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3-in-1

Accounting

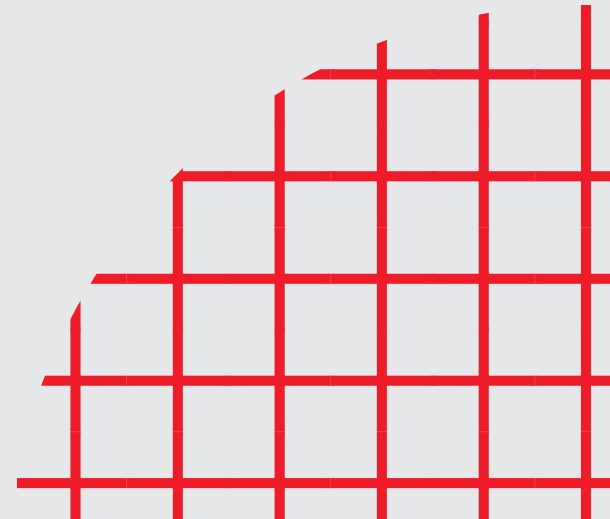
CLASS TEXT & STUDY GUIDE

Ann Botha

GRADE

12

CAPS



Grade 12 **Accounting** 3-in-1 CAPS

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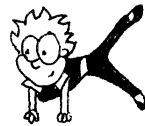
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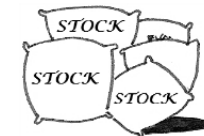
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What happens to the net profit?

Retained income – an equity account

A company is a legal person and therefore it owns the profits it makes each year. However, it usually distributes **some of** the after tax profits to shareholders in the form of dividends, but not all! It will retain (**keep**) as much as it needs to strengthen the company for the future. This means the value of the company will increase. (This account can be called *Accumulated profits*.)

GENERAL LEDGER OF THE FRIENDLY COMPANY LIMITED

1.		-		RETAINED INCOME				(E)		+	
						2014					
	Feb	28	Balance	A	b/d					100 000	

EXPLANATION

A. This is the profits which the company had not distributed **at the end of 2014**.

2.		-		RETAINED INCOME				(E)		+	
						2014					
2015	Feb	28	Appropriation	B	GJ	100 000	Feb	28	Balance	A b/d	100 000

B. **At the end of 2015**, i.e. 28 February, after the net profit has been calculated, the company decides how much to distribute. It must take last year's retained income into consideration because it can be distributed now. The R100 000 must be transferred to the Appropriation account. The Retained income account is temporarily closed.

3.		-		RETAINED INCOME				(E)		+	
						2014					
2015	Feb	28	Appropriation	B	GJ	100 000	Feb	28	Balance	A b/d	100 000
						2015					
	Feb	28	Appropriation	C	GJ	356 000					

C. **After all the distributions have been made**, i.e. the tax on the net profit for the year and the total amount of the dividend for the year, the 'left-over' profit is transferred back to the Retained income account.

You will notice that the equity (value) of the company has increased by R256 000. This means the value of each share has increased and perhaps the price on the JSE has too. Unfortunately, the JSE price is affected by many, many other factors, for example, the American economy, the perception of the political situation in South Africa, the fact that the CEO has just resigned, unfavourable reports in the press, etc.

Appropriation – the last final account

All profits which are available to be appropriated (shared) are transferred to the credit side of this account at the end of the year.

Treat it as an income account with the credit (right hand) side showing the income available for distribution (net profit 2015 + net profit not distributed in 2014).

The debit (left-hand) side will show how it is distributed.

- It **has to** 'share' some with the taxman,
- it **may** share some with the shareholders in the form of dividends and,
- it **will** keep some for itself.

This is a very, very important account!

GENERAL LEDGER OF THE FRIENDLY COMPANY LIMITED

-		APPROPRIATION				(I)		+					
2015	Feb	28	Income tax	C	GJ	174 000	2015	Feb	28	Retained income	A	GJ	100 000
			Dividends on							Profit and loss	B	GJ	580 000
			ordinary shares	D	GJ	150 000							
			Retained income	E	GJ	356 000							
						680 000							680 000

EXPLANATION

- A This is the retained income from the previous year (2014) which was kept by the company and can now be distributed as dividends, if necessary.
- B This is the net profit the company made this year.
- C This is the tax calculated on the net profit for the year. (30% rate used here)
- D The total dividend for the year distributed to shareholders from the R680 000.
- E The amount of profit the company is keeping for itself.

NOTE: All the entries in this account are closing transfers as it is a final account.



Although you can be examined on these ledger accounts, the real importance of this section is it enables you to understand where to find the information for the Financial Statements (later in this topic) and the Statement of Cash Flows (dealt with in Topic 3).

[5] **Receivables**

☛ Never include SARS in this figure because Taxation has its own note. Work out the difference between this year's receivables figure and last year's to determine whether debtors owe the company more this year than last year or less. If they owe more it means they have **not** paid ☹ and the company has less cash. If they owe less, they have paid ☺ so the company has more cash.

[6] **Payables**

☛ Never include SARS or Shareholders for dividends in this figure as they have their own notes. You would include the Expenses accrued figure unless it is for interest. Work out the difference between the two years and determine whether the company has paid them ☹ OR not ☺.

NOTE 2

CASH AND CASH EQUIVALENTS

	Net change	↔ 2015	↔ 2014
Bank [overdraft = brackets! ☛ be careful]	3 500	2 500	(1 000)
Cash float	(200)	800	1 000
Petty cash	-	500	500
<i>(check that 3 800 - 500 = 3 300)</i>	3 300	3 800	500

☛ Be careful! The Net change is the DIFFERENCE between the two amounts. When the Bank balance swings from negative last year to positive this year, the calculation is $2\ 500 - (1\ 000) = 3\ 500$. Always check the totals: $2015 - 2014 = \text{net change}$.

NOTE 3

DIVIDENDS PAID

Dividends for year as reflected in financial statements	[1]	(x)	↓
Balance at beginning of year (always negative – will have been paid)	[2]	(x)	↓
Balance at end of year (always positive – never paid)	[3]	x	↓
Dividends paid (always negative)		(XXX)	↔

[1] **Dividends for year:** i.e. interim + final for this year. You will find them in the Retained income Note if you are given one OR you will have to calculate the interim dividend and add the final dividend given in the Current Liabilities OR you will have to reconstruct the Appropriation account ☹.

[2] You will find the balances in the Statement of Financial Position under 'Shareholders for dividends'. Balance at beginning = last year's final dividend and at end of year = this year's final dividend.

NOTE 4

INCOME TAX PAID

Income tax for year as reflected in financial statements	[1]	(x)	↓
Balance at beginning of year	☛ [2]	(x)	↓
Balance at end of year	☛ [3]	x	↓
Income tax paid (always negative)		(XXX)	↔

[1] If you have not been given a Statement of Comprehensive Income, find the figure by reconstructing the Appropriation account. ☹

[2] Be careful! If SARS was a creditor in last year's Statement of Financial Position, it means the company must **pay** the amount this year = less cash (**brackets**) ☹. However, if it was a debtor in last year's Statement of Financial Position, the company paid too much last year and will receive a refund from SARS this year, = positive because no cash is going out, ☺ so no brackets.

[3] Be careful! If SARS is a debtor in this year's Statement of Financial Position, it means the company **paid** too much this year = less cash ☹ so use (**brackets**). But, if SARS is a creditor this year, it means that the company has **not paid** = positive because the company still has the cash ☺.



Throughout the whole Statement of Cash Flows more cash is **positive** and less cash is (**negative**).

NOTE 5

TANGIBLE/FIXED ASSETS PURCHASED

Land and buildings (always Cost Price This Year - CP Last Year)	[1]	(x)	↓
Equipment (could be CP TY - (CP LY - cost of disposal))	[2]	(x)	↓
Vehicles	[3]	(x)	↓
(obviously always negative = cash out)		(XXX)	↔

[1] If you are given the cost of the asset, this is easy to calculate - just subtract.

[2] If assets were sold, the company must have bought even more (Equipment).

[3] If you are only given the carrying value of the asset, do **the 5 finger exercise!** (see previous page) This time the 'x' will be in '2. Additions'.



PUBLISHED FINANCIAL STATEMENTS

The Companies Act of 2008 requires that all companies which sell shares to the public publish their financial statements. This means they make their financial statements available on the internet and/or in hard copy format. They also publish an extract of them in the financial press.

The directors are responsible for preparing the statements and they must be audited by an independent auditor. These are the statements that all the users, listed on p. 13 of Topic 2, will study.

The published financial statements consist of

- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Cash Flows
- The Directors' Report
- The Auditors' Report.

If they are called 'Consolidated' Statement of it means that this company owns more than 50% of the shares in another company and the results of the two have been combined. The company is then known as a holding company and the one it bought is called a subsidiary company.

There are other statements and reports too, but we are not concerned with them.

Statement of Comprehensive Income

This is a shortened or condensed version, showing only the expenses and income of interest to shareholders. *The one which you can be examined on is the detailed statement showing all incomes and expenses of the company. It is for internal use only.*

How does it differ to the one we do?

- It shows comparative figures for the previous year so that whoever reads them can see the trend.
- The figures will be rounded off, usually to the nearest R1 million.
- The terminology is sometimes different, e.g. Sales is called Turnover.
- If the company is a holding company, there will be a column showing the income and expenses of the Group, i.e. the holding + the subsidiary company figures.

Statement of Financial Position

This will contain many more items than we are used to, and may vary from company to company. All the main items we know will be there.

How does it differ to the Statement we do?

- The terminology is sometimes different, e.g. Land and buildings is called Property, equipment and vehicles or Property, plant and equipment.
- There is often an item called 'Intangible assets' under non-current assets. This refers to the goodwill that the company paid when it bought the subsidiary company.
- There will be columns for Group assets and liabilities for this year and last year if the company owns subsidiary companies.
- The Notes to the Financial Statements which we prepare are only for internal use. The only note which is shown is the Note on Share Capital.

The company often analyses its results and publishes the figures for

- earnings per share (although it is worked out differently to the one we do)
- dividend per share
- gross margin
- operating expenses as a percentage of sales, etc.

These will all be compared to the previous year.

Statement of Cash Flows

This also has a few more items than the one we do, but basically it is the same.

The Directors' Report

In this report the directors will review the operations of the company for the financial period. It gives details of the performance of the company so that the users have a better understanding of its financial position. This report will be reviewed by the auditor. It gives details of the highlights and the problems of the past year and an indication of what the future holds. It will also outline the company's involvement in social and environmental issues to comply with the requirements of integrated reporting laid down in the King Code of Corporate Governance, i.e. King III.

The Auditors' Report

This is obviously very important from the shareholders' point of view as they want to be sure that the statements fairly present the affairs of the company and that the auditors found no fraud. They also want to be sure that the financial statements were drawn up according to the International Financial Reporting Standards so that they will be comparable with those of other companies, even international companies. You will find the usual wording of these reports on p. 13 of Topic 2.

THE ANSWER

TANGIBLE ASSETS	Land & buildings		Vehicles		Equipment	
Carrying value at beginning of year	750 000	↔ ↓	237 500	↕ ↓	164 025	↕ ↓
Cost	750 000	↑	600 000	↑	250 000	↑
Accumulated depreciation			(362 500)	↑	(85 975)	↑
Movements						
Additions at cost	[A] 1 025 000	↓	[D] 650 000	↓	[F] 35 000	↓
Disposals at carrying value			[C] (237 500)	↓	[E] (27 500)	↓
Depreciation for year			[G] (130 000)	↓	[G] (25 855)	↓
Carrying value at end of year	1 775 000	↕ ↓	520 000	↕ ↓	145 670	↕ ↓
Cost	1 775 000	↑	650 000	↑	243 000	↑
Accumulated depreciation			(130 000)	↑	(97 330)	↑

Working Forwards

- A **Land and buildings:** Write in the cost of the premises bought and add this to the cost at the beginning of the year to get the cost at the end.
- B Ignore this as, according to the GAAP principle of prudence, profits are not shown until they are made.
- C **Vehicles:** Write the carrying value of the vehicle sold, next to disposals.
- D Write in the R650 000 for the purchase.
Theoretically – to work out the **Cost** at the end: R600 000 + R650 000 - 600 000 = R650 000 and to work out the **Accumulated depreciation** at the end: R362 500 + R130 000 [G] - R362 500. As they sold the one and only vehicle, you just write in the new vehicle's cost and depreciation for the year.

Working Backwards

- E **Equipment:** Work out the carrying value of the equipment sold, i.e. R42 000 - R14 500 = R27 500 and write it next to disposals.
- F Fill in the cost of the new equipment bought, R35 000.
To get the totals at the top, you do the opposite to what you did for vehicles because you are working from the end back to the beginning.
Cost at the beginning: start with the Cost at the end, R243 000 and
- subtract the Additions at cost, R35 000
 - and add the Cost of the computer sold, R42 000 = R250 000.
- To work out the **Accumulated depreciation** at the beginning: start with R97 330 (end) subtract R25 855 [G] and add back R14 500 [E] to get R85 975.

The reasons for selling a vehicle or equipment

- The business has a replacement policy, i.e. vehicles will be traded-in after 5 years, and this time is up.
- The asset is too costly to keep, e.g. a delivery van needs constant repairs or is using too much petrol.
- The asset is not being fully utilised, e.g. a computer is not being used at all.

TANGIBLE ASSETS – THE INTERNAL AUDITOR'S DUTIES

Land and buildings

He must ensure that the premises are fully utilised. If it is not, he should recommend to management that the unused section be sold or rented out to earn income.

Vehicles and Equipment

He must check the Asset Register regularly to ensure that it has been updated, that all details of new assets purchased have been correctly entered according to the invoices. He must do an actual physical check regularly to ensure that:

- the assets are being used for the purpose for which they were bought and
- they are where they are supposed to be – not at a staff member's home.



He must ensure that all assets are properly insured.

He must analyse the cost of using the assets to determine when they should be replaced, i.e. traded-in for a new more efficient model. Any asset not fully utilised should be sold.

TANGIBLE ASSETS – THE EXTERNAL AUDITOR'S DUTIES

Land and buildings

He must check the title deeds to be sure that the business does actually own the property reflected in the Statement of Financial Position. These title deeds should be kept in a safe place, e.g. a bank vault as they are the only proof of ownership of property. He should check the condition of the buildings. Have they been maintained? If not, should they be depreciated? He should check the market value against the cost in the General Ledger. If it is lower, he should investigate the reasons. Should the property be devalued? Only a qualified valuator can answer this.

Vehicles and Equipment

He must check any acquisitions against the invoices to ensure that the entries are correct and physically check that the assets in the Asset Register are where they are supposed to be. He must also check that the depreciation entries have been correctly calculated and that a suitable rate has been used.



Now do **QUESTIONS 39 to 45 on pp. 105 – 110.**

Total cost of production

This is the total of the direct materials cost and the direct labour cost and the factory overheads cost

of the products which were worked on in this accounting period – some of which were not finished.

Work-in-progress/process stock

These are the products which were **not finished** at the end of the accounting period, and therefore are not yet ready for sale. They will be completed at the beginning of the next accounting period, so they will still be in the factory.

An adjustment must be made if there is work-in-progress at the beginning and/or end of the year, before the cost of production of finished goods can be calculated.

Do **QUESTIONS 80 & 81** on p. 140 – 141, to ensure you know the terminology.

THE PRODUCTION COST STATEMENT

The Production Cost Statement, like the other financial statements, is a means to an end. The figures in this statement are used to calculate the cost per unit of every element of a product. This is very important as management can analyse the efficiency of the factory this year by comparing the various costs per unit with those of the previous year. Important decisions can then be made about the products to be made in the following year.

How to do the Production Cost Statement – Step by Step



Look at the Answer Sheet to see if

- all the wording has been written in
- only some of the wording is in
- it is blank.

You have three options:

- Read the question through writing all the figures in brackets next to the wording. Then do the adjustments/additional information straight on to the Answer Sheet.
- As you read the question through write in the missing wording and any figures you find next to the wording. Then concentrate on the adjustments.
- Adjust the figures on the question paper and then write in the wording and the figures in brackets at the same time.

Remember to show all changes to figures on the Answer Sheet.



First do the:

NOTES TO THE PRODUCTION COST STATEMENT

1. Direct (raw) materials cost		
Balance at beginning of year (<i>read the dates carefully</i>)		x
Purchases (net) (<i>i.e. cash + credit purchases – returns</i>)		x
Carriage on purchases/inwards (<i>or Freight or Customs duty</i>)		x
		xxx
Balance at end of year (<i>an adjustment or in additional information</i>)		(xx)
		A
2. Direct labour cost		
Direct wages (<i>adjust if necessary</i>)		x
Pension fund/Medical aid/UIF contributions		x
		B
3. Factory overheads cost		
Factory indirect wages (<i>including contributions</i>)		x
Factory indirect materials (<i>opening stock + purchases - closing stock</i>)		x
Factory rent (<i>only portion applicable to factory space</i>)		x
Depreciation on factory machinery (<i>or other fixed asset</i>)		x
Maintenance – factory plant		x
Factory electricity, etc.		x
		C

Then use these totals in the

PRODUCTION COST STATEMENT FOR YEAR ENDED 31 DECEMBER 2015

	NOTE	
Direct materials cost	1.	A
Direct labour cost	2.	B
Prime cost		xx
Factory overheads cost	3.	C
Total cost of production		xx
Work-in-process/progress at beginning of year		x
		xx
Work-in-process/progress at end of year		(xx)
Cost of production of finished goods		xxx

This statement and the notes are very straightforward especially if you remember the Grade 11 work. In Question 3 you have been given the ledger accounts to remind you of the information each contains, as this is what is converted into the notes and the statement itself.

Now do **QUESTION 82** on p. 142 to master the format of the statement and the notes.

**QUESTION 14 – STATEMENT OF COMPREHENSIVE
INCOME**

(47 marks; 27 minutes)

KOJAK TRADERS LIMITED

This business sells for cash only. Use the following information to prepare the Statement of Comprehensive Income for the year.

EXTRACT FROM PRE-ADJUSTMENT TRIAL BALANCE ON 30 JUNE 2014

	Debit	Credit
Vehicles	480 000	
Accumulated depreciation on vehicles		175 000
Equipment	250 000	
Accumulated depreciation on equipment		75 000
Trading stock	245 900	
SARS (income tax)	68 500	
Bank charges	18 560	
Commission income		51 500
Insurance	19 040	
Interest on current bank account		156
Packing material	37 500	
Rent income		65 000
Salaries and wages (including contributions)	235 000	

ADJUSTMENTS

- A physical stock count on 30 June 2014 showed that the stock on hand cost R248 500 and packing material on hand cost R4 500.
- Depreciation is provided on vehicles at 20% p.a. on carrying value and on equipment at 15% per annum on cost. Take into consideration that a new vehicle costing R180 000 was bought on 1 March 2014.
- A new employee, who started work on 1 June 2014, was omitted from the Salaries Journal for June by mistake. The details are as follows:
Gross monthly salary, R15 000;
Deductions: PAYE, R2 700; Pension fund, 5%; UIF, 1%.
For every R1 the employee contributes to the pension fund, the employer contributes R1,50. UIF contributions are on a rand for rand basis.
- The statement received from the bank on 1 July showed the following had been debited to the account: service fees R315, deposit book R45. The account had been credited with interest of R92.
- Kojak sells goods on a 10% commission basis on behalf of J Bond. Sales this year totalled R600 000.
- Insurance has been paid for 14 months. The premium remained unchanged.
- The tenant pays R5 000 a month.

KOJAK TRADERS LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2014

Sales	1 816 200
Cost of sales	1 135 125
Gross profit	
Other operating income	
Operating expenses	
Audit fees	11 500
Directors' fees	44 000
Rates, maintenance and repairs on property	40 738
Sundry operating expenses	56 610
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	(22 500)
Profit before tax	
Income tax (30% of net profit)	
Net profit for the year	



NETHERFIELD LIMITED

STATEMENT OF CASH FLOWS FOR YEAR ENDED 28 FEBRUARY 2015 (17)

	NOTE	
Cash effects of operating activities		
Cash effects of investing activities		
Cash effects of financing activities		

EXTRACT FROM AUDIT REPORT:

Audit opinion - To the shareholders

We have audited the annual financial statements of Netherfield Limited, as set out on pages 6 to 12, which comprise the Statement of Financial Position at 28 February 2015, the Statement of Comprehensive Income and Statement of Cash Flows for the year and the notes.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the company at 28 February 2015 and its financial performance and cash flows for the year ended, in accordance with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act in South Africa.

Bennet & Bingley
Chartered Accountants (SA)
Registered Accountants and Auditors

14 July 2015
Cape Town

ANSWER THE FOLLOWING QUESTIONS:

1. Would the shareholders be satisfied with this audit report? Give a reason for your answer. (3)

2. Explain why the auditors stipulate the page numbers 6 to 12 in this report. (2)

3. The auditor's report refers to the International Financial Reporting Standards (IFRS). Explain why auditors have to take IFRS into account when expressing their opinion. (2)

4. Explain TWO major consequences for Bennet and Bingley should they be negligent in performing their duties. (4)

5. The Companies Act of 2008 gives a company the right to buy back its shares from shareholders provided that it is solvent and liquid at that time and remains so for the next year. Explain the difference between solvency and liquidity. (2)

6. Under what circumstance can a company apply for 'business rescue'? Give two reasons why this would be an advantage to the company. (5)

6 RECONCILIATIONS

QUESTION 55 – TICK THE COLUMN (9 marks; 5 minutes)

Tick the column to indicate the effect the following errors will have on the Control account and/or the List of Balances taken from the Subsidiary Ledgers. (½ per error)

ERROR		CONTROL ACCOUNT		LIST OF BALANCES	
		wrong	no effect	wrong	no effect
1.	Entry left out of Subsidiary Journal				
2.	Wrong amount in Subsidiary Journal				
3.	Entry in wrong Subsidiary Journal				
4.	Subsidiary Journal added up wrongly				
5.	Entry posted to wrong person's account				
6.	Entry posted to wrong side of right person's account				
7.	Person's balance added up wrongly				
8.	Posting to control account incorrect				
9.	Control account added up incorrectly				

CREDITORS' RECONCILIATION

QUESTION 56 – INTERPRETATION OF CREDITORS' CONTROL ACCOUNT (23 marks; 13 minutes)

Study the ledger account given below and then answer the questions.

GENERAL LEDGER OF OUTA SPACE SUPPLIERS CREDITORS' CONTROL

Mar 31	Bank and discount received	CPJ	183 500	Mar 1	Balance	b/d	212 000
	[B]	CAJ	11 800	31	[A]	CJ	150 000
	Journal debits	GJ	200		[C]	GJ	3 000
	Balance	c/d	170 000		Bank	[D]	500
			365 500				365 500
				Apr 1	Balance	b/d	170 000

QUESTIONS TO BE ANSWERED:

1. In which section of the ledger will you find this account? Why? (2)

2. Provide the contra account details for the entry of R150 000 (A) and the source document which supports this entry. (2)

3. Give TWO examples of items which could be included in (A). (2)

4. Provide the contra account details for the entry (B) and the source document which will support the entry. (2)

5. Give TWO examples of transactions which could be included in (B). (2)

6. What document will the creditor send the business if he agrees to Question no. 5? (1)

7. Provide the contra details for the entry (C) and the source document which will support the entry. (2)

8. Give ONE possible reason for this entry of R3 000. (1)

9. Provide the folio reference at (D). (1)
.....
10. Give a possible reason for this entry of R500. (D) (1)

11. How will the accountant check the closing balance of R170 000 internally? (2)

12. It is most important that the accountant does something else to check each individual creditor's balance. What is this and why is it an excellent idea? (5)

**QUESTION 85 – PRODUCTION COST STATEMENT
& CALCULATIONS** (75 marks; 45 minutes)

SHINY SHOES LIMITED

This private company owned by Solly Skoenwaks makes high class shiny shoes for men. The following information was taken from the books at the end of the 2015 financial year.

STOCK BALANCES: beginning and end – these have been entered.

FACTORY ACTIVITY

Number of factory workers employed to make the shoes	10 employees
Normal hours worked by each factory worker during the year	2 200 hours
Overtime hours worked by each factory worker during the year	100 hours
Wage rate (normal time)	R30 per hour
Wage rate (overtime)	R45 per hour
Contributions based on normal time: Pension 6% and UIF 1%.	

TRANSACTIONS FOR THE YEAR

Administration expenses	212 000
Advertising	195 000
Carriage on raw materials purchased paid by EFT	38 400
Commission on sales	5% of sales
Defective raw materials returned to suppliers	46 200
Electricity: factory: R78 400, office: R15 600, shop R15 600	109 600
Factory indirect materials purchased	44 400
Factory maintenance	52 640
Raw materials purchased for cash	240 000
Raw materials purchased on credit	766 040
Rent (to be allocated in proportion to floor area)	288 000
Salaries: factory foreman and cleaner (including all contributions)	101 760
office workers (including all contributions)	140 000
Sale of finished goods	3 825 600

ADDITIONAL INFORMATION

- Floor area – factory: 2 000 sq m; office: 500 sq m; sales: 500 sq m.
- Depreciation – factory machinery: R78 000; office equipment: R8 000
delivery vehicles: R85 020.
- Consumable stores stock (all factory indirect materials) on 31.12.2015, R4 400.

YOU ARE REQUIRED TO PREPARE THE FOLLOWING:

1. PRODUCTION COST STATEMENT FOR YEAR ENDED 31 DECEMBER 2015

	NOTE	(6)
Direct materials cost		
Direct labour cost		
Prime cost		
Factory overheads cost		
Total cost of production		
Work-in-process at beginning of year		90 800
Work-in-process at end of year		–
Cost of production of finished goods		

2. INCOME STATEMENT FOR YEAR ENDED 31 DECEMBER 2015 (6)

	NOTE	(6)
Sales		
Cost of sales		
Gross profit		
Administration cost	4.	
Selling and distribution cost	5.	
Net profit		

3. NOTES TO THE FINANCIAL STATEMENTS

1. Direct materials cost	(7)
Balance at beginning of year	38 640
Purchases	
Carriage on purchases	
Balance at end of year	(21 680)
2. Direct labour cost	(8)
Direct wages	
Pension fund contributions	
Unemployment fund contributions	

QUESTION 39

RADEBE AND SONS

- Carrying value: Cost - Accumulated depreciation
= R450 000 - 265 000 = **R185 000**
- Depreciation = R15 000 [d] for 6 months (from 1 January – 1 July) on vehicle costing R150 000 (15 000/150 000) = 10%.
Therefore the rate of depreciation must be **20% per year**.
- R150 000. It represents the cost of the asset to be sold.
- If depreciation for 1 year is R30 000 (20% × R150 000) and the accumulated depreciation A is R75 000, they must have had the vehicle for 2½ years, which means it was bought on **1 January 2013**. (30 000 × 2 + 15 000 = R75 000 which = 2½)
- It was traded-in because it says 'Creditors control'. (This account would be debited to reduce the amount Radebe and Sons owes them for the new vehicle.)
- Selling price - (cost price - accumulated depreciation) = profit.
80 500 - (150 000 - 75 000) = **profit of R5 500**
- Creditors control, because folio reference is CJ OR because we know it was traded-in. (No. 5)
- The rate of depreciation is 20% p.a. on cost which means it will take 5 years to write off the vehicles, i.e. their life span is 5 years. (Cost 100% / 20%)
- Depreciation: old: (450 000 - 150 000 sold) 300 000 × 20% = 60 000
new: 250 000 × 20% × 6/12 (½) = 25 000 = **R85 000**
- Cost = 450 000 (old) + 250 000 (new) - 150 000 (sold) = 550 000
Accumulated depreciation = 265 000 + 15 000 d - 75 000 A
+ 85 000 [9] = 290 000
Carrying value = **R260 000**
- Statement of Comprehensive Income: Depreciation:
Sold R15 000 [3] + Old R60 000 + New R25 000 [9] = **R100 000**

QUESTION 40

BAFANA TRANSPORT

- The carrying value / book value / diminishing balance method✓
(because depreciation gets smaller every year)
- 31 October 2014✓ (date of last depreciation entry)
- 2 years and 8 months.✓✓ (1 March 2012 – 31 October 2014)
- Use the carrying value according to the Asset Register.✓✓
 - Inspect the condition of the bus (the body, the engine, the tyres, etc.) and adjust the carrying value up if in excellent condition or down if not.✓✓ OR
Phone the insurance company and ask them to quote the book value according to the Auto Dealers Digest. OR
Ask a dealer what price they would give for the bus.
- They may get a better price for it than a dealer would offer on a trade-in✓✓ OR
They do not want to buy a new one so they cannot trade it in.
- Trade-in means sell the bus to a dealer and buy a new bus from the same dealer at the same time.✓✓
- R1 000 000✓ - R1 031 250✓ = loss of R31 250.✓



QUESTION 41

PIRATES PRODUCTS

- Selling price - Carrying value = 120 000✓ - 150 000✓ = **Loss of R30 000✓**
- Cost at end of year = Carrying value at end of year + Accumulated depreciation
= 155 000✓ + 105 000✓ = **R260 000✓**
Cost of additions during year = cost at end - cost at beginning
= 260 000 - 200 000✓ = **R60 000✓**
- Accumulated depreciation at end - accumulated depreciation at beginning
= 105 000✓ - 80 000✓ = **R25 000✓**
- Depreciation on 'old' equipment is 200 000 × 0,1 = R20 000✓
Total depreciation is R25 000 therefore depreciation on new equipment is R5 000.✓
The new equipment cost R60 000 and 10% × 60 000 is R6 000 p.a. = R500 per month.✓ Pirates Products has had the new equipment for 10 months✓ (5 000/500)
They bought it on **28 February 2015 or 1 March 2015**.✓

5 INVENTORY SYSTEMS

QUESTION 46

1. True 2. False 3. True 4. True 5. False
 6. False 7. True 8. True 9. False 10. False
 11. True

QUESTION 47

BASIL'S CANDLES

- FIFO (first in first out) and weighted average ✓
 - Weighted average ✓ because he does not need to worry about the actual cost price ✓ of the unsold candles. He will just use the average of all the cost prices. ✓
3. $125 \text{ candles @ R2} = \text{R } 250 \checkmark \checkmark$
 $100 \text{ @ R2,50} = \text{R } 250 \checkmark \checkmark$
 $200 (80 + 120) \text{ @ R2,60} = \text{R } 520 \checkmark \checkmark$
 425 candles ✓ cost **R1 020** ✓
 Therefore 1 candle cost **R2,40** ✓ ✓ $(1\ 020/425)$
4. Sale of 375 candles R1 602 ✓ - Cost of 375 candles R900 ✓ $(375 \times 2,40)$
 Profit for month **R702** ✓



QUESTION 48

LINDA'S LITTLE NOVELTY SHOP

- | | | | |
|----------------------------|---|------------------|--|
| Opening stock | 2 000 × R6,10 | 12 200 (given) | |
| Purchases: | 10 000 × R6,40 | 64 000 ✓ | |
| | 12 000 × R6,90 | 82 800 ✓ | |
| | <u>22 500 × R7,40</u> | <u>166 500 ✓</u> | |
| | <u>46 500</u> items available for sale cost | | <u>R325 500</u> <input checked="" type="checkbox"/> |
| Average cost of 1 novelty: | $325\ 500 \div 46\ 500$ | = | R7 <input checked="" type="checkbox"/> |
- Value of closing stock: $1\ 800 \checkmark [5] \times 7 = \text{R}12\ 600 \checkmark$
- | | | | |
|--------------|---|---|---|
| Gross profit | = Sales - Cost of sales | | |
| | = $615\ 680 \checkmark - \text{R}312\ 900 (325\ 500 \checkmark - 12\ 600 \checkmark)$ | = | R302 780 <input checked="" type="checkbox"/> |
- | | | | |
|--------------------|--|---|----------------|
| Gross profit × 100 | = $\frac{302\ 780 \checkmark \times 100}{312\ 900 \checkmark}$ | | |
| Cost of sales | | = | 96,8% ✓ |

5. The closing stock should have been:

$$\begin{array}{r r r r r r r r} \text{Opening stock} & + & \text{Purchases} & - & \text{Closing stock} & = & \text{Sales} & \\ 2\ 000 & + & 44\ 500 & - & 1\ 800 & = & 44\ 700 \checkmark \checkmark & \end{array}$$

She only sold 44 100 novelties [6].

$$44\ 700 - 44\ 100 \checkmark = \text{600 items stolen} \checkmark$$

200 were stolen in March. ✓ ✓

2 000 units of opening stock were sold in January. The 10 000 units bought in February were sold in February (6 800) and early March (3 200). Of the 12 000 units bought in March only 7 800 + 4 000 = 11 800 were sold.

400 were stolen in May/June. ✓ ✓

Of the 22 500 units bought in May only 11 800 were sold in May and 8 500 in June and 1 800 were not sold, i.e. 22 100 units.

Debit Donations ✓	700	
Credit Purchases ✓ (because she is using periodic stock method)		700
Novelties donated to a local children's home ✓		

- The net profit will still be R125 000 ✓ as the gross profit would increase by R700 ✓ (purchases smaller), but the net profit would decrease by R700 because of extra donation expense. ✓
- Yes, ✓ because the closing stock would have a higher value which means cost of sales would be less. ✓
 The 1 800 items would have been valued at R7,40 = R13 320 making cost of sales less by R720 (13 320 - 12 600) and the gross profit bigger by R720. ✓
(The difference seems insignificant here, but the figures used are very small. In real life they may be in the millions.)
- No. ✓
 - The closing stock this year becomes the opening stock of next year. If the opening stock is R720 more, the cost of sales will be R720 more and the profit R720 less.
 There would be no difference to the overall profit over a period of time. ✓ ✓
 - A business must be consistent in the methods it uses so that its results are comparable. ✓ ✓
- The periodic stock method does not update the stock records/account and the only way the business knows how much stock it has is by taking stock (counting it). It cannot determine any stock shortages as it does not know how much stock it ought to have. ✓ ✓

 The perpetual system constantly updates the stock account and so the business always knows how much stock it *should have* on hand. Therefore it can, at any time, determine how much stock has been stolen by comparing the actual stock on hand with the balance on Trading stock account. ✓ ✓

QUESTION 58

SPACECRAFT STORES

- The purpose of a Creditors' Reconciliation Statement is to check that the books of the business agree with the records of the creditor, ✓ i.e. no mistakes have been made and no fraud has taken place. ✓
- The internal auditor will want to ensure that there are no errors in the books ✓ so that the correct payment is made to creditors to maintain a good credit rating. ✓
- A creditor's account will have a debit balance if Spacecraft Stores returned goods to the creditor for which they had already paid. ✓✓ *OR*
Spacecraft Stores paid a creditor's account forgetting to deduct the amount of the D/N for goods returned. *OR*
They overpaid the creditor by mistake.
- ERRORS**
 - An adding mistake was made in the Creditors' Control account. ✓
Either the debit side was too small by R16 450 or the credit side was too big by R16 450. ✓
 - A creditor with a debit balance of R3 500 ✓ was left off the list. ✓
 - An invoice for goods bought, R22 150, was posted to the wrong creditor's account. ✓ The error is now corrected by debiting that creditor and crediting the correct creditor's account. ✓
 - An invoice received for goods bought on credit for R21 500 was left out of the Creditors' Journal ✓ and therefore not posted to the control account or the personal account in the Creditors' Ledger. ✓
 - A debit note for goods returned was entered as the wrong amount (too little) in the Creditors' Allowances Journal ✓ e.g. R4 500 instead of R5 400 making the balances in both the creditors' account and the control account R900 too big. ✓ *OR*
A payment to a creditor was entered as the wrong amount (too little) in the Cash Payments Journal e.g. R8 900 instead of R9 800 making both the creditor's account and the control account balances too big. *OR*
An invoice for goods bought was entered as too much in the Creditors' Journal e.g. R9 000 instead of R8 100 making both the creditor's account and the control account balances too big. *OR*
A debit note for R900 for goods returned was not entered in the Creditors' Allowances Journal and therefore not posted to the control account or the personal account. Both balances will be too big.

- Audit evidence can be collected by:
 - checking the entries made to the creditors' accounts and comparing these accounts with the statements received from creditors, i.e. **documentation** ✓✓
 - discussing the procedure used to control creditors with the people responsible for doing the work to ensure that they are following this procedure, i.e. **interview**
OR 'redoing' the work as though it had not been done before.
- I do not agree with Ally. ✓
The business is in overdraft. ✓ (*see opening paragraph*) The interest charged by the bank is much higher ✓ than the 5% discount she can earn by paying creditors promptly. ✓

QUESTION 59

SATELLITE SUPERSTORES

- The total of the List of Creditors' balances should be the same as the balance on the Creditors' Control account because the information in both is identical. ✓
The creditor's account in the Creditors' Ledger shows the individual entries affecting that creditor. ✓
The control account shows the totals of the information posted to all the creditors' personal accounts. ✓

2.	Creditors' Control account balance given	50 112	
	Creditors' Allowances Journal overcast [A]	2 000	✓✓
	Invoice not recorded [C] (2 520 + 200)	2 720	✓✓
	Refund received not entered [D]	450	✓✓
	Interest not entered [E]	150	✓✓
	Debit balance transferred from Debtors' Ledger [G]	(500)	✓✓
	New computer bought on credit [H]	12 500	✓✓
	Trade-in of old computer (7 500 cost - 4 000 acc dep - 1 500 loss)	(2 000)	✓✓
		65 432	✓

3.	Total of Creditors' List given	54 584	
	C/N posted to wrong side [B] (1 200 × 2)	(2 400)	✓✓
	Invoice not recorded [C]	2 720	✓✓
	Refund received not entered [D]	450	✓✓
	Interest not entered [E]	150	✓✓
	Invoice for R208 posted as R280 [F] (280 - 208)	(72)	✓✓
	Debit balance transferred from Debtors' Ledger [G]	(500)	✓✓
	Amount owing to creditor (12 500 - 2 000 trade-in value) [H]	10 500	✓✓
		65 432	✓

7. VAT is a fair tax. ✓ Everyone has to pay it at the same rate. ✓ It is not possible to evade it as it is included in the price. ✓
As many healthy and essential foodstuffs are zero-rated, poor people can buy fresh, unprocessed foods e.g. fruit, vegetables, eggs, etc. without paying VAT. ✓✓

QUESTION 77

OCTOPUSSY CARS LIMITED

- 1.1 C✓✓ Sales VAT were R730 500 of which R170 450 were for cash. Credit sales to debtors are 730 500 - 170 450 = R560 050.
- 1.2 C✓✓ The August sales are ± R5 million so we can assume that R30 million is possible for a year = it pays VAT monthly
- 1.3 B✓✓ 730 500 - 37 500 returns
- 1.4 D✓✓ 7 500 + 180 000 + 150 000 - 18 750 + 56 250
- 1.5 B✓✓
2. The person having access to Internet banking must be given a special password to access the computer ✓ and special passwords/numbers to access the business' account at SARS. ✓ This should be known only by him/her and a very senior person (owner?) in authority. ✓
The log on should be done with this person in attendance. ✓
3. Octopussy is a registered VAT vendor. ✓
It is also a company (name says Limited) so it has to pay income tax. ✓

Sally Stassen is a sole proprietor who pays personal tax on profits which means that the business is not registered for income tax. ✓

She also does not have an annual turnover of more than R1 million per year so she does not have to register for VAT. ✓



8 COST ACCOUNTING

QUESTION 78

A 12	B 11	C 8	D 14	E 16
F 18	G 13	H 15	I 4	J 1
K 5	L 9	M 3	N 17	O 2
P 6	Q 7	R 10		

QUESTION 79

- 1.1 B✓✓ 1.2 C✓✓ 1.3 C✓✓

QUESTION 80

FABULOUS FOOTWEAR

PRODUCTION COST STATEMENT FOR YEAR ENDED 31 DECEMBER 2015

	NOTE	
Direct materials cost	1.	3 260 000 ✓
Direct labour cost	2.	1 580 000 ✓
Prime cost		4 840 000 ✓
Factory overheads cost	3.	2 409 800 ✓
Total cost of production		7 249 800 ✓
Work-in-process (progress) at beginning of year		228 000 ✓
		7 477 800 ✓
Work-in-process (progress) at end of year		(377 800) ✓
Cost of production of finished goods		7 100 000 ✓

NOTES TO STATEMENT OF PRODUCTION COST

1. Direct (raw) materials cost		
Balance at beginning of year		354 100 ✓
Purchases (net) (1 660 000 ✓ + 1 345 000 ✓ - 122 500 ✓)		2 882 500 ✓
Carriage on purchases		140 900 ✓
		3 377 500 ✓
Balance at end of year		(117 500) ✓
		3 260 000 ✓
2. Direct labour cost		
Direct wages		1 485 200 ✓
UIF contributions		14 852 ✓
Pension fund contributions		79 948 ✓
		1 580 000 ✓