

ACCOUNTING

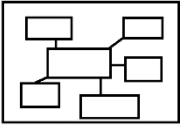



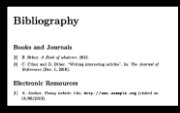

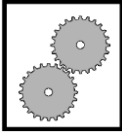

2025 SPRING SCHOOL AND LAST PUSH

GRADE 12

GUIDE FOR TEACHERS AND LEARNERS



ICON DESCRIPTION

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COMPANIES FINANCIAL STATEMENTS**Worked Example 1: FINANCIAL STATEMENTS****(55 marks; 45 minutes)****SMILEY TRADERS LTD**

Refer to the information from the records of Smiley Traders Ltd for the financial year ended 29 February 2024.

REQUIRED:

1.1 Prepare the following for the financial year ended 29 February 2024.

1.1.1 Statement of Comprehensive Income/Income Statement. Note that some information is provided on the answer book. (32)

1.1.2 Statement of Financial Position/Balance sheet. Show ALL workings in brackets. Note that some information is provided on the answer book. (23)

INFORMATION:

The following Balances/Totals appeared in the books on 29 February 2024:

	R
Ordinary shares capital	?
Retained income (29 February 2024)	558 000
Mortgage Loan: Best Bank	?
Trading Stock	372 845
Debtors' control	444 700
Creditors' control	345 900
Provision for bad debts (1 March 2023)	14 090
SARS Income Tax (provisional payments)	323 555
Sales	?
Cost of sales	?
Rent income	162 750
Salaries	612 900
Depreciation	293 500
Sundry expenses	?
Interest Income	?
Audit fees	74 750
Directors' fees	725 000
Insurance	186 500
Dividends on ordinary shares	224 000

Adjustments and additional information:

- A** The business maintains a 60% mark-up on cost of sales. Last year sales amounted to R7 200 000. The business announced a 20% increase in sales for the year ended February 2024.
- B** According to a physical stocktaking, trading stock on hand amounted to R363 900.
- C** A debtor's account with a debit balance of R5 600 must be transferred to his account in the creditors' ledger account.
- D** Decrease the provision for bad debts by R515.
- E** A storeroom was rented to a tenant from 1 March 2023. On 1 December 2023 the rent was decreased by 7,5%. Provide for the outstanding rent for February 2024.
- F** The business paid 65% on their audit fees for the year. The balance will be settled on 5 March 2024.
- G** The business has 3 directors. They receive the same monthly fee. One director was only appointed on 1 September 2023. One director has not yet received his fee for February 2024.
- H** Insurance included a new policy which was taken out on 1 May 2023 at an annual premium of R90 000.

The loan statement from Billy Bank reflected the following:

LOAN STATEMENT ON 29 FEBRUARY 2024:	
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 R150 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 amounted to R356 555 and was calculated at the rate of 29% of the net profit.
- K** Shares and Dividends:
- The authorised ordinary share capital consists of 1 200 000 shares of which 70% was in issue at the end of the financial year.
 - The final dividend for the year amounted to R338 000.
- L** The following financial indicators were calculated on 29 February 2024.
- Operating profit on sales at 15%.
 - Net asset value per share at 665 cents.

Worked Example 1 Solution

1.1.1

SMILEY TRADERS LTD			
STATEMENT OF COMPREHENSIVE INCOME /INCOME STATEMENT/ FOR THE YEAR ENDED 29 FEBRUARY 2024			
Sales (7 200 000 x 120/100) OR (7 200 000 + 1 440 000)		8 640 000	✓✓
Cost of sales (Sales x 100/160)		(5 400 000)	✓
Gross profit	operation 4	3 240 000	✓
Other operating income	operation	177 140	✓
Rent Income (162 750✓ + 13 875 ✓✓)		176 625	✓*
Provision for bad debts adjustment		515	✓
Gross Operating Income	operation 7	3 417 140	✓
Operating Expenses	GOI – OP	(2 121 140)	✓
Salaries		612 900	
Depreciation		293 500	
Sundry Expenses	balancing figure	169 295	✓
Audit fees (74 750 ✓ + 40 250✓✓) OR (74 750 x 100/65)		115 000	✓*
Directors' fees (725 000✓ + 25 000✓✓) OR (725 000 /29x30)		750 000	✓*
Insurance (186 500 ✓ – 15 000 ✓)		171 500	✓*
Trading stock deficit (372 845 – 363 900)	15	8 945	✓✓
Operating Profit	Check = sales x 15%	1 296 000	✓
Interest Income	NPBIE – OP balancing	154 000	✓
Net Profit before interest expense	NPBT + IE	1 450 000	✓
Interest expense		(220 500)	✓
Net Profit before tax	NPAT + IT	1 229 500	✓
Income tax		(356 555)	
Net Profit after tax	356 555 X 71/29 6	872 945	✓
			32

Foreign items -1 max

* operation one part correct

1.1.2 STATEMENT OF FINANCIAL POSITION /BALANCE SHEET ON 29 FEBRUARY 2024

ASSETS	
NON-CURRENT ASSETS	
Fixed assets	
Fixed Deposit	
CURRENT ASSETS	
Inventory	363 900 ✓
Trade and other receivables -14 090 + 515 (444 700 – 13 575✓ <input checked="" type="checkbox"/> – 5 600✓ + 13 875 <input checked="" type="checkbox"/> + 15 000 <input checked="" type="checkbox"/> PFBD TRANSFER RENT INC INSUR	454 400 <input checked="" type="checkbox"/> *
Cash and Cash equivalents	
TOTAL ASSETS 7	
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY 840 000 x 665c (1 200 000 x 70%)	5 586 000 ✓ <input checked="" type="checkbox"/> *
Ordinary share capital SE – RI balancing	5 028 000 <input checked="" type="checkbox"/>
Retained income 3	558 000
NON-CURRENT LIABILITIES	535 700
Loan: Billy Bank (45 200 x 12) (542 400 – 150 000) (1 250 000✓ – 542 400✓ + 220 500✓) – 392 400 ✓ 5 928 100 three marks 321 900 two marks	535 700 <input checked="" type="checkbox"/> *
CURRENT LIABILITIES	
Trade and other payables (345 900 – 5 600✓ + 40 250 <input checked="" type="checkbox"/> + 25 000 <input checked="" type="checkbox"/> TRANSFER AUDIT FEE DIR FEE	405 550 <input checked="" type="checkbox"/> *
Shareholders for dividends	338 000 ✓
SARS Income tax (356 555 – 323 555)	33 000 ✓ <input checked="" type="checkbox"/> *
Current portion of loan see NCL above	392 400 <input checked="" type="checkbox"/>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES 8	

23

Foreign items e.g. balance sheet items/dividends -2 Max

*one part correct

Activity 1: STATEMENT OF COMPREHENSIVE INCOME
(49 marks; 39 minutes)

- 1.1 Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–E) next to the question numbers (1.1.1 to 1.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.1.1 Independent auditor	A investment such as a fixed deposit over a three-year period
1.1.2 Capital employed	B debt to be settled within 12 months
1.1.3 Current liability	C a staff member of a company who sets up effective internal control procedures
1.1.4 Financial asset	D total of Ordinary Shareholders' Equity and Non-current Liabilities
	E expresses an unbiased opinion on the reliability of financial statements

(4 x 1) (4)

1.2 **STARLIGHT LTD**

The information relates to the financial year ended 28 February 2023.
The company trades in electrical items.

REQUIRED:

1.2.1 **Refer to Information B (ii).**

Calculate:

- Profit or loss on disposal of vehicle (5)
- Total depreciation for the year (7)

1.2.2 Complete the following:

- Statement of Comprehensive Income for the year ended 28 February 2023 (29)

NOTE: Some figures have been entered in the ANSWER BOOK.

INFORMATION:**A. Extract from the Pre-adjustment Trial Balance on 28 February:**

Balance Sheet accounts section	2023	2022
Loan: Pearl Bank	524 400	690 000
Vehicles	?	1 250 000
Accumulated depreciation on vehicles	?	420 000
Equipment	822 000	774 000
Accumulated depreciation on equipment	?	360 000
Fixed deposit: Pearl Bank	320 000	
Trading stock	2 969 800	121 210
Debtors' control	645 250	
Provision for bad debts	?	21 020
Bank (Dr)	?	
SARS: Income tax (provisional tax payments)	875 000	
Nominal accounts section		
Sales	20 150 000	
Cost of sales	13 200 000	
Salaries and wages	?	
Commission income	85 900	
Rent income	89 700	
Audit fees	155 200	
Directors' fees	2 015 000	
Sundry expenses	219 760	
Bad debts	16 200	
Interest on fixed deposit	?	
Asset disposal (cash received on vehicle sold)	91 500	

B. Adjustments and additional information:

- (i) A physical stock count on 28 February 2023 revealed R2 774 800 stock on hand. However, this figure excludes the closing stock figure for light bulbs. Note that the weighted-average method is used to value the light bulbs.

Details of the light bulbs are as follows:

	UNITS	UNIT PRICE (R)	TOTAL (R)
Stock on 1 Mar. 2022	8 000	52	416 000
Purchases	47 000	74	3 478 000
Available for sale	55 000		3 894 000
Carriage on purchases			27 500
Stock on 28 Feb. 2023	1 700	?	?

(ii) Fixed assets and depreciation:**Vehicles:**

- An old vehicle was sold for R91 500 on 30 November 2022. The amount received was recorded but no further entries were made.

Details of the vehicle sold:

Carrying value on 1 March 2022	R104 000
Depreciation: 20% p.a. on the diminishing-balance method	

- Depreciation on the remaining vehicles: R145 200

Equipment:

- Equipment is depreciated at 15% p.a. on cost.
- New equipment was bought on 31 July 2022.

(iii) The auditors are owed a further R38 800 for the current financial year.

(iv) Received R9 000 from the insolvent estate of debtor Billy Croon. His estate paid 80 cents to the rand of his outstanding balance. The money received was recorded. The balance of his account must still be written off.

(v) The provision for bad debts must be increased to R25 720.

(vi) Directors' fees:

- The company has two directors who were appointed in 2019. A third director was appointed on 1 October 2022.
- The directors all earn the same monthly fee.
- Directors' fees paid during the financial year have been recorded, but one director has already been paid for March and April 2023.

(vii) Rent income includes the rent for March 2023 received from the tenant. The monthly rent was increased by R1 170 on 1 January 2023.

(viii) Loan: Pearl Bank

- Interest on the loan capitalised has not been recorded.
- Fixed monthly repayments (including interest) have been paid and correctly recorded for the financial year.
- Interest on the loan amounts to 60% of the monthly repayments.

(ix) Income tax for the year was calculated to be R858 140.

Activity 1**1.1**

1.1.1	
1.1.2	
1.1.3	
1.1.4	

4

1.2 STARLIGHT LTD**1.2.1 Calculate: Profit or loss on disposal of vehicle**

WORKINGS	ANSWER

5

Calculate: Total depreciation for the year

WORKINGS	ANSWER
Vehicles	
Equipment	

7

1.3 Statement of Comprehensive Income for the year ended 28 February 2023

Sales	20 150 000
Cost of sales	(13 200 000)
Gross profit	6 950 000
Other income	
Commission income	85 900
Rent income	
Gross operating income	
Operating expenses	(4 894 900)
Salaries and wages	
Audit fees	
Directors' fees	
Sundry expenses	219 760
Bad debts	
Depreciation	
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	
Net profit before tax	
Income tax	(858 140)
Net profit after tax	2 002 500

Activity 2 CONCEPTS AND FINANCIAL STATEMENTS (50 marks: 40 minutes)

- 2.1 Choose the correct word from COLUMN B to match the description in COLUMN A. Write only the letter (A – E) next to the question number (2.1.1 to 2.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
2.1.1 Guidelines for the preparation of financial statements to ensure consistency.	A Memorandum of Incorporation
2.1.2 Sets out the rights, duties and responsibilities of shareholders and directors.	B IFRS
2.1.3 The total number of shares that a company can issue.	C Matching concept
2.1.4 Revenue generated during an accounting period should be matched to expenses during the same period.	D Authorised share capital
	E Going concern concept

(4)

2.2 TWO-WAY LIMITED

You are provided with the information relating to Two-Way Ltd, for the year ended 29 February 2020.

REQUIRED:

- 2.2.1 Refer to **INFORMATION E** and calculate the correct net profit after tax. (12)
- 2.2.2 Prepare the following note to the balance sheet for the financial year ended 29 February 2020.
- Trade and other receivables (9)
- 2.2.3 Prepare the Balance Sheet (Statement of Financial Position) of Two-Way Ltd as at 29 February 2020.
(Where notes are not required, show your workings in brackets in order to earn part marks) (25)

INFORMATION:

- A.** The following figures were extracted from the accounting records at the end of the financial year on 29 February 2020.

Ordinary share capital	?
Retained income (29 February 2020)	805 140
Fixed assets (at carrying value on 29 February 2020)	5 180 652
Loan: Canara Bank (29 February 2020)	622 800
Fixed deposit: Fargo Bank (1 March 2019)	504 000
Bank (Dr)	?
Creditors' control	?
Debtors' control	64 800
Inventory	757 800
Provision for bad debts	3 420
SARS: Income tax (Provisional tax payments)	524 520

B. Share Capital

- The company has an authorised share capital of 1 000 000 shares.
- 60% of the authorised share capital was issued at the beginning of the financial year.
- On 31 March 2019, the directors issued an additional 200 000 shares.
- On 31 December 2019, the directors decided to buy back 100 000 shares from the estate of the deceased shareholder.
- The Net Asset value per share on 29 February 2020 is 880 cents.

C. Dividends

- An interim dividend of 45 cents per share was declared and paid on 1 August 2019. The new shareholders qualified for the interim dividend.
- A final dividend of 81 cents per share was declared on 29 February 2020. The shareholder whose shares were bought back are not entitled to the final dividend.

D. The loan statement received from Canara bank showed the following:

Opening balance (01/03/19)	R 846 000
Repayment during the year (interest included)	223 200
Closing balance (29/02/20)	709 200

- Provide for interest on loan.
- The capital repayment of the loan will remain the same as the previous financial year.

E. The net profit was R1 810 404 before the following adjustments were taken into consideration.

- Interest on fixed deposit is earned at 10% per annum and is not capitalised. No interest has been received. 40% of the fixed deposit will mature on 30 June 2020.
- Interest on the loan was also not taken into consideration. Interest on the loan is capitalised.
- Provision for bad debts must be adjusted to 5% of the outstanding debtors.
- Rent income received amounted to R94 608. It included the rent for March and April 2020. The rent was increased by 15% on 1 January 2020.
- Trading stock, R25 200 was damaged by a storm during the year. The insurance company accepted the claim and will cover 70% of the claim. The insurance claim will be processed during May 2020.
- Insurance included an annual policy of R15 120 paid on 1 August 2019.
- Directors fees of R9 000 were still outstanding on 29 February 2020.
- Income tax for the year amounted to R483 120.

Activity 2 CONCEPTS AND FINANCIAL STATEMENTS (50 marks; 40 minutes)

2.1

CONCEPTS	
2.1.1	
2.1.2	
2.1.3	
2.1.4	

4

2.2.1 Calculate the correct net profit.

Net profit as per profit and loss	1 810 404

12

2.2.2 TRADE AND OTHER RECEIVABLES

Debtors' Control	64 800

9

2.2.3 TWO-WAY LTD

BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON
29 FEBRUARY 2020

ASSETS	
NON-CURRENT ASSETS	
Financial Assets	
CURRENT ASSETS	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY	
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
Trade and other payables	112 352
TOTAL EQUITY AND LIABILITIES	

25

Activity 3 COMPANY FINANCIAL STATEMENTS AND NOTES (65 marks; 55 minutes)

The information relates to KAMZA LTD for the financial year ended 29 February 2024

REQUIRED: Complete the following for the year ended 29 February 2024:

- 3.1.1 Statement of Comprehensive Income (Income Statement). (31)
- 3.1.2 Notes to the Statement of Financial Position (Balance Sheet) for:
- Ordinary share capital (8)
 - Retained income (8)
- 3.1.3 Equity and Liabilities section of the Statement of Financial Position. (18)

INFORMATION:**A. Balances/Totals on 28 February:**

	2024	2023
Ordinary share capital	10 800 000	7 200 000
Retained income	675 900	?
Loan BNF Bank	?	1 975 800
Trade creditors	779 200	
SARS: Income tax (provisional payments)	450 000	
Shareholders for dividends	264 000	
Sales	?	
Cost of sales	6 696 000	
Rent income	304 640	
Salaries and wages	2 183 860	
Audit fees	135 360	
Directors' fees	999 600	
Advertising	39 980	
Sundry expenses	919 512	
Interest on fixed deposit	?	
Interest on loan	577 200	

B. Adjustments and additional information:**(i) Sale of goods:**

The company maintains a mark-up of 75% on cost. Note that old goods costing R216 000 (excluded in the cost of sales) were sold at 20% below cost price.

(ii) Rent:

A storeroom was rented out from 1 March 2023. Rent was decreased by 10% on 1 January 2024. The rent was received for 14 months.

(iii) Audit fees:

20% of the annual fees have been paid in advance.

(iv) Directors' fees:

The company has three directors who earn the same fee. One director was paid for only 10 months.

(v) Advertising:

Advertising consists of a contract with a newspaper for the entire financial year. Payments are monthly; however, instalments were paid for 11 months. **NOTE:** The monthly amount decreased by R240 from 1 November 2023.

(vi) Loan BNF Bank:

- Fixed monthly repayments including interest, for the full duration of the loan term, amounts to R58 500.
- Capitalised interest amounted to R577 200 for the year ended 29 February 2024.
- Interest for the next financial year is expected to be R546 000.

(vii) Income tax for 2023:

- R91 100 is still due to SARS.
- The net profit after tax is R1 171 170.

(viii) Share capital and dividends: Authorised share capital: 1 000 000 ordinary shares

1 March 2022	60% of the shares were in issue.
1 July 2022	100 000 shares were repurchased at R15.
31 August 2022	Interim dividends of 24 cents per share were paid.
1 December 2022	300 000 shares were issued.
28 February 2023	Final dividends were declared.

Activity 3

3.1.1 KAMZA LTD
STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT) FOR
THE YEAR ENDED 29 FEBRUARY 2024

Sales	
Cost of sales	(5 580 000)
Gross profit	
Other operating income	
Gross operating income	
Operating expenses	
Salaries and wages	986 550
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	
Net profit before tax	
Income tax	
Net profit after tax	900 900

31

3.1.2 ORDINARY SHARE CAPITAL
AUTHORISED SHARE CAPITAL

1 000 000 ordinary shares

ISSUED SHARE CAPITAL

	Ordinary shares on 28 February 2024	10 800 000

8

RETAINED INCOME

Balance on 1 March 2023		
Ordinary share dividends		
Balance on 28 February 2024	675 900	8

3.1.3 EQUITY AND LIABILITIES SECTION OF THE STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ON 28 FEBRUARY 2024

SHAREHOLDERS' EQUITY	11 475 900	
Ordinary share capital	10 800 000	
Retained income	675 900	
NON-CURRENT LIABILITIES		
Loan BNF Bank 1 975 800		
CURRENT LIABILITIES		
Trade and other payables		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		18

Activity 4 COMPANY FINANCIAL STATEMENTS AND NOTES**(70 marks; 55 minutes)**

You are provided with information relating to Bravo Limited for the financial year ended 29 February 2024.

REQUIRED:

- 4.1 Prepare the following notes to the Balance Sheet on 29 February 2024:
- 4.1.1 Ordinary share capital (10)
 - 4.1.2 Retained income (11)
 - 4.1.3 Fixed/Tangible assets (16)
- 4.2 Complete the Balance Sheet on 29 February 2024. (33)

INFORMATION:

- A. Figures extracted from the accounting records on 29 February 2024:

	R
Ordinary share capital	?
Retained income (1 March 2023)	146 000
Fixed deposit: Shine Bank	400 000
Mortgage loan: Cash Bank	920 000
Fixed/Tangible assets	?
Debtors' control	?
Creditors' control	95 700
SARS: Income tax (provisional tax payments)	246 000
Expenses accrued/payable	28 300
Bank (Dr)	61 340
Petty cash and cash float	3 200
Trading inventory	234 000
Consumable stores on hand	14 500

B. Share Capital:

- The company has an authorised share capital of 3 000 000 shares.
- 1 800 000 shares were issued at R4,00 per share during the previous year.
- A further 200 000 shares were issued on 1 May 2023 at R6,00 per share. This transaction was recorded.
- On 3 January 2024, the business repurchased 80 000 shares from a shareholder at a price of R4,90 per share. This was correctly recorded.

C. Dividends.

- Interim dividends of 10 cents per share were paid on 30 September 2023.
- Final dividends of R300 000 were declared on 29 February 2024.

D. Fixed Assets:**Incomplete Fixed Asset note on 29 February 2024:**

	LAND AND BUILDINGS	EQUIPMENT	VEHICLES
Carrying value in beginning	R 6 990 000	R 155 000	520 000
Cost (1 March 2023)	6 990 000	240 000	880 000
Accumulated depreciation	(0)	(85 000)	(360 000)
Movements			
Additions at cost	*	*	0
Disposal at carrying value	(0)	(0)	*
Depreciation	(0)	*	(161 600)
Carrying value at the end	7 490 000	*	*
Cost (29 February 2024)	7 490 000	360 000	*
Accumulated depreciation	(0)	*	*

- Land and buildings were bought during the current financial year.
- New equipment for R120 000 purchased on credit on 29 February 2024, was **not** yet recorded.
- Equipment is depreciated at 10% p.a. on diminishing-balance method.
- A vehicle, sold for cash at carrying value on 31 August 2023, was correctly recorded. Details of the vehicle sold were as follows:
 - Cost price, R144 000
 - Accumulated depreciation at beginning of financial year, R84 000
 - Depreciation rate of 20% p.a. on the on the cost price method.
- Total depreciation on vehicles for the year amounted to R161 600.

F. Fixed Deposits:

There are two fixed deposits at DIY Bank.

- One, valued at R175 000, matures on 31 July 2024.
- The other, valued at R225 000, matures on 31 December 2026.

G. Net profit and Income tax:

- Net profit before tax as per the Income Statement, R780 000;
- Income tax for the year, R234 000.

H. Loan: Cash Bank:

- R100 000 of the loan will be paid back during the next financial year.

Activity 4**BRAVO LTD****4.1.1 ORDINARY SHARE CAPITAL**

AUTHORIZED	
3 000 000 shares	
ISSUED	

10

4.1.2 RETAINED INCOME

Balance on 1 March 2023	
Ordinary share dividends	
Interim	
Final	
Balance on 29 February 2024	

11

4.1.3

FIXED/TANGIBLE ASSETS	Land and Buildings	Equipment	Vehicles
Carrying value in beginning	6 990 000	155 000	520 000
Cost	6 990 000	240 000	880 000
Accumulated depreciation	0	(85 000)	(360 000)
Movements			
Additions at cost			0
Disposal at carrying value	(0)	(0)	
Depreciation	0		(161 600)
Carrying value at the end	7 490 000		
Cost	7 490 000	360 000	
Accumulated depreciation	0		

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4.2 BRAVO LTD
BALANCE SHEET ON 29 FEBUARY 2024

ASSETS	
Non-current assets	
Current assets	
TOTAL ASSETS	
EQUITY & LIABILITIES	
Ordinary shareholders' equity	
Non-current liabilities	
Current liabilities	
TOTAL EQUITY & LIABILITIES	

Activity 5 COMPANY FINANCIAL STATEMENTS (55 marks; 45 minutes)

The information relates to DBN Ltd. The company sells household products. The financial year ended on 29 February 2024.

REQUIRED:
5.1 Refer to information A.

The bookkeeper has recorded all the entries regarding fixed assets in the books. Complete the amounts denoted by (i) to (iii) on the Fixed Asset Note.

(12)

5.2 Refer to information C and F.

Calculate the correct net profit **after tax** for the year ended 29 February 2024. Indicate (+) for increase and (-) for decrease, next to each amount.

(13)

5.3 Complete the Statement of Financial Position on 29 February 2024.

(30)

NOTE: Some amounts are provided in the ANSWER BOOK.

INFORMATION:
A. Fixed assets:

	Buildings R	Vehicles R	Equipment R
Carrying value: (01/03/2023)		249 850	
Cost	(i)		436 000
Accumulated depreciation			
Movements:			
Additions (at cost)	0	260 000	0
Disposals (at carrying value)	(420 000)	0	(iii)
Depreciation		(ii)	(32 000)
Carrying value: (29/02/2024)	9 421 300		
Cost		786 000	356 000
Accumulated depreciation			

B Balances on 29 February 2024:

Fixed assets at carrying value	R9 952 480
Ordinary share capital	?
Retained income	?
Loan: PTA Bank	?
Fixed deposit	425 000
Trading stock	1 064 200
Net trade debtors	744 900
Creditors' control	518 950
SARS: Income tax (provisional tax payments)	322 800

- Depreciation is calculated as follows:
 - Vehicles: 15% p.a. on cost
 - Equipment: 20% on the diminishing-balance method
- A new vehicle was bought on 1 October 2023.
- Extract from the Fixed Assets Register in respect of equipment sold:

KINOPA MWALIMU 234	
Cost price: R80 000	
Date purchased: 1 September 2021	
Date sold: 31 May 2023	Sold for: R53 000
	CARRYING VALUE
28 February 2022	R72 000
28 February 2023	R57 600
31 May 2023	?

- C.** The bookkeeper has calculated the net profit before tax as **R1 150 000**.
The pre-adjustment balances to be adjusted are:

Audit fees	R144 000
Trading stock	1 064 200
Rent income	287 300
Directors' fees	852 800

Only the adjustments listed below must still be taken into account.

- Audit fees of R45 600 were still owing on 29 February 2024.
- A donation of 100 blankets costing R402 each was made to children's hospital, but the donation has not been recorded.
- Rent was increased by R1 300 per month from 1 January 2024. Only the rent for the period 1 March 2023 to 31 January 2024 was received and recorded.
- The company had one director, Jenny, at the beginning of the financial year. Jenny had been paid in advance for two months. A second director, Frank, was appointed on 1 December 2023. His monthly fee is 20% lower than that of Jenny. Frank received the fees due to him.

D. Transfer of debtor's balance to Creditors' Ledger:

A debtor with a debit balance of R8 400 in the Debtors' Ledger must still be transferred to his account in the Creditors' Ledger.

E. Loan: PTA Bank

Extract from the Loan Statement from PTA Bank:

Balance on 1 March 2023	R1 400 000
Repayments for the financial year (including interest)	?
Interest capitalised	168 000
Balance on 29 February 2024	1 004 000

NOTE:

- All entries for the repayments and interest have been made.
- Directors expect to maintain the capital repayments made this year, during the next financial year.

F. Income tax:

The assessment from SARS indicated total income tax for the financial year as R351 000, after all adjustments had been made.

G. Share capital and dividends:

DATE	DETAILS
1 March 2023	2 120 000 shares in issue
30 June 2023	230 000 shares repurchased: The average share price was R5,90 at the date of the repurchase
29 February 2024	1 890 000 shares in issue

- Interim dividends were not declared during the financial year.
- Final dividends of 25c per share were declared on 29 February 2024 to all shares in the share register.

5.3 STATEMENT OF FINANCIAL POSITION ON 29 FEBRUARY 2024**ASSETS**

NON-CURRENT ASSETS	10 377 480
Fixed assets	9 952 480
Investment: Fixed deposit	425 000
CURRENT ASSETS	
Cash and cash equivalents	1 956 220
TOTAL ASSETS	

EQUITY AND LIABILITIES

ORDINARY SHAREHOLDERS' EQUITY	
Retained income	
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
TOTAL EQUITY AND LIABILITIES	

30

TOTAL MARKS

55

CASH FLOW STATEMENTS AND FINANCIAL INDICATORS**WORKED EXAMPLE 2: CASH FLOW STATEMENT (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 ...

2.2 OOSWES LTD

Information for the financial year ended 30 June 2023 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 2023:

- % 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 2022, the directors issued a further 80 000 ordinary shares at R12,74.
- On 1 February 2023 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 2023.

C. Extract from the Statement of Comprehensive Income for the year ended 30 June 2023

	R
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 2023:

	2023	2022
	R	R
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.

WORKED EXAMPLE 2: CASH FLOW STATEMENTS & FINANCIAL INDICATORS

- 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	Current Asset ✓
2.1.2	Non - Current Asset ✓
2.1.3	Net working Capital ✓
2.1.4	Statement of comprehensive income ✓

4

2.2 OOSWES LIMITED

- 2.2.1** Prepare the Ordinary Share Capital Note to Statement of Financial Position.

<u>AUTHORISED:</u>		
1 000 000 ordinary shares		
<u>ISSUED:</u>		
900 000 ✓ Operation	Ordinary shares in issue on 1 March 2022	10 809 400 ✓ operation
80 000 ✓	Shares issued during year at R12,74	1 019 200 ✓
(40 000) ✓	Shares repurchased at R12,07 ✓	(482 800) ✓
940 000	Ordinary shares in issue on 28 February 2023	11 345 800

7

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

Income tax

WORKINGS	ANSWER
- 439 650 ✓ ✓ + 16 950 ✓ + 32 700 ✓ Accept alternative arrangements for calculations such as signs reversed, brackets or ledger accounts	(390 000) ✓

5

Proceeds from sale of assets

WORKINGS	ANSWER
13 163 580 ✓ + 185 400 ✓ - 870 600 ✓ - 12 646 080 ✓ Accept alternative arrangements for calculations such as signs reversed, brackets or ledger accounts	167 700 ✓

5

2.2.3 Complete the following sections to the Cash Flow Statement:**CASH EFFECTS FROM FINANCING ACTIVITIES**

CASH FLOW FROM FINANCING ACTIVITIES	
Proceeds from shares issued	1 305 000 ✓
Repurchase of shares	1 019 200 ✓
	(539 200)
Change in loan (2 100 000✓ – 1 275 000✓)	825 000 ✓

5**NET CHANGE IN CASH AND CASH EQUIVALENTS**

NET CHANGE IN CASH AND CASH EQUIVALENTS	566 550
Cash and cash equivalents at beginning of the year (37 500✓ - 213 780✓)	(176 280) ✓
Cash and cash equivalents at end of the year	390 270 ✓

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.**

CRUCIAL DECISION ✓ ✓	EFFECT OF DECISION ✓✓ ✓✓
Fixed assets purchased – R870 600	Leads to capital growth (future productivity)/more assets in the company/improve profit-earning capacity/existing fixed assets may be obsolete
Buy back of shares – R539 200	Keep existing shareholders happy/ disgruntle shareholder can leave/increase share price on market/ improve Nav
Inflow of net change in cash and cash equivalents – R566 550	Get rid of overdraft / addressed the overdraft

6**2.2.5 Calculate the following financial indicators on 30 June 2023:****% return on average capital employed (ROTCE)****(Average capital employed amount to R11 433 075)**

WORKINGS	ANSWER
$\frac{1\,025\,850 + 439\,650 \checkmark \text{ OR } 1\,025\,850 \times 100/70}{11\,433\,075 \checkmark}$ $\frac{1\,465\,500 \checkmark \checkmark + 214\,500 \checkmark}{11\,433\,075 \checkmark}$ $\frac{1}{2} (11\,345\,800 + 498\,700 + 10\,809\,400 + 212\,250) \checkmark \text{ only 1 mark as average capital employed is given}$ <p style="text-align: center;">OR</p> $\frac{1\,680\,000}{11\,433\,075} \times \frac{100^*}{1}$	14,7% ✓

5**Dividends per share**

WORKINGS	ANSWER
$\frac{310\,200}{940\,000} \text{ final div calculation}$ $38c \checkmark + 33c \checkmark \checkmark$	71 cents ✓

4

ACTIVITY 6: FINANCIAL INDICATORS AND CASH FLOW STATEMENT
(35 marks; 30 minutes)

The information relates to Digital Giants Ltd. The financial year ends on 31 March.

REQUIRED:

- 6.1 Calculate the following financial indicators for the financial year ended 31 March 2021:
- 6.1.1 Debt-equity ratio (3)
 - 6.1.2 Net asset value per share (3)
 - 6.1.3 Dividend pay-out rate (4)
 - 6.1.4 Return on average shareholders' equity (ROSHE) (4)
- 6.2 Complete the table in the ANSWER BOOK for the following items for the 2021 Cash Flow Statement. Indicate in EACH case whether it is an *inflow* or an *outflow* of cash.
- 6.2.1 Change in receivables (3)
 - 6.2.2 Change in payables (3)
- 6.3 Calculate the following figures for the 2021 Cash Flow Statement:
- 6.3.1 Taxation paid (4)
 - 6.3.2 Dividends paid (4)
 - 6.3.3 Proceeds from sale of fixed assets (5)
 - 6.3.4 Funds used for the repurchase of shares (2)

INFORMATION:

A. Extract from the Statement of Comprehensive Income for the year ended 31 March 2021:

Depreciation:	R 785 000
On vehicles	475 000
On equipment	310 000
Net profit before tax	3 955 000
Income tax	1 085 000
Net profit after tax	2 870 000

B. Extract from the Statement of Financial Position:

	31 March 2021 R	31 March 2020 R
Fixed assets at carrying value	8 865 000	8 878 000
Inventories	585 700	391 200
Debtors' control	418 000	390 000
Creditors' control	520 000	359 200
Income received in advance	16 000	0
SARS: Income tax	354 000 (Cr)	124 000 (Dr)
Ordinary shareholders' equity	10 387 600	6 910 000
Ordinary share capital	7 280 000	5 950 000
Retained income	3 107 600	960 000
Mortgage loan	2 450 000	2 800 000
Shareholders for dividends	262 400	210 000

C. Shares:

- 700 000 shares were in issue on 31 March 2020.
- 120 000 new shares were issued at R12,60 per share on 1 April 2020.
- 20 000 shares were repurchased on 31 March 2021 for 50% more than the average issue price of R9,10 per share. These shares qualified for final dividends.

D. Dividends paid/declared were as follows for the financial year:

	DATE	DIVIDEND PER SHARE	AMOUNT
Interim	15 August 2020	45 cents	R?
Final	31 March 2021	32 cents	R262 400

E. Fixed assets:

- Extensions to the buildings were completed at a cost of R1 360 000 during the financial year.
- Equipment was sold at carrying value during the financial year.
- No other fixed assets were purchased or sold.

F. Extract: Financial indicators:

	31 March 2021	31 March 2020
Debt-equity ratio	?	0,4 : 1
Earnings per share (EPS)	350 cents	314 cents
Current ratio	2,7 : 1	1,8 : 1

ACTIVITY 6 ANSWERS

6.1.1 Calculate: Debt-equity ratio

WORKINGS	ANSWER

3

6.1.2 Calculate: Net asset value per share

WORKINGS	ANSWER

3

6.1.3 Calculate: Dividend pay-out rate

WORKINGS	ANSWER

4

6.1.4 Calculate: Return on average shareholders' equity (ROSHE)

WORKINGS	ANSWER

4

6.2.1 For the Cash Flow Statement calculate: Change in receivables

WORKINGS	ANSWER	Inflow/Outflow

3

6.2.2 For the Cash Flow Statement calculate: Change in payables

WORKINGS	ANSWER	Inflow/Outflow

3

6.3.1

Calculate: Taxation paid	
WORKINGS	ANSWER

4

6.3.2

Calculate: Dividends paid	
WORKINGS	ANSWER

4

6.3.3

Calculate: Proceeds from sale of fixed assets	
WORKINGS	ANSWER

5

6.3.4

Calculate: Funds used for the repurchase of shares	
WORKINGS	ANSWER

2

TOTAL MARKS
35

ACTIVITY 7: CASH FLOW STATEMENT, FINANCIAL INDICATORS**(40 marks, 35 minutes)**

7.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next the question numbers (7.1.1 to 7.1.3) in the ANSWER BOOK.

7.1.1 % operating expenses on sales is a financial indicator for control over sales.

7.1.2 Operating activities refer to all activities in a business that relates to running and administering the business in earning a profit.

7.1.3 Shareholders for dividends refers to dividends paid to shareholders of the company at the end of a financial year. (3)

7.2 **WILD COST LTD**

The information provided is for the year ended on 29 February 2020.

REQUIRED:

7.2.1 Complete the note for CASH GENERATED FROM OPERATIONS. (9)

7.2.2 Prepare the CASH EFFECTS OF FINANCING ACTIVITIES section of the Cash Flow Statement. (7)

7.2.3 Calculate the following amounts for the Cash Flow Statement:

- Income tax paid (4)
- Dividends paid (7)
- Proceeds on fixed assets sold. (4)

7.2.4 Calculate the following financial indicators on 29 February 2020:

- % Return on average Shareholders' Equity (4)
- Net asset value per share (2)

INFORMATION:**A. Extract from the Income Statement on 29 February 2020.**

Cost of Sales	R 5 468 750
Depreciation	390 000
Interest Expense	452 000
Income tax	420 000
Net profit after tax	980 000

B. Extract from Balance Sheet on 29 February 2020

	2020	2019
Fixed assets	12 750 000	13 995 000
Trade and other receivables (Note 1)	305 800	401 500
Shareholders' Equity	11 161 200	13 168 000
Retained income	1 700 700	1 239 200
Ordinary share capital	9 460 500	11 925 000
Loan: J.J. Bank	3 850 000	3 080 000
Trade and other payables (Note 2)	640 800	1 173 000

Note 1:

Trade and other Receivables	2020	2019
Debtors control	292 400	332 200
SARS (Income Tax)	-	69 300
Accrued Income	13 400	-
	305 800	401 500

Note 2:

Trade and other payables	2020	2019
Creditors control	621 000	963 000
SARS (Income Tax)	19 800	
Shareholders for dividends	?	210 000
	640 800	1 173 000

D. Fixed assets:

Fixed assets were sold at carrying value.

There were no additional fixed assets purchased.

E. Share capital and dividends:

- Authorised share capital: 2 500 000 ordinary shares.
- 1 March 2019: 60% of the shares were in issue.
- 1 June 2019: R397 500 were received for 50 000 additional shares issued.
- 30 August 2019: 360 000 shares were repurchased at R162 000 above the average share price of R7,95.
- Interim dividends were paid during the year.
- On 29 February 2020 a final dividend of R130 900 was declared on 1 190 000 shares.

ACTIVITY 7: CASH FLOW STATEMENT, FINANCIAL INDICATORS

7.1	7.1.1		
	7.1.2		
	7.1.3		
			3

7.2.1	CASH GENERATED FROM OPERATIONS		
	Depreciation	390 000	
	Interest expense	452 000	
	Change in inventory	(915 100)	
	Change in receivables		
	Change in payables		
	Cash generated from operations		9

7.2.2	CASH EFFECT FROM FINANCING ACTIVITIES		
			7

7.2.3 Calculate the following amounts for the Cash Flow Statement.

• Income tax paid		
Workings		Answer
		4
• Dividends paid		
Workings		Answer
		7
• Proceeds on fixed assets sold		
Workings		Answer
		4

7.2.4 Calculate the following financial indicators on 29 February 2020:

• Return on average Shareholders' Equity		
Workings		Answer
		4
• Net asset value per share		
Workings		Answer
		2

ANALYSIS & INTERPRETATION

WORKED EXAMPLE 3 INTERPRETATION OF FINANCIAL STATEMENTS (40 marks; 32 minutes)

The following information relates to Vortex Ltd, a textile company. Their financial year ends on 28 February each year.

NOTE: Where comments or explanations are required, in EACH case, quote financial indicators, figures and trends to support your answer.

REQUIRED:

3.1 Liquidity:

3.1.1 Comment on the change in the liquidity of Vortex Ltd. Quote TWO financial indicators with figures. (6)

3.1.2 Provide TWO suggestions on how the company can improve their liquidity position. Make reference to specific financial indicators. (4)

3.2 Return, earnings and market price on the JSE:

3.2.1 Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures. (4)

3.2.2 The shareholders of Vortex Ltd are not satisfied with the current market price of their shares. Explain by quoting figures/indicators and identify a factor that would have affected the market price of the shares. (4)

3.3 Risk and gearing:

Comment on how Vortex Ltd is managing their risk and gearing. Quote TWO financial indicators in your explanation. (6)

3.4 Dividend pay-out policy:

3.4.1 Calculate the dividend pay-out policy for 2023. (2)

3.4.2 Provide ONE possible reason why Vortex Ltd has decided to change their dividend pay-out policy for 2023. (2)

3.4.3 One of the directors feel that the dividend pay-out policy should have remained constant. Give TWO possible reasons (with figures) for his opinion. (4)

3.5 Percentage shareholding:**Refer to information B:**

An existing shareholder, Liyema Phato has sold some of his shares back to Vortex Ltd:

- 3.5.1 Comment on the price paid for the repurchase by Vortex Ltd. Provide TWO points and quote figures. (4)
- 3.5.2 Calculate Liyema's new % shareholding in Vortex Ltd. (2)
- 3.5.3 Explain the effect of the repurchase on Liyema's % shareholding in the company. Quote trends/ figures to support your explanation. (2)

INFORMATION:**A. FINANCIAL INDICATORS, INTEREST RATES AND MARKET PRICES OF SHARES**

	2023	2022
Mark-up % achieved	60%	
Current ratio	3,1 : 1	2,5 : 1
Average debtor's collection period	45 days	40 days
Earnings per share (EPS)	72 cents	96 cents
Dividends per share	48 cents	48 cents
Dividend pay-out policy	?	50%
Debt-equity ratio	0,6 : 1	0,2 : 1
% return on average equity (ROSHE)	5,3%	8,7%
% return on total capital employed (ROTCE)	9%	13%
Interest rate on loans	12%	12%
Interest rate on investments	6,5%	6,5%
Market price of shares on JSE	840 cents	920 cents
Net asset value per share (NAV)	877 cents	912 cents

B. EXTRACT FROM THE ACCOUNTING RECORDS OF 28 FEBRUARY 2023

	2023	2022
Number of shares in issue	1 950 000	2 100 000
Repurchase price	R11	
Number of shares owned by Liyema Phato at end of year	942 000	1 092 000
% shareholding of Liyema Phato	?	52%

WORKED EXAMPLE 3**3.1 Liquidity:****3.1.1 Comment on the change in the liquidity of Vortex Ltd. Quote TWO financial indicators with figures.**

TWO financial indicators ✓ ✓ Figures (with trend) ✓ ✓ Comment ✓ ✓

- Current ratio; increased from 2,5 : 1 to 3,1 : 1 / by 0,6 : 1.

Increasing trend indicating possible stock-piling/company is not using it's current assets efficiently/may lead to difficulty meeting short-term debts/poor management of working capital.

- Debtor's collection period; increased from 40 days to 45 days.

Debtors are not adhering to credit terms, could lead to cash flow problems.

6**3.1.2 Provide TWO suggestions on how the company can improve their liquidity position. Make reference to specific financial indicators.**

TWO valid points ✓ ✓ ✓ ✓ At least ONE financial indicator quoted

Award part marks for incomplete / partial / unclear responses

Need to improve available cash (current ratio) by promoting sales; better advertising (sales promotion); reduce mark-up % (from 60% to be closer to competitors); mark-down stock to move older stock.

Need to improve collection from debtors to bring this within credit terms, by:

- Reminders (SMS's, e-mails, calls etc.) sent to debtors to make payments.
- Offer discount for early payment.
- Charge interest for late payments / overdue accounts / encourage EFT payments or debit orders (online payments)

4**3.2 Return, earnings and market price on the JSE:****3.2.1 Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.**

Financial indicator (with trend) ✓ ✓ figures with explanation ✓ ✓

- ROSHE decreased from 8,7% to 5,3%. (by 3,4% percentage points/ 39 %)/ compare to alternative investments
- EPS decreased from 96 cents to 72 cents (by 24 cents; by 25%) / representing a drop in profitability.

4

3.2.2 The shareholders of Vortex Ltd are not satisfied with the current market price of their shares. Explain by quoting figures/indicators and identify a factor that would have affected the market price of the shares.

Comparison of MP to NAV is essential (with figures). Part-marks for partial or incomplete answers.

Comparison ✓ Figures ✓

Market price of R8,40 is below NAV of R8,77

Identify factor (figures not required) (any ONE factor) ✓✓: Accept other valid alternatives

- The decline in earnings has led to a decline in the share price on the JSE (from 920 cents to 840 cents)
- Low demand or reluctance to buy shares in this company / ROSHE decreased / poor image of company or directors / lack of confidence in management

4

3.3 Risk and gearing:

Comment on how Vortex Ltd is managing their risk and gearing. Quote TWO financial indicators in your explanation.

Financial indicator ✓✓ trend with figures ✓✓

Debt/equity ratio increased to 0,6 : 1 from 0,2 : 1 / by 0,4 : 1

ROTCE decreased to 9% from 13% / by 30,1% / 4% points

Comment:

- Reckless borrowing / taking no action to use the funds productively The business is now highly geared / high reliance on loans ✓
- Negatively geared / ROTCE (9%) is lower than the interest rate on loans (12%) ✓

6

3.4 Dividend pay-out policy:

3.4.1 Calculate the dividend pay-out policy for 2023.

$48/72 \times 100/1 = 66,7\%$ ✓*✓

*one part correct (Accept 67 %) (or compare 48c vs 72c)

2

3.4.2 Provide ONE possible reason why Vortex Ltd has decided to change their dividend pay-out policy for 2023.

Any ONE valid reason ✓✓

Award part marks for incomplete / partial / unclear responses

- The DPS was kept constant at 48c, although there was a decrease in the EPS (from 96c to 72c) to try and keep the shareholder satisfied
- Divert attention from the poor performance of the company
- Directors to be re-elected
- To try and create favour in the market to increase demand on JSE and push up share prices.

2

3.4.3 One of the directors feel that the dividend pay-out policy should have remained constant. Give TWO possible reasons (with figures) for his opinion.

Any TWO valid reasons (with figures/financial indicators) ✓✓ ✓✓

Award part marks for incomplete / partial / unclear responses

- A drop in the EPS (from 96 cents) to 72 cents (by 24 cents / 25%) and an unchanged DPS at 48 cents has effectively increased the dividend pay-out policy/rate from 50% to 60% (by 17%/34%)
- A constant pay-out rate at 50% would have resulted in a lower DPS of 36 cents (by 12 cents / 25%) in line with the decrease in the EPS.
- If the pay-out policy remained constant, the company would have been able to retain 50% of the EPS (instead of only 33%); to focus on long-term growth of the business.

4

3.5 Percentage shareholding:

3.5.1 Comment on the price paid for the repurchase by Vortex Ltd. Provide TWO points and quote figures.

Any TWO valid points (with figures/financial indicators) ✓✓ ✓✓

Comparison of buyback price with either NAV or Market price

Award part marks for incomplete / partial / unclear responses

Paid R11.00 which is unfair to the existing shareholders

- It is higher than the marker price of R8.40 / R9.20
- It is higher than the NAV of R8.77 / R9.12
- Depleting the company's financial resources / directors are exercising poor management of cash/ possible fraudulent transaction

4

3.5.2 Calculate Liyema's new % shareholding in Vortex Ltd.

$$942\,000 / 1\,950\,000 \times 100 / 1 = 48,3\% \quad \checkmark^* \checkmark$$

*one part correct

(Accept 48%)

2

3.5.3 Explain the effect of the repurchase on Liyema's % shareholding in the company. Quote trends/ figures to support your explanation.

Explanation on % shareholding ✓ comparative figures ✓

Liyema has lost his majority share status; his % shareholding decreased from 52% to 48,3% / by 3,7% points / by 7,1% (see 3.5.2)

2

ACTIVITY 8: INTERPRETATION OF COMPANY INFORMATION**(35 marks; 25 minutes)**

You are presented with financial information of two companies operating in the same industry and of similar size, for the year ended 29 February 2020.

REQUIRED:

NOTE: Provide figures, financial indicators or calculations in EACH case to support your comments and explanations.

- 8.1 Compare the liquidity position of both companies and comment on the company that is managing the short term assets more effectively. (6)
- 8.2 Compare the dividend pay-out policy of each company. (4)
Provide TWO possible reasons why one company decided to change their policy. (4)
- 8.3 Lock Ltd decided to increase their loans during the current financial year, whilst Down Ltd decided to maintain their existing loans. Comment on the decisions of both companies. Make reference to the degree of risk and gearing (8)
- 8.4 A shareholder of Down Ltd is concerned about the drop in the market price of the shares. Explain why he feel this way. Provide TWO points. (4)
- 8.5 M. Mtolo owns 576 000 shares in Down Ltd, which represents 48% of the total issued shares. He wants to purchase another 25 000 shares. Do a calculation to show how this would change his % shareholding in the company. (5)
- Provide TWO reasons why you think he is specifically interested in increasing his shareholding in Down Ltd. (4)

INFORMATION:

	LOCK LTD		DOWN LTD	
	2020	2019	2020	2019
Current ratio	1,9 : 1	2,1 : 1	3,6 : 1	2,8 : 1
Acid test ratio	1,3 : 1	1,4 : 1	1,5 : 1	1,5 : 1
Dividends per share	45 cents	65 cents	60 cents	62 cents
Earnings per share	86 cents	80 cents	70 cents	72 cents
% return on average equity	13%	11%	11,6%	12%
% return on average capital employed	15%	12%	11,7%	13%
Debt/equity ratio	0,6 : 1	0,3 : 1	0,4 : 1	0,4 : 1
Net asset value per share	642 cents	630 cents	610 cents	618 cents
Market price per share	645 cents	622 cents	582 cents	615 cents
Interest rate on loans	13%		13%	

ACTIVITY 8: INTERPRETATION OF COMPANY INFORMATION

- 8.1 Compare the liquidity position of both companies and comment on the company that is managing the short term assets more effectively.

LOCK LTD	
DOWN LTD	
COMMENT	

6

- 8.2 Compare the dividend pay-out policy of each company.

LOCK LTD	
DOWN LTD	

4

Provide TWO possible reasons why one company decided to change their policy.

--

4

- 8.3 Lock Ltd decided to increase their loans during the current financial year, whilst Down Ltd decided to maintain their existing loans. Comment on the decisions of both companies. Make reference to the degree of risk and gearing

LOCK LTD	
DOWN LTD	

8

- 8.4 A shareholder of Down Ltd is concerned about the drop in the market price of the shares. Explain why they feel this way. Provide TWO points.

4

- 8.5 M. Mtolo owns 576 000 shares in Down Ltd, which represents 48% of the total issued shares. He wants to purchase another 25 000 shares.

Do a calculation to show how this would change his % shareholding in the company.

5

Provide TWO reasons why you think he is specifically interested in increasing his shareholding in Down Ltd.

4

Activity 9: INTERPRETATION OF FINANCIAL INFORMATION**(40 marks; 30 minutes)****9.2 FLEXI LTD AND BROOM LTD**

The information relates to two companies.

BACKGROUND INFORMATION:

- Both companies operate in the fashion clothing industry. The financial year ends on the last day of February each year.
- Bob Yates owns shares in both companies. On 1 November 2020, he convinced the board of directors of Flexi Ltd to repurchase 150 000 of his shares. He used the money received to purchase additional shares in Broom Ltd.

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

REQUIRED:**9.2.1 Profitability:**

Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently, and is thereby more profitable. (4)

9.2.2 Dividends, earnings and returns:

- Comment on the dividend pay-out policy of **Flexi Ltd**. Explain why this is an irresponsible change in policy. Provide TWO points. (4)
- Comment on the % return on shareholders' equity of EACH company. (4)
- A shareholder feels that earnings per share (EPS) in **Broom Ltd** are better than that in **Flexi Ltd**. Explain why you agree with him. (4)

9.2.3 Shareholding of Bob Yates in both companies:

- Comment on the price paid for the shares repurchased by **Flexi Ltd**. Provide TWO points. (4)
- Calculate the number of shares that Bob purchased in **Broom Ltd** with the money he received from the share buyback at **Flexi Ltd**. (2)
- Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. (4)

9.2.4 Financing strategies and gearing:

The directors of each company have taken deliberate decisions that are reflected in their Cash Flow Statements.

- Explain the decisions taken by the directors of **Broom Ltd** and how these will benefit the company. (4)
- Explain how the decisions taken by **Flexi Ltd** affected the risk and gearing of the business. Quote TWO financial indicators. (6)

INFORMATION:**A. Extracts from the accounting records at the end of each year:**

	FLEXI LTD		BROOM LTD	
	Feb. 2021	Feb. 2020	Feb. 2021	Feb. 2020
Number of shares in issue	700 000	850 000	1 500 000	1 100 000
Funds used to repurchase shares	R1 980 000			
Repurchase price	R13,20			
Increase in share capital	0		R2 640 000	
Issue price of additional shares			R6,60	
Fixed assets purchased	R1 000 000		R2 200 000	
Increase (decrease) in loan	R4 500 000		(R400 000)	

B. Financial indicators, interest rate and market price of shares:

	FLEXI LTD		BROOM LTD	
	Feb. 2021	Feb. 2020	Feb. 2021	Feb. 2020
% operating expenses on sales	17,5%	14,6%	13,6%	17,0%
% operating profit on sales	18,2%	21,9%	24,2%	20,5%
% net profit on sales	13,8%	18,0%	19,6%	16,0%
Debt-equity ratio	1,1 : 1	0,4 : 1	0,2 : 1	0,4 : 1
% return on capital employed	10,2%	16,1%	17,2%	14,7%
% return on shareholders' equity	7,6%	12,2%	14,1%	10,7%
Net asset value per share	1 081 cents	1 128 cents	632 cents	609 cents
Market price of shares	990 cents	1 130 cents	660 cents	615 cents
Interest rate on loans	13%	13%	13%	13%
Earnings per share	80 cents	138 cents	72 cents	65 cents
Dividends per share	92 cents	82 cents	48 cents	70 cents
Dividend pay-out rate	115%	59%	67%	108%

C. Shareholding of Bob Yates in both companies

	FLEXI LTD		BROOM LTD	
	2021	2020	2021	2020
Shares in each company	283 500	433 500	?	460 000
% shareholding in each company	?	51,0%	?	41,8%

Activity 9**9.2 FLEXI LTD AND BROOM LTD****9.2.1 Profitability:**

Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently and is thereby more profitable. Quote figures and trends.

4

9.2.2 Dividends, earnings and returns:

Comment on the dividend pay-out policy of Flexi Ltd. Explain why this is an irresponsible change in policy. Provide TWO points. Quote figures and trends.

4

Comment on the % return on shareholders' equity of EACH company. Quote figures and trends.

4

A shareholder feels that earnings per share (EPS) in Broom Ltd are better than that in Flexi Ltd. Explain why you agree with him. Quote figures or calculations.

4

9.2.3 Shareholding of Bob Yates in both companies:

Comment on the price paid for the shares repurchased by Flexi Ltd. Provide TWO points. Quote figures.

4

Calculate the number of shares that Bob purchased in Broom Ltd with the money he received from the share buyback at Flexi Ltd.

WORKINGS	ANSWER

2

Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. Quote figures and trends.

4

9.2.4 Financing strategies and gearing:

Explain the decisions taken by the directors of Broom Ltd and how these will benefit the company. Quote figures.

4

Explain how the decisions taken by Flexi Ltd affected the risk and gearing of the business. Quote TWO financial indicators.

6

ACTIVITY 10: INTERPRETATION OF FINANCIAL STATEMENTS AND CORPORATE GOVERNANCE (45 marks; 35 minutes)

- 10.1 Choose a description from COLUMN B that matches the type of director in COLUMN A. Write only the letter (A–C) next to the question numbers (10.1.1 to 10.1.3) in the ANSWER BOOK, e.g. 10.1.4 D.

COLUMN A	COLUMN B
10.1.1 Executive director	A member of the board but not responsible for daily management functions
10.1.2 Delinquent director	B member of board who also has management responsibilities
10.1.3 Non-executive director	C found guilty of serious misconduct

(3 x 1) (3)

10.2 LIBRA LIMITED

The business trades in computer hardware and software from international companies. The information relates to the past two financial years, ended 30 April. Anton Buys is the CEO and there are five other directors in the company.

REQUIRED:
10.2.1 Refer to Information A.

The current ratio and acid-test ratio show that the company's liquidity position has deteriorated over the past two financial years.

Identify TWO other liquidity indicators which also show that the company is likely to have serious liquidity concerns in future. Explain ONE point in EACH case (with figures).

(4)

10.2.2 Refer to Information A and B.

The company increased the loan to finance the purchase of additional property in a new suburb. They hoped that this would improve the demand for their products.

- Comment on how the increase in the loan affected the risk and gearing in 2021. Quote TWO financial indicators. State ONE point in EACH case (with figures). (6)
- Explain whether the decision to purchase additional property had the desired effect on demand for this product (with figures). (3)

- 10.2.3 Explain why the public are still not interested in buying the new shares issued at R6,00 per share in April 2021. Quote THREE financial indicators (excluding indicators stated in QUESTION 10.2.2). State ONE point in EACH case (with figures). (9)

10.2.4 Refer to Information A and D.

At the AGM, many shareholders complained that the Remunerations Committee had been negligent in their duties and that Anton Buys did not deserve the fees that he was paid as CEO. State TWO different points to justify their opinion. Quote figures or financial indicators. (4)

10.2.5 Refer to Information A, B and C.

- Explain why the other directors were unhappy with the price paid for the shares repurchased from Anton Buys. State TWO points. Quote financial indicators or figures to support EACH point. (4)
- Give a calculation to show whether the repurchase of these shares affected Anton Buys' status as majority shareholder, or not. (3)

10.2.6 Refer to Information E.

- Explain what is meant by *good corporate governance* and explain why it is important to the shareholders. (3)
- Explain a possible reason why Anton Buys says he will vote against the proposal by Excellence Ltd. (2)
- The other directors feel that Anton Buys is abusing his position as CEO and majority shareholder.
 - Explain why you agree with them. (2)
 - Give the directors advice on how they should handle this. (2)

INFORMATION:**A. Financial indicators on 30 April:**

	2021	2020
Mark-up % achieved	60%	75%
% operating expenses on sales	44,1%	32%
Solvency ratio	1,8 : 1	2,1 : 1
Debt-equity ratio	0,7 : 1	0,2 : 1
Current ratio	0,6 : 1	1,1 : 1
Acid-test ratio	0,3 : 1	0,8 : 1
Stockholding period	78 days	43 days
Average debtors' collection period	58,9 days	32,6 days
Average creditors' payment period	75,6 days	63,6 days
Earnings per share	54 cents	102 cents
Dividends per share	25 cents	90 cents
Net asset value per share	732 cents	711 cents
Return on average shareholders' equity	4,9%	5,3%
Return on average capital employed	6,4%	9,1%

B. Additional information:

	2021	2020
Sales	R8 976 000	R11 550 000
Market price of shares on stock exchange	580 cents	610 cents
Interest rate on loans	12%	12%
Interest rate on fixed deposit	8%	8%

C. Share capital and shareholding of Anton Buys:

	2021	2020
Number of authorised shares	5 000 000 shares	
Number of shares in issue	2 450 000	2 400 000
Number of shares owned by shareholder, Anton Buys	1 240 000	1 270 000

- On 30 April 2020, the company had 2 400 000 shares in issue.
- At the directors' meeting on 1 May 2020, it was decided to repurchase 30 000 shares from the CEO, Anton Buys, at R12,00 per share. None of the other five directors supported this decision.
- A further 80 000 shares were issued on 30 June 2020. The listed issue price of the purchase was originally R6,00 per share. Due to a poor response from the public at this price, the directors agreed to sell these shares at R4,80 per share.

D. Directors' fees:

	2021	2020
Director's fees paid to CEO	R2 900 000	R2 000 000
Total fees paid to 5 other directors	R3 000 000	R3 000 000

E. Proposal to purchase the unissued shares:

- Excellence Limited is a respected company with a reputation for **good corporate governance**. They have made an offer to purchase the remaining 2 550 000 shares in this company at a price which is considerably more than the current market value.
- Anton Buys says that he will **vote against this proposal**. The other directors feel strongly that this offer is very generous. They are in favour of accepting the offer.

QUESTION 10**10.1**

10.1.1	
10.1.2	
10.1.3	

3

10.2 LIBRA LIMITED

10.2.1 Identify TWO other liquidity indicators which also show that the company is likely to have serious liquidity concerns in future. Explain ONE point in EACH case (with figures).

POINT 1	
POINT 2	

4

10.2.2 Comment on how the increase in the loan affected the risk and gearing in 2021. Quote TWO financial indicators. State ONE point in EACH case (with figures).

POINT 1	
POINT 2	

6

Explain whether the decision to purchase additional property had the desired effect on demand for this product (with figures).

3

- 10.2.3 Explain why the public would still not be interested in buying new shares at R6,00 per share in April 2021. Quote THREE financial indicators (excluding indicators stated in QUESTION 11.2.2). State ONE point in EACH case (with figures).**

POINT 1	
POINT 2	
POINT 3	

9

- 10.2.4 State TWO different points to justify their opinion. Quote figures or financial indicators.**

POINT 1	
POINT 2	

4

- 10.2.5 Explain why the other directors were unhappy with the price paid for the shares repurchased from Anton Buys. State TWO points. Quote financial indicators or figures to support EACH point.**

POINT 1	
POINT 2	

4

Give a calculation to show whether the repurchase of these shares affected Anton Buys' status as majority shareholder, or not.

WORKINGS	ANSWER

3

CORPORATE GOVERNANCE**ACTIVITY 11: AUDIT REPORT AND CORPORATE GOVERNANCE****(15 marks; 10 minutes)**

An extract of an article from a recent publication is presented. Use the information, as well as your general knowledge on companies to answer the questions.

REQUIRED:

- 11.1 South African Institute of Chartered Accountants (SAICA) is a professional body that is responsible for the delivery of quality accountancy skills.
Explain why its members must be qualified Chartered Accountants. (2)
- 11.2 Provide ONE reason why SAICA would treat this matter with such seriousness. (2)
- 11.3 State TWO reasons why directors are expected to have the qualities that Mango is accused of not possessing (having). (2)
- 11.4 If you were a shareholder of Orange Ltd, provide THREE different questions that you would raise at a meeting of shareholders concerning this matter. In EACH case, state a reason for your question. (9)

INFORMATION:**“SAICA ACTS ON CFO”**

O. Mango, the former Chief Financial Officer (CFO) of Orange Ltd was heavily implicated in corrupt activities involving billions of Rand. Two years after an official complaint by a lobby group, SAICA found Mango guilty of 15 charges and formally terminating his membership, effectively striking him from the roll and preventing him from practicing as a Chartered Accountant (CA). Mango refused to attend any of the disciplinary hearings.

The charges against Mango related to his role in procuring (the purchase) over 1 000 diesel vehicles for field workers, which started in 2016. These vehicles were “overpriced” and the company lost billions of Rand to corruption. It was established that mango was hands-on throughout this deal, often negotiating with the service providers. He got the deal approved at R25 billion, then after the contracts were signed, he inflated this by an additional R15 billion.

SAICA found Mango to be grossly negligent, dishonest, and lacked accountability. These were considered to be a serious breach of the SAICA code of conduct while holding a senior position at the company, resulting in them experiencing a substantial financial loss.

15

QUESTION 11:

11.1 Explain why its members must be qualified Chartered Accountants.

2

11.2 Provide ONE reason why SAICA would treat this matter with such seriousness.

2

11.3 State TWO reasons why directors are expected to have the qualities that Mango is accused of not possessing.

2

11.4 If you were a shareholder of Orange Ltd, provide THREE different questions that you would raise at a meeting of shareholders concerning this matter. In EACH case, state a reason for your question.

Questions to be raised at meeting	Reason for raising the question

9

ACTIVITY 12: CORPORATE GOVERNANCE**(15 marks; 15 minutes)**

- 12.1 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)

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

- 12.3 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)

15

ACTIVITY 12**12.1 Audit reports**

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

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

4

12.3 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	

6

PAPER 2 TOPICS

INVENTORY**ACTIVITY 13: STOCK VALUATION****(35 marks; 30 minutes)**

13.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question numbers (13.1.1 to 13.1.4) in the ANSWER BOOK.

13.1.1 The (specific identification/first-in first-out) method assumes that the closing stock is valued at the most recent batches purchased.

13.1.2 The (periodic/perpetual) system requires a year-end stock count to be able to calculate cost of sales.

13.1.3 The (weighted-average/first-in first-out) method is suitable for similar goods that are bought in bulk.

13.1.4 The (periodic/perpetual) system requires that all products are scanned at the point of sale.

(4)**13.2 GWEN BOUTIQUE**

The information relates to ALUZE bags for the financial year ended 28 February 2021. The business uses the first-in first-out method to determine the value of these bags. The periodic inventory system is in use.

REQUIRED:

13.2.1 Calculate the following for the year ended 28 February 2021:

- Value of the closing stock
- Cost of sales

(5)**(5)**

13.2.2 **Stockholding period:**

- Calculate the average stockholding period (in days).
- Explain whether Gwen should be satisfied with this figure, or not. State TWO points.

(5)

NOTE: The average stockholding period on 29 February 2020 was **52 days**.

(4)**13.3 PROBLEM-SOLVING****Refer to Information D.**

Gwen Boutique also sells jackets and jerseys. Gwen has provided the information and requested advice.

Identify TWO problems in EACH product for 2021. In each case, give ONE piece of advice to address the problem identified.

(12)

INFORMATION:**A. Stock balances:**

DATE	UNITS	TOTAL VALUE (including carriage)
1 March 2020	420	R68 120
28 February 2021	380	?

B. Purchases and returns for the year:

DATE	UNITS	UNIT COST	TOTAL PURCHASE AMOUNT	CARRIAGE COST (per bag)	TOTAL COST (including carriage)
30 Jun. 2020	500	R155	R77 500	R12	R83 500
31 Oct. 2020	750	R160	R120 000	R13	R129 750
15 Feb. 2021	320	R170	R54 400	R15	R59 200
TOTAL	1 570				R272 450
Returns	20				R3 700

C. Sales:

Total sales amounted to R393 750 (1 590 bags).

D. Problem-solving:

	JACKETS		JERSEYS	
	2021	2020	2021	2020
Units: Opening stock	407	120	218	200
Units: Purchases	800	800	1 800	2 200
Units sold (gross) All sales are for cash.	550	500	1 970	2 260
Units returned by customers	0	0	90	78
Units: Closing stock	615	407	138	218
Stock turnover rate	0,9	1,9	10,6	10,4
Mark-up % achieved	75%	50%	25%	25%
	R	R	R	R
Cost price per item	360,00	360,00	170,00	160,00
Selling price	630,00	540,00	212,50	200,00
Income from sales deposited in the bank	346 500	268 920	349 500	436 400

QUESTION 13

13.1

13.1.1	
13.1.2	
13.1.3	
13.1.4	

4

13.2.1

Calculate: Value of the closing stock	
WORKINGS	ANSWER
Calculate: Cost of sales	
WORKINGS	ANSWER

5

5

13.2.2

Calculate the average stockholding period (in days).	
WORKINGS	ANSWER
Explain whether Gwen should be satisfied with this figure, or not. State TWO points. NOTE: The average stock turnover period on 29 February 2020 was 52 days.	

5

4

13.3 PROBLEM-SOLVING

	PROBLEM FOR 2021 (with figures)	ADVICE
JACKETS	PROBLEM 1	
	PROBLEM 2	
JERSEYS	PROBLEM 1	
	PROBLEM 2	

12

ACTIVITY 14 INVENTORY VALUATION (35 marks; 28 minutes)**INVENTORY VALUATION**

The information relates to Cell Scene Ltd. Nadine is the chief executive officer (CEO). The financial year ended on 29 February 2024.

- Cell Scene Ltd buys and sells two models of cellphones. **CLEO** is more expensive, while **BRUMA** is a basic and cheaper phone.
- All stock is valued using the specific identification valuation method.
- All goods are sold for cash or on credit card.
- There were no units missing during the year due to effective internal control measures.

REQUIRED:

- 14.2 In addition to the two models of cellphones currently being sold, the directors are investigating whether a 3rd model, the **LITCHI**, should be imported from the USA. The first batch to be ordered would consist of 300 LITCHI phones. **See Information A.** Calculate the expected cost price of one LITCHI phone in rands per unit. (5)
- 14.3 Calculate the total value of the closing stock of the **CLEO** and **BRUMA** phones on 29 February 2024, using the specific identification method. (6)
- 14.4 Calculate the average stock turnover rate for the **CLEO** phone for 2024. (6)
- 14.5 The directors took decisions to adjust the mark-up % on **CLEO** and **BRUMA** phones for the 2024 financial year. Explain how these decisions impacted on the gross profit and cash flow of the company as well as on the stock turnover rate of each model over the past two years. Quote figures and trends. (8)
- 14.6 If the directors go ahead with the **LITCHI** phones and order a lot more in the future and sell it at a mark-up of 40% on cost, how could this impact on the sales of the **CLEO** and **BRUMA** phones? Explain, quoting figures to support your opinion. (4)

INFORMATION:**A. SUGGESTED IMPORTING OF THE LITCHI PHONES**

Unit price in US dollars	\$280
Number of LITCHI phones in first batch ordered	300 units
Exchange rate	\$1,00 = R17,50
Customs duty/taxes to be paid on delivery	12%
Total shipping costs from the USA to South Africa	R303 600

B. EXTRACT FROM THE STOCK & SALES RECORDS

	CLEO		BRUMA	
	2024	2023	2024	2023
Units on hand at beginning of year	270	400	200	300
Units purchased	2 265	1 345	2 450	2 440
Units sold during the year	2 180	1 475	1 730	2 540
Units on hand at end of year	?	270	920	200
Value of closing stock at year-end	?	R2 160 000	?	R400 000
Cost price per unit	R8 000	R8 000	R2 500	R2 000
Selling price per unit	R11 200	R12 000	R4 250	R3 000
% mark-up	40%	50%	70%	50%
Total sales	R24 416 000	R17 700 000	R7 352 500	R7 620 000
Gross profit	R6 976 000	R5 900 000	R3 027 500	R2 540 000
Stock turnover rate	?	4,4 times	3,1 times	10,2 times

ACTIVITY 14 INVENTORY VALUATION**14.2 Calculate the expected cost price of one LITCHI phone in rands per unit.**

WORKINGS	ANSWER

5

14.3 Calculate the total value of the closing stock of the CLEO and BRUMA phones on 29 February 2024, using the specific identification method.

MODEL	WORKINGS	ANSWER
CLEO		
BRUMA		
TOTAL		

6

14.4 Calculate the average stock turnover rate for the CLEO phone for 2024.

WORKINGS	ANSWER

6

- 14.5 The directors took decisions to adjust the mark-up % on CLEO and BRUMA phones for the 2024 financial year. Explain how these decisions impacted on the gross profit and cash flow of the company as well as on the stock turnover rate of each model over the past two years. Quote figures and trends.

	CLEO	BRUMA
Explanation on gross profit & cash flow		
Explanation on stock-turnover rates		

8

- 14.6 If the directors go ahead with the LITCHI phones and order a lot more in the future and sell it at a mark-up of 40% on cost, how could this impact on the sales of the CLEO and BRUMA phones? Explain, quoting figures to support your opinion.

4

RECONCILIATION**Activity 15 BANK RECONCILIATION & INTERNAL CONTROL (20 marks; 15 minutes)**

The following information relates to Mashau Traders for July 2024. The Bank statement shows transactions up to the 25th of July 2024 and the business completes the Bank Reconciliation after receiving the statement.

REQUIRED:

- 15.1 Show the entries that must be recorded in the Cash Journals by completing the table provided in the ANSWER BOOK. (8)
- 15.2 Calculate the Bank Account balance on 31 July 2024. (3)
- 15.3 Prepare the Bank Reconciliation Statement on 31 July 2024. (7)
- 15.4 **Refer to information C.**
What would be the consequences for the business if they do not alert the bank about the deposit of R9 800 on 25 July 2024? Provide ONE point. (2)

INFORMATION:**A. Bank Reconciliation Statement on 30 June 2024:**

Favourable balance as per Bank Statement	R18 400
Outstanding deposit (28 June 2022)	R12 730
Outstanding EFTs:	
No. 632	R13 200
No. 633	R2 630
Favourable balance as per Bank Account in the Ledger	R15 300

B. The provisional totals in the Cash Journal were as follows on 31 July 2024:

- Cash Receipts Journal, R510 600.
- Cash Payments Journal, R486 300.

C. Information from the Bank Statement that did not appear in the Cash journals:

DATE	DETAILS	DEBIT	CREDIT
June 29	Deposit		R12 730
29	EFT- 632	R13 200	
30	Deposit		R6 250
July 01	EFT- 633	R6 230	
05	Sello Insurers	R1 850	
05	Sello Insurers	R1 850	
15	Debit card withdrawal	R1 000	
20	Transaction fees	R1 425	
24	Interest on current account		R290
25	Telkom Administrators		R9 800

- The deposit on 30 June was for rent from a tenant, G. Maphoto.
- EFT No. 633 on 1 July, appeared correctly on the Bank Statement.
- A debit order on the 5th of July, R1 850 for the monthly insurance, appeared twice on the Bank Statement, but no entry has been made in the Journals. The bank will rectify this on the Bank Statement next month.
- Debit card withdrawals on the 15th of July was for a windscreen repair to the business' vehicle. The driver did not submit the slip to the bookkeeper.
- The deposit on the 25th of July was incorrectly deposited in Mashau Traders' account. The bank was notified.

D. The following entries were in the Cash Journals for July 2024 only.

- A deposit of R10 000 (29 July 2024)
- EFT No. 655, R5 650
- EFT No. 656, R1 445

E. Bank Statement balance on 31 July 2024 was...?

Activity 15 BANK RECONCILIATION & INTERNAL CONTROL

15.1

TOTAL RECEIPTS	TOTAL PAYMENTS
510 600	486 300

8

15.2

Calculate the Bank Account balance on 31 July 2024.

WORKINGS	ANSWER
15 300	

3

15.3

BANK RECONCILIATION STATEMENT ON 31 JULY 2024

	ONE COLUMN	DEBIT	CREDIT

7

15.4

What would be the consequences for the business if they do not alert the bank about the deposit of R9 800 on 25 July 2024? Provide ONE point.

2

TOTAL MARKS: 20

Activity 16: BANK RECONCILIATION**(30 marks; 25 minutes)**

The information relates to Shooter Stores for July 2024. The business uses the official bank statement which is received on the 25th of each month.

REQUIRED:

- 16.1 Show the entries that must be recorded in the Cash Journals by completing the table provided in the ANSWER BOOK. (10)
- 16.2 Calculate the Bank Account balance in the General Ledger of the business. (4)
- 16.3 Prepare the Bank Reconciliation Statement on 31 July 2024. (8)
- 16.4 Explain TWO problems relating to deposits. Quote evidence. Explain TWO strategies to prevent this in future. (8)

INFORMATION:

- A. The following information appears on the Bank Reconciliation Statement on 30 June 2024:**

Unfavourable balance on the Bank Statement		R71 200
Outstanding deposits:	Dated 18 June 2024	88 000
	Dated 29 June 2024	12 400
Outstanding EFTs:	EFT 121 (ABC Stationers)	2 100
	EFT 122 (Curo Stores)	6 700
Unfavourable balance on the Bank Account		20 400

NOTE:

An investigation shows that the deposit of R12 400 dated 29 June 2024 was never deposited in the bank. The previous bookkeeper could not be found. This must be written off.

- B. Cash Journal totals on 31 July 2024 before receiving the Bank Statement:**

Cash Receipts Journal	Cash Payments Journal
R108 000	R36 800

- C. Extract from the June Bank Statement:**

Details	Debit	Credit
Deposit (29 June 2024)		88 000
EFT 121(ABC Stationers)	1 200	
EFT 122 (Curo Stores)	6 700	
Happy Couriers (EFT 129)		2 000
Debit order (Secure Insurers)	1 800	
Debit order (Secure Insurers)	1 800	
Direct deposit (K.P. Botha)		11 000
Interest	650	
Transaction fees	450	

- (i) EFT 121 (to ABC Stationers) is correct on the Bank Statement.
- (ii) EFT 129 (to Happy Couriers) appears on the wrong side of the Bank Statement.
- (iii) Debit order for the business insurance from Secure Insurers was deducted twice by the bank since there were not enough funds available in June 2024. The payments for June and July 2024 are now up to date.
- (iv) The direct deposit by K.P Botha was for monthly rent.

D. Entries in the Cash Journals for July 2024 that do not agree with the June Bank Statement:

- Deposit on 28 July 2024: R27 900
- EFT 205: R5 100
- EFT 206: R7 200

E. A debtor made an EFT payment of R7 000 on 30 July 2024 in settlement of his account of R7 700. No entry was made in the books.

F. Bank Statement balance on 31 July 2024?

Activity 16 BANK RECONCILIATION

16.1	CASH RECEIPTS JOURNAL	CASH PAYMENTS JOURNAL	
	108 000	36 800	
			10

16.2	Bank Account balance in the General Ledger on 31 July 2024		
	WORKINGS	ANSWER	
			4

16.3	BANK RECONCILIATION STATEMENT ON 31 JULY 2024			
		DEBIT	CREDIT	
				8

16.4	Explain the problem relating to deposits. Quote evidence.	
	Explain TWO strategies to prevent this in future.	
		6

Activity 17 CREDITORS RECONCILIATION**(12 marks; 10 minutes)**

This information relates to Amahle Traders. They buy goods on credit from Anna Suppliers.

REQUIRED:

- 17.1** Use the table provided in the ANSWER BOOK to show changes to the Creditors' Ledger account of Anna Suppliers in the books of Amahle Traders and the statement of account received from Anna Suppliers, to consider the differences identified.

Indicate a '+' or '-' next to each amount.

(8)

- 17.2** The internal auditor insists that direct payments (EFT) must be used to pay suppliers.

- Provide one reason to support her decision.
- Provide one internal procedure to ensure control over this system.

(2)**(2)****INFORMATION:****A. Creditors ledger of Amahle Traders:****ANNA SUPPLIERS****FOL CL12**

DATE	DETAILS	DEBIT	CREDIT	BALANCE
2024	1	Balance		67 500
Aug	10	Invoice 209	81 000	
		EFT	33 750	
	17	Debit note 674	8 640	
		Invoice 282	40 950	
		Invoice 301	25 000	
	21	Invoice 360	50 250	
	24	Debit note 995	8 100	
	27	Journal voucher 570	5400	
	31	EFT	77 190	147 820

B. Statement of account from Anna Suppliers**AMAHLE TRADERS**

24 February 2024

103 Mevas Road

DATE	DETAILS	DEBIT	CREDIT	BALANCE
2024	1	Balance		67 500
Aug	10	Invoice 209	81 000	
		Receipt 695	33 750	
	17	Credit note 741	6 840	
		Invoice 301	25 000	
	21	Invoice 360	20 250	
	24	Credit note 811	8 100	145 060

C. Differences noted:

- (i) The incorrect entry for debit note 674 in the creditors ledger account of Anna Suppliers related to the credit note 741 on the statement. The statement of account is correct.
- (ii) Invoice 282 was incorrectly reflected in the account of Anna Suppliers in the creditor's ledger. The goods were purchased from Last Born Suppliers
- (iii) Invoice 360 was incorrectly recorded on the statement from Anna Suppliers.
- (iv) Anna Suppliers also purchased goods on credit from Amahle Traders, Amahle Traders has transferred a debit balance from the debtor's ledger (Journal voucher 570). Anna Suppliers will offset this in the next statement.
- (v) The transaction on 24 August 2024 is for merchandise returned to Anna Suppliers.
- (vi) The statement reflects transactions up to 24 August 2024.

30

Activity 17 CREDITORS RECONCILIATION**(12 marks; 10 minutes)****17.1**

	CREDITORS' LEDGER	STATEMENT OF ACCOUNT
	147 820	145 060
(i)		
(ii)		
(iii)		
(iv)		
(v)		
(vi)		

8

17.2**Provide one reason to support her decision.**

2

Provide one internal procedure to ensure control over this system.

2

TOTAL MARKS**12**

Activity 18 RECONCILIATION AND AGE ANALYSIS**(35 marks: 30 minutes)****18.1 BANK RECONCILIATION****BUHLE STORES:** The following information relates to Buhle Stores for May 2024.**REQUIRED:**

- 18.1.1 Calculate the correct totals in the cash journals on 31 May 2024. (10)
- 18.1.2 Calculate the correct balance of the bank account on 31 May 2024. (5)
- 18.1.3 Prepare the Bank Reconciliation Statement on 31 May 2024. (7)
- 18.1.4 Mr Pooh Paddy is the finance clerk at Buhle Stores. He has been responsible for all finance activities by himself since the inception of the store. He made several mistakes, and the owner has not taken any action. As the internal auditor of Buhle Stores you are not happy with the control of cash in this business. (3)
- Explain ONE problem to confirm your concern. Quote figures.
 - Give advice on how the problem can be avoided in future.

INFORMATION:**A** Extract from the Bank Reconciliation Statement on 31 April 2024

Balance as per bank statement	(R36 294)
Outstanding cash deposit:	
Dated 15 April 2024	12 080
Dated 30 April 2024	21 640
Outstanding EFTs:	
431 (dated 29 April 2024)	(13 800)
435 (dated 30 April 2024)	(17 900)
Balance as per bank account	?

B Provisional totals in the cash journals on 30 May 2024 before receiving the bank statement:

- Cash Receipts Journal: R60 334
- Cash Payment Journal: R34 865

C Entries in the Cash Journals for May 2024 that do not agree with the May Bank Statement.

JOURNAL	DOCUMENT	DATE	DETAILS	AMOUNT
CRJ	Deposit slip 12	29	Sales	R54 370
	Deposit slip 17	30	Debtors control	26 300

JOURNAL	DOCUMENT	DATE	DETAILS	AMOUNT
CPJ	EFT 21	16	Ivory Ltd	R1 780
	EFT 26	22	Municipality	3 660

- D** Items on the Bank Statement dated 31 May 2024 that do not agree with the May Cash Journals.

Date	Details	Debit	Credit
02	Deposit (30/04)		R21 640
03	Direct transfer to JB Stores	13 800	
04	Direct transfer to Atlas Co.	19 700	
15	Debit order (insurance)	1 670	
16	Direct deposit from Ivory Ltd		1 780
17	Deposit (15/04)		10 080
	Debit order (insurance)	1 670	
20	Internet banking fee	176	
25	Interest		315
28	Service fees	475	

NOTE:

- EFT 435: Bank Statement is correct.
- A debit order for insurance was duplicated in error. The bank will correct this in June.
- Mr Pooh Paddy the finance clerk, cannot account for the missing amount. The owner of Buhle Stores decided to write off the amount, further investigations will be done.

18.2 DEBTORS' AGE ANALYSIS: RAG DOLL TRADERS

REQUIRED:

- 18.2.1 How does Debtors' Age Analysis assist business in controlling its debtors? (2)
- 18.2.2 Identify TWO problems shown in the Age Analysis below. Quote evidence and figures to support your answer. In each case suggest an internal measure to correct the problem. (6)
- 18.2.3 The owner of Rag Doll Traders is not happy with the control of debtors. Provide a calculation to justify his concern. figures to motivate your answer. (2)

INFORMATION:

- Debtors are usually allowed to settle their accounts within 30 days

Debtor	Credit Limit	Amount Owing	Current	30 Days	60 days	90 days+
S. Dawood	4 000	6 800	2 600	3 000	1 200	
G. Kramer	7 000	7 000	7 000			
J. Boozer	3 000	500	500			
B. Campher	5 000	5 500	0	1 000	2 100	2 400
		19 800	10 100	4 000	3 300	2 400

Activity 18 RECONCILIATION AND AGE ANALYSIS**18.1 BANK RECONCILIATION****18.1.1**

Cash Receipt Journal		Cash Payment Journal
60 334		34 865

10

18.1.2 Calculate the correct balance of the Bank account in the ledger on 31 May 2022.

5

18.1.3**Prepare the Bank Reconciliation Statement on 31 May 2022.**

	Debit	Credit

7

18.1.4	<table border="1"> <tr> <th data-bbox="225 190 798 235">Problem with figure</th><th data-bbox="798 190 1362 235">Advise</th></tr> <tr> <td data-bbox="225 235 798 461"></td><td data-bbox="798 235 1362 461"></td></tr> </table>	Problem with figure	Advise		
Problem with figure	Advise				

3

18.2 DEBTORS' AGE ANALYSIS

18.2.1	<p>How does the preparation of a Debtors' Age Analysis assist the business in controlling their debtors?</p>
--------	--

2

18.2.2		Identification of problem with evidence and figures	Internal control measure to correct the problem
	Problem 1		
	Problem 2		

6

18.2.3	<p>The owner of Rag Doll Traders is not happy with the control of the debtors. Provide figures to motivate your answer.</p>
--------	---

FIXED ASSETS**Activity 19: FIXED ASSETS****(17 marks; 15 minutes)**

You are provided with information relating to Metro Limited, a company that is listed on the JSE. The financial year ended on 30 June 2024.

REQUIRED:**19.1 Refer to Information E:**

Calculate the missing amounts indicated by (i), (ii), (iii) and (iv) in the Fixed assets note for the year ended 30 June 2024.

(17)**INFORMATION:****A. Fixed/Tangible assets:**

	Land & Buildings	Vehicles
Carrying value (begin. of the year)	2 016 750	1 410 000
Cost	2 016 750	2 437 500
Accumulated depreciation	-	(1 027 500)
Movements		
Additions at cost	(i)	(ii)
Disposals at carrying value	0	(iii)
Depreciation	0	(iv)
Carrying value (end of the year)	5 055 000	
Cost	5 055 000	2 580 000
Accumulated depreciation		

- (a) New premises (land and buildings) were acquired during the financial year.
- (b) A vehicle was sold for cash at carrying value on 30 September 2023.

The following extract of the vehicle sold was taken from the Fixed Assets Register:

Cost: R105 000		Date purchased: 1 July 2022
Rate of depreciation: 20% p.a. on diminishing-balance method		
DATE	DEPRECIATION	ACCUMULATED DEPRECIATION
30 June 2023	21 000	21 000
30 September 2023	?	?

- (c) A new vehicle was purchased and paid for by EFT on 1 May 2024.
- (d) Vehicles are depreciated at 20% p.a. on the diminishing balance method.

Activity 19: FIXED ASSETS

19.1 Calculate the missing amounts indicated by (i), (ii), (iii) and (iv) in the Fixed Asset note for the year ended 30 June 2024.

	Calculation	Amount
(i)		
(ii)		
(iii)		
(iv)		

17

Activity 20: CONCEPTS AND FIXED ASSETS**(20 marks; 15 minutes)****20.1 CONCEPTS**

Choose a category from the list provided for each example below. Write only the category next to the numbers (20.1.1 – 20.1.4) in the ANSWER BOOK.

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

20.1.1 Retained income

20.1.2 Amount due by SARS in respect of income tax for the year

20.1.3 Extensions to land and buildings

20.1.4 An increase in the Provision for Bad Debts (4)

20.2 YASHPAL LTD: Their financial year ended on 28 February 2025.**REQUIRED:****20.2.1 REFER TO INFORMATION A:**

Calculate the figures denoted by (i) to (iii) on the Fixed Asset note. (11)

20.2.2 Prepare the Asset Disposal account on 1 January 2025. (5)

INFORMATION:**A. Fixed Assets:**

	VEHICLES	EQUIPMENT
Cost (1 March 2024)	838 000	622 000
Accumulated depreciation (1 March 2024)	(420 000)	(264 000)
Carrying value (1 March 2024)	(i)	358 000
<i>Movements:</i>		
Additions	216 000	0
Disposals	0	(iii)
Depreciation	(ii)	(35 400)
Carrying value (28 February 2025)		
Cost (28 February 2025)		517 000
Accumulated depreciation (28 February 2025)		

- A new vehicle was purchased on 1 October 2024. Vehicles are depreciated at 15% p.a. on cost.
- Old equipment was sold on 1 January 2025 for R26 250, cash. A profit of R4 250 was made on this sale.

Activity 20: CONCEPTS AND FIXED ASSETS

20.1

20.1.1			
20.1.2			
20.1.3			
20.1.4			4

20.2 YASHPAL LTD

20.2.1 Refer to Information A:

	WORKINGS	ANSWER
(i)		
(ii)		
(iii)		

11

20.2.2

ASSET DISPOSAL

[illegible]

5

CASH BUDGETS & PROJECTED INCOME STATEMENT**WORKED EXAMPLE 4: CASH BUDGET AND PROJECTED INCOME STATEMENT**

4. Insert relevant amount(s) for EACH transaction below into appropriate columns for the following Cash Budget and Projected Income Statement for July 2024.

Example: Monthly telephone costs are expected to be R4 200.

NO.	CASH BUDGET FOR JULY		PROJECTED INCOME STATEMENT FOR JULY	
	RECEIPT	PAYMENT	INCOME	EXPENSE
e.g.		4 200		4 200

(8)

TRANSACTIONS FOR JULY 2024:

- 4.1 A three-month advertising contract for R6 000 will be paid on 1 July 2024. R2 000 of this amount relates to the next financial year.
- 4.2 On 1 July 2024, R45 000 will be invested in a fixed deposit at 8% interest p.a. Interest is not capitalised and is received at the end of each month.
- 4.3 Budgeted cash sales, R23 200 (cost of sales; R16 000).

WORKED EXAMPLE 4 SOLUTION

NO.	CASH BUDGET FOR JULY		PROJECTED INCOME STATEMENT FOR JULY	
	RECEIPT	PAYMENT	INCOME	EXPENSE
e.g.		4 200		4 200
4.1		6 000		4 000
4.2	300	45 000	300 *see receipt	
4.3	23 200		23 200 #accept net amount: R7 200 two marks	16 000

8

Activity 21: CASH BUDGET & PROJECTED INCOME STATEMENT (11 marks; 10 min)

The financial year-end of Carpets Galore (Pty) Ltd is 31 October 2024. Thembi Tsomi is the sole shareholder and director.

21.1 Indicate amounts in the appropriate blocks for the Cash Budget and Projected Income Statement for three months ending 31 January 2025.

- A printer costing R40 800 will be bought for cash on 30 November 2024. Depreciation will be R680 per month.
 - On 1 January 2025, R48 000 will be paid for a 12-month insurance contract.
 - A loan of R100 000 will be received from Viva Bank on 31 December 2024. This will be repaid in equal instalments over 20 months, commencing on 31 January 2025. Interest at 12% p.a. is paid monthly and is not capitalised.
- (11)

Activity 21: CASH BUDGET & PROJECTED INCOME STATEMENT (11 marks; 10 min)

21.1

	CASH BUDGET			PROJECTED INCOME STATEMENT		
	Nov. 2024	Dec. 2024	Janu. 2025	Nov. 2024	Dec. 2024	Janu. 2025
Printer bought						
Depreciation						
Insurance						
Loan received						
Loan repayments						
Interest						

Activity 22: BUDGETING**(35 marks; 30 minutes)**

You are provided with the Cash Budget of Rian Traders for three months ended 31 December 2024. The business is owned by Rian Green.

REQUIRED:

- 22.1 Explain why a business needs to prepare a Cash Budget every year. (2)
- 22.2 Calculate the expected receipts from debtors for November 2024. (5)
- 22.3 Calculate the amounts indicated by A–D in the Cash Budget. (4)
- 22.4 The rent income was increased by 9% on 1 November 2024. Calculate the rent income amount for October 2024. (3)
- 22.5 In your opinion, is Rian's capital contribution in November sufficient to support this business venture? Give ONE reason with figures to support your answer. (3)
- 22.6 Refer to the salaries and wages in the Cash Budget.
- Calculate the percentage increase granted to the employees on 1 November 2024. (3)
 - In your opinion, will the employees be satisfied with this increase? Briefly explain. (3)
- 22.7 As the internal auditor you discover that the actual motor vehicle expenses for December 2024 were R9 600. Give TWO points that you would include in your internal auditors' report to Rian. (4)
- 22.8 A new vehicle will be purchased for R240 000 on 30 November 2024. The business will pay a deposit of 15% and the balance will be financed by Wesrand Bank. Rian will repay the capital portion to Wesrand Bank in equal monthly instalments over four years from 31 December 2019. Interest will be paid monthly to Wesrand Bank on the outstanding balance at a rate of 11% p.a.
- Calculate the interest payable to Wesrand Bank in December 2024. (5)
 - Calculate the monthly repayments of the capital portion of the loan to Wesrand Bank. (3)

INFORMATION

EXTRACT FROM CASH BUDGET			
	2024 October	2024 November	2024 December
EXPECTED RECEIPTS			
Cash sales (75% of total sales)	180 000	150 000	175 000
Debtors (30 days less 5%)	52 500	?	47 500
Rent income	?	10 464	?
Fee Income	2 000	?	?
Interest on fixed deposit		?	?
Capital		100 000	
	247 100	325 000	C
EXPECTED PAYMENTS			
Drawings	17 500	12 500	12 500
Motor vehicle expenses	6 500	6 500	6 500
Fixed deposit		60 000	
Deposit on vehicle purchased		?	
Sundry expenses	?	?	?
Monthly repayments to Wesrand			?
Interest paid to Wesrand			?
Salaries and wages	108 000	110 160	110 160
	245 000	320 000	380 000
Cash surplus/-deficit	2 100	5 000	(143 500)
Cash at the beginning of the month	92 000	A	B
Cash at the end of the month	94 100	B	D

Activity 22: BUDGETING

22.1 Explain why a business needs to prepare a Cash Budget every year.

2

22.2 Calculate the expected receipts from debtors for November 2024.

5

22.3 Calculate the amounts indicated by A–D in the Cash Budget.

A	
B	
C	
D	

4

22.4 The rent income increased by 9% on 1 November 2024. Calculate the rent income amount for October 2024.

3

- 22.5 In your opinion, is Rain's capital contribution in November sufficient to support this business venture? Give ONE reason to support your answer.

3

- 22.6 Calculate the percentage increase granted to the employees on 1 November 2024.

3

In your opinion, will the employees be satisfied with this increase? Briefly explain.

3

- 22.7 As the internal auditor you discover that the actual motor vehicle expenses for December 2024 were R9 600. Give TWO points that you would include in your internal auditors' report to Rian.

4

- 22.8 Calculate the interest payable to Wesrand Bank in December 2024.

5

Calculate the monthly repayments of the capital portion of the loan to Wesrand.

3

TOTAL MARKS	35
-------------	----

Activity 23: BUDGETING**(30 marks; 25 minutes)**

You are provided with information relating to HKH Traders for the three months ending 31 December 2024. The business is owned by Lizzy Ndou.

REQUIRED:

- 23.1 Complete the following sentences by filling in the missing word(s). Write only the word(s) next to the question number (23.1.1 – 23.1.2) in the ANSWER BOOK.
- 23.1.1 The main purpose of preparing the Cash Budget is... (2)
- 23.1.2 ONE item in the Cash Budget that will not be reflected in a Projected Income Statement is... (2)
- 23.2 Prepare the Debtors' Collection Schedule for December 2024. (5)
- 23.3 Calculate the missing figures in the Cash Budget indicated by (i) to (v). (17)
- 23.4 In order to increase sales and the number of customers, Lizzy intends to advertise that credit limits for all credit customers will be increased to R35 000 and that new customers are welcome to open accounts during January. Give TWO points of advice to Lizzy regarding this decision. (4)

INFORMATION:**A. Sales, purchases and cost of sales:**

Total sales expected

2024		
October	November	December
R500 000	R350 000	R300 000

- 60% of sales are on credit, the rest are for cash.
- The business uses a mark-up of 100% on cost at all items.
- Stock is replaced monthly
- 20% of all purchases are for cash, the rest are on credit.
- Creditors are paid TWO months after the purchase of stock.

B. Debtors' collection:

The credit limit for each debtor is R25 000. In the past, debtors have settled their accounts as follows. HKH Traders prepares its budget on this basis:

- 20% of debtors settle accounts in the month of the sale to receive a 5% discount.
- 30% settle in the 1st month following the sales month (30 days)
- 40% settle in the 2nd month (60 days)
- 10% are written off in the 3rd month.

C. Debtors' Collection Schedule:

Months		2024			
		Credit sales (R)	October (R)	November (R)	December (R)
Actual	August	345 000	138 000		
	September	480 000	144 000	192 000	
Expected	October	300 000	57 000	90 000	?
	November	210 000		39 900	63 000
	December	180 000			?
			339 000	321 900	?

D. Extract from the Cash Budget:

	2024		
	October	November	December
	R	R	R
RECEIPTS:			
Cash sales	200 000	(i)	120 000
Receipts from debtors	339 000	321 900	
Rent income			
Loan: Sharp Bank (interest rate:12%)	400 000		
PAYMENTS:			
Cash payments	50 000	35 000	30 000
Payments to creditors	230 000	320 000	(ii)
Repayment of loan		40 000	40 000
Interest on loan		4 000	(iii)
Wages	32 500	22 048	(iv)
Advertising	(v)	6 758	6 758
Sundry expenses			
Cash balance at the end of the month	350 000	200 000	(50 000)

E. Loan and interest on loan:

The interest on the loan and the monthly loan instalments are payable at the end of each month. Interest is not capitalized.

F. Wages:

- In October the business will have 5 employees, each earning R1 300 per week.
- All the employees are paid their wages on Fridays. There are five Fridays in October and four Fridays in November and December 2024.
- One employee has served notice of his resignation on 31 October 2024 and the other employees will be given a 6% increase on that date.
- The business plans to employ two more staff members at the same weekly wage as the others on 1 December 2024.

G. Advertising:

The advertising budget will be increased by 9% with effect from 1 November 2024.

30

Activity 23

23.1.1 The main purpose of preparing the Cash Budget is...

2

23.1.2 ONE item in the Cash Budget that will not be reflected in a Projected Income Statement is...

2

23.2 Prepare the Debtors' Collection Schedule for December 2024

Months		2024			
		Credit sales	October	November	December
Actual	August	345 000	138 000		
	September	480 000	144 000	192 000	
Budgeted	October	300 000	57 000	90 000	
	November	210 000		39 900	63 000
	December	180 000			
			339 000	321 900	

5

23.3 Calculate missing figures in Cash Budget indicated by (i) to (v)

	CALCULATION	ANSWER
(i)		
(ii)		
(iii)		
(iv)		
(v)		

17

23.4 Give TWO points of advice to Lizzy regarding this decision.

4

TOTAL MARKS

30

VALUE ADDED TAX**WORKED EXAMPLE 5: VAT****(15 marks; 10 minutes)**

Chuckle Traders is registered for VAT, although the annual turnover is less than R1 000 000. The standard VAT rate is 15%. The business is owned by Chuckles Berry.

REQUIRED:

- 5.1 Give ONE reason why Chuckles decided to register for VAT. (2)
- 5.2 Calculate the amount of VAT that is payable to SARS for the two-month period ended 30 April 2022. (9)
- 5.3 Chuckles use the money collected for VAT to pay business expenses. He does not have sufficient cash to make the VAT payments on the due dates. What would you say to Chuckles? State TWO different/separate points. (2)

INFORMATION:

VAT-related transactions for the period ended 30 April 2022:

Balance due by SARS on 1 April 2022	R2 600
Purchases of trading stock (excluding VAT)	59 000
Cash and credit sales (including VAT)	87 400
VAT on drawings of trading stock by Chuckles	1 200
VAT on returns from debtors	2 820
VAT on discount received from suppliers	3 360

WORKED EXAMPLE 5 SOLUTION: VAT**5.1 Give ONE reason why Chuckles decided to register for VAT.**

- He will be able to claim VAT input from SARS / He supports or pays VAT for most of his purchases / He wants to benefit from input VAT on certain expenses or assets that he buys. ✓✓
- He sells goods that are subject to standard rate VAT (15%)
- Should his turnover exceed R1 000 000, he does not have to worry about being penalised by SARS for not complying (compulsory registration) / He expects his business to grow and will be compelled to register.
- Responsible citizen – collect tax for SARS – improve the economy.

2

5.2 Calculate the amount of VAT that is payable to SARS for the two-month period ended 30 April 2022.

WORKINGS				ANSWER
2 600 ✓ + 8 850 ✓✓ – 11 400 ✓✓ – 1 200 ✓ + 2 820 ✓ – 3 360 ✓				1 690 ✓
OR				
VAT CONTROL		VAT CONTROL		
2 600	11 400	11 400	2 600	
8 850	1 200	1 200	8 850	
2 820	3 360	3 360	2 820	

9

5.3 Chuckles use the money collected for VAT to pay business expenses. He does not have sufficient cash to make the VAT payments on the due dates. What would you say to Chuckles? State TWO different/separate points.

- It is illegal / can be sued / legal action / face criminal charges / tax evasion / penalties or fines imposed by SARS, if investigated.
- It is unethical / the money does not belong to the business / agent of SARS.
- He should budget / plan / manage his expenses more effectively.
- Keep detailed records of VAT separate from business records and diarise payment dates.
- Using the money could become a bad habit / rolling of cash
- He must discontinue this practice.

2

Activity 24: CONCEPTS AND VAT**(10 marks; 8 minutes)**

24.1 Choose VAT category in COLUMN B that matches a description in COLUMN A. Write only the letter (A–D) next to the question number (24.1.1 – 24.1.3) in the ANSWER BOOK.

COLUMN A		COLUMN B	
24.1.1	VAT added to the price when business purchase goods and services liable to VAT.	A	Zero – Rated Items
		B	VAT Output
24.1.2	Items such as fresh fruits and vegetables, brown bread, milk, maize, rice, etc.	C	VAT Input
24.1.3	Items such as educational services and childcare services.	D	Exempt Items

(3 x 1) (3)

24.2 **VALUE ADDED TAX:** VAT is charged at 15%.

Calculate the amount owing to SARS in respect of VAT at the end of February 2021 after taking transactions 1 – 5 into account.

Clearly state whether the amount would be added or subtracted by using a (+) or (-) sign.

(7)

Transactions and Information:

- The VAT Control Account reflected that Macrozone Sports owed SARS an amount of R8 120 on 1 February 2021.
- The owner took sports equipment for his personal use. The VAT on this transaction amounted to R912.
- Returned defective goods to the supplier. The debit note reflected an amount of R1 680 (VAT exclusive).
- R4 200 (VAT exclusive) worth of stock was stolen during a burglary. The insurance paid R2 300 (VAT inclusive) of the claim.
- Macrozone Sports disposed of a second-hand vehicle at a loss of R6 000 on 28 February 2021. 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 2021. Input VAT was claimed when this vehicle was originally bought.

10

Activity 24: CONCEPTS AND VAT**24.1**

24.1.1	
24.1.2	
24.1.3	

3

24.2 Calculate the amount owing to SARS in respect of VAT at the end of February 2021 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.	

7

10

Activity 25: VALUE ADDED TAX**(12 marks; 10 minutes)**

The following information relates to Hamas Traders for the VAT period ended 30 June 2024. VAT at 15% applies to all goods. The business is owned by Warren Hamas.

REQUIRED:

25.1 Calculate the VAT amounts indicated by (i) to (iii) on the table below. (6)

25.2 **Refer to Information C.**

Calculate the total of the credit notes including VAT. (2)

25.3 Hamas Traders is experiencing cash flow problems. Warren, the owner, requested the accountant that he should decrease the amount of sales such that the VAT input exceeds the VAT output to enable the business to claim a refund from SARS. (4)
Explain what you would say to Warren. Provide TWO points.

INFORMATION:

A. Amount owed to SARS on 1 June 2024, R9 450.

B. **Transactions from June 2024 Journals:**

DETAILS	EXCLUDING VAT	INCLUDING VAT	VAT AMOUNT
Total sales	R412 000	R473 800	R61 800
Purchases of stock	230 000	264 500	(i)
Bad debts recovered		8 740	(ii)
Discount allowed to debtors	R12 600		(iii)

C. **Extract from DJ and DAJ for credit sales to special customers.**

DETAILS	EXCLUDING VAT	INCLUDING VAT	VAT AMOUNT
Invoices	R11 200	R12 880	R1 680
Credit notes	?	?	R210

12

Activity 25: VALUE ADDED TAX**(12 marks; 10 minutes)****25.1 Calculate the VAT amounts indicated by (i) to (iii) on the table below.**

No.	Details	VAT Amount
	Total sales	R61 800
(i)		
(ii)		
(iii)		

6

25.2 Calculate the total of the credit notes including VAT.

WORKINGS	ANSWER

2

25.3 Hamas Traders is experiencing cash flow problems. Warren, the owner, requested the accountant that he should decrease the amount of sales such that the VAT input exceeds the VAT output to enable the business to claim a refund from SARS.

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

4

TOTAL MARKS

12

Activity 26: VALUE ADDED TAX**(10 marks; 8 minutes)**

- 26.1** The following entries relates to Blouberg Stores. An administration clerk has compiled a spreadsheet to calculate the VAT relating to May and June 2024 for both products (shoes and jerseys) as well as other additional adjustments. She has not completed the spreadsheet and requested you to assist her.

REQUIRED:

Calculate the VAT for all transactions on the spreadsheet for the period May to June 2024. The current VAT rate is 15%. (10)

Note: You need to fill in the missing figures in **column D only**. You must indicate + for an increase, – for a decrease (or use brackets), or indicate 0 for no effect. The first item has been done for you as an example.

INFORMATION FOR VAT**A. Spreadsheet drawn up by the clerk:**

A	B	C	D
DETAILS OF TRANSACTIONS	VAT EXCLUDED	VAT INCLUDED	VAT AMOUNT
Purchases of jersey fabric	R172 460	R198 329	– R25 869
Purchases of shoes	R234 000	R269 100	*
Sales of jerseys		R469 200	*
Sales of shoes	R364 000	R419 520	*
Salaries and wages	R70 000		*
Fixed assets purchased	R124 000		*
Bad debts		R2 645	*
AMOUNT PAYABLE/RECEIVABLE TO SARS			*

- B.** There was no amount owing or receivable from SARS on 30 April 2024.

10

Activity 26**26.1 VAT**

A	B	C	D
DETAILS OF TRANSACTIONS	VAT EXCLUDED	VAT INCLUDED	VAT AMOUNT
Purchases of jersey fabric	R172 460	R198 329	– R25 869
Purchases of shoes	R234 000	R269 100	
Sales of jerseys		R469 200	
Sales of shoes	R364 000	R419 520	
Salaries and wages	R70 000		
Fixed assets purchased	R124 000		
Bad debts		R2 645	
AMOUNT PAYABLE/RECEIVABLE TO SARS			

10

COST ACCOUNTING**ACTIVITY 27: COST ACCOUNTING****(35 marks; 25 minutes)**

- 27.1 Choose a cost category from COLUMN B that matches a description in COLUMN A. Write only the letter (A–E) next to the question numbers (27.1.1 to 27.1.3) in the ANSWER BOOK, e.g. 27.1.4 F.

COLUMN A	COLUMN B
27.1.1 Commission to salespersons	A factory overhead cost
27.1.2 Wages of factory maintenance staff	B administration cost
27.1.3 Office stationery expenses	C direct labour cost
	D direct material cost
	E selling and distribution cost

(3 x 1) (3)

27.2 MEISIES OUTFITTERS

The business manufactures clothing products. The owner is Minnie Zitha. The information relates to school dresses which is one of the products they manufacture. Dresses are manufactured according to orders received and there is no work-in-progress. The financial year ended on 30 April 2021.

REQUIRED:**27.2.1 Refer to Information D.**

Complete the Factory Overhead Cost Note for the school dresses. (10)

27.2.2 Calculate the total cost of production of school dresses produced. (4)

27.2.3 Minnie is concerned about wastage of fabric in the dressmaking section. Calculate the cost of this wastage to the business. (5)

27.2.4 The internal auditor expressed concern about the direct labour cost for the school dresses.

- Explain the problem that is of concern to the auditor. Quote figures. (3)
- State TWO possible causes of this problem. (2)

27.2.5 Provide a calculation to confirm that the break-even point for the current financial year is 17 000 units. (3)

27.2.6 Comment on the level of production achieved and the break-even point calculated above. Quote figures. (2)

27.2.7 Calculate the extra profit that would be earned if an additional 500 dresses are made and sold. Assume that all costs are unchanged. (3)

INFORMATION:**A. Raw material stock (fabric used to make the dresses):**

Fabric is issued to the factory using the weighted-average method.

	UNITS (metres)	COST per metre	TOTAL COST
Stock of fabric on 1 May 2020	9 000	R14,20	R127 800
Fabric purchased during the year	33 000	R17,00	R561 000
	42 000		R688 800
Fabric issued to the factory	29 000	R16,40	R475 600

B. Production and sales:

- Manufacturing one dress requires 1,6 metres of fabric.
- 17 800 dresses were produced and sold during the financial year at R75 per dress.

C. Direct labour cost for the year:

	WORKERS	HOURS PER WORKER	RATE	TOTAL
Basic wage (normal time)*	8	1 250	R25	R250 000
Total overtime worked	8	720	R45	R259 200
Total employer's contributions				R26 250
TOTAL		1 970		R535 450

*Normal time comprises a 5-day week of 8 hours per day. The factory operates for 46 weeks each year.

D. Factory overhead costs:

The following costs were extracted from the records on 30 April 2021:

Factory rent expense	R122 400
Water and electricity	81 600
Insurance on factory equipment	20 720
Salary of the dressmaking supervisor	76 960
Delivery expenses	36 800
Wages of cleaners	155 760
Depreciation: dressmaking machines	30 300
Sundry factory expenses (dressmaking section)	10 670

- Factory rent is split according to floor space occupied. The dress-making section occupies 320 m² of the total factory space of 1 280 m².
- 15% of the total water and electricity account must be allocated to the dressmaking section.
- Insurance on factory equipment was paid up to 30 June 2021. Dress-making equipment comprises $\frac{1}{3}$ of the total factory equipment.
- Only one of the six cleaners, Susan, was allocated to the dressmaking section. Susan earns 10% less than the other five cleaners.

E. Additional information relating to the dressmaking section:

- Total variable costs amounted to R1 094 700 (R61,50 per unit)
- Fixed costs, comprising factory overhead costs and administration costs, totalled R229 500

35

ACTIVITY 27

27.1

27.1.1	
27.1.2	
27.1.3	

3

27.2 MEISIES OUTFITTERS**27.2.1 FACTORY OVERHEAD COST NOTE**

Salary of dressmaking supervisor	76 960
Depreciation on machines	30 300
Sundry factory expenses	10 670
TOTAL	

10

27.2.2 Calculate the total cost of production of school dresses produced.

WORKINGS	ANSWER

4

27.2.3 Minnie is concerned about wastage of fabric in the dressmaking section. Calculate the cost of this wastage to the business.

WORKINGS	ANSWER

5

27.2.4 The internal auditor expressed concern about the direct labour cost for the school dresses.

Explain the problem that is of concern to the auditor. Quote figures.

3

State TWO possible causes of this problem.

2

27.2.5 Provide a calculation to confirm that the break-even point for the current financial year is 17 000 units.

3

27.2.6 Comment on the level of production achieved and the break-even point calculated above. Quote figures.

2

27.2.7 Calculate the extra profit that would be earned if an additional 500 dresses are made and sold. Assume that all costs are unchanged.

WORKINGS

ANSWER

3

QUESTION 28**MANUFACTURING****(40 marks, 32 minutes)****28.1 BLANKETS FOR HEALTH MANUFACTURERS**

The following information was extracted from the records of Blankets for Health Manufacturers. The financial year ended on 31 August 2023. The business produces organic lightweight blankets.

REQUIRED:

- 28.1.1 Calculate the value of the closing stock of raw materials. (5)
- 28.1.2 Calculate the direct material cost issued for production. (4)
- 28.1.3 Calculate the direct labour cost. (8)
- 28.1.4 Complete the production cost statement for the year ended 31 August 2023. (11)

INFORMATION:**A. Raw material (Fabric):**

Blankets for Health Manufacturers produced **16 160** blankets for the year ended 31 August 2023.

	Number of metres	Cost per metre	Total Amount (R)
Opening stock	2 400	R160	384 000
Closing stock	3 600 metres @ R165 3 200 metres @ R170		?

B. Purchases and returns of raw material:

	Number of metres	Cost per metre	Total Amount (R)
September 2022 purchases	11 000	R160	1 760 000
October 2022 purchases	16 000	R170	2 720 000
June 2023 purchases	4 000	R165	660 000
June 2023 returns	(400)	R165	(66 000)
	30 600		5 074 000

C. Labour cost:

- There are ten factory workers and each worked 1 920 hours per year, at a rate of R30 per hour. Together they worked 560 hours of overtime at twice the normal rate per hour.
- The factory assistant is paid R84 000 for the year. She spends 75% of her time cleaning the factory and 25% of the time sewing labels on the blankets.
- The business contributes 1% to the UIF for all employees.

D. Other costs for the financial year (after all the adjustments):

	2023 (R)	2022 (R)
Total fixed costs per unit	254	225
• Factory overheads cost per unit	?	205
• Administration cost per unit	24	20

E. Stock balances that appeared in the books of Blankets for Health Manufacturers:

	2023 (R)	2022 (R)
Work in process	45 370	72 000
Finished goods stock	?	520 000

There were 840 completed blankets on hand at the end of the year.

28.2 TIMELESS TIMBERWORKS

Timeless Timberworks is a small manufacturing business that produces chopping boards.

REQUIRED:

28.2.1 Calculate the break-even point for the year ended 31 October 2022. (6)

28.2.2 Calculate the units produced and sold for 2022. (2)

28.2.3 Explain whether you think the owner, Phoebe, should or should not be concerned about the profitability and production level of her business.

Provide TWO reasons and justify your answer by providing supporting figures. (4)

INFORMATION:

A. Every year all the goods produced, are sold.

B. Information taken from the financial records of Timeless Timberworks:

	31 October 2022	
	Total cost	Unit cost
Direct material cost	607 750	R5,50
Direct labour cost	508 300	R4,60
Selling and distribution cost	182 325	R1,65
Variable cost	1 298 375	R11,75
Factory overhead cost	548 410	
Administration cost	247 500	

	31 October 2022	31 October 2021
Selling price per unit	R18,85	R15
Units produced and sold	?	98 000
Break-even point	?	78 000

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28.2 TIMELESS TIMBERWORKS

6

2

4

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- 9 Examination Guideline
- 10 CAPS Document