

Mid-year exemplar memorandum

Marks: 300

Time: 3 hours

Question 1

(25 marks; 30 minutes)

1.1 VAT calculations

Output tax	☑25 368.49
Sales $(R75\ 642 + R45\ 930 = R121\ 572 \times \frac{14}{114})$	✓✓ 14 929.89
Equipment $(R5\ 000 \times \frac{14}{114})$	✓✓ 614.04
Insurance $(R80\ 000 \times \frac{14}{114})$	✓✓ 9 824.56
Input tax	☑8 247.72
Equipment $(R24\ 000 \times \frac{14}{114})$	✓✓ 2 947.37
Purchases $(R40\ 000 \times \frac{14}{114})$	✓✓ 4 912.28
Credit notes $(R3\ 160 \times \frac{14}{114})$	✓✓ 388.07
VAT – SARS	☑17 120.77

1.2.1 Suggested answer ✓✓

- “the unlawful and intentional misrepresentation which causes actual and or potential prejudice to another”.
- any conduct or behaviour of which dishonest representation and/or appropriation forms an element.

Accept any other reasonable answer.

1.2.2 Suggested answer ✓✓

- Fraudulent VAT claims submitted to SARS.
- Misrepresented of VAT claims to SARS.

Accept any other reasonable answer.

1.2.3 Suggested answer ✓✓✓✓

- Provide correct and accurate information to SARS.
- Submit returns and corresponding payments on time.
- Include VAT in all prices, advertisements and quotes relating to taxable supplies.
- Keep accurate accounting records for at least five years.
- Produce relevant documents and information when required by SARS pertaining to supplies, imports and exports of goods or services.
- Notify SARS about any changes in your business (e.g. address, trading name, partners, bank details and tax periods).
- Issue tax invoices, debit and credit notes.
- Notify SARS of any changes of the details of the representative person.

Accept any other reasonable answer.

1.2.4 Suggested answer

- Additional tax of up to twice the amount of VAT evaded or refunds fraudulently claimed could be levied.
- Over and above any additional tax charged, a fine and/or imprisonment could be imposed.

Accept any other reasonable answer.

Question 2

(45 marks; 30 minutes)

- 2.1 Debtors, creditors and Bank Reconciliation and internal control
- 2.1.1 Overdraft ✓✓ R3 040 ✓✓ Debit balance as per Bank Statement means an overdraft. ✓✓
- 2.1.2 Cheque no. 2400 should have been cancelled (stale) by means of an entry in the CRJ. ✓✓
- 2.1.3 Suggested answer – Any four valid points mentioned ✓✓✓✓
- Tick off items that appear in both the cash journals & Bank Statement.
 - Correct errors in cash journals.
 - Items which do not appear in the Bank Statement to be noted in the reconciliation.
 - Balance the BANK account in the ledger after posting from updated journals.
 - Compare balance on ledger account to that of the Bank Statement. The total of all the outstanding items is the difference between the balance of the ledger account and the Bank Statement.
- 2.1.4 The amount R2 600 is added back to the BANK balance ✓✓ and the CREDITORS CONTROL balance. ✓✓
- 2.1.5 A post-dated cheque received is kept in a place of safety until the date appears on the cheque. ✓✓ Only thereafter a receipt is issued and the cheque deposited. ✓✓
- 2.1.6 $R18\ 386 - R4\ 500 + R2\ 000 - R5\ 000 - R400 = R10\ 486$ ✓
- 2.1.7 Suggested answer ✓✓✓✓✓✓
- Strict control over documentation.
 - Separation of duties (creditors clerk and General and Creditors Ledgers should be kept by separate employees).
 - Rotation of duties.
 - Two signatures on each cheque or authorisation for release of EFT payments.
 - Checking of inventory received from creditors to invoices to merchandise taken into stock.
- Accept any other reasonable answer.*
- 2.2 Debtors Age Analysis
- 2.2.1 Diana Snowy ✓✓
- 2.2.2 No ✓ Suggested answer ✓✓✓
- They are allowing too many debtors to be in arrears.
 - Of the five debtors only one account is paid up to date.
- Accept any other reasonable answer.*
- 2.2.3 Suggested answer ✓✓✓✓
- Charge a higher percentage interest on overdue accounts.
 - Send regular reminders to debtors whose accounts are overdue or in arrears.
- Accept any other reasonable answer.*
- 2.2.4 Yes ✓ Milly Wintery ✓
- His account is overdue for more than 90 days. It is possible that he can be black listed. ✓✓

Question 3

(45 marks; 30 minutes)

Inventory on hand/ Purchases		Inventory levels	Calculations	R
1 March 2.13	100 × R60	780 – 100	100 × R60 ✓	✓ 6 000
1 June 2.13	(300 × R70) + R900	680 – 300	(300 × R70 ✓) + R900 ✓	✓✓ 21 900
1 October 2.13	(400 × R80) + R1 200	380 – 380	(380 × R80) + (380 × R3) = R30 400 ✓ + R1 140 ✓	✓✓ 31 540
1 February 2.14	(340 × R84) + R1 020			-
				✓ 59 440

3.1.2 Sales = 780 × R120 ✓ = R93 600 ✓
 Cost of sales = R59 440
 Gross profit = R34 160 ✓

3.1.3 (20 × R80) + (20 × R3) + (340 × R84) + R1 020
 = R1 600 ✓ + R60 ✓ + R28 560 ✓ + R1 020
 = R31 240 ✓

3.1.4.1 Suggested answer ✓✓✓✓

- The cost of sales is less when applying FIFO. R59 440 compared to when applying the weighted average method, R62 041.20.
- The gross profit is more when applying FIFO. R34 160 compared to when applying the weighted average method, R31 558.80.
- The value of inventory on hand is higher when applying FIFO. R31 240 compared to when applying the weighted average method, R28 634.40.

Accept any other reasonable answer.

3.1.4.2 Suggested answer

- The price of inventory purchased increased ✓✓ during the month using the FIFO method. The inventory on hand will be at a higher inventory value and lower cost of sales. ✓✓
 - When using the weighted average method each time inventory are purchased, a new average ✓✓ is calculated which resulted in a lower amount per unit, hence a lower inventory value and higher cost of sales (lower gross profit). ✓✓
- Use own discretion, based on the learner's results, when determining if the learner understands the difference.

3.1.4.3 Learners to give their own opinions.

Yes or No ✓ Suggestions: ✓✓ ✓✓

- It is important to be consistent and can't change from one year to another.
- Differences are minimal.
- Depends on whether the business wants to show higher or lower profits and/or inventory values.
- Insignificant over a period of time.
- Ease of working out one method as against another.

Accept any other reasonable answer.

3.2 1 Learners to express their own opinions but need to highlight shortages ✓✓ and surpluses ✓✓ but should also touch on the concept of materiality ✓✓ shortages.

- Gold Earrings (6)
- Diamond rings (2)

Surpluses

- Watches (2)
- Bracelets (3)

Materiality

- 3 missing against 204 items.
- is it financially viable to recount?

3.2.2 Learners to express their own measures

Suggestions: ✓✓ ✓✓

- Division of duties
- More regular stock taking
- Checks on ordering
- Slow moving inventory

Question 4

(40 marks; 24 minutes)

GENERAL LEDGER OF DINALEDI LIMITED
BALANCE SHEET ACCOUNTS SECTION

Dr				Cr			
RETAINED INCOME							
2.14 Feb	28	Appropriation account✓	✓ 80 000	2.13 Mar	1	Balance*	b/d ✓*80 000
				2.14 Mar	1	Appropriation account	✓*229 000

* R880 000 – R800 000✓ = R80 000

**R415 000 ✓ + R80 000✓ – R100 000✓ – R166 000 = R229 000✓

SARS (INCOME TAX)

2.13 Mar	24	Bank✓	✓ 16 844	2.13 Mar	1	Balance	b/d ✓ 16 844
Sep	1	Bank✓	✓ 8 0 000	2.14 Feb	28	Income Tax✓	✓ 166 000
2.14 Feb	28	Bank✓	✓ 82 800				
		Balance✓	☑ 3 200	2.14 Mar	1	Balance	b/d ☑ 3 200
			182 844				182 844

DIVIDENDS ON ORDINARY SHARES

2.13 Sep	1	Shareholders for dividends✓	✓✓ 40 000	2.14 Feb	28	Appropriation account✓	✓ 100 000
2.14 Feb	28	Shareholders for dividends✓	✓✓ 60 000				
			100 000				100 000

4.2
$$\frac{\text{Shareholders' Equity}}{\text{Number of shares}} \times \frac{100}{1}$$

$$= \frac{R800\,000\checkmark + R229\,000\checkmark}{R200\,000} \times \frac{100}{1}$$

$$= \frac{R1\,029\,000\checkmark}{R200\,000\checkmark} \times \frac{100}{1}$$

$$= 515 \text{ cents per share}\checkmark$$

4.3 Yes/No✓

Comment ✓✓ ✓✓

- Net asset value of R5,15 to R5,60
- Retained income been satisfactory
- The dividends received 50 cents per share. Is this acceptable?

Accept any reasonable answer.

Question 5

(85 marks; 50 minutes)

5.1.1 Equity and liabilities

Shareholders' Equity		✓✓ 3 408 000
Share capital*1	7	✓✓ 2 550 000

Retained income	8	✓ 858 000
Non-current liabilities		✓✓ 450 000
Loan from*2		✓✓ 450 000
Current liabilities		✓☑ 485 000
Trade & other payables*3	9	✓☑ 231 000
Bank overdraft		✓✓ 74 000
Current portion of loan		✓✓ 180 000
Total equity & liabilities		✓☑ 4 343 000

Teacher guidance (calculations)

- *1 R1 900 000✓ + R650 000✓☑
- *2 R630 000 ✓ - R180 000✓
- *3 R86 000 ✓ + R32 000✓ + R15 000 ✓ + R50 000✓ + R48 000 ✓ ✓
(0,12 × R400 000)

5.1.2 Debt-equity ratio

Non-current liabilities : Shareholders' Equity

$$450\ 000✓ : 3\ 408\ 000✓$$

$$0,13 : 1✓☑$$

$$\begin{aligned} \text{Earnings per share} &= \frac{\text{Net profit after tax}}{\text{Number of issued shares}} \times \frac{100}{1} \\ &= \frac{R1\ 180\ 000✓ - R254\ 000}{450\ 000} \times \frac{100}{1} \\ &= \frac{R926\ 000☑}{450\ 000✓} \times \frac{100}{1} \\ &= 205.8 \text{ cents per share}☑ \end{aligned}$$

$$\begin{aligned} \% \text{ return on Shareholders' Equity} &= \frac{\text{Net profit after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1} \\ &= \frac{R1\ 180\ 000 - R254\ 000}{\frac{1}{2}(3\ 408\ 000✓ + 2\ 320\ 000)✓} \times \frac{100}{1} \\ &= \frac{R926\ 000✓}{R2\ 864\ 000☑} \times \frac{100}{1} \\ &= 32,3 \%✓☑ \end{aligned}$$

5.1.3 The debt-equity ratio is satisfactory ✓ (0,13 : 1). The financial risk is low✓✓. Yes✓. The low risk will allow the business to obtain a loan from the bank✓.

The 37%✓ return on capital employed is much more than 18%✓

$(\frac{R145\ 800}{R810\ 000} \times \frac{100}{1})$ interest on loan from GELD Bank. This is clear that the business will be able to afford to borrow.

No✓. The business has 50 000 more shares to be issued. ✓ Selling shares brings in cash. ✓ There is no repayment of the amount and interest to be paid. ✓

5.1.4 Explanation: for each one Return, EPS, DPS, NAV

Quotation of figures/amounts✓ ✓ ✓ ✓

Comparison ✓ ✓ ✓ ✓

Conclusion ✓✓

The return on shareholders' equity increased from 26% to 32,3%. This is also more than what would have been received if invested in an outside investment.

Fixed deposit earned on average 7% interest.

Earnings per share increased from 180 cents per share to 205.8 cents per share.

$$\text{Dividends per share} = \frac{R78\ 000}{R450\ 000} \times \frac{100}{1} = 17.3 \text{ cents per share. The dividends were only 17.3 cents per share, yet there is a large amount retained from profits.}$$

Share price: The net asset value per share is R7.57 which is better than the previous year's R5.25. However, the market value, R9.00, is more than R7.57.

5.2.1 Suggested answer ✓✓

- The shareholders of a company need to have confidence in the company's ability to look after the investment.
- To protect the shareholders by giving an independent opinion on the reliability of the financial statements.
- To report on the company's financial records and determine whether there is a fair presentation of facts, and whether the policies are consistent with the previous year.

Accept any reasonable answer.

5.2.2 Shareholders✓. They are the owners of the business✓.

5.2.3 Suggested answer ✓✓✓✓

- Requirement by auditing standards as the IFRS sets standards for preparation of financial statements.
- This enables financial statements of different companies to be compared with South African companies and other international companies across the world.
- IFRS sets the standard for the way in which financial statements are prepared. Will be able to make comparison of financial statements of different companies nationally and internationally.
- The Companies Act is legislation which governs companies in South Africa. If companies do not comply, those responsible will be guilty of a crime and punished accordingly.

5.2.4 Yes.✓ Suggested answer ✓✓

It is an unqualified report.

No mention of irregularities.

Financial statements comply with relevant law and regulations.

Financial statements fairly present the financial position in all material aspects.

5.2.5 Yes, his colleague is correct. ✓

Suggested answer

Ethics ✓✓✓✓

Suggested answers

- Objectivity. A professional accountant should not allow bias, conflict of interest or undue influence of others to override their professional or business judgments.
- He may overlook issues that arise during the audit to protect her investment.
- He will obtain insider information which is illegal, and can face legal action.
- Conflict of interest and it is unethical.
- He should decline this audit job or sell his shares if he wants to be their auditor.

Consequences ✓✓✓✓

Suggested answer

- Can be sued
- Not be re-appointed as auditors
- Face disciplinary procedures by the professional body.

Question 6

(60 marks; 35 minutes)

6.1 PRADA LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2.14

	Notes	R'000
Cash effects of operating activities		☑ 47
Cash generated/(utilised) from operations	1	☑ 799
Interest paid		✓ (234)
Interest income		0
Dividends paid	3	☑ (254)
Income tax paid	4	☑ (264)

Cash effects of investing activities		<input checked="" type="checkbox"/> (524)
Purchase of tangible assets	5	<input checked="" type="checkbox"/> (661)
Proceeds from sale of tangible assets		<input checked="" type="checkbox"/> 137
Investment matured/(placed)		0
Cash effects of financing activities		<input checked="" type="checkbox"/> 540
Proceeds of shares issued (R2 550 ✓ – R1 870 ✓)		<input checked="" type="checkbox"/> 680
Long-term loans received/(repaid) (R990 ✓ – R850 ✓)		<input checked="" type="checkbox"/> (140)
Net change in cash and cash equivalents	2	<input checked="" type="checkbox"/> 63
Cash and cash equivalent: beginning of year (R76 + R4)	2	✓ 80
Cash and cash equivalent: end of year (R140 + R3)	2	✓ 143

Notes to the Cash Flow Statements for year ended 30 June 2.14

1 Reconciliation between net profit before tax and cash

Cash generated by operations		
Net profit before taxation		✓ 400
Adjustments:		
Depreciation (R206 ✓ + R180 ✓)		✓ 386
Interest expense		✓ 234
Interest income		0
Operating profit before changes in working capital		<input checked="" type="checkbox"/> 1 020
Cash effects of changes in working capital		<input checked="" type="checkbox"/> (221)
Change in inventory (R273 ✓ – R256 ✓)		<input checked="" type="checkbox"/> 17
Change in receivables (R537 ✓ – R462 ✓)		<input checked="" type="checkbox"/> (75)
Change in payables (R341 ✓ – R178 ✓)		<input checked="" type="checkbox"/> (163)
Cash generated from operations		<input checked="" type="checkbox"/> 799

3 Dividends paid

Dividends for years as reflected in financial statements		✓ (151)
Balance at beginning of year		✓ (119)
Balance at end of year		✓ 16
Dividends paid		<input checked="" type="checkbox"/> (254)

4 Income tax paid

Income tax for year as reflected in financial statements		✓ (194)
Balance at beginning of year		✓ (44)
Balance at end of year		✓ (26)
Income tax paid		<input checked="" type="checkbox"/> (264)

5 Tangible assets purchased

Land and buildings (R2 000 ✓ – R1 500 ✓)		✓ 500
Equipment (R651 ✓ – R490 ✓)		✓ 161
Vehicles		-
		✓ 661

Workings

Fixed assets at net carrying value		
Start (R1 390 – R240)		✓ 1 150

Add: Purchases	
Less: Sales	☑ *(137)
Less: Depreciation	✓ (206)
End (R1 225 – R418)	✓ 807

*** Balancing figure**

6.2.1 Suggested answer ✓✓✓

- Financial reporting should integrate the financial position of the company but also include the strategies for the future continuity of the business.
- The information must give the shareholders an assurance that the company has good future prospects.
- Triple bottom line reporting. The report (governance, social and environment issues) must indicate how the company has both positively and negatively impacted on economic life of the community in which it operated during the year under review.

Accept any reasonable answer.

6.2.2 Suggested answer ✓✓✓

- Assess the HIV/Aids risk.
- Introduce measures to mitigate the risk.
- Measure and monitor the outcomes.

Accept any reasonable answer.