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Curriculum and Assessment Policy Statement (CAPS) Mind the Gap Grade 12 Study Guide Accounting

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## Ministerial foreword

The Department of Basic Education has pleasure in releasing the second edition of *Mind the Gap* study guides for Grade 12 learners. These study guides continue the innovative and committed attempt by the Department of Basic Education to improve the academic performance of Grade 12 candidates in the National Senior Certificate (NSC) examination.

The study guides have been written by subject expert teams comprised of teachers, examiners, moderators, subject advisors and subject coordinators. Research started in 2012 shows that the Mind the Gap series has, without doubt, had a positive impact in improving grades. It is my fervent wish that the *Mind the Gap* study guides take us all closer towards ensuring that no learner is left behind, especially as we move forward in our celebration of 20 years of democracy.

The second edition of *Mind the Gap* is aligned to the 2014 Curriculum and Assessment Policy Statement (CAPS). This means that the writers have considered the National Policy pertaining to the programme, promotion requirements and protocol for assessment of the National Curriculum Statement for Grade 12 in 2014.

The *Mind the Gap CAPS* study guides take their brief in part from the 2013 National Diagnostic report on learner performance and draws on the 2014 Grade 12 Examination Guidelines. Each of the *Mind the Gap* study guides provides explanations of key terminology, simple explanations and examples of the types of questions that learners can expect to be asked in an exam. Marking memoranda are included to assist learners in building their understanding. Learners are also referred to specific questions in past national exam papers and examination memos that are available on the Department's website – <a href="https://www.education.gov.za">www.education.gov.za</a>.

The CAPS edition include Accounting, Economics, Geography, Life Sciences, Mathematics, Mathematical Literacy and Physical Sciences. The series is produced in both English and Afrikaans. There are also nine English First Additional Language study guides. They include EFAL Paper 1 (Language); EFAL Paper 3 (Writing); and a study guide for each of the Grade 12 prescribed literature set works.

The study guides have been designed to assist those learners who have been underperforming due to a lack of exposure to the content requirements of the curriculum and aims to mind-the-gap between failing and passing, by bridging the gap in learners' understanding of commonly tested concepts so candidates can pass.

All that is now required is for our Grade 12 learners to put in the hours preparing for the examinations. Learners make us proud – study hard. We wish each and every one of you good luck for your Grade 12 examinations.



Matsie Angelina Motshekga, MP **Minister of Basic Education** 

Matsie Angelina Motshekga, MP Minister of Basic Education

May 2014



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Another
name for a Balance
Sheet is a Statement of
Financial Position. An
Income Statement is
also known as a
Statement of Financial
Performance.



### **Dear Grade 12 learner**

This *Mind the Gap* study guide has been CAPS aligned and helps you to prepare for the end-of-year Accounting Grade 12 examination.

This study guide does not cover the entire curriculum, but it does focus on core content of each knowledge area and **points out where you can earn easy marks**.

You must work your way through this study guide to improve your understanding, identify your areas of weaknesses and correct your own mistakes.

We are confident that this *Mind the Gap* can help you to prepare well so that you pass the end-of-year exams. To ensure a high quality pass, you should also cover the remaining aspects of the curriculum using other textbooks and your class notes.

Also pay special attention to the way the workings have been shown in the worked examples. This is the best way for you to earn maximum marks.

In order for you to be successful in Accounting you must:

- Ensure that you know the formats or layouts of the:
  - Income Statement
  - Balance Sheet
  - Cash Flow Statement
  - Production Cost Statement
  - General Ledger accounts
- Understand the concepts explained in this guide and know how to do calculations.
- Work through as many past examination papers as you can (use the
  explanations and steps in this guide to assist you). There are some
  suggested questions from past papers at the end of each section for
  extra practice. Be careful when working through questions relating
  to Companies of past papers as there are some aspects that are
  treated differently under CAPS.

Remember, your success in the final exam will depend on how much extra time you put into preparing.

# Overview of the CAPS Accounting Grade 12 exam

- There is one exam of 3 hours for 300 marks.
- All questions are compulsory (no choice questions).
- There are no different sections.
- All past papers have had 6 questions.
- Each question covers different levels so all learners should be able to gain some marks in every question.
- All questions should be attempted.
- Questions will include conceptual understanding, application, interpretation and reflective type questions.
- Learners will be provided with a specially prepared answer book for their answers. This is specially designed for the Accounting exam. The answer booklet provides space for every question. All calculations, workings and final answers will be done in this answer booklet.

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Look out for

these icons in the \_ study guide. \_

# How to use this study guide

This study guide covers **selected parts** of the different topics of the Grade 12 Accounting curriculum. The selected parts of each topic are presented in the following way:

- An explanation of terms and concepts
- Worked examples to explain and demonstrate
- Activities with questions for you to answer
- Answers for you to use to check your own work

NB -	Pay special attention	hint	Hints to help you remember a concept or guide you in solving problems	e.g.	Worked examples
	Step-by-step instructions	exams	Refers you to exam questions	3	Activities with questions for you to answer

- A checklist from the exam guidelines for Accounting has been provided on page xiv for you to keep track of your progress. Once you have mastered the core concepts and have confidence in your answers to the questions provided, tick the last column of the checklist.
- The activities are based on exam-type questions. Cover the answers provided and do each activity on your own using the suggested steps in this guide. Then check your answers. Reward yourself for the things you get right. If you get any incorrect answers, make sure you understand where you went wrong before moving onto the next section. Pay special attention to the way the workings have been shown in the worked examples. This is the best way for you to earn maximum marks. Where you see this tick vou will be awarded a mark even if your answer is incorrect, provided you have followed the correct procedure (e.g. adding, subtracting or transferring figures).
- Exemplar Exam papers are also included in the study guide for you to do. Check your answers by looking back at your notes and the exam memoranda. Past exam papers go a long way in preparing you for what to expect and help reduce exam anxiety.
   Go to www.education.gov.za to download more past exam papers.

Use
this study guide as
a workbook. Make notes,
draw pictures and
highlight important
concepts.



# Top 10 study tips



- **1.** Have all your materials ready before you begin studying pencils, pens, highlighters, paper, etc.
- 2. Be positive. Make sure your brain holds onto the information you are learning by reminding yourself how important it is to remember the work and get the marks.
- Take a walk outside. A change of scenery will stimulate your learning. You'll be surprised at how much more you take in after being outside in the fresh air.
- 4. Break up your learning sections into manageable parts. Trying to learn too much at one time will only result in a tired, unfocused and anxious brain.
- **5.** Keep your study sessions short but effective and reward yourself with short, constructive breaks.
- **6.** Teach your concepts to anyone who will listen. It might feel strange at first, but it is definitely worth reading your revision notes aloud.
- 7 Your brain learns well with colours and r
- **7.** Your brain learns well with colours and pictures. Try to use them whenever you can.
- 8. Be confident with the learning areas you know well and focus your brain energy on the sections that you find more difficult to take in.
- **9** Repetition is the key to retaining information you have to learn. Keep going don't give up!
- **10.** Sleeping at least 8 hours every night, eating properly and drinking plenty of water are all important things you need to do for your brain. Studying for exams is like strenuous exercise, so you must be physically prepared.

# Study skills to boost your learning

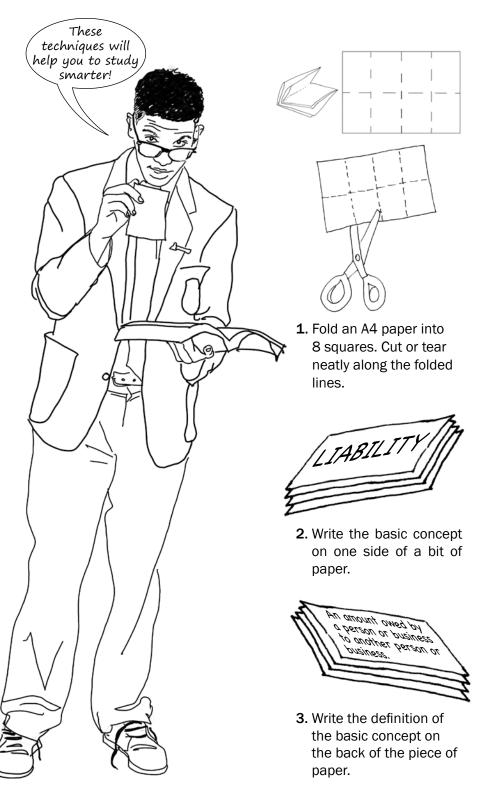
This guide makes use of 3 study techniques you can use to help you learn the material:

- 1. Mobile notes
- 2. Mnemonics
- 3. Mind maps

#### **Mobile notes**

Mobile notes are excellent tools for learning all the key concepts in the study guide. Mobile notes are easy to make and you can take them with you wherever you go:

- Fold a blank piece of paper in half. Fold it in half again. Fold it again.
- 2. Open the paper. It will now be divided into 8 parts.
- 3. Cut or tear neatly along the folded lines.
- On one side of each of these 8 bits of paper, write the basic concept.
- 5. On the other side, write the meaning or the explanation of the basic concept.
- **6.** Use different colours and add pictures to help you remember.
- 7. Take these mobile notes with you wherever you go and look at them whenever you can.
- **8.** As you learn, place the cards in 3 different piles:
  - I know this information well.
  - I'm getting there.
  - I need more practice.
- The more you learn them, the better you will remember them.





#### **Mnemonics**

A **mnemonic** code is a useful technique for learning information that is difficult to remember. This is an example of a word mnemonic using the word BALANCE where each letter of the word stands for something else:

Best – doing your best is more important than being the best.

A – Attitude – always have a positive attitude.

 Load – spread the load so you don't leave everything to the last minute. Use a study timetable to plan.

Attention – pay attention to detail. Only answer what is required.

N - Never give up! Try, try and try again!

C — Calm — stay calm even when the questions seem difficult.

Early – sleep early the night before your exam. If you prepare well you will not need to cram the night before.

Mnemonics are code information and make it easier to remember.

The more creative you are and the more you link your 'codes' to familiar things, the more helpful your mnemonics will be.

This guide provides several ideas for using mnemonics. Be sure to make up your own.

Neither you nor the world knows what you can do until you have tried.

Ralph Waldo Emerson

## Mind maps

There are several mind maps included in this guide, summarising some of the sections.

Have a look at the following pictures of a brain cell (neuron) and, below it, a mind map:

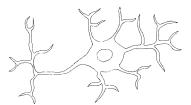
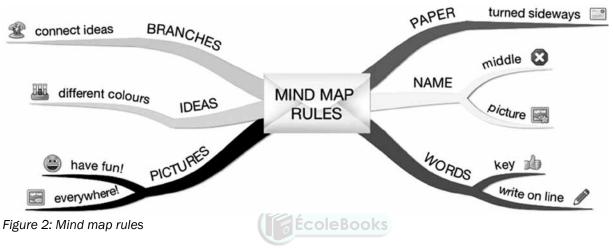


Figure 1: Brain cell or neuron



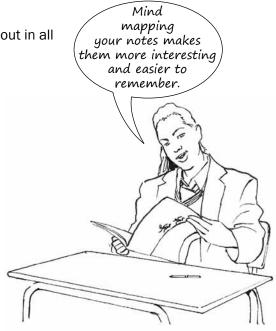
**Mind maps** work because they show information that we have to learn in the same way that our brains 'see' information.

As you study the mind maps in the guide, add pictures to each of the branches to help you remember the content.

You can make your own mind maps as you finish each section.

#### How to make your own mind maps:

- **1.** Turn your paper sideways so your brain has space to spread out in all directions.
- **2.** Decide on a name for your mind map that summarises the information you are going to put on it.
- **3.** Write the name in the middle and draw a circle, bubble or picture around it.
- **4.** Write only key words on your branches, not whole sentences. Keep it short and simple.
- Each branch should show a different idea. Use a different colour for each idea. Connect the information that belongs together. This will help build your understanding of the learning areas.
- **6.** Have fun adding pictures wherever you can. It does not matter if you can't draw well.



## On the day of the exam ...

- Make sure you have all the necessary stationery for your exam, i.e. pens, pencils, eraser and calculator (with new batteries).

  Make sure you bring your ID document and examination admission letter.
- Arrive on time, at least one hour before the start of the exam.
- Go to the toilet before entering the exam room. You don't want to waste valuable time going to the toilet during the exam.
- 4. Use the 10 minutes reading time to read the instructions carefully. This helps to 'open' the information in your brain. All questions in Accounting are compulsory, but you do not have to answer them in order. Start with the question you think is the easiest to get the flow going.
- Break the questions down to make sure you understand what is being asked. If you don't answer the question properly you won't get any marks for it. Look for the key words in the question to know how to answer it. A list of question words is on page ix of this study guide.
- Try all the questions. Each question has some easy marks in it so make sure that you do all the questions in the exam.
- **7.** Never panic, even if the question seems difficult at first. It will be linked to something you have covered. Find the connection.
- Manage your time properly. Don't waste time on questions you are unsure of. Move on and come back if time allows.
- **9.** Check weighting how many marks have been allocated for your answer? Take note of the ticks in this study guide as examples of marks allocated. Do not give more or less information than is required.
- **10.** Write big and bold and clearly. You will get more marks if the marker can read your answer clearly. Show workings in brackets for Accounting as suggested in this study guide.



# Question words to help you answer questions

It is important to look for the question words (the words that tell you what to do) to correctly understand what the examiner is asking. Use the words in the following table as a guide when answering questions.

Question word	What is required of you			
Analyse	Separate, examine and interpret			
Classify	Divide into groups or types so that things that are similar are in the same group			
Comment	Write generally about			
Compare	Point out or show both similarities or differences			
Define	Give a clear meaning			
Describe	List the main characteristics of something			
Discuss	Consider all information and reach a conclusion			
Evaluate	Express an opinion based on your findings			
Explain	Make clear, interpret and spell out			
Forecast	Say what you think will happen in the future			
Give/provide	Write down only facts			
Identify	Name the essential characteristics			
Interpret	Give the intended meaning of			
List	Write a list of items			
Mention	Refer to relevant points			
Name	State something – give, identify or mention			
State	Write down information without discussion			
Suggest	Offer an explanation or solution			



#### **Examples of question words**

Choose a definition from <u>COLUMN B</u> that <u>matches</u> the type of account in <u>COLUMN A</u>.

(Draw)a line from COLUMN A to COLUMN B to match the definitions.

	Column A		Column B
1.	Fixed/tangible assets	A	This increases profit and therefore increases owner's equity.
2.	Current assets	В	This decreases profit and therefore decreases owner's equity.
3.	Non-current liabilities	С	Amounts owing that will take longer than 12 months to pay off.
4.	Current liabilities	D	Assets which are expected to be kept for a long period of time, usually longer than a year. Without them the business will not exist or earn a profit.
5.	Income	Е	The value (net worth) of the business at any point in time (total assets – total liabilities).
6.	Expenses	F	Amounts owing that will be paid back within 12 months.
7.	Owner's equity	G	Assets which are expected to be converted into cash in a short period of time (i.e. less than a year).

In every exam
question, put a CIRCLE
around the question word and
underline any other important
key words. These words tell
you exactly what is
being asked.



# **Learner's Checklist**

Use this checklist to monitor your progress when preparing for your examination.

	Торіс	Covered in the Study Guide	I do not understand	l understand
1.	Basic Accounting Concepts	/		
2.	Companies			
	Accounting equation	✓		
	Company concepts	✓		
	GAAP principles	<b>√</b>		
	Company ledger accounts	✓		
	Final accounts of companies:			
	Trading account	✓		
	Profit and loss account	1		
	Appropriation account	1		
	Financial statements with adjustments: Income Statement	<b>/</b>		
	Balance Sheet	/		
	Cash Flow Statement	✓ <b>/</b>		
	Notes to the financial statements	/		
	Analysis and Interpretation of financial statements	/		
	Comment on an audit report	/		
3.	Manufacturing ÉcoleBooks			
	Manufacturing concepts	<b>√</b>		
	Production Cost Statement with notes	<b>✓</b>		
	Cost calculations	<b>√</b>		
	Break-even point	/		
	Trading and Profit and Loss Statements	*		
4.	Budgets			
	Budgeting concepts	<b>✓</b>		
	Debtors' collection schedule	<b>✓</b>		
	Creditors' payment schedule	<b>✓</b>		
	Cash budget (analyse and interpret)	✓ <b>/</b>		
	Projected Income Statement (analyse and interpret)	<b>✓</b>		
5.	Reconciliations			
	Bank reconciliation	/		
	Debtors reconciliation	<b>✓</b>		
	Age analysis	<b>✓</b>		
	Creditors reconciliation	<b>√</b>		
6.	Inventories			
	Inventory concepts	<b>✓</b>		
	Inventory valuation – specific identification, FIFO and weight average methods	✓ <b>/</b>		
7.	VAT			
	Concepts and calculations	/		
	VAT control account	1		
8.	Fixed Assets			
	Asset disposal	/		



# **Basic accounting** concepts

# 1.1 Basic concepts

TERM	DEFINITION
Accrued expenses/ expenses payable	Expenses that are still owing at the end of the financial year.
Accrued income/income receivable	Income that is still owing to the business at the end of the financial year.
Asset	Item of value owned by a person or business which enables a profit to be made.
Bad debts	Debts written off as the debtors are unlikely to settle their accounts.
Cost of sales	Cost of sales is the cost price of all goods that have been sold.
Creditors	People/suppliers the business owes money to.
Debtors	People who owe the business money for goods bought on credit.
Depreciation	The amount by which fixed assets reduce in value over time due to use.
Income received in advance/deferred income	Income that has already been received by a business but which is for the next financial year.
Liability	An amount owed by a person or business to another person or business.
Loss	When the expenses are more than the income.
Mark-up	The percentage added to the cost price to calculate the selling price, i.e. the profit %.
Owners' equity	The net worth (value) of the business at any given time. Or, assets less liabilities.
Prepaid expenses	Expenses that have already been paid but which are for the next financial year.
Profit	When the income is more than the expenses.
Trading stock deficit	This amount is calculated when the physical stock-take figure is <b>less than</b> the figure for trading stock in the general ledger.
Trading stock surplus	This amount is calculated when the physical stock-take figure is <b>more than</b> the figure for trading stock in the general ledger.



These definitions help you understand the meaning of basic accounting concepts that are used in this study guide.

Spend
time learning the
meanings of these terms.
Use mobile notes to help
you learn them. See
page ix for more
infomation.





# 1.2 Rules of Accounting



These rules of accounting do not change. LEARN THEM WELL!!!

ASSETS	LIABILITIES		
Dr A Cr + -	Dr Drawing Cr + -  Dr Expenses Cr + -  (if expenses increase decrease decrease decrease	Dr Capital Cr  - +  Dr Income Cr  (if income decreases increases the profit than profit	Dr L Cr +
	then profit decreases) increases)	then profit decreases) increases)	



## 1.3 Classification of accounts

#### **NON-CURRENT ASSETS OWNER'S EQUITY** NON-CURRENT LIABILITIES Tangible/fixed assets **EXPENSES INCOME** (to be paid over more · Land and buildings · Cost of sales Sales than 12 months) Equipment Interest expense · Current income · Mortgage bond Vehicles Rent expense · Interest income Loans · Salaries and wages **Financial assets** · Rent income Stationery • Fixed deposit (longer than Discount **CURRENT LIABILITIES** Fuel 12 months) received Packing material (to be paid in less than **CURRENT ASSETS** · Bad debts 12 months) Repairs Inventories recovered Insurance · Trade creditors Trading stock · Profit on sale of Advertising Bank overdraft (CR) asset · Consumable stores on hand Discount allowed Short term portion Trading stock Trade and other receivables Telephone of loan surplus · Debtors' control · Water and Accrued expenses/ Provision for · Accrued income/income receivable electricity expenses payable bad debts · Prepaid expenses Loss on sale of adjustment (-) · Income received in asset Cash and cash equivalents advance/deferred Bad debts income • Bank (DR) Depreciation · Petty cash Trading stock deficit · Cash float Provision for bad • Fixed deposit (less than 12 months) debts adjustment



#### **Activity 1: Matching items**

Choose a definition from COLUMN B that matches the type of account in COLUMN A.

Draw a line from COLUMN A to COLUMN B to match the definitions.

Column A	Column B
Fixed/tangible assets	A This increases profit and therefore increases owner's equity.
2. Current assets	B This decreases profit and therefore decreases owner's equity.
3. Non-current liabilities	C Amounts owing that will take longer than 12 months to pay off.
4. Current liabilities	D Assets which are expected to be kept for a long period of time, usually longer than a year. Without them the business will not exist or earn a profit.
5. Income	E The value (net worth) of the business at any point in time (total assets – total liabilities).
6. Expenses	F Amounts owing that will be paid back within 12 months.
7. Owner's equity	G Assets which are expected to be converted into cash in a short period of time (i.e. less than a year).

[7]



#### **Answers to activity 1**

Column A	Column B
1	D
2	G
3	С
4	F
5	Α
6	В
7	E

[7]



# **Activity 2: Multiple-choice questions**

Three options are provided as possible answers to the following questions.

#### Circle the correct answer.

1.	Bank overdraft is classified as a	2.	Consumable stores on hand is classified as
Α	Non-current liability Books	Α	Owner's equity
В	Current asset	В	Current asset
С	Current liability	С	An expense

[2]

#### **Answers to activity 2**

1	С	This is a current liability because it will be paid back within 1 year (short-term).
2	В	This is a current asset because the business will use them within the next 12 months.

[2]



# 1.4 Steps to recording transactions

#### Refer to Rules of Accounting and Classification of accounts on page 2.

- Read the transaction/adjustment.
   Bought <u>stationery</u> and paid by <u>cheque</u>, R150.
- 2. Identify the two accounts affected (double entry principle).1. Stationery 2. Bank
- 3. Decide what type of accounts these are (classify).
  Stationery = expense and therefore affects owner's equity
  Bank = current asset
- 4. Decide which account is debited and which account is credited. The expense is increasing therefore DR stationery The asset is decreasing therefore CR bank

Three questions that will assist you:

- If an Asset: is it increasing or decreasing <u>my</u> <u>possessions?</u>
- 2. If a liability: is it increasing or decreasing my debt?
- 3. If an Owners' equity: it is increasing or decreasing the interest of the owner?
- **5.** Record your answer showing the effect on Assets (A), Owners' equity (O) and Liabilities (L):

Account debit	Account Credit	A =	0 +	L
Stationery	Bank	-150	-150	0 🗸

A zero indicates no effect. **DO NOT** leave blank!



#### **Activity 3: Accounting equation**

#### Refer to Steps to recording transactions 1-4 above.

Record the transactions in the Table below assuming bank is favourable (Dr) at all times.

- 1. Wrote off a debtor's account of R500 as a bad debt.
- 2. Sent a cheque to a creditor to settle our account of R2 000.
- 3. Received rent of R5 000 from a tenant.
- 4. Bought trading stock on credit for R1 800.
- 5. Bought equipment for R600 and paid by cheque.

	Account debit	Account credit	A =	0+	L
1					
2					
3					
4					
5					

When a bank is favourable it means it is an asset of the business and remains in a debit balance.

#### **Answers to activity 3**

	Account debit	Account Credit	A =	0 +	L
1	Bad debts (expense	Debtors control	-500	-500	0
	increasing)	(asset decreasing)			
2	Creditors control	Bank (asset	-2 000	0	-2 000
	(liability decreasing)	decreasing)			
3	Bank (asset	Rent income	+5000	+5000	0
	increasing)	(income increasing)			
4	Trading stock (asset	Creditors control	+1800	0	+1800
	increasing)	(liability increasing)			
5	Equipment (asset	Bank (asset	±600	0	0
	increasing)	decreasing)			
	•	•			[5]



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[5]



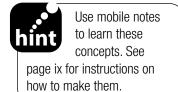
# **Companies**

# 2.1 Concepts relating to companies

#### Persons in a company:



Companies is the **BIGGEST** section in your exam. Spend time on it!



Concept	Explanation
Directors	People who are appointed by the shareholders to run the company.
Independent auditor (external)	An auditor who expresses an opinion on the financial statements in an auditor's report but does not work for the company.
Internal auditor	An auditor, who supervises the preparation of the financial statements, is responsible for internal control and is employed by the company.
Shareholders	People who own the company.
South African Revenue Services (SARS)	The government department to whom the company must pay income tax on the profits and VAT when due.

#### **Documents relating to companies**

Concept	Explanation
Auditor's report	This is an opinion given by a qualified person on whether the financial statements are reliable or not.
Qualified auditor's report	When the auditors find the financial statements acceptable <b>EXCEPT</b> for some aspects that need to be changed, fixed or investigated.
Unqualified auditor's report	When the auditors find the financial statements acceptable in <b>ALL</b> respects.
Disclaimer	When the auditors are not prepared to express an opinion on the financial statements (because they are too unreliable).
Balance Sheet	This statement reflects the assets, liabilities and net worth (owners' equity of the company). Another term for this is 'Statement of Financial Position'.
Cash Flow Statement	This shows the flow of cash in a company (money coming in and money going out).
Income Statement	This statement shows the profit or loss made from business operations (income and expenses). Another term for this is 'Statement of Comprehensive Income'.
Tax assessment	This is issued by SARS to confirm the amount of income tax which the company has to pay based on profits.

#### Further concepts relating to companies

Concept	Explanation
Authorised share capital	The maximum number of shares a company can sell.
Dividends	That portion of the profits (after tax) which has been approved to be shared amongst the shareholders (total dividends = interim + final).
Interim dividends	Dividends that are paid to the shareholders during the year.
Final dividends	Dividends that are declared (recommended) to the shareholders at the end of the financial year.
Income tax	Tax the company pays to SARS on its profits.
logued chare conital	The number of shares that have actually been sold to shareholders.
Issued share capital	Use number of issued shares to calculate dividends.
Limited liability	The liability of the shareholders is limited to their investment in the company (they cannot lose their personal assets).
No par value	There is no value attached to shares until they are issued.
Provisional tax	Payments made to SARS during the year based on estimated profits (every 6 months).
Retained income	A portion of the profits <b>after tax</b> that are not paid out to the shareholders in dividends but kept (retained) for future growth of the company.
Issue price	The price at which shares are issued to the public.
Shareholders earnings	Net profit after tax.
Shareholders for dividends	The amount still owing to shareholders for dividends declared but not yet paid.
Buy back shares	Issued shares that have been repurchased by the company and are retired or cancelled.

#### Some acronyms (abbreviations) used in companies

AGM	Annual General Meeting
CA	Chartered Accountant
CIPRO	Company and Intellectual Property Commission
GAAP	Generally Accepted Accounting Practice
IFRS	International Financial Reporting Standards
JSE	Johannesburg Securities Exchange
MOI	Memorandum of Incorporation
SAICA	South African Institute for Chartered Accountants
SAIPA	South African Institute for Professional Accountants

#### **GAAP** concepts

Concept	Explanation
Business entity rule	The finances of the company are kept separate from that of the shareholders
Going concern	Financial statements are prepared with the understanding that the company will continue operating in the future
Historical cost	All assets are recorded at their original cost price e.g. Land and Buildings are recorded at the price that you paid for them
Matching	Income and expenses must be recorded in the correct financial year e.g. sales and cost of sales
Materiality	All important items must be shown separately in the financial statements (e.g. directors' fees) or when decisions must be made (e.g. is it worth having separate accounts for wages and salaries if you have only two employees?)
Prudence	Figures used in financial statements should be realistic (conservative – always record the worst scenario). The aim of this principle is to show the reality "as it is" and not make things prettier than what they are. E.g. you will show 'net debtors' in the balance sheet (trade debtors minus provision for bad debts)



SARS (income tax) implies a liability owing to SARS.

# 2.2 Company General Ledger accounts

- a) Ordinary share capital
- b) SARS (income tax)
- c) Shareholders for dividends
- d) Income tax
- e) Dividends on ordinary shares (ordinary share dividends)
- f) Appropriation account



For any words you do not understand, refer to the company concepts at the beginning of this section.



# **Activity 1: Typical examination questions**



#### Worked example 1

Use the following information to complete the ledger accounts given on the answer sheet for kwik fix ltd for the financial year ended 30 June 2011.

To calculate the average share price, use this figure and divide it by the no. of shares issued.

These are the

most commonly

asked company

ledger accounts.

 $1\ 000\ 000 \div 500\ 000\ shares = R2$ 

#### Information

1 July 2010	At the beginning of the year, the company had the following opening balances:	<b>1</b>					
	Ordinary share capital (500 000 shares)	R1 000 000					
	Retained income	180 000					
	SARS (Income tax)	(ct) 9 000					
	Shareholders for dividends	130 000					
1 July 2010	Issued 50 000 shares to the public at R7,50 per share						
23 July 2010	Paid the amounts owing to SARS and the shareholders.						
31 December 2010	A first provisional tax payment of R112 500 was made to SARS the financial year.	half-way through					
31 December 2010	An interim dividend of 15 cents per share was paid to sharehold	ders.					
31 March 2011	Bought back 20 000 shares from a disgruntled shareholder. The decided to buy back these shares at R8,50 per share.	e directors					
30 June 2011	A second provisional tax payment of R120 000 was made to SARS at the end of the financial year.						
30 June 2011	Final dividends of 30 cents per share were declared at the AGM but have not yet been paid to the shareholders.						
30 June 2011	_ ·	After the completion of the audit, the income tax figure for the year was determined as R240 000. This was calculated on a net profit figure of R800 000.					
30 June 2011	Show the closing transfers to the final accounts.						
	1 July 2010 23 July 2010 31 December 2010 31 December 2010 31 March 2011 30 June 2011 30 June 2011	opening balances: Ordinary share capital (500 000 shares) Retained income SARS (Income tax) Shareholders for dividends  1 July 2010 Issued 50 000 shares to the public at R7,50 per share 23 July 2010 Paid the amounts owing to SARS and the shareholders.  31 December 2010 A first provisional tax payment of R112 500 was made to SARS the financial year.  31 December 2010 An interim dividend of 15 cents per share was paid to sharehold shareholders.  31 March 2011 Bought back 20 000 shares from a disgruntled shareholder. The decided to buy back these shares at R8,50 per share.  30 June 2011 A second provisional tax payment of R120 000 was made to SARS the financial year.  30 June 2011 Final dividends of 30 cents per share were declared at the AGM been paid to the shareholders.  30 June 2011 After the completion of the audit, the income tax figure for the year determined as R240 000. This was calculated on a net profit figure					

Note	s below	refer t	to the information abo	ove an	d to the ledg	er acco	unts	below ( <b>1</b> - <b>10</b> ):		
•	The balances for SARS (Income tax) and Shareholders for dividends are the amounts that were not paid last year and need to be paid this year.									
2	Shares	Shares issued to the public at issue price of R7,50 per share								
3	The an	The amounts owing to SARS and the shareholders from last year are now being paid.								
4		-	risional tax payment is sional tax payment is		-			ths) into the financial y al year.	ear aı	nd the
6	The int	erim (	dividend is paid during	g the y	/ear					
8	The fin	al divi	dend is declared (not	paid)	at the end of	f the fir	nancia	al year.		
6	calcula	te ave	erage price, find the va	lue of	Ordinary Sha	re Capi	ital, R	overage price to be calc 1 375 000 ÷ 55 000 = t will be claimed from R	R2,50	O). It
9	for the compa	year. ny ow t profi	This needs to be compes SARS more tax (liab	pared bility)	to the provis or whether S	ional ta ARS ov	ax pay ves th	any owes calculated on yments made to see wh e company (asset). count and transferred	ether	the
10			ounts include the Trac ation Account.	ding A	ccount, Profi	t and L	oss A	ccount (covered in this	exam	ple) and
	EXAMPLE OF A TRADING ACCOUNT AND PROFIT AND LOSS ACCOUNT (exactly the same as a sole trader or partnership)									
			_			le trad	er or	partnership)		N
	2011		_		same as a so	le trad	er or	partnership)		N
	2011 June	28	_		same as a so	le trad	er or	partnership)	GJ	<b>N</b> 1 470 000
		28	(exactly	y the	same as a so TRADING AC	le trad	er or Γ (F1)	partnership)	GJ	
		28	(exactly Cost of Sales	g the	TRADING AC	le trad	er or Γ (F1)	partnership)	GJ	
		28	(exactly Cost of Sales	GJ GJ	300 000 1 170 000	le trad CCOUNT 2011 June	er or Γ (F1) 28	Sales	GJ	1 470 000
		28	(exactly Cost of Sales	GJ GJ	300 000 1 170 000 1 470 000	2011 June SS ACC	er or Γ (F1) 28	Sales	GJ	1 470 000
	June 2011		Cost of Sales Profit and loss	GJ GJ PRO	300 000 1 170 000 1 470 000 DFIT AND LOS	2011 June SS ACC	er or (F1) 28 COUNT	Sales  (F2)  Trading account		1 470 000 1 470 000 N
	June 2011		Cost of Sales Profit and loss Salaries	GJ GJ PRO	300 000 1 170 000 1 470 000 DFIT AND LOS	2011 June SS ACC	er or (F1) 28 COUNT	Sales  (F2)  Trading account (gross profit)	GJ	1 470 000 1 470 000 N 1 170 000
	June 2011		Cost of Sales Profit and loss  Salaries  Directors fees (new)	GJ GJ GJ GJ	300 000 1 170 000 1 470 000 130 000 160 000	2011 June SS ACC	er or (F1) 28 COUNT	Sales  (F2)  Trading account (gross profit)  Rent Income	GJ	1 470 000  1 470 000  N  1 170 000  24 000
	June 2011		Cost of Sales Profit and loss  Salaries Directors fees (new) Audit fees (new) Provision on bad	GJ GJ GJ GJ GJ	300 000 1 170 000 1 470 000 130 000 160 000 40 000	2011 June SS ACC	er or (F1) 28 COUNT	Sales  (F2)  Trading account (gross profit)  Rent Income	GJ	1 470 000  1 470 000  N  1 170 000  24 000
	June 2011		Cost of Sales Profit and loss  Salaries Directors fees (new) Audit fees (new) Provision on bad debts adjustment	GJ GJ GJ GJ GJ	300 000 1 170 000 1 470 000 1 300 000 1 470 000 1 40 000 1 000	2011 June SS ACC	er or (F1) 28 COUNT	Sales  (F2)  Trading account (gross profit)  Rent Income	GJ	1 470 000  1 470 000  N  1 170 000  24 000
	June 2011		Cost of Sales Profit and loss  Salaries Directors fees (new) Audit fees (new) Provision on bad debts adjustment Water and electricity Telephone / cell	y the s	300 000 1 170 000 1 470 000 1 300 000 1 470 000 1 40 000 1 000 29 000	2011 June SS ACC	er or (F1) 28 COUNT	Sales  (F2)  Trading account (gross profit)  Rent Income	GJ	1 470 000  1 470 000  N  1 170 000  24 000

#### **General Ledger of Kwik Fix Ltd**

These numbers refer to the explanations above.

Shares issued:  $500\ 000 + 50\ 000 = 550\ 000$  shares issued.

Average price of shares: R1 000 000 + R375 000 = R1 375 000 R1 375 000  $\div$  550 000 shares = R2,50

	Balance Sheet Section										
Dr					Ordinary Sh	nare Ca	pital			Cr	
2011 Mar	31	Bank	(20 000 × R2,50)	СРЈ	50 000	2010 July	1	Balance 1	b/d	1 000 000	
							31	Bank <b>2</b> (50 000 × R7,50)	GJ	375 000	
		Balance	;	c/d	1 325 000						
					1 375 000					1 375 000	
						2011 July	1	Balance	b/d	1 325 000	

	Balance Sheet Section									
Dr	Dr SARS (Income tax) C									
2010 July	23	Bank 3	СРЈ	9 000	2010 July	1	Balance 1	b/d	9 000	
2010 Dec	31	Bank 4	СРЈ	112 500	2011 June	30	Income tax 9	GJ	240 000	
2011 June	30	Bank 7	СРЈ	120 000						
		Balance	c/d	7 500						
				249 000					249 000	
				Ca Éco	2011 July	1	Balance	b/d	7 500	

The Income Tax assessment was more than the provisional payments. Therefore the balance is on the credit side making it a liability (Trade and Other Payables).

Nominal Accounts Section									
Dr INCOME TAX CI									
2011 June	30	SARS (Income tax)	GJ	240 000	2011 June	30	Appropriation 10	GJ	240 000

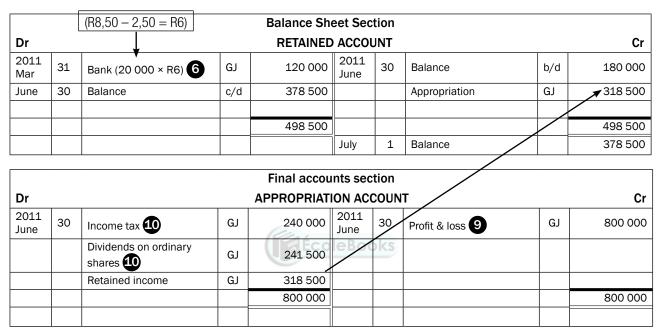
				Balance S	Sheet S	ectio	on					
Dr	Dr SHAREHOLDERS FOR DIVIDENDS Cr											
2010 July	23	Bank 3	СРЈ	130 000	2010 July	1	Balance 1	b/d	130 000			
2011 June	30	Balance	c/d	159 000	2011 June	30	Dividends on ordinary shares 8	GJ	159 000			
				289 000					289 000			
					2011 July	1	Balance	b/d	159 000			

The R159 000 is the final dividend and is still owing to the shareholders. This is a liability (Trade and Other Payables).

				Nominal acc	ounts s	ectio	n			
Dr	DIVIDENDS ON ORDINARY SHARES									
2010 Dec	31	Bank <b>5</b> (550 000 × 0.15)	СРЈ	82 500	2011 June	30	Appropriation 10	GJ	241 500	
2011 June	30	Shareholders for dividends (530 000 × 0.30)	GJ	159 000						
				241 500					241 500	

There are three different ways of preparing the Appropriation account. Choose the alternative that you have been taught.

Option 1: The Retained Income for the year is transferred from the Appropriation account to the Retained Income account.

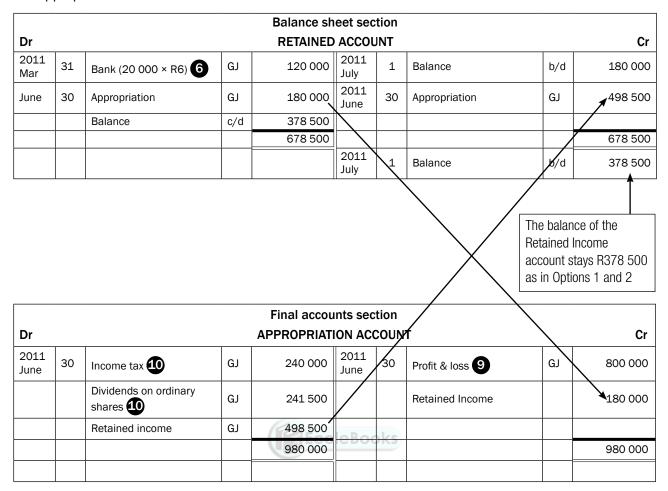


Option 2: The Retained Income at the beginning of the year less the buy-back of shares adjustment is transferred to the Appropriation account. The Retained Income (after the share buy-back adjustment) at the end of the year is transferred from the Appropriation account to the Retained Income account

				Balance sh	eet sec	tion			
Dr				RETAINED	ACCOL	JNT			Cr
2011 Mar	31	Bank (20 000 × R6) 6	GJ	120 000	2010 July	1	Balance	b/d	180 000
June	30	Appropriation	GJ	60 000					
				180 000					180 000
					2011 June	1	Appropriation	GJ	378 500
				Final accou	ınts sec	tion			
Dr				APPROPRIAT	ION AC	COUN	IT 🔨		Cr
2011 June	30	Income tax 10	GJ	240 000	2011 June	30	Profit & loss 9	Gy_	800 000
		Dividends on ordinary shares 10	GJ	241 500			Retained Income (180 000 - 120 000)		60 000
		Retained income	GJ	378 500					
				860 000					860 000

# 2 Chapter

Option 3: The Retained Income at the beginning of the year is transferred to the Appropriation account. The Retained Income (before the share buy-back adjustment) at the end of the year is transferred from the Appropriation account to the Retained Income account



#### **Practice task 1**

#### General ledger of kwik fix LTD

#### **Balance sheet section**

Dr			Cr		

Dr			Retained i	income			Cr
Dr			SARS (Inc	come tax)			Cr
			ÉÉÉC		l.o	+	
			The second	DIEBOO	KS		
Dr			 Shareholders	for Divide	ends		Cr
Nomin	nal so	ection					
Dr			Incon	ne Tax			Cr

Dr		Cr			

#### **Final accounts section**

Dr		Cr			



# 2.3 Preparation of Financial Statements for companies



#### **Income statement**

Use the following steps to prepare an income statement from a pre-adjustment trial balance:

- **1.** Enter the pre-adjustment trial balance figures from the nominal section onto the answer sheet next to the detail.
- 2. Read each adjustment:
  - a) If necessary calculate the adjustment amount
  - b) Decide on which account is to be debited and which account is to be credited.
  - c) On your answer sheet reflect a (+) or a (-) in respect of each adjustment next to the already entered pre-adjustment figure.
    - i) Outstanding/accrued amounts will be added (+) and prepaid/received in advance amounts will be subtracted (-)
- **3.** When all the adjustments have been done, calculate your final figures and write them in the column.

Remember a pre-adjustment trial balance refers to a trial balance that is NOT final and requires adjustments (entries) to be made to finalise the figures to be used in the preparation of the annual Financial Statements.





## Summary of the year end adjustments

Ensure that you know all possible yearend adjustments before attempting the given activities.

Make use of the Pre-adjustment Trial balance of Carl Stores to complete the Income Statement for the year ended 30 June 2014 and the Balance Sheet on 30 June 2014.

PRE-ADJUSTMENT TRIAL BALANCE ON 30	JUNE 2014	
BALANCE SHEET ACCOUNTS SECTION	DEBIT	CREDIT
Ordinary Share capital		351 000
Retained Income		9 100
Loan from Lowveld Bank		50 000
Land and buildings	270 000	
Equipment (at cost)	75 000	
Vehicle	100 000	
Accumulated depreciation on vehicles		30 000
Accumulated depreciation on equipment		30 500
Fixed Deposit	10 000	
Trading stock	74 000	
Debtors control	16 100	
Provision for bad debts		600
Deposit on water and electricity	1 000	
Bank	15 900	
Cash float	800	
Petty cash	300	
Creditors control		9 500
South African Revenue Services: (PAYE)		
Creditors for salaries		
Pension fund		
Medical aid fund		
NOMINAL ACCOUNTS SECTION		
Sales		550 000
Debtors allowances	10 000	
Cost of sales	320 000	
Salaries	95 000	
Wages	30 000	
Water and electricity	7 000	
Pension Fund contribution	4 000	
Medical Fund contribution	2 700	
Bad debts	1 000	
Rent income		13 000
Commission income		8 700
Packing materials	1 200	
Insurance	600	
Bank charges	5 300	
Discount allowed	1 000	
Telephone	12 500	
Interest on fixed deposit		800
Interest on debtors		200
	1 053 400	1 053 400

# Make use of the following adjustments to revise on the adjustments learnt previously

- Prepaid expenses: Insurance prepaid, R200
- **2** Accrued expenses: Water and electricity still due, R2 000.
- 3 Income received in advance: Rent income received in advance, R1 000
- **4 Accrued income:** Interest on fixed deposit still due, R400 (not capitalized)
- **Bank charges**, R700, interest on overdraft, R200 on late bank statement to be brought into account.
- Bank Statement also showed a **RD cheque**, R1 000 (receive from debtor B. Bam in settlement of his account of R1 100)
- 7 Interest capitalized. Loan b/d R55 000 (1 July 2011). Total payments R15 000. Closing balance of loan R50 000.
- **8 Depreciation:** Depreciate vehicles at 10% p.a. at cost price and Equipment at 10 % p.a. at carrying value
- 9 Bad debts: J Jon's debt written off as bad debt, R200
- 10 INCREASE: 2014 Provision for bad debts at 5 % of debtors.  $(17\ 000 \times 5\% =)$
- Insurance claim of e.g. stock stolen: e.g. Stock stolen valued @ R5 000. The Insurance Company is prepared to pay out R4 000 on the claim put forward
- **Trading stock deficit:** Trading stock according to stock taking, R67 000.
- Consumable stores on hand: Closing stock: Packing material, R300
- Salary of an employee omitted in error: e.g. Gross salary of Joe Soap omitted of R10 000. SARS (PAYE), R1 600 Pension fund R500 and Medical fund R900. The owner contributed to the medical fund and pension fund Rand for Rand basis.

Ensure that you know how to interpret the adjustments, how to complete the general journal entry and how it affects the ledger accounts and the financial statements The degree of difficulty of these adjustments lays in the calculation of the figure but the entry stays the same! So ensure that you memorise the format.



## Adjustments at the end of the Financial year

# ILLUSTRATION OF THE PROGRESSION OF 14 POSSIBLE YEAR-END ADJUSTMENTS FROM ADJUSTMENT TO INCOME STATEMENT AND TO BALANCE SHEET

1. Prepaid expenses Insurance prepaid, R200

	GENERAI	L LEDGER		INCOME STATEM	ENT	BALANCE SHEET	
	Prepaid exp	enses(CA) B		Insurance (600 – 200)	400	NOTE 5: TRADE AND OTHER RECEIVABLES	
Insurance	2600			insulance (000 - 200)	400	Prepaid Expense	200
	Insuran	ice (e) N					
Total b/d	600	Prepaid expenses	200				
	<u>600</u>	Profit and loss	<u>400</u> <u>600</u>				

2. Accrued expenses: Electricity still due, R2 000.

Accru	ed expe	nses (CL) B		Water and aleatricity	9 000	NOTE 9: TRADE AND OTHER PAYABLES	
		Water and electr	icity 2 000	Water and electricity (7 000 + 2 000)	9 000	Accrued Expenses	2 000
Wate	r and Elec	ctricity(e) N					
Total b/d	7 000	Profit and loss	9 000				
Accrued expenses	<u>2 000</u> <u>9 000</u>		9 000	ÉcoloBooks			

3. Income received in advance Rent income received in advance, R1 000

Income received	advance (CL) B	Rent Income	12 000	NOTE 9: TRADE AND OTHER PAYABLES
	Rent income 1 0		12 000	linearing distribution of the same of 1000
Rent inco	ome(I) N			Income received in advance 1 000
Income received in advance 1 000	Total 13 0	0		
Profit and loss 12 000 13 000	13 0	0		

4. Accrued income: Interest on fixed deposit still due, R400 (not capitalized)

GEN	NERAL	LEDGER		INCOME STATEME	ENT	BALANCE SHEET	
Accru	ed inc	come(CA) B		Plus Interest income	1 200	NOTE 5:TRADE AND OTHER RECEIVABLES	
Interest on fixed depo	osit 400			(800 + 400)	1200	Accrued Income	400
Interest on fixed depo	osit (I) N	N					
_	1200 1 200	Total Accrued income	800 400 1200				

5. Bank charges The bank statement was received after the pre-adjustment trial balance was drawn up. The following must be included: Bank charges R700 Interest on overdraft, R200

GENERAL LEDGER				INCOME STATEMENT		BALANCE SHEET		
Bank(CA) B				Dank sharges	7 000	NOTE 6: CASH AND OTHER CASH EQUIVALENTS		
Balance b/d	15 900	Bank charges	700	Bank charges (6 300 +700)	7 000			
		Interest on over draf		Interest on overdraft	200	Bank (15 900 - 700 - 200) 15 000		
Balance b/d	15 900 15 000	· -	15 000 15 900	(200)				
Bank charges(e)N								
Total b/d	6 300	Profit on Loss	7 000					
Bank	700 7 000		7 000					
Interest on overdraft (e)N								
Bank	<u>200</u>	Profit on Loss	<u>200</u>					

6. RD cheques and discount allowed The bank statement was received after the pre-adjustment trial balance was drawn up. The following must be taken into account; RD cheque of R1000 received from a debtor, B Bam, in settlement of his account of R1100

GENERAL LEDGER				INCOME STATEMENT		BALANCE SHEET		
Bank (CA) B			EcoleBooks		NOTE 5: TRADE AND OTHER RECEIVABLES			
Balance b/d	15 900 	Bank charges Interest on over o B Bam (RD) Balance c/d	700 draft200 1 000 14 000 15 900	Discount allowed (1 100 - 100)	1 000	Trade Debtors 17 000 (16 100 + 1 000 + 100)		
Balance b/d	14 000		13 300			NOTE 6: CASH AND OTHER CASH EQUIVALENTS		
Debtors Control account (CA)B					Bank (15 900 - 700 - 200 - 1 000)			
2011						14 000		
Balance b/d	16 100							
Bank (RD)	1 000							
Journal debits	100 17 100							
Discount allowed account								
Total b/d	1 100	Debtors control	100					
	1 100	Profit and Loss	1 000 1 100					

# Chapter

#### 7. Interest capitalized. Loan b/d 55 000 (1 Jan 2009) Total payments R15 000 Closing balance of loan R50 000

GENERAL		INCOME STATEMENT		BALANCE SHEET		
Loan: Crazy			40.000	NON CURRENT		
Bank (10 000+5 000)	Balance b/d 59	alance b/d <b>55 000</b>	Interest on loan (55 000 - 15000 -	10 000	NON-CURRENT LIABILITIES	
15 000 Balance c/d 50 000 65 000	65	0 000 5 000 0 000	50 000)		Loan: Crazy Bank (50 000 - 5 000)	45 000
Interest on Ioan (I) N					CURRENT LIABILITIES Short term loan	5 000
Loan: Crazy Bank 10 000	Profit and loss 10	0 000				

The total payments for the year includes the interest charged (R10 000) for the year

8. Depreciation

Vehicles: R100 000

Accumulated depreciation:R30 000

Depreciation at cost price:  $100\ 000 \times 10/100 = 10\ 000$ 

Equipment: R75 000

Accumulated. Depreciation: R30 500

Depreciation at carrying value

75 000 - 30 500 = 44 500 × 10/100 = 4 450

GENERA		INCOME STATE	MENT	BALANCE			
Depreciation (e) N  Accumulated depreciation on Vehicle 10 000 Accumulated Depreciation on equipment 4 450 14 450			Depreciation (10 000 + 4 450)	14 450	NOTE 3: FIXED ASSETS Cost price Accumulated depre. Carrying value  Movements: Depreciation	75 000 (30 500) 44 500 (4 450)	100 000 (30 000) 70 000
Accumulated Depreciation on Vehicles (-A) B					Carrying value Cost price Accumulated depre	39 050 75 000 (35 950	60 000 100 000 (40 000)
	Balance b/d Depreciation	30 000 <u>10 000</u> 40 000					
Accumulated Depreciation on Equipment (-A) B							
	Balance b/d Depreciation	30 500 <u>4 450</u> 34 950					

9	<b>Bad debts</b>	I lon's de	eht written	off as l	had deht	R200
ຶ່ ອ.	Dau ucuis	יט כ ווטכ כ	CDL WHILLEH	UII as i	Jau uebi.	11200

	GENERA	L LEDGER		INCOME STATEME	NT	BALANCE SHEET			
De	btors Co	entrol (CA) B		Rod Dobto (1,000 + 200)	1 200	NOTE 5: TRADE AND OTHER RECEIVABLES			
Balance b/d	16 100	Bad debts GJ	200	Bad Debts (1 000 + 200)	1 200				
,		(journal credits)				Trade Debtors 17 000			
Journal debits 100 Balance c/d 17 C		<u>17 000</u>			(15 100 +1 000+100 - 200)				
Balance b/d 17 000 Balance c/d 17 000 17 200									
	Bad de	bts (e) N							
Total b/d 1 000 Profit and loss		1 200							
Debtors control	<u>200</u> <u>1200</u>		1 200						

#### 10. INCREASE:

INCREASE: Provision for bad debts at 5 % of debtors. (17 000  $\times$  5% = 850)

GENERA	AL LEDGER		INCOME STATEM	ENT	BALANCE SHEET			
Provision for I	oad debts (-A) B		Less operating		NOTE 5: TRADE AND OTHER RECEIVABLES			
Debtors control(CA) B		expenses Provision for bad debts adjustment (850 - 600)	250	Trade debtors Less Provision for bad debts Net Debtors	17 000 (850) <b>16 150</b>			
2014 Balance b/d 17 000  Provision for bad debts adjustment (e) N								
Provision for bad debts 250	Profit and loss 2	250						



See the calculations when Provision for bad debts are created or increases or decreases at the end of a financial year.

#### 10.1 Provision for bad debts

CREATE: 2012: provision for bad debts at 5% of debtors

GENERAL	LEDGER	INCOME STATEME	ENT	BALANCE SHEET			
Debtors cor	ntrol (CA) B	Less operating expenses		NOTE 5: TRADE AND OTHER RECEIVABLES			
<b>2012</b> Balance b/d 1000		Provision for bad debts adjustment	50	Trade debtors Less Provision for bad debts	1 000		
Provision for ba	d debts (-A) B			Net Debtors	<u>(50)</u> <b>950</b>		
	2012 Provision for bad debts adjustment 50						
Provision for bad det	ots adjustment (e) N						
Provision for bad debts 50	Profit and loss 50						

#### 10.2 INCREASE: 2013

Provision for bad debts from R50 to R70. (1400  $\times$  5%=70)

GENERAI	L LEDGER	INCOME STATEMI	ENT	BALANCE SHEET				
Provision for b	oad debts(-A) B	Less operating		NOTE 5: TRADE AND OTHER RECEIVABLES				
2013 Balance b/d 50		expenses <b>BOOKS</b> Provision for bad debts adjustment (70 - 50)	20	Trade debtors Less Provision for bad debts Net Debtors	1 400 (70) 1 330			
2013 Balance b/d 1400  Provision for bad de	bts adjustment (e) N							
Provision for bad debts 20	Profit and loss 20							

#### 10.3 DECREASE: 2014

Provision for bad debts from R70 to R60.

GENERA	AL LEDGER	INCOME STATEMEN	BALANCE SHEET			
Provision for In Provision for In Provision for bad debts adjustment 10 Balance c/d 60 70	,	Plus other operating income Provision for bad debts adjustment (70 – 60)	10	NOTE 5: TRADE AND OTHER RECEIVABLES Trade debtors Less Provision for bad debts Net Debtors	1 200	
Debtors o	ontrol(CA) B					
2014 Balance b/d 1200						
Provision for bad of	lebts adjustment (i) N					
Profit and loss 10	Provision for bad debts 10					

#### 11. Insurance claim of e.g. stock stolen. E.g. Stock stolen valued @ R5 000. Insurance is prepared to pay out R4000.

	GENERAI	LEDGER		INCOME STATEMEN	BALANCE SHEET			
	Trading St	ock (CA) B				NOTE 4: INVENTORY		
Balance b/d Balance b/d		Loss to stolen stock Balance c/d	5 000 69 000 74 000	Loss on stolen stock (5 000 - 4 000)	1 000	Trading stock (74 000 – 5000) 69 000 NOTE 6: TRADE AND OTHER		
Ir	nsurance o	claim (CA) B				RECEIVABLES		
Loss to stolen stock	4 000					Insurance Claim (5 000 - 4 000) 1 000		
Lo	ss to stole	en stock (e) N						
Trading Stock	5 000 5 000	Insurance claim Profit and Loss	4 000 <u>1 000</u> <u>5 000</u>					

#### 12. Trading stock deficit Balance of the Trading stock account is R69 000. Trading stock according to stock taking, R67 000.

	GENERAL	LEDGER		INCOME STATEMEN	BALANCE SHEET		
	Trading st	cock(CA) B					
Balance b/d 74 000 Loss to stolen stock 5 000			Trading stock deficit (69 000 – 67 000)	2 000	NOTE 4: INVENTORY		
Trading stock deficit 2 000   Balance b/d   67 000   Tading stock deficit 2 000   67 000   Tading stock deficit 2 000   100				Trading stock (69 000 –2000) 67 000			
Tra	nding stock	k deficit (e) N					
Trading stock	2 000	Profit and loss	2 000				

### Chapter

13. Consumable stores on hand; Closing stock: Packing material, R300										
	GENERA	L LEDGER		INCOME STATEME	NT	BALANCE SHEET				
Consuma	able sto	res on hand (CA) B								
Packing material	300			Packing material	900	NOTE 4: INVENTORY				
Pa	cking m	naterial (e N)		(1 200 – 300)		Consumable stores on hand	300			
Total	1 200 <u>1 200</u>	Consumable Stores on hand Profit and Loss	300 900 1 200			Consumable stoles off fiallu 3	300			

Be careful. Does the wording of the adjustment read? After stock taking the packing material USED Is R900 or after stock taking the STOCK on hand, R300.

14. Salary of an employee omitted in error: e.g. Gross salary of Joe Soap omitted of R10 000.

SARS (PAYE), R1600 Pension fund R500 and Medical fund R900.

The owner contributed to the medical fund and pension fund on a Rand for Rand basis.

 $(10\ 000\ -\ 1\ 600\ -\ 500\ -\ 900\ =\ 7\ 000)$ 

GENERAL	LEDGER		INCOME STATEMEN	NT	BALANCE SHEET				
Creditors for s	alaries (CL) B								
	Salaries GJ	7 000			NOTE 9: TRADE AND OTHER				
SARS (PA	YE) (CL) B		Pension fund contribution (4 000 + 500)	4 500	PAYABLES				
	Salaries GJ	1 600	,	3 600	SARS (PAYE) 1 600				
Pension F	und (CL)B		(2 700 + 900)	0 000	Pension fund (500 + 500) 1 000				
	Salaries GJ	500			Medical fund (900 + 900) 1800				
	Pension Fund co				Creditors for salaries 7 000				
		$\frac{500}{1000}$	ÉcoleBooks		(10 000 - 1 600 - 500 -900)				
Medical Fu	ınd (CL) B								
	Salaries GJ	900			/				
	Medical Fund				/				
	contribution	900 1 800							
Salarie	s (e) N								
Total b/d 95 000	Profit and Loss	105 000							
Gross salaries GJ 10 000									
		105 000			/				
Pension Fund co	ontribution (e) I	N							
Total b/d 4 000	Profit and loss	4 500							
Pension Fund 500 4 500		4 500							
Medical Fund o	ontribution (e)								
Total b/d 2 700	Profit and loss	3 600		/	Y				
Medical Fund contribution				/					
Pension Fund (CL)B  Salaries GJ Pension Fund contribut  Medical Fund (CL) B  Salaries GJ Medical Fund contribution  Salaries (e) N  Total b/d Gross salaries GJ 10 000 105 000  Pension Fund contribution (e) N  Total b/d Pension Fund contribution (e) N  Total b/d Medical Fund contribution (e) N  Total b/d Pension Fund contribution (e) N  Medical Fund contribution (e)  Medical Fund contribution (e)  Total b/d  A 000 Profit and loss A 500 A 500  Medical Fund contribution (e)  Total b/d  Pension Fund  Salaries GJ Medical Fund Contribution  Fund									



Do the following calculation to find the figure for CREDITORS FOR SALARIES while completing Note 9 in the following order: use the gross salary of R10 000 and subtract the

- 1 600 SARS (PAY E)
- 500 Pension fund
- 900 Medical fund
- = 7 000 Creditors for salaries

#### **Calculations:**

Ensure that you are able to do the following CALCULATIONS when attempting the year-end ADJUSTMENTS.

Let's use Rent Income to illustrate the different calculations for calculating the Rent for the year and to find the amount received in advance or that is still accrued.

The end of the financial year is on 28 February.

1	Adjustment (low level)	E.g. the total rent income received was received in advance	E.g. the total rent income received is R26 000. Take into account that one month's rent vas received in advance									
	Calculation	$26\ 000 \div 13 = R2\ 000\ per\ month$ $2\ 000 \times 12 = 24\ 000$ Therefore R2\ 000\ was received in advance.										
	Effect on	Income statement		Balance sheet								
	the financial statements	Rent Income (26 000 ÷ 13 × 12)	R24 000	Note 9: Income received in advance R2 00	0							

2	Adjustment (medium level)		E.g. the tenant paid his rent one month in advance. Take into account that the rent of R2 000 increased by 10 % from 1 October 2013. Total Rent received, R27 200.												of	
	Calculation		Draw a	raw a TIME LINE to find the rent for the year and the rent that was received in advance												
				Financial year prepaid												
			1 Mar	Apr	May	June	July	Aug	Sep	t 1 Oct	Nov	Dec	Jan	Feb	Mar	
		2000 2000 2000 2000 2000 2000 2000 2200 2200 2200 2200 2200										2200	5			
			R2000 × 7 = 14 000 2 000 + 10%) + R2 200 × 5 = 11 000 + R2 200 =											R27 2	00	
	Effect on	I	ncome	stater	nent					Balance	sheet	t				
	the financial statements	1	Rent Income R25 000 Note 9:										1			
		(	14 ÓOC	+ 11	000)					Income	receiv	ed in a	dvanc	е	R2	200

Number 2 and 3 are almost the same however in no. 3 the Rent per month was not given as in no.2. By using the following method the amounts can still be calculated.

### 2 Chapter

3	Adjustment (high level)	_	ed by 1	10% or			_	-					unt that rent arch during
	Calculation	Draw a TIME LINE to find the rent for the year and the rent that was received in advance											
		Financial year								prepaid			
		1 Mar	Apr	May	June	July	Aug	Sept	1 Oct	Nov	Dec	Jan	Feb
		100%	100%	100%	100%	100%	100%	100%	110%	110%	110%	110%	110%
		CALCULATION: $(100\% \times 7) + (110\% \times 5) + (110\% \times 1) = 27200$											
		700% + 550% + 110% = 27 200 1360% (known) = 27 200 (known)											
		MAKE USE OF THE FORMULA:											
		UNKNOWN is the amount prepaid and KNOWN is the total rent received											
		Known % $\frac{110\%}{1360\%}$ $\times$ $\frac{27\ 200}{1}$ = R2 200 received in advance											
			(	)r 27 2	00 – 2	200 =	R25 0	00 rent	incom	e for th	ne year.		
	Effect on the financial statements	Income	stater	ment			Ва	alance	sheet				
		Rent Ind			F	25 00		ote 9:					•
		(27 200	) - 22	200)			In	come r	eceive	ed in a	dvance	e	R2 200

4	Adjustment (high level)	E.g. The rent inci	reased	l by 10			- 137 76	115-3						that the ne rent for
	Calculation	Draw a	Draw a TIME LINE to find the rent for the year and the accrued rent.											
						F	inanci	al year						accrued
		1 Mar	Apr	May	June	July	Aug	Sept	1 Oct	Nov	Dec	Jan	Feb	Mar
		100%	100%	100%	100%	100%	100%	100%	110%	110%	110%	110%	110%	110%
		MAKE L received <u>Unknow</u> Known	d <u> </u>	<u>110%</u> 1140%	)RMUL - × <u>22</u>	700% A: UNK  800 1	+ NOWA R2 20	is the a	in = 2 in = 2	22 800 22 800 accrue	) ed and		'N is th	e total rent
	Effect on	Income	stater	nent			В	alance	sheet			_	_	
	the financial statements	Rent Inc		00)		R25 0		ote 5: ccrued	incom	ne				R2 20

	djustment High level)		CREAS	ED BY									nt that the paid the rent
Ca	Calculation	Draw a	TIME L	INE to f	find the	rent fo	or the y	ear and	I the re	nt that	was rece	eived in a	idvance
						Fir	nancia	l year					accrued
		1 Mar	Apr	May	June	July	Aug	Sept	1 Oct	Nov	Dec	Jan	Feb
		100%	100%	100%	100%	100%	100%	100%	90%	90%	90%	90%	90%
		MAKE UUnknow	JSE OF <u>/n %</u> UI n %	THE FO	/N is th	A: ne (%) a	700%	106	360° 0% d and k	2% = 2 $= 2$ $(NOWN)$	7 200 27 <b>2</b> 00	otal rent	received (%)
			C	)r 22 8	00 – 2	200 =	R25 (	000 rent	incom	e for th	ne year.		
	Effect on	Income	stater	ment			В	alance	sheet				
-	ne financial catements	Rent Inc	come		-	R25 0	00	ote 5:					
		(22 800	) + 2 2	200)			A	ccrued	Incom	ne			R2 20



#### **Example adapted from November 2011 NCS Exam paper**



#### Worked example 2

Prepare the Income statement for the year ended 30 June 2011.

#### Information

1. ANEESA LTD

PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 JUNE 2011

	DEBIT	CREDIT
Balance Sheet Accounts Section	R	R
Ordinary share capital		2 820 000
Retained income		684 460
Mortgage Ioan: Joy Bank		804 500
Land and buildings	2 097 000	
Vehicles	814 000	
Equipment	616 000	
Accumulated depreciation on vehicles		294 800
Accumulated depreciation on equipment		341 000
Trading stock	955 000	
Consumable stores on hand	15 000	
Bank	313 100	
Petty cash Fcole Books	3 300	
Debtors' control	396 000	
Creditors' control		487 300
SARS (Income tax)	261 800	
Provision for bad debts		18 000
Fixed deposit: Broad Bank (8% p.a.)	495 000	

This amount is the provisional tax payment.

Remember to subtract debtors' allowances from sales.

This is the interim dividend. DO NOT include on the Income Statement!

Nominal Accounts Section		
Sales		10 500 000
Debtors' allowances	145 200	
Cost of sales	7 487 000	
Rent income		176 880
Interest income (on fixed deposit)		26 630
Bad debts recovered		2 300
Directors' fees	840 000	
Audit fees	73 800	
Salaries and wages	660 000	
Packing material	23 100	
Marketing expenses	480 000	
Sundry expenses	63 770	
Bad debts	12 000	
Ordinary share dividends	404 800	
	16 155 870	16 155 870

#### 2. ADJUSTMENTS

A. A physical stock-taking on 30 June 2011 revealed the following inventories on hand:

Trading stock R902 150 Packing material R4 260

- B. Directors' fees of R22 500 are outstanding at the end of the financial period.
- C. Make provision for outstanding interest on a fixed deposit. This investment has been in existence for the entire year. Interest is not capitalised.
- D. A debtor who owes us R32 000 has been declared insolvent. His estate paid 40 cents in every rand and this has been correctly recorded. The remaining balance must be written off as irrecoverable.
- E. Provision for bad debts must be adjusted to 5% of debtors.
- F. The rent included R14 520 for July 2011. Adjust accordingly.
- G. Make provision for depreciation as follows:
  - Vehicles at 15% p.a. on cost price
  - Equipment at 10% p.a. on the diminishing balance method.
  - New equipment to the value of R48 000 was purchased on 1 September 2010. This has been correctly recorded.
- H. The loan statement received from Joy Bank on 30 June 2011 reflected the following:

	R
Balance at the beginning of the financial year	1 125 000
Repayments during the year	Books 458 000
Interest capitalised	?
Balance at the end of the financial year	804 500

I. Income tax for the year, R150 285.

The total interest forms part of the repayment during the year.

Capitalised means the interest is added onto the loan. You need to calculate this figure.

#### Answer to worked example 2

1. ANEESA LTD: INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	Sales (10 500 000√ - 145 200√)	/	10 354 800
	Cost of sales (7 487 000)	/	(7 487 000)
	Gross profit	<b>/</b>	2 867 800
	Other operating income	<b>/</b>	164 660
F	Rent income (176 880√ - 14 520√√)	<b>V</b>	162 360
	Bad debt recovered (2 300)	/	2 300
	Gross operating income		3 032 460
	Operating expenses	<b>/</b>	(2 392 600)
В	Directors fees (840 000√ + 22 500√)	<b>√</b>	862 500
	Audit fees (73 800)	/	73 800
	Salaries and wages (660 000)	/	660 000
Α	Packing material (23 100√ – 4 260√)	/	18 840
	Marketing expenses (480 000)	/	480 000
	Sundry expenses (63 770)	/	63 770
D	Bad debts (12 000√ +19 200√√)	<b>V</b>	31 200
Е	Provision for bad debts adjustment (18 840 ✓ - 18 000)	NoPo	840
G	Depreciation V: 122 100 ✓ E: 4 000 ✓ + 22 700 ✓ ✓	<b>V</b>	148 800
Α	Trading stock deficit	11	52 850
	Operating profit	<b>/</b>	639 860
С	Interest income ✓ (26 630 ✓ + 12 970 ✓)	<b>/</b>	39 600
	Profit before interest expenses/finance cost√	<b>V</b>	679 460、
Н	Interest expenses/finance cost ✓ (458 000 + 804 500 - 1 125 000) or (1 125 000 ✓ - 458 000 ✓ - 804 500 ✓)	<b>/</b>	(137 500).
	Profit before tax	<b>/</b>	541 960
ı	Income tax ✓	/	(150 285)
	Net profit after tax	<b>/</b>	391 675



#### **FORMAT**

It is VERY important to know the format of the Income Statement!

This is the total of the operating expenses. REMEMBER to subtract this from gross operating income.

Always show your calculation work in brackets for part marks.





#### **FORMAT**

Note where these 3 items appear on the Income Statement.

The letters in this column refer to the explanations on the next page.

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#### 2

#### 2. Explanations of each adjustment

#### A. | Trading stock:

The physical stocktaking of R902 150 is less than the amount in the pre-adjustment trial balance of R955 000. This means that there is a trading stock deficit of R52 850 (R955 000 – R902 150).

Trading stock deficit = expense item on Income Statement Packing material:

The amount on hand is subtracted from the pre-adjustment trial balance amount.

- **B.** Directors' fees are outstanding and therefore get added to pre-adjustment figure.
- Interest on fixed deposit = R495 000 × 8% = R39 600 for the year.
   The difference must be added to pre-adjustment trial balance figure.
- D. Calculation of bad debts:

The estate paid 40 cents therefore 60 cents in every rand must be written off. R32 000  $\times$  0,6 = R19 200. This must be added to the pre-adjustment figure.

**E.** Provision for bad debts adjustments calculation.

Calculate final debtors amount taking adjustment D into account:

R396 000 - R19 200 = R376 800

5% of R376 800 = R18 840

Provision for bad debts must be adjusted to R18 840. It is currently R18 000. The amount of R840 by which it must be adjusted must be shown in the income statement as an expense.

- F. Rent was received in advance and therefore must be subtracted from the pre-adjustment figure.
- **G.** Depreciation on vehicles: 814 000 × 15% = R122 100 Depreciation on equipment:

#### New equipment

Bought on 1 September. The cost of the new equipment must be subtracted from the equipment balance

R616 000 - R48 000 = R568 000

10% of R48 000  $\times$  10  $\div$  12 = R4 000

#### Old equipment

Using the diminishing balance method, subtract the accumulated depreciation from the cost price (excluding the new equipment) to determine carrying value

R568 000 - R341 000 = R227 000

10% of R227 000 = R22 700

Depreciation is recorded as an expense in the income statement:

R122 100 + R22 700 + R4 000 = R148 800

H.	To calculate the interest	Loan: Joy bank					
	on loan on the Loan Statement:	Bank CPJ 458 000	Balance b/d1 125 000				
	R1 125 000 - R458 000	Balance c/d 804 500	Int. on loan GJ 137 500				
	- R804 500 = R137 500	<u>1 262 500</u>	1 262 000				
	Interest on loan = 137 500		Balance b/d 804 500				
I.	Income tax for the year is subtracted from the net profit before tax						



All pre-adjust-ment trial balance figures have been entered in **bold** on the Income Statement before entering the adjustments.

PLEASE NOTE:
Depreciation is normally
an involved calculation
affecting both vehicles and
equipment. For this reason many
marks are awarded for the
depreciation figure. Show all your
workings so that even if one or
two of your figures are wrong,
you can still get some
marks for calculating



Use this
blank income statement
to practice doing the task
again on your own. Once you
have completed the task,
compare your answer to the
worked example on
the previous pages.



#### **Practice task 2**

Aneesa LTD: Income Statement for the year ended 30 June 2011

Sales	
Cost of sales	
Gross profit	
Other operating income	
Gross operating income	
Operating expenses	
ÉcoleBooks	
Operating profit	
Profit before tax	
Net profit after tax	

[52]



#### Worked example 3



#### **Balance Sheet and notes**

**Use the following steps** to prepare a balance sheet from the given information:

- 1. Enter the figures from the information given onto the answer sheet next to the details.
- 2. Read the additional information:
  - a) If necessary calculate the adjustment amount.
  - b) Decide on which account is to be debited and which account is to be credited.
  - c) On your answer sheet reflect a (+) or a (-) in respect of each item next to the already entered pre-adjustment figure.
- 3. When all the additional information has been considered, calculate the final figures and write them in the column.

#### **Example adapted from November 2009 NCS exam paper**

#### **Practice task 3**

You are provided with information relating to Qwando Limited for the financial year ended 30 June 2011.

Prepare the Retained income note. (18)
Prepare the Balance Sheet on 30 June 2011. (36)

#### Information

**1.** The following figures were taken from the financial records of the financial year ended 30 June 2011.

	R
Ordinary share capital (see information 2 below)	2 400 000
Retained income (on 1 July 2010)	
	738 000
Shareholders for dividends (see information 4 below)	?
Fixed deposit at Supa Bank (see information 5 below)	60 000
Mortgage Bond from Supa Bank (see information 7 below)	?
Fixed/tangible assets	3 881 000
Debtors' control	45 000
Creditors' control	85 200
Creditors for salaries	12 300
Provision for bad debts (see Information 6 below)	?
SARS (Income tax – provisional tax payments)	400 000
SARS (PAYE)	6 650
Expenses payable (accrued)	7 200
Income receivable (accrued)	7 950
Bank (favourable balance)	168 450
Trading stock	129 600
Consumable stores on hand	5 600



## 2 Chapter

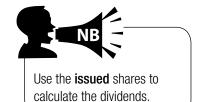
#### 2. Shares:

- There were 700 000 ordinary shares in issue at the beginning of the financial year.
- On 1 January 2011, 100 000 ordinary shares were issued to the public at R3,80 cents per share. This has been correctly recorded and is included in the figures above.
- On 1 June 2011, 40 000 were repurchased from a shareholder at R4,50 per share. A direct transfer was put through from the Bank account but no entry has been made in the books.
- 3. The net profit before tax for the year ended 30 June 2011 was calculated as R1 250 000. No entry for income tax calculated at a rate of 30% of the net profit has been made.
- 4. Dividends were as follows:
  - Interim dividends of 20 cents per share were paid on 31 December 2010.
  - Final dividends of 35 cents per share were declared on 30 June 2011. All shareholders at this date qualify for dividends.
- 5. One third of the total fixed deposits mature on 31 August 2011.
- **6.** Provision for bad debts must be adjusted to 5% of debtors.

Answers to practice task 3

7. The loan statement from Supa Bank on 30 June 2011 reflects the following:

SUPA BANK	
LOAN STATEMENT ON 30 JUNE 2011	
Balance on 1 July 2010	R384 000
Interest charged Books	57 600
Monthly instalments in terms of the loan agreement (12 × R8 800)  (These monthly instalments include interest on the capital repayments of the loan)	105 600
Balance on 30 June 2011	R336 000



The monthly capital repayments on the loan will remain constant until the loan has been paid in full on 30 June 2019.

**Total** dividends (interim and final) are shown here.

	RETAINED INCOME	R
	Balance on the last day of the previous year	<b>√</b> 738 000
3	Net profit after tax for the period ✓ (1 250 000 – 30%)	<b>√√</b> 875 000
2	Retained income on 40 000 shares repurchased (40 000 × R1,50)	<b>√ √</b> (60 000)
-	Ordinary share dividends√	<b>☑</b> (406 000)
4	Paid√ (interim) (700 000√√ shares × 20c√)	<b>1</b> 40 000
2 & 4	Recommended√ (final) (760 000√ shares × 35c√)	<b>☑</b> 266 000
	Balance on the last day of the current year	<b>1</b> 147 000

#### **Qwando Limited**

#### Balance Sheet on 30 June 2011

	ASSETS	
	NON CURRENT ASSETS	3 921 000
	Fixed / tangible assets (4 021 000)	√3 88 <b>1 000</b>
	Financial assets	
5	Fixed deposit: Supra Bank ( <b>60 000</b> ✓ - 20 000 ✓)	<b>√</b> 40 000
	CURRENT ASSETS	<b>✓</b> 219 <b>350</b>
	Inventories (129 600√ + 5 600)	<b>√</b> 135 200
6	Trade and other receivables (45 000√ + 7 950√ - 2 250√ + 25 000)√ ←	<b>√</b> 75 700
5	Cash and cash equivalents (16 <b>8 450</b> + 20 000 ✓ - 120 000- 60 000)	☑ 8 450
	TOTAL ASSETS	<b>4 140 350</b>
	EQUITY AND LIABILITIES	
	CAPITAL AND RESERVES	<b>3</b> 427 <b>000</b>
2	Ordinary share capital (2 400 000 - 120 000)	<b>√</b> 2 280 000
2	Retained income (see note on previous page)	✓ 1 147 000
	NON-CURRENT LIABILITIES	<b>288</b> 000
7	Mortgage Ioan: Supa Bank (336 000√ - 48 000√)	288 000
	CURRENT LIABILITIES	<b>✓</b> 425 <b>350</b>
	Trade and other payables (85 200√ + 12 300 + 6 650√ + 7 200√)	<b>√</b> 111 350
4	Shareholders for dividends	<b>√</b> ✓ 266 000
7	Current portion of loan	√√ 48 000
	TOTAL EQUITY AND LIABILITIES	<b>✓</b> 4 140 350



#### **FORMAT**

It is VERY important to know the format of the Balance Sheet and notes!

Fixed assets are always shown at book value on the Balance Sheet.

Amount owed by SARS to the business. This implies the business overpaid its taxes to SARS.

If the notes
are not required,
show all your calculation
work in brackets on
the Balance Sheet



This is the **final** dividend declared at the end of the year.

[38]

The numbers in this column refer to the explanations on the next page.



All given figures in information 1 have been entered in bold before entering the information 2 to 7.

#### **Explanations of each adjustment**

2.	Shares:
	The new issue of shares have been properly recorded. The repurchase of 40 000 shares at R4,50. The ordinary share capital account must be reduced by the average share price (2 400 000 ÷ 800 000 shares = R3)
	The retained income account will be reduced by the difference between the buyback price and average price ( $R4,50 - R3 = R1,50 \times 40000$ shares)
3.	Net profit after tax must be calculated by subtracting income tax from net profit before tax. This must be entered in the retained income note.
	Tax calculation = $(R1\ 250\ 000 \times 30\% = R375\ 000)$ .
	Net profit after tax = R1 250 000 - R375 000 = R875 000).
4.	Dividends:
	Calculation of interim/paid dividends = 700 000 × 20 cents = R140 000
	Calculation of final/declared dividends = 700 000 + 100 000 (issued) - 40 000 (repurchased) = 760 000 shares
	760 000 × 35 cents = R266 000
	Total dividends = R140 000 + R266 000 = R406 000
	Calculation of short term portion of fixed deposit:
5.	The portion of the fixed deposit that will be received within the next 12 months must be subtracted from financial assets and shown under cash and cash equivalents under current assets on the balance sheet. (1/3 of R60 000 = R20 000)
6.	Provision for bad debts is calculated at 5% of debtors control: 5% of R45 000 = R2 250.
	Provision for bad debts must be subtracted from trade and other receivables.
7.	Repayments of the capital amount of the loan that will be made in the next 12 months must be subtracted from the non-current liabilities and shown under current liabilities as a 'current portion of loan'.  R105 600 (total repayments) – R57 600 (interest) = R48 000 (capital portion of repayments for the year.

#### Practice task 3 (continued)

RETAINED INCOME	R
Balance on the last day of the previous year	
Balance on the last day of the current year	

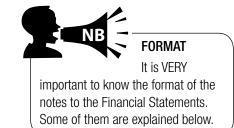
QWANDO LIMITED BALANCE SHEET ON 30 JUNE 2011	
ASSETS	
NON CURRENT ASSETS	
Fixed/tangible assets	
Financial assets	
Fixed deposit: Supra Bank	
CURRENT ASSETS	
<u> </u>	
(Fécole)	a a la
o Ecoles	OOKS
TOTAL ASSETS	
EQUITY AND LIABILITIES	
CAPITAL AND RESERVES	
NON-CURRENT LIABILITIES	
Mortgage Ioan: Supa Bank	
CURRENT LIABILITIES	
OUNTERN EIABIETTES	
	-
TOTAL EQUITY AND LIABILITIES	

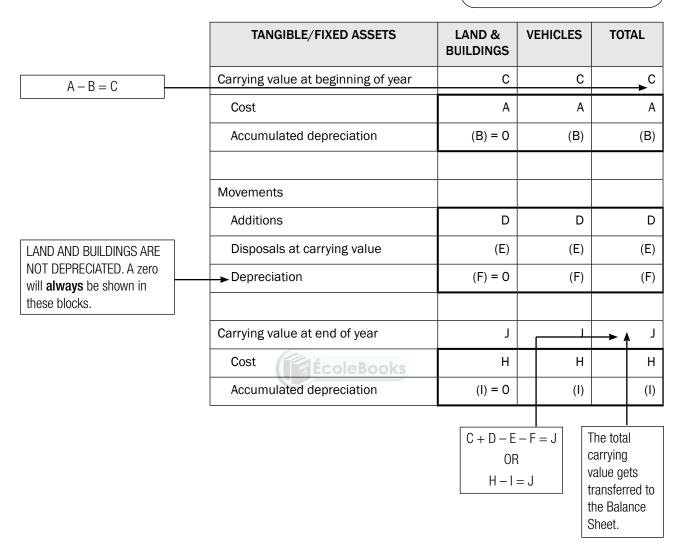
Photocopy
this blank Balance
Sheet and use it to
practise doing the worked
example 3 again on your own.
Once you have completed the
task, compare your answer
to the worked example
on the previous
page.

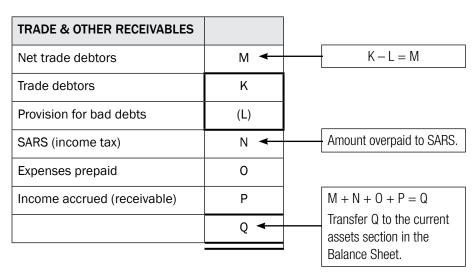


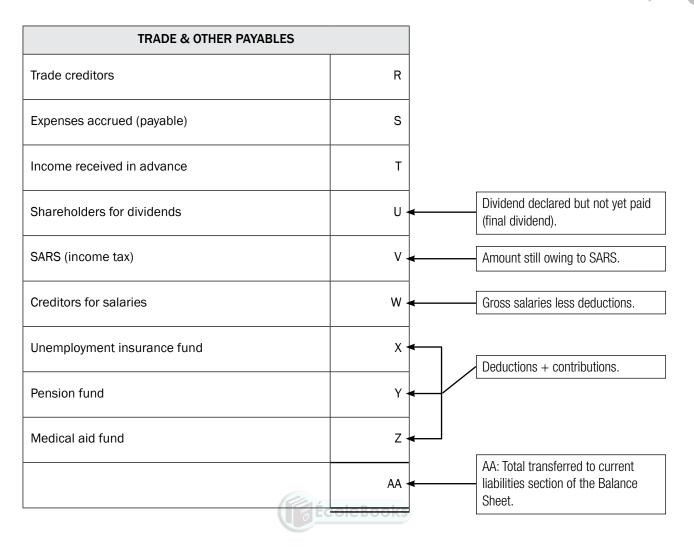
[38]

#### Some important notes to the financial statements











#### 2.4 Cash Flow Statements



#### **FORMAT**

It is **VERY** important to know the format of the Cash Flow Statement and notes!

#### **Purpose of a Cash Flow Statement**

The Income Statement shows the result of business' operations (net profit).

The Balance Sheet shows the financial position of the business on a specific day (ie how much the business is worth).

Neither of them shows where the business gets its funds from or how the funds are used. The emphasis is on the cash aspects/components.

The Cash Flow Statement is prepared for this purpose and shows where the funds come from and how they are used.

#### **Basic concepts and terminology**



Cash Flow Statements focus on all aspects

of **CASH** surrounding a business. Remember **CASH IS KING** for Cash Flow Statements.

Concept	Definition		
Cash inflow	Money coming into the business. This amount does NOT have brackets. (e.g. sale of shares)		
Cash outflow	Money going out of the business. This amount HAS brackets. (e.g. bought a fixed asset for cash)		

All the information needed for a cash flow statement and notes can be found on the income statement, balance sheet and notes.



#### Worked example 4

Preparation of the cash flow statement



Certain figures have been given on the answer sheet (in **bold**). In order to calculate the missing figures **A** to **L**, refer to additional information provided below.

#### **Practice task 4**

Prepare the cash flow statement (all relevant notes have been done for you).

(15)

Remember we are looking for the flow of cash. This means you will need to calculate the **difference** between **this year's** and **last year's figures**, to determine the figures to place on the Cash Flow Statement.

#### **Additional information**

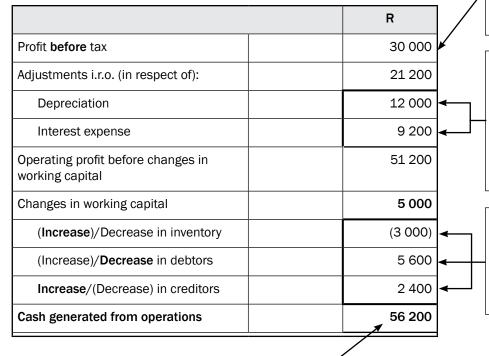
Extract from balance sheet

		_		*
	2012	2011	F	low of cash
Ordinary share capital	R471 600	R410 000	**see note below	V
Retained income	R10 400	R9 000	This has no effect	t on a cash flow statement.
Fixed deposit	R28 000	R23 000	(R5 000)	(Outflow)
Loan from Beta Bank (interest is not capitalised)	R74 000	R80 000	(R6 000)	(Outflow)
Bank	R35 300	R10 040	R25 260	Inflow
Cash float	R2 000	R2 000	RO	No change

- \*\* During the year the following transactions took place regarding share capital:
- 8 000 Shares were issued and the company received R79 600 from shareholders.
- Repurchased 3 000 shares at 820 cents per share

#### Notes to the cash flow statement

Note 1: Reconciliation between profit before tax and cash generated from operations:



Make sure you use the profit **before** tax from the Income Statement. If profit after tax is given, remember to add back the tax.

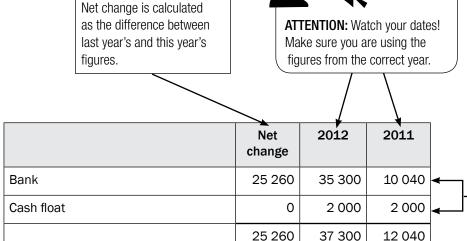
These figures are taken **DIRECTLY** from the Income Statement and are **ADDED** to the profit before tax to give you the operating profit before changes in working capital. Also, depreciation is NOT a cash expense.

Difference between last year's and this year's figures. Remember to exclude amounts owed to shareholders, accrued interest and amounts owed to or by SARS for income tax.

(cash flow from operating activities).

Transfer this figure to the Cash Flow Statement

Note 2: Cash and cash equivalents



Transfer these figures to the Cash Flow Statement (net change in cash and cash equivalents). These amounts come

DIRECTLY from cash and cash
equivalents on the Balance
Sheet.



The notes
for dividends paid and
tax paid can be done using
either the format given below
or the ledger account
(not required in this
question).



SARS can have a debit or credit balance at the beginning of the year and at the end of the year.

#### Note 3: Dividends paid

Dividends paid	(R8 500)
Amount due at the end of the year (final) [(dr) cr]	R6 000
Amount due at the beginning of the year [dr (cr)]	(R4 500)
Total dividends for the year (interim + final)	(R10 000)

This is the total amount paid out for dividends this year. This figure is **shown in brackets** on the Cash Flow Statement (cash flow from operating activities)

This figure is always shown in brackets.

Last year's shareholders' for dividends amount. This figure is **shown in brackets** because it was paid during the year.

This year's shareholders for dividends amount. This figure is **NOT shown in brackets** because it is still not paid.



NB

Before you attempt a Cash Flow Statement question, ensure that you can identify the information that is given to you to determine if  $\frac{1}{2}$ 

you have to complete notes or simply show all your working calculations.

The income tax figure from the Income Statement. This figure is **shown in brackets**.

# Last year's SARS income tax balance. If the figure is under trade and other payables it will have brackets. If the figure is under trade and other receivables it will not have brackets. [dr (cr)]

This year's SARS income tax balance. If the figure is under trade and other payables it will not have brackets. If the figure is under trade and other receivables it will have brackets. [(dr) cr]

#### Note 4: Taxation paid

Total tax for the year	(R13 500)
Balance due at the beginning of the year [dr (cr)]	(R1 600)
Balance due at the end of the year [(dr) cr]	R1 200
Tax paid	(R13 900)

This is the total amount paid out for tax this year.

This figure is **shown in brackets** on the Cash Flow Statement (cash flow from operating activities) as this was the **ACTUAL** cash that was paid.

#### Cash Flow Statement for the year ended ...

	NOTES	R		
Cash flow from operating activities		<b>2</b> 4 960	Α	Operating activities:
Cash generated from operations	1	<b>√</b> 56 200	В	The most common source of cash for a company. It
Interest paid		(8 840)		not only involves the buying and selling of stock, but also
Dividends paid	3	<b>√</b> (8 500)	С	includes paying creditors,
Income tax paid	4	<b>√</b> (13 900)	D	receiving money from debtors and paying expenses.
Cash flow from investing activities		<b> ✓</b> (48 700)	E	Investing activities:
Purchase of fixed assets		(48 500)		The activities that focus on the buying and selling of fixed
Proceeds from sale of fixed assets		4 800		assets and the increasing and decreasing of investments
Increase of investment		<b>√</b> √ (5 000)	F	(e.g. fixed deposits).
Decrease of investment		-		
Cash flow from financing activities		<b>4</b> 9 000	G	Financing activities:
Proceeds from shares issued		<b>√</b> 79 600	Н	How a company is funded through loans and capital:
Repurchase of shares	École	(24 600)	ı	<ul><li>The issuing of shares</li><li>The repurchase of shares</li></ul>
Proceeds from long-term loans		-		The obtaining of a loan     The repayment of a loan
Payment of long-term loans		√ (6 000)	J	- The repayment of a loan
				-
Net change in cash and cash equivalents	2	<b>☑</b> 25 260	K	To check your answer, see
Cash and cash equivalents at the beginning of the year	2	<b>√</b> 12 040	L	K, L + M:  • If both balances are favourable you subtract,
Cash and cash equivalents at the end of the year	2	<b>√</b> 37 300	М	eg. 37 300 – 12 040 = 25 260.
The letters in this column refer to the explanations in the Table on page 28.			[15]	If one of the balances is an overdraft, then you add, eg. M + (L).      An overdraft is shown in brackets (). Memorise the following to determine if K is in brackets or not:      (K)

#### Explanations of A to L

	Oak an and form an artist in the said divide density in a said.			
Α.	Cash generated from operations – interest paid – dividends paid – income tax paid = A R56 200 – R8 840 – R8 500 – R12 900 = R24 960			
	Inflow (Outflow) (Outflow) Inflow			
	milow (Outriow) (Outriow) milow			
В.	Cash generated from operations transferred from <b>Note 1</b> (under Notes to the Cash Flow Statement).			
C.	Dividends paid transferred from <b>Note 3</b> (under Notes to the Cash Flow Statement).			
D.	Income tax paid transferred from <b>Note 4</b> (under Notes to the Cash Flow Statement).			
E.	Purchase of fixed assets – proceeds from sale of fixed assets – increase in investment = E  - R48 500 + R4 800 – R5 000 = – R48 700  (Outflow) Inflow (Outflow)			
F.	This figure comes from the Extract from the Balance Sheet and is calculated by finding the difference between this year's and last year's figures:  R25 000 - R20 000 = R5 000  (Outflow)  Increasing the fixed deposit is an outflow as money is moving out of the bank account and into the fixed deposit account.			
G.	Proceeds from shares issued – repurchase of shares - payment of long-term loans = G R79 600 – R24 600 – R6 000 = R49 000 Inflow (Outflow) – (Outflow)			
Н.	Issue of new shares: The amount of R79 000 was given (inflow)			
I.	Repurchase of shares: 3 000 × R8,20 = R24 600 (outflow)			
J.	This figure comes from the Extract from the Balance Sheet and is calculated by finding the difference between this year's and last year's figures:  R74 000 - R80000 = -R6 000 (Outflow)			
K.	A – E + G = K (R24 960 – R48 700 + R49 000 = R25 260)  To verify this figure check the Net Change Total in <b>Note 2</b> (Cash and Cash Equivalents) under Notes to the Cash Flow Statement			
L.	This figure comes from the extract from the Balance Sheet, calculated by adding the Bank figure and Cash Float figure from <u>last year</u> i.e. 2011.  To verify this figure check the total of the Bank and Cash Float figure for 2011 in <b>Note 2</b> (Cash and Cash Equivalents) under Notes to the Cash Flow Statement.			
M.	This figure comes from the extract from the Balance Sheet, calculated by adding the Bank figure and Cash Float figure from this year i.e. 2012.  To verify this figure check the total of the Bank and Cash Float figures for 2012 in <b>Note 2</b> (Cash and Cash Equivalents) under Notes to the Cash Flow Statement.			

#### Cash flow statement for the year ended .......

	Notes	R
Cash flow from operating activities		
Cash generated from operations	1	
Interest paid		(8 840)
Dividends paid	3	
Income tax paid	4	
Cash flow from investing activities		
Purchase of fixed assets		(48 500)
Proceeds from sale of fixed assets		4 800
Increase of investment		
Decrease of investment		-
	ÉcoleB	ooks
Cash flow from financing activities		
Proceeds from shares issued		
Repurchase of shares		
Proceeds from long-term loans		
Payment of long-term loans		-
Net change in cash and cash equivalents	2	
Cash and cash equivalents at beginning of the year	2	
Cash and cash equivalents at the end of the year	2	



[15]



## 2.5 Analysis and interpretation of Financial **Statements**



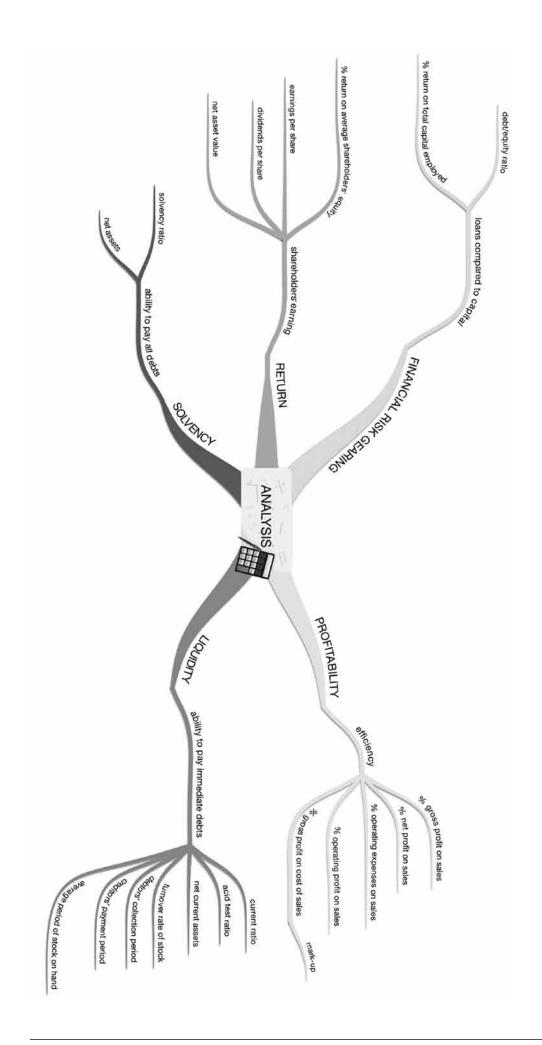
Make sure you can calculate these indicators. See page 35 for formulae.

Area of analysis	Description	Related financial indicators	
Profitability	How efficient the company is in its normal operating activities	% Gross profit on sales % Net profit on sales % Operating expenses on sales % Operating profit on sales % Gross profit on cost of sales (mark-up)	
Liquidity	The ability of a company to pay off its immediate (short-term) debts	Current ratio Acid test ratio Net current assets (net working capital) Turnover rate of stock Debtors' collection period Creditors' payment period Average period of stock on hand	
Solvency	The ability of a company to pay off all its debts	Solvency ratio Net assets	
Return	Are the shareholders earning a fair amount on their investment?	% Return on average shareholders' equity Earnings per share Dividends per share Net asset value	
Financial risk Gearing	To what extent is the company financed by loans (borrowed money) compared to its own capital	Debt / equity ratio % Return on total capital employed	



#### Follow these steps when commenting on the financial indicators:

- 1. Consider what the question is asking you to analyse (e.g. Liquidity). Decide on the relevant financial indicator(s).
- 2. Name the financial indicator(s) giving figures or ratios or percentages.
- 3. Compare the current year's indicator(s) with that of the previous year. Say whether it has increased or decreased.
- 4. If possible provide a general comment.





Use point form instead of long sentences to comment.

It means that the company has current assets of R2,10 for every R1 debt.

Earnings per share is the 'if'; if all the profit after tax was declared as dividends, the earnings would have been 35c per share. However what "really happened" is that dividends were declared of only 25c per share. The difference is the profit that the company kept called 'retained income'.

It's the 'if'! If all the profit after tax was declared a dividend, they would have earned 15c per share. However, the shareholders received more, being 20c per share. That means that some of the retained income of the previous year was used to finance the difference.



**ATTENTION:** Watch your dates! Make sure you use the figures from the correct year.



## Worked example 5: Comment on the liquidity position of the company

Financial indicator	2010	2011	
Current ratio	1,3 : 1	2,1:1	
Acid test ratio	0,6 : 1	1,4 : 1	

- Current ratio ✓ has improved from 1,3 : 1 to 2,1 : 1 ✓
- Acid test ratio ✓ has also improved from 0,6:1 to 1,4:1 ✓
- This company is in a good liquidity position and should be able to pay its short-term debt easily. ✓

[5]



# Worked example 6: Comment on the earnings per share (EPS) and dividends per share (DPS) of the company

Financial indicator	2010	2011	
Earnings per share (EPS)	35c per share	15c per share	
Dividends per share (DPS)	25c per share	20c per share	

- EPS has declined from 35c to 15c per share. ✓
- DPS has declined from 25c to 20c per share. ✓
- In 2010 their EPS was 35c while the DPS was only 25c per share. This means that the company retained 10c per share for future growth. ✓✓
- ► In 2011 they only earned 15c per share but gave the shareholders 20c per share meaning that none of this year's profits were retained. ✓✓

[6]



## Worked example 7: Comment on the debt/equity ratio of the company

Financial indicator	2010	2011	
Debt/equity ratio	0.6:1	0,4:1	

- Debt/equity ratio decreased ✓ by 0,2 from 0,6 : 1 to 0,4 : 1. ✓
- By repaying the loan the company has a lower financial risk.

[3]



## Worked example 8: Comment on the percentage return on shareholders' equity (ROSHE) of the company

Financial indicator	2010	2011	
% return on shareholders' equity (ROSHE)	18 %	24 %	

- ROSHE improved ✓ by 6 % from 18 % to 24 %.
- The shareholders should be pleased as a return of 24 % is higher than an alternative investment (e.g. fixed deposit). ✓

[3]

	Financial indicator	How it is calculated - formula	Answer shown as/in	
1	Gross profit on cost of sales (mark-up)	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	%	
2	Gross profit on sales	Gross profit 100		
-	Gloss profit on sales	Sales × 100 1	%	
3	Operating expenses on sales	Operating expenses 100		
	operating expenses on eares	Sales × 1	%	
4	Operating profit on sales	Operating profit 100		
	Share Share and an area	Sales × 1	%	
5	Net profit after tax on sales	Net profit after tax 100	0.4	
	·	Sales × 1	%	
6	Solvency ratio	Total assets : Total liabilities	Ratio (x:1)	
7	Net assets (shareholders' equity)	Total assets - Total liabilities	Rands	
8	Current ratio	Current assets : Current liabilities	Ratio (x:1)	
9	Acid-test ratio	(Receivables + cash) : Current liabilities  OR	Ratio (% : 1)	
		(Current assets – inventories) : Current liabilities	(M. 1)	
10	Turnover rate of stock	Cost of sales	Times nervoer	
		Average stock	Times per year	
11	Period for which enough stock	Average stock 365		
	is on hand/period of stock on hand (stock holding period)	Cost of sales × 1	Number of days	
12		Average debtors 365	Number of days	
	period	Credit sales × 1	Number of days	
13	Creditors average payment	Average creditors × 365	Number of days	
	period	Credit sales 1		
	Debt/equity ratio	Non-current liabilities : Shareholders' equity	Ratio (x:1)	
15	Return on equity (shareholders' equity)	Net profit after tax × 100	%	
10	, , ,	7 Wordge Sharemonders' equity		
10	Return on total capital employed	Net profit before tax + interest on loans  Average shareholders' equity + average loans  × 100	%	
17	Earnings per share ('if')	Average shareholders' equity + average loans 1  Net profit after tax 100		
1	Lamings per snare ( ii )	Number of issued shares × 100 1	Cents	
18	Dividends per share (what	Interim & final dividends 100		
	really happened)	Number of issued shares × 1	Cents	
19	Net asset value per share (this	Shareholders' equity 100		
	is the real value of the share)	Number of issued shares × 1	Cents	
		L	1	



OTHER IMPORTANT FORMULAE:

To calculate the selling price (SP):

 $SP = CP \times \frac{100 + mark-up}{100}$ 

Shareholders' equity =
Ordinary share capital
+ Retained income

To calculate the cost price (CP):

$$CP = SP \times \frac{100}{100 + mark-up}$$



#### Worked example 9

(This question shows some of the basic financial indicators that will help you earn easy marks)

You are provided with information relating to Glebo Limited for the year ended 30 June 2011.

#### **Practice task 5**

Use the given information to calculate the following financial indicators for 2011. (31)

1.	% Gross profit on cost of sales (mark-up)	
2.	% Net profit on sales	These calculations use figures taken from the Income Statement ONLY.
3.	% Operating profit on sales	otatomon onen
4.	Current ratio	
5.	Acid test ratio	
6.	Debt/equity ratio	These calculations use figures taken from the Balance Sheet ONLY.
7.	Solvency ratio	OIVLI.
8.	Net asset value per share   ÉcoleBooks	This calculation uses figures
9.	Earnings per share	taken from BOTH the Income Statement and the Balance
Inf	ormation	Sheet.

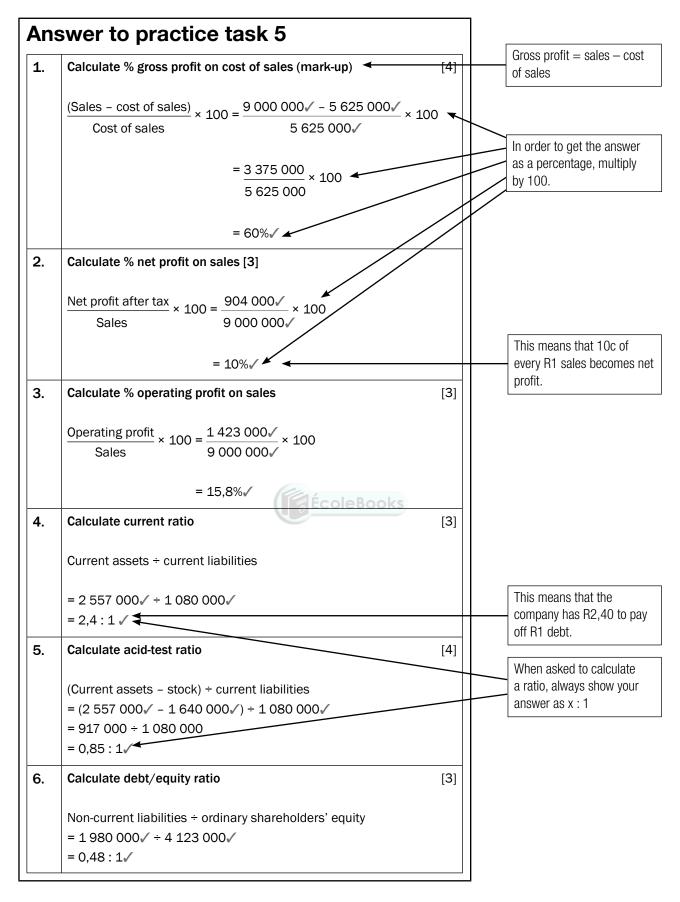
**Glebo Limited** 

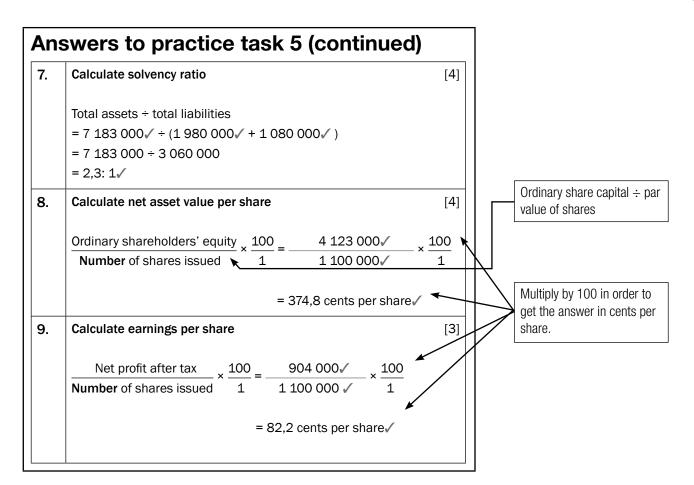
## EXTRACT FROM INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	2011
Sales	9 000 000
Cost of sales	5 625 000
Operating profit	1 423 200
Income tax	426 000
Net profit after tax	904 000

## GLEBO LIMITED BALANCE SHEET AS AT 30 JUNE 2011

	2011				
ASSETS					
Non-current assets	4 626 000				
Fixed assets	4 326 000				
Financial assets	300 000				
Current assets	2 557 000				
Inventories (all trading stock)	1 640 000				
Trade and other receivables (all trade debtors)	810 000				
SARS (Income tax)	0				
Cash and cash equivalents	107 000				
TOTAL ASSETS	7 183 000				
EQUITY AND LIABILITIES					
Ordinary shareholders' equity	oks <sub>4</sub> 123 000				
Ordinary share capital (1 100 000 shares )	2 910 000				
Retained income	1 213 000				
Non-current liabilities	1 980 000				
Mortgage Ioan: Jozi Bank (13% p.a.)	1 980 000				
Current liabilities	1 080 000				
Trade and other payables (all trade creditors)	705 000				
SARS (Income tax)	32 000				
Shareholders for dividends	275 000				
Bank overdraft	0				
Current portion of loan	68 000				
TOTAL EQUITY AND LIABILITIES	7 183 000				





ÉcoleBooks



## 2.6 Comments on an audit report

The need for financial statements: there are several groups of people who will be interested in the financial statements of a business.

Several groups of people who will be interested	Reasons why they are interested in the financial results
The owners of the business (shareholders).	owners are interested in the overall health of the business.
A potential owner.	may be interested in investing money in the business.
The management of the business (board of directors).	use the report for planning purposes, to maintain certain good practices and to improve on areas of weakness.
Banks who have lent money to the business.	Banks are interested in whether there are enough assets in the business to cover their loans. These assets can be sold to repay the loans.
The employees of the business and trade unions.	They are interested in whether the business is profitable and in negotiating wage increases.
SARS, because the company is a legal person and has to pay tax.	SARS is interested in the profit or loss made and the tax that is paid on this.
The auditor who has to report to the shareholders by giving his opinion on whether he thinks the financial statements are a fair reflection of the business during the financial year.	



#### Function of the independent auditor

- The auditor must sign an Auditors Report which serves as an assurance to the shareholders that the financial statements are reliable.
- The auditor is not required to check every transaction or to check for fraud. Her function is to give the shareholders her opinion on whether or not the financial records are a true and fair representation of the company's operations for that year at a specific date at the end of that financial year.
- The shareholders use the true and fair financial statements to make their decisions.
- If the auditor becomes **aware of fraud**, then he has a **duty to report** this to the shareholders.
- Auditors are bound by very high ethical standards and can face disciplinary proceedings if they are found to have been negligent in their work.

#### **Quality of auditors**

External Auditors should be registered professionals with professional bodies such as South African Institute of Chartered Accountants (SAICA) and the Independent Regulatory Board for Auditors (IRBA). Advantages of companies engaging registered Auditors:

- Auditors are guided by a professional code of ethics.
- Companies are assured of high quality work from qualified Auditors.
- High professional standards are maintained since auditors are answerable to their affiliate bodies.
- Disciplinary measures can be taken against Auditors who are negligent in performing their duties.
- Auditors may be deregistered from professional bodies if they commit any act of misconduct.

- Auditors can be sued for producing a misleading report.
- Auditors may lose future contracts due to the production of substandard work.

#### The independent auditor and the audit report

An auditor is a person who expresses **an opinion** on financial information and accounting controls. The independent auditor cannot be an employee of the company. She is appointed at the AGM (annual general meeting) by the shareholders, and not by the directors. She charges fees according to the number of hours she expects to spend on the audit.

The opinion of the independent auditor must be based on an assessment of whether the financial statements:

- Have been prepared in such a way as to give a fair representation of the company's activity
- Are understandable and not confusing to the reader
- Are prepared in accordance with GAAP
- Are prepared in accordance with the requirements of the Companies Act.

#### The role of internal auditors

The internal auditors ensure that the internal controls are tested and play an important role in looking for fraud or mistakes in the business. They need to check, for example, debtors, wages or computer entries in every aspect of the business.

The internal auditor will be an employee of the business organisation and will earn a salary from the company.

The independent auditor (external) will consider the checks carried out by an internal auditor.

#### Audit reports

Auditors will issue a report after they have completed their work to express an opinion on their findings. Such a report is addressed to the shareholders (owners of the company). The report could be:

- Qualified a bad report with some irregularities, in which auditors
  have to state the kind of irregularity noted to the shareholders
  (qualify their statements).
- Unqualified good report with minor irregularities if any.
- Withheld/Disclaimer very bad report in which auditors may recommend further investigations on certain outstanding irregularities before issuing a report.

The word, "STARDIF" will help you to remember what the Code of good governance stands for!

KING CODE: CODE OF GOOD GOVERNANCE: "STARDIF"

S	Т	Α	R	D	I	F
Social responsibilities	Transparencies	Accountability	Responsible management	Discipline	Independence	Fairness
Contributing to community in which the business operate	Does things in an open manner (no hidden agenda).	Able to explain your actions when called to as a business	consideration	Business must stick to its principles and ethics.	Business must operate without influence from outside	Being considerate to your stakeholders and giving them what they deserve.



#### Worked example 6

#### **EXAMPLE OF AN UNQUALIFIED REPORT**

(GOOD REPORT):

You are provided with an extract from the report of the independent auditors:

#### Audit opinion – To the shareholders:

We have examined the financial statements set out on pages 8 to 20.

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 June 2009 and the results of their operations and cash flows for the year ended, in accordance with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act in South Africa.

**Barlow & Bokwe** 

**Chartered Accountants (SA)** 

**Registered Accountants and Auditors** 

Cape Town 6 September 2009

and fair representation of the company's operations for that year at a specific date at the end of that financial year.

The auditor's function is to give the shareholders who

opinion.

check for fraud.

appointed him at the AGM his

The auditor is not required to

check every transaction or to

An auditor only expresses an

opinion whether or not the financial records are a true



The following questions are normally asked in an examination. Make sure that you study the above information before answering the questions.

- State whether the shareholders would be satisfied or dissatisfied with this audit report. Give a reason for your answer. [3]
- 2 Explain why the auditors found it necessary to stipulate the page numbers (that is 8 to 20) in this report.
- 3 Explain why the Companies Act makes it a requirement for public companies to be audited by an independent auditor. [2]
- 4 Explain TWO major consequences for Barlow and Bokwe should they be negligent in performing their duties. [4]
- What actions would Barlow and Bokwe have to perform to verify the Fixed/Tangible Assets figure in the Balance Sheet? Provide THREE points.
  [3]
- Quinton Qwando, the major shareholder and managing director, has informed the auditors that he intends to buy the unissued shares himself next year without advertising the new issue to the other shareholders or the public. What advice should the auditors give to Quinton? Briefly explain.
  [4]

[2]

#### Memorandum

**1.** State whether the shareholders would be satisfied or dissatisfied with this audit report. Give a reason for your answer.

Satisfied <

Any valid reason ✓✓

Possible responses

- The financial statements are fairly presented this is a positive report
- This is an unqualified report
- The auditors did not mention any irregularities
- 2 Explain why the auditors found it necessary to stipulate the page numbers (i.e. 8 to 20) in this report.

They are only responsible for the pages that have been stipulated in the auditors' report  $\checkmark\checkmark$ 

3 Explain why the Companies Act makes it a requirement for public companies to be audited by an independent auditor.

The shareholders of a company need to have confidence in the company's ability to look after the investment  $\checkmark\checkmark$ 

4 Name TWO major consequences for Barlow and Bokwe should they be negligent in performing their duties.

Any two valid consequences 🗸

Possible responses

- · Can be sued
- Not be re-appointed as auditors
- Face disciplinary procedures by the professional body
- 5 What actions would Barlow and Bokwe have to perform to verify the Fixed/Tangible Assets figure in the Balance Sheet? Provide ← THREE points.

Three actions </

Possible responses

- Examine the financial records of the business external audit
- Assess the internal control of the business
- Assess the accounting principles used by the business
- Inspect the fixed asset register
- Quinton Qwando, the major shareholder and managing director, has informed the auditors that he intends to buy the unissued shares himself next year without advertising the new issue to the other shareholders or the public. What advice should the auditors give to Quinton? Briefly explain.

Advice: This is unethical and the issue of new shares should be advertised to all according to the Memorandum and Articles of Association, as this is a public company. 🗸

Explanation: The other shareholders will be disadvantaged, as Quinton will be increasing his shareholding percentage, which will effectively reduce the returns and dividends that the others are earning. By offering the shares on the open market the company could raise more money than if they sold at an agreed price to one buyer.

Any valid explanation.

External Auditors should be registered professionals with professional bodies such as South African Institute of Chartered Accountants (SAICA). This is to protect the shareholders and to ensure that continuous training takes place.

Remember that all fixed assets are recorded in an Asset register. Every fixed asset has its own entry in the asset register from the time bought, the yearly depreciation till the date of disposal.

It's a good idea to learn and understand "STARDIF" for this type of question:

- Transparency
- Accountability
- Responsible management
- Discipline
- Fairness



## EXAMPLES OF AN UNQUALIFIED AND A QUALIFIED AUDIT REPORT

You are provided with extracts from the independent audit reports of Kwela Ltd and Pomi Ltd.

**Unqualified** – good report in which there are minor irregularities if any.

#### **Extract from audit report of Kwela Ltd:**

In our opinion, the financial statements fairly present, in all material respects, the financial position of this company at 28 February 2012 and the results of their operations and cash flows for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

**Qualified** – a bad report with some irregularities in which auditors have to state the kind of irregularity noted to the shareholders (qualify their statements).

#### **Extract from audit report of Pomi Ltd:**

In our opinion, except for the effects of the company's overvaluation of its fixed assets, the financial statements fairly present the financial position of the company on 29 February 2012 and the results of their operations and cash flows for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

#### **REQUIRED**:

Consider the audit reports of Kwela Ltd and Pomi Ltd.

How would these audit reports influence James in deciding in which company to buy shares? Explain in respect of each company.

#### Memorandum

1. How would these audit reports influence James in deciding in which company to buy shares?

Explanation on the audit report of Kwela Ltd 🗸 🗸

- James will know that he can rely on the figures in the financial statements as the company has received an unqualified audit report
- James will know that he can rely on the figures in the financial statements as there is fair presentation in all material respects
- The report is unqualified it is a good (i.e. reliable) report.

#### Explanation on the audit report of Pomi Ltd 🗸

- James will know that he cannot rely on the figures in the financial statements as the company has received an qualified audit report
- James will know that he cannot rely on the figures in the financial statements as they drew attention to shortcomings in the financial statements
- James will be unhappy because the fixed assets had been overvalued in the opinion of the auditors (which means that the true value of his possible investment is not certain as indicated by the net asset value).



## EXAMPLE OF A WITHHELD /DISCLAIMER AUDIT REPORT

#### **MAR 2009**

Refer to the newspaper article provided.

#### JSE suspends Woodview Ltd over no annual report

By Ima Snoop, 12 Feb 2009

The trading of shares of furniture company Woodview Ltd were suspended by the JSE Securities Exchange yesterday after the company failed to publish its annual report three months after the end of their financial year-end.

The CEO of Woodview Ltd put out a statement explaining that the auditors had withheld their report and that this was causing a delay.

The company postponed its AGM. The shareholders have not been informed of the reason for the postponement.

Prior to the JSE's action, the share price of Woodview Ltd dropped 30% to 140 cents per share.

The directors of Bhaga Toys Ltd are worried that a similar problem could occur in their company. Briefly explain why this would be a serious problem for the company. Provide two points

**Withheld** – very bad report in which auditors may recommend further investigations on certain outstanding irregularities before issuing a report.

If the auditor becomes aware of fraud, then he has a duty to report this to the shareholders.

Auditors are bound by very high ethical standards and can face disciplinary proceedings if they are found to have been negligent in their work.

#### Memorandum

Refer to the newspaper article provided. The directors of Bhaga Toys Ltd are worried that a similar problem could occur in their company. Briefly explain why this would be a serious problem for the company. Provide two points.

Any two valid explanations 🗸 🗸

- A delay would cause shareholders to become suspicious
- Shareholders would not vote for these directors next year
- New shareholders will avoid the company and share prices could drop
- The directors would be guilty of a criminal offence. In terms of the Companies Act they have to produce financial statements within three months
- It will affect the ability to raise capital/loans in future as investors will be suspicious



## Chapter

## Manufacturing

#### The manufacturing process is divided into 3 departments:

Administration department	Factory	Selling and distribution department
Office duties are performed in this department and include financing and investing activities.	Raw materials are taken through the manufacturing process in order to produce finished goods.	This department is responsible for the advertising, selling and delivery of the finished goods to customers.
	Related costs	
Administration department	Factory	Selling and distribution department
Accountant's salary	Direct costs	Calco managaria calary
T. Control of the con	Direct costs	Sales manager's salary
Bookkeeper's salary Receptionist's salary Cleaning staff wages	Raw/direct materials Factory workers' wages/salaries (direct labour)	Sales representative's commission Salary of deliverymen Bad debts
Receptionist's salary	Raw/direct materials Factory workers' wages/salaries	Sales representative's commission Salary of deliverymen Bad debts Advertising
Receptionist's salary Cleaning staff wages Office stationery Office rent Insurance on office equipment	Raw/direct materials Factory workers' wages/salaries (direct labour)  Indirect costs/factory overheads Factory foreman's salary (indirect	Sales representative's commission Salary of deliverymen Bad debts Advertising Stationery costs Rent
Receptionist's salary Cleaning staff wages Office stationery Office rent	Raw/direct materials Factory workers' wages/salaries (direct labour)  Indirect costs/factory overheads	Sales representative's commission Salary of deliverymen Bad debts Advertising Stationery costs
Receptionist's salary Cleaning staff wages Office stationery Office rent Insurance on office equipment Depreciation on office equipment	Raw/direct materials Factory workers' wages/salaries (direct labour)  Indirect costs/factory overheads Factory foreman's salary (indirect labour) Cleaning staff wages/salary	Sales representative's commission Salary of deliverymen Bad debts Advertising Stationery costs Rent Depreciation on delivery vehicle
Receptionist's salary Cleaning staff wages Office stationery Office rent Insurance on office equipment Depreciation on office equipment	Raw/direct materials Factory workers' wages/salaries (direct labour)  Indirect costs/factory overheads Factory foreman's salary (indirect labour) Cleaning staff wages/salary (indirect labour) Indirect materials/consumable stores Factory rent	Sales representative's commission Salary of deliverymen Bad debts Advertising Stationery costs Rent Depreciation on delivery vehicle
Receptionist's salary Cleaning staff wages Office stationery Office rent Insurance on office equipment Depreciation on office equipment	Raw/direct materials Factory workers' wages/salaries (direct labour)  Indirect costs/factory overheads Factory foreman's salary (indirect labour) Cleaning staff wages/salary (indirect labour) Indirect materials/consumable stores	Sales representative's commission Salary of deliverymen Bad debts Advertising Stationery costs Rent Depreciation on delivery vehicle

## 3.1 Important concepts of manufacturing

#### Costs in the manufacturing process

Concept	Explanation
Direct labour cost	Wages and salaries of those employees physically making the product or operating the machines making the product.
Direct/raw materials cost	Raw materials that have been issued to the factory and have been used to manufacture the finished goods.
	E.g. leather and rubber soles in the making of shoes.
Factory overhead costs	All other costs involved in the manufacturing process which increase the cost of producing the product.

# Use mobile notes to help you learn these manufacturing concepts. See page ix for more informaiton.



#### Stocks in a manufacturing business

Concept	Explanation
Finished goods stock	Products that are completely finished and are ready for sale.
Factory indirect materials/consumable stores stock	The indirect materials that have not yet been used and are still available to be used, e.g. cleaning materials left over.
Raw materials stock	The raw materials left over that have not yet been issued to the factory but are stored safely in the warehouse for future use.
Work-in-process stock	Products that have not been completely turned into finished goods and are still in the manufacturing process.
Fixed costs	These are costs that do not change according to number of products made. For example, the rent of the factory plant will be the same no matter whether 1 000 units are made or 100 000 units are made.
Variable Costs	These costs will increase when production increases. For example, the cost of raw materials used will be far less if 1 000 units are made compared to if 100 000 units are made.

be assumed that all factory overhead costs and admin costs will be **fixed costs**, unless otherwise stated.

For exam purposes it will

It is important to understand that costs can be further divided into: fixed costs and

variable costs.

For exam purposes it will be assumed that raw materials, direct labour and selling and distribution costs will be **variable costs**, unless otherwise stated.

Flow from the raw material in the store room through the factory to the finished goods in the show room.

- a) Study the following illustration and see the horizontal flow of funds from the storeroom to the factory and then to the show room.
- **b)** Now study the illustration vertically.
  - i. See how the STORE ROOM is presented in the general ledger as the Raw Material stock account and in Note 1 of the Production Cost Statement.
  - II. See how the FACTORY is presented in the general ledger account as Work in Process stock account and as the PRODUCTION COST STATEMENT.
  - **III.** See how the **SHOW ROOM** is presented in the general ledger account as the Finished Goods stock account and in Note 4 of the Production Cost Statement.

### 3 Chapter

#### Storeroom

In the storeroom the raw material and the consumable stores on hand are kept

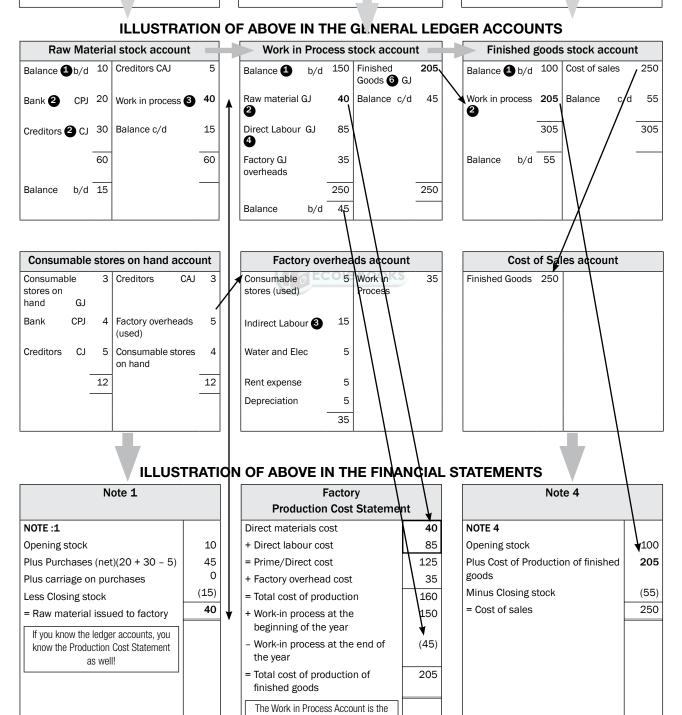
- 1. You have stock on hand
- You purchase new raw materials- cash or credit
- You transfer raw materials to the factory (called COST OF RAW MATERIAL ISSUED TO FACTORY)

#### Factory

- You have uncompleted stock on hand.
- In the factory the raw materials that you received from the storeroom are taken through the manufacturing process.
- 3. You have a manager, cleaners and security- indirect labour
- 4. You have employees who are directly involved in the product- direct labour
- 5. You have overhead cost; rent expense, water and electricity, depreciation, etc.
- 6. Then you have the completed goods that are transferred out of the factory to the selling and distribution department. This figure is the COST OF PRODUCTION OF FINISHED GOODS

#### Show room

- . You have finished goods on hand
- Received finished goods from the factory.
- You sell goods and the finished goods decreased at cost price. (Cost of Sales)



**Production Cost Statement** 

Chapter 3

Study the following template and see the similarities between the General ledger accounts and the Production Statement.

If you understand the flow of the ledger accounts from the raw materials to the finished goods, you will be able to learn the format and understand the Production Statement well.

GENE	RAL	LED	GER ACCOUN	ITS		PRODUCTION COST STATEMEN	Т
Dr	Ra	w mate	erial stock		Cr	Note 1: Raw material/ Direct material cost	
Balance	b/d	10 20	Creditors contr.	CAJ	5	Opening stock	10
Bank	CPJ	30	Work in process	GJ	40-	+ Purchases(net) (20 + 30 - 5)	45
Creditors contr	CJ		Balance	c/d	15	+ Carriage on purchases	_
		60		<u> </u>	60	+ Custom duties	_
Balance	b/d	15				- Closing stock	(15)
		I			,	= Stock issued (Direct material cost)	40
Dr		Nork in	process		Cr		
Balance	b/d		Finished goods	GJ	205	PRODUCTION COST STATEMENT	
Raw material	GJ		Balance	c/d	45	Direct materials cost	40
Direct labour	GJ	85				+ Direct labour cost	85
Factory	GJ	35				= Prime/Direct cost	125
overheads						+ Factory overhead cost	35
		250			250	= Total cost of production	160
Balance	b/d	45				+ Work-in process at the beginning of the year	150
						- Work-in process at the end of the year	(45)
				É	cole	= Cost of production of finished goods	205
Dr		Finishe	d Goods		Cr		
Balance	b/d	100	Cost of Sales	GJ	250	Note 4: Cost of finished goods(Cost of sales)	
Work in	GJ	205	Balance	c/d	55		100
process						+ Cost of Production of finished goods	205
		305			308	Closing stock	(55)
Balance	b/d	55				= Cost of sales	250
Dr	Fa		verheads		Cr	<u> </u>	
Consumable sto	ores		Work in process	1	35	Note 3 Factory overhead costs	_
Indirect labour		15				Consumable stores (3 + 4 + 5 - 3 - 4)	5
Water and elec.	•	5				Indirect labour	15
Rent expense		5				Water and electricity	5
Depreciation		5				Rent expense	5
		35			35	1!	5
						Total factory overheads used	<b>*</b> 35

## 3.2 Production Cost **Statement**



#### Worked example 1

#### **Example adapted from November 2010 NSC Exam Paper**

You are provided with information (balances, transactions and adjustments) relating to Fatima Manufacturers owned by Fatima Fala. The business manufactures shoes.

This is direct materials cost (see definition on page 39).

#### Required

1. Calculate the value of the raw materials **that were issued** to the factory for the year ended 28 February 2010.

[6]

2. Prepare the following notes to the Production Cost Statement for the year ended 28 February 2010:

2a) Direct labour cost

[5]

2b) Factory overhead cost

[16]

3. Prepare the Production Cost Statement for the year ended 28 February 2010.

[12]

4. Using the figures in the Production Cost Statement you have just prepared, calculate the following (show your workings):

4a) Raw materials cost per unit

[3]

4b) Total cost per unit

[3]

5. You are provided with the number of units produced and the break-even point calculated for the past two years:

	2010	2009
Break-even point	19 548 units	11 300 units
Number of units produced	20 000 units	24 000 units

5a) Briefly explain what the term break-even point means.

[2]

5b) Explain whether Fatima should be concerned about the break-even point for 2010. Quote figures to support your answer.

[4]

#### Information

#### **Fatima Manufacturers**

#### 1. OPENING BALANCES ON 1 MARCH 2009:

Raw materials stock	R160 000
Work-in-process stock	158 000
Finished goods stock	120 000
Consumable stores stock: Factory	6 000
Factory plant and equipment at cost	2 225 000
Accumulated depreciation on factory plant and equipment	450 000

## 2. SUMMARY OF TRANSACTIONS FOR THE YEAR ENDED 28 FEBRUARY 2010:

Purchases of raw materials on credit		R1 023 475
Carriage on purchases of raw materials		22 500
Consumable stores	purchased for the factory	43 000
Cleaning materials	purchased for the office	12 000
Factory plant and e 1 September 2009	quipment purchased on	250 000
Production wages		723 800
UIF – contribution f	or factory employees	
Salaries: Factory foreman		150 000
	Administration	400 000
Sales staff		250 000
Water and electricity		163 000
Sundry expenses: Factory		194 680
	Administration	530 000
	Sales department	340 000

#### 3. CLOSING BALANCES ON 28 FEBRUARY 2010:

Raw materials stock	R259 125
Work-in-process stock	122 900
Finished goods stock	142 500
Consumable stores stock: factory	7 000

#### 4. ADDITIONAL INFORMATION AND ADJUSTMENTS:

a) No entry was made for the transport of raw materials by Pops Carriers to the factory, R3 750.

b) No entry was made for the following in respect of the production wages for the last week of February 2010. The entry was omitted (left out) from the wages journal: Direct labour cost

Gross wages R6 200
Deductions: Unemployment Insurance Fund 62
PAYE 1 240

The employer contributes 1% to the UIF.

- c) An amount of R4 200 was still outstanding on the water and electricity account for February 2010. Sixty per cent (60%) of all the water and electricity was used in the factory.
- d) Depreciation on factory plant and equipment must be brought into account at 10% per annum, according to the diminishing balance method.
- e) During the year 20 000 pairs of shoes were manufactured.

If there are any returns of purchases (creditors allowances), they would be subtracted from purchases.



Only use FACTORY COSTS on the Production Cost Statement. No administration and selling, and distribution costs appear on this statement.

Production wages for the year + gross wage figure in adjustment B.

As per adjustment B, the UIF contribution is 1% of the R730 000 above.

Opening balance of consumable stores stock + consumable stores purchases – closing balance of consumable stores stock.

R2 225 000 - R450 000  $= R1 775 000 \times 10 \%$ = R177500

R250 000 × 10 % × 6/12 = R12500

(Total water and electricity already paid during the year + the amount that still has to be paid as per adjustment  $C) \times only the portion used$ in the factory (60% as per adjustment C).

#### Answers to worked example 1 (see pages 40-41)

1. Value of raw materials issued:

	DIRECT MATERIALS COST	
	Opening balance of raw material stock	R160 000 🗸
•	Add: Purchase of raw materials +	R1 023 475 🗸
	Add: Carriage on purchases of raw materials +	R22 500 ✓
	Add: Transport of raw materials (adjustment A) +	R3 750 ✓
	<u>Less</u> : Closing balance of raw material stock –	(R259 125) 🗸
	Equals: Raw materials issued to the factory =	R950 600 🗹

[6]

#### NOTES TO THE PRODUCTION COST STATEMENT 2a

DIRECT LABOUR COST	R
Production wages (723 800√ + 6 200√)	730 000 🗸
UIF contribution	7 300 🗹
(Figure Rooks	737 300 🗹

[5]

2b

FACTORY OVERHEAD COST	R
Salary of foreman	150 000 🗸
Consumable stores: factory (6 000√ + 43 000√ - 7 000√)	42 000 🗸
Depreciation (177 500√√ + 12 500√√)	190 000 🗹
Water and Electricity (163 000 ✓ + [4 200 ✓ × 60%] ✓)	100 320 🗹
Sundry expenses: factory	194 680 🗸
	677 000 🗹
	 [16]



There are a number of costs that may need to be split between factory, administration and selling, and distribution.

For example: water and electricity could be split in the ratio 3:2:1.

#### PRODUCTION COST STATEMENT OF FATIMA MANUFACTURERS FOR THE YEAR ENDED 28 FEBRUARY 2010



It is VERY important to know
the format of the Production
Cost Statement!

This figure comes from the answer you calculated in part 1 of this question.

This figure comes from the answer in the direct labour note in part 2 of this question.

Direct materials cost + Direct labour cost = Prime costs

This figure comes from the answer in the factory overhead cost note in part 2 of this question.

This figure comes from opening balances at the beginning of the financial year.

This figure comes from closing balances at the end of the financial year.

This final figure provides the accountant with the total cost of making the 20 000 pairs of shoes during the year (see additional information E).

Direct materials costs (see Production Cost Statement) ÷ number of shoes manufactured as per additional information E.

Total cost of production of finished goods (see Production Cost Statement) ÷ number of shoes manufactured as per additional information E.

[3]

[3]

	TOTAL
Direct materials cost√	950 600
Direct labour cost√	737 300☑
Prime/direct cost	1 687 900
Factory overhead cost√	677 000
Total cost of production	2 364 900
Work-in process at the beginning of the year	eBooks 158 000√
	2 522 900
Work-in process at the end of the year√	(122 900)√
Total cost of production of finished goods	2 400 000 🗹
	[12]

4. a)

Total cost per unit

Raw materials cost per unit

R950 600 ÷ 20 000 √ units = R47,53 √

R2 400 000 ÷ 20 000 / units = R120 /



Do not be afraid to give your own opinion when answering this type of question.

Note that there are various possible answers that could be accepted.

It tells you how many items you must make and sell before you can start making a profit.

#### **Explanation:**

Yes, ✓ she should be concerned as units produced are close ✓ to BEP; or Yes, as the BEP has increased significantly from the previous year; or No, she is still exceeding the BEP.

#### **Quoting of figures:**

Compare 20 000√ units produced to BEP√ of 19 548 or BEP is 97,7% of total units; or Compare BEP 19 548 to 11 300 of the previous year; or Compare units of 20 000 to 24 000 of the previous year - affects BEP

[4]

[2]



Learn this! Formula to calculate break-even point (BEP):

Total fixed costs Selling price per unit – Variable cost per unit



#### **Practice task 1**

#### 1. Production Cost Statement calculations:

Opening balance of raw material stock	
Add: Purchase of raw materials	+
Add: Carriage on purchases of raw materials	+
Add: Transport of raw materials	+
Less: Closing balance of raw material stock	-
Equals: Raw materials issued to the factory	=

Photocopy this blank Production
Cost Statement and use it to practise doing the worked example 1 again on your own.
Once you have completed the task, compare your answer to the worked example on the previous pages.



#### 2. NOTES TO THE PRODUCTION COST STATEMENT

DIRECT LABOUR COST	R
ÉcoleBo	oks

[5]

[6]

FACTORY OVERHEAD COST	R

[16]



#### 3. PRODUCTION COST STATEMENT OF FATIMA MANUFACTURERS FOR THE YEAR ENDED 28 FEBRUARY 2010

	TOTAL
Primed/direct cost	
Total cost of production	
Total cost of production of finished goods	

[12]



Below is a list of suggested past examination questions for extra practice:

Topic	Paper	Question		
Costing calculations and Production Cost Statement	November 2008	3		
Production Cost Statement	November 2009	3		
Costing calculations	February/March 2010	4		
Multiple choice	November 2010	3.1		
Costing calculations and concepts	February/March 2012	2		
Production Cost Statement	November 2013	2.1		
Break even point	November 2013	2.3		



## **Budgets**

Budgeting is an important tool for **internal control** in any business. Budgets are prepared to forecast what will happen in the future.

## 4.1 Key concepts

Concept	Explanation	Purpose
Cash budget	A forecast of cash receipts and cash payments.	To forecast future receipts and payments.
Projected Income Statement	A forecast of income and expenses.	To forecast future profits or losses.
Debtors' collection schedule	A schedule (plan) of how the business will collect money from its debtors.	To forecast receipts from debtors.
Creditors' payment schedule	A schedule (plan) of how the business will pay its creditors.	To forecast payments to creditors.

#### Sales

- a) A business' main source of income is sales. These can be for cash or on credit.
- b) Cash sales are received immediately and will be entered as a receipt on the cash budget in the month of sale.
- c) The money from credit sales will be collected from debtors in the future.
- d) The cash and credit sales may need to be calculated from the given information.





#### ACTUAL SALES:

These are sales that have taken place in the months before the budget period. A portion of the credit sales may be collected in the budget period.

#### BUDGETED SALES:

These are the estimated sales for the budget period.



This 3% is written off as a bad debt and will not form part of the debtors' collection schedule as no cash will be received from bad debts.



## 4.2 Debtors' collection schedule

Use the following steps when preparing a debtors' collection schedule:

- Calculate and enter the credit sales.
- Take each month and insert the percentage that will be received in that month.
- 3. Do the calculations using credit sales to work out the amount to be received from debtors.
- Total the columns for each month.



### Worked example 1

Prepare the debtors' collection schedule for July, August and September 2011 from the information below:

- 1. 60% of total sales are for cash.
- 2. Debtors are expected to pay as follows:
  - 50% in the same month as the credit sale transactions subject to a 10%
  - 30% in the month following the credit sales transaction month
  - 17% in the second month following the credit sale transaction month
  - 3% is expected to be written off
- 3. Total sales:
  - Actual

- June 2011 R160 000

**Budgeted** 

July 2011 R150 000 August 2011 R180 000 September 2011 R200 000

TO CHAPTER 4 BUDGETS

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#### Answer to worked example 1 (see page 64) Although June is not in the budget period, some of June's credit sales will be collected in July and August. **Credit sales** July August September June 2011 R64 000 30% 19 200 17% 10 880 50% - 10% 27 000 July 2011 R60 000 30% 18 000 17% 10 200 Aug 2011 R72 000 50% - 10% 32 400 21 600 30% Sep 2011 R80 000 50% - 10% 36 000 R46 200 R61 280 R67 800 First calculate 50% of the credit sales and then subtract the 10% discount from this figure [50% - 10% is not]40%]. **Explanations** Step 1 Step 2 Step 3 Calculate and enter credit sales. Insert % to be collected in Do the calculations to work out the amount each month. of credit sales collected in each month. Cash sales = 60% Credit sales = 40% June: R160 000 × 40% = June credit sales: No calculation as they See answer above. R64 000 are not part of this collection period July: R64 000 × 30% = R19 200 July: R150 000 $\times$ 40% = R60 000 August: R180 000 × 40% = August: R64 000 × 17% = R10 880 R72 000 July credit sales: Sept: R200 000 × 40% = July: R60 000 × 50% = R30 000 R80 000 R30 000 - 10% = R27 000 August: R60 000 × 30% = R18 000 Sept: R60 000 × 17% = R10 200 August credit sales: August: R72 000 × 50% = R36 000 R36 000 - 10% = R32 400 Sept: R72 000 × 30% = R21 600

September credit sales:

Sept: R80 000 × 50% = R40 000 R40 000 - 10% = R36 000



## 4.3 Creditors' payment schedule (creditors' budget)

The following must be considered when the Creditors' budget is calculated:

- when and how much stock is purchased on credit and
- When is the payment due?

This forms part of the second step in the preparation of the main budget.

This info has a twofold understanding:

- That the stock balance at the beginning of the month will be the same, every month, and
- That total purchases are equal to Cost of Sales when purchases are not given.

**ILLUSTRATIVE ACTIVITY:** 

#### **REQUIRED:**

Calculate the expected payments to creditors for credit purchases for the budged period January to March 2014.



The Opening stock balance will be maintained as the stock basis.

That means that the purchasing on credit during December will be paid at the end of January.

#### INFORMATION:

Creditors are paid in full in the month following purchases

ACTUAL CASH purchases of trading stock	November 2013	R10 000	
ÉcoleBooks	December 2014	R12 000	
BUDGETED CASH purchases of trading stock	January 2014	R10 000	
Stock	February 2014	R13 000	
	March 2014	R14 500	

ACTUAL CREDIT purchases of trading stock	November 2013	R14 000	
	December 2013	R12 000	
BUDGETED CREDIT purchases of trading stock	January 2014	R10 000	
	February 2014	R12 000	
	March 2014	R13 000	

The following template is the interpretation of the instruction that the Creditors will be paid in full the following month:

1	NOV	14 000	This amount will be paid at the end of December, however this amount is not part of the budget month
2	DEC	12 000	R12 000 will be paid at the end January and forms part of the budget months
3	JAN	10 000	R10 000 will be paid at the end of January and February forms part of the budget months
4	FEB	12 000	R12 000 will be paid at the end of February and March forms part of the budget months
5	MAR	13 000	This amount will be paid at the end of April and does not form part of the budget months

#### **SOLUTION:**

#### CREDITORS PAYMENT\$ \$CHEDULE: Budgeted period: Jan - Mar 2014

MONTH	CREDIT :	i		BUDGETED PERIOD				
WIONTH	PURCHASES	NOV DEC		JAN	FEB	MAR		
1 NOV	14 000	-						
2 DEC	12 000	L		12 000				
3 JAN	10 000				10 000			
4 FEB	12 000					12 000		
<b>5</b> MAR	13 000							
Payments to creditors			(	† 12 000	* 10 000	*,12 000		

<sup>\*</sup> Creditors are paid in full in the month following purchases

#### EXTRACT OF THE CASH BUDGET

#### **CASH PAYMENTS:**

CASH PAYMENTS	JANUARY		FEBRUAR'	Y	MARC	Н
Cash Purchases	10 00	)	13 0	00	14	500
Payments to Creditors	12 000		10 0	00	12	000

Example of creditor's payment schedule:

#### **REQUIRED:**

Prepare a Purchases Payment Schedule of KIMA TRADERS for January 2014 to March 2014.

#### **INFORMATION:**

SALES FORECAST:	BALANCES AT 31 DECEMBER 2013

January R126 000 Trading Stock R75 000 February R130 000 Creditors R60 000

March R144 000



Whenever the credit purchases are not given, calculate the cost of sales from the given total sales (R6000)

E.g. Cost of Sales = 50 % on cost

Calculation:

Sales  $\times$  100/150 =

Cost of sales (Purchases)

 $6000 \times 100/150 =$ 



#### **ADDITIONAL INFORMATION:**

- 1. Mark-up is equal to 100% on Cost price
- 2. Cash purchases of trading stock amount to only 20% of all purchases
- 3. All credit purchases are payable in the month following the month of Purchase.
- 4. Stock replenishment will take place on a monthly basis and the opening balance will be maintained as a base stock.

#### PROCEDURE TO FOLLOW:

**1.** Determine the budget months:

Answer: January to March 2014.

2. Does the question give you the purchases of stock?

Answer: No, therefore Cost of sales is equal to purchases of stock.

#### **EXPLANATIONS:**



1	Mark-up is equal 100% on Cost		you have	asses of stock is not given therefore to calculate the cost of sales amount ine the purchases of stock:			
	+ Profit:	100% 100%	January: F	Creditors' balance will be paid in R60 000. (the balance was the credit s during December)			
	=Sales:	200%	January to	Make use of the sales figure of calculate the cost of sales that is burchases:			
			126 000	× 100/200 = R63 000 (Cost of sales)			
		ÉcoleBo	March: Make use of the sales figure of Febru to calculate the cost of sales: 130 000 × 100/200 = R 65 000 (Cost of sales)				
			March sal sales. Nee purchases	chases for March: Make use of the les figure to calculate the cost of ed this figure to determine the cash is for March: 144 000 × 100/200 = cost of sales)			
2	Cash purchase trading stock a to only 20 % o purchases. Th	amount of all	January:	63 000 × 20%= R12 600 cash purchases in January (63 000 × 80%= R50 400 payment of account in February)			
	credit purchase of all purchase		February:	65 000 × 20%= R13 000 cash purchases for February			
				$65\ 000 \times 80\%$ = R52 000 payment of account in March			
			March:	72 000 × 20% = R14 000 cash purchases for March			
3	All credit purcl payable in the following the r Purchase.	month	next mont	ns that the creditors will be paid the th. Anything bought during January will the end of February.			
4	Stock replenis will take place monthly basis opening balan maintained as stock.	on a and the ace will be	This means that the opening stock will stay the same every month.  See the illustration below				

#### ILLUSTRATION: CALCULATION OF THE PURCHASES AMOUNT OF STOCK.

## "STOCK REPLENISHMENT WILL TAKE PLACE ON A MONTHLY BASIS AND THE OPENING BALANCE WILL BE MAINTAINED AS A BASE STOCK."

Here is an illustration what it means:

- If the opening balance is the same at every given month, then the Cost of sales will automatically be equal to the total purchases.
- So, when the stock purchased is not given, calculate cost of sales.
- Cost of Sales is equal to total purchases.
- Find the ratio between credit (eg. 80%) and cash purchases (eg. 20%) and calculate
- Complete the Creditors Payment schedule

#### **GENERAL LEDGER OF KIMA TRADERS**

DR			TF	RADING STO	CK AC	COUN	IT	N	CR
Jan	1	Balance	B/d	75 000	Jan	31	(126 000 × 100/200)		63 000
							Cost of sales		
		Bank (63 000 × 20%)		12 600			Balance	C/d	75 000
		63 000 × 80%		50 400					
		Creditors control							
				138 000					138 000
Feb	1	Balance	B/d	75 000	Feb	28	(130 000 × 100/200)		65 000
							Cost of sales		
		Bank (65 000 × 20%)		13 000			Balance	C/d	75 000
		Creditors control (80%)		52 000					
				Con 1					
Mar	1	Balance	B/d	75 000	Mar	31	(144 000 × 100/200)		
							Cost of sales		72 000
		Bank (72 000 × 20%)		14 400			Balance	C/d	75 000
		Creditors control (80%)		57 600					
Apr	1	Balance	B/d	75 000					

#### **SOLUTION:**

#### CREDITORS PAYMENTS SCHEDULE: Budgeted period: January to March 2014

MONTH	PURCHASES	CREDIT	1	BUDGETED PERI		RIOD		
		PURCHASES	NO	$\sqrt{\perp}$	DEC	JAN	FEB	MARCH
Balance of creditors				$\Box$		60 000		
JAN	63 000	50 400					50 400	
FEB	65 000	52 000						52 000
MAR	72 000	57 600	)					
Payments to creditors						60 000	50 400	52 000

#### EXTRACT OF THE CASH BUDGET:

#### **CASH PAYMENTS:**

CASH PAYMENTS	JANUAF	Y	FEBRUA	ŖΥ	MARC	H
Cash Purchases	12	600	13	000	14	400
Payments to Creditors	60	000	50	400	52	000



## 4.4 Analysis of cash budget



#### Worked example 2

Example adapted from March 2010 NSC question paper – see FEB/MARCH 2010 Paper 1 at:

http://www.education.gov.za/Examinations/PastExamPapers/AccountingPapers2010/ tabid/507/Default.aspx

You are provided with the Projected Income Statement and additional information relating to Helen's Hair Stylists for the period April to June 2010. The business is owned by Helen Davids. Helen has also prepared a cash budget for the same time period. The financial year-end is 31 March.

#### Required

Answer the questions that follow.

#### Information

Helen's hair stylists

Projected Income Statement for April to June 2010

R   R   R   R   Sales of hair products   87 500   105 000   122 500   105 000   122 500   105 000   60 000   70 000   100		APRIL	MAY	JUNE
Cost of sales         50 000         60 000         70 000           Gross profit         37 500         45 000         52 500           Other operating income         122 000         122 000         162 000           Fee income from customers         120 000         120 000         160 000           Sundry income         2 000         2 000         2 000           OPERATING EXPENSES         95 350         120 072         127 372           Salary of hairdressing assistants         25 500         25 500         34 000           Wages of cleaner         3 400         3 672         3 672           Rent of premises         24 600         30 750         30 750           Consumable stores         14 400         14 400         19 200           Water & electricity         6 000         6 000         7 000           Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300 <th< th=""><th></th><th>R</th><th>R</th><th>R</th></th<>		R	R	R
Gross profit         37 500         45 000         52 500           Other operating income         122 000         122 000         162 000           Fee income from customers         120 000         120 000         160 000           Sundry income         2 000         2 000         2 000           OPERATING EXPENSES         95 350         120 072         127 372           Salary of hairdressing assistants         25 500         25 500         34 000           Wages of cleaner         3 400         3 672         3 672           Rent of premises         24 600         30 750         30 750           Consumable stores         14 400         14 400         19 200           Water & electricity         6 000         6 000         7 000           Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on equipment         2 050         2 050         2 050	Sales of hair products	87 500	105 000	122 500
Other operating income         122 000         122 000         162 000           Fee income from customers         120 000         120 000         160 000           Sundry income         2 000         2 000         2 000           OPERATING EXPENSES         95 350         120 072         127 372           Salary of hairdressing assistants         25 500         25 500         34 000           Wages of cleaner         3 400         3 672         3 672           Rent of premises         24 600         30 750         30 750           Consumable stores         14 400         14 400         19 200           Water & electricity         6 000         6 000         7 000           Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128 <tr< td=""><td>Cost of sales</td><td>50 000</td><td>60 000</td><td>70 000</td></tr<>	Cost of sales	50 000	60 000	70 000
Other operating income         122 000         122 000         162 000           Fee income from customers         120 000         120 000         160 000           Sundry income         2 000         2 000         2 000           OPERATING EXPENSES         95 350         120 072         127 372           Salary of hairdressing assistants         25 500         25 500         34 000           Wages of cleaner         3 400         3 672         3 672           Rent of premises         24 600         30 750         30 750           Consumable stores         14 400         14 400         19 200           Water & electricity         6 000         6 000         7 000           Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128 <tr< td=""><td>Gross profit</td><td>37 500</td><td>45 000</td><td>52 500</td></tr<>	Gross profit	37 500	45 000	52 500
Sundry income         2 000         2 000         2 000           OPERATING EXPENSES         95 350         120 072         127 372           Salary of hairdressing assistants         25 500         25 500         34 000           Wages of cleaner         3 400         3 672         3 672           Rent of premises         24 600         30 750         30 750           Consumable stores         14 400         14 400         19 200           Water & electricity         6 000         6 000         7 000           Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465	Other operating income	122 000	122 000	162 000
OPERATING EXPENSES         95 350         120 072         127 372           Salary of hairdressing assistants         25 500         25 500         34 000           Wages of cleaner         3 400         3 672         3 672           Rent of premises         24 600         30 750         30 750           Consumable stores         14 400         14 400         19 200           Water & electricity         6 000         6 000         7 000           Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         67 465         46 928         87 128           Interest on loan         750         625         500	Fee income from customers	120 000	120 000	160 000
Salary of hairdressing assistants         25 500         25 500         34 000           Wages of cleaner         3 400         3 672         3 672           Rent of premises         24 600         30 750         30 750           Consumable stores         14 400         14 400         19 200           Water & electricity         6 000         6 000         7 000           Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500	Sundry income	2 000	2 000	2 000
Salary of hairdressing assistants         25 500         25 500         34 000           Wages of cleaner         3 400         3 672         3 672           Rent of premises         24 600         30 750         30 750           Consumable stores         14 400         14 400         19 200           Water & electricity         6 000         6 000         7 000           Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500				
Wages of cleaner         3 400         3 672         3 672           Rent of premises         24 600         30 750         30 750           Consumable stores         14 400         14 400         19 200           Water & electricity         6 000         6 000         7 000           Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500	OPERATING EXPENSES	95 350	120 072	127 372
Rent of premises         24 600         30 750         30 750           Consumable stores         14 400         14 400         19 200           Water & electricity         6 000         6 000         7 000           Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500	Salary of hairdressing assistants	25 500	25 500	34 000
Consumable stores         14 400         14 400         19 200           Water & electricity         6 000         6 000         7 000           Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500	Wages of cleaner	3 400	3 672	3 672
Water & electricity         6 000         6 000         7 000           Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500	Rent of premises	24 600	30 750	30 750
Telephone         2 200         2 200         2 200           Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500	Consumable stores	14 400	14 400	19 200
Advertising         8 000         15 000         8 000           Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500	Water & electricity	6 000	6 000	7 000
Motor vehicle expenses         1 400         5 600         5 600           Repairs & maintenance of equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500	Telephone	2 200	2 200	2 200
Repairs & maintenance of equipment       3 500       3 500       3 500         Sundry expenses       2 300       2 300       2 300         Depreciation on vehicle       2 000       9 100       9 100         Depreciation on equipment       2 050       2 050       2 050         OPERATING PROFIT       64 150       46 928       87 128         Interest income       3 315       0       0         67 465       46 928       87 128         Interest on loan       750       625       500	Advertising	8 000	15 000	8 000
equipment         3 500         3 500         3 500           Sundry expenses         2 300         2 300         2 300           Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500	Motor vehicle expenses	1 400	5 600	5 600
Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500	•	3 500	3 500	3 500
Depreciation on vehicle         2 000         9 100         9 100           Depreciation on equipment         2 050         2 050         2 050           OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500	Sundry expenses	2 300	2 300	2 300
OPERATING PROFIT         64 150         46 928         87 128           Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500		2 000	9 100	9 100
Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500	Depreciation on equipment	2 050	2 050	2 050
Interest income         3 315         0         0           67 465         46 928         87 128           Interest on loan         750         625         500				
67 465         46 928         87 128           Interest on loan         750         625         500	OPERATING PROFIT	64 150	46 928	87 128
Interest on loan         750         625         500	Interest income	3 315	0	0
		67 465	46 928	87 128
NET PROFIT	Interest on loan	750	625	500
NET PROFIT 66 /15 46 303 86 628	NET PROFIT	66 715	46 303	86 628

#### Additional information

#### 1. Line of business:

Helen gave up her job to start this business in 2004. She invested her life savings of R800 000 in this business. The business styles hair for its customers. They also sell hair products to the public.

#### 2. Employees:

Helen employs three hair stylists. She has planned to expand the business by employing a fourth stylist from 1 June 2010. She also employs a cleaner.

#### 3. Business premises rented:

The rent is calculated on a fixed amount per square metre. She currently rents 60 square metres, but will increase this floor space as from 1 May 2010 due to expansion.

#### 4. Fixed deposit:

The fixed deposit of R468 000 is for 12 months and will mature on the 30 April 2010.

#### Questions

Refer to the Projected Income Statement to identify/calculate the following:

- **1.** The monthly salary paid to each hair stylist. (2)
- 2. The % increase in wages that the cleaner will receive during the projected period. (2)
- 3. The % interest rate on the fixed deposit. (4)
- 4. The rental per square metre, and the number of additional square metres she will rent from 1 May 2010. (4)
- As the internal auditor you compare the following projected figures to the actual figures at the end of April. Provide four comments that you would include in your internal auditor's report in respect of scenarios A, B and C below.

		Projected April 2010	Actual April 2010
Α	Telephone	2 200	4 150
В	Water & electricity	6 000	4 900
С	Fee income	120 000	136 800
	Consumable stores	14 400	15 120

#### Answers to worked example 2 (see page 78)

1. Calculation of monthly salary paid to each hair stylist:

R25 500 ÷ 3 = R8 500 🗸

or R34 000  $\div$  4 = R8 500

#### Explanation to help you understand how to get to the answer above:

- There are 3 hairstylists in April and May and 4 hairstylists in June.
- Therefore divide salary (April or May) by 3 hairstylists (R25 500  $\div$  3 = R8 500)
- OR Divide salary (June) by 4 hairstylists (R34 000  $\div$  4 = R8 500)

[2]

Calculation of the % increase in wages that the cleaner will receive during the projected period:

#### Explanation to help you understand how to get to the answer above:

Calculate the increase in wages by deducting the wage of May from wage of April (R3 672 - R3 400 = R272)

[4]

- Calculate the % increase (R272  $\div$  R3 400  $\times$  100 = 8%)
- 3. Calculation of % interest rate on the fixed deposit:  $3315 \checkmark \div 468000 \checkmark \times 12 \text{ months} \checkmark \times 100 = 8.5\% \checkmark$ OR

$$3315 \times 12 \text{ months} = R39780$$
  
 $\frac{39780}{468000} \times 100 = 8,5\%$ 

#### Explanation to help you understand how to get to the answer above:

Interest on fixed deposit = R3 315 (interest income in Projected Income Statement)

Fixed deposit =  $R468\ 000$  (see information no. 4)

$$\frac{3315}{468000} \times \frac{100}{1} \times 12$$
 (months)  
= 8,5%

4. Calculation of rental per square metre: [2] 24 600 ÷ 60 = R410 //

## Explanation to help you understand how to get to the answer above:

Rent expense for April = R24 600 (see Projected Income Statement) R24 600 is the amount paid for 60 square metres.

To calculate rental per square metre you have to divide the total rent by 60  $R24\ 600 \div 60 = R410$ 

Calculation of the number of additional square metres she will rent from 1 May 2010:

 $30750 \div 410 = 75 \text{ sq metres or } 60 \times 30750 \div 24600 = 75 \text{ sq}$ metres

Increase = 75 - 60 = 15 sq metres  $\checkmark$ 

#### Explanation to help you understand how to get to the answer above:

Rent expense for May = R30 750 (see Projected Income Statement)  $R30750 \div R410 = 75$  square metres

75 - 60 (original square metres) = 15 additional square metres

For internal control purposes it is important to compare actual with budgeted figures. In this way possible problems relating to expenses or income can be corrected.



**5.** Provide four comments that you would include in your internal auditor's report in respect of scenarios A, B and C above.

A **Comment on telephone:**The telephone costs are higher than the expected amount by R1 950. ✓✓

B Comment on water & electricity:

The water & electricity costs are R1 100 less than the expected amount.

C Comment on fee income & consumable stores:

There was a good increase ✓ in fee income of R16 800 ✓ (R136 800 – R120 000) which shows that the business is popular with its customers.

The consumable stores (e.g. shampoos, conditioners) increased slightly by R720 (R15 120 – R14 400) because the business had more customers.  $\checkmark$ 





## When commenting on actual figures use the following steps:

**1.** Compare actual with budgeted figures and state whether the actual figure is more or less than the budgeted figure.

2. Decide and state whether the expense or income item has been well controlled or not (within budget or not).



You will get a mark for steps 1 and 2. These are easy marks.





Below is a list of suggested past examination questions for extra practice:

Topic	Paper	Question
Projected Income Statement	February/March 2009	3
Projected Income Statement	February/March 2010	6
Cash Budget	February/March 2011	1
Cash Budget	February/March 2012	5
Cash Budget	November 2013	5.2



## 5 Chapter

## Reconciliations

Reconciliation is a form of internal control where two sets of information are compared and, when there are differences, these are corrected or explained.

Bank reconciliation	Debtors' reconciliation	Creditors' reconciliation
The balance in the bank account in the business' general ledger should be the same as the balance on the bank statement received from the bank. When these are not the same, they need to be reconciled.	The balance of the debtors' control account should be the same as the total of the debtors list. When these are not the same, they need to be reconciled.	The balance of the creditors' control account should be the same as the total of the creditors' list. The statements received from the creditors must match each creditors balance in the business' books. When these are not the same, they need to be reconciled.



### 5.1 Bank reconciliation

A summary of all possible DIFFERENCES between the CRJ/CPJ and the Bank Statement. Make sure that you know how to record all the different transactions before attempting to answer the Grade 12 CAPS Reconciliation questions. **Bank Charges and interest CPJ - May 2014** charged on the Bank BS ABSA Bank 60 60 Bank charges Statement-(10 + 20 + 30)BS **ABSA Bank** 40 40 Interest on overdraft The ABSA Bank charged the following: Tax levy R10 R20 Service fees Cash deposit fee R30 Interest R40 2. Interest earned/received on the CRJ - May 2014 **Bank Statement** BS **ABSA Bank** 50 Interest on current account The bank statement showed interest received on current account, R50 CRJ - May 2014 3. Direct deposit on the Bank Statement BS E Baloyi 800 Rent Income 800 E.g. A tenant, E Baloyi, paid his rent directly into the bank account, R800. Stop orders/Debit orders on the **CPJ - May 2014 Bank Statement** Santam 367 367 BS Insurance The bank statement showed a stop order, R367, in favour of Santam for a payment on an insurance premium. Cheques issued in CPJ but not Bank Reconciliation statement - May 2014 presented for payment Credit Debit Debit outstanding cheques: The following cheques do not appear 67 on the bank statement no. 67, R200 200 69 and no. 69, R300. 300 6. Deposits in CRJ but do not Bank Reconciliation statement - May 2014 appear on Bank Statement Credit Dehit Credit late deposit 9 000 The deposit made on the last day of month does not appear on the bank statement, R9000 7. CHEQUES DISHONOURED -**CPJ - May 2014** insufficient funds DS P Pillay (RD cheque) 170 170 Debtors control Unpaid cheque, R170 - this cheque was received from P Pillay in settlement of his account of R183 and deposited on 24 May 2002. It was dishonoured because of insufficient funds

8. POST-DATED CHEQUES: received	CPJ - May 2014 - May 2014							
and deposited	BS	B Bud (RD cheque)	157	15	57 R	7 Rent Income		
Unpaid cheque, R157 – this cheque was received from a tenant, B Bud and deposited inadvertently on 21 May 2014 It was dishonoured because it was dated 21 July 2014								
9. POST-DATED CHEQUES: Issued		Bank Reconciliat	ion statem	ent -	May	2014		
Entry in the CPJ which did not appear on the Bank Statement:	Debit	outstanding cheques:			Deb		Credit	
The business issued a post-dated cheque no. 303 to a Factory to secure the popular stock to be delivered, R6 000, dated 25 July.		303 (25 July 2014	+)			6 00	0	
10. STALE CHEQUE: Cheque issued,		CR.	J – May 20	14				
(cheque is older than 6 months)  Entry on Bank Reconciliation statement on 30 April 2014 which did not appear on the Bank Statement: May 2014	120	Shezi Stat (Cancel stale c	heque)	10	00	100	Stationery	
Cheque no 120 was issued to Shezi Stat on 20 November 2013 for Stationery, R100.		ÉcoleBooks						
11. STALE CHEQUE: Received and		CPJ	I – May 20	14				
dishonoured Entry on Bank Statement which did not appear in CRJ or CPJ:	DS	J Nel (RD cheque)	1	60	160	Debtor	s control	
Unpaid cheque, R160 – this cheque was received from a debtor, J. Nel and deposited inadvertently on 25 May 2014. It was dishonoured because it was dated 25 May 2013								
12. LOST CHEQUE: issued		CRJ - May 201	.4 (a) cand	el lost	che	que		
(Only issue new cheque if instructed to do so →)	255	PNA (Cancel lost chequ	e)	5	500	500	Printing	
a. cancel lost cheque in CRJ	CPJ – May 2014 (b) Issue a new cheque							
<ul><li>b. issue new cheque in CPJ</li><li>c. record new cheque as "debit outstanding cheque" in the Bank</li></ul>	365	PNA		5	00	500	Printing	
Reconciliation Statement	Bank Reconciliation Statement - May 2014							
Cheque no. 255, R500 was lost	(c) R	(c) Record the new cheque as outstanding				A 0 171		
by PNA and they asked for a new cheque. Cheque no 255 to be cancelled and replaced by cheque	Debit	outstanding cheques				Debi 50		
365. The cheque was a payment for Printing made								

ERRORS MADE BY BUSINESS IN THE		CPJ - May 2014				
CRJ AND CPJ  13. ERRORS IN CRJ/ or CPJ:  Amount less than it should be →	453	Makro (understated, 654-545)	18	18	Trading	stock
Cheque no 253 on Bank Statement showed and amount of R664, while the amount in the CPJ was R646. It was a payment to Makro for goods.						
14. ERRORS IN CRJ/ or CPJ:		CRJ - May 2014				
Amount more than it should be →	244	Investec (overstated,258 - 250)	8	8	Rent Exp	pense
Cheque no 244 on Bank Statement showed and amount of R250, while the amount in the CPJ was R258. It was a payment to Investec for rent.						
ERRORS MADE BY BANK ON BANK STATEMENT	Bank reconciliation statement - May 2014					
15. Cheque drawn by other client and erroneously debited to our bank account.	Credit cl	neque no. 2230 wrongly debited			Dr.	Cr. 1500
Cheque no.2 230, R1500, on the Bank Statement was a cheque drawn by another client, ZITHA Stores, debited to our account.	(8)					
16. Deposit wrongly credited to our		Bank reconciliation statement	- May	y 2014	1	
bank account					Dr.	Cr.
The deposit on the 15 May 2014, R2000, showed on the Bank Statement was a deposit made by the owner into his own bank account and	Debit de	eposit wrongly credited			2 000	
the Bank has erroneously recorded the deposit in his business' Bank account						

BANK RECONCILIATION STATEMENT ON 3	1 March 2012		
	DEBIT	CREDIT	Always start with the balance
Credit balance as per Bank Statement		8 000	of the Bank Statement and er with the calculated balance of
Credit deposit not credited by bank		3 000	the Bank account
Debit outstanding cheques:			the Bank account
124	4 000		
170	1 000		
Debit deposit wrongly credited (errors made by Bank)	1 500		
Credit cheque wrongly debited		500	
Debit balance as per Bank account		5 000	The debit and credit totals
	11 500	11 500	of the Bank Reconciliation
	1	<u> </u>	statement must be equal e.g

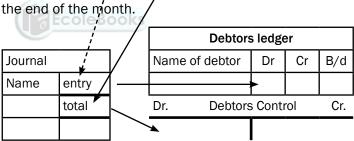
## 5.2 Debtors' reconciliation

These are the steps the bookkeeper will need to follow to correct differences between the debtors' control account and debtors' list:

- a) Check entries in the journals against the source documents.
- b) Check casting (totalling) of journals.
- c) Check posting from journals to general and debtors ledgers.
- A. Procedure to follow when the balance of the debtors control account and the debtor's account do not correlate.
- 1. The ENTRY in the journal will be posted on a daily basis to the debtors ledger and the TOTAL at the bottom of the journal will be posted at the end of the month to the control account
- 2. When the balance in the Debtors control account does not correlate with the total of the Debtors list, you need to establish where the error is. Is the error in the control account or in the list of debtors?
- 3. Is the error in the original ENTRY or is it in the TOTAL of the Journal? If the ENTRY is incorrect the TOTAL will also be wrong, so the control account and the list must be corrected.
- 4. Study the following examples.

The following rules will assist you when you compare the Debtors Control account with the list of Debtors. The list of debtors is made up by the balances of the debtors from the Debtors Ledger.

4.1 Example: The ENTRY is posted daily to the Debtors ledger (Debtor's list) and the TOTAL is posted to the control account at



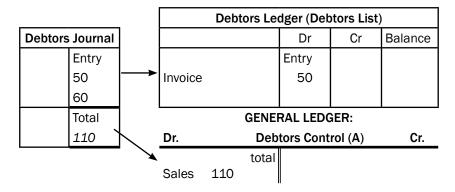
The ENTRY goes to the debtors ledger or/to the List of Debtors

4.2 Example: Sold goods to Monki for R10 and issued an invoice. **Debtors ledger** 

The TOTAL of the Debtors Journal is posted to the Control account at the end of the month.

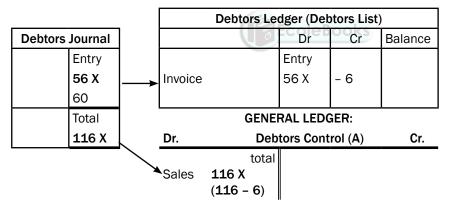
- Debtors Journal Name of debtor Dr Cr B/d **1**0 10 Monki Invoice **₹**10 Dr. **Debtors Control** Cr. Di Sales 10
- The following are some of the types of errors and omissions that could arise:
  - Errors on source documents
  - Recording errors in Subsidiary Journals
  - Incorrect posting from the Journals to the General ledger and Debtors- or Creditors ledger.
  - Incorrect additions in the lists of debtors and creditors.
  - Incorrect addition of Journal totals too much (overcast) too little (undercast)

#### Basic rule:

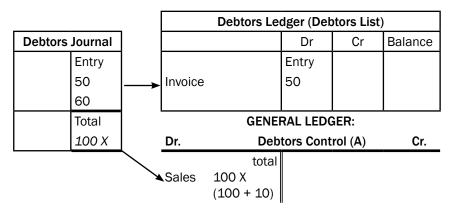


#### **BASIC RULES:**

- **1.** The individual entry goes to the debtor's account in the Debtors Ledger.
- 2. The Total of the journal will be posted to the Debtors Control account.
  - The ENTRY goes to the Debtors Ledger on a daily basis.
  - The TOTAL is posted to the Debtors Control account at the end of the month.
- When reading the transaction, you need to establish where the error occurred.
  - If the error is the ENTRY, then the TOTAL will automatically be incorrect as well. Then the Debtors list and the Debtors Control must be corrected. E.g. The entry in the DJ was incorrectly recorded as R56 instead of R50.

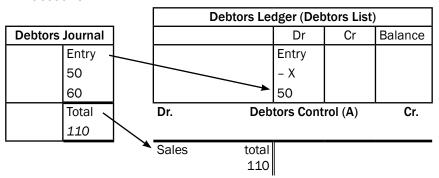


If the TOTAL was incorrectly added, then there is no error in the ENTRY and the error will be only corrected in the Debtors control account.
 E.g. The total of the DJ was incorrectly totaled as R100 instead of R110.

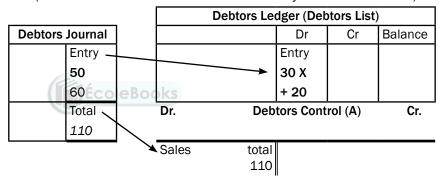


## Chapter

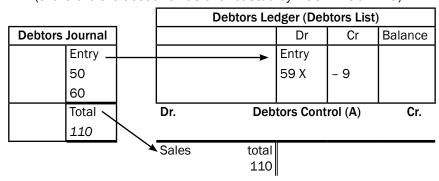
- If the ENTRY is correct then the TOTAL will also be correct. So you need to establish where the error is. The error will be in the posting to the ledgers.
- If the ENTRY was not posted to the Debtor ledger, then the ENTRY will be recorded.
  - E.g. The amount of R50 in the DJ was not posted to the debtor's account.



- If the ENTRY was recorded but the amount was wrongly recorded. UNDER CAST:
  - E.g. The amount of R50 in the DJ was posted to the debtor's account as R30.
  - (therefore the account was undercasted by R50 + R30 = R20)

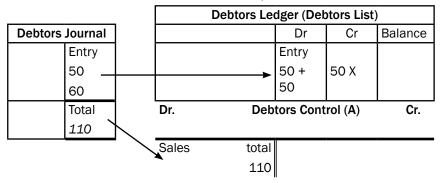


- If the ENTRY was recorded but the amount was wrongly recorded. OVER CAST:
  - E.g. The amount was R50 in the DJ was posted to the debtor's account as R59.
  - (therefore the account was over casted by R59 R50 = R9)



If the ENTRY was posted but to the wrong side of the account. The ENTRY was recorded on the credit side instead of the debit side therefore the ENTRY will be recorded on the debit side twice - cancel the wrong entry on the credit side and once more to have the entry on the correct side.

E.g.: The amount of R50 in the DJ was posted to the debtor's account in the Debtors Ledger however the ENTRY was recorded on the credit side of the account (or the wording can read; the R50 was recorded on the credit side.)





#### Worked example 1

Example adapted from March 2012 NSC question paper.

Crystal Traders sells glassware for cash and on credit.

#### Required

Study the information provided and answer the questions that follow.

- 1. Calculate the correct closing balance of the debtors' control account on 31 March 2011.
- 2. Calculate the correct amounts owing by the following debtors of Crystal Traders:
  - a) R Jansen
  - b) S Wonder
  - c) P Collins [12]

#### Information

- Balance of debtors' control account on 31 March 2011 is R200 000 ■
- 2. Balances per Debtors' Ledger on 31 March 2011:

TOTAL	R188 100
P Collins	R7 900
C Dion	R51 500
S Wonder	R23 000
R Jansen	R41 200
M Carey	R64 500

Can you see that the Debtors' control account and the Debtors' Ledger are not the same?

[5]

- 3. The following errors and omissions were discovered and must be corrected:
  - **A.** The debtors' journal has been **overcast** by R2 600. **←**
  - **B.** An invoice issued to S Wonder for R1 800 had not yet been recorded in the books of Crystal Traders.
  - **C.** Stock sold on credit to P Collins was incorrectly charged to the account of R Jansen. R8 300.
  - **D.** An invoice issued to P Collins for R6 000 had been posted to the wrong side of his account.
  - **E.** A cheque of R13 500, originally received from R Jansen in settlement of an invoice of R15 000, was returned by the bank due to insufficient funds. No entries have yet been made.

**Overcast** means that the journal has been added up incorrectly and the amount is too big.

**Undercast** means that the journal has been added up incorrectly and the amount is too small.

F. Goods sold on credit to S Wonder for R5 800 were correctly recorded in the debtors' journal but incorrectly posted as R8 500 to S Wonder's account in the Debtors' Ledger.

#### Answers to worked example 1 (see page 89)

1. Calculate the correct closing balance of the debtors' control account on 31 March 2011. 200 000 - 2 600 (A) + 1 800 (B) + 15 000 (E) = 214 200 🗸

2. Calculate the correct amounts owing by the following debtors of Crystal Traders:

	Workings		Answer
R Jansen	<b>R41 200</b> + 15 000 <b>/ /</b> (E) - 8 300 <b>/</b> (C)	=	R47 900 🗸
S Wonder	<b>R23 000</b> + R1 800√ (B) - 2 700√√ (F)	=	R22 100√
P Collins	<b>R7 900</b> + 12 000 <b>/ (</b> D) + 8 300 <b>/ (</b> C)	=	R28 200 🗸

[12]

[5]

3.

	ERROR	EXPLANATION					
A	The debtors' journal has been overcast by R2 600.	The debtors' control balance is R2 600 too much. This must be deducted from the debtors' control balance.					
В	An invoice issued to S Wonder for R1 800 had not yet been recorded in the books of Crystal Traders.	This was not recorded so it needs to be entered in the debtors' control account and in the account of S Wonder on the debtors' list.  Debtors' control (+R1 800)  S Wonder (+R1 800)					
С	Stock sold on credit to P Collins was incorrectly charged to the account of R Jansen, R8 300.	This must be removed from R Jansen and added to P Collins on the debtors' list.  R Jansen (-R8 300)  P Collins (+R8 300)					
D	An invoice issued to P Collins for R6 000 had been posted to the wrong side of his account.	Correct it on P Collins' account in the debtors' list.  It should have been entered on the debit side but was entered on the credit side.  Cancel the credit of R6 000 by debiting (+R6 000)  Record the correct entry on debit side (+R6 000)					
E	A cheque of R13 500, originally received from R Jansen in settlement of an invoice of R15 000, was returned by the bank due to insufficient funds. No entries have yet been made.	No entries were made.  This needs to be recorded in the debtors' control account and in the account of R Jansen in the debtors' list.  Debtors' control (+R13 500) → bank amount  Debtors' control (+R1 500) → discount cancelled  R Jansen (+R15 000)					
F	Goods sold on credit to S Wonder for R5 800 were correctly recorded in the debtors' journal but incorrectly posted as R8 500 to S Wonder's account in the Debtors' Ledger.	Debtors' control account is correct.  S Wonder's account is incorrect and must be corrected.  It was entered in the Debtors' Ledger as R8 500 instead of R5 800. Too much was posted to the debit side of S Wonder's account in the Debtors' Ledger. The difference of R2 700 must be credited (subtracted) from S Wonder's account.					

## 5.3 Debtors' age analysis

#### Introduction

Any business must keep a careful control of all the accounts in the Debtors Ledger. The debtor's credit controller has the responsibility to monitor a debtor's credit rating before extending any credit to the debtor. The debtor's clerk's responsibility includes that no debtors exceed their credit limit and that payments are regularly received according to their agreement with them.

Before any order can be despatched to a debtor, the debtor's clerk must first approve of the credit sale. The debtor's clerk must verify the balance of the debtor's account and the agreed credit limit allowed for that debtor.

Debtor's Age analysis is used where the debtor's ledger account is broken down into time periods so that it is clear how long an amount has been outstanding.

When calculating age analysis there are TWO RULES to apply:

- · Returns are subtracted from the latest sale.
- Payments are subtracted from the oldest outstanding balance.

#### Reasons for debtors age analysis

- To ensure that Debtors honour the agreement of e.g. 30 days.
- To charge interest on overdue balances according to the agreement.
- To take legal action if the account is not settled within a certain period, e.g. more than 90 days.
- To minimise debts to be written off.
- To ensure liquidity in the business and a proper cash flow.
- To be aware of debtors who honour their credit agreement and those who do not.
- To follow up on those debtors who signed a payment plan due to previous late payments.
- To follow up on possible errors that could be on a debtor's statement where the debtor paid the correct amount without letting the business know of the statement error.

#### Example of a debtor's statement and age analysis

Study the following statement to understand the calculation of age analysis. A possible format was used for the breaking down of Moja and Sons account into time periods, February to May. Take into account the TWO RULES.

- Returns are subtracted from the most recent invoice
- · Payments are subtracted from the oldest outstanding balance

A credit note is subtracted from the most recent invoice issued because goods usually can be returned within a certain number of days, e.g. 7 days.

A receipt will be issued for the payment and for discount allowed. This amount will be subtracted from the oldest amount owed by the debtor.

(TAX NO: 456123)

NO. 77

KIMA WHOLESALERS 45 Dove street, Pretoria 1000

#### STATEMENT OF ACCOUNT

TO: Moja and Sons Mahlangu Street Timbato

DATE: 31 May 2014

TERMS: CREDIT PERIOD: 30 days

CREDIT LIMIT: R5 000

- 10% discount on settlement of account within 14 days of purchase
- Interest at 5% per month will be charged on amounts owing for 60 days or more

more								
Date	Descr	iption		Debit	Credit	Balance		
01-03-2014	Balance bro forward	ught				800		
07-03-2014	Invoice 102			2 500		3 300		
28-03-2014	Receipt no 533				500	2 800		
03-04-2014	Invoice 125			2 400		5 200		
08-04-2014	Credit note C66				600	4 600		
29-04-2014	Receipt 575				400	4 200		
01-05-2014	Invoice 130			1 200		5 400		
09-05-2014	Invoice 131			700		6 100		
30-05-2014	Receipt 621				1500	4 600		
	Receipt 621 (discount)				150	4 450		
Age	Current	30 Days		60 Days	90 Days	120 Days		
Analysis:	1 900	1 800		800	0	0		

#### Remember the rule:

Subtract payments from the longest outstanding balance.

Current month means the month of the statement

The Table below was used to calculate the age analysis

#### Steps to follow to see how the Age analysis was calculated:

December 21 months		orașe la rement la con ment mas rigo unui, ora mus curcumutour					
Draw a template with months		Transactions:	May	April	March	February	
Record the invoices according to the month that you have received the stock		Balance				800	
	<b>&gt;</b>	Invoices	1 200 + 700	2 400	2 500		
The payment of R500 (March) must pay off the balance of R800. (800 – 500 = 300 still outstanding) So R300 will come off from the next payment.		Returns		(600)			
		Total purchases per month	1 900	1 800	2 500	800	
	<b>-</b>	Receipts and discounts					
		Mar: payment by debtor R500	-	-	-	(R500)	
The R400 (April) receipt must 1st pay off the R300 in Feb	<b>-</b>	Apr: payment by debtor R400	-		(100)	(300)	
(400-300 = R100) The R100 paid some of the debt of	<b>ا</b>	May: <b>R1 500 + 150</b>	-	-	(1 650)	-	
		Balance	1 900	1 800	750	0	

Check your answer:  $1\,900 + 1\,800 + 750 = R4\,450$ 

Take note: The total of the analysis must be equal to the total balance on the statement and debtor's ledger account.

March

The R1500 and discount R150 (May), paid off some of the debt of March



# Worked example 2: Debtors' age analysis

Study the debtors' age analysis below and answer the questions that follow:

	Total	Current	30-60 days	61-90 days	More than 90 days
B Barney	R5 900	R1 800	R2 400	R1 200	R500
D Donald	R4 600	R1 400	R3 200		
Z Ndlovu	R3 000	R3 000			
Total	R13 500	R6 200	R5 600	R1 200	R500

This is the balance of the debtors' control account in the general ledger.

## **Credit terms**

- Debtors are given 60 days from statement date (end of the month) in which to settle their debts.
- Debtors settling within 60 days will be granted a discount of 10%.
- Debtors older than 60 days are charged interest of 12.5% p.a.

## Required

1. Which debtor(s) are not adhering to (meeting) the credit terms? Why?

(2)

2. If Z Ndlovu settled her account after receiving her statement, and within the credit terms, how much would she be required to pay?

(4)

3. If these were the only 3 debtors, what would the balance on the debtors' control account be?

4. Is this business controlling their debtors effectively? Explain, quoting figures.

(2)

(4)

[12]

# Chapter



important for you to answer "yes" or "no" BUT it is your explanation that will get you the marks.



# Answers to worked example 2 (see page 93)

1. Which debtor(s) is/are not adhering to (meeting) the credit terms? Why?

B. Barney√

He owes amounts for longer than the credit terms of 60 days. ✓

If Z Ndlovu settled her account after receiving her statement, and within the credit terms, how much would she be required to pay?

R3 000
$$\sqrt{-10\%}$$
 (R300)  $\sqrt{\sqrt{-10\%}}$  = R2 700 $\sqrt{-10\%}$ 

If these were the only 3 debtors, what would the balance on the debtors' control account be?

Total of debtors' accounts = balance on debtors' control account.

Is this business controlling their debtors effectively? Explain, quoting figures.

The answer to this question could be yes or no. Yes, because only one of the 3 debtors is outstanding.

No√, because the amount outstanding for more than 60 days is R1 700 out of the total of R13 500 owed by the debtors. ///oleBooks

[4]

[2]

# 5.4 Creditors reconciliation with the creditor's statement

- a) At the end of each month a creditor's reconciliation is drawn up when the statement is received from a creditor and compared against the creditor's ledger account in the Creditors Ledger.
- b) The comparison must be done to ensure that all the details of the transactions with the creditor are correct prior to any payments being done.
- Ensure that you are aware that in the books of the creditor you are a debtor. So when you interpret the statement received from the Creditor, you read it as if you read a Debtors control account. In that way this section becomes very easy. Look and see that for every debit entry in your books, the creditor will credit the transaction. So, know the FORMAT of both the CONTROL ACCOUNTS and know the SOURCE DOCUMENTS.



# **Example**

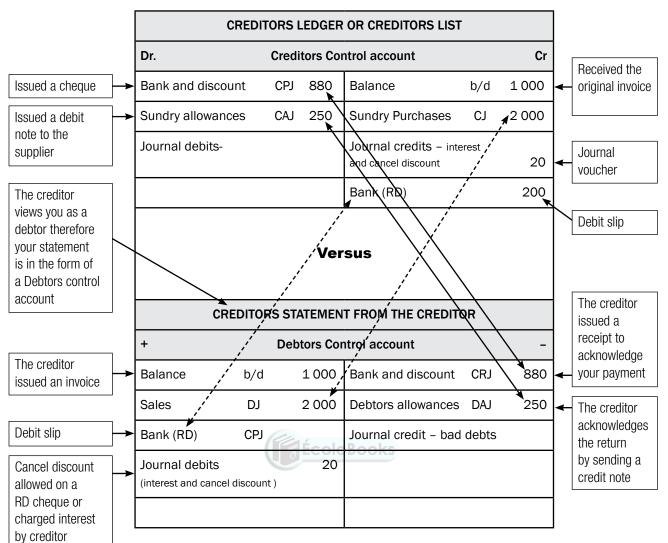
- Creditor gives you an invoice and you receive the invoice (renumber the invoice)
- You sent goods back to Creditor and issue a debit note and the creditor acknowledges the return and issues a credit note
- You pay your account by cheque and the Creditor acknowledges it by issuing a receipt

## Study the following schematic illustration

CREDITOR'S LEDGER									
In the books of the business Bongi & Co	Folio	Debit -	Credit +		Balance				
Account Rendered				1 000					
Invoice received	C1			2 000	3 000				
Debit note issued	CAJ	250 •		1	2 750				
Cheque counter foil	СРЈ	880			1 870				
		É	ale	Books	5				
CREDITORS STAT	EMENT	OF BONGI A	ND (	co					
In the books of the Creditor: Kima Wholesalers	Folio	Debit¦+	Cr	edit –	Balance				
Balarice brought forward		·		1 000					
Invoide issued	DJ	2 000			3 000				
Credit note issued	DAJ			250	2 750				
Receipt issued	CRJ			880	1 870				

# Chapter

# SCHEMATIC ILLUSTRATION OF THE CORRELATION BETWEEN THE CREDITOR AND DEBTOR



Remember the source documents will not be the same used by the debtor and the creditor. The one receives and the other one issues.



# **Example**

# Example adapted from November 2011 NSC question paper CREDITORS' RECONCILIATION

A statement received from a creditor, Kairo Suppliers, on 28 February 2011, reflects that Ace Traders owes them R11 390. According to Ace Traders, the amount outstanding is only R7 910.

#### REQUIRED:

Use the Table in the ANSWER BOOK to indicate the differences that were discovered when comparing the account in the Creditors' Ledger with the statement received from Kairo Suppliers.

Write only the amounts in the appropriate column and a plus (+) or minus (-) sign to indicate an increase or decrease in the balance. Calculate the correct balance/total at the end.

#### INFORMATION:

On investigation, it was found that:

- 1. A cheque for R3 000 issued by Ace Traders has not yet been recorded in the statement received from Kairo Suppliers.
- 2. The cheque in settlement of the January account was not received by Kairo Suppliers within 7 days; therefore the discount of R500 recorded by Ace Traders in the Creditors' Ledger must be cancelled.
- 3. Returns recorded as R810 in the Creditors' Ledger of Ace Traders were recorded as R900 in the statement received from Kairo Suppliers. Ace Traders had miscalculated the cost of goods returned.
- 4. An invoice received from Kairo Suppliers was correctly recorded as R7 700 by Ace Traders. However, in the statement received from Kairo Suppliers it was incorrectly recorded as R770.
- 5. An invoice for R3 500 received from Kairo Suppliers was incorrectly recorded as a credit note by Ace Traders.

## **Explanation of the transactions:**

	Error	Explanation
1.	A cheque for R3 000 issued by Ace Traders has not yet been recorded in the statement received from Kairo Suppliers.	This cheque was paid to the creditor however the amount has not been subtracted yet from the balance on the statement.  The balance owing to the Creditor, Kairo Suppliers, must decrease by R3 000. (The statement is like the Debtors Control account. Increase on the dr side and decrease on the cr side)  This payment must be deducted in the Reconciliation/Creditors Statement (-R3 000)
2.	The cheque in settlement of the January account was not received by Kairo Suppliers within 7 days; therefore the discount of R500 recorded by Ace Traders in the Creditors' Ledger must be cancelled.	Ace Traders claimed R500 discount when he settled his account. (Bank and discount is on the debit side of the creditors control account).  Kairo Suppliers refused the discount because the payment was received after 7 days. To cancel the discount the amount must be credited. (Creditors control increases on the credit side)  The entry must be done in the debtors ledger and added
3.	Returns recorded as R810 in the Creditors' Ledger of Ace Traders were recorded as R900 in the statement received from Kairo Suppliers. Ace Traders had miscalculated the cost of goods returned.	Ace Traders has recorded R810 in the Creditors ledger instead of R900.Undercasted by 900 – 810 = R90.  Returns are recorded on the debit side of Creditors control account. (Creditors control account decreases on the debit side.)  R90 must be subtracted in the Creditors ledger
4.	An invoice received from Kairo Suppliers was correctly recorded as R7 700 by Ace Traders. However, in the statement received from Kairo Suppliers it was incorrectly recorded as R770.	The creditors ledger was correct but the statement is wrong/undercast by R7700 – R770 = R6 930. Any mistakes on the statement are corrected in the Reconciliation statement however the question reads that the Statement must be corrected.  The statement must increase; (+R6 930)

E.	An invoice for R3 500 received from Kairo Suppliers was incorrectly recorded as a credit note by Ace Traders.	The Creditors statement is correct.  The Creditors ledger is incorrect; the invoice of R3 500 received is recorded as returns. This means the correct amount was recorded on the wrong side of the account, To cancel the R3 500 on the debit side, R3 500 must be credited to cancel the wrong entry and another R3 500 must be recorded to record the invoice received.
		No entries were made.
		This double entry (R3 500 +R3 500 = R7 000) needs to be recorded on the credit side of the Creditors ledger

Use the Table to indicate the differences that were discovered when comparing the account in the Creditors' Ledger with the statement received from Kairo Suppliers.

Write only the amounts in the appropriate column and a plus (+) or minus (-) sign to indicate an increase or decrease in the balance. Calculate the correct balance/total at the end.

	Creditors' Ledger of Ace Traders	Statement from Kairo Suppliers
Balance	R7 910	R11 390
1		- 3 000
2	+500	
3 Éco	eBooks - 90	
4		+ 6 930
5	+3 500 √ +3 500 √ OR +7 000	
Balance/Total	15 320	15 320





Below is a list of suggested past examination questions for extra practice:



TOPIC	PAPER	QUESTION
Bank reconciliation	February/March 2009	1.1
Bank reconciliation	November 2010	2
Creditors reconciliation	February/March 2009	1.2
Debtors control account and Age analysis	February/March 2010	1
Debtors reconciliation, age analysis and internal control	February/March 2012	6
Debtors reconciliation	November 2013	1.3

# **Inventories**

# **6.1 Inventory systems**

A business can decide which of the following two inventory systems to use to record and control their inventory:

SYSTEM	IMPORTANT POINTS
Perpetual	<ul> <li>a) Entries are made in a Balance Sheet account called trading stock (an asset account) every time goods are bought and sold.</li> <li>b) Cost of sales needs to be calculated and recorded every time goods are sold.</li> <li>c) When stock is purchased the trading stock account is debited with the cost price (the asset is increasing).</li> <li>d) When stock is sold the trading stock account is credited with the cost price (the asset is decreasing).</li> <li>e) Any additional costs when purchasing stock are debited to the trading stock account (e.g. carriage on purchases).</li> <li>f) This system is better for the internal control of inventory.</li> </ul>
Periodic	<ul> <li>a) Businesses would decide to use this system when it is not always feasible to calculate cost of sales every time goods are sold.</li> <li>b) Stock purchases are recorded in a nominal account called purchases (an expense account).</li> <li>c) Additional expenses when purchasing stock (e.g. carriage on purchases) are recorded separately in a nominal account called carriage on purchases (an expenses account).</li> <li>d) Cost of sales is therefore only calculated periodically by using the formula:         <ul> <li>Opening stock + purchases + carriage on purchases + import duties + customs duties - closing stock = cost of sales.</li> </ul> </li> </ul>

Inventories (trading stock) are goods that are bought in order to be resold at a profit. Stock is always recorded in the books at cost price.

# 6.2 Inventory valuation methods

The business may not change its stock valuation method unless the business has a very good reason to do so (e.g. the change will ensure that the inventory is better valued).

→A business can decide which of the following two stock valuation methods to use in order to value its inventory:

METHOD	IMPORTANT POINTS
Specific Identification method	<ul> <li>a) This is the simplest form of stock validation, where every item is assigned a specific cost price.</li> <li>b) This system is relevant when large commodities are sold and every unit has its own cost price, e.g. vehicles, machinery, etc.</li> <li>c) That means that this system requires that the cost price must be identified of every commodity sold or when stocktaking is done.</li> <li>d) Specific identification is a more manually intensive method in managing the stock.</li> <li>e) So every item in stock will be recorded at the specific price originally bought.</li> <li>f) The disadvantage of this method is that the price of a vehicle can be manipulated. For example a red Ford 1.6 was bought at the beginning of the year for R100 000 and during the year the dealer bought a white Ford 1.6 at an increased cost price of R130 000. When the red car got sold the dealers can manipulate the price by recording the cost price as R130 000. So the profit was manipulated by showing a smaller profit than the true</li> <li>f opposite as well when they want to show a higher profit.</li> </ul>
FIFO	<ul> <li>a) FIFO stands for First In First Out.</li> <li>b) Businesses that sell goods which have a limited shelf life (e.g. milk or cellphones) often prefer to use this system.</li> <li>c) This means that the oldest stock is sold first and that the stock left at the end will always be the most recently bought stock.</li> <li>d) Under this method the stock on hand will be valued at the most recent prices.</li> </ul>
Weighted average	<ul> <li>a) Under this system the value of the stock on hand is not calculated on the most recent prices because all prices on stock purchased are averaged.</li> <li>b) Weighted average is calculated by dividing the total cost of stock purchased by the total number of units purchased.</li> <li>c) Under this method the stock on hand will not be valued at the most recent prices.</li> </ul>



# Worked example 1

You are provided with the information relating to Kima Appliances. The following stock appeared on their stock cards. Study the template of the number of stock bought at purchase price and the selling price of all the stock sold.

## **INFORMATION**

The items below were in stock and some sold: January to December 2014

			LG			Samsur	ng	Bosch			Total value	
Date		No	Cost price	Total	No	Cost price	Total	No	Cost price	Total	of stock	
Jan	Opening stock	2	@R1 000	R2 000	3	@R2 000	R6 000	4	@R3 000	R12 000	= R 20 000	
April	Purchases	3	@R1 200	R3 600	2	@R2 100	R4 200	2	@R3 300	R6 600	= R 14 400	
	,								Value of	total stock	R 34 400	
		No	Cost price	Selling price	No	Cost price	Selling price	No	Cost price	Selling price		
Jan to	Sales	1	@R1 000	R2 000	3	@R2 000	R12 000	3	@R3 000	R18 000	= R 32 000	
Dec.	Sales	2	@R1 200	R4 800				1	@R3 300	R6 600	= R 11 400	
Value of total sales								R 43 400				

#### \*REQUIRED:

Make use of the Specific Identification stock method to calculate:

1. Number of unsold units. -

2. Value of unsold units

3. Cost of Sales

4. Gross profit



You need to tick off the stock sold to calculate the stock on hand. (Closing stock)

# Answers to worked example 1

1. Number of unsold units:

LG:	1	@ R1 000 (1 sold)		
LG:	1	@ R1 200 (2 sold)		
Samsung:	2	@ R2 100		
Bosch:	1	@ R3 000 (3 sold)		
	1	@ R3 300 (1 sold)		
	6 unsold units			

2. Value of unsold units:

LG:	1	@ R1 000(1 sold)	R 1000
LG:	1	@R1 200 (2 sold)	R 1200
Samsung:	2	@R2 100	R 4 200
Bosch:	1	@R3 000 (3 sold)	R 3 000
	1	@R3 300 (1 sold)	R 3 300
	<u>6</u> u	nsold units	R12 700

# Answers to worked example 1 continued (see page 101)

3. Cost of Sales (Goods sold at cost price)

LG: sold	1	@ R1 000	R 1000
LG: sold	2	@R1 200	R 2 400
Samsung: sold	3	@R2 000	R 6 000
Bosch: sold	3	@R3 000	R 9 000
	1	@R3 300	R 3 300
	Cos	st of sales of 10 sold units	R21 700

## 4. Gross profit:

Sales - Cost of Sales = Gross profit R43 400 - 21 700 = R21 700



# Worked example 2

Example adapted from March 2011 NSC question paper.

You are provided with information relating to Energy World for the year ended 28 February 2010. They sell energy drinks to retailers.

## Required

Refer to the information relating to the energy drinks and calculate the following:

1. Value of the closing stock using the FIFO and weighted-average methods.

[14] [11]

2. Cost of sales using the FIFO and weighted-average methods.

[6]

3. Gross profit using the FIFO and weighted-average methods.

## Information

Manager: Dirk	Product: Energy drinks				
	Units	Rand	Amount		
Sales	2 720	R21,20	R57 664		
Opening stock	320	R9,00	R2 880		
Purchases	4 800		R58 560		
April 2008	1 100	R10,50	R11 550		
October 2009	2 500	R12,42	R31 050		
January 2010	1 200	R13,30	R15 960		
Closing stock	2 400	?	?		

# Answers to worked example 2 (see page 102)

1. Calculate the value of the closing stock using the FIFO and weighted-average method.

FIFO	WEIGHTED AVERAGE
(Jan 2010) 1 200 units × R13,30 = R15 960 🗸	Step 1 Opening stock = R2 880√
(Oct 2009) 1 200 units × R12,42 = R14 904 🗸	Purchases = R58 560√
2 400 units (closing stock)	Total cost = R61 440√
= R30 864 🗹	Weighted average = R61 440 ÷ (320 + 4 800 units)
The most recent stock bought is what is left	= R61 440√ ÷ 5 120√ units
(closing stock).	= R12√ per unit
	<b>Step 2</b> ∴ 2 400 ✓ units (closing stock) × R12 ✓ = R28 800 ✓

#### Explanation of the calculations above

- The closing stock is 2 400 units.
- Using the FIFO method means that 1 200 units bought in January 2010 and 1 200 units of the 2 500 units bought in October 2009 are left in stock, representing the closing stock of 2 400 units.
- **Step 1** is to calculate the weighted average by dividing the total cost of stock purchased by the total number of units purchased.
- Step 2 uses the weighted average to calculate the value of the closing stock by multiplying the cost per unit by 2 400.

[14]

2. Cost of sales using the FIFO and weighted-average method.

F	IFO	WEIGHTED AVERAGE			
320 units × R9	= R 2 880√ Fc	Step 1 320√ units + 4 800√ units - 2 400√ units			
1 100 units × R10,50	= R11 550	= 2 720√ units sold			
1 300 units × R12.42	= R16 146√				
Cost of sales	R30 576√	Step 2 ∴ 2 720 units sold × R12 (weighted			
OR		average)			
Opening stock	R2 880	= R32 640 <b>Cost of sales</b>			
+ Purchases	R58 560				
- Closing stock (R30 864)					
= Cost of sales	R30 576				
EXPLANATION OF THE CALCULATIONS ABOVE					

- Using the FIFO method means that the oldest stock has been sold first, that is 320 units of opening stock + 1 100 units purchased in April 2008 + 1 300 units of the 2 500 units purchased in October 2009 making up the total of 2 720 units sold.
- Step 1 is the calculation of the number of units sold.
- Step 2 uses the weighted average to calculate the value of the stock that has been sold, namely 2 720 units.

[11]



The cost of sales is the cost price of all the goods that **have been sold**.

3. Gross profit using the FIFO and weighted-average method.

WEIGHTED AVERAGE
cost of sales
57 664√ - R32 640√ = R25 024√

#### Explanation of the calculations above

The sales figure was given in the question and is the same in both methods.

The cost of sales figures were calculated by you in question 2 on page 67.

You will notice that the gross profit figure is different in the 2 methods because the cost of sales was calculated differently.

[6]

# Method to approach examination questions on stock validation

Learners do not know how to extract and record the relevant information from the stock validation question.

Learners usually know how to calculate gross profit and cost of sales, etc. however they cannot apply that knowledge to the information that is given.

The following is found to assist and to make this question in the examination a breeze:

- It is important that you memorise the format of the TRADING ACCOUNT using the periodic stock method
- It doesn't matter how they present the question in the exam, after drawing up the Trading account with two columns on the debit and on the credit side, just find the opening stock and closing stock and all the other figures and record the figures on your template.

#### **Calculations**

DR	Т					
	Amount	Units		Amount	Units	
+ Opening stock			Closing stock			= Cost of sales (units)
+ Purchases (net)			Sales(net)			= gross profit
+ Carriage on purchases						
+ Custom Duties						
Total amount and snits of all the stock that could be sold						

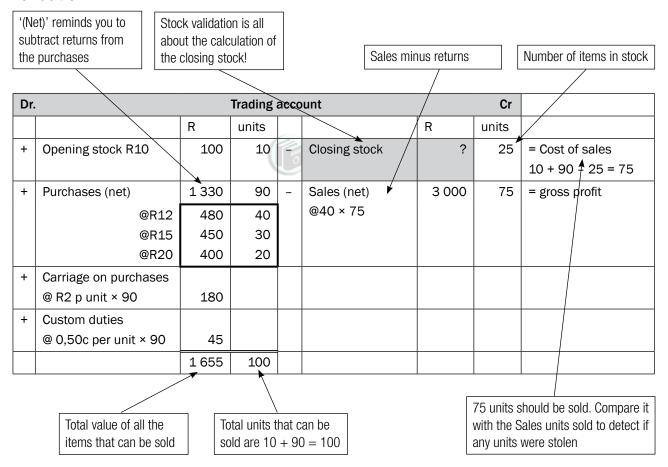
 To be able to answer all the questions, you need to draw the Trading account with TWO COLUMNS; ONE FOR THE RAND AMOUNT AND ONE FOR THE UNITS.

- Need to memorise that opening stock
  - plus net purchases (purchases minus Creditors allowances)
  - plus carriage on purchases
  - plus custom duties
  - minus closing stock is equal to COST OF SALES
- Need to memorise that Opening stock
  - plus net purchases
  - plus carriage on purchases
  - plus custom duties
  - minus closing stock
  - minus **net** sales (sales minus debtors allowances)
  - is equal to GROSS PROFIT.

**OR** Sales (net) – Cost of sales = Gross profit.

Record all the figures from the question in the Trading account and then start to answer the questions.

# Draw the following before attempting the question on stock validation



Possible question	ns: Learn formats and understand				
Value of the closing stock: FIFO	25 units: Start with the stock purchased recently. $20 \times R20 = 400$ $5 \times R15 = 75$ $25 \times R2 = 50$ Carriage on purchases per unit $25 \times R0,50 = 13 (12,50)$ custom duties per unit  Closing stock = R538				
Value of closing stock: Weighted Average	Total the debit side's amount and unit column R1655 ÷ 100 units = R16,55 average price per unit Closing stock is 25 × R16,55 = R413,75 (R414)				
Cost of sales: Need to memorise the format! FIFO	Opening stock + Purchases(net) + Carriage on purchases + Custom duties – closing stock = Cost of sales 100 + 1330 + 180+45 – 538 = R1117 (FIFO)				
Gross profit: FIFO	Sales (net) - cost of sales = Gross profit 3 000 - R1117 = R1 883				
5. Mark –up: know the formula  Gross profit $\times \frac{100}{1} = \%$ Ecole Boo	$\frac{1883}{1117} \times \frac{100}{1} = 168,58 \%$ Most of the times you need to explain why the profit markup was not achieved of e.g. 200 $\%$ . Reason is because of seasonal sales and cash discounts.				
Rate of stock turnover  Cost of sales Average stock = times	$\frac{1117}{(100 + 538)/2} =$ $\frac{1117}{319} = 3,5 \text{ times}$ The stock is replaced 3,5 times per year				
Period of stock on hand  Average stock Cost of sales $\times \frac{365}{1} = \text{days}$	$\frac{319}{1117} \times \frac{365}{1} = 104,24 \text{ days}$ Stock is on the shelf for 104 days before it is sold. This ratio assists a business to determine when to order stock.				

# (NSC FEB/MARCH 2009 Exam paper)



## **Inventory regulation**

(35 marks; 20 minutes)

You are provided with information in respect of Magic Soccer Balls Shop for the year ended 28 February 2009. The business is owned by Peter Pule.

The business uses the perpetual inventory system and the FIFO method of valuing stock.

#### **REQUIRED:**

- **2.1** Explain the meaning of the term 'FIFO'. (2)
- **2.2** The selling price of soccer balls was kept constant throughout the year. Calculate the selling price per soccer ball. (3)
- **2.3** The owner, Peter Pule, is aware that some soccer balls were stolen from the storeroom in April 2008. No entry has been made.
  - Calculate the number of balls that are missing. (stock stolen from the opening stock @ R110)
  - What entry would you make in the books to record this?
- **2.4** Value the stock on hand at the year-end according to the FIFO method. (7)
- 2.5 Calculate following:
  - Cost of sales (5)
  - Gross profit for the year. (3)
- **2.6** Peter is not sure when to place his next order of soccer balls.
  - How long can he expect the closing stock to last? Provide figures or a calculation to support your answer.
  - What advice will you offer Peter about his purchases of stock? Provide two points. (4)

#### **INFORMATION:**

Accounting records relating to the soccer balls:

Details	Date	No. of balls	Unit price	Total
Opening stock	1 March 2008	750	R110	R 82 500
		2 480	ÉcoleBook	R 340 800
	20 May 2008	800	R150	R 120 000
Purchases	25 October 2008	1 200	R120	R 144 000
	16 December 2008	480	R160	R 76 800
Closing stock	28 February 2009	1 100	?	?
Sales	1 March 2008 to 28 February 2009	2 100	?	R 430 500

[35]

#### **ANSWER**

2.1	Explain the meaning of the term 'FIFO'.	
		2
2.2	The selling price of soccer balls was kept constant throughout the year. Calculate the selling price per soccer ball.	
		વ

Get all the info from the Trading account

Calculate the total number units that can be sold minus closing stock and compare that with the sales units.	2.3	Calculate the number of balls that are missing.	
		What entry would you make in the books to record this?	7
The Closing stock will be the stock that you recently bought.	2.4	Value the stock on hand at the end of the year according to the FIFO method.	
Opening stock + Purchases (net) + Carriage on purchases + custom duties - closing stock = cost of sales (make sure you memorised the formula) Stock stolen must be taken into account when you calculate the Cost of sales amount.	2.5	Calculate cost of sales.  Calculate gross profit for the year.	8
Stock holding period or called Period of stock on hand	2.6	How long can he expect the closing stock to last? Provide figures or a calculation to support your answer.  What advice would you offer Peter about his purchases of stock? Provide two points.	
		TOTAL MARKS	8

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## (NSC FEB/MARCH 2009 Exam paper)

# **Calculations for Activity 1**

- 1. Draw the Trading account
- 2. Record the figures from the question in the trading account
- 3. Do you need to calculate on FIFO or weighted average method?
- **4.** If Weighted average: add the totals at the bottom for the Rand and units and divide to find the average price to calculate the value of the closing stock
- **5.** If FIFO: find number of units of stock and see which stock is last purchased
- **6.** If FIFO: need to calculate the carriage on purchases per unit to be added on to the closing stock per unit.

Possible format for all the calculations.

1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Trading account for calculation purposes						
Purchases (net) +  @R150 @R150 @R160  Purchases (net)  ###							
+	2 480 - 1 100 = units supposed						
	s profit						
+ Carriage on purchases @R							
+ Custom duties@							
Total units at cost price that can be sold							

Any stock stolen? Yes, according to the stock 2 130 must be sold but the Sales shows only 2100 were sold

# The following is part of your rough work and possible calculations

- **2.1** First in first out
- 2.2 Sales per unit; R430 500 ÷ 2 100 unit = R205
- **2.3** A. Opening stock units: 750

Purchases units + 2 480 Closing stock units - (1 100)

Equals to the 2 130 units that must be sold however the actual sales were 2 100 units.

So 2 130 - 2 100 = 30 soccer balls stolen.

- B. Debit stolen stock and credit purchases
- **2.4** 1 100 stock on hand: 480 units × R160

= R76 800

 $1\ 100 - 480 = 620 \text{ units} \times R120 = R74\ 400$ 

Value of closing stock =  $\underline{151\ 200}$ 

**2.5** Cost of sales: 82 500 + 340 800 - 151 200 - (30 × 110 = 3 300) = 268 800

Gross profit: 430 500 - 268 800 = 161 700

2.6 Period of stock on hand ratio:

(Most of the time these questions are asked in the examination questions. Therefore: know your formula! See Solutions of this activity.)

#### **ANSWER**

QUE	STION 2			
2.1	Explain the meaning of the term 'FIFO'.			
	First-in first-out 🗸			
	OR The oldest soccer balls are the ones that are sold first	2		
2.2	The selling price of soccer balls was kept constant throughout the year. Calculate the selling price per soccer ball.			
	R430 500/2 100 balls = R205 each			
2.3	Calculate the number of balls that are missing.			
	Total balls available = $750 \checkmark + 2480 \checkmark - 1100 \checkmark$ = 2130 balls Number sold = 2100 balls $\checkmark$ Number stolen = 30 balls $\checkmark$			
	What entry would you make in the books to record this?  ✓ Debit Trading stock deficit/Loss due to theft R3 300  ✓ Credit Trading stock R3 300			
2.4	Value the stock on hand at the end of the year according to the FIFO method.			
	<pre></pre>	7		

8

#### 2.5 Calculate cost of sales Opening stock R 82 500 🗸 Purchases 340 800 🗸 Stolen - 3 300 🗸 Closing stock - 151 200 **/** Cost of sales R268 800 🗸 Calculate gross profit for the year. R430 500 🗸 Sales Cost of sales -268 800 🗸 Gross profit 161 700 🗸 2.6 How long can he expect the closing stock to last? Provide figures or a calculation to support your answer. $\frac{\text{Closing stock}}{\text{Closing stock}} \times \frac{365}{\text{days}} = \text{days}$ Any valid evidence provided e.g. ✓✓ $\frac{151\ 200}{100} \times \frac{365}{100} = 205\ days/6,7\ months$ Figures </ 268 800 <sup>^</sup> On average, 175 balls are sold per month - stock will last 6,3 months OR Cost of sales for the year is R268 800 (R22 400) - final stock is R151 200 - stock could last 6,8 months What advice will you offer Peter about his purchases of stock? Provide two points. Any two valid points, e.g. ✓✓ Purchase in smaller quantities more often Only order when they reach their minimum stock level (re-order level) 8 They are holding too much stock.

# (NSC NOVEMBER 2009 exam paper)



# **Activity 2**

# Inventory valuation and control (40 marks; 24 minutes)

You are provided with information relating to Banyana Traders, owned by David Hambeck, for the financial year ended 28 February 2009. The business is situated in Johannesburg.

David buys and sells soccer balls and jerseys. The business uses the periodic inventory system.

The soccer balls are bought from South African suppliers, and the soccer jerseys of different clubs and countries are imported from overseas.

David employs salespersons to control each item of stock:

- James controls and sells the soccer balls
- Cyril controls and sells the soccer jerseys

David has decided on the following accounting policies for valuing inventory:

- Soccer balls Weighted-average method
- Soccer jerseys First-in-first-out method (FIFO)

#### **REQUIRED:**

- 21 Although this business has done well; David is considering closing it down and investing his capital in fixed property. State TWO points that he should consider before making a final decision. (4)
- 2.2 David suspects that a number of soccer balls have been shoplifted. Calculate the number of soccer balls stolen. (5)
- **2.3** Use the relevant information to calculate the closing stock value of:
  - Soccer balls (using the weighted-average method) (6)

(5)

Soccer jerseys (using the FIFO method)

Show your workings to earn part-marks.

- 2.4 Calculate the following for soccer jerseys (you may prepare a Trading Account to calculate these figures):
  - Cost of sales
  - Mark-up % on cost
  - Stock turnover rate
- 2.5 If David decides to continue with this business, what advice would you offer him? State TWO points and quote financial indicators or specific information from the question to support your answer.

#### **INFORMATION:**

1. Inventories: ÉcoleBooks

The stocks were		Soccer b	alls	Soccer jerseys		
valued as follows at the beginning and end of the financial year: Date	No. of units	Per unit	Total value	No. of units	Per unit	Total value
01/03/08	1 200	R120	R144 000	520	R320	R166 400
28/02/09	900	?	?	250	?	?

#### 2. Purchases:

During the financial year ended 28 February 2009, the following stock items were purchased:

Date of		Soccer b	alls	Soccer jerseys			
purchases	No. of units	Per unit	Total value	No. of units	Per unit	Total value	
31/03/08	1 300	R120	R156 000	400	R200	R 80 000	
30/06/08	900	R150	R135 000	600	R225	R135 000	
30/09/08	1 000	R175	R175 000	1 400	R255	R357 000	
02/01/09	200	R180	R 36 000	100	R300	R 30 000	
Totals	3 400		R502 000	2 500		R602 000	

#### 3. Carriage on purchases:

During the year, the business paid a total of R30 200 to transport soccer balls to the shop. The price of the soccer jerseys includes carriage.

#### 4. Sales:

Items	Details	Total
Soccer balls	3 500 units at R320 each	R1 120 000
Soccer jerseys	2 770 units at R400 each	R1 108 000

#### **5.** Financial indicators:

Items	Mark-up % on cost	Stock turnover rate	
Soccer balls	48,5%	3,9 times p.a.	
Soccer jerseys	?	? times p.a.	

[40]

# **Calculations for Activity 2**

- Draw the Trading account
- Record the figures from the question in the trading account
- Do you need to calculate on FIFO or weighted average method?
- If Weighted average: add the totals at the bottom for the Rand and units and divide to find the average price to calculate the value of the closing stock
- If FIFO: find number of units of stock and see which stock is last purchased
- If FIFO: need to calculate the carriage on purchases per unit to be added on to the closing stock per unit.

#### **ANSWER SHEET**

2.1	Although this business has done well, David is considering closing it down and investing his capital in fixed property. State TWO points that he should consider before making a final decision.	
		4

2.2	Calculate the number of soccer balls stolen.	
		5
2.3	Calculate the closing stock value of soccer balls using the	
	weighted average method:	
	ÉcoleBooks	
		11

	2.4	Calculate the following for Soccer jerseys (you may prepare a Trading Account to calculate these figures):		
		Calculate cost of sales:		
		Calculate mark-up% on cost:		
		Calculate stock turnover rate:	4.4	
I			14	
ı	<u> </u>	If Devild devilded to resulting with this book on what a duite		
	2.5	If David decides to continue with this business, what advice would you offer him? State TWO points and quote financial indicators or specific information from the question to support your answer.		
	2.5	would you offer him? State TWO points and quote financial indicators or specific information from the question to		
	2.5	would you offer him? State TWO points and quote financial indicators or specific information from the question to support your answer.		
	2.5	would you offer him? State TWO points and quote financial indicators or specific information from the question to support your answer.		
	2.5	would you offer him? State TWO points and quote financial indicators or specific information from the question to support your answer.		
	2.5	would you offer him? State TWO points and quote financial indicators or specific information from the question to support your answer.	6	

TOTAL MARKS
40



# **Calculations for Activity 2**

S00	CCER BALLS	7	Trading a	acc	ount			WEIGHTED AVERAGE
		R	units			R	units	
+	Opening stock @R	144 000	1 200	-	Closing stock 900 × R147	132 300	900	= Cost of sales Units 1 200 + 3 400 - 900 = 3 700 (SUPPOSED TO BE SOLD)
	Purchases(net)	502 000	3 400	-	Sales (net) @	1 120 000	3 500	= gross profit
+	@R120 @R150 @R175 @R180	156 000 135 000 175 000 36 000	1 300 900 1 000 200		R320			
+	Carriage on purchases @R	30 200						
+	Custom duties @ R							
	Total units at cost price that can be sold	676 200	÷ 4 600	) =	R147 weighted a	average per u	init	

3700 - 3500 = 200 stolen

# **Calculations for Activity 2**

SO	CCER JERSEYS		Trading	acco	coleBooks			FIFO
		R	units			R	units	
+	Opening stock @R	166 400	520	-	Closing stock:	68 250	250	= Cost of sales units
					@R300 × 100 @R255 × 150	30 000 38 250	100 150	
	Purchases(net)	602 000	2 500	-	Sales (net)	1 108 000	2 772	= gross profit
+	@R200	80 000	400		@R400 × 2 772			
	@R225	135 000	600		2112			
	@R255	357 000	1 400					
	@R300	30 000	100					
+	Carriage on purchases @R	-	-					
+	Custom duties @	_	-					
	Total units at cost price that can be sold	768 400	3 020					

# **Answers for Activity 2**

	QUESTION 2	
2.1	Although this business has done well, David is considering closing it down and investing his capital in fixed property. State TWO points that he should consider before making a final decision.	
	Good answer = 2 marks; Poor answer = 1 mark; Incorrect = 0 marks // //  Any two valid points, e.g.  Soccer World Cup will be in SA soon - keep the business operational until then.  Property prices are not doing well at the moment - move into this later.  Financial implication to the business, future prospects  Implications for staff - retrenchment	4
2.2	Calculate the number of soccer balls stolen.	
	1 200 ✓ + 3 400 ✓ - 3 500 ✓ - 900 ✓ = 200 ✓	5
2.3	Calculate the closing stock value of soccer balls using the average method:	
	Stock at beginning of year R144 000 1 200 Purchases during the year R502 000 3 400 Carriage on purchases $\frac{R}{80200}$ - $\frac{R}{676200}$ $\frac{1}{4600}$ = R147	
	= 900 ✓ × 147 ✓ = R132 300 ✓ EcoleBooks	
	Calculate the closing stock value of soccer jerseys using the FIFO method:	
	100 × R300 = R30 000 ✓✓	
	$\frac{150}{250} \times R255 = \frac{R38\ 250}{R68\ 250} \checkmark \checkmark$	11
2.4	Calculate the following for Soccer jerseys (you may prepare a Trading Account to calculate these figures):	
	Calculate cost of sales:  Opening stock ✓ 166 400  Purchases ✓ 602 000  Less closing stock ✓ (68 250)  Cost of sales ✓ 700 150	
	Calculate mark-up% on cost:	
	$= \frac{(1\ 108\ 000\ \checkmark - 700\ 150\ \checkmark)}{700\ 150\ \checkmark} \times \frac{100}{1}$	

Re-do

guestions 1 – 3 on

paper, for extra

practice.

OR

407 850 x 100 700 150

= 58.3 % //

#### Calculate stock turnover rate:

Cost of sales

Average stock

$$= \frac{7\ 00\ 150}{(68\ 250\ \checkmark +\ 166\ 400\ \checkmark)\ /\ 2}$$

$$=\frac{700\ 150}{117\ 325}$$
 = 5,97 times  $\checkmark$ 

14

2.5 If David decides to continue with this business, what advice would you offer him? State TWO points and quote financial indicators or specific information from the question to support your answer.

Good answer = 2 marks; Satisfactory answer = 1 mark; Incorrect = 0 marks

Appropriate financial indicator/figures = 1 each

Any two valid points /// ///

- Implement tighter control measures over soccer balls -200 balls were stolen
- The business is carrying a lot of stock, particularly soccer balls - 900 on hand at end of year
- Selling price must change if cost increases
- The stock for soccer balls must be turned over quicker -3,9 times per annum.

6

Below is a list of suggested past examination questions for extra practice:

Topic	Paper	Question
FIFO and weighted average	February/March 2010	2
Weighted average calculations	November 2010	1.2
FIFO calculations	February/March 2012	1.2
Stock validation	November 2013	6.2



# Value Added Tax

Value Added Tax (VAT) is the tax charged on goods and services supplied and is charged at the current rate (standard rate) of 14%. VAT is an important part of the income generated by the government to cover government expenditure.

## Who has to register as a VAT Vendor?

A person or business that supplies goods or services can register as a vendor (trader).

All businesses with a turnover of more than R1-million <u>must</u> register as a vendor (trader). This is **COMPULSORY REGISTRATION**.

Businesses with a turnover of less than R1-million <u>can</u> register if they want to. This is **VOLUNTARY REGISTRATION**.

## The benefits of registering as a VAT Vendor

The business is able to claim back the amount of VAT paid on goods and services bought (VAT input).

#### Items on which VAT is not charged

**Zero-rated items:** Items charged at 0% VAT, but this can be changed by the government at any time. Examples are fresh fruit and vegetables, brown bread, milk, maize, rice, lentils and cooking oil.

**VAT-exempt items**: Items on which no VAT is charged. Examples are interest, rates, export services, educational services and childcare services.

#### **VAT** input

VAT input is the VAT paid by a business on the purchases of goods and services (which can be claimed back from SARS).

#### **VAT** output

VAT output is the VAT collected by the business on the sale of all goods and services (which needs to be paid over to SARS).





# 7.1 VAT calculations

VAT output – VAT input = amount payable to SARS (see example 2, page 72)

VAT inclusive calculations: When VAT is included in an amount

(see example 1 below) (VAT inclusive) the calculation for VAT will

be the amount  $\times \frac{14}{114}$ 

VAT exclusive calculations: When VAT is excluded (VAT exclusive)

the calculation for VAT will be (see example 1 below)

the amount  $\times \frac{14}{100}$ 



The following calculations are very important. LEARN THEM WELL!



# Worked example 1: Trendy **Suppliers**

Trendy Suppliers uses a fixed mark up of 40% on cost. The business is registered as a VAT vendor. The current VAT rate is 14%.

Calculate the following:

- 1. VAT charged by Trendy Suppliers on one dress. [3]
- 2. Selling price of one dress exclusive of VAT. [6]
- 3. VAT charged to the customer on one dress. [3]
- 4. VAT charged by Trendy Suppliers on one pair of jeans. [3]
- 5. Selling price of one pair of takkies inclusive of VAT. [9]

#### Information

The following items were purchased during the month from Trendy Suppliers.

100 dresses @ R285 each (VAT inclusive)

80 pairs of jeans @ R180 each (VAT exclusive)

60 pairs of takkies @ R110 per pair (VAT exclusive)

# Answers to worked example 1

1. VAT charged by Trendy Suppliers on one dress. [3]

R285 
$$\checkmark \times \frac{14}{114} \checkmark = R35 \checkmark \leftarrow$$

2. Selling price of one dress exclusive of VAT.

Cost price = R285 ✓ - R35 ☑ (VAT) = R250 ☑

Selling price = R250 
$$\checkmark$$
 ×  $\frac{140}{100}$   $\checkmark$  = R350  $\checkmark$   $\checkmark$  [6]

Remember:

Inclusive is 14 ÷ 114

Remember:

Mark up = 40% on cost price

# Answers to worked example 1 (continued from page 120)

**3.** VAT charged to the customer on one dress: Selling price = R350 (as calculated in No 2 above)

VAT charged = R350  $\checkmark$  ×  $\frac{14}{100}$  = R49  $\checkmark$ 

Remember: Exclusive is 14 ÷ 100

**4.** VAT charged by Trendy Suppliers on one pair of jeans:

 $R180\sqrt{\frac{14}{100}} = R25,20\sqrt{}$ 

Remember:

[3]

[9]

Exclusive is  $14 \div 100$ 

**5.** Selling price of one pair of takkies inclusive of VAT:

Cost price = R110

Selling price = R110 $\checkmark$  ×  $\frac{140}{100}$  = R154 $\checkmark$  (exclusive of VAT)

 $VAT = R154 \checkmark \times \frac{14}{100} = R21,56 \checkmark$ 

VAT inclusive amount = R154  $\checkmark$  + R21,56  $\checkmark$  = R175,56  $\checkmark$ 

Re-do questions 1 – 5 on paper, for extra practice.







# Worked example 2: Mizi Stores

# Mizi Stores, owned by Mia Mizi, is registered for VAT.

Calculate the amount of VAT to be paid over to SARS for the period ending 28 February 2011.

[17]

Information for this period ending 28 February 2011

a)	Total sales (cash and credit) (VAT inclusive)	R60 000
b)	New computer bought (for office use) (VAT inclusive)	R12 000
C)	Trading stock bought (VAT exclusive)	R20 000
d)	Credit notes issued to customers (VAT inclusive)	R 1 500



# Answers to worked example 2

	VAT output	VAT input
a) Total sales: 60 000√ × $\frac{14}{114}$ √	R7 368,42√	
<b>b)</b> New computer bought: 12 000 $\checkmark \times \frac{14}{114}$		R1 473,68
c) Trading stock bought: 20 000 $\checkmark$ × $\frac{14}{100}$		R2 800√
d) Credit notes issued: $1500 \checkmark \times \frac{14}{114} \checkmark$		R184,21√
	R7 368,42 🗸	R4 457,89✓

VAT payable to SARS:

R7 368,423 ✓ - R4 457,893 ✓ = R2 910,53 ✓

Total VAT output - Total VAT input = VAT payable to SARS

[17]

# 7.2 VAT Control Account

There are different formats of completing the Input and Output VAT accounts however the correct information does end up in the VAT Control account. It is not likely you will be asked to do the Input or Output VAT account in the examination. The VAT Control Account is more likely to be asked.

Learners need to be able to complete the VAT Control account with all the relevant transactions without completing the Input VAT Control and Output VAT Control accounts.

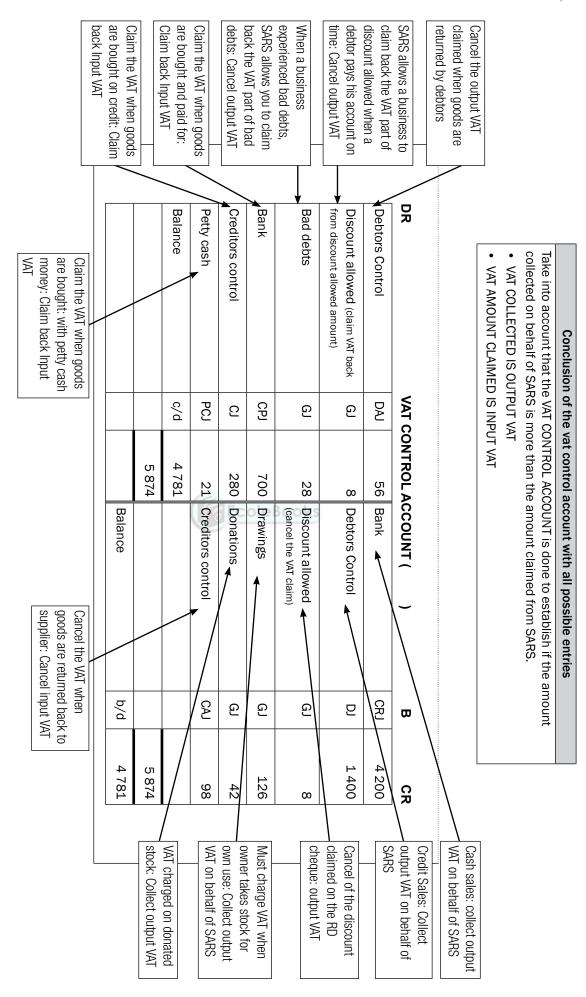
## Format of possible entries in the VAT control account

GENERAL LEDGER										
Dr.	В		Cr.							
2014 May	3	Debtors Control	DAJ	56	2014 May	1	Bank		CRJ	4 200
	8	Discount allowed (claim VAT back from discount allowed amount)	GJ	8		2	Debtors Control		DJ	1 400
	12	Bad debts	GJ	28		9	Discount allowed (cancel the VAT claim )		GJ	8
	4	Bank	СРЈ	700		10	Drawings		GJ	126
	6	Creditors control	C1	280	еВос	11	Donations		GJ	42
	5	Petty cash	PCJ	21		7	Creditors control		CAJ	98
	31	Balance	c/d	4 781						
				5 874						5 874
					2014 June	1	Balance		b/d	4 781

- VAT Control account can have a debit balance or a credit balance.
- Amount owing to SARS
- A debit balance means that SARS owes the business money and that your Input VAT was more than your Output VAT.
- A credit balance means that the business owes SARS money.

l a	ב	86	F	_						_																
		CA											_	_	+	_	_	_		_						
		Creditors control								.ss.	oit side.					S	4 200		<b>★</b> 1 400	8	126	42	86		5 874	4 781
	ב ב	4 37							set.	onsine	le de						<u>ر</u>	,'					_			
	5	2014 May			<u> </u>				nt as	the	9 ON L					м /	관		<u> </u>	G	ල	G	S			p/q
NPIIT VAT CONTROL	א ה	00,,	, 280	} ``.		21			a curre	S owes	creases			مممور	,1											
	- 1	CP	<u>-</u>	}		PC.	``	```	óunt is	nat SAR	The Input VAT account increases on the debit side.		, r					ontrol	allowed VAT claim		6	control				
		Bank	Creditors	control		Petty cash			The mout VAT account is a current asset.	amount, tr			*****	`		(,',	Bank		Debtors Control	Discount allowed (cancel the VAT claim)	Drawings	Donations	Creditors control			Balance
	ı	31		, ,	, .				e mp	s tne e Inpi	dul ə			•	`		, 31									Н
80		2014 May					,,'	,,,,,	• F	= f •	•					COUNT	56 2014	May ,								2014 Jun
<u>a</u>	5	4 200	1 400	) ,,,,	,' '	<u>,</u>		80		126	42			ÉC	· ,	VAT CONFROL ACCOUNT	26	ks	<b>∞</b>	28,	200	280	21	4 781	5 874	
	- 1-	CRJ	2	ì				G)		ලි	G)		مممر			VAT (	DAJ		<u></u>	ලි	GD.	ె	PG.	p/ɔ		
		Bank	Debtors	Control				Discount	allowed (cancel the VAR claim)	Drawings,	Donations `								Discount allowed (claim VAT back from discount allowed amount)			_				
		37			,	مر	,,,,			) <del>=</del>			bility.	de			Sontro		allowe m disco	S		contro	ے			
		2014 May	_	,,,	_							ent lia	ARS	The account increases on the credit side			Debtors Control		Discount VAT back fra amount)	Bad debts	Bank	Creditors control	Petty cash	Balance		
OUTPUT VAT ACCOUNT ( ) B CR     DR. INPUT VAT CONTROL	<u> </u>	<u>ر</u> ک	α	)				28				a curr					31 De		VAT	Ba	Ba	ŏ	Pe	Ba		
		DA DA		}				ദ				unt is	ig to S	es on												
			<u> </u>	mielo	VAT back from	discount allowed	nt)	Bad debts		VAT control		The output VAT account is a current liability.	It is the amount owing to SARS	nt increas		S S	2014	INIA								
	ŀ	Debtors   Control	Discount	3010	VAT by	Gisio	amount)	Bad		VAT c		utput	he am	accour												
	H	4 31										The c	It is t	The a												
8	ב	2014 May										•	•	•												

Ensure that you know all the possible transactions and how the transactions are recorded in the VAT Control account.







TOPIC	PAPER	QUESTION
Calculations using General Ledger accounts	November 2010	1.3
Concepts and calculations	February/March 2012	1.1





# **Fixed assets**

# 8.1 Introduction to Fixed assets

- All fixed assets purchased by a business are not intended for resale but to be used in the operation of the business to assist in generating a profit.
- Fixed assets are recorded at the price the asset was purchased called COST PRICE (GAAP principle, called Historical cost.)
- Separate records are kept for every fixed asset purchased in an asset register. Full details of very asset is recorded on the asset register and the depreciation for the financial year is calculated and recorded in the asset register and kept up to date at all times.
- Fixed assets are depreciated at cost price/ straight line method or at carrying value/ diminishing balance/ or called book value method.
- For internal control purposes, the assets and the registers are regularly monitored.
- When the asset is sold the asset register is updated; additional depreciation calculated, to whom it was sold and closed off as the asset does not belong to the business anymore.
- At the end of each financial year all the relevant fixed assets are depreciated. Any depreciation on assets sold during the year, form part of the depreciation amount disclosed in the Income Statement.

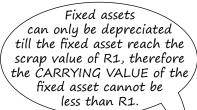
# 8.2 Asset register

## Required:

Complete the following asset registers.

#### Information:









# **Example**

Vehicle purchased: Cost price R80 000 Equipment: Cost price: R20 000

#### **Transaction:**

- A. Depreciation on vehicles must be brought into account at 20% per annum on cost
- B. Depreciation on equipment must be calculated at 10% per annum on carrying value.

#### A. DEPRECIATION AT COST PRICE:

# **Schie Traders**

No.1

Asset register

General ledger account: Vehicle account (B 6)

Item: TOYOTA delivery van 3 litre Date purchased: 1 March 2009

From whom purchased: Toyota Whiteriver Cost price: R80 000 Percentage Depreciation: 20 % p.a. at cost price/straight line method

Details of depreciation

Details	Annual depreciation calculations	Accumulated depreciation	Book value or known as "Carrying value"				
End of first year							
End of second year							
End of third year							
End of fourth year							
End of fifth year							

### Schie Traders No.2

Asset register

General ledger account: Equipment account (B 7)

Item: Office computer Date purchased:

From whom purchased: DARRYN FURNITURES Cost price: R20 000

Percentage Depreciation: 10% p.a. at carrying value/book value or called

diminishing value

Details of depreciation

**DEPRECIATION AT CARRYING VALUE:** 

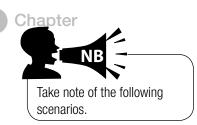
Details	Annual depreciation calculations	Accumulated depreciation	Book value or known as "Carrying value"
End of first year			
End of second year			
End of third year			
End of fourth year			
End of fifth year		<b>F</b> ÉCO!	eBooks

## 8.3 Residual value/or called scrap value of R1

### Introduction

At the end of each financial year the asset register will be updated by calculating depreciation on all fixed assets. The total depreciation will then be recorded in the General Journal as the depreciation for the year. Depreciation is a legal way of decreasing the net profit so that less tax can be paid. However when the fixed asset reaches the end of its lifespan no more depreciation can be calculated. Depreciation can only be calculated till the asset reaches a carrying value of R1.

(Cost price minus Accumulated depreciation = carrying value)



1. The R1 scrap value applies when an asset is depreciated. A Vehicle with a carrying value of RI cannot be depreciated the following year. (cost price minus accumulated depreciation = carrying value R100 000 - R 99 999 = R1

DR VEHICLE			DEPRECIATION CF		
Balance b/d 100 000				Balance b/d 99 999	

2. When an asset is sold that has a carrying value of R1, the cost price and the total accumulated depreciation of the vehicle sold will be closed off to the Asset disposal account.

ASSET DISPOSAL						
Vehicle	100 000	Accum. depreciation	99 999			
Profit on sale of asset	<b>3</b> 9 999	Bank	40 000			
	139 999		139 999			
Because of the scrap va of R1, the profit is R39 S						

In practice the scrap value principle is NOT applied when a fixed asset is sold that has not reached its R1 carrying value yet.

However when an asset is sold that HAS NOT reached its carrying value of R1 yet but will soon, the scrap value principle (carrying value of R1) is not applied in practice.



Vehicle is sold for R40 000 cash.

Cost price of vehicle: R100 000 Accumulated depreciation: R 90 000 Carrying value = R 10 000

Depreciation is calculated at 20% on Cost price

- Additional depreciation: 100 000 × 20% = R20 000
- The carrying value is already R10 000 and that means that depreciation can only be R10 000.
- A fixed asset cannot be depreciated less than the cost price of the vehicle. (And not R9 999!)

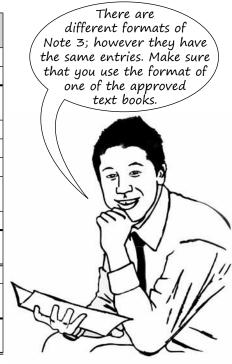
ASSET DISPOSAL						
Vehicle	100 000	Accum. depreciation	100 000			
Profit on sale of asset	<b>4</b> 0 000	Bank	40 000			
	140 000		140 000			
Because the principle of R1 is not applied, the profit is R40 000						

## 8.4 Note to the Balance Sheet and Asset disposal

- **1.** Know the format and the steps to follow when an asset is sold.
- 2. Know all the ledger accounts involved in calculating the
  - · Additional depreciation when an asset is sold;
  - Depreciation of all the existing fixed assets at the end of the financial year (except Land and buildings).
  - Completion of Note 3 in the Balance sheet

### Note 3 to the Balance sheet:

3. Property , plant and equipment	Land and buildings	Vehicles	Equipment	Total
Cost Price			60 000	
- Accumulated Depreciation			(20 000)	
= Carrying value on the last day of the previous year			40 000	
Movements:				
+ Additions at cost price			30 000	
Disposals at carrying value (book value)			(5 000)	
- Depreciation for the year			(15 000)	
= Carrying value on the last day of current year	6		50 000	
Cost Price		ECOIE	85 000	
Accumulated Depreciation at end of year			(35 000)	
= Carrying value on the last day of current year			50 000	





### Steps to follow when disposing a fixed asset:

- Find the cost price of fixed asset sold and move/transfer it to the Asset Disposal account.
- 2. Calculate any additional depreciation on fixed asset sold
- **3.** Move/Transfer the total depreciation on fixed asset sold to Asset Disposal account.
- **4.** Record the selling price of fixed asset sold in the Asset Disposal account.
- **5.** Calculate the profit or the loss on sale of fixed asset sold.
- **6.** At end of year, record the depreciation of the remaining fixed assets and new assets at the end of financial year.

### General Ledger accounts

- Study the following General Ledger accounts.
- Ensure that you understand all the ledger accounts well.
- The entries are examples of all possible transactions in the applicable general ledger accounts when fixed assets are bought or sold.

				VEHICL	ES (FA	)	B1	-	CI
2013 Mar	1	Balance	B/d	180 000	2013 Dec	31	Asset disposal	GJ	100 000
May	10	Creditors control	C1	150 000	2014 Feb	28	Balance	c/d/	280 000
Oct	10	Bank	СРЈ	50 000 380 000				,,'	380 000
2014 Mar	1	Balance	B/d	280 000					380 000
DR	1	ACCUML	ILATEI	D DEPREC	IATION	ON V	/EHICLES (-A) / B2	<u> </u>	CF
		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		3	2013		/	·	
2013 Dec	31	Asset Disposal (20000 + 5000)	GJ	25 000	Mar	1	Balance	B/d	60 000
		Balance	C/d	40 000	Dec	`31	Depreciation (additional)	GJ	5 000
004.4				65 000		```	Pilania (Annu Bannasiation of		65 000
2014 Feb	28	Balance	C/d	50 000			Bàlance (Accu. Depreciation. of the remaining vehicles)	B/d/	40 000
					2014				6
				50 000	Feb	28,	Depreciation (end of year)	GJ	10 000
				30 000	Mar ,	1	Balance	b/ø	50 000
DR			ASSE	T DISPOS	AL (cal	culat	ion) B3	B'/-,	CF
2013 Dec	31	Vehicles	GJ	100 000	, 2013 Dec	31	Accumulated depreciation on vehicles	GJ	25 000
				5	leBo	oks			4
		Profit on sale of asset	GJ	5 000 105 000			Debtors control	GJ	80 000 105 000
		l btors control – when a vehic	lo wo	103 000	\				1 100 000
NOTE:				s sold on c		•			
NOTE:	Bar Cre Dra		cle wa cle wa took	s sold for o s traded in asset for o	cash i to a s wn pur		ac	ce beca a profit	osal ust be account use the on sale
note: Dr	Bar Cre Dra	nk – when a vehic editors control – when a vehic hand dealer ewings – When owner	cle wa cle wa took	s sold for o s traded in asset for o	eash i to a si wn pur	pose	closed off. (The Asset D will never have a baland difference will either be	count m disposal de becal a profit	osal ust be account use the on sale
	Bar Cre Dra	nk – when a vehic editors control – when a vehic hand dealer ewings – When owner	cle wa cle wa took	s sold for one straded in asset for one design of the strategy	cash to a si wn pur .  ATION	pose	closed off. (The Asset D will never have a baland difference will either be of asset or a loss on sa	count m disposal de becal a profit	osal ust be account use the on sale set)
<b>DR</b> 2013	Bai Cre Dra Doi	ak – when a vehicle reditors control – when a vehicle hand dealer with the work of the wor	cle wa	s sold for one straded in asset for one s donated  DEPRECI	cash to a si wn pur .  ATION	pose:	closed off. (The Asset D will never have a baland difference will either be of asset or a loss on sa N Profit and loss (depreciation for	count m disposal ce beca a profit le of ass	osal ust be account use the on sale set)
DR 2013 Dec 2014	Bai Cre Dra Doi	Accumulated depreciation on vehicles (additional)	cle wa cle wa took cle wa	s sold for one straded in asset for one donated  DEPRECI  5 000  10 000  20 000	cash to a si wn pur .  ATION	pose:	closed off. (The Asset D will never have a baland difference will either be of asset or a loss on sa N Profit and loss (depreciation for	count m disposal ce beca a profit le of ass	osal ust be account use the on sale set) CF
2013 Dec 2014 Feb	Bai Cre Dra Doi	Accumulated depreciation on vehicles (end of year)  Accumulated depreciation on vehicles (end of year)  Accumulated depreciation on on vehicles (end of year)	cle wa cle wa took cle wa	s sold for one straded in asset for one straded  DEPRECI  5 000  10 000  20 000  35 000	eash to a so wn pur .  ATION 2014 Feb	pose:	closed off. (The Asset D will never have a baland difference will either be of asset or a loss on satisfied by the whole year)	count m disposal ce beca a profit le of ass	osal ust be account use the on sale set)  CF 35 000
DR 2013 Dec 2014	Bai Cre Dra Doi	Accumulated depreciation on vehicles (end of year)  Accumulated depreciation on vehicles (end of year)  Accumulated depreciation on on vehicles (end of year)	cle wa cle wa took cle wa	s sold for one straded in asset for one donated  DEPRECI  5 000  10 000  20 000	eash to a so wn pur .  ATION 2014 Feb	pose:	closed off. (The Asset D will never have a baland difference will either be of asset or a loss on satisfied by the whole year)	count m disposal ce beca a profit le of ass	osal ust be account use the on sale set) CF

Ν

Profit and loss account

GJ

CR

0

LOSS ON SALE OF ASSET (e)

GJ

2014 0 Dec

Asset disposal

DR

2013

31

Dec

## **Example 2 on note 3 in the Financial Statements**

	_^		_			
$\mathbf{\nu}$	-(1		ı	-	ı 1.	
п	-u	u	IR	_	u.	

Complete Note 3 of the Balance sheet

#### **INFORMATION:**

	Make use of the forma	at and compl	lete Note 3 from	the financia	I Statements.
--	-----------------------	--------------	------------------	--------------	---------------

Name of Company \_\_\_\_\_\_\_\_BALANCE SHEET AT \_\_\_\_\_\_

	Notes	
ASSETS		
Non-current assets		
Property, plant and equipment	3	

#### NOTES TO THE BALANCE SHEET

3. Property, plant and equipment	Vehicles				
Cost Price					
Accumulated Depreciation					
Carrying value on the last day of the previous year					
Movements:	ooks				
Additions at cost					
Disposals at carrying value (book value)					
Depreciation for the year					
Carrying value on the last day of current year					
Cost Price					
Accumulated Depreciation					
Carrying value on the last day of current year					

### Memorandum of example 1

#### Calculation of Depreciation and cost price and carrying value

#### **SCHIE TRADERS**

NO.1

#### Asset register

Percentage Depreciation: 20 % p.a. at cost price/straight line method

**Details of depreciation** 

Details	Annual depreciation Calculations	Accumulated depreciation	Book value or known as "Carrying value"
End of first year	80 000 × 20%= 16 000	16 000 <b>&gt;</b>	64 000
End of second year	80 000 × 20%= 16 000	32 000	(80 000 - 32 000) 48 000
End of third year	80 000 × 20%= 16 000	48 000	32 000
End of fourth year	80 000 × 20%= 16 000	64 000	16 000
End of fifth➤ year	80 000 × 20%= <del>16 000</del> 15 999	(64 000 + 15 999) 79 999	(80 000 - 79 999) R1

 $(80\ 000 - 16\ 000)$ 

Cannot depreciate R16 000, because of the scrap value of R1. Therefore can only depreciate R15 999

### SCHIE TRADERS

NO.2

#### Asset register

Percentage Depreciation: 10 % p.a. at carrying value/ book value or called diminishing value

**Details of depreciation** 

Details	Annual depreciation Calculations	Accumulated depreciation	Book value or known as "Carrying value"
Cost price R20 000 End of first year	20 000 × 10% × 6/12 = 1 000	1000	19 000
End of second year	19 000 × 10% = 1 900	(2 000 + 1 900) 2 900	(20 000 - 2 900) 17 100
End of third year	17 100 × 10% = 1 710	4 610	15 390
End of fourth year	15 390 × 10% = 1 539	6 149	13 851
End of fifth year	13 851 × 10% - 1 385, 10	7 534,10	12 465,90

### **Memorandum of example 2**

#### **REQUIRED:**

Complete the note to the financial statements by using the given ledger accounts

Name of Company \_\_\_\_\_

BALANCE SHEET AT \_\_\_\_\_

	Notes	
ASSETS		
Non-current assets		230 000
Property, plant and equipment (at carrying value)	3	230 000

#### NOTES TO THE BALANCE SHEET

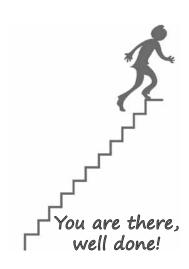
3. Property, plant and equipment	Vehicles
Cost Price	180 000
Accumulated Depreciation	(60 000)
Carrying value on the last day of the previous year	120 000
Movements:	
Additions at cost (150 000 + 50 000)	200 000
Disposals at carrying value (100 000 – 25000)	(75 000)
Depreciation for the year (5 000 + 10 000)	(15 000)
Carrying value on the last day of current year	<b>£</b> 230 000
Cost Price	280 000
Accumulated Depreciation	(50 000)
Carrying value on the last day of current year	<b>230 000</b>

Check your answer!

These must be the same.

	SCHEMATIC ILLU	MATIC ILLUSTRATION OF FIXED ASSETS IN A BUSINESS	A BUSINESS					
ASSET REGISTERS	35	GENERAL LEDGER ACCOUNTS			BALANC	BALANCE SHEET		
DEPRECIATION AT COST PRICE		VEHICLES		ASSETS				
	Balance b/d	100 000 Asset disposal GJ	30 000	Non-Current Assets	Assets			
ASSET REGISTER OF VEHICLE SOLD	Creditors con CJ	50 000 Balance c/d	120 000	Fixed assets at CV	ts at CV			76 120
orice: R30 000 Depreciation: 20% at Cost price		150 000	150 000					
Date Depreciation Accu Depr CV	Balance b/d	120 000		NOTES TO TH	NOTES TO THE BALANCE SHEET	F.		
30 000 × 20% × 8/12 = 4 000   26 000				Note 3: FIXED ASSETS	D ASSETS	Vehicles	Equip- ment	Total
30 000 × 20% × 12/12	ACCUMULA	ACCUMULATED DEPRECIATION ON VEHICLE (-A)	E (-A)	Cost price		100 000	10 000	110 000
30 000 × 20% × 6/12 = 13 000 2 17 000	Asset disposal	3 13 000 Balance b/d	40 000	-Accumulate	-Accumulated depreciation	(40 000)	(3 600)	43 600
	$(10\ 000 + 3\ 000)$	Depreciation	3 000	= Carrying va	= Carrying value at begin	000 09	6 400	66 400
ASSET REGISTER OF REMAINING VEHICLE	Balance c/d	49 000 Depreciation	19 000	Movements				
Cost price: R70 000 Accumulated depreciation:R30 000		(14000+5000)		+ Additions at Cost price	at Cost price	20 000	•	20 000
Date Depreciation Accu Depr CV		62 000	62 000	- Disposals	- Disposals at carrying value	(17 000)	•	(17 000)
28 Feb'12   14000 <b>6</b>		Balance b/d	49 000	- Depreciation <b>2</b>	on <b>2</b> + <b>6</b>	(22 000)		(23 280)
ASSET REGISTER OF BEMAINING NEW VEHICLE		ASSET DISPOSAL		= Carrying value at end	alue at end	71 000	5 120	76 120
				החשר שוותב מו		_	$\perp$	
Cost price: R50 000 bought 6 months ago	Vehicle GJ	<b>4</b> 30 000 Accum. depre	13 000	- Accumulat	<ul> <li>Accumulated depreciation</li> </ul>	(49 000)	(4 880)	(23 880)
Date Depreciation Accu Depr CV	Profit sale of asset	5 1 000 Bank 4	18 000	= Carrying value at end	alue at end	71 000	5 120	76 120
28 Feb'12   5 000 <b>6</b> 5 000   5 000   5 000   5 000   5 000   5 000   5 000		31 000	31 000					
							:	
				Je S	Know the steps to dispose of a fixed asset well:	fixed asset	well:	
DEPRECIATION AT CARRYING VALUE		DEPRECIATION		Step 1	Transfer the cost price to Asset disposal	rice to Asset	disposal	
	Accum depre: V	2 3 000 Profit and loss	23 280	Step 2	Calculate additional depreciation	al depreciatio	nc	
ASSET REGISTER OF COMPUTER/EQUIPMENT	Accum depre: V	000 61		Step 3	Transfer total depreciation to Asset disposal	eciation to As	sset dispos	al
price: R10 000 depreciation: 20% on CV	Accum depre: Eq	6 1 280		Step 4	Record the selling price in Asset disposal	price in Asser	t disposal	
Date Depreciation Accu Depr CV		23 280	23 280		a Cash	Bank		
28 Feb'10 = 2000 x 20% x 12/12 2 000 8 000					On Credit	Debtors control	control	
8 000 × 20% × 12/12 = 3 600 6 400		PROFIT ON SALE OF ASSET			Trade in	Creditors Control	Control	
6 400 × 20% × 12/12 = 4 880 5 120	Profit and loss	1 000 Asset disposal	<b>5</b> 1 000		By owner	Drawings		
					Donated	Donation		
		PROFIT AND LOSS ACCOUNT (F2) N		Step 5	Calculate the profit or loss on sale of asset	or loss on sa	ale of asse	
	Depreciation	26 280 Trading account	XXXX	Ī	AT THE END OF THE YEAR:	OF THE YEAF	انہ	
		Profit on sale	1 000	Step 6	Calculate the depreciation of all old remaining and the new fixed assets	ciation of all	old remain	ing and
				-				





## Appendix: Past Grade 12 exam papers

The 2014 Life Sciences exams have a new format in line with CAPS. The Department of Basic Education has offered an example of the Accounting Paper, Answer Book and marking memoranda.

Use the exam paper, answer book and marking memoranda to help you prepare for your exams:

- **1.** Before attempting the exam, **photocopy** the Answer Books so that you can use it more than once. Remember: if you want to succeed at Accounting, you must **practise**, **practise**!
- 2. Answer the questions in the Accounting exam paper. Write your answers in the Answer Book.
- 3. Treat them as "real" exams by preparing yourself as if these were real exams, so have pens, pencils, an eraser and a calculator with you. Time yourself so you complete each paper within the 3 hours that is allocated to it.
- **4.** This exercise is meant to test your own knowledge so **don't cheat** yourself by looking up the answers in the memo before you've finished each exam.
- 5. Use the memoranda to check whether or not your answers are correct. Note where you have got answers wrong these are the sections of the curriculum on which you need to do more work. Go back to your textbooks and to the relevant sections of this study guide, and spend time learning the sections for which you got the lowest marks.
- 6. When you feel you have improved your knowledge in the areas you were weakest in in your first attempt, go through each exam again, using your photocopied Answer Books to record your answers. Check the memo again to see if you've improved.
- 7. And remember: Accounting success depends on practise, practise, practise. Repeat this exercise as often as you can so that you fly in your year-end exams!

DBE/2014

NSC - Grade 12 Exemplar

Accounting

# INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

- Answer ALL the questions.
- A special ANSWER BOOK is provided in which to answer ALL the questions.

REPUBLIC OF SOUTH AFRICA

Basic Education

Department:

basic education

- Show workings in order to achieve part-marks.
- You may use a non-programmable calculator.
- You may use a dark pencil or blue/black ink to answer the questions.

## NOTE TO TEACHERS

SENIOR CERTIFICATE

This Exemplar is intended to give teachers and learners an understanding of the standard and format of questions that are regarded as valid for the Grade 12 NSC Accounting examinations (CAPS) from 2014.

The Examination Guidelines for further information on structure and standards required

Teachers are also referred to:

The analysis grids for evidence of compliance with weighting of content, cognitive levels and degrees of challenge

4 .....

**GRADE 12** 

TIME: 3 hours MARKS: 300

**EXEMPLAR 2014** ACCOUNTING

**NEW CAPS CONTENT** 

The following questions contain new content according to the CAPS:

- QUESTION 2 covers Creditors' Reconciliation, the preparation of which is a Grade
  - QUESTION 3 covers a Company Cash Budget and includes repurchase (buy-back) 11 topic which may be examined in Grade 12
- QUESTION 4 focuses on repurchase (buy-back) of shares and its effect on the Balance Sheet, Notes and relevant financial indicators
- QUESTION 5 is a standard cash flow and interpretation question which includes aspects relating to repurchase (buy-back) of shares

## DOUBLE TESTING

It is not desirable practice for question papers to contain 'double testing' of topics across questions. However, as the topic of repurchase (buy-back) of shares might give rise to concerns or queries from teachers regarding acceptable treatment, this topic has been repeated in several contexts in this Exemplar. Refer to the Examination Guidelines for further explanation.

This question paper consists of 21 pages and an 18-page answer book.

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NSC - Grade 12 Exemplar Accounting DBE/2014 3 NSC – Grade 12 Exemplar Accounting

Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it. QUESTION 1: 40 marks; 25 minutes

n: This question integrates:

Managerial accounting

Production Cost Statement

Analysis and interpretation of unit costs and break-even Managing resources
Internal control and internal audit Main topic of the question: Manufacturing

QOL.	QUESTION 2: 30 marks, 20 minutes
Main topic of the question:	This question integrates:
	Financial accounting
	Reconciling a Creditors' Ledger Account to a Creditors'
Creditors' Reconciliation	Statement
	Managing resources
	Internal control and internal audit

QUESTION 4: 50 marks; 30 minutes	This question integrates:	Financial accounting Shareholders' equity section of Balance Sheet and Notes Analysis and interpretation: Net asset value
าง	Main topic of the question:	Repurchase (buy-back) of shares

QUESTION 5: 70 marks; 40 minutes	Main topic of the question: This question integrates:	Financial accounting	Cash Flow Statement	Cash flow and interpretation of Analysis and interpretation of financial information	information Independent auditor's report	Internal control	Ethics and professional body
----------------------------------	---	----------------------	---------------------	--	--	------------------	------------------------------

QUESTION 6: 60 marks; 35 minutes	This question integrates:	Financial accounting	Preparation of Income Statement	Managing resources	Asset disposal account	Inventory valuation: FIFO and weighted average	Internal control problem-solving
no	Main topic of the question:			Income Statement, fixed	assets and stock		

DBE/2014

(40 marks; 25 minutes)

QUESTION 1: MANUFACTURING

1.

The business produces one type of basic school calculator. The business uses the periodic inventory system ACE CALCULATORS

REQUIRED:

Indicate the cost accounts that would be affected by the following in a manufacturing business: 1.1.

@ <del>@</del> <u>@</u> <u>@</u> <u>@</u>

Rent paid for factory buildings
Overtime paid to factory workers
Commission paid to salespersons
Cost of raw materials used in the production
Salary of internal auditor

ended Prepare the Production Cost Statement for the year 28 February 2013.

1.1.2

(10)

<u>(c)</u>

(2)

year. the financial 30 000 calculators were produced during Calculate the cost of production per unit. 1.1.3

INFORMATION:

Information extracted from the financial records on 28 February 2013:

	ĸ
Administration cost	485 000
Direct/Raw material cost	1 161 000
Factory overhead cost	810 000
Selling and distribution cost	245 000
Direct labour cost	ذ
Prime cost	1 797 000
Total cost of production of finished goods	2 460 000
Work-in-process (1 March 2012)	102 000
Work-in-process (28 February 2013)	ė
Finished goods stock (1 March 2012)	202 800
Finished goods stock (28 February 2013)	200 200
Sales (26 500 calculators at R130 each)	3 445 000
Cost of sales	¿

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Accounting

MALOMA DAIRY

7.

NSC - Grade 12 Exemplar

You are provided with information for the year ended 28 February 2013. This dairy is owned by Mark Maloma. The business produces flavoured milk which

The number of units produced and sold increased from 420 000 bottles in

2012 to 540 000 bottles in 2013

The following figures apply to the 2013 financial year:

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Accounting

DBE/2014

CREDITORS' RECONCILIATION AND INTERNAL CONTROL

QUESTION 2:

DBE/2014

Organic Traders buys and sells organic products. A statement received on 28 July 2013 from a creditor, Aqua Wholesalers, reflects a different amount owing by Organic Traders than the amount in the Creditors' Ledger of Organic Traders.

(30 marks; 20 minutes)

## REQUIRED:

Make a list of the changes to Aqua Wholesalers' account in the Creditors' Ledger, which the bookkeeper should process to correct the errors or omissions. Give a brief description in the Details column and show the changes to the balances in the Amount column. 2.1

(12)

9

4

# Prepare a Creditor's Reconciliation Statement in respect of Aqua Wholesalers for July 2013.

2.2

2.3

R2,70 R1,80 R6,60 PER UNIT

R972

production for the year.

1.2.2

Calculate

1.2.1

R3 564 000 R1 458 000 TOTAL

Sales (540 000 x R6,60)

Variable costs Fixed costs

resulted in inaccurate records in their books. Briefly explain TWO measures that Organic Traders can implement in order to maintain good control over The owner of Organic Traders is unhappy with the errors which occurred and their creditors and to avoid this from happening in future. Organic Traders is experiencing cash problems and is currently in a position where they are not able to pay their creditors on time. Aqua Wholesalers has granted them a credit limit of R40 000. All their current creditors require them to pay within 30 days and they allow their customers credit terms of 60 days. Suggest TWO ways in which the liquidity position can be improved

## INFORMATION:

# CREDITORS' LEDGER OF ORGANIC TRADERS

		2011		
		Debit	Credit	Balance
2013				Credit
July 1	Balance brought forward			17 680
July 6	Cheque 6321	16 796		884
	Discount	884		JN.
July 8	Invoice 2590		17 932	17 932
July 10	Debit note 89	593		17 339
July 14	Invoice 2810		25 490	42 829
July 16	Journal Voucher 450	1 800		41 029
July 17	Debit note 102	1 482		39 457
July 19	Invoice 1067		420	39 967
July 22	Cheque 6410	18 000		11 967
July 29	Invoice 3056		32 604	44 571

<u>EcoleBooks</u>

2.4

Despite the fact that the factory workers were given a 10% wage increase, the direct material cost per unit has dropped by 50 cents per unit. What could have caused the difference? What comment The fixed costs per unit dropped from R1,90 in 2012 to R1,80 in 2013. Should Mark be satisfied with this? What comment would the break-even point and comment on the level of ou make to Mark about the control of this item? Provide figures to

would you make to Mark about the control of this item?

office manager, Alex Fynn. While working late one night, you noticed that Apex Products delivered a laptop to Mr Fynn.

8

Explain what action you would take as internal auditor. State Will this be a concern to you? Give a reason for your answer. THREE points.

You are the internal auditor and you have noticed that the business

1.2.4

support your answer.

1.2.3

is using bottles bought from Apex Products as containers for the lavoured milk. The contract with Apex Products was signed by the 40

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is sold in bottles. INFORMATION: Accounting 7 NSC – Grade 12 Exemplar

# Statement received from Aqua Wholesalers:

Date of statement: 25 July 2013

PO Box 453; Stellenbosch 7599; Tel: 021 851 5679

Organic Traders

Agua Wholesalers

PO Box 219	219		Credit li	Credit limit: R40 000
Stellenberg, 7550	rg, 7550			
		Debit	Credit	Amount
2013				
July 1	Balance brought forward			17 680
July 6	Receipt 1436		16 796	884
July 8	Invoice 2590	17 932		18 816
July 10	Credit note 1038		539	18 277
July 10	Credit note 1042		3 900	14 377
July 16	Invoice 2810	25 904		40 281
July 17	Debit note 102		1 482	38 799
July 19	Credit note 141		420	38 379
July 22	Cheque 6410		18 000	20 379
	Discount		006	19 479

## ADDITIONAL INFORMATION:

- Aqua Wholesalers rejected the discount claimed by Organic Traders on 6 July and indicated that the payment was received too late to qualify for the discount.
- There is a disagreement over the goods returned by Organic Traders as per debit note DN 89. The error has been made by Organic Traders. Aqua Wholesalers' credit note CN 1038 is correct.

κi

- Aqua Wholesalers have reflected credit note 1042 on 10 July. This, however, relates to another one of their customers, Orgo Stores, and not to Organic Traders.
- 4. Invoice 2810 was correctly recorded by Organic Traders.

5

Aqua Wholesalers purchased goods on credit from Organic Traders. The bookkeeper was instructed to transfer their debit balance of R1 800 in the Debtors' Ledger to the Aqua Wholesalers account in the Creditors' Ledger. However, she did the entry wrong (refer to Journal Voucher 450. Aqua Wholesalers have also forgotten to record this entry.

(5)

3

(7)

3

- Gredit note 141 for R420 received from Aqua Wholesalers was incorrectly recorded as Invoice 141 in the Creditors' Ledger.
- Organic Traders have forgotten to claim their discount on 22 July. There was also a subtraction error of R10 000 in the Creditors' Ledger account on 22 July.
- Note that Aqua Wholesalers' statement is prepared on 25 July 2013.

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DBE/2014 the .⊑ .⊑ As the accountant of Blossom Traders Ltd you are reviewing the Cash Budget for the three months ending 30 September 2013, which will be presented to the directors. Explain to the shareholders what the main difference is between a projected company is budgeting for a 12% increase in rent starting What does this amount represent, since the financial year-end of The shareholders are unhappy with the way the collection of debtors has Explain why you believe the shareholders feel this way regarding the (50 marks; 30 minutes) Note that interim dividends company Suggest TWO measures that can be introduced to improve situation. Name TWO items that could be included in 'other operating expenses Complete the Debtors' Collection Schedule for July and August 2013. The amount that will be paid to creditors during September September 2013. the The interest that will be received for September 2013 In August, there is an amount that will be paid for income tax this company is annually at the end of February? cost The % increase in sales in September 2013 ξ = paid NSC - Grade 12 Exemplar of shares How will this amount be calculated? The rent income amount for þe The total sales for August 2013 income statement and a Cash Budget Μ buy-back collection from debtors. that 1 September 2013. The amount the September 2013 What the buy-September 2013 CASH BUDGET Calculate the following: been handled QUESTION 3: 3.4.1 3.4.7 3.5.1 3.5.2 3.4.5 3.4.6 3.6.1 3.4.2 3.4.3 3.4.4 3.6.2 REQUIRED: Accounting 3.5 3.1 3.2 3.3 3.4 3.6

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4

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30

300 000

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Payments to creditors

Purchase of stock

**PAYMENTS** 

Salaries and wages

ÉcoleBooks

Income tax Advertising

Audit fees

Directors' fees

9 000

9 520 000 7 500

7 500

520 000

5 200

5 200

5 200

Dividends on ordinary shares

Buy-back of shares

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Accounting

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Accounting

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1 440 000

1 200 000

1 200 000

Ç

Ordinary share capital (new shares)

9

Rent income

Collections from debtors

RECEIPTS Cash sales

SEPTEMBER

AUGUST 2013

2013 JULY

CASH BUDGET FOR THREE MONTHS ENDING 30 SEPTEMBER 2013

**BLOSSOM TRADERS LTD** 

804 800

375 000

4 500

4 500

Interest on fixed deposit Fixed deposit maturing

Sundry income

۲.

8 500

8 500

400 000

2 635 700

2 339 000

1 893 300

At the end of June, the following figures were identified. The directors have asked that you explain to them why the budgeted and actual amounts of certain items differ significantly. Explain what you would say to them about each of the following items. Explain ONE point of advice in each case.

	JUNE	JUNE 2013
	Budgeted	Actual
Advertising	R5 200	R8 000
Training of employees	R12 000	NIL
Rent income	R8 500	R2 000

## INFORMATION:

Debtors are given 30 days in which to settle their debts. However, trends over Credit sales: 40% of all sales are on credit.

- 40% within the same month of sale, subject to a 5% discount the past year reveal that debtors pay as follows
  - 35% in the month following the sale, that is 30 days
- 20% in the second month following the sale, that is 60 days
  - 5% of debts are written off after 60 days

## Stock purchases:

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- The business works on a fixed stock base where the stock sold in a month is replaced at the end of that month
  - The business uses a mark-up of 60% on cost
- 80% of stock is purchased on credit and creditors are paid in 30 days.

## Fixed deposit:

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The business has three fixed deposits with Reliable Bank to the value of R675 000 at an interest rate of 8,0%. One of these fixed deposits, worth R375 000, matures in September.

## Shares:

4.

- The company has 250 000 shares in issue and the authorised share capital has a balance of R1 500 000
- The company is planning on issuing a further 40 000 shares during August 2013 at a price of R10,00 per share
- owns 55 000 shares. It was decided to buy back the shares from the One of the shareholders passed away earlier in the year. This shareholder deceased estate during September 2013 at a price of R15,50 each.

5.

**Dividends:** At the end of September, an interim dividend of 40 cents per share will be paid on shares held at the end of September.

441 400

640 900

106 600

(199500)640 900

134 600

 $(28\ 000)$ 

Opening bank balance

Surplus (deficit)

Closing bank balance

2 835 200

1 804 700

1 758 700

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Other operating expenses

20

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3.7

4					(9)	(13) (15)	(4)	(4)	(3)	(5)				
9 NSC – Grade 12 Exemplar	ION 4: REPURCHASE OF SHARES AND INTERPRETATION (50 marks; 30 minutes)	You are provided with information relating to Prospect Limited for the year ended 31 March 2013. The CEO, Ronnie Phosa, together with his children, owns 150 000 shares in the company.	Where explanations or comments are required, you are required to quote figures or financial indicators to support your explanations.	RED:	Shareholders' equity section of the Balance Sheet on 31 March 2013.	Notes to:  Ordinary share capital  Retained income	Calculate the net asset value per share on 31 March 2013 after the repurchase of the shares from the Gaptu family.	The Gaptu family were keen to sell their shares because they were unhappy with the low pay-out policy that the directors were following in deciding on dividends. In your opinion, are their complaints valid, or not? Explain.	Have the Gaptu family been offered a fair value for their shares? Explain.	In your opinion, will the repurchase of the shares from the Gaptu family benefit the remaining shareholders, or not? Explain.	INFORMATION:	The ordinary share capital on 1 April 2012 consisted of:  • 250 000 ordinary shares issued in the 2010 financial year at R5,00 per share  • 150 000 ordinary shares issued in the 2011 financial year at R7,00 per share.	Retained income on 1 April 2012 amounted to R1 960 000.	The following changes occurred to share capital during the 2013 financial year:  • On 1 October 2012, 100 000 new ordinary shares were issued at R9,00 per share. These shareholders are not entitled to interim dividends.  • On 31 March 2013, the directors decided to repurchase 220 000 ordinary shares from members of the Gaptu family who were no longer interested in being shareholders. These shareholders had originally bought most of their shares on the JSE at different prices and at different times. The repurchase price was R10,70 per share. These shareholders are entitled to all dividends for the 2013 financial year.
Accounting	QUESTION 4:	You are 31 Marc shares i	Where or finan	REQUIRED:	4.1	4.2	4.3	4.4	4.5	9.4	INFORM	<del>- '</del>	5	ю <sup>;</sup>
DBE/2014								To E	co	leBo	ook	<b>KS</b>		
11 NSC – Grade 12 Exemplar					KEEP THIS PAGE BLANK.									
Accounting														

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Accounting

Additional information for the past two financial years:

4.

**2012** R2 200 000 FINANCIAL YEAR ENDED: 31 March 31 March 2013 2012

Ordinary shareholders' equity at year-end         ?         R4 26 year-end           Number of shares in issue at year-end         ?         40 year-end           Market price per share on the JSE         1 040 cents         1 040 nems           Net asset value per share         ?         1 065 nems           Earnings per share         356,6 cents         488,9 nems           Interin dividends         70 cents         90 nems           Final dividends         102 cents         140	Net income after tax	R1 600 000	R2 200 000
356,6 cents 102 cents 102 cents 102 cents 102 cents 102 cents 103 cents 102 cents 103	Ordinary shareholders' equity at	6	R4 260 000
356,6 cents 488 7 000 cents 488 70 cents 70 cents 102 cents 102 cents 1	year-end	•	
1 040 cents 1 0 356,6 cents 48i 70 cents 102 cents 1	Number of shares in issue at	C	400 000
1 040 cents 1 0 7 1 0 356,6 cents 48i 70 cents 102 cents 1	year-end		shares
7 1 0 356,6 cents 48i 70 cents 102 cents 1	Market price per share on the JSE	1 040 cents	1 040 cents
356,6 cents 48 70 cents 102 cents 102 cents 1	Net asset value per share	٤	1 065 cents
102 cents 102 cents 1	Earnings per share	356,6 cents	488,9 cents
102 cents	Interim dividends	70 cents	90 cents
	Final dividends	102 cents	140 cents

Choose a description from COLUMN B that matches a component in COLUMN A. Write only the letter (A-E) next to the question number (5.1.1-5.1.5) in the ANSWER BOOK.

You are provided with information relating to Bellco Limited for the year ended

31 August 2013.

5.1

QUESTION 5: CASH FLOW AND INTERPRETATION

A company's published annual report comprises five main parts.

(70 marks; 40 minutes)

	COLUMN A		COLUMN B
(Com	(Components of the annual report)		(Description)
5.1.1	Income Statement	٧	a written verbal explanation of
5.1.2	Balance Sheet		operations of the company during a financial year
5.1.3	Cash Flow Statement	В	reflects whether or not the
5.1.4	Directors' report		sinaleriologis carriery on the financial statements
5.1.5	Independent auditor's report	ပ	reflects the profit/loss of the company
		۵	reflects the effect of the operating, financial and investing activities on the cash resources
		Ш	reflects the net worth of the company
			(5 x 1)

Complete the Cash Flow Statement for the year. Show workings in brackets. Calculate the following financial indicators for 2013: 5.2 5.3

(22)

(2)

4 4 (3) 4

5.3.2 % return on average shareholders' equity 5.3.3 Debt-equity ratio 5.3.1 Acid-test ratio

The directors are pleased that the operating efficiency of the business has improved. Quote and explain TWO financial indicators to support their opinion. 5.3.4 % return on average capital employed (use net income before tax) 5.4

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Accounting DBE/2014 15 NSC – Grade 12 Exemplar Accounting

According to the Companies Act (Act 61 of 1973), the directors may

explain THREE financial indicators that provide evidence that they have

complied with the Act.

repurchase shares only if the liquidity of the business is acceptable. Quote and

suggested that they finance the expansion by increasing loans instead of They will need finance of R1,5 million to do this. One of the directors has The directors want to establish another branch in a different area next year. issuing new shares. 5.6

- Quote and explain TWO financial indicators to support his opinion.
- Explain TWO other factors, with advice, that the directors should consider before embarking on this expansion.
- Refer to the extract of the independent auditor's report under Information 6: 5.7
- Explain in your own words why it is necessary for the independent auditors to mention internal controls under the section on Directors' Responsibility.
- Under the section on Independent Auditor's Responsibility, they mention something about 'ethical requirements'. Give a practical example of this.
  - Is their final opinion good, or not? Explain.
- Why is it necessary for the independent auditor to have the qualification CA (SA) behind his name? Explain.

## INFORMATION:

Extract from the Balance Sheet for the year ended 31 August:

	2013	2012
Fixed assets	12 138 000	12 357 000
Investments (4% p.a.)	250 000	000 009
Current assets	3 465 000	3 200 000
Trading stock	1 720 000	2 250 000
SARS (Income tax)	000 99	0
Trade and other receivables (excluding SARS)	1 140 000	940 000
Cash and cash equivalents	540 000	10 000
TOTAL ASSETS	15 853 000	16 157 000
Shareholders' equity	11 011 400	8 595 000
Share capital	8 960 000	000 098 9
Retained income	2 051 400	2 235 000
Loan from Unity Bank (11% p.a.)	3 000 000	5 400 000
Current liabilities	1 841 600	2 162 000
Trade and other payables (excluding SARS and		
shareholders)	920 000	1 260 000
SARS (income tax)	0	72 000
Shareholders for dividends	921 600	620 000
Bank overdraft	0	210 000
TOTAL EQUITY AND LIABILITIES	15 853 000	16 157 000

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Extracts from the Income Statement and Notes for the year ended 31 August 2013:

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9

Depreciation	K1 010 000
Operating profit	3 062 000
Interest expense	462 000
Net profit before tax	2 600 000
Net profit after tax	1 820 000
Interim dividends paid	770 000
Final dividends declared	921 600

# Shares issued and repurchased:

რ

(10)

(Z)

00

- 1 000 000 ordinary shares were in issue at the end of the previous financial year, 31 August 2012.
- 120 000 ordinary shares were repurchased on 28 February 2013 from the estate of a shareholder who had died. The shares were repurchased at 400 000 ordinary shares were issued on 1 September 2012. R2,60 above the average issue price.

4.

Changes to fixed assets:

New vehicles and equipment were bought during the year for R880 000.

Unused vehicles were sold at book value during the year.

## Financial indicators for the past two years: 5

sholders'	3,3:1 1,9:1 ? 8,7 times	2,1:1
	9:1 ?	1,5:1
	? times	0.4:1
	times	
		6,6 times
	٤	15,6%
Net asset value per share 860,3	860,3 cents	859,5 cents
Earnings per share 135,8	135,8 cents	114,2 cents
Dividends per share 127	127 cents	30 cents
Debt-equity ratio	٤	0,6:1
% return on average capital	2	12 10%
employed		1 <b>4</b> ,7
% gross profit on cost of sales 62	62,2%	28,3%
% operating expenses on sales 37	37,9%	44,5%
% operating profit on sales	10,1%	7,3%

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5.5

(32)

200

Silvo printing paper, according to the weighted-average method

Prepare the Income Statement for the year ended 30 June 2013.

9

profit/loss on the disposal of the office computers sold on

31 March 2013.

Refer to Adjustments and Additional Information 5. Calculate the

You are provided with information relating to Kloof Computers (Pty) Ltd for the

year ended 30 June 2013.

REQUIRED:

6.1.1

KLOOF COMPUTERS (PTY) LTD

6.1

Refer to Adjustments and Additional Information 6. Calculate the

Hypa laptops, according to the specific identification method

value of stock on hand of the:

6.1.2

ABX printers, according to the FIFO method

Accounting DBE/2014 NSC - Grade 12 Exemplar Accounting

DBE/2014

(60 marks; 35 minutes)

QUESTION 6: INCOME STATEMENT, FIXED ASSETS AND STOCK

NSC - Grade 12 Exemplar

Extract from the independent auditor's report. Note that this is NOT a

complete report.

6

# REPORT OF THE INDEPENDENT AUDITOR

We have audited the annual financial statements of Bellco Limited ... as set out on pages 52 to 64

# Directors' Responsibility for the Financial Statements

Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is presentation of these financial statements in accordance with International The company's directors are responsible for the preparation and fair necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

# Independent Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

## Opinion

respects, the financial position of Bellco Limited as at 31 August 2013, and its financial performance and cash flows for the 52 weeks then ended in accordance with International Financial Reporting Standards and the In our opinion, the annual financial statements present fairly, in all material requirements of the Companies Act of South Africa.

2 000

Accumulated depreciation on equipment -oan from Highway Lenders (13% p.a.

Frading stock

930 000 510 100 281 000

Debit

Balance Sheet accounts section

Land and buildings

Equipment

3 700 000

Staff costs (salaries, wages and commission)

Cost of sales

Nominal accounts section

Provision for bad debts SARS (provisional tax)

Debtors' control

## **MSANE & CHARTER**

Director: MPJ Msane

Registered Auditor; Chartered Accountant (SA) 15 September 2013

(a)

INFORMATION

6.1.3

Items extracted from the Pre-adjustment Trial Balance on 30 June 2013:

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000 2

45 000 29 000

36 000

2

Sundry expenses (including packing

materials)

Commission income

Interest on loar Directors' fees

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Accounting

19 NSC – Grade 12 Exemplar

Accounting

DBE/2014

DBE/2014

## Adjustments and additional information: **a**

Commission income of R2 350 is owed to the business.

<del>.</del>

- Packing materials of R1 700 are on hand at the end of the year. Packing materials are included in Sundry expenses.
- were increased by 10% half-way through the financial year. Provide for One of the two directors has been paid his fees for 6 months. The fees fees owing. Both directors earn the same annual fees.

က

- Interest at 13% p.a. is owed on the loan. This interest is not capitalised. The loan was taken out several years ago. A payment of R100 000 was made on 31 December 2012. This has been properly recorded.
- Equipment comprises: 5

	Cost on 30 June 2013	Accumulated depreciation	Depreciation rate
		on 1 July 2012	
General			20% on
equipment	418 000	183 000	183 000 diminishing-
			balance method
Office computers	92 100	48 000	48 000   331/3% on cost
	R510 100	R231 000	

One of the office computers was sold on 31 March 2013. The selling price was credited to the Asset Disposal account but no other entry has been made. The cost price of this computer was R18 600 and the accumulated depreciation at the beginning of the year was R9 400. NOTE:

Depreciation is to be written off at the rates reflected above.

The business uses the perpetual inventory system. Stock records show: 9

Item	Valuation method	Stock on hand on 30 June 2013	Value on 30 June 2013
Hypa laptops	Specific identification: R10 500 each	20 computers	ک
ABX printers	FIFO	46 printers	٤
Silvo printing paper	Weighted average	600 reams	ک

Two of the Hypa laptops included in the stock figures above NSC – Grade 12 Exemplar NOTE:

were donated to Bonlo Primary School and Bonlo High School. No entry has been made for these donations. The following information relates to trading stock of printers

	ΙΥ	ABX printers	S	Pri	Printing paper	aper
	Quantity	Price	Total	Quantity	Price	Total
Opening stock	50	R700	R14 000	1 200	R33	R39 600
PURCHASES	204		R153 040	5 400		R206 800
Aug. 2012	100	R730	R73 000	1 600	R40	R64 000
Jan. 2013	20	R750	R52 500	2 000	R30	R60 000
May 2013	34	R810	R27 540	1 800	R46	R82 800
SUBTOTAL	224		R167 040	009 9		R246 400
Sales	178	R1 500	R267 000	000 9	R65	R390 000
Closing stock	46		7	009		٤

The income tax assessment for the year reflected that the business owed SARS an amount of R37 000 on 30 June 2013.

## PROBLEM-SOLVING 6.2

To try and increase the sales of laptops, the directors of Kloof Computers (Pty) Ltd decided to employ three newly qualified salespersons on a trial period for one month. These salespersons would not be restricted to working at the shop premises. They were employed to visit potential customers who might be interested in laptops and printers.

The salespersons would each be paid the following:

- A fixed basic monthly salary of R7 000
- 10% commission on sales made by them
- A travel allowance of R2,00 per kilometre travelled in their private cars

The business normally makes a gross profit of R6 000 per laptop (cost price R10 500, selling price R16 500). The salespersons are allowed to offer a maximum trade discount of R500 per laptop to help them secure a sale if necessary.

At the end of the one-month trial period, you are provided with the figures on the next page.

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Mind the Gap CAPS Grade 12 Accounting 148 APPENDIX

DBE/2014

21 NSC – Grade 12 Exemplar

Accounting

REQUIRED:

Explain ONE problem relating to each salesperson. Provide figures to support your explanations.

9

(3)

 What advice would you offer the directors in respect of the plan to employ these salespersons?

## INFORMATION:

Name of salesperson:	GUGU	MANNY	MIC
Number of laptops drawn from stock at the beginning of the month	20	20	20
Number of laptops sold for cash	6	16	11
Number of laptops returned to stock at the end of the month	11	4	8
Discounts allowed to customers	Ro	R8 000	R5 000
Cash from sales deposited by each salesperson into the bank account	R148 500	R207 000	R193 000
Gross profit earned before discounts and other expenses	R54 000	R90 000	R72 000
Basic salary	R7 000	R7 000	R7 000
Commission paid to each salesperson	R14 850	R25 200	R17 850
Travel allowance claimed (R2,00 per km)	R3 000	R1 000	R1 000

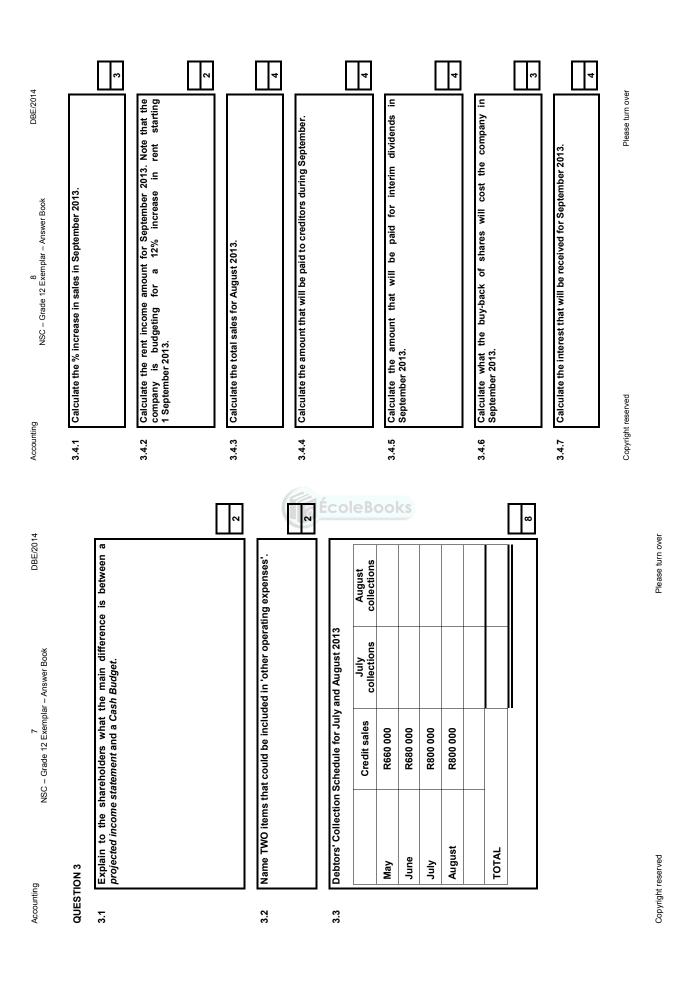
ÉcoleBooks

GRAND TOTAL: 300

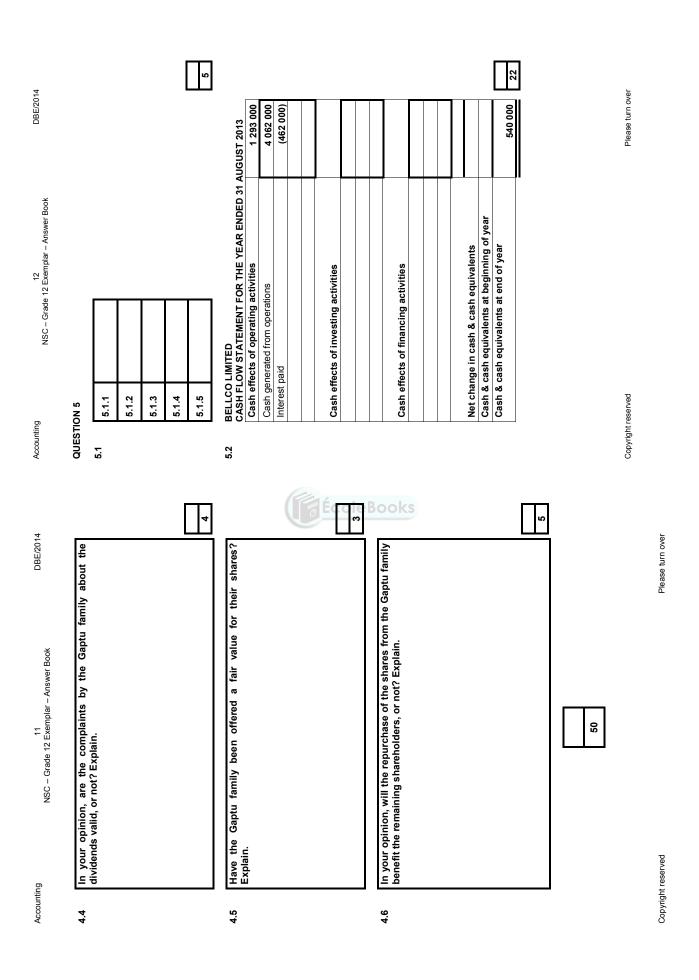
CENTRE NUMBER  EXAMINATION NUMBER  EXAMINATION NUMBER  ACCOUNTING  GRADE 12  GRADE 12  EXEMPLAR 2014  SPECIAL ANSWER BOOK  MARKS INITIAL  This answer book consists of 18 pages.	Accounting 2  NSC – Grade 12 Exemplar – Answer Book  QUESTION 1	1.1.1 Indicate the cost accounts that would be affected by the following in a manufacturing business:	(a) Rent paid for factory buildings	 (p)	(e)	1.1.2 ACE CALCULATORS				MOD.		1.1.3 Calculate the cost of production per unit.			Copyright reserved
	TRE NUMBER		IATION NUMBER		ENIOR CERTIFICA	COUNTING	RADE 12	MPLAR 2014	ANSWER BOOK	INITIAL				ook consists of 18 pages.	

A DBE/2014 NSC – Grade 12 Exemplar – Answer Book	Regarding the incident concerning the office manager, Alex Fynn: Will this be a concern to you? Give a reason for your answer:	Explain what action you would take as internal auditor. State THREE points.	ω	40				Please tum over
Accounting NSC – Grad	1.2.4 Regarding the incident cor Will this be a concern to y	Explain what action you points.		Éc	oleBook		П	Copyright reserved
3 DBE/2014 NSC – Grade 12 Exemplar – Answer Book	Calculate the break-even point for the year.	Comment on the level of production for the year.	Despite the fact that the factory workers were given a 10% wage increase, the direct material cost per unit has dropped by 50 cents per unit.	What could have caused the difference?	What comment would you make to Mark about the control of this item?	The fixed costs per unit dropped from R1,90 in 2012 to R1,80 in 2013.  Should Mark be satisfied with this? YES/NO What comment would you make to Mark about the control of this item?  Provide figures to support your answer.	4	d Please turn over
Accounting	1.2.1 Calcu	Com	1.2.2 Desp incre unit.	Wha	Wha	Shou What Provi		Copyright reserved

Accounting	ing 5 NSC – Grade 12 Exemplar – Answer Book	DBE/2014	Accounting	ting 6 DBE/2014 NSC – Grade 12 Exemplar – Answer Book	4
QUES.	QUESTION 2		2.3	The owner of Organic Traders is unhappy with the errors which occurred and resulted in inaccurate records in their books. Briefly	
1.7	Make a list of the changes to Aqua Wholesalers' account in the Creditors' Ledger, which the bookkeeper should process to correct the errors or omissions. Give a brief description in the Details column and show the changes to the balances in the Amount column.	s' account in the ess to correct the etails column and mn.		explain TWO measures that Organic Traders can implement in order to maintain good control over their creditors and to avoid this from happening in future.	
	Details	Amount			
	Pre-adjustment balance in Creditors' Ledger				
					4
	Correct balance	12	2.4	Organic Traders is experiencing cash problems and is currently in a position where they are not able to pay their creditors on time. Aqua Wholesalers has granted them a credit limit of R40 000. All their current creditors require them to pay within 30 days and they allow their customers credit terms of 60 days. Suggest TWO ways in which the liquidity position can be improved.	
2.2	Creditor's Reconciliation Statement of Aqua 31 July 2013	Wholesalers on	oleBo		
	Details Balance per statement received from Aqua Wholesalers	Amount	oks		
				30	4
	Correct balance	10			
			Copyric	Copyright reserved Please turn over	<b>-</b>
Copyrigh	Copyright reserved	Please turn over			



Accounting		9 NSC – Grade 12 Exemplar – Answer Book	DBE/2014	14 Accounting	10 NSC – Grade 12 Exemplar – Answer Book	DBE/2014	
3.5.1	What does this amount represent, since the financial year-end of this company is annually at the end of February?	oresent, since the end of February?	financial year-end of this		QUESTION 4 4.1 PROSPECT LIMITED EXTRACT FROM THE BALANCE SHEET ON 31 MARCH 2013 Note		
3.5.2	How will this amount be calculated?	culated?		2		ω	
3.6.1	Explain why you believe the shareholders feel this collection from debtors.	ne shareholders f	eel this way regarding the	<u> </u>	NOTES TO THE FINANCIAL STATEMENTS  NOTE 7. ORDINARY SHARE CAPITAL  (ISSUED)		
3.6.2	Suggest TWO measures that can be introduced to improve the situation	tt can be introduce	ed to improve the situation.	2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	Note 8. RETAINED INCOME Balance at beginning of year	- T	
3.7	Explain what you would say to the directors about each of the following items. Explain ONE point of advice in each case.  COMMENT TO DIRECTORS	say to the directors and of advice in each ca	about each of the following se. ADVICE	leBooks			
	Advertising				Balance at end of year	15	
	Training of employees			4.3	Net asset value on 31 March 2013 after the repurchase of shares		
	Rent income			9		4	
		20		Copyric	Copyright reserved	Please tum over	
Copyrigh	Copyright reserved		Please turn over				



Accounting	13 DBE/2014 NSC – Grade 12 Exemplar – Answer Book	Accounting	14 DBE/2014 NSC – Grade 12 Exemplar – Answer Book	014
5.3.1	Calculation of acid-test ratio	5.5 Accor repure Quote they h	According to the Companies Act (Act 61 of 1973), the directors may repurchase shares only if the liquidity of the business is acceptable. Quote and explain THREE financial indicators that provide evidence that they have complied with the Act.	S.+
5.3.2	Calculation of % return on average shareholders' equity			9
	4	5.6 One o increa	One of the directors has suggested that they finance the expansion by increasing loans instead of issuing new shares. Quote and explain TWO financial indicators to support his opinion.	
5.3.3	Calculation of debt-equity ratio			
5.3.4	Calculation of % return on average capital employed (use net income before tax)	- Parales	Explain TWO other factors, with advice, that the directors should consider before embarking on this expansion.  Factor  Advice	7
	4			10
5.4	The directors are pleased that the operating efficiency of the business has improved. Quote and explain TWO financial indicators to support their opinion.			
	4	Copyright reserved	Please turn over	wer
Copyrig	Copyright reserved Please turn over			

Historical control of the section on Independent Auditor's Responsibility, they mention agood one or not? Explain.  Why is the reseasary for the independent Auditor to have the qualification of the section on independent Auditor to have the qualification of the section on independent Auditor's Responsibility, they mention as a practical requirements. Give a practical example of this.  6.1.2 Calculate the value of stock on hand of the specific identity is the section on or not? Explain.  CA (SA) behind him name? Explain.  To a complete the value of stock on hand of the specific identity is the section of the specific identity in the specific identity is the specific identity in the specific identity in the specific identity is the specific identity in the specific identity in the specific identity is the specific identity in the specific identity is in the specific identity in the specific identity is the specific identity in the spe	16 DBE/2014 NSC – Grade 12 Exemplar – Answer Book		Calculate the profit/loss on the disposal of the office computers sold on 31 March 2013.	ω	ond of tho.	and of the:	pecific identification method:	FO method:	o the weighted-average method:	13	Please turn over
4		QUESTION 6			-		Hypa laptops, according to the specific identification method:	ABX Printers, according to the FIFO method:	Silvo printing paper, according to the weighted-average method:		Copyright reserved
		in your own words why it is necessary for the independent	s to mention internal controls under the section on Directors' sibility.	on Independent Auditor's l about 'ethical requirements							

DBE/2014	Provide figures to	ure(s))						u u					3		GRAND TOTAL: 300		
18 NSC – Grade 12 Exemplar – Answer Book	Explain ONE problem relating to each salesperson. Provide figures to support your explanations.	Explanation of problem (with figure(s))							What advice would you offer the directors in respect of the plan to employ these salespersons?					G	3		
бı	Explain ONE problem relations.			enen		MANNY		MIN	What advice very								Convright reserved
Accounting	6.2								Écol	eBo	ok	S					Copvrid
2014				0					LCON	БВС		3		32			
DBE/2014	m	000 001 6	(2 100 000)	1 600 000				180 000									
17 NSC – Grade 12 Exemplar – Answer Book	LTD ear ended 30 June 2013																
NSC – Grade 1	KLOOF COMPUTERS (PTY) LTD Income Statement for the year ended 30 June 2013	00100	Cost of sales	Gross profit	Other income		Operating expenses	Staff costs									
ccounting	£. X =	٥	, <sub> </sub> 0	٣	J		<u> </u>										

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10 5 ۳ Please turn over DBE/2014 Indicate the cost accounts that would be affected by the following in a ✓ 2 460 000 × 1 161 000 VV 636 000 √ 1 797 000 × 810 000 √ 2 607 000 √ 102 000 ☑ 2 709 000 図 (249 000) Cost account affected: ACE CALCULATORS
Production Cost Statement for the year ended 28 February 2013 Selling and distribution Direct/raw materials Factory overhead Administration Direct labour 2 NSC – Grade 12 Exemplar – Memorandum Check operation Check operation R2 460 000 + 30 000 units = R82,00 per unit Calculate the cost of production per unit. (a) Rent paid for factory buildings Cost of raw materials used in Work-in-process at beginning of year Cost of production of finished goods Salary of internal auditor Overtime paid to factory Work-in-process at end of year Commission paid to Details: manufacturing business: Factory overhead cost Total production costs the production Foreign items -1 (max -2) salespersons Direct material cost Direct labour cost workers Prime cost Copyright reserved 9 ਿ <u>ق</u> **QUESTION 1** (e) Accounting 1.1.3 1.1.1 1.1.2 figure (not the method mark for the answer).

Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive. Please turn over Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no foreign item penalty for misplaced item). No double penalty applied. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that Where penalties are applied, the marks for that section of the question cannot be a final negative. Where method marks are awarded for operation, the marker must inspect the reasonableness of the In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers REPUBLIC OF SOUTH AFRICA Full marks for correct answer. If the answer is incorrect, mark the workings provided. basic education This memorandum consists of 18 pages. SENIOR CERTIFICATE Basic Education **EXEMPLAR 2014** MEMORANDUM ACCOUNTING NATIONAL **GRADE 12** Department: Codes: f = foreign item; p = placement/presentation answer before awarding the mark. MARKING PRINCIPLES: from candidates Copyright reserved MARKS: 300

Accounting	sing 3 DBE/2014 NSC – Grade 12 Exemplar – Memorandum	Accounting	4 NSC – Grade 12 Exemplar – Memorandum	DBE/2014
1.2.1	Calculate the break-even point for the year.	1.2.4	Regarding the incident concerning the office manager, Alex Fynn:	Г
	4.4 $4.2$		Will this be a concern to you? Yes Give a reason for your answer:	
	3,90		It appears that Alex Fynn might have taken a bribe from Apex Products, which is unethical. $\checkmark$	hich
	Comment on the level of production for the year.		Explain what action you would take as internal auditor. State THREE	<u> </u>
	Compare figures of BEP to production (one mark); Comment (one mark)		points.	
	The level of production (540 000 000 bottles) greatly exceeds the break-even point (249 230) ✓. The owners should be satisfied as this means that the business will be earning a very good profit. ✓		<ul> <li>Expected responses:</li></ul>	act, ess' ottle
1.2.2	Despite the fact that the factory workers were given a 10% wage increase, the direct material cost per unit has dropped by 50 cents per unit.		<ul> <li>Question Mr Fynn on the acceptance of the laptop and if a suitable explanation is not provided, report the facts to the owner of the business for possible disciplinary sanction of Mr Fynn.</li> <li>If any internal control procedures are deficient, rectify these immediately</li> </ul>	able less tely
	What could have caused the difference?		and ensure that rair tenders are applied in tuture.	<u> </u> ∞
	The workers are operating very efficiently, possibly because Mark has motivated them with an increase which exceeds the inflation rate/possibly because he has trained them well. ✓ One mark for partial/incomplete answer		40	
	What comment would you make to Mark about the control of this item?		]	
	This is very good. They should aim to maintain the control over this item by continued monitoring and training if necessary.			
1.2.3	The fixed costs per unit dropped from R1,90 in 2012 to R1,80 in 2013.	ı		
	Should Mark be satisfied with this? NO <			
	What comment would you make to Mark about the control of this item? Provide figures to support your answer.			
	Total fixed costs have increased by R174 000. In 2012 fixed costs were: 420 000 x R1,90 = R798 000 ✓ In 2013 fixed costs were: 540 000 x R1,80 = R972 000 ✓ He must investigate the reasons for the difference (R174 000). ✓			
	Poor answer for 1 mark: He should be happy because fixed costs have declined by 10 cents per unit.			
		Copyright reserved	reserved Please turn over	rn over

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UEST	QUESTION 2			2.3	The owner of Organic Traders is unhappy with the errors which
				i	
2.1	Make a list of the changes to Aqua Wholesalers' account in the Creditors' Ledger, which the bookkeeper should process to correct the errors or omissions. Give a brief description in the Details column and show the changes to the balances in the Amount column.	salers' I proces the Det	ers' account in the rocess to correct the Details column and Jumm.		explain TWO measures that Organic Traders can implement in order to maintain good control over their creditors and to avoid this from happening in future.  Any TWO valid measures // // //
	Details		Amount		i
	Pre-adjustment balance in Creditors' Ledger	`	# 44 571		<ul> <li>Division of duties: The duty performed by one employee serves as a check on another employee, e.g. the person doing the payments is not the same</li> </ul>
	Discount cancelled	//	884		person recording the entries or ordering the stock
	note 89	>	54		<ul> <li>Accurate documentation: Ensure that all documents are correctly recorded and check recording against source document</li> </ul>
	Correction of Invoice 141	//	(840)		Continue doing regular reconciliations to creditors' statements. This
		>	(006)		process is intended as a control measure to pick up errors such as this.
	ction error	>	# 10 000		
	Correct balance	₽	53 769	2.4	Organic Traders is experiencing cash problems and is currently in a position where they are not able to pay their creditors on time. Aqua Wholesalers has cranted them a credit limit of R40 000. All their current
	# R10 000 could be added to the opening balance (i.e.	1	R54 571 for 3 marks).	12	creditors require them to pay within 30 days and they allow their customers credit terms of 60 days. Suggest TWO ways in which the liquidity nosition can be improved.
	Details		Amount	300	<ul> <li>Find other suppliers who allow longer credit terms.</li> <li>Neodiate a higher credit limit with his suppliers</li> </ul>
	Balance per statement received from Aqua Wholesalers	`	19 479	oks	Encourage customers to pay sooner, e.g. discounts on prompt payments.
	Correction of CN1042	>	3 900		
	Correction of Invoice 2810	>	(414)		
	Transfer of balance (JV450)	>	(1 800)		30
	Invoice 3056	>	32 604		
	Correct balance	D	53 769	Γ	
				10	
yrigł	Copyright reserved		Please turn over	Cop	Copyright reserved Please turn over

Accounting 8 DBE/2014 NSC – Grade 12 Exemplar – Memorandum	3.4.1 Calculate the % increase in sales in September 2013.	88	= 20% 🖭 Operation one part correct	3.4.2 Calculate the rent income amount for September 2013. Note that the company is budgeting for a 12% increase in rent starting		8 500 + 12% = R9 520 ~~	3.4.3 Calculate the total sales for August 2013.	1 200 000 ✓ + 60 ✓ × 100 ✓ = R2 000 000 ☑ Operation one part correct		3.4.4 Calculate the amount that will be paid to creditors during September.	2 000 000 x 100 x 80% = R1 000 000	4	3.4.5 Calculate the amount that will be paid for interim dividends in September 2013.	235 000 ✓ × × 40 ✓ cents = R94 000 ☑ Operation one part correct		3.4.6 Calculate what the buy-back of shares will cost the company in September 2013.	55 000 V 8 15 50 V = R852 500 V Oneraling one next correct		3.4.7 Calculate the interest that will be received for September 2013.	300 000 ✓ x 8% ✓ + 12 ✓ = R2 000 ☑ Operation one part correct		
Memorandum		Explain to the shareholders what the main difference is between projected income statement and a Cash Budget.	>	<ul> <li>The projected income statement projects the profits and losses.</li> <li>The projected income statement projects future expenses and income.</li> </ul>		surplus or deficit.		Name TWO items that could be included in 'other operating expenses'.						od August 2013	000000000000000000000000000000000000000	July August collections	√ 132 000	✓ 238 000	√√ 304 000	If same as above	☑ 674 000	
7 NSC – Grade 12 Exemplar – Memorandum		Explain to the shareholders what the main d projected income statement and a Cash Budget.	Explanation of projected income statement 🗸	ncome statement projectione statement project	h Budget 🗸	The Cash Budget projects future cash surplus or deficit. The Cash Budget projects future receipts and payments.		that could be included	> > su		=		vater	Debtors' Collection Schedule for July and August 2013	in conceant to the second in	Credit sales	R660 000	R680 000	R800 000	R800 000	Operation both totals	'   
z		uin to the sl	anation of proje	he projected in he projected in	Explanation of Cash Budget	he Cash Budge he Cash Budge		ne TWO items	Any TWO valid items	Possible answers:	Packing material Stationery	Printing Rates	Electricity and water Telephone	tors' Collection			ıy	June	<u>^</u>	August	TOTAL	
Accounting	QUESTION 3	Expla proje	Expla	••	Expl	••		Nan	Any	Pos	• •	• •	• •	٥	<u> </u>		Мау	3	July	Ā	2	

Accounting	Du	9 NSC – Grade 12 Exemplar – Memorandum	DBE/2014	4 Accounting	ing 10 NSC – Grade 12 Exemplar – Memorandum	DBE/2014	
3.5.1	What does this	is amount represent, since	What does this amount represent, since the financial year-end of this	QUEST	QUESTION 4		
	Company is annually at the e	company is annually at the end of rebruary? A provisional tax payment 🗸		4.1	PROSPECT LIMITED EXTRACT FROM THE BALANCE SHEET ON 31 MARCH 2013 Note	3CH 2013 See notes 7 & 8	
3.5.2	How will this a	How will this amount he calculated?			Shareholders' equity <	☑ 3 616 000	
4					Ordinary share capital ✓ 7.	☑ 1 792 000	Γ
	It will be calcular	ated on the profits projected in	It will be calculated on the profits projected in the projected income statement.	2	Retained income V 8.	☑ 1 824 000	و
3.6.1	Explain why you believ	Explain why you believe the shareholders feel this	ers feel this way regarding the	4.2	NOTES TO THE FINANCIAL STATEMENTS		
	Explanation ✓✓				Note 7. ORDINARY SHARE CAPITAL ISSUED		
	The credit term	is of the company is 30 days	The credit terms of the company is 30 days, yet only 75% of all debtors are		✓ 400 000 ordinary shares in issue at beginning of year (1 250 000 ✓ + 1 050 000 ✓)	, × 2 300 000	
	paying within this time.	ils time.		2	✓ 100 000 ordinary shares issued during year at R9,00 ✓ each	000 006 >	
3.6.2	Suggest TWO	measures that can be intro	Suggest TWO measures that can be introduced to improve the situation.		✓ 220 000 shares repurchased (R6,40 ✓ vaverage	(1 408 000)	
	TWO measures	> > :			One part correct		Γ
	Charge inter	Charge interest on overdue accounts			✓ 280 000 ordinary shares in issue at end of year	☑ 1 792 000	13
	Offer bigger discount for     Send regular reminders	Offer bigger discount for prompt payment Send regular reminders	-	2	Note 8. RETAINED INCOME	Check operation	
				]	Balance at beginning of year	√ 1 960 000	
3.7	Explain what y	ou would say to the direct	Explain what you would say to the directors about each of the following		✓ Net profit after tax	√ 1 600 000	
	rems. Explain	ONE point of advice in eac	n case.		✓ Repurchase of 220 000 shares One part correct (at R4,30 above average price)	ct ☑√√ (946 000)	
		DIRECTORS	12,4		✓ Dividends for year	(000 062)	
		<b>&gt;</b> > >	The second of th		Interim (400 000 ✓ × 70c ✓)	✓ 280 000	
	Advertising	ine expense is much higher than the budgeted	budgeted amount or consider		Final (500 000 ✓ × 102c ✓)	√ 510 000	
	Siles in the same	amount.	different advertising techniques.		Ralance at end of year	M 1 824 000	Ť,
	Training of employees	The budgeted amount has not been used.	Training is an important aspect of any company and should be	43	thare on 34	the remirchese of	]
		Significantly under	Investigate shortfall, e.g. poor	P			
	Rent income	budget (actual less than budget)/Budget was unrealistically high.	collection, tenant has left, etc. to rectify this problem/tenants to sign debit orders/appoint a rent collector/charge interest	۳	See 4.1 See 4.2 Operation, one part correct ⊠ ⊠ ∠⊠ YEI R3 616 000 + 280 000 shares = 1291,4 cents or R12,91	art correct R12,91	<b>□</b> 4
			on slow payers.				
		20		Copyrigh	Copyright reserved	Please turn over	
Copyrigi	Copyright reserved		Please turn over	5			

5

APPROPRIATION 780 000 | 2 600 000 DBE/2014 2 600 000 Please turn over #四~~ 89 000 ☑ (112 000) ☑ 740 000 540 000 1 293 000 4 062 000  $(462\ 000)$ (1 390 000) (917 000) (441 000) (880 000) 350 000 \*< < 3 440 000 (1152000)(2400000)< (200 000)</p> CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2013 780 000 1 691 600 11 128 400 2 600 000 # Workings for fixed assets: 12.357.000 + 880.000 - 89.000 - 1.010.000 = 12.138.000≅ Workings for financing activities (note that alternative valid entries are acceptable):

ORDINARY STARRE CAPITAL

RETAINED INCOME

Bank 8400 000 bdd 6 360 000

Cdd 8 960 0000 Bank 3440 0000

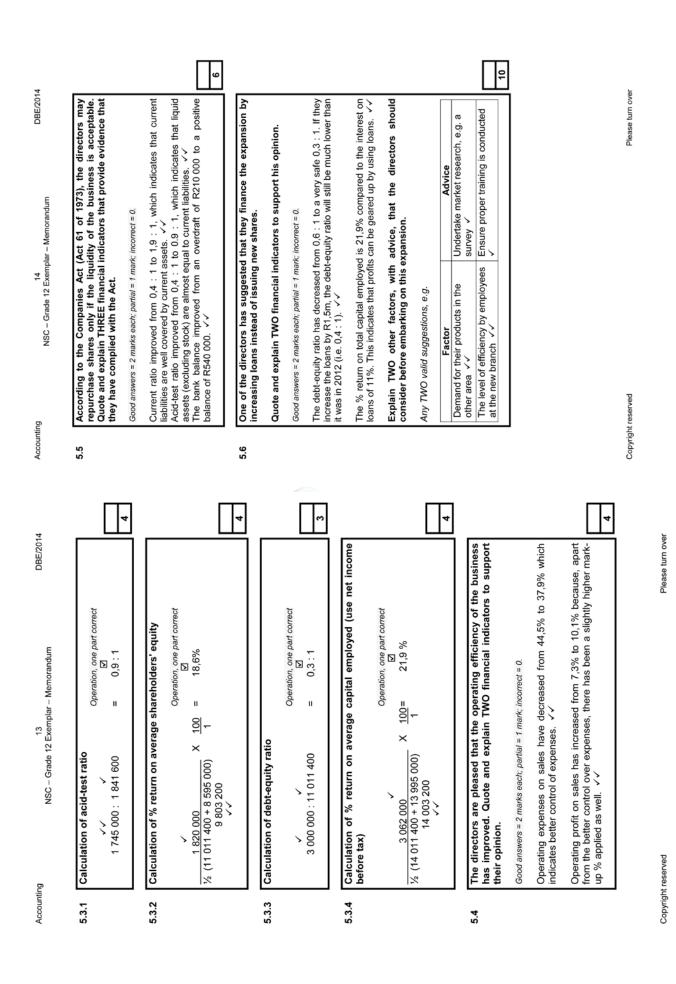
Cdd 2 051 400

App 128 400

The start of the sta Check operation Net change in cash & cash equivalents Check operation Check operation One part correct 2 363 400 b/d 2 363 400 NSC - Grade 12 Exemplar - Memorandum Income tax paid (780 000 + 72 000 + 65 000 Repurchase of share capital 840 000 + 312 000 OR Cash & cash equivalents at beginning of year Cash & cash equivalents at end of year Dividends paid (620 000 × + 770 000 ×) Cash effects of operating activities Cash effects of investing activities Cash effects of financing activities [Check marks under Cash effects] Proceeds of issue of share capital Cash generated from operations Proceeds of sale of fixed assets Purchase of fixed assets 9 800 000 8 960 000 Investments matured Repayment of loans Ě ¥ š ડે ۵ BELLCO LIMITED 120 000 x 9,60 Interest paid p/q 5.1.2 5.1.3 5.1.4 5.1.5 5.1.1 Copyright reserved 9 800 000 **QUESTION 5** Accounting 5.1 5.2 က Assuming profit remains the same next year at R1 600 000: EPS would = R1 600 000 ÷ 280 000 = 571,4 cents DBE/2014 Yes. The price offered of R10,70 is 30 cents more than the price on the JSE No. The company has been paying out just less than 50% of earnings over the past two years (e.g. 172 cents out of earnings of 356,6 cents/240 cents of earnings of 488,9 cents). They are retaining income for future After the repurchase of the shares the NAV has increased to R12,91 per share because there are now only 280 000 shares in the company. This is Assuming profit remains the same at R1,6m next year, EPS would be opinion, are the complaints by the Gaptu family about the development. The Gaptu family are obviously looking for high dividends which Gaptu family been offered a fair value for their shares? In your opinion, will the repurchase of the shares from the Gaptu family If the repurchase had not taken place, the NAV would have been only 571,4 cents (because of fewer shares) compared to 356,6 cents in 2013. This will also have a positive effect on share price and dividends per Equity is reduced by R2 354 000 as a result of the repurchase. This severely affect the operating activities of the company. Excellent answer = 5 marks; Good = 4/3; Satisfactory = 3/2; Poor = 1; Incorrect = 0 Excellent answer = 4 marks; Good = 3; Satisfactory = 2; Poor = 1; Incorrect = 0 Excellent answer = 3 marks; Good = 2; Satisfactory/Poor = 1; Incorrect = 0 benefit the remaining shareholders, or not? Explain. VSC - Grade 12 Exemplar - Memorandum likely to have a positive effect on price on the JSE. would not have been responsible management. and it is R4,30 above the average issue price. If the repurchase of 220 000 had not taken place:
OSHE would = R3 200 000 + R2 770 000 = R5 970 000
NAV would = R5 970 000 + 500 000 shares = R11,94 20 dividends valid, or not? Explain Yes: Maximum 5 marks Maximum 2 marks Have the ( Explain. R11,94. 8 S. ont 므 Accounting 4.5 4.4 4.6

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13 DBE/2014 Calculate the profit/loss on the disposal of the office computers sold on 31 March 2013. Silvo printing paper, according to the weighted-average method: Depreciation for current year = 333/% x 18 600 x 9/12 = R4 650 ✓ ✓ Accumulated depreciation = R9 400 + R4 650 = R14 050 ✓ Cost price = R18 600 ✓ = R4 550 = R7 000 **<** = R2 450 **<** Hypa laptops, according to the specific identification method: 16 NSC – Grade 12 Exemplar – Memorandum ABX Printers, according to the FIFO method: Calculate the value of stock on hand of the: (34 x R810) + (12 x R750) = R36 540 27 540 9 000  $\frac{600}{1}$  = R22 400 18 x R10 500 = R189 000 Net book value at date of sale 246 400 × 6 600 Selling price Profit QUESTION 6 Accounting 6.1.1 6.1.2 DBE/2014 The internal control system must be properly in place in order to prevent errors and fraud and to ensure that the information that comes out of the bookkeeping system is reliable. Directors run the company so they are responsible for this. < Any valid response, e.g. no conflict of interests (cannot be a shareholder and an auditor; cannot perform other services for the company); due diligence in To assure readers that the auditor is well trained and educated, is well informed on the latest audit processes and the law, is bound by the SAICA code of conduct and could face disciplinary sanction if he is negligent. Explain in your own words why it is necessary for the independent Under the section on Independent Auditor's Responsibility, they mention something about 'ethical requirements'. Give a practical Why is it necessary for the Independent Auditor to have the qualification CA (SA) behind him name? Explain. auditors to mention internal controls under the section on Directors' Yes. This is an unqualified audit report. If there was a problem, it would have 15 NSC – Grade 12 Exemplar – Memorandum Is their final opinion a good one or not? Explain. Good answers = 2 marks each; partial = 1 mark; incorrect = 0. 2 carrying out the audit. </ been mentioned. < example of this. Responsibility. Accounting

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5.7

KLOOF COMPUTERS (PTY) LTD Income Statement for the year ended 30 June 2013	6.2	Explain ONE problem rela support your explanations.	Explain ONE problem relating to each salesperson. Provide figures to support your explanations.
Salac	3 700 000		Explanation of problem (with figure(s))
of sales	(2 100 000)		<ul><li>Explanation of problem </li><li>Figure(s)</li></ul>
Gross profit	1 600 000	do ush	She has not sold many laptops (only 9). Her travelling is high (three times that of the others)
Other income Check operation	区 40 800	2	
Commission income (36 000√ + 2 350√)	✓ 38 350		
Profit on disposal of asset	☑ 2 450		✓ Explanation of problem ✓ Figure(s)
5		MANNY He	He has offered a lot of discounts (R15 000).
		3	
	1 640 800		
Operating expenses Check operation	図 (836 510)		
Staff costs	180 000	JIM MIC	✓ Explanation of problem ✓ Figure(s) He has lost/stolen 2 lantons (nost price R10 500 × 2)
Directors fees [2-/ x (120 000 + 132 000)-/]	✓ 504 000	2	
Sundry expenses (45 000 < - 1 700 < )	V 43 300		
Depreciation (47 000~~ + 24 500~~ + 4 650区)	☑ 76 150	What advice v	What advice would you offer the directors in respect of the plan to
Trading stock deficit (281 000✓ – 21 000✓ – 247 940⊠)	☑12 060	employ these salespersons?	alespersons?
Donations (2 x 10 050)	VV21 000	Any valid conclusion Expected responses:	Any valid conclusion 🗸 One mark for partial/simplistic answer Expected responses:
20		Employ Gug	Employ Gugu permanently because she made the biggest net profit after
		deducting all	deducting all expenses (R35 150), but keep her travelling under control.
Operating profit Check operation	区 804 290	Do not empli laptops wortl	Do not employ Manny or Jim as they each appear to have stolen cash and laptops worth more than R20 000 and are probably dishonest.
Interest on loan (29 000 + 16 500) One part correct	☑ ✓ ✓ (45 500)	Continue the	Continue the plan to employ travelling salespersons on a commission
Net profit before tax	758 790	enlarge its or	basis as uns will increase sales in lattic and will enable the business enlarge its customer base.
Income tax (194 000 × + 37 000 ×)	✓(231 000)		
Net profit after tax Check operation 8	☑ 527 990 <b>32</b>		
	]		09

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