INSTRUCTIONS AND INFORMATION

1. This question paper consists of 6 compulsory questions.

2. Answer ALL the questions in the special answer book provided.

3. Where applicable, workings must be shown in order to achieve part-marks.

4. Non-programmable calculators may be used.

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

6. A breakdown of the questions is provided. You must attempt to comply with the suggested time allocation for each question.
Use the information given in the table below as a guide when answering the questions. To exercise good time management, try NOT to deviate from it.

<table>
<thead>
<tr>
<th>QUESTION 1: (45 marks ; 27 minutes)</th>
<th>Learning Outcomes covered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Topic of the question</strong></td>
<td>LO2 Managerial Accounting</td>
</tr>
<tr>
<td>Manufacturing Concerns</td>
<td>• Production Cost Statement and Breakeven analysis</td>
</tr>
<tr>
<td></td>
<td>LO3 Managing Resources</td>
</tr>
<tr>
<td></td>
<td>• Internal controls</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>QUESTION 2: (55 marks ; 33 minutes)</th>
<th>Learning Outcomes covered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Topic of the question</strong></td>
<td>LO2 Managerial Accounting</td>
</tr>
<tr>
<td>Budgets and Interpretation</td>
<td>• Preparing and analysing cash budget information.</td>
</tr>
<tr>
<td></td>
<td>LO1 Calculating and commenting of ratios</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>QUESTION 3: (65 marks ; 39 minutes)</th>
<th>Learning Outcomes covered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Topic of the question</strong></td>
<td>LO1 Financial Accounting</td>
</tr>
<tr>
<td>Companies – Financial Statements</td>
<td>• Basic concepts and financial statements.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>QUESTION 4: (60 marks ; 36 minutes)</th>
<th>Learning Outcomes covered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Topic of the question</strong></td>
<td>LO1 Financial Accounting</td>
</tr>
<tr>
<td>Companies – Cash Flow, Ratios and Interpretation.</td>
<td>• Preparing Cash Flow Statement</td>
</tr>
<tr>
<td></td>
<td>• Calculating and interpreting ratios and other financial indicators</td>
</tr>
<tr>
<td></td>
<td>LO3 Managing Resources</td>
</tr>
<tr>
<td></td>
<td>• Internal controls, ethics and corporate governance, auditing.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>QUESTION 5: (40 marks ; 24 minutes)</th>
<th>Learning Outcomes covered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Topic of the question</strong></td>
<td>LO1 Financial Accounting</td>
</tr>
<tr>
<td>Reconciliations and VAT</td>
<td>• Interpreting Bank and Debtors Reconciliation information</td>
</tr>
<tr>
<td></td>
<td>LO3 Managing Resources</td>
</tr>
<tr>
<td></td>
<td>• Internal Controls and Ethics</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>QUESTION 6: (35 marks ; 21 minutes)</th>
<th>Learning Outcomes covered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Topic of the question</strong></td>
<td>LO3 Managing Resources</td>
</tr>
<tr>
<td>Stock Valuation and Asset Management</td>
<td>• Inventory valuation systems</td>
</tr>
<tr>
<td></td>
<td>• Disposal and management of fixed assets</td>
</tr>
</tbody>
</table>
QUESTION 1

MANUFACTURING CONCERNS (45 marks; 27 minutes)

Web Manufacturers is a company that makes handbags. Their financial year ends on 31 December each year.

INSTRUCTIONS:

1.1 Calculate the missing amounts denoted by (a) to (e) on the Statement and Notes presented below. (15)

1.2 Using the additional information, complete the Note: Manufacturing Costs (Factory Overhead Costs) (8)

1.3 Calculate the unit cost of the finished goods produced. (3)

1.4 Calculate the Gross Profit for the year. (5)

1.5 Should the business be satisfied with:
   a) The total number of units produced this year? Substantiate. (3)
   b) The break-even number of units compared to that of last year? Explain. (3)

1.6 The internal auditor noticed that the overtime earnings represent a large percentage of total production wages. He requested that the production management investigate this matter.

   1.6.1 Briefly outline the role of an internal auditor. (2)

   1.6.2 List TWO problems that the business may be experiencing and suggest appropriate internal control measures that can be used to rectify the concern expressed by the internal auditor. (6)
INFORMATION:

1. PRODUCTION COST STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

<table>
<thead>
<tr>
<th>Description</th>
<th>Note</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Material Cost</td>
<td>1</td>
<td>359 320</td>
</tr>
<tr>
<td>Direct Labour Cost</td>
<td>(a)</td>
<td></td>
</tr>
<tr>
<td>PRIME COST</td>
<td>(b)</td>
<td></td>
</tr>
<tr>
<td>Manufacturing Costs (Factory Overheads)</td>
<td>2</td>
<td>178 544</td>
</tr>
<tr>
<td>TOTAL PRODUCTION COST</td>
<td>(c)</td>
<td></td>
</tr>
<tr>
<td>Work in process (1 January 2011)</td>
<td>(d)</td>
<td>32 500</td>
</tr>
<tr>
<td>COST OF PRODUCTION OF FINISHED GOODS</td>
<td></td>
<td>630 500</td>
</tr>
</tbody>
</table>

Note 1: Direct Material Cost

- Raw Material Stock (1 January 2011) | 32 500
- Purchases during the year           | 351 500
- Raw material Stock (31 December 2011) | (e)
- Material used in production         | 359 320

Note 2: Manufacturing Costs (Factory Overheads)

<table>
<thead>
<tr>
<th>Description</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect labour</td>
<td>42 500</td>
</tr>
<tr>
<td>Factory Indirect Material</td>
<td>*</td>
</tr>
<tr>
<td>Insurance</td>
<td>*</td>
</tr>
<tr>
<td>Water and Electricity</td>
<td>*</td>
</tr>
<tr>
<td>Depreciation of factory plant and machinery</td>
<td>25 000</td>
</tr>
<tr>
<td>Sundry Expenses</td>
<td>19 084</td>
</tr>
<tr>
<td></td>
<td>178 544</td>
</tr>
</tbody>
</table>

2. Production Wages:
   - Wages earned during normal time, R32 736
   - Overtime earnings: 156 hrs. recorded at R350 per hour

3. Stock Information:

<table>
<thead>
<tr>
<th>Description</th>
<th>31 DEC 2011</th>
<th>31 DEC 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished Goods Stock</td>
<td>82 960 3318 UNITS</td>
<td>67 680 2706 UNITS</td>
</tr>
<tr>
<td>Indirect factory material</td>
<td>3 250</td>
<td>2 260</td>
</tr>
</tbody>
</table>

4. Additional information:
   - Total purchases of indirect factory material – R48 190.
   - Total revenue from sales – R1 069 600.
   - Insurance expense amount to R19 600. 60% of this must be allocated to the factory.
   - Water and Electricity amounted to R52 800. This must be allocated to the factory, sales and administration departments in the ratio 5 : 2 : 1.
4.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of units produced</td>
<td>25 220</td>
<td>?</td>
</tr>
<tr>
<td>Break-even number of units</td>
<td>21 400</td>
<td>18 700</td>
</tr>
</tbody>
</table>

**QUESTION 2**

**CASH BUDGETS AND ANALYSIS**  
(55 marks; 31 minutes)

Freedom Traders is a small grocery store. Their profit percentage mark-up on cost is 30% and their products generally have a three-month shelf-life.

The assistant to the accountant prepared a three-month cash budget for the period ended 31 March 2012. There appear to be some errors in this budget.

**INSTRUCTIONS:**

2.1 Identify THREE items (on the budget given) that do not belong in a cash budget. *List them in the space provided.*

2.2 Complete the Creditors Payment Schedule for the three month period ending 31 March 2012.

2.3 Advertising appears in the projected income statement as follows:

<table>
<thead>
<tr>
<th>Advertising</th>
<th>JANUARY</th>
<th>FEBRUARY</th>
<th>MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 200</td>
<td>1 200</td>
<td>1 200</td>
</tr>
</tbody>
</table>

Explain why these amounts differ from the amount/s in the Cash Budget.

2.4 Calculate the following:

2.4.1 The mark-up percentage on cost achieved for the year ended 31 December 2011.

2.4.2 The amounts represented by (a), (b) and (c) on the budget.

2.4.3 The debtors average collection period for 2011 (in months).

2.4.4 Using the acid test ratio for 2011, calculate the Creditors balance on 31 December 2011.

2.5 Do you think that Freedom Traders is likely to experience liquidity problems? Motivate your answer by making reference to the liquidity ratios given.

2.6 Comment on the debtors’ collection and the creditors’ payment terms, and give a suggestion on how they could be managed more effectively.

2.7 The business plans to acquire a loan of R400 000 on March 2012. Explain why you think that this is either a wise decision, or not.
INFORMATION:

A  Information from the financial statements on 31 December 2011:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>2 466 000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>1 972 800</td>
</tr>
<tr>
<td>Trading Stock</td>
<td>657 600</td>
</tr>
<tr>
<td>Debtors Control (1 January 2011)</td>
<td>70 120</td>
</tr>
<tr>
<td>Debtors Control (31 December 2011)</td>
<td>94 280</td>
</tr>
</tbody>
</table>

B  Cash Budget for the period ending 31 March 2012

<table>
<thead>
<tr>
<th></th>
<th>JANUARY</th>
<th>FEBRUARY</th>
<th>MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH RECEIPTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Sales</td>
<td>400 000</td>
<td>380 000</td>
<td>390 000</td>
</tr>
<tr>
<td>Cash receipts from Debtors</td>
<td>35 000</td>
<td>36 000</td>
<td>34 000</td>
</tr>
<tr>
<td>Sundry cash income</td>
<td>4 000</td>
<td>5 000</td>
<td>3 000</td>
</tr>
<tr>
<td>Loan</td>
<td></td>
<td>400 000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL RECEIPTS</strong></td>
<td>439 000</td>
<td>421 000</td>
<td>827 000</td>
</tr>
</tbody>
</table>

|                        |         |          |       |
| **CASH PAYMENTS**      |         |          |       |
| Cost of Sales          | 320 000 | 310 000  | 312 000|
| Cash purchases of Trading Stock | 192 000 | 186 000  | 187 200|
| Discount Allowed       | 400     | 460      | 380   |
| Depreciation on vehicle| 700     | 700      | 700   |
| Wages                  | 18 000  | 18 000   | (a)   |
| Interest on loan       | -       | -        | 2 000 |
| Interest on overdraft  | 650     | 2 560    | 4 500 |
| Bad debts              | 1 200   | 1 400    | 1 800 |
| Advertising            |         | 2 400    |       |
| Sundry cash expenses   | 16 000  | 16 400   | (b)   |
| **TOTAL PAYMENTS**     | 548 950 | 537 920  | ?     |

|                        |         |          |
| **Surplus/Deficit**    | (109 950) | (116 920) |
| **Bank (Opening Balance)** | (40 000) | (149 950) |
| **Bank (Closing Balance)** | (149 950) | (266 870) |

C  10% of sales are on credit.

D  Employees are expected to receive a 6% increase in March 2012.

E  Sundry cash expenses are allocated a fixed percentage increase each month.

F  The following ratios were calculated for 2011:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>4 : 1</td>
</tr>
<tr>
<td>Acid Test Ratio</td>
<td>0,5 : 1</td>
</tr>
</tbody>
</table>

G  Freedom Traders maintains a fixed trading stock base.
The cost of sales for November 2011 and December 2011 were R316 000 and R360 000 respectively.

H  40% of all stock purchases are on credit.

I  Based on previous experience, it is expected that creditors will be paid as follows:

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Payment Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>in the month of purchase, subject to a 5% discount.</td>
</tr>
<tr>
<td>75%</td>
<td>in the month following the purchase</td>
</tr>
<tr>
<td>15%</td>
<td>in the second month after the purchase</td>
</tr>
</tbody>
</table>
QUESTION 3

COMPANIES – FINANCIAL STATEMENTS (65 marks; 39 minutes)

The following information was extracted from the records of KR Traders LTD for the financial year ended 29 February 2012.

The company is registered with an Authorised Share Capital of 150 000 ordinary shares of R5 each.

INSTRUCTIONS:

3.1 Prepare the Income Statement for the year ended 29 February 2012.
   *(Show working in brackets to achieve part-marks.)*
   
3.2 Complete the following notes to the financial statement:
   
   3.2.1 Retained Income
   
   3.2.2 Trade and Other Receivables
   
3.3 Calculate the earnings per share (EPS), and explain the usefulness of this financial indicator.

3.4 Comment on the financial gearing of this company. Use an appropriate ratio or financial indicator in your explanation.
INFORMATION:

A  Pre-adjustment balances and totals on 29 February 2012: (amongst others)

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary Share Capital</td>
<td>350 000</td>
</tr>
<tr>
<td>Share Premium</td>
<td>35 750</td>
</tr>
<tr>
<td>Retained Income</td>
<td>22 200</td>
</tr>
<tr>
<td>SARS – Income Tax</td>
<td>37 000</td>
</tr>
<tr>
<td>Equipment</td>
<td>60 000</td>
</tr>
<tr>
<td>Accumulated Depreciation on Equipment</td>
<td>27 400</td>
</tr>
<tr>
<td>Trading Stock</td>
<td>26 625</td>
</tr>
<tr>
<td>Debtors Control</td>
<td>17 245</td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>12 455</td>
</tr>
<tr>
<td>Creditors Control</td>
<td>22 188</td>
</tr>
<tr>
<td>Provision for bad Debts</td>
<td>833</td>
</tr>
<tr>
<td>Fixed Deposit (Protea Bank, 14% p.a. interest)</td>
<td>55 000</td>
</tr>
<tr>
<td>Loan: Union Bank</td>
<td>47 500</td>
</tr>
<tr>
<td>Sales</td>
<td>454 300</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>222 600</td>
</tr>
<tr>
<td>Debtors Allowances</td>
<td>2 700</td>
</tr>
<tr>
<td>Telephone</td>
<td>2 437</td>
</tr>
<tr>
<td>Audit fees</td>
<td>4 450</td>
</tr>
<tr>
<td>Bad debts</td>
<td>2 142</td>
</tr>
<tr>
<td>Bad debts recovered</td>
<td>840</td>
</tr>
<tr>
<td>Interest on loan</td>
<td>3 525</td>
</tr>
<tr>
<td>Interest on current account</td>
<td>250</td>
</tr>
<tr>
<td>Insurance</td>
<td>6 540</td>
</tr>
<tr>
<td>Stationery</td>
<td>1 777</td>
</tr>
<tr>
<td>Rent income</td>
<td>45 500</td>
</tr>
<tr>
<td>Directors fees</td>
<td>157 500</td>
</tr>
<tr>
<td>Bank charges</td>
<td>383</td>
</tr>
<tr>
<td>Interest on fixed deposit</td>
<td>5 775</td>
</tr>
<tr>
<td>Ordinary share dividends</td>
<td>10 350</td>
</tr>
<tr>
<td>Salaries</td>
<td>15 180</td>
</tr>
</tbody>
</table>
B Adjustments and Additional Information:

1. The stock count on 29 February 2012 revealed the following stocks on hand:
   - Trading Inventory   R25 375
   - Stationery   R147

2. The account of debtor, J. Green, R353, must be written off as irrecoverable.

3. A. Apple’s credit balance of R308 in the debtors’ ledger must be transferred to his account in the creditors’ ledger.

4. The provision for bad debts must be adjusted to 4% of the debtors balance.

5. Depreciation on equipment amounts to R4 890.

6. Rent income includes the rent up to 30 April 2012.

7. Insurance includes an annual premium of R4 500 entered into, and paid in full on 1 August 2011.

8. The company has three directors. They all receive the same monthly remuneration. One director took his February 2012 fee on 7 March 2012.

9. Take into account the outstanding interest on investment.

10. R2 500 of the loan is payable on 1 December every year. Interest at 12% p.a. was taken into account.

11. Income tax for the year amounted to R36 630.

12. On 1 December 2011, 5 000 additional shares were issued at R5.95 each. The money was received and the entry was duly recorded.

13. A final dividend of 4% of the par value (R5 shares) was declared.
QUESTION 4

CASH FLOW STATEMENT, RATIOS AND INTERPRETATION (60 marks; 36 minutes)

Outback LTD sells camping equipment and other outdoor activity paraphernalia. Their profit mark-up is 25%.

On 30 November 2010, they had issued 800,000 ordinary shares.

On 1 December 2010, they issued a further 80,000 shares.

INSTRUCTIONS:

4.1 Cash Flow Statement

4.1.1 Complete the Cash Flow Statement for the year ended 30 November 2011. *(Show workings in brackets to score part-marks.)* (24)

4.1.2 Prepare the CASH GENERATED FROM OPERATIONS note. (16)

4.2 Ratios and Interpretation

4.2.1 At what price were the additional shares issued? (4)

4.2.2 Calculate the average return on shareholder’s equity for the year ended 30 November 2011. (5)

4.2.3 Explain whether you think the shareholders should be happy with the return on their investment. *(Return on shareholder’s equity for 2010: 17%)* (2)

4.2.4 Calculate the dividends per share (DPS) for the year ended 30 November 2011. (2)

4.2.5 Give a reason why you think the final dividend this year was much lower than the interim dividend. (2)

4.2.5 The net asset value (NAV) for 2011 is 266c. List ONE factor that causes the net asset value to increase. (2)

4.2.7 If the market price of the shares of Outback LTD is 252c, would it be a wise decision to purchase them now? Explain. (3)
INFORMATION:

A  Information from the Income Statement for the year ended 30 November 2011.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>56 000</td>
</tr>
<tr>
<td>Net Profit before Income Tax</td>
<td>957 000</td>
</tr>
<tr>
<td>Net Profit after Income Tax</td>
<td>507 000</td>
</tr>
</tbody>
</table>

B  Information from the Balance Sheet as at 30 November 2011

<table>
<thead>
<tr>
<th></th>
<th>NOV 2011</th>
<th>NOV 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible Assets (Fixed Assets) at carrying value</td>
<td>1 841 625</td>
<td>1 742 625</td>
</tr>
<tr>
<td>Inventory</td>
<td>850 300</td>
<td>720 500</td>
</tr>
<tr>
<td>Trade and Other Receivables</td>
<td>480 000</td>
<td>562 200</td>
</tr>
<tr>
<td>Cash and Cash equivalents</td>
<td>88 975</td>
<td>-</td>
</tr>
<tr>
<td>Ordinary Share Capital</td>
<td>2 200 000</td>
<td>2 000 000</td>
</tr>
<tr>
<td>Share Premium</td>
<td>104 000</td>
<td>100 000</td>
</tr>
<tr>
<td>Retained Income</td>
<td>35 000</td>
<td>12 000</td>
</tr>
<tr>
<td>Non-Current Liabilities: Loan: BB Bank</td>
<td>320 000</td>
<td>350 000</td>
</tr>
<tr>
<td>Trade and Other Payables</td>
<td>601 900</td>
<td>508 325</td>
</tr>
<tr>
<td>Bank Overdraft</td>
<td>-</td>
<td>55 000</td>
</tr>
</tbody>
</table>

C  ADDITIONAL INFORMATION:

1. Trade and Other Receivables

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Debtors</td>
<td>465 000</td>
<td>550 000</td>
</tr>
<tr>
<td>Accrued Income</td>
<td>15 000</td>
<td>10 000</td>
</tr>
<tr>
<td>SARS – Income Tax</td>
<td>--</td>
<td>2 200</td>
</tr>
</tbody>
</table>

2. Trade and Other Payable

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Creditors</td>
<td>414 700</td>
<td>370 700</td>
</tr>
<tr>
<td>Accrued Expenses</td>
<td>8 800</td>
<td>9 625</td>
</tr>
<tr>
<td>SARS – Income Tax</td>
<td>2 400</td>
<td>--</td>
</tr>
<tr>
<td>Shareholders for Dividends</td>
<td>176 000</td>
<td>128 000</td>
</tr>
</tbody>
</table>

3. The loan repayment was made on 1 June 2011. Interest on loan at 11%p.a. was paid.

4. Tangible/Fixed Assets:
   - Tangible assets comprise buildings, vehicles and equipment.
   - Additions to the buildings were made during this financial year.
   - A vehicle was sold for R85 000; its carrying value.

5. Interim dividends paid on 31 May 2011: **R308 000**.
QUESTION 5

RECONCILIATIONS and VAT (40 marks; 24 minutes)

5.1 Creditors

The information below was extracted from the records of Siwendu Traders for August 2012:
The creditors ledger account of Kay Lee Suppliers (a creditor) and the Statement of Account received from Kay Lee Suppliers are reproduced.
Siwendu Traders receives a 5% trade discount on all purchases above R3 000.

INSTRUCTIONS:

5.1.1 Calculate the correct balance for Kay Lee Suppliers in the Creditors Ledger. Show all workings. (6)

5.1.2 Prepare the Creditors Reconciliation on 31 August 2012. (6)

INFORMATION:

A The creditors’ ledger account of Kay Lee Suppliers in the books of Siwendu Traders.

| CREDITORS LEDGER OF SIWENDU TRADERS |
|-------------------------------|------------------|------------------|------------------|
|                               | 2012 Aug         | DEBIT            | CREDIT           | BALANCE          |
| 1 Balance                     | b/d              | 32 600           |                  |                  |
| 8 Invoice X12                 | CJ               | 8 664            | 41 264           |
| 15 Cheque 887                 | CPJ              | 8 000            | 33 264           |
| Discount Received             | CPJ              | 800              | 32 464           |
| 20 Invoice X56                | CJ               | 2 280            | 34 744           |
| 22 Invoice 776                | CJ               | 1 690            | 36 434           |
| 27 Debit Note 90              | CAJ              | 370              | 36 804           |

B The following statement of account was received from Kay Lee Suppliers:

<table>
<thead>
<tr>
<th>STATEMENT OF ACCOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kay Lee Suppliers</td>
</tr>
<tr>
<td>ACCOUNT OF: SIWENDU TRADERS</td>
</tr>
<tr>
<td>25 August 2012</td>
</tr>
<tr>
<td>2012 August 1 Balance</td>
</tr>
<tr>
<td>Payment – cheque 798 (received on 29/07/2012)</td>
</tr>
<tr>
<td>8 Purchases – Invoice X12</td>
</tr>
<tr>
<td>15 Payment received cheque 887</td>
</tr>
<tr>
<td>20 Purchases – Invoice X56</td>
</tr>
<tr>
<td>22 Credit Note 47 – goods returned</td>
</tr>
<tr>
<td>Closing Balance</td>
</tr>
</tbody>
</table>

This statement includes all transactions up to and including the 25th of the current month.
When comparing the Creditors Ledger account against the statement received, the following were noted:

1. The statement did not take into account the 5% trade discount on goods purchased on 8th.
2. The discount for early settlement of account on the 15th was also omitted on the statement.
3. The statement reflected the correct amount for the purchases of stock on the 20th.
4. The entry on the 22nd was for goods purchased from Khaya Stores, and not from Kay Lee Stores.
5. Debit Note for returns to Kay Lee Stores, R370, was posted to the wrong side of the ledger account.
6. The credit note on the 22nd is an error on the statement.

5.2 Debtors
You are provided with the Debtors Control Account, as it appeared in the books of JP Stores, together with the posting errors and omissions noted.

INSTRUCTIONS:

5.2.1 Draw up a corrected Debtors Ledger account. 
*Adjust the appropriate journal totals with the corrections, and show the changes in brackets, to receive part marks.*

5.2.2 The credit controller realised that debtors’ allowance is high.
*What can the business do to reduce this balance? (Two points)*

5.2.3 Debito B. Brom was charged interest on his overdue account of R3 450 at 12% p.a, for three months. He argued that this penalty was unfair because his most recent purchase of R1 250 was made in this month.
*Explain why you agree with him.*

5.2.4 The business uses the invoice method to determine its VAT liability.
*Briefly describe this method.*
*Due to the cash flow problems experienced by the business, the owner decided to inflate the VAT Input amount on the VAT return form by R7 500. What implications would this have on the business and the owner?*
INFORMATION:

a. GENERAL LEDGER OF JP STORES
   BALANCE SHEET SECTION
   DEBTORS CONTROL (B6)

<table>
<thead>
<tr>
<th></th>
<th>2011 Balance</th>
<th>2011 Bank</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>21 670</td>
<td>12 530</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>12 530</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sundry Accounts</td>
<td>13 326</td>
<td></td>
<td>470</td>
</tr>
<tr>
<td>31</td>
<td>483</td>
<td>2 736</td>
<td></td>
</tr>
<tr>
<td>Sundry Debits</td>
<td>537</td>
<td>Sundry Credits</td>
<td>700</td>
</tr>
</tbody>
</table>

b. Additional Information:
   • Note that all amounts in the ledger includes VAT (unless otherwise indicated).

1. On 31 May, a cheque for R513 was received from the bank, marked “R/D-insufficient funds”. This cheque was received from a debtor, V. Stik, in settlement of his account, after receiving a 10% discount. This transaction was not recorded.

2. A credit note for R114 (inclusive of VAT) was recorded in the journal as R141.

3. The debtors’ journal was overcast by R330.

4. Goods returned by a debtor, R250 (excluding VAT) was not recorded.

5. A debtor, whose account was written off as a bad debt, paid R500 of what he owed.

6. The account of V. Stik (No. 1 above), must be written off as irrecoverable.
QUESTION 6

STOCK VALUATION AND ASSET MANAGEMENT (35 marks ; 21 minutes)

6.1 INVENTORY VALUATION

Perkin Stores sells LCD flat screen television sets to the public. Their financial year ends on 29 February 2012. The cost price of the product they sell has changed significantly due to newer, later models being introduced into the market. Barry Perkin, the owner, feels comfortable selling the same old model.

INSTRUCTIONS:

6.1.1 Perkin Stores uses the weighted average method to value their stock. Calculate the closing stock balance, using the above method. (4)

6.1.2 Calculate the gross profit on TV sets sold for the year based on the weighted average method. (3)

6.1.3 Perkin is considering a change to the FIFO method to value his stock. Calculate the gross profit using this method. (4)

6.1.4 In your opinion, which is the more appropriate method to use? Explain a reason for your answer. (3)

6.1.5 Although Perkin is contended to sell the same brand TV sets, he did notice the significant difference between the number of units he had at the beginning of the year, and his closing balance. Explain why he should be concerned about this trend, and provide TWO suggestions on how he can remedy this situation. (6)

INFORMATION:

The following information appeared in the records of Perkin Stores for the year ended 29 February 2012: The selling price per TV is fixed at R9 500.

<table>
<thead>
<tr>
<th>STOCK RECORDS</th>
<th>NUMBER OF UNITS</th>
<th>UNIT PRICE</th>
<th>TOTAL VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance (1 March 2011)</td>
<td>80</td>
<td>5 950</td>
<td>476 000</td>
</tr>
<tr>
<td>Purchases during the year</td>
<td>850</td>
<td>4 265</td>
<td>400</td>
</tr>
<tr>
<td>May 2011</td>
<td>300</td>
<td>5 550</td>
<td>1 665 000</td>
</tr>
<tr>
<td>August 2011</td>
<td>320</td>
<td>4 820</td>
<td>1 542 400</td>
</tr>
<tr>
<td>January 2012</td>
<td>230</td>
<td>4 600</td>
<td>1 058 000</td>
</tr>
<tr>
<td>Total available for sale</td>
<td>930</td>
<td></td>
<td>4 741 400</td>
</tr>
<tr>
<td>Sales of TV sets</td>
<td>510</td>
<td>9 500</td>
<td>4 845 000</td>
</tr>
<tr>
<td>Closing balance (29 February 2012)</td>
<td>418</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

*Two TV sets from the most recent purchases, were damaged in the process of setting up a display unit.
6.2 ASSET MANAGEMENT

The information given below was taken from the books of Sam’s Stationers. The financial year ends on 30 June 2012.

INSTRUCTIONS:

6.2.1 Calculate the cost of the vehicle disposed. 
*Denoted by (a) in the Asset Disposal Account presented below.* (4)

6.2.2 Provide suitable details for (b) and (c) in the Asset Disposal Account below. (2)

6.2.3 Calculate the profit on disposal of the vehicle above. (4)

6.2.4 The business uses the diminishing balance (carrying value) method to calculate depreciation. Calculate the depreciation rate (percentage). (5)

INFORMATION:

A An old vehicle was traded-in for a later model mini-van. The accumulated depreciation on this vehicle was R52 000 on 1 July 2011 (beginning of the financial year).

B The following Asset Disposal Account is presented:

C TANGIBLE ASSET NOTE

<table>
<thead>
<tr>
<th></th>
<th>VEHICLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost (1 July 2011)</td>
<td>175 000</td>
</tr>
<tr>
<td>Accumulated Depreciation (1 July 2011)</td>
<td>*</td>
</tr>
<tr>
<td><strong>CARRYING VALUE (1 July 2011)</strong></td>
<td>86 500</td>
</tr>
</tbody>
</table>

* Movements:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Additions</td>
<td>120 000</td>
</tr>
<tr>
<td>Disposals</td>
<td>*</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(43 275)</td>
</tr>
<tr>
<td><strong>CARRYING VALUE (30 June 2012)</strong></td>
<td>*</td>
</tr>
<tr>
<td>Cost (30 June 2012)</td>
<td>200 000</td>
</tr>
<tr>
<td>Accumulated Depreciation (30 June 2012)</td>
<td>*</td>
</tr>
</tbody>
</table>

TOTAL: 300