September exemplar memorandum

Marks: 300 **Time: 3 hours**

Question 1 **(40 marks; 25 minutes)**

1.1 Suggested answer: Any TWO ✓✓ ✓✓

- It is important to compile a Cash Budget to plan future cash flow.
- It is necessary to negotiate an overdraft before it is needed so that the bank does not dishonour cheques paid out causing the company's reputation to be damaged.
- If there will be surplus funds, the owner must plan what to do with this money so that it does not just lie in the bank account earning very little interest.

1.2

	September R	October R	November R	December R
Surplus/(deficit)	**(359 450)**	**1 264 740**	✓ 2 159 016	✓ (777 957)
Bank balance at beginning of month	**(118 884)**	**(478 334)**	✓ 786 406	☑ 2 945 422
Bank balance at end of month	**(478 334)**	**786 406**	☑ 2 945 422	☑ 2 167 465

1.3 The bank balances

Overdraft eliminated and is now in a positive/favourable situation✓✓.

The two significant measures they have used to improve the cash flow.

Suggested answer: Any TWO ✓✓ ✓✓

- Additional shares issued. Increases shareholder's interest in business.
- Sold portion of land and buildings reducing income-earning potential / not wise to get rid of assets.
- Commission income / Rent income will increase receipts
- Buy on credit so you pay later.
- Selling on credit will increase sales.
- Keeping operating expenses constant is good control.
- Buy vehicle on Hire Purchase, spreading payments.

Briefly explain if you agree/disagree with these measures.

Any valid measure extracted from the Budget as indicated above. ✓ ✓

1.4 $\frac{\text{R648 000}✓ \times 40✓}{60✓} = \text{R432 000}$ ☑ OR

$\frac{\text{R648 000} \times 100}{60} = \text{R1 080 000} - \text{R648 000} = \text{R432 000}$

1.5 July = R288 000 ✓✓ August = R360 000 ✓✓

1.6 Suggested answer

Explanation✓✓

Support ✓

- The manager received a 35% salary increase.
- There was an inflow of cash from issuing of shares, R1 800 000, and the sale of land and buildings, R3 280 000.
- Sales increased (July, R1 080 000 and August, R1 260 000) resulting in greater gross profit.

Provide one point against their opinion. Support your answers with evidence obtained from the given information.

Suggested answer: Explanation✓✓ Support ✓

- Increase in salary $\frac{\text{R700}}{\text{R22 600}} \times \frac{100}{1} = 3{,}1\%$ and compared to other industries it is in line with other industry.
- Employed an additional worker at R12 000 per month.
- Cash flow problems. August receipts, R939 120 less than payments in the amount of R1 927 077. Expenses almost double receipts.

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1.7 Suggested answer: A comment for each aspect ✓✓ ✓✓ ✓✓ ✓✓ ✓✓

Cash sales	• Increase advertising/change methods • Incentives to buyers, e.g. discount, clearance sale • Incentives to salespersons, e.g. commission to increase sales
Rent income	• Investigate if premises are unoccupied • Investigate why the rent is outstanding/not paid • Obtain a more reliable tenant • Improve collection by insisting on payment in advance or by debit order
Telephone, cell and Internet costs	• Investigate possible abuse of phone privileges • Improve internal control, e.g. restrict personal calls, and limit cell-phone calls • Investigate whether current Budget is adequate • Rather use fax or emails • Investigate better service provider contracts
Delivery expenses	• Investigate possible abuse of vehicle, e.g. private use • Charge clients for delivery of goods • Investigate whether Budget is adequate • Investigate whether vehicles should be replaced • Improve internal control procedures, e.g. log books • Plan deliveries properly
Sundry other operating expenses	• Well controlled • Use proper measures to calculate the Budget, e.g. inflation rate • Investigate the composition of this item • Investigate whether all accounts have been paid

Question 2 (60 marks; 35 minutes)

2.1.1 Fixed cost
The cost that remains constant irrespective of the number of units produced ✓✓
(consist of Fixed overhead costs, FOC, and administration cost)
Variable cost
This cost will vary in direct proportion to the number of units produced (direct material cost, direct labour cost and selling and distribution cost)✓✓
Accept any reasonable answer.

2.1.2

	R
Normal time (12 ✓ × 240 ✓ × 8 × R32 ✓)	☑ 737 280
Overtime (10 ✓ × 3✓ × 5 × R64 ✓)	☑ 9 600
Travel allowance (12 × R120 ✓ × 12 ✓)	☑ 17 280
	☑ 764 160

Must show calculation in order to give a mark for the method.

2.1.3 SLEEP-WELL MANUFACTURERS
PRODUCTION COST STATEMENT FOR THE PERIOD ENDED 31 MARCH 2.14

Direct materials cost	1	☑ 1 491 150
Direct labour cost		☑ 764 160
Prime cost		☑ 2 255 310
Factory overheads cost	3	☑ 1 002 700
Total cost of production		☑ 3 258 010
Add: Work-in-progress at beginning of year		✓ 43 200
		3 301 210
Less: Work-in-progress at end of year (ignore brackets)		✓ (365 210)
Cost of production of finished goods (must subtract)		☑ 2 936 000

Direct material cost

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Balance at beginning of year		✓ 96 900
Purchases # (R984 000 + R561 000 – R18 000)		✓✓☑ 1 527 000
Carriage inwards (R19 200 + R41 250)		✓ 60 450
		1 684 350
Less: Balance at end of year (ignore brackets)		✓ (193 200)
(must subtract)		1 491 150

 # accept R984 000 or R561 000 as final answer for ✓

Factory overheads

Indirect materials # (R9 600 + R21 000 – R12 900)		✓✓☑ 17 700
Salaries: supervisor		✓ 273 000
Electricity: factory		✓ 180 000
Factory maintenance		✓ 144 000
Depreciation: factory		✓ 172 000
Rent ## (500 × 12 × R36)		✓✓✓ 216 000
	☑	1 002 700

 # accept R9 600 or R21 000 as final answer for ✓
accept R18 000 as a final answer for ✓

2.1.4 $\frac{\text{Cost of production of finished goods}}{\text{Number of units produced}} = \frac{\text{R2 936 000}}{800} = \text{R3 670 per bed}$

2.1.5.1 Direct cost will decrease as import duties/custom duties/carriage will fall away which will result in an increase in profit ✓✓
Direct cost will decrease without mentioning reason: award 1 mark only
Accept any reasonable answer.

2.1.5.2 Suggested answer: ✓✓
- Test local material to ensure they meet the required standards.
- Ensure better quality control.

Accept any reasonable answer.

2.2.1 Yes / No✓ *One reason* ✓✓
If "Yes", then:
- It seems the more realistic approach if it is done in a transparent way and if it is to be the permanent future policy.
- Proper disclosure in financial statement.

If "No", then:
- If it is done for cosmetic reasons in an obscure manner and if it is not to be permanent.
- Cannot change to increase gross profit.

Accept any reasonable answer.

2.2.2 The value of closing inventory will be higher/ higher prices of the last inventory bought. (Inflation increases prices.) ✓✓

2.2.3 The gross profit will be higher OR cost of sales will be lower ✓✓

2.2.4 It will balance out and in the long term the effect will be immaterial, as long as they stick to the policy they choose. ✓✓

Question 3 (25 marks; 15 minutes)

3.1 **GENERAL LEDGER OF MOOLA EXPORTERS**

Dr **VAT CONTROL** **Cr**

2.14 Jul	31	Bank ✓	CPJ	✓ 11 582	2.14 Jul	1	Balance	b/d	✓ 24 910

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		Petty cash ✓	PCJ	✓✓ 350	Aug	31	Bank✓	CRJ	✓ 22 400
		Creditors control ✓	CJ	✓ 8 478			Creditors control ✓	CAJ	✓ 504
		Debtors control ✓	DAJ	✓✓ 1 372			Drawings ✓	GJ	✓ 294
		Balance	c/d	✓ 40 282			Debtors control ✓	DJ	✓ 13 956
				62 064					62 064
					2.14 Aug	1	Balance	b/d	☑ 40 282

3.2.1 Suggested answers: ✓✓✓

- Mr Richy will end up keeping the VAT for himself $\frac{14}{114} \times \frac{\text{R15 400}}{1} = \text{R1 891.23}$
- The internal auditors will not be able to verify this transaction.
- This will amount to evasion of tax and as a good citizen you need to report him to the owner and to SARS.

Accept any reasonable answer.

3.2.2 No✓. It is unethical ✓with reason✓

- Not to write up documents.
- Amounts to fraud.

Accept any reasonable answer.

Question 4 (70 marks; 40 minutes)

4.1 **VUYOKAZI LIMITED**

CASH FLOW STATEMENT FOR YEAR ENDED 28 FEBRUARY 2.14

	Notes	R
Cash effects of operating activities		☑ 327 000
Cash generated from operations	1	☑ 668 000
Interest paid		☑ (36 000)
Dividends paid	2	☑ (120 000)
Taxation paid	3	☑ (185 000)
Cash effects of investing activities		☑ (120 000)
Purchase of tangible assets (R1 448 000 ✓+ R20 000 + R52 000✓ – R1 380 000)✓		✓ (140 000)
Proceeds from sale of assets (R80 000 – R60 000)✓		✓ 20 000
Cash effects of financing activities		☑ 68 000
Proceeds of shares issued (R1 248 000 – R1 120 000)✓		✓ 128 000
Long-term loans received/(repaid) (R310 000 – R250 000)✓		✓ (60 000)
Net change in cash and cash equivalents		☑ 275 000
Cash and cash equivalents at beginning of year (R156 000 – R1 000)		✓ (155 000)
Cash and cash equivalents at end of year		✓ 120 000

4.2 Notes to the Cash Flow Statement for the year ended 28 February 2.14

1 Reconciliation between profit before taxation and cash generated from operations

Profit before taxation		✓ 640 000
Adjustment for:		
Depreciation		✓ 52 000
Interest paid		✓ 36 000
Operating profit before changes in working capital		728 000
Cash effects of changes in working capital		☑ (60 000)
Change in inventory (R216 000 – R160 000)		✓✓ 56 000
Change in receivables (R260 000 – R160 000)		✓✓ (100 000)
Change in payables (R120 000 – R104 000)		✓✓ (16 000)
		✓☑ 668 000

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2 Dividends paid

Dividends reflected in the financial statements		✓ (160 000)
Balance at the beginning of year		✓ (120 000)
Balance at the end of year		✓ 160 000
Dividends paid		☑ (120 000)

3 Income tax paid

Income tax reflected in the financial statement		✓ (192 000)
Balance at the beginning of year		✓ 3 000
Balance at the end of year		✓ 4 000
Income tax paid		☑ (185 000)

4.3 The ability of the company to pay their short-term debt. ✓✓

4.4
Current ratio = Current assets : Current liabilities
R160 000 ✓+ R260 000 ✓+ R120 000✓ : R104 000✓ + R160 000✓+ R4 000✓
R540 000 : R268 000
2,01 : 1☑

Acid test ratio = Current assets – inventories : Current liabilities
R540 000 ✓– R160 000 ✓ : R268 000☑
R380 000 : R268 000
1,42 : 1☑

4.5 Comment ✓✓
Quote figures ✓✓ Current ratio ✓✓ Acid-test ratio
- The liquidity is satisfactory. The company seems to have no immediate cash flow problems and will be able to meet its obligations. However, debtors increased so suggest the company should keep tight control and ensure prompt payments from debtors.
- Current ratio improved/increased from 0,95 : 1 to 2,01 : 1
- Acid test ratio improved/increased from 0.41 : 1 to 1.42 : 1

4.6 $\frac{\text{Dividends on ordinary shares}}{\text{Number of issued shares}} \times \frac{100}{1} \times \frac{\text{R160 000}✓}{320\ 000✓} = 50$ cents per share ☑

4.7
$$\frac{\text{Shareholders' Equity}}{\text{Number of issued shares}} \times \frac{100}{1} = \frac{\text{R1 248 000 + R416 000}✓}{320\ 000✓} \times \frac{100}{1}$$
$$= \frac{\text{R1 664 000}☑}{320\ 000✓} \times \frac{100}{1}$$
$$= 520 \text{ cents per share } ☑$$

4.8 Yes / No ✓ Reason ✓✓
If "Yes", then:
The price offered is 80 cents higher than the net asset value.
Dividends are paid only at the end of year therefore no interim dividend.
OR
If "No", then:
The future of the company looks bright. Do not sell your shares
Improved liquidity from 2,13 to 2,14; Current ratio 0,95 : 1 to 2,01 : 1 and acid-test ratio 0,41 : 1 to 1,42 : 1.
Cash flow improved from 2.13, an overdraft of R156 000 to cash and cash equivalent of R120 000.
Confidence in management.
Accept any reasonable answer.

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Question 5 **(45 marks; 25 minutes)**

5.1.1 Bank Reconciliation Statement at 30 June 2.14

	Debit R	Credit R
Balance as per Bank Statement		✓ 2 040
Outstanding deposit		✓✓ 4 840
Outstanding cheques no. 172	✓✓ 180	
no. 175	✓✓ 1 020	
no. 176	✓✓ 240	
Balance as per BANK account	☑ 5 440	
	6 880	6 880

5.1.2.1 Cash Receipts Journal ✓✓

5.1.2.2 Debit BANK ✓ and Credit STATIONERY ✓

5.1.2.3 Suggested answer: Any two points (✓✓✓✓)

- Senior person to check CPJ.
- Match cheque counterfoils with CPJ entries.

Accept any reasonable answer.

5.1.3 Debit DEBTORS CONTROL ✓ and Credit BANK ✓

5.1.4 Increase the bank account / decrease the overdraft ✓✓

5.2 Creditors reconciliation

5.2.1 Pretty Things and Ansie Traders use the same information to complete their accounts ✓✓

5.2.2 Suggested answer: Any two points (✓✓)

- Fraudulent transactions
- Transactions occurred after statements/accounts were completed
- Incorrect amounts
- Transactions omitted

Accept any reasonable answer.

5.2.3

	R
Closing balance	✓ 20 100
Invoice A1414	✓ 6 500
Invoice A1422	✓ 6 000
Invoice A1324 (R13 480 – R12 940)	✓ 540
Invoice A1346 (10% discount)	✓ (420)
Cheque 4176 (discount)	✓ (1 460)
Invoice A1374	✓ (1 500)
Ignore details/Mark amount with the brackets	☑ 29 760

OR

R20 100 + R6 500 + R6 000 + R540 – R420 – R1 460 – R1 500 = R29 760 ✓✓✓✓✓✓✓ ☑
Mark amount with the sign

5.2.4 *Any acceptable answer* ✓✓ For example, Pay their account before the due date/ on time.

5.2.5 Suggested answer: One point ✓✓

- Proper authorisation for purchases.
- Control over stationery (order books).
- Division of duties.

Accept any reasonable answer.

5.2.6 Suggested answer: Any acceptable answer ✓✓

- Disciplinary action which could be a hearing.
- Verbal or written warning (depending on company policy)
- Demand employee to pay.

Do not accept fire the employee.

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5.2.7 Yes✓Reason ✓✓He paid for the goods that were ordered.

5.2.8 Suggested answer: *Any acceptable answer* ✓✓

- When the owner expects the business to pay for the goods
- When it is not recorded as drawings
- Claiming the VAT as input tax.

Accept any reasonable answer.

Question 6 (60 marks; 40 minutes)

6.1.1 **MNAZI LIMITED**

Notes to the Balance Sheet on 28 February 2.14

Tangible assets	Buildings	Equipment	Total
Carrying value at end of last year	✓ 1 050 000	☑ 643 200	1 693 200
Cost	**1 050 000**	✓✓ 940 000	☑ 1 990 000
Accumulated depreciation	-	✓ ☑ (296 800)	☑ (296 800)
Movements	1 262 000	93 200	1 355 200
Acquisitions at cost	✓✓ 1 262 000	✓✓ 172 000	☑ 1 434 000
Disposals at carrying value	-	✓✓ (28 800)	☑ (28 800)
Depreciation for the year	-	✓ (50 000)	☑ (50 000)
Carrying value at end of this year	**2 312 000**	✓ 736 400	☑ 3 048 400
Cost	**2 312 000**	**1 052 000**	**3 364 000**
Accumulated depreciation	-	**(315 600)**	**(315 600)**

Trade and other receivables

Trade debtors		✓ 312 400
Provision for bad debt (5% × R312 400)		✓✓ (15 620)
Net trade debtors		☑ 296 780
Accrued income		✓ 7 100
Prepaid expenses		✓ 14 900
		☑ 318 780

Accumulated profit

Balance at end of previous year		☑ 150 000
Net profit after taxation		✓✓ 897 000
Dividends		✓ (325 000)
Paid (0,4 × R250 000)		✓✓ 100 000
Declared (0,5 × R450 000)		✓ 225 000
Balance at end of this year		☑ 722 000

Trade and other payables

Trade creditors (R165 740 + R 25 000)		✓✓ 190 740
Accrued expenses		✓ 2 560
Income received in advance		✓ 8 500
SARS (Income tax) (R251 160 + R5 000 – R123 000 – R122 000 – R5 000)	✓✓✓	✓✓✓ 6 160
Shareholders for dividends		☑ 225 000
		☑ 432 960

6.1.2 Enter R170 000 (R230 000 – R60 000) in the non-current liabilities ✓ and R60 000 as a current portion of loan in the Balance Sheet under Current liabilities ✓.

6.1.3 Enter R80 000 (R240 000 ÷ 3) as part of the Note cash and cash equivalent next to fixed deposit✓.
And R160 000 (R240 000 – R80 000) in the Balance Sheet for financial assets✓.

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6.2.1 Internal auditor: Employed by the company and monitors the activities of the company on an ongoing basis. ✓✓
External auditor: Employed by the shareholders to give an opinion on the financial statements of the company. ✓✓
Accept any reasonable answer.

6.2.2 Director's Report: Explain important information on past and future that is evident from the figures presented. ✓✓
Auditor's Report: Express an opinion on the reliability of the financial statement for decision making. ✓✓
Accept any reasonable answer.

6.2.3 Explanation ✓✓ Consequence ✓✓
Suggested explanation: A qualified audit report indicates that everything is not well with the financial statements of the company.
Possible consequences:
- Can affect the share price.
- Failure to attract potential investors/shareholders.
- Difficult to obtain finance/loans.

Accept any reasonable answer.

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