

# Further Education and Training

## Grade 12 (FET)

### BRIGHT IDEAS

# ACCOUNTING

## Revision Booklet

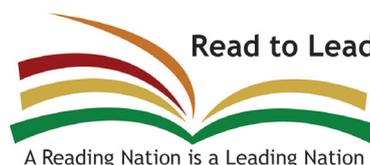


**basic education**

Department:  
Basic Education  
REPUBLIC OF SOUTH AFRICA



Second Chance  
Matric Support Programme

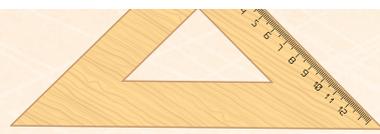


Read to Lead

A Reading Nation is a Leading Nation







**ACCOUNTING**  
**Grade 12**  
**REVISION BOOKLET**

32%



History

Mathematics



Physics

Accounting



## TABLE OF CONTENTS

## PAGE

1.	Forward	3
2.	How to use this booklet	4
3.	Topics with activities	5
3.1	Manufacturing	5
3.2	Inventory Valuations	12
3.3	Financial Statements and Notes	16
3.4	Audit Report	25
3.5	Value Added Tax	30
3.6	Bank Reconciliation	29
3.7	Budgets	34
4.	Check your answers	41
4.1	Manufacturing	48
4.2	Inventory Valuations	53
4.3	Financial Statements and Notes	49
4.4	Audit Report	55
4.5	Value Added Tax	57
4.6	Bank Reconciliation	61
4.7	Budgets	65
5.	Study and Examination Tips	71
6.	Message to Grade 12 learners from the Writers	72
7.	Thank you	73





# 1 FORWARD

## Message to Grade 12 learners from the Minister of Basic Education



“Matric” (Grade12) is perhaps the most important examination you will prepare for. It is the gateway to your future; it is the means to enter tertiary institutions; it is your opportunity to create the career of your dreams.

It is not easy to accomplish but it can be done with hard work and dedication; with prioritising your time and effort to ensure that you cover as much content as possible in order to be well prepared for the examinations.

I cannot stress the importance and value of revision in preparing for the examinations. Once you have covered all the content and topics, you should start working through the past examination papers; thereafter check your answers with the memoranda. If your answers are not correct, go back to the *Mind the Gap Series* and work through the content again. Retest yourself. Continue with this process until you get all the answers right.

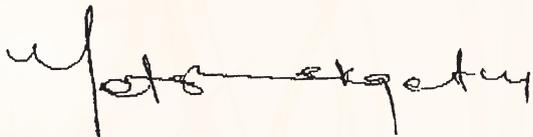
The ***Bright Idea....getting exam ready Booklet*** will allow you to do this in a systemic way.

It has been developed to assist you to achieve a minimum of 40% in the examinations, if you work hard and follow the advice and guidance provided in the book. I also urge you to continue with the next section that deals with an additional 20%, which will ensure you have covered the basics to achieve 60%.

Use this valuable resource which has been developed especially for YOU, work hard, persevere, work every day, read and write every day to ensure that you are successful.

I have faith that you can do this. Remember “SUCCESS” depends on the second letter, “U”.

Best Wishes



**MRS AM MOTSHEKGA, MP**  
**MINISTER OF BASIC EDUCATION**  
**DATE: 24/02/2017**



## 2 HOW TO USE THIS REVISION BOOKLET

- Each topic is divided into five parts,
  - **Objectives:** this is what you should be able to do at the end of revising the topic.
  - **Concepts:** words that you must know in order to understand the work.
  - **Approaches to the topic:** this section gives you tips and guides you on how to handle or complete the question in the exam.
  - **Activities:** taken from previous examination papers, kindly note that the activities have been modified for purposes of this manual.
  - **Answer book:** that you must use to answer the questions for all activities.
  - **Memorandum:** solutions to the activities with detailed explanations to check yourself.
- Learners must first read through the objectives, key concepts and approaches to the questions.
- Use the answer book to answer an activity on a particular topic (use a pencil). Try to complete the activity without looking at memorandum. If you experience any problem go back and read the section on approaches or tips, consult the Mind the Gap Study Guide and Textbooks for detailed explanations and more examples, continue with the rest of activities. On completion of each activity, check your answers against the memorandum and note your mistakes. Redo the activity until you have mastered the topic.
- Continue with this process until you get every question correct
- Then find the other past question papers and go through similar questions and check the memoranda to ensure that you get them right
- Beware that not all topics have been covered in this booklet, however if you master the content and topics in this guide you will be able to comfortably obtain 40% to 60% in the examination
- Kindly note that only limited content has been provided on each topic in the booklet, you may need to consult the Mind the Gap Study Guide and Textbooks for detailed explanations and more examples
- You are now ready to answer 60% of the question paper





## 3 TOPICS WITH ACTIVITIES

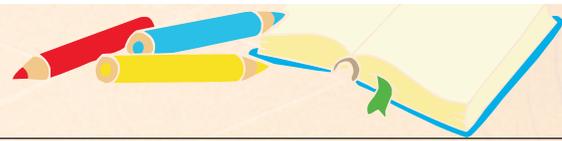
### 3.1 MANUFACTURING

#### OBJECTIVES

- Identify and explain concepts.
- Prepare notes used for the Production cost statement.
- Prepare the Production cost statement.
- Calculate the break-even point.

#### CONCEPTS

Concept	Explanation
• <b>Direct material costs</b>	Raw materials that have been issued to the factory and have been used to manufacture the finished goods. E.g. Fabric used in making clothes.
• <b>Direct labour costs</b>	Wages and salaries of those employees physically making the product or operating the machines making the product.
• <b>Factory overheads costs</b>	All other costs involved in the manufacturing process which increase the cost of producing the product.
• <b>Finished goods stock</b>	Products that are completely finished and are ready for sale.
• <b>Indirect material stock</b>	The indirect materials that has not yet been used and are still available to be used, e.g. cleaning materials left over.
• <b>Raw material stock</b>	The raw materials left over that have not yet been issued to the factory but are stored safely in the warehouse for future use.
• <b>Work-in-process stock</b>	Products that have not been completely turned into finished goods and are still in the manufacturing process.
• <b>Fixed costs</b>	These are costs that do not change according to the number of products made. E.g. the rent of the factory plant will be the same no matter whether 2 000 units are made or 250 000 units are made.
• <b>Variable costs</b>	These costs will increase when production increases. E.g. the cost of raw materials used will be less if 2 000 units are made compared to if 250 000 units are made.
• <b>Break-even point</b>	This is the point where the manufacturer is making no profit but also not making a loss.



## APPROACH TO THE TOPIC

The following will assist candidates and make the question easy in the examination:

- Ability to classify costs into direct costs, direct labour cost, factory overhead costs, administration cost and selling & distribution costs
- Understanding the format of the Production cost statement is important, this will enable you to earn part and method marks.
- Always show your workings in brackets so that you can earn part and method marks even when the final answer is not accurate.
- Ability to divide or allocate costs to different departments using percentages, ratios and floor space e.g. insurance must be divided in the ratio of 3:2:1 between factory, administration and selling & distribution respectively
- The standard formula for calculating direct material cost (raw material used/issued to factory) is opening stock + purchases – returns + carriage – closing stock. However this may differ from question to question.
- When you have to calculate direct labour cost always remember that Direct Labour cost = normal wage + overtime wage + employers' contribution

**Normal wage** = number of employees x number of hours worked x wage rate

**Overtime** = number of employees x number of hours worked x wage rate

## ACTIVITY 1

### MANUFACTURING

#### 1.1 SNAZZY HANDBAGS

The information below relates to the financial year ended 30 September 2015. The business manufactures one type of handbag.

#### REQUIRED:

Prepare the Production Cost Statement on 30 September 2015. Show ALL workings.

A.		Figures provided by the bookkeeper on 30 September 2015:	
		R	
Administration cost			380 000
Direct material cost			976 000
Direct labour cost			755 000
Factory overhead cost			442 080
Selling and distribution cost			219 200
Work-in-process:	1		
October 2014			74 000



30 September 2015	?
Total cost of production of finished goods	2 187 500

**B.** An internal audit revealed the following:

- Damaged raw material, valued at R17 000, that had been returned to the supplier was omitted in the calculation of the direct material cost.
- The factory overhead cost total included the full amount of R62 400 for rent expense. Only  $\frac{2}{3}$  of this expense must be allocated to the factory. The remainder must be split equally between the office and the sales department.
- The salary of a factory foreman on leave was not recorded. Details of his salary are as follows:

Deduction for SARS: PAYE	R2 560
Deduction for pension fund and UIF	?
Net salary	R8 320

The employer's contribution for pension fund and UIF amounts to R1 920. The business contributes on a rand-for-rand basis.

## 1.2 HEALTHY LIFESTYLE COOKWARE

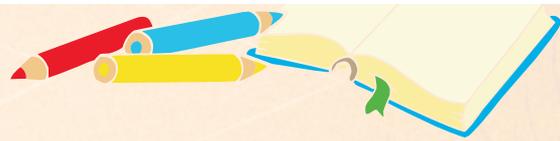
This business manufactures enamel pots.

### REQUIRED:

Calculate the following for the financial year ended 31 August 2015:

- Variable cost per unit
- Break-even point

	ENAMEL POTS	
	2015	2014
Number of units produced and sold	27 000	32 000
Total fixed cost	R2 850 000	R2 660 000
Total variable cost	R2 160 000	R2 080 000
Selling price per unit	R175	R160
Selling price of competitor	R170	R130
Break-even point in number of units	?	28 000
Total sales	R4 725 000	R4 960 000



## ACTIVITY 2

### 2.1 CONCEPTS

Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (2.1.1–2.1.3) in the ANSWER BOOK.

- 2.1.1 Commission on sales will be classified as an administration cost.
- 2.1.2 Advertising is part of factory overhead costs.
- 2.1.3 Carriage on raw materials purchased increases the cost of raw materials issued for production.

### 2.2 STAR WHEELS MANUFACTURERS

You are provided with information relating to Star Wheels Manufacturers for the year ended 31 December 2015. The business manufactures one type of bicycle.

#### REQUIRED:

- 2.2.1 Prepare the following notes to the Production Cost Statement:
- Direct labour cost
  - Factory overhead cost
- 2.2.2 Prepare the Production Cost Statement.

#### INFORMATION:

##### A. Stock balances:

	31 December 2015	1 January 2015
Raw materials stock		
Work-in-process stock	?	R160 000
Finished goods stock	R95 000	R110 000
Indirect factory materials	R15 100	R13 200

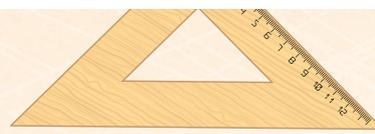
##### B. Employees in the production process:

Number of employees	14 employees
Basic <b>monthly</b> salary of each employee	R7 000
Total overtime hours <b>per employee</b> for the year	144 hours
Overtime rate per hour	R65

#### Employment benefits:

- All employees in the production process work the same number of overtime hours.





- UIF deductions from the basic salary are 1%. The employer contributes an additional 1% of the **basic** salary to UIF.

**C.** The factory foreman is entitled to an annual salary of R156 000 (including UIF and pension benefits).

**D.** Accounts appearing in the General Ledger on 31 December 2015:

Water and electricity	R104 000
Rent expense	R115 200
Insurance	R71 400

- 10% of the water and electricity was used by the administration office. The factory used the rest.
- Rent is divided between the different sections according to floor space:

	Total	Factory	Administration	Sales
Floor space	1 500 m <sup>2</sup>	600 m <sup>2</sup>	400 m <sup>2</sup>	500 m <sup>2</sup>

- Insurance of R2 800 is still outstanding for December 2015. Insurance is divided in a ratio of 3 : 2 : 2 between the factory, administration and sales departments.

**E.** Indirect materials of R38 400 were bought for the factory during the financial year.

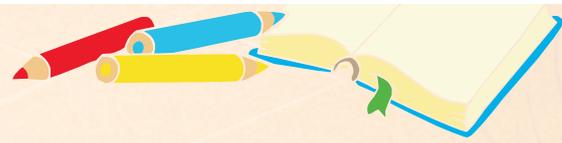
**F.** The following figures were calculated for the financial year:

- Depreciation on factory equipment, R277 220
- Direct (raw) materials issued for manufacturing, R2 100 000

**G.** Details from the Income Statement for the year:

Sales of finished goods	R6 200 000
Cost of sales of finished goods	R4 015 000





## 2.3 NUTRITIOUS EATS

This business produces and sells one type of breakfast cereal. The sole owner is Craig Manning. The financial year-end is 31 October.

### REQUIRED:

2.3.1 Calculate the break-even point for the year ended 31 October 2015.

2.3.2 Give TWO possible reasons for the increase in the direct material cost per unit in the current financial year.

### INFORMATION:

The following information was taken from the accounting records:

	31 October 2015		31 October 2014	
	Total	Per unit	Total	Per unit
Sales	R1 792 000	R28,00	R1 794 000	R23,00
Variable costs	R1 024 000	R16,00	R975 000	R12,50
Fixed costs	R736 000	R11,50	R630 000	R8,08
Direct material cost	R656 000	R10,25	R592 800	R7,60
Break-even point	?		60 000 units	
Number of units produced and sold	64 000 units		78 000 units	

## ACTIVITY 3

### 3.1 CONCEPTS

Give ONE cost category for each of the following descriptions by choosing a cost category from the list below. Write only the cost category next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.

direct material cost; direct labour cost; factory overhead cost; administration cost; selling and distribution cost

- 3.1.1 Salaries paid to office workers
- 3.1.2 Cost of raw materials used in the production process
- 3.1.3 Commission paid to salespersons
- 3.1.4 Rent paid for factory buildings

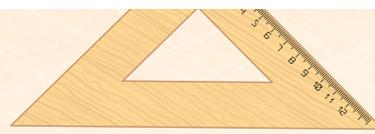
### 3.2 GUGU MANUFACTURERS

You are provided with information relating to Gugu Manufacturers for the year ended 29 February 2016. The business produces one style of handbag.

#### REQUIRED:

- 3.2.1 Calculate the:
  - Direct labour cost
  - Direct material cost
- 3.2.2 Prepare the Production Cost Statement.





3.2.3 The owner is concerned about the production level in 2016.

- Calculate the break-even point for 2016.

**INFORMATION:**

**A. Workers involved in the manufacturing process:**

NO. OF WORKERS	WAGE	EARNINGS PER WORKER	
5	Basic (normal wage)	R40 per hour	1 920 hours
	Overtime	Basic rate + 75%	90 hours

**NOTE:**  
Deductions: 8,5% of basic wage  
Employer's contribution: 11,5% of basic wage

**B. Raw material (fabric):**

Raw material purchased is kept in a storeroom before being issued to the factory for production. Stock is valued according to the weighted-average method.

**Storeroom stock records:**

	METRES	TOTAL AMOUNT (R)
Balance on 1 March 2015	1 350	131 500
<b>Purchases:</b>	<b>5 400</b>	<b>584 000</b>
May 2015	2 500	265 000
September 2015	2 900	319 000
Raw material issued to factory	5 500	?
Stock balance on 29 February 2016	940	?

**C.** There is no work-in-process stock.

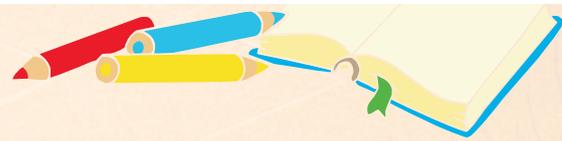
**D. Other costs for the financial year (after all the adjustments):**

Factory overhead cost	Fixed cost	R343 340
Administration cost	Fixed cost	R226 660
Selling and distribution cost	Variable cost	R217 340

**E. Additional information on 29 February 2016:**

- 4 200 handbags were produced and sold at R450 each.
- Total sales amounted to R1 890 000.
- Total variable cost per unit was R300.
- 1,25 metres of fabric was used to make one handbag.





## 3.2 INVENTORIES

### OBJECTIVES

Learners should be able to do the following:

- Differentiate between the three stock valuation methods i.e. FIFO, Weighted Average and Specific identification Methods.
- Calculate the value of the closing stock using the three different methods.
- Calculate Cost of Sales
- Calculate gross profit

### CONCEPTS

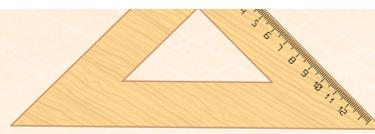
Concepts	Explanation
<b>FIFO</b>	Stands for <b>First in First Out</b> . The oldest stock is sold first and stock left will always be the most recently bought stock.
<b>Weighted Average Method</b>	Calculate by dividing the total cost of stock purchased by the total number of units purchased. The stock on hand will not be valued at the most recent price but by the average price.
<b>Specific identification method</b>	Every item is assigned a specific cost of price.  Every item in stock will be recorded at the specific price originally bought.
<b>Perpetual Inventory System</b>	Cost of sales is calculated and recorded every time goods are sold.
<b>Periodic Inventory System</b>	Cost of Sales is only calculated at the end of a period.

### APPROACH TO THE TOPIC

The following will assist candidates and make the question easy in the examination:

- Candidates must know the difference between the three methods of valuating stock which is (FIFO, Weighted Average and specific Identification Method)
- Before you start calculating the closing stock make sure you know exactly which method is used to calculate the closing stock:
  - FIFO- The stock on hand will be valued at the most recent price. Check closing stock and start with the last stock purchased.
  - Weighted Average Method – Is calculated by dividing the total cost of stock purchased by the total number of units sold. Opening stock must be added.
  - Specific Identification Method- Closing stock will be recorded at the specific price originally bought.
- Calculate Cost of sales by using the closing stock calculated by one of the above methods.
  - Closing stock = Opening Stock **plus** Net Purchases **plus** Carriage **minus** Closing Stock
- Know the difference between periodic and perpetual inventory system





## ACTIVITY 1

### INVENTORY VALUATION

Bamjee Stores sells two types of men's watches:

- Johx, imported from Germany
- Kwatz, locally manufactured

The financial year ended on 31 August 2015.

#### REQUIRED:

1.1 Calculate the following in respect of Johx watches on 31 August 2015:

- (α) Closing stock
- (β) Cost of sales

1.2 Calculate the following values (in rands) in respect of Kwatz watches on 31 August 2015:

- (α) Closing stock
- (β) Sales

#### INFORMATION:

- A.
- The business uses the following methods to value the stock of watches:
    - Johx – specific identification
    - Kwatz – weighted average
  - No watches were stolen or lost during the financial year.

B. Information relating to Johx watches:

	UNITS	UNIT PRICE	TOTAL AMOUNT	UNITS SOLD	TOTAL SALES
Opening stock	12	R6 500	R78 000	11	R125 125
Purchases:	<b>35</b>		<b>R252 000</b>		
September 2014	15	R6 800	R102 000	10	R119 000
January 2015	12	R7 300	R87 600	10	R127 750
April 2015	8	R7 800	R62 400	5	R68 250
	<b>47</b>		<b>R330 000</b>	<b>36</b>	<b>R440 125</b>

- The cost price of Johx watches includes transport costs and customs duties.
- These watches are sold at a mark-up of 75% on cost.

C. Information relating to Kwatz watches:





	UNITS	UNIT PRICE	TOTAL AMOUNT
Opening stock	95	R340	R32 300
Purchases:	<b>675</b>		<b>R259 900</b>
September 2014	320	R375	R120 000
January 2015	210	R390	R81 900
April 2015	145	R400	R58 000

- Kwatz watches are sold at a fixed selling price of R520 each.
- Cost to transport Kwatz watches from local suppliers amounted to R11 950 for the financial year and is not included in the figures above.
- There were 92 Kwatz watches in stock on 31 August 2015.

## ACTIVITY 2

### INVENTORY SYSTEMS AND VALUATION

#### INVENTORY VALUATION

Josy Fashions uses the periodic stock system and the weighted-average method to value stock of jackets. Josy Arrakal owns the business.

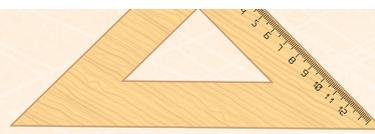
#### REQUIRED:

- 2.1 Explain the difference between the *perpetual stock system* and the *periodic stock system*.
- 2.2 Calculate the value of the stock on hand on 28 February 2015 using the weighted-average method.
- 2.3 Josy is considering a change in the method of valuing stock
  - Calculate the value of closing stock using the FIFO method.
  - Give ONE reason in favour of and ONE reason against changing to the FIFO method.

#### INFORMATION:

Records of jackets for the year ended 30 June 2015:

	UNITS	UNIT PRICE	TOTAL
Opening stock (1 March 2014)	300	R1 156	R346 800
Purchases	<b>3 230</b>		<b>R3 686 400</b>
April 2014	1 400	R1 050	R1 470 000
July 2014	1 320	R1 200	R1 584 000
November 2014	510	R1 240	R632 400
Subtotal	?		R4 033 200
Goods returned (from July purchases)	150	?	?
Sales	2 730	R1 425	R3 890 250
Closing stock (28 February 2015)	650	?	?



### ACTIVITY 3

#### INVENTORY VALUATION

Matrix Traders sell three different types of laptops: Lexus, Granite and Vision. They use the periodic inventory system and the specific identification method to value stock.

#### REQUIRED:

- 3.1 Explain the following valuation methods:
  - FIFO
  - Specific identification
- 3.2 Calculate the cost price per laptop on hand on 1 October 2015.
- 3.3 Calculate the value of the closing stock on 30 September 2016.

#### INFORMATION:

The following information is in respect of the year ended 30 September 2016:

##### A. Opening stock:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
1 Oct. 2015	Lexus	118	?	R413 000

##### B. Purchases and returns:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
<b>PURCHASES:</b>				
Dec. 2015	Granite	410	R3 750	R1 537 500
Mar. 2016	Vision	630	R4 650	R2 929 500
<b>RETURNS:</b>				
Mar. 2016	Vision	20	R4 650	(R93 000)
<b>Net purchases</b>				<b>R4 374 000</b>

##### C. Sales for the year:

MODEL	UNITS	AMOUNT
Lexus	118	R598 850
Granite	356	R2 229 375
Vision	502	R4 247 775
		<b>R7 076 000</b>





### 3.3 FINANCIAL STATEMENTS AND NOTES

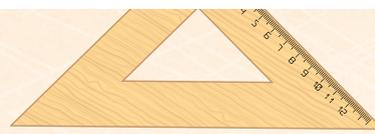
#### OBJECTIVES

- Calculate the correct Net Profit.
- Prepare the Notes to the Financial Statements
- Prepare the Income Statement

#### CONCEPTS

Concept	Explanation
• <b>Authorised share capital</b>	The maximum number of shares a company can sell.
• <b>Issued share capital</b>	The number of shares that have actually been sold to shareholders. Use number of issued shares to calculate dividends.
• <b>No par value</b>	There is no value attached to shares until they are issued.
• <b>Issue price</b>	The price at which shares are issued to the public.
• <b>Dividends</b> Interim dividends Final dividends	That portion of the profits (after tax) which has been approved to be shared amongst the shareholders (total dividends = interim + final). Dividends that are paid to the shareholders during the year. Dividends that are declared (recommended) to the shareholders at the end of the financial year.
• <b>Income tax</b>	Tax the company pays to SARS on its profits.
• <b>Provisional tax</b>	Payments made to SARS during the year based on estimated profits (every six months).
• <b>Retained income</b>	A portion of the profits <b>after tax</b> that are not paid out to the shareholders in dividends but kept (retained) for future growth of the company.
• <b>Shareholders for dividends</b>	The amount still owing to shareholders for dividends declared but not yet paid.
• <b>Buy back shares</b>	Issued shares that have been repurchased by the company and are retired or cancelled.
• <b>Tax assessment</b>	This is issued by SARS to confirm the amount of income tax which the company has to pay based on profits.
• <b>Income statement</b>	This statement shows the profit or loss made from business operations (income and expenses). Another term for this is 'Statement of Comprehensive Income'.
• <b>Balance Sheet</b>	This statement reflects the assets, liabilities and net worth (owners' equity of the company). Another term for this is 'Statement of Financial Position'.
• <b>Cash Flow Statement</b>	This shows the flow of cash in a company (money coming in and money going out).
• <b>Shareholders</b>	People who own the company.
• <b>Directors</b>	People who are appointed by the shareholders to run the company.
• <b>South African Revenue Services (SARS)</b>	The government department to whom the company must pay income tax on the profits and VAT when due.





## THINGS TO CONSIDER WHEN PREPARING THE INCOME STATEMENT

- Know the structure/format – What to add and when to subtract i.e. expense is always subtracted and income is always positive (+)
- Start by copying the relevant information from the Nominal Account Section. Adjustments are used to adjust the information from the Pre-adjustment Trial Balance. Please note that: Dividends **are** part of the Nominal Account Section in the Pre – adjustment Trial balance but do not form part of the Income Statement.
- Balance Sheet Account Section items must not be taken directly to the Income Statement. Calculated figures will form part of the Income Statement as is or as part of adjusting certain accounts e.g. Provision for Bad debts to determine Provision for bad debts adjustment; Loan account to determine Interest on Loan, etc.
- Guard against foreign items and misplacements
  - Foreign items are those not needed in the Income Statement e.g. Balance Sheet Section items.
  - Misplacement is when an Income Statement item is wrongly placed e.g. interest expense is amongst operating expenses, trading stock surplus under expenses, etc.
- Ensure that your calculations are accurate by using the relevant operations to earn method marks and use brackets to earn part marks. Know when to add or subtract the amount from the adjustment. This is possible by knowing what the account is and what is happening or happened to it.
- Adjustments to take note of:
  - Salary- employee omitted (*add the gross salary and employers contribution NOT deduction to salaries and wages*)
  - Loan statement – is used to calculate interest expense of current portion of loan
  - Interest Income – Always calculate the correct amount due then work back to what has been received from Pre- adjustment Trial Balance
  - Consumable Stores on hand: Trial Balance figure represents consumable stores bought.





### THINGS TO CONSIDER WHEN PREPARING THE BALANCE SHEET

- Know the aim and purpose of preparing the Balance Sheet as part of important documents.
- Candidates must know the format
- Basic accounting equation is the starting point:  $\text{Assets} = \text{Equity} + \text{Liabilities}$
- Assets are divided into Non Current and Current;
  - Non current divided into Tangible and Financial.
  - Current divided into Inventory, Trade and other receivables as well as Cash and Cash equivalents.
- Liabilities are also divided into Non Current and Current:
  - Non current consist of long term debts.
  - Current consist of short term debts.
- Test yourself with blank format of the Balance Sheet before you continue with your practise daily.
- Be able to do notes and necessary calculations for preparation of the Balance Sheet.



## INCOME STATEMENT, NOTE TO THE FINANCIAL STATEMENTS

### ACTIVITY 1:

You are provided with information relating to Musica Limited for the year ended 31 December 2015.

### REQUIRED:

Prepare the Income Statement.

### INFORMATION:

#### Extract from Pre-adjustment Trial Balance on 31 December 2015:

Balance Sheet Accounts Section	Debit	Credit
Ordinary share capital		3 000 000
Retained income (1 January 2015)		628 000
Loan from Paris Bank		540 800
Debtors' control	125 000	
Creditors' control		96 200
Provision for bad debts		7 150
Trading stock	376 000	
SARS: Income tax	315 000	
<b>Nominal Accounts Section</b>		
Sales		8 412 000
Cost of sales	4 595 000	
Debtors' allowances	112 000	
Sundry expenses	257 400	
Bank charges	41 905	
Audit fees	75 600	
Packing materials	15 400	
Repairs and maintenance	107 500	
Commission income		64 140
Directors' fees	736 000	
Salaries and wages	1 020 000	
Employer's contributions	156 000	
Interest on current bank account		3 000
Bad debts	17 600	
Rent income		87 720
Dividends on ordinary shares	360 000	

#### Adjustments and additional information:

- A. Provide for R278 200 depreciation for the financial year.
- B. On 27 December 2015 P Maine, a debtor, returned merchandise. A credit note for R1 600 was issued to her. (The cost price was R900.) No entries were made for the return of the merchandise. These items were returned to stock.
- C. The insolvent estate of a debtor, J Jabaroo, paid out 45 cents in the rand and made a direct deposit of R2 025 on 31 December 2015. The outstanding balance must be written off. No entries were made to record the direct deposit and the amount written off.



- D.** The provision for bad debts must be increased to R8 000.
- E.** The stock count on 31 December 2015 revealed:
- Trading stock                    R369 100
  - Packing material                R2 400
- F.** The company has two directors. Each director receives the same monthly remuneration. One of the directors did not receive his directors' fee for December 2015.
- G.** Interest on the loan from Paris Bank has not been entered yet. Interest is capitalised. The loan statement received from Paris Bank reflected the following:
- |                                 |          |
|---------------------------------|----------|
| Balance on 1 January 2015       | R601 600 |
| Repayments made during the year | R100 800 |
| Balance on 31 December 2015     | R540 800 |
- H.** There was no change in the monthly rent during the financial year. The tenant paid R6 000 for repairs to the premises. As Musica Limited is responsible for all repairs, the tenant deducted this amount from the rent, which he paid for November 2015. The repairs have not been recorded, and the rent for December 2015 has not been received yet.
- I.** An employee was left out of the Salaries Journal. His details are:
- |                          |         |
|--------------------------|---------|
| Net salary               | R12 150 |
| Deductions               | R6 350  |
| Employer's contributions | R5 050  |
- J.** Income tax for the year was correctly calculated at R300 300.

## COMPANY BALANCE SHEET

### ACTIVITY 2

#### PRIDONA LIMITED

The following information relates to Pridona Limited. The financial year ended on 30 June 2015. The business uses the perpetual (continuous) inventory system.

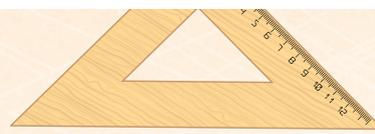
#### REQUIRED:

Prepare the Balance Sheet on 30 June 2015. Where notes are NOT required, workings must be shown.

#### INFORMATION:

- A.** List of balances/totals on 30 June 2015:

<b>BALANCE SHEET ACCOUNTS SECTION</b>	
Ordinary share capital	R5 600 000
Retained income (1 July 2014)	2 700 000
Mortgage loan: Custom Bank	262 200
Fixed assets	8 950 000
Trading stock	203 200
Debtors' control	316 000
Provision for bad debts (1 July 2014)	11 400
Cash and cash equivalents (balancing figure)	?
SARS: Income tax (provisional tax payments)	725 000
Income receivable (accrued)	5 200



**B.** Net profit before tax of R2 493 600 was determined BEFORE taking into account the following information:

- (i) Trading stock on 30 June 2015 was valued at R191 900.
- (ii) Provision for bad debts must be adjusted to R9 000.
- (iii) Rent for July 2015, R2 800, had been received in advance.
- (iv) An annual insurance premium of R6 000 was paid for the period 1 April 2015 to 31 March 2016.
- (v) The auditor discovered that the profit on disposal of a vehicle, R6 800, was incorrectly shown as a loss.
- (vi) Income tax amounts to R750 000 for the year.

**C.** Dividends and shares:

- (i) Interim dividends of R600 000 were paid on 31 December 2014.
- (ii) The directors declared a final dividend of 22 cents per share on 30 June 2015 on all shares issued to date. Shares repurchased on 31 May 2015 do not qualify for final dividends.
- (iii) Share capital:

1 July 2014      3 000 000 shares were in issue (R3 900 000)

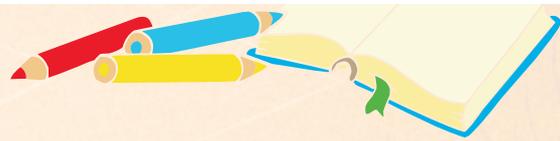
15 August 2014    1 000 000 new shares were issued at R1,70 each (R1 700 000). This has been recorded.

31 May 2015      20 000 shares were repurchased at R2,50 each from an existing shareholder (R50 000). This has not been recorded.

**D.** A debtor's debit balance of R1 000 in the Debtors' Ledger must still be transferred to his account in the Creditors' Ledger.

**E.** The mortgage loan from Custom Bank was obtained on 1 April 2014. This will be repaid over 6 years. A fixed loan repayment (excluding interest) is made at the end of each month. The first monthly loan repayment was made on 30 April 2014. All other loan repayments have been made. Interest is not capitalised and has been correctly recorded.





**ACTIVITY 3: NOTES TO THE FINANCIAL STATEMENT**

**PRIDONA LIMITED**

The following information relates to Pridona Limited. The financial year ended on 30 June 2015. The business uses the perpetual (continuous) inventory system.

**REQUIRED:**

1.1. **Refer to Information B.**

Calculate the correct net profit after tax for the year ended 30 June 2015. Indicate a + for increase and a – for decrease.

1.2. Prepare the Retained Income Note on 30 June 2015.

**INFORMATION:**

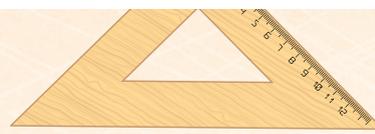
**A.** List of balances/totals on 30 June 2015:

<b>BALANCE SHEET ACCOUNTS SECTION</b>	
Ordinary share capital	R5 600 000
Retained income (1 July 2014)	2 700 000
Mortgage loan: Custom Bank	262 200
Fixed assets	8 950 000
Trading stock	203 200
Debtors' control	316 000
Provision for bad debts (1 July 2014)	11 400
Cash and cash equivalents (balancing figure)	?
SARS: Income tax (provisional tax payments)	725 000
Income receivable (accrued)	5 200
Creditors' control	261 000

**B.** Net profit before tax of R2 493 600 was determined BEFORE taking into account the following information:

- (i) Trading stock on 30 June 2015 was valued at R191 900.
- (ii) Provision for bad debts must be adjusted to R9 000.
- (iii) Rent for July 2015, R2 800, had been received in advance.
- (iv) An annual insurance premium of R6 000 was paid for the period 1 April 2015 to 31 March 2016.
- (v) The auditor discovered that the profit on disposal of a vehicle, R6 800, was incorrectly shown as a loss.
- (vi) Income tax amounts to R750 000 for the year.





#### ACTIVITY 4:

#### NOTE TO THE BALANCE SHEET

You are provided with information relating to Musica Limited for the year ended 31 December 2015.

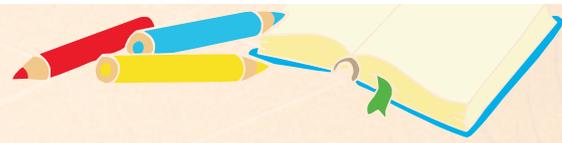
#### REQUIRED:

Prepare the Note to the Balance Sheet for Trade and Other Receivables.

#### INFORMATION:

##### Extract from Pre-adjustment Trial Balance on 31 December 2015:

Balance Sheet Accounts Section	Debit	Credit
Ordinary share capital		3 000 000
Retained income (1 January 2015)		628 000
Loan from Paris Bank		540 800
Debtors' control	125 000	
Creditors' control		96 200
Provision for bad debts		7 150
Trading stock	376 000	
SARS: Income tax	315 000	
<b>Nominal Accounts Section</b>		
Sales		8 412 000
Cost of sales	4 595 000	
Debtors' allowances	112 000	
Sundry expenses	257 400	
Bank charges	41 905	
Audit fees	75 600	
Packing materials	15 400	
Repairs and maintenance	107 500	
Commission income		64 140
Directors' fees	736 000	
Salaries and wages	1 020 000	
Employer's contributions	156 000	
Interest on current bank account		3 000
Bad debts	17 600	
Rent income		87 720
Dividends on ordinary shares	360 000	



**Adjustments and additional information:**

- A. Provide for R278 200 depreciation for the financial year.
- B. On 27 December 2015 P Maine, a debtor, returned merchandise. A credit note for R1 600 was issued to her. (The cost price was R900.) No entries were made for the return of the merchandise. These items were returned to stock.
- C. The insolvent estate of a debtor, J Jabaroo, paid out 45 cents in the rand and made a direct deposit of R2 025 on 31 December 2015. The outstanding balance must be written off. No entries were made to record the direct deposit and the amount written off.
- D. The provision for bad debts must be increased to R8 000.
- E. The stock count on 31 December 2015 revealed:

- Trading stock                      R369 100
- Packing material                    R2 400

- F. The company has two directors. Each director receives the same monthly remuneration. One of the directors did not receive his directors' fee for December 2015.
- G. Interest on the loan from Paris Bank has not been entered yet. Interest is capitalised. The loan statement received from Paris Bank reflected the following:

Balance on 1 January 2015	R601 600
Repayments made during the year	R100 800
Balance on 31 December 2015	R540 800

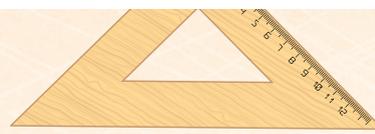
- H. There was no change in the monthly rent during the financial year. The tenant paid R6 000 for repairs to the premises. As Musica Limited is responsible for all repairs, the tenant deducted this amount from the rent, which he paid for November 2015. The repairs have not been recorded, and the rent for December 2015 has not been received yet.
- I. An employee was left out of the Salaries Journal.

His details are:

Net salary	R12 150
Deductions	R6 350
Employer's contributions	R5 050

- J. Income tax for the year was correctly calculated at R300 300.





### 3.4 AUDIT REPORT

#### OBJECTIVES

- Know the importance of the audit report.
- Understand the role players in the preparation of the audit report.
- Know the users of the audit report.
- Identify the audit report.

#### CONCEPTS:

Concept	Explanation
• <b>Internal auditor</b>	An auditor, who supervises the preparation of the financial statements, is responsible for internal control and is employed by the company.
• <b>External auditor (Independent)</b>	An auditor who expresses an opinion on the financial statements in an auditor's report but does not work for the company.
• <b>Auditor's report</b>	This is an opinion given by a qualified person on whether the financial statements are reliable or not.
• <b>Unqualified opinion</b>	When the auditors find the financial statements acceptable in ALL respects.
• <b>Qualified opinion</b>	When the auditors find the financial statements acceptable EXCEPT for some aspects that need to be changed, fixed or investigated.
• <b>Disclaimer/ Withheld</b>	When the auditors are not prepared to express an opinion on the financial statements (because they are too unreliable).

#### ACTIVITY 1

You are provided with an extract from the independent audit report of Trimex Ltd.

#### REQUIRED:

- 1.1 Choose the correct word from those given in brackets. Give a reason. Trimex Ltd received a/an (qualified/unqualified/disclaimer) audit report.
- 1.2 Explain TWO consequences of this audit report for the company and/or the CEO.

#### INFORMATION:

##### EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

#### Basis for our opinion

The company's procurement policy states that purchases over R100 000 must be approved by the board of directors and supported by three quotations from independent suppliers.

During the year under review the company purchased two vehicles at a cost of R900 000. This was approved by the CEO without reference to the board. Only one quotation was received.

#### Audit opinion

Because of the significance of this matter, we have not been able to obtain sufficient audit evidence to provide a basis for an opinion. Accordingly, we do not express an opinion on the financial statements of Trimex Ltd for the year ended 30 June 2015.

*Devi & Meyiwa Associates, CA (SA)*





## ACTIVITY 2

You are provided with an extract from the independent audit report of Sumba Ltd.

### EXTRACT FROM THE AUDIT REPORT OF SUMBA LTD.

We found that internal control procedures were not adhered to and documentation did not exist for a significant portion of the transactions tested.

Because of the significance of the matter described in the previous paragraph, 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 for the year ended 28 February 2014.

#### REQUIRED:

- 2.1 The audit report is an example of a/an (qualified/unqualified/disclaimer of opinion) audit report.
- 2.2 Who is the audit report addressed to? Give a reason for your answer.
- 2.3 Explain why it is likely that this audit report will have a negative effect on the value of the shares of this company on the JSE.

## ACTIVITY 3

You are provided with an extract from the audit report of Fralezi Ltd.

#### REQUIRED:

- 3.1 To whom is the audit report addressed?
- 3.2 Who has to ensure that the financial statements are prepared and presented at the annual general meeting?
- 3.3 Choose the correct word from those in brackets. Write the answer next to the question number (3.2) and explain your choice.

Fralezi Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.

- 3.4 Explain why the independent auditors referred to pages 11–29 in the report.

#### INFORMATION:

We have examined the financial statements set out on pages 11–29.

In our opinion, the annual financial statements present fairly, in all material respects:

- The financial position of Fralezi Ltd on 30 June
- The cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and as required by the Companies Act of South Africa

*Roux and Pieterse*

*Chartered Accountants (CA)*

*Registered Accountants and Auditors*

*Schilbach Street, Parys*

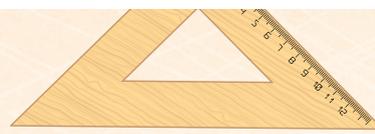
## VALUE ADDED TAX

### OBJECTIVES

- Know the different types of taxes.
- The used of monies collected from tax.
- Calculation of VAT Input and VAT Output
- Preparation of VAT Control Account

### CONCEPTS





Concept	Explanation
• <b>VAT Vendor</b>	A person or business that supplies goods or services who register as a vendor (trader).
• <b>Compulsory Registration</b>	All businesses with a turnover of more than R1-million <b>MUST</b> register as a vendor (trader).
• <b>Voluntary Registration</b>	Businesses with a turnover of less than R1-million <b>CAN</b> register if they want to.
• <b>Zero-rated items</b>	Items charged at 0% VAT, but this can be changed by the government at any time. E.g. Fresh fruit and vegetables, brown bread, milk, maize, rice, lentils and cooking oil.
• <b>VAT-exempt items</b>	Items on which no VAT is charged. E.g. interest, rates, export services, educational services and childcare services.
• <b>VAT inclusive</b>	VAT is included in the amount. $VAT = 14/114 \times \text{Amount}$ .
• <b>VAT exclusive</b>	VAT is excluded from the amount. $VAT = 14/100 \times \text{Amount}$ .
• <b>VAT Input</b>	VAT paid by a business on the purchases of goods and services (which can be claimed back from SARS).
• <b>VAT Output</b>	VAT collected by the business on the sale of all goods and services (which needs to be paid over to SARS).

#### APPROACH TO THE TOPIC

1. There are two methods that can be used to arrive at the amount payable to or receivable from SARS. You can either draw up the VAT Control account or you can do a calculation.
2. You are advised to use the VAT Control account because the format of the account is easier to remember. **VAT Input** amounts (money to be claimed back from SARS) are entered on debit side and **VAT Output** amounts (money collected and to be paid over to SARS) are entered on the credit side.
3. VAT Input will include VAT on purchases (merchandise, equipment etc), VAT on expenses, VAT on returns from debtors, VAT on bad debts
4. VAT Output will include VAT collected from sales, VAT on returns of merchandise, VAT on drawings of stock, VAT on Bad debts recovered.
5. When VAT Input is more than VAT output (i.e. VAT Control account has a debit balance) the difference is receivable from SARS. When VAT Output is more than VAT Input (the VAT Control account has a credit balance) the difference is payable to SARS
6. VAT Calculations

VAT output – VAT input = amount payable to SARS

**VAT inclusive calculations:** When VAT is included in an amount (VAT Inclusive)

The calculation for VAT will be **the amount x 14/114**.

**VAT exclusive:** When VAT is excluded (VAT exclusive) the calculation for VAT will be **the amount x 14/100**.



## ACTIVITY 1

### 1.1 VAT CONCEPTS

Change the underlined parts in the following sentences to make the statements TRUE. Write the answer next to the question number (3.1.1–3.1.3) in the ANSWER BOOK.

- 1.1 Input VAT is VAT charged to customers.
- 1.2 VAT is payable to the South African Reserve Bank.
- 1.3 VAT is charged at 14% on fruits and vegetables.

### 1.2 VAT CALCULATIONS

Wandile Traders is a VAT registered business. The standard rate of VAT is 14%.

#### REQUIRED:

Calculate the correct amount of VAT the business has to pay. Show ALL workings.

#### INFORMATION:

The bookkeeper, Felix, prepared the VAT Control Account for the tax period ended 31 May 2015 and arrived at a VAT payable amount of **R43 820**.

However, the internal auditor has identified the following errors and omissions which must still be brought into account to calculate the correct VAT payable amount:

A.	Sales invoices omitted from the Debtors' Journal, including VAT	R10 830
B.	Damaged goods returned to suppliers, excluding VAT	18 600
C.	VAT on sundry business expenses omitted	6 818
D.	VAT on discounts received from suppliers	756
E.	VAT on bad debts recovered	112
F.	VAT on bad debts was recorded on the wrong side of the VAT Control Account	92

## ACTIVITY 2

### VALUE-ADDED TAX (VAT)

The information below relates to Creamline Traders for their two-month VAT period ended on 31 August 2016. All items are subject to 14% VAT.

#### REQUIRED:

Calculate the amount receivable from or payable to SARS for VAT on 31 August 2016. Indicate whether the amount is receivable or payable. You may complete a VAT Control Account.

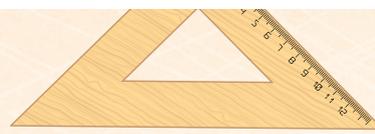
#### INFORMATION:

A. Amount owed to SARS for July 2016, R14 250.

B. Details in respect of VAT for August 2016:

	DETAILS	EXCLUDING VAT	VAT	INCLUDING VAT
	Merchandise purchased/ Expenses paid	R198 000		R225 720
	Goods taken by owner for personal use		R2 940	
	Returns by debtors		R1 120	
	Debtors' accounts written off	R9 500		





Total sales			R332 880
-------------	--	--	----------

### ACTIVITY 3: VALUE ADDED TAX

#### 3.1 CONCEPTS

##### REQUIRED:

3.1.1 What do the letters VAT stand for?

3.1.2 What rate of VAT is charged on necessities such as brown bread, milk and fresh vegetables?

#### 3.2 VAT: SEBENZA TRADERS

The business accounts for VAT on a two-monthly basis.

##### REQUIRED:

Calculate the final amount payable to SARS on 31 July 2014 (you may prepare a VAT Control Account to assist in your calculations).

##### INFORMATION:

	INCLUDING VAT	EXCLUDING VAT	VAT AMOUNT
Balance owed by SARS on 1 July 2014			R11 200
Cash and credit sales invoices	R1 026 000	R900 000	R126 000
Purchase of trading stock	R627 000	R550 000	R77 000
Defective stock returned to suppliers	R2 223	R1 950	R273
Discount allowed to debtors for prompt payment		R47 800	?
New office computer bought on credit	R10 830		?

## 3.6 BANK RECONCILIATION AND INTERNAL CONTROL

### OBJECTIVES

- Complete the Cash Receipts Journal.
- Complete the Cash Payments Journal.
- Calculate the correct Bank Balance.
- Prepare the Bank Reconciliation Statement.
- Know the importance of preparing the Bank Reconciliation Statement.

### CONCEPTS:

Concept	Explanation
• <b>Bank reconciliation</b>	The balance in the bank account in the business' general ledger should be the same as the balance on the bank statement received from the bank. When these are not the same, they need to be reconciled.
• <b>Outstanding deposit</b>	Deposit not appearing in the bank statement.
• <b>Outstanding cheque</b>	Cheque not appearing in the bank statement.



## THINGS TO CONSIDER WHEN DEALING WITH BANK RECONCILIATION

- You have to understand that the bank reconciliation is a form of internal control and that two sets of information needed to do comparisons.
- Two sets of books from two businesses are used for this purpose every month, i.e. the business and its bank.
- The business record its transactions with the bank in the cash journals, the cash receipts journal and cash payments journal and determine the bank balance in the bank account in the general ledger.
- On the other hand the bank will record its transactions with the business in the bank statement.
- So, the balance of the bank account in the general ledger should always be the same as the balance in the bank statement. If not it means that certain transactions between the two entities have still to be recorded by either of the two.
- Differences are detected during comparisons of the cash journals with the bank statement.
- Know what to record in the subsidiary journals and bank reconciliation statement.
- Sometimes reconciliation of differences is recorded directly in the bank account depending on what the question requires.
- Possible differences are the following (Refer to 2014 Mind the Gap pages 83 to 85):
  - Bank charges and interest charged on the bank statement levy, service fees, cash deposit fee and interest. Separate interest on overdraft with other bank charges.
  - Interest earned or received on the bank statement is found in the bank statement.
  - Direct deposit in the bank statement, e.g. by a tenant.
  - Stop orders/ debit orders on the bank statement.
  - Cheques issued in the CPJ but not presented for payment
  - Deposits in CRJ but do not appear in the bank statement
  - Dishonoured cheques due to insufficient funds.
  - Post-dated cheques received and deposited.
  - Post-dated cheques issued.
  - Stale cheques (older than 6 months) issued.
  - Stale cheques received and dishonoured.
  - Lost cheques issued (Issue new if instructed to do so).
  - Errors made by the business in CRJ or CPJ, and errors made by the bank.
    - Deposit wrongly credited to our bank account.

### ACTIVITY 1

The information below relates to Eureka Traders.

#### REQUIRED:

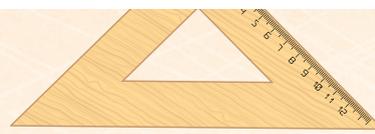
- 1.1 Calculate the correct bank balance on 30 June 2015.
- 1.2 Prepare the Bank Reconciliation Statement on 30 June 2015.
- 1.3 **Refer to Information E.**

Identify TWO separate problems with evidence. Give advice for EACH problem.

#### INFORMATION:

- A. The following Bank Reconciliation Statement was prepared on 31 May 2015:





Balance as per Bank Statement (unfavourable)		(R13 000)
Outstanding deposit		30 000
Outstanding cheques:		
No. 614 (dated 20 December 2014)	Donation	(10 500)
No. 958 (dated 25 May 2015)	Merchandise	(7 900)
No. 962 (dated 30 July 2015)	Settlement of account	(4 500)
Correction of error		3 600
Balance as per bank account (unfavourable)		(2 300)

- NOTE:**
- The deposit of R30 000 appeared on the Bank Statement on 14 June 2015.
  - The error of R3 600 was corrected by the bank on 10 June 2015.
  - Cheque No. 958, issued in May 2015, was reflected on the Bank Statement for June as R9 700. The Bank Statement is correct. The other outstanding cheques have not been presented at the bank.

**B.** Provisional totals on 30 June 2015: CRJ: R87 220; CPJ: R74 860

**C.** The Bank Statement for June 2015 revealed the following:

- Direct deposit for rent income from the tenant, R21 000
- Stop order for insurance, R6 500
- R/D cheque originally received from F Mnisi for R2 250 in settlement of his debt of R2 300
- Bank charges, R210
- Balance as per Bank Statement, ?

**D.** The following cheques appeared in the Cash Payments Journal and not on the Bank Statement for June 2015:

- No. 982 for R2 200
- No. 986 for R1 400 (dated 28 July 2015)

**E.** The bookkeeper recorded the following entry in the June 2015 CRJ:

Doc.	Date	Details	Analysis	Bank	Sales
CS371–402	30	Cash	18 500	18 500	18 500

This was recorded by the bank on 15 July 2015. The internal auditor has noticed that cash slips, CS371–402, actually total R25 500.



## ACTIVITY 2:

### BANK RECONCILIATION AND INTERNAL CONTROL

#### REQUIRED:

Complete the following sentence in your own words:

- It is important to prepare a Bank Reconciliation Statement each month because .....

You are provided with information relating to Cravenby Traders.

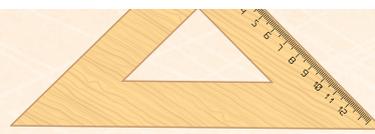
- 2.2.1 Refer to Information B. The bookkeeper has decided to write off the amount of R40 000.
- Which GAAP principle will the bookkeeper apply in this case? Briefly explain this principle.
  - The bookkeeper wants to prevent a problem such as this in future. Give TWO solutions to improve internal control in this regard.
- 2.2.2 Prepare the Bank Reconciliation Statement on 31 May 2012.

- A The following balances were identified in the books of the business and the Bank Statements:

	30 APRIL 2012	31 MAY 2012
Bank account in Ledger	R12 720	?
Bank Statement	R24 700	R19 310 (overdraft)

- B Items appearing in the Bank Reconciliation Statement on 30 April 2012:
- A deposit of R40 000, dated 2 April 2012, does not appear on any Bank Statement. This money cannot be traced and the cashier has disappeared.
  - Cheque No. 962, for R2 340, dated 10 April 2012, appeared on the Bank Statement on 2 May 2012.
  - Cheque No. 967, for R4 790, dated 20 April 2012, has still not been presented at the bank by the payee, S Smit.
- C The Bank Statement for May reflected bank charges, R1 850 and interest on an overdraft, R920.
- D Items appearing in the Cash Journals but not in the Bank Statement:
- Cheque No. 1122 for R4 650, dated 18 May 2012
  - Cheque No. 1129 for R8 540, dated 25 August 2012
  - A deposit of R11 550, dated 31 May 2012
- E The bank overcharged on the bank charges for May by R960. The bank has agreed to correct the error during June 2012.





### ACTIVITY 3:

#### BANK RECONCILIATION

You are provided with information relating to Ace Traders for September 2011.

#### REQUIRED:

- 3.1 Indicate whether the following statements are TRUE or FALSE:
- An internal auditor will want to inspect the Bank Reconciliation Statement at the end of each month.
  - A debit balance on the Bank Statement reflects an unfavourable balance.
  - Service fees and interest on an overdraft will be recorded as Bank Charges in the Cash Payments Journal.
  - A post-dated cheque issued by Ace Traders in September 2011, but dated February 2012, will only be entered in the Cash Payments Journal of Ace Traders in February 2012.
- 3.2 Calculate the correct bank balance of Ace Traders on 30 September 2011, using figures that should be entered in the Cash Journals. Show ALL workings.
- 3.3 Use the information below to prepare the Bank Reconciliation Statement of Ace Traders on 30 September 2011.
- 3.4 Refer to the outstanding deposit of R43 000, dated 11 September 2011. Why should the internal auditor be concerned? State TWO points.

#### INFORMATION ON 30 SEPTEMBER 2011:

Balances prior to doing the bank reconciliation:		
Balance of the Bank Account in the Ledger on 30 September 2011	R60 000	Favourable
Balance per Bank Statement on 30 September 2011	R17 600	Favourable
Difference	R42 400	

- Individual differences noticed between the books of Ace Traders and the Bank Statement for September 2011:

DETAILS	AMOUNT
1. Cheque No. 657, dated 2 March 2011, still not reflected in Bank Statement	R2 000
2. Deposit, dated 11 September 2011, not reflected in Bank Statement	R43 000
3. Dishonoured cheque, originally received from a debtor on 15 September 2011, reflected in Bank Statement but not in Journals	R9 500
4. Cheque No. 931, dated 18 September 2011, not reflected in Bank Statement	R4 800
5. Cheque No. 936, dated 30 October 2011, not reflected in Bank Statement	R10 200
6. Deposit, dated 28 September 2011, not reflected in Bank Statement	R5 700
7. Bank charges in Bank Statement, but not in Journals	R1 200



## 3.7 BUDGETS

### OBJECTIVES

- Candidates should know basic concepts regarding budgets
- Complete a Cash Budget including a Debtors Collection schedule.
- Interpret a Cash Budget
- Complete a Projected Income Statement
- Interpret a Projected Income Statement

### CONCEPTS

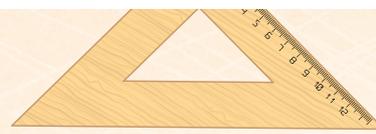
Concepts	Explanation
<b>Cash Budget</b>	Future predictions of all cash receipts, cash payments and the bank balance.  A forecast of cash receipts and cash payments.
<b>Projected Income Statement</b>	Future predictions of all income and expenditure and the net profit or loss for the period.  A forecast of income and expenses.
<b>Cash Inflow</b>	Actual cash coming into the business.
<b>Cash outflow</b>	Actual cash going out the business.
<b>Income</b>	Earnings of the business.
<b>Expense</b>	Cost incurred by the business
<b>Surplus</b>	Receipts are more than the payments
<b>Deficit</b>	Payments are more than the receipts
<b>Debtors' collection schedule</b>	A schedule (plan) of how the business will collect money from its debtors.
<b>Creditors' payment schedule</b>	A schedule (plan) of how the business will pay its creditors.

### APPROACH TO THE TOPIC

The following will assist candidates and make the question easy in the examination:

- First determine the budget period (months) that you are working with.
- Ensure that you know how to do simple calculations e.g. Calculating percentage change: Take the difference between the two amounts and divide by the original amount and multiply by 100. Your answer must contain a % sign.
- If an amount will increase by a certain percentage (%). You take the original amount and multiply by  $100 + \%$  increases and divided by 100 and you will get the increased amount.
- If an amount will decrease by a certain percentage (%). You take the original amount and multiply by  $100 - \%$  decrease and divide by 100 and you will get the answer.
- If the increased amount is given in the next month and you need to calculate the amount before increase: You take the increased amount and multiply it by 100 and divide by  $100 + \%$  increased.
- Make sure to add all receipts and payments per month to calculate the surplus or deficit for that specific month.
- Add the surplus or deficit of that month to the opening bank balance to calculate you closing bank balance.
- The closing balance of the current month is the opening balance of the following month.





## ACTIVITY 1 CASH BUDGET AND PROJECTED INCOME STATEMENT

### 1.1 BRUCE TRADERS

Benny Bruce owns Bruce Traders. You are provided with information for two months.

#### REQUIRED:

Complete the Cash Budget for November and December 2015. Certain figures have been entered for you.

#### INFORMATION:

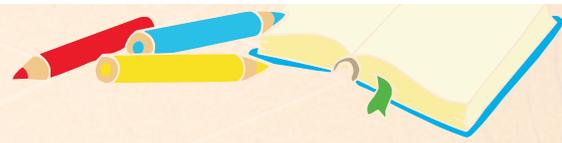
Extract from the Projected Income Statement:

A.	NOVEMBER 2015	DECEMBER 2015
Sales	R1 050 000	R997 500
Cost of sales	600 000	570 000
Commission income	7 000	8 000
Sundry expenses	22 500	?
Depreciation	2 200	2 200
Wages and salaries	?	256 000
Bad debts	19 500	34 125
Advertisements	0	11 000
Discount allowed	20 475	18 900
Interest expense (9% p.a.)	3 780	3 510

#### B. ADDITIONAL INFORMATION:

- (i) Cash sales amount to 40% of all sales.
- (ii) A mark-up of 75% on cost is maintained. Stock is replaced in the same month as sales.
- (iii) 20% of all purchases of stock are bought for cash.
- (iv) All creditors are paid in full in 30 days (in the month following the purchase).
- (v) Commission is received one month after it is earned. Commission is budgeted to increase by R1 000 per month.
- (vi) Sundry expenses consist of cash items only. It is expected to decrease by 8% each month.
- (vii) Wages and salaries for December 2015 include a bonus of R40 000 for the manager. A wage and salary increase of 8% for all employees will be applied from 1 December 2015.
- (viii) Advertisements will appear in a newspaper on the first day of each month, commencing on 1 December. Payment to cover three advertisements will be made in full on 15 November.
- (ix) The interest rate is 9% p.a. Interest is not capitalised and is paid monthly. A portion of the loan will be repaid on 30 November 2015.





## 1.2 SLEEPEZI BEDS (PTY) LTD

You are provided with information for two months ending 31 October 2015.  
The business sells one type of bed.

### REQUIRED:

- 1.2.1 Calculate the percentage increase in the amount budgeted for salaries and wages for October 2015. Should the employees be satisfied with this? Explain.
- 1.2.2 The financial director is pleased with the work being done by the bookkeeper and internal auditor. Identify an expense that indicates that he is correct. Explain your answer.
- 1.2.3 A competitor, BB Beds, which sells only for cash, opened a store nearby on 1 October 2015.
- Comment on how the new competitor has affected the sales of Sleepenzi Beds. Provide figures.
  - Explain how Sleepenzi Beds has responded to this problem. Provide THREE points. Provide figures.
- 1.2.4 Cash balances:
- Comment on the cash balances. Provide figures.
  - Explain how the directors can improve the cash balances in future. Explain TWO points.

### INFORMATION:

#### A.

Expected sales, cost of sales and deliveries:

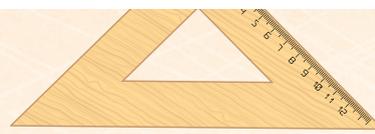
- The business budgets on selling 300 beds per month.
- The cost price of each bed is R3 000 and the selling price is R5 000. No discounts are allowed.
- The stock of beds is replaced in the month of sale.
- Suppliers are paid in the month of purchase.
- The business uses Cape Deliveries to deliver the beds to each customer.

#### B.

Extract from the Cash Budget:

	SEPTEMBER 2015		OCTOBER 2015	
	PROJECTED	ACTUAL	PROJECTED	ACTUAL
Cash surplus (deficit) for month	110 000	125 000	120 000	(440 000)
Cash at beginning of month	105 000	105 000	215 000	230 000
Cash at end of month	<b>215 000</b>	<b>230 000</b>	<b>335 000</b>	<b>(210 000)</b>





C.	Extract from the Projected Income Statement:			
	SEPTEMBER 2015		OCTOBER 2015	
	PROJECTED	ACTUAL	PROJECTED	ACTUAL
Number of beds sold	300 beds	320 beds	300 beds	240 beds
Cash sales	1 200 000	1 280 000	1 200 000	300 000
Credit sales	300 000	320 000	300 000	900 000
Total sales	1 500 000	1 600 000	1 500 000	1 200 000
Cost of sales	(900 000)	(960 000)	(900 000)	(720 000)
Gross profit	600 000	640 000	600 000	480 000
Operating expenses	(313 000)	(323 000)	(407 600)	(374 960)
Directors' fees	80 000	80 000	80 000	36 000
Salaries and wages	30 000	30 000	31 800	31 800
Advertising	10 000	10 000	10 000	40 000
Delivery costs				
(Cape Deliveries)	150 000	160 000	150 000	168 000
Audit fees	0	0	90 000	50 000
Rent expense	28 000	28 000	30 800	34 160
Sundry expenses	15 000	15 000	15 000	15 000
Operating profit	287 000	317 000	192 400	105 040

## ACTIVITY 2 BUDGETS

### KOBUS HARDWARE

You are provided with information relating to Kobus Hardware, owned by Kobus Groenewald.

#### REQUIRED:

- 2.1 Calculate the missing amounts indicated by (a) to (e) in the Cash Budget for March and April 2016.
- 2.2 Complete the Debtors' Collection Schedule for April 2016.
- 2.3 Calculate the percentage increase in sundry expenses.

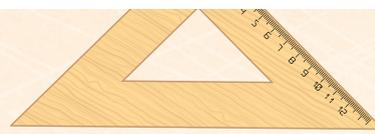
INFORMATION			
A.	An extract from the Cash Budget	MARCH 2016	2016
	<b>CASH RECEIPTS</b>		
	Cash sales	(a)	237 600
	Cash from debtors	144 400	?
	Rent income	3 000	(c)
	Loan: Bull Bank	-	180 000
	Commission income	26 600	28 000
	<b>CASH PAYMENTS</b>		
	Cash purchases of trading stock	(b)	257 500
	Payments to creditors for stock	32 350	28 250
	Salaries and wages	61 240	61 240



<b>INFORMATION</b>		
Loan instalment	-	(d)
Interest on loan	-	(e)
Insurance	2 260	2 260
Drawings	18 000	18 000
Delivery expenses	30 000	30 000
Sundry expenses	87 600	89 790
<b>Cash surplus/(deficit)</b>		
Bank: Opening balance		
Bank: Closing balance	(75 300)	(44 900)

- B.** The business has only one supplier. Commission of 7% of total sales is receivable in the month following the sales.
- C.** Cash sales amount to 60% of total sales.
- D.** Total sales for February 2016 were R380 000.
- E.** 10% of the trading stock is bought on credit. Creditors are paid in full in the month following the month of purchase.
- F.** Collection from debtors:
- 45% settle accounts in the month of sales and receive 5% discount.
  - 50% settle accounts in the following month.
  - Provision is made for 5% bad debts.
- G.** A tenant rented a storage room in our building. He moved in on 15 March 2016 and was required to pay only half the rent amount. He was informed that rent increases by 5,5% on 1 April each year.
- H.** Sundry expenses are expected to increase by a fixed percentage each month.
- I.** The loan, at 10,5% p.a. interest, will be taken out on 1 April 2016.
- The loan will be repaid in 24 equal monthly instalments commencing on 30 April 2016.
  - Interest on the loan is also payable at the end of each month commencing on 30 April 2016. Interest is not capitalised.
- J.** The bank has granted Kobus an overdraft facility of R40 000.





K. Kobus is concerned about the following items, which were under/over budget for February 2016:

Item	Budgeted	Actual	Under/over budget
Collection from debtors	174 200	61 800	Under
Payments to creditors	39 400	15 600	Under
Insurance	2 260	0	Under
Drawings	18 000	52 000	Over

### ACTIVITY 3: BUDGETING

You are provided with information relating to Mayhem (Pty) Ltd.

#### REQUIRED:

3.1 Refer to Information G.

3.1.1 Identify TWO items that the bookkeeper recorded incorrectly in the Cash Budget.

3.1.2 Identify TWO items in the Cash Budget that would NOT appear in a Projected Income Statement.

3.2 Complete the Debtors' Collection Schedule for October 2016.

3.3 Calculate the missing amounts indicated by (a) to (d) in the Cash Budget.

3.4 The directors compared the budgeted figures to the actual figures for September 2016.

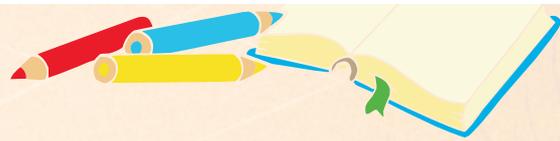
	BUDGETED	ACTUAL
Sales	R288 000	R489 600
Salaries: Salespersons	R40 000	R12 000
Commission: Salespersons	R0	R66 150
Packing material	R14 400	R17 280

#### INFORMATION:

A. Projected Income Statement:

Information extracted for the three months ended 31 October 2016:

	AUGUST	SEPTEMBER	OCTOBER
	R	R	R
Sales	252 000	288 000	?
Cost of sales	?	(160 000)	?
Rent income	?	?	12 960
Discount received	3 600	4 000	?
Depreciation	5 400	5 400	5 400
Bad debts	2 800	3 350	?
Interest on loan	6 875	6 875	?



**Sales:**

- B.**
- Sales are expected to increase by 15% in October 2016.
  - Credit sales comprise 60% of total sales.
  - The mark-up percentage is 80% on cost.
- C. Debtors' collection:**
- 50% is collected in the month of sale.
  - 40% is collected in the month following the month of sale.
  - 7% is collected two months after the sale.
  - 3% is written off as irrecoverable.
- D. Purchases:**
- All purchases of stock are on credit.
  - Stock is replaced in the month of sale. A base stock is maintained.
  - Creditors are paid two months after purchase, subject to a 4% discount.
- E. Directors' fees:**
- The business had three directors earning the same monthly fee.
  - On 30 September 2016 one of the directors resigned.
  - The remaining directors will receive an increase of 35% in their monthly fee from 1 October 2016.
- F. Loan:**
- The loan was reduced by R52 800 on 30 September 2016.
  - Interest at 12,5% p.a. is payable every month and is not capitalised.

**G. Extract from the Cash Budget prepared by the bookkeeper:**

	SEPTEMBER 2016	OCTOBER 2016
	R	R
<b>RECEIPTS</b>		
Cash sales	(a)	132 480
Cash from debtors	155 280	?
Rent income	12 000	12 960
Discount received	3 600	5 600
Fixed deposit	56 000	0
<b>PAYMENTS</b>		
Payments to creditors	156 000	(b)
Directors' fees	216 000	(c)
Salaries of salespersons	40 000	40 000
Repayment of loan	52 800	0
Interest on loan	6 875	(d)
Delivery expenses	27 500	27 500
Audit fees	60 000	0
Bad debts	3 200	3 600
Depreciation	17 400	17 400



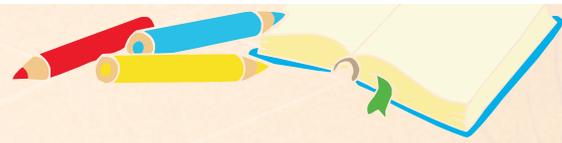
# 4 CHECK YOUR ANSWER

## 4.1 MANUFACTURING

ACTIVITY 1		
1.1	<b>SNAZZY HANDBAGS</b>	
<b>PRODUCTION COST STATEMENT ON 30 SEPTEMBER 2015</b>		
		<b>R</b>
<b>A</b>	✓ Direct material cost (976 000 ✓ – 17 000 ✓)	959 000 ✓
	✓ Direct labour cost	755 000
<b>B</b>	<b>Prime Cost</b>	1 714 000 ✓
<b>C</b>	✓ Factory overhead cost (442 080 ✓ – 20 800 ✓✓ + 2 560✓ + 8 320 ✓ + 1 920✓ + 1 920✓)	436 000 ✓
<b>D</b>	<b>Manufacturing cost</b>	2 150 000 ✓
	Work-in-process (1 October 2014)	74 000 ✓
		2 224 000 ✓
	Work-in-process (30 September 2015)	(36 500) ✓
<b>E</b>	<b>Total cost of production</b>	2 187 500 ✓
	<p>A. Direct Material for the year minus material return (damaged).</p> <p>B. Direct material cost plus Direct labour cost.</p> <p>X. Factory overhead for the year (442 080) Minus Rent expense prepaid (20 800) Plus Gross salary for a factory foreman (2 560 + 8 320 + 1 920 + 1 920) PAYE, Net Salary and UIF. UIF contributed by the employee and by the business (1 920 + 1 920) rand- for-rand basis.</p> <p>Δ. Prime cost plus Factory overheads.</p> <p>E. Manufacturing cost plus Work in process at the beginning of the year minus Work in process at the end of the year.</p>	
1.2	<b>HEALTHY LIFESTYLE COOKWARE</b>	
	<b>Calculate the variable cost per unit for 2015.</b>	
<b>A</b>	2 160 000 ✓ / 27 000 ✓ = R 80 ✓	
<b>B</b>	<b>Calculate the break-even point for 2015.</b>	
	2 850 000 ✓ / R175 ✓ – R80 ✓ = 30 000 units ✓✓	

Total Variable cost divide by total number of units produced.

A. Total Fixed cost/ Selling price per unit – Variable cost per unit.



## ACTIVITY 2

### 2.1 CONCEPTS

2.1.1	False✓
2.1.2	False✓
2.1.3	True✓

### 2.2 STAR WHEELS MANUFACTURERS

#### 2.2.1 DIRECT LABOUR COST

A	Basic salary (14 x 7 000) ✓ x 12 ✓	1 176 000	<input checked="" type="checkbox"/>
B	Overtime (14 x 144) ✓ x 65 ✓	131 040	<input checked="" type="checkbox"/>
C	UIF contributions (1 176 000 x 1%)	11 760	<input checked="" type="checkbox"/>
		1 318 800	<input checked="" type="checkbox"/>

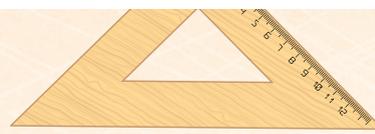
- A. Basic salary is calculated by taking the number of workers (14) multiply by the basic salary (7000) and **multiply** by (12) as it is for the year.
- B. Overtime is calculated by taking 14 workers multiply by overtime rate (144) multiply by the number of hours worked (65).
- C. UIF is 1/100 X the basic salary calculated.

#### FACTORY OVERHEAD COST

A	Indirect materials (13 200 ✓ + 38 400 ✓ - 15 100 ✓)	36 500	<input checked="" type="checkbox"/>
	Salaries: foreman	156 000	✓
B	Electricity and water (104 000 x 90%)	93 600	✓✓
C	Rent expense (115 200 x 600/1 500)	46 080	✓✓
D	Insurance (74 200 x 3/7)	31 800	✓✓
	Depreciation: factory plant and machinery	277 220	✓
		641 200	<input checked="" type="checkbox"/>

- A. Opening stock **plus** purchases **minus** closing stock.
- B. The factory is using 90% of electricity and water.
- X. The factory is using only 600 of 1500 floor space and must be multiplied by the total expense of rent 115 200.
- Δ. The 2 800 still owing for December must be added to the 71 400 to get 74 200. Which is then multiplied by 3/7 as the factory is only using 3 parts of the total space (3:2:2) = 7.





2.2.2 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015.			
	Direct (raw) materials cost	2 100 000	
A	Direct labour cost	1 318 800	<input checked="" type="checkbox"/>
B	Prime cost	3 418 800	<input checked="" type="checkbox"/>
	Factory overhead costs	641 200	<input checked="" type="checkbox"/>
C	Total manufacturing cost	4 060 000	<input checked="" type="checkbox"/>
	Work-in-process (beginning of year)	160 000	
		4 220 000	<input checked="" type="checkbox"/>
	Work-in-process at end	(220 000)	<input checked="" type="checkbox"/>
D	Cost of production of finished goods	4 000 000	<input checked="" type="checkbox"/>
	(4 015 000 ✓ + 95 000 ✓ – 110 000 ✓)		

Basic salary plus Overtime plus UIF Contribution (See 2.2.1).

- A. Direct material cost plus Direct labour cost.
- B. Prime cost plus Factory overheads.
- X. Working backwards: Cost of sales plus Closing Stock minus Opening Stock.

### 2.3 NUTRITIOUS EATS

2.3.1	Calculate the break-even point for the year ended 31 October 2015.	
	736 000 ✓	= 61 333 or 61 334 units <input checked="" type="checkbox"/>
	(28 ✓ – 16 ✓)	

Total Fixed cost/ Selling price per unit – Variable cost per unit.

2.3.2	Give TWO possible reasons for the increase in the direct material cost per unit in the current financial year.
	Any two suitable reasons ✓✓ ✓✓
	<ul style="list-style-type: none"> <li>• Due to the effects of inflation, price of raw materials increased.</li> <li>• Storage costs.</li> <li>• Raw material obtained from new suppliers.</li> <li>• Increase in wastage</li> <li>• Increase in carriage</li> </ul>

Know factors that could lead to an increase in the price of raw material used by the business in question.

### ACTIVITY 3

3.1	3.1.1	Administration cost	✓
	3.1.2	Direct material cost	✓
	3.1.3	Selling and distribution cost	✓
	3.1.4	Factory overhead cost	✓



Be able to identify and explain concepts.

**3.2.1 Calculate direct labour cost.**

$$384\ 000 \checkmark\checkmark \quad 31\ 500 \checkmark\checkmark\checkmark \quad 44\ 160 \checkmark\checkmark \quad \checkmark$$

$$(1\ 920 \times 5 \times R40) + (90 \times 5 \times 70) + (384\ 000 \times 11,5\%) = R459\ 660$$

**OR**

$$76\ 800 \quad 6\ 300 \quad 8\ 832$$

$$5 \times [(1\ 920 \times R40) + (90 \times 70)] + (76\ 800 \times 11,5\%) = R459\ 660$$

**Note to candidates:**

- Five (5) workers multiply by normal wagger of R40 multiply by hours worked by all workers (1 920) equal 384 000.
- Five (5) workers multiply by (R40 X 175/100) which is R70 multiply by 90 hours overtime equals R31 500.
- Basic wage multiply by 11.5% which equals R44 160.

**Calculate direct material cost.**

$$\frac{131\ 500\checkmark + 584\ 000\checkmark}{1\ 350\checkmark + 5\ 400\checkmark} \times 5\ 500\checkmark = 583\ 000 \checkmark$$

**OR Total Variable Cost – Direct Labour Cost – Selling & Distribution Cost**

$$[4\ 200 \times 300] - 459\ 660 - 217\ 340 = 583\ 000$$

**OR Opening Stock + Purchases – (CS x R106) – (Theft x R106)**

$$131\ 500 + 584\ 000 - 99\ 640 - 32\ 860 = 583\ 000$$

**3.2.2 Production Cost Statement for the year ended 29 February 2016:**

<b>A</b>	✓Direct material cost (need not be first)	583 000 <input checked="" type="checkbox"/>
<b>B</b>	✓Direct labour cost	459 660 <input checked="" type="checkbox"/>
	<b>Prime cost</b>	<b>1 042 660 <input checked="" type="checkbox"/></b>
<b>C</b>	✓Factory overhead cost	343 340 <input checked="" type="checkbox"/>
	<b>Cost of production of finished goods</b>	<b>1 386 000 <input checked="" type="checkbox"/></b>

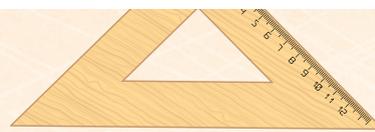
**D**

- A. Direct Material for the year calculated accordingly (see 3.2.1).
- B. Basic salary plus Overtime plus UIF Contribution (see 3.2.1).
- X. Direct material cost plus Direct labour cost.
- Δ. Prime cost plus Factory overheads.

<b>3.2.3</b>	<p><b>Calculate the break-even point for 2016.</b></p> $\frac{343\ 340\checkmark + 226\ 660\checkmark}{450\checkmark - 300\checkmark}$ $= 3\ 800\ \text{units}\checkmark$	
--------------	---	--

Total Fixed cost/ Selling price per unit – Variable cost per unit = Break-even-point.





## 4.2 INVENTORY VALUATION

### ACTIVITY 1

1.1	(a)	Calculate the closing stock of Johx watches on 31 August 2015.			
		1 x 6 500	5 x 6 800	2 x 7 300	3 x 7 800
		6 500 ✓	+ 34 000 ✓	+ 14 600 ✓	+ 23 400 ✓
		= 78 500 ✓			

#### Notes to the learner:

- For you to be able to answer this question you must first determine which valuation method is used and in this case it is the **specific identification method**.
- Check how many units were available at the beginning of the year and how many were sold. In this case 12 were available and 11 sold which mean 1 was left (1 X 6500) = 6 500.
- Check how many units were bought during the period at different times at different prices and how many was sold and how many was left.

September (15 – 10 = 5 x 6800) + January (12 -10 = 2 X 7300) + April (8-5 = 3 X 7800)

**34 0000**

**14 600**

**23 400**

<b>(b) Calculate the cost of sales of Johx watches for the year ended 31 August 2015.</b>	
330 000	<b>OR</b>
78 000 ✓ + 252 000 ✓ – 78 500 ✓	71 500 (11 x 6 500)
= 251 500 ✓	68 000 (10 x 6 800)
<b>OR</b>	73 000 (10 x 7 300)
440 125 x 100/175 = 251 500	<u>39 000</u> (05 x 7 800)
	<u>251 500</u>

#### Note to learners:

You have to know how to calculate Cost of Sales if it is not given

Cost of Sales = Opening stock + Net Purchases (Purchases – returns/stolen) – Closing stock. Closing stock **must be** the amount calculated in the previous question.

**Or** Cost of Sales can be calculated by taking the cost prices of all items sold.



1.2 (a) Calculate the closing stock of Kwatz watches for the year ended 31 August 2015.

304 150 (3 marks)

$32\ 300 \checkmark + 259\ 900 \checkmark + 11\ 950 \checkmark$

$95 \checkmark + 675 \checkmark$

770 (2 marks)

= 395

$395 \times 92 \checkmark = 36\ 340 \checkmark$

**Note to learners:**

- To calculate closing stock you must first determine which valuation method are used to calculate closing stock. In this case we are using the **weighted average method**.
- How do you calculate closing stock using weighted average method? You take the **rand value** of your opening stock + Net Purchases in **rand value** + Carriage divided by the **number** of units (This include the number of units in the beginning + **the number** of units purchased). That will give you your average price per unit. Hint: The answer should be between the lowest and highest purchased value.
- Take the average price and multiply it by the number of units left (closing stock)

(b) Calculate the sales of Kwatz watches on 31 August 2015.

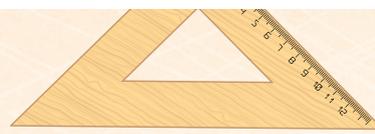
$(770 - 92) = 678$  (units sold)✓✓

$678 \times R520 = 352\ 560 \checkmark$

**Note to learners:**

To calculate the units sold: Take the Opening stock add purchases  $(95 + 675) = 770 -$  closing stock  $(92) = 678$ . This is the number sold and not the sales amount. To calculate the sales amount you must multiply the units sold (678) with the sales amount per unit (R520).





## ACTIVITY 2

### INVENTORY VALUATION

#### 2.1 Explain the difference between the *perpetual stock system* and the *periodic stock system*.

Any valid difference with comparison ✓✓ Expected responses:

<i>Perpetual stock system</i>	<i>Periodic stock system</i>
Cost of sales calculated at point of sale	Cost of sales calculated at end of financial period
Stock value can be determined/ identified at any time (from records)	Stock value determined/identified by stock count
Cost of sales account used	Purchases account used
Stock bought regarded as an asset	Stock bought regarded as an expense

**Please note:** The explanation that you are giving must correlate between the two systems. If you explain cost of sales for perpetual system you must also explain cost of sales for periodic.

#### 2.2 Calculate the value of the stock on hand on 28 February 2015 using the weighted-average method.

$$346\ 800 + 3686\ 400 \quad [150 \quad 1 \quad X \quad 1\ 200 \quad ]$$

$$\underline{R4\ 033\ 200} \quad \checkmark \quad - \quad \underline{R180\ 000} \quad \checkmark \quad \checkmark \quad \checkmark \quad x \quad 650 \quad \checkmark \quad = \quad \underline{3\ 853\ 200} \quad x \quad 650$$

$$300 \quad \checkmark + 3\ 230 \quad \checkmark - 150 \quad \checkmark \qquad \qquad \qquad 3\ 380$$

$$= 1\ 140 \times 650 = R741\ 000 \quad \checkmark$$

**Please note:** when the question says value it must be in Rand and cents value.

How do you calculate weighted average method?

Value of opening stock(346 000) Plus Value of the Purchases (3686 400) Minus Returns (180 000) Divided by the number of products (Opening units(300) + Purchases(3 230) – Returns (150)

Multiply the answer (R1 140) which is the average price with the number of closing stock (650)

#### 2.3 Calculate the value of the closing stock using the FIFO method.

$$R632\ 400 \quad \checkmark \quad \checkmark \quad + \quad (140 \quad \checkmark \quad \checkmark \quad x \quad R1\ 200) \quad \checkmark \quad = \quad R800\ 400 \quad \checkmark$$

$$168\ 000$$

FIFO method: Check the number of units left which is 650 units. What was the last purchase? November 510 @ R1 240 = (632 400). The other 140 of the closing stock must be from the previous purchases July @ R1 200



**Give ONE reason in favour of changing to the FIFO method.** ✓✓

- Gross profit will be higher because closing stock would be higher
- Jackets are discrete products / Easy to count or identify jackets individually
- Value of jackets is continuously changing and valued at more recent/realistic prices

**Give ONE reason against changing to the FIFO method.** ✓✓

- No need to change as profit will be the same in the long-term
- Unethical to manipulate the profit by changing the method of stock valuation
- Tax would increase in first year as a result of increased profit
- The change would affect comparisons across financial years

### ACTIVITY 3

#### INVENTORY VALUATION

**3.1 Explain the FIFO valuation method.**

Any valid explanation, e.g.

It is assumed that the first items bought are the first items sold. ✓✓ **OR**

Stock on hand is valued at the latest cost prices.

**Explain the specific identification valuation method.**

Any valid explanation, e.g.

Each item of stock is valued at its original cost to the business. ✓✓

Please study and remember these concepts.

**3.2 Calculate the cost price per laptop on hand on 1 October 2015.**

R413 000/118 = R3 500 ✓✓

To calculate per unit. You take the total amount divided by the number of units.

**3.3 Calculate the value of the closing stock on 30 September 2016.**

	202 500		502 200					
✓	✓	✓	✓	✓	✓	✓	✓	✓ <input checked="" type="checkbox"/>

$[3\ 750 \times (410 - 356)] + [4\ 650 \times (630 - 20 - 502)] = R704\ 700$

To calculate the value of the closing stock you must first determine the method that is used. In this case it is the Specific identification method. Although there are three different types of laptops each model will be calculated separately. All Lexus model were sold- which mean 0 closing stock. Granite- 410 units were purchased and 356 were sold which mean  $(410 - 356) = 54$  on hand X R3 750 per unit = R202 500. Vision- 630 units were purchased of which 20 were returned  $(630 - 20) = 610$  units available of which 502 were sold  $(610 - 502) = 108$  units on hand X R4 650 per unit = 502 200. Therefore the value for the closing stock is  $R202\ 500 + 502\ 200 = R704\ 700$



## 4.3 FINANCIAL STATEMENTS AND NOTES

### SOLUTION TO ACTIVITY 1

#### MUSICA LIMITED

#### INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

Sales (8 412 000 – 112 000 ✓ – 1 600 ✓)	A	8 298 400	✓
Cost of sales (4 595 000 – 900 ✓)	B	(4 594 100)	✓
<b>Gross profit</b>		<b>3 704 300</b>	✓
Other income	C	166 380	✓
Commission income		<b>64 140</b>	
Rent income (87 720 ✓ + 6 000 ✓ + 8 520 ✓ ✓)	D	102 240	✓
<b>Gross income</b>		<b>3 870 680</b>	✓
Operating expenses	E	(2 775 880)	✓
Sundry expenses		<b>257 400</b>	
Bank charges		<b>41 905</b>	
Audit fees		<b>75 600</b>	
Packing material (15 400 ✓ – 2 400 ✓)	F	13 000	✓
Repairs and maintenance (107 500 ✓ + 6 000 ✓)	G	113 500	✓
Director's fees (736 000 ✓ + 32 000 ✓ ✓)	H	768 000	✓
Salaries and wages (1 020 000 ✓ + 18 500 ✓ ✓)	I	1 038 500	✓
Employer's contributions (156 000 ✓ + 5 050 ✓)	J	161 050	✓
Bad debts (17 600 ✓ + 2 475 ✓ ✓)	K	20 075	✓
Provision for bad debts adjustments (7 150 + 850)	L	850	✓ ✓
Trading stock deficit (376 000 ✓ + 900 ✓ – 369 100 ✓)	M	7 800	✓
Depreciation	N	278 200	✓ ✓
<b>Operating profit</b>	O	<b>1 094 800</b>	✓
Interest income		<b>3 000</b>	
<b>Profit before interest expense</b>		<b>1 097 800</b>	✓
Interest expense (540 800 + 100 800 – 601 600)	P	(40 000)	✓ ✓ ✓
<b>Net profit before tax</b>		<b>1 057 800</b>	✓
Income tax		<b>(300 300)</b>	
<b>Net profit after tax</b>		<b>757 500</b>	✓



## CALCULATIONS AND EXPLANATIONS:

A. Net Sales (R8 412 000 (sales) – R112 000 (debtor's allowances) – R1 600 (returns and allowances)).

B. Cost of sales: deduct cost of returns (R4 595 000 – R900 (returns at cost price)) = R4 594 100)

C. Other Income: add all income (commission income + rent income). = (R64 140 + R102 240) =  
R166 380

D. Rent income (R87 720 + R6 000 (add it back because it was wrongfully deducted as repairs) = R93 720. Rent income for 11 months = R87 720 + R6 000 = R93 720 as rent for December is still outstanding. Divide R93 720 by 11 months: R93 720/11months = R8 520.

Then R93 720 + R8 520 = R102 240.

E. Operating expenses: Add all expenses is R2 775 880.

F. Packing materials (R15 400 – R2 400) = R13 000

G. Repairs and maintenance: R6 000 was wrongfully recorded in rent income and should now be recorded as repairs and maintenance (R107 500 + R6 000) = R113 500. Refer to information D above.

H. There are 2 directors, 1 did not receive director's fees for one month (December 2015).

Calculation of monthly director's fees: Since we have two director with the same monthly fee, 12 months x 2 directors = 24 months for the two directors. As one did not receive fees for one month, it means one month must be taken out (deducted) from the total number of months for the two directors: 24 – 1 = 23 months. Therefore divide R736 000 by 23 months instead of 24 months. =R736 000/23 = R32 000 per month. Total Director's fees (R736 000 + R32 000) = R768 000.

I. Salaries and wages (R1 020 000 + R18 500 (R12 150 net salary + R6 350 deductions not yet recorded)) = R1 038 500.

J. Employer's contributions R156 000 + R5 050 employer's contributions not yet recorded equals R161 050

K. Bad debts (R17 600 balance + R2 475 bad debts written off) = R20 075.

Total amount of a debtor J. Jabaroo: Amount paid by a debtor divide by 45 cents in the rand. R2025/ 0,45 = R4 500 - R2 025 = R2 475 OR R2 025 x 100/45 = R4 500.

L. Provision for bad debts adjustments: R7 150 + R850 = R8 000. The provision for bad debts has been increased by R850 to R8 000. R850 is the difference between R8 000 and R7 150. Increasing the provision means creating an expense.

M. Trading stock deficit R369 100 – R376 900(i.e. R376 000 + R900) =R6 900.

Returns of R900 should be added back to the trading stock balance.

N. Depreciation is to be provided at R279 800.

O. Operating profit: R3 870 680 (gross income) - R2 775 880 (operating expenses)  
= R1 094 800

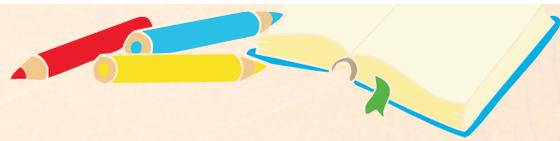
P. Interest expense: Refer to Interest on Loan: Paris Bank, i.e. information G:

R540 800 (closing balance on 31 December 2015) + R100 800 (repayments made during the year) – R601 600 (opening balance on 1 January 2015) = R1 097 800



ACTIVITY 2

PRIDONA LIMITED		
BALANCE SHEET AS AT 30 JUNE 2015		
ASSETS		
<b>NON-CURRENT ASSETS</b>		<b>8 950 000</b>
Fixed assets at carrying value		8 950 000
<b>CURRENT ASSETS (9950000-8950000)</b>		<b>A</b>
Inventories	<b>B</b>	✓✓191 900
Trade and other receivables		✓315 700
316 000✓ – 1 000✓ + 5 200✓ – <u>9 000✓ + 4 500</u> ✓	<b>C</b>	
Cash and cash equivalents	<b>D</b>	✓492 400
<b>TOTAL ASSETS</b>		<b>E</b>
		✓9 950 000
EQUITY AND LIABILITIES		
<b>ORDINARY SHAREHOLDERS' EQUITY</b>		<b>8 524 400</b>
Ordinary share capital		<b>5 572 000</b>
Retained income	<b>F</b>	✓2 952 400
<b>NON-CURRENT LIABILITIES</b>		<b>207 000</b>
Mortgage loan: Custom Bank		✓207 000
262 200 ✓ – 55 200✓✓	<b>G</b>	
<b>CURRENT LIABILITIES</b>		<b>1 218 600</b>
Trade and other payables	<b>H</b>	✓262 800
(261 000 ✓ – 1 000 ✓ + 2 800 ✓)		
Current portion of loan	<b>I</b>	*✓✓55 200
SARS: Income tax (750 000✓ – 725 000✓ )	<b>J</b>	*✓25 000
Shareholders for dividends (3 980 000 x 0,22 )	<b>K</b>	*✓1875 600
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9 950 000</b>
		✓9 950 000



## CALCULATIONS AND EXPLANATIONS:

- A. The amount of Current Assets is calculated by subtracting non-current assets from Total assets: (R9 950 000 total assets - R8 950 000 non-current assets equals R1 000 000).
- B. Use the amount of inventory on hand at the end of the year.
- C. Adjust the amount of debtors control by deducting R1000 (correction of error), adding R5 200 (income receivable, deduct R9000 (provision for bad debts adjustments, and add R4 500 insurance prepaid. (R316 000 – R1 000 + R5 200 – R9 000 + R4 500).
- D. This is the balancing figure that you get after calculating the total equity and liabilities and transferring the amount to total assets R9 950 000. Then (R9 950 000 – R8 950 000) = R1 000 000 Current assets (Refer to A). From Current assets (A) minus Inventories (191 900) minus Trade and other receivables (R315 700) equals R492 400.
- E. You can get this amount after completing the Equity and liability section and then transfer the total equity and liabilities to total assets as these amounts must be equal.
- F. The Retained income is calculated in the Note for Retained income, hence the amount of (R2 952 400) was transferred from activity 1.2 note.
- G. The Mortgage loan amount was calculated as follows: R262 200 ✓(loan) – 55 200✓✓☑ (R4 600 x 12) (repayments) which is the current/ short-term loan to be transferred from the loan under long-term liabilities to the current portion of loan under current liabilities.

**Calculations needed:** From 1 Jul 2014 - 30 Jun 2015 = 12 months. From 1 April 2014 to 30 June 2015 = 15 Months: i.e. 3 months for previous year (1 April to 30 June 2014, and 12 months for the current year (1 July 2014 to 30 June 2015).

Lifespan of the loan is 6 years (72 months). Loan Repayments: 72 months – 15 months = 57 months outstanding.  $R262\,200/57 = R4\,600 \times 12 \text{ months} = R55\,200$

Total loan before repayments will be (R262 200 + R55 200 = R317 400)

- H. Trade and other payables: Take creditors' Control balance of R261 000 and deduct R1 000 which is the debit balance of a debtor from the debtors' ledger to be transferred to his account in the Creditors' Ledger. The reason for deducting it is that this debtor is a creditor who was incorrectly recorded in the Debtors' Ledger because of his debit balance. R2 800 is the rent received in advance and should be added to creditors as it constitutes a liability.
- I. Refer to G under non-current liabilities.
- J. SARS Income tax (R750 000 income tax for the year – R725 000 provisional tax payments).
- K. Total number of shares plus issued shares minus repurchased shares  
(3 000 000 + 1 000 000 – 20 000) = 3 980 000 shares. On 30 June 2015, dividend was declared on these shares at 22cents per share. Shareholders for dividends amount to: R875 600 (3 980 000 x 0,22c).



### ACTIVITY 3

#### PRIDONA LIMITED

3.1. Calculation of the correct net profit after tax		
<b>Incorrect net profit</b>	<b>A</b>	<b>2 493 600</b>
Trading stock deficit	<b>B</b>	-11 300 ✓✓
Provision for bad debts adjustment	<b>C</b>	+2 400 ✓✓
Rent income	<b>D</b>	-2 800 ✓✓
Insurance	<b>E</b>	+4 500 ✓✓
Correction of error: Asset disposal	<b>F</b>	+13 600 ✓✓
<b>Correct net profit before tax</b>		<b>2 500 000</b> ✓
<b>Income tax</b>		<b>-750 000</b> ✓
<b>Net profit after tax</b>		<b>1 750 000</b> ✓

#### Explanatory notes and calculations:

- In this question the Net Profit Before Tax was given before certain transactions were included. Start with this given amount and make adjustments to the Profit before tax.
- During stock taking the amount of trading stock counted is less than the amount in the books of the business. The difference between the two amounts (R203 200 – R191 900) R11 300, is the trading stock deficit. Deduct trading stock deficit- loss of stock.
- Provision for Bad debts is adjusted downwards (from R11 400 to R9 000) R2 400 and becomes an income- add it.
- Rent received for July (R2 800) is not income for the current year ending 30 June 2015. Since this amount was already received it must be deducted.
- Insurance premium of R6 000 paid consists of an amount for the current year and an amount for next year. Of the annual amount of R6 000, R4 500 ( $R6\ 000 \times 9/12$ ) belongs to the following financial year and it must be added back (from 1 July 2015 to 31 March 2015), i.e. 9 months. Only R1 500 is for the current year (1 April 2015 to 30 June 2015), i.e. 3 months.
- Correction of error: The error made was to show Profit on disposal of asset as a loss, which means that it was deducted. To correct this error the amount must be added twice, firstly to reverse the entry and secondly to record the income (R6 800 + R6 800).
- Income tax for the year should always be deducted from the income statement as it decreases the profit.

#### 3.2. RETAINED-INCOME NOTE ON 30 JUNE 2015

<b>Balance at beginning of year</b>	<b>A</b>	<b>2 700 000</b>
Net profit after	<b>B</b>	1 750 000 ✓
Repurchase of shares	<b>C</b>	(22 000) ✓
(20 000 P x R1,10 PP) <b>OR</b> (50 000 – 28 000)		
<b>Dividends</b>		(1 475 600) ✓
Interim		600 000 ✓



Final (3 980 000 P x 0,22 P)	<b>D</b>	875 600 <input checked="" type="checkbox"/>
<b>Balance at end of year</b>		2 952 400 <input checked="" type="checkbox"/>

- A. Start with the given amount of Retained income
- B. This amount is the Net profit from the Income Statement as calculated.
- C. The new issue of shares have been properly recorded.

Then reduce the ordinary share capital account by average share price:

The repurchase = 20 000 shares at R2,50

Average share price = R5 600 000/ 4 000 000 shares (3 000 000 shares + 1 000 000 shares) = R1,40

R2,50– R1,40 = R1,1

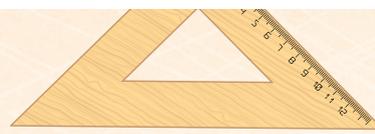
- D. Dividends: Final = 3 980 000 x 0,22 (dividend per share)

#### SOLUTION TO ACTIVITY 4

##### TRADE AND OTHER RECEIVABLES

Debtors' control (125 000 ✓ – 1 600 ✓ – 2 025 ✓ – 2 475 ✓)	<b>A</b>	118 900	<input checked="" type="checkbox"/>
Provision for bad debts	<b>B</b>	(8 000)	<input checked="" type="checkbox"/>
		110 900	
Accrued income/Receivable	<b>C</b>	8 520	<input checked="" type="checkbox"/>
SARS – Income tax	<b>D</b>	14 700	<input checked="" type="checkbox"/>
		134 120	<input checked="" type="checkbox"/>





## CALCULATIONS AND EXPLANATIONS:

- A. Debtors' control (R125 000 – R1 600 (returns and allowances)– R2 025 (amount received from debtor) – R2 475 (bad debts written off) = R118 900
- B. Provision for bad debts R8 000
- C. Rent income for December is still outstanding. Refer to activity 3 under Rent income D. Rent income for 11 months = R87 720 + R6 000 = R93 720 as rent for December is still outstanding. Divide R93 720 by 11 months: R93 720/11months = R8 520.
- Therefore Accrued income/Receivable R8 520.
- D. Income tax paid for the year was R315 000 whereas we were supposed to pay only R300 300. SARS owes the business (R315 000 – R300 300) = R14 700.

## 4.4 AUDIT REPORT

### ACTIVITY 1

#### 1.1 Choose the correct word from those given in brackets.

Disclaimer ✓

Give a reason. ✓

The external auditors did not express an opinion on the financial statements of Trimex Ltd

Auditors were unable to express an opinion because they were not able to verify a significant part of the company's transaction

Auditors were unable to express an opinion because there was insufficient evidence

Know all types of audit opinion (Unqualified and Qualified)

#### 1.2 Explain TWO consequences of this audit report for the company and/or the CEO.

Any two consequences ✓✓ ✓✓

Responses for 2 marks:

- The directors will be held accountable.
- This is a bad publicity / negative point against the image of the company and CEO
- It could affect the share price and demand for shares
- The CEO / Directors might not be re-elected at the next AGM
- Shareholders / investors will lose faith in the directors / company
- Inquiry / investigation into the company or its directors
- The company could be de-listed on the JSE
- The auditors will be more vigilant in future / could increase audit fees if they spend more time on the audits in future.

Responses for 1 mark:

The CEO will be fired / Written warning / Investigation / Suspension.



## ACTIVITY 2

**2.1** The audit report is an example of a/an (qualified/unqualified/disclaimer of opinion) audit report.

Disclaimer of opinion ✓

*Because of the **significance of the matter described** in the previous paragraph, Auditors were not able to obtain sufficient audit evidence to provide a basis for an audit opinion.*

**2.2** Who is the audit report addressed to? Give a reason for your answer.

Shareholders ✓

They are the owners of the company and have appointed the auditors ✓

**2.3** Explain why it is likely that this audit report will have a negative effect on the value of the shares of this company on the JSE.

Any valid explanation ✓✓

- The value of the shares will decrease
- Shareholders lose confidence in the company and might sell their shares
- Potential shareholders would not want to invest in this company

## ACTIVITY 3

**3.1** To whom is the audit report addressed?

Shareholders ✓

*They are the owners of the company and have appointed the auditors.*

**3.2** Who has to ensure that the financial statements are prepared and presented at the annual general meeting?

Directors / Management / CEO / CFO ✓

*They are managing the company on behalf of the shareholders.*

**3.3** Fralezi Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.

Unqualified ✓

**Explain your choice.** Any valid response ✓

Fair presentation / Clean audit / Did not state any shortcomings in the financial statements / In accordance with IFRS or Companies Act.







- R1 330 =  $14/114 \times R10\ 830$  (VAT was included in the 10 830 meaning Sales were 9 500).
- R2 604 =  $14/100 \times R18\ 600$  (VAT was excluded i.e. never calculated)
- R756 already calculated from Discount received from suppliers.
- R112 already calculated on Bad debts recovered.
- The amounts to be subtracted from the above figures are:
  - R92 + R92 = R184 (Wrongly recorded figure will be cancelled out first and the new recording of the same figure in the correct place.
  - R6 818 on sundry business expenses was totally omitted.
- Therefore  $48\ 622 - 7\ 002 = 41\ 620$ .
- Use the correct sign for all the items. Mixing the signs will result in a loss of valuable marks.

## ACTIVITY 2

Calculate the amount receivable from or payable to SARS for VAT on 31 August 2016.

✓      ✓      ✓      ✓      ✓✓      ✓✓      ☑

$$14\ 250 - 27\ 720 + 2\ 940 - 1\ 120 - 1\ 330 + 40\ 880 = 27\ 900$$

$$40\ 880 - 1\ 120 = 39\ 760 \text{ three marks}$$

OR

$$-14\ 250 + 27\ 720 - 2\ 940 + 1\ 120 + 1\ 330 - 40\ 880 = -27\ 900$$

$$1\ 120 - 40\ 880 = -39\ 760 \text{ three marks}$$

OR

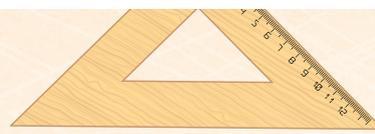
Balance at beginning		= 14 250
Output	40 880 - 1 120 - 1 330	= 38 430
Input	27 720 - 2 940	= (24 780)
		<u>27 900</u>

OR

VAT CONTROL		
	27 720	14 250
	1 120	2 940
	1 330	40 880
	<b>27 900</b>	
	58 070	58 070

Receivable/Payable: Payable ✓





### EXPLANATIONS AND CALCULATIONS:

- Always check whether the amount is owing to SARS or vice versa.
- The balance is owed R14 250.
- The other amounts to be added to the above are:
  - R2 940 already calculated from Goods taken by the owner (Drawings).
  - R40 880 =  $14/114 \times 332\ 880$  on Total Sales (VAT was included).
- The amounts to be subtracted from the above figures are:
  - R27 720 =  $14/100 \times 198\ 000$  OR  $(225\ 720 - 198\ 000)$  (VAT was excluded i.e. never calculated on Merchandise purchased or expenses paid)
  - R1 120 already calculated on Returns by Debtors.
  - R1 330 =  $14/100 \times 9\ 500$  (VAT was excluded on Bad debts)
- R58 070 - 30 170 = R27 900. amount due
- Use the correct sign for the related items. Mixing the signs will result in a loss of valuable marks.

### ACTIVITY 3

3.1

3.1.1	Value-added tax	✓
3.1.2	0% Zero-rated	✓

3.2

Calculate the final amount payable to SARS on 31 July 2014.

$$- 11\ 200\checkmark + 126\ 000\checkmark - 77\ 000\checkmark + 273\checkmark - 6\ 692\checkmark - 1\ 330\checkmark = 30\ 051\checkmark \text{ OR}$$

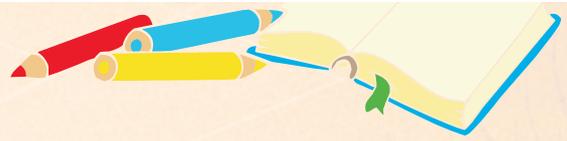
$$11\ 200\checkmark - 126\ 000\checkmark + 77\ 000\checkmark - 273\checkmark + 6\ 692\checkmark + 1\ 330\checkmark = 30\ 051\checkmark$$

VAT Control	
✓ 11 200	✓ 126 000
*✓ 77 000	✓ 273
✓✓ 6 692	
*✓✓ 1 330	
✓ 30 051	

### EXPLANATIONS AND CALCULATIONS:

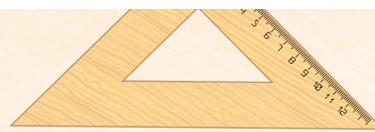
- Always check whether the amount is owing to SARS or vice versa.
- The balance is owed by SARS here an amount of R11 200 which will be subtracted.
- The amounts to be subtracted with it are:
  - 77 000 already calculated on Merchandise purchased.
  - 6 692 =  $14/100 \times 47\ 800$  calculated on Discount Allowed to Debtors.
  - 1 330 =  $14/114 \times 10\ 830$  calculated on New Equipment purchased.





- The other amounts to be added are:
  - 126 000 already calculated on Credit Sales
  - 273 already calculated defect Goods returned to the suppliers.
- $126\,273 - 96\,222 = 30\,051$  amount due to SARS.
- Use the correct sign for the related items. Mixing the signs will result in a loss of valuable marks.





## 4.6 BANK RECONCILIATION AND INTERNAL CONTROL

### ACTIVITY 1

#### 1.1 Calculate the correct bank balance on 30 June 2015.

Cash Receipts Journal (figures only)	Cash Payments Journal (figures only)
87 220	74 860
✓ 21 000	*✓✓ 1 800
✓✓ 10 500	✓ 6 500
	✓ 2 250
	✓ 210
118 720	85 620

#### Bank balance on 30 June 2015:

See CRJ total    See CPJ total

$$- 2\ 300 \checkmark\checkmark + 118\ 720 \checkmark - 85\ 620 \checkmark = 30\ 800 \checkmark$$

**OR:**  $- 2\ 300 + 87\ 220 - 74\ 860 + 21\ 000 + 10\ 500 - 1\ 800 - 6\ 500 - 2\ 250 - 210 = 30\ 800$

#### CRJ:

- 21 000 direct deposit by a tenant.
- 10 500 stale cheque which was cancelled in the CRJ.
- When adding don't forget the provisional total (87 220).

#### CPJ:

- 1 800 is the difference between 9 700 on the Bank statement and 7 900 in the books of the business.
- 6 500 deducted directly from the bank account therefore it was added to the payments in the CRJ
- 2 250 is the cheque which was dishonoured by the bank which must be cancelled in the CPJ.
- 210 Bank charges must be added in the CPJ.
- When adding don't forget the provisional total (74860).

#### Bank balance:

- To calculate start with the bank balance given in this case it was an overdraft of 2 300 that you will find in the previous months bank reconciliation statement.
- Add the total of the CRJ and subtract the total of the CPJ and record the answer in the Bank reconciliation statement.

#### 1.2 Bank Reconciliation Statement on 30 June 2015

	Debit	Credit
Balance per Bank Statement		R 20 400 <input checked="" type="checkbox"/>
Credit outstanding deposit		18 500 <input checked="" type="checkbox"/>
Debit outstanding cheques:		
No. 962	R 4 500 ✓✓	
No. 982	2 200 ✓	
No. 986	1 400 ✓	
Balance as per Bank Account	30 800 <input checked="" type="checkbox"/>	
	38 900	38 900

The balance of the Bank statement is the balancing figure. Add both sides and subtract the smaller one.



1.3 Refer to Information E. Identify TWO separate problems with evidence from the information. Give advice for EACH problem.

PROBLEM WITH EVIDENCE	ADVICE
Theft / Fraud / Error/ Internal control measures are lacking. Some of the cash slips (R7 000) have not been deposited / recorded.	Check that the total of cash slips agree to the total of the deposit slip. ✓ <b>Specific advice required based on evidence.</b>
Rolling of cash / The deposit occurs much later after receipt of cash (15 days).	Cash collected must be deposited immediately / Sales person must not deposit cash / Divide duties ✓ <b>Specific advice required based on evidence.</b>

## ACTIVITY 2

### BANK RECONCILIATION AND INTERNAL CONTROL

2.1 Complete the following sentence in your own words:

**It is important to prepare a Bank Reconciliation Statement each month because** it is an important part of internal control which enables a business to check its bank balance to a document (the bank statement) received from the bank / to correct errors & omissions / identify outstanding cheques & deposits / detect fraud.

2.2.1 Which GAAP principle will the bookkeeper apply when writing off the amount of R40 000? Briefly explain this principle.

Principle of prudence ✓

Explanation (must show understanding of prudence): ✓✓

Possible responses for 2 marks:

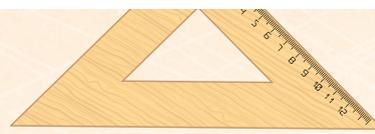
- To treat transactions conservatively
- There is no guarantee that the money will be recovered and therefore it is treated as if it will not be recovered
- To make provision for possible losses in future.

Study and understand all the GAAP principles.

**The bookkeeper wants to prevent a problem such as this in future? Give TWO solutions to improve internal control in this regard.**

- Division of duties
- Rotation of duties / employees to take leave
- Divide duties amongst employees so that the one can act as a check on the other
- Responsible staff members to check / make the deposits
- The person issuing receipts should not be the same person doing the deposits
- Regular and timely checks / monitor all large transactions
- Outstanding deposits must be investigated promptly
- Encourage EFT payments by customers / debtors
- Ask bank to send confirmation of deposits (e.g. sms)
- All cash received must be deposited daily (deposit slip must agree to receipts)
- Take strong disciplinary action over culprits (e.g. dismissal).





### 2.2.2 BANK RECONCILIATION STATEMENT ON 31 MAY 2012

	Debit	Credit
✓ Balance as per <u>bank statement</u>	✓ 19 310	
✓ Outstanding cheques:		
▪ 967	✓ 4 790	
▪ 1122	✓ 4 650	
▪ 1129	✓ 8 540	
✓ Outstanding deposit		✓ 11 550
✓ Correction of error / wrongly entered		✓✓ 960
✓ Balance as per <u>bank account</u>		☑ 24 780
	37 290	37 290

Bank statement balance is an overdraft therefore it should be on the debit side of the Bank reconciliation statement.

- 960 must be credited as the Bank overcharged the business.
- The Bank balance of 24 780 is a balancing figure. Add the debit side and subtract the credit side to get it.

### ACTIVITY 3

#### BANK RECONCILIATION AND INTERNAL CONTROL

##### 3.1 State whether the statements are TRUE or FALSE.

(a)	True ✓✓	(c)	False ✓✓
(b)	True ✓✓	(d)	False ✓✓

Always answer these questions because the answer can only be true or false. Don't leave blank spaces since you are not even penalised.

##### 3.2 Calculate the correct bank balance of Ace Traders on 30 September 2011.

<b>Balance prior to doing the bank reconciliation</b>	<b>R60 000</b>		
Stale cheque cancelled	✓2 000		
Bank charges	✓- 1 200		
Dishonoured cheque	✓-9 500		
Deposit reversed (rule of prudence)			
<b>Correct balance on 30 September 2011</b>	✓☑151 300		

- The stale cheque of 2 000 was added as it was cancelled therefor increase the bank balance.
- 1 200 Bank charges were subtracted because payment which decreases the bank balance.
- Dishonoured cheque was subtracted because it reduces the bank balance.



3.3

BANK RECONCILIATION STATEMENT ON 30 SEPTEMBER 2011		
	Debit	Credit
Balance as per Bank Statement		✓ 17 600
Outstanding cheques:		
<u>No. 931</u>	✓ 4 800	
<u>No. 936</u>	✓✓ 10 200	
<u>Outstanding deposit</u>		✓ *43 000
		✓ 5 700
Balance as per bank account	☑ 51 300	
	<b>66 300</b>	<b>66 300</b>

- Bank statement balance is favourable therefore it will be recorded on the credit side of the bank reconciliation.
- Balance as per bank account transferred from the calculation of the correct bank balance.
- Debit all the outstanding cheques.
- Credit outstanding deposits 43 000 on the 11<sup>th</sup> as well the 5 700 on the 28<sup>th</sup>.
- Calculate debit and credit sides to balance the Bank reconciliation.

3.4 Refer to the outstanding deposit of R43 000, dated 11 September 2011. Why should the internal auditor be concerned? State TWO points.

Two valid points ✓✓ ✓✓

Possible answers for 2 marks:

- This deposit should have been reflected on the bank statement within a day.
- R43 000 outstanding for some time could indicate that regular depositing is not happening (possible rolling of cash and fraud).
- R43 000 appears to be missing and will affect the cash flow and liquidity.
- Possible error (e.g. wrong account number) or fraud by the bank which must be resolved as soon as possible.
- Rule of prudence would dictate that the amount should be reversed if there is a possibility of fraud.
- Lack of internal control.
- Possibility of fraud / error.

Study all the factors which are related to the Bank and Reconciliation.



## 4.7 BUDGETS

### ACTIVITY 1

#### 1.1 BRUCE TRADERS

##### CASH BUDGET FOR NOVEMBER AND DECEMBER 2015

CASH BUDGET		NOVEMBER 2015	DECEMBER 2015
		R	R
<b>CASH RECEIPTS:</b>			
Cash sales		✓✓ 420 000	<b>399 000</b>
Cash from debtors		<b>536 025</b>	<b>597 975</b>
Commission income		✓ 6 000	✓ 7 000
<b>Total receipts</b>	<b>A</b>	<input checked="" type="checkbox"/> 962 025	1 003 975
Make sure you add all amounts including amounts given to you on the answer sheet.			
<b>CASH PAYMENTS:</b>			
Cash purchases of stock		✓✓✓ 120 000	<b>114 000</b>
Payments to creditors		<b>520 000</b>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 480 000
<b>Sundry expenses</b>		<b>22 500</b>	✓✓ 20 700
Wages and salaries		✓✓ 200 000	✓ 256 000
Advertisements		✓✓ 33 000	0
Repayment of loan		<input checked="" type="checkbox"/> ✓✓ 36 000	
Interest on loan		✓ 3 780	✓ 3 510
<b>Total payments</b>	<b>B</b>	<b>935 280</b>	<b>874 210</b>
<b>Surplus (deficit)</b>	<b>C</b>	<b>26 745</b>	<input checked="" type="checkbox"/> 129 765
Opening bank balance		<b>(56 000)</b>	✓ (29 255)
<b>Closing bank balance</b>		<b>(29 255)</b>	<input checked="" type="checkbox"/> 100 510



### Note to candidate:

- To complete the Cash budget you must use the information in the Projected Income Statement as well as the additional information. Remember the budget period is November and December.
- Cash Sales- Calculate 40% of total sales  $(40/100 \times 1050\ 000) = 420\ 000$
- Commission Income – Paid a month after which mean October amount will be paid in November and November in December. Commission increases with R1 000 a month. If November is R7 000 October should have been R6 000. Therefore in the cash budget the amount of R6 000 will be paid in November and R7 000 of November will be paid in December.
- Cash purchases of stock – Calculate 20% of Cost of sales  $600\ 000 \times 20/100 = 120\ 000$
- Payment to creditors- Creditors are paid 30 days after which mean the expense of R600 000 –R120 000 (Cash Purchases)= R480 000 will be paid in November.
- Sundry expenses – decreasing with 8%  $(100 - 8) = 92/100 \times 22500 = R20\ 700$
- Wages and Salaries – First deduct the R50 000 of the manager from the December amount  $(256\ 000 - 40\ 000) = 216\ 000$ . December had an increase therefore the amount should be decreased with 8%.  $R216\ 000 \times 100/108 = R200\ 000$
- Advertisement- If the expense of the December will be R1 000 three months will be  $(R11\ 000 \times 3) = R33\ 000$
- Loan repayment- Calculate the original by making use of the interest for November  $= 3780 \times 100/9 = 42\ 000 \times 12$  months (interest for one month)  $= 504\ 000$
- December  $= R3\ 510 \times 100/9 = 39\ 000 \times 12$  months  $= 468\ 000$  **(R504 000 – 468 000) = R36 000**
- Always add the total Receipts and Total Payments. Subtract Payments (B) from Receipts (A) to calculate Surplus or Deficit(C) **= A - B = C**
- Closing Bank balance of the previous month becomes the opening Bank balance of the next month.

## 1.2 SLEEPEZI BEDS (PTY) LTD

### 1.2.1 Calculate the percentage increase in the amount budgeted for salaries and wages for October 2015.

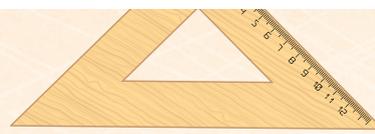
$$\frac{1\ 800}{30\ 000} \times \frac{100}{1} = 6\% \checkmark\checkmark$$

**Should the employees be satisfied with this? Explain.**

Yes / No – compare to inflation rate / compare to directors fees ✓

To calculate the percentage, calculate the difference between the amounts and divide it by the original amount and multiply by 100. **31 800 – 30 000 = R1 800**





**1.2.2** The financial director is pleased with the work being done by the bookkeeper and internal auditor. Identify an expense that indicates that he is correct.

✓ Audit fees

**Explain your answer.** ✓✓

The audit fees are much lower than expected, which means that they spent less time on the audit / records were in order

**Expected response for 1 mark:** Audit fees lower than expected

**ACTIVITY 2**

**KOBUS HARDWARE**

**2.1** Calculate the missing amounts indicated by (a) to (e) in the Cash Budget for March and April 2016.

	Calculation	Amount
(a)	$28\ 000 \text{ P} \div 7\% \times 60$	240 000 ✓
(b)	$\text{R}28\ 250 \times 90/10$	R254 250 ✓
(c)	$6000$ $(3\ 000 \times 2) \times 105,5\%$	6 330 ✓
(d)	$180\ 000 \div 24$	R7 500 ✓✓
(e)	$180\ 000 \times 10,5\% \times \frac{1}{12}$	R1 575 ✓

**CALCULATIONS AND EXPLANATIONS:**

(a) Commission for March is received in April-  $28\ 000 \times 100/7 = 400\ 000$  of which 60% is for cash.  $400\ 000 \times 60/100$

(b) Creditors of March are paid in April = R28 250 (90% of total sales the remaining 10% is cash to be calculated.  $\text{R}28\ 250 \times 90/10$ .

(c) Rent for March was only half ( $\text{R}3\ 000 \times 2$ ) = R6 000 plus 5,5% increase

(d) to calculate the monthly instalments you divide by the term of the loan which is 24 months.

(e) To calculate interest you multiply the loan amount with the interest rate and divide by 12 to calculate the interest for one month.





2.2

Complete the Debtors' Collection Schedule.

	CREDIT SALES		MARCH	APRIL
<b>FEBRUARY</b>	152 000	✓✓	<b>76 000</b>	
<b>MARCH</b>	160 000	✓✓	<b>68 400</b>	80 000✓
	6.1 ÷ 60 x 40			
<b>APRIL</b>	<b>158 400</b>		158 400 x 45% x 95%	67 716✓✓
			<b>144 400</b>	147 716✓

**CALCULATIONS AND EXPLANATIONS:**

- Credit sales for February – R76 000 as collection of March were given which should be 50% of the credit sales =  $R76\ 000 \times 2 = \mathbf{R152\ 000}$
- Credit sales for March – R68 400 is collection for March which is 45% - 5% which can be calculated as  $R68\ 400 \times 100/45 \times 100/95$
- To calculate April collection for April you take credit sales  $R158\ 400 \times 45\% \times 95\%$

2.3

Calculate the percentage increase in sundry expenses.

2 190 ✓✓

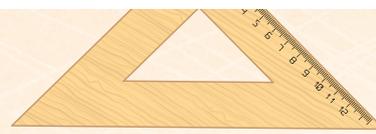
$(89\ 790 - 87\ 600) = 2,5\% \checkmark$

87 00 ✓

**CALCULATION AND EXPLANATION:**

To calculate percentage increase: Calculate the difference between the two amounts (89 790 – 87 600) and divide by the original amount (87 600) and multiply by 100.





### ACTIVITY 3

#### 3.1

<b>3.1.1</b>	<b>TWO items recorded incorrectly in the Cash Budget:</b>
	Discount received      Depreciation      Bad debts
	Study all the items that are not supposed to come in a cash budget.

<b>3.1.2</b>	<b>TWO items in the Cash Budget that would NOT appear in a Projected Income Statement:</b>
	Cash from debtors
	Fixed deposit matures
	Payments to creditors    Repayment of loan
	<b>NOTES TO CANDIDATES:</b>
	<ul style="list-style-type: none"> <li>You must remember that a cash budget cater for all cash items, whether it is balance sheet items or income and expenses.</li> <li>All balance sheet items that appear in the cash Budget would not appear in the Income Statement. Please use items that are appearing in the Cash Budget and not just any item.</li> </ul>

#### 3.2 DEBTORS' COLLECTION SCHEDULE

MONTHS	CREDIT SALES	SEPTEMBER	OCTOBER
July	120 000	8 400	
August	151 200	60 480	✓✓ 10 584
September	172 800	86 400	✓✓ 69 120
October	✓✓ 198 720	50% of credit sales	☑☑ 99 360
		<b>155 280</b>	☑ 179 064

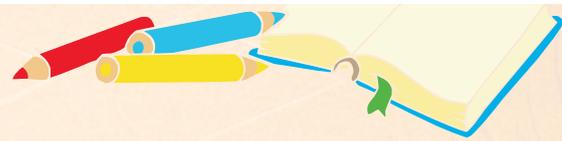
#### CALCULATIONS AND EXPLANATIONS:

- Make sure you know when the first amount will be collected from debtors by starting in July and count from there onwards. E.g. The first amount of July will be collected in July, the second amount of July will be collected in August and the third Amount in September (R8 400). Remember that July and August are actual months therefore we don't enter the amounts but September forms part of the budgeted period.

#### CALCULATIONS AND EXPLANATIONS CONTINUED:

- The first Amount of August will be collected in August, the second amount of August will be collected in September (R60 480) and the third amount will be collected in October ( $151\,200 \times 7\% = R10\,584$ ). Both the amounts of September and October will be entered as they are falling in the budgeted period.
- The First amount in September will be collected in September, the second amount of September will be collected in October ( $R172\,800 \times 40\% = R69\,120$ ) and the third amount will be collected in November. Both the amounts of September and October will be entered as they form part of the budgeted period. November will not be entered as it falls outside the budgeted period.
- The first amount of October ( $R172\,800 + 15\%$ ) = R198720 will be received in October ( $198\,720 \times 50/100 = 99\,360$ ), the second amount will be received in November and the third amount will be received in December. You will only enter the amount of October as it forms part of the budgeted period. November and December will not be entered as they fall outside the budgeted period.





### 3.3 AMOUNTS FOR THE CASH BUDGET

	WORKINGS	AMOUNT
(a)	<b>Cash sales for September</b> $288\,000 \checkmark \times 40\% \checkmark$ $172\,800 \times 40/60$ OR $132\,480 \times 100/115$	R115 200 <input checked="" type="checkbox"/>
(b)	<b>Payments to creditors for October</b> $252\,000 \checkmark \times \frac{100}{180} \checkmark \times \frac{96}{100} \checkmark$ $140\,000 - 5\,600$	R134 400 <input checked="" type="checkbox"/>
(c)	<b>Directors' fees for October</b> $216\,000 \checkmark \times \frac{2}{3} \checkmark \checkmark \times \frac{135}{100} \checkmark$ $144\,000 + 50\,400$ $(72\,000 + 25\,200) \times 2$	R194 400 <input checked="" type="checkbox"/>
(d)	<b>Interest on loan for October</b> Could use solve for x method $\checkmark \quad \checkmark \quad \checkmark \quad \checkmark$ $6\,875 - (12,5\% \times 52\,800 \div 12)$ $(660\,000 - 52\,800) \times 12,5\% \div 12$ 607 200 two marks	<input checked="" type="checkbox"/> R6 325

#### CALCULATIONS AND EXPLANATIONS:

- (a) The total sales for September is R288 000 of which 40% is cash =  $288\,000 \times 40/100 = R115\,200$
- (b) Creditors are paid two months after purchases. Which mean the payment to creditors in October will be the purchases of August. R252 000 that were replaced in August  $\times 100/180$  as the mark-up is 80% -4% discount which is  $96/100$ .
- (c) The director's fees of September must be divided by three to get the fee of one director. The fee must then be multiplied by two to get the directors fees of the two remaining directors.  $R216\,000/3 \times 2 = R144\,000$ . This amount must increase with 35%.  $R144\,000 \times 135/100 = R194\,400$ .
- (d) If the interest on Loan is R6 875 for September the total of the loan was:  $R6\,875 \times 100/12,5 \times 12 = R660\,000$  was the amount of the loan before repayment.  $R660\,000 - R52\,800 = R607\,200$ . Interest must be calculated on the R607 200 for October.  $R607\,200 \times 12,5/100 \times 1/12 = R6\,325$ . You must divide by 12 as the loan amount was for the year and interest should only be calculated for one month.





## 5 STUDY AND EXAMINATION TIPS

### A Generic

- Time management etc.
- This should be the same for all subjects.
- DBE to draft

### B Subject specific

- The Accounting examination consists of one 3-hour paper of 300 marks
- The paper will consist of six questions and all questions is compulsory.
- Arrive 30 minutes early in the examinations room it will give you enough time to read through the paper to decide which question to start with.
- You don't have to start with question 1 and end with question 6. Start with the question you feel most comfortable with.
- For each question marks and time will be indicated. Try to stick to the time indicated.
- Questions should be answered in a specially prepared answer booklet that will assist you with time management
- Try to complete each question that you have answered.
- Show all your workings in brackets to earn part and method marks. Show all calculations on the answer book. Don't do any calculations on the question paper.
- You may write with a pencil
- Bring along your own calculator that you are used to.



## 6 MESSAGE TO GRADE 12 LEARNERS FROM THE WRITERS

**Each developer should write a message of encouragement to the learners**

**Be funny, be witty, be creative**

**Motivate the learners**

**Inspire them to want to learn**

**Message to Grade 12 learners from the Writers**

The writing team wishes you well with your studies. With hard work, determination and a positive attitude nothing is impossible. Don't underestimate yourself; you know more than you think. Stay calm and focused, do your best, victory is certain.





## 7 THANK YOU

The Accounting Exam Preparation Booklet was developed by Mr Mbangwa Shabalala, Mr Dorian Olifant and Mr Justice Magaba (Subject Specialists, PED).

A special mention must be made to Mr Mzikaise Masango, the DBE curriculum specialist who, in addition to his/her contribution to the development of the booklet, co-ordinated and finalised the process.

These officials contributed their knowledge, experience and in some cases unpublished work which they have gathered over the years to the development of this resource. The Department of Basic Education (DBE) gratefully acknowledges these officials for giving up their valuable time, families and knowledge to develop this resource for the children of our country.

Administrative and logistical support was provided by: Ms Martha Netshipale, Mr Itumeleng Jikolo, Ms Zanele Mkwanzazi and Mr Noko Malope. These officials were instrumental in the smooth and efficient management of the logistical processes involved in this project.

Book III

Look out for Book II which will help you get from 60% to 80% or even 100% - wouldn't that be amazing.

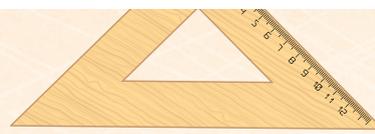


**MANUFACTURING**

<b>ACTIVITY 1</b>	
1.1	<b>SNAZZY HANDBAGS</b>
<b>PRODUCTION COST STATEMENT ON 30 SEPTEMBER 2015</b>	
	R
	<b>Prime Cost</b>
	<b>Manufacturing cost</b>
	<b>Total cost of production</b>
1.2	<b>HEALTHY LIFESTYLE COOKWARE</b>
	Calculate the variable cost per unit for 2015.
	Calculate the break-even point for 2015.

<b>ACTIVITY 2</b>	
2.1	<b>CONCEPTS</b>
	2.1.1
	2.1.2
	2.1.3
2.2	<b>STAR WHEELS MANUFACTURERS</b>
2.2.1	<b>DIRECT LABOUR COST</b>
	<b>FACTORY OVERHEAD COST</b>





<b>2.2.2</b>	<b>PRODUCTION COST STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015.</b>			
		<b>Direct (raw) materials cost</b>	<b>2 100 000</b>	
		<b>Prime cost</b>		
		<b>Total manufacturing cost</b>		
		<b>Work-in-process (beginning of year)</b>	<b>160 000</b>	
		<b>Work-in-process at end</b>		
		<b>Cost of production of finished goods</b>		

**2.3 NUTRITIOUS EATS**

<b>2.3.1</b>	<b>Calculate the break-even point for the year ended 31 October 2015.</b>		

<b>2.3.2</b>	<b>Give TWO possible reasons for the increase in the direct material cost per unit in the current financial year.</b>	



### ACTIVITY 3

3.1

3.1.1

3.1.2

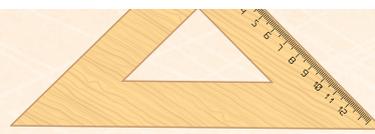
3.1.3

3.1.4

3.2.1

Calculate direct labour cost.





3.2.2 Production Cost Statement for the year ended 29 February 2016:	
<b>Prime cost</b>	
<b>Cost of production of finished goods</b>	

3.2.3	<p>Calculate the break-even point for 2016.</p>
-------	---





## 4.2 INVENTORY VALUATION

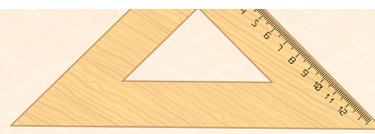
### ACTIVITY 1

1.1	(a) Calculate the closing stock of Johx watches on 31 August 2015.
	(b) Calculate the cost of sales of Johx watches for the year ended 31 August 2015.

1.2	(a) Calculate the closing stock of Kwatz watches for the year ended 31 August 2015.

	(b) Calculate the sales of Kwatz watches on 31 August 2015.





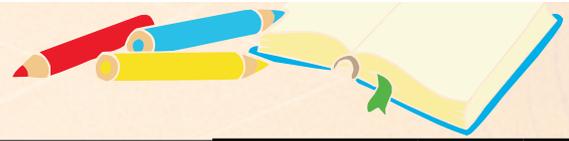
## ACTIVITY 2

### INVENTORY VALUATION

2.1 Explain the difference between the *perpetual stock system* and the *periodic stock system*.

2.2 Calculate the value of the stock on hand on 28 February 2015 using the weighted-average method.

2.3 Calculate the value of the closing stock using the FIFO method.



	<p>Give ONE reason in favour of changing to the FIFO method.</p>	
	<p>Give ONE reason against changing to the FIFO method.</p>	

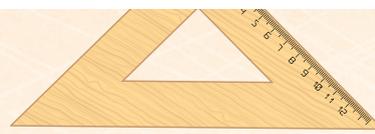
**ACTIVITY 3**

**INVENTORY VALUATION**

3.1	<p>Explain the FIFO valuation method.</p>			
	<p>Explain the specific identification valuation method.</p>			

3.2	<p>Calculate the cost price per laptop on hand on 1 October 2015.</p>
-----	---





**3.3 Calculate the value of the closing stock on 30 September 2016.**

**4.3 FINANCIAL STATEMENTS AND NOTES**

**ACTIVITY 1**

**PRIDONA LIMITED**

<b>1.1.</b>	<b>Calculation of the correct net profit after tax</b>		
	<b>Incorrect net profit</b>		<b>2 493 600</b>
	<b>Correct net profit before tax</b>		
	<b>Income tax</b>		
	<b>Net profit after tax</b>		

<b>1.2.</b>	<b>RETAINED-INCOME NOTE ON 30 JUNE 2015</b>		
	<b>Balance at beginning of year</b>		<b>2 700 000</b>
	<b>Dividends</b>		
	<b>Balance at end of year</b>		





## ACTIVITY 2

<b>PRIDONA LIMITED</b>	
<b>BALANCE SHEET AS AT 30 JUNE 2015</b>	
<b>ASSETS</b>	
<b>NON-CURRENT ASSETS</b>	<b>8 950 000</b>
Fixed assets at carrying value	<b>8 950 000</b>
<b>CURRENT ASSETS</b>	
Inventories	
Trade and other receivables	
Cash and cash equivalents	
<b>TOTAL ASSETS</b>	
<b>EQUITY AND LIABILITIES</b>	
<b>ORDINARY SHAREHOLDERS' EQUITY</b>	
Ordinary share capital	<b>5 572 000</b>
Retained income	
<b>NON-CURRENT LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Trade and other payables	
<b>TOTAL EQUITY AND LIABILITIES</b>	



**ACTIVITY 3**

**MUSICA LIMITED**

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015**

<b>Sales (8 412 000)</b>		
<b>Cost of sales (4 595 000)</b>		
<b>Gross profit</b>		
<b>Other income</b>		
<b>Commission income</b>	<b>64 140</b>	
Rent income		
<b>Gross income</b>		
<b>Operating expenses</b>		
<b>Sundry expenses</b>	<b>257 400</b>	
<b>Bank charges</b>	<b>41 905</b>	
<b>Audit fees</b>	<b>75 600</b>	
<b>Operating profit</b>		
<b>Interest income</b>	<b>3 000</b>	
<b>Profit before interest expense</b>		
<b>Interest expense</b>		
<b>Net profit before tax</b>		
<b>Income tax</b>	<b>(300 300)</b>	
<b>Net profit after tax</b>		



**ACTIVITY 4**  
**TRADE AND OTHER RECEIVABLES**


**AUDIT REPORT**

**ACTIVITY 1**

1.1 Choose the correct word from those given in brackets.

1.2 Explain TWO consequences of this audit report for the company and/or the CEO.

**ACTIVITY 2**

2.1 The audit report is an example of a/an (qualified/unqualified/disclaimer of opinion) audit report.

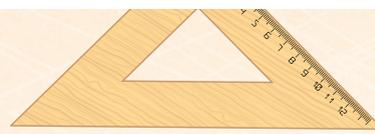
2.2 Who is the audit report addressed to? Give a reason for your answer.

2.3 Explain why it is likely that this audit report will have a negative effect on the value of the shares of this company on the JSE.

- Potential shareholders would not want to invest in this company

**ACTIVITY 3**





3.1	To whom is the audit report addressed?
3.2	Who has to ensure that the financial statements are prepared and presented at the annual general meeting?
3.3	Fralezi Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.
3.4	Explain why the independent auditors referred to page numbers 11–29 in the report.

**VALUE ADDED TAX**

<b>ACTIVITY 1</b>	
<b>VALUE ADDED TAX</b>	
<b>3.1</b>	<b>VAT CONCEPTS</b>
3.1.1	
3.1.2	
3.1.3	
<b>3.2</b>	<b>VAT CALCULATIONS</b>
	Calculate the correct amount of VAT the business has to pay. Show ALL workings.





**ACTIVITY 2**

<b>Calculate the amount receivable from or payable to SARS for VAT on 31 August 2016.</b>
<b>Receivable/Payable:</b>

**ACTIVITY 3**

<b>3.1</b>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%; padding: 2px;"><b>3.1.1</b></td> <td style="width: 95%;"></td> </tr> <tr> <td style="padding: 2px;"><b>3.1.2</b></td> <td></td> </tr> </table>	<b>3.1.1</b>		<b>3.1.2</b>	
<b>3.1.1</b>					
<b>3.1.2</b>					
<b>3.2</b>	<b>Calculate the final amount payable to SARS on 31 July 2014.</b>				

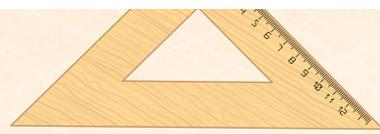
**BANK RECONCILIATION AND INTERNAL CONTROL**

**ACTIVITY 1**

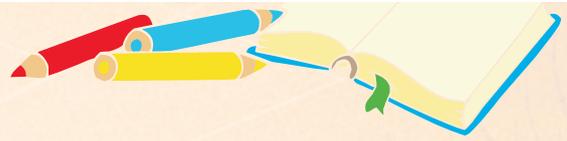
<b>1.1</b>	<b>Calculate the correct bank balance on 30 June 2015.</b>		
	<b>Cash Receipts Journal</b> (figures only)		<b>Cash Payments Journal</b> (figures only)
	<b>87 220</b>		<b>74 860</b>
	<b>Bank balance on 30 June 2015:</b>		

<b>1.2</b>	<b>Bank Reconciliation Statement on 30 June 2015</b>		
		<b>Debit</b>	<b>Credit</b>






1.3	Refer to Information E. Identify TWO separate problems with evidence from the information. Give advice for EACH problem.	
	<b>PROBLEM WITH EVIDENCE</b>	<b>ADVICE</b>



## ACTIVITY 2

### BANK RECONCILIATION AND INTERNAL CONTROL

2.1	Complete the following sentence in your own words:
-----	--

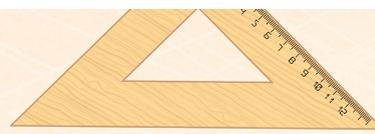
2.2.1	<p>Which GAAP principle will the bookkeeper apply when writing off the amount of R40 000? Briefly explain this principle.</p> <hr/> <p>The bookkeeper wants to prevent a problem such as this in future? Give TWO solutions to improve internal control in this regard.</p>
-------	---







**BUDGETS**



ACTIVITY 1			
1.1	<b>BRUCE TRADERS</b>		
	<b>CASH BUDGET FOR NOVEMBER AND DECEMBER 2015</b>		
	<b>CASH BUDGET</b>	<b>NOVEMBER 2015</b>	<b>DECEMBER 2015</b>
		<b>R</b>	<b>R</b>
	<b>CASH RECEIPTS:</b>		
	Cash sales		399 000
	Cash from debtors	536 025	597 975
	Commission income		
	<b>Total receipts</b>		
	<b>CASH PAYMENTS:</b>		
	Cash purchases of stock		114 000
	Payments to creditors	520 000	
	Sundry expenses	22 500	
	Wages and salaries		
	Advertisements		
	Repayment of loan		
	Interest on loan		
	<b>Total payments</b> <b>B</b>	<b>935 280</b>	<b>874 210</b>
	<b>Surplus (deficit)</b> <b>C</b>	<b>26 745</b>	
	Opening bank balance	(56 000)	
	<b>Closing bank balance</b>	<b>(29 255)</b>	





## 1.2 SLEEPEZI BEDS (PTY) LTD

1.2.1 Calculate the percentage increase in the amount budgeted for salaries and wages for October 2015.

Should the employees be satisfied with this? Explain.

1.2.2 The financial director is pleased with the work being done by the bookkeeper and internal auditor. Identify an expense that indicates that he is correct.

Explain your answer.

### ACTIVITY 2

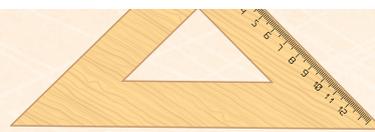
#### KOBUS HARDWARE

2.1 Calculate the missing amounts indicated by (a) to (e) in the Cash Budget for March and April 2016.

	Calculation	Amount
(a)		
(b)		
(c)		
(d)		
(e)		

2.2 Complete the Debtors' Collection Schedule.

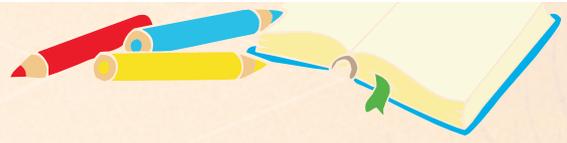




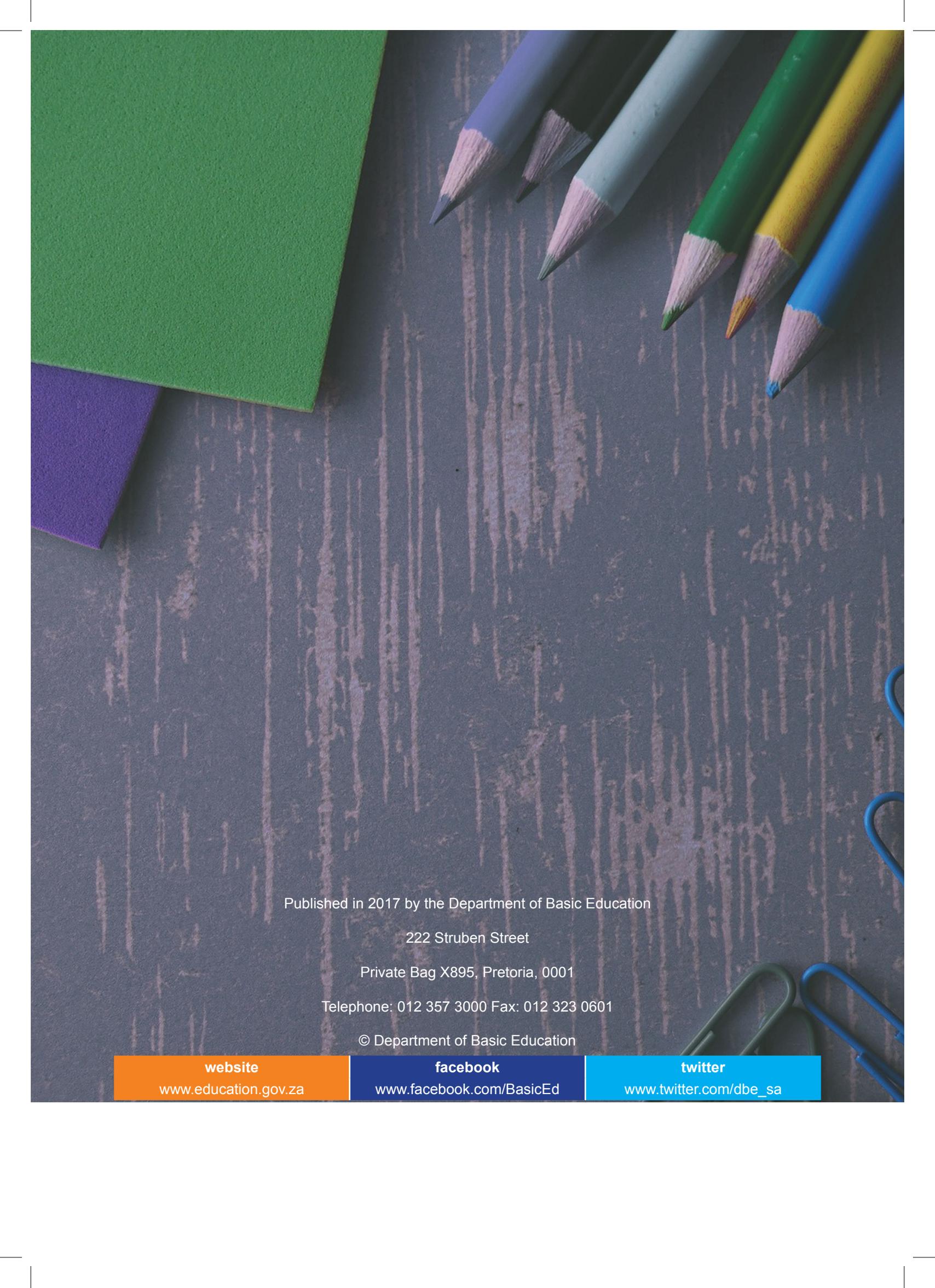
		<b>CREDIT SALES</b>	<b>MARCH</b>	<b>APRIL</b>
	<b>FEBRUARY</b>			
	<b>MARCH</b>			
	<b>APRIL</b>	<b>158 400</b>		
			<b>144 400</b>	
<b>2.3</b>	<b>Calculate the percentage increase in sundry expenses.</b>			

<b>ACTIVITY 3</b>				
<b>3.1</b>				
<b>3.1.1</b>	<b>TWO items recorded incorrectly in the Cash Budget:</b>			
<b>3.1.2</b>	<b>TWO items in the Cash Budget that would NOT appear in a Projected Income Statement:</b>			
<b>3.2</b>	<b>DEBTORS' COLLECTION SCHEDULE</b>			
	<b>MONTHS</b>	<b>CREDIT SALES</b>	<b>SEPTEMBER</b>	<b>OCTOBER</b>
	July	120 000	8 400	
	August	151 200	60 480	
	September	172 800	86 400	
	October			
			<b>155 280</b>	
<b>3.3</b>	<b>AMOUNTS FOR THE CASH BUDGET</b>			
		<b>WORKINGS</b>	<b>AMOUNT</b>	
	(a)	Cash sales for September		
	(b)	Payments to creditors for October		
	(c)	Directors' fees for October		
	(d)	Interest on loan for October		







A photograph of school supplies including colored pencils and paper clips on a wooden desk. The pencils are in shades of purple, light blue, green, yellow, and blue. The paper clips are green and blue. The background is a dark, textured wooden surface. In the top left corner, there are pieces of green and purple paper.

Published in 2017 by the Department of Basic Education

222 Struben Street

Private Bag X895, Pretoria, 0001

Telephone: 012 357 3000 Fax: 012 323 0601

© Department of Basic Education

**website**

[www.education.gov.za](http://www.education.gov.za)

**facebook**

[www.facebook.com/BasicEd](http://www.facebook.com/BasicEd)

**twitter**

[www.twitter.com/dbe\\_sa](http://www.twitter.com/dbe_sa)