



**Western Cape
Government**

Education

Directorate: Curriculum FET

TELEMATICS 2016

ACCOUNTING

Grade 12

Dear Grade 12 Accounting learner

Welcome to the Telematics project. This programme will support your revision and study programme in preparation for your final Grade 12 Accounting examination. This is an opportunity for you to consolidate what you have been taught in class. Please make use of this opportunity by attending each session. The presenters will not necessarily address all the content areas – they will however focus on important aspects within the different topics in order to improve your understanding thereof.

In order to succeed in Accounting you need to take heed of the following:

- Start working from day 1
- Pay careful attention in class to ensure that you understand
- Complete Accounting homework/exercises daily PRACTICE...PRACTICE...PRACTICE
- Work neatly and accurately
- Show calculations in brackets
- Read instructions to questions/activities carefully to ensure you know what is being asked
- Complete tasks and assessment activities including tests diligently as if preparing for your final examination
- Use past examination papers and tests for revision
- Refine your examination technique: when you revise, choose questions that will extend you in your weaker areas. Use the time allocations provided in the question to judge whether you are completing the question in the time available. All the best with your Grade 12 school year.

Dr Glynis Schreuder
Senior Curriculum Planner: Accounting

ACCOUNTING TIME TABLE – GRADE 12

Date	Topic	This lesson will deal with:
Tuesday 9 February 16:00 – 17:00	Companies	Important content and skills related to Companies <ul style="list-style-type: none"> ▪ Transactions unique to companies ▪ Preparation of final accounts, financial statements and notes
Thursday 3 March 16:00 – 17:00	Companies	Important content and skills related to Companies <ul style="list-style-type: none"> ▪ Analysis and interpretation of financial statements ▪ Audit reports
Tuesday 12 April 16:00 – 17:00	Reconciliations	Important content and skills related to Reconciliations <ul style="list-style-type: none"> ▪ Bank Reconciliation ▪ Debtors Reconciliation and Age Analysis ▪ Creditors Reconciliation
Tuesday 17 May 16:00 – 17:00	Inventories	Important content and skills related to Inventories <ul style="list-style-type: none"> ▪ Perpetual and Periodic Inventory Systems ▪ Inventory valuation using FIFO, weighted average and specific identification methods
Tuesday 23 August 16:00 – 17:00	Manufacturing	Important content and skills related to Manufacturing <ul style="list-style-type: none"> ▪ Production Cost Statement ▪ Breakeven point ▪ Unit costs

TELEMATICS TEACHING 2016**OVERVIEW OF COMPANIES**

		You must be able to:	Important things to remember:
A	Transactions unique to companies <ul style="list-style-type: none"> ▪ Issuing of shares at issue price ▪ Buying back of shares ▪ Income tax ▪ Dividends ▪ Directors fees ▪ Audit fees 	<ul style="list-style-type: none"> ▪ Record transactions in the journals ▪ Prepare general ledger accounts ▪ Use the information when preparing the financial statements 	<ul style="list-style-type: none"> ▪ Know how to calculate average share price
	Other transactions <ul style="list-style-type: none"> ▪ Purchase of fixed assets ▪ Disposal of fixed assets 	<ul style="list-style-type: none"> ▪ Calculate and record depreciation ▪ Prepare Asset disposal account ▪ Prepare Fixed Asset Note ▪ Record appropriately in Cash Flow Statement 	<ul style="list-style-type: none"> ▪ Know format of Fixed Asset Note ▪ Know Asset disposal account
B	Preparation of final accounts and financial statements <ul style="list-style-type: none"> ▪ Appropriation account ▪ Income Statement ▪ Balance Sheet with Notes ▪ Cash Flow Statement 	<ul style="list-style-type: none"> ▪ Prepare an Appropriation account ▪ Prepare an Income Statement taking adjustments into account ▪ Prepare a Balance Sheet ▪ Prepare Notes to the Balance Sheet (Fixed Assets, Trade and other receivables, Ordinary share capital, Retained income, Trade and other payables) 	<ul style="list-style-type: none"> ▪ Know the formats ▪ Show all your workings
C	Analysis and interpretation of financial statements	<ul style="list-style-type: none"> ▪ Calculate financial indicators ▪ Analyse and interpret financial indicators <ul style="list-style-type: none"> ○ Compare financial indicators over two years ○ Compare financial indicators of two companies. 	<ul style="list-style-type: none"> ▪ Understand which financial indicators are used when interpreting which aspect ▪ When interpreting financial indicators remember to mention the financial indicator; quote the actual figures/percentage /ratio for both years / both companies (depending on the question); and to give an explanation.

		You must be able to:	Important things to remember:
D	Audit reports	Analyse audit reports	<ul style="list-style-type: none"> ▪ Understand the different audit reports (unqualified, qualified, disclaimer) ▪ Understand the difference between an internal auditor and an independent auditor

ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

Questions asked by users of financial statements		Category	Financial indicators	How to calculate
1	Is the company efficient in its normal operating activities?	Profitability	Mark-up % / % Gross profit on cost of sales	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
			% Gross profit on sales	
			% Operating expenses on sales	
			% Operating profit on sales	
			% Net profit after tax on sales	
2	Can the company pay off all its debts comfortably?	Solvency	Solvency ratio	

Questions asked by users of financial statements		Category	Financial indicators	How to calculate
3	Can the company pay of its immediate debts comfortably?	Liquidity	Current ratio	
			Acid test ratio	
			Stock turnover rate	
			Stock holding period	
			Debtors' average collection period	
			Creditors' average payment period	
4	Are the shareholders earning a fair amount in relation to their investment?	Return	% Return on shareholders' equity	
			Earnings per share	
			Dividends per share	
			Net asset value per share	
5	To what extent is the company financed by loans in comparison to capital?	Financial risk / gearing	Debt-equity ratio	
			% Return on total capital employed	

Activity 1 Income Statement; Retained Income Note

You are provided with the Pre-adjustment Trial Balance of Moza Limited for the year ended 30 June 2015.

REQUIRED:

- 1.1 Complete the Income Statement for the year ended 30 June 2015. Show all workings in brackets.
- 1.2 Prepare the Retained Income Note

INFORMATION:**MOZA LTD****PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 JUNE 2015**

	DEBIT	CREDIT
Balance Sheet Accounts Section		
Ordinary share capital		6 750 000
Retained income (1 July 2014)		1 642 700
Land and buildings	5 068 800	
Equipment	1 478 400	
Vehicles	1 953 600	
Accumulated depreciation on equipment		818 000
Accumulated depreciation on vehicles		707 400
Mortgage loan: Freedom Bank		1 930 800
Trading stock	2 292 000	
Fixed deposit: Bold Bank (8% p.a.)	1 180 000	
Bank	751 400	
Petty cash	6 000	
Debtors' control	950 400	
Creditors' control		1 169 400
SARS (income tax)	628 200	
Provision for bad debts		43 200
Nominal Accounts Section		
Sales		25 200 000
Debtors' allowances	348 400	
Cost of sales	17 928 800	
Rent income		555 680
Interest income (on fixed deposit)		63 900
Bad debts recovered		5 520
Marketing expenses	1 152 000	
Directors' fees	2 016 000	
Audit fees	177 000	
Salaries and wages	2 155 860	
Packing material	55 400	
Sundry expenses	153 040	
Bad debts	28 800	
Ordinary share dividends (interim)	562 500	
	38 886 600	38 886 600

ADJUSTMENTS AND ADDITIONAL INFORMATION:

- A. The authorised share capital comprises 750 000 ordinary shares.

There were 500 000 shares in issue at the beginning of the financial year. A further 125 000 new ordinary shares were issued on 15 July 2014 at 1 450 cents each. These shares have been properly recorded.

40 000 shares were repurchased from a disgruntled shareholder on 26 June 2015 at 1 840 cents. This entry has not yet been recorded.

- B. A physical stock-taking on 30 June 2015 revealed the following inventories on hand:
- Trading stock R2 164 800
 - Packing material R10 200
- C. Make provision for outstanding interest on the fixed deposit. This investment has been in existence for the entire year. Interest is not capitalised.
- D. A debtor who owes us R76 800 has been declared insolvent. His estate paid 60 cents in every rand and this has been correctly recorded. The remaining balance must be written off as irrecoverable.
- E. Provision for bad debts must be adjusted to 5% of debtors.
- F. The loan statement received from Freedom Bank on 30 June 2015 reflected the following:

	R
Balance at the beginning of the financial year	2 700 000
Repayments during the year	1 099 200
Interest capitalised	?
Balance at end of the financial year	1 930 800

- G. Make provision for depreciation as follows:
- Equipment at 10% p.a. on the diminishing balance method.
 - Vehicles at 15% p.a. on cost price
- NB: A new vehicle was purchased on 1 April 2015 for R600 000. This has been properly recorded.
- H. Rent has been received for 14 months. The rent was increased by 10% on 1 October 2014.
- I. Dividends of 65 cents per share were declared on 30 June 2015. These have not yet been paid or recorded.
- J. Income tax for the year, R360 256

Activity 2 Concepts, Balance Sheet, Notes to Balance Sheet

- 2.1 Choose a description from COLUMN B that matches a term/concept in COLUMN A. Write only the letter (A–E) next to the question number (2.1.1–2.1.5) in the ANSWER BOOK.

COLUMN A		COLUMN B	
2.1.1	Companies and Intellectual Property Commission	A	guidelines for the preparation of financial statements to ensure consistency
2.1.2	Director	B	responsible for maintaining records and control of new and existing companies
2.1.3	IFRS	C	the business is responsible for its own debts and the liability of owners is limited to the amounts they invested
2.1.4	Limited liability	D	responsible for expressing an opinion on the financial statements of a company
2.1.5	Independent auditor	E	an elected member of the board responsible for running the business and implementing policy

- 2.2 Wholesale Traders Ltd is a public company listed on the JSE. The business has an authorised share capital of 1 000 000 ordinary shares.

REQUIRED:

- 2.2.1 Prepare the following notes to the Balance Sheet:
- Ordinary share capital
 - Retained income
 - Trade and other receivables
- 2.2.2 Complete the Balance Sheet on 30 June 2015. Where notes are not required, show ALL workings in brackets to earn part marks.

INFORMATION:

A. Issued share capital comprised 850 000 ordinary shares on 1 July 2014.

B. The following was extracted from the books on 30 June 2015:

Fixed/Tangible assets (carrying value)	?
Fixed deposit: Swan Bank	120 000
Ordinary share capital (850 000 shares)	5 737 500
Retained income (1 July 2014)	181 900
Bank	351 200
Loan: Drake Bank	295 000
Trading stock	355 700
Net trade debtors (after deducting provision for bad debts dated 1 July 2014)	118 370
Creditors' control	197 000
SARS: Income tax (provisional payments)	320 900
Dividends on ordinary shares (interim dividends)	315 000

C. On 1 October 2014 the business bought back 150 000 ordinary shares from certain shareholders. The bank entry has been made for the repurchase of shares but no other entries were made. Although the market price of the shares was R9,25, they accepted R7,40 for each share. These shareholders were not entitled to interim dividends.

D. The following adjustments have not yet been taken into account:

- Insurance included an annual policy of R29 832 paid for on 1 December 2014.
- The provision for bad debts must be increased by R6 100.
- Unused packing material was counted to be R9 500.
- A debtor with a credit balance of R11 700 is to be transferred to the Creditors' Ledger.
- The bank reconciliation reflected a post-dated cheque for R33 000 dated 31 August 2015.
- The statement received from Drake Bank in respect of the loan reflected interest capitalised of R31 200. Monthly repayments are R10 800 including interest. These repayments will end in 2018.
- On 30 June 2015, a final dividend of 40 cents per share was declared.

E. Net profit after tax, after taking into account the adjustments above, was calculated as R813 600. The income tax rate is 28% of net profit before tax.

Activity 3 Cash Flow Statement

- 3.1 What is the main purpose of a Cash Flow Statement?
- 3.2 Refer to the fixed asset note under **Information C**.
Calculate the missing amounts (indicated by **a**, **b**, **c** and **d**) in the Fixed/Tangible Asset Note for the year ended 31 October 2015.
- 3.3 Complete the Cash Flow Statement for the year ended 31 October 2015. Show ALL workings in brackets.
- 3.4 The directors issued more shares and sold fixed assets in order to improve the cash flow. A shareholder, Jean Smith, has criticised them for these decisions.

In each case:

- Provide a reason to support Jean's opinion.
- Other than improving the cash flow, provide a reason to support the directors' decision.

INFORMATION:

- A. The following information was extracted from the Income Statement for the year ended 31 October 2015:**

Interest on loan (all capitalised)	175 500
Income tax	375 000
Net profit after tax	975 000

- B. Information extracted from the Balance Sheet:**

	31 October 2015	31 October 2014
Current assets	4 804 000	2 820 000
Inventories	1 437 500	1 656 250
Trade and other receivables (see D)	1 075 000	956 250
Cash and cash equivalents	2 291 500	207 500
Ordinary shareholders' equity	4 450 000	4 000 000
Ordinary share capital (see F)	3 450 000	3 150 000
Retained income	1 000 000	850 000
Loan: Freeport Bank (12% p.a.)	2 000 000	1 375 000
Current liabilities	1 450 000	1 262 500
Trade and other payables (see E)	1 450 000	1 262 500

C. Fixed/Tangible assets:

	Land and buildings	Vehicles	Equipment
Carrying value at beginning of financial year	3 000 000	660 000	?
Cost	3 000 000	900 000	?
Accumulated depreciation	0	(240 000)	(52 500)
Movements			
Additions at cost	0	0	48 000
Disposals at carrying value	(a)	(c)	0
Depreciation	0	(b)	(55 500)
Carrying value at end of financial year	2 500 000	446 000	(d)
Cost	2 500 000	750 000	258 000
Accumulated depreciation	0	(304 000)	?

Additional information in respect of fixed assets:

- A vehicle was sold at its carrying value on the LAST day of the financial year. Depreciation is written off on vehicles at 20% p.a. on the diminishing-balance method.
- Land and buildings were sold at cost during the financial year.

D. Trade and other receivables include:	31 October 2015	31 October 2014
SARS: Income tax	R22 500	0

E. Trade and other payables include:	31 October 2015	31 October 2014
SARS: Income tax	0	R27 500
Shareholders for dividends	R450 000	R385 000

F. Details of ordinary share capital:

- Ordinary share capital at the beginning of the 2015 financial year consisted of 700 000 ordinary shares with a total value of R3 150 000.
- On 1 November 2014, 50 000 additional shares were issued at R6,00 each.
- There were no further changes to share capital.

G. The dividends (interim and final) for the financial year ended 31 October 2015 amounted to R825 000.

Activity 4 **Cash Flow Statement; Appropriation account; calculation and interpretation of financial indicators**

You are provided with information relating to Cobrah Ltd, a company listed on the JSE.

REQUIRED:

- 4.1 Use the information provided to prepare the following:
- The note for cash generated from operations
 - The Cash Flow Statement for the year ended 30 April 2015 (Where notes are not required show workings in brackets)
- 4.2 Prepare the Appropriation account.
- 4.3 Calculate the financial indicators denoted by (a) to (e).
- 4.4 Explain why the shareholders will or will not be satisfied with the dividends, earnings and returns earned. Quote appropriate financial indicators to support your answer.
- 4.5 Comment on the liquidity of the company. Quote and explain FOUR financial indicators to support your answer.
- 4.6 Comment on the financial gearing of the company. Explain and quote financial indicators to support your answer.

INFORMATION:

FINANCIAL INDICATORS

	2015	2014
Current ratio	1,1 : 1	1,6 : 1
Acid test ratio	(a)	0,7 : 1
Stock turnover rate	(b)	2,3 times
Debtors collection period	24 days	43 days
Creditors payment period	30 days	43 days
Debt-equity ratio	(c)	0,7 : 1
Net asset value per share	(d)	79 cents
Earnings per share	19,9 cents	12,5 cents
Dividends per share	21 cents	12 cents
Return on shareholders' equity	(e)	19,6%
Return on total capital employed	24,5%	17,1%
Interest rate on loans	14%	14%

COBRAH LTD
BALANCE SHEET ON 30 APRIL 2015

	2015	2014
ASSETS	2 237 500	1 714 400
Non-current assets		
Fixed assets	1 917 500	1 514 400
Investments	320 000	200 000
Current assets	854 300	999 600
Inventories (all stock)	575 000	650 000
Trade and other receivables (including SARS)	276 300	244 600
Cash and cash equivalents	3 000	105 000
TOTAL ASSETS	3 091 800	2 714 000
EQUITY AND LIABILITIES		
Shareholders' equity	1 564 800	1 286 000
Ordinary share capital (see info no. 4 below)	1 344 000	960 000
Retained income	220 800	326 000
Non-current liabilities	740 000	800 000
Mortgage loan: Bukha Bank	740 000	800 000
Current liabilities	787 000	628 000
Trade and other payables	372 000	404 000
Shareholders for dividends	273 000	224 000
Bank overdraft	142 000	
	3 091 800	2 714 000

ADDITIONAL INFORMATION

- The Income Statement for 2015 reflects the following:
 Sales, R3 500 000
 Cost of sales, R2 200 000
 Interest expense, R104 000 (all interest due has been paid)
 Depreciation R207 300
 Income tax, R151 200
 Net income after tax, R388 800
- Obsolete fixed assets were sold at book value during the year for R145 000
- For the past two years, the provisional tax payments exceeded the tax for the year. The amount owed by SARS is included in Trade & other receivables. SARS owed R11 600 on 30 April 2014, and R7 300 on 30 April 2015.

- Ordinary share capital:

1 600 000 shares in issue on 1 May 2014	R960 000
800 000 shares were issued on 1 November 2014	R576 000
300 000 shares were repurchased on 28 February 2015 at 95 cents per share	?

- An interim dividend of 8 cents per share was paid on 1 October 2014. A final dividend of 13 cents per share was declared on 30 April 2015.

OVERVIEW OF RECONCILIATIONS

		You must be able to:	Important things to remember:
A	Bank reconciliation	<ul style="list-style-type: none"> ▪ Calculate the correct Bank balance using the format required in the question ▪ Prepare the Bank Reconciliation Statement 	<ul style="list-style-type: none"> ▪ Reconciling the statement received from the bank with the CRJ and CPJ is an important part of internal control
B	Creditors reconciliation	<ul style="list-style-type: none"> ▪ Reconcile statement received from a creditor with their account in the Creditors' Ledger 	<ul style="list-style-type: none"> ▪ Reconciling the statement received from the creditor with the creditor's account in the Creditors Ledger is an important part of internal control
C	Debtors reconciliation and Debtors Age analysis	<ul style="list-style-type: none"> ▪ Reconcile Debtors List with Debtors Control account ▪ Analyse Debtors Age Analysis 	

Activity 5 Bank reconciliation

You are presented with information from the records of Protea Stationers for May 2015.

REQUIRED:

- 5.1 Show the entries that must be recorded in the Cash Journals by completing the table provided in the ANSWER BOOK. Totals are not required.
- 5.2 Prepare the Bank Reconciliation Statement on 31 May 2015.
- 5.3 As internal auditor you are not happy with the manner in which cash is being controlled in this business. Identify TWO problems and provide figures to support your answer. Give advice on how these problems can be avoided in future.

INFORMATION:

- A. Information from the Bank Reconciliation Statement on 30 April 2015:

Favourable balance as per Bank Statement		27 300
Outstanding deposits:	Dated 12 April 2015	16 000
	Dated 28 April 2015	21 500
Outstanding cheques:	No. 1010 (dated 10 November 2014)	2 000
	No. 1366 (dated 29 April 2015)	7 200
	No. 1590 (dated 18 May 2015)	12 600
Favourable balance as per Bank Account in the Ledger		43 000

- B.** A comparison of the May 2015 Bank Statement with the May 2015 Cash Journals revealed the following:
- Bank charges of R840 on the Bank Statement were not recorded in the Journals.
 - A dishonoured cheque for R6 800 appeared on the Bank Statement. This cheque was received from A Apple, a debtor, in settlement of his account of R7 250.
 - Interest of R860 credited on the Bank Statement was not recorded in the Journals.
 - Cheque No. 1654 issued to a creditor, Hatfield Stores, appeared correctly on the Bank Statement as R7 940. This was recorded as R9 740 in the Cash Payments Journal.
 - A debit order of R880 for the monthly insurance appeared twice on the Bank Statement, but no entry has been made in the Journals. The bank will rectify this on the Bank Statement next month.
- C.** Items that appeared in the April Bank Reconciliation Statement:
- Only cheque No. 1366 and the deposit of R21 500 appeared on the Bank Statement for May 2015.
 - Cheque No. 1010 was issued to the Union Tennis Club in payment of the owner's membership fees. The club no longer exists.
 - The outstanding deposit of R16 000 is in respect of cash received as commission. This did not appear on the Bank Statement. The cashier in charge of deposits stated that she was robbed on the way to the bank. The owner authorised that this amount be written off as the business will not be able to recover the money.
- D.** The May 2015 Cash Receipts Journal reflected the following outstanding deposits:
- R15 500 on 14 May 2015
 - R20 200 on 29 May 2015
- E.** Cheques from the May 2015 Cash Payments Journal not presented for payment:
- No. 1660 for R5 600 (dated 27 May 2015)
 - No. 1698 for R7 555 (dated 23 July 2015)
- F.** The Bank Statement on 31 May 2015 reflected a favourable balance of R9 175.

Activity 6 Debtors Reconciliation

Fine Traders sells glassware for cash and on credit. Although their credit terms are 60 days, they budget on the expectation that 80% of debtors will meet these terms.

REQUIRED: Study the information provided and answer the questions that follow.

- 6.1 Explain why the Debtors' Control Account should correspond with the Debtors' List.
- 6.2 Explain TWO processes the bookkeeper should follow if he/she discovers a difference between the Debtors' Control Account and the Debtors' List from the Debtors' Ledger.
- 6.3 Calculate the following:
- 6.3.1 The correct closing balance of the Debtors' Control Account on 31 March 2015
- 6.3.2 The correct amounts owing by the following debtors of Fine Traders:
- R Jansen
 - S Wonder
 - P Collins

- 6.4 At the end of February, the debtors' age analysis reflected the following:

TOTAL	CURRENT	30-60 DAYS	61-90 DAYS	MORE THAN 90 DAYS
R201 200	R35 300	R22 800	R78 000	R65 100

- 6.4.1 Is Fine Traders controlling their debtors effectively? Explain, quoting figures to support your answer.
- 6.4.2 Explain TWO measures a business can introduce to improve the collection of funds from debtors.

INFORMATION:

1. Balance of Debtors' Control Account on 31 March 2015, R200 000
2. Balances per Debtors' Ledger on 31 March 2015:

M Carey	R64 500
R Jansen	R41 200
S Wonder	R23 000
C Dion	R51 500
P Collins	R7 900
TOTAL	R188 100

3. The following errors and omissions were discovered and must be corrected:
- A. The Debtors' Journal has been overcast by R2 600.
- B. An invoice issued to S Wonder for R1 800 had not yet been recorded in the books of Fine Traders.
- C. Stock sold on credit to P Collins was incorrectly charged to the account of R Jansen, R8 300.
- D. An invoice issued to P Collins for R6 000 had been posted to the wrong side of his account.

- E. A cheque of R13 500, originally received from R Jansen in settlement of an invoice of R15 000, was returned by the bank due to insufficient funds. No entries have yet been made.
- F. Goods sold on credit to S Wonder for R5 800 were correctly recorded in the Debtors' Journal but incorrectly posted as R8 500 to S Wonder's account in the Debtors' Ledger.

Activity 7 Creditors Reconciliation

Comet Traders received a statement of account from a creditor, Meteor Suppliers. The balance on the statement did not agree with that on the account of Meteor Suppliers in the Creditors' Ledger of Comet Traders.

REQUIRED:

Complete the table in the ANSWER BOOK to show how the differences must be treated to reconcile the Creditors' Ledger Account balance with the statement balance.

Write the amounts in the appropriate columns and indicate the increase or decrease with a (+) or (-) with each amount.

Total the columns to show the correct balances at the end of March 2015.

INFORMATION:

Balance of Meteor Suppliers in Creditors' Ledger of Comet Traders	R10 705
Balance on the statement received from Meteor Suppliers	R19 120

A comparison between the Creditors' Ledger Account of Meteor Suppliers and the statement of account showed the following differences:

- A.** An invoice for R9 870 received from Meteor Suppliers was correctly recorded in the Creditors Ledger Account. The amount was incorrectly recorded as R8 790 on the statement.
- B.** Comet Traders entered a discount of R375 relating to a payment of R5 000 on 15 March 2015. Meteor Suppliers did not approve this discount stating that the payment was received late.
- C.** The statement of account reflected returns valued at R890. The Creditors' Ledger Account showed R690. It was established that Comet Traders miscalculated the value of the goods returned.
- D.** An invoice for R2 160 received from Meteor Suppliers was incorrectly recorded as a debit note in the Creditors' Ledger.
- E.** A direct transfer of R5 000 by Comet Traders was recorded in the Cash Payments Journal on 29 March 2015. The statement of account from Meteor Suppliers was dated 25 March 2015.

OVERVIEW OF INVENTORIES

		You must be able to:
A	Inventory systems	<ul style="list-style-type: none"> ▪ Know the differences between the Periodic Inventory System and the Perpetual Inventory System ▪ Know the MAIN difference between the two systems
B	Valuation methods	Valuate stock based on the following systems: <ul style="list-style-type: none"> ▪ First-In-First-Out (FIFO) ▪ Weighted average ▪ Specific Identification
C	Related financial indicators	Calculate and interpret financial indicators relating to inventories: <ul style="list-style-type: none"> ▪ Stock holding period ▪ Stock turnover rate ▪ Mark-up %

Activity 8 FIFO and weighted average

You are provided with information relating to Tennis Classics, a business which sells tennis rackets and tennis balls. Chris Wimbledon owns the business. The periodic inventory system is used.

REQUIRED:

- 8.1 Refer to Information A. Briefly explain why it is appropriate for Chris to use the FIFO method for tennis rackets, and the Weighted Average method for tennis balls.
- 8.2 Calculate the value of the closing stock for the two stock items. Show all workings using both the number of units and the value of the units.
 - Tennis rackets (use FIFO method)
 - Tennis balls (use weighted average method)
- 8.3 For tennis rackets, calculate the following:
 - Cost of sales
 - Gross profit
 - VAT charged to customer on tennis rackets sold
 - Mark-up %
 NB: You may draft a Trading account for tennis rackets to assist in identifying these figures.
- 8.4 Chris suspects that he is not controlling his stock well.
 - He suspects that the tennis rackets he is selling are not popular with his customers.
 - He suspects that tennis balls are being stolen.

Provide information from the question which will confirm his opinions. Provide an appropriate calculation in each case to support your answer.

- 8.5 Chris has asked you to become a partner in this business. Explain three strategies that you would want to implement in this business were you to become a partner (your strategies must be based on specific information from the question).

INFORMATION:**A. Inventory is valued according to the following methods:**

- Tennis rackets: First-in-first-out method (FIFO)
- Tennis balls: Weighted average method

B. Inventory valuations at the beginning and end of the accounting period:

	Tennis rackets			Tennis balls		
	No. of units	Per unit	Total value	No. of units	Per unit	Total value
01/03/2014	90	R600	R54 000	1 200	R7,20	R8 640
28/02/2015	205	?	?	550	?	?

C. Carriage, exchange rates and import duties:

C.1 Tennis rackets: These are made in South Africa. Transport costs are R35,00 per tennis racket. A total of R10 500 was paid for transporting the 300 tennis rackets purchased. Transport cost is included in the opening stock figure of R600.

C.2 Tennis balls: These are imported from the USA. Prices are quoted in US Dollars (\$). The exchange rate was R8,50 = \$1.00 throughout the year. Import duties are levied at 20% of the Rand value of the purchases. Transport costs are paid by the manufacturer. Import duties cost is included in the opening stock figure of R7,20.

D. Purchases during the year:

	Tennis rackets			Tennis balls		
	No. of units	Purchase price per unit	Total value in Rands	No. of units	Purchase price per unit in US Dollars (excluding import duties)	Total value in US Dollars
25/05/2014	75	R560	R42 000	3 000	\$0,75	\$2 250
25/08/2014	75	R600	R45 000	3 000	\$0,90	\$2 700
26/11/2014	75	R675	R50 625	3 000	\$0,90	\$2 700
25/01/2015	75	R675	R50 625	3 000	\$1,20	\$3 600
Totals	300		R188 250	12 000		\$11 250

E. Sales during the year (exclusive of VAT):

- **Tennis rackets:** 185 units at R900 each = R166 500
- **Tennis balls:** 10 500 units at R14,50 each = R152 250

Activity 9 **Specific identification**

You are provided with information relating to Wizard Art Gallery for September 2015. The business uses the perpetual inventory system and the specific identification method of valuing stock.

- 9.1 Calculate and fill in the missing figures in the stock summary sheet provided in your workbook.
- 9.2 Calculate the Gross profit for September 2015.

NOTE: ALL INFORMATION IS IN YOUR WORKBOOK

OVERVIEW OF MANUFACTURING

		You must be able to:	Important things to remember:
A	Costing concepts		Make sure you know the different cost concepts and categories
B	Production Cost Statement with Notes	<ul style="list-style-type: none"> ▪ Prepare the Production Cost Statement with Notes 	Know and understand the format of the Production Cost Statement
C	Unit Costs and Break-even point	<ul style="list-style-type: none"> ▪ Calculate unit costs ▪ Calculate Break-even point ▪ Calculate contribution per unit ▪ Analyse and interpret Break-even point and unit costs 	Know what the break-even point represents

Activity 10 Production cost statement with Notes**COOL CHAIR MANUFACTURERS**

You are provided with information relating to Cool Chairs Manufacturers for the year ended 29 February 2016.

The business makes and sells only one type of product, namely plastic chairs.

REQUIRED:

- 10.1 Prepare the following notes to the Production Cost Statement:
- Direct/Raw material cost
 - Direct labour cost
 - Factory overhead cost
- 10.2 Prepare the Production Cost Statement.
- 10.3 Calculate the unit cost of production per plastic chair completed.

INFORMATION:**A. Units produced:**

58 000 chairs were completed during the financial year.

B. Stock balances:

	1 March 2015	29 February 2016
Direct/Raw material stock	R57 900	R34 200
Work-in-process stock	169 500	120 600
Factory indirect material stock	8 100	7 400

C. Factory workers in the production process:

Number of factory employees working directly on the chairs (unchanged throughout the year)	12 employees
Number of normal hours worked by each factory worker during the year	1 600 hours
Number of overtime hours worked by each factory worker during the year	240 hours
Wage rate (normal)	R 60 per hour
Wage rate (overtime)	R100 per hour

D Floor space:

	Factory	Office	Sales dept.
Square metres	1 200 sq. metres	600 sq. metres	600 sq. metres

E. Water and electricity:

15% of the amount is allocated to the office and 25% to the sales department. The rest applies to the factory.
--

F. Transactions for the year:

	R
Raw material purchased for cash and on credit	1 622 700
Defective raw material returned to suppliers	23 100
Carriage on raw materials purchased	28 800
Salaries:	
• Factory foreman	241 000
• Office workers	270 000
Wages:	
• Office workers	48 000
• Factory workers in the production process (see Information C above)	?
UIF contributions (to be allocated to each specific cost account):	
• Factory workers in the production process	11 520
• Factory foreman	2 410
• Office workers	2 700
Factory indirect material purchased	125 900
Sales of finished goods (R120 per unit)	7 800 000
Commission to salespersons (10% of sales)	?
Advertising	145 000
Factory maintenance	85 000
Bad debts	8 400
Rent to be allocated in proportion to floor space (see Information D above)	133 000
Chairs stolen (rand value)	960
Water and electricity (see Information E above)	36 000
Depreciation on factory equipment	52 000
Sundry administration expenses	150 800
Sundry factory expenses	25 000

Activity 11 Break-even point and unit costs**CRAZY MANUFACTURERS:**

This business makes plastic tables.

The information below relates to the year ended 30 June 2015.

Number of tables produced	12 000
Sales for the year (all manufactured units were sold)	R480 000
Total fixed costs	R210 000
Total variable costs	R300 000

REQUIRED:

- 11.1 Give ONE example of a fixed cost and ONE example of a variable cost.
- 11.2 Explain why it is important to calculate the expected break-even point for a business before the start of a financial year.
- 11.3 Use the figures above to calculate the break-even point.
- 11.4 Comment on your calculation in QUESTION 11.3. What advice would you offer Crazy Manufacturers? Briefly explain.

FORMATS OF FINANCIAL STATEMENTS

..... LIMITED

INCOME STATEMENT FOR THE YEAR ENDED

	Note	R
Sales		
Cost of sales		
Gross profit		
Other operating income		
Fee income		
Operating expenses		
Operating profit (loss)		
Interest income	1	
Interest expense	2	
Profit (loss) before tax		
Income tax		
Net profit (loss) after tax	9	

..... **LIMITED**
BALANCE SHEET AT

	Note	R
ASSETS		
NON-CURRENT ASSETS		
Fixed / Tangible assets	3	
Financial assets		
CURRENT ASSETS		
Inventories	4	
Trade & other receivables	5	
Cash & cash equivalents	6	
TOTAL ASSETS		
EQUITY & LIABILITIES		
SHAREHOLDERS' EQUITY		
Ordinary share capital	7	
Retained income	8	
NON-CURRENT LIABILITIES		
Loan from		
Loan from		
CURRENT LIABILITIES		
Trade & other payables	9	
Bank overdraft		
Current portion of loan <i>(NB could be placed in Note 9)</i>		
TOTAL EQUITY & LIABILITIES		

..... LIMITED

NOTES TO THE FINANCIAL STATEMENTS AT

1 INTEREST INCOME

On fixed deposit	
On savings account	
On current bank account	
On overdue debtors	

2 INTEREST EXPENSE

On loan from	

3 FIXED ASSETS

	Land & buildings	Vehicles	Equipment	Total
Carrying value at beginning of year				
Cost				
Accumulated depreciation				
Movements				
Additions				
Disposals at carrying value				
Depreciation				
Carrying value at end of year				
Cost				
Accumulated depreciation				

4 INVENTORIES

Trading stock	
Consumable stores on hand	

5 TRADE & OTHER RECEIVABLES

Trade debtors	
Provision for bad debts	
Net trade debtors	
SARS (Income tax)	
Expenses prepaid	
Income accrued (receivable)	

6 CASH & CASH EQUIVALENTS

Fixed deposit (maturing within 12 months)	
Savings account	
Bank	
Cash float	
Petty cash	

7 ORDINARY SHARE CAPITAL**AUTHORISED**

Number of authorised ordinary shares: XXX ordinary shares	
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ISSUED

XXX ordinary shares in issue at beginning of year	
XXX additional shares issued during the financial year	
XXX ordinary shares repurchased (average price of RXXX)	
XXX ordinary shares in issue at end of the year	

8 RETAINED INCOME

Balance at beginning of year	
Net profit (loss) after tax for the year	
Shares repurchased	
Dividends on ordinary shares	
Paid	
Recommended	

Balance at end of year

9 TRADE & OTHER PAYABLES

Trade creditors	
Expenses accrued (payable)	
Income received in advance (deferred)	
Shareholders for dividends	
SA Revenue Services (Income tax)	
Creditors for salaries	
Unemployment Insurance Fund	
Pension Fund	
Medical Aid Fund	

..... LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED

	Note	R
Cash effects of operating activities		
Cash generated (utilised) from operations	1	
Interest paid		
Dividends paid	3	
Income tax paid	4	
Cash effects of investing activities		
Purchase of fixed assets	5	
Proceeds from sale of fixed assets		
Investments matured / placed		
Cash effects of financing activities		
Proceeds of shares issued		
Shares repurchased		
Long-term loans received / repaid		
Net change in cash & cash equivalents	2	
Cash & cash equivalents at beginning of year	2	
Cash & cash equivalents at end of year	2	

NOTES TO THE CASH FLOW STATEMENT FOR YEAR ENDED

1 RECONCILIATION BETWEEN NET PROFIT BEFORE TAX AND CASH GENERATED FROM OPERATIONS

Net profit before taxation	
Adjustments in respect of:	
Depreciation	
Interest expense	
Operating profit before changes in working capital	
Cash effects of changes in working capital	
Change in inventory	
Change in receivables	
Change in payables	
Cash generated from operations	

2 CASH & CASH EQUIVALENTS

	Net change	Year 2	Year 1
Bank			
Cash float			
Petty cash			

3 DIVIDENDS PAID

Dividends for year as reflected in financial statements	
Balance at beginning of year	
Balance at end of year	

4 INCOME TAX PAID

Income tax for year as reflected in financial statements	
Balance at beginning of year	
Balance at end of year	

5 FIXED ASSETS PURCHASED

Land & buildings	
Vehicles	
Equipment	

WORKINGS *FA at Net Book Value*

Start	
Add: Buy	
Less: Sell	
Less: Depr	
= End	