

June examination

Marks: 300

Time: 3 hours

Question 1 Income Statement, Balance Sheet and Notes (36 minutes, 60 marks)

The following information was extracted from the accounting records of Naledi Ltd. Their accounting period ends on 28 February 20.9 and they use the perpetual inventory system.

Required

Use the provided information to complete the following:

- | | | |
|-------|--------------------------|------|
| 1.1 | Income Statement | (20) |
| 1.2 | The following notes: | |
| 1.2.1 | Retained Income | (10) |
| 1.2.2 | Trade and other payables | (5) |
| 1.3 | Balance Sheet | (25) |

Information

The following figures have already been entered in the financial statements on 28 February 20.9

Sales	3 600 000
Operating profit for the year	840 000
Interest income (on fixed deposit for the year)	40 000
Net profit after tax for the year	308 000
Interim dividends declared and paid	120 000
Trade creditors	380 800
Income received in advance	24 000
Accrued expenses	18 000
Loan at SA Bank	2 000 000
Trade and other receivables (total)	480 000
Trade inventories (total)	620 000

Additional information to be recorded on 28 February 20.9

- Goods are sold at a mark-up of 80% on cost.
- Other operating expenses are 20% on sales.
- Capital and reserves:
 - Authorised share capital consists of 500 000 ordinary shares.
 - Issued share capital of 100 000 shares on 1 March 20.8 totalled R1 200 000.
 - On 18 March 20.8 a further 200 000 shares were sold at R15 each.
- The total capital employed on 28 February 20.9 amounted to R7 000 000 and the debt-equity ratio on 28 February 20.9 is 0,4 : 1.
- Income tax and SARS
 - On 1 March 20.8 Naledi Ltd owed SARS an amount of R3 200.
 - Total income tax actually paid to SARS during the financial year ended 28 February 20.9 amounted to R112 400.
 - Income tax is calculated at 30% of the net profit before tax.
- Total dividends for the current financial year worked out to 70 cents per share. Final dividends will be paid on 10 March 20.9.
- The current ratio for the year ended on 28 February 20.9 is 2,4 : 1.
- Naledi Ltd earns interest at 20% per annum on the fixed deposit. The fixed deposit has remained unchanged during the financial year.

Question 2 Cash Flow Statements and ratios

(39 minutes, 65 marks)

The information was extracted from the financial records of Big Brother Limited.

Required

- | | | |
|-----|---|------|
| 2.1 | Show the "Cash flow from investing activities" as it should appear on the Cash Flow Statement on 30 June 20.8 (Show all calculations in brackets) | (12) |
|-----|---|------|

- 2.2 A new shareholder purchased 1 200 shares on 1 July 20.7. How much did he pay? (3)
- 2.3 What is the difference between liquidity and solvency? (4)
- 2.4.1 Calculate the following for 20.8:
- 2.4.1.1 Percentage net profit before tax on turnover. (4)
- 2.4.1.2 Percentage operating expenses on turnover. (4)
- 2.4.2 Comment on the profitability of the business. (6)
- 2.5.1 Calculate the debtors collection period for 20.8. (5)
- 2.5.2 Cash flow problems are experienced due to late payments by debtors. Outline TWO ways in which management could encourage debtors to pay their debts earlier or within the agreed time. (4)
- 2.5.3 Comment on the liquidity of the company. Give TWO financial indicators to support your answer. (6)
- 2.6.1 Calculate the debt-equity ratio for 20.8. (4)
- 2.6.2 The company has to buy a delivery vehicle for R200 000. Assist the directors with the decision of either taking an additional loan or issuing more shares. (4)
- 2.7.1 Calculate the net asset value for 20.8. (5)
- 2.7.2 The market value of the shares is 250 cents. Will you sell your shares? Briefly explain your answer. (4)

Information

1

Extract from the Income Statement	20.8 R	20.7 R
Turnover (included in 20.8 figures is R426 320 for credit sales)	608 820	600 600
Operating expenses	186 130	233 600
Interest on loan	56 100	40 800
Depreciation	66 000	60 000
Interest on investment	10 000	6 000
Profit before tax	210 000	154 800
Income tax	73 500	54 180

2

Extract from the Balance Sheet	20.8 R	20.7 R
Tangible assets (see note 1)	872 000	656 000
Fixed deposit	100 000	60 000
Ordinary share capital	500 000	340 000
Retained income	100 000	60 000
Trading inventory	103 450	63 350
Trade and other debtors	64 150	52 650
Long-term liabilities (15% per annum)	250 000	180 000

3 Notes

3.1 Note to Tangible assets

Tangible assets consist of Land and buildings and Equipment. Equipment sold at carrying value during the year, R84 000. A building was bought during the year.

3.2 New shares were issued on 1 July 20.7 at R2 each.

4

Financial indicators	20.8	20.7
Percentage net profit before tax on turnover	?	25,78%
Percentage operating expenses on turnover	?	38,39%
Current ratio	1,11 : 1	0,84 : 1
Acid test ratio	0,47 : 1	0,38 : 1
Inventory holdings period	150 days	115 days
Debtors collection period	?	55 days

Creditors payment period	97 days	72 days
Debt-equity ratio	?	0,45 : 1
Net asset value	?	180 cents

Question 3 Corporate governance and auditing

(12 minutes, 20 marks)

Required

- 3.1 Write the abbreviation IFRS in full. (1)
- 3.2 Name the financial statement(s) for the following:
 - 3.2.1 "financial position" (2)
 - 3.2.1 "results of their operations" (2)
- 3.3 Why is it a legal requirement (in terms of the Companies Act) for public companies to be audited? (2)
- 3.4 Although this audit report is addressed to the shareholders, other interested stakeholders will read it as well. Name ONE other stakeholder who would be interested in the audit opinion, and give a reason for their interest in the opinion. (3)
- 3.5 At the AGM, one of the shareholders says that she is not happy with the words 'fairly present' in the audit report. She 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)
- 3.6 The directors are not happy with the high audit fees reflected in the Income Statement. Explain why improvement in internal control will have a positive effect on the external auditors' fees. State ONE point. (3)
- 3.7 SAICA is one of the main professional bodies governing accountants in South Africa. Explain TWO of the main roles performed by SAICA. (4)

Information

The following Audit Report was issued by the auditors of Rondebosch 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 31 March 20.9 and the results of their operations and for cash flows for the year ended, in accordance with IFRS, and in the manner required by the Companies Act in South Africa.
 Malema & Associates
 Chartered Accountants (SA)
 Registered Associates and Auditors
 Cape Town, 15 May 20.9

Question 4 Inventory valuation

(29 minutes, 48 marks)

You are provided information in respect of Radebe Soccer Balls shop for the year ended 28 February 20.9. The owner is Russel Radebe. The business uses the perpetual inventory system and the FIFO method of valuing inventory.

Required

- 4.1 Explain the meaning of the term "FIFO". (2)
- 4.2 The selling price of soccer balls was kept constant throughout the year. Calculate the selling price per soccer ball. (3)
 Russel Radebe is aware that some soccer balls were stolen from the storeroom in April 20.8. No entry has been made.
- 4.3.1 Calculate the number of balls that are missing. (5)
- 4.3.2 What entry would you make in the books to record information? (3)
- 4.4 Value the inventory on hand at the year-end according to the FIFO method. (7)
 Calculate the following:
- 4.5.1 Cost of sales (5)
- 4.5.2 Gross profit for the year. (3)

Russel is not sure when to place his next order of soccer balls.

- 4.6.1 How long can he expect the closing inventory to last? Provide figures or a calculation to support your answer. (3)
- 4.6.2 What advice will you offer Russel about his inventory purchases? Provide two points. (4)
- 4.7 Refer to question 4.3. After an investigation the owner found out that the storeroom manager, Peter Baloyi, stole the soccer balls for his children's school soccer teams. Peter admitted that he stole the soccer balls. Peter is the storeroom manager for the past ten years and has never been disciplined. The owner dismissed Peter. Peter went to the CCMA (Commission for Conciliation Mediation and Arbitration) and laid an unfair dismissal charge.
- 4.7.1 Briefly explain the aim of the CCMA. (3)
- 4.7.2 Do you think Peter has a valid claim by going to the CCMA? State ONE point. (4)
- 4.7.3 What was the owner supposed to do with Peter? State ONE point. (3)
- 4.7.4 What procedures can the owner take to protect his rights in the future? State ONE point. (3)

Information

Accounting records relating to the soccer balls:

Details	Date	Number of balls	Unit price	Total
Opening inventory	1 March 20.8	750	R110	R82 500
Purchases	2 April 20.8	2 480		R340 800
	31 May 20.8	800	R150	R120 000
	28 October 20.8	1 200	R120	R144 000
	18 December 20.8	480	R160	R76 800
Closing inventory	28 February 20.9	1 100	?	?
Sales	1 March 20.8 to 28 February 20.9	2 100	?	R430 500

Question 5 VAT

(30 minutes, 50 marks)

The following information is from the books of Molo Stores, a registered VAT vendor. At the end of April 2.11 a VAT201 form must be submitted to SARS.

Required

- 5.1 Use the information from the journals and calculate the following amounts:
- (A) Cash Receipts Journal = VAT output column (Debit) (4)
- (B) Debtors Journal = Debtors column (4)
- (C) Debtors Journal = Sales column (4)
- (D) General Journal = VAT output (4)
- 5.2 Compile the following ledger accounts:
- 5.2.1 VAT input (11)
- 5.2.2 VAT output (13)
- 5.2.3 VAT control (6)
- Close off/Balance the accounts on 30 April 2.11.
- 5.3 If the financial year-end is 30 April 2.11, what is the amount payable/receivable to SARS and where will this information be stated in the Notes? (4)

Information

- 1 Balances on 1 April 2.11:
- VAT input R22 380
- VAT output R28 340
- 2 Column totals according to the subsidiary journals on 30 April 2.11

Cash Receipts Journal

Bank	Sales	Cost of sales	Debtors control	Discount allowed	VAT output		Sundry
					Dr	Cr	
48 340	24 000	12 000	8 900	300	(A)	3 360	12 422

Cash Payments Journal

Bank	Trading inventory	Creditors control	Discount received	Wages	VAT input		Sundry
					Dr	Cr	
54 200	28 420	12 600	600	4 500	4 480	84	4 884

Debtors Journal

Debtors control	VAT output	Sales	Cost of sales
(B)	1 400	(C)	?

Debtors Allowances Journal

Debtors control	VAT output	Debtors allowances	Cost of sales
1 140	140	1 000	500

Creditors Journal

Creditors control	Trading inventory	Equipment	Stationery	VAT input	Sundry
34 200	16 800	8 480	310	4 200	4 420

Creditors Allowances Journal

Creditors control	Trading inventory	Equipment	Stationery	VAT input	Sundry
4 788	3 200	660	-	588	340

General Journal

Day	Details	Fol.	Debit R	Credit R
30	Bad debts VAT output Debtors control		250 (D)	?

Question 6 Bank reconciliation and internal control

(28 minutes, 46 marks)

Required

- 6.1 Prepare the Bank Reconciliation Statement as at 31 May 20.8. Show your calculation to get the Bank balance according to the bank account. The balance according to the Bank statement is the difference. (22)
- 6.2.1 Briefly explain why preparing reconciliations is important for internal control. (3)
- 6.2.2 If cheque B 89712, in the amount of R270, does not appear on the Bank Statement for June 20.8, what would the correct accounting procedure be and why would you do it? (3)
- 6.2.3 If cheque B 89830, in the amount of R826, does not appear on the Bank Statement for June 20.8, state the accounting procedure to be followed. (2)
- 6.2.4 The financial year-end is 30 June 20.8. State the accounting procedure for cheque B 89834, in the amount of R3 400? (3)
- 6.2.5 As internal auditor of Masango Stores, you noticed that both the April and May 20.8 Bank Reconciliations reflect very large outstanding deposits. Your investigation into this matter shows that the cashier received most of these large amounts days before they were banked and stated on the two the Bank Statements. List points to include in a report to the Chief accountant of Masango Stores highlighting your concerns and suggestions on the following points:

- 6.2.5.1 What do you suspect is the cashier doing illegally, resulting in these very large outstanding deposits? (3)
- 6.2.5.2 Discuss THREE internal control measures that could be implemented in the accounting department to avoid any similar actions occurring in the future. (6)
- 6.2.5.3 Discuss TWO steps that could be taken should your suspicions are confirmed. (4)

Information

- 1 On 1 May 20.8 the Bank account of Masango Stores showed a debit balance of R2 700. On 31 May 20.8, before the May 20.8 Bank Statement was received, the Bank columns of the cash journals showed the following:
- Total receipts R33 720
- Total payments R38 415
- 2 A comparison of the CRJ and CPJ with the Bank Statement showed the following differences:
- 2.1 The following appeared in the cash journals only:
- Cheques drawn: B 89712 R270 (dated 25 January 20.8; issued as a donation)
- B 89830 R826 (dated 14 May 20.8)
- B 89834 R3 400 (dated 2 July 20.8; issued to a creditor)
- A deposit of R1 620 made on 31 May 20.8.
- 2.2 The following only appeared in the Bank Statement:
- A deposit of R750, being rent from the tenant, Sebake Agencies, paid directly into the Bank.
- A stop order in favour of Sandlam Insurers, R165.
- A dishonoured cheque, R120, received from J. Mantbo, a debtor.
- A cheque for R150 drawn by an unknown person, but debited to Masango Stores' Bank Statement.
- Charges:
- Service fees R33
 - Cash deposit fee R21
 - Deposit book R11
 - Interest on overdraft R298

Question 7 Debtors age analysis

(7 minutes, 11 marks)

Leon Malepe is the bookkeeper at Rowland Lodge. The owner of the lodge, Mr R Rowland, is concerned about the well-being of Roland Lodge.

Required

- 7.1 Why do you think it is important for the owner to be informed about the debtors age analysis of Rowland Lodge? (3)
- 7.2 Name four areas in the debtors age analysis that should be of concern to the owner. (11)

Information

Leon compiled a debtors age analysis (see below) and faxed it to the owner.

Debtor	Current R	> 30 days R	> 60 days R	> 90 days R
Venter	1 350	1 350	450	900
Fouche	500	(900)	500	500
Radebe	7 000	0	0	0
De Beer	900	200	0	0
Abrahams	600	1 200	0	12 000
Pretorius	350	0	0	0
Total	10 700	1 850	950	13 400

Answer sheet for question I

INCOME STATEMENT	
Sales	3 600 000
Cost of sales	
Gross profit	
Operating income	
Gross income	
Operating expenses	
Operating profit	840 000
Interest income (on fixed deposit)	40 000
Net profit before interest expense	880 000
Interest expense	
Net profit before taxation	
Income tax	
Net profit after tax	
Notes to the Financial Statements	
Retained income	
Total dividends	
Paid	120 000
Trade and other payables	
Trade creditors	380 800
Income received in advance	24 000
Accrued expenses	18 000

Balance Sheet as at 28 February 20.9	
ASSETS	
Non-current assets	
Current assets	
Trade inventories	620 000
Trade and other receivables	480 000
Cash and cash equivalents	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
Capital and reserves	
Non-current liabilities	2 000 000
Current liabilities	
TOTAL EQUITY AND LIABILITIES	