

SENIOR SECONDARY IMPROVEMENT PROGRAMME 2013



education

Department: Education

GAUTENG PROVINCE

GRADE 10

ACCOUNTING

TEACHER NOTES

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TEACHER NOTES

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SESSION 11**TOPIC: CONSOLIDATION****LESSON OVERVIEW**

- | | | |
|----|-------------------------|------------|
| 1. | Introduce session: | 5 minutes |
| 2. | Typical exam questions: | 30 minutes |
| 3. | Review/solutions: | 25 minutes |

SECTION A: TYPICAL EXAM QUESTIONS**Teacher Note:**

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

QUESTION 1: **55 marks** **35 minutes** *(DoE Nov 2010)*

BALANCE SHEET

You are provided with information relating to Kanela Limited. The financial year-end is 28 February 2010.

REQUIRED

- 1.1 Use the information below to prepare the Balance Sheet on 28 February 2010. All workings must be shown in brackets – the NOTES to the financial statements are not required. (41)
- 1.2 The Managing Director, Jan Kriel, currently owns 45% of the issued shares. The board of directors has decided to issue the unissued shares to the public. Jan wants to use this opportunity to gain control of the company.
- 1.2.1 How many shares will he have to buy to gain control of the company? (3)
- 1.2.2 Jan plans to purchase the shares himself at par value without advertising the shares to the public. The current market price of a share is R3,10. If you were a shareholder in this company would you be satisfied with this arrangement? Explain. (5)
- 1.3 Kanela Limited has donated funds to build a high school in the community and they have spent considerable amounts in cleaning up a river and a forest area which has been neglected.
- 1.3.1 Explain why large companies like Kanela Ltd are expected to be involved in such projects. (3)
- 1.3.2 Explain how the directors should reflect these projects in the annual report which is published for shareholders. (3)

INFORMATION

1. The authorised share capital comprises of 1 000 000 ordinary shares of R2,00 par value each. By 28 February 2009, 600 000 ordinary shares had been issued at par. During the current financial year a further 200 000 shares were issued at a premium of R0,70 each.
2. The following balances were extracted from the books on 28 February 2010:
 - Land & Buildings at cost, R1 800 000
 - Equipment at cost, R300 000
 - Creditors' control, R720 000
 - Debtors' control, R530 000
 - Creditors for salaries, R36 000
 - Income receivable, R24 000
 - Cash at bank, R66 000
3. One of the fixed deposits, R175 000, matures on 30 September 2010. The rest matures in 2012.
4. A loan from Easi Bank of R1 500 000 was originally received on 1 March 2008. This is to be repaid in equal monthly instalments over 5 years.
5. All the equipment was purchased on the same day, 1 October 2007. Depreciation is written off at 20% p.a. on cost price.
6. The following financial indicators apply at the end of the financial year.
 - The net asset value is R2,58 and the price on the JSE is R3,10
 - The current ratio is 1,5 : 1

[55]

QUESTION 2:**45 marks****25 minutes****INVENTORY**

You are provided with information relating to Golf Universe, a business which sells golf clubs and golf balls. Paul Fitt owns the business. The periodic inventory system is used.

REQUIRED

- 2.1 Refer to Information 1. Briefly explain why it is appropriate for Paul to use the FIFO method for golf clubs, and the Weighted Average method for golf balls. (4)
- 2.2 Calculate the value of the closing stock for the two stock items. Show all workings using both the number of units and the value of the units. (15)
 - Golf clubs (use FIFO method)
 - Golf balls (use weighted average method)

- 2.3 For golf clubs, calculate the following: (5)
- Cost of sales (3)
 - Gross profit (3)
 - VAT charged to customer on golf clubs sold (3)
 - Mark-up % (3)
- NB: You may draft a Trading account for golf clubs to assist in identifying these figures (3)
- 2.4 Paul suspects that he is not controlling his stock well. (6)
- He suspects that the golf clubs he is selling are not very popular with his customers.
 - He suspects that golf balls are being stolen.
- Provide information from the question which will confirm his opinions. Provide an appropriate calculation in each case to support your answer. (6)
- 2.5 Paul has asked you to become a partner in this business. Explain three strategies that you would want to implement in this business were you to become a partner (your strategies must be based on specific information from the question). (6)

INFORMATION

1. **Inventory is valued according to the following methods:**
 - Golf clubs: First-in-first-out method (FIFO)
 - Golf balls: Weighted average method
2. **Inventory valuations** at the beginning and end of the accounting period:

	Golf clubs			1. Golf balls		
	No. of units	Per unit	Total value	No. of units	Per unit	Total value
01/03/2010	90	R800	R72 000	1 200	R9,60	R11 520
28/02/2011	205	?	?	550	?	?

3. **Carriage, exchange rates and import duties:**
 - 3.1 **Golf clubs:** These are made in South Africa. Transport costs are R50 per golf club. A total of R15 000 was paid for transporting the 300 golf clubs purchased. Transport cost is included in the opening stock figure of R800.
 - 3.2 **Golf balls:** These are imported from the USA. Prices are quoted in US Dollars (\$). The exchange rate was R7,50 = \$1.00 throughout the year. Import duties are levied at 20% of the Rand value of the purchases. Transport costs are paid by the manufacturer. Import duties cost is included

in the opening stock figure of R9,60

4. Purchases during the year:

	Golf clubs			2. Golf balls		
	No. of units	Purchase price per unit	Total value in Rands	No. of units	Purchase price per unit in US Dollars	Total value in US Dollars
25/04/2010	75	R750	R56 250	3 000	\$1,00	\$3 000
25/07/2010	75	R800	R60 000	3 000	\$1,20	\$3 600
26/10/2010	75	R900	R67 500	3 000	\$1,20	\$3 600
25/01/2011	75	R900	R67 500	3 000	\$1,60	\$4 800
TOTALS	300		R251 250	12 000		\$15 000

5. Sales during the year:

- **Golf clubs:** 185 units at R1 200 each = R222 000
- **Golf balls:** 10 500 units at R19 each = R199 500

[45]

SECTION B: SOLUTIONS AND HINTS TO SECTION A
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QUESTION 1

**1.1 KANELA LIMITED
BALANCE SHEET ON 28 FEBRUARY 2001**

ASSETS	
Non-current assets	<input checked="" type="checkbox"/> 2 136 000
Fixed assets (1 800 000 ✓ + 300 000 ✓ – 145 000 ✓✓)	<input checked="" type="checkbox"/> 1 955 000
Investments	<input checked="" type="checkbox"/> 181 000
Current assets	<input checked="" type="checkbox"/> 1 584 000
✓ Inventories	<input checked="" type="checkbox"/> 789 000
✓ Trade & other receivables (530 000 ✓ + 24 000 ✓)	✓ 554 000
✓ Cash & cash equivalents (175 000 ✓ + 66 000 ✓)	✓ 241 000
TOTAL ASSETS	<input checked="" type="checkbox"/> 3 720 000
19	
EQUITY & LIABILITIES	
Ordinary shareholders' equity	✓✓ 2 064 000
✓ Ordinary share capital (1 200 000 ✓ + 400 000 ✓)	✓ 1 600 000
✓ Share premium	✓✓ 140 000
✓ Retained income	<input checked="" type="checkbox"/> 324 000
Non-current liabilities	<input checked="" type="checkbox"/> 600 000
Loan from Easi-Bank (1 500 000 – 900 000)	✓✓ 600 000
Current liabilities	<input checked="" type="checkbox"/> 1 056 000
Trade & other payables (720 000 ✓ + 36 000 ✓)	✓ 756 000
✓ Current portion of loan	✓✓ 300 000
TOTAL EQUITY & LIABILITIES	<input checked="" type="checkbox"/> 3 720 000
22	

(41)

- 1.2.1 He currently owns 45% of 800 000 shares = 360 000 ✓
 He needs to own 50%+1 of 1 000 000 shares = 500 001 ✓ (accept 500 100 or 501 000)
 He needs to purchase = 140 001 (accept 140 100 or 141 000) (3)

- 1.2.2 No ✓

Explanation: ✓✓✓✓

Excellent explanation = 4 marks; Good explanation = 3 marks;
 satisfactory explanation = 2 mark, Poor Explanation = 1 mark,
 incorrect = 0 marks

Candidates are expected to identify the ethical considerations, e.g. the issue should be in line with the memorandum and articles of association, or freely available to the public unless special circumstances apply such as a rights issue, the fact that the issue price should be at current market value, or that the strategy to gain control of the company is inappropriate.

Expected response:

As this is a public company the shares should be offered to the public. The shares should be issued at the current market value of R3,10 which will bring in R620 000 to the company. If Jan pays the par value, this would amount to only R400 000. He would, therefore, be benefiting while the other shareholders will be disadvantaged through dilution of the share price. Jan was not the majority shareholder before the issue of these shares. If he sells these shares to himself, he will be have overall control of company decisions which will also impact on the other shareholders and directors. (5)

- 1.3.1 Excellent explanation = 3 marks; Good explanation = 2 marks;
 satisfactory explanation = 1 mark, incorrect = 0 marks

Expected responses:

- The King Code covers the triple bottom line concepts, i.e. economic, social and environmental responsibilities **OR**
- Big companies rely on communities and the world around them in order to sustain profits. The fact that they are contributing back to the community is the right thing to do. (3)

- 1.3.2 Excellent explanation = 3 marks; Good explanation = 2 marks;
satisfactory explanation = 1 mark, incorrect = 0 marks

Expected responses:

The cost of these projects should be highlighted in the income statement or the notes to the financial statements. The directors should fully inform all readers of the financial statements about the nature of these projects and the good work that the company is involved in.

(3)

[55]

QUESTION 2

- 2.1 Good explanation = 2 marks; satisfactory = 1 mark; incorrect = 0 marks
✓✓

Golf clubs are a more expensive item of which not many are bought and sold. The prices can also differ substantially between different purchases. It is easy to keep track of movement of stock. Hence the FIFO method is appropriate.

Good explanation = 2 marks; satisfactory = 1 mark; incorrect = 0 marks
✓✓

Golf balls are less expensive. Thousands are being bought. It would not be easy to keep track of which balls are bought. Hence the weighted average method would be more appropriate.

(4)

- 2.2 **Calculation of value of closing stock of golf clubs (FIFO method):**

$$R67\,500 \checkmark + 67\,500 \checkmark = (55 \times 800) \checkmark \checkmark + 10\,250 \checkmark = R189\,250 \checkmark$$

$$44\,000$$

Calculation of value of closing stock of golf balls (Weighted Average method):

$$\underline{R11\,520 \checkmark + 112\,500 \checkmark \checkmark + 22\,500 \checkmark}$$

$$1\,200 \checkmark + 12\,000$$

$$\underline{146\,520}$$

$$13\,200$$

$$R11,10 \checkmark \times 550 \checkmark = R6105 \checkmark$$

(15)

2.3 Calculate cost of sales of golf clubs:

$$72\ 000 \checkmark + 251\ 250 \checkmark + 15\ 000 \checkmark - 189\ 250 \checkmark = R149\ 000 \checkmark$$

Calculate gross profit on golf clubs:

Sales – cost of sales = gross profit

$$222\ 000 \checkmark - 149\ 000 \checkmark = R73\ 000 \checkmark$$

Calculate the VAT charged to customer on golf clubs sold

$$222\ 000 \checkmark \times 14\% \checkmark = R31\ 080 \checkmark$$

Calculate the mark-up % on golf clubs:

$$73\ 000 \checkmark / 149\ 000 \checkmark \times 100$$

$$= 48,9\% \checkmark$$

(4)

2.4 Calculation regarding lack of popularity of the golf clubs:

Calculation appropriate/correct in all respects = 3 marks

Calculation partially appropriate/correct = 1 to 2 marks

Inappropriate/incorrect calculation = 0 marks ✓✓✓

Any appropriate calculation, e.g.

- 47% of stock available were sold (185/390 x 100) OR
- 205 / 185 X 365 = 404 days stock on hand.

Calculation regarding theft of the golf balls:

Calculation appropriate/correct in all respects = 3 marks

Calculation partially appropriate/correct = 1 to 2 marks

Inappropriate/incorrect calculation = 0 marks ✓✓✓

Any appropriate calculation, e.g.

$$1\ 200 + 12\ 000 - 10\ 500 = 2\ 700 \text{ balls should be on hand}$$

$$2\ 700 - 550 = 2\ 150 \text{ missing golf balls OR}$$

$$2\ 150 \times R11,10 = R23\ 865 \text{ shortage}$$

2.5 Explanation of strategy: ✓✓ ✓✓ ✓✓

- Implement stricter internal control measures to eliminate theft of stock, e.g. cameras, security staff, random bag searches.
- Avoid stock piling as the clubs are produced locally it would be easy to purchase as needed.
- Consider revising the mark-up policy on golf clubs. The current selling price may be higher than competitors.
- Consider advertising/marketing strategies to encourage greater turnover of golf clubs.
- Consider the possibility of purchasing golf balls locally at a lower price.
- Consider importing the golf clubs as it appears that the customers do not like the current product. (6)

[45]

SECTION C: HOMEWORK

QUESTION 1 55 marks 30 minutes

PROJECTED INCOME STATEMENT

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

REQUIRED

Answer the questions which follow.

INFORMATION

HELEN'S HAIR STYLISTS

PROJECTED INCOME STATEMENT FOR APRIL TO JUNE 2010

	APRIL	MAY	JUNE
	R	R	R
Sales of hair products	87 500	105 000	122 500
Cost of sales	50 000	60 000	70 000

Gross profit	37 500	45 000	52 500
Other operating income	122 000	122 000	162 000
Fee income from customers	120 000	120 000	160 000
Sundry income	2 000	2 000	2 000

OPERATING EXPENSES	95 350	120 072	127 372
Salary of hairdressing assistants	25 500	25 500	34 000
Wages of cleaner	3 400	3 672	3 672
Rent of premises	24 600	30 750	30 750
Consumable stores	14 400	14 400	19 200
Water & electricity	6 000	6 000	7 000
Telephone	2 200	2 200	2 200
Advertising	8 000	15 000	8 000
Motor vehicle expenses	1 400	5 600	5 600
Repairs & maintenance of equipment	3 500	3 500	3 500
Sundry expenses	2 300	2 300	2 300
Depreciation on vehicle	2 000	9 100	9 100
Depreciation on equipment	2 050	2 050	2 050
OPERATING PROFIT	64 150	46 928	87 128
Interest income	3 315	0	0
	67 465	46 928	87 128
Interest on loan	750	625	500
NET PROFIT	66 715	46 303	86 628

ADDITIONAL INFORMATION

1. **Line of business:**

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

3. **Business premises rented:**

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

4. **Fixed deposit:**

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

5. **Fixed assets:**

	Date of purchase	Cost price	Accumulated depreciation on 31 March 2010	Depreciation rate
Hairdressing equipment	1 April 2004	R164 000	R147 600	15% on cost
VW Polo	1 July 2007	R120 000	R66 000	20% on cost
BMW 5-series	1 May 2010	?	?	20% on cost

Helen plans to make the following changes to fixed assets:

- VW Polo will be retained by the business.
- The new BMW will be purchased on 1 May 2010. Some of the funds from the fixed deposit will be used to buy the vehicle.
- She intends to replace all the hairdressing equipment on 1 July 2010. The old equipment will be traded in and the difference will be financed by way of a loan (interest rate 15%). The trade-in value is expected to be R23 000, while the cost of the new equipment will be R402 000.

QUESTION 1

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

- 1.1.1 The monthly salary paid to each hair stylist. (2)
- 1.1.2 The % increase in wages that the cleaner will receive during the projected period. (2)
- 1.1.3 The % interest rate on the fixed deposit. (4)
- 1.1.4 The rental per square metre, and the number of additional square metres she will rent from 1 May 2010. (4)

- 1.2 As the internal auditor you compare the following projected figures to the actual figures at the end of April. Provide four comments that you would include in your internal auditor's report in respect of scenarios A, B, C and D below.

		Projected April 2010	Actual April 2010
A	Telephone	2 200	4 150
B	Water & electricity	6 000	4 900
C	Fee income	120 000	136 800
	Consumable stores	14 400	15 120
D	Sales of hair products	87 500	112 000
	Cost of sales	50 000	70 000
	Gross profit	37 500	42 000

(10)

- 1.3 Helen is considering changes to the fixed assets owned by the business.

1.3.1 Calculate the cost of the new vehicle which she plans to purchase on 1 May 2010. (4)

1.3.2 Prepare the expected asset disposal account for the trade-in of the old hairdressing equipment on 1 July 2010. (10)

1.3.3 What effect will the purchase of the new equipment have on the expected profits of the business each month? Provide calculations to support your answer. (8)

1.3.4 Helen is thinking of purchasing the business premises rather than renting them. Explain one major advantage and one major disadvantage of this option. (2)

1.3.5 Has Helen acted responsibly in the decisions she has taken/planned regarding the fixed assets?
Explain, quoting specific information from the question.
(See Additional information 5 on previous page.) (5)

- 1.4 Helen is not sure if she has made the right decision to give up her previous job many years ago and to invest R800 000 in this business. Refer to the projected monthly profit for this period. Based on these projections, what is your opinion on the decision which Helen took? Explain. (4)

[55]

SECTION D: SOLUTIONS TO HOMEWORK

QUESTION 1

1.1.1 $R25\ 500 / 3 = R8\ 500$ ✓✓

OR

$R34\ 000 / 4 = R8\ 500$ (2)

1.1.2 $272 / 3\ 400 \times 100 = 8\%$ ✓✓ (2)

1.1.3 ✓ ✓ ✓ ✓
 $3\ 315 / 468\ 000 \times 12 \times 100 = 8,5\%$ (4)

1.1.4 $24\ 600 / 60 = R410$ ✓✓

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

$30\ 750 / 410 = 75$ OR $60 \times 30\ 750 / 24\ 600 = 75$ sq metres

Increase = $75 - 60 = 15$ sq metres ✓✓ (4)

1.2

A. **Comment on telephone:**

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

Expected response: ✓✓

The telephone costs have exceeded projections by R1 950. These have not been well controlled and measures must be implemented to rectify this.

Alternative correct and valid responses acceptable.

B. **Comment on water & electricity:**

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

Expected response: ✓✓

The water & electricity costs are R1 100 under the projections. These have been well controlled especially considering the increase in electricity tariffs (and the increase in the number of customers).

Alternative correct and valid responses acceptable.

C. Comment on fee income & consumable stores:

Excellent answer = 3 marks; Good answer = 2 marks; Satisfactory =1;

Incorrect =0

Expected response:

✓✓✓

There was a good increase in fee income (+14%) which indicates that the business is popular with its customers. The consumables stores (e.g. shampoos, conditioners) increased slightly (+5%) but not in the same proportion as the fees received.

Alternative correct and valid responses acceptable.

D. Comment on sale of hair products, cost of sales & gross profit:

Excellent answer = 3 marks; Good answer = 2 marks; Satisfactory =1; Incorrect =0

Expected response:

✓✓✓

There was a good increase in sales (+R24 500 / +28%) which was caused by the decrease in the mark-up % (from 75% to 60%). The increased sales volume on the lower mark-up resulted in an increase in the gross profit (+R4 500 / +12%). It appears that this was a good strategy.

Alternative correct and valid responses acceptable.

(10)

1.3.1 ✓ ✓ ✓ ✓
 $7\ 100 / 0,2 \times 12 = R426\ 000$

(4)

1.3.2

ASSET DISPOSAL

2010 July 1	Equipment ✓	✓ 164 000	2010 July 1	Acc depr on equipment ✓ (153750✓ + 8 200✓)	✓161 950
	Profit on disposal of asset ✓	☑ 20 950		Creditors control ✓	✓23 000
		184 950			184 950 (10)

1.3.3 Interest on loan: ✓

15% of R379 000 = R4 737,50 pm – negative effect ✓✓

Depreciation: ✓

15% R402 000/12 less R2 050 = R2 975 pm – negative effect ✓✓

Maintenance: ✓

R3 500 pm – positive effect ✓

(8)

1.3.4 **Advantage:** ✓

Saving on rent / Earn capital gains on property values

Disadvantage: ✓

Repairs and maintenance to be paid /

She will need a bond to finance this option (high repayments)

(2)

1.3.5 **Explain, quoting specific information from the question.**

(See Additional information 5 on previous page.)

Excellent answer = 4-5 marks; Good answer = 2-3 marks; Satisfactory =1;

Incorrect =0

Expected response:

✓✓

It was responsible of her to replace the old equipment. The new equipment will attract customers, will make working conditions better and will involve less maintenance.

✓✓✓

With regard to the vehicles, it was irresponsible of her to purchase an expensive new car, especially as the customers travel to the business. Also, this meant that the fixed deposit was used to finance the expensive car. This money could have been used to finance the equipment without high interest charges.

Alternative correct and valid responses acceptable.

(5)

1.4 *Excellent answer = 4 marks; Good answer = 2-3 marks; Satisfactory =1;*

Incorrect =0

Expected response:

✓✓✓✓

Her projections show that she expects to earn an average of R66 549 pm from this business, approximately R798 564 pa.

She is losing out on interest on her savings – approximately R68 000 pa or R5 667 pm (based on interest rate 8,5% pa)

She is befitting by more than R700 000 pa, which means she has probably made the right decision.

Alternative correct and valid responses acceptable.

(4)

[55]

SESSION 12**TOPIC: CONSOLIDATION****LESSON OVERVIEW**

- | | | |
|----|-------------------------|------------|
| 1. | Introduce session: | 5 minutes |
| 2. | Typical exam questions: | 30 minutes |
| 3. | Review/solutions: | 25 minutes |

SECTION A: TYPICAL EXAM QUESTIONS**Teacher Note:**

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

QUESTION 1:**70 marks****43 minutes****CASH-FLOW STATEMENT AND RATIO ANALYSIS**

The information given below was extracted from the financial statements of Manchester Ltd, distributors of exquisite perfumes.

REQUIRED

- 1.1 Prepare the following:
- 1.1.1 Complete the note for reconciliation between profit before taxation and cash generated from operations. (8)
- 1.1.2 Prepare the Cash-Flow Statement for the year ended 28 February 2009. (28)
All workings must be shown in brackets to earn part-marks.
- 1.2 Calculate the following for 2009:
- 1.2.1 Current ratio (3)
- 1.2.2 Acid-test ratio (4)
- 1.2.3 Net asset value per share (4)
- 1.2.4 Debt/Equity ratio (Gearing ratio) (3)
- 1.3 Explain why the directors decided to reduce the long-term loan significantly during the current financial year. In your opinion, was this a wise decision? Explain, quoting evidence (figures/financial indicators) from the question. (6)
- 1.4 Calculate the premium at which the new shares were issued. (6)
- 1.5 Comment on the return on shareholders' equity, earnings and dividends earned by the shareholders. Quote evidence (figures/financial indicators) from the question. (5)
- 1.6 The existing shareholders are unhappy with the price at which the additional shares were sold. Discuss, quoting ONE figure or financial indicator to support your answer. (3)

INFORMATION

1.	Extract from the Income Statement	R
	Depreciation	33 500
	Interest expense	164 450
	Net profit before tax	844 300
	Income tax (rate 30% of net profit)	?

2.	BALANCE SHEET	28 February 2009	28 February 2008
	ASSETS		
	Non-current assets	3 490 885	3 017 500
	Fixed/Tangible assets at carrying value	3 440 885	2 967 500
	Fixed deposit at PDV Bank	50 000	50 000
	Current assets	320 000	231 250
	Inventories	251 250	110 250
	Trade debtors	60 000	76 000
	Cash and cash equivalents	1 250	45 000
	SARS – Income tax	7 500	0
	TOTAL ASSETS	3 810 885	3 248 750
	EQUITY AND LIABILITIES		
	Capital and reserves	3 120 000	1 443 000
	Ordinary share capital (par value R5)	2 085 000	1 050 500
	Share premium	268 970	0
	Retained income	766 030	392 500
	Non-current liabilities	300 000	1 525 000
	Loan: Enid Bank at 15% p.a.	300 000	1 525 000

	Current liabilities	390 885	280 750
	Trade creditors	209 945	220 475
	Bank overdraft	47 500	0
	Shareholders for dividends	133 440	52 525
	SARS – Income tax	0	7 750
	TOTAL EQUITY AND LIABILITIES	3 810 885	3 248 750

3. ADDITIONAL INFORMATION

- A. Additional new shares were issued at a premium halfway through the year on 31 August 2008. These shares did not qualify for interim dividends.
- B. Fixed assets were sold for R100 000 cash at carrying value.
- C. Earnings and dividends per share were as follows:

	2009	2008
Earnings per share	189 cents per share	135 cents per share
Total dividends	72 cents per share	105 cents per share
Interim dividends	40 cents per share	80 cents per share
Final dividends	32 cents per share	25 cents per share

- D. You are also provided with the following financial indicators:

	2009	2008
% return on shareholders' equity	26%	21%
% return on capital employed (after tax)	24%	10%
Net asset value per share	?	687 cents

- E. The price of the shares on the Johannesburg Securities Exchange (JSE) has fluctuated between 680 cents and 780 cents over the past year.

[70]

QUESTION 2: 30 marks 18 minutes**DEBTORS COLLECTION AND CASH BUDGET**

Africa Ceramics is owned by Joe Tyler. He sells a wide range of ceramic tiles. The following information was extracted from the books:

REQUIRED

- 2.1 Complete and total the Debtors Collection Schedule for November and December 2009. (13)
- 2.2 Refer to Information 3 below. Compare the budgeted figures to the actual figures for October to comment on each of the following. State TWO points in each case (6)
- Advertising
 - Repairs and maintenance
 - Delivery expenses
- 2.3 (a) Explain TWO problems you have identified and quote figures from the question to support your answer. (4)
- (b) Give ONE point of advice in each case. (4)
- 2.4 By looking at the Cash Budget in Information 3 and assuming all other items are in line with the budget, would you expect the bank balance at the end of October to be favourable or unfavourable? Give a reason for your answer. (3)

INFORMATION**1. DEBTORS COLLECTION SCHEDULE OF AFRICA CERAMICS FOR THE PERIOD ENDING 31 DECEMBER 2009**

Month	Credit sales R	DEBTORS COLLECTION		
		October 2009 R	November 2009 R	December 2009 R
August	360 000	64 800		
September	540 000	270 000		
October	450 000	129 600		
November	420 000			
December	420 000			
TOTALS		464 400		

2. EXPECTED COLLECTION FROM DEBTORS

- 75% of all sales are expected to be on credit.
- 30% of debtors settle accounts during the transaction month to benefit from a 4% discount for prompt payment.
- 50% of debtors settle accounts in the month following the transaction month.
- 18% settle accounts during the second month after the transaction month.
- 2% is written off as irrecoverable after 60 days.

3. BUDGETED AND ACTUAL FIGURES

At the end of October, the following actual figures were identified and compared to the budgeted figures:

From the Projected Income Statement:	OCTOBER BUDGET R	OCTOBER ACTUAL R
Total sales	600 000	672 000
Cash sales	150 000	70 000
Credit sales	450 000	602 000

From the Cash Budget:	OCTOBER BUDGET R	OCTOBER ACTUAL R
Collections from debtors	464 400	238 588
Purchase of trading stock	375 000	420 000
Advertising	15 000	25 000
Repairs and maintenance	16 500	3 800
Delivery expenses	20 000	42 000
Bank balance at end of month	120 000	?

[30]

SECTION B: SOLUTIONS AND HINTS TO SECTION A

QUESTION 1

1.1.1	Reconciliation between profit before taxation and cash generated from operations	
	Net profit before tax	844 300
	Adjustments i.r.o.	
	Depreciation	33 500
	Interest on borrowed funds	164 450
	Operating profit before changes in working capital	1 042 250
	Changes in working capital <i>Check operation</i>	<input checked="" type="checkbox"/> (135 530)
	Inventory	Figure ✓ Operation ✓ (141 000)
	Debtors	Figure ✓ Operation ✓ 16 000
	Creditors	Figure ✓ Operation ✓ (10 530)
	Cash generated from operations <i>Check operation</i>	<input checked="" type="checkbox"/> 906 720

(8)

1.1.2 MANCHESTER LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2009

CASH FLOW FROM OPERATING ACTIVITIES	Check operation	<input checked="" type="checkbox"/> 337 165
Cash generated from operations	See 5.1.1	<input checked="" type="checkbox"/> 906 720
Interest paid	Figure must correct & outflow	✓ (164 450)
Dividends paid 52 525 ✓ + 217 480 ✓ – 133 440 ✓ OR – 52 525 – 217 480 + 133 440 OR 52 525 1 mark + 84 040 2 marks	If one part correct, figure must be outflow	<input checked="" type="checkbox"/> (136 565)
Taxation paid 7 750 ✓ + 253 290 ✓ + 7 500 ✓ OR – 7 750 – 253 290 – 7 500	If one part correct, figure must be outflow	<input checked="" type="checkbox"/> (268 540)

CASH FLOW FROM INVESTING ACTIVITIES	Check operation figure must show correct flow	<input checked="" type="checkbox"/> (506 885)
Purchase of fixed assets 3 440 885 ✓ – [2 967 500 ✓ – 100 000 ✓ – 33 500 ✓] OR 3 440 885 – 2 967 500 + 100 000 + 33 500 OR –3 440 885 + 2 967 500 – 100 000 – 33 500	If one part correct, figure must be -ve	<input checked="" type="checkbox"/> (606 885)
Proceeds from the sale of fixed assets		✓ 100 000
CASH FLOW FROM FINANCING ACTIVITIES	Check operation	<input checked="" type="checkbox"/> 78 470
Proceeds of shares issued 1 034 500✓✓ + 268 970✓ OR 2 085 000 (1 mark) – 1 050 500 (1 mark) + 268 970 (1 mark) OR 2 353 970 (2 marks) – 1 050 000 (1 mark)		✓ 1 303 470
Repayment of long term loans	Figure ✓ Outflow ✓	(1 225 000)
Net change in cash and cash equivalents	Check operation, do not accept 46250 or 47500 or 1250	<input checked="" type="checkbox"/> (91 250)
Cash and cash equivalents at the beginning of the year	Must be +ve	✓ 45 000
Cash and cash equivalents at the end of the year	Figure must be -ve	✓ (46 250)

Fixed Assets T-account	
2 967 500	100 000
606 885	33 500
	3 440 885

(28)

1.2 Calculate the following for 2009:

1.2.1 Current ratio

✓ ✓

$$320\,000 : 390\,885 = 0,8 : 1 \text{ (accept } 0,82 : 1) \quad (3)$$

1.2.2 Acid-test ratio

✓✓ ✓

$$68\,750 : 390\,885 = 0,2 : 1 \text{ (Accept } 0,18 : 1) \quad (4)$$

1.2.3 Net asset value per share

✓ ✓✓

$$R3\,120\,000 / 417\,000 \text{ shares} = 748,2 \text{ cents or } R7,48 \quad (4)$$

1.2.4 Debt/Equity ratio (Gearing ratio)

✓ ✓

$$300\,000 : 3\,120\,000 = 0,1 : 1 \text{ or } 0,096 : 1 \quad (3)$$

1.3 **Explanation of directors' decision:** ✓✓

Any one reason:

- The sale of extra shares has brought about an inflow of cash
- In the previous year the ROTCE (10%) was lower than the interest rates (15%).
- In the previous year the company was highly geared with a very high debt/equity ratio (> 1 : 1)

Opinion: Yes or No ✓

Explanation: ✓✓ **Evidence:** ✓

Any one explanation for Yes:

- The debt/equity ratio is now very low (0,1 : 1) which indicates a low-risk situation
- The saving on interest has increased the profits as indicated by EPS from 135c to 189c or ROSHE from 21% to 26%
- The company is now in a positive gearing situation with ROTCE of 24% which is much higher than the interest rates.

Any one explanation for No:

- The directors have over-reacted because the evidence shows that they should now consider taking out more loans (ROTCE of 24% exceeds interest rates) and debt/equity ratio of 0,1:1 is low, indicating low risk
- The short-term liquidity is now a problem as the acid-test ratio is now 0,2:1 and the current ratio is 0,8:1
- The net change in cash was a negative of R91 250 which has caused short-term liquidity concerns. (6)

1.4 Returns on shareholders' equity

Quote financial indicator ✓	Any valid <u>specific</u> comment related to the indicator, e.g. ✓
ROSHE has increased from 21% to 26% OR: ROSHE is now 26% OR: ROSHE increased by <u>5%</u> points OR: ROSHE increased by 23,8%	This exceeds the returns on alternative investments

Earnings

Quote financial indicator ✓	Any valid <u>specific</u> comment related to the indicator, e.g. ✓
EPS has improved from 135c to 189c OR: EPS is now 189c OR: EPS increased by 54c or 40%	This compares well to the value of the share

Dividends

Quote financial indicator ✓	Any valid <u>specific</u> comment related to the indicator, e.g. ✓
DPS has declined from 105c to 72c OR: DPS is now 72c OR: DPS decreased by 33c or 31,4%	The company is retaining more of its profits OR: This increases the NAV OR: The dividend payout rate dropped to less than 50% of profits OR: Increases the infrastructure of the company

(6)

1.5 Calculate the premium at which the new shares were issued.

Number of shares issued = $(2\ 085\ 000 - 1\ 050\ 500) / R5 = 206\ 900$ shares

$268\ 970$ ✓✓✓ / $206\ 900$ ✓

= R1,30 ☑

(5)

1.6 Quoting of figures / financial indicator ✓

Comment ✓✓

Expected responses:

- The shares were issued at a price of R6,30 which is lower than the NAV (R6,87 or R7,48) which means that the existing shareholders are being disadvantaged
- The shares were issued at a price of R6,30 which is lower than the market price (R6,80 to R7,80) which means that the existing shareholders are being disadvantaged (3)

[70]

QUESTION 2

2.1 **DEBTORS COLLECTION SCHEDULE OF AFRICA CERAMICS FOR THE PERIOD ENDING 31 DECEMBER 2009**

Month	Credit sales R	DEBTORS' COLLECTION		
		October 2009 R	November 2009 R	December 2009 R
August	360 000	64 800		
September	540 000	270 000	✓✓97 200	
October	450 000	129 600	✓✓225 000	✓✓81 000
November	420 000		✓✓120 960	✓✓210 000
December	420 000			☑ 120 960
TOTALS		464 400	☑ 443 160	☑ 411 960

(13)

2.2 Any two valid and separate points in each case

Advertising

Candidates must compare advertising to sales ✓

- This led to an increase in sales of R72 000
- Sales increased by only 12%
- Sales increased by R72 000 (credit sales up by R152 000, cash sales down by R80 000)
One other factor: ✓
- Over-spent / Under-budgeted by R10 000 (investigate reason)
- Over-spent by 66% / Under-budgeted by 66% (investigate reason)
- They used a different strategy e.g. advertise on TV instead of in press.

Repairs & maintenance Any two valid comments ✓ ✓

- Under-spent / Over-budgeted by R12 700
- Consider if this is wise – fixed assets must not be neglected as they generate income for the business and neglecting repairs will lead to more expenditure in future
- Repairs & maintenance was well-managed / Good use of equipment that is why they under-spent

Delivery expenses

Candidates must compare delivery expenses to sales ✓

- Does not correlate with sales which increased by 12% while delivery expenses increased by 110%
- Over-spend of R22 000 led to a R72 000 increase in sales
One other factor: ✓
- Over-spent / under-budgeted by R22 000 / they spent more than double the budget
- Investigate possible abuse / lack of control / poor strategies (e.g. out-sourcing might be too expensive)
Poor maintenance of vehicles has led to high fuel costs (6)

2.3 Any valid explanations related to numbers of customers based on information from the question, e.g.

	(a) Description of problem, quoting figures:	(b) Advice:
1	Describe problem ✓ Quote figure ✓ Credit sales were R152 000 more than expected, while cash sales were R80 000 less than expected (this creates a cash flow problem).	Comment (part-marks possible): ✓ ✓ Offer more favourable trade discounts to customers who buy for cash
2	Describe problem ✓ Quote figure ✓ Collections from debtors are R225 812 less than budget / This is expected to lead to increased bad debts (2%) or extra administration costs.	Comment (part-marks possible): ✓ ✓ Screen debtors more rigorously to determine creditworthiness OR Apply more stringent credit terms before debtors open accounts OR Follow-up on each debtor by way of statements, phone calls etc, or charge interest. OR Debtors need to be encouraged to pay quicker – offer discount and/or charge interest on overdue accounts. (8)

2.4 **Favourable or unfavourable balance?** Unfavourable ✓

Reason: ✓✓

- Debtors collection is poor
- Cash sales are well under budget
- Cash purchases of trading stock have gone up
- Cash purchases are more than the cash sales and debtors collections

Also accept:

- Overall the variances on figures provided are negative
- Delivery expenses
- Advertising

(3)

[30]

SECTION C: HOMEWORK

QUESTION 1: 35 marks 21 minutes

BUDGETING

1.1 PRESENTATION OF A CASH BUDGET

Sebata`s store is a sole proprietor, located in the Strand. The owner, Bally Voice, prepared the budget below:

SEBATA`S STORE

CASH BUDGET FOR THREE MONTHS ENDING 31 MAY 2010

	2010 MARCH	2010 APRIL	2010 MAY
CASH RECEIPTS	338800	460 000	140000
Cash sales	338800	280000	140000
Loan		180000	

CASH PAYMENTS	239800	254520	392910
Cash purchases of stock	169400	140000	70000
Payment to creditors(after 60 days)	33600	78140	72600
Salaries and wages	12000	12000	9000
Rent expenses	7800	8580	8580
Advertising	2000	2000	
Other overheads	12400	11200	8230
Vehicles			68000
Construction of restaurant section			150000
Interest on loan	1400	1400	3500
Repayment of loan	1200	1200	3000
Surplus (Deficit) for the month	99000	205480	?
Cash at beginning of month	(21100)	?	?
Cash at the end of the month	?	?	?

REQUIRED

- 1.1.1 What is the purpose of the Cash Budget? (2)
- 1.1.2 Rent increases annually on 1 April. What is the percentage increase that will be applicable from 1 April 2010? (4)
- 1.1.3 Depreciation amounts to R4600 per month, but does not appear in the cash budget. Is this a mistake? (3)
- 1.1.4 Bally, the owner, has applied to increase his loan from R120000 to R300 000. He expects it to be approved, and for the money to be available in March 2010. Calculate the loan's interest rate. (6)
- 1.1.5 What is the mark-up percentage on cost price, assuming that creditors are paid after 60 days, and assuming that 30% of all stock purchases are on credit (Stock is replaced in the same month). (8)
- 1.1.6 Wages and Salaries for March and April are higher than usual, because the owner hired two students for the two months. What did each earn, and was it a good decision? (3)
- 1.1.7 What will the cash surplus (or deficit) be in May 2010, and to what can it be attributed? (4)
- 1.1.8 Calculate the bank balance be on 31 May 2010? (3)
- 1.1.9 Why should Bally be very careful with the surplus cash on hand on 31 May 2010 (2)

[35]

SECTION D: SOLUTIONS TO HOMEWORK

QUESTION 1

- 1.1.1 Any valid response(✓✓), e.g.
 • The cash budget shows the expected inflows and outflows of cash (2)
- 1.1.2 Calculation:=✓ $8580-7800/7800*100=780/7800*100=10\%$ ✓✓ (4)
- 1.1.3 One response and two explanation
 No✓, it is a non-cash transaction. .(✓✓) (3)
- 1.1.4 ✓ ✓
 Calculation: $120000*interest/100*1/12=1400$ ✓
 : $100*interest =1400$ ✓
 : $interest = 1400/100 =14\%$ ✓✓ (6)
- 1.1.5 Stock purchases=cost of sales
 Stock purchases for March
 $=169400$ ✓ $+72600$ ✓
 $=242000$ ✓✓
 Profit percentage on cost price
 $=338800$ ✓ $-242000/242000*100$ ✓ $=40\%$ ✓✓ (8)
- 1.1.6 Any response one mark and explanation two marks.
 $(12000-9000)/2=R1500$ each
 NO/Yes,✓
 It was a good idea, as the store was busy and the extra help was probably necessary.✓✓ (3)
- 1.1.7 $140000-392910$ ✓
 $=R252910$ ✓ deficit because of additions to the restaurant ✓✓ (4)
- 1.1.8 $R283380$ ✓ $+(252910)$ ✓ $=R30470$ ✓
 The bank balance will be R30 470 (3)
- 1.1.9 Response may be expressed differently. Any one reason: ✓✓
 The busy months for Bally's store are March and April, but he still needs enough cash flow for the rest of the year. For this reason, he should take care with what he does with the surplus cash on 31 May. (2)

[35]

SESSION 10**TOPIC: CONSOLIDATION****LESSON OVERVIEW**

1. Introduce session: 5 minutes
2. Typical exam questions: 30 minutes
3. Review/solutions: 25 minutes

SECTION A: TYPICAL EXAM QUESTIONS**Teacher Note**

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

QUESTION 1: 65 marks 30 minutes

COMPANY REPORTING**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:

CREDBANK	
Loan statement on 30 June 2008	
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. (4)

Explain TWO of the main roles performed by SAICA.

[65]

QUESTION 2: 35 marks 20 minutes**INVENTORY VALUATION**

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

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

REQUIRED

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

[35]

INFORMATION**Accounting records relating to the soccer balls:**

Details	Date	Number of balls	Unit price	Total
Opening stock	1 March 2008	750	R110	R82 500
		2 480		R340 800
Purchases	20 May 2008	800	R150	R120 000
	25 October 2008	1 200	R120	R144 000
	16 December 2008	480	R160	R76 800
Closing stock	28 February 2009	1 100	?	?
Sales	1 March 2008 to 28 February 2009	2 100	?	R430 500

SECTION B: SOLUTIONS AND HINTS TO SECTION A
--

QUESTION 1**1.1 SAMORA SPORTS LIMITED**

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008		
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 (7)
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>		(9)
		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>	☑ 15 910
Trading stock deficit	13 000 + 4 800 <i>Any figure</i>	☑✓✓ 17 800
Depreciation	6 400 ✓✓ + 1 500 ✓ / 4 700 + 3 200	✓ 7 900 (25)
<i>Do not accept Interest here</i>		
Operating profit	<i>If = 20% of Sales (either pre- or post-adj)</i>	☑☑ 336 000
Interest income		✓ 11 200
		347 200
Interest expense		✓✓ (44 800)
Net profit before tax	<i>Inspection, inspect operations applied</i>	☑ 302 400
Income tax	<i>If = 30% of NP, brackets not essential</i>	☑☑ (90 720)
Net profit after tax	<i>Inspection – if tax deducted</i>	☑ 211 680 (9)

[50]

1.2

1.2.1 *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 *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 *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 *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 *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]

QUESTION 2

2.1 **FIFO.** First-in first-out ✓✓

OR

The oldest soccer balls are the ones that are sold first. (2)

2.2 ✓ ✓ ✓
R430 500 / 2 100 balls = R205 each (3)

2.3 Total balls available = 750 ✓ + 2 480 ✓ – 1 100 ✓ = 2 130 balls
Number sold = 2 100 balls ✓
Number stolen = 30 balls ✓

What entry would you make in the books to record this?

✓ Debit Trading stock deficit/Loss due to theft R3 300 ✓
✓ Credit Trading stock R3 300 (8)

2.4 ✓ 480 balls at R160 ✓ = R 76 800 ✓
✓ 620 balls at R120 ✓ = R 74 400 ✓
TOTAL = R151 200 ✓ (7)

2.5 **Calculate cost of sales**

Opening stock R 82 500 ✓
Purchases 340 800 ✓
Stolen - 3 300 ✓
Closing stock - 151 200 ✓
Cost of sales R268 800 ✓

Calculate gross profit for the year.

Sales R430 500 ✓
Cost of sales - 268 800 ✓ (8)
Gross profit 161 700 ✓

2.6 *Responses may be expressed differently* ✓✓✓

Excellent = 3; Good =2; Poor=1; Incorrect=0

On average, 175 balls are sold per month – stock will last 6,3 months

Cost of sales for the year is R268 800 (R22 400) – final stock is R151 200 – stock could last 6,8 months

What advice will you offer Peter in respect of the final stock? Provide TWO points.

Any two valid points, e.g. ✓✓ ✓✓

- Purchase in smaller quantities more often
- Only order when they reach their minimum stock level (re-order level)
- Better security
- Stock must be insured
- Offer discounts to clear stock (7)
- Good idea to increase stock in view of 2010 World Cup

[35]

SECTION C: HOMEWORK

QUESTION 1: 35 marks 21 minutes

INVENTORY VALUATION, VAT AND CONTROL

1.1 You are provided with information relating to Tiger music for the financial year ended 28 February 2010. The business is situated in Pretoria. The business sells music in the form of compact discs. (CDs).

REQUIRED

- 1.1.1 Calculate the value of stock on hand at the end of the year according to the weighted average method. (8)
- 1.1.2 Calculate the NUMBER of CDs that have apparently been shop-lifted. (5)
- 1.1.3 Calculate the VALUE of CDs that have apparently been shop-lifted. (3)
- 1.1.4 Provide three points of practical advice to Tiger Music on how to improve control over their stock. (6)

INFORMATION

- The business uses the perpetual inventory system and the weighted average method of valuing stock.
- Units of CDs for the year.

	Units	Unit price	Total value
CDs on hand on 1 March 2009	2 500	R70	R175 000
CDs on hand on 28 February 2010	3 020	?	?
CDs bought on credit during the year	15 000		R1 150 000
Bought on 30 April 2009	4 000	R60	R240 000
Bought on 31 August 2009	3 000	R90	R270 000
Bought on 30 November 2009	8 000	R80	R640 000
CDs sold during the year ended 28 February 2010.	14 400	R125	R1 800 000

1.2 You have been appointed as the accountant for Bawinile`s Mini Market. After an internal audit you discover a discrepancy with the till slips. It appears that the information of Cashier 5 is incorrect.

The manager of Bawinile`s Mini Market feels that he is not required to pay to SARS all the VAT that he has collected from customers. Till 5 was programmed to charge VAT on certain zero-rated items. However, none of the cash slips of Till 5 were accounted for in the accounting records of Bawinile`s Mini Market.

REQUIRED

- 1.2.1 How would you respond to the manager who feels that not all VAT must be paid over to SARS. List ONE response. (2)
- 1.2.2 Calculate the total amount of VAT that was charged on zero-rated items if the amount including the VAT on the cash slip of cashier 5 was R29,10. (3)
- 1.2.3 In the scenario described above, the management acted unethically. Provide TWO reasons to support the statement. (4)
- 1.2.4 What will the consequences be for management, in the above scenario if their actions were discovered? Provide TWO consequences. (4)
- [35]

SECTION D: SOLUTIONS TO HOMEWORK**QUESTION 1**

- 1.1.1 ✓ ✓ ✓ ✓
- $(R175000 + R1150000) / (2500 + 15000 \text{ units})$
 $= R1325000 / 17500 \text{ units (or 2 marks each here)}$
 $= R75.71$
- Stock value = 3020 units ✓ x R75.71 ☑ transfer from above.
 = R228644,20 ☑ (9)
- 1.1.2 ✓ ✓ ✓ ✓
- $2500 + 15000 - 14400 - 3020 = 80 \text{ units}$
- Value at weighted average:**
80 ✓ x R75.71 ☑ = R6057 ☑ (7)
- 1.1.3 Any three valid **and separate** points ✓✓ ✓✓ ✓✓
- Expected responses for 2 marks:
- Security measures at the door to improve, e.g. alarm at door with tags on CDs.
 - Consider till points - possible collusion or error by employees when CDs are sold.
 - Consider purchase procedures-proper authorisation and checking of CDs received.
 - Division of duties amongst members of the accounting department so that one person serves as a check on another.
 - Conduct internal audits to minimise the possibility of fraud or error / of CDs by employees.
- (6)

1.2

1.2.1 *Any valid points, e.g.* ✓✓

- This is dishonest. (2)
- Failure to pay over VAT is an offence.

1.2.2 *Any valid points, e.g.* ✓✓

- SARS would require documentation as proof of all transactions
- Conduct audits. (2)

1.2.3 Any two zero –rated items below. ✓ ✓

Rice or Maize or Cooking oil. (2)

1.2.4 Rice = R8.20

Maize = R8.25

Cooking oil = R12.65

✓ ✓

Total R29.10 x14/114 = R3.57✓ (3)

1.2.5

Offences	Stakeholders affected
Price-fixing or over-charging✓	Customers✓
Not paying over VAT✓	SARS✓

(4)

[35]

SESSION 11**TOPIC: COMPANIES FINANCIAL STATEMENTS****LESSON OVERVIEW**

1. Introduce session: 5 minutes
2. Typical exam questions: 30 minutes
3. Review/solutions: 25 minutes

SECTION A: TYPICAL EXAM QUESTIONS**Teacher Note:**

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

QUESTION 1: 80 marks 49 minutes

BALANCE SHEET, CORPORATE GOVERNANCE AND AUDIT**1.1 STONES LIMITED**

Stones Ltd., a dealer in gem stones, provided the following information for the year ended 30 June 2010

REQUIRED

- 1.1.1 Complete the following notes to the Balance Sheet on 30 June 2010: (8)
- Distributable Reserves(Retained Income) (31)
 - Trade and other payables
- 1.1.2 Complete the Equity and Liabilities Section of the Balance Sheet on 30 June 2010. (24)

INFORMATION

1. The following balances appeared in the Pre-Adjustment Trial Balance on 30 June 2010. The adjustments that are given were already taken into account in order to calculate the correct net income. This amounted to R 988 000 as calculated in the Profit and Loss Account.
2. The Adjustments **MUST** still be taken into account in order to complete the balance sheet and notes.

3. STONES LTD

EXTRACT: PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 JUNE 2010

	DEBIT	CREDIT
Balance Sheet Accounts Section	R	R
Ordinary share capital		1 250 000
Share premium		?
Retained income (1 July 2009)		450 000
UIF		590
SARS(PAYE)		9 000
Star Medical Fund		4 200
Bank		109 000
Creditors Control		87 000
Loan: Shaids Bank		300 000
Petty cash	2 200	
SARS – Income tax	248 976	
Creditors for salaries		22 120
Etc.		

Nominal Accounts Section	R	R
Salaries and wages	192 000	
Rent income		184 800
Ordinary share dividends	88 000	
Interest on loan: Shaids Bank	39 600	
Etc.		

4. ADJUSTMENTS AND ADDITIONAL INFORMATION

- A On 1 July 2009, the start of the financial year, the authorised share capital consisted of 300 000 ordinary shares at a par value of R10 per share. Up to the present date, 125 000 shares have been issued. 50% of these shares have been issued at a premium of 300c per share.

- B An employee, who joined the company on 1 July 2010, was inadvertently entered into the salaries journal for June .The amount due to her **was not** paid out. Details of her salary are as follows:

Gross salary	R18 000
Deductions:	
PAYE	30%
Medical aid	R1 500
UIF	1%

The company contributes on a rand for rand basis to both the Medical Aid as well as the UIF.

- C The tenant paid the rent for July and August 2010 in advance. Owing to the poor economic conditions, it was agreed to reduce the rent by 10% on 1 January 2010.
- D The loan from Shaid's Bank was taken out on 1 January 2005. The terms of the loan stipulated that the loan must be repaid OVER 10 YEARS in ten equal instalments starting on 31 December 2005. The interest has been calculated correctly.
- E The Bank reconciliation process for June 2010 revealed the following additional entries which have to be made:
1. Outstanding cheque no. 786 for R20 000 issued to a creditor dated 28 August 2010.
 2. Bank charges of R7 000 as well as interest on overdraft of R18 900.
 3. A direct deposit by a creditor, R5 000 being an overpayment on their account from the previous month.
- F. A final dividend of 150c per share was declared.
- G On 30 June 2010, the business traded in equipment at a loss of R1 500. The cost price of this equipment was R27 000 and the depreciation for the current year amounted to R750. The new equipment had a cost of R80 000. Depreciation is calculated at 20% p.a. on the diminishing balance method.
- H The income tax as per the tax assessment for the year amounted to R276 640.

1.2 Answer the questions that follow.

REQUIRED

- 1.2.1 Give ONE reason why it is important that financial statements should be prepared according to GAAP & IFRS principles. (2)
- 1.2.2 Explain what is meant by Historical Cost and Going-Concern principles. (4)

- 1.2.3 Apart from the Income statement and Balance Sheet, list another **TWO** parts of a company's published annual report, AND explain what the purpose of these two parts would be. (4)
- 1.2.4 Audit reports are categorised into FOUR categories. Disclaimer of opinion and withheld are two of these. **Name and explain the other two reports.** (4)
- 1.2.5 Why is important that all directors of companies in South Africa adopt an approach of **good corporate governance** at all times? (3)
- [80]

QUESTION 2:**40 marks****24 minutes****PROJECTED INCOME STATEMENT**

The final abridged Income Statement for the half year ended 30 September 2010 of Florence Traders is provided. You are also given an incomplete Projected Income Statement .The business is owned by Bonggi Florence

REQUIRED

- 2.1. Calculate the missing figures, labelled A to H on the Projected Income Statement (31)
- 2.2 List one item that you would find in the cash budget but not in the Projected Income Statement (1)
- 2.3 State two reasons why Florence Traders might not achieve their intended mark-up on cost of goods sold (4)
- 2.4 To minimise the risk of bad debts, there are certain steps that should be taken before allowing a customer to open an account. Name one step. (2)
- 2.5 Will discount allowed be shown in the Projected Income Statement or the Cash Budget or both? Explain your answer in full. (2)

		Actual Figures for the half year ended 30 September 2010	Budgeted Figures for the third quarter ending 31 December 2010
	Sales	450 000	200 000
	Cost of sales	(300 000)	A
	Gross Profit	150 000	B
	Other income	35 000	
	Bad debts recovered	5 000	1 000
	Rent Income	30 000	C
	Gross operating income	185 000	
	Operating expenses	(110 400)	
	Depreciation	45 000	D
	Bad debts	8 900	17 000
	Rates and taxes	4 500	9 000
	Water and Electricity	15 000	30 000
	Sundry expenses	23 000	E
	Salaries and wages	14 000	15 400
	Loss on sale of asset		F
	?		G
	Operating Profit	74 600	
	Interest Income	24 000	H
	Profit before interest expense	98 600	
	Interest expense (15%p.a.)	(45 000)	9 000
	NET PROFIT FOR THE YEAR	53 600	

ADDITIONAL INFORMATION

1. Florence Traders intends to increase the mark-up to 100% on cost from the 1 September 2010
2. The rental agreement with the tenant stipulates that the rental increases annually on the 1 October by 9%p.a.
3. Fixed assets with a carrying value of R100 000 will be disposed of on 31 December 2010 for R80 000. The carrying value of the assets after the disposal would amount to R500 000. Depreciation will remain unchanged at 20% p.a. on the diminishing balance method.
- 4.. Sundry expense are expected to increase by 10% for the quarter ended 31 December 2010
5. Owing to the increase in bad debts, Florence Traders decided to create a provision for bad debts of R2 500 on 1 December 2010
6. The Fixed Deposit at Remo Investment will be increased as of the 1 December 2010 from R300 000 to R480 000. The interest on the fixed deposit will remain unchanged

[40]

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

1.1.1	RETAINED INCOME		
	Balance on the last day of the previous year	✓	450 000
	Net profit after tax for the year (988 000✓-276 640✓)	☑	711 360
	Dividends on ordinary share		(275 500)
	Paid	✓	88 000
	Recommended	✓✓	187 500
	Balance on the last day of the current year	☑	885 860

(8)

1.1.1	TRADE AND OTHER PAYABLES		
	✓✓✓ Trade creditors(87 000 + 20 000 + 5 000 + 80 000 – 1 500)@	✓ ✓ ✓✓ ✓	<input checked="" type="checkbox"/> 190 500
	SARS.(PAYE) (9 000 ✓ - 5 400 ✓)		<input checked="" type="checkbox"/> 3 600
	SARS Income Tax (276 640-248 976)		✓ ✓ 27 664
	UIF(590✓ -180✓-180✓)		<input checked="" type="checkbox"/> 230
	Star medical aid (4 200 ✓ - 1 500 ✓ - 1 500 ✓)		<input checked="" type="checkbox"/> 1 200
	Creditors for salaries (22 120 ✓ - 10920✓) (5 400 + 1 500 + 180)		<input checked="" type="checkbox"/> 11 200
	Shareholders for dividends (125 000 x 50% x R3)		✓ ✓ 187 500
	Deferred income/income received in advance *		✓✓✓✓✓ 25 200
	* allocate part marks		447 094 <input checked="" type="checkbox"/>

(31)

@ ASSET DISPOSAL

* 6 X100 = 600

CP27 000 AD 24 000

8x90 = 720

LOSOA 1 500

1 320 =184 800

C/CONT 1 500

180=x

x =25 200

Note: SARS INCOME TAX APPEARS UNDER TRADE AND OTHER RECEIVABLES

1.1.2 STONES LIMITED

BALANCE SHEET AT 30 JUNE 2010

EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES	<input checked="" type="checkbox"/>		2 323 360
Ordinary share capital ✓	<input checked="" type="checkbox"/>		1 250 000
Ordinary share premium ✓	<input checked="" type="checkbox"/>		187 500
Retained Income ✓	<input checked="" type="checkbox"/>		885 860
NON CURRENT LIABILITIES			240 000
Loan: Shaid's Bank ✓ (300 000✓-60 000✓)	<input checked="" type="checkbox"/>		240 000
CURRENT LIABILITIES	<input checked="" type="checkbox"/>		616 994
Trade and other payables ✓	<input checked="" type="checkbox"/>		447 094
Bank overdraft ✓ (109 000✓-20 000✓ +7 000✓+18 900✓-5 000✓)	<input checked="" type="checkbox"/>		109 900
Short term loan ✓	<input checked="" type="checkbox"/>		60 000
TOTAL EQUITY AND LIABILITIES	<input checked="" type="checkbox"/>		3 180 354

(24)

1.2.1 Any acceptable answer ✓✓

So that comparisons can be made

To maintain standards

(2)

1.2.2 **Historical:** Assets are valued at the price they were bought for ✓✓**Going Concern:** It is assumed that this business is continuing with operations in the foreseeable future ✓✓

(4)

1.2.3 Any two ✓✓ ✓✓

- Cash flow statement - check the quality of cash flows across the activities of the business
- Directors report - to assess other relevant information to the company that may not be evident from figures
- Audit report - to assess whether the financial statements are reliable or not

(4)

1.2.4 Unqualified ✓✓

Good report issued when auditors determine that the financial statements are free of material misstatements and in accordance with GAAP

Adverse opinion ✓✓

Adverse opinion - is issued when the auditors determine that the financial statement are materially misstated and do not confirm to GAAP

(4)

1.2.5 Marks: Excellent = 3 Satisfactory = 2 Poor = 1 Wrong = 0

Directors are entrusted with using other people's money - separation of ownership (by shareholders) from control (by directors) Shareholders want their money secure and the enterprise to be sustainable. If the directors are unethical in conducting the affairs of the business, the company will not be in favour with customers, lenders

(3)

[80]**QUESTION 2**

2.1 Calculate the missing figures, labelled A to I on the Projected Income Statement

$$A \quad 100/200 \checkmark \times 200\,000 \checkmark = 100\,000 \checkmark \quad (3)$$

$$B \quad 200\,000 \checkmark - 100\,000 \checkmark = 100\,000 \checkmark \quad (3)$$

$$C \quad 30\,000/6 = 5\,000 \checkmark \times 9\% \checkmark = 5\,450 \times 3 = 16\,350 \checkmark \quad (4)$$

$$D \quad 600\,000 \checkmark \times 20/100 \times 2/12 \checkmark = 20\,000 \checkmark$$

$$500\,000 \checkmark \times 20/100 \times 1/12 \checkmark = 8\,333.33 \checkmark \quad 28\,333.33 \checkmark \quad (7)$$

$$E \quad 3 \text{ months} = 11\,500 \checkmark$$

$$\text{Increase} = \underline{1\,150} \checkmark \quad 12\,650 \checkmark \quad (3)$$

$$F \quad \text{Loss on sale of asset} \quad 20\,000 \checkmark \checkmark \quad (2)$$

$$G \quad \text{Provision for bad debt adjustment} \checkmark \quad 2\,500 \checkmark \quad (2)$$

$$H \quad 300\,000 \times x/100 \times 6/12 = 24\,000 \checkmark$$

$$x = 16\% \checkmark$$

$$300\,000 \checkmark \times 16\% \times 2/12 \checkmark = 8\,000$$

$$480\,000 \checkmark \times 16\% \times 1/12 \checkmark = 6\,400$$

$$14\,400 \checkmark \quad (7)$$

2.2 Fixed deposit maturing/ loans /purchase of assets/ any acceptable answer ✓ (1)

- 2.3 Trade discount granted too liberally
 Poorly controlled seasonal sales at excessively low prices
 Mistakes in marking price on stock or mistakes in the books
 Theft of cash sales and stock (periodic).
Any two ✓✓ ✓✓ (4)
- 2.4 Residential address-owned or rented
 Employers name and address and duration of employment
 Names of other businesses where the prospective customer has accounts
 Customer's banking details
Any one ✓✓ (2)
- 2.5 It would only appear in the projected Income Statement because it is an expense. However, since no cash has been paid out it will not be shown in the cash budget
Any acceptable answer
Good answer=2 marks, satisfactory answer 1 mark, wrong answer=0 marks

[40]**SECTION C: HOMEWORK****QUESTION 1: 53 marks 32 minutes****FIFO / WEIGHTED AVERAGE**

MTN sells cell phones to the public and they make use of the periodic stock system. The financial year ends on 29 February 2008.

NOTE: Round off all calculations to the nearest Rand.

REQUIRED

Use the weighted average method to calculate the following:

- 1.1 Value of stock on hand on 29 February 2008. (8)
- 1.2 Gross profit for the year ended 29 February 2008 (7)
- 1.3
- 1.3.1 Calculate the number of cell phones stolen. (4)
- 1.3.2 The owner is concerned that he only learnt that the cell phones had been stolen, at the end of the year. Explain to him why this was so, and what he can possibly do in future to be aware of any theft during the course of the year. Discuss at least 2 measures. (6)

- 1.4 The owner, S. Sipho, is deciding whether to change the stock valuation method from the weighted average to FIFO.
- 1.4.1 Calculate the value of closing stock using the FIFO method. (3)
- 1.4.2 Calculate the Gross Profit using the FIFO method. (7)
- 1.4.3 Give the owner advice as to whether he should consider changing to the FIFO method. Use figures, where appropriate, in your explanation. (4)
- 1.5 The owner has requested the bookkeeper to write off double the number of cell phones stolen, and to alter the sales figure to take this into account.
- 1.5.1 What benefit could the business derive out of the fraud? Discuss at least 2 benefits. (4)
- 1.5.2 The owner has stated that he is not concerned if this means his payments to SARS are less as he feels they already collect so much taxes from him. Advise the owner regarding the consequences of this decision. (6)
- 1.6 The profits of the business have decreased from last year to this year. Discuss one possible reason for this based on the information given to you and a possible solution to this problem. (4)
- [53]

INFORMATION

The following information appeared in the records of MTN for the year ended 29 February 2008.

	UNITS	UNIT PRICE	TOTAL PRICE
Cell phones on hand : 1 March 2007	290	R540	R156 600
Purchase of cell phones :	1 830		R1 045 500
June 2007	300	R570	R171 000
September 2007	180	R600	R108 000
November 2007	950	R550	R522 500
January 2008	400	R610	R244 000
Return of cell phones to suppliers:			
On November 2007 purchases	30	?	?
Cell phones on hand as per stocktaking : 29 February 2008	300	?	?
Sale of cell phones	1750	R990	?

The business uses a fixed selling price of R990 to remain competitive in the market.

SECTION D: SOLUTIONS TO HOMEWORK

QUESTION 1

1.1	<p>Value of stock on hand on 29 February 2008.</p> <p>Weighted average: $(R156\ 600\checkmark + 1\ 045\ 500)\checkmark - 16\ 500\checkmark$ $R1\ 185\ 600 \div 2\ 090\checkmark$ $R567$</p> <p>Value of final stock: $300\checkmark \times R567\checkmark\boxtimes = R170\ 100\boxtimes\boxtimes$ (8)</p>
1.2	<p>Gross profit for the year ended 29 February 2008</p> <p>$(1750\checkmark \times 990\checkmark) - (156\ 00\checkmark + (1\ 045\ 500 - 16\ 500)\checkmark\checkmark - 170\ 100\boxtimes)$ $R1\ 732\ 500 - R1\ 015\ 500$ $R717\ 000\boxtimes$ (7)</p>
1.3.1	<p>The number of cell phones stolen</p> <p>$2\ 090 - 1750\text{ sold} = 340\text{ on hand as per records}$ $340\checkmark\checkmark - 300\checkmark = 40\boxtimes\text{stolen}$ (4)</p>
1.3.2	<p>Reason: He is using the periodic stock system\checkmark and, therefore, can only determine losses when he does an actual stocktaking and calculates the cost of sales. \checkmark Change to the perpetual stock system$\checkmark\checkmark$ Do regular stock taking$\checkmark\checkmark$ Any other feasible reason (6)</p>
1.4.1	<p>Closing stock: $300\checkmark \times R610\checkmark = R183\ 000\checkmark$ (3)</p>
1.4.2	<p>GROSS PROFIT: $R1\ 732\ 500\checkmark - (156\ 600\checkmark + (1\ 045\ 500 - 16\ 500)\checkmark\checkmark - 183\ 000\checkmark)$ $R1\ 732\ 500 - 1\ 002\ 600$ $= R729\ 900\boxtimes\boxtimes$ (7)</p>
14.3	<p>Learners to give their own advice. Depends on prices$\checkmark\checkmark$ as to which method is more advantageous, and gains in one year will be offset by losses in the next and vice versa. $\checkmark\checkmark$ (4)</p>
1.5.1	<p>The business would make less profit. $\checkmark\checkmark$ Pay less VAT and income tax. $\checkmark\checkmark$ Sales figure will be less Expenses will be higher (stolen phones) Any 2 valid points (4)</p>