

September 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 in order to reflect your answers.
- Workings must be shown in order to achieve partial 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	Cash Budget	40	25
2	Manufacturing	60	35
3	VAT	25	15
4	Cash Flow and Interpretation of financial information	70	40
5	Bank and Creditors Reconciliation	45	25
6	Companies: Notes to Balance Sheet and audits	60	40
TOTAL		300	180

Question 1: Cash Budgets

(40 marks; 25 minutes)

Required

Refer to the Cash Budget provided and answer the following questions:

1.1 What is the purpose of a Cash Budget? (4)

1.2 Calculate the missing figures for cash surplus/(deficit) and bank balances:

	May R	June R	July R	August R
Surplus/(deficit)	(359 450)	1 264 740	?	?
Bank balance at beginning of month	(118 884)	(478 334)	?	?
Bank balance at end of month	(478 334)	786 406	?	?

1.3 Comment briefly on the following:

- The bank balances.
- The two significant measures they have used to improve the cash flow.
- Briefly explain if you agree/disagree with these measures. (8)

1.4 Calculate the credit sales for July 2.14. (4)

1.5 Calculate the payments to creditors for July 2.14 and August 2.14. (4)

1.6 The shop assistants consider striking because of low salary increases.

- Provide one point to support their opinion.
- Provide one point against their opinion.
- Support your answers with evidence obtained from the given information. (6)

1.7 The Directors feel that there is a problem regarding some of the income and expense items. At the end of June 2.14, they compared the actual figures with the Cash Budget and noticed the differences on certain items listed below. Provide one point of advice to the directors in respect of each item. (10)

	June 2.14 Budget R	June 2.14 Actual R	Difference R
Cash sales	864 000	780 000	-84 000
Rent income	25 200	6 000	-19 200
Telephone, cell and Internet costs	78 000	101 532	+23 532
Delivery expenses	26 820	52 800	+25 980
Sundry other operating expenses	120 000	66 000	-54 000

Information

You receive an incomplete Cash Budget and additional information in respect of AGRI Limited. The financial year ends annually on 30 June.

AGRI LIMITED

Cash Budget for the period 1 May 2.14 to 31 August 2.14

	May 2.14 R	June 2.14 R	July 2.14 R	August 2.14 R
Receipts				
Cash sales	810 000	864 000	648 000	756 000
Collections from debtors	0	0	?	?
Rent income	25 200	25 200	30 240	0
Commission income	?	?	?	?
Sale of part of shop premises	0	0	3 280 000	0
Ordinary share capital	0	1 800 000	0	0
Total receipts	895 200	2 749 200	4 018 240	939 120
Payments				
Payments to creditors (for goods)	276 000	205 000	?	?
Cash purchases	205 000	270 000	360 000	420 000
Salaries	244 000	244 000	?	?
Dividends on ordinary shares				100 000
Directors' fees	80 000	80 000	80 000	80 000
Auditor's fees	40 000			
Advertising	16 200	8 640	10 800	25 200
SARS (Income tax)			60 000	
Fixed deposit		340 000		
Water and electricity	?	?	?	?
Telephone, cell and internet costs	72 000	78 000	84 000	90 000
Payments for new delivery vehicle	0	0	200 000	45 000
Repayment of loan	0	0	225 000	0
Interest on loan	13 500	13 500	?	?
Delivery vehicle expenses	25 950	26 820	27 624	28 452
Sundry operating expenses	80 000	80 000	80 000	80 000
Total payments	1 074 650	1 484 460	1 859 224	1 717 077
Surplus/(deficit)	(359 450)	1 264 740	?	?
Bank balance beginning of month	(118 884)	(478 334)	?	?
Bank balance end of month	(478 334)	786 406	?	?

Additional information

1 Salaries

Monthly salaries for all 21 staff members will be increased with effect from 1 July 2.14. The increase will be as follows:

- The manager, an increase of 35% on his current monthly salary of R18 000.
- The ten shop assistants, who receive equal salaries, an increase of R700 per month from 1 July 2.14.
- An additional shop assistant will be employed from 1 August 2.14 at the same salary other shop assistants earn on 1 August 2.14.

2 Loan and interest

A short-term loan of R1 500 000, received on 30 April 2.14, must be repaid in four equal instalments every three months. The first instalment is payable on 31 July 2.14. Interest is paid monthly by cheque.

3 Purchase of inventory and mark-up

- All goods are sold at a mark-up of 50% on cost.
- Goods are replaced monthly to maintain a fixed inventory level.
- Goods are purchased as follows: 50% for cash and 50% on credit.
- All credit purchases are settled during the following calendar month.

4 Debtors and sales

- The directors decided to start selling goods on credit with effect from 1 July 2.14.
- Credit sales are expected to comprise 40% of total sales.
- Debtors are expected to settle their accounts as follows:
 - 30% of debtors will settle their accounts in the same month as the credit sale, subject to a 5% discount
 - 65% of debtors will settle their accounts in the month following the credit sale
 - 5% of debtor accounts are expected to be bad debts.

Question 2 Manufacturing and inventory

(60 marks; 35 minutes)

2.1 Manufacturing

Required

- 2.1.1** Briefly explain the difference between fixed costs and variable costs. (4)
- 2.1.2** Calculate the Direct Labour Cost for the period. (12)
- 2.1.3** Prepare the Production Cost Statement for the period ended 31 March 2.14 together with the Notes for Direct material cost and Factory overhead cost. (27)
- 2.1.4** Calculate the production cost per unit. (4)
- 2.1.5** Sleep-Well Manufacturers is considering to buy raw materials from a local supplier rather than importing it from overseas.
- 2.1.5.1** Explain the effect this will have on direct material cost and profit. (2)
- 2.1.5.2** Sleep-Well Manufacturers is concerned that the quality of their product may deteriorate if they use local raw material. What can Sleep-Well do to ensure that this does not happen? (2)

Information

You receive information related to Sleep-Well Manufacturers who manufactures beds.

1 Inventory on hand

	1 April 2.13 R	31 March 2.14 R
Raw materials	96 900	193 200
Work-in-progress	43 200	365 210
Indirect materials	9 600	12 900
Finished goods	71 100	155 700

- 2 Direct labour
 - 12 employees worked on the manufacturing of the beds for the year.
 - There were 240 working days and each employee worked 8 hours a day at a rate of R32 per hour.
 - The high inventory level is due to a big order that has to go out by 10 April, and therefore 10 of the employees worked 3 hours overtime per day for the last 5 days at double pay.
 - Each employee receives a R120 per month travel allowance.
- 3 Rent of premises
 - Rent amounts to R36 per m² per month.
 - Rent must be divided between the various divisions in the ratio of the floor space occupied: factory 500 m², office 50 m², showroom 200 m².
- 4 Other transactions

	R
Administration expenses	757 800
Advertising	37 800
Carriage on purchases of raw materials	19 200
Import duties on raw materials	41 250
Raw materials bought on credit	984 000
Raw materials bought for cash	561 000
Raw material returned to suppliers	18 000
Salaries: Factory supervisor	273 000
Salaries: Office workers	144 000
Consumable goods purchased	21 000
Electricity: Office and showroom	60 000
Electricity: Factory	180 000
Factory maintenance	144 000
Depreciation: Factory machinery	172 000
Depreciation: Office equipment	36 000
- 5 800 beds were manufactured during the year.

2.2 Inventory

Required

- 2.2.1 Should they change from the weighted average to FIFO? Provide one reason to support your answer. (3)
- 2.2.2 What effect would such a change have on the inventory figure reflected in the Balance Sheet? (2)
- 2.2.3 What effect would such a change have on the gross profit? (2)
- 2.2.4 What would the long-term effect be of the change in inventory valuation? (2)

Information

Sleep-Well Manufacturers uses the weighted average method to calculate the value of their inventory on hand. Management however feels that this is not realistic. In reality, they use the material that they bought first; in order to avoid possible damage to the fabric and to ensure that it does not go out of fashion before they use it. The same applies to the finished goods. They therefore want to change to the FIFO method of inventory evaluation.

Question 3 Value-added Tax

(25 marks; 15 minutes)

Required

- 3.1 Complete the VAT control account at the end of July 2.14. (19)
- 3.2 Mr Richy, an employee at Moola Exporters, wishes to sell you goods at a special price of R15 400 (VAT exclusive) instead of the normal price of R17 556 (VAT inclusive), provided you will pay cash and that you will not require a document for this transaction.
 - 3.2.1 What concerns would you have regarding the VAT? (3)
 - 3.2.2 Would you accept the offer? Briefly explain your opinion. (3)

Information

Moola Exporters is a South African business registered for VAT. On 30 June 2.14 the VAT CONTROL account had a credit balance of R24 910.

Below are the VAT control amounts from the subsidiary journals on 31 August 2.14. The business uses a profit mark up of 33⅓% on cost price.

Journal	VAT R
Cash Receipts Journal	22 400
Cash Payments Journal	11 582
Petty Cash Journal	350
Debtors Journal	13 956
Debtors Allowances Journal	1 372
Creditors Journal	8 478
Creditors Allowances Journal	504
General Journal (drawings of trading inventory)	294

Question 4 Cash Flow Statement and ratio analysis

(70 marks; 40 minutes)

Required

- 4.1 Prepare the Cash Flow Statement for the year ended 28 February 2.14. (20)
- 4.2 Complete the following Notes to the Cash Flow Statement:
 - Reconciliation between profit before tax and cash generated from operations (12)
 - Dividends paid (4)
 - Taxation paid (4)
- 4.3 Briefly explain what is meant by liquidity. (2)
- 4.4 Calculate the current and acid test ratios for 2.14. (11)
- 4.5 Comment on the liquidity position of the company. Quote the financial indicator and changes (trends) from the previous year to support your opinion. (6)
- 4.6 Calculate the dividend per share for 2.14. (3)
- 4.7 Calculate the net asset value per share for 2.14. (5)
- 4.8 If you are a shareholder of Vuyokazi Limited, would you be willing to sell your shares at R6.00 each? Provide one reason for your answer. (3)

Information

The information given was extracted from the Financial Statements of Vuyokazi Limited on 28 February 2.14, the end of the financial year.

1 Extract from Financial Statements for the year ended 28 February 2.14

	R
Turnover for the year	2 400 000
Depreciation	52 000
Interest on loan	36 000
Directors' fees	96 000
Auditor's fees	48 000
Profit before taxation	640 000
Income tax	192 000

2 Extract from the Post-Closing Trial Balances on 28 February 2.14

	2.14 R	2.13 R
Ordinary share capital	1 248 000	1 120 000
Retained Income	416 000	128 000
Fixed assets at carrying value	1 448 000	1 380 000
Inventories (stock)	160 000	216 000
Trade and other receivables	260 000	160 000
Cash and cash equivalents	120 000	1 000
Trade creditors	104 000	120 000
Shareholders for dividends	160 000	120 000
SARS (Income tax)	(Cr) 4 000	(Dr) 3 000
Bank overdraft		156 000
Loan from Save Bank	250 000	310 000

3 Additional information

3.1 The company has an authorised share capital of 500 000 shares.

3.2 Tangible assets

Land and buildings	1 000 000	1 000 000
Equipment at carrying value	120 000	104 000
Vehicles	328 000	276 000
Tangible assets at carrying value	1 448 000	1 380 000

A vehicle with a cost price of R80 000 and accumulated depreciation of R60 000 was sold at carrying value. New equipment was bought during the year.

3.3 Dividends

No interim dividends were declared. There are 320 000 issued shares.

3.4 Financial indicators

	2.13
Current ratio	0.95 : 1
Acid test ratio	0.41 :1

Question 5 Reconciliation

(45 marks; 25 minutes)

5.1 Bank reconciliation

[22]

Required

5.1.1 Prepare the Bank Reconciliation Statement on 30 June 2.14. (10)

5.1.2 Cheque no. 174 was issued to Progress Stationers for stationery to the value of R534 purchased from them. This transaction was incorrectly entered in the Cash Payments Journal as R543. Answer the following questions:

- 5.1.2.1 In which journal would the correction be recorded? (2)
- 5.1.2.2 State the double entry to record the correction. (2)
- 5.1.2.3 Suggest two ways in which this type of error can be avoided in future. (4)
- 5.1.3 State the double entry to record a dishonoured cheque. (2)
- 5.1.4 State the effect the reversal of stale cheques will have on the bank account. (2)

Information

The following information was taken from the books of Tilt-a-Cup Traders on 30 June 2.14.

- 1 On 30 June 2.14 the Bank account showed a favourable balance of R7 992.
- 2 On 30 June 2.14 the Bank Statement (Money Bank) showed a credit balance of R2 040.
- 3 Comparing the Bank Statement for June 2.14 with the cash journals for the same period, the following differences were revealed:
 - 3.1 A cheque received from a debtor, Thandi, for R600 in settlement of a debt of R650 was dishonoured due to insufficient funds.
 - 3.2 A deposit of R4 840 on 30 June 2.14 in the Cash Receipts Journal did not appear on the Bank Statement.
 - 3.3 The following stop orders appeared on the Bank Statement, but not in the relevant cash journal:
 - 3.3.1 R1 950 for the annual fire insurance premium in favour of Forsure Insurers.
 - 3.3.2 R1 780 in payment of a monthly instalment on the private motor vehicle of the owner, T Themba, in favour of Money Bank.
 - 3.4 The following cheques, issued during June 2.14, have not yet been presented to the Bank for payment:
 - 3.4.1 No. 172, R180 for packing material
 - 3.4.2 No. 175, R1 020 for trading inventory
 - 3.4.3 No. 176, R240 for the telephone account
 - 3.5 A tenant, N Nandi, deposited the rent for June, R1 780, directly into the current bank account of the company.

5.2 Creditors reconciliation

[23]

Required

- 5.2.1 Why should the statement of account received from Pretty Things agree with the account in the Creditors Ledger of Ansie Traders? (2)
- 5.2.2 Provide one reason why the statement of accounts and the account in the ledger may differ. (2)
- 5.2.3 Use the given information to reconcile the account of Pretty Things in the ledger of Ansie Traders with the statement of accounts received from Pretty Things. Start your calculation using the closing balance on the statement of accounts received from Pretty Things. (8)
- 5.2.4 State Ansie Traders' action to ensure that they receive their discount from Pretty Things. (2)
- 5.2.5 The statement of accounts shows an entry on 14 September 2.14 for R1 500. How can Ansie Traders prevent such transactions? Provide one point. (2)

- 5.2.6** What can Ansie Traders do to employees who make themselves guilty of the conduct relating to the transaction on 14 September 2.14? (2)
- 5.2.7** Was the transaction on 23 September 2.14 legal and ethical? Give one reason for your answer. (3)
- 5.2.8** When will the transaction on 23 September 2.14 constitute unethical behaviour? Give one reason for your answer. (2)

Information

Ansie Traders buys and sells a variety of fashion accessories. You are the accounts clerk and have just received the statement of account from a creditor, Pretty Things.

1 Creditors Ledger of Ansie Traders

Pretty Things

CL1

Date	Details	Fol.	Debit R	Credit R	Balance R
2.14 Sep	1 Balance				49 200
	2 Invoice 1810 (A1324)	CJ		13 480	62 680
	6 Cheque 4176	CPJ	47 740		14 940
	6 Discount	CPJ	1 460		13 480
	26 Invoice 1905 (A1346)	CJ		3 780	17 260
	27 Invoice 2012 (A1414)	CJ		6 500	23 760
	28 Invoice 2043 (A1422)	CJ		6 000	29 760

2

Ansie Traders 101 Globe Street Randville 2445		PRETTY THINGS Statement of Accounts		555 Sandton Way Sandton Village 4556	
Date		Details	Debit R	Credit R	Balance R
2.14 Aug	25	Account rendered			38 760
	26	Invoice A1213	3 040		41 800
	28	Invoice A1232	7 400		49 200
2.14 Sep	5	Invoice A1324	12 940		62 140
	12	Invoice A1346	4 200		66 340
	14	Invoice A1374	1 500		67 840
	15	Receipt R5357		47 740	20 100
	23	Invoice A1402	1 496		21 596
	25	Receipt R6721		1 496	20 100
	Current		30 days	60 days	90 days
18 640		1 460	0	0	
TERMS: 5% discount if settled within 30 days					

Additional information

- Invoice A1324 (re-numbered to 1810) is correct in the books of Ansie Traders.
- Pretty Things neglected to deduct 10% trade discount on invoice A1346 (re-numbered 1905).
- Invoice A1374 was for goods that one of the staff members ordered for personal use, using the order book at Ansie Traders.
- Invoice A1402 was for goods a clerk ordered on behalf of the owner for personal use. Ansie collected the goods from Pretty Things herself and paid for the goods with a personal cheque.

Question 6 Company Financial Statements and corporate governance (60 marks; 40 minutes)

6.1 Balance Sheet [48]

Required

- 6.1.1** Complete the following Notes to the Balance Sheet:
- Tangible assets (the note is partially completed) (20)
 - Trade and other receivables (7)
 - Retained income (8)
 - Trade and other payables (9)
- 6.1.2** How would you enter the loan on the Balance Sheet? (2)
- 6.1.3** How would you enter the fixed deposit on the Balance Sheet? (2)

Information

The following information appeared in the Post-Closing Trial Balance of Mnazi Limited on 28 February 2.14 before the appropriation of profit was done.

Mnazi Limited

Post-Closing Trial Balance on 28 February 2.14

	R
Ordinary share capital	1 000 000
Accumulated profit /Retained income (1 March 2.13)	150 000
Land and buildings	2 312 000
Equipment	1 052 000
Accumulated depreciation: Equipment	315 600
Fixed Deposit: Gold Bank	240 000
Loan: Gold Bank	342 200
Trading inventory	819 750
Consumable stores on hand	49 450
Debtors control	312 400
Provision for bad debts (5% of debtors)	?
Cash float	3 600
Petty cash	1 500
Bank	560 360
Creditors control	165 740
Accrued expenses	2 560
Prepaid expenses	14 900
Accrued income	7 100
Income received in advance	8 500
SARS (Income tax) (Dr)	245 000
Proceeds of shares issued	1 000 000
Net profit after taxation	897 000
Dividends on ordinary shares	100 000

Additional information

- 1** Mnazi Limited has an authorised share capital of 1 000 000 shares. At the beginning of the year the issued shares consisted of 250 000 shares. 200 000 shares were issued on 1 September 2.13 at R5.00 each. The accountant did not know how to record this properly so he debited BANK and credited an account he called "PROCEEDS OF SHARES ISSUED".
- 2** An interim dividend of 40c per share was paid to shareholders on 31 August 2.13, and a final dividend of 50c per share was declared on 28 February 2.14.

- 3 On 1 March 2.14 Mnazi owed R5 000 to SARS for Income tax. This was paid during March 2.13. On 28 August 2.13 R123 000 was paid to SARS and on 24 February 2.13 a second provisional payment of R122 000 was made. The Income tax for the year amounted to R251 160.
- 4 Outstanding cheque no. 3214 for R25 000 is a cheque dated 12 April 2.14 for repairs done to the roof. This cheque was post-dated because Mnazi had an agreement that he will only receive final payment three months after completion of the job to ensure that the work was up to standard.
- 5 A third of the fixed deposit expires on 30 June 2.14.
- 6 The loan statement received from Gold Bank indicates the following:

	R
Balance beginning of year	290 000
Repayments during the year (including interest)	112 200
Balance end of the year	230 000

The loan agreement stipulates that R60 000 must be repaid annually. Old equipment, cost price R60 000 and accumulated depreciation R31 200, was replaced by new equipment to the value of R172 000. Depreciation on equipment for the year amounted to R50 000.

- 7 A new building with a cost price of R1 262 000 was bought during the year; the entry has been done correctly.

6.2 Audit and corporate governance

[12]

- 6.2.1 The internal auditor and external auditors' functions differ. Briefly explain the differences. (4)
- 6.2.2 Published Financial Statements normally include a Directors' report and an Auditor's report. Briefly explain the purpose of each. (4)
- 6.2.3 Briefly explain the term 'qualified audit report' and the consequences of such a report for the company and its shareholders. (4)