

September examination memorandum

Marks: 300

Time: 3 hours

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

1.1 The owners' (shareholders') liability is limited to the amount they invested.
The shareholders are not responsible for the debts of the company / The company is liable for its liabilities.

Limited liability.

A company is a legal person in its own right.

The Companies Act requires 'Ltd' in the name.

The company is a public company

Any $1 \times 3 = 3$ ✓✓✓

1.2

No.	Account debited	Account credited	A	=	E	+	L
Example	AUDIT FEES	BANK	- 18 000		- 18 000		0
1.2.1	BANK ✓	ORDINARY SHARE CAPITAL ✓	✓✓ + 525 000		✓✓ + 525 000		0
1.2.2	SHAREHOLDERS FOR DIVIDENDS ✓	BANK ✓	✓ - 32 000		0		✓ - 32 000
1.2.3	SARS (INCOME TAX) ✓	BANK ✓	✓ - 153 450		0		✓ - 153 450
1.2.4	INCOME TAX ✓	SARS (INCOME TAX) ✓	0		✓ - 158 640		✓ + 158 640
1.2.5	ORDINARY SHARE DIVIDENDS ✓	SHAREHOLDERS FOR DIVIDENDS ✓	0		✓ - 100 000		✓ + 100 000

1.3 $600\,000 \checkmark - 500\,000 \checkmark = 100\,000$ shares ✓

Question 2 Independent questions (33 minutes, 54 marks)

Question 2.1

(A) $= 780\,000(\checkmark) - 450\,000(\checkmark) - 50\,000 \checkmark = 280\,000$ (✓)

(B) Current ratio = 3 : 1 therefore $150\,000 \checkmark \times 3 \checkmark = 450\,000$ ✓

(C) Acid test ratio = 1 : 1

Current assets – inventories : Current liabilities

$$450\,000 - x = 150\,000$$

$$x = 450\,000 - 150\,000$$

$$x = 300\,000 \checkmark \checkmark \checkmark (\checkmark)$$

OR

$$150\,000 \times 1 = 150\,000 \text{ and } 450\,000 - 150\,000 = 300\,000$$

(D) $450\,000(\checkmark) - 300\,000(\checkmark) - 20\,000 \checkmark = 130\,000$ ✓(✓)

(E) $420\,000(\checkmark) + 210\,000(\checkmark) + 150\,000 \checkmark = 780\,000$ ✓(✓)

(F) $\frac{\text{Ordinary Shareholders' Equity}}{\text{number of shares issued}} = \text{Net asset value}$

$$\frac{x}{200\,000} = R2.10 \checkmark \checkmark, \text{ therefore } x = 420\,000 \checkmark$$

(G) $420\,000 \checkmark - 340\,000 \checkmark = 80\,000$ ✓

(H) $420\,000 \checkmark \times 0,5 \checkmark = 210\,000$ ✓

Question 2.2 Corporate management

2.2.1 Any plausible example ✓ and explanation ✓✓

Standard Bank (supports sport such as cricket)

SA Breweries (entrepreneurship)

Sasol (cultural heritage)

Pick n' Pay (conservation)

2.2.2 Expected response: Companies might make big profits for the shareholders, but cause problems for the wider community e.g. pollution. The public needs to know about this. Companies which abuse the environment or the community should not be supported. E.g. Social responsibility towards the community-ploughing back into projects, e.g. community hall, sports field.
 Any $1 \times 3 = 3$ ✓✓✓

Question 2.3 Disciplinary procedures

- 2.3.1 Commission for Conciliation, Mediation and Arbitration ✓✓.
- 2.3.2 The CCMA helps employees with their workplace disputes which includes unfair dismissal ✓✓✓.
- 2.3.3 This was Mary's first offence. They were supposed to have a disciplinary hearing and depending on the company's disciplinary policy for a first offence, either dismissal or a final written warning.
 Any $1 \times 2 = 2$ ✓✓
- 2.3.4 No ✓. Maybe he was scared to tell them the truth. An employer must remember that provision is made in the South African labour legislation to protect the employee in this regard.
 Any valid explanation ($1 \times 3 = 3$) ✓✓✓
- 2.3.5 The employer can not dismiss the employee on the basis that there is a possibility that he is HIV positive.
 The employer may have a disciplinary hearing to address the employee's absenteeism.
 The employer should provide absenteeism counselling to the employee.
 If the employer has an Employee Assistance Programme, they should insist that the employee uses the benefit.
 Any $1 \times 3 = 3$ ✓✓✓
- 2.3.6 The following policies must be in place:
 Absenteeism policy which includes a section regarding HIV/Aids
 Disciplinary policies taking into account all South African Labour legislation, e.g. Basic Conditions of Employment Act (BCEA)
 The employer may use the services of an external party to compile the policies.
 Any $2 \times 2 = 4$ ✓✓✓✓

Question 3 Cash Flow Statements and ratios (42 minutes, 70 marks)

3.1 Interest on Loan

Accrued expenses (end)	✓ 1 440	Accrued expenses (begin)	✓ 6 560
Bank	✓ 17 000	Profit and loss	✓ 11 880
	18 440		18 440

Amount to be stated on the Cash Flow Statement = R17 000 (✓)

3.2 Note to the Cash Flow Statement

Reconciliation between net profit before taxation and cash generated from operations.	
Net income before tax	✓ 48 216
Adjustment:	
Depreciation	✓ 9 120
Interest expense	✓ 11 880
Operating profit before changes in working capital	(✓) 69 216
Net change in working capital	(✓) 24 200
Increase in inventory (R106 200✓ – R102 120✓)	✓ (4 080)

Decrease in debtors (R15 960✓ – R52 800✓)	✓ 36 840
Decrease in creditors (R67 000✓ + R1 400✓) – (R75 000✓ + R1 960✓)	✓ (8 560)
Cash generated from operations	(✓) 93 416

3.3

ROBERTSON LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 20.8

Cash flow from operating activities	(✓) 43 560
Cash generated from operations	(✓) 93 416
Interest paid	(✓) (17 000)
Dividends paid (R9 000✓ + R9 000✓)	(✓) (18 000)
Income tax paid (R3 480✓ + R17 136✓ – R5760✓)	(✓) (14 856)
Cash flow from investing activities	(65 520)
Fixed assets purchased	(70 320)
Proceeds from disposal of assets	4 800
Cash flow from financing activities	(✓) 30 000
Proceeds from shares issued (R192 000✓ – R144 000✓)	(✓) 48 000
Payments of long-term loans (R60 000✓ – R42 000✓)	(✓) (18 000)
Net change in cash and cash equivalents	✓ 8 040
Cash and cash equivalents at the beginning of year	✓ 31 200
Cash and cash equivalents on end of the year	✓ 39 240

3.4.1 Minimum number of shares required to purchase to retain control of the company

51% of 6 000 = 30 600 ✓

Less your own = (25 000) ✓

Buy = 5 600 shares ✓

OR

Buy 30 000 – 25 000 = 5 000 ✓✓ + 1 ✓

Cost of investment:

Total price = 5 600 ✓ × R6 ✓ = R33 600 ✓ OR 5001 ✓ × R6 ✓ = R30 006 ✓

3.4.2 Yes/No ✓ Any valid explanation 2 × 2 = 4

The debt-equity ratio is very favourable. For every 17c that they owe they invest R1 own capital. The company is creditworthy.

OR

The company might be blacklisted/prior bad name.

Accept any reasonable answer.

3.4.3 Total dividends declared = $\frac{9\,000}{36\,000} + \frac{7\,200}{48\,000}$
 = 25c ✓✓ + 15c ✓✓
 = 40c per share (✓)

3.4.4 $\frac{192\,000\checkmark + 63\,000\checkmark}{48\,000\checkmark} \times \frac{100}{1} = 531c$ per share (✓)

3.5.1 The company had a positive cash flow according to the Cash Flow Statement. Tangible assets were purchased which could lead to expansions in the company, increasing the profits and returns.

Economic boom in sight.

Any 2 × 2 = 4 ✓✓✓✓

3.5.2 Par value R4/NAV R5,31

Ben sees this as an opportunity to make a profit.

Any $2 \times 2 = 4$ ✓✓✓✓

Question 4 Production Cost Statement

(30 minutes, 50 marks)

4.1 Production Cost Statement for the period ended 28 February 20.9.

Direct costs	(✓) 438 265
Direct material costs	(✓) 257 365
Direct labour costs	(✓) 180 900
Factory overhead costs	(✓) 265 835
Total manufacturing costs	(✓) 704 100
Work-in-progress at the beginning of the year	✓ 42 300
	(✓) 746 400
Work-in-progress at the end of the year	✓ (46 400)
Cost of production of finished goods	✓✓ 700 000

Notes to the Financial Statements

4.2.1 Direct material costs	
Opening inventory	✓ 25 800
Net purchases	✓ 260 000
Carriage on purchases	✓ 4 600
	(✓) 290 400
Closing inventory	✓ (33 035)
Direct material costs	257 365

4.2.2 Direct labour costs	
Factory wages	✓ 180 000
UIF contributions	✓✓ 900
Direct labour costs	180 900

4.2.3 Factory overhead costs	
Indirect material (R10 600✓ + R400✓ + R800✓ – R900✓)	(✓) 10 900
Indirect labour (R32 000✓ + R160✓)	(✓) 32 160
Depreciation: Factory	✓ 42 000
Insurance $(R12 000 \times \frac{R1 500}{R2 000})$	✓(✓) 9 000
Rent expense (see calculations)	38 775
Factory: water and electricity $(\frac{80}{100} \times R10 000)$	✓(✓) 8 000
Salaries	✓125 000
Factory overhead costs	265 835

Calculations:

$$4x + 7(x + 275) = 47\ 300$$

$$4x + 7x + 1\ 925 = 47\ 300$$

$$11x = 45\ 375$$

$$x = 4\ 125 + 275$$

$$x = 4\ 400 \checkmark \checkmark \checkmark$$

$$47\ 300 \checkmark + 4\ 400 (\checkmark) = 51\ 700 \frac{1\ 500}{2\ 000} = 38\ 775 (\checkmark)$$

4.3.1 $\frac{700\ 000 \checkmark}{35\ 000 \checkmark} = R20 \text{ per unit} \checkmark$

4.3.2 $\frac{R257\ 365 \checkmark}{35\ 000 \checkmark} = R7.35 \checkmark$

$$4.3.3 \frac{125}{100} \times R20 = R25$$

(50)

Question 5 Budgeting

(12 minutes, 20 marks)

- 5.1 Yes/No Explanation
 The initial advertising was R30 000. The effect would be better if R15 000 was used initially and then ongoing for the months to follow.
- 5.2 Yes/No Explanation
 Too much. He will withdraw R54 000 which is more than half of his capital within the first three months. He must live but drawings should be less.
- 5.3 Budgeted sales R360 000
 Cash sales R270 000
 Credit sales R90 000
 $\% \text{ credit sales} = \frac{90\,000}{360\,000} \times \frac{100}{1} = 25\%$
- 5.4 February purchases = $R360\,000 \times \frac{100}{200} = R180\,000$
 Credit purchases = $R180\,000 - R90\,000 = R90\,000$
 Percentage discount = $R90\,000 - \frac{86\,400}{90\,000} \times \frac{100}{1} = 4\%$
- 5.5.1 Credit sales = R90 000
 $\text{Percentage debtors} = \frac{54\,000}{90\,000} \times \frac{100}{1} = 60\%$
- 5.5.2 60% is acceptable, as this business is doing well. If however they can increase this it will reflect positively on the Cash Budget.

Question 6 Tangible assets

(30 minutes, 50 marks)

- 6.1 Diminishing balance method
 On cost: $R50\,000 \times 20\% = R10\,000 \times 2 \text{ years}$. The balance of accumulated depreciation would have been R20 000.
- 6.2 $\frac{20}{100} \times R20\,000 = R4\,000$
 $\frac{20}{100} \times (R20\,000 - R4\,000) = R3\,200$
 $\frac{20}{100} \times (R20\,000 - R7\,200) = R1\,280$
- 6.3 $R4\,000 + R3\,200 + R1\,280 = R8\,480$
- 6.4.1 Equipment R20 000
 6.4.2 Cost price of equipment that is being disposed of. The EQUIPMENT account is credited with this amount making the balance of this account zero.
- 6.5 On credit
 6.6.1 $R20\,000 - R8\,480 - R520 = R11\,000$
 6.6.2 The equipment was not depreciated by the correct amount. The equipment was not look after.
Any two valid explanations $\times 3 = 6$
- 6.6.3 Determine the appropriate depreciation
 Use a maintenance plan.
Any valid explanation $\times 3 = 3$
- 6.7 Old: $\frac{20}{100} \times (30\,000 - 10\,800) = R3\,840$
 New: $\frac{20}{100} \times 30\,000 \times \frac{6}{12} = R3\,000$
 Total depreciation: $R3\,840 + R3\,000 = R6\,840$

- 6.8 R420 000 ✓ Historical cost ✓✓
- 6.9 Prudence ✓✓

Question 7 Bank reconciliation

(16 minutes, 28 marks)

7.1 Bank Reconciliation Statement of Ndlovu Stores on 30 June 20.4

	Debit R	Credit R
Debit balance according to Bank Statement	✓ 3 215	
Credit outstanding deposits		✓ 5 308
Debit outstanding cheques		
No. 891	✓ 240	
No. 945	✓ 2 225	
No. 946	✓ 493	
Debit incorrect entry on Bank Statement ✓	✓✓ 1 131	
Credit balance ✓ according to Bank Statement		✓ 1 996
	7 304	7 304

- 7.2.1 Cheque 515 ✓. The cheque is stale ✓✓ and must be cancelled in the CRJ ✓.
- 7.2.2 Dr BANK ✓ Cr PENSION FUND ✓
- 7.2.3 Assets: +R500 ✓ Liabilities: +R500 ✓
- 7.3 Overdraft ✓✓
- 7.4 The cheque received on 25 June 20.4 is a post-dated cheque and should be kept in a safe place. The receipt will only be issued on 14 August 20.4. On that day the cheque will be receipted and thereafter recorded in the CRJ. ✓✓✓
- 7.5 All post-dated cheques must be shown in the Balance Sheet as creditors. The post-dated cheque amounts will be added to the Bank balance (or deducted from the bank overdraft) and creditors. ✓✓✓
- 7.6 Show the amount as a credit on the Bank Reconciliation Statement in anticipation of the correction by the Bank. ✓✓