



JENN

Training and Consultancy
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ACCOUNTING

LEARNERS MANUAL

GRADE 12

TERM FOUR

Topics:

- 1. Balance sheet with notes**
- 2. Cash flow statement**
- 3. Analysis and interpretation of financial statements**
- 4. Budgets**

ACTIVITY 1: NOTE AND STATEMENT OF FINANCIAL POSITION. (50 marks; 40 minutes)

XINWA LTD

REQUIRED:

Refer to information A – F

- 1.1 Prepare the Retained Income Note on 28 February 2023. (11)
- 1.2 Complete the Statement of Financial Position (Balance Sheet) for the year ended 28 February 2023. (27)

NOTE:

Show workings, Certain figures are provided in your answer book.

- 1.3 The CEO, John Gxaba, owns 42% of the issued shares on 28 February 2023. The board of Directors wants to issue the unissued shares in the next financial year.
- 1.3.1 Calculate the number of shares that John must buy to gain control of the company. (4)
- 1.3.2 John wants to buy shares at the current Net asset value without advertising them to the public. As an existing shareholder, why would you not be satisfied with this arrangement? Explain. Provide TWO points. (4)
- 1.4 XINWA Ltd is planning to spend R500 000 on staff development and training over the next two years. Explain where this amount should be shown in the published annual report, and provide a reason for your answer. (4)

INFORMATION:

- A. The following balances were extracted from the records of XINWA LTD on 28 February 2023:**

	R
Ordinary share capital	?
Retained income (1 March 2022)	57 480
Fixed assets at carrying value	3 940 900
Fixed Deposit: Dube Bank	415 000
Loan from director: J France	1 155 000
Inventory (all trading stock)	222 600
Trade and other payables	231 920
SARS: Income tax (provisional tax payment)	280 000
Cash in bank	212 400

B. Share Capital and Dividends:

- Authorised shares: 800 000
- On 1 March 2022, 80% of the authorised share capital was in issue.
- Interim dividends of 28 cents per share was paid on 30 August 2022.
- On 28 February 2023, the company repurchased 40 000 shares at R1,25 above the average share price of R6,00. The full amount for this transaction was paid by EFT, but the EFT has not yet been entered in the CPJ.
- A final dividend of R210 000 was declared on 28 February 2023.

C. Profit and tax:

Income tax at 31% of the net profit for the year amounted to R306 280.

D. Fixed deposit:

R165 000 of the fixed deposit matures on 30 June 2023. The rest matures in 2025.

E. Loan from Director J France:

- The loan was originally received on 1 December 2020.
- This loan is to be repaid over 5 years in equal monthly instalments with effect from 31 December 2020. All payments have been made.
- Interest is not capitalised and has been paid in full.

F. Financial indicators on 28 February 2023:

Current ratio	1,5: 1
Net asset value (NAV)	650 cents
Market price (Security Exchange)	710 cents

[50]

ACTIVITY 1 ANSWER BOOK

1.1	Prepare the Retained Income Note on 28 February 2023.	
	Balance on 1 March 2022	
	Ordinary share dividends	
	Balance on 28 February 2023	

1.2 Complete the Statement of Financial Position (Balance Sheet) for the year ended 28 February 2023.

ASSETS	
Non-current assets	
Fixed assets	3 940 900
Current assets	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
Shareholders' equity	
Non-current liabilities	
Loan (1 155 000	
Current liabilities	888 200
Trade and other payables	231 920
TOTAL EQUITY AND LIABILITIES	

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1.3.1	Calculate the number of shares that John must buy to gain control of the company.							
		<div><div></div><div>4</div></div>						
1.3.2	John wants to buy shares at the current Net asset value without advertising them to the public. As an existing shareholder, why would you not be satisfied with this arrangement? Explain. Provide TWO points.							
		<div><div></div><div>4</div></div>						
1.4	Xinwa Ltd is planning to spend R500 000 on staff development and training over the next two years. Explain where this amount should be shown in the published annual report and provide a reason for your answer.							
	<table><tr><th colspan="2"></th></tr><tr><th>EXPLANATION</th><th>REASON</th></tr><tr><td></td><td></td></tr></table>			EXPLANATION	REASON			<div><div></div><div>4</div></div>
EXPLANATION	REASON							

ACTIVITY 2

BALANCE SHEET, GAAP AND AUDIT REPORT

Choose a GAAP principle in COLUMN B that matches the description in COLUMN A. Write only the letters (A–F) next to the question numbers (4.1.1 to 4.1.5) in the ANSWER BOOK.					
COLUMN A			COLUMN B		
2.1.1	The original cost of the assets of a business needs to be recorded.		A	prudence	
2.1.2	All significant information needs to be clearly shown in the financial statements of a business.		B	matching	
2.1.3	Income and expenses must be recorded in the correct financial period.		C	business entity	
2.1.4	Financial Statements are prepared with the assumption that the business does not expect to close down in the near future.		D	materiality	
2.1.5	The owner and business are seen as two separate entities for accounting purposes.		E	historical cost	
			F	going concern	
				(5 x 1)	(5)

2.2 VELAPHI LIMITED The information provided relates to VELAPHI Ltd for the year ended 30 June 2023. VELAPHI Ltd has an authorised share capital of 1 000 000 ordinary shares.

REQUIRED:

2.2.1 Prepare the following notes to the Balance Sheet:

- a) Ordinary share capital (10)
- b) Retained income (13)

2.2.2 Complete the Balance Sheet (Statement of financial position) on 30 June 2023. Show calculations. (46)

INFORMATION:

A. Ordinary share capital:

- 700 000 ordinary shares were issued on 1 July 2022 to the total value of R2 100 000.
- The company decided to buy back 30 000 shares from an unsatisfied shareholder on 1 October 2022 at R9 per share. An electronic transfer to the shareholder was done on the same day. These shares do not qualify for any dividends thereafter.
- A further 100 000 new ordinary shares were issued on 1 March 2023 at R7 per share.

B. Dividends:

An interim dividend of 20 cent per share was paid on 31 December 2022.

A final dividend of 35 cent per share was declared on 30 June 2023 and will be paid in August 2023.

C.

Net profit and income tax:

The correct net profit before income tax for the year ended on 30 June 2023 was calculated at R1 250 000. This is after all the adjustments reflected below were brought into account.

- Income tax is calculated at 28% of net profit.

D.

Balances in the books on 30 June 2023:	
	R
Retained income	799 660
Creditors' Control	720 000
Debtors' Control	530 000
Creditors for salaries	35 500
Accrued income	24 000
Cash in the bank	66 000
Fixed deposit	?
SARS: Income tax (provisional)	400 000

E. Fixed deposit:

- A fixed deposit of R175 000 matures on 31 January 2024.

F. Loan: Quality Bank:	R
Balance at beginning of financial year	300 000
Interest capitalised during the year	8 000
Repayments, including interest, during the year	56 000
<ul style="list-style-type: none">• Capital portion of loan to be paid in the following financial year remains the same as the current year.	

G. Fixed assets:

- Land and buildings cost price on 1 July 2022 is R1 275 000.
The following invoice was not recorded:
- Improvement to land and buildings: R300 000
- Repairs to land and buildings: R120 000
- The carrying value of vehicles on 30 June 2023 was R720 000.
- All equipment were purchased on 1 January 2020 at R600 000. Depreciation is calculated at 15% per annum on the cost-price method.

H. Rent income:

- Rent income received in advance for July and August 2023 amounted to R17 000.

I. Financial indicators on 30 June 2023:

- The current ratio is 1,5: 1

ACTIVITY 2 ANSWER BOOK

2.1

Choose a GAAP principle in COLUMN B that matches the description in COLUMN A.	
2.1.1	
2.1.2	
2.1.3	
2.1.4	
2.1.5	

5

2.2.1 (a) ORDINARY SHARE CAPITAL

Authorised shares:		
1 000 000 ordinary shares		
Issued share capital:		
	Ordinary shares on 1 July 2022	
	Ordinary shares on 30 June 2023	
(b) RETAINED INCOME		
Balance on 1 July 2022		
Net profit after income tax		
Ordinary share dividends		
Balance on 30 June 2023		

10

13

2.2.2	VELAPHI LTD	
	BALANCE STATEMENT ON 30 JUNE 2023	
	ASSETS	
	NON-CURRENT ASSETS	
	Fixed Assets	
	CURRENT ASSETS	
	Inventory	
	Trade and other receivables	
	Cash and cash equivalents	
	TOTAL ASSETS	
	EQUITY AND LIABILITIES	
	SHAREHOLDERS EQUITY	
	NON-CURRENT LIABILITIES	
	Loan: Quality Bank	
	CURRENT LIABILITIES	
	Trade and other payables	
	Shareholders for dividends	
	TOTAL EQUITY AND LIABILITIES	

ACTIVITY 3

You are provided with information related to Lisakhanya LTD on 30 June 2023.

REQUIRED:

Prepare the Statement of Financial position on 30 June 2023.

INFORMATION:

List of balances

Ordinary share capital	3 000 000
Trade and other payables	1 620 000
Cash and cash equivalent	375 000
Fixed deposit	750 000

The following financial indicators were calculated in 30 June 2023.

Current ratio	1,25: 1
Acid test ratio	0,6: 1
Net asset value per share	500 cents
Debt/equity ratio	0,25: 1

The number of shares on 30 June 2023 amounted to 648 000.

ACTIVITY 3 ANSWER BOOK
BALANCE SHEET AS AT 30 JUNE 2023

	ASSETS	
	NON-CURRENT ASSETS	
	CURRENT ASSETS	
	TOTAL ASSETS	
	EQUITY AND LIABILITIES	
	SHAREHOLDERS' EQUITY	
	NON-CURRENT LIABILITIES	
	CURRENT LIABILITIES	

CASH FLOW STATEMENT

ACTIVITY 1:

(30 marks)

The information relates to Bellco Ltd for the year ended on 31 August 2023.

REQUIRED:

- 1.1 Calculate the Cash effects of changes in working capital. Show all calculations. (4)
- 1.2 Calculate the following amounts that would appear on the Cash Flow Statement. Show all calculations.
 - 1.2.1 Income tax paid (4)
 - 1.2.2 Dividends paid (3)
 - 1.2.3 Proceeds from sale of fixed assets (5)
 - 1.2.4 Repurchase of shares (2)
 - 1.2.5 Net change in cash and cash equivalents (3)
- 1.3 Calculate the following financial indicators on 28 August 2023.
 - 1.3.1 Net asset value per share (4)
 - 1.3.2 % Return on average shareholders' equity (4)

INFORMATION:**A. Extract from the Balance Sheet for the year ended 31 August:**

	2023	2022
Fixed assets	12 138 000	12 357 000
Investments (4% p.a.)	250 000	600 000
Current assets	3 465 000	3 200 000
Trading stock	1 720 000	2 250 000
SARS (Income tax)	65 000	0
Trade & other receivables (excluding SARS)	1 140 000	940 000
Cash & 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	6 360 000
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 & other payables	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 & LIABILITIES	15 853 000	16 157 000

B Extract from the Income statement and Notes on 31 August 2023:

Depreciation	R 1 010 000
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

C Share Capital:

- 1 000 000 ordinary shares were in issue on 31 August 2022.
- 400 000 ordinary shares were issued on 1 September 2022 at R8.60 each.
- 120 000 ordinary shares were repurchased on 28 February 2023 from the estate of a shareholder, at R2,60 above the average issue price.

D 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.

ACTIVITY 1: ANSWER BOOK

1.1.1 Calculate the Cash effects of changes in working capital. Show all calculations. (4)

CASH EFFECTS OF CHANGES IN WORKING CAPITAL	

1.2.1 Income tax paid (4)

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1.2.2 Dividends paid (3)

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1.2.3 Proceeds from sale of fixed assets (5)

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1.2.4 Repurchase of shares (2)

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1.2.5 Net change in cash and cash equivalents (3)

Cash & cash equivalents at end of year	540 000

1.3.1 Net asset value per share (4)

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1.3.2 % Return on average shareholders' equity (4)

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ACTIVITY 2:

You are provided with information relating to Meteor Supermarkets Ltd. The financial year-end is 28 February 2023.

REQUIRED:

2.1 Refer to Information E:

Calculate the missing amounts (indicated by **a**, **b** and **c**) in the Fixed/Tangible Asset Note for the year ended 28 February 2023. (12)

2.2 Complete the Cash Flow Statement for the year ended 28 February 2023. Some of the details and figures have been entered in the ANSWER BOOK. Show ALL workings. (31)

2.3 At the AGM, a shareholder stated that the Cash Flow Statement reflects poor decisions by the directors. (4)

Explain TWO points, with relevant figures, to support his opinion.

INFORMATION

A. Extract from the Income Statement for the year ended 28 February 2023:

Interest on loan (all capitalised)	88 500
Net profit before tax	1 575 000
Income tax	441 000

B. Extract from the Balance Sheet as at:

	28 Feb. 2023	28 Feb. 2022
Current assets	3 337 300	4 641 000
Inventories	818 200	641 000
Trade debtors	2 377 600	1 512 000
SARS: Income tax	128 000	-
Cash and cash equivalents	13 500	2 488 000
Shareholders' equity	8 839 000	7 400 000
Ordinary share capital	8 700 000	6 600 000
Retained income	139 000	800 000
Mortgage loan: Excel Bank (Interest rate: 12,5% p.a.)	908 000	508 000
Current liabilities	2 063 700	1 302 000
Trade creditors	678 700	700 000
Shareholders for dividends	870 000	480 000
Bank overdraft	515 000	-
SARS: Income tax	-	122 000

C. Shareholders' register:

DATE	DETAILS
1 March 2022	1 200 000 shares in issue
31 March 2022	300 000 shares issued at R8 each
31 December 2022	The company bought back 50 000 shares from a dissatisfied shareholder, S Smit, at R9,50 each. The average price of all shares issued to date was R6 per share.
28 February 2023	1 450 000 shares in issue

D. Dividends for the financial year ending 28 February 2023:

Interim dividends paid on 31 August 2022	R750 000
Final dividends declared on 28 February 2023	R870 000

E Fixed/Tangible assets:

	LAND AND BUILDINGS	VEHICLES
Carrying value at the beginning of the financial year	2 689 000	1 880 000
Cost	2 689 000	3 250 000
Accumulated depreciation	-	(1 370 000)
Movements		
Additions at cost	a	330 000
Disposals at carrying value	-	b
Depreciation	-	c
Carrying value at the end of the financial year	6 740 000	
Cost	6 740 000	3 440 000
Accumulated depreciation	-	

Additional information in respect of fixed/tangible assets:

- (i) A vehicle was sold for cash at its carrying value on 31 May 2022. The following extract of the vehicle sold was taken from the Fixed Assets Register:

Cost price: R140 000		Date purchased: 1 March 2021
Rate of depreciation: 20% p.a. on the diminishing-balance method		
FINANCIAL YEAR END	DEPRECIATION	ACCUMULATED DEPRECIATION
28 February 2022	28 000	28 000
31 May 2023	5 600	33 600

- (ii) A new vehicle, costing R330 000, was purchased and paid for by EFT on 1 January 2023.
- (iii) Vehicles are depreciated at 20% p.a. on the diminishing balance method.
- (iv) New premises (land and buildings) were acquired during the financial year.

ACTIVITY 2: ANSWER BOOK

2.1 Calculate the missing amounts (indicated by a, b and c) in the Fixed/Tangible Asset Note for the year ended 28 February 2023.

No	Workings	Amount

- 2.2 Complete the Cash Flow Statement for the year ended 28 February 2023. Some of the details and figures have been entered in the ANSWER BOOK. Show ALL workings.

METEOR SUPERMARKETS LTD	
CASH FLOW STATEMENT FOR YEAR ENDED 28 FEBRUARY 2017	
Cash flow from operating activities	
Cash generated from operations	969 600
Interest paid	(88 500)
Cash flow from investing activities	
Cash flow from financing activities	
Net change in cash and cash equivalents	
Cash and cash equivalents at beginning of year	2 488 000
Cash and cash equivalents at end of year	

2.3

At the AGM, a shareholder stated that the Cash Flow Statement reflects poor decisions by the directors. Explain TWO points, with relevant figures, to support his opinion.

INTERPRETATION OF FINANCIAL INFORMATION

ACTIVITY 1

FLORIDA LIMITED AND TEXAS LIMITED

Gilbert Lewis owns shares in both companies. He wants to analyse both companies' financial results in order to improve his portfolio.

REQUIRED

- 1.1 Comment on the liquidity of the two companies and explain which company manages the working capital more efficiently. (6)
- 1.2 Comment on the degree of risk and gearing of both companies. Explain how this will influence your choice of company. (6)
- 1.3 Consider the Return, Earnings and Dividends of the two companies.
 - a. Explain whether or not Gilbert should be satisfied with the return on his investment in both companies. Provide financial indicators/ figures to support your answer. (4)
 - b. Calculate the dividend pay-out policy of both companies. Indicate which company has adopted the better policy and the possible reason for that choice. Provide figures and calculations to support your answer. (6)
- 1.4
 - a. Refer to Information B and C. Indicate how many shares Gilbert must purchase in each company to maintain the percentage shareholding he had at the start of the year. (8)
 - b. Calculate the amount Gilbert will spend in order to maintain his percentage shareholder in each company. Provide a reason why Gilbert would pay this amount. (6)
 - c. Comment on the price per share that Gilbert paid for these shares in each company and provide figures to support your answer. (4)

INFORMATION

A. Financial indicators and additional information on 29 February 2020:

	Florida	Texas
Current ratio	1,5 : 1	2,1 : 1
Acid test ratio	0,6 : 1	1,1 : 1
Debt-Equity ratio	0,3 : 1	0,8 : 1
Return on total capital employed	15,5%	11,8%
Interest on loan	14%	14%
Return on shareholder's equity	16% (14% in 2019)	28% (24% in 2019)
Earnings per share	124 cents	143 cents
Dividends per share	100 cents	75 cents
Market value of shares	R8,00	R16,00
Net Asset Value per share (NAV)	R7,20	R17,50

B. Share capital of the two companies:

	Florida		Texas	
Beginning of the year: 1 March 2019	420 000 Shares	R2 856 000	140 000 shares	R1 960 000
New shares issued during the year	117 000 Shares	R936 000	70 000 Shares	R1 120 000
Shares repurchased during the year	–	–	35 000 Shares	R560 000

C. Number of shares Gilbert owns in each company:

- At the start of the year, Gilbert owned the following shares in each company

Florida Limited	214 200 shares
Texas Limited	84 000 shares

{40}.

ACTIVITY 1

ANSWER BOOK

1.1 Comment on the liquidity of the two companies and explain which company manages the working capital more efficiently.

1.2 Comment on the degree of risk and gearing of both companies. Explain how this will influence your choice of a company.

1.3 Consider the Return, Earnings and Dividends of both companies.

- a) **Explain whether or not Gilbert should be satisfied with the return on his investment in both companies. Provide financial indicators / figures to support your answer.**

b) Calculate the dividend pay-out policy of both companies. Indicate which company has adopted a better policy and the possible reason for that choice. Provide figures and calculations to support your answer.

1.4 A) Refer to information B and C indicate how many shares Gilbert must purchase in each company to maintain his percentage shareholding he had at the start of the year.

B) Calculate the amount Gilbert will spend in order to maintain his percentage shareholder in each company. Provide a reason why Gilbert would spend this amount

C) Comment on the price per share that Gilbert paid for these shares in each company and provide figures to support your answer.

ACTIVITY 2

CONCEPTS, RATIOS AND INTERPRETATION

2.1 CONCEPTS

Provide an accounting concept that best addresses the following analysis questions. Write the answer only next to each number (2.1.1 – 2.1.4) in the ANSWER BOOK.

2.1.1 Can the business pay off all its debts?

2.1.2 To what extent does the business rely on borrowed funds?

2.1.3 Will the business be able to pay of its immediate debts?

2.1.4 How well is the business managing or controlling its expenses? (4)

2.2 FINANCIAL INDICATORS

Calculate the following financial indicators for the financial year ended 28 February 2023: (Round off your calculation to ONE decimal point or the nearest cent, where applicable.)

2.2.1 % Operating profit on sales. (4)

2.2.2 Net asset value per share (3)

2.2.3 Return on average shareholders' equity (5)

2.2.4 Debt-equity ratio (3)

2.3 INTERPRETATION

Refer to Information E.

- 2.3.1 The directors are not satisfied with the liquidity position. Quote and explain **THREE** relevant financial indicators (with figures) to support this statement. (6)
- 2.3.2 The directors decided to increase the loan during the current financial year. Explain why this was a good decision. Quote and explain **TWO** financial indicators (with figures) in your answer. (8)
- 2.3.3 The directors were pleased with the price that the company paid to buy back the 40 000 shares. Give a suitable reason why the directors felt that way. Quote relevant financial indicators (with figures) to support your answer. (3)

INFORMATION:

A. Extract from the Income Statement for the year ended 28 February 2023:

Sales	R2 800 000
Operating profit	910 000
Net profit before tax	1 240 000
Income tax	?
Net profit after tax	892 800

B. Extract from the Balance Sheet on 28 February 2023:

	2023	2022
Fixed assets (carrying value)	4 387 160	2 430 000
Fixed deposit : FS Bank	1 450 000	1 200 000
Current assets	1 944 280	1 010 000
Inventories	975 700	345 000
Debtors and other receivables	419 000	629 600
SARS (Income tax)	0	17 400
Cash and cash equivalents	549 580	18 000
Shareholders' equity	5 950 800	4 345 000
Share capital	5 402 000	4 200 000
Retained income	548 800	145 000
Mortgage loan: TKO Bank	1 950 000	400 000
Current liabilities	587 200	555 000
Creditors and other payables	437 800	165 000
Accrued expenses	8 700	5 000
SARS (Income tax)	35 700	0
Shareholders for dividends	105 000	275 000
Bank overdraft	0	110 000

C. Share Capital

- Authorised share capital is 3 000 000 ordinary shares.
- On 1 March 2022, 1 200 000 ordinary shares had been issued at R3, 50 per share.
- On 1 November 2022, 300 000 ordinary shares were issued at R4, 50 each.
- On 28 February 2023, 40 000 shares were repurchased at R0, 60 more than the average price per share.

D. Dividends

The directors declared a final dividend of 7 cents per share. The shares bought back on 28 February 2023 also qualify for the final dividends.

E. Financial Indicators on 28 February:

	2023	2022
Net profit after tax on sales	31,9%	24,5%
Current ratio	3,3 : 1	1,8 : 1
Debtors' collection period	36 days	28 days
Creditors' payment period	45 days	80 days
Acid-test ratio	1,7 : 1	1,2 : 1
Rate of stock turnover	3 times	5 times
Return on shareholders' equity	?	17,5%
Return on total capital employed	24.2%	21,2%
Debt-equity ratio	?	0,09 : 1
Interest rate on loans	10,5%	10,5%
Net asset value per share	?	362 cents
Market value per share	505 cents	480 cents

TOTAL MARK: 40

ACTIVITY 2

2.1 CONCEPTS

2.1.1	
2.1.2	
2.1.3	
2.1.4	

2.2 FINANCIAL INDICATORS

2.2.1% Operating profit on sales
2.2.2 Net asset value per share
2.2.3 Return on average shareholders' equity
2.2.4 Debt-Equity ratio

2.3 INTERPRETATION

2.3.1 The directors are not satisfied with the liquidity position. Quote and explain THREE relevant financial indicators (with figures) to support this statement.

2.3.2 The directors decided to increase the loan during the current financial year. Explain why this was a good decision. Quote and explain TWO financial indicators (with figures) in your answer.

2.3.3 The directors were pleased with the price that the company paid to buy back the 40 000 shares. Give a suitable reason why the directors felt that way. Quote relevant financial indicators (with figures) to support your answer.

CASH BUDGETING

ACTIVITY 1

You are provided with information relating to VIVO Computers owned by Thando Shai.

REQUIRED:

1.1 Thando compared the budgeted figures to the actual figures for August 2022.

Thando is not concerned about the overspending in advertisement.

Explain why this is so. Quote figures. (3)

	BUDGETED	ACTUAL
Sales	122 500	147 000
Advertising	12 000	16 500
Payment to creditors	64 900	0

1.2 Complete the Creditors Payment Schedule for November 2022. (8)

1.3 Calculate the missing figures (i) TO (vii) in the Cash Budget. (21)

1.4 State ONE consequence that the business might face should they not pay the amount due to creditors in September 2022. (2)

1.5 Thando wants to replace an old equipment in December 2022 but does not have the cash available. The cost of new equipment amounts to R195 000. The new items are expected to last 5 years. Options are:

- Request a friend to become an equal partner through contributing a capital of R195 000.
- Lease the equipment from Rifo Computers at R7 250 per month.
- Acquire a new loan of R195 000 at an interest rate of 15% p.a to be repaid over 24 months.

Briefly explain ONE advantage and ONE disadvantage of EACH option. (6)

INFORMATION:

A. Sales, purchases of stock and cost of sales:

Total sales:

Actual	August	R120 000
	September	R135 000
Projected	October	R150 000
	November	R180 000

- 40% of sales are cash, the rest is on credit.
- The mark-up is 50% on cost.
- Stock is replaced on a monthly basis.
- 25% of purchases are cash; the rest is on credit.

B. Creditors payment:

It is expected that creditors will be paid as follows:

- 75% are paid in the month of purchases to receive a 5% discount.
- 15% are paid in the month after purchases.
- 10% are paid in the second month after purchases.

C. Delivery expenses:13

Thando pays Speedo Deliveries to deliver goods to customers free of charge. He budgets a fixed percentage of monthly sales for this expense.

D. Salaries and wages:

Employees receive an increase of 7,5% from 1 November 2022.

E. Loan:

Part of the loan will be repaid on 1 November 2022. Interest of 15% p.a is paid monthly and is not capitalised.

F. Extract from Cash Budget for October and November 2022.

RECEIPTS	OCTOBER	NOVEMBER
Cash sales	(i)	72 000
Collection from debtors	78 300	89 550
Rent income	7 500	7 750
Additional capital to be contributed		
Commission income		
PAYMENTS		
Cash purchase of stock		(ii)
Payment to creditors	74 200	
Delivery expenses of goods to customers	9 000	(iii)
Salaries and wages	(iv)	38 700
Stationery		
Telephone	1 000	1 000
Training of staff	2 500	2 500
Advertising	1 500	1 800
Repayment of loan		(v)
Interest on expense	2 100	1 500
Sundry expense	3 300	3 400
Drawings		

G. After finalising the budget, the following was identified:

	OCTOBER	NOVEMBER
Cash surplus or deficit for the month	(24 350)	(vii)
Cash at beginning of month		53 250
Cash at end of month	(vi)	(10 950)

ACTIVITY 1 ANSWER BOOK

1.1

Thando is not concerned about the overspending in advertisement. Explain why this is so. Quote figures.

3

1.2. CREDITORS PAYMENT SCHEDULE

MONTH	CREDIT PURCHASES	OCTOBER	NOVEMBER
August	R60 000	6 000	
September	R67 500	10 125	
October		53 438	
November	R90 000		
		69 653	

1.3

8

	CALCULATION	AMOUNT
(i)	Cash sales	
(ii)	Cash purchases of stock	
(iii)	Delivery expenses	
(iv)	Salaries and wages	
(v)	Repayment of loan	
(vi)	Cash at end of month	
(vii)	Cash surplus or deficit for the month	

1.4

State ONE consequences that the business might face should they not pay the amount due to creditors in September 2022.

2

1.5 Briefly explain ONE advantage and ONE disadvantage of each option.

OPTION	ADVANTAGE	DISADVANTAGE
Request a friend to become a partner.		
Lease the equipment from Rifo		
Acquire a new loan.		

6

ACTIVITY 2

2.1 Explain why:

2.1.1 Bad debts will not appear in a cash budget. (1)

2.1.2 A cash budget is an effective internal control mechanism. (2)

2.2 MARIE (PTY) LTD

The company is registered with an authorised share capital of 800 000 ordinary shares.

REQUIRED:

2.2.1 Refer to Information A and B

Calculate the collection from debtors during September 2022. (7)

2.2.2 Calculate the missing amounts denoted by (i) to (iv) on the extract CashBudget provided in Information E. (13)

2.2.3 Calculate the % increase in salaries and wages. (3)

2.2.4 Provide TWO reasons why the company decides to invest in staff training. (2)

2.2.5 Refer to Information J.

Marie has decided to change the sales strategy due to low turnover during the Covid-19 pandemic.

- Comment on the new approach regarding cash and credit sales. (2)
- Explain TWO disadvantages of the approach adopted. (4)
- Comment on the actual and budgeted figures for advertising and packing material. Quote figures (6)

INFORMATION:

	JULY R	AUGUST R	SEPTEMBER R
Credit sales	364 000	382 200	354 900
Cost of sales figures:	320 000	336 000	312 000

B. Debtors pay according to the following trend:

50% of debtors pay in the month of sales and receive a 4% discount.

30% pay in the month following the sales month.

18% pay in the second month after the sales month.

Bad debts accounts for 2%

C. Cash sales is 35% of total sales.

D. Purchases and payment to creditors:

- Stock sold is replaced in the month of sale.
- Cash purchases amounts to 25% of total purchases.
- Creditors for stock purchases are paid in the second month following the purchase (60 days).

E. Extract of the Cash Budget for the two months:

	AUGUST	SEPTEMBER
Receipts		
Cash Sales	205 800	191 100
Cash from Debtors		
Rent Income	(i)	13 878
Additional shares	465 000	
Payments		
Cash purchases of stock	84 000	78 000
Payment to creditors	225 000	(ii)
Salaries and wages	134 300	142 358
Repayment of loan		(iii)
Interest on loan	3 300	2 750
Advertising	17 640	16 380
Packing material	35 280	32 760
Delivery expenses	41 160	38 220
Ordinary share dividends		(iv)
Staff training		70 000

F. The rent will increase by 8% p.a. from 1 September 2022.

G. Part of the loan will be re-paid on 1 September 2022. Interest on loan at 11% p.a. is payable on the last day of each month and is not capitalised.

H. On 1 July 2022, there were 480 000 ordinary shares in issue.

- Additional shares will be issued on 1 August 2022 at R6, 20 per share.
- Interim dividends of 15 cents per share is payable on 30 September 2022, to all shares on the share register.

I. Advertising is a fixed percentage of budgeted cash sales.

Delivery to customers is outsourced to Victor Reliable

J. Budgeted and Actual figures for July 2022:

BUDGET ITEMS	BUDGETED R	ACTUAL R
Cash sales	196 000	50 400
Credit sales	364 000	285 600
Total sales	560 000	336 000
Advertising	16 800	13 440
Packing material	33 600	18 500

ACTIVITY 2 ANSWER BOOK

2.1 Explain why:

2.1.1

Bad debts will not appear in a cash budget.

(1)

2.1.2

A cash budget is an effective internal control mechanism.

(2)

2.2.1 DEBTORS COLLECTION SCHEDULE

Month	Credit sales	AUGUST	SEPTEMBER
JUNE	360 000	64 800	
JULY	364 000	109 200	
AUGUST	382 200	183 456	
SEPTEMBER	354 900		
RECEIPTS FROM DEBTORS		357 456	

(7)

2.2.2 Calculate:

WORKINGS	ANSWER
(i) Rent income: August	
(ii) Payment to creditors: September	

(iii) Repayment of loan: September	
(iv) Ordinary share dividends: September	

(13)

2.2.3 Calculate: % increase in salaries and wages.

WORKINGS	ANSWER

(3)

2.2.4

<p>Provide TWO reasons why the company decides to invest in staff training.</p>
--

(2)

2.2.5

<p>Comment on the new approach regarding cash and credit sales.</p>
--

(2)

<p>Explain TWO disadvantages of the approach adopted.</p>
--

(4)

Comment on actual and budgeted figures for the following items:

ADVERTISING	
PACKING MATERIAL	

(6)

40

1.1 INVENTORY VALUATION

(30 Marks; 20 Minutes)

Bizana Traders sell three different types of laptops: Leno, Toliba and Della. They use the periodic inventory system and the specific identification method to value stock.

REQUIRED:

1.1.1 Explain the following valuation methods:

- FIFO (2)
- Specific identification (2)

1.1.2 Calculate the cost price per laptop on hand on 1 October 2019. (2)

1.1.3 Calculate the value of the closing stock on 30 September 2020. (9)

INFORMATION:

The following information is in respect of the year ended 30 September 2020:

A. Opening stock:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
1 Oct. 2019	Leno	118	?	R413 000

B. Purchases and returns:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
PURCHASES:				
Dec. 2019	Toliba	410	R3 750	R1 537 500
Mar. 2020	Della	630	R4 650	R2 929 500
RETURNS:				
Mar. 2020	Della	20	R4 650	(R93 000)
Net purchases				R4 374 000

C. Sales for the year

MODEL	UNITS	AMOUNT
Leno	118	R598 850
Toliba	356	R2 229 375
Della	502	R4 247 775
		R7 076 000

1.2 MANAGEMENT OF INVENTORIES

You are provided with information from the books of Kyle's Office Equipment for the year ended 29 February 2020. The business sells office desks, chairs and printers.

Kyle took certain decisions at the beginning of the 2020 financial year.

REQUIRED:

Provide relevant figures for ALL the questions below.

1.2.1 Desks:

- What decision did Kyle take regarding the selling price of the desks? (2)
- How has this decision affected the business? State TWO points (4)

1.2.2 Chairs:

Was it a good idea for Kyle to change to a cheaper supplier of chairs? Explain TWO points. (5)

1.2.3 Printers:

Kyle significantly reduced the selling price of printers in the 2020 financial year in response to a new competitor who sells the same model at R1 200.

Based on the information below, provide TWO separate suggestions to Kyle to improve the profit on printers in 2021. (4)

INFORMATION:

	DESKS		CHAIRS		PRINTERS	
	2020	2019	2020	2019	2020	2019
Orders received from customers	300	370	770	730	925	615
Gross units sold	300	365	770	730	725	615
Returns by customers	0	5	90	0	15	15
Selling price	R2 520	R1 920	R490	R714	R975	R1 326
Cost price	R1 400	R1 200	R350	R510	R780	R780
Mark-up %	80%	60%	40%	40%	25%	70%
Gross profit	R336 000	R259 200	R95 200	R148 920	R138 450	R327 600
Stock turnover rate	6,0	7,2	4,0	4,0	11,8	10,0

[30]

ANSWER SHEET

1.1 INVENTORY VALUATION

1.1.1

Explain the FIFO valuation method.

Explain the specific identification valuation method.

[4]

1.1.2

Calculate the cost price per laptop on hand on 1 October 2019.

[2]

1.1.3

Calculate the value of the closing stock on 30 September 2020.

MANAGEMENT OF INVENTORIES

1.2.1 Desks

What decision did Kyle take regarding the selling price of the desks? Provide figures. [2]

How has this decision affected the business? State TWO points. Provide figures.[4]

1.2.2 Chairs

Was it a good idea for Kyle to change to a cheaper supplier of chairs?

YES/NO: _____

Explain TWO points. Provide figures.

[5]

Based on the information given, provide TWO separate suggestions to Kyle to improve the profit on printers in 2021.

Suggestion 1 (with figures):

Suggestion 2 (with figures):

[30]

ACTIVITY 2 INVENTORY VALUATION AND PROBLEM SOLVING

[35 Marks; 28 Minutes]

2.1 You are provided with information relating to Khombindlela Traders. The business, owned by Nompumelelo Mthiyane, sells one type of shoes. The financial year ended on 31 August 2021. The weighted average method is used to value their stock and the periodic stock system is in operation.

REQUIRED:

2.1.1 Calculate the value of closing stock on 31 August 2021. (10)

2.1.2 Nompumelelo is concerned about the control of the stock of shoes. She suspects that pair of shoes has been stolen by her workers. Provide a calculation to confirm her suspicion. (5)

2.1.3 Calculate the average stock holding period (in days) for the financial year ended 31 August 2021. (7)

2.1.4 Nompumelelo is considering a change in the method of valuing stock.

NB: the value of closing stock using the FIFO method amounted to R81 600. Give ONE reason in favour of and ONE reason against changing to the FIFO method. (4)

INFORMATION:

A. OPENING STOCK AND CLOSING STOCK:

DATE	NUMBER OF SHOES	UNIT PRICE	TOTAL
01 September 2020	400	R350	R140 000
31 August 2021	200	?	?

B. PURCHASES:

DATE	NUMBER OF SHOES	UNIT PRICE	PURCHASES
September 2020	300	R370	R111 000
November 2020	350	R380	R133 000
April 2021	300	R390	R117 000
July 2021	250	R400	R100 000
TOTAL	1 200		R461 000

B. CARRIAGE ON PURCHASES:

Carriage on purchases from the manufacturer to Khombindlela Traders was R10.50 per pair of shoes.

C. RETURNS:

Hundred (100) defective pair of shoes, bought during July 2021, were returned to the supplier. The supplier allowed a refund. There will be no refund for carriage on purchases.

D. SALES:

A selling price of R900 per pair of shoes was maintained throughout the financial year. The total sales for the financial year amounted to R1 116 000

2.2 PROBLEM SOLVING

You are provided with the information related to Kia Suppliers for three branches. The business is owned by Mduduzi Msweli.

REQUIRED:

Mduduzi is concerned with the results. Identify a different problem in relation to each branch. Quote figures/amounts to support your findings or opinion. In each case, offer Mduduzi advice on how to solve the problem identified. (9)

LOCATION OF BRANCH	PINETOWN	DUNDEE	JOZINI
NAME OF MANAGER/ESS	PEARL	ARTHUR	GEORGE
Number of bicycles available for sale	490	400	290
Number of bicycles sold during the year	490	72	250
Physical count on 31 August 2021	0	328	40
Cash sales (amounts actually banked)	R1 225 000	R237 600	R710 000
Cost price per bicycle	R2 000	R2 000	R2 000
Mark-up%	25%	65%	50%
Selling price per bicycle	R2 500	R3 300	R3 000
Advertising costs per year	R10 000	R2 000	R10 000

[35]

ACTIVITY 2: ANSWER SHEET

2.1.1

Calculate the value of closing stock on 31 August 2021 using the weighted average method.

(10)

2.1.2

Nompumelelo is concerned about the control of the stock of shoes. She suspects that shoes have been stolen by her workers. Provide a calculation to confirm her suspicions.

(5)

2.1.3

Calculate the average stock holding period (in days) for the financial year ended 31 August 2021.

(7)

2.1.4

Nompumelelo is considering a change in the method of valuing stock. NB: the value of closing stock using the FIFO method amounted to R81 600
Give one reason in favour of changing to the FIFO method.

Give one reason against changing to the FIFO method.

(4)

2.2

Mduduzi is concerned with the results. Identify ONE problem in relation to each branch, quoting figures/amounts to support the problem. In each case, offer Mduduzi advice on how to solve the problem identified.

	Problem identified with figures.	Advice
PINETOWN PEARL		
DUNDEE ARTHUR		
JOZINI GEORGE		

(9)

[35]