This question paper consists of 21 pages and a 17-page answer book.
INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.

2. A special ANSWER BOOK is provided in which to answer ALL the questions.

3. Show ALL workings to earn part-marks.

4. You may use a non-programmable calculator.

5. You may use a dark pencil or blue/black ink to answer the questions.

6. Where applicable, show all calculations to ONE decimal point.

7. Write neatly and legibly.
Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

**QUESTION 1: 30 marks; 20 minutes**

<table>
<thead>
<tr>
<th>Topic: Bank Reconciliation and Internal Control</th>
<th>This question integrates:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial accounting</strong></td>
<td>Reconciling Bank Account with Statement</td>
</tr>
<tr>
<td><strong>Managing resources</strong></td>
<td>Internal control</td>
</tr>
</tbody>
</table>

**QUESTION 2: 55 marks; 30 minutes**

<table>
<thead>
<tr>
<th>Topic: Manufacturing</th>
<th>This question integrates:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Managerial accounting</strong></td>
<td>Production Cost Statement</td>
</tr>
<tr>
<td><strong>Profit/Loss calculations</strong></td>
<td>Managing resources</td>
</tr>
<tr>
<td><strong>Analysing break-even and unit costs</strong></td>
<td></td>
</tr>
</tbody>
</table>

**QUESTION 3: 65 marks; 40 minutes**

<table>
<thead>
<tr>
<th>Topic: Fixed Assets, Balance Sheet and Audit Report</th>
<th>This question integrates:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial accounting</strong></td>
<td>Balance Sheet</td>
</tr>
<tr>
<td><strong>Audit report</strong></td>
<td>Managing resources</td>
</tr>
<tr>
<td><strong>Calculations: Fixed assets</strong></td>
<td></td>
</tr>
</tbody>
</table>

**QUESTION 4: 85 marks; 50 minutes**

<table>
<thead>
<tr>
<th>Topic: Cash Flow Statement and Interpretation</th>
<th>This question integrates:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial accounting</strong></td>
<td>Concepts</td>
</tr>
<tr>
<td><strong>Cash Flow Statement</strong></td>
<td>Managing resources</td>
</tr>
<tr>
<td><strong>Interpretation of financial information</strong></td>
<td></td>
</tr>
</tbody>
</table>

**QUESTION 5: 35 marks; 20 minutes**

<table>
<thead>
<tr>
<th>Topic: Inventory Valuation</th>
<th>This question integrates:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Managerial accounting</strong></td>
<td>Concepts</td>
</tr>
<tr>
<td><strong>Inventory valuation calculations</strong></td>
<td>Managing resources</td>
</tr>
<tr>
<td><strong>Internal control</strong></td>
<td></td>
</tr>
</tbody>
</table>

**QUESTION 6: 30 marks; 20 minutes**

<table>
<thead>
<tr>
<th>Topic: Budgets</th>
<th>This question integrates:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Managerial accounting</strong></td>
<td>Cash Budget</td>
</tr>
<tr>
<td><strong>Calculations</strong></td>
<td>Problem-solving</td>
</tr>
</tbody>
</table>
QUESTION 1: BANK RECONCILIATION AND INTERNAL CONTROL  
(30 marks; 20 minutes)

1.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (1.1.1–1.1.3) in the ANSWER BOOK.

1.1.1 A favourable balance on the Bank Statement is indicated as a debit.  
1.1.2 A post-dated cheque received must be entered on the date received.  
1.1.3 An issued cheque that has been lost must be cancelled in the CRJ.  

(3 x 1) (3)

1.2 MENZIES TRADERS

The given information relates to Menzies Traders for June 2017.

REQUIRED:

1.2.1 Calculate the following on 30 June 2017:
   - Correct totals for the CRJ and CPJ
   - Bank account balance  

(14)

1.2.2 Prepare the Bank Reconciliation Statement on 30 June 2017.  

(9)

1.2.3 Explain the problem relating to deposits. Quote evidence. Explain TWO strategies to prevent this in future.  

(4)

INFORMATION:

A. The Bank Reconciliation Statement on 31 May 2017 showed the following:

<table>
<thead>
<tr>
<th>Unfavourable balance on the Bank Statement</th>
<th>R1 450</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding deposits:</td>
<td></td>
</tr>
<tr>
<td>17 May 2017</td>
<td>30 000</td>
</tr>
<tr>
<td>31 May 2017</td>
<td>16 200</td>
</tr>
<tr>
<td>Outstanding cheques:</td>
<td></td>
</tr>
<tr>
<td>605 (dated 16 December 2016)</td>
<td>9 750</td>
</tr>
<tr>
<td>812 (dated 10 April 2017)</td>
<td>8 550</td>
</tr>
<tr>
<td>816 (dated 25 May 2017)</td>
<td>13 590</td>
</tr>
<tr>
<td>819 (dated 15 August 2017)</td>
<td>7 650</td>
</tr>
<tr>
<td>823 (dated 31 May 2017)</td>
<td>2 900</td>
</tr>
<tr>
<td>Unfavourable balance on the Bank account in the Ledger</td>
<td>R5 210</td>
</tr>
</tbody>
</table>
B. Provisional Cash Journal totals on 30 June 2017:

- Cash Receipts Journal: R90 500
- Cash Payments Journal: R85 920

C. Entries in the Cash Journals for June 2017 that do not agree with the June Bank Statement:

<table>
<thead>
<tr>
<th>JOURNAL</th>
<th>DOCUMENT</th>
<th>DATE</th>
<th>DETAILS</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRJ</td>
<td>EFT 19</td>
<td>11</td>
<td>Paintco</td>
<td>R5 500</td>
</tr>
<tr>
<td></td>
<td>Deposit slip 451</td>
<td>25</td>
<td>Cash sales</td>
<td>R40 500</td>
</tr>
</tbody>
</table>

**NOTE:** EFT 19 was incorrectly entered in the CRJ instead of the CPJ.

<table>
<thead>
<tr>
<th>JOURNAL</th>
<th>DOCUMENT</th>
<th>DATE</th>
<th>DETAILS</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPJ</td>
<td>Cheque 870</td>
<td>25</td>
<td>VN Ltd</td>
<td>R16 800</td>
</tr>
<tr>
<td></td>
<td>EFT 21</td>
<td>30</td>
<td>SJ Stores</td>
<td>R2 250</td>
</tr>
</tbody>
</table>

D. Items on the Bank Statement dated 30 June 2017 that do not agree with the June Cash Journals:

<table>
<thead>
<tr>
<th>DATE</th>
<th>DETAILS</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>02</td>
<td>Deposit (17/5)</td>
<td>30 000</td>
<td></td>
</tr>
<tr>
<td>05</td>
<td>Cheque 812</td>
<td>8 550</td>
<td></td>
</tr>
<tr>
<td>09</td>
<td>Debit order (insurance)</td>
<td>2 290</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Direct transfer to Paintco (EFT 19)</td>
<td>5 500</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Cheque 816</td>
<td>13 590</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Deposit (31/5)</td>
<td>16 200</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Direct transfer from S Smit (rent)</td>
<td>16 500</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Cheque 823 (see note below)</td>
<td>9 200</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Unpaid cheque (B Blast settled his debt, R795)</td>
<td>750</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Service fee</td>
<td>1 220</td>
<td></td>
</tr>
</tbody>
</table>

**NOTE:**
- Cheque 823: Bank Statement figure is correct.
- Service fees were overstated by R900. The bank will rectify the problem next month.

E. The Bank Statement on 30 June 2017 reflected a balance of R?.

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30
QUESTION 2: MANUFACTURING  
(55 marks; 30 minutes)

2.1 GEVEN MANUFACTURERS
The business produces wooden tables.

REQUIRED:
Prepare the following for the year ended 28 February 2017:

2.1.1 Production Cost Statement (14)
2.1.2 Abridged Income Statement (14)

INFORMATION:

A. Stock on hand:

<table>
<thead>
<tr>
<th></th>
<th>28 FEBRUARY 2017</th>
<th>1 MARCH 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work-in-process</td>
<td>?</td>
<td>R160 000</td>
</tr>
<tr>
<td>Finished goods</td>
<td>400 tables, valued using FIFO method</td>
<td>1 200 tables at R280 = R336 000</td>
</tr>
</tbody>
</table>

B. Production and sales for the year:

- 7 200 tables were produced at a unit cost of R330 each.
- 8 000 tables were sold for R4 080 000.

C. Costs (before adjustments):

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>R148 400</td>
</tr>
<tr>
<td>Factory overheads</td>
<td>R487 200</td>
</tr>
<tr>
<td>Direct materials</td>
<td>R1 050 000</td>
</tr>
<tr>
<td>Direct labour</td>
<td>?</td>
</tr>
<tr>
<td>Selling and distribution</td>
<td>R422 000</td>
</tr>
</tbody>
</table>

Adjustments:

- Payment to EZ Transport, R102 000, was incorrectly allocated to Selling and Distribution. This was actually meant for delivering wood to the factory.

- The cleaning contract for the year, R126 000, was shared between Factory and Administration in the ratio 2 : 1. However, 80% should have been allocated to Factory.

D. Prime cost: R1 800 000 (after adjustments)
2.2 GYMWEAR MANUFACTURERS

Gymwear Manufacturers is owned by Jan Fiks. They produce shoes and shirts for gym training. Jan requires assistance in interpreting his 2017 results. Note that one pair of shoes comprises one unit.

REQUIRED:

2.2.1 Shirts:

- Calculate the break-even point for shirts. (4)

- Jan is not satisfied with the variable costs per unit, even though the total variable costs per unit decreased by R6.

  - Identify ONE variable cost (with figures) that has not been well controlled. Give TWO possible reasons for this problem. (4)

  - Explain why Jan might be concerned about the large decreases in the other TWO variable costs. (4)

- Jan does not understand why the unit cost of production has increased when neither his fixed costs nor the variable costs have increased. Explain why this is so. State ONE point (with figures). (4)

2.2.2 Shoes:

- Calculate the % increase in the selling price of shoes. (3)

- Jan decided to improve the quality of the shoes and to export them. Explain how the direct material costs and the selling and distribution costs were affected by this decision. Provide figures. (4)

- Jan was concerned that the increase in price would have a negative impact on the business. Explain whether his concern was justified. State TWO points. (4)
## INFORMATION:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Break-even point</td>
<td>?</td>
<td>11 522</td>
<td>3 842</td>
<td>4 317</td>
</tr>
<tr>
<td>Units produced and sold</td>
<td>16 100</td>
<td>25 000</td>
<td>7 750</td>
<td>6 500</td>
</tr>
<tr>
<td>Net profit</td>
<td>R500 400</td>
<td>R620 000</td>
<td>R2 379 750</td>
<td>R1 183 000</td>
</tr>
<tr>
<td>Selling price per unit</td>
<td>R302</td>
<td>R290</td>
<td>R1 640</td>
<td>R1 260</td>
</tr>
<tr>
<td>Selling price of competitors</td>
<td>R310</td>
<td>R290</td>
<td>R1 100</td>
<td>R1 250</td>
</tr>
<tr>
<td>Total fixed costs (factory overhead and administration)</td>
<td>R530 000</td>
<td>R530 000</td>
<td>R2 340 000</td>
<td>R2 340 000</td>
</tr>
<tr>
<td>Total fixed cost per unit</td>
<td>?</td>
<td>?</td>
<td>R302</td>
<td>R360</td>
</tr>
<tr>
<td>Total variable costs per unit</td>
<td>R238</td>
<td>R244</td>
<td>R1 031</td>
<td>R718</td>
</tr>
<tr>
<td>Direct material costs per unit</td>
<td>R92</td>
<td>R116</td>
<td>R456</td>
<td>R330</td>
</tr>
<tr>
<td>Direct labour costs per unit</td>
<td>R131</td>
<td>R100</td>
<td>R381</td>
<td>R360</td>
</tr>
<tr>
<td>Selling and distribution costs per unit</td>
<td>R15</td>
<td>R28</td>
<td>R194</td>
<td>R28</td>
</tr>
<tr>
<td>Unit cost of production</td>
<td>R242</td>
<td>R228</td>
<td>R1 100</td>
<td>R1 004</td>
</tr>
</tbody>
</table>
QUESTION 3: FIXED ASSETS, BALANCE SHEET AND AUDIT REPORT
(65 marks; 40 minutes)

The following information relates to Odette Ltd. The financial year ended on 28 February 2017.

REQUIRED:

3.1 Refer to Information B.

Calculate the missing amounts denoted by (a) to (e). (22)

3.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2017. Show workings. (37)

INFORMATION:

A. Amounts extracted from the records on 28 February 2017:

<table>
<thead>
<tr>
<th>Balance Sheet accounts section</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary share capital</td>
<td>?</td>
</tr>
<tr>
<td>Retained income (28 February 2017)</td>
<td>520 000</td>
</tr>
<tr>
<td>Fixed assets (carrying value)</td>
<td>?</td>
</tr>
<tr>
<td>Loan from Beque Bank</td>
<td>284 000</td>
</tr>
<tr>
<td>Trading stock</td>
<td>408 880</td>
</tr>
<tr>
<td>Net trade debtors</td>
<td>67 200</td>
</tr>
<tr>
<td>Fixed deposit: Elze Bank</td>
<td>?</td>
</tr>
<tr>
<td>Bank (favourable)</td>
<td>?</td>
</tr>
<tr>
<td>SARS: Income tax (provisional payments)</td>
<td>209 000</td>
</tr>
<tr>
<td>Creditors' control</td>
<td>184 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nominal accounts section (pre-adjustment amounts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
</tr>
<tr>
<td>Rent income</td>
</tr>
<tr>
<td>Electricity</td>
</tr>
</tbody>
</table>

B. Fixed assets:

<table>
<thead>
<tr>
<th>LAND AND BUILDINGS</th>
<th>VEHICLES</th>
<th>EQUIPMENT</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>350 000</td>
<td>460 000</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(315 000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrying value (01/03/2016)</td>
<td>(a)</td>
<td>35 000</td>
<td></td>
</tr>
</tbody>
</table>

Movements:

| Additions          | 325 000  | 422 550  | 0      |
| Disposals          | 0        | 0        | (d)    |
| Depreciation       | (b)      | (13 766) |        |
| Carrying value (28/02/2017) | (c) | 50 994 | (e)    |

| Cost               | 2 550 000 |        |        |
| Accumulated depreciation | 772 550  | 340 000 |        |
• Depreciation on vehicles is calculated at 20% p.a. on cost.

• The company has two vehicles on 28 February 2017. One of these vehicles was purchased on 1 September 2016.

• Extract from the Fixed Assets Register in respect of equipment sold:

<table>
<thead>
<tr>
<th>Fridge (Model X3)</th>
<th>Date purchased: 1 March 2014</th>
<th>Date sold: 31 December 2016</th>
<th>Sold for: R81 250</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Depreciation rate:</strong> 10% p.a. (diminishing-balance method)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>COST</strong></td>
<td><strong>DEPRECIATION</strong></td>
<td><strong>BOOK VALUE</strong></td>
<td></td>
</tr>
<tr>
<td>28 February 2015</td>
<td>R120 000</td>
<td>R12 000</td>
<td>R108 000</td>
</tr>
<tr>
<td>29 February 2016</td>
<td>?</td>
<td>?</td>
<td></td>
</tr>
<tr>
<td>31 December 2016</td>
<td>?</td>
<td>?</td>
<td></td>
</tr>
</tbody>
</table>

C. The electricity account for February 2017, R5 600, was still outstanding.

D. The provision for bad debts must be increased by R270.

E. An additional insurance policy was taken out on 1 November 2016. The annual premium of R10 200 was paid and recorded.

F. The rent for February 2017 has not been received yet. The rent increased by 15% on 1 July 2016.

G. Net profit after tax, R518 000, was calculated after taking into account all the adjustments above. Income tax is 30% of the net profit.

H. 75% of the authorised share capital of 900 000 shares was in issue. The directors declared a final dividend of 24 cents per share on 28 February 2017.

I. Extract from Beque Bank loan statement:

<table>
<thead>
<tr>
<th>Instalments (including interest)</th>
<th>R92 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest capitalised</td>
<td>R48 000</td>
</tr>
<tr>
<td>Balance on 1 March 2016</td>
<td>R376 000</td>
</tr>
<tr>
<td>Balance on 28 February 2017</td>
<td>?</td>
</tr>
</tbody>
</table>

**NOTE:**
- Interest has not been entered in the books.
- R50 000 of the loan balance will be settled in the next financial year.

J. The net asset value per share on 28 February 2017 is 620 cents.

K. The current ratio is 2.1 : 1 on 28 February 2017.
3.3 **AUDIT REPORT**

An extract of the independent audit report of Karin Ltd for the financial year ended on 28 February 2017 is provided.

**REQUIRED:**

As a shareholder, what concerns would you have regarding this audit report? Explain THREE points.  

**INFORMATION:**

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**EXTRACT FROM THE AUDIT REPORT OF KARIN LTD**

We have audited the annual financial statements of Karin Ltd for the year ended 28 February 2017. These financial statements are the responsibility of the company's directors.

**Basis for Disclaimer of Opinion**

In the course of our audit we established that bonuses paid to directors, amounting to R9.8 million, had not been authorised by the Remunerations Committee.

**Audit Opinion**

Because of the significance of the matters described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Karin Ltd for the year ended 28 February 2017.

**Bongani and Botha, Chartered Accountants (SA)**
LEAVE THIS PAGE BLANK.
QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION
(85 marks; 50 minutes)

4.1 Choose a term to complete each of the following statements. Write only the term next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

<table>
<thead>
<tr>
<th>shareholder(s); external auditor(s); director(s); internal auditor(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1.1 … are appointed by the shareholders to manage the company.</td>
</tr>
<tr>
<td>4.1.2 The … is employed by the company to set up functional internal control processes.</td>
</tr>
<tr>
<td>4.1.3 A … is a person who invests in a company by buying shares.</td>
</tr>
<tr>
<td>4.1.4 … are appointed by shareholders to give an unbiased opinion on the financial statements.</td>
</tr>
</tbody>
</table>

(4 x 1) 4

4.2 SO-FINE LTD
The given information relates to So-Fine Ltd for the financial year ended 31 August 2017.

REQUIRED:

4.2.1 Prepare the following notes to the Balance Sheet on 31 August 2017:
- Ordinary share capital (7)
- Retained income (9)

4.2.2 Complete the Cash Flow Statement by inserting only the details and figures indicated by a question mark (?). (19)

4.2.3 Calculate the following financial indicators on 31 August 2017:
- Percentage operating profit on sales (3)
- Debt-equity ratio (4)

4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period. (4)

INFORMATION:

A. Information from the Income Statement for the financial year ended 31 August 2017:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>R8 652 000</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>1 760 000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>320 000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>86 100</td>
</tr>
<tr>
<td>Operating profit</td>
<td>697 000</td>
</tr>
<tr>
<td>Income tax</td>
<td>187 770</td>
</tr>
<tr>
<td>Net profit after income tax</td>
<td>438 130</td>
</tr>
</tbody>
</table>
B. Information from the Balance Sheet on 31 August:

<table>
<thead>
<tr>
<th></th>
<th>2017 (R)</th>
<th>2016 (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets (carrying value)</td>
<td>6 177 000</td>
<td>4 975 000</td>
</tr>
<tr>
<td>Fixed deposits</td>
<td>220 000</td>
<td>300 000</td>
</tr>
<tr>
<td>Loan: Dolphin Bank</td>
<td>985 000</td>
<td>450 000</td>
</tr>
<tr>
<td>Current assets</td>
<td>619 600</td>
<td>663 300</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>490 000</td>
<td>614 300</td>
</tr>
<tr>
<td>Shareholders' equity</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Ordinary share capital</td>
<td>5 292 000</td>
<td>?</td>
</tr>
<tr>
<td>Retained income</td>
<td>?</td>
<td>147 370</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>23 400</td>
<td>2 500</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>-</td>
<td>65 100</td>
</tr>
<tr>
<td>Shareholders for dividends</td>
<td>168 000</td>
<td>120 000</td>
</tr>
<tr>
<td>SARS: Income tax</td>
<td>11 800 (Cr)</td>
<td>2 400 (Dr)</td>
</tr>
</tbody>
</table>

C. Share capital and dividends

- The authorised share capital comprises 1 200 000 ordinary shares.
- 900 000 ordinary shares were in issue on 1 September 2016.
- The company issued 150 000 ordinary shares at R6,30 per share on 1 May 2017.
- 70 000 ordinary shares were repurchased from shareholders on 30 August 2017. A cheque for R437 500 was issued for these shares. These shareholders qualify for final dividends.
- An interim dividend of 12 cents per share was paid on 1 February 2017.
- A final dividend was declared on 30 August 2017.

D. Fixed assets: Transactions during the current financial year.

- Old equipment was sold for cash at the carrying value of R324 000.
- Additional equipment and delivery vehicles were purchased.

(See QUESTION 4.3 on the next page.)
4.3 CASTRO LTD AND RONKI LTD

You are provided with information relating to two companies.

BACKGROUND INFORMATION:

- Henry Harries owns 300 000 shares in each company.
- **Castro Ltd** issued 200 000 new shares only to existing shareholders at the average issue price (R9,10). These funds were used to establish a new branch. No new loans were raised.
- **Ronki Ltd** paid R4 800 000 to repurchase 320 000 shares.

REQUIRED:

NOTE: Where comments or explanations are required, quote financial indicators and figures to support your answer.

CASTRO LTD

4.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued. (3)

4.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators. (6)

4.3.3 Henry had the option to buy some of the new shares issued by Castro Ltd. He had saved sufficient funds (interest rate 5% p.a.) for this purpose.

- If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy and how much would he have had to pay? (5)
- Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option. (6)

RONKI LTD

4.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators. (6)

4.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares. (3)

4.3.6 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd. (6)
### ADDITIONAL INFORMATION:

Financial indicators and additional information from annual reports:

<table>
<thead>
<tr>
<th></th>
<th>CASTRO LTD</th>
<th>RONKI LTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt-equity ratio</td>
<td>0,5 : 1</td>
<td>0,8 : 1</td>
</tr>
<tr>
<td>Current ratio</td>
<td>1,9 : 1</td>
<td>3,5 : 1</td>
</tr>
<tr>
<td>Acid-test ratio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock-holding period</td>
<td>54 days</td>
<td>54 days</td>
</tr>
<tr>
<td>Number of shares in issue</td>
<td>700 000</td>
<td>500 000</td>
</tr>
<tr>
<td>Average share issue price</td>
<td>R9,10</td>
<td>R10,20</td>
</tr>
<tr>
<td>Price paid for share repurchase</td>
<td>R15,00</td>
<td>R15,00</td>
</tr>
<tr>
<td>Price of share on JSE</td>
<td>R12,00</td>
<td>R11,38</td>
</tr>
<tr>
<td>Net asset value per share</td>
<td>R10,73</td>
<td>R11,38</td>
</tr>
<tr>
<td>% return on shareholders' equity</td>
<td>23%</td>
<td>17%</td>
</tr>
<tr>
<td>% return on total capital employed</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>140 cents</td>
<td>196 cents</td>
</tr>
<tr>
<td>Total dividends</td>
<td>R357 000</td>
<td>R325 000</td>
</tr>
<tr>
<td>Dividends per share</td>
<td>51 cents</td>
<td>65 cents</td>
</tr>
</tbody>
</table>
QUESTION 5: INVENTORY VALUATION

(35 marks; 20 minutes)

5.1 CONCEPTS

Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (5.1.1–5.1.4) in the ANSWER BOOK.

5.1.1 The (specific identification/weighted-average) stock valuation method is best suited for products of similar value purchased in large quantities.

5.1.2 Cost of sales is determined at the point of sale in the (perpetual/periodic) inventory system.

5.1.3 Stock valued according to the (first-in-first-out/weighted-average) method determines stock on hand by recording the cost prices of the most recent stock purchases.

5.1.4 In the periodic inventory system, carriage on goods purchased is recorded as an (expense/asset) to the business.

(4 x 1)  (4)

5.2 HOT-WHEELS (PTY) LTD

You are provided with information relating to Hot-Wheels (Pty) Ltd for the three months ending 30 September 2017. The business trades in motorbikes and helmets.

Mike, the owner, wants to assess his stock records before any price increases during the year.

REQUIRED:

Motorbikes:

5.2.1 Calculate the value of the closing stock on 30 September 2017 using the specific identification method.

(7)

5.2.2 Mike requires your advice on the three different models of motorbikes in which he is trading. Explain TWO points of advice.

(4)

Helmets:

5.2.3 Calculate the value of the closing stock on 30 September 2017 using the weighted-average method.

(9)

5.2.4 Is the weighted-average method appropriate to value the helmets? Explain ONE point.

(3)

5.2.5 Mike suspects that helmets are being stolen from the shop despite security cameras being installed.

- Provide a calculation to verify his suspicion.
- What can Mike do to improve the internal control of stock?

State THREE points.

(5)  (3)
INFORMATION:

A. Motorbikes:

Information for three months ended 30 September 2017:

Stock on 1 July 2017:

<table>
<thead>
<tr>
<th>MODEL</th>
<th>UNITS</th>
<th>COST PRICE PER UNIT (R)</th>
<th>TOTAL (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AO2</td>
<td>12</td>
<td>24 300</td>
<td>291 600</td>
</tr>
</tbody>
</table>

Total purchases:

<table>
<thead>
<tr>
<th>MODEL</th>
<th>UNITS</th>
<th>COST PRICE PER UNIT (R)</th>
<th>TOTAL (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AO2</td>
<td>6</td>
<td>24 300</td>
<td>145 800</td>
</tr>
<tr>
<td>AO3</td>
<td>15</td>
<td>27 400</td>
<td>411 000</td>
</tr>
<tr>
<td>AO4</td>
<td>18</td>
<td>31 600</td>
<td>568 800</td>
</tr>
<tr>
<td></td>
<td>39</td>
<td></td>
<td>1 125 600</td>
</tr>
</tbody>
</table>

Sales:

<table>
<thead>
<tr>
<th>MODEL</th>
<th>UNITS SOLD</th>
<th>TOTAL SALES AMOUNT (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AO2</td>
<td>8</td>
<td>311 040</td>
</tr>
<tr>
<td>AO3</td>
<td>11</td>
<td>482 240</td>
</tr>
<tr>
<td>AO4</td>
<td>10</td>
<td>505 600</td>
</tr>
<tr>
<td></td>
<td>29</td>
<td>1 298 880</td>
</tr>
</tbody>
</table>

B. Helmets:

Information for three months ended 30 September 2017:

Stock balances according to physical count:

<table>
<thead>
<tr>
<th></th>
<th>UNITS</th>
<th>COST PRICE PER UNIT (R)</th>
<th>TOTAL (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 July 2017</td>
<td>30</td>
<td>R500</td>
<td>R15 000</td>
</tr>
<tr>
<td>30 September 2017</td>
<td>12</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

Purchases:

<table>
<thead>
<tr>
<th>DATE</th>
<th>UNITS PURCHASED</th>
<th>COST PRICE PER UNIT (R)</th>
<th>TOTAL (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 July 2017</td>
<td>25</td>
<td>R510</td>
<td>R12 750</td>
</tr>
<tr>
<td>20 August 2017</td>
<td>30</td>
<td>R525</td>
<td>R15 750</td>
</tr>
<tr>
<td>20 September 2017</td>
<td>20</td>
<td>R540</td>
<td>R10 800</td>
</tr>
<tr>
<td>TOTAL</td>
<td>75</td>
<td></td>
<td>R39 300</td>
</tr>
</tbody>
</table>

Returns: Five defective helmets from the purchases in August 2017 were returned to suppliers for a full refund.

Sales: 85 helmets were sold at R600 each.
QUESTION 6: BUDGETS  
(30 marks; 20 minutes)

You are provided with information relating to Lamba Traders, a business owned by Larry Lamba. The business sells cleaning materials for cash and on credit. They deliver goods free of charge to local customers.

REQUIRED:

6.1 Explain the main purpose of a Cash Budget and a Projected Income Statement. (2)

6.2 Debtors:

Refer to Information A and Information B.

The credit terms allow debtors to settle accounts by the end of the month following the sales transaction month. No discount is allowed. However, based on past experience, Larry expects debtors to pay according to the Debtors' Collection Schedule.

6.2.1 Use the November figures to calculate the following:

- % of debtors that are expected to comply with the credit terms
- % of bad debts expected (9)

6.2.2 Larry does not believe that his debtors' control clerk, Shirley, deserves a bonus on 31 October 2017. Provide evidence to support his opinion. Offer Larry advice to improve debtors' collections (TWO points). (4)

6.3 Projected Income Statement:

Refer to Information C and Information D.

6.3.1 Calculate:

- The fixed % of sales used by Larry to budget for delivery expenses (2)
- The amount of the loan to be repaid on 31 December 2017 (4)

6.3.2 Refer to variances in Information D.

Explain why Larry would feel that all these variances are problems for his business. (9)
INFORMATION:

A. Debtors' Collection Schedule for the period ending 28 February 2018:

<table>
<thead>
<tr>
<th>Credit Sales</th>
<th>Collections</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NOV. 2017 R</td>
<td>DEC. 2017 R</td>
<td>JAN. 2018 R</td>
<td>FEB. 2018 R</td>
</tr>
<tr>
<td>September</td>
<td>112 000</td>
<td>16 800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>134 400</td>
<td>75 264</td>
<td>20 160</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>224 000</td>
<td>56 000</td>
<td>125 440</td>
<td>33 600</td>
</tr>
<tr>
<td>December</td>
<td>358 400</td>
<td>89 600</td>
<td>200 704</td>
<td>53 760</td>
</tr>
<tr>
<td>January</td>
<td>179 200</td>
<td></td>
<td>44 800</td>
<td>100 352</td>
</tr>
<tr>
<td>February</td>
<td>112 000</td>
<td></td>
<td></td>
<td>28 000</td>
</tr>
<tr>
<td></td>
<td>148 064</td>
<td>235 200</td>
<td>279 104</td>
<td>182 112</td>
</tr>
</tbody>
</table>

B. The debtors' clerk presented the following age analysis at the end of October 2017:

<table>
<thead>
<tr>
<th>Total</th>
<th>Current Month</th>
<th>1 Month</th>
<th>2 Months</th>
<th>3 Months +</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>18%</td>
<td>40%</td>
<td>23%</td>
<td>19%</td>
</tr>
</tbody>
</table>

C. Extract from the Projected Income Statement:

<table>
<thead>
<tr>
<th>NOV. 2017</th>
<th>DEC. 2017</th>
<th>JAN. 2018</th>
<th>FEB. 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on loan (rate 8,5% p.a.)</td>
<td>R2 975</td>
<td>R2 975</td>
<td>R2 465</td>
</tr>
</tbody>
</table>

D. Figures provided by the accountant on 31 October 2017:

<table>
<thead>
<tr>
<th></th>
<th>PROJECTED</th>
<th>ACTUAL</th>
<th>VARIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales</td>
<td>320 000</td>
<td>290 000</td>
<td>-30 000</td>
</tr>
<tr>
<td>Cash sales</td>
<td>96 000</td>
<td>50 000</td>
<td>-46 000</td>
</tr>
<tr>
<td>Credit sales</td>
<td>224 000</td>
<td>240 000</td>
<td>+16 000</td>
</tr>
<tr>
<td>Advertising</td>
<td>5 000</td>
<td>1 000</td>
<td>-4 000</td>
</tr>
<tr>
<td>Packing material</td>
<td>4 800</td>
<td>4 800</td>
<td>0</td>
</tr>
<tr>
<td>Delivery expenses</td>
<td>12 800</td>
<td>12 500</td>
<td>-300</td>
</tr>
</tbody>
</table>

TOTAL: 300