

QUESTION 1 – BANK RECONCILIATION STATEMENTS (40 marks – 25 minutes)

PART A (26 marks)

The information below was taken from the accounting records of Yahoo Traders.

REQUIRED

1.1.1 Calculate the correct balance on the bank account on 28 February 2019. (12)

1.1.2 Prepare the bank reconciliation statement on 28 February 2019. (8)

1.1.3 **Refer to information A –**

The owner, Y Hoo, asked you why the deposit of R2 050 was not yet deposited. Your answer was that you were very busy at that time and could not deposit the money. You kept it in the desk drawer and forgot about it and will deposit it as soon as possible.

What control measures can the owner put in place to avoid this situation in the future. Provide TWO measures. (2)

1.1.4 **Refer to information D –**

When you draw up the financial statements on 28 February 2019, an adjustment has to be made for cheque no 1010 where R780 has to be added back to bank and trade and other payables. Explain why this adjustment has to be made. (4)

INFORMATION

A EXTRACT OF THE BANK RECONCILIATION STATEMENT ON 31 JANUARY 2019

| | R |
|----------------------|----------|
| Outstanding cheques | |
| No 878 | 540 |
| No 886 | 1 430 |
| No 912 | 1 950 |
| No 928 | 500 |
| Outstanding deposits | |
| 23 December 2018 | 2 050 |
| 31 January 2019 | 1 800 |

- Cheque no 878 was issued on 18 August 2018 for stationery.
- Cheques no 886 and 912 were reflected on the Bank Statement for February 2019.

B The debit balance of the Bank Account in the General Ledger on 31 January 2019 was R12 500.

C Provisional totals – CRJ Total R34 360 and CPJ Total R37 480

D Items reflected in the Journals for February 2019, but not on the Bank Statement –

- A deposit made by Yahoo Traders on 31 January 2019, R3 400.
- The following cheques:
No 987 for R2 700
No 1010 for R780 dated 4 March 2019
No 1013 for R1 400

Note – Cheque no 987, dated 13 February 2019, issued to a creditor in settlement of our account of R2 700 was lost. Payment of this cheque was stopped. No new cheque was issued.

- Cheque no 995 was issued for trading stock purchased. The amount was recorded as R790 in the Cash Journal, but the correct amount of R970 was reflected in the Bank Statement.

E Items on the February Bank Statement, but not in the Cash journals:

- A deposit of R1 800 on 11 February 2019.
- Bank charges, R780.
- Interest on a favourable balance, R250.
- A dishonoured cheque originally received from a debtor, R1 750
- The tenant made an electronic transfer for the monthly rent, R2 500.
- A debit order for the instalment of the owner's vehicle, R3 100.

F The bank statement reflected a favourable balance on 28 February 2019. (?)

PART B – DEBTORS’ RECONCILIATION (14 marks)

You need to refer to information A and B

- Show the corrections that must be made to the Debtors’ Control account and the Debtors’ List to reconcile the differences noted. (7)
- Solo feels that the debtors are not effectively controlled in the business.

Provide one reason why you think he feels this way. Do a calculation to support your answer. (5)

and

State two actions that Solo Traders could take in order to encourage debtors to settle their accounts according to the terms. (2)

INFORMATION BEFORE THE DIFFERENCES WERE NOTED ON 31 AUGUST 2018

| A | R |
|--|----------|
| Balance as per Debtors control account | 83 750 |
| Balance as per Debtors Ledger | 88 550 |
| Andrew – credit limit R15 000 | 23 250 |
| Banele – credit limit R35 000 | 33 700 |
| Divan – credit limit R40 000 | 31 600 |
| Difference is | ? |

B - ADDITIONAL INFORMATION

A reconciliation of the Debtors’ Control Account with the Debtors’ List revealed the following : -

- (i) An allowance on damaged goods to Banele, R2 400, was entered on the wrong side of his account.
- (ii) Interest of R150, was charged to Divan on his overdue account.
- (iii) A cheque for R10 000 received from Andrew was returned by the bank due to insufficient funds. No entries were made.

QUESTION 2 – MANUFACTURING (47 MARKS – 28 MINUTES)

You are provided with information of TreeTop Manufacturers for the year end 28 February 2019. The business manufactures garden furniture.

REQUIRED

- 2.1 Prepare the Production Cost Statement for the financial year. Some details are already entered in the Answer Book. (14)
- 2.2 Prepare the note for FACTORY overhead costs. (19)
- 2.3 The breakeven point is 190 000 units. Explain why you feel that the owner should be satisfied with the level of production in 2019. Quote figures. (4)
- 2.4 Refer to information C. The owner is considering buying his own property, instead of paying monthly rent. The annual rent of R208 800 will increase by 8% per annum. Advise the owner whether he should buy the property or continue with the rental agreement. Provide relevant calculations to motivate your answer. (10)

INFORMATION

A Balances

| | 28 February 2019 | 28 February 2018 |
|---------------------------------------|-------------------------|-------------------------|
| Raw material | 144 150 | 87 300 |
| Indirect material on hand | 7 305 | 3 600 |
| Factory equipment (cost) | | 1 350 000 |
| Accumulated depreciation on equipment | | 270 000 |

B TRANSACTIONS DURING THE FINANCIAL YEAR

- (i) Raw material – Purchases, R885 000 and Transport cost, R13 500.
A calculation error was made during the stocktaking on 28 February 2019.
10 500 items were recorded at R5 each instead of 50 cents each.
- (ii) Indirect material purchased during the financial year amounted to R16 800.
- (iii) **PRODUCTION WAGES:**
 - The business employs 20 factory workers. They earn R2 400 each per month
 - Unemployment Insurance Fund deduction amounts to 1% of earnings. The business contributes an additional 1% on behalf of each employee

(iv) **SALARIES (INCLUDING UIF CONTRIBUTION)**

| | |
|--------------------------|--------|
| Factory supervisor | 38 400 |
| Receptionist | 48 000 |
| Marketing representative | 39 600 |

(v) **FACTORY PLANT AND EQUIPMENT**

| | |
|--------------|---------|
| Maintenance | 18 705 |
| Depreciation | 163 800 |

(vi) The following costs were incurred in the administrative department during the financial year

| | |
|-----------------------|--------|
| Insurance | 4 392 |
| Water and electricity | 5 553 |
| Rent expense | 41 760 |

Note –

- Insurance is split between the factory, admin and sales departments in the ratio 6:3:1 respectively.
- The admin section uses 30 % of the water and electricity. The balance must be allocated to the factory.
- The office and the shop each occupy one fifth of the total floor space and the factory occupies the rest. Rent is divided according to floor space occupied.

(vii) During the financial year 230 000 items were produced and sold.

INFORMATION C

| | |
|--|------------------|
| Cost of new property (including renovations) | R2 000 000 |
| Current interest rate of the mortgage bond | 10% |
| Property rates per annum | R22 000 |
| Moving cost | R17 000 |
| Current market value of property | R2 800 000 |
| Rent income from part of the property | R4 500 per month |

QUESTION 3 – FINANCIAL STATEMENT – (50 MARKS – 30 MINUTES)

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

REQUIRED

- 3.1.1 Statement of comprehensive income for the year ended 30 September 2018.

INFORMATION

1. HILLCREST LTD

PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 SEPTEMBER 2018

| | AMOUNT |
|---|-------------|
| BALANCE SHEET SECTION ACCOUNTS | |
| Ordinary share capital | 1 300 000 |
| Retained income (1 October 2017) | 90 000 |
| Loan from George Bank | ? |
| Land and buildings (at cost) | 220 000 |
| Vehicles (at cost) | 190 000 |
| Accumulated depreciation on vehicles (1/10/2017) | 41 000 |
| Accumulated depreciation on equipment (1/10 2017) | 37 000 |
| Debtors control | 36 600 |
| Creditors control | 17 960 |
| Trading stock | 479 000 |
| Bank | 13 500 |
| Petty cash | 2 200 |
| SARS (income tax) | (dr) 83 500 |
| Provision for bad debts | 1 440 |

| | |
|--------------------------|-----------|
| NOMINAL SECTION | |
| Sales | 3 720 000 |
| Cost of sales | 2 310 000 |
| Debtors allowances | 6 200 |
| Salaries and wages | 200 000 |
| Discount allowed | 850 |
| Fee income | 104 750 |
| Rent income | 56 000 |
| Insurance | 13 000 |
| Sundry expenses | 39 250 |
| Directors fees | 390 000 |
| Consumable stores | 42 000 |
| Interest income | 2 500 |
| Ordinary share dividends | 88 000 |

2. ADJUSTMENTS

- A. Prepaid expenses in respect of sundry expenses at the year end, R3 200, have not been taken into account.
- B. On 30 September 2018, R580 was received from A Solvent, whose account had previously been written off as irrecoverable. The amount was entered in the Debtors' Control column in the Cash Receipts Journal.
- C. The provision for bad debts must be adjusted to R1 830.
- D. There were two directors at the start of the accounting period. Directors' fees have been paid for the first half of the accounting period. On 1 April 2018, a third director was appointed. All three directors earn the same monthly fee. Provide for the outstanding fees owed to the directors.
- E. Rent has been received for 14 months.
- F. The following credit note was left out of the Debtors' Allowances Journal for September in error. The mark up on goods sold was 50 % on cost.

| HILLCREST LIMITED | | Credit note 8888 | |
|---|---|-------------------------|------------------------------|
| Credit – Bag People P O Box 456, Hillcrest 3670 | | | 28 September 2018 |
| | | Unit Price | Total |
| 24 bags returned | | R400 | R9 600 |
| | Reduction on fee charged for repair of bags | | R750 |
| | | | R? |

- G. A physical stock count on 30 September 2018 reflected the stock of bags on hand as R490 000.
- H. The loan statement from George Bank reflected the following –
- Balance at beginning of the financial year R150 000
Repayments during the year R78 000
Interest capitalized R?
Balance at the end of the financial year R90 000
- I. Income tax for the year. R63 280.

QUESTION 4 – CONCEPTS, STATEMENT OF FINANCIAL POSITION (50 MARKS – 30 MINUTES)

A CONCEPTS

Choose the correct concept from the list provided for each example below. Write only the concept next to the question number. [a – d] in the answer book. (4)

Non-current liabilities, current liability, current asset and financial assets

- a) A fixed deposit that matures at the end of 3 years period.
- b) Consumable stores not used at the end of the financial year
- c) Amount due to SARS in respect of income tax
- d) Mortgage bond to finance the purchase of new property

B WINDOW LIMITED

The information below relates to Window Limited for the financial year ended 28 February 2019.

REQUIRED

- Prepare the Retained Income note on 28 February 2019 (10)
- Prepare the Balance Sheet on 28 February 2019. (36)

INFORMATION

C Balances extracted from the accounting records on 28 February 2019, unless otherwise stated.

| | R |
|---|-----------|
| Ordinary share capital | ? |
| Retained income (1 March 2018) | 1 325 000 |
| Loan : Standard Bank (see G) | ? |
| Fixed assets at carrying value (1 March 2018) | 5 495 500 |
| Fixed deposit : Garbow Bank | ? |
| Trading stock | 1 361 000 |
| Creditors control | 428 950 |
| Debtors control | 556 000 |
| Provision for bad debts (1 March 2018) | 16 000 |
| Bank (favourable) | ? |
| Accrued expenses | 13 550 |
| Prepaid expenses | 8 800 |
| SARS (income tax) – provisional tax payments | 506 000 |

D Share capital

- Window Limited is authorised to sell 3 000 000 ordinary shares
- 1 500 000 shares were in issue on 1 March 2018, the beginning of the financial year
- 500 000 new shares were issued on 1 December 2018 at R3 per share
- 100 000 shares were re purchased on 20 February 2019 from a shareholder who was relocating to another country at R110 000 above the average price. The transaction was properly recorded.

E Net profit before tax

- After taking into account all relevant information, the net profit before tax was accurately calculated to be R1 900 000. (Income tax at the rate of 28% must still be brought into account.)

F Dividends

- An interim dividend of R420 000 was paid on 28 August 2018.
- A final dividend of 44 cents per share was declared on 28 February 2019. All shares (including the shares repurchased on 20 February 2019) qualify for final dividends, which will be paid on 31 March 2019.

G Loan – Standard Bank

Balance on 1 March 2018 R2 813 500

Repayment during the year (including interest) R259 500

Interest capitalized R223 500

Balance on 28 February 2019 R2 777 500

NB – 20% of the loan balance will be paid in the next financial year.

H Provision for bad debts

The provision for bad debts is maintained at 5% of the outstanding debtors

I Packing materials to the value of R15 900 was on hand on 28 February 2019.

J Fixed assets – no fixed assets were purchased or sold during the financial year.

Depreciation for the financial year ended 28 February 2019 was R275 000.

K After all the adjustments were taken into account on 28 February 2019 the following ratios existed –

Debt equity ratio – 0.4:1 and Current ratio – 2.1:1

QUESTION 5 CASH FLOW STATEMENT AND RATIO ANALYSIS

(83 MARKS – 48 MINUTES)

5.1 CONCEPTS (6)

Choose the correct answer from the options given to match the statements. Write down only the answer next to the question number [5.1.1 - 5.1.3] in the answer book.

Solvency, gearing, liquidity, profitability

5.1.1 The ability of the business to meet its short-term obligations (debts).

5.1.2 Total assets : Total liabilities

5.1.3 The extent to which the business is making use of loans (borrowed capital)

5.2 Gumboot Traders Limited

Gumboot Limited provided you with extracts from their financial records for the year ended 28 February 2019.

REQUIRED

Prepare the cash flow statement for the year ended 28 February 2019. (Where applicable show calculations and workings in brackets to earn part marks) (32)

INFORMATION

A

| | R |
|--------------|---------|
| Depreciation | 19 974 |
| Income tax | 198 240 |

B Extract from the Balance Sheet (Statement of financial position) on 28 February 2019.

| | 28 Feb 2019 | 28 Feb 2018 |
|-------------------------------|-------------|-------------|
| ASSETS | | |
| NON CURRENT ASSETS | 1 331 328 | 1 205 760 |
| Fixed/tangible assets | 1 175 328 | 977 760 |
| Financial assets | 156 000 | 228 000 |
| Cash and cash equivalent | 985 390 | 30 |
| EQUITY AND LIABILITIES | | |
| SHAREHOLDERS EQUITY | 2 999 880 | 1 302 120 |
| Ordinary share capital | 2 850 000 | 1 200 000 |
| Retained income | 149 880 | 102 120 |
| Non/current liabilities | 420 000 | 1 284 000 |
| Bank overdraft | 0 | 80 100 |
| Shareholders for dividends | 312 000 | 16 800 |
| SARS income tax | 12 450 | 4 800 |

C Loan and interest on loan

The loan statement from Investec Bank on 28 February 2019 reflected

Balance at the beginning of the financial year R 1 284 000

Repayments during the year (including interest) R1 008 000

Interest capitalized?

Balance at the end of the financial year R420 000

D Share capital and dividends

- On 1 March 2018 the business had 100 000 shares in issue at an average price of R12 per share.
- The business paid interim dividends of 120 cents per share on 31 May 2018.
- On 1 September 2018 the business issued new shares.
- On 28 February 2019 the business repurchased 10 000 shares at R23 per share. This was R3 above the average share price.
- A final dividend was declared on 28 February 2019.

E Fixed assets

- Equipment was sold at carrying value. The details for his equipment is as follows:

| | |
|---------------------------------------|--------------|
| Cost price | R48 000 |
| Accumulated depreciation to date sold | R24 684 |
| Date sold | 1 April 2018 |
| Selling price | ? |

5.3 FINANCIAL INDICATORS OF TWO COMPANIES (35 marks)

Your sister is an existing shareholder of two companies that sell laptops and data. She presents you with information of both companies.

REQUIRED –

5.3.1 Calculate the following financial indicators:

- Net asset value of Ada Ltd (3)
- Debt – Equity ratio of Top Ltd (3)

5.3.2 Your friend is of the opinion that the liquidity position of Ada Ltd is better than Top Ltd. Quote two financial indicators (with figures) to support your answer. (6)

5.3.3 Top Ltd paid off a large portion of its loan during the financial year. Quote two financial indicators with relevant figures to show why this was not a good decision taken by the directors. (7)

5.3.4 Will the shareholders be satisfied with the price at which the new shares were issued for both companies? Explain and quote relevant financial indicators and figures for each company. (6)

5.3.5 Your friend owns 30 000 shares in each of the companies.

- Calculate the dividends that she earned from each company (2)
- Compare and comment on the dividend pay-out policies of the two companies. Provide calculations in your explanation. (4)
- Explain one reason for the dividend pay-out of each company. (4)

INFORMATION

A EXTRACT FROM THE BALANCE SHEET ON 28 FEBRUARY 2019

| | TOP LIMITED | ADA LIMITED |
|---------------------------|--------------------|--------------------|
| Shareholders' equity | 1 011 150 | 2 116 800 |
| Ordinary share capital | 808 000 | 1 593 000 |
| Retained income | 203 150 | 523 800 |
| Non - current liabilities | 202 230 | 1 270 080 |

B FINANCIAL INDICATORS

| | TOP LTD | ADA LIMITED |
|--|----------------|--------------------|
| Current ratio | 3,6:1 | 2,4:1 |
| Acid test ratio | 0,6:1 | 1,2:1 |
| Stock turnover ratio | 4 times | 8 times |
| Debt equity ratio | ? | 0,6:1 |
| % return on average shareholders' equity | 25,4 % | 14,5% |
| %return on total capital employed | 18,4% | 10,2% |
| %interest rate on loans | 10,5% | 10,5% |
| Market price per share on JSE | 710 cents | 910 cents |
| Net asset value per share | 535 cents | ? |
| Dividends per share | 230 cents | 245 cents |
| Earnings per share | 350 cents | 285 cents |

C Both companies have the same number of shares in issue at the end of the current financial year: 189 000 shares.

D Additional information –

- Top Ltd – issued additional shares at 450 cents per share
- ADA Ltd – issued additional shares at 1 200 cents per share.

5.4 **Audit Report (10 marks)**

REQUIRED

Study the past two years audit report of Simson Limited (extract A and B) and then answer the following questions.

- 5.4.1 Briefly explain the difference between work done by the internal auditor and that done by the independent auditors. (2)
- 5.4.2 Determine which set of auditors would have issued the audit reports provided? (1)
- 5.4.3 Refer to the audit report dated February 2019. Explain why the auditors use the words: “of the transactions tested” in their report. (2)
- 5.4.4 State what type of audit report was issued by the auditors in February 2019. (2)
- 5.4.5 Refer to the audit report dated February 2018:
- (a) Why is it important to mention IFRS and the Companies Act? (1)
 - (b) Explain what is meant by: “in all material respects”. (2)

INFORMATION

A

Extract from the audit report of Simson Limited for 29 February 2018.

In our opinion, the financial statements fairly present, in all material respects, the financial position of this company at 28 February 2019 and the results of their operations and cash flow for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

B

Extract from the audit report of Simson Limited for 29 February 2019.

We have found that the internal control procedures were not adhered to and that 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 appropriate evidence to provide a basis for an audit opinion. Accordingly, we are not able to express an opinion on the financial statements for the year ended 29 February 2019.

QUESTION 6 (30 MARKS – 19 minutes)

FIXED ASSETS AND PROBLEM SOLVING

PART A

You are required to complete the note to the Fixed Assets. (21)

INFORMATION

A INCOMPLETE FIXED ASSETS REGISTER – February 2019

| | LAND AND BUILDINGS | VEHICLES | EQUIPMENT |
|--|--------------------|------------------|----------------|
| Carrying value at the beginning of the year | 18 686 700 | 1 080 000 | 481 600 |
| Cost | 18 686 700 | 1 800 000 | 600 000 |
| Accumulated depreciation | | (720 000) | (118 400) |
| Movements | | | |
| Additions at cost | A* | B* | E* |
| Asset disposal | (0) | (0) | F* |
| Depreciation | (0) | C* | G* |
| Carrying value at the end of the year | 24 120 300 | D* | H* |
| Cost | 24 120 300 | 2 400 000 | 700 000 |
| Accumulated depreciation | (0) | (1 110 000) | I* |

(a) Land and buildings

- Extensions to the buildings were done during the current financial year.

(b) Vehicles

- A new vehicle was bought on 1 December 2018.
- No vehicles were sold during the year.
- Depreciation is written off on vehicles at 20% p.a. on the cost price method.

(c) Equipment

- A photo copier bought on 1 March 2017 for R200 000 was traded in for an upgraded model on 28 February 2019. The accumulated depreciation on this photo copier on the date of trade in was R38 000.
- Depreciation on equipment is written off at 10% p.a on the diminishing balance method.

PART B– PROBLEM SOLVING (9 MARKS)

Noble’s Cleaning Services

Norma owns a mobile cleaning services business. The business operates three panel vans, each equipped with multipurpose cleaning machines and cleaning detergents.

Norma charges R50 per square meter and employs workers.

REQUIRED

Identify **one different problem/concern** in relation to each panel van.

Quote figures.

In each case, provide **ONE solution** to the problem identified.

| | Van 1 | Van 2 | Van 3 |
|--|--------------|--------------|---------------|
| Driver/manager | Pearl | Jason | Elisha |
| Machine – year purchased | 2009 | 2012 | 2014 |
| Cost price | 110 000 | 160 000 | 180 000 |
| Accumulated depreciation | 109 999 | 80 000 | 54 000 |
| Repairs and maintenance | 18 500 | 4 700 | 1 600 |
| Number of square meters cleaned in September | 13 000 | 6 000 | 2 100 |
| No of complaints received of poor quality work | 5 | 10 | 1 |
| Cash takings deposited | 650 000 | 260 000 | 105 000 |
| Cleaning detergents used | 5 000 | 4 000 | 700 |
| Wages - Cleaners | 12 583 | 12 583 | 12 583 |
| Salary – Driver- manager | 20 500 | 20 500 | 20 500 |

Please turn over