

## Mid-year exemplar

Marks: 300

Time: 3 hours

### Instructions

- You are provided with a question paper and an answer book.
- The paper comprises of six questions. Answer all questions.
- Use the formats provided to reflect your answers.
- Workings must be shown in order to achieve part-marks.
- You must attempt to comply with suggested time allocated to each question.
- Non-programmable calculators may be used.

Question	Section	Marks	Time (minutes)
1	VAT and Ethics	25	15
2	Debtors, Creditors and Bank Reconciliation and internal control	45	27
3	Inventory valuation and problem solving	45	27
4	Company ledger accounts and internal control	40	24
5	Company Financial Statements and Notes	85	52
6	Company Reporting, Cash Flow Statement and ratios	60	35
TOTAL		300	180

### Question 1

(25 marks; 30 minutes)

#### 1.1 VAT calculations

[15]

#### Required

Calculate the amount of VAT to be paid over to SARS in respect of February 2.14. Round off to the nearest cent.

#### Information

Kekaya Traders is registered for VAT according to the invoice method. The company also deals with other VAT vendors.

The VAT CONTROL account showed a credit balance of R6 410 on 1 February 2.14.

Transactions for February 2.14:	R
Credit sales according to invoice nos. 100 - 188 issued	75 642
Cash sales according to cash register rolls	45 930
Old equipment sold	5 000
Insurance claim paid out on stolen delivery truck	80 000
New equipment purchased on credit	24 000
Cash purchase of trading inventory for the month	40 000
Credit notes issued	3 160

#### 1.2 VAT, Ethics and control

[10]

#### Required

Read the following extract and answer the questions:

- 1.2.1 What do you understand by VAT fraud? (2)
- 1.2.2 Give an example of a VAT fraudulent transaction. (2)
- 1.2.3 What is the responsibility of a Tax Vendor? Give two reasons. (4)
- 1.2.4 What action does SARS undertake for tax evasion? (2)

SARS always have VAT vendors defrauding them. Businesses defraud SARS for millions by submitting false VAT refund claims. These businesses mislead SARS by indicating that they are selling products to a certain value to certain suppliers. Business cheques are issued to “third parties” as payments to suppliers. These cheques are cashed to purchase personal luxury items such as exotic cars and luxury homes.

## Question 2

(45 marks; 27 minutes)

### 2.1 Debtors, Creditors and Bank Reconciliation and internal control [31]

#### Required

Study the information and then answer the questions that follow.

- 2.1.1 Does Yoli Traders have a favourable bank balance or an overdraft according to the Bank's records? Give the amount and a reason for your answer. (6)
- 2.1.2 Cheque no. 2400 has been treated incorrectly by Yoli Traders. What would the correct entry be in the books of Yoli Traders? (2)
- 2.1.3 List FOUR steps you would follow when preparing a Bank Reconciliation Statement. (4)
- 2.1.4 Explain how cheque no. 5264 should be treated when preparing the Financial Statements. (4)
- 2.1.5 Explain why a post-dated cheque received by Yoli Traders on 26 February 2.14 but dated 26 March 2.14 does not appear in the Bank Reconciliation Statement. (4)
- 2.1.6 Calculate the correct amount owed to Zoey Traders by Yoli Traders. (5)
- 2.1.7 The internal auditors discovered that an employee had defrauded Yoli Traders by ordering personal goods for himself from the creditors and paid by business cheque. Briefly explain how you could improve the internal control in this area. (6)

#### Information

You have two examples of reconciliations done by Y Nqodi of Yoli Traders at their year-end 28 February 2.14.

	R
<b>Bank Reconciliation on 28 February 2.14</b>	
Debit balance per Bank Statement	3 040
Outstanding deposit (dated 28 February 2.14)	12 820
Outstanding cheques:	
No. 2400 (dated 7 August 2.13)	1 200
No. 5100 (dated 24 December 2.13)	440
No. 5243 (dated 22 February 2.14)	310
No. 5264 (dated 31 May 2.14)	5 200
No. 5646 (dated 28 February 2.14)	1 200
Incorrect debit on Bank Statement	630
Balance as per Bank account	?

**ZOEY TRADERS**  
**CREDITORS RECONCILIATION STATEMENT ON 28 FEBRUARY 2.14**

	R
Balance as per Creditors Statement on 28 February 2.13 (Dr)	18 386
Incorrect amount on Creditors Statement (Cr)	4 500
Invoice not reflected on statement:	
No. 431	2 000
Payment not reflected on statement	
Dated 28 Feb (cheque no. 882)	5 000
Returns not reflected on statement	
Debit note no. 176	400
Balance as per Creditors ledger on 28 February 2.14	?

## 2.2 Debtors age analysis

[14]

You have the debt collection policy and debtors age analysis of Yoli Traders. Study the debtors age analysis and answer the following questions.

### Required

- 2.2.1 Which debtor was not in arrears? (2)
- 2.2.2 Does Yoli Traders keep a tight control of its debtors? Explain. (4)
- 2.2.3 What will you do to encourage debtors to pay their accounts on time? (4)
- 2.2.4 State if any debtors must be handed over to attorneys. If so, state the consequence(s) to those debtors. (4)

### Information

#### Debtors collection policy

- Debtors settling accounts within 30 days qualify for 5% discount for prompt payment.
- Interest is charged as follows:
  - 3% on accounts overdue for 31–60 days
  - 5% on accounts overdue for 61–90 days
- Accounts overdue for more than 90 days are handed over to the attorney for collection.

#### Debtors age analysis on 28 February 2.14

Debtor	Current R	31-60 R	61-90 R	> 90 R	Total R
Robert Frosty		10 240	4 164		14 404
Diana Snowy	10 560				10 560
Milly Wintery				11 816	11 816
Pretty Sunny	2 240	6 000			8 240
Timba Rainy			3 780		3 780
Total	12 800	16 240	7 944	11 816	48 800

Question 3

(45 marks; 30 minutes)

3.1 Inventory valuation

[35]

Required

3.1.1 Calculate the cost of sales for the year ended 28 February 2.14 using the FIFO method. (11)

3.1.2 Calculate the gross profit for the year ended 28 February 2.14. (3)

3.1.3 Calculate the value of trading inventory on hand on 28 February 2.14. (4)

3.1.4 The owner of Nduli Traders is unhappy that the business has used the FIFO method of valuation and would rather have used the weighted average method. He has made the necessary calculations using the weighted average method as follows:

	R
Cost of sales	62 041.20
Gross profit	31 558.80
Value of inventory on hand	28 634.80

He came to you for advice. Comment on the following:

3.1.4.1 The difference the two methods will have on the Financial Statements. (4)

3.1.4.2 The reason why the figures are different. (8)

3.1.4.3 Give him advice as to whether he should change the inventory valuation method or not. (5)

Information

Nduli Traders buys silver trays from China and sells these trays to many retail outlets in South Africa. They make use of the FIFO method for all inventory valuations.

Date	Description	Number of trays	Price per unit R	Total Price R
1 March 2.13	Inventory on hand	100	60	?
1 June 2.13	Purchases	300	70	?
	Carriage on purchases	?	3	900
1 October 2.13	Purchases	400	80	?
	Carriage on purchases	?	3	1 200
1 February 2.14	Purchases	340	84	?
	Carriage on purchases	?	3	1 020
Total number of trays sold for the year: 780 at R120 each.				

3.2 Problem solving

[10]

Required

Make a study of the figures and issue a report in which you highlight the following:

3.2.1 Areas of concern with reasons. (6)

3.2.2 Two measures that could be taken to improve the situation. (4)

Information

Pretty Pink who value their inventory according to the FIFO method have completed their annual stocktaking in order to produce the Financial

Statements. The following figures have been given to the owner of Pretty Pink but he is not happy as the actual figures as per stocktaking and the figures that the Trading inventory records in the books show do not agree.

Inventory items	No. of Inventory items recorded in books	No. of items per physical stocktaking	+ (surplus) or - (deficit)
Gold earrings	116	110	-6
Diamond rings	31	29	-2
Watches	23	25	+2
Diamond necklaces	12	12	0
Bracelets	25	28	+3
Total	207	204	-3

### Question 4 Companies

(40 marks; 24 minutes)

#### Required

- 4.1** Complete the following ledger accounts for the year ended 28 February 2.14:
- Retained income (10)
  - SARS (Income tax) (12)
  - Dividends on ordinary shares (8)
- 4.2** Calculate the net asset value per share (5)
- 4.3** You have received an offer to purchase your shares at R5.60 each. Would you consider selling them? (5)

#### Information

Dinaledi Limited has an authorised share capital of R800 000. All 200 000 shares have been issued to the public.

Details extracted from the Balance Sheet on 28 February 2.14

	R
Shareholders' Equity	880 000
Trade and other payables: SARS (Income tax)	16 844
Shareholders for dividends	20 000

The following transactions took place during the year

#### 2.13

- March 15 Cheque no. 2642 and 2643 were issued to settle outstanding amounts in respect of Income tax and dividends on ordinary shares, respectively.
- September 1 R80 000 paid by cheque 3012 to SARS as provisional tax.
- September 5 Interim dividend of 20 cent per share was declared by the Directors.
- September 25 An EFT was done to pay shareholders in respect of dividends declared.

#### 2.14

- February 21 Second payment for provisional Income tax by cheque 3999, R82 800.
- February 28 The net income for the year amounted to R415 000. A final dividend of 30 cents per share was declared.  
The total tax liability for the year amounted to R166 000.

**Question 5 Companies: Interpretation** (85 marks; 50 minutes)

**5.1 Companies: Financial Statements, and analysis and interpretation** [62]

**Required**

**5.1.1** Use information from 3.1 and other applicable information below to complete the Equity and Liabilities section of the Balance Sheet on 30 June 2.14. Calculations must be shown clearly in brackets. (30)

**5.1.2** Calculate the following financial indicators (comparative figures for 2.13 are shown in brackets):

- Debt-equity ratio (0.4 : 1) (4)
- Earnings per share (180c per share) (5)
- % return on Shareholders' Equity (26%) (6)

(Note: Round off to one decimal)

**5.1.3** Comment on the debt-equity ratio. Should the directors use loans or should they use another method of financing for expansions? Explain briefly and quote financial indicators from the question. (7)

**5.1.4** Should shareholders be satisfied with the results in 2.14? Consider returns, earnings per share, dividends and the share price in explaining your opinion. (10)

**Information**

The information below was extracted from the records of Pike Limited, a public company listed on the JSE.

**1** Balances from the Ledger on 30 June 2.14, the end of the financial year.

**2** Share capital

**2.1** The authorised share capital consisted of 500 000 ordinary shares.

**2.2** The company has an issued share capital of 80% of its shares on 1 January 2.13. The issued share capital amounted to R 1 900 000.

**2.3** On 30 June 2.14 the company issued another 50 000 shares at current market value of R13.00 per share.

**2.4** The net asset value of shares amounted to R7.57 per share. The previous year's net asset value was R5.25.

**3** Loan: Newlands Bank

**3.1** The loan statement received from GELD Bank showed the following:

Balance on 1 July 2.13	R810 000
Interest for the year capitalised	?
Repayments during the year	R325 800
Balance on 30 June 2.14	R630 000

**3.2** Full repayments, including interest, were debited to the LOAN account.

**3.3** No entry has been made for this year's interest.

**3.4** The loan will be reduced by R180 000 during the next financial year.

**4** Dividends for the financial year ending 30 June 2.14

**4.1** Interim dividends declared and paid: R30 000

**4.2** Final dividends declared, but not paid yet: 12c per share. Note that new shareholders do not qualify for dividends this year.

**5** Income tax

**5.1** Provisional tax payments made during the year, R204 000

**5.2** Total tax calculated for the year, R254 000

6 Other information

6.1 The net income for the year before tax amounted to R1 180 000.

6.3 Shareholders equity on 1 July 2.12 amounted to R2 320 000.

6.3 The return on capital employed for the year was 37%.

5.2 Auditor's report and ethics

Information

Balance Sheet Accounts Section	R
Retained income	858 000
Fixed deposit: WP Bank	480 000
Loan: Newlands Bank	630 000
Debtors control	868 000
Creditors control	86 000
Expenses accrued	32 000
Income accrued	8 000
Income received in advance	15 000
Bank (Cr)	74 000
SARS (Income tax) (Cr)	50 000

Required

Refer to the Auditor's report issued to Pike Limited and answer the following questions:

- 5.2.1 Provide ONE reason why the Financial Statements of Pike Limited must be audited by independent auditors. (2)
- 5.2.2 To which group is the audit report addressed and why? (2)
- 5.2.3 Why does the audit report refer to the IFRS and the Companies Act? (4)
- 5.2.4 Should the shareholders be happy with the audit report? Provide ONE reason for your answer. (3)
- 5.2.5 Yebo Limited has been Pike Limited's auditors for the past 10 years. They recently welcomed a new audit partner, Landi, to the firm. He owns 20% of the issued shares in Pike Limited. He was very happy when he was tasked to audit Pike Limited. He indicated to his colleague that he will now be able to get inside information about his personal investment decisions. The colleague indicates this is a conflict of interest. Advise Landi and clearly indicate the consequences. (9)



**Question 6 Cash Flow Statement and ethics (60 marks; 35 minutes)**

**Required**

- 6.1** Use the necessary information below to complete a Cash Flow Statement with Notes for Prada Limited for the year ending 30 June 2.14. (54)  
Show calculations between brackets where applicable for partial marks.
- 6.2** The King Code III requires companies to have an integrated report. The report should include a report on the HIV/Aids status at the company.
- 6.2.1** Mention ONE important aspect of the integrated report. (3)
- 6.2.2** What about HIV/Aids should the directors report on? (3)  
Give one aspect.

**Information**

Extract from the books of Prada Limited for the financial year ending 30 June 2.14.

**1 Post-closing Trial Balance as at 30 June 2.14**

	<b>2.14 R'000</b>	<b>2.13 R'000</b>
Ordinary share capital	2 550	1 870
Retained income	339	284
Loan: ACC Bank	850	990
Land and buildings	2 000	1 500
Vehicles	1 225	1 390
Accumulated depreciation: Vehicles	418	240
Equipment	651	490
Accumulated depreciation: Equipment	487	307
Inventory	256	273
Net trade debtors	537	462
Bank (favourable)	140	76
Cash float	3	4
Trade creditors	178	341
SARS (Income tax) (Dr)	26	0
SARS (Income tax) (Cr)	0	44
Shareholders for dividends	16	119

**2 Extract from the Income Statement for the year ending 30 June 2.14**

	<b>2.14 R'000</b>
Interest on loan	234
Depreciation on vehicles	206
Depreciation on equipment	180
Net income before tax	400
Net income after tax	206

**3 Extract from the Notes to the Financial Statements on 30 June 2.14:**

	<b>R'000</b>
Ordinary share dividends	151

- 4** Some vehicles were sold at carrying value during the year. No new vehicles were bought.