

**September examination**

**Marks: 300**
**Time: 3 hours**

**Question 1 Companies: transaction analysis** **(17 minutes, 28 marks)**

You are provided with the information relating to Mini Limited for the financial year ended 30 June 20.8.

**Required**

- 1.1 Briefly explain why a company has to have 'Limited' or 'Ltd' in its name. (3)
- 1.2 Analyse the transactions for the current financial year in the table provided. Show the account debited, account credited and the effect on the Accounting Equation ( put a '+' before the amount if it increased, a '-' before the amount if it decreased and a '0' if there is no effect). (22)
- Transactions for the year ended 30 June 20.8
- Example: Audit fees of R18 000 were paid.

No.	Account debited	Account credited	A	=	E	+	L
Example	AUDIT FEES	BANK	- 18 000		- 18 000		0

- 1.2.1 Further 150 000 shares were issued at R3.50 each.
- 1.2.2 Interim dividends of R32 000 were paid to shareholders.
- 1.2.3 Provisional tax payments totalling R153 450 were made to SARS.
- 1.2.4 The tax assessment for income tax for the year amounted to R158 640.
- 1.2.5 A final dividend of 20 cents per share was declared.
- 1.3 The company plans to issue the remaining unissued shares next year. How many shares will the company issue? (3)

**Information**

- The company was formed in 20.5 with an authorised share capital of 600 000 ordinary shares.
- By 1 July 20.7, the start of the current financial year, the company had issued

**Question 2 Independent questions** **(33 minutes, 54 marks)**

Note: The following are three independent questions.

**Question 2.1 Financial ratios** **(30)**

Study the Balance Sheet of Ramsy Traders Ltd on page 315 and calculate the missing amounts.

**Balance Sheet of Ramsy Traders Ltd on 30 June 20.8**

<b>ASSETS</b>		
Non-current assets		
Tangible assets	(A)	
Financial assets		
Fixed deposit	50 000	
Current assets		(B)
Inventories	(C)	
Trade and other receivables	(D)	
Cash and cash equivalents	20 000	
<b>TOTAL ASSETS</b>		(E)

<b>EQUITY AND LIABILITIES</b>		
Capital and reserves		(F)
Ordinary share capital	340 000	
Retained income	(G)	
Non-current liabilities		(H)
Current liabilities		150 000
Trade and other payables	150 000	
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>(E)</b>

#### Additional information

- The debt/s
- Shareholders' Equity ratio is 0,5 : 1
- The current ratio is 3 : 1
- The acid test ratio is 1 : 1
- The net asset value per share is R2.10
- 200 000 shares were issued.

#### Question 2.2 Corporate governance

(6)

South Africa plays a leading role in promoting good corporate governance. The King Code is often used as a good example of this. One of the recommendations of the King Code is that companies should be required to reflect in their annual reports the contributions that they make to benefit the community at large, for example social and environment issues.

#### Required

- 2.2.1 Give an example of a company that has been complying with this aspect of the King Code. Briefly explain the contribution that this company is making to the community. (3)
- 2.2.2 You heard a comment that companies should be primarily concerned about the interests of the shareholders, not the greater community. Explain why this opinion would not be supported in modern times. (3)

#### Question 2.3 Disciplinary procedures

(18)

##### Scenario 1

Mary, a tea lady, working in one of the departments was dismissed from the Its so Easy (Pty) Ltd. The General Manager of Its so Easy claimed that she stole a coffee mixer, four cups and R200 from the Petty cash box which was kept in the secretary's drawer. The Petty cash box was found unlocked. Mary went to the CCMA to help her to be re-instated at Its so Easy (Pty) Ltd.

##### Scenario 2

Martin has worked at Zuki Manufacturing for five years. He never took sick leave until a year ago, when he became ill. He was dismissed because his employer decided he had a positive HIV/Aids status. He did not communicate his HIV/Aids status to his employer. Zuki Manufacturing dismissed Martin because they stated that he was off ill too frequently during the last six months and that management was concerned that Martin would infect other employees with the virus. Martin contacted the shop steward at his union to help him solve the problem.

#### Questions

- 2.3.1 What does the abbreviation CCMA stand for? (2)
- 2.3.2 Briefly explain the aim of the CCMA. (3)

- 2.3.3 The company did not act correctly against Mary. State ONE disciplinary procedure the company was supposed to follow. (2)
- 2.3.4 If Martin was HIV positive, should he have told his employer about his health status? Motivate your answer. (4)
- 2.3.5 Give ONE suggestion how the company should have acted with regards to Martin's absenteeism. (3)
- 2.3.6 State TWO suggestions how the company in scenario 2 can prevent similar scenarios in future. (4)

### Question 3 Cash Flow Statements and ratios

(42 minutes, 70 marks)

The following relates to the financial statements of Robertson Limited for the year ending 30 June 20.8.

#### Required

- 3.1 Calculate the interest on loan paid amount that must be stated in the Cash Flow Statement. (5)
- 3.2 Prepare the Note to the Cash Flow Statement for the reconciliation between profit before taxation and cash generated from operations. (17)
- 3.3 Complete the Cash Flow Statement. No other Notes are required. However, the amounts applicable to the Notes must be shown in brackets on the Cash Flow Statement. Investing activities is completed as an example. (20)
- 3.4 Answer the following questions:
- 3.4.1 You own 25 000 ordinary shares in Robertson Limited. The directors intend to issue all the un-issued shares during the next accounting period at R6 per share. State the minimum number of shares you will have to purchase in order to retain control of the company. Calculate the total cost of this investment. (6)
- 3.4.2 The company wants to apply for a bank overdraft to purchase a delivery vehicle for R200 000. As the bank manager, would you grant the overdraft? Give TWO reasons for your decision. (5)
- 3.4.3 Calculate the total dividends per share for the 20.8 financial year. (5)
- 3.4.4 Calculate the net asset value per share on 30 June 20.8. (4)
- 3.5 You are offered R6.50 per share by a prospective buyer, Sam Samuels, and R3.50 per share by another prospective buyer, Ben Basson. You are unsure of your shares' value.
- 3.5.1 Give TWO possible reasons why Sam would offer as much as R6.50 per share. (4)
- 3.5.2 Give TWO possible reasons why Ben would offer only R3.50 per share. (4)

#### Information

Comparative figures for the previous year are provided. Robertson Limited have authorised share capital of 60 000 ordinary shares.

Details appearing in the Income Statement of Robertson Limited for the year ended 30 June 20.8

Turnover	672 000
Depreciation on equipment	9 120
Interest on loan	11 880
Net income before tax	48 216
Income tax	17 136
Net income after tax	31 080

Details in the Post-closing Trial Balance on 30 June 20.7 and 20.8

	20.8 R	20.7 R
Ordinary share capital	192 000	144 000
Retained income	63 000	48 120
Loan from Goodwill Bank	42 000	60 000
Land and buildings	166 320	96 000
Equipment at book value	52 080	66 000
Inventories	106 200	102 120
Trade debtors	15 960	52 800
Bank	39 240	31 200
Trade creditors	67 000	75 000
Accrued expenses/(payable): Interest on loan	1 440	6 560
SARS: PAYE	1 400	1 960
SARS: Income tax	5 760 (Cr)	3 480 (Cr)
Shareholders for dividends	7 200	9 000

Financial indicators, ratios and percentages calculated from the Financial Statements

	20.8	20.7
Return on Shareholders' Equity	6,95%	12.1%
Return on capital employed	10,9%	15,2%
Earnings per share	64.75c	72c
Dividend per share	?	25c
Debt-, equity ratio	0,17:1	0,31:1

### Additional information

- Dividends**  
An interim dividend, equal to the final dividend per share of the previous year, was declared and paid to the shareholders on 3 January 20.8. New shares were issued on 1 February 20.8.
- Income tax**  
Income tax owing for the previous financial period was paid on 10 July 20.7. Provisional tax payments for the current year must be calculated.
- Tangible assets**  
Equipment was sold at carrying value during the financial period. No equipment was purchased.
- Share capital**  
On the 30 June 20.8, 48 000 shares were issued.

### ROBERTSON LIMITED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 20.8

Cash flow from operating activities		
Cash flow from investing activities		(65 520)
Fixed assets purchased		(70 320)
Proceeds from disposal of assets		4 800

Cash flow from financing activities		
Net change in cash and cash equivalents		

#### Question 4 Production Cost Statement

(30 minutes, 50 marks)

##### Required

Using the following information, extracted from the records of Delta Manufacturers, and prepare the following:

- 4.1 Detailed Production Cost Statement for the year ended 28 February 20.9. (10)
- 4.2 The following notes to the Production Cost Statement:
  - 4.2.1 Direct material costs (5)
  - 4.2.2 Direct labour costs (3)
  - 4.2.3 Factory overhead costs (22)
- 4.3 Calculate:
  - 4.3.1 The total production cost per unit of finished goods. (3)
  - 4.3.2 The direct material cost per unit. (3)
  - 4.3.3 The selling price per unit at normal profit mark-up. (4)

##### Information

- 1 Summary of transactions and other information for the financial period ended 28 February 20.9.

	R
Material purchased	
Direct materials	260 000
Indirect materials	10 600
Wages paid	
Direct labour	180 000
Indirect labour	32 000
Salaries	
Factory	125 000
Administrative staff	60 000
Sales staff	70 000
Rent of factory building	47 300
Insurance	12 000
Water and electricity	10 000
Unemployment insurance contributions	
Direct labour	900
Indirect labour	160
Freight paid	
Direct materials	4 600
Indirect materials	400
Depreciation: Plant	42 000
Depreciation: Office equipment	15 000
Raw materials issued to production	257 365

2 Balances

Balances on:	20.8/03/01 R	20.9/02/28 R
Raw material inventory	25 800	?
Work-in-progress inventory	42 300	46 400
Finished goods inventory	65 000	68 000
Consumable stores inventory:		
Indirect materials	800	900
Packing material (sales department)	400	200

- 3 The factory rent for February 20.9 was not yet paid. The rent was increased on 1 August 20.8 by R275 per month. The building was rented for the full financial year.
- 4 Rent and insurance are allocated in proportion to floor space used. The premises are 2 000 m<sup>2</sup> and the space allocated as:
- |                           |                      |
|---------------------------|----------------------|
| Factory                   | 1 500 m <sup>2</sup> |
| Sales department          | 300 m <sup>2</sup>   |
| Administrative department | 200 m <sup>2</sup>   |
- 5 80% of all the water and electricity was used by the factory.
- 6 During the financial year 35 000 units were completed.
- 7 Finished goods are sold at a mark-up of 25% on cost price.
- 8 The cost of production of finished goods is R700 000.

Question 5 Budgeting

(12 minutes, 20 marks)

Moserwa Phalatse intends to start his own business, Moserwa Traders.

Required

Use the supplied Cash Budget (for the first three months of trading) to answer the following questions.

- 5.1 Study the amount budgeted for advertising by Moserwa Traders. Do you agree with Moserwa's plans for advertising? Comment briefly. (4)
- 5.2 Moserwa feels that he will not manage to live on his budgeted drawings of R18 000 per month. He wants to increase the drawings by 50%. In your opinion, is this a valid option for Moserwa? Explain. (3)
- 5.3 What percentage of his sales will be on credit? Show your calculations. (3)
- 5.4 Moserwa will settle his creditors after 30 days. Calculate the percentage cash discount that he is expecting to receive from them in March 20.6. (4)
- 5.5.1 Calculate the percentage of his debtors who are expected to settle their accounts after one month. No discount will be allowed to debtors. (3)
- 5.5.2 In your opinion, is the collection from debtors satisfactory? Explain briefly. (3)

Information

Cash Budget for February 20.6 to April 20.6

	February 20.6 R	March 20.6 R	April 20.6 R
<b>Cash receipts</b>			
Capital contribution	196 000		
Cash sales	270 000	275 400	280 908
Collections from debtors	0	54 000	88 380
Loan: DUDU Bank (18% p. a.)	144 000	0	0
<b>Total receipts</b>	<b>610 000</b>	<b>329 400</b>	<b>369 288</b>
<b>Cash payments</b>			
Cash purchases of inventory	90 000	91 800	93 636
Payments of creditors	0	86 400	88 128

Land and buildings	300 000	10 000	10 000
Equipment	50 000	15 000	15 000
Advertising	30 000	0	0
Drawings	18 000	18 000	18 000
Interest on loan	0	2 160	2 160
Salary of the floor manager	10 000	10 000	10 000
Wages of the three shop assistants	9 000	9 000	9 000
Other overhead expenses	76 600	53 000	45 000
<b>Total payments</b>	<b>583 600</b>	<b>295 360</b>	<b>290 924</b>
Cash surplus/(deficit)	26 400	34 040	78 364
Bank (opening balance)	0	26 400	60 440
Bank (closing balance)	26 400	60 440	138 804

### Additional information

- Moserwa Phalatse intends to use a mark-up of 100% on cost and he expects the following sales figures:
 

February 20.6	R360 000
March 20.6	R367 200
April 20.6	R374 544
- He will replace his inventory on a monthly basis. He will maintain his trading inventory balance at R216 000.

### Question 6 Tangible assets

(30 minutes, 50 marks)

This question relates to Gauteng Stores with a financial year ending on 31 December.

#### Required

- All the equipment was bought on 1 January 20.6. Which method of calculating depreciation is used? Do a calculation to prove your answer. Depreciation is written off at 20% per annum. (4)
- Calculate the amount of depreciation to be written off on 30 June 20.8 (B). (9)
- Calculate (A). (4)
- Give the details and amount for (D). (2)
- Explain this entry. (3)
- State the method used to dispose equipment. (2)
- Calculate the proceeds from the sale of equipment (F). (5)
- The market value of the equipment sold is R18 000. The owner is concerned about the fact that it was sold at a loss. Give two possible reasons as to why it was sold at a loss. (6)
- Give one measure that could be taken in future to prevent future losses. (3)
- Calculate the amount to be written off for depreciation on equipment on 31 December 20.8 (C). (7)
- The current market value of the premises is R680 000. Gauteng Stores bought it for R420 000. State the amount Gauteng Stores will show in their Balance Sheet and which GAAP concept is applied. (3)
- What GAAP concept is applicable when an asset is depreciated? (2)

#### Information

##### GENERAL LEDGER OF GAUTENG STORES

Dr					Cr				
EQUIPMENT					B4				
20.8					20.8				
Jan	1	Balance	b/d	50 000	Jun	30	Asset disposal	GJ	20 000
Jun	30	Bank	CPJ	30 000	Dec	31	Balance	c/d	60 000
				80 000					80 000



20.9 Jan	1	Balance	b/d	60 000					
ACCUMULATED DEPRECIATION: EQUIPMENT					B5				
20.8 Jun	30	Asset disposal	GJ	(A)	20.8 Jan	1	Balance	b/d	18 000
					Jun	30	Depreciation	GJ	(B)
					Dec	31	Depreciation	GJ	(C)
ASSET DISPOSAL					N8				
20.8 Jun	30	(D)		(E)	20.8 Jun	30	Accumulated depreciation: Equipment	GJ	(F)
							Debtors control	GJ	(H)
							Loss on sale of asset	GJ	520

### Question 7 Bank reconciliation

(16 minutes, 28 marks)

#### Required

Answer the following questions:

- 7.1 Prepare the Bank Reconciliation Statement at 30 June 20.4. (10)
- 7.2.1 One of the listed cheques not presented to the bank has been treated incorrectly. Which cheque is it, give one reason for your choice and explain the correct course of action. (4)
- 7.2.2 What is the double entry to record this cheque? (2)
- 7.2.3 Indicate what the influence of this transaction will be on the Accounting Equation. (2)
- 7.3 Does Ndlovu Stores have a favourable bank balance or an overdraft according to the bank's records? (2)
- 7.4 A cheque received from Ndlovu Stores on 25 June 20.4 but dated 14 August 20.4, does not appear in the Bank reconciliation statement. Give an explanation. (3)
- 7.5 Explain how cheque no. 945 should be treated when preparing the financial statements. The cheque was issued to a creditor. (3)
- 7.6 What action would Ndlovu Stores take if a cheque issued by another business, appears on their Bank Statement? (2)

The following items appeared in the Bank Reconciliation Statement of Ndlovu Stores at the year-end, 30 June 20.4.

Debit balance according to the Bank Statement	3 215
Outstanding deposits by the bank	5 308
Outstanding cheques	
No. 515 (dated 15 December 20.3)*	500
No. 891 (dated 9 April 20.4)	240
No. 945 (dated 20 July 20.4)	2 225
No. 946 (dated 30 June 20.4)	493
Incorrect credit on Bank Statement	1 131
Balance as per Bank Statement	?

\*Cheque no. 515 had been issued to SA Pension Fund for payment of the employees' pension fund.