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KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS) SUPPORT



JUST IN TIME LEARNER REVISION DOCUMENT

ACCOUNTING PAPER 1&2



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ACCOUNTING LAST MILE REVISION PROGRAMME – 2022

DATES: 03 – 26 OCTOBER 2019

NUMBER OF DAYS: 19

DAY	ASPECT	ACTIVITIES/ SOURCE REFERENCE
Day 1& 2	**STATEMENT COMPREHENSIVE INCOME** Explanation of Income Statement using the accounting equation and ledger accounts. Focus on adjustments, ledger accounts, workings and indicate the final figures to be transferred to the face of the Income statement. Activities related to specific areas of income statement to be done and discussed.	**Act 1:** Q1 KZN June 2022 **Act 2:** Q2 NSC May/June 2022 **Act 3:** Q1 NSC Nov 2021 (Correction of Net profit) **Act 4:** Q2 NSC May / June 2021 **Act 5:** Q1 NSC Nov 2020 **Act 6:** Q1 NSC Nov 2020(P1) **Act 7:** Q4 NSC Nov 2019 (correction of Net profit)
Day 3 & 4	**STATEMENT OF FINANCIAL POSITION**	**Act 1**: Q 1 (May / June 2022) **Act 2**: Q 1 (Nov 2021); **Act 3:** Q 1 (March 2020) - KZN **Act 4:** Q 2 (Sept 2020) – KZN **Act 5:** Q 4 (Nov 2019) **Act 6:** Q 3 (Sept 2019) – KZN **Act 7:** Q 4 (June 2019) – KZN
Day 5 & 6	**CASH FLOW STATEMENT AND INTERPRETATION** Explanation of the Cash Flow format using double entry system (ledger). Learners attempt cash flow statement activities. Teacher leads the discussion and learner`s mark their own work.	**Act 1**: DBE / NOV 2020 P1 – Q2 **Act 2**: DBE / NOV 2021 P1 – Q2 **Act 3**: KZN JUNE 2022 P1 – Q2 **Act 4:** PREP EXAM 2020 KZN P1 – Q1 **Act 5:** KZN JUNE 2020 P1 INCL THE NOTES– Q2 **Act 6:** KZN COMMON TEST MARCH 2021 – Q2 **Act 7**: GAUTENG JUNE 2022 P1 – Q2 **Act 8**: SC/DBE JUNE 2022 P1 – Q2
Day 7	**TANGIBLE/FIXED ASSET** Fixed Assets: Treated individually and as part of financial statements. Activities done. Teacher leads the discussion and learners mark	**Act 1:** Q2 KZN June P1 2022 **Act 2:** Q2 SCE P1 2022 **Act 3:** Q4 Nov 2021 **Act 4:** Q1 Nov 2020(2) **Act 5:** Q4 Nov 2019 **Act 6:** Q4 May / June 2019
Infused Daily	**ANALYSIS AND INTERPRETATION OF FINANCIAL INFORMATION** Explanation of ratio analysis and interpretations. Activities done. Teacher leads the discussion and learners mark their work.	**Act 1:** Q2 & 3 Nov P1 2021 **Act 2:** Q2 & 3 KZN Sept 2021 **Act 3:** Q3 & 4 May / June 2021 **Act 4:** Q3 Nov 2020 **Act 5:** Q1 & 3 KZN Sept 2020 **Act 6:** Q5 Nov 2019 **Act 7:** Q5 May / June 2019
Infused with Cash Flow	**CORPORATE GOVERNANCE & AUDITING** Explanation of Audit Report. Activities done. Teacher leads the discussion.	**Q4:** May / June P1 2022 **Q** : Nov 2021 P1 **Q** : May / June P1 2021 **Q4:** Nov 2020 P1 **Q** : KZN Sept 2020

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DAY	ASPECT	ACTIVITIES/ SOURCE REFERENCE
Day 8 & 9	**BUDGET** Explanation of Budgeting. Activities to be done. Teacher leads the discussion. Learners mark their own work.	**Act 1:** Q3 Nov 2021 **Act 2:** Q3 May-June 2021 **Act 3:** Q6 Nov 2020 **Act 4:** Q6 Nov 2019 **Act 5:** Q3 May-June 2022 **Act 6:** Q6 KZN Sept 2020
Day 10 & 11	**MANUFACTURING** Explanation of Manufacturing. Activities to be done. Teacher leads the discussion and learners mark their own work.	**Act 1;** Q2 May / June P2 2022 **Act 2:** Q2 NSC Nov P2 2021 **Act 3:** Q3 May / June P2 **Act 4:** Q1 NSC Nov 2020 (1) **Act 5:** Q3 SCE Nov P2 2019
Day 12	**BANK RECONCILIATION** Explanation of Bank Reconciliation Statement. Activities to be done. Teacher to lead the discussion and the learners to mark their work.	
Day 13	**DEBTORS & CREDITORS RECONCILIATIONS** Explanation of the Debtors and Creditors reconciliations. Teacher leads the discussion. Learner`s to mark their own work.	**DEBTORS & CREDITORS** **Q1:** May / June 2021 **Q2:** KZN Trial Exam2021 **Q1:** EC Trial Exam 2021 **CREDITORS** **Q2:** EC Trial Exam 2021 **Q1:** Nov 2020 **Q2:** May / June 2020
Day 14 &15	**INVENTORIES** Explanation of inventory valuations. Activities to be done. Teacher to lead the discussion. Learners to mark their own work	**Act 1**: Activity BB1 Revision Document 2022 **Act 2**: Q3 KZN Preparatory Exam 2020 **Act 3**: Activity BB2 Revision Document 2022 **Act 4**: Q4 NSC Nov 2021 **Act 5**: Activity BB3 Revision Document 2022 **Act 6**: Q3 SC 2022
Day 16	**VAT** Explanation of VAT. Activities to be done. Teacher leads the discussion and learners mark their work	**Q1:** May / June 2022 P2 **Q1:** May / June 2021 P2 **Q1:** Nov 2020(2)
Day 17 & 18	All aspects	**Full Papers**

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A. STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT)

STRATEGIES: STATEMENT OF COMPREHENSIVE INCOME

Structure – What to add and when to subtract i.e. expense is always subtracted and income is always positive (+)
Always copy information (All) from the Nominal Account Section; adjustments are used to adjust the information from the Pre-adjustment Trial Balance.
From the Balance Sheet Account Section NO items must be taken; only use figures needed in the adjustment e.g. Provision for Bad debts- to determine Provision for bad debts adjustment, trading stock-to determine trading stock surplus/deficit(note: stock on hand maybe calculated using stock valuation methods).
Guard against foreign items and misplacements

- Foreign items are Balance sheet account section items.
- Misplacement – It is when interest expense is amongst operating expenses and trading stock surplus under expenses.

Importance of adding up correctly in order to score method marks.
Dividends may be part of the nominal account section in the Pre – adjustment Trial balance but they do not form part of the statement of comprehensive income.
Adjustments to take note of:

- Salary- employee omitted *(add the gross salary and employers contribution NOT deduction to salaries and wages)* and employee overpaid(*less).*
- Loan statement – is used to calculate interest expense (Balance @ the end+ Repayments-Balance @ the beginning)
- Interest Income – Always calculate the correct amount due then work back to what has been received from Pre-adjustment Trial Balance
- Consumable Stores – we always calculate amount used i.e. Trial Balance figure represents consumable stores bought.
- Rent income – Always calculate it in three ways:
  1. Rent increased by amount and it is given e.g. R450 as an increase for 5 months (R450X5= R2 250) then subtract the this amount from rent amount and divide by number of months to get the amount of rent before the increase thereafter add R450 as an increase per month
  2. Rent increased by 10% for 4 months whereas it was received for 13 months. Easiest calculation take 10/100 X4 months =0, 4 then add number of months (13) = 13, 4. Take amount of rent and divide by 13,4 you will get the amount of rent before the increase then add 10%
- Working backwards from Net profit after tax using income tax percentage to get the missing figure e.g. Sundry expenses
- Workings on income tax when provided with assessment receivable/payable, (provisional tax + assessment payable) and/or (provisional tax –assessment receivable) = Income tax

ACTIVITY A1: STATEMENT OF COMPREHENSIVE INCOME AND NOTES

1.1 DLABA TRADING LTD

You are provided with information from the books of DLABA Trading Ltd. The financial year ended on 31 December 2021.

REQUIRED:

1.1.1 Refer to information C (F) and calculate the missing amounts denoted by **(i)** to **(iii)** on the incomplete Fixed Asset note provided.

1.1.2 Prepare the statement of comprehensive income for the year ended 31 December 2021.

1.1.3 Refer to the disposal of the computer for R4 000 in Information C (F) of QUESTION 1.1.2. Another director, Manenze, has complained that Nene has acted unethically in taking over the computer for R4 000. Nene disagrees.

(a) Give ONE opinion to support Manenze.
(b) Give ONE opinion to support Nene.



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INFORMATION:

A. Incomplete Fixed Asset Note

	VEHICLES	EQUIPMENT
Carrying value (01 January 2021)		
Cost	**600 000**	**280 000**
Accumulated depreciation	**(170 000)**	**(70 000)**
Movements		
Addition at cost	**(i)**	
Disposal at carrying value	**(0)**	**(ii)**
Depreciation	**(138 000)**	**(iii)**
Carrying value (31 December 2021)		
Cost	**780 000**	**262 000**
Accumulated depreciation	**(308 000)**	

B. Extract from the Pre-Adjustment Trial Balance on 31 December 2021:

	R
Ordinary share capital	6 280 000
Retained income	1 458 000
Mortgage Loan: Ikhwezi Bank	450 000
Equipment	280 000
Accumulated depreciation on equipment (01/01/2021)	70 000
Fixed deposit: Ikhwezi Bank	55 000
Debtors Control	280 280
Creditors Control	184 000
Provision for bad debts	13 050
Trading stock	156 000
Stock on hand (Plastic bags) (01/01/2021)	5 900
SARS (Income tax)	280 000
Sales	3 345 000
Cost of sales	2 090 625
Rates and taxes	72 500
Bad debts	9 450
Advertising	26 500
Interest on loan	**?**
Rent income	126 224
Salaries and wages	315 600
Consumable goods	62 540
Interest on fixed deposit	2 200
Sundry expenses	124 500

C. Additional information and adjustments:

A. A credit note was issued on 31 December for R9 920. Goods were sold with a mark-up of 60%. No entry has been made of this transaction.

B. Rent was received up to January 2022. Take note: Rent was increased by 12% on 1 August 2021.

C.
- Consumable goods used during the year amounts to R54 368.
- There was no trading stock surplus/deficit at the end of the year.

D. Bad debts of R8 360 must be written off. The provision for bad debts must be adjusted to R10 480.

E. Interest on fixed deposit was earned at 8% per year. Take into account that the fixed deposit was increased by R30 000 on 1 September 2021. This transaction was recorded.

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F. Depreciation must be written off on equipment at 15% per year using the diminishing balance method. Take note that equipment with a cost price of R18 000 and a carrying value of R12 000 on the first day of the financial year, was sold to a director, Nene, on 30 September 2021 for R4 000. No entry has been made of any of the transactions.

G. The business sells plastic bags to its customers at 50 cents each. The Profit/loss on sale of plastic bags reflects the following:

- Cost of plastic bags purchased: R51 200
- Cash received from sale of plastic bags: R56 600

The business uses the periodic stock system for plastic bags. No entries have been made for:

- Reversal of the stock on hand at the beginning of the year, R5 700
- Bags bought on credit in December 2021, R12 800
- Stock on hand at the end of the year, R3 600

You are required to calculate the correct profit or loss on the sale of the bags.

H. Advertising included R9 900, paid from 1 August 2021 to 31 July 2022.

I. An employee appointed on the 1st of December 2021, was erroneously paid an annual bonus of R70 300.

J. R100 000 is an assessment amount receivable from SARS. The income tax was calculated at 30% of the net profit before income tax.

K. Interest on loan is the balancing figure.

ACTIVITY A1

1.1.1		ANSWER
(i)		
(ii)		
(iii)		

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1.1.2 **DLABA TRADING LIMITED**
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

Gross profit	
Other operating income	
Gross operating income	
Operating expenses	
Rates and taxes	**72 500**
Bad debts	
Advertising	
Salaries and wages	
Consumable goods	
Sundry expenses	**124 500**
Operating profit	
Profit before interest expenses/Finance cost	
Profit before tax	
Income tax (	
Net profit after tax	

1.1.3 Refer to the disposal of the computer for R4 000 in Information C (F) of QUESTION 1.1.2. Another director, Manenze, has complained that Nene has acted unethically in taking over the computer for R4 000. Nene disagrees.

(a)	Give ONE opinion to support Manenze.
(b)	Give ONE opinion to support Nene.

ACTIVITY A2: COMPANY FINANCIAL STATEMENTS
The information relates to BHODLOZA LTD, a stationery retailer, for the year ended on 28 February 2022.
REQUIRED:
Prepare the following for the financial year ended 28 February 2022:
2.1 Statement of Comprehensive Income
2.2 Retained income note

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INFORMATION:

A. Extract: Pre-Adjustment Trial Balance on 28 February 2022:

	R
Ordinary share capital	?
Retained income	204 040
Loan: Luther Bank	955 000
Creditors control	368 470
Net trade debtors	463 000
Bank (favourable balance)	132 600
SARS: Income tax	295 500
Trading stock	882 000
Sales	5 808 000
Cost of sales	?
Depreciation	86 010
Insurance	37 200
Discount received	17 216
Commission income	?
Directors fees	450 400
Salaries and wages	492 600
Audit fees	85 700
Interest income	23 400
Sundry expenses	?
Ordinary share dividends (interim dividends)	126 000

B. ADJUSTMENTS AND ADDITIONAL INFORMATION

(i) Goods returned by a debtor, R28 800, was not yet recorded. The goods were placed back in stock, but no entries were made to record this transaction. A profit mark-up 60% on cost is applied to all sales.

(ii) Insurance includes an annual premium of R14 400 paid for the period 1 April 2021 to 31 March 2022.

(iii) Commission income is calculated at 2% on **net** sales.

(iv) The bookkeeper omitted the stock of **Calculators** in compiling the trading stock figure reflected on the pre-adjustment trial balance. A summary from the stock records of **Calculators** is as follows:

Opening stock	600 units
Purchases during the year	2 200 units
Returns	180 units
Units sold	2 160 units
Closing stock	430 units

- The relevant sales figure was recorded.
- Calculators are purchased at a fixed cost price of R175 each. The specific identification method is used to value the calculators. It was noted that calculators were stolen. This must still be recorded.

(v) The company employs three directors on the same fee structure. One of these directors did not receive his fee for February 2022. A fourth director, appointed on 1 December 2021, earns R3 200 per month more than the other directors. He received his fees for the current year.

(vi) The salary of the clerk on leave was omitted from the Salaries Journal.
Details of his salary is as follows:

Net salary	**Total employee deductions**	**Total employer contributions**
R9 424	24% of gross salary	R1 240

* Employer contributions are debited to salaries and wages.

(vii) An adjusted assessment was received from the external auditors stating that audit fees for the year amounts to R80 500.

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(viii) The loan statement from Luther Bank revealed the following:
- Monthly repayments R21 500 (including interest)
- Interest capitalised ?
- Balance on 28 February 2022 R1 082 400

10% of the loan balance will be settled during the next financial year.

(ix) After taking into account the adjustments, the net profit after tax amount to R689 310. The current income tax rate is 31%.

C. SHARE CAPITAL AND DIVIDENDS:

The share register reflected 745 000 shares in issue on 28 February 2022. The changes to share capital and retained income were recorded:

- 1 October 2021: 120 000 shares were issued at R8, 00 each.
- 1 December 2021: 75 000 shares were repurchased at R1,40 above the average share price. These shares do not qualify for final dividends.
- Interim dividends were paid on 31 August 2022.
- A final dividend of 23 cents per share was declared on 28 February 2022.

ACTIVITY A2

2.1 Statement of Comprehensive Income on 28 February 2022

Sales	
Cost of Sales	
Gross Profit	
Other Income	
Discount received	**17 216**
Gross income	
Operating expenses	
Depreciation	**86 010**
Sundry expenses	
Operating profit	
Interest income	**23 400**
Profit before interest expense	
Net profit before tax	
Net profit after tax	**689 310**

2.2 RETAINED INCOME

Balance at the beginning of the year	
Net profit after tax	**689 310**
Dividends on ordinary shares	
Interim dividends	**126 000**
Balance at the end of the year	

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ACTIVITY A3: COMPANY FINANCIAL STATEMENTS AND NOTES

3.1 **MATCHING ITEMS**

REQUIRED:

Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–D) next to the question number (2.1.1–2.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
3.1.1	Statement of comprehensive income	A	This shows the owners' equity (net worth) of a company, its assets and liabilities, at the end of the financial year.
3.1.2	Statement of financial position	B	This shows an opinion expressed on the fair presentation of the figures in the financial statements.
3.1.3	Cash Flow Statement	C	This shows the net profit or loss of a company for a financial year.
3.1.4	Independent Auditor's Report	D	This shows the effect of the operating, financing and investing activities on the money processed by the business.

MANA LTD

3.2 Complete the Statement of comprehensive income for the year ended 28 February 2022. Note that some information is included in the ANSWER BOOK.

3.3 Prepare the following notes to the Balance Sheet:

3.3.1 Ordinary share capital

3.3.2 Retained income

3.4 Complete the EQUITY AND LIABILITIES section of the Statement of financial position. Show workings in brackets.

INFORMATION:

A. The following balances/totals, amongst others, appeared in the books on 28 February 2022:

	2022	2021
	R	R
Ordinary share capital	?	4 500 000
Retained income	814 500	750 500
Loan: Mdakane Bank	?	
Shareholders for dividends	355 500	
Trading stock (before stock take)	225 950	
Debtors' control	840 230	
Provision for bad debts (1 March 2021)	19 600	
Bank (Cr)	11 850	
Creditors' control	412 200	
SARS: Income tax (provisional tax payments)	444 750	
Sales	10 800 000	
Rent income	92 800	
Commission income	12 000	
Salaries and wages	1 529 150	
Depreciation	199 750	
Interest income	?	
Interest expense	57 500	
Sundry expenses	875 000	
Directors' fees	630 000	
Audit fees	36 000	
Ordinary share dividends (interim)	?	

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B. The business maintains a mark-up of 80% on cost.

C. The following adjustments must still be brought into account:

- Stocktaking on 28 February 2022 reflected trading stock of R213 750 on hand.
- Provision for bad debts must be increased with R1 500 on 28 February 2022.
- 25% of the audit fees was still due on 28 February 2022.
- One of the three directors is still owed his fee for February 2022. All three directors received the same monthly fee.
- A storeroom was rented out from 1 May 2021. On 1 December 2021, the rent was increased with 15%. The rent for March 2022 was received.
- Interest income is the balancing figure.

D. **Loan: Mdakane Bank**
The loan statement showed a closing balance of R520 000. The company plans to increase their loan repayments in order to settle 20% of the loan balance in the next financial year.

E. Income tax is calculated at 30% of the net profit before tax.

F. **Share capital and dividends:**

- The company is registered with an authorised share capital of 2 000 000 ordinary shares.
- 75% of the authorised shares were in issue on 1 March 2021.
- On 30 November 2021, the company repurchased 250 000 shares at R0,90 more than the average price.
- On 15 January 2022 another 400 000 shares at R5 were sold.
- An interim dividend was paid on 1 October 2021.
- A final dividend was declared on 28 February 2022.

ACTIVITY A 3

3.1 **Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–D) next to the question number (2.1.1–2.1.4).**

3.1.1	
3.1.2	
3.1.3	
3.1.4	

3.2 **MANA LTD**
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2022

Sales	10 800 000	
Cost of sales		
Gross profit		
Other income		
Commission income	12 000	
Gross income		
Operating expenses		
Salaries and wages	1 529 150	
Depreciation	199 750	
Sundry expenses		
Directors fees		
Audit fees		
Operating profit		
Interest income		
Net profit before interest expense		
Interest expense		
Net profit before tax		
Income tax		
Net profit after tax	1 120 000	

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3.3.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

2 000 000 ordinary shares

ISSUED SHARE CAPITAL

	Ordinary shares on 1 March 2021	

3.3.2 RETAINED INCOME

Balance on 1 March 2021	
Ordinary share dividends	
Balance on 28 February 2022	

3.4 EQUITY AND LIABILITIES SECTION OF THE STATEMENT OF FINANCIAL POSITION

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

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B. STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

STRATEGIES FOR REVISION

- Explain the aim and the purpose of preparing the statement of financial position.
- Learners must know the format.
- The statement of financial position can be assessed in sections for learners to master each section before the whole statement of financial position is assessed.
- Emphasis of the use of workings to earn part marks must also be enforced.
- Transferring of figures from notes and workings to the statement of financial position must also be noted. They must be taught the skill of inserting all known or previously calculated amounts into the statement of financial position, for example the issue of final dividends from retained income note to shareholders for dividends in the statement of financial position.
- Learners must avoid foreign entries and misplacements.
- Emphasize the sequence i.e. Assets, Equity and Liabilities
- Financial indicators may be used to assess format and calculate missing figures. Once the basics are mastered, opportunities for analysis and insight must be explored.
- Emphasis of stock valuation methods to calculate the stock on hand.
- Emphasis of the calculation of correct net profit and the issue of signs must be addressed.
- The issue of the calculation of income tax calculations must be done in different ways for the calculation of tax receivable and/or payable to SARS.
- Target whatever is pertaining to grade 12 content from previous grades.

ACTIVITY B 1 (CONCEPTS, NOTES AND STATEMENT OF FINANCIAL POSITION)

1.1 **CONCEPTS:** Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

1.1.1 A fixed deposit maturing within the next 12 months will be shown as cash and cash equivalent in the Balance sheet.

1.1.2 Earnings per share are calculated using the net profit before tax.

1.1.3 Total capital employed consists only of ordinary shareholders' capital and retained income.

1.2 **KWATHATHANI LTD.**

The information relates to a public company with an authorized share capital of 1 500 000 ordinary shares, the financial year-end 28 February 2022.

REQUIRED:

1.2.1 Complete the Retained Income Note to the Statement of Financial Position (Balance Sheet).

1.2.2 Complete the Statement of Financial Position (Balance Sheet) on 28 February 2022.

INFORMATION:

A. Balances/Totals on 28 February 2022.

	Debit	Credit
Ordinary share capital (1 000 000 shares)		R4 200 000
Retained income (1 March 2021)		468 000
Loan: Central Bank		352 400
Fixed assets at cost	R4 919 040	
Accumulated depreciation		201 520
Trading stock	255 340	
Debtors Control	235 000	
Provision for bad debts		4 000
Fixed deposit: King Bank	?	
Bank	381 300	
Creditors' Control		22 000
SARS (income tax)	340 000	
Insurance	23 520	
Rent Income		34 600

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B. Additional information:

(i) Share Capital:

200 000	Shares were in use at the beginning of the current financial year.
600 000	Additional shares were issued on 1 April 2021 at R3,90 per share.
200 000	Additional shares were issued on 31 October 2021 at R5 per share.
50 000	On 28 February 2022, shares were bought back from the estate of a diseased shareholder for R237 500. This transaction was **not yet** recorded. They qualify for final dividends.

(ii) Loan agreement with Central Bank:

Opening balance of loan on 1 March 2021.	R550 000
Repayment during the year, including interest	197 600
Closing balance	420 000

- The interest on loan is capitalized.
- R150 000 of the loan will be paid in the next financial year.

(iii) Dividends:

- An interim dividend of 30 cents per share was paid on 31 August 2021.
- A final dividend of 22 cents per share was declared on 28 February 2022 and must still be brought into account.

(iv) The following adjustments must be taken into consideration for the drafting of the Statement of financial position only:

- The rent for February 2022 was not received yet. The space was rented out since 1 December 2021.
- An additional insurance policy on granite saws was taken out on 1 October 2021. The annual premium of R13 440 was paid.
- Consumable stores on hand R1 580.
- A debtor owing R35 000 was declared insolvent. No entry was made.
- The provision for bad debt must be adjusted to R6 000.
- Audit fees of R9 000 are still outstanding on 28 February 2022.

(v) Net profit and income tax

Income tax for the year was calculated at 30%

Net profit before tax is R1 085 600 after all adjustments above were taken into account.

ACTIVITY B1 ANSWER SHEET

1.1

1.1.1	
1.1.2	
1.1.3	

1.2.1 **RETAINED INCOME**

Balance at the beginning of the year	
Balance at the end of the year	

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1.2.2

STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2022	
ASSETS	
Non-current assets	
Current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
Shareholder's equity	
Ordinary share capital	
Non-current liabilities	
Current liabilities	
TOTAL EQUITY AND LIABILITIES	

ACTIVITY B 2: (GAAP PRINCIPLES, NOTES AND STATEMENT OF FINANCIAL POSITION.)

2.1 **GAAP PRINCIPLES**

REQUIRED

Choose a GAAP principle in COLUMN A that matches the description in COLUMN B. Write only the letters (A–F) next to the question numbers (2.1.1 to 2.1.5) in the ANSWER BOOK..

	COLUMN A		COLUMN B
2.1.1	The original cost of the assets of a business need to be recorded.	A	Prudence
2.1.2	All significant information needs to be clearly shown in the financial statements of a business.	B	Matching
2.1.3	Income and expenses must be recorded in the correct financial period.	C	Business entity
2.1.4	Financial Statements are prepared with the assumption that the business does not expect to close down in the near future.	D	Materiality
2.1.5	The owner and business are seen as two separate entities for accounting purposes.	E	Historical cost
		F	Going concern

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2.2 SENANDILE LTD

You are provided with information from the books of Senandile Ltd. The financial year ended on 28 February 2022.

REQUIRED:

2.2.1 Complete the share capital note for the year ended 28 February 2022.

2.2.2 Complete the Current liabilities part of the Statement of financial position on 28 February 2022.

INFORMATION

The following balances appeared in the books of Senandile Ltd at the end of the financial year, 28 February 2022:

Share capital (600 000 shares issued)	4 680 000
Retained income (28 February 2022)	1 230 000
Mortgage Loan: Miss P Bank	1 596 000
Creditors' Control	325 810
Debtors' Control	247 982
Bank (Credit balance)	126 400
Prepaid expenses	15 800
Deferred income	18 790
Accrued expenses	11 840
Accrued income	15 238
SARS: Income tax	?
Shareholders' for dividends	95 000

ADDITIONAL INFORMATION AND ADJUSTMENTS:

A. Shares:

100 000 shares were issued at a price of R7,26 during the year. This transaction was recorded on 30 September 2021.

70 000 shares were bought back on the last day of the financial year and the transaction was recorded.

B. A debtor's account with a credit balance of R3 600 must be transferred to his account in the creditors' ledger.

C. The bank reconciliation on 28 February 2022 shows one future-dated EFT (15 March 2022) issued to a creditor for settlement of his account of R15 800.

D. Mortgage loan:

The mortgage loan was taken out on 1 September 2019. The agreement stipulated that the loan should be paid back over six years in equally monthly instalments from 30 September 2019. These payments were all made. Interest was not capitalised and were paid up to date.

E. Income tax for the year amounted to R891 000. Payments made to SARS during the year amounted to R 869 000.

ACTIVITY B 2 ANSWER SHEET

2.1

2.1.1	
2.1.2	
2.1.3	
2.1.4	
2.1.5	

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2.2.1

SHARE CAPITAL		
600 000	Shares issued at the end of the year	4 680 000

2.2.2

Current Liabilities	
Trade and other payables	

ACTIVITY B 3 :
CORRECTION OF NET PROFIT AFTER TAX, NOTES AND STATEMENT OF FINANCIAL POSITION

3.1 DLAMINI LTD

The following information relates to Dlamini Ltd, the financial year ended 28 February 2022.

REQUIRED:

3.1.1 Calculate the correct Net Profit after tax for the year ended 28 February 2022 (indicate a + for increase and a – for decrease).

3.1.2 Prepare the Retained Income note on 28 February 2022.

3.1.3 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2022. Show workings.

INFORMATION:

A. Amounts extracted from the records on 28 February 2022.

Balance sheet accounts section	
Ordinary share capital	?
Retained income	300 000
Fixed assets (carrying value)	2 392 000
Loan from: Chiliza bank	1 894 400
Trading stock	468 750
Trade debtors	440 500
Trade creditors	437 600
Fixed deposit: Dazini bank	?
Bank (favourable)	?
SARS: Income tax (provisional payments)	547 400
Consumable stores on hand	18 000
Accrued income	11 500

B. Net profit before tax R2 000 750 was determined before taking into account the following information:

(i) On 1 December 2021 Wanele Maphanga, a debtor, returned merchandise. A credit note for R2 000 was issued to him. (The cost price was R1 250.) No entries were made for the return of the merchandise. These items were returned to stock.

(ii) The auditors discovered that the profit on disposal of a vehicle R8 000, was incorrectly recorded as a loss.

(iii) The auditors are owed a further R28 000 after completing the audit.

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(iv) Buyeni builders was paid R200 000 for the construction of a storeroom. (R120 000) and repairs to paving (R80 000.) The entire amount was debited to land and buildings in error.

(v) Income tax was correctly calculated at R572 400 after taking into consideration the above (i) - (iv).

C. Loan was taken from Suncity bank on 1 April 2020 and it is going to be repaid over 5 years. All payments are up to date.

D. Dividends:

- Interim dividends of R75 000 was paid on 31 September 2021.
- Final dividends was declared at 20 cents per share on 28 February 2022.

E. Shares:

- 405 000 in issue at the beginning of the financial year (1 March 2021)
- 170 000 issued during the financial year (1 October 2021).
- 80 000 shares bought back on 1 January 2022 @ R2.50 higher than the average price. **These shares do qualified for final dividends.**
- 495 000 in issue at the end of the financial year (28 February 2022)

G. Financial indicators:

Current ratio	1.4:1
Acid test ratio	1:1
Solvency ratio	2:1

ACTIVITY B 3 ANSWER SHEET

3.1.1	**Net profit before tax**	**2 000 750**
	Net profit before tax	
	Income tax	
	Net profit after tax	
3.1.2	**Retained income**	
	Balance at the beginning	**300 000**

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3.1.3 Balance Sheet (Statement of Financial Position) on 28 February 2022.

Asset	
Non-current assets	
Current assets	
Total assets	
Equity and liabilities	
Shareholders' equity	
Non-current liabilities	
Loan	
Current liabilities	
Total equity and liabilities	

ACTIVITY B 4 (STATEMENT OF FINANCIAL POSITION)

You are provided with information related to Nkabane LTD on 30 June 2022.

REQUIRED:

4.1 Prepare the Statement of Financial position on 30 June 2022.

INFORMATION:

List of balances

Ordinary share capital	3 000 000
Trade and other payables	1 620 000
Cash and cash equivalent	375 000
Fixed deposit	750 000

The following financial indicators were calculated in 30 June 2022.

Current ratio	1,25 : 1
Acid test ratio	0,6 : 1
Net asset value per share	500 cents
Debt/equity ratio	0,25 : 1

The number of shares on 30 June 2022 amounted to 648 000.

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ACTIVITY B 4 ANSWER SHEET
NKABANE LIMITED
4.1 BALANCE SHEET AS AT 30 JUNE 2022

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

ACTIVITY B 5 (NOTE AND STATEMENT OF FINANCIAL POSITION)

5.1 **SHANGE LTD**

SHANGE Ltd is a listed company with an authorised share capital of 900 000 ordinary shares. The information provided is for the financial year ended 30 April 2022.

REQUIRED:

5.1.1 Prepare the Retained Income note to the Balance Sheet.
5.1.2 Complete the Statement of Financial Position (Balance Sheet) on 30 April 2022. Show all workings in brackets. Some amounts are provided in your ANSWER BOOK.

INFORMATION:

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A. The following balances/totals were extracted from the company records on 30 April 2022:

	R
Ordinary share capital	?
Retained income (1 May 2021)	7 480
Fixed assets at carrying value	4 079 800
Fixed Deposit: Bank	415 000
Loan: Dunge Bank	1 035 000
Inventory (all Trading Stock)	222 600
Creditors	231 920
SARS: Income tax (provisional tax payments)	280 000
Cash in bank	212 400

B. **Share Capital and Dividends:**

- The company is authorised to issue 900 000 shares.
- On 1 May 2021, 80% of the authorised share capital was in issue.
- On 20 November 2021, the company repurchased 40 000 shares at R1,25 above the average share price of R6,00. This transaction was recorded.
- An interim dividend of R179 200 was paid on 31 October 2021.
- A final dividend of R210 000 was declared on 30 April 2022.
- No new shares were issued during the year.

C. **Fixed Deposit:**

R215 000 of the fixed deposit matures on 30 June 2022. The balance matures in 2027.

D. **Loan: Dunge Bank**

The loan statement received reflected the following:

Balance on 1 May 2021	R 1 500 000
Total of monthly repayments (including interest)	465 000
Interest capitalised	165 000
Balance on 30 April 2022	?

A portion of the loan will be settled during the next financial period.

E. **Profit and tax:**

The net profit after tax amounted to R681 720.
Income tax is calculated at 31% of the net profit.

F. Financial indicators on 30 April 2022:

Current ratio	2 : 1
Net asset value (NAV)	610 cents

ACTIVITY B 5 (ANSWER SHEET)

5.1.1 RETAINED INCOME

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5.1.2 Balance Sheet (Statement of Financial Position) on 30 April 2022.

Assets	
Non-current assets	
Tangible assets	**4 079 800**
Current assets	
Inventory	**222 600**
Equity and liabilities	
Shareholders' equity	
Non-current liabilities	
Current liabilities	

ACTIVITY B 6 (CORRECTION OF NET PROFIT AND STATEMENT OF FINANCIAL POSITION)
ZIPHOZONKE LIMITED

The information relates to the financial year ended 30 June 2021. The business sells formal clothing for men and women.

REQUIRED:

6.1 Refer to Information B.
Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021.

6.2 **Refer to Information C.**
Use the table provided to calculate the correct **net profit after tax** for the year ended 30 June 2021. Indicate '+' for increase and '-' for decrease.

6.3 **Refer to Information A–H.**
Complete the following on 30 June 2021:

- Retained Income Note
- Statement of Financial Position (Balance Sheet)

NOTE:

- Adjustments from Information C also affect the Statement of Financial Position (Balance Sheet). Show workings. Certain figures are provided in the ANSWER BOOK.
- Figures are NOT required in the shaded areas.

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INFORMATION:

A. List of balances, before taking into account all adjustments below:

	30 June 2021 (R)	30 June 2020 (R)
Ordinary share capital	?	?
Retained income	3 240 000	
Mortgage loan: Best Bank	3 755 000	4 175 000
Trading stock	4 198 500	
SARS: Income tax (provisional tax)	1 200 000	
Net trade debtors	3 668 810	
Bank overdraft	?	
Petty cash and cash float	?	
Creditors' control	1 253 000	
Accrued income/Income receivable	8 000	
Shareholders for dividends	1 170 000	821 700

B. The accountant omitted the closing stock figure of formal suits in the trading stock balance provided in Information A.

NOTE:

- The first-in-first-out (FIFO) method is used to value the stock of the formal suits.
- All other relevant entries have been recorded correctly.

The information relating to the stock of formal suits is as follows:

Balances:	**QUANTITY**	**UNIT PRICE**	**TOTAL VALUE**
1 July 2020	110	R1 900	R209 000
30 June 2021	240	?	?
Purchases:			
	760		**R1 943 500**
14 Nov. 2020	360	R2 350	R846 000
10 Feb. 2021	170	R2 600	R442 000
18 May 2021	230	R2 850	R655 500
Returns:			
25 May 2021	24	R2 850	R68 400

C. The net profit before tax, R4 918 950, was calculated before taking into account/correcting the following:

(i) Audit fees include R123 600 which was paid in advance for the next financial year.

(ii) The repayments on the loan are fixed at R35 000 per month (including capitalized interest).
The balances as per loan statement were:
- 1 July 2020, R4 175 000
- 30 June 2021, R4 028 000

Provide for interest on loan.

(iii) Rent income:
Rent of R74 000 was received from a tenant for the period 1 July 2020 to 31 August 2021. This has been recorded. This amount takes into account a reduction of R750 per month from 1 May 2021. The year-end adjustment has not yet been made.

(iv) After taking into account the corrections above, it was determined that an additional R85 250 is still owed to SARS in respect of income tax for the year.

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D. Shares and dividends:

- 26 000 shares were repurchased on 1 July 2020 at R3, 00 above the average share price.
- The business did not pay interim dividends during the 2021 financial year.
- A final dividend of 65 cents per share was declared on 30 June 2021.
- 1 800 000 shares were in issue on 30 June 2021.

E. Debtors with credit balances totaling R11 000 must be transferred to the Creditors' Ledger.

F. On 30 June 2021, Ziphozonke Ltd returned 10 ladies' coats to the supplier, Sthembiso Wholesalers. The selling price was R1 750 each. The mark-up was 25% on cost. No entry has been made.

G. A fixed monthly instalment of R35 000 (to cover loan repayments and interest) has to be paid over the full period of the loan. Interest will decline over the life of the loan. The interest on the loan budgeted for the next financial year is R234 000.

H. The following financial indicators were calculated on 30 June 2021:

Acid-test ratio	1,2 : 1
Net asset value per share (NAV)	540 cents

ACTIVITY B 6

6.1 **Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021.**

WORKINGS	ANSWER

6.2 **Calculate the correct net profit after tax for the year ended 30 June 2021. Indicate '+' for increase and '–' for decrease.**

NO.	WORKINGS	AMOUNT
Incorrect net profit before tax		4 918 950
(i)	Audit fees	
(ii)	Interest on loan	
(iii)	Rent income	
(vi)	Income tax	
Net profit after tax		

6.3 **Retained Income Note on 30 June 2021**

Balance at beginning	
Balance at end	3 240 000

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ZIPHOZONKE LTD
STATEMENT OF FINANCIAL POSITION ON 30 JUNE 2021
Figures are NOT required in shaded areas.

ASSETS	
NON-CURRENT ASSETS	
Fixed assets	
Financial assets	
CURRENT ASSETS	**8 700 000**
TOTAL ASSETS	
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY	
Retained income	**3 240 000**
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
Bank overdraft	
TOTAL EQUITY AND LIABILITIES	

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C. CASH FLOW STATEMENTS

STRATEGIES / GUIDE TO TEACH CASH FLOW STATEMENT

- The cash flow statement should report cash flows during the period under review by indicating the **change** in cash balances brought about by **operating**, **investing** and **financing activities**.
- **(Note: It is essential that learners understand the format and each component of the cash flow statement)**

1. OPERATING ACTIVITIES

- ✓ Cash flow from **operations** is usually the most important source of cash for the business. Any firm which does not generate cash from trading operations is likely to experience difficulty meeting its obligations at some stage. (A firm cannot continually raise cash from loans and issuing shares and remain sustainable.)
- ✓ Cash generated from **operating activities** consists of funds obtained from "running" the business which also includes collecting cash from debtors and paying creditors.
- ✓ **Cash generated from** Operations - may be inflow/(outflow)

Note 1: Reconciliation between net profit before taxation and cash generated from operations:
Components:

Net profit before taxation
Adjustments in respect of:
Depreciation (add back)
Interest expense (add back)
Operating profit before change in working capital
Changes in working capital
Increases (outflow) / decreases (inflow) in: Inventories

- ✓ **Other component to be included under the Operating Activities:**
  - Interest paid – (always outflow)
  - Taxation paid – (always outflow)
  - Dividend paid – (always outflow)

2. INVESTING ACTIVITIES

- ✓ A firm must invest adequately in maintaining and/or expanding its operating capacity (i.e. buying new assets or replacing old ones) to ensure the ability to generate income. (Simply new assets need to be acquired and old assets need to be replaced for the business to remain competitive.)
- ✓ Firms may acquire (buy) and dispose(sell)
  - Land buildings, Equipment, Vehicles and Fixed deposits
- ✓ Components of investing Activities:
  - Purchase of tangible assets - (always outflow)
    [CV @ the beg – Depreciation – Disposal @ CV – CV @ the end] or vice versa
  - Disposal of tangible of assets – always inflow
    [CV @ the beg + Purchases – Depreciation – CV @ the end] or vice versa
  - Increasing of fixed deposit - (always outflow)
  - Decreasing of fixed deposit – always inflow



3. FINANCING ACTIVITIES

- ✓ Cash obtained from financing activities shows whether "capital", long term funds to run the business, is being obtained from interest bearing debt (**loans)** or from the **equity**. I.e. is money coming from shareholders or banks?
- ✓ **(Note: the buyback of shares must be thoroughly taught)**
- ✓ Components:
  - Proceeds from shares issued – always inflow
  - Repurchase of shares – (always outflow) involves the **total amount** paid from bank i.e. average price + excess paid above average price x number of shares)
  - Loan raised - always inflow
  - Loan repaid - (always outflow)

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4. NET CHANGE IN CASH AND CASH EQUIVALENTS

✓ The cash net change in cash and cash and cash equivalents can be calculated as the result of the following:

- cash from operating activities
- cash from investing activities
- cash from financing activities

ACTIVITY C1

You are provided with information relating to **HLOBO'S LTD.**

REQUIRED:

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

1.2. Complete the Cash Flow Statement for the year ended 31 December 2021

INFORMATION

STATEMENT OF FINANCIAL POSITION ON 31 DECEMBER 2021

ASSETS		**2021**	**2020**
Non-current assets		4 140 000	2 760 000
Fixed assets		3 552 000	2 532 000
Financial assets		588 000	228 000
Current assets		1 740 000	1 806 960
Inventories		1 094 400	1 392 000
Trade and other receivables		156 000	324 000
Cash and cash equivalents		489 600	90 960
TOTAL ASSETS		5 880 000	4 566 960
SHAREHOLDERS' EQUITY AND LIABILITIES			
Ordinary shareholders' equity		3 993 600	2 144 960
Ordinary share capital		2556 000	1 440 000
Retained income		1 437 600	704 960
Non-current liabilities		804 000	960 000
Loan from Hero Bank		804 000	960 000
Current liabilities		1 082 400	1 462 000
Trade and other payables		1 082 400	1 462 000
TOTAL EQUITY AND LIABILITIES		5 880 000	4 566 960

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NOTES TO FINANCIAL STATEMENTS

1.	TRADE AND OTHER RECEIVABLES		2021	2020
	Trade debtors		121 200	312 000
	Income receivable		4 800	12 160
	SARS (Income tax)		30 000	0
			156 000	324 000
2.	CASH AND CASH EQUIVALENTS			
	Cash in bank		453 600	52 800
	Cash float		24 000	8 160
	Petty cash		12 000	0
			489 600	60 960
3.	TRADE AND OTHER PAYABLES			
	Trade creditors		310 800	778 000
	Income received in advance		18 000	84 000
	Shareholders for dividends		753 600	432 000
	SARS (Income tax)		0	168 000
			1 082 400	1 462 000

Additional information

1. The net profit before tax is R2 480 000.
2. Income tax for the year amounted to 28% of the NP
3. Dividends for the 2021 financial year, R1 017 360
4. Depreciation for the year as in the Income Statement R 348 000
5. Hlobo's Ltd paid R 27 360 per month to Club Bank which included interest and loan repayments. Interest is capitalized to the loan.
6. A vehicle was sold at book value:

Cost price	R226 000
Accumulated depreciation	R152 000

7. Details of share capital
   - The authorised share capital comprised of 1 000 000 shares.
   - On 1 January 2021 there were 36% of the authorized share capital in issue. On this same day the directors decided to repurchase 36 000 ordinary shares from a disgruntled shareholder at 20% above average price.
   - On 31 December 2021 the company issued 150 000 shares.

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ACTIVITY C1 ANSWER SHEET

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED .....

1.	**Reconciliation between profit before taxation and cash generated from operations**	
	Profit before tax	
	Adjustments in respect of:	
	Depreciation	
	Interest expense	
	Operating profit before changes in working capital	
	Changes in working capital:	
	Cash generated from operations	

CASH FLOW STATEMENT FOR THE YEAR ENDED .....

	Note	
CASH FLOWS FROM OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
NET CHANGE IN CASH EQUIVALENTS		
Cash and cash equivalents – beginning of year		
Cash and cash equivalents – end of year		

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ACTIVITY C2

2.1 CASH FLOW STATEMENT

The following information relates to NGUNEZI LTD. The company has an Authorised Share Capital of 500 000 ordinary shares, and the financial year ends on 30 June each year. 1

REQUIRED:

2.1.1 Prepare the following notes to the Balance Sheet for the financial year ended 30 June 2022.
- Ordinary Share Capital
- Retained Income

2.1.2 Calculate the amount that would appear on the Cash Flow Statement for:
- Taxation paid
- Dividends paid.

2.1.3 Prepare the following note to the Cash Flow Statement:
Cash generated from operating activities.

2.1.4 Prepare the following sections of the Cash Flow Statement:
- Cash flow from investing activities
- Cash flow from financing activities.
- Net change in cash and cash equivalents

INFORMATION:

A. SHARE CAPITAL AND DIVIDENDS:
- The issued share capital on 1 July 2021 consisted of 460 000 shares of R 2, 20 each.
- 160 000 Additional shares were issued on 1 July 2021 for R383 000.
- 10 000 shares were bought back from a shareholder on 30 June 2022 at a price of R 0, 25 above average price. These shares do qualify for the final dividend.
- Dividends paid:
- Interim dividend paid on 31 December 2021, R72 000

B. FIXED ASSETS :

Equipment was disposed at carrying value during the year.
New fixed assets purchased, R720 000.

C. Extract from the Statement Of Comprehensive Income for the year ended 30 June 2022:

Depreciation	R156 800
Operating expenses	1 242 000
Operating income	1 021 200
Interest expense	46 000
INCOME TAX @ 30%	**292 710**
Net profit before tax	?

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D. Extract from the Statement Of Financial Position of NGUNEZI Ltd. on 30 June 2022.

	2022	2021
Fixed assets at carrying value	R1 734 190	R1 201 500
Financial Assets		
Investments	800 000	860 000
Current assets	**376 000**	**325 400**
Inventories	112 000	164 000
Trade and other receivables:	128 000	158 000
Trade debtors	119 800	102 000
SARS: Income tax	8 200	-
Expenses prepaid		56 000
Cash and cash equivalent	136 000	3 400
Shareholders' equity	**2 276 590**	**1 427 600**
Ordinary Share Capital	1 372 500	1 012 000
Retained income	?	415 600
Long- term liabilities		
Loan	400 000	480 000
Current liabilities	**233 600**	**479 300**
Trade and other payables:	233 600	265 800
Trade creditors	104 000	154 000
SARS: Income tax	-	23 800
Shareholders for dividends	120 000	88 000
Income received in advance	9 600	
Bank overdraft		213 500

ACTIVITY C2 ANSWER SHEET

2.1 NGUNEZI LTD.

2.1.1 ORDINARY SHARE CAPITAL

AUTHORISED:

1 500 000	Ordinary shares

ISSUED:

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

RETAINED INCOME

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

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

Taxation paid

Dividends paid

2.1.3 Prepare the following note to the Cash Flow Statement

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

2.1.4

Cash flows from investing activities	

Cash flows from financing activities	

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

ACTIVITY C3
CALCULATIONS, NOTE FOR FIXED ASSET, CASH FLOW STATEMENTS
You are provided with information for the financial year ended 28 February 2022 taken from the books of HLAHLINDLELA LTD. a public company listed on the Johannesburg Securities Exchange (JSE).

REQUIRED:
3.1 Refer to information **A** and **B**:
- 3.1.1 Calculate the cost price of the delivery vehicle that was traded in on 31 August 2021.
- 3.1.2 Calculate the amount for which this vehicle was traded in on 31 August 2021.
- 3.1.3 Complete the Fixed Asset Note on 28 February 2022.

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3.2 Prepare the Cash Flow Statement for the year ended 28 February 2022. (Where applicable, show calculations / workings in brackets to earn part marks.)

3.3 Refer to the Cash Flow Statement that you prepared in QUESTION 4.2:

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

INFORMATION:

A. Incomplete Fixed Asset Note on 28 February 2022:

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

B. Fixed/Tangible Assets

Land and buildings

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

Vehicles

A delivery vehicle bought on 1 March 2019 for R? was sold for cash on 31 August 2021. A new vehicle costing R450 000 was bought on the same day.
Depreciation on vehicles is written off at 20% p.a. on the diminished balance or carrying value.

Equipment

HLAHLINDLELA LTD bought all equipment on 1 June 2018. On 1 December 2021 the company bought a new printing machine. No equipment was sold during the year.

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

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C. Extracts from the Statement Of Financial Position on 28 February:

	2022	2021
Fixed Assets:		
Land and buildings (cost)	6 015 000	5 715 000
Vehicles (cost)	1 270 000	1 120 000
Equipment (cost)	265 000	200 000
Accumulated depreciation on vehicles	?	(460 000)
Accumulated depreciation on equipment	?	?
Current Assets:		
Inventory	115 520	199 140
Trade and other receivables	567 250	456 050
Debtors control	524 700	456 050
SARS (Income tax)	42 800	0
Cash and cash equivalents	95 512	4 740
Shareholders' equity:	**6 314 687**	**5 726 000**
Share capital	5 355 000	4 500 000
Retained income	959 687	1 226 000
Mortgage Loan: Hlobo'z Bank	**800 000**	**200 000**
Current Liabilities:		
Trade and other payables	**585 050**	**1 120 530**
Creditors control	436 400	398 630
Income received in advance	12 650	0
Shareholders for dividends	136 000	690 000
SARS (Income tax)	0	31 900
Bank overdraft	0	89 400

D. Extracts from the Statement Of Comprehensive Income for the year ended 28 February 2022:

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

E. Share capital

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

- Three hundred thousand (300 000) ordinary shares were issued in 2016 for 1 500 cents each.
- One hundred thousand (100 000) ordinary shares were issued on 30 April 2021 for 1 800 cents each.
- Sixty thousand (60 000) ordinary shares were bought back for 2 000 cents per share on 31 October 2021.

F. Dividends

	Financial year-end:	
	2022	**2021**
Interim dividends	R800 000	R320 000
Final dividends	R136 000	R690 000

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ACTIVITY C3 ANSWER SHEET

3.1.1	**Calculate the cost price of the delivery vehicle traded in on 31 August 2021.**
3.1.2	**Calculate the amount for which this vehicle was traded in on 31 August 2021.**

3.1.3 FIXED ASSET NOTE

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

3.2

HLAHLINDLELA LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2022

	R
Cash effects of operating activities	
Cash effects of investing activities	
Fixed asset purchased	
Proceeds from asset disposals	
Cash effects of financing activities	
Net change in cash and cash equivalents	
Cash and cash equivalents at beginning of year	
Cash and cash equivalents at end of year	95 512

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3.3 **Refer to the Cash Flow Statement that you prepared in QUESTION 3.2. Mention TWO major decisions reflected in the statement and support the decision by quoting relevant figures. Also indicate ONE possible point of impact that each decision would have on the company's future operations.**

Decision with figures	Impact on future business Operations

ACTIVITY C4

FINANCIAL INDICATORS AND CASH FLOW STATEMENT

The information relates to MOLWENI LTD. The financial year ends on 31 March.

REQUIRED:

4.1 Calculate the following financial indicators for the financial year ended 31 March 2022:
4.1.1 Debt-equity ratio
4.1.2 Net asset value per share
4.1.3 Dividend pay-out rate
4.1.4 Return on average shareholders' equity (ROSHE)
4.2 Complete the table in the ANSWER BOOK for the following items for the 2022 Cash Flow Statement. Indicate in EACH case whether it is an *inflow* or an *outflow* of cash.
4.2.1 Change in receivables
4.2.2 Change in payables
4.3 Calculate the following figures for the 2022 Cash Flow Statement:
4.3.1 Taxation paid
4.3.2 Dividends paid
4.3.3 Proceeds from sale of fixed assets
4.3.4 Funds used for the repurchase of shares

INFORMATION:

A. Extract from the Statement of Comprehensive Income for the year ended 31 March 2022:

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

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B. Extract from the Statement of Financial Position:

	31 March 2022 R	31 March 2021 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 2021.
- 120 000 new shares were issued at R12,60 per share on 1 April 2021.
- 20 000 shares were repurchased on 31 March 2022 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 2021	45 cents	R?
Final	31 March 2022	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 2022	31 March 2021
Debt-equity ratio	?	0,4 : 1
Earnings per share (EPS)	350 cents	314 cents
Current ratio	2,7 : 1	1,8 : 1

ACTIVITY C4 ANSWER SHEET

4.1.1

Calculate debts equity ratio:	
WORKINGS	**ANSWER**

4.1.2

Calculate net asset value per share:	
WORKINGS	**ANSWER**

4.1.3

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Calculate dividend pay-out:

WORKINGS	ANSWER

4.1.4

Calculate Return on Shareholders' equity :

WORKINGS	ANSWER

4.2.1.

For the Cash flow: Calculate change in Receivable

WORKINGS	ANSWER

4.2.2.

For the Cash flow: Calculate change in Payables

WORKINGS	ANSWER

4.3.1

Calculate : Taxation paid

WORKINGS	ANSWER

4.3.2

Calculate : dividend paid

WORKINGS	ANSWER

4.3.3

Calculate : Proceeds from sale of Assets

WORKINGS	ANSWER

4.3.4

Calculate : funds used for the repurchase of shares

WORKINGS	ANSWER

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D. ANALYSIS AND INTERPRETATION OF FINATION INFORMATION

STRATEGIES FOR ANSWERING ANALYSIS AND INTERPRETATION

Area of analysis	Description	Related financial indicators
	How efficient the company is in its normal operating activities	% Gross profit on sales % Net profit on sales % Operating expenses on sales % Operating profit on sales % Gross profit on cost of sales (mark-up)
Liquidity	The ability of a company to pay off its immediate (short-term) debts	Current ratio Acid test ratio Net current assets (net working capital) Turnover rate of stock Debtors' collection period Creditors' payment period Average period of stock on hand
Solvency	The ability of a company to pay off all its debts	Solvency ratio Net assets
Return	Are the shareholders earning a fair amount on their investment?	% Return on average shareholders' equity(ROSHE) Earnings per share (EPS) Dividends per share (DPS) Net asset value (NAV) Dividends Yield DPS/JSE MKT P x 100= Or Earnings Yield
Financial risk Gearing	To what extent is the company financed by loans (borrowed money) compared to its own capital	Debt / equity ratio % Return on total capital employed

ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS COMMENTING ON FINANCIAL INDICATORS Steps to follow when you are required to comment on financial indicators:

- Consider what the question is asking you to analyse (e.g. liquidity)

Decide on relevant financial indicator(s)

- Name the financial indicator(s), giving figures or ratios or percentages.
- Compare the current year indicator(s) with that of the previous year Say whether it has increased or decreased

If given TWO companies don't say whether it has increased or decreased Compare TWO companies

- If ;possible, provide general comments HINT: Use short sentences and point form when commenting. Things to look out for when making comments.

1. LIQUIDITY

Current ratio

Compare with the previous year
Must be more than 1:1 It should not be too high as this means cash is tied up instead of being used effectively
Must show steady increase as compared to the previous year

Acid Test ratio

Compare with the previous year
Must be at least 1:1
If it is too low the business may not be able to meet its short term obligations

Stock turnover rate

Compare with the previous year
Stock is turned over a number of times per year
If it shows increase means stock is sold faster

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Stock holding period
Compare with the previous year
The faster the sales occur, the fewer the number of days stock is kept.
This ratio must show a DECREASE as compared to the previous year

Average debtors collection period
A generally accepted period is 30 days or less.
It must show a DECREASE as compared to the previous year

Creditors Payment period
A generally accepted period is 90 days
It is informed by the credit terms of the supplier
It must show an INCREASE as compared to the previous year

2. SOLVENCY
A business is solvent if the ratio is 1:1 or more
A business is insolvent if the ratio is less than 1:1
It must show an INCREASE as compared to the previous year

3. RETURN
Return on Shareholders equity (ROSHE)
Compare ROSHE for the current year with interest rate on alternative investment (such as fixed deposit)

Earnings per share (EPS)
If it shows an increase means the company has growth potential.
It must show an INCREASE as compared to the previous year

Dividends per share (DPS)
Earnings are distributed to shareholders as dividends, but some are earnings are retained for future growth. This ratio may also be used to determine the dividend policy of the company.
To comment: Calculate the % using the formula EPS/DPS X100 Then compare previous year with current year If it shows an increase means the directors are making shareholders happy by distributing more dividends. If it shows a decrease means the directors have plans for growth by distributing less dividends.

Net Asset Value per share
Must always start with JSE price If JSE price LESS than NAV : Shares are undervalued in the market
If JSE price MORE than NAV shares are overvalued in the market.

Dividends yield
Percentage of share price that is paid out as dividends.
Paid to shareholders relative to the market price or NAV.
DPS/MARKET PRICE(JSE) X 100
DPS/ NAV x 100

Earnings yield
It is the rate of the company's profit to the value of its shares company's Earnings Per Share.
EPS/MARKET PRICE(JSE) X 100
EPS/ NAV x 100

4. GEARING
Debt/Equity ratio
Focus on the Current year Risk (If debt equity ratio is above 0,5 - becomes risky and below 0,5 – low risk)

Return on Total Capital Employed (ROTCE)
Focus on Current year Compare interest rate with returns (Gearing) (If returns are more than interest rate it's a positive gearing, If returns are less than interest rate it's a negative gearing) If two companies do the above in each company Key: ROTCE less INTEREST RATE ON LOAN = POSITIVE/NEGATIVE GEARING If the answer is negative it's a negative gearing and if the answer is positive it's a positive gearing.

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GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET		
$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Total assets : Total liabilities	Current assets : Current liabilities	
(Current assets – Inventories) : Current liabilities		$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$
(Trade and other receivables + Cash and cash equivalents) : Current liabilities		
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$		$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
Long-term liabilities : Shareholders' equity	$\frac{\text{Net profit after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$	
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$		
$\frac{\text{Net income after tax + Interest on loans}}{\text{Average Shareholders' equity + Average Long-term liabilities}} \times \frac{100}{1}$		
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$

ACTIVITY D 1

1.1 **PHILA LTD**

You are provided with information relating to Phila Ltd for the financial year ended 31 March 2022. The company is registered with an authorised share capital of 2 000 000 ordinary shares.

REQUIRED:

1.1.1. Calculate the following financial indicators on 31 March 2022.

- Debt-equity ratio (3)
- Net asset value per share (3)
- % Return on average shareholders' equity (4)

1.1.2 The management decided to change the mark-up % in the current financial year. Was this a good decision? Explain. Quote figures. (3)

1.1.3 Comment on the management of expenses. Quote TWO relevant financial indicators to support your comment. (4)

1.1.4 Comment on the issue price of the new shares issued on 30 June 2021. Was this fair? Quote figures. (6)

1.1.5 Comment on the dividend pay-out policy of the company by comparing 2021 to 2022 and quote relevant figures. (6)

1.1.6 Comment on the degree of risk and gearing of the business. Quote TWO financial indicators with figures. (6)

1.1.7 How many shares will a shareholder, having 45% of the issued share capital, have to buy to gain control of the company? (4)

INFORMATION:

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A Information from the STATEMENT OF COMPREHENSIVE INCOME for the financial year ended 31 March:

	2022	2021
Sales	8 300 000	6 650 000
Cost of sales	5 187 500	3 800 000
Gross Profit	3 112 500	2 850 000
Net profit before taxation	1 240 000	931 000
Net profit after taxation	892 800	651 700
Interest on loan	211 000	
Depreciation	425 000	

B Extract from the STATEMENT OF FINANCIAL POSITION on 31 March:

	2022	2021
Fixed assets	10 152 700	7 915 400
Fixed deposit: SSB BANK	250 000	400 000
Shareholders' equity	9 209 000	6 458 200
Current assets (including stock)	794 500	681 300
Trading stock	430 000	198 000
Current liabilities	688 200	538 500
SARS (Income tax)	8 500 (Dr)	12 000 (Cr)
Cash & cash equivalents	0	45 300
Bank overdraft	34 200	2 000
Loan from Zipho Bank	1 300 000	2 000 000
Shareholders for dividends	378 000	300 000

C Share Capital and dividends

1 000 000	Ordinary shares on 1 April 2021	6 360 000
400 000	Shares issued on 30 June 2021 @ R8,60	?
(120 000)	Shares repurchased on 30 March 2022	?
1 280 000	Ordinary shares on 31 March 2022	8 960 000

- An amount of R168 000 above the average share price was paid to repurchase the shares on 30 March 2022.
- An interim dividend of 15 cents per share was paid on 30 September 2021.
- A final dividend was declared on 31 March 2022.

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E Financial indicators calculated on 31 March:

	2022	2021
Gross profit on cost of sales	60%	75%
Gross profit on sales	38%	43%
Operating expenses on sales	22%	23%
Operating profit on sales	16%	16%
Market price per share on the JSE	728 cents	630 cents
Net asset value per share	?	646 cents
Earnings per share	69 cents	62 cents
Dividends per share	41 cents	60 cents
% return on shareholders' equity	?	11%
% return on total capital employed	15,3%	13%
% interest rate on loans	13%	13%
Debt/Equity ratio	?	0,3 : 1
Current ratio	1,2 : 1	1,3 : 1
Acid-test ratio	0,5 : 1	0,9 : 1
Period for which stock is on hand	22 days	18 days
Average debtors' collection period	44 days	47 days

ACTIVITY D 1

1.1.1 Calculate the net asset value per share on 29 February 2020.

1.1.2 Calculate the return on total capital employed for the 2020 financial year.

1.1.3 The directors of Progress Ltd want to take out a loan for R500 000. Quote ONE financial indicator (actual figure/ ratio/percentage) that are relevant to their decision. Would you advise them to take out the loan?

1.2.1 From 2019 to 2020 the directors made a deliberate decision to change the policy on the distribution of profit in the form of dividends. Explain this change. Quote figures/calculations to support your answer.

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1.2.2	If the balance on the loan at the end of 2020 is R680 000, calculate the shareholders' equity at the end of 2020.
1.2.3	Comment on whether the shareholders should be satisfied with the market price of their shares. Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trend. Give an additional comment to support your answer.
1.3.1	Calculate the minimum number of shares that Nikola must buy in July 2020 to gain control of the company.
	Nikola wants to purchase the additional shares, at R12 per share without advertising the shares to the public. Give TWO reasons why you would not approve of this arrangement.
1.3.2	New shares were issued at the beginning of the financial year at R10,00 each. Explain why the existing shareholders would or would not be happy with this issue price. Quote TWO financial indicators (with figures) to explain their opinion.

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ACTIVITY D 2

2.1.1 Calculate the following financial indicators on 28 February 2022:
- Net asset value per share (NAV) (3)
- Return on average shareholders' equity (ROSHE) (7)

2.1.2 Provide calculations to show the change in the dividend pay-out policy and comment on its impact on retained earnings. (4)

2.1.3 Explain why the shareholders should be satisfied with the returns on their investment. Quote TWO financial indicators (with figures) to support your opinion. (4)

INFORMATION:

A. SHARES AND DIVIDENDS
- Additional shares were issued on 30 August 2021.
- Shares were repurchased from certain shareholders at R9,00 per share during October 2021.
- An interim dividend was paid on 31 July 2021.
- A final dividend of 50 cents per share was declared on 28 February 2022. Only shareholders on the current share register are entitled to final dividends.

B. INFORMATION EXTRACTED FROM THE STATEMENT OF COMPREHENSIVE INCOME ON 28 FEBRUARY 2022

Gross profit	5 300 000
Net profit after tax	3 250 800
Income tax	1 393 200
Depreciation	?
Interest expense	45 000

C. EXTRACT FROM THE STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY:

Assets	**2022**	**2021**
Non-current assets		
Fixed assets	?	?
Fixed deposit	1 000 000	1 800 000
Current Assets		
Inventories	764 160	589 500
Trade debtors	297 200	446 900
Accrued income	0	2 400
SARS (Income tax)	0	500 000
Cash and cash equivalents	?	642 100
Equity & Liabilities		
Shareholders' equity	?	?
Share capital	24 510 000	?
Retained income	?	1 370 000
Non-current liabilities		
Mortgage loan	800 000	2 400 000
Current liabilities		
Trade and other payables	122 300	321 700
SARS (Income tax)	200 000	0
Shareholders for dividends	?	2 137 500

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FINANCIAL INDICATORS ON 28 FEBRUARY:

	2022	2021
% return on total capital employed	23,4%	19,5%
% return on average shareholders' equity	?	13,2%
Net asset value per share	?	580 cents
Earnings per share	95 cents	80 cents
Dividends per share	90 cents	96 cents
Market price	750 cents	645 cents



2.2 **The following information pertains to the financial records of Taylor Ltd. for the year ended 28 February 2019.**

REQUIRED

2.2.1 Calculate the following financial indicators on 28 February 2019:

(a) Net Asset Value per share (NAV). (3)

(b) % Return on average Shareholder's Equity (ROSHE). (5)

2.2.2 Comment on the liquidity of the company. Quote THREE financial indicators (with figures and trends) to support your answer. (8)

2.2.3 Tricia Harper is a shareholder and she is unsure if she should sell her shares or not. She asks for your advice. Provide figures in your answer. (3)

2.2.4 Refer to **Information C**. Calculate the total dividends Charlie Williams received during the year. (6)

2.2.5 The dividend pay-out policy has changed from the previous year. Provide calculations to show the change and provide ONE possible reason for the change. (6)

INFORMATION

A. Extract from the STATEMENT OF COMPREHENSIVE INCOME for the year ended 28 February 2022:

Interest on loan (14%)	87 000
Net profit before tax	635 000
Net profit after tax	457 200

B. Other financial information and indicators for the past two years:

	2022	2021
Number of issued shares on 28 Feb 2021		700 000
Number of issued shares on 28 Feb 2022	762 000	
Shareholder's equity	R1 690 000	R1 510 000
Current ratio	4,1 : 1	2,1 : 1
Acid test ratio	1,6 : 1	1,4 : 1
Stock turnover rate	10 times	6 times
Debtors' collection period	30 days	30 days
Creditor's payment period	30 days	60 days
Debt/Equity ratio	0,4 : 1	0,3 : 1
% return on shareholder's equity	?	22,3%
Net asset value per share (NAV)	?	216c
Dividends per share (DPS)	45c	15c
Earnings per share (EPS)	60c	55c
Market price per share	252c	236c

C. Details on Charlie Williams' dividends:

- On 1 March 2021 Charlie Williams owned 10 400 shares in Taylor Ltd.
- He bought 10% of the new shares issued during the year.
- The interim dividend paid during the year was 20c per share (the new shares did not qualify for the interim dividend).

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ACTIVITY D 2

2.1.1	Calculate the following financial indicators for 2022: Net asset value per share	
	Percentage return on average shareholders' equity	
2.1.2	Provide calculations to show the change in the dividend pay-out policy and comment on its impact on retained earnings. Year | Calculation | Comment 2021 2022	
2.1.3	Explain why the shareholders should be satisfied with the returns on their investment? Quote TWO financial indicators (with figures) to support your opinion. 	
2.2.1	Calculate the following financial indicators on 28 February 2019: (a) Net Asset Value per share	
	(b) % Return on average Shareholder's Equity (ROSHE)	
2.2.2	Comment on the liquidity of the company. Quote THREE financial indicators (with figures and trends) to support your answer.	
2.2.3	Tricia Harper is a shareholder and she is unsure if she should sell her shares or not. She asks for your advice. Provide figures in your answer.	
2.2.4	Refer to Information C. Calculate the total dividends Charlie Williams received during the year.	
2.2.5	The dividend pay-out policy has changed from the previous year. Provide calculations to show the change and provide ONE possible reason for the change.	

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ACTIVITY D 3

You are provided with information relating to Glebo Limited for the year ended 30 June 2022. Glebo Limited is a public company listed on the JSE Securities Exchange. They are based in Pretoria and they sell office stationery.

The directors of Glebo Limited decided to open new branches in Bloemfontein and Witbank halfway through the year.

REQUIRED:

3.1 Calculate the following financial indicators for 2022:

- 3.1.1 Debt/Equity ratio (3)
- 3.1.2 Acid-test ratio (4)
- 3.1.3 Stock turnover rate (4)
- 3.1.4 % return on average shareholders' equity (4)
- 3.1.5 Net asset value per share (4)

3.2 Solvency and liquidity:

- 3.2.1 Briefly explain the difference between *solvency* and *liquidity*. (2)
- 3.2.2 Comment on the solvency of this business. Quote a financial indicator from the question to support your opinion. (3)
- 3.2.3 Comment on the liquidity of this business. Quote the financial indicators and the changes (trends) from the previous year to support your opinion. (10)

3.3 Returns and share price:

3.3.1 Comment on the earnings, dividends and % return.Quote financial indicators and the changes (trends) from the previous year to support your opinion. (6)

3.3.2 You have been a shareholder since the company started many years ago. The price of the share on the JSE is now 350 cents which is a 6% increase over the past year. Would you be satisfied with the performance of the share price? Comment and compare this to a financial indicator from the question to support your opinion. (4)

3.4 The Cash Flow Statement highlights some significant (important) decisions taken by the directors over the past year. Explain TWO of these significant decisions. Quote figures to support your answer. Also explain how these decisions would benefit the company and the shareholders. (8)

3.5 At the AGM, the directors announce that the company will:

- Conduct training of all employees in terms of morals and ethics
- Donate funds towards cleaning up the environment

Explain why this is necessary although this will cost the company a lot of money each year. State THREE points (6)

INFORMATION:

GLEBO LIMITED

EXTRACT FROM STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

	2022	2021
Sales (70% of sales were on credit)	9 000 000	7 000 000
Cost of sales	5 625 000	4 070 000
Operating profit	?	?
Income tax	426 000	270 000
Net profit after tax	904 000	630 000

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GLEBO LIMITED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	2022	2021
ASSETS		
Non-current assets	**4 626 000**	**2 209 000**
Fixed assets	4 326 000	1 489 000
Financial assets	300 000	720 000
Current assets	**2 557 000**	**2 508 000**
Inventories (all trading stock)	?	1 510 000
Trade and other receivables (all trade debtors)	810 000	960 000
SARS (Income tax)	0	18 000
Cash and cash equivalents	107 000	20 000
TOTAL ASSETS	**7 183 000**	**4 717 000**
EQUITY AND LIABILITIES		
Ordinary shareholders' equity	**4 123 000**	**2 640 000**
Ordinary share capital (1 100 000 shares)	2 910 000	1 800 000
Retained income	1 213 000	840 000
Non-current liabilities	**1 980 000**	**700 000**
Mortgage loan: Jozi Bank (13% p.a.)	1 980 000	700 000
Current liabilities	**1 080 000**	**1 377 000**
Trade and other payables (all trade creditors)	705 000	819 00
SARS (Income tax)	32 000	
Shareholders for dividends	275 000	240 00
Bank overdraft	0	250 00
Current portion of loan	68 000	68 00
TOTAL EQUITY AND LIABILITIES	**7 183 000**	**4 717 000**

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GLEBO LIMITED
CASH-FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2022

Cash effects of operating activities		
Cash generated from operations		**?**
Interest paid		(134 000)
Dividends paid		(496 000)
Income tax paid		**(376 000)**
Cash effects of investing activities		(2 797 000)
Purchase of fixed assets for new branches		(3 357 000)
Proceeds of sale of fixed assets		140 000
Proceeds of financial assets matured		420 000
Cash effects of financing activities		170 000
Proceeds of issue of shares		**(1 110 000)**
Proceeds of increase in mortgage loan		**1 280 000**
Net change in cash equivalents		337 000
Cash equivalents – beginning of year		(230 000)
Cash equivalents – end of year		**107 000**

FINANCIAL INDICATORS:
The following financial indicators were calculated for the past two years:

	2022	**2021**
Debt/Equity ratio	?	0,27:1
Total assets to total liabilities	2,2:1	2,3:1
Current ratio	2,4:1	1,8:1
Acid-test ratio	?	0,7:1
Stock-turnover rate	?	2,4 times
Debtors collection period	51 days	72 days
Creditors payment period	49 days	67 days
% return on average shareholders' equity (after tax)	?	23,9 %
% return on total capital employed (before tax)	43,3 %	39,7 %
Net asset value per share	?	330 cents
Dividends per share	57 cents	65 cents
Earnings per share	95,2 cents	78,8 cents

ACTIVITY 3	
3.1.1	Debt/Equity ratio
3.1.2	Acid-test ratio
3.1.3	Stock-turnover rate
3.1.4	% return on average shareholders' equity
3.1.5	Net asset value per share

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3.2.1	Briefly explain the difference between *solvency* and *liquidity*.
3.2.2	Comment on the solvency of this business. Quote financial indicator from the question to support your opinion.
3.2.3	Comment on the liquidity of this business. Quote the financial indicators and the changes (trends) from the previous year to support your opinion
3.3.1	Comment on the earnings, dividends and % return. Quote financialindicatorsand changes (trends) from the previous year to support your opinion.
3.3.2	Would you be satisfied with the performance of the share price? Comment and compare this to a financial indicator from the question to support your opinion.
3.4	The Cash-Flow Statement highlights some significant (important) decisions taken by the directors over the past year. Explain TWO of these significant decisions. Quote figures to support your answer. Also explain how these decisions would benefit the company and the shareholders
3.5	At the AGM, the directors announce that the company will: • conduct training of all employees in terms of morals and ethics • donate funds towards cleaning up the environment. Explain why this is necessary although this will cost the company a lot of money each year. State THREE points.

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ACTIVITY D 4

4.1 **PROGRESS LTD**

You are provided with information from the financial statements of Progress Ltd. The financial year ended on 29 February 2020.

REQUIRED:

4.1.1 Calculate the net asset value per share on 29 February 2020. (3)

4.1.2 Calculate the return on total capital employed for the 2020 financial year. (8)

4.1.3 The directors of Progress Ltd want to take out a loan for R500 000. Would you advise them to take out the loan? Quote ONE financial indicators (actual figure/ratio/percentage) that are relevant to their decision. (3)

INFORMATION FROM FINANCIAL STATEMENTS AT THE END OF THE FINANCIAL YEARS			
		2020	**2019**
	Shareholders' equity	1 630 000	1 280 000
	Shares issued	400 000	300 000
	Loan: Direct Loans	380 000	520 000
	Current assets	488 000	412 000
	Current liabilities	621 000	578 000
	Total assets	2 631 000	2 378 000
	Net profit before income tax	620 000	388 000
	Net profit after income tax	452 600	429 240
	Interest expense	76 200	68 400

FINANCIAL INDICATORS AT THE END OF THE FINANCIAL YEARS			
		2020	**2019**
	Debt/Equity ratio	0,23 : 1	0,41 : 1
	Current ratio	0,79 : 1	0,71 : 1
	Acid test ratio	0,50 : 1	0,45 : 1
	Return on total capital employed	?	25,4 %
	Return on shareholders' equity	24,3 %	36,1 %
	Solvency ratio	2,6 : 1	2,2 : 1

4.2 **BENCO LTD**

You are provided with information relating to Benco Ltd for the financial year ended 30 September 2020.

REQUIRED

4.2.1 From 2019 to 2020 the directors made a deliberate decision to change the policy on the distribution of profit in the form of dividends. Explain this change. Quote figures/calculations to support your answer. (4)

4.2.2 If the balance on the loan at the end of 2020 is R680 000, calculate the shareholders' equity at the end of 2020. (2)

4.2.3 Comment on whether the shareholders should be satisfied with the market price of their shares. Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trend. Give an additional comment to support your answer. (5)

INFORMATION				
C.	**Financial indicators**			
		2020	**2019**	
	Earnings per share (EPS)	60 cent	56 cent	
	Dividends per share (DPS)	33 cent	56 cent	
	Net asset value per share (NAV)	364,7 cent	315,6 cent	
	Debt/Equity ratio	0,5 : 1	0,1 : 1	
	Current ratio	1,6 : 1	1,5 : 1	
	Acid test ratio	0,6 :1	0,4 : 1	
	Market price per share	385 cent	310 cent	

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4.3 METSI LTD

You are provided with the information of Metsi Limited. The company is registered with an authorized share capital of 2 000 000 shares. The financial year ended on 29 February 2020.

REQUIRED:

4.3.1 The CEO, Nikola Pelser, currently owns 40% of the issued shares. The board of directors decided to issue 50% of the unissued shares in July 2020.

- Calculate the minimum number of shares that Nikola must buy in July 2020 to gain control of the company. (4)
- Nikola wants to purchase the additional shares, at R12 per share without advertising the shares to the public. Give TWO reasons why you would not approve of this arrangement. (4)

4.3.2 New shares were issued at the beginning of the financial year at R10,00 each. Explain why the existing shareholders would or would not be happy with this issue price. Quote TWO financial indicators (with figures) to explain their opinion. (4)

INFORMATION:

The following financial indicators were taken from the accounting records of Metsi Limited for the years ended:

	29 Feb.2020	28 Feb. 2019
Shares issued	1 200 000	450 000
Net asset value per share	1 600 cents	1 400 cents
Debt/equity ratio	0,1 : 1	1,3 : 1
Current ratio	1,4 : 1	0,9 : 1
Acid-test ratio	0,7 : 1	0,8 : 1
Rate of stock turnover	4 times p.a.	3 times p.a.
Debtors' collection period	28 days	35 days
Creditors' payment period	20 days	40 days
Earnings per share	610 cents	590 cents
Dividends per share	125 cents	135 cents
Market price of shares	1 700 cents	1 600 cents

ACTIVITY 4

4.1.1 Calculate the net asset value per share on 29 February 2020.

4.1.2 Calculate the return on total capital employed for the 2020 financial year.

4.1.3 The directors of Progress Ltd want to take out a loan for R500 000. Quote ONE financial indicator (actual figure/ ratio/percentage) that are relevant to their decision. Would you advise them to take out the loan?

4.2.1 From 2019 to 2020 the directors made a deliberate decision to change the policy on the distribution of profit in the form of dividends. Explain this change. Quote figures/calculations to support your answer.

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4.2.2	If the balance on the loan at the end of 2020 is R680 000, calculate the shareholders' equity at the end of 2020.
4.2.3	Comment on whether the shareholders should be satisfied with the market price of their shares. Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trend. Give an additional comment to support your answer.
4.3.1	Calculate the minimum number of shares that Nikola must buy in July 2020 to gain control of the company.
	Nikola wants to purchase the additional shares, at R12 per share without advertising the shares to the public. Give TWO reasons why you would not approve of this arrangement.
4.3.2	New shares were issued at the beginning of the financial year at R10,00 each. Explain why the existing shareholders would or would not be happy with this issue price. Quote TWO financial indicators (with figures) to explain their opinion.

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ACTIVITY D 5

PART A FINANCIAL INDICATORS OF TWO COMPANIES

Your friend, Peter, is considering buying shares in a company that sells sportswear. He asks you for advice and presents you with the following financial indicators of two companies he is considering. The companies are of similar size, they have issued the same number of shares and the issue price are the same.

	Peggy Ltd	**Lolly Ltd**
Market price per share on the JSE	755 cents	590 cents
Net asset value per share	605 cents	625 cents
Earnings per share	813 cents	179 cents
Dividends per share	637 cents	182 cents
% return on shareholders' equity	28,5%	11,5%
% return on total capital employed (before tax)	35,6%	12,4%
% interest rate on loans	14%	14%
Debt/Equity ratio	0,2 : 1	1,9 : 1
Current ratio	5,8 : 1	1,7 : 1
Acid-test ratio	3,7 : 1	0,8 : 1
Period for which enough stock is on hand	140 days	80 days
Debtors' average collection period	55 days	26 days

REQUIRED:

Explain your answer to each of the following questions, in each case quoting financial indicators (figures, ratios or percentages) to support your answer.

5.1 Explain why the liquidity financial indicators of Lolly Ltd are better than those of Peggy Ltd. Quote THREE financial indicators to support your answer.

5.2 Which company uses more loans? Explain whether this is a good idea or not. In each case, quote a financial indicator to support your answer.

5.3 The market price of the shares of Peggy Ltd is doing much better than that of Lolly Ltd. Explain, quoting TWO financial indicators to support this opinion.

5.4 Peggy Ltd has a better percentage return, earnings and dividends than Lolly Ltd. Explain THREE financial indicators to support this opinion.

5.5 Calculate the dividend payout % for each company and give a possible reason for each distribution.

5.6 Compare the dividend and earnings of the two companies and explain which one's shares are worth purchasing. Quote relevant indicators.

PART B

The company is registered as a public company with an authorized share capital of 450 000 ordinary shares.
The CEO, Gus Logie, currently owns 45% of the issued shares. The board of directors has decided to issue all the unissued shares in July 2022
At the beginning of the financial year there were 200 000 shares already issued
40 000 new shares were issued on 1 February 2022 for R5
240 000 shares were issued by the end of the current financial period.

REQUIRED

1 Calculate the minimum number of shares Gus must buy in July 2022 to gain control of the company.

2 Gus wants to purchase the additional shares at R8,00 without advertising the shares to the public. Give TWO reasons why you would not approve of this arrangement.

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ACTIVITY D 5

PART A

5.1	Explain why the liquidity financial indicators of Lolly Ltd are better than those of Peggy Ltd. Quote THREE financial indicators to support your answer
5.2	Which company uses more loans? Quote a financial indicator to support your answer. Explain whether this is a good idea or not. Quote a financial indicator to support your answer
5.3	The market price of shares in Peggy Ltd is doing much better than that of Lolly Ltd. Explain, quoting TWO financial indicators to support this opinion.
5.4	Peggy Ltd has a better percentage return, earnings and dividends than Lolly Ltd. Explain THREE financial indicators to support this opinion.
5.5	Calculate the dividend payout % for each company and give a possible reason for each distribution.
5.6	Compare the dividend and earnings yield of the two companies and explain which shares are worth purchasing. Dividends yield Earnings yield
PART B	
1	Calculate the minimum number of shares Gus must buy in July 2013 to gain control of the company
2	Gus wants to purchase the additional shares at R8,00 without advertising the shares to the public. Give TWO reasons why you would not approve of this arrangement

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ACTIVITY D 6

You are provided with information relating to Prospect Limited for the year ended 31 March 2022. The CEO, Ronnie Phosa, together with his children, owns 150 000 shares in the company.

REQUIRED:

6.1 Calculate the net asset value per share on 31 March 2022 after the repurchase of the shares from the Gaptu family. (4)

6.2 Calculate the return on total capital employed for the 2022 financial year. (8)

6.3 The Gaptu family were keen to sell their shares because they were unhappy with the low pay-out policy that the directors were following in deciding on dividends. In your opinion, are their complaints valid, or not? Explain. (4)

6.4 Have the Gaptu family been offered a fair value for their shares? Explain. (3)

6.5 In your opinion, will the repurchase of the shares from the Gaptu family benefit the remaining shareholders, or not? Explain. (5)

INFORMATION:

1 The ordinary share capital on 1 April 2021 consisted of:
- 250 000 ordinary shares issued in the 2019 financial year at R5,00 per share
- 150 000 ordinary shares issued in the 2020 financial year at R7,00 per share.

2 Retained income on 1 April 2021 amounted to R1 960 000.

3 The following changes occurred to share capital during the 2022 financial year:
- On 1 October 2021, 100 000 new ordinary shares were issued at R9,00 per share. These shareholders are not entitled to interim dividends.
- On 31 March 2022, the directors decided to repurchase 220 000 ordinary shares from members of the Gaptu family who were no longer interested in being shareholders. These shareholders had originally bought most of their shares on the JSE at different prices and at different times. The repurchase price was R10,70 per share. These shareholders are entitled to all dividends for the 2022 financial year.

4	**Additional information for the past two financial years:**			
		31 March 2022	**31 March 2021**	
	Interest expense	R150 000		
	Income tax	R 685 000		
	Net income after tax	R1 600 000	R2 200 000	
	Ordinary shareholders' equity at year-end	R3 616 000	R4 260 000	
	Non Current Liabilities	R1 500 000	R 1 000 000	
	Number of shares in issue at year-end	?	400 000 shares	
	Market price per share on the JSE	1 040 cents	1 040 cents	
	Net asset value per share	**?**	1 065 cents	
	Average issue price	R4.30		
	Earnings per share	356,6 cents	488,9 cents	
	Interim dividends	70 cents	90 cents	
	Final dividends	102 cents	140 cents	

ACTIVITY D 6

6.1	Calculate the net asset value per share on 31 March 2022 after the repurchase of the shares from the Gaptu family.
6.2	Calculate the return on total capital employed for the 2022 financial year.
6.3	In your opinion, are the complaints by the Gaptu family about the dividends valid, or not? Explain.
6.4	Have the Gaptu family been offered a fair value for their shares? Explain.
6.5	In your opinion, will the repurchase of the shares from the Gaptu family benefit the remaining shareholders, or not? Explain.

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E. CORPORATE GOVERNANCE AND AUDIT REPORT

CORPORATE GOVERNANCE AND AUDITING

Companies are an integral part of the modern society; the corporate citizenship and governance flows from the fact that the Company is a legal person and should operate in a sustainable manner.

Companies have rights but also legal and moral obligations in respect of their economy, social and natural environments; therefore, this implies an ethical relationship of responsibility with the society in which it operates

Pg17 of Gr12 Examination Guidelines

5.7 Ethics, Internal Control, Company Legislation, Corporate Governance and Professional Bodies

- *The ATP states that the topics of Ethics, Corporate Governance and Internal Control must be integrated, where appropriate, in all other relevant topics. They cover topics that do not always require prescriptive responses and may be open-ended in nature and offer opportunities to learners to exercise their skills in innovation and creativity. These topics are best taught through the medium of short scenarios or case studies. Questions on these topics may focus on practical problem-solving recommendations and are generally open-ended with a variety of acceptable valid responses. Internal control issues should be practically related to the accounting and recording procedures covered in the curriculum. Topical news articles on current issues should be used to develop skills and confidence in learners in responding to such questions.*
- *Corporate Governance in the Grade 12 context covers:*
  - *Effective, responsible and ethical management of a company. This is an extension of the concept of management and control (by directors and shareholders). The concepts of board of directors and CEO are often used in examination papers. It is necessary that the mission and work of the board be explained, as well as its composition, including the need for two types of directors with the emphasis on the word 'executive' as used in CEO.*
  - *Work of specific committees to ensure accountability and transparency. This may include an audit committee, a remunerations committee, an ethics committee and any other committee that might address any particular circumstance or problem that might be relevant to a company, e.g. pollution/environmental awareness, skills development, wealth/job creation or support of community projects (corporate social investment).*
  - *Ethical behavior relating to specific scenarios that must be analyzed and interpreted. The expected responses should be based on common sense and logical courses of action and not on any specific policies, studied as fact.*
- *These issues are often highlighted in the published financial statements (annual reports) that would form the basis the assignment or project covered in Term 1 or 2 of Grade 12. This SBA task should focus not only on the analysis of the audited figures, but should be designed to expose learners to the other aspects of a public company, including the Director's Report and the Audit Report.*
- *The CAPS document states that Company Legislation should be covered by way of an overview only. It is not necessary for learners to recall contents of specific sections of the Companies Act. Emphasis needs to be placed on why the Act is necessary, the concept of limited liability, the roles and duties of the relevant stakeholders and the need for procedures, such as audits.*
- *The above would address the understanding of the need for legislation, which may suggest a lower cognitive level of questioning. Teachers must be made aware that all cognitive levels would still involve 'easy', 'medium' and 'difficult' in terms of the degree of challenge.*
- *Professional Bodies and their need for a code of conduct, their professional development and disciplinary roles, and the possibility of dismissal from a professional body in the event of misconduct have featured in past examination papers. This remains one of the core issues that must be covered, along with professional development. Learners should be aware of the major accounting bodies, which include SAICA and SAIPA, and more recently formed bodies, such as the Institute of Internal Auditors. An in-depth study of Professional Bodies is not expected, but is useful for the overall development of learners in the form of enrichment.*
- *Topical issues that arise from recent trends and newsworthy items that may be unfamiliar but within the scope of the syllabus may be examined as part of the 10–15% problem-solving component, recommended by the CAPS.*
- *Diagnostic reports and past papers must be used for guidance and assistance.*

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THE ROLES OF THE BOARD

- Provide effective and responsible leadership based on ethical foundation.
- Ensure that the Company is seen to be a responsible corporate citizen.
- Ensure that the Company's ethics are managed effectively.
- Act as a focal point and custodian of corporate governance.

	PRINCIPLES	EXPLANATION
1	Accountability	The board members are expected to be responsible for the decisions, duties, and actions to all stakeholders and be able to explain when called to account.
2	Transparency	Making decisions or taking action in and open manner. Not having a hidden agenda.
3	Integrity / Honesty / Conscience	Integrity demands honesty and frankness, in other words professional services are offered and provided with honesty and being straightforward. When deciding what is right and just, one should rely on one's personal integrity and never act out of personal gain or advantage. It also refers to the receipt of gifts
4	Objectivity	Objectivity demands intellectual honesty and impartiality. Services delivered should be free of conflicting interest, prejudice, and bias.
5	Competence / Qualifications	Competency means that the Board of Directors should possess the necessary knowledge and skill to perform their task well.
6	Fairness	All actions and decisions should be made impartially and free from any bias, dishonesty, or prejudice. Professional services provided are to be fair and reasonable consideration to the interest of all parties involved and disclose any conflict of interest.
7	Confidentiality	Confidentiality is based on a relationship of trust. Information revealed to the company is to be treated confidential to protect the client's privacy. Confidential client information may not be disclosed without the consent of the clients.
8	Professionalism	Professionalism means to act with dignity and courtesy to everyone, one comes into contact with. The board has an obligation to cooperate with fellow members in order to enhance and maintain the public image of the company.
9	Commitment / Diligence	Diligence means to provide services in a prompt and thorough manner. The advantage of a code of ethics is that it explains to the board what acceptable and unacceptable conduct is.
10	Service delivery / Care	The Directors are expected to be able to serve stakeholders and clients at the level of excellence expected by them.
11	Discipline	Commitment by board members to behave and carry out their duties in the correct and proper manner.

Committees	Members of committee	Function of the committee
➢ Audit Committee	➢ At least three non-executive directors of the company must be members of the committee	➢ Make submissions to the board regarding the accounting policies, financial controls, accounting records and reporting. ➢ Nominate the independent auditor; ensure that the appointment of an auditor complies with Companies Act and other relevant legislation.
➢ Remuneration committee	➢ Majority of members should be non-executive directors. ➢ The chairperson of the committee should be an independent, non-executive director.	➢ Review salaries, bonuses and other earnings ➢ To prevent directors from paying themselves very high salaries ➢ They must approve and give advice on the proposed fees, bonuses etc.
➢ Social and Ethics Committee	➢ A minimum of three members, who are directors or prescribed officers of the company, one of them should be a non-executive director.	➢ Have to monitor the company's social and economic development. ➢ Monitor good corporate citizenship, including contribution to development of communities in which services/products are provided or marketed. ➢ Monitor the impact of the public activities and its products or services to the environment, health and public safety. ➢ Monitor consumer relationships, the company's policies and records relating to advertising, public relations and compliance with consumer protection laws.

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CORPORATE GOVERNANCE AND AUDIT REPORT
ACTIVITY E 1
1.1

CSR is the continuing commitment to behave ethically and contribute to economic/ financial development while improving the quality of life of the workforce and their families as well as the country and society at large.

(source: unido.org)

The CEO said that it is unfair to place CSR responsibilities on government because the company should be accountable for attending to these issues.

a) Explain why isit the responsibility of the company. State two points.

1.2	**News Extract** *A recent news report stated that a major company, Zinyathi Ltd, had been involved awarded a tender to supply PPEs in hospitals.* *The Special Investigating Unit welcomes the prosecution of Three Company Directors for PPE fraud in Mpumalanga* *27 May 2022*
1.2.1	Explain why are the Shareholders distressed by this, Provide THREE points
1.2.2	As a shareholder, explain what you would say at the AGM. Provide TWO points

1.3 AUDIT REPORT

An extract of the Independent Report is provided below.

Basis for opinion

A donation of R1,2 m was made to a local community organisation for the provision of facemasks and hand-sanitizers, to local schools. Proper procedures were not followed and no documents were available to verify the said transaction.

Audit Opinion

In our opinion, except for the donation, that did not follow due process, the financial statements fairly present the financial position of the company on 28 February 2022.

QUESTIONS:

1.3.1	Identify the type of report and explain WHY the type of report was issued
1.3.2	Explain TWO points WHY shareholders should be concerned about the company receiving such a report.

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1.3.3	The CEO requested that the Auditor classifies this donation as a 'Sundry Expense' and to adjust the Audit Opinion accordingly. Provide TWO reasons Why the auditor would not agree with this suggestion.
1.3.4	Apart from the issues mentioned above; Explain WHY the company would be accused of poor Corporate Governance
1.3.5	What criteria would the shareholders use to appoint members of the Board of Directors? State THREE points

ACTIVITY E 2

2.1	**EXTRACT FROM THE REPORT OF BERGVILLE LTD** **Independent Auditor's Responsibility** We have examined the annual financial statements set out on pages 10 to 24. **Basic for qualification of opinion** The donation of computers for R270 000 made to the local school for online learning due to covid-19 constraints, could not be authenticated as no documentation existed for this expense. Subsequently, the fixed asset note is overstated and operating expenses stated in the Statement of Comprehensive Income has been understated as well. **Audit Opinion** Due to the significant of the matters described above, we have not been able to obtain sufficient evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statement of Bergville LTD for the financial year ended 28 February 2021. Shabalala & Shezi, Chartered Accountants (SA)
2.1.1	What type of Audit report did Bergville Ltd receive? Explain
2.1.2	To WHOM is the Audit report addressed; and WHY?
2.1.3	State TWO consequences that this type of report could have on the company.
2.1.4	What impact would this report have on the company share pricing in the JSE market?
2.2.1	Provide TWO points to explain why there should be company policy that directors must declare to the Board all gifts, donations or favours received from clients.
2.2.2	Provide TWO suggestions on how good corporate governance can be achieved.

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ACTIVITY E 3

The following audit report was issued by the auditors of Uthukela Sports Ltd:

Audit opinion-To the shareholders:

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 30 June 2022 and the results of their operations and cash flaws for the year ended, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in South Africa.

L.M. Roets & Associates
Chartered Accountants (SA)
Registered Accountants and Auditors
Pretoria 10 August 2022

3.1	At the AGM, one of the shareholders says that he is not happy with the words 'fairly present' in the audit report. He wants the auditors to say that the financial statements are 'correct in all respects'. What explanation should be given to this shareholder? State ONE point.
3.2	The directors are not happy with the high audit fees reflected in the Statement of Comprehensive Income. Explain why improvement in internal control will have a positive effect on the external auditors' fees. State ONE point.
3.3	SAICA is one of the main professional bodies governing accountants in this country. Explain TWO of the main roles performed by SAICA.

ACTIVITY E 4

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

Paragraph 1 *We have audited the annual financial statements of Simphiwe Limited set out on* ***pages 8 to 17*** *for the year ended 30 June 2022. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion, on these financial statements based on our audit.*

Paragraph 2 ***An audit includes:***

- *Examining, on a test basis, evidence supporting the amounts in the financial statements.*
- *Assessing the accounting principles used and significant estimates made by management:*

Paragraph 3 ***Audit opinion***

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 June 2022 and the results of their operations and cash flow for the year then ended in accordance with international Financial Reporting Standards, and in the manner required by the Companies Act, 2008 (Act 71 of 2008) in South Africa.

Elihle & Luyanda, Chartered Accountants (SA) 10 August 2022

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4.1	Explain why it is important for the Independent Auditor to be a member of a professional body.
4.2	Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain.
4.3	Refer to the underlined words in paragraph 2.
(a)	Give ONE example of 'evidence' that an auditor would use.
(b)	Give ONE example of the 'accounting principles' he/she would assess as part of the audit. Explain why the auditor would inspect this principle.

Principle Provided	Explanation of reason:

4.4	Refer to Paragraph 3. Explain why you would be satisfied with this audit opinion.

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AA. TANGIBLE ASSETS/ FIXED ASSETS

STRATEGIES FOR REVISION

- Fixed assets are bought for use in the day-to-day business operations of the business.
- Fixed assets are acquired as part of the investing operation of the business to assist in the profit-making process.
- Separate records are kept for every fixed asset purchased in an asset register. Full details of every asset are recorded on the asset register and depreciation for the financial year is calculated and recorded in the asset register and always kept up to date.
- Fixed assets are depreciated at the end of year until it is fully depreciated, thereafter that assets will not be deprecated any further or fixed assets are depreciated at the date of disposal.
- Fully depreciated asset should at least contribute R1 to the value of fixed assets in the financial statements. (Prudence principles)
- Fixed assets are depreciated in TWO methods
    - **On cost price/ straight line/ fixed instalment method**
      Formula: cost price x % x time = depreciation
    - **Diminishing balance/ carrying value method**
      Formula: (cost price – Acc. Depr.) x % x time = depreciation
- When fixed asset is sold/ involved in an accident/ stolen, fixed asset register will be updated; additional depreciation should be calculated since it must be recorded in depreciation for the year.
- As well as new asset that has been acquired, fixed asset register will be updated; additional depreciation should be calculated since it must be recorded in depreciation for the year.

Generally Accepted Accounting Practices (GAAP PRINCIPLES) relating to fixed assets

1. Historical cost concept	All assets purchased should be recorded on its original cost price.
2. Prudence principle	Assets should not be overstated, or financial statement should be prepared in a conservative manner. Vehicle and equipment are reflected in carrying value in the balance sheet, also depreciated at the end of the period.
3. Matching principle	All income and expenses should be recorded in a correct period. Depreciation for the period year including depreciation of new, sold, and remaining asset will be reflected in the statement of comprehensive income.
4. Principle of materiality	Important items should be shown separately. Tangible assets are shown separately in the statement of financial position under non-current assets.
5. Business entity rule	Affairs of the business should kept separate from the affairs of the owner. Only fixed assets of the business will be recorded as assets in the financial records of the business.
6. Going-concern concept	Financial statements are prepared with an assumption that the business will still be operating soon.
7. Principle of consistency	Methods should be kept the same over the period. Depreciation method is kept the same over the lifespan of the fixed assets, and advisable to adopt same method for similar asset.

Calculation of missing figures in Fixed Asset notes

- Cost (Beg) + cost (new) – cost (sold) = cost (end)
- Acc. Depr (Beg) + Depr. For the year - Acc. Depr. (sold) = Acc. Depr.
- Carrying Value (Beg.) +/- Movement = Carrying Value (end)

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Internal control over fixed assets

- Fixed asset register must be updated regularly.
- Fixed assets are procured with proper authorisation.
- Regular physicals take of fixed assets.
- Rotation of employees.
- Division of duties.

Methods of disposal and contra account

1. Sold for cash	Bank account
2. Sold on credit	Debtors' Control
3. Traded-in	Creditors Control
4. Taken by the owner for personal use	Drawings
5. Stolen/ destroyed	Insurance Co.

ACTIVITY AA 1: FIXED ASSET NOTE

MTHETHWA LTD

The financial year-end is 31 May 2022.

REQUIRED:

1.1 Calculate the missing figures indicated by **(i)** to **(v)** in the table below.

1.2 Explain how the internal auditor should check that movable fixed assets were not stolen

1.3 Land and buildings were bought five years ago for R6 m. Property prices have increased by 20% since then. The CEO, Khetha M want to increase the value of this asset and reflect a profit of R1 200 000 in the financial statements.
As an independent auditor, what advice would you give?
Provide ONE point.

INFORMATION FOR YEAR-END 31 MAY 2022:

A.

FIXED ASSETS	LAND AND BUILDINGS	COMPUTERS	EQUIPMENT	VEHICLES
Carrying value: Begin	**6 000 000**	**13 000**	**1 027 500**	**1 300 000**
Cost	6 000 000	108 000	1 250 000	2 100 000
Accumulated depreciation	-	(95 000)	(222 500)	(800 000)
Movements				
Additions	**(i)**	0	172 500	0
Disposals	0	0	0	**(iv)**
Depreciation	0	**(ii)**	**(iii)**	(256 000)
Carrying value: End				
Cost				
Accumulated depreciation				**(v)**

Land and buildings:

Grant Construction was paid R882 000 for building new offices (R610 000) and repairing windows (R272 000).

C. Computers:

- The three computers were all bought on the same day at R36 000 each.
- Depreciation is 33⅓% on cost.
- These computers are expected to last another two years.

D. Equipment:

- Additional equipment was purchased on 1 February 2022.
- Depreciation is 10% p.a. on cost

E. Vehicles:

- Depreciation is 20% p.a. on carrying value.
- A vehicle was sold for cash at carrying value on 31 December 2021. The Fixed Assets Register reflected the following:

Cost	R176 000
Accumulated depreciation (1 June 2021)	R128 000

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ACTIVITY AA2: FIXED ASSET: ASSET DISPOSAL AND ASSET MANAGEMENT
THINTA TRADERS

2.1 You are provided with information for the financial year ended 28 February 2022, taken from the books of Thinta Traders.

2.1.1 MOVEMENT OF FIXED ASSETS

Required: Use information A.

- Prepare the Asset Disposal Account in respect of equipment sold on 31 August 2021.

2.1.2 MANAGEMENT OF FIXED ASSETS

- You are the internal auditor for Thinta Traders. The owner, Senie is concerned that she is spending too much on delivering goods to customers. She has provided you with figures for a typical month, February 2022.
  Required: Use information B i-iii.
- Identify ONE problem regarding each vehicle/driver. Quote figures to support your answers. Give Senie ONE point of advice for EACH problem identified.

INFORMATION:

A. An old printer, bought for R120 000, was sold for cash on 31 August 2021 at carrying value. Accumulated depreciation on this printer was R38 400 on 1 March 2021.

B. i. Senie has three delivery vehicles and employs three drivers to transport goods to his customers free of charge. The drivers are expected to work five days per week. There are four weeks in February.

ii. Some customers live close by while others live further away. None of the customers live more than 20 km from the shop (i.e. maximum 40 km round trip).

iii. Information from the accounting records for February 2022:

	Vehicle 1	**Vehicle 2**	**Vehicle 3**
Name of driver	Sah	Mthoh	Sgah
Date of purchase	1 Mar. 2017	2 Feb. 2018	1 May 2013
Carrying value	R270 000	R102 000	R1
Number of days driver worked	12	20	20
Salary of driver per month	R8 000	R5 000	R5 000
Number of deliveries made	48	80	120
Average number of trips per day	4	4	6
Kilometres travelled	1 300	4 600	3 000
Average number of kilometres per trip	27	58	25
Petrol (litres) used	59	209	214
Kilometres per litre	22	22	14
Petrol costs (R11,31 per litre)	R668	R2 365	R2 424
Petrol costs per km	R0,51	R0,51	R0,81

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ACTIVITY AA3

Interpretation of asset disposal and asset register of **Lunhle Bookshops**

Luyanda and Zinhle Mkhatshwa own these very popular bookshops which are spread throughout the country. The financial year ends on 30 June.

INFORMATION

A. **OFFICE EQUIPMENT**

Four of the office computers were stolen on 31 December 2021. They were originally bought at a cost price of R7 500 each. The insurance company only paid out R2 500 for each computer. They were replaced on 1 January 2022

B. **DELIVERY VEHICLES**

The business owns three delivery vehicles.

FIXED ASSET REGISTER

The following information was extracted from Fixed Asset Register on 30 June 2022.

	Delivery vehicle 1	Delivery vehicle 2	Delivery vehicle 3
Date purchased	01.07.2019	01.01.2020	01.04.2021
Cost price of vehicle	R144 000	R315 000	?
Accumulated depreciation	R143 999	R196 875	R131 250
Carrying value	R1	R118 125	R288 750

C. **NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2022**

FIXED ASSETS	**Land and buildings**	**Office equipment**	**Vehicles**
Carrying value at the beginning of the year	1 500 000	131 000	626 625
Cost	1 500 000	230 000	879 000
Accumulated depreciation	0	(99 000)	(252 375)
Movements			
Additions	0	50 000	0
Disposal at carrying value	(750 000)	(18 750)	0
Depreciation	0	(36 000)	(219 749)
Carrying value at the end of the year	750 000	126 250	406 876
Cost	750 000	250 000	879 000
Accumulated depreciation	0	(123 750)	(472 124)

REQUIRED

3.1 Prepare asset disposal account for the computers stolen

3.2 The business owns three delivery vehicles. Refer to the information in respect of each delivery in the Fixed Asset Register.

3.2.1 Identify the cost price of delivery vehicle 3.

3.2.2 Explain why delivery vehicle 1 is shown at a carrying value of R1

3.2.3 What rate of depreciation is used for vehicles?

3.3 Explain how and why the Fixed Asset register assists the internal auditor in his duties

In order to solve their cash flow problems, Zinhle sold half of the premises at cost price. Luyanda thinks Zinhle should not have done this. Do you agree with Luyanda or with Zinhle? Give a reason.

3.4 One of the employees in the accounting department, Miso Mnyamande, knows that the insurance policy only covers theft if there is evidence of forced entry. On 31 December 2021 she saw Zinhle's son break the security gate of the office to make incident look like forced entry. She is not sure if Luyanda knows about this. What advice would you give Miso? Give ONE point.

3.5 One of the employees in the accounting department, Miso Mnyamande, knows that the insurance policy only covers theft if there is evidence of forced entry. On 31 December 2021 she saw Zinhle's son break the security gate of the office to make incident look like forced entry. She is not sure if Luyanda knows about this. What advice would you give Miso? Give ONE point.



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ACTIVITY AA4
PROBLEM SOLVING
CELE'S TAXI SERVICE.

M Cele runs a taxi business on a strictly cash basis i.e. all fares are received in cash and all fuel and repair costs are paid in cash. The drivers take their weekly wage in cash out of the revenue earned by a taxi.

Cele is concerned because his revenue from taxi fares has not met his target of R1 500 000 and the fuel and repair costs have exceeded his budget of R750 000. He has taken the following information from his ledger, the tangible asset register and other records on 28 February 2022, the last day of the financial year.

INFORMATION

Name of driver	Taxi 1 Sphiwo	Taxi 2 Mfundo	Taxi 3 Mgcini
Date purchased	1 March 2017	1 March 2019	1 March 2021
Cost price of vehicle	R180 000	R250 000	R300 000
Accumulated depreciation	R179 999	R150 000	R 60 000
Kilometers covered for the past year	65 000km	72 000km	30 000km
Amount of revenue brought in	R617 500	R216 000	R270 000
Revenue per kilometer	R9,50	R3	R9
Fuel and repair costs for the year	R432 250	R302 400	R135 000
Fuel and repair costs per kilometer	R6,65	R4,20	R4,50
Fuel and repairs as % of revenue	70%	140%	50%
Revenue minus fuel and repair costs	R185 250	(R86 400)	R135 000
Depreciation for the year	R35 999	R50 000	R60 000

REQUIRED:

Consider the information provided and answer the questions. Quote amounts to support your answer.

4.1 Give THREE points of concern about each taxi.
4.1.1 Taxi 1
4.1.2 Taxi 2
4.1.3 Taxi 3
4.2 What would you suggest that Cele does with Taxi 1? Why?
4.3 From your investigation of the figures what would you suggest is the problem with Taxi 2 and how would you solve it?
4.4 What seems to be the problem with Taxi 3 and how can it be solved?
4.5 How would you suggest Cele pay the three taxi drivers? He feels that they are not all working as hard as they could to get fares.

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BB. INVENTORY VALUATION

STRATEGIES FOR REVISION

Source: Junior Tukkie (JT) University of Pretoria, Grade 12 Accounting Paper 2

STOCK VALUATION REVISION STRATEGIES

- **FORMULA –OPENING+PURCHASES+CARRIAGE - RETURNS(DONATION) - CLOSING STOCK**
- **This will help in the calculation of cost of cost of sales, top part of the calculation of the value of closing stock, number of units missing and calculation of periodic inventory system.**
- **Calculation of closing stock where there is a change of currencies eg Dollar to Rands**
- **Calculation of stockholding period using closing stock not the average stock**
- 2 stock valuation systems are used.
  - Perpetual and Periodic Inventory system
- Mention Advantages and Disadvantages of both systems
- Valuation Methods
  - FIFO (Explain the meaning and what FIFO stands for- oldest stock sold first; To calculate the value of closing stock – start from bottom)
  - WEIGHTED AVERAGE (Use the average price)
  - SPECIFIC IDENTIFICATION (Use Cost price to calculate value)

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LEARNERS SHOULD KNOW:

- How to calculate stock Loss, Returns, Levies and Carriage on Purchases.

  Formula: Balance at the beginning and Purchases

  Less – Unit sold and compare with unit on hand

- The Learners must identify the system used so as to be able to choose the correct method of calculating the Cost of Sales.

PERPECTUAL	PERIODIC
CP = SP X 100/(100 + mark-up)	Initial stock + purchases – CA + transport cost – Final stock ( )

- FORMULA OF GROSS PROFIT - GP = SALES - COST OF SALES

- **Note: Could be integrated into different topics like Manufacturing (Paper 2),**
- **Financial Statements (Paper 1).**
- **Study the characteristics of each – will need to provide an opinion which method is suited for a business.**

ACTIVITY BB1: **(35 marks; 30 minutes)**

1.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question numbers (1.1.1 to 1.1.4) in the ANSWER BOOK.

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

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

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

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

1.2 **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:

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

- Value of the closing stock
- Cost of sales

1.2.2 **Stockholding period:**

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

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

1.3. **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.

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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

ACTIVITY BB2 **(50 marks; 40minutes)**

2.1. CONCEPTS

Complete the sentences by filling in the correct stock valuation method. Write only the answer next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

2.1.1. Merchandise purchased is recorded in a .....account in the periodic inventory system.
2.1.2. In the .....inventory system, the cost of sales must be calculated at every point of Sale.
2.1.3. The .....method divides the total cost of goods available for sale by the number of units
2.1.4. The .... ..method is suitable for stock with a limited shelf life
2.1.5. The ..... method is used for very expensive, individually recognisable items.

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2.2 INVENTORY SYSTEMS & VALUATION

MJ Fashion House uses the periodic stock system. Mary Naidoo owns the business.

REQUIRED

Refer to Information A: Jeans

2.2.1 Calculate the following on 28 February 2022:

- Value of the closing stock using the weighted-average method
- Gross profit

2.2.2. Calculate how long (in days) it will take to sell the closing stock of the jeans.

2.2.3. Mary is considering a change in the method of valuing stock.

- Calculate the value of closing stock using the FIFO method.
- State ONE advantage of using the FIFO method

Refer to Information B: Jackets

2.2.4 The owner is concerned about the theft.

- Calculate the number of jackets stolen.
- Give TWO solutions to solve the problem.

2.2.5 The internal auditor is concerned about the stock levels and the selling price of jackets. Explain reasons for his concern, with FIGURES and give different advice in EACH case.

INFORMATION:

A. JEANS:

	UNITS	UNIT PRICE	TOTAL
Opening stock	240		R 124 500
Purchases	**3 150**		**R1 813 000**
MAY 2021	1 300	R560	R728 000
OCTOBER 2021	1 450	R580	R841 000
JANUARY 2022	400	R610	R244 000
Subtotal	**3 390**		**R1 937 500**
RETURNS (JAN)	130	R610	R79 300
Sales	2 880	R960	R2 764 800
Closing stock	380	?	?

B. JACKETS:

	2022	2021
	UNITS	
OPENING STOCK	1760	
NET PURCHASES	6500	
UNITS AVAILABLE FOR SALE	8260	
CLOSING STOCK	2980	
UNITS SOLD	5020	
WEIGHTED-AVERAGE COST PER UNIT	R700	R630
SELLING PRICE PER UNIT	R1 450	R1 070
STOCK HOLDING PERIOD	216 DAYS	103 DAYS
MARK-UP ACHIEVED	107%	70%

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ACTIVITY BB3

3.1 MKHONGWA CYCLE WORKS

You are provided with information for the year ended 31 May 2021 The owner is Sthembiso Mkhongwa. The business sells different models of bicycles. Sthembiso uses the periodic inventory system and the specific identification method to value stock.

REQUIRED:

3.1.1 Calculate:

- Value of the closing stock of bicycles on 31 May 2021
- Cost of sales for the year ended 31 May 2021
- Gross profit for the year ended 31 May 2021

3.1.2. Sthembiso is satisfied that he is selling approximately 18 Sport bicycles per month. However, he is concerned that the new Speedy model, despite its lower selling price, is not selling as quickly as the Sport model.

- Calculate the selling price of a Speedy bicycle.
- Calculate the average number of Speedy bicycles sold per month.
- Indicate how long it will take Richard to sell the closing stock of the Speedy bicycles. Show calculations.
- Give ONE possible reason for the slow sales of Speedy bicycles, and give advice (ONE point) to Sthembiso in this regard.

INFORMATION:

A. Three different models of bicycles were sold during the 2021 financial year.

MODEL	MARKUP	UNITS SOLD	SALES	OTHER INFORMATION
Clutch	60%	66	R897 600	This model is no longer produced.
Sport	60%	220	R3 308 800	
Speedy	35%	98	R979 020	This model was introduced on 1 June. 2020.
TOTAL SALES			R5 185 420	

B. Opening stock:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
1 Jun. 2020	Clutch	70	R8 500	R595 000
	Sport	0		

C. Purchases and returns:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
PURCHASES:				
1 Jun. 2020	Sport	260	R9 400	R2 444 000
1 Sep.2020	Speedy	200	R7 400	R1 480 000
RETURNS:				
01 Sept 2020 Speedy		45	R7 400	(R333 000)
Net purchases				**R3 591 000**

3.2 MANAGEMENT OF INVENTORIES: Machi CLOTHING. Aviwe Machi owns a small clothing business, You are provided with Information for the year ended 28 February 2021. The business sells Dresses, Coats and Jeans.

Aviwe took certain decisions at the beginning of the 2021 financial year.

REQUIRED:

Quote relevant figures for ALL the questions below.

3.2.1. **Dresses:**

Explain why it was NOT a good idea to change to a cheaper supplier of dresses. State TWO points.

3.2.2. **Coats:**

Aviwe decided to change the supplier in 2021 and to change the mark- up%. How has this decision affected the business? State TWO points. (4)

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3.2.3 **Jeans:**
Aviwe reduced the selling price of Jeans significantly in the 2021 financial year in response to a new competitor who sells similar Jeans at R990

Based on the information below, make TWO separate suggestions to **Aviwe** to improve the profit on Trousers in 2022.

	DRESSES		COATS		Jeans	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Gross units sold	1 200	1 080	150	165	280	325
Returns by customers	40	0	0	5	15	15
Selling price	R75	R120	R1 650	R1 085	R910	R1 054
Cost price	R50	R80	R1 000	R700	R650	R620
Mark-up %	50%	50%	65%	55%	40%	70%
Gross profit	R29 000	R43 200	R97 500	R61 600	R68 900	R134 540

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CC. COST ACCOUNTING

STRATEGIES FOR REVISION

- Structure of the Production Cost Statement
  - Direct Material – To determine the amount of material issued to the production.
  - Calculate value of closing stocks using either FIFO, weighted and specific methods.
  - Direct Labour – Emphasise that these are factory wages (No of workers' x rate/hours x time/hours + contributions.
  - Factory Overheads – Learners must identify all items which are directed to the factory.
    (Expenses should be divided according to given ratio or percentage -
    (Area of floor space should be also noted and emphasised)

EXPENSES THAT ARE USUALLY SHARED

- Insurance
- Rent
- Water and Electricity

BREAK EVEN POINT

Learners should understand the formula and be able to apply the results.
Comment on BEP

- What is Breakeven Point
- Learners to compare level of production units and units for BEP.
- Learners to advise and quote figures of number produced and BEF

PROBLEM SOLVING QUESTIONS

- Advice should be relevant to the problem identified
- Reasons for possible change in the following costs if the price increase in materials cost the possible reason will be
  1. Wastage
  2. Change of Supplier
  3. Materials obtained internationally
  4. Quality of Material
  5. Transport Costs

- If price of Material decreases
  1. Trained Workers for efficiency
  2. Cheaper Suppliers / Poor Quality
- Labour – if labour cost increase
  1. Lazy workers/not efficient
  2. Overtime

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ACTIVITY CC 1: MANUFACTURING

Sihle Sangweni owns two separate factories that manufacture products according toorders received. There is no work-in-progress stock. The year-end is 28 February.

1.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true'or 'false' next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

1.1.1 Wages of factory cleaners is a direct labour cost.

1.1.2 Delivery costs of finished goods to retailers are a selling and distributioncost.

1.1.3 Depreciation on office equipment is an administration cost.

1.2 DESKS FACTORY

REQUIRED:

1.2.1 Complete the Factory Overhead Cost Note.

1.2.2 Calculate the total cost of production of finished goods.

1.2.3 Sihle wants to produce an additional 1 500 desks, while maintaining theselling price and costs. Calculate the additional profit he can expect.

1.3 CHAIRS FACTORY

REQUIRED:

1.3.1 Provide a calculation to confirm the break-even point for 2022.

1.3.2 Comment on the break-even point and the production level achieved.Quote figures.

1.3.3 Raw material consists of wood only. In 2022 the cost is R120 per squaremetre (m^2) and 1,2 m^2 of wood is needed to make one chair.
During the year, 22 000 m^2 wood was dispatched to the factory. Sihlefeels that the wood raw material was not well controlled.

- Provide a calculation to support his opinion.
- Identify TWO possible causes of this problem. Provide a solution forEACH.

1.3.4 Give TWO reasons for the increase in direct labour cost. Provide asolution for EACH. Note that wages and salaries increased by 5% in the current financial year.

INFORMATION:

A. DESKS FACTORY

Extract of pre-adjustment amounts on 28 February 2022

	R
Indirect labour	296 500
Depreciation of factory plant	166 000
Advertising	24 500
Water and electricity	248 000
Rent expense	345 600
Insurance allocated to sales department	12 600
Factory sundry expenses	107 700

Adjustments to factory overheads for desks:

- Water and electricity for February 2022, R18 000, must be taken into account. 80% is allocated to the factory. The balance is an administration cost.
- Rent must be allocated according to floor area:
  Factory: 810 m^2 Office: 180 m^2 Sales department: 90 m^2
- 75% of insurance must be allocated to the factory. The balance applies to the sales department.

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B. INFORMATION FOR BOTH FACTORIES

COSTS		DESKS2022		CHAIRS (Unit costs)	
		Amount	Per unit	2022	2021
Variable	Direct material	R3 060 000	R340	R165	R124
	Direct labour	?	R160	R90	R70
	Selling and distribution	R720 000	R80	R50	R60
	Total variable costs		R580	R305	R250
Fixed	Factory overheads			R76	R75
	Administration	R360 000	R40	R20	R18

SELLING PRICES			
Per unit	R750	R390	R370

UNITS			
Produced and sold	9 000	16 000	15 000
Break-even point	8 471	18 071	12 400

ACTIVITY CC2: COST ACCOUNTING (MANUFACTURING)

2.1 **SUPPORTA MANUFACTURERS**

The business produces formal shirts. The financial year ended28 February 2022.

REQUIRED:

2.1.1 Prepare the Production Cost Statement.

2.1.2 Calculate:

- Gross profit earned on sale of shirts
- Mark-up % achieved on shirts

INFORMATION:

A. Stock on hand:

	28 FEBRUARY 2022	1 MARCH 2021
Work-in-progress	?	R230 000
Finished goods	400 shirts, valued using FIFO method	900 shirts at R380 = R342 000

B. The bookkeeper calculated the costs below. Some errors weremade.

Direct material cost	R1 575 000
Selling and distribution cost	R385 000
Administration cost	R256 400
Direct labour cost	?
Factory overhead cost	R518 800

C. Errors and omissions:

- Payment to Quick Deliveries, R75 000 for carriage on raw materials, was incorrectly allocated to selling and distribution cost.
- The entire insurance amount of R25 200 was transferred to the Administration Cost Account. Two-thirds (2/3) of this expense should be allocated to the factory.
- The Factory Overhead Cost Account included an amount of R117 600 for water and electricity. The bookkeeper had incorrectly allocated this expense to factory, administration, and selling and distribution in the ratio 6 : 3 : 1. The correct ratio is 5 : 4

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: 1.

D. **Prime cost:** R2 550 000 (after adjustments)

E. **Production and sales for the year:**

- 7 600 shirts were produced at a unit cost of R420 each.
- 8 100 shirts were sold for R4 860 000.

2.2 GUMBALDINO MANUFACTURERS

Gumbaldino Manufacturers is owned by Tello Andrews. They produce leatherpurses and leather jackets. The financial year ends on 28/29 February each year.

REQUIRED:

PURSES

2.2.1 Calculate the break-even point for purses for the year ended 28 February 2022.

2.2.2 Comment on the level of production achieved and the break-even point for purses for 2022. Quote figures.

2.2.3 Apart from inflation and wage increases, give TWO other possible reasons for the increase in the direct labour cost per unit for purses.

2.2.4 Give TWO reasons for the decrease in the direct material cost per unit for purses.

JACKETS

2.2.5 Although Tello was aware that importing leather for the jackets would increase the direct material cost per unit, he thought that this would improve the quality of the jackets.

- Explain why the direct material cost per unit for jackets would probably increase if raw material were imported. State TWO points.
- Provide figures to prove that Tello was correct about the effect thisdecision would have on the cost of the jackets

2.2.6 Calculate the % increase in the selling price of the jackets.

2.2.7 Explain the impact of the increase in the selling price of jackets on the sales and profit. Quote figures or calculations.

2.2.8 Tello wants to increase profits on jackets by an additional R250 000 in the next financial year. Assuming the cost structure remains the same, calculate the total number of additional units he must produce to achieve this target.

INFORMATION:

	PURSES		JACKETS	
	2022	**2021**	**2022**	**2021**
Direct material cost per unit	R100	R125	R360	R180
Direct labour cost per unit	R135	R105	R280	R240
Selling and distribution cost per unit	R20	R30	R60	R45
Total variable cost per unit	**R255**	**R260**	**R700**	**R465**
Total fixed costs	R936 000	R836 000	R1 706 250	R2 000 000
Number of units produced and sold	24 000	22 000	3 631	6 350
Break-even number of units	?	20 900	3 750	5 000
Selling price per unit	R295	R300	R1 170	R780

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ANSWERSHEET CC2

2.1 SUPPORTA MANUFACTURERS

2.1.1 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2022

Direct material cost	
Prime cost	2 550 000
Factory overhead cost	
Total manufacturing cost	
Work-in-progress (end)	
Total cost of production	

2.1.2

Calculate: Gross profit earned on sale of shirts.	
Workings	Answer

Calculate: Mark-up % achieved on shirts	
Workings	Answer

2.2 GUMBALDINO MANUFACTURERS

PURSES:

2.2.1

Calculate the break-even point for purses for the year ended 28 February 2022.	
Workings	Answer

2.2.2 Comment on the level of production achieved and the break-even pointfor purses for 2022. Quote figures.

2.2.3 Apart from inflation and wage increases, give TWO other possiblereasons for the increase in the direct labour cost per unit for purses.

2.2.4 Give TWO reasons for the decrease in the direct material cost per unitfor purses.

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JACKETS:

2.2.5	Explain why the direct material cost per unit for jackets would probablyincrease if raw material were imported. State TWO points.	
	Provide figures to prove that Tello was correct about the effect thisdecision would have on the cost of the jackets.	
2.2.6	Calculate the % increase in the selling price of the jackets.	
	Workings	Answer
2.2.7	Explain the impact of the increase in the selling price of jackets on thesales and profit. Quote figures or calculations.	
2.2.8	Tello wants to increase profits on jackets by an additional R250 000 in the next financial year. Assuming the cost structure remains the same, calculate the total number of additional units he must produce to achieve this target.	
	Workings	Answer

ACTIVITY CC3: COST ACCOUNTING

3.1 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 (3.1.1 to 3.1.3) in the ANSWER BOOK, e.g. 3.1.4 F.

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

3.2 **STHE 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 2022.

REQUIRED:

3.2.1 **Refer to Information D.**
Complete the Factory Overhead Cost Note for the school dresses.

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

3.2.3 Minnie is concerned about wastage of fabric in the dressmakingsection. Calculate the cost of this wastage to the business.

3.2.4 The internal auditor expressed concern about the direct labour cost forthe school dresses.

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

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

3.2.6 Comment on the level of production achieved and the break-even pointcalculated above. Quote figures.

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

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 2021	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 atR75 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 factoryoperates for 46 weeks each year.

D. Factory overhead costs:

The following costs were extracted from the records on 30 April 2022:

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 m^2 of the total factory space of 1 280 m^2.
- 15% of the total water and electricity account must be allocated to the dress-making section.
- Insurance on factory equipment was paid up to 30 June 2022. Dress-making equipment comprises ⅓ of the total factory equipment.
- Only one of the six cleaners, Susan, was allocated to the dressmakingsection. 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 administrationcosts, totaled R229 500

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ANSWERSHEET CC3

3.1

3.1.1		3.1.2		3.1.3	

3.2 STHE OUTFITTERS

3.2.1 FACTORY OVERHEAD COST NOTE

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

USE YOUR EXERCISE BOOK TO ANSWER OTHER QUESTIONS

ACTIVITY CC4:

4.1 **SHUKELA MANUFACTURERS**

The information relates to the financial year ended 28 February 2022.The business produces one style of travelling bag. The owner is Shukela Gumede.

REQUIRED:

Complete the following for the year ended 28 February 2022:

4.1.1 Production Cost Statement

4.1.2 Abridged Statement of Comprehensive Income (Income Statement)

INFORMATION:

A. Stock balances:

	28 February 2022	**1 March 2021**
Finished goods stock	R96 000	R72 000

There is no work-in-progress at the beginning or end of the year.

B. Raw material issued to the factory for production, R1 494 000.

C. Production wages:

Information extracted from the production wages records:

NET WAGES PAID TO PRODUCTION WORKERS	**TOTAL DEDUCTIONS**
R647 400	22% of gross wages

D. The bookkeeper calculated the following costs for the year ended28 February 2022:

Factory overhead cost	R520 280
Selling and distribution cost	R224 960
Administration cost	R187 760

It was discovered that she did not take the following into account:

- The telephone account of R22 400 was posted in error to thefactory overhead cost. This expense relates to the office.

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- The entire amount of rent expense, R98 400, was posted to thefactory overhead cost. This expense should have been split in the ratio 7 : 2 : 1 between the factory, sales anc administration departments.
- The insurance expense of R26 400 was divided equally between the factory overhead cost anc the sales department in error. 60% ofthis expense relates to the factory and the balance applies to the sales department.

E. Sales:

Total sales for the year amounted to R4 433 600.

4.2 CONTROL OF RAW MATERIAL

After completing the statements in QUESTION 4.1, the internal auditor ofPrudy Manufacturers suspects that the raw material (fabric) is not being controlled well in the storeroom and the factory.

4.2.1 Calculate:

- The metres of fabric missing from the storeroom
- The metres of fabric wasted in the factory

Apart from installing cameras, provide a specific strategy to improve internal control in the storeroom and factory. In EACH case, provide a different point.

4.2.2 Calculate the total cost of fabric lost and wasted and explain how thisloss should be shown in the statements mentioned in QUESTION 4.1.

INFORMATION:

A. Raw material (fabric):

Fabric used in production is issued to the factory from the storeroom, asrequired. The record of fabric is as follows:

	METRES	TOTAL AMOUNT
Raw material issued to factory	12 450	R1 494 000
Balance on 1 March 2020	2 700	324 000
Purchase of fabric during the year	10 800	1 296 000
Balance on 28 February 2021	850	102 000

B. Additional information:

- Fabric is purchased at a fixed cost price of R120 per metre.
- It takes 1,5 metres of fabric to make one travel bag.
- 7 800 bags were produced during the financial year.

4.3 KHETHA TOY FACTORY

This factory manufactures toy teddy bears. There is no work-in-progress stockat the beginning or end of each year. The financial year ends on 31 December.

Khetha decided to address the problem of low profits made in 2020 bymaking some changes to improve sales and production.

REQUIRED:

4.3.1 Provide a calculation to confirm that the break-even point for the 2022 financial year is correct.

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

4.3.3 Explain to Khetha why the fixed cost per unit decreased from R56,00 to R45,71.

4.3.4 Khetha made deliberate decisions regarding variable costs toimprove the business. Explain the decisions that she might have taken on these costs andhow these could have had positive effects on the business. Quote figures.

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INFORMATION:

	31 DECEMBER 2022		31 DECEMBER 2021	
	AMOUNT R	UNIT COST R	AMOUNT R	UNIT COST R
Direct material cost	490 000	100,00	320 000	80,00
Direct labour cost	274 400	56,00	288 000	72,00
Selling and distribution cost	176 400	36,00	96 000	24,00
VARIABLE COST	**940 800**	**192,00**	**704 000**	**176,00**
Factory overhead costs	160 000	32,65	160 000	40,00
Administration cost	64 000	13,06	64 000	16,00
FIXED COST	**224 000**	**45,71**	**224 000**	**56,00**
Selling price per unit	R255		R240	
Units produced and sold	4 900 units		4 000 units	
Break-even point	3 556 units		3 500 units	

ANSWERSHEET CC4

4.1 SHUKELA MANUFACTURERS

4.1.1 PRODUCTION COST STATEMENT FOR THE YEAR ENDED28 FEBRUARY 2022

Direct material cost	1 494 000
Prime cost	
Factory overhead cost520 280	
Cost of production of finished goods	

4.1.2 ABRIDGED STATEMENT OF COMPREHENSIVE INCOME (INCOMESTATEMENT) FOR THE YEAR ENDED 28 FEBRUARY 2022

Sales	4 433 600
Cost of sales	
Gross profit	
Other expenses	
Selling and distribution costs224 960	
Administration cost187 760	
Net profit for the year	

USE YOUR EXERCISE BOOK TO ANSWER OTHER QUESTIONS

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DD. RECONCILIATIONS

STRATEGIES FOR REVISION
DEBTORS RECONCILIATIONS

Basic concepts

debtors' age analysis; debtors' control account ; ebtors' list; bad debts; bad debts recovered; interest on overdue accounts

Reconciliation: Balance **of Debtors Control MUST** be equal to the **total of the Debtors List**

Understand the debtors' cycle

Invoice (DJ)	Credit note (DAJ)	Receipt (CRJ)	Petty cash voucher (PCJ)	Journal vouchers (GJ)
Sold on credit	Goods returned by debtors	Debtors paid their debt	Small cash payments made on behalf of debtor(s)	Correction of incorrect posting/errors

Dr	Debtors' control		Cr
Balance	b/d **(opening)**	Bank and Discount	CRJ
Sales	DJ	Debtors allowance	DAJ
Petty cash	PCJ	Journal credits	GJ
Journal debits	GJ	Balance	o/d **(closing)**

Debtors Ledger

	Fol	DR	CR	Bal
Balance	b/d			****
Invoice	DJ	***		+
Receipt	CRJ		***	-
Discount allowed	CRJ		***	-
Credit note	DAJ		***	-
Journal debits	GJ	***		+
Journal credits	GJ		***	-

How to reconcile (possible reasons for differences and how to act on it)

- **No entry in books:** correct an error in the control account and on list
- **Error on source documents**: correction in the control account and debtors' list
- **Posted to wrong debtors' account**: correct error in the debtors' list
- **Totals in journals are incorrect:** correct the total in the control account **Internal control**
- Check creditworthiness / Limit bad debts by doing proper background investigation
- Each debtor must have an individual account
- Accurate/Complete records must be kept
- Send regular statements/ SMSs/ emails
- Give discounts for prompt payments
- Charge interest on overdue accounts / Hand over to lawyers

DEBTORS AGE ANALYSIS

TWO important items to look for when analysing debtor or credit management:

- Credit terms - Credit limits

- This analysis provides details of amounts owed by debtors and for how long. ▪ Most businesses give debtors 30 days to pay. (credit term) ▪ 30 days may be determined on invoice OR statement basis.
- Statement basis - means 30 days from the date of the statement.

CREDITORS RECONCILIATIONS

Basic concepts

creditors' control account | creditors' list | interest on overdue accounts

Reconciliation: **Creditors Control** balance **MUST** be equal to the **total of the Creditors List**

A **Creditor's Ledger a/c** balance MUST correspond with **monthly statement received from a creditor**

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Understand the creditors cycle

SOURCE DOCUMENTS INVOLVED WITH CREDITORS

(and the effect of each on the Creditors' control (CC) and monthly statement (CMS))

Doc	**Invoice (CJ)**	**Debit note (CAJ)**	**EFT made (CPJ)**
Reason for the doc	Bought on credit	Goods returned to creditors	Payment made to creditor (may receive discount)
Effect on CC and CMS	Add to CC (cr) Add to CMS (dr)	Subtract from CC (dr) Subtract from CMS (cr)	Subtract from CC (dr) Subtract from CMS (cr)

INTERNAL CONTROL

1. Decisions regarding:

- can supplier provide goods on a regular basis
- does supplier allow trade discount?
- payment terms
- does supplier give cash discounts

2. All items received - correct documents:

- Control if goods received correspond with the invoice when delivery is made
- Check for damaged items.
- If goods are damaged, return goods to supplier with a debit note
- If frequent problems occur, find alternative supplier

BANK RECONCILIATION

Strategies to complete a Bank Reconciliation

We need to determine errors, omissions and timing differences and do the following:

- Compare current month's cash journal with previous month's bank reconciliation statement (tick off items appearing in both places).
- Compare current month's cash journal with current month's bank statement (tick off items appearing in both places)
- Correct mistakes (such as, overstated, understated and bank statement errors) in the appropriate places in the bank reconciliation
- Items appearing in the bank statement only that need to be recorded in the cash journals, such as, direct deposits, bank charges, interest debited or credited, debit orders or stop orders.
- Items appearing in the cash journals that is not on the bank statement to be recorded in the bank reconciliation statement, such as, outstanding deposits and outstanding EFTs.

ACTIVITY DD1

BANK RECONCILIATION

The information relates to Dumisa Services.

REQUIRED:

1.1 The owner T. T. Dumisa believes that since the business only uses Electronic Funds Transfer to make payments, there is no need to do Bank Reconciliation. This is also because he trusts Thandi, the bookkeeper, who is processing and controlling all EFT's.

1.1.1 Give him TWO reasons why Bank Reconciliation is still important. (2)

1.1.2 Give 1 point as to why the internal auditor is concerned about Thandi's role. (1)

1.2 Show the changes in the Cash Journals for June 2022. (9)

1.3 Calculate the correct Bank Account balance on June 2022. (3)

1.4 Prepare the Bank Reconciliation Statement on June 2022. (8)

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INFORMATION:

A. Extract: Bank Reconciliation Statement on 31 May 2022.

Outstanding deposit	R19 000
Outstanding EFT's:	
No. 124 (15 June 2022)	R2 800
No. 126 (15 July 2022)	R9 340
No. 190 (31 May 2022)	R15 900
Favourable balance on Bank Account	R18 400

NOTE:

- The outstanding deposit appeared on the June Bank Statement.
- EFT 124 was reversed on 10 June 2022 (before the release date) as banking details of the recipient could not be verified. However, no entry was made in the cash journal.
- EFT 126 did not appear on the June Bank Statement.
- EFT 190 appeared on the June Bank Statement with the correct amount of R10 500.

B. Provisional totals in the Cash Journals on 30 June 2022 before receiving the Bank Statement:

Cash Receipts Journal R54 940

Cash Payments Journal R64 800

C. Entries in the Cash Journals but NOT on the June Bank Statement:

- Deposit R19 350
- EFT 222 (30 June 2022), R7 600
- EFT 240 (31 July 2022), R9 160

D. Entries on the June 2022 Bank Statement NOT in the Cash Journals:

DATE	DETAILS	R
15	Debit order	2 250
	Debit order	2 000
25	M. Mickey (EFT by the tenant)	5 600
30	Interest on credit balance	260
30	Service fees	350

- ❖ Debit orders are for Insurance. The amount of R2 000 was for the owner's home insurance while the other was for the business.

E. Bank Statement balance on 30 June 2022: .....?

USE YOUR EXERCISE BOOK TO ANSWER

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ACTIVITY DD2: BANK RECONCILIATIONS

2.1 State whether the following statements are true or false. Write only true or false next to the question number.

2.1.1 Bank charges is a form of EFT.
2.1.2 A debit balance on the bank statement is a positive balance.
2.1.3 Interest debited on the bank statement is recorded in the Cash Receipts Journal. (3)

2.2 BANK RECONCILIATION

The following information relates to Nxasane Stores for November 2021.

REQUIRED:

2.2.1 Complete the Cash Receipt Journal and Cash Payment Journal for November 2021. (21)
2.2.2 Prepare the Bank Account on 30 November 2021. (3)
2.2.3 Prepare the Bank Reconciliation Statement for November 2021. (7)
2.2.4 Refer to information A (missing R5 000)
2.2 4.1 Which GAAP principle was applied in writing off this amount and explain why? (3)

INFORMATION:

A. Extract from the Bank Reconciliation statement on 31 October 2021:

Unfavourable balance as per bank statement	R 21 800
Outstanding deposits: 18 October 2021	15 900
27 October 2021	23 000
Outstanding EFT:	
No. 123	5 700
Favourable balance as per Bank account	11 400

NOTE:

- The outstanding deposit of R15 900 appeared on the November 2021 bank statement.
- The outstanding deposit of R23 000 on the Bank Reconciliation Statement was in respect of sales. It was reflected as R18 000 in the November Bank statement. After an investigation, it was decided to write-off the missing R5 000.
- EFT 123 appeared on the Bank Statement for November 2021.

B. Provisional totals from the Cash Journals on 31 November 2021:

- Cash Receipt Journal, R49 000
- Cash Payment Journals, R48 000

C. The following information on the November 2021 Bank Statement did not appear in the November 2021 Cash Journals:

EXTRACT: BANK STATEMENT – UCW BANK DETAILS	**AMOUNT**
Debit order Ethekwini Council - Water and electricity	R3 200
Cash handling Fees	444
EFT fees	113
Rent income	8 300
Direct deposit	19 000
EFT – payment KK Traders	5 900
B Nene	2 750
Service fees	555
Interest on a credit balance	232
Bounty Insurers	6 600

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D. Additional information relating to C

- The rent income was received from J Justin
- EFT (KK Traders). This was for settlement of our account of R5 900.
- A direct deposit of R19 000 was wrongly reflected on the business Bank Statement. The bank will rectify the error.
- The direct deposit from B. Nene was a partial payment of his account.
- The debit order to Bounty Insurers includes R1 500 for the owner's private vehicle.

E. The following information in the November 2021 Cash Journals did not appear on the Bank Statement for November 2021:

- Outstanding deposit, R17 400
- EFT 222 is a future dated payment with a release date of 15 December 2021 for R6 600 to Yandisa Stores for trading stock purchased.

F. The bank statement amount on 30 November 2021 is the balancing figure.

USE YOUR EXERCISE BOOK TO ANSWER

ACTIVITY DD3

3.1 State whether the following statements are true or false. Write only True or False next to the question number.

3.1.1 Service fees, credit card levies, cash deposit fees and interests on overdraft are all classified as bank charges.

3.1.2 Favourable bank balance as per Bank Statement is reflected as a credit balance.

3.1.3 An understated amount in the Cash Payments Journal must be corrected in the Cash Receipts Journal.

3.1.4 A future-dated EFT received must be recorded in the CRJ on the date on which it was received.

3.2 CHIKKA TRADERS

REQUIRED:

3.2.1 Make the necessary entries in Cash Journals for February 2022.

3.2.2 Calculate the correct Bank Account balance on 28 February 2022.
R12 220 is the unfavourable balance on 31 January 2022.

3.2.3 Draw up the Bank Reconciliation Statement on 28 February 2022.

INFORMATION:

A. Provisional totals CRJ: R60 340
CPJ: R36 655

B. Entries made in the bank statement :

- The tenant made a direct deposit of R2 500 into the bank account of the business.
- The Bank Statement reflected a double debit totalling R2 900. This was for business data contract. The bank agreed to reverse the second debit order in March 2022.
- The bank statement reflects R670, bank charges and R130, interest on favourable balance.
- The Bank Statement reflects an EFT receipt of R4 500. This does not appear on the Cash Receipts Journal. An investigation reveals that this EFT was made by a client of Chippa Traders by mistake.
- The bookkeeper forgot to record a payment made by the manager, Jean Gee, to Doni Municipaility. It appears on the Bank Statement as EFT 110, R1 800. It was for property rates.

C. EFT 101, R540 appears correctly on the Bank Statement while the Cash Payments Journal reflects R450.

D. Entries made in the cash journals:

- A deposit of R12 000 made on 27 February 2022, appeared only in the Cash Journal.
- EFT 113 for R1 000, was scheduled for release on 20 March 2022. This donation to Nakekela Home for the Aged was recorded in the Cash Journal on 25 February 2022.

USE YOUR EXERCISE BOOK TO ANSWER

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ACTIVITY DD4:
BANK RECONCILIATION

You are provided with information relating to Pintech Traders. They require your help in preparing their Bank Reconciliation Statement for July 2022. Their financial year ends on 31 July 2022.

REQUIRED:

Study the information provided and answer the questions that follow.

INFORMATION:

The Bank Reconciliation Statement on 30 June 2022 showed the following:

Cr Balance as per Bank statement	R22 000
Cr Balance as per Bank account in the ledger	32 300
Outstanding deposit (Dated 30 June 2022)	27 600
Outstanding EFT's:	
▪ No. 1655 release/ maturity date 05 August 2022	2 500
▪ No. 3210 release /maturity date 18 July 2022	11 400
▪ No. 3245 release date 19 August 2022	68 000

On comparing the July Bank Statement from Mars Bank with the Cash Journals for July, the following were noted:

I. A deposit of R27 600 appeared on the Bank Statement on 1 July 2022 but not in the Cash Journals.
II. A deposit of R18 600 appeared in the CRJ on 29 July 2022 but not on the July Bank Statement.
III. Commission income of R5 000 was deposited directly into the bank account of Pintech Traders by Artline Products. This appeared on the Bank statement only.
IV. Interest, R205 appears as a credit entry on the Bank Statement. It does not appear in the relevant journal.
V. EFT No.1655 dated 5 August 2022 was a donation to the Sports Club.The club no longer exists and their account is inactive. The owner of the business decided to use the same amount as a donation to Khula Kids Care. The bookkeeper recorded EFT No. 3347 in the CPJ on 25 July 2022 (Release date 15 August 2022).
VI. EFT N0.3210 for R11 400 appeared on the July Bank statement but not on the Cash Journals for July 2022.
VII. EFT No. 3346 (Dated 31 July 2022), for R7 700 appeared on the CPJ for July but not on the July Bank statement.

VIII. Bank Charges of R557 appeared on the Bank statement .
This included a sundry entry for R22 which was discovered to be an error by the bank.
It was discovered that the same amount appeared on the Bank statements of the two previous months and were recorded as bank charges. Mars bank has agreed to reverse all three amounts in August 2022.
IX. The Bank statement showed a favourable balance of R80 420 on 31 July 2022.

QUESTIONS:

4.1 Identify items (numbers from the above information), and amounts, that must be entered in the CRJ.
4.2 Identify items (numbers from the above information), and amounts, that must be entered in the CPJ.
4.3 Prepare the Bank Reconciliation Statement on 31 July 2022.
4.4 Refer to item no (VIII) above, what would you say to the manager of Mars Bank if he wanted a feedback on the quality of their service?

ACTIVITY DD4

4.1 Items for CRJ	**4.2 Items for CPJ**
Item No. _____ Amount: _____	Item No. _____ Amount: _____
Item No. _____ Amount: _____	Item No. _____ Amount: _____
Item No. _____ Amount: _____	Item No. _____ Amount: _____
Item No. _____ Amount: _____	
Item No. _____ Amount: _____	

USE YOUR EXERCISE BOOK TO ANSWER

4.3 Bank Reconciliation Statement on 31 July 2022

4.4

Refer to item no (VIII) above, what would you say to the manager of Mars Bank if he wanted a feedback on the quality of their service?

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ACTIVITY DD5: BANK RECONCILIATION

The information relates to Umlazi Traders.

REQUIRED:

5.1 The owner, Joseph Nxasane, realises that many people are now using electronic funds transfers (EFTs).

5.1.1. State THREE advantages of EFTs. (3)

5.1.2. Precious Mbatha, the bookkeeper, has been assigned the duty of processing and controlling all EFTs. Explain TWO reasons why the internal auditor is concerned about this. (4)

5.2. Show changes in the Cash Journals for August 2022. (10)

5.3. Prepare the Bank Reconciliation Statement on 31 August 2022. (8)

INFORMATION:

A. Extract: Bank Reconciliation Statement on 31 July 2022

Outstanding deposit		R9 500
Outstanding EFTs		
No.	**Date**	
429	14 July 2022	R1 400
455	27 July 2022	R4 670
469	28 July 2022	R7 950
Favourable balance on Bank Account		**?**

NOTE:

The outstanding deposit appeared on the August Bank Statement.

- EFT 429 did not appear in the August Bank Statement. It was established that this EFT is a future-dated payment with a maturity/release date of 12 September 2022.
- EFT 455 appeared in the August Bank Statement.
- EFT 469 (for Rates) appeared on the August Bank Statement with the correct amount of R5 250.

B. Provisional totals in the Cash Journals on 30 August 2022 before receiving the Bank Statement:
Cash Receipts Journal: R37 470
Cash Payments Journal: R32 400

C. Entries in the Cash Journals NOT on the August Bank Statement:

- Cash Deposit on 28 August, R9 675
- EFT 624 - R3 800
- EFT 638 - R4 580
- Receipt from M Naidoo (a debtor) on 20 August – R1 500

The receipt on 20 August was inadvertently recorded in the CRJ from the Proof of Payment (for EFT transfer) received from a debtor, M Naidoo, on 20 August 2022. Upon investigation of the Proof of Payment, it was established that the debtor had elected a release date/maturity date of 15 September 2022.

The following were established regarding EFT 624 and 638.

EFT 624 was made on 24 August 2022 (transaction date) as a future dated payment for 15 September 2022 (maturity/release date)

- EFT 638 was made on 29 August 2022 (transaction date) as immediate payment to one of our creditors.

D. Entries on the August 2022 Bank Statement NOT in the Cash Journals:

DATE	DETAILS	R
14	Debit order: Bitsure Insurance*	1 125
	Debit order: Bitsure Insurance*	1 125
15	EFT 545 (15 August 2022)	1 140
17	EFT 549 (17 August 2022)	5 000
25	M Mala (EFT by tenant)	2 800
30	Interest income (on Fixed deposit)	130
30	Service fees	175

*Insurance appeared twice in error. This will be rectified in the next month.

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It was established that EFT 545 was an authorized payment on 15 August 2022 for immediate release to our creditor in full after discount of 5%. However, the accountant has forgotten to record this transaction in the CPJ.

It was established that EFT 549 was **NOT** an authorized payment on 17 August 2022. It was further established that this was an immediate release for payment into the previous clerk's personal account. The clerk has subsequently left the employ of the business. This transaction was not recorded in the books.

E. The Bank Statement balance on 31 August 2022 amounted to R13 755

USE YOUR EXERCISE BOOK TO ANSWER

ACTIVITY DD6:
(Bank reconciliation and internal control; 30 marks, 15 minutes)
You are provided with information taken from the financial records of Blossom Stores.
REQUIRED:
6.1 Give TWO reasons why the preparation of a Bank reconciliation statement is an important part of the internal control process. (4)

6.2 What adjustments will be made to the figures in the financial statements on 28 February 2022 in respect of :
6.2.1 Future-dated EFT's recorded in the Bank reconciliation statement on 28 February 2022. Quote actual amounts. (4)
6.2.2 Payment to AB Stores in error. (Refer to information 2.12). (2)
6.3 Analyse the differences provided at Information 2 under the headings provided. Show the amount that will appear in the subsidiary journal or Bank reconciliation statement. Indicate no entry with an "X". (16)
6.4 During April 2022, the internal auditor discovered that the outstanding deposit of R25 000 on 3 March 2022 appeared as R2 500 on the bank statement for April 2022. The amount on the bank statement is correct. Should the internal auditor be worried about this mistake? Explain. Provide one relevant control measure to prevent this from happening in the future. (5)

INFORMATION:
1. Bank reconciliation statement of Blossom Stores on 28 February 2022:

Unfavourable balance according to bank statement	16 200
Outstanding deposit (26 February 2022)	21 380
Outstanding EFT's: No. 186 (dated 24 April 2020)	3 500
No. 245 (dated 15 April 2022)	6 400
No. 288 (dated 10 March 2022)	4 600
Unfavourable balance according to bank account	9 320

2. .A comparison between the Bank statement for March 2022 and the Cash journals for March 2022 showed the following differences:
2.1 The bank statement shows a favourable balance of R14 300 on 31 March 2022.
2.2 A deposit of R21 380 appears on the bank statement on 2 March 2022 but does not appear in the Cash receipts journal for March 2022.
2.3 A deposit of R25 000 appears in the Cash receipts journal on 3 March 2022, but it appears as R2 500 on the bank statement for March 2022. The bank statement amount is correct.
2.4 An electronic transfer of R12 600 regarding rent received only appears on the bank statement f or March 2022.
2.5 Bank charges of R2 300 only appear on the bank statement for March 2022.
2.6 The bank statement indicates a dishonored debit order received from a debtor settling an account of R8 400 after discount of 5% had been allowed.
2.7 EFT no. 186, authorized as a donation to the SPCA had not been released and must be cancelled. It must be replaced by EFT no. 310, authorized on 25 March 2022. The donation must be increased by R500, and the EFT will be released on 1 April 2022. No entries were made.
2.8 EFT no. 288, authorized for release on 10 March 2022, appears on the bank statement but is not reflected in the cash journals for March 2022.

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2.9 EFT no. 307 for R1 750, authorized for release on 6 April 2022, appears in the Cash payments journal, but not on the bank statement for March 2022.

2.10 EFT number 309 for R3 500 for stationery was recorded in March CPJ. However, the Bank statement reflected an amount of R5 300. It was established that the Bank statement amount was correct.

2.11 EFT number 295 for R10 000 appears in the March Bank statement but does not appear in the March CPJ. Upon investigation, it was established that this EFT was paid into the private account of one of the clerks who worked in the finance section. The clerk has left the company and cannot be traced.

2.12 EFT 296 for R3 000 made on 20 March 2022 for immediate release, was inadvertently paid into AB Stores account instead of AB Suppliers. A request has been sent to AB Stores for the refund. In the meantime, EFT 308 was made out to AB Suppliers on 31 March 2022. This has been recorded in our journals and does not appear in March Bank Statement.

2.13 Blossom stores made a deposit of R20 000 on 30 March 2022 and recorded accordingly. However, this deposit does not appear in the March Bank Statement.

USE YOUR EXERCISE BOOK TO ANSWER

ACTIVITY DD7: CREDITORS RECONCILIATION

Information below relates to Zamani Stores for September 2022.

REQUIRED:

7.1 Provide TWO reasons why it is important for the business to prepare the Creditors' Reconciliation Statement each month.

7.2 Calculate the correct Creditors' Control Account balance after taking into account the relevant errors and omissions.

7.3 Calculate the correct balances for creditors Ngubo Suppliers and Aheers Wholesalers, by taking into account the errors and omissions.

INFORMATION

A Balance and totals on 30 September 2022 (before errors and omissions).

Creditors control account in the General Ledger	R32 640
Creditor's list: (before errors and omissions)	
Ngubo Suppliers	R16 500
Aheers Wholesalers	R29 520

B ERRORS AND OMISSIONS

(a) The Creditors control was under-cast by R5 020.

(b) A credit invoice for trading stock purchased from Ngubo Suppliers for R12 800 on 28 September 2022 was not recorded at all.

(c) A payment of R3 150 to Aheers Wholesalers was posted as an invoice in the Creditors' ledger. The CPJ was correct.

(d) A debit note of R1 280 for goods returned to Ngubo Suppliers was recorded in the Creditors' Journal in error and posted to the General Ledger accordingly. Posting to the Creditors' ledger was correctly done from the document.

(e) VAT of R1 720 was omitted from an invoice from Ngubo suppliers.

(f) Equipment purchased on credit from Blackwood Manufacturers, R4 900, was incorrectly posted to the account of Aheers Wholesalers.

(g) An invoice for R3 575 from Ngubo Suppliers was incorrectly posted as R3 375 to their account in the Creditors' Ledger only.

USE YOUR EXERCISE BOOK TO ANSWER

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ACTIVITY DD8
CREDITORS' RECONCILIATION

The information relates to Vilakazi Traders for August 2022. Vilakazi Traders buys goods on credit from Mphelandaba Suppliers.

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

- In the Creditors' Ledger Account in the books of Vilakazi Traders
- In the Creditors' Reconciliation Statement on 31 August 2022

INFORMATION:

The following differences were discovered when comparing the account in the Creditors' Ledger with the statement received from Mphelandaba Suppliers:

A An invoice for R14 800 was recorded incorrectly as R1 480 on the statement received from the creditor.

B The bookkeeper of Vilakazi Traders recorded an invoice for R1 350 as a credit note.

C The discount of R850 was in error, overstated by R350 in the Creditors' Ledger.

D An EFT payment for R7 200 by Vilakazi Traders did not appear on the statement due to the statement been processed early.

E Goods for R2 700, returned by Vilakazi Traders, was not recorded.

ACTIVITY DD8

	Creditors' Ledger	Creditors' Reconciliation Statement
Balance	**28 370**	**25 300**

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ACTIVITY DD9
NONO' STORES

NONO Stores is owned by Ma Dube. The business buys goods on credit from MOh Suppliers. The business received a statement of account for February 2022.

REQUIRED:

9.1 **Refer to Information A, B and C.**

Use the table that is provided.

Indicate the changes to the Creditors' Ledger Account in the books of NONO Stores and the statement received from MOH Suppliers to take into account the errors and omissions on 28 February 2022.

Indicate + or – for each amount.

9.2 **Refer to Information D.**

- State TWO benefits of using electronic funds transfers (EFTs) forpayments to creditors.
- The internal auditor feels that this incident of fraud should neverhave occurred in this business.
  - Explain why he feels this way.
  - Explain how this could have been prevented. State TWOpoints.

INFORMATION:

A. Creditors' Ledger of Nono Stores

Moh SUPPLIERS (CL8)

DATE		DETAILS	DEBIT	CREDIT	BALANCE
			R	R	R
2021 Feb.	1	Balance			86 900
	5	Invoice 353		18 800	105 700
	7	Debit note 72	600		105 100
	13	EFT 428	22 800		82 300
		Discount	1 140		81 160
	14	Invoice A417		6 100	87 260
	16	Invoice 390		11 800	99 060
	23	Invoice 401		8 900	107 960
	24	EFT 676	12 000		95 960
	25	Journal voucher 221	2 660		93 300
	27	Invoice 556		7 700	101 000

B. Statement of account received from Moh Suppliers

Nono Stores
001 vilakazi Street **25 February 2021**

DATE		DETAILS	DEBIT	CREDIT	BALANCE
			R	R	R
2021 Feb.	1	Balance			86 900
	5	Invoice 353	10 800		97 700
	7	Credit note 109	600		98 300
	14	Receipt 632		22 800	75 500
	16	Invoice 390	12 980		88 480
	23	Invoice 401	8 900		97 380
	24	Receipt 961		12 000	85 380

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C. Errors, omissions and other information:

(i) Invoice 353 on 5 February 2021 was correct according to the statement.
(ii) Moh Suppliers made an error in recording the goods returned on7 February 2021.
(iii) Nono Stores entered a discount with the EFT payment on13 February 2021. Moh Suppliers informed the business that they do not qualify for this discount.
(iv) Invoice A417 in the Creditors' Ledger Account of Moh Suppliers was for goods purchased from Mozana Suppliers.
(v) The trade discount on Invoice 390 was not deducted by Moh Suppliers.
(vi) The bookkeeper transferred a debit balance from the Debtors' Ledger Account of Moh Suppliers (Journal voucher 221) to their account in the Creditors' Ledger.
(vii) The statement shows entries up to 24 February 2021 only.

D. During an internal audit, the auditor noticed the following account in theCreditors' Ledger of Nono Stores:

EXCESS TRADERS					CL24
DATE		DETAILS	DEBIT	CREDIT	BALANCE
2021 Feb.	20	Invoice 11 334		R120 000	R120 000
	22	EFT	R120 000		R0

It was discovered that an EFT payment of R120 000 was made to Frank Adams, the sole owner of Excess Traders. Further investigation by the internal auditor revealed that this business is not operational and that Frank Adams is a close relative of the accountant of Nono Stores.

USE YOUR EXERCISE BOOK TO ANSWER

ACTIVITY DD10: DEBTORS RECONCILIATION AND AGE ANALYSIS

Zwane Traders, owned By Stanley Mazibuko, sells building material for cash and on credit. Their credit terms are 30 days, but they are expected that 80% of their debtors will adhere to the credit terms.

REQUIRED:

10.1 Briefly explain why the balance of the debtors control account should correspond with the total of the list of debtors. (2)
10.2 Calculate the correct closing balance of the debtors control account as at 30 June 2022. (5)
10.3 Prepare a correct list of debtors of Zwane Traders on 30 June 2022. Show all calculations. (14)
10.4 Study information A and C below then answer the following questions
- Does Zwane Traders have effective control over their debtors? Explain by quoting figures to motivate your answer. (3)

State TWO actions that Zwane Traders could take in order to encourage debtors to settle their accounts according to the credit terms. (4)

INFORMATION:

A. Debtors age analysis schedule for June 2022:

TOTAL	CURRENT	30 DAYS	60 DAYS	90 DAYS
R187 500	R33 700	R26 300	R72 600	R54 900

B. Balance of the debtor's control on 30 June 2022, amounted to R175 700.

C. Balance according to the debtor's ledger on 30 June 2022.

Debtors	Amount due	Credit limits
S.M Mazibuko	46 500	30 000
S Shezi	31 800	35 000
N Ntuli	27 000	30 000
N Buthelezi	63 200	40 000
H Molefe	8 600	10 000
	177 100	

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D. The following errors and omissions were discovered and must be corrected:

(i) The debtors Journal was overcast by R4 100.

(ii) Goods sold on credit to H Molefe were incorrectly posted to the account of S Shezi, R7 600.

(iii) An allowance on damaged goods delivered to S.M Mazibuko, R1 400, was posted to the wrong side of his account.

(iv) An invoice issued to N Ntuli for, R2 300 was not entered in the books of Zwane Traders.

(v) An EFT for R8 700, received from H Molefe in settlement of an invoice for R9 000, was not recorded due to incorrect information, after investigation.

(vi) Goods sold on credit to N Buthelezi for R4 700, was correctly entered in the debtors Journal, but was posted to her account in the debtors' ledger as R7 400.



USE YOUR EXERCISE BOOK TO ANSWER

ACTIVITY DD11 : DEBTORS RECONCILLIATION

The information below relates to Tholulwazi Traders for March 2022.

REQUIRED:

11.1 Provide ONE reason why the balance of the Debtors' Control Account and the total of the Debtors' List should be the same.

11.2 Calculate the correct Debtors' Control Account balance after taking into account the relevant errors and omissions.

11.3 Calculate the correct balances for debtors Melusi and Minny by taking into account the errors and omissions.

INFORMATION:

Balance and totals on 31 March 2022 (before errors and omissions).

Debtors' control account in the General Ledger	R111 000
Debtor's list: (before errors and omissions)	
Melusi	R51 300
Minny	R55 120

Errors and omissions

A. The Debtors' Journal was incorrectly totalled as R34 320 instead of R29 140.

B. An invoice issued to debtor Melusi for R900 has not yet been recorded in the books of Tholulwazi Trader.

C. Tholuwazi discovered that an EFT of R6 750, received from debtor Minny in full settlement of his account of R7 500, was not recorded due to the incorrect business account.

D. The bookkeeper posted an invoice for R1 500 to the wrong side of a debtor Melusi's account. Posting to the General Ledger was correct.

E. Goods sold on credit to debtor Minny for R5 900 were correctly recorded in the Debtors' Journal but incorrectly posted to her account in the Debtors' Ledger as R9 500.

USE YOUR EXERCISE BOOK TO ANSWER

ACTIVITY DD12

DEBTORS' RECONCILIATION AND AGE ANALYSIS

PHAKATHI STORES

The Debtors' Control Account and debtors' list for February 2022 prepared by the bookkeeper contained errors/omissions

REQUIRED:

12.1 Explain how a debtors' age analysis can assist with internal control over debtors

12.2 Use the table provided to indicate corrections that must be made to the Debtors' Control Account and the debtors' list.

Provide figures and a plus (+) or minus (–) sign for each correction.

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INFORMATION:

A.

	Debtors' Control Account	Debtors' List
Balance/Total	R37 710	R39 490

B. Errors or omissions to be corrected:

(a) No entry was made for an invoice for R7 440 issued to N Vilakazi

(b) A receipt for R9 400 issued to debtor B Crawley was recorded correctly in the relevant journal. It was posted incorrectly as R4 900 to his Debtors' Ledger Account.

(c) An invoice for R1 360 issued to B Ngubo was correctly recorded in the DJ. It was posted in error to the wrong side of her account in the Debtors' Ledger.

(d) An EFT for R1 350 received from D Zulu was recorded in the CRJ and posted to the Debtors' Control Account and Debtors' Ledger accordingly. D Zulu's account was previously written off.

(e) A credit note for R720 issued to T Dlamini was recorded in the DAJ as R270 and posted as such.

(f) No entry was made for an unpaid EFT of R1 750 on the February 2022 bank statement. This had originally been received from debtor S Hlophe to settle his debt of R1 950.



USE YOUR EXERCISE BOOK TO ANSWER

ACTIVITY DD13

VILA STORES

The debtors' age analysis on 30 April 2022 is provided. Credit terms are 30 days.

REQUIRED:

13.1 Explain how a debtors' age analysis can assist with internal control over debtors

13.2 Calculate the percentage of total debts exceeding the credit terms.

13.3 Explain ONE problem (with figures) relating to EACH of the following debtors:

- N Mnchunu
- N Xaba

13.4 Explain TWO problems (with figures) relating to debtor M Malembe.

INFORMATION:

DEBTORS' AGE ANALYSIS ON 30 APRIL 2022:

	CREDIT LIMIT	AMOUNT OWING	CURRENT MONTH	30 DAYS	60 DAYS	90 DAYS
	R	R	R	R	R	R
N Mnchunu	10 000	11 800	1 980	9 820		
M Malembe	14 000	13 450	4 100	3 902	5 448	
P Silolo	2 800	2 550		2 550		
N Xaba	14 000	11 192			9 112	2 080
F Mkhize	5 000	2 608	1 408	1 200		
		41 600	7 488	17 472	14 560	2 080
		100%	**?**	**?**	**?**	**?**

USE YOUR EXERCISE BOOK TO ANSWER

ACTIVITY DD14

You are provided with the age analysis of debtors on 31 May 2022.

Terms allowed to debtors:

- All accounts to be paid in 30 days and 2% discount will be granted.
- If any account is not paid in 60 days, 5% interest will be charged.
- If any account is not paid in 90 days, the account is handed over.

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NAME	>90 days	90 days	60 days	30 days	Current
K Kamogelo		90			
G Boitumelo				1 550	4 200
M Dimpho					3 250
P Tsepo	4 250				
S Sebetsang		880	3 500	1 525	2 185
TOTAL	4 250	970	3 500	3 075	9 635

14.1 How does the preparation of the Debtors' Age Analysis assist in the control of debtors?
14.2 How much is owed by the debtors on 31 May 2022?
14.3 Which debtor would you gladly give a credit reference?
14.4 Which debtor would be 'handed over' and what does this mean?

USE YOUR EXERCISE BOOK TO ANSWER

ACTIVITY DD15:

DEBTORS' RECONCILIATION, AGE ANALYSIS AND INTERNAL CONTROL

Seuss Dealers (owner - Theo Seuss) sells goods for cash and on credit to its customers. Jim Scott was appointed as the new credit controller at the beginning of the financial year. The information presented below relates to the month of August 2022

REQUIRED:

15.1 Explain why the Debtors' Control account balance should agree with the Debtors' List total.
15.2 Briefly explain how the preparation of a Debtors Age Analysis can assist the business in controlling their debtors
15.3 Theo feels that the management of debtors has not been satisfactory since the appointment of the new credit controller. Provide Theo with FOUR key points that confirms his suspicions.
Quote specific information from the Age Analysis (TWO points) and from the Debtors Control account (TWO points).
Note: You do not have to take the errors and omissions into account when answering
15.4 Theo questioned Jim about the difference in the balance of the Debtors' control account and the Debtors' List total. An investigation of the records showed that the posting to the Debtors' Control account was correct, but that posting errors influenced the Debtors' List.
Prepare the correct Debtors' List on 31 August 2022.
(Show workings with the relevant amounts in brackets to earn part-marks.)

INFORMATION:

A Credit limits and Credit terms:

All debtors are granted a credit limit of R15 000 and it is business policy that all debtors are granted 30 days to settle their accounts.

B Debtors' Age Analysis / List on 31 August 2022

Debtor	Total	Current	30 days	60 days	60 days +
H. Horton	28 300	15 300	3 900	2 200	6 900
L. Lorax	4 500				4 500
K. Knox	13 000	13 000			
V. Vladikoff	9 800	7 800	2 000		
M. Mooney	14 600	6 500	5 400	2 700	
Total due	70 200	42 600	11 300	4 900	11 400
	100%	**61%**	**16%**	**7%**	**16%**

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C GENERAL LEDGER OF SEUSS DEALERS

DEBTORS CONTROL

Dr					Cr				
2021 Aug	1	Balance	b/d	56 600	2021 Aug	31	Bank & discount	CRJ	55 700
	31	Sales	DJ	60 400			Debtors allowances	DAJ	2 900
		Bank	CPJ	10 800			Journal credits (Bad debts)	GJ	4 500
		Journal debits (Discount cancelled)	GJ	500			Balance	c/d	65 200
				128 300					128 300
Sep	1	Balance	b/d	65 200					

D Errors and omissions that influenced the List of Debtors:

(i) Merchandise returned by K. Knox, R500, was posted to the wrong side

(ii) The account of L. Lorax was written off. The Debtors'Ledger of L.Lorax was not updated.

(iii) Goods sold on credit to H. Horton for R5 600 was correctly recorded in the Debtors' Journal but incorrectly posted to his account in the Debtors' Ledger as R6 500.

(iv) Stock sold on credit to V. Vladikoff was incorrectly charged to the Debtors' Ledger account of H. Horton, R3 700

(v) No entry was made in the Debtors' Ledger account of M. Mooney for a debit order of R1 300 returned by the bank due to insufficient funds. A discount of R100 was allowed.

USE YOUR EXERCISE BOOK TO ANSWER

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EE. BUDGETING

STRATEGIES FOR REVISION

- Purpose to Prepare Cash Budget
- Differences between cash budget and projected income statement
- Calculations of creditors payment schedule using Fixed Stock base method i.e. cost of sales = total purchases
- Calculation of debtors' collection schedule (emphasis on Month of Sale)
  - ➢ To elaborate on discounts allowed/received (learners to be exposed to a quicker method of deducting discounts e.g. 5% given as a discount, 30% collection of R30 000 credit sales = 30 000 x 0,30 x 0.95.
- Record certain figures such as bank balance at the beginning etc
- Incorporate Financial indicators/ratios based on debtors, creditors, stock and gross profit % and comment on them
- Drill the learners on calculating sales using ratios as well as percentages
- Drill the learners on calculating percentages increase and decrease on expenses.
- Calculation of assets purchased using depreciation
- Calculation of loan capital amount using interest on loan, consider that interest on loan might have be shown as monthly interest in the cash budget or projected income statement(Statement of comprehensive income)
- Consider the business policy e.g. 30 days.
- Analysis problem solving questions, decision making and internal control.
- Explain how to calculate cash Surplus and Cash Deficit.
- Explain that the closing balance of the current month will be the opening balance of the following month.
- Explain the difference between favourable and unfavourable bank balance, in your explanation indicate which one is an overdraft.
- Internal control measures and decision to be taken to decrease bank overdraft.

Projected income statement

- Comparison of actual figures and budgeted figures and commenting on control of expenses and income
- Calculation of gross profit mark-up % achieved and comment on it

ACTIVITY EE 1. BUDGETING

You are provided with a partially completed Projected Income Statement prepared by the bookkeeper of ZAMAZWIDE DISTRIBUTORS for the period 1 October 2021 to 31 December 2021.

REQUIRED:

1.1 List TWO items on the Projected Income Statement provided, that would not appear on a cash budget.

1.2 Fill in the missing amounts denoted by **A** to **E** on the Projected Income Statement.

1.3 Taking into account the additional information, calculate the following:

1.3.1 The percentage increase in wages that the cleaners will receive in December 2021.

1.3.2 The monthly salary due to the sales manager in December 2021.

1.3.3 The total credit sales expected in December 2021.

1.3.4 The loan balance on 1 November 2021.

1.4 Refer to the actual figures for **Depreciation** and **Trading Stock Deficit** for October 2021. In each case, provide a reason for the difference with the budgeted figures.

1.5 **Refer to the actual figures for October 2021.**
Comment on any TWO expenses (excluding items mentioned in QUESTION 1.4) that were not well controlled by the business. In each case, quote the relevant figures and give ONE suggestion on how this expense can be more effectively managed.

INFORMATION:

A. The business uses a mark-up percentage of 60% on cost.

B. Credit sales comprise 75% of total sales.
Sales are expected to increase by 10% per month and by 20% during December.

C. The business employs a sales manager and an administration manager. The sales manager earns R300 more than the administration manager (per month). The managers are entitled to an increase of 8% p.a. from 1 December 2021.

D. R20 000 of the loan is repayable on 30 November 2021. Interest on loan at 9% p.a. is payable every

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quarter. The next payment is due on 1 January 2016.

E. Advertising expense per month is budgeted at a fixed percentage of total sales.

F. Income tax is estimated to be 30% of the net profit before tax.

INFORMATION (AMONGST OTHERS) FROM THE PROJECTED INCOME STATEMENT FOR OCTOBER TO DECEMBER 2021.

	OCTOBER BUDGETED	OCTOBER ACTUAL	NOVEMBER BUDGETED	DECEMBER BUDGETED
Sales	120 000	98 400	132 000	?
Cost of sales	75 000	58 800	B	99 000
Gross profit	A		?	?
Other income	20 700	18 200	20 700	21 200
Rent income	10 000	10 000	10 000	10 000
Discount received	1 200	1 000	1 200	1 200
Commission income	9 500	7 200	9 500	10 000
Gross operating income				
Operating expenses	48 300		?	?
Salaries (managers)	17 100	17 100	17 100	D
Wages (cleaners)	3 200	3 200	3 200	3 376
Maintenance	4 000	1 650	4 000	4 000
Telephone	2 000	4 280	2 000	2 500
Insurance	1 800	1 800	1 800	1 800
Advertising	2 400	1 900	C	3 168
Depreciation	6 200	8 000	6 200	8 000
Trading stock deficit	0	680	0	500
Stationery	3 150	3 100	3 200	3 250
Sundry operating expenses	8 450	8 420	8 500	8 550
Operating profit	17 400		?	?
Interest income	225	200	200	200
Profit before interest expense	17 625			
Interest expense	585	585	585	435
Net profit before income tax	?		?	?
Income tax	?		?	?
Net profit after tax	E		?	?

USE YOUR EXERCISE BOOK TO ANSWER

ACTIVITY EE 2:

NKANDLA TRADERS is a small grocery store. Their profit percentage mark-up on cost is 30% and their products generally have a three-month shelf-life.
The assistant to the accountant prepared a three-month cash budget for the period ended 31 March 2021. There appear to be some errors in this budget.

INSTRUCTIONS:

2.1 Identify THREE items (on the budget given) that do not belong in a cash budget. *List them in the space provided.*

2.2 Complete the Creditors Payment Schedule for the three month period ending 31 March 2022.

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2.3 Advertising appears in the projected income statement as follows:

	JANUARY	FEBRUARY	MARCH
Advertising	1 200	1 200	1 200

Explain why these amounts differ from the amount/s in the Cash Budget.

2.4 Calculate the following:

2.4.1 The mark-up percentage on cost achieved for the year ended 31 December 2021.

2.4.2 The amounts represented by **(a), (b)** and **(c)** on the budget.

2.4.3 The debtors average collection period for 2021 (in months).

2.4.4 Using the acid test ratio for 2021, calculate the Creditors balance on 31 December 2021.

2.5 Do you think that NKANDLA TRADERS is likely to experience liquidity problems? Motivate your answer by making reference to the liquidity ratios given.

2.6 Comment on the debtors' collection and the creditors' payment terms, and give a suggestion on how they could be managed more effectively.

2.7 The business plans to acquire a loan of R400 000 on March 2022. Explain why you think that this is either a wise decision, or not.

A **Information from the financial statements on 31 December 2021:**

Sales	2 466 000
Cost of sales	1 972 800
Trading Stock	657 600
Debtors Control (1 January 2022)	70 120
Debtors Control (31 December 2021)	94 280

B **Cash Budget for the period ending 31 March 2022**

	JANUARY	FEBRUARY	MARCH
CASH RECEIPTS			
Cash Sales	400 000	380 000	390 000
Cash receipts from Debtors	35 000	36 000	34 000
Sundry cash income	4 000	5 000	3 000
Loan			400 000
TOTAL RECEIPTS	439 000	421 000	827 000
CASH PAYMENTS			
Cost of Sales	320 000	310 000	312 000
Cash purchases of Trading Stock	192 000	186 000	187 200
Discount Allowed	400	460	380
Depreciation on vehicle	700	700	700
Wages	18 000	18 000	**(a)**
Interest on loan	-	-	2 000
Interest on overdraft	650	2 560	4 500
Bad debts	1 200	1 400	1 800
Advertising		2 400	
Sundry cash expenses	16 000	16 400	**(b)**
TOTAL PAYMENTS	548 950	537 920	?
Surplus/Deficit	(109 950)	(116 920)	?
Bank (Opening Balance)	(40 000)	(149 950)	**(c)**
Bank (Closing Balance)	(149 950)	(266 870)	?

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C	10% of sales are on credit.			
D	Employees are expected to receive a 6% increase in March 2022.			
E	Sundry cash expenses are allocated a fixed percentage increase each month.			
F	The following ratios were calculated for 2019:			
		Current ratio	**4 : 1**	
		Acid Test Ratio	**0,5 : 1**	
G	NKANDLA TRADERS maintains a fixed trading stock base. The cost of sales for November 2021 and December 2021 were R316 000 and R360 000 respectively.			
H	40% of all stock purchases are on credit.			
I	Based on previous experience, it is expected that creditors will be paid as follows:			
	10%		In the month of purchase, subject to a 5% discount.	
	75%		In the month following the purchase	
	15%		In the second month after the purchase.	

USE YOUR EXERCISE BOOK TO ANSWER

ACTIVITY EE 3

You are provided with information relating to HKH Traders for the three months ending 31 December 2021. The business is owned by Lizzy Ndou.

REQUIRED:

3.1 Complete the following sentences by filling in the missing word(s). Write only the word(s) next to the question number (3.1.1 – 3.1.2) in the ANSWER BOOK.
- 3.1.1 The main purpose of preparing the Cash Budget is…
- 3.1.2 ONE item in the Cash Budget that will not be reflected in a Projected Income Statement is…

3.2 Prepare the Debtors' Collection Schedule for December 2021.

3.3 Calculate the missing figures in the Cash Budget indicated by (i) to (v).

3.4 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.

INFORMATION:

A. Sales, purchases and cost of sales:

- Total sales expected

2021		
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.

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C. Debtors' Collection Schedule:

Months		2021			
		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:

	2021		
	October R	November R	December R
RECEIPTS:			
Cash sales	200 000	(i)	120 000
Receipts from debtors	339 000	321 900	
Rent income			
Loan from 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 2021.
- One employee has served notice of his resignation on 31 October 2021 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 2021.

G. Advertising:

The advertising budget will be increased by 9% with effect from 1 November 2021.

USE YOUR EXERCISE BOOK TO ANSWER

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ACTIVITY EE4: BUDGETING USE YOUR EXERCISE BOOK TO ANSWER

You are provided with a partially completed Projected Income Statement of Senoge Stores prepared by the bookkeeper for the period 1 May 2021 to30 June 2021. The business is owned by Susan Senoge.

REQUIRED:

4.1 Calculate the missing amounts denoted by **(a)** to **(d)** in the Projected IncomeStatement.

4.2 Taking into account the additional information, calculate the following:

4.2.1 The monthly salary due to the sales manager in June 2021

4.2.2 The total credit sales expected in July 2021

4.2.3 The cost price of the new vehicle purchased on 1 May 2021

4.3 Comment on the control of the telephone and water and electricity. What advice would you offer Susan? State ONE point.

4.4 Susan wants to reduce the maintenance budget to R500 per month and then use this saving for staff training. What should she consider before making this change? State TWO points.

4.5 A new competitor started operating from nearby premises in May 2021. Refer tothe actual figures for May 2021 and:

- Explain how Susan responded to this threat. State THREE points. Providefigures/calculations to support your answer.
- Explain whether Susan's response was successful or not. Provide figures.

INFORMATION:

A. Salaries and wages:

- The cleaner will receive an 8% increase in June 2021.
- The business employs a sales manager and an administration manager. The sales manager earns R400 more than the administration manager (per month). The managers are entitled to an increase of 7% p.a. from1 June 2021.

B. The business uses a mark-up percentage of 60% on cost.

C. Credit sales comprise 80% of total sales. Sales are expected to increase by 10%per month and by 12% during July 2021.

D. A delivery vehicle was purchased on 1 May 2016. Vehicles are depreciated at 15% per annum on cost. The accountant did not take this into account when preparing the Projected Income Statement for May 2021.

E. Rent income increased by 9% on 1 June 2021.

F. *Information (amongst others) from the Projected Income Statement for May 2021 to June 2021:*

	MAY BUDGETED	MAY ACTUAL	JUNE BUDGETED
Sales	180 000	195 000	198 000
Cost of sales	(112 500)	(150 000)	**(b)**
Gross profit	67 500		
Other income		19 200	
Rent income	**(d)**		10 028
Commission income	12 500	8 000	13 000
Discount received	1 800		1 980
Gross operating income			
Operating expenses	(45 650)		
Salaries (two managers)	18 000	18 000	
Wages (cleaner)	1 800	1 800	**(c)**
Maintenance	5 000	2 000	5 000
Motor vehicle expenses	0	4 000	0
Administration expenses	8 450	8 420	8 500
Telephone, water andelectricity	2 000	4 880	2 000
Insurance	1 800	1 800	1 800
Advertising	2 400	9 600	2 400
Depreciation	6 200	9 000	
Trading stock deficit	0	1 680	
Operating profit	**(a)**		
Interest income	350	350	350
Profit before interest expense	46 500		
Interest expense	(500)	(500)	(500)
Net profit	46 000		

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ACTIVITY EE 5 USE YOUR EXERCISE BOOK TO ANSWER

You are provided with information of Fantasy Laptops, a business owned byRay Rennie, for the budget period December 2021 to February 2022.
The business sells various types of laptop computers and does not sell on credit.They also repair these items for customers at a fee.

REQUIRED:

5.1 **Refer to Information A and B.**

Complete the Creditors' Payment Schedule for February 2022.

5.2 **Refer to Information C and D.**

Calculate:

- % increase expected in security costs from 1 February 2022
- % commission paid to salespersons during February 2022
- Water and electricity budgeted for December 2021
- The loan repayment to be made on 31 December 2021

5.3 **Refer to Information E.**

The internal auditor has noticed that packing material was R800 over spent and consumable stores were R1 500 over spent.
Comment on the control of packing materials and consumable stores. Quotefigures or calculations.

5.4 **Refer to Information D.**

During the Coronavirus lock-down in April and May 2021, the business lost money because there were no sales and fee income. However, Ray had to continue making payments to keep the business afloat (as a going concern).

- Give ONE reason why he did not want to stop paying salaries and wages.
- Identify ONE other payment in the list in Information D that he would not have been able to stop and give a reason.
- Identify ONE payment in the list in Information D that he would have stopped and give a reason.

5.5 **Refer to Information F.**

Ray Rennie, the owner, requires help in making a financial decision.
He is undecided as to whether he should lease or buy a delivery vehicle.His two options are reflected as Option X and Option Y.
Apart from generating more sales or having the use of the vehicle, state TWO advantages of EACH option.

INFORMATION:

A. Mark-up % and sales:

A mark-up of 75% on cost is used to set the sales prices of the laptops.

ACTUAL SALES		PROJECTED SALES		
October 2021	**November 2021**	**December 2021**	**January 2022**	**February 2022**
R490 000	R490 000	R770 000	R560 000	R525 000

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B. ***Purchases and payment to suppliers (creditors):***

- All stock is bought on credit.
- Stock sold is replaced in the month of sales.
- Some creditors offer a discount for payment in the month of purchase.
- 50% is paid in the month of purchase to earn a 10% discount.
- 30% is settled in the month after the purchase transaction month.
- 20% is settled in the second month after the purchase transaction month.

C. ***Information on specific items from the Cash Budget:***

- **Security:** The guards are outsourced from Keepsafe Guarding.
- **Commission:** Salespersons are paid commission in the same month onsales only. They do not receive a fixed salary.
- **Water and electricity:** The expected increase from 1 January 2022 is 24%.
- **Loan and interest:** The loan from Delta Bank bears interest at 12,5% per year. Interest is not capitalised and a fixed loan repayment is made on31 December each year.
- **Consumable stores:** These are used to repair laptops for customers.

D. ***Extract from the Cash Budget:***

	December 2021	January 2022	February 2022
	R	R	R
Fee income: repair services	100 000	150 000	150 000
Interest on loan (12,5% p.a.)	9 375	8 125	
Repayment of loan	?		
Commission to salespersons	123 200	89 600	84 000
Consumable stores for repairs	42 000	63 000	63 000
Security	18 000	18 000	28 500
Water and electricity	?	18 600	18 600
Salaries and wages			
Packing materials			
Insurance			

E. **The internal auditor identified the following figures for October 2021:**

	Budgeted R	Actual R	Variance %
Sales	490 000	400 000	-18,4%
Fee income	85 000	126 000	+48,2%
Packing materials	22 000	22 800	+3,6%
Consumable stores	24 500	26 000	+6,1%

F. **Options for securing a delivery vehicle:**

Ray feels that he should buy a delivery vehicle for R520 000 or lease (hire) the vehicle on a monthly basis to enable his business to generate more salesafter the Coronavirus lockdown. He has only R100 000 in his investments that he can use. These investments are currently earning interest at 6,5% p.a. He has two options to consider:

Option X (buy the vehicle):

Purchase the vehicle by using the money in his investments and take out a new 5-year loan for R420 000 at a high interest rate. He will have to repay the loan over five years. Interest over the five years will be R176 000.

Option Y (hire/lease the vehicle):

Hire (lease) the vehicle from Sentinel Ltd for R15 000 per month over 60 months.

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FF. VALUE ADDED TAX

VAT is tax charged by a vendor (seller or supplier) on the supply of goods or for rendering a service.
VAT is a form of indirect taxation.
Current VAT rate is **15%**

What is the purpose of VAT?

Is to fund social and economic programs and to provide public goods and services such as schools, universities, hospitals, clinics and roads as well as defence and security.

Concepts unique to Value Added Tax

Concepts	Explanation
Vat Vendor	**A** business that is registered for VAT. There are two categories of registration: • **Compulsory registration:** any business whose annual incomeexceeds R1 Million is required to register as a VAT vendor. • **Voluntary registration:** Any business whose annual income isless than R1 Million may voluntarily register as a VAT vendor, provided that the business has an annual income in excess of R50 000.
Output Vat	It is the VAT that is charged by the vendor when he sells goods or renders a service. The output tax is included in the price that thecustomer is charged for the goods or services.
Input Vat	VAT paid by a registered vendor on purchases from another registeredvendor; as well as VAT paid on other business expenses (e.g. rent) are known as input tax.
Standard rate	The standard rate is the normal rate at which VAT is charged when goods are sold or services are rendered by a registered VAT vendor. The standard rate is currently at 15% .The rate is adjusted by the minister of finance.
Zero rated	Zero-rated supplies are supplies of goods and services on whichoutput VAT is levied at a rate of 0%.
Tax Exempt	An **exempt supply** is the **supply** of **goods** or services upon whichneither VAT at the standard rate or zero-rate is chargeable.
VAT 201 form	Is a declaration, which you need to make at the end of every tax periodif you are a vendor, which reflects the **VAT** that you have charged on supplies (output tax), and the amounts that you believe you are entitledto deduct as input tax.
SARS	The South African Revenue Service (SARS) is the nation's taxcollecting authority they are responsible for administering the South African tax system and customs service.

APPROACH TO THE TOPIC

There are 2 methods of calculating amount payable or receivable from SARS.

- The first one is to use a formula: VAT output –VAT input. A negative balance makes it an ASSET (the amount is receivable) and a positive balance makes it a liability (the amount is payable).
- The second one is to draw up a **VAT control account**. The debit side of the account consist of the **VAT input** amounts and the credit side of the account consist of the **VAT output** amounts.
- VAT input amounts includes VAT on purchases of trading stock, equipment etc, VAT on expenses, VAT on returns from debtors, VAT on bad debts.
- VAT output includes VAT collected from sales. VAT on returns of merchandise, VAT on drawings of stock, VAT on bad debts recovered

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ACTIVITY FF1: VAT

CONCEPTS

REQUIRED:

1.1. Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (1.1.1 to 1.1.2) in the ANSWER BOOK.

1.1.1 **Input VAT** is collected by a business when goods are sold.

1.1.2 The calculation of **rent income** does not take VAT into account.

1.2. VALUE-ADDED TAX (VAT)

The information relates to Shukela LTD for the VAT period ended 28 February 2020. The VAT rate of 15% applies to all goods and services.

REQUIRED:

Calculate the amount receivable from or payable to SARS for VAT on 28 February 2020. Indicate whether the amount is receivable or payable.

INFORMATION:

A. Amount owed to SARS on 1 February 2020, R31 780

B. VAT transactions for February 2020:

DETAILS	Excluding VAT (R)	VAT Amount (R)	Including VAT (R)
Returns by debtors		2 940	
Drawings by owner		6 150	
Debtors' accounts written off	17 400		20 010
Total purchases (cash and credit)	448 000		
Total sales			793 500

ACTIVITY FF2: VAT

2.1. VAT

Mngadi Traders is registered for VAT. The VAT rate is 15%.

REQUIRED:

2.1.1. Calculate the figures indicated by (a) to (d) in the table below.

2.1.2. You are the internal auditor. The sole owner, Mngadi, used a business money to buy a new car for R920 000 including VAT. This car is kept at home for his wife's use. Mngadi says the vehicle must be recorded as a business asset and R120 000 must be recorded as a VAT input in the business' books

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

INFORMATION:

DETAILS	Excluding VAT (R)	VAT Amount (R)	Including VAT (R)
Sales returns	1920	**A**	2 208
Purchase of stock	105 200	**B**	
Discount received	**C**	1 440	
Cash sales		**D**	224 940*

* This includes zero-rated goods that should have been sold for R11 000. The bookkeeper has incorrectly included VAT of R1 650 on these goods. This must be corrected.

ACTIVITY FF3: VAT

3.1. VAT

The information relates to Qwabe Stores for the VAT period ended 31 July 2022. The business is owned by Siyabonga Qwabe. All goods sold are subject to 15% VAT.

REQUIRED:

3.1.1 Calculate the VAT amount that is either receivable from or payable to SARS on 31 July 2022.

3.1.2. Siyabonga has ordered goods with a marked price of R70 000 from Zandile Suppliers. The sales director of Zandile Suppliers, Zandile Nyawo, has offered to sell these goods to Siyabonga for R30 000, provided that they do not have to issue an invoice. Comment on the offer made by Jim. State TWO points.

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INFORMATION:

A. Amount owed by SARS on 1 July 2022, R27 200.

B. Amounts from the Journals on 31 July 2022:

DETAILS	Excluding VAT (R)	VAT Amount (R)	Including VAT (R)
Total sales	R539 380	80 907	260 287
Purchases of stock	R296 800	44 520	341 320
Stock returned by debtors	R30 000	?	34 500
Bad debts	?	?	51 750

C. The following transactions were not taken into account:

- Stock taken by the owner, cost price R18 000 (excluding VAT).
- VAT on discount received from suppliers. Total discount received amounted to R69 000

ACTIVITY FF4: VAT

4.1. **Cape Traders is a VAT registered business. ALL items subject to VAT at 15%**
Required

4.1.1. Calculate the amount of VAT either receivable or payable to SARS on 31 August 2022. Indicate whether this amount is **Payable** or **Receivable**

4.1.2. The owner has told the accountant to change the bad debts from R800 to R8000. Give one reason you disagree with him.

Information:

The following transactions relate to Cape Traders for the VAT period ended 31 August 2022

A	Balance owing by SARS on 1 August 2022	R
B	Purchases of Trading Stock (VAT exclusive)	R
C	Cash and credit sales (VAT inclusive)	R
D	VAT on discount received from suppliers	R
E	VAT on bad debts written off	R

ACTIVITY FF5: VAT

5.1. 5.1.1. Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number ((a)–(d)) in the ANSWER BOOK.

(A) VAT paid to a service provider for the purchase of goods is regarded as (input VAT / output VAT).

(B) A (debit / credit) balance in the VAT Control Account reflects the final amount payable to SARS

(C) VAT on drawings of stock will (increase / decrease) the VAT payable to SARS.

(D) VAT will not be accounted for by the business on payment of (salaries / electricity).

5.2.

5.2.1. Calculate the VAT amounts.

Make/Draw a cross (X) in the relevant column in the ANSWER BOOK to indicate whether it will increase or decrease the amount owed to SARS. All items are subject to 15% VAT.

NO.	JOURNAL	DOCUMENT	VAT INCLUSIVE AMOUNT	VAT EXCLUSIVE AMOUNT
a)	DAJ	Credit note issued	R10 000	R11 500
(b)	CRJ	Cash register tape	R8 700	
(c)	CJ	Invoice received		R10 994

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ACTIVITY FF6: VAT

6.1. CONCEPTS

REQUIRED

Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–D) next to the question number (6.1.1–6.1.3) in the ANSWER BOOK, for example 6.1.4. E.

COLUMN A		COLUMN B	
6.1.1.	School fees	A.	VAT received by the trader for the sale of merchandise
6.1.2	Output VAT	B.	an example of a VAT-exempt item
6.1.3.	VAT vendor	C.	VAT is included in the selling price
		D.	a business with an annual turnover of more than R1 000 000

6.2. VALUE-ADDED TAX (VAT)

Ncube Traders is a VAT-registered business. All items are subject to VAT at 15%.

REQUIRED:

6.2.1. Calculate the amount of VAT either receivable from or payable to SARS on 31 December 2021. Indicate whether this amount is receivable or payable.

6.2.2. The owner wants to change the VAT amount on bad debts from R840 to R4 200. Give ONE reason why you would disagree with him.

INFORMATION:

The following transactions relate to Ncube Traders for the VAT period ended 31 December 2021

A	Balance owing by SARS on 1 January 2021	R16 800
B	Purchase of trading stock (VAT exclusive)	R825 000
C	Cash and credit sales (VAT inclusive)	R1 769 850
D	VAT on discount received from suppliers	R1 500
E	VAT on bad debts written off	R840