unit

- Secure a cheaper supplier / Ensure that workers do not waste raw materials
- Improve security over DM
- Using cheaper material without compromising quality.
- Economising on material [bulk purchases to take advantage of discounts]
- Monitor production techniques to minimise wastage
- Train workers to ensure that they are not wasteful.
- Look for local suppliers – reduce transport cost and import duties

### Improving Direct Labour Cost per unit

- Train workers to work more efficiently
- Work less overtime so that workers are paid at a lower rate
- Control working hours
- Supervise workers
- Allow for specialisation so that workers become more efficient.
- Limit increases to inflation rate
- Increase mechanisation or use of technology
- Pay according to productivity [piece rate system]

### Break Even Point and Target profit

1.  $BEP = \text{Total Fixed Costs} / (\text{Selling Price} - \text{Variable Cost}) \text{ per unit}$
2.  $\text{Selling Price per unit} - \text{variable cost per unit} = \text{Contribution per unit}$
3.  $\text{Extra/Additional Units} = \text{Target Profit} / \text{Contribution per unit}$
4.  $\text{Target Profit} = \text{Extra Units} \times \text{Contribution}$

### Take note of the following questions

1. How many units should the business produce and sell to achieve a target profit of --?
2. How many **EXTRA /ADDITIONAL** units should the business produce and sell to achieve a target profit of-----?
3. How much profit will the business make if they produce and sell ----- units?
4. How much profit will the business make if they produce and sell **EXTRA/ADDITIONAL**----- units?

Activity 1 : MANUFACTURING (50 marks; 40 minutes)
---

1.1

Choose ONE cost account for each of the following descriptions. Write only the cost account next to the question numbers (2.1.1 to 2.1.5) in the ANSWER BOOK.

direct labour cost; direct materials cost; factory overheads cost; administration cost; selling and distribution cost
--

- 1.1.1 Salary of the factory foreman.
- 1.1.2 Depreciation on office equipment.
- 1.1.3 Transport costs paid for raw materials purchased.
- 1.1.4 Pension fund contributions paid on behalf of the workers in the production process.
- 1.1.5 Bad debts written off during the financial year. (5)

## 1.2 LANCY BAKE MANUFACTURERS

This information relates to the financial year ended 29 February 2024. The business manufactures cakes. The business maintains a mark-up of 60% on cost.

### REQUIRED:

#### 1.2.1 Refer to Information B:

- Calculate the direct labour cost on 29 February 2024. (6)
- 1.2.2 Prepare the Factory Overhead Cost Note on 29 February 2024. (13)
- 1.2.3 Complete the Production Cost Statement on 29 February 2024. (11)

### INFORMATION:

#### A. Stock balances

	29 February 2024 R	28 February 2023 R
Indirect material	18 600	22 300
Finished goods	186 000	218 000
Work-in-progress	?	181 992

#### B. Direct Labour

Number of factory workers	4
Normal time expected per worker per year	1 960 hours
Normal time rate	R60 per hour
Overtime hours per worker per year	70 hours

Overtime is normal rate plus 60%.

?

- The business contributes 8% to the pension fund and 1% to UIF on normal time only.

**C. Amounts extracted from the records for the year ended 29 February 2024.**

	R
Indirect material purchased during the year	114 700
Water and electricity	168 000
Rent expense	258 000
Sundry expenses	88 100
Depreciation on factory equipment	78 610
Insurance: Administration	28 560
Direct material cost	767 584
Sales	2 896 000
Cost of sales	?

- Water and electricity, R16 000 for March 2024 is paid in advance. The factory uses 75% of the water and electricity.
- Rent expense is distributed according to floor space used. The factory occupies 9 600m<sup>2</sup> of the total floor space of 15 360m<sup>2</sup>.
- 80% of the total Sundry Expenses account is allocated to the production process. The telephone account for February 2024 has been received and has not yet been paid, R5 700. Telephone is considered a Sundry Expenses.
- The bookkeeper divided the total insurance amount equally amongst the factory, administration and sales & distribution departments, but only posted to the administration cost account. The correct distribution should be 3: 1: 1.

### 1.3 SEA VIEW TOY FACTORY

This factory manufactures toy racing cars. There is no work-in-progress stock at the beginning or end of each year. The financial year ends on 31 December.

Marina, the owner decided to address the problem of low profits made in 2023 by making some changes to improve sales and production.

**REQUIRED:**

- 1.3.1 Provide a calculation to confirm that the break-even point for the 2024 financial year is correct. (3)
- 1.3.2 Explain why Marina is pleased with the production level, sales and break-even point. Quote figures. (4)
- 1.3.3 Explain to Marina why the fixed cost per unit decreased from R56,00 to R45,00. (2)

1.3.4 Marina made deliberate decisions regarding variable costs to improve the business.

Explain the decisions that she might have taken on these costs and how these could have had positive effects on the business. Quote figures. (6)

**INFORMATION:**

	29 FEBRUARY 2024		28 FEBRUARY 2023		
AMOUNT R	UNIT COST R		AMOUNT R	UNIT COST R	
Direct material cost	450 000	90,00	308 000	70,00	
Direct labour cost	270 000	54,00	272 800	62,00	
Selling and distribution cost	150 000	30,00	105 600	24,00	
VARIABLE COST	870 000	174,00	686 400	156,00	
Factory overhead costs	162 500	32,50	171 600	39,00	
Administration cost	62 500	12,50	74 800	17,00	
FIXED COST	225 000	45,00	246 400	56,00	
Selling price per unit	R251		R236		
Units produced and sold	5 000 units		4 400 units		
Break-even point	2 922 units		3 080 units		

[50]

COST ACCOUNTING

Activity 1 Answer Book

1.1 Choose ONE cost account for each of the following descriptions:

1.1.1	
1.1.2	
1.1.3	
1.1.4	
1.1.5	

5

1.2 LANCY BAKE MANUFACTURERS

1.2.1 Calculate the direct labour cost on 29 February 2024	Answer

6

1.2.2 Prepare the Factory Overhead Cost Note on 29 February 2024


13

### 1.2.3 Complete the Production Cost Statement on 29 February 2024

Direct material cost	767 584
Prime cost	
Total manufacturing cost	
Work-in-progress at the beginning of the year	181 992
Cost of production of finished good	

11

### 1.3.1

Provide a calculation to confirm that the break-even point for the 2024 financial year is correct.

### 1.3.2

Explain why Marina is pleased with the production level, sales and break-even point. Quote figures.

### 1.3.3

Explain to Marina why the fixed cost per unit decreased from R56,00 to R45,00.


### 1.3.4

Marina made deliberate decisions regarding variable costs to improve the business. Explain the decisions that she might have taken on these costs and how these could have had positive effects on the business. Quote figures.

Cost	Comment and positive effect (with figures
Direct material cost	
Direct labour cost	
Selling and distribution cost	




## Activity 2

### GREENVILLE PRODUCERS

Greenville Producers manufactures swimming pool chemicals. The business is owned by Themba Lesizwe. The financial year ends on 31 May 2024.

Active Algaecide Treatment is one of their products.

#### REQUIRED:

- 2.1 Determine the total number of extra units that need to be manufactured to reach the goal of increasing profits by R75 000 in the next financial year. (4)
- 2.2 In 2024, the owner Themba intentionally made strategic decisions regarding variable costs to improve the business. Identify TWO costs that were effectively controlled, resulting in a positive impact on the business. (6)
- 2.3 The selling price increased by 12,5% from 2023 to 2024. Explain how this impacted on the performance of the business. Quote figures or calculations. (4)
- 2.4 Explain to Themba why the fixed cost per unit decreased by R1,11 while the total fixed cost increased by R313 680. (2)

2.1

Determine the total number of extra units that need to be manufactured to reach the goal of increasing profits by R75 000 in the next financial year.	
Workings	Answer


2.2

In 2024, the owner Themba intentionally made strategic decisions regarding variable costs to improve the business. Identify TWO costs that were effectively controlled, resulting in a positive impact on the business.

COST	REASON


2.3

The selling price increased by 12,5% from 2023 to 2024. Explain how this impacted on the performance of the business. Quote figures or calculations.

--


2.4

Explain to Themba why the fixed cost per unit decreased by R1,11 while the total fixed cost increased by R313 680.

--

RATIOS	How it is calculated formula	Answer as/in
	<b>Profitability</b>	
1. Gross profit on sales	$\frac{\text{gross profit}}{\text{sales}} \times \frac{100}{1}$	%
2. Gross profit on cost of sales	$\frac{\text{gross profit}}{\text{cost of sales}} \times \frac{100}{1}$	%
3. Operating profit on sales	$\frac{\text{operating profit}}{\text{sales}} \times \frac{100}{1}$	%
4. Operating expenses on sales	$\frac{\text{operating profit}}{\text{sales}} \times \frac{100}{1}$	%
5. Net profit after tax on sales	$\frac{\text{Net profit after tax}}{\text{sales}} \times \frac{100}{1}$	%
6. SOLVENCY RATIO	Total assets: total liabilities	Ratio(x:1)
7. Net assets (shareholders' equity)	Total assets - total liabilities	Rands
8. Current ratio	Current assets: current liabilities	Ratio(x:1)
9. Acid test ratio	Current assets-inventory: current liabilities	Ratio(x:1)
10. Stock turnover rate	$\frac{\text{cost of sales}}{\text{average trading stock}}$	Times per year
11. Stock holding period	$\frac{\text{average trading stock}}{\text{cost of sales}} \times 365 \text{ days or } \times 12/1$ months	Number of days
12. Average debtor's collection period	$\frac{\text{average debtors}}{\text{credit sales}} \times \frac{365}{1}$	Number of days
13. Average creditors payment period	$\frac{\text{average creditors}}{\text{credit purchases}} \times \frac{365}{1}$	Number of days
14. Gearing ratio/ Debt equity ratio	<i>Long-term liabilities: shareholders' equity</i>	Ratio(x:1)

15. Return on shareholders' equity	$\frac{\text{Net profit after tax}}{\text{average shareholder's equity}} \times \frac{100}{1}$ <p><b>Note: average shareholder's equity is</b>  <math>\frac{1}{2}</math> (shareholder's equity @ the beg + shareholder's equity @ the end)</p>	%
16. Return on Total capital employed (ROTCE)	$\frac{\text{Net profit before interest expense}}{\text{average capital employed}} \times \frac{100}{1}$ <p><b>Note: capital employed</b> = <math>\frac{1}{2}</math> (shareholders' equity + long-term loan @ the beg + shareholders' equity + long-term loan @ the end)</p>	%
17. Earnings per share	$\frac{\text{Net profit after tax}}{\text{number of shares issued}} \times \frac{100}{1}$	Cents
18. Dividends per share	$\frac{\text{dividends on ordinary shares}}{\text{number of shares issued}} \times \frac{100}{1}$	Cents
19. Net asset value per share	$\frac{\text{shareholders' equity}}{\text{number of shares issued}} \times \frac{100}{1}$	Cents

## Bibliography

1. Department of Education Provincial papers (2022-2024)
2. Department of Education National Past Pers (2022-2024)