

Province of the
EASTERN CAPE
EDUCATION

ACCOUNTING

AUTUMN CLASSES

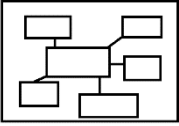



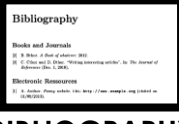
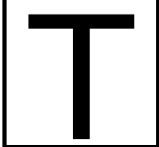
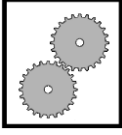

GRADE 12

TERM 1

TEACHER AND LEARNER CONTENT MANUAL



ICON DESCRIPTION

 <p>MIND MAP</p>	 <p>EXAMINATION GUIDELINE</p>	 <p>CONTENTS</p>	 <p>ACTIVITIES</p>
 <p>BIBLIOGRAPHY</p>	 <p>TERMINOLOGY</p>	 <p>WORKED EXAMPLES</p>	 <p>STEPS</p>



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GRADE 12: PAPER 1

Financial Reporting & Evaluation

Concepts relating to companies	Includes: issuing of shares at issue price (no par value, no share premium); buying back of shares See APPENDICES 5.1, 5.2, 6.1, 6.2 and 6.3.
Concepts relating to GAAP & IFRS	
Unique Ledger Accounts of companies & interpretation thereof	
Accounting equation of companies	
Adjustments, final accounts & trial balances of companies	
Income Statement (Statement of Comprehensive Income) of companies	
Balance Sheet (Statement of Financial Position) & Notes of companies	
Cash Flow Statement of companies	
Analysis & interpretation of financial statements of companies*	
Analysis & interpretation of published financial statements & audit report of companies*	
Valuation of fixed assets for reporting in financial statements	Includes: additions, depreciation & disposal
Inventory valuation for reporting in financial statements	Integrates valuation methods: FIFO; weighted average & specific identification
Professional bodies & Code of conduct	Role of independent auditors See APPENDIX 5.7.
Ethical behaviour & corporate governance in financial environments	See APPENDIX 5.7.
Legislation governing companies (overview only)	Companies Act (general overview only) See APPENDIX 5.7.
Close corporations (not examinable)	Concepts; Differences in financial stmts of companies and cc's (not examinable)



Definition and explanation of accounting concepts unique to companies:

- Companies –
 - Public** - a company owned by many shareholders that issues shares to the public.
 - Private** – business owned by small number of shareholders and does not issue shares to the public
- Companies Act (Act 71 of 2008) – regulates the formation, governance and operation of companies
- Registrar of Companies - Registration certificate – The Companies and Intellectual Property Commission
- Memorandum of Incorporation – a company’s founding document that outlines its structure and governance.
- Income tax- payments made by individuals and companies to a government entity ie SARS in South Africa based on taxable income.
 - Provisional income tax – payments made by a taxpayer in advance during the year of assessment which are based on estimated taxable income.
- **Dividends:** That portion of profits (after tax) which has been approved to be shared amongst shareholders (total dividends = interim + final)
 - Interim Dividends:** Dividends that are paid to shareholders during the year.
 - Final Dividends:** Dividends that are declared (recommended) to the shareholders at the end of the financial year.
- **Shares:** The capital of the company that is divided into smaller units.
- **Issue price:** The price at which shares are issued to the public.
- Earnings
- **Shareholders:** People who buy shares therefore are the “owners” of the company.
- **Directors:** People who are appointed by the shareholders to run the company.
- Auditors
- **Limited liability:** The liability of the shareholders is limited to their investment in the company (they cannot lose their personal assets).
 - Separation of ownership from control

- **Retained income:** A portion of the profits (after tax) not distributed to shareholders in dividends but kept (retained) for future growth of the company.
- **Authorised share capital:** The maximum number of shares a company can sell.
- **Issued share capital:** Number of shares that have actually been sold to shareholders. (Use number of issued shares to calculate dividends).
- Johannesburg Securities Exchange (JSE)

TOPIC: GAAP PRINCIPLES

Definition and explanation of International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Practice (GAAP):

- Business Entity:** 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 to operate 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)

FINANCIAL STATEMENTS

Financial Statements are the responsibility of the directors. They (Financial Statements) have to be audited by a qualified accountant. The audited financial statements will then be submitted to the **SHAREHOLDERS** at the **ANNUAL GENERAL MEETING**. These financial statements usually show comparative figures for the preceding year.

TYPES / KINDS OF FINANCIAL STATEMENTS

1. **Income Statement / Statement of Comprehensive Income:** It reflects the company's operating activities during a particular financial year. It also helps the business to calculate the net profit after tax.
2. **Balance Sheet:** It sets out the company's financial position at the end of a particular financial year.
3. **Cash Flow Statement:** It shows what happened to the cash balance during a particular financial year. It also contains details of cash inflows and outflows through business operating activities, investing activities and financing activities.

THE USERS OF FINANCIAL STATEMENTS

1. **Shareholders:** They need to see how the company is doing, as they "own" the company.
2. **Board of Directors:** They use the statements as basis of their decisions and for compiling a budget.
3. **Auditors:** They need to see the statements in order for them to provide an audit opinion and financial advice.
4. **Registrar of Companies:** Exercises control over companies.
5. **Financial Institutions:** They use company financial statements to determine its credit rating when it applies for an overdraft or loan.
6. **Creditors:** They use company financial statements to see whether it is able to meet its short-term commitments.
7. **SARS:** It bases its tax assessment on a company's financial statements.

YEAR – END ADJUSTMENTS

Trading Stock Deficit / Surplus: Refers to the differences between the value of the physical count of inventory and the value of inventory as per business records.

A surplus occurs when goods returned are not recorded. When the value on the pre-adjustment trial balance is **less** than the physical stock count in the adjustments, the business has a trading stock **surplus** and is regarded as an **income**.

A deficit occurs when goods have been stolen. When the value on the pre-adjustment trial balance is **more** than the physical stock count in the adjustments, the business has a trading stock **deficit** and is regarded as an **expense**.

NB: Consider any adjustment to inventory before determining a deficit / surplus.

Calculation: Trial balance amount (\pm Adjustment) – physical stock count amount

Consumable Stores on hand: When cash is paid to acquire consumables such as office supplies or stationery, the items are treated as an expense when purchased. At the end of the period, an adjustment or

internal entry is needed to recognize the part of the expense not used during the period, as an asset.

Depreciation: An **accounting method of allocating the cost of a tangible or physical asset over its useful life or life expectancy**. Depreciation represents how much of an asset's value has been used up.

Straight Line Depreciation: The value of an asset is reduced uniformly over each period until it reaches its [salvage value](#). Straight line depreciation is the most commonly used and straightforward [depreciation method](#) for allocating the cost of a [capital asset](#).

The following adjustments also need to be mastered as they are usually examined.

Bad Debts

Bad Debts Recovered

Correction of Errors / Omissions

Accrued Income (Receivable)

Income Received In Advance (Deferred)

Expenses Prepaid

Accrued Expenses (Payable)

Provision for Bad Debts

Adjustments related to Income Tax

Payments and Declaration of Dividends

Worked Example 1: FINANCIAL STATEMENTS**(55 marks; 45 minutes)****SMILEY TRADERS LTD**

Refer to the information from the records of Smiley Traders Ltd for the financial year ended 29 February 2024.

REQUIRED:

1.1	Prepare the following for the financial year ended 29 February 2024.		
	1.1.1	Statement of Comprehensive Income/Income Statement. Note that some information is provided on the answer book.	(32)
	1.1.2	Statement of Financial Position/Balance sheet. Show ALL workings in brackets. Note that some information is provided on the answer book.	(23)

INFORMATION:

The following Balances/Totals appeared in the books on 29 February 2024:

	R
Ordinary shares capital	?
Retained income (29 February 2024)	558 000
Mortgage Loan: Best Bank	?
Trading Stock	372 845
Debtors' control	444 700
Creditors' control	345 900
Provision for bad debts (1 March 2023)	14 090
SARS Income Tax (provisional payments)	323 555

Sales	?
Cost of sales	?
Rent income	162 750
Salaries	612 900
Depreciation	293 500
Sundry expenses	?
Interest Income	?
Audit fees	74 750
Directors' fees	725 000
Insurance	186 500
Dividends on ordinary shares	224 000

Adjustments and additional information:

- A** The business maintains a 60% mark-up on cost of sales. Last year sales amounted to R7 200 000. The business announced a 20% increase in sales for the year ended February 2024.
- B** According to a physical stocktaking, trading stock on hand amounted to R363 900.
- C** A debtor's account with a debit balance of R5 600 must be transferred to his account in the creditors' ledger account.
- D** Decrease the provision for bad debts by R515.
- E** A storeroom was rented to a tenant from 1 March 2023. On 1 December 2023 the rent was decreased by 7, 5%. Provide for the outstanding rent for February 2024.
- F** The business paid 65% on their audit fees for the year. The balance will be settled on 5 March 2024.
- G** The business has 3 directors. They receive the same monthly fee. One director was only appointed on 1 September 2023. One director has not yet received his fee for February 2024
- H** Insurance included a new policy which was taken out on 1 May 2023 at an annual premium of R90 000.

The loan statement from Billy Bank reflected the following:

LOAN STATEMENT ON 29 FEBRUARY 2024:	
Balance at the beginning of the financial year	R1 250 000
Fixed monthly repayments including interest	45 200
Interest expense (capitalised)	220 500

- Interest for the next financial year is expected to be R150 000.
 - Part of the loan will be repaid in the next financial year.
- I** Sundry expenses is the missing figure in the income statement.
- J** The income tax amounted to R356 555 and was calculated at the rate of 29% of the net profit.
- K** Shares and Dividends:
- The authorised ordinary share capital consists of 1 200 000 shares of which 70% was in issue at the end of the financial year.
 - The final dividend for the year amounted to R338 000.
- L** The following financial indicators were calculated on 29 February 2024.
- Operating profit on sales at 15%.
 - Net asset value per share at 665 cents.

STATEMENT OF COMPREHENSIVE INCOME /INCOME STATEMENT/ FOR THE YEAR ENDED 29 FEBRUARY 2024

Sales (7 200 000 x 120/100) OR (7 200 000 + 1 440 000)		8 640 000	✓✓
Cost of sales (Sales x 100/160)		(5 400 000)	✓
Gross profit	operation 4	3 240 000	✓
Other operating income	operation	177 140	✓
Rent Income (162 750✓ + 13 875 ✓✓)		176 625	✓*
Provision for bad debts adjustment		515	✓
Gross Operating Income	operation 7	3 417 140	✓
Operating Expenses	GOI – OP	(2 121 140)	✓
Salaries		612 900	
Depreciation		293 500	
Sundry Expenses	balancing figure	169 295	✓
Audit fees (74 750 ✓+ 40 250✓✓) OR (74 750 x 100/65)		115 000	✓*
Directors' fees (725 000✓+ 25 000✓✓) OR (725 000 /29x30)		750 000	✓*
Insurance (186 500 ✓– 15 000 ✓)		171 500	✓*
Trading stock deficit (372 845 – 363 900)	15	8 945	✓✓
Operating Profit	Check = sales x 15%	1 296 000	✓
Interest Income	NPBIE – OP balancing	154 000	✓
Net Profit before interest expense	NPBT + IE	1 450 000	✓
Interest expense		(220 500)	✓
Net Profit before tax	NPAT + IT	1 229 500	✓
Income tax		(356 555)	
Net Profit after tax	356 555 X 71/29 6	872 945	✓

Foreign items -1 max

* operation one part correct



Activity 1: STATEMENT OF COMPREHENSIVE INCOME
(49 marks; 39 minutes)

- 1.1 Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–E) next to the question numbers (1.1.1 to 1.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.1.1	Independent auditor	A	investment such as a fixed deposit over a three-year period
1.1.2	Capital employed	B	debt to be settled within 12 months
1.1.3	Current liability	C	a staff member of a company who sets up effective internal control procedures
1.1.4	Financial asset	D	total of Ordinary Shareholders' Equity and Non-current Liabilities
		E	expresses an unbiased opinion on the reliability of financial statements

(4 x 1) (4)

1.2 **STARLIGHT LTD**

The information relates to the financial year ended 28 February 2023.
The company trades in electrical items.

REQUIRED:

1.2.1 **Refer to Information B (ii).**

Calculate:

- Profit or loss on disposal of vehicle (5)
- Total depreciation for the year (7)

1.2.2 Complete the following:

- Statement of Comprehensive Income for the year ended 28 February 2023 (29)

NOTE: Some figures have been entered in the ANSWER BOOK.

INFORMATION:

A. Extract from the Pre-adjustment Trial Balance on 28 February:

Balance Sheet accounts section	2023	2022
Loan: Pearl Bank	524 400	690 000
Vehicles	?	1 250 000
Accumulated depreciation on vehicles	?	420 000
Equipment	822 000	774 000
Accumulated depreciation on equipment	?	360 000
Fixed deposit: Pearl Bank	320 000	
Trading stock	2 969 800	121 210
Debtors' control	645 250	
Provision for bad debts	?	21 020
Bank (Dr)	?	
SARS: Income tax (provisional tax payments)	875 000	
Nominal accounts section		
Sales	20 150 000	
Cost of sales	13 200 000	
Salaries and wages	?	
Commission income	85 900	
Rent income	89 700	
Audit fees	155 200	
Directors' fees	2 015 000	
Sundry expenses	219 760	
Bad debts	16 200	
Interest on fixed deposit	?	
Asset disposal (cash received on vehicle sold)	91 500	

B. Adjustments and additional information:

- (i) A physical stock count on 28 February 2023 revealed R2 774 800 stock on hand. However, this figure excludes the closing stock figure for light bulbs. Note that the weighted-average method is used to value the light bulbs.

Details of the light bulbs are as follows:

	UNITS	UNIT PRICE (R)	TOTAL (R)
Stock on 1 Mar. 2022	8 000	52	416 000
Purchases	47 000	74	3 478 000
Available for sale	55 000		3 894 000
Carriage on purchases			27 500
Stock on 28 Feb. 2023	1 700	?	?

(ii) **Fixed assets and depreciation:**

Vehicles:

- An old vehicle was sold for R91 500 on 30 November 2022. The amount received was recorded but no further entries were made.

Details of the vehicle sold:

Carrying value on 1 March 2022	R104 000
Depreciation: 20% p.a. on the diminishing-balance method	

- Depreciation on the remaining vehicles: R145 200

Equipment:

- Equipment is depreciated at 15% p.a. on cost.
- New equipment was bought on 31 July 2022.

(iii) The auditors are owed a further R38 800 for the current financial year.

(iv) Received R9 000 from the insolvent estate of debtor Billy Croon. His estate paid 80 cents to the rand of his outstanding balance. The money received was recorded. The balance of his account must still be written off.

(v) The provision for bad debts must be increased to R25 720.

(vi) **Directors' fees:**

- The company has two directors who were appointed in 2019. A third director was appointed on 1 October 2022.
- The directors all earn the same monthly fee.
- Directors' fees paid during the financial year have been recorded, but one director has already been paid for March and April 2023.

(vii) Rent income includes the rent for March 2023 received from the tenant. The monthly rent was increased by R1 170 on 1 January 2023.

(viii) **Loan: Pearl Bank**

- Interest on the loan capitalised has not been recorded.
- Fixed monthly repayments (including interest) have been paid and correctly recorded for the financial year.
- Interest on the loan amounts to 60% of the monthly repayments.

(ix) Income tax for the year was calculated to be R858 140.

1.3 Statement of Comprehensive Income for the year ended 28 February 2023

Sales	20 150 000
Cost of sales	(13 200 000)
Gross profit	6 950 000
Other income	
Commission income	85 900
Rent income	
Gross operating income	
Operating expenses	(4 894 900)
Salaries and wages	
Audit fees	
Directors' fees	
Sundry expenses	219 760
Bad debts	
Depreciation	
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	
Net profit before tax	
Income tax	(858 140)
Net profit after tax	2 002 500

29

The information relates to Ivory Park Ltd for the financial year ended 29 February 2024.

REQUIRED:

2.1 Refer to Information B (i) for fixed assets:

Calculate the following:

- 2.1.1 Depreciation on equipment on 29 February 2024 (2)
 - 2.1.2 Cost price of vehicles on 29 February 2024 (4)
 - 2.1.3 Depreciation on vehicles on 29 February 2024 (5)
 - 2.1.4 Profit/Loss on vehicle traded in on 1 September 2023 (5)
- 2.2 Complete the Statement of Comprehensive Income for the year ended 29 February 2024. (39)

NOTE: Some amounts are provided in the ANSWER BOOK.

INFORMATION:

A. Balances/totals, among others, that appeared in the books on:

	29 Feb. 2024 R	28 Feb. 2023 R
Mortgage loan: Phambili Bank	744 100	987 700
Equipment at cost	852 000	852 000
Accumulated depreciation on equipment	472 500	344 700
Vehicles at cost	?	1 250 000
Accumulated depreciation on vehicles	?	420 000
Trading stock	654 500	
Debtors' control	516 600	
Provision for bad debt	?	29 520
SARS: Income tax (provisional tax payments)	340 000	
Sales	?	
Cost of sales	4 780 900	
Audit fees	79 000	
Service fee income	1 757 700	
Sundry operating expenses	119 900	
Bad debts	24 780	
Packing material	66 550	
Salaries and wages (including contributions)	1 425 600	
Insurance	100 800	
Rent income	158 100	
Interest income	?	
Directors' fees	?	
Interest on loan	149 400	
Dividends on ordinary shares	250 000	

Activity 2: COMPANY FINANCIAL STATEMENTS

(55 marks; 45 minutes)

B. Adjustments and additional information:

(i) Fixed assets:

Equipment:

- No equipment was bought or sold during the year.

Vehicles:

- An old vehicle was traded in on 1 September 2023 for a new vehicle, costing R320 000. The trade-in value received was R153 660. The following extract of the vehicle sold was taken from the Fixed Asset Register:

Cost price: R240 000		Date purchased: 1 July 2021
Rate of depreciation:		20% p.a. on the diminishing-balance method
FINANCIAL YEAR END	DEPRECIATION	ACCUMULATED DEPRECIATION
28 February 2022	R32 000	R32 000
28 February 2023	R41 600	R73 600
1 September 2023	?	?

- Vehicles are depreciated at 20% p.a. on the diminishing-balance method.
 - Depreciation on the old remaining vehicles was R132 720.
- (ii) The company maintains a mark-up of 60% on cost. Note that goods costing R115 000 (included in cost of sales) were sold at a mark-up of 40% on cost to internal employees.
- (iii) Physical stocktaking on 29 February 2024 revealed the following:
- Trading stock, R647 100
 - Packing material used during the financial year, R58 700
- (iv) Provision for bad debts must be adjusted to 5% of the outstanding debtors.
- (v) Monthly insurance premiums were fixed for the past three years and were paid up to 31 May 2024.
- (vi) A tenant is renting an office from Ivory Park Ltd. Rent for this office has been received up until 30 April 2024. Rent was decreased by 8% on 1 December 2023 on the office rented.
- (vii) One employee was omitted from the Salaries Journal of February 2024. His net monthly salary was R19 340 after 35% deductions were made for his pension and personal tax and R2 500 deducted for medical aid. The employer contributes 10% of his gross salary on behalf of employees towards pension.
- (viii) The company had two directors who received a combined annual fee of R1 065 200 after their monthly fees were increased by R5 800 each on 1 August 2023. A third director joined the company on 1 November 2023 and received the same monthly fee as the other directors, excluding the increase of R5 800 per month.
- (ix) Net profit after tax, R992 160, was calculated after taking into account all the adjustments above. Income tax is calculated at 28% of the net profit.

Activity 2

2.1 Calculate:

2.1.1 Depreciation on equipment on 29 February 2024

WORKINGS	ANSWER

2

2.1.2 Cost price of vehicles on 29 February 2024

WORKINGS	ANSWER

4

2.1.3 Depreciation on vehicles on 29 February 2024

WORKINGS	ANSWER
Depreciation on new vehicle	
Depreciation on vehicle traded in	
Depreciation on remaining vehicles	132 720

5

2.1.4 Profit/Loss on vehicle traded in on 1 September 2023

WORKINGS	ANSWER

5

NOTE: The relevant amounts, calculated above, must be transferred to QUESTION 2.2, the Statement of Comprehensive Income.

TOTAL MARKS
55

2.2 Statement of Comprehensive Income for the year ended 29 February 2024

Sales	
Cost of sales	(4 780 900)
Gross profit	
Other income	
Service fee income	1 757 700
Gross operating income	
Operating expenses	
Audit fees	79 000
Sundry operating expenses	119 900
Bad debts	24 780
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	(149 400)
Net profit before tax	
Income tax	
Net profit after tax	992 160

39

Activity 3 COMPANY FINANCIAL STATEMENTS AND NOTES (65 marks; 55 minutes)

The information relates to KAMZA LTD for the financial year ended 29 February 2024

REQUIRED: Complete the following for the year ended 29 February 2024:

- 3.1.1 Statement of Comprehensive Income (Income Statement). (31)
- 3.1.2 Notes to the Statement of Financial Position (Balance Sheet) for:
- Ordinary share capital (8)
 - Retained income (8)
- 3.1.3 Equity and Liabilities section of the Statement of Financial Position. (18)

INFORMATION:

A. Balances/Totals on 28 February:

	2024	2023
Ordinary share capital	10 800 000	7 200 000
Retained income	675 900	?
Loan BNF Bank	?	1 975 800
Trade creditors	779 200	
SARS: Income tax (provisional payments)	450 000	
Shareholders for dividends	264 000	
Sales	?	
Cost of sales	6 696 000	
Rent income	304 640	
Salaries and wages	2 183 860	
Audit fees	135 360	
Directors' fees	999 600	
Advertising	39 980	
Sundry expenses	919 512	
Interest on fixed deposit	?	
Interest on loan	577 200	

B. Adjustments and additional information:

- (i) **Sale of goods:**
The company maintains a mark-up of 75% on cost. Note that old goods costing R216 000 (excluded in the cost of sales) were sold at 20% below cost price.
- (ii) **Rent:**
A storeroom was rented out from 1 March 2023. Rent was decreased by 10% on 1 January 2024. The rent was received for 14 months.
- (iii) **Audit fees:**
20% of the annual fees have been paid in advance.
- (iv) **Directors' fees:**

The company has three directors who earn the same fee. One director was paid for only 10 months.

(v) **Advertising:**

Advertising consists of a contract with a newspaper for the entire financial year. Payments are monthly; however, instalments were paid for 11 months. **NOTE:** The monthly amount decreased by R240 from 1 November 2023.

(vi) **Loan BNF Bank:**

- Fixed monthly repayments including interest, for the full duration of the loan term, amounts to R58 500.
- Capitalised interest amounted to R577 200 for the year ended 29 February 2024.
- Interest for the next financial year is expected to be R546 000.

(vii) **Income tax for 2023:**

- R91 100 is still due to SARS.
- The net profit after tax is R1 171 170.

(viii) **Share capital and dividends:** Authorised share capital: 1 000 000 ordinary shares

1 March 2022	60% of the shares were in issue.
1 July 2022	100 000 shares were repurchased at R15.
31 August 2022	Interim dividends of 24 cents per share were paid.
1 December 2022	300 000 shares were issued.
28 February 2023	Final dividends were declared.

Activity 3

3.1.1

KAMZA LTD STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT) FOR THE YEAR ENDED 29 FEBRUARY 2024	
Sales	
Cost of sales	(5 580 000)
Gross profit	
Other operating income	
Gross operating income	
Operating expenses	
Salaries and wages	986 550
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	
Net profit before tax	
Income tax	
Net profit after tax	900 900

31

3.1.2 ORDINARY SHARE CAPITAL AUTHORISED SHARE CAPITAL

1 000 000 ordinary shares

ISSUED SHARE CAPITAL

8

	Ordinary shares on 28 February 2023	10 800 000
--	-------------------------------------	------------

RETAINED INCOME

Balance on 1 March 2022		
Ordinary share dividends		
Balance on 28 February 2023	675 900	8

3.1.3 EQUITY AND LIABILITIES SECTION OF THE STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ON 28 FEBRUARY 2023

SHAREHOLDERS' EQUITY	11 475 900	
Ordinary share capital	10 800 000	
Retained income	675 900	
NON-CURRENT LIABILITIES		
Loan BNF Bank 1 975 800		
CURRENT LIABILITIES		
Trade and other payables		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		18

Activity 4 COMPANY FINANCIAL STATEMENTS AND NOTES (70 marks; 55 minutes)

You are provided with information relating to Bravo Limited for the financial year ended 29 February 2024.

REQUIRED:

- 4.1 Prepare the following notes to the Balance Sheet on 29 February 2024:
- 4.1.1 Ordinary share capital (10)
 - 4.1.2 Retained income (11)
 - 4.1.3 Fixed/Tangible assets (16)
- 4.2 Complete the Balance Sheet on 29 February 2024. (33)

INFORMATION:

- A. Figures extracted from the accounting records on 29 February 2024:

	R
Ordinary share capital	?
Retained income (1 March 2023)	146 000
Fixed deposit: Shine Bank	400 000
Mortgage loan: Cash Bank	920 000
Fixed/Tangible assets	?
Debtors' control	?
Creditors' control	95 700
SARS: Income tax (provisional tax payments)	246 000
Expenses accrued/payable	28 300
Bank (Dr)	61 340
Petty cash and cash float	3 200
Trading inventory	234 000
Consumable stores on hand	14 500

B. **Share Capital:**

- The company has an authorised share capital of 3 000 000 shares.
- 1 800 000 shares were issued at R4,00 per share during the previous year.
- A further 200 000 shares were issued on 1 May 2023 at R6,00 per share. This transaction was recorded.
- On 3 January 2024, the business repurchased 80 000 shares from a shareholder at a price of R4,90 per share. This was correctly recorded.

C. Dividends.

- Interim dividends of 10 cents per share were paid on 30 September 2023.
- Final dividends of R300 000 were declared on 29 February 2024.

D. Fixed Assets:

Incomplete Fixed Asset note on 29 February 2024:

	LAND AND BUILDINGS	EQUIPMENT	VEHICLES
Carrying value in beginning	R 6 990 000	R 155 000	520 000
Cost (1 March 2023)	6 990 000	240 000	880 000
Accumulated depreciation	(0)	(85 000)	(360 000)
Movements			
Additions at cost	*	*	0
Disposal at carrying value	(0)	(0)	*
Depreciation	(0)	*	(161 600)
Carrying value at the end	7 490 000	*	*
Cost (29 February 2024)	7 490 000	360 000	*
Accumulated depreciation	(0)	*	*

- Land and buildings were bought during the current financial year.
- New equipment for R120 000 purchased on credit on 29 February 2024, was **not** yet recorded.
- Equipment is depreciated at 10% p.a. on diminishing-balance method.
- A vehicle, sold for cash at carrying value on 31 August 2023, was correctly recorded. Details of the vehicle sold were as follows:
 - Cost price, R144 000
 - Accumulated depreciation at beginning of financial year, R84 000
 - Depreciation rate of 20% p.a. on the on the cost price method.
- Total depreciation on vehicles for the year amounted to R161 600.

F. Fixed Deposits:

There are two fixed deposits at DIY Bank.

- One, valued at R175 000, matures on 31 July 2024.
- The other, valued at R225 000, matures on 31 December 2026.

G. Net profit and Income tax:

- Net profit before tax as per the Income Statement, R780 000;
- Income tax for the year, R234 000.

H. Loan: Cash Bank:

- R100 000 of the loan will be paid back during the next financial year.

Activity 4

BRAVO LTD

4.1.1 ORDINARY SHARE CAPITAL

AUTHORIZED	
3 000 000 shares	
ISSUED	

10

4.1.2 RETAINED INCOME

Balance on 1 March 2023	
Ordinary share dividends	
Interim	
Final	
Balance on 29 February 2024	

11

4.1.3

FIXED/TANGIBLE ASSETS	Land and Buildings	Equipment	Vehicles
Carrying value in beginning	6 990 000	155 000	520 000
Cost	6 990 000	240 000	880 000
Accumulated depreciation	0	(85 000)	(360 000)
Movements			
Additions at cost			0
Disposal at carrying value	(0)	(0)	
Depreciation	0		(161 600)
Carrying value at the end	7 490 000		
Cost	7 490 000	360 000	
Accumulated depreciation	0		

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**4.2 BRAVO LTD
BALANCE SHEET ON 29 FEBUARY 2024**

ASSETS	
Non-current assets	
Current assets	
TOTAL ASSETS	
EQUITY & LIABILITIES	
Ordinary shareholders' equity	
Non-current liabilities	
Current liabilities	
TOTAL EQUITY & LIABILITIES	

Activity 5 COMPANY FINANCIAL STATEMENTS (55 marks; 45 minutes)

The information relates to DBN Ltd. The company sells household products. The financial year ended on 29 February 2024.

REQUIRED:

5.1 Refer to information A.

The bookkeeper has recorded all the entries regarding fixed assets in the books. Complete the amounts denoted by **(i)** to **(iii)** on the Fixed Asset Note. (12)

5.2 Refer to information C and D.

Calculate the correct net profit **after tax** for the year ended 29 February 2024. Indicate (+) for increase and (-) for decrease, next to each amount. (13)

5.3 Complete the Statement of Financial Position on 29 February 2024. (30)

NOTE: Some amounts are provided in the ANSWER BOOK.

INFORMATION:

A. Fixed assets:

	Buildings R	Vehicles R	Equipment R
Carrying value: (01/03/2023)		249 850	
Cost	(i)		436 000
Accumulated depreciation			
Movements:			
Additions (at cost)	0	260 000	0
Disposals (at carrying value)	(420 000)	0	(iii)
Depreciation		(ii)	(32 000)
Carrying value: (29/02/2024)	9 421 300		
Cost		786 000	356 000
Accumulated depreciation			

- Depreciation is calculated as follows:
 - Vehicles: 15% p.a. on cost
 - Equipment: 20% on the diminishing-balance method
- A new vehicle was bought on 1 October 2023.
- Extract from the Fixed Assets Register in respect of equipment sold:

KINOPA MWALIMU 234	
Cost price: R80 000	
Date purchased: 1 September 2021	
Date sold: 31 May 2023	Sold for: R53 000
	CARRYING VALUE
28 February 2022	R72 000
28 February 2023	R57 600

Balances on 29 February 2024:**B.**

31 May 2023	?
-------------	---

Fixed assets at carrying value	R9 952 480
Ordinary share capital	?
Retained income	?
Loan: PTA Bank	?
Fixed deposit	425 000
Trading stock	1 064 200
Net trade debtors	744 900
Creditors' control	518 950
SARS: Income tax (provisional tax payments)	322 800

C. The bookkeeper has calculated the net profit before tax as **R1 150 000**.
The pre-adjustment balances to be adjusted are:

Audit fees	R144 000
Trading stock	1 064 200
Rent income	287 300
Directors' fees	852 800

Only the adjustments listed below must still be taken into account.

- (i) Audit fees of R45 600 were still owing on 29 February 2024.
- (ii) A donation of 100 blankets costing R402 each was made to children's hospital, but the donation has not been recorded.
- (iii) Rent was increased by R1 300 per month from 1 January 2024. Only the rent for the period 1 March 2023 to 31 January 2024 was received and recorded.
- (iv) The company had one director, Jenny, at the beginning of the financial year. Jenny had been paid in advance for two months. A second director, Frank, was appointed on 1 December 2023. His monthly fee is 20% lower than that of Jenny. Frank received the fees due to him.

D. Income tax:

The assessment from SARS indicated total income tax for the financial year as R351 000, after all adjustments had been made.

E. Share capital and dividends:

DATE	DETAILS
1 March 2023	2 120 000 shares in issue

F. Transfer of debtor's balance to Creditors' Ledger:

A debtor with a debit balance of R8 400 in the Debtors' Ledger must still be transferred to his account in the Creditors' Ledger.

G. Loan: PTA Bank

Extract from the Loan Statement from PTA Bank:

Balance on 1 March 2023	R1 400 000
Repayments for the financial year (including interest)	?
Interest capitalised	168 000
Balance on 29 February 2024	1 004 000

NOTE:

- All entries for the repayments and interest have been made.
- Directors expect to maintain the capital repayments made this year, during the next financial year.

30 June 2023	230 000 shares repurchased: The average share price was R5,90 at the date of the repurchase
29 February 2024	1 890 000 shares in issue

- Interim dividends were not declared during the financial year.
- Final dividends of 25c per share were declared on 29 February 2024 to all shares in the share register.

55

TOTAL MARKS
55

Activity 5

5.1 FIXED ASSETS

(i) **Calculate: Cost price of buildings at the beginning of the year**

WORKINGS	ANSWER

2

(ii) **Calculate: Depreciation on vehicles**

WORKINGS	ANSWER

6

(iii) **Calculate: Carrying value on equipment sold**

WORKINGS	ANSWER

4

5.2 CORRECT NET PROFIT AFTER TAX FOR THE YEAR

Incorrect net profit before tax	1 150 000
Net profit before tax	
Net profit after tax	

13

5.3 DBN LTD

Statement of Financial Position on 29 February 2024

ASSETS

NON-CURRENT ASSETS	10 377 480
Fixed assets	9 952 480
Investment: Fixed deposit	425 000
CURRENT ASSETS	
Cash and cash equivalents	1 956 220
TOTAL ASSETS	
EQUITY AND LIABILITIES	
ORDINARY SHAREHOLDERS' EQUITY	
Retained income	

NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
TOTAL EQUITY AND LIABILITIES	

Activity 6

STATEMENT OF COMPREHENSIVE INCOME (55 marks; 40 minutes)

NGIDI LTD

You are provided with the Pre-adjustment Trial Balance at the end of the financial year 28 February 2022. The business sells handbags to the public.

REQUIRED:

- 6.1 Prepare the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2022. (Some of the pre-adjustment figures have been entered for you.) (49)
- 6.2 Prepare the Retained Income note for the year ended 28 February 2022. (6)

INFORMATION:

Extract from the Pre-adjustment Trial Balance on 28 February 2022

	R
Ordinary share capital	6 075 000
Retained income	725 900
Fixed deposit: NBB Bank	635 000
SARS – Income tax (Dr)	62 000
Trading stock	414 200
Debtor's control	96 200
Provision for bad debts	18 900
Mortgage loan: Short Bank	?

Creditors Control	275 000
Sales	3 900 000
Debtors' allowances	44 200
Cost of sales	2 600 000
Bad debts	39 600
Audit fees	66 000
Directors' fees	562 400
Salaries and wages	132 500
Employers' contribution	33 600
Bank charges	14 900
Advertising	24 460
Sundry expenses	141 075
Rent income	156 368
Interest on fixed deposit: NBB Bank (balancing figure)	?
Interim dividends paid during the year	123 300

Adjustments and additional information.

- A** A credit note issued to a debtor J. Jamanzi for goods returned has not been entered in the books, R18 600. The mark up is 50% on cost.
- B** A debtor, W. Wolhuter, has been declared insolvent. Received and recorded R13 200 as 60 cents in the rand on 28 February 2022. Write the rest of as irrecoverable.
- C** Provision for bad debts should be adjusted to R18 500.
- D** The business owes the auditors a further R22 000 after completion of the audit.
- E** The company has three directors who earn the same fee. One director was paid two months in advance.
- F** Bank charges of R1 100 in the February 2022 bank statement have not been entered in the books.
- G** Advertising consists of a monthly contract with the local newspaper for the entire financial year. Advertising was paid for 11 months only. From 1 December 2021, the contract rate was decreased by R420 per month.
- H** One of the employees has been omitted from the Salaries Journal for February 2022. The details were as follows:

Gross salary	R ?
Total deductions	R ?
PAYE deduction	(2 231)

Pension fund deduction	(R ?)
UIF	(97)
Net salary	R ?

The contributions by the employer are:

Pension fund	8% of gross salary
UIF	1% of gross salary

- I A physical stocktaking done on 28 February 2022 reflected that 205 handbags at R2 000 per bag on hand.
- J On 1 December 2021 the rent increased with 12%. The rent for March 2022 has been received.
- K Depreciation on equipment amounts to R96 000 for the year.
- L Interest on loan is capitalised. The loan statement received from Short Bank reflected the following on 28 February 2022:

Balance on 1 March 2021	R480 000
Interest charged	?
Monthly payment amounted to R12 000	?
Balance on 28 February 2022	370 000

- M Income tax amounts to 29% of the net profit before tax.
- L The business bought 75 000 shares back on 15 February 2022 at R1,50 more than the average price.
- N A final dividend was declared on 28 February 2022.

Activity 6

6.1 NGIDI LTD. STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2022.

Sales	
Cost of sales	
Gross profit	
Other operating income	
Rent income	
Gross operating income	
Operating expenses	
Sundry expenses	141 075
Bad debts	
Audit fees	
Director's fees	
Salaries and wages	
Employers' contribution	
Bank charges	
Advertising	
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	
Profit before tax	
Income tax	
Net profit for the year	177 500

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6.2 RETAINED INCOME NOTE

Balance in the beginning of the year	943 200
Dividends for the year	
Balance at the end of the year	725 900

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