

# SENIOR SECONDARY IMPROVEMENT PROGRAMME 2013



**GAUTENG PROVINCE**

Department: Education

REPUBLIC OF SOUTH AFRICA

**GRADE 12**

**ACCOUNTING**

**TEACHER NOTES**

The SSIP is supported by



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## TEACHER NOTES

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**SESSION 12****TOPIC: COMPANY REPORTING****SECTION A: TYPICAL EXAM QUESTIONS****Teacher Note:**

- Learners must answer in point form
- Make sure learners know the theory on companies
- Open-ended questions do not have one correct answer

**QUESTION 1****COMPANY REPORTING****65 marks****30 minutes****1.1 INCOME STATEMENT**

You are provided with information relating to Samora Sports Limited. The company sells sports equipment and repairs equipment for their customers.

**REQUIRED**

Prepare the Income Statement for the year ended 30 June 2008 after taking all the adjustments and additional information into account.

**[50]****INFORMATION****1. Figures extracted from the Pre-Adjustment Trial Balance on 30 June 2008:**

Ordinary share capital (R5 par value)	R 1 200 000
Fixed deposit	160 000
Trading stock	215 000
Debtors control	39 090
Equipment (for office and shop)	224 000
Accumulated depreciation on office and shop equipment	130 000
Mortgage loan from Credbank	281 200
Sales	1 703 200
Debtors allowances	17 000
Cost of sales	?
Service fee income (in respect of repair services)	297 140
Rent income	105 000
Interest income	11 200
Salaries and wages	234 750
Employers' contributions to Pension Fund and UIF	53 200
Audit fees	30 000

Directors fees	230 000
Consumable stores	51 100
Bank charges	5 240
Sundry expenses	?

## 2. Adjustments and additional information:

The auditors have identified the following errors or omissions:

- 2.1 The auditors are owed a further R28 000 after completing the audit.
- 2.2 Bank charges of R310 reflected on the June 2008 bank statement have not yet been entered in the books.
- 2.3 A credit note issued to a debtor, A Mona, dated 28 June 2008 was not recorded in the books. The credit note was for:
- Goods returned by A Mona, R 6 200 (the cost was R4 800)
  - Price reduction on unsatisfactory repair of a tennis racket, R540
- 2.4 The stock count on 30 June 2008 revealed the following on hand:
- Trading stock, R202 000
  - Consumable stores, R900
- 2.5 An employee was left out of the Salaries Journal for June 2008. The details from his pay-slip were:

Gross salary	R6 000
PAYE deduction (18%)	(1 080)
Pension deduction (7,5%)	(450)
UIF	(60)
Net salary	<u>R4 410</u>

The business contributions were:

- Pension Fund: 10,5% of gross salary
  - UIF: Rand-for-rand basis
- 2.6 The tenant paid the July and August rent in June 2008. The rent was increased by R700 per month on 1 January 2008.
- 2.7 Provide for depreciation on office and shop equipment at 10% p.a. on the diminishing-balance method. Note that new shop equipment costing R30 000 was purchased half-way through the financial year (this was properly recorded).

- 2.8 Interest on the loan was capitalised. The loan statement from Credbank on 30 June 2008 reflects the following:

<b>CREDBANK</b>	
<b><i>Loan statement on 30 June 2008</i></b>	
Balance on 1 July 2007	R332 800
Interest charged	?
Monthly payments to Credbank in terms of the loan agreement (12 months x R4 300)	R 51 600
Balance on 30 June 2008	R326 000

The interest expense for the year has not yet been entered in the books.

- 2.9 Use the following percentages to calculate the missing figures:
- Mark-up % achieved: 60% on cost
  - Operating profit on sales: 20%
  - Income tax rate: 30% of net profit

## 1.2 CORPORATE GOVERNANCE AND AUDITING

The following audit report was issued by the auditors of Samora Sports Ltd:

**Audit opinion – To the shareholders:**

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 30 June 2008 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 in South Africa.

**I.M. Wright & Associates**  
**Chartered Accountants (SA)**  
**Registered Accountants and Auditors**  
**Pretoria 10 August 2008**

- 1.2.1 Why does the Companies Act make it a requirement for public companies to be audited? (2)
- 1.2.2 Although this audit opinion is addressed to the shareholders, other interested persons will also want to read it.  
 Name ONE other person who would be interested in this audit opinion, and give a reason for his/her interest in the opinion. (3)

- 1.2.3 At the AGM, one of the shareholders says that he is not happy with the words 'fairly present' in the audit report. He wants the auditors to say that the financial statements are 'correct in all respects'.  
What explanation should be given to this shareholder? State ONE point. (3)
- 1.2.4 The directors are not happy with the high audit fees reflected in the Income Statement.  
Explain why improvement in internal control will have a positive effect on the external auditors' fees. State ONE point. (3)
- 1.2.5 SAICA is one of the main professional bodies governing accountants in this country. Explain TWO of the main roles performed by SAICA. (4)  
[65]

**SECTION B: HINTS AND SOLUTION TO SECTION A**

**QUESTION 1**

**1.1 SAMORA SPORTS LIMITED**

*NB: If pre-adjustment figure is shown as the final answer, the relevant mark is still given  
If final figures are correct award full marks - if incorrect, mark workings – if no workings in this case no marks*

*Foreign items, i.e. Balance Sheet items – 1 each (max -2)*

*If interest is shown at top & bottom, apply –1 max for placement if marks are earned*

<b>INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008</b>	
Sales 1 703 200 ✓ – 17 000 ✓ – 6 200 ✓	✓ 1 680 000
Cost of sales <i>If = Sales / 1.6</i>	☑ ☑ (1 050 000)
Gross profit <i>If = Sales - COS</i>	☑ 630 000
Other income <i>Inspection</i>	☑ 386 000
Service fee income 297 140 ✓ – 540 ✓	✓ 296 600
Rent income 105 000 ✓ – ✓ 15 600 ✓ ✓	✓ 89 400
<i>Do not accept Interest here</i>	
	1 016 000
Operating expenses <i>Inspection, brackets not essential</i>	☑ (680 000)
Salaries and wages 234 750 ✓ + 6 000 ✓	✓ 240 750
Employer's contributions 53 200 ✓ + 690 ✓	✓ 53 890
Audit fees 30 000 ✓ + 28 000 ✓	✓ 58 000
Directors' fees	✓ 230 000
Consumable stores 51 100 ✓ – 900 ✓	✓ 50 200
Bank charges 5 240 ✓ + 310 ✓	✓ 5 550

Sundry expenses <i>Inspection - reasonable</i>	<input checked="" type="checkbox"/> 15 910
Trading stock deficit 13 000 + 4 800 <i>Any figure</i>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 17 800
Depreciation 6 400 <input checked="" type="checkbox"/> + 1 500 <input checked="" type="checkbox"/> / 4 700 + 3 200	<input checked="" type="checkbox"/> 7 900
<i>Do not accept Interest here</i>	
Operating profit <i>If = 20% of Sales (either pre- or post-adj)</i>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 336 000
Interest income	<input checked="" type="checkbox"/> 11 200
	347 200
Interest expense	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> (44 800)
Net profit before tax <i>Inspection, inspect operations applied</i>	<input checked="" type="checkbox"/> 302 400
Income tax <i>If = 30% of NP, brackets not essential</i>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> (90 720)
Net profit after tax <i>Inspection – if tax deducted</i>	<input checked="" type="checkbox"/> 211 680

[50]

1.2.1 **Why does the Companies Act make it a requirement for public companies to be audited?**

*Any one valid reason*

To protect the shareholders / separation of ownership from control

OR Public funds are used

OR To ensure that it is a fair reflection of financial statements

OR To ensure that directors are not misrepresenting the figures

OR To be accountable to stakeholders e.g. shareholders, SARS

OR To discourage fraud

(2)

1.2.2 **Name ONE other person who would be interested in this audit opinion, and give a reason for his/her interest in the opinion.**

*Any one of the other stakeholders*  Reason

Shareholders not acceptable in this answer

- **Prospective investors** (Financial Institutions) – To make investments
- **Lenders** – To see whether the company is solvent and security for their loans
- **Suppliers** – To see if amounts owed can be paid
- **SARS** – To calculate the tax accurately
- **Competitors** – To compare results
- **Trade unions** – For wage negotiations / job security
- **Board of directors / CFO** – To assess performance
- **Government** – For statistical information
- **Registrar of Companies** – To comply with legislation

(3)

1.2.3 **At the AGM, one of the shareholders says that he is not happy with the words 'fairly present' in the audit report. He wants the auditors to say that the financial statements are 'correct in all respects'.**

**What explanation should be given to this shareholder? State ONE point.**

*Any one valid explanation ✓✓✓*

*Excellent = 3 Good = 2 Satisfactory = 1 Incorrect = 0*

Expected responses:

- Auditors give reasonable assurance because they do not check everything in the books of the company (sampling test only).
- Cost factor / time-consuming – if everything checked. (3)

1.2.4 **The directors are not happy with the high audit fees reflected in the Income Statement. Explain why improvement in internal control will have a positive effect on the external auditors' fees. State ONE point.**

*Any one valid explanation that indicates less time spent on the audit ✓✓✓*

*Excellent = 3 Good = 2 Satisfactory = 1 Incorrect = 0*

- Internal auditors will reduce mistakes made by employees
- External auditors will spend less time auditing the books.
- Admin should be in place – documents filed correctly. (3)

1.2.5 **SAICA is one of the main professional bodies governing accountants in this country. Explain TWO of the main roles performed by the SAICA.**

*Any two valid reasons ✓✓ ✓✓*

- Disciplinary procedure against member who is negligent
- Compliance with Code of Ethics / credibility
- Compliance with GAAP and IFRS
- Professional development / training / updated circulars
- Ensure high competence levels
- Control qualifications
- Market the profession
- Investigate complaints against members (4)

**[65]**



<b>SECTION C: HOMEWORK</b>
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**QUESTION 1****FINANCIAL STATEMENTS AND AUDIT      70 marks      42 minutes****1.1 SIMPHIWE LIMITED**

You are provided with the Pre-Adjustment Trial Balance of Simphiwe Limited. The company buys and sells uniforms and they also repair uniforms for their customers, for which they charge a fee. These fees are credited to the Fee Income Account in the General Ledger.

**REQUIRED:**

- 1.1.1 Refer to Information 2J below.  
Calculate the profit or loss on disposal of the computer. Show workings. You may prepare an Asset Disposal Account to identify the figure. (8)
- 1.1.2 Complete the Income Statement for the year ended 30 September 2009.  
The notes to the financial statements are NOT required. (47)

**IFORMATION****1. SIMPHIWE LTD****PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 SEPTEMBER 2009**

	<b>DEBIT</b>	<b>CREDIT</b>
<b>Balance Sheet Accounts Section</b>	<b>R</b>	<b>R</b>
Ordinary share capital		1 300 000
Share premium		170 730
Retained income (1 October 2008)		170 000
Loan from Stay Bank		90 000
Land and buildings at cost	1 628 520	
Vehicles at cost	220 000	
Equipment at cost	190 000	
Accumulated depreciation on vehicles (1 October 2008)		41 000
Accumulated depreciation on equipment (1 October 2008)		37 000
Debtors' control	36 600	
Creditors' control		17 960
Trading stock	479 000	
Bank		13 500
Petty cash	2 200	
SARS – Income tax	83 500	

Provision for bad debts		1 440
<b>Nominal Accounts Section</b>	<b>R</b>	<b>R</b>
Sales		2 720 000
Cost of sales	1 310 000	
Debtors' allowances	6 200	
Salaries and wages	162 000	
Discount allowed	905	
Fee income		104 750
Rent income		56 000
Insurance	11 000	
Sundry expenses	39 250	
Directors' fees	390 000	
Audit fees	53 705	
Consumable stores	24 000	
Interest income		2 500
Ordinary share dividends	88 000	

## 2. ADJUSTMENTS

- A. Prepaid expenses in respect of sundry expenses at the yearend, R3 200, have not been taken into account.
- B. On 30 September 2009, R580 was received from A Ethic, whose account had previously been written off as irrecoverable. The amount was entered in the Debtors Control column in the Cash Journal.
- C. The provision for bad debts must be adjusted to R1 830.
- D. There were two directors at the start of the accounting period. Directors' fees have been paid for the first half of the accounting period. On 1 April 2009, a third director was appointed. All three directors earn the same monthly fee. Provide for the outstanding fees owed to the directors.
- E. Rent has been received for 14 months.
- F. The following credit note was left out of the Debtors Allowances Journal for September in error. The mark-up on goods sold was 50% on cost.

SIMPWIWE LTD		CREDIT NOTE 4533 28 Sept. 2009	
<i>Credit:</i> Supaclean Ltd PO Box 340, Westmead, 3610		Unit price	Total
24	Uniforms returned	R400	R9 600
	Reduction on fee charged for repair of uniforms		R 750
			<b>R10 350</b>

- G. A physical stock count on 30 September 2009 reflected the stock of uniforms on hand as R490 000.
- H. The loan statement from Stay Bank reflected the following:

Balance at beginning of financial year	R 150 000
Repayments during the year	R 78 000
Interest capitalised	R ?
Balance at end of financial year	R 90 000

- I. Depreciation on vehicles is calculated at 20% p.a. on the diminishing-balance method.
- J. Depreciation on equipment is calculated at 10% p.a. on the cost price. Note that an item of equipment was taken over by one of the directors, Ivor Steele, on 30 June 2009 for personal use for R800 cash. The relevant page from the Fixed Asset Register is provided below. No entries have been made in respect of the disposal of this asset.

FIXED ASSET REGISTER Page 12			
Item: VYE Computer Equipment		Ledger Account:	
Date Purchased: 1 April 2006		Cost Price: R22 000	
Depreciation Policy: 10% p.a. on cost price			
Date	Depreciation calculations	Current Depreciation	Accumulated Depreciation
2006 30 September	$R22\ 000 \times 10\% \times 6/12$	R1 100	R1 100
2007 30 September	$R22\ 000 \times 10\% \times 12/12$	R2 200	R3 300
2008 30 September	$R22\ 000 \times 10\% \times 12/12$	R2 200	R5 500
2009 30 June	?	R ?	R ?

K. Income tax for the year amounts to R63 280.

1.2 You are provided with the following extract taken from the report of the independent auditors.

**EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS**

Paragraph 1 We have audited the annual financial statements of Simphiwe Limited set out on pages 8 to 17 for the year ended 30 September 2009. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Paragraph 2 **An audit includes:**

- Examining, on a test basis, evidence supporting the amounts in the financial statements;
- Assessing the accounting principles used and significant estimates made by management;
- Evaluating the overall financial statement presentation.

Paragraph 3 **Audit opinion**

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 September 2009 and the results of their operations and cash flow for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 1973 (Act 61 of 1973) in South Africa.

*Bailey & Nokwe, Chartered Accountants (SA) 10 Nov. 2009*

**REQUIRED**

- 1.2.1 Explain why it is important for the independent auditor to be a member of a professional body. (2)
- 1.2.2 Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain. (2)
- 1.2.3 Refer to the underlined words in paragraph 2.
- (a) Give ONE example of 'evidence' that an auditor would use. (2)
- (b) Give ONE example of the 'accounting principles' he/she would assess as part of the audit. Explain why the auditor would inspect this principle. (3)
- 1.2.4 Refer to paragraph 3. Explain why you would be satisfied with this audit opinion. (2)

1.2.5 Refer to the disposal of the computer for R800 in Information 2J of QUESTION 1.1. Another director, Sam Smith, has complained that Ivor Steele has acted unethically in taking over the computer for R800. Ivor disagrees. (4)

- (a) Give ONE opinion to support Sam.  
 (b) Give ONE opinion to support Ivor.

[70]

<b>SECTION D: SOLUTIONS TO HOMEWORK</b>
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**QUESTION 1****1.1.1**

**Calculate the profit or loss on disposal of the computer:**

$$\begin{array}{cccccc} \checkmark & & \checkmark & & \checkmark\checkmark\checkmark & & \checkmark & & \checkmark\checkmark \\ 22\ 000 & - & 5\ 500 & - & 1\ 650 & - & 800 & = & R14\ 050 \end{array}$$

**OR**

$$\begin{array}{cccccc} \checkmark & & \checkmark & & \checkmark\checkmark\checkmark & & \checkmark & & \checkmark\checkmark \\ 22\ 000 & - & (5\ 500 + 1\ 650) & - & 800 & = & R14\ 050 \end{array}$$

Cost price		22 000 ✓
Accumulated depreciation (5 500 ✓ + 1 650 ✓✓✓)		7 150
Carrying value		14 850
Disposal/Bank		(800) ✓
Loss on sale of asset		14 050 ✓✓
<b>Asset disposal</b>		
<i>Equipment</i>	✓22 000	<i>Accu depr</i> (5 500 ✓ + 1 650 ✓✓✓)
Ignore details here		7 150 ✓800 ✓✓14050
	22 000	22 000

## 1.1.2 SIMPHIWE LTD

INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2009	
Sales (2 720 000 ✓ – 6 200 ✓ – 9 600 ✓)	✓ 1 680 000
Cost of sales (1 310 000 ✓ – 6 400 ✓)	✓ (1 303 600)
Gross profit <i>If = Sales - COS</i>	<input checked="" type="checkbox"/> 1 400 600
Other operating income <i>Inspection</i>	<input checked="" type="checkbox"/> 157 180
Fee income (104 750✓ – 750 ✓)	✓ 296 600
Rent income (56000 ✓ – 8000 ✓)	✓ 48 000
Bad Debts Recovered	✓✓ 580
Trading Surplus [490 000 –(479 000+ 6 400)]	✓ <input checked="" type="checkbox"/> ✓ 4 600
Gross Operating Income	1 557 780
Operating expenses <i>Inspection, brackets not essential</i>	<input checked="" type="checkbox"/> (1331 350)
Salaries and wages	✓ 162 000
Discount Allowed	✓ 905
Insurance	✓ 11 000
Sundry expenses (39 250✓ - 3 200 ✓)	✓ 36 050
Directors' fees (390 000✓ + 390 000✓ + 195 000✓)	✓ 975 000
Audit Fees	✓ 53 705
Consumable stores	✓ 24 000
Provision for bad debts adjustment	✓✓ 390
Depreciation (1 650 <input checked="" type="checkbox"/> + 16 800✓✓ + 38 500✓✓) see 1.1.1	<input checked="" type="checkbox"/> 54 250
Loss on sale of asset (see 1.1.1)	<input checked="" type="checkbox"/> 14 050
Operating profit	226 430
Interest income	✓ 2 500
Profit before interest expense/finance cost	347 200
Interest expense/finance cost	✓ ✓ (18 000)
Net profit before tax	210 930
Income tax	✓ (63 280)
Net profit after tax <i>Inspection – if tax deducted</i>	<input checked="" type="checkbox"/> 147 650

Foreign items -1 each (max -2)

[47]

1.2.1 **Explain why it is important for the independent auditor to be a member of a professional body.**

*Any one valid reason, e.g. ✓✓*

Can award part-marks for partial, unclear or incomplete answers

- So that readers of financial statements can have confidence in his opinion
- Assurance to the public that he/she is well trained on an on-going basis
- Disciplinary actions if negligent in performing duties
- Aware of latest trends e.g. IFRS, Companies Act, King Code
- Act in ethical manner (integrity, observe code of conduct)
- To benchmark quality of work

(2)

1.2.2 **Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain.**

*Any one valid reason, e.g. ✓✓*

Can award part-marks for partial, unclear or incomplete answers

- The auditor expresses an opinion, he/she does not prepare the financial statements
- If the auditor has anything to do with preparing the financial statements, he will not be able to express his opinion (conflict of interests, he would be biased)
- The auditor only checks on a test basis – the directors are responsible for the figures
- The directors work in the company on a daily basis – they must be held liable for errors or fraud
- The directors cannot delegate their responsibilities for the preparation of the financial statements.

(2)

1.2.3 **Refer to the underlined words in paragraph 2.**

**(a) Give ONE example of ‘evidence’ that an auditor would use.**

✓✓ Any valid proof of entries in the books or values in the books or financial statements concerning cash, fixed assets, loans, stock e.g. bank statements, stock sheets counts, invoices (source documents and supporting vouchers), fixed asset register

**(b) Give ONE example of the ‘accounting principles’ he/she would assess as part of the audit. Explain why the auditor would inspect this principle.**

**One principle provided** ✓ e.g.  
Stock valuation method

Valuation of fixed assets  
(historical cost & depreciation)

Matching principle

Prudence principle

Going-concern principle

*Any other valid principles and reasons acceptable – accept transparency, even though it’s a King Code principle.*

**Explanation of reason:** ✓✓ e.g.  
Could lead to differences in profit

Could lead to differences in profit or net asset value

Income & expenses must be matched in correct accounting period

Results must be conservatively reported

Affects valuation of assets

**1.2.4 Refer to Paragraph 3. Explain why you would you be satisfied with this audit opinion.**

Any valid response ✓✓

Part-marks can be awarded for unclear or incomplete answers

Possible responses, e.g.

- The auditors have stated that they are satisfied with all aspects of the financial reporting by the directors/company
- This is a standard report – cannot expect better (fairly presented)
- No negative comments reported – if the auditor had been dissatisfied about anything he would have stated it here
- Complies with IFRS and Companies Act
- The auditors have not stated the report is qualified or withheld. (2)

**1.2.5 Refer to the disposal of the computer for R800 in Information 2J of QUESTION 1.1. Another director, Sam Smith, has complained that Ivor Steele has acted unethically in taking over the computer for R800. Ivor disagrees.**

**(a) Give one opinion to support Sam**

Any one valid opinion ✓✓

Part-marks can be awarded for unclear or incomplete answers

- Ivor is benefiting from a very low charge on an asset that is worth a lot more to the company and hence the shareholders are losing as a result of this transaction (a large loss was made on this disposal).
- This sets a bad precedent for the company / misuse of his position as director; other employees might feel entitled to similar benefits.
- The directors do not own the company; the shareholders are the owners of the company.
- There is also tax implications – the director should be paying tax on this ‘perk’.
- The transaction was not transparent – no discussion / disclosure on the disposal in advance.
- The asset was still of use to the company; the director has no right to take it.

**(b) Give one opinion to support Ivor.**

Any one valid opinion ✓✓

Part-marks can be awarded for unclear or incomplete answers

- The computer is already more than three years old, and computers have a relatively short life span.
- The computer is out-dated; it will probably not be upgradeable.
- The depreciation at 10% on cost price for computers is unrealistic and should, therefore, have had a lower carrying value.

NB: Do not accept that directors are owners.

(4)  
[70]



**SESSION 13****TOPIC: MANUFACTURING****SECTION A: TYPICAL EXAM QUESTIONS****Teacher Note:**

- Learners must answer in point form
- Make sure learners know the theory on companies
- Open-ended questions do not have one correct answer

**QUESTION 1****50 marks****30 minutes****MANUFACTURING**

The information below was extracted from the financial records of Valley Manufacturers which is owned by Java. The business manufactures one style of raincoat. The financial year ends on 28 February 2010.

**REQUIRED**

- 1.1 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question numbers
- 1.1.1 Fixed costs remain unchanged in relation to the number of units produced within a period of time. (2)
- 1.1.2 The salary of the factory foreman will be regarded as a direct-labour cost. (2)
- 1.1.3 Factory rent will be regarded as a variable cost. (2)
- 1.1.4 Prime cost is calculated by adding direct-material cost and direct-labour cost. (2)
- 1.1.5 Advertising will be classified as an administration cost. (2)
- 1.2 Refer to Information B.  
Calculate the following:
- 1.2.1 The value of raw materials on hand on 28 February 2010 using the FIFO method (5)
- 1.2.2 The value of raw material cost that would appear in the Production Cost Statement (4)

- 1.3 Refer to Information C.  
Calculate the value of direct-labour cost that would appear in the Production Cost Statement for the year ended 28 February 2010. (7)
- 1.4 The business produced 4 000 raincoats during the year. There was no work-in-process at the beginning or at the end of the year. Factory overhead costs amounted to R67,55 per unit. Calculate the following:
- 1.4.1 The total production cost of finished goods (5)
- 1.4.2 The unit cost of production (per raincoat) (3)
- 1.5 Java asks you to further investigate the control over raw materials.
- 1.5.1 Identify the number of metres of raw material fabric that appear to be missing. (5)
- 1.5.2 Apart from theft, give ONE most likely reason for this shortage.  
What advice could you offer Java in this regard? Name ONE point. (4)
- 1.6 Break-even point:
- 1.6.1 Calculate the break-even point for the current financial year. (4)
- 1.6.2 The break-even point for 2009 was 2 273 units. Should Java be satisfied or dissatisfied with the break-even point for 2010 calculated in QUESTION 3.6.1? Briefly explain. (3)

## INFORMATION

### A. Production:

Number of raincoats produced last year	4 500 units
Number of raincoats produced this year	4 000 units

### B. Raw materials:

#### 1. Usage

Java has done a study of the manufacturing process and has found that it should take 1,8 metres of fabric to make one raincoat.

#### 2. Stocks of raw material on hand were:

	Number of metres of fabric	Cost per metre
Opening stock	700 metres	R30
Raw materials issued to the factory for the production of raincoats	9 100 metres	?
Closing stock	4 300 metres	?

3. Purchases of raw materials during the year were as follows:

	Number of metres of fabric	Cost per metre	Total cost
Purchases	12 700 metres		R490 600
April 2009	7 000 metres	R34	R238 000
November 2009	3 500 metres	R42	R147 000
February 2010	2 200 metres	R48	R105 600

C Employees:

1. Java employs the following individuals:

Details	Number of employees	Basic monthly salary/wage per employee	Total cost of employment including benefits	Overtime	
				Hours	Rate
Employees in the production process	5	R5 000	?	180 hours (each worker)	R70
Factory foreman	1	R8 000	R112 000	-	-
Salesman	1	R4 000	?	-	-

2. Employment benefits and overtime

- Employment benefits are allocated to the cost account applicable to the salaries/wages of the specific employees.
- All employees are registered with the business' pension fund and the UIF. Deductions are made from the basic salary for the pension fund (8%) and the UIF (1%). The employer contributes 10% towards the pension fund and 1% to the UIF.
- Overtime and commissions are not subject to pension fund and UIF deductions or contributions.
- The five workers who make the raincoats each worked 180 hours of overtime during the year at a rate of R70 per hour.

D. **Stocks of finished goods on hand were:**

	Number of raincoats	Value per unit
Opening stock	110	R284
Closing stock	420	R246

E. **Analysis of total costs and unit costs:**

	2010	2010	2009
	Total	Per unit	Per unit
Selling price	R1 400 000	R350	R350
<b>Variable costs:</b>	R863 800	R215,95	R184,60
Direct-material cost	?	?	R63,30
Direct-labour cost	?	?	R82,20
Selling and distribution cost	R150 000	R37,50	R39,10
<b>Fixed costs:</b>	R350 200	R87,55	R83,54
Factory overhead cost	?	R67,55	R58,04
Administration cost	R80 000	R20,00	R25,50

[50]

## SECTION B: HINTS AND SOLUTION TO SECTION A

### QUESTION 1

1.1

1.1.1 True ✓✓

1.1.2 False ✓✓

1.1.3 False ✓✓

1.1.4 True ✓✓

1.1.5 False ✓✓

(10)

1.2.1 **Calculate the value of raw materials on hand on 28 February 2010 using the FIFO method.**

$$105\,600 \checkmark + (2\,100 \checkmark \times R42 \checkmark) = 193\,800 \checkmark$$

(5)

1.2.2 **Calculate the value of raw material cost that would appear in the Production Cost Statement.**

$$21\,000 \checkmark + 490\,600 \checkmark - 193\,800 \checkmark = 317\,800 \checkmark$$

(4)

- 1.3 **Calculate the value of direct-labour cost that would appear in the Production Cost Statement for the year ended 28 February 2010.**  
 Normal time =  $5 \times 5\,000 \times 12 = R300\,000$  ✓✓  
 Overtime =  $180 \times 70 \times 5 = R63\,000$  ✓✓  
 UIF + Pension =  $300\,000 \times 11\% = R33\,000$  ✓✓  
 R 396 000 ✓ (7)
- 1.4.1 **Calculate the total production cost of finished goods.**  
 $317\,800 + 396\,000 + (67,55 \times 4\,000)$   
 = R984 000 ✓ (5)
- 1.4.2 **Calculate the unit cost of production (per raincoat).**  
 $R984\,000 / 4\,000 = R246$  ✓ (3)
- 1.5.1 **Identify the number of metres of raw material fabric that appear to be missing.**  
 $9\,100 - (1,8 \times 4\,000) = 1\,900$  metres ✓✓ (5)
- 1.5.2 **Apart from theft, give ONE most likely reason for this shortage.**  
 Valid reason ✓✓  
 Possible reasons:  
 ○ Wastage during production  
 ○ Unskilled employees  
 ○ Unusable materials/off-cuts
- What advice could you offer Java in this regard? Name ONE point.**  
 Advice ✓✓  
 ○ Better supervision during production  
 ○ Control over allocation of raw materials  
 ○ Training of employees  
 ○ Use good quality material (4)
- 1.6.1 **Calculate the break-even point for the current financial year.**  
 Fixed costs/(SP per unit – Variable costs per unit)  
 =  $350\,200 / (350 - 215,95)$  ✓  
 =  $350\,200 / 134,05$   
 = 2 612,45  
 = 2 613 units ✓ (4)
- 1.6.2 **The break-even point for 2009 was 2 273 units. Should Java be satisfied or dissatisfied with the break-even point for 2010 calculated in QUESTION 1.6.1? Briefly explain.**  
 Java should be satisfied. ✓  
 The business has produced 4 000 units while break-even is 2 613 units. ✓✓  
 OR Dissatisfied ✓ the break-even of 2 613 units is higher than 2 273 in 2009. ✓✓ (3)

[50]

<b>SECTION C: HOMEWORK</b>
----------------------------

**QUESTION 1****MANUFACTURING****55 marks****33 minutes****1.1 BAKONA BIN MANUFACTURERS**

You are provided with information relating to Bakona Bin Manufacturers for The year ended 28 February 2009.

The business makes and sells only one type of product, namely plastic rubbish bins.

**REQUIRED**

- 1.1.1 Prepare the following notes to the Production Cost Statement:
- Direct/Raw material cost (7)
  - Direct labour cost (7)
  - Factory overhead cost (16)
- 1.1.2 Prepare the Production Cost Statement. (10)
- 1.1.3 Calculate the unit cost of production per plastic bin completed. (3)

**INFORMATION****1. Units produced:**

58 000 bins were completed during the financial year.

**2. Stock balances:**

	<b>1 March 2008</b>	<b>28 February 2009</b>
Direct/Raw material stock	R57 900	R34 200
Work-in-process stock	169 500	120 600
Factory indirect material stock	8 100	7 400

**3. Transactions for the year:**

	<b>R</b>
Raw material purchased for cash and on credit	1 622 700
Defective raw material returned to suppliers	23 100
Carriage on raw materials purchased	28 800
Salaries:	
• Factory foreman	241 000
• Office workers	270 000
Wages:	
• Office workers	48 000
• Factory workers in the production process (see Information 4 below)	?
UIF contributions (to be allocated to each specific cost account):	
• Factory workers in the production process	11 520
• Factory foreman	2 410
• Office workers	2 700
Factory indirect material purchased	125 900
Sales of finished goods (R120 per unit)	7 800 000
Commission to salespersons (10% of sales)	?
Advertising	145 000
Factory maintenance	85 000
Bad debts	8 400
Rent to be allocated in proportion to floor space (see Information 5 below)	133 000
Bins stolen (rand value)	960
Water and electricity (see Information 6 below)	36 000
Depreciation on factory equipment	52 000
Sundry administration expenses	150 800
Sundry factory expenses	25 000

**4 Factory workers in the production process:**

Number of factory employees working directly on the bins (unchanged throughout the year)	12 employees
Number of normal hours worked by each factory worker during the year	1 600 hours
Number of overtime hours worked by each factory worker during the year	240 hours
Wage rate (normal)	R 60 per hour
Wage rate (overtime)	R100 per hour

**5. Floor space:**

	<b>Factory</b>	<b>Office</b>	<b>Sales dept.</b>
Square metres	1 200 sq. metres	600 sq. metres	600 sq. metres

**6. Water and electricity:**

15% of the amount is allocated to the office and 25% to the sales department. The rest applies to the factory.
---

**1.2 KOOL MANUFACTURERS**

This business makes plastic vuvuzelas.

The information below relates to the year ended 30 June 2009.

Number of vuvuzelas produced	12 000
Sales for the year (all manufactured units were sold)	R480 000
Total fixed costs	R210 000
Total variable costs	R300 000

- 1.2.1 Give ONE example of a fixed cost and ONE example of a variable cost. (2)
- 1.2.2 Explain why it is important to calculate the expected break-even point for a business before the start of a financial year. (2)
- 1.2.3 Use the figures above to calculate the break-even point. (5)
- 1.2.4 Comment on your calculation in QUESTION 1.2.3. What advice would you offer Kool Manufacturers? Briefly explain. (3)
- [55]



<b>SECTION D: HOMEWORK SOLUTIONS</b>
--------------------------------------

**1.1.2 PRODUCTION COST STATEMENT OF BAKONA BIN MANUFACTURERS**

<b>FOR THE YEAR ENDED 28 FEBRUARY 2009</b>		
<b>TOTAL</b>		
<b>Direct/Raw materials cost</b> #See 1.1.1	<input checked="" type="checkbox"/> #	1 652 100
Direct labour cost ✓Details #See 1.1.1	<input checked="" type="checkbox"/> #	1 451 520
<b>Direct/Prime cost</b> Check operation	<input checked="" type="checkbox"/>	3 103 620
Factory overhead cost ✓Details #See 1.1.1	<input checked="" type="checkbox"/> #	620 110
<b>Total cost of production</b> Check operation	<input checked="" type="checkbox"/>	3 723 730
<b>Work-in-process on 1 March 2008</b> R169 500 must be +ve	✓	169 500
		3 893 230
<b>Work-in-process on 28 February 2009</b> R120 600 must be -ve	✓	(120 600)
<b>Cost of production of finished goods</b> Check operation	<input checked="" type="checkbox"/>	3 772 630
		(10)

**1.1.3 Calculate the unit cost of production per plastic bin completed.**

$\frac{3\,772\,630}{58\,000}$   See 3.1.2 Must be the numerator

58 000 ✓ Must be the denominator

= R65,05  Check method & operation, one part correct

(3)

## 1.2 Kool Manufacturers

### 1.2.1 One example of a fixed cost:

*Any one valid example, e.g. ✓*

Rent expense, Salaries, Indirect wages, Interest etc

*(Accept Administration costs and Factory overhead costs or any parts thereof due to assumptions included in previous papers)*

### One example of a variable cost:

*Any one valid example, e.g. ✓*

Direct/Raw materials, Direct labour / Direct wages, Advertising, Selling and distribution, Commission on sales

(2)

### 1.2.2 Explain why it is important to calculate the expected break-even point for a business before the start of a financial year.

Good explanation = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks  
✓✓

#### Two marks:

- So that any potential problems of low production can be foreseen
- To start corrective action promptly before losses occur
- No profits are made until break-even is reached
- Determine the minimum number of units to produce to prevent losses
- To produce enough products to set the production level to cover all costs
- To identify whether efficiency needs to be improved to produce the required number of units to make a profit
- To provide information to compile the budget to ensure that profits are achievable

(2)

#### One mark:

- To produce enough products
- Prevent low profits / prevent a loss
- Improve efficiency
- To compile a budget

### 1.2.3 Calculate the break-even point.

✓✓      ✓      ✓Any one part correct

$R210\ 000 / R15 = 14\ 000$  units

Must be numerator. Must be denominator

**OR**  $R210\ 000 / [R40 - (R300\ 000 / 12\ 000)] = 14\ 000$  units

**OR** Let BEP = x; then  $15x - 210\ 000 = 0$ ; and  $x = 14\ 000$  units

(5)

1.2.4 **Comment on your calculation in 3.2.3. What advice would you offer to Kool Manufacturers? Briefly explain.**

Give credit if responses are based on an incorrect calculation above (see 3.2.3)

**Comment:** *Compare BEP to the 12 000 units produced* ✓

e.g. The business is not producing enough units – they are below the BEP which means that the business will be making a loss.

**Advice:** Explanation = 2 marks; Point provided without explanation = 1 mark; Incorrect = 0 marks

**Two marks:** ✓✓

- Look at ways of economising on fixed / variable costs to reduce costs so that the BEP decreases
- Find a cheaper supplier of raw materials to reduce unit costs
- Avoid overtime to reduce labour costs
- Train direct workers to work more efficiently to increase productivity
- Avoid wastage of raw materials to reduce unit costs
- Increase selling price provided it does not lead to a reduction in sales volumes
- Spend more on advertising to increase sales volumes

(3)

**One mark:**

- Increase selling price
- Advertise
- Change supplier of raw materials
- Increase production

[55]

## SESSION 14

## TOPIC: CONSOLIDATION

## SECTION A: TYPICAL EXAM QUESTIONS

**Teacher Note:**

- Learners must answer in point form
- Make sure learners know the theory on companies
- Open-ended questions do not have one correct answer

**QUESTION 1:                      35 marks                      20 minutes**

**CASH BUDGETS**

You are provided with the Cash Budget of Bosman Traders for the three months ended 28 February 2011. The business is owned by Alfred Bosman.

**REQUIRED**

- 1.1 Explain why a business needs to prepare a Cash Budget every year. (2)
- 1.2 Calculate the figures indicated by A – E in the Cash Budget. (5)
- 1.3 The rent income was increased by 8% from 1 January 2011. Calculate the rent income figure for January 2011. (3)
- 1.4 Refer to the salaries and wages in the Cash Budget.
  - Calculate the percentage increase granted to the employees from 1 January 2011. (3)
  - In your opinion, will the employees be satisfied with this increase? Briefly explain. (3)
- 1.5 As the internal auditor you discover that the actual motor vehicle expenses for December 2010 were R5 420. Provide TWO points that you would include in your internal auditors' report to Alfred. (4)
- 1.6 A new vehicle will be purchased for R139 500 on 31 January 2011. The business will pay a deposit of 20% and the balance will be financed by Eastbank. Alfred will repay Eastbank in equal monthly instalments over three years from 28 February 2011. Interest will be paid to Eastbank monthly on the balance outstanding at a rate of 11% p.a.
  - Calculate the interest payable to Eastbank in February 2011. (5)
  - Calculate the **monthly** repayments of the capital portion of the loan to Eastbank. (3)
- 1.7 Calculate the expected receipts from debtors for January 2010. (7)

## INFORMATION

NOTE: Not all figures are shown below.

<b>1. EXTRACT FROM CASH BUDGET</b>			
	<b>2010 December</b>	<b>2011 January</b>	<b>2011 February</b>
<b>EXPECTED RECEIPTS</b>			
Cash sales (75% of total sales)	225 000	112 500	112 500
Debtors (30 days less 5%)	47 500	?	35 625
Rent income	9 000	?	?
Interest on fixed deposit		400	400
Capital		150 000	
	<b>291 000</b>	<b>355 000</b>	<b>140 000</b>
<b>EXPECTED PAYMENTS</b>			
Drawings	17 500	12 500	12 500
Motor vehicle expenses	4 000	4 000	4 000
Fixed deposit		60 000	
Deposit on vehicle purchased		?	
Monthly repayments to Eastbank			?
Interest paid to Eastbank			?
Salaries and wages	105 000	109 200	109 200
	<b>240 000</b>	<b>310 000</b>	<b>390 000</b>
Cash surplus/shortage	51 000	45 000	<b>C</b>
Cash at the beginning of the month	72 000	<b>A</b>	<b>D</b>
Cash at the end of the month	<b>123 000</b>	<b>B</b>	<b>E</b>

[35]

**QUESTION 2: 30 marks 20 minutes**

**DEBTORS RECONCILIATION AND INTERNAL CONTROL**

You are provided with information relating to SA Traders. The bookkeeper has made a few errors when reconciling the Debtors Control Account to the Debtors List.

**REQUIRED**

- 2.1 SA Traders requires their new customers to provide personal details, including proof of residence, before opening accounts. Briefly explain why this is necessary. Name TWO points. (4)
- 2.2 Prepare the correct Debtors List on 31 August 2010 and show how you would adjust the Debtors Control Account using the format provided. (26)

**INFORMATION**

- The bookkeeper discovered that he had made a number of errors when preparing the Debtors Ledger Accounts.
- The Debtors Control Account and the Debtors List did not reconcile. The difference is R6 470.

The following summary was prepared on 31 August 2010:

Balance of the Debtors Control Account	R70 663
<b>Total of the Debtors List</b>	77 133
Sunnyside Traders	17 600
Thembisa Traders	55 473
Tildai Suppliers	3 400
Mondo Stores	660
Difference	R6 470

- Errors on the account of Sunnyside Traders**
  - Interest on the account was calculated incorrectly. Adjust for an additional R165 interest.
  - VAT at 14% was omitted from Invoice 868 dated 31 July 2010. Total sales, excluding VAT, amounted to R16 500.

4. **Errors on the account of Thembisa Traders**

- A credit note of R3 080 was incorrectly reflected in the Debtors Ledger Account as a debit entry. The General Ledger is correct.
- Thembisa Traders claim that they paid R13 200 last month, but that this is not reflected on their statement. Investigations revealed that Thembisa Traders's payment was incorrectly posted to the account of another debtor, Sunnyside Traders.
- Thembisa Traders had issued a dishonoured cheque for R2 750 in settlement of an amount of R3 100. The CRJ and CPJ entries were correctly recorded. The cancellation of the discount was not reflected in the Debtors Ledger Account. The control account is correct.

5. **Additional errors reflected on the Debtors Reconciliation Statement**

- The debt of R660 for Mondo Stores, a debtor, has been written off as irrecoverable. The amount was posted to the Debtors Control account but not to the debtor's personal account.
- Tildai Suppliers is reflected in the Debtors Ledger and the Creditors Ledger. Their credit balance of R2 124 in the Creditors Ledger is to be offset against their account in the Debtors Ledger.

[30]

**SECTION B: SOLUTIONS AND HINTS TO SECTION A****QUESTION 1**

1.1 Any valid explanation ✓✓

A business needs to plan for future receipts and payments in order to ensure that they have enough cash or to arrange for an overdraft/loan.

(2)

1.2

A	R123 000 ✓
B	R168 000 ✓
C	(R250 000) ✓
D	R168 000 ✓
E	(R82 000) ✓

(5)

1.3  $9\ 000 \checkmark \times 1,08\% \checkmark = R9\ 720 \checkmark$ 

(3)

- 1.4  $4\ 200 \checkmark / 105\ 000 \checkmark \times 100 = 4\% \checkmark$   
**In your opinion, will the employees be satisfied with this increase? Briefly explain.**  
 Yes/No  $\checkmark$   
 Any valid explanation  $\checkmark\checkmark$   
 Example: This increase of 4% is lower/higher than the inflation rate. (6)
- 1.5 TWO valid points  $\checkmark\checkmark \quad \checkmark\checkmark$   
 Possible answers:  
  - The actual motor expenses for December of R5 420 exceeded the budgeted amount of R4 000 - a difference of R1 420.
  - Alfred needs to investigate the use of the vehicles in order to ensure that these vehicles are used responsibly.
  - Alfred needs to ensure that the vehicles are serviced regularly in order to avoid breakdowns and other related expenses. (4)
- 1.6  $139\ 500 \times 80\% = 111\ 600 \checkmark\checkmark \times 11\% \checkmark / 12 \checkmark = R1\ 023 \checkmark$   
**Calculate the monthly repayments of the capital portion of the loan to Eastbank.**  
 $111\ 600 \checkmark / 36 \text{ months } \checkmark = R3\ 100 \checkmark$  (8)
- 1.7 **Calculate the expected receipts from debtors for January 2010.**  
 $R225\ 000 \checkmark / 75\% \checkmark$   
 $= R300\ 000$   
 $R300\ 000 \checkmark \times 25\% \checkmark = R75\ 000 \checkmark \times 95\% \checkmark$   
 $= R71\ 250 \checkmark$  (7)

**[35]**



## QUESTION 2

2.1 Any TWO valid points ✓✓ ✓✓

Possible explanation:

- It is essential for a business to know the addresses so that they can send statements promptly to debtors to ensure that they pay on time.
- If any debtors do not settle their accounts, it will be necessary for the business to take legal action against them in which case the addresses will be essential in order to serve the legal documents on them.
- The National Credit Act requires a business to check whether a potential debtor can afford to purchase on credit. Addresses are part of the personal history of the customer.

(4)

2.2

Debtors List on 31 August 2010		R
Sunnyside Traders (17 600 ✓ + 165 ✓ + 2 310 ✓ + 13 200 ✓)		✓33 275
Thembisa Traders (55 473 ✓ – [3 080 ✓ + 3 080 ✓] – 13 200 ✓ + 350 ✓)		✓36 463
Tildai Suppliers (3 400 ✓ – 2 124 ✓)		✓ 1 276
Mondo Stores (660-660)		✓✓ Nil
		☑71 014

## List of adjustments to Debtors Control Account

Amount	Account debited	Account credited
R165 ✓	Debtors control ✓	Interest income ✓
R2 310 ✓	Debtors control ✓	VAT output/control ✓
R2 124 ✓	Creditors control ✓	Debtors control ✓

(26)

[30]

<b>SECTION C: HOMEWORK</b>
----------------------------

**QUESTION 1: MANUFACTURING****55 marks****30 minutes****1.1 MULTIPLE-CHOICE QUESTIONS**

Four options are provided as possible answers to the following questions: Choose the answer and write only the letter (A – D) next to the question number (1.1.1 – 1.1.4), for example 1.1.5 D.

1.1.1 The wages paid to a factory cleaner will be classified as ...

- A direct labour cost.
- B factory overhead cost.
- C administration cost.
- D raw materials cost.

1.1.2 Fixed costs per unit are calculated as follows:

- A Prime costs ÷ number of units produced
- B Total costs of production ÷ number of units produced
- C Total fixed costs ÷ number of units produced
- D Total fixed costs x number of units produced

1.1.3 Which ONE of the following items will NOT be regarded as an administration cost?

- A Packing material
- B Insurance
- C Telephone
- D Stationery

1.1.4 In order to calculate the break-even point, the following calculation will be used:

A 
$$\frac{\text{Fixed costs}}{\text{Number of units produced}}$$

B 
$$\frac{\text{Variable costs}}{\text{Selling price per unit} - \text{Fixed cost per unit}}$$

C 
$$\frac{\text{Fixed costs}}{\text{Selling price per unit} - \text{Variable cost per unit}}$$

D 
$$\frac{\text{Variable costs}}{\text{Fixed cost per unit}}$$

(4 x 2)

[8]

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

**REQUIRED**

- 1.2.1 Calculate the value of the raw materials that were issued to the factory for the year ended 28 February 2010. (You may prepare the Raw Materials Stock Account to assist with your calculation.) (7)
- 1.2.2 Prepare the following notes to the Production Cost Statement for the year ended 28 February 2010:
- Direct labour cost (5)
  - Factory overhead cost (16)
- 1.2.3 Prepare the Production Cost Statement for the year ended 28 February 2010. (10)
- 1.2.4 You are provided with unit costs and the break-even point calculated for the past two years.

	2010	2009
Raw materials cost per unit	R48,30	R54,30
Direct labour cost per unit	R37,38	R51,70
Factory overhead cost per unit	R34,32	R30,25
Break-even point	19 548 units	11 300 units
Number of units produced	20 000 units	24 000 units

- (a) Explain whether Fatima should be concerned about the break-even point for 2010. Quote figures to support your answer. (3)
- (b) Give a possible reason, other than price changes, for the change in EACH of the unit costs provided above. (6)

**INFORMATION****1. OPENING BALANCES ON 1 MARCH 2009**

Raw materials stock	R 160 000
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 equipment purchased on 1 September 2009	250 000
Production wages	723 800
UIF – Contribution for 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	?
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. During the physical stocktaking of raw materials on 28 February 2010, a calculation error was made. 6 000 articles at 15c each were taken into account at 50c each on the stock lists. This must be corrected.
- C. No entry was made for the following in respect of the production wages for the last week of February 2010. The entry was omitted from the Wages Journal:
- |   |        |
|---|--------|
| Gross wages                             | R6 200 |
| Deductions: Unemployment Insurance Fund | 62     |
| PAYE                                    | 1 240  |
- D. 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.
- E. Depreciation on factory plant and equipment must be brought into account at 10% per annum, according to the diminishing balance method.
- F. During the year 20 000 pairs of shoes were manufactured.
- G. The shoes are sold at a mark-up of 65% on cost.
- H. The shoes are sold at R198 per pair. [55]

<b>SECTION D: SOLUTIONS TO HOMEWORK</b>
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**QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

1.1.1	B ✓✓	
1.1.2	C ✓✓	
1.1.3	A ✓✓	
1.1.4	C ✓✓	

(8)

1.2.1     ✓                    ✓                    ✓                    ✓                    (259 125 ✓ – 2 100 ✓)                    ✓

$$160\,000 + 1\,023\,475 + 22\,500 + 3\,750 - 257\,025 = 952\,700$$

$$160\,000 + 1\,023\,475 + 22\,500 + 3\,750 - 259\,125 + 2\,100 = 952\,700$$

**Raw Materials Stock**

Balance	✓ 160 000	Direct Material Cost	✓ 952 700
Bank / Creditors' control	✓ 1 023 475	Balance (259 125 ✓ – 2 100 ✓)	257 025
Carriage on Purchases (22 500 ✓ + 3 750 ✓)	26 250		
	1 209 725		1 209 725

(7)

**1.2.2 NOTES TO THE FINANCIAL STATEMENTS**

<b>DIRECT LABOUR COST</b>		<b>R</b>
Production wages (723 800 ✓ + 6 200 ✓)	✓	730 000
UIF contribution	✓	7 300
	✓	737 300

(5)

	<b>FACTORY OVERHEAD COST</b>	<b>R</b>
	Salary of foreman	150 000 or 151 500
	Consumable stores – factory 6 000 ✓ + 43 000 ✓ - 7 000 ✓	42 000
	Depreciation 177 500 ✓✓ + 12 500 ✓✓ Or 101 250 ✓✓ + 88 750 ✓✓	190 000
	Water and electricity (163 000 ✓ + 4 200 ✓) x 60% ✓ Or 97 800 ✓ + 2 520 ✓✓	100 320
	Sundry expenses	194 680
		677 000 or 678 500

(16)

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

	<b>TOTAL</b>
Direct materials cost See 1.2.1	952 700
Direct labour cost See 1.2.2	737 300
<b>Prime cost</b>	1 690 000
Factory overhead cost See 1.2.2	677 000 or 678 500
<b>Total cost of production</b>	2 367 000 or 2 368 500
Work-in process at the beginning of the year	158 000
	2 525 000 or 2 526 500
Work-in process at the end of the year	(125 000) or (126 500)
<b>Total cost of production of finished goods</b> (198✓ / 1,65✓) x 20 000 ✓ Or 198✓ / (165 / 100) ✓ x 20 000✓ Or 120 ✓✓ x 20 000 ✓ Or (48,30 + 37,38 + 34,32) ✓✓ x 20 000 ✓	2 400 000

(10)

1.2.4

**(a) Explanation:** ✓

Yes, she should be concerned as units produced is 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:** ✓✓ Any two valid figures which support the explanation

Compare 20 000 units produced to BEP of 19 548 (difference 452 units counts as two figures)

**Or** BEP is 97,7% of total units (97,7% counts as two figures)

**Or** Compare BEP 19 548 to 11 300 of the previous year (difference 8 248 units counts as two figures)

**Or** Compare units of 20 000 to 24 000 of previous year – affects BEP (difference 4 000 units counts as two figures)

(3)

**(b)** Any valid explanation (other than price changes), e.g.

<b>Raw materials cost per unit</b>	There was less wastage (or more efficiency) of raw materials in producing the product. ✓✓
<b>Direct labour cost per unit</b>	Workers were more efficient in producing each article. ✓✓ <b>OR</b> Less overtime worked <b>OR</b> Higher skilled workers <b>OR</b> More efficient machinery
<b>Factory overhead cost per unit</b>	The number of units produced decreased from 24 000 to 20 000 units resulting in an increase in the FOHC per unit (from R30,25 per unit to R34,32) as these costs are fixed. <i>(Note to marker: Total FOHC decreased from R1 110 000 to R959 270; there were no increases in costs)</i> ✓✓ <b>OR</b> Wastage in some costs e.g. water & electricity <b>OR</b> Extra depreciation on new equipment

(6)  
[55]

**SESSION 15****TOPIC: CONSOLIDATION****SECTION A: TYPICAL EXAM QUESTIONS****Teacher Note:**

- Learners must always answer in point form
- Make sure learners know the theory on companies
- Open ended questions do not have one correct answer

**QUESTION 1:                      72 marks                      45 minutes**

**COMPANIES REPORTING AND RATIO ANALYSIS**

World Champions Limited is a public company listed on the Johannesburg Securities Exchange.

**REQUIRED**

- 1.1 Calculate the following Income Statement figures for the financial year ended 30 June 2010.
- |                             |     |
|-----------------------------|-----|
| 1.1.1. Income tax           | (4) |
| 1.1.2. Net income after tax | (4) |
- 1.2 Equity and Liabilities section of the Balance Sheet on 30 June 2010, with notes for:
- (a) Retained income (Distributable reserves)
- (b) Ordinary share capital
- Note:** All current liabilities must be shown directly on the face of the balance sheet and changes must be shown in brackets to earn part marks. (40)
- 1.3 Calculate the following ratios on 30 June 2010:
- |  |     |
|--|-----|
| 1.3.1. Debt : Equity ratio in 2010                 | (3) |
| 1.3.2. Return on average shareholders' equity 2010 | (5) |
| 1.3.3. Net asset value per share 2010              | (3) |
- 1.4 Comment on World Champion Limited's use of the mortgage loan. (Refer to appropriate financial indicators and the debt : equity ratio in your answer.) (6)
- 1.5 Should the shareholders be satisfied with the current listed price on the J.S.E. of R5,60? (Refer to the original price and the price at which new shares were issued in your answer.) (7)



**INFORMATION****1. Income Tax**

- Provisional tax payments were made as follows:
  - 31 December 2009, R172 000
  - 30 June 2010, R148 000
- SARS (Income Tax) ledger account reflects a credit balance of R20 000 on 1 July 2010 a debit balance of R17 600 on 30 June 2010.
- Income tax rate is 27% of net income

**2. Authorised Share Capital:** comprises 1 000 000 ordinary shares of R3 each.

**3. Equity and Liabilities on 1 July 2009**

	<b>31 June 2010</b>	<b>1 July 2009</b>
• Ordinary Share Capital	?	R1 860 000
• Share premium	?	R560 000
• Retained Income	R.....	R1 340 000
• Ordinary Shareholders Equity		R3 760 000
• Mortgage Loan	?	R1 600 000

**4. New Shares Issued**

240 000 ordinary shares were issued on the 31 December 2009 at a price of R4,50.

**5. Dividends**

On 31 December 2009 a dividend of 20 cents per share was paid. A final dividend of 30 cents per share was declared payable on 30 June 2010.

**6. Mortgage Loan**

- In terms of the loan agreement World Champions Limited must pay a fixed amount of R22 600 per month. (Capital and interest)
- Interest is capitalised on the loan account as determined by the change in interest rates. Interest for the year ended 30 June 2010 amounts to R204 000.
- In the financial year ended 30 June 2011 the loan is expected to decrease by R100 000.

**INFORMATION:****7. Balances in the General Ledger on 30 June 2010**

Accrued Income (Receivable)	R30 000
Accrued Expenses	R24 000
Deferred Income (Received in advance)	R70 000
Prepaid Expenses	R11 000
Debtors Control	R350 000
Creditors Control	R316 000
Bank (Credit)	R54 000

## 8. Financial Indicators

Current Interest on Mortgage Loan	13%
Return on Capital Employed (2010)	21,8%
Debt : Equity ratio (2009)	0,43:1
Current market price of shares on J.S.E.	R5,60

### QUESTION 2:

**77 marks**

**46 minutes**

### COMPANIES CASH FLOW, AUDIT AND GOVERNANCE

The information was taken from the accounting records of Super-Diski Limited for the years ended February 2009 and February 2010. The company has authorised share capital of 700 000 ordinary shares of R1,50 each.

#### REQUIRED:

- 2.1 Prepare the following for the purposes of the Cash Flow Statement for 2010.
  - 2.1.1. Appropriation account (11)
  - 2.1.2. Calculation of tangible assets purchased. (2)
  - 2.1.3. Calculation of depreciation on
    - (a) Equipment (3)
    - (b) Vehicles (4)
  - 2.1.4. Reconciliation between profit before taxation and cash generated from operations. (14)
  - 2.1.5. Calculation of dividends paid. (4)
- 2.2 Determine the increase or decrease in cash for the year without preparing the Cash Flow Statement. (3)
- 2.3 A new shareholder purchased 1200 shares on 1 March 2010. How much did she pay? (4)
- 2.4 List one important measure that Super-Diski Limited could implement to improve internal control over tangible assets. (2)
- 2.5 The Cash Flow Statement forms part of the published financial statements of a public company. Apart from the Income Statement and the Balance Sheet, list 2 other statements that need to be published as a legal requirement. (2)

- 2.6 Refer to the budgeted forecast figures in the information provided (Information (C))
- (a) Comment on the proposed increase in salaries (7%) and directors' fees (20%).  
Mention in each case one point the management team would have considered when determining the % increase. (4)
- (b) Half of the advertising budget will be spent between April and June 2010 preceding the Soccer World Cup and the balance between October and December 2010. List one point in support of this strategy and one point of advice against this strategy. (4)
- (c) List one advantage of the planned increase of funds to corporate social responsibility. (2)
- (d) Comment on the budgeted increase in water and electricity. List one point. (2)
- 2.7 List 2 items that could be included in a Forecast Income Statement but not included in a cash budget. (2)
- 2.8 Explain the main difference between the preparation of a Cash Flow Statement and a Cash Budget of Super-Diski Limited. (3)
- 2.9 Why is it important for an independent auditor to have a CA (SA) qualification? (2)
- 2.10 In what way does the role of an independent auditor differ from that of an internal auditor? (3)
- 2.11 An audit report should contain the following words. In each case, explain why these three statements are important to the reader of the audit report.
- The financial statements fairly present the financial position. (2)
  - In accordance with International Financial Reporting Standards (2)
  - In the manner required by the Companies Act. (2)
- [77]

## INFORMATION

### (A)

<b>Information extracted from the Income Statements for the years ended February 2009 and February 2010</b>		
	<b>2010 R</b>	<b>2009 R</b>
Net income before tax	420 000	309 600
Interest on loan	19 500	24 000
Depreciation	?	48 000
Income tax	147 000	108 360

**(B)****Information extracted from the Post Closing Trial Balance on 28 February 2010**

	<b>2010</b> <b>R</b>	<b>2009</b> <b>R</b>
Ordinary share capital (nominal value per share R1,50)	840 000	600 000
Share premium	160 000	80 000
Retained income	200 000	120 000
Long-term liabilities (15% p.a.)	100 000	160 000
Land and buildings	798 980	409 120
Equipment at carrying value	188 640	244 640
Vehicles at carrying value	276 800	369 080
Trading stock	206 900	126 700
Debtors' control	128 300	105 300
Cash	22 720	
Bank overdraft		20 000
Creditors' control	175 520	181 060
Accrued expenses	33 600	25 500
South African Revenue Services (income tax)	5 220 (Cr)	8 280 (Cr)
Shareholders for dividends	108 000	60 000

**NOTE:** A vehicle was sold at book value for R24 000 cash but no vehicles were purchased. No equipment was sold or purchased during the year.

**(C)** The directors and management team have prepared the following budgeted forecast figures for the next financial year.

	<b>Actual</b> <b>28 February 2010</b>	<b>Budgeted</b> <b>28 February 2011</b>	<b>%</b> <b>Change</b>
Salaries & Wages	700 000	749 000	7% increase
Directors' fees	1 000 000	1 200 000	20% increase
Advertising	40 000	46 000	15% increase
Corporate social responsibility	10 000	13 000	30% increase
Water & Electricity	36 000	45 000	25% increase
Audit fees	50 000	55 000	10% increase

<b>SECTION B: SOLUTIONS AND HINTS TO SECTION A</b>
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**QUESTION 1:                      72 marks                      45 minutes**

**COMPANIES REPORTING AND RATIO ANALYSIS**

1.1	
	<b>1.1.1 Income Tax</b>
	$172\,000\checkmark + 148\,000\checkmark - 17\,600\checkmark = 302\,400\checkmark$ (4)
	<b>1.1.2 Net Income after tax</b>
	Net income before tax = $302\,400 \div 0,27 = R1\,120\,000\checkmark$
	Less Income tax = R302 400 <input checked="" type="checkbox"/>
	Net Income after tax = R817 600 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
	<b>OR</b>
	$R302\,400 / 27 \times 73 = 817\,600$ (4)

1.2 World Champions Limited			
<b>Balance Sheet on 30 June 2010</b>			
<b>EQUITY &amp; LIABILITIES</b>	Note		
<b>CAPITAL &amp; RESERVES</b>		5 227 600	<input checked="" type="checkbox"/>
Ordinary Share Capital	7	2 580 000	<input checked="" type="checkbox"/>
Share Premium (560 000 $\checkmark$ + 360 000 $\checkmark\checkmark$ )		920 000	<input checked="" type="checkbox"/>
Retained Income	9	1 727 600	<input checked="" type="checkbox"/>
<b>NON-CURRENT LIABILITIES</b>			
Mortgage Loan (1 600 000 $\checkmark$ + 204 000 $\checkmark$ )		1 432 800	<input checked="" type="checkbox"/>
- 271 200 $\checkmark\checkmark$ - 100 000 $\checkmark$			
<b>CURRENT LIABILITIES</b>		822 000	
TOP (316 000 $\checkmark$ + 24 000 $\checkmark$ + 70 000 $\checkmark$ )		410 000	<input checked="" type="checkbox"/>
Current Portion on Loan *		100 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
Shareholders for dividends *		258 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
Bank Overdraft		54 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		7 482 400	<input checked="" type="checkbox"/> (24)

\* Could be part of TOP.

## NOTES TO THE FINANCIAL STATEMENTS

<b>7</b>	<b>ORDINARY SHARE CAPITAL</b>		
	<b>AUTHORISED</b>		
✓	1 000 000 Ordinary Shares @ R3 each	3 000 000	✓
	<b>ISSUED</b>		
✓	620 000 Ordinary Shares @ R3 at the beginning of the year	1 860 000	✓
✓	240 000 Ordinary Shares @ R3 during the year	720 000	✓
✓	860 000 Ordinary Shares @ R3 at the end of the year	2 580 000	✓

(8)

<b>9</b>	<b>RETAINED INCOME</b>		
	Balance at beginning of year	1 340 000	✓
	Net profit (loss) after tax for the year	817 600	✓
	Dividends on ordinary shares	430 000	☑
	Interim dividends paid	172 000	✓✓
	Final dividends recommended	258 000	✓✓
	Balance at end of year	1 727 600	✓

(8)

<b>1.3</b>	<b>Calculate the following ratios on 30 June 2010.</b>
	1.3.1 Debt : Equity ratio
	1 432 800 ☑ : 5 227 600 ☑
	= 0,27 : 1 ☑
	(3)
	1.3.2 Return on Average Shareholders' Equity
	$\frac{817\,600 \checkmark}{(3\,760\,000 \checkmark + 5\,227\,600) \checkmark} \div 2 \times 100$
	= 817 600 / 4 493 800 X 100 ✓ = 18.19%✓
	(5)
	1.3.3 Net Asset Value per share
	$\frac{5\,227\,600 \checkmark}{860\,000 \text{ shares } \checkmark}$
	= R6,08 ✓ or 608 cents.
	(3)

1.4	<b>(Refer to appropriate ratios and the Debt : Equity ratio in your answer.</b>
	<p>Wise to use the loan. ✓</p> <p>ROCE of 21,8% is greater than 13% interest on loan. ✓</p> <p>Positive gearing effect. ✓✓</p> <p>Debt Equity has decreased from 0,43:1 to 0,27:1 ✓</p> <p>Risk has decreased. ✓</p> <p>Positive gearing effect and lower risk.</p> <p>Company could earn more profit by making use of additional loans. (6)</p>

1.5	<p>No they should not be entirely satisfied. ✓</p> <p>NAV is R6,08. ✓</p> <p>The price on JSE is undervalued at R5,60. ✓</p> <p>New shares were issued at R4,50 ✓ which is lower than the JSE and NAV. ✓</p> <p>New shareholders ✓ will be satisfied with the lower premium paid.</p> <p>Existing shareholders ✓ will not be satisfied. (7)</p>
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**QUESTION 2:****77 marks****46 minutes****COMPANIES CASH FLOW, AUDIT AND GOVERNANCE**

## 2.1.1

**GENERAL LEDGER OF SUPER-DISKI LIMITED  
FINAL ACCOUNTS SECTION**

<b>GENERAL LEDGER OF SUPER-DISKI LIMITED</b>											
<b>Dr</b>		<b>APPROPRIATION ACCOUNT</b>							<b>F3</b>		
<b>Cr</b>											
2010 Feb	28	Income Tax ✓		147 000	✓	2010 Feb	28	Profit & Loss ✓		420 000	✓
		Dividends on Ordinary Shares ✓		193 000	✓ <input checked="" type="checkbox"/>			Retained Income ✓		120 000	✓
		Retained Income ✓		200 000	✓						
				540 000						540 000	

(11)

2.1.2 Land and Buildings  $798\,980 - 409\,120 = 398\,860$  ✓✓ (2)

2.1.3 (a) **Calculation of Depreciation on Equipment.**

$$244\,640 ✓ - 188\,640 ✓ = 56\,000 ✓$$

$$\text{OR / } 188\,640 - 244\,640 = -56\,000 \quad (3)$$

(b) **Calculation of Depreciation on Vehicles.**

$$369\,080 ✓ - 24\,000 ✓ - 276\,800 ✓ = 68\,280 ✓$$

$$\text{OR/ } 276\,800 - 369\,080 + 24\,000 = -68\,280 \quad (4)$$

2.1.4

### NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 20.2

<b>Reconciliation between profit before taxation and cash generated from operations</b>	420 000	✓
Adjustment in respect of:	143 780	
Depreciation (56 000 <input checked="" type="checkbox"/> + 68 280 <input checked="" type="checkbox"/> )	124 280	<input checked="" type="checkbox"/>
Interest on loan	19 500	✓
<b>Operating profit before changes in working capital</b>	563 780	<input checked="" type="checkbox"/>
<b>Changes in working capital</b>	( )	<input checked="" type="checkbox"/>

↑ Inventories	(80 200)	
↑ TOR (Debtors) ( 128 300 - 105 300 )	(23 000)	✓ <input checked="" type="checkbox"/>
↓ TOP (Creditors) ( 33 600 - 25 500 ) + (175 520 - 181 060 )	(2 560)	✓ <input checked="" type="checkbox"/>
✓	✓	<input checked="" type="checkbox"/>

= (outflow) link to ↑ ↓ or (14)

2.1.5 Dividends on Ordinary Shares (See Appropriation Account) = R193 000

$$\text{PAID} = 193\,000 \text{  - } 108\,000 ✓ + 60\,000 ✓ = 145\,000 \text{ }$$

(4)

2.2 Increase ✓ (- 20 000 to 22 720) = 42 720 ✓✓ (3)



2.3	Premium on new shares = 80 000 No. of new shares issued = 160 000 Therefore, PAR (R1,50) ✓ + Premium (50c) ✓✓ = R2 ☑	(4)
2.4	<ul style="list-style-type: none"> <li>• Make use of Fixed Asset Registers</li> <li>• Tangible Asset Manager</li> <li>• Ensure TA properly maintained, etc. (Any one X ✓✓ )</li> </ul>	(2)
2.5	Directors Report ✓ Audit Report ✓	(2)
2.6	<b>Comment on Budgeted Forecast figures (Information (C))</b>	
(a)	<b>Salaries : (7% increase)</b> Management would have considered inflation rate when determining increase etc. ✓✓	(2)
	<b>Directors Fees (20% increase)</b> Management would have considered the positive performance of directors in improved financial results or wish to retain services of directors, etc. ✓✓	(2)
(b)	<b>Advertising: (Half April to June, Half October to December)</b> <b>One point in support of strategy:</b> Strategy aims to boost seasonal consumption and take advantage of peak season periods and to counter competition, etc. ✓✓	(2)
	<b>One point of advice against this strategy:</b> Strategy is aimed at seasonal consumption. Advertising should be aimed at boosting sales throughout the year, etc. ✓✓	(2)
(c)	<b>Corporate Social Responsibility. (One advantage of planned increase)</b> Could boost image of the business in the community and attract new customers and increase sales, etc. ✓✓	(2)
(d)	<b>Water &amp; Electricity (Comment on budgeted increase - List one point)</b> Above inflation increase to accommodate Eskom price hikes to finance improvements in its infrastructure. ✓✓	(2)

2.7	Depreciation✓ Bad Debts✓ (Discount allowed, discount received, trading stock deficit / surplus, provision for bad debts adj.) etc.	(2)
2.8	Cash Flow reports past ✓ cash flows. Cash Budget focuses on future✓ forecasts of projected cash flows. ✓ impression	(3)
2.9	The reader of the audit report must be confident of its accuracy. CA (SA) implies the auditor has adequate knowledge. ✓✓	(2)
2.10	Independent auditor: appointed by shareholders to express opinion on the reliability of financial statements. ✓ Internal auditor appointed by directors to ensure internal control. ✓ ✓ impression	(3)
2.11	<p><b>Audit Report</b></p> <ul style="list-style-type: none"> <li> <p><b>The financial statements present the financial position fairly:</b> Not all transactions are checked. The financial position must not be biased to any group of people, etc. ✓✓</p> </li> <li> <p><b>In accordance with International Financial Reporting standards:</b> SA must be in line with International standards. Investors from outside SA will have an interest in South African companies, etc ✓✓</p> </li> <li> <p><b>In the manner required by the Companies Act:</b> Shareholders, Directors and Auditors must comply with the legal requirements as laid out in the Companies Act. ✓ etc.</p> </li> </ul>	(2) (2) (2)

[77]

**SECTION C: HOMEWORK****QUESTION 1:****40 marks****25 minutes****MANUFACTURING AND AUDIT REPORTS**

1.1 You are provided with information relating to Pandora Manufacturers, owned by Phillip Pandora, for the year ended September 2009. The business manufactures two products: suitcases and sports bags.

**REQUIRED**

- 1.1.1 Identify one major item of each of the following in a manufacturing business:
- Factory overhead costs
  - Selling and distribution costs
- (2)
- 1.1.2 Calculate the following in respect of suitcases for 2009:
- The unit cost of production
  - The variable cost per unit
- (5)  
(3)
- 1.1.3 Calculate the break even point for the suitcases in 2009. (5)
- 1.1.4 Identify TWO costs which have not been well controlled in respect of suitcases during this financial year. Quote appropriate figures to support your answer. In each case provide a possible solution to this trend. (8)
- 1.1.5 Phillip is considering producing only one line instead of the current two. Advise Phillip about whether he should retain the manufacturing of suitcases or sports bags. Provide appropriate figures from the question to support your answer. (7)

## INFORMATION

1.

	<b>Sports bags (2009)</b>	<b>Suitcases (2009)</b>	<b>Suitcases (2008)</b>
	<b>Total cost</b>	<b>Total cost</b>	<b>Total cost</b>
<b>Variable costs</b>	<b>R520 000</b>	<b>R660 000</b>	<b>R470 000</b>
Direct material cost	R240 000	R330 000	200 000
Direct labour cost	R160 000	R264 000	240 000
Selling & distribution cost	R120 000	R66 000	30 000
<b>Fixed costs</b>	<b>R280 000</b>	<b>R650 000</b>	<b>R430 000</b>
Administration cost	R60 000	R250 000	220 000
Factory overhead cost	R220 000	400 000	210 000
Break-even point	1 867 units	?	1 623 units
Selling price per unit	R280,00	R520,00	R500
No. of units produced	4 000 units	2 500 units	2 000
No. of orders placed	4 000 units	3 000 units	2 000

## 1.2 AUDIT REPORT

You are provided with information relating to CD Manufacturers Limited.

## REQUIRED

- 1.2.1 What is the purpose of an independent audit report, and who is it addressed to? (3)
- 1.2.2 Explain the difference between a qualified and an unqualified audit report? (4)
- 1.2.3 The independent auditors want to qualify the report. What consequences could there be for the company or its directors? List THREE points. (3)

[40]

<b>SECTION D: SOLUTIONS TO HOMEWORK</b>
---

**QUESTION 1**

1.1.1

**Factory overhead costs***Possible answers*

- Indirect materials
- Indirect labour
- Depreciation of factory plant and machinery
- Any expenses related to the **factory**, e.g. electricity

**Selling and distribution costs***Possible answers*

- Salaries of sales personnel
- Travelling expenses
- Commission on sales
- Entertainment expenses

(2)

1.1.2

**The unit cost of production for suitcases**

$$330\,000 \checkmark + 264\,000 \checkmark + 400\,000 \checkmark = 994\,000 / 2\,500 \checkmark \\ = R397,60 \checkmark$$

**Variable cost per unit for suitcases**

$$660\,000 \checkmark / 2\,500 \checkmark \\ = R264 \checkmark$$

(8)

1.1.3

**Calculate the break-even point for the suitcases.**

$$\frac{\text{Fixed costs}}{\text{SP per unit} - \text{VC per unit}} \\ \frac{400\,000 \checkmark + 250\,000 \checkmark}{520 \checkmark - 264 \checkmark} \\ = \frac{650\,000}{256} \\ = 2\,539,1 = 2\,540 \text{ units } \checkmark$$

(5)

- 1.1.4 Identify cost with appropriate figure ✓✓ ✓✓  
Provide solution ✓✓ ✓✓
- | Identify costs   | Solution  |
|--|---|
| Production increased by 20% while direct material costs increased by 65%. Direct material costs increased from R200 000 to R330 000. | Investigate cheaper raw materials. Avoid wastage of raw materials.<br>Train staff to avoid wastage.   |
| Factory overhead expenses almost doubled from the previous year, R210 000 to R400 000.   | Investigate factory expenses. Avoid wastage, e.g. electricity, telephone, repairs to machinery, etc.<br>Implement control measures w.r.t. indirect labour and indirect materials. |
| Selling and distribution costs increased by 110% while sales decreased by 10%.   | Implement strict control measures and limit travelling and entertainment expenses.  |
- (8)
- 1.1.5 Sports bags: ✓✓✓
- Production (4 000 units) is more than double the break-even required (1 867 units).
  - The units produced have all been sold.
- Suitcases: ✓✓✓
- Production (2 500) below break-even (2 540). Certain costs have not been well controlled, viz. direct material, factory overheads and selling & distribution costs.
- Phillip should retain manufacturing sports bags and stop producing suitcases. ✓
- (7)
- 1.2.1 **Purpose:** ✓✓
- To report on the company's financial records and determine whether there is a fair presentation of facts, and whether the policies are consistent with the previous year.
- Addressed to:** ✓
- Shareholders
- (3)
- 1.2.2 An unqualified report is a report without any problems – good report ✓✓
- A qualified report reveals problems in certain areas of the company – all is not well.
- (4)

1.2.3

**List THREE points.**

One mark per point listed ✓ ✓ ✓

- Existing shareholders would lose faith in the company and possibly sell their shares.
- Potential shareholders would not invest in the company
- Could result in a drop in the market price of the shares
- The financial statements would not be fairly presented
- Suppliers would lose faith in the company
- Internal control measures should be improved in order to prevent unethical transactions
- Directors could lose their jobs

(3)

**[40]**