



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ACCOUNTING
FEBRUARY/MARCH 2009
MEMORANDUM**

This memorandum consists of 20 pages.

QUESTION 1**1.1 BANK RECONCILIATION**

1.1.1	<p>Why is it important for a business to prepare a monthly bank reconciliation statement? Provide TWO points.</p> <p><i>Any TWO points</i> (✓ ✓)</p> <p>Possible answers:</p> <ul style="list-style-type: none"> • For internal control purposes. • To identify the correct bank balance/update records. • Deposits made and cheques issued not only affect the business but also the bank concerned • The business keeps a record of all cash transactions • The bank also keeps a record of its transactions with the business • The books of the business and that of the bank should agree and the bank balance should be the same in both books. • Comparisons between the books of the business and that of the bank must be made on a monthly basis by preparing a bank reconciliation statement • Errors and dishonesty can be detected on a monthly basis. 	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; text-align: center; margin: 0 auto;">2</div>
1.1.2	<p>One of the cheques not presented to the bank has been treated incorrectly. Which cheque is it? Explain your choice.</p> <p>Cheque no 2461 ✓ for R6 000 is stale ✓ (older than six months)</p> <p>Indicate the correct course of action.</p> <p>It must be <u>cancelled</u> in the cash receipts journal (CRJ) ✓ ✓</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; text-align: center; margin: 0 auto;">4</div>
1.1.3	<p>Calculate the correct balance for the bank account in the ledger of Phatudi Traders (take into account your response in QUESTION 1.1.2 above).</p> <p style="text-align: center;">✓ ✓ ✓ ✓</p> <p>R25 260 – R12 390 + R 6 300 = R19 170</p> <p>OR</p> <p>– R25 260 + R12 390 – R 6 300 = – R19 170</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; text-align: center; margin: 0 auto;">4</div>

1.1.4	<p>Explain how cheque No. 2719 should be treated when preparing the financial statements as at 31 August 2008.</p> <p><i>Response may be expressed differently</i> ✓✓</p> <p>Decrease bank overdraft and increase creditors</p> <p>Explain the reason for this treatment.</p> <p>The funds have not been lost by the business. The amount is still owed to creditors. ✓✓</p>	<table border="1" style="width: 100%; height: 100%;"> <tr><td style="text-align: center;">4</td></tr> </table>	4
4			
1.1.5	<p>Explain why a post-dated cheque received by Phatudi Traders on 20 August 2008 but dated 20 September 2008 does not appear on the Bank Reconciliation Statement.</p> <p><i>Any ONE reason: ✓✓ e.g.</i></p> <ul style="list-style-type: none"> • Post dated cheques (PDC's) received are recorded in the PDC register • PDC's are deposited on the day they are due • PDC has no effect until the due date • Rule of prudence – do not record until certain. 	<table border="1" style="width: 100%; height: 100%;"> <tr><td style="text-align: center;">2</td></tr> </table>	2
2			
1.1.6	<p>(a) Why should the internal auditor be seriously concerned about the difference of R10 000?</p> <p><i>Response may be expressed differently</i></p> <p>This is a major error, or possibly fraud. ✓✓</p>	<table border="1" style="width: 100%; height: 100%;"> <tr><td style="text-align: center;">2</td></tr> </table>	2
2			
	<p>(b) What should the internal auditor do about this? Name TWO points.</p> <p><i>Any TWO valid points (✓✓ ✓✓), e.g.</i></p> <ul style="list-style-type: none"> • Check from the receipts to the deposit slip to identify if cash collected was all deposited. • Check if there is an error on the deposit slip. • Investigate if the cash has been stolen – question the cashier/bookkeeper. • Establish proper internal control procedures – division of duties – so that one person serves as a check on another to avoid this problem in future. • Screen the employees (for trustworthiness) • Owner do the banking himself 	<table border="1" style="width: 100%; height: 100%;"> <tr><td style="text-align: center;">4</td></tr> </table>	4
4			

1.2 CREDITORS' RECONCILIATION

1.2.1	Why should these two figures agree? <i>Various responses acceptable, e.g. ✓✓</i> <ul style="list-style-type: none"> • Figures in General Ledger should correspond with figures in Creditors' Ledger • This is the internal control procedure – one process is a check on the other 		<table border="1"> <tr><td> </td></tr> <tr><td>2</td></tr> </table>		2																					
2																										
1.2.2	<table border="1"> <thead> <tr> <th data-bbox="320 636 616 712">Transaction</th> <th data-bbox="616 636 916 712">Creditors' Control</th> <th data-bbox="916 636 1209 712">Creditors' List</th> </tr> </thead> <tbody> <tr> <td data-bbox="320 712 616 792">Provisional balance/total</td> <td data-bbox="616 712 916 792">R55 670</td> <td data-bbox="916 712 1209 792">R39 240</td> </tr> <tr> <td data-bbox="320 792 616 848">Transaction (a)</td> <td data-bbox="616 792 916 848"></td> <td data-bbox="916 792 1209 848">✓✓ + 480</td> </tr> <tr> <td data-bbox="320 848 616 904">Transaction (b)</td> <td data-bbox="616 848 916 904">✓✓ + 1 960</td> <td data-bbox="916 848 1209 904">✓✓ + 1 960</td> </tr> <tr> <td data-bbox="320 904 616 960">Transaction (c)</td> <td data-bbox="616 904 916 960"></td> <td data-bbox="916 904 1209 960">✓✓ - 450</td> </tr> <tr> <td data-bbox="320 960 616 1016">Transaction (d)</td> <td data-bbox="616 960 916 1016">✓✓ - 16 400</td> <td data-bbox="916 960 1209 1016"></td> </tr> <tr> <td data-bbox="320 1016 616 1075"> <input checked="" type="checkbox"/> </td> <td data-bbox="616 1016 916 1075">41 230</td> <td data-bbox="916 1016 1209 1075">41 230</td> </tr> </tbody> </table>		Transaction	Creditors' Control	Creditors' List	Provisional balance/total	R55 670	R39 240	Transaction (a)		✓✓ + 480	Transaction (b)	✓✓ + 1 960	✓✓ + 1 960	Transaction (c)		✓✓ - 450	Transaction (d)	✓✓ - 16 400		<input checked="" type="checkbox"/>	41 230	41 230	<table border="1"> <tr><td> </td></tr> <tr><td>11</td></tr> </table>		11
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Transaction (d)	✓✓ - 16 400																									
<input checked="" type="checkbox"/>	41 230	41 230																								
11																										

TOTAL MARKS
35

QUESTION 2

2.1	<p>Explain the meaning of the term <i>FIFO</i>.</p> <p>First-in first-out ✓✓ OR The oldest soccer balls are the ones that are sold first</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">2</div>
2.2	<p>The selling price of soccer balls was kept constant throughout the year. Calculate the selling price per soccer ball.</p> <p style="text-align: center;">✓ ✓ ✓</p> <p>R430 500 / 2 100 balls = R205 each</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">3</div>
2.3	<p>Calculate the number of balls that are missing.</p> <p>Total balls available = 750 ✓ + 2 480 ✓ – 1 100 ✓ = 2 130 balls Number sold = 2 100 balls ✓ Number stolen = 30 balls ✓</p> <p>What entry would you make in the books to record this?</p> <p>✓ Debit Trading stock deficit/Loss due to theft R3 300✓ ✓ Credit Trading stock R3 300</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">8</div>
2.4	<p>Value the stock on hand at the end of the year according to the FIFO method.</p> <p>✓ 480 balls at R160 ✓ = R 76 800 ✓ ✓ 620 balls at R120 ✓ = R 74 400 ✓ TOTAL = R151 200 ✓</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">7</div>

2.5	<p>Calculate cost of sales</p> <p>Opening stock R 82 500 ✓ Purchases 340 800 ✓ Stolen - 3 300 ☑ Closing stock - 151 200 ☑ Cost of sales R268 800 ☑</p> <p>Calculate gross profit for the year.</p> <p>Sales R430 500 ✓ Cost of sales - 268 800 ☑ Gross profit 161 700 ☑</p>	<table border="1" style="margin: auto;"> <tr><td style="height: 20px;"> </td></tr> <tr><td style="text-align: center;">8</td></tr> </table>		8
8				
2.6	<p>How long can he expect the closing stock to last? Provide figures or a calculation to support your answer.</p> <p><i>Responses may be expressed differently ✓✓✓</i> Excellent = 3; Good =2; Poor=1; Incorrect=0</p> <p>On average, 175 balls are sold per month – stock will last 6,3 months OR Cost of sales for the year is R268 800 (R22 400) – final stock is R151 200 – stock could last 6,8 months</p> <p>What advice will you offer Peter in respect of the final stock? Provide TWO points.</p> <p><i>Any two valid points, e.g. ✓✓ ✓✓</i></p> <ul style="list-style-type: none"> • Purchase in smaller quantities more often • Only order when they reach their minimum stock level (re-order level) • Better security • Stock must be insured • Offer discounts to clear stock • Good idea to increase stock in view of 2010 World Cup 	<table border="1" style="margin: auto;"> <tr><td style="height: 20px;"> </td></tr> <tr><td style="text-align: center;">7</td></tr> </table>		7
7				

TOTAL MARKS

35

QUESTION 3

3.1	<p>Calculate the mark-up % that Cheryl uses for her business.</p> <p style="text-align: center;">✓ ✓ ✓✓</p> <p>$240\ 000 / 300\ 000 \times 100 = 80\%$ Or: use figures from any of the other columns</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">4</div>
3.2	<p>Probable reason for interest income:</p> <p>The investment was decreased. ✓✓</p> <p>Probable reason for depreciation:</p> <p>More fixed/tangible assets were bought. ✓✓</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">4</div>
3.3	<p>Comment on Stationery:</p> <p><i>Responses may be expressed differently</i> <i>Part-marks can be awarded</i></p> <p>Well controlled in January, but R3 000 over-budget in February. This is possibly due to wastage/theft. ✓✓</p> <p>Comment on Telephone:</p> <p>Abuse is apparent. R2 000 over budget in January and R4 000 over budget in February. Not well controlled. ✓✓</p> <p>Comment on Motor vehicle expenses:</p> <p>Well controlled. The variance is only 10% (1 200/ 12 000) whilst the price of petrol increased by 25%. ✓✓✓</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">7</div>
3.4	<p>Cheryl is concerned that she has to keep contributing more capital each month so that the business can settle its debts. Explain why the Projected Income Statement will not help her in identifying the reasons for this problem.</p> <p><i>Responses may be expressed differently ✓✓✓</i> Excellent = 3; Good =2; Poor=1; Incorrect=0</p> <p>Cash problems will be identified in the Cash Budget. The projected Income Statement reflects profit. Certain income items might not have been collected, while payments for debts are not reflected in the Projected Income Statement. ✓✓✓</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">3</div>

3.5	<p>Calculate the amount of the loan. $\checkmark \quad \checkmark \quad \checkmark \quad \checkmark$ $37\,500 / 0.15 \times 12 = R3\,m$</p> <p>What advice would you give her regarding accessing funds in order to repay the loan? Name TWO points.</p> <p><i>Any TWO valid points, e.g. ✓✓ ✓✓</i></p> <ul style="list-style-type: none"> • Liquidate the investment as the interest is only 6% • Admit a partner/member • Sell off unused property • Any other valid point 	<table border="1"> <tr><td> </td></tr> <tr><td>8</td></tr> </table>		8
8				
3.6	<p>Quote figures from the question which indicates that she appears to be losing customers.</p> <p><i>Each point named: 1 mark; Figure provided: 1 mark</i></p> <p>Jan. actual sales R396 000 Budgeted R540 000 ✓✓ OR Feb. actual sales R360 000 Budgeted R594 000 OR Feb. actual sales R360 000 are less than Jan R396 000</p> <p>Identify THREE points, with appropriate figures from the Projected Income Statement, which indicate that she has made mistakes in dealing with her customers.</p> <p><i>Any THREE valid points, e.g. ✓✓ ✓✓ ✓✓</i></p> <ul style="list-style-type: none"> • Advertising only R1 000 per month compared to R5 000 budget • Discount allowed is nil, despite R2 000 monthly budget – not granting discount, or debtors are paying too slowly to gain the benefit • The 80% mark-up at all times might be a problem in relation to prices of competitors – offer trade discounts • Security spent is 50% of the budget of R7 000 – this is causing shop-lifting as evidenced by trading stock deficits which were not budgeted. • Bad debts R11 880/R10 800 exceed the budget R6 480/R7 128 – indicates poor screening or poor collection. 	<table border="1"> <tr><td> </td></tr> <tr><td>8</td></tr> </table>		8
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QUESTION 4

4.1	Calculate Direct Labour Cost for the month:		
	✓ 15 employees x ✓ 14 days x 9 hours x ✓ R36	= R 68 040	
	✓ 15 employees x ✓ 45 hours x ✓ R72	= <u>R 48 600</u>	
	TOTAL	= <u>R116 640</u> ✓	7

**4.2 GLEN TABLES MANUFACTURERS
PRODUCTION COST STATEMENT FOR JULY 2008**

Direct material cost 40 000 ✓ + 180 000 ✓ – 65 000 ✓	✓ <input checked="" type="checkbox"/> 155 000
Direct labour cost	<input checked="" type="checkbox"/> 116 640
Prime cost	<input checked="" type="checkbox"/> 271 640
Factory overhead cost	<input checked="" type="checkbox"/> 85 160
Total cost of production	<input checked="" type="checkbox"/> 356 800
Work-in-process on 1 July 2008	✓ 55 000
	411 800
Work-in-process on 31 July 2008	✓ (40 000)
Cost of production of finished goods (410 tables)	<input checked="" type="checkbox"/> 371 800

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Note 1: Factory overhead cost

Indirect materials 75% x (6 000 + 20 000)	✓ <input checked="" type="checkbox"/> 19 500
Wages of factory cleaner	✓ 2 600
Salary of factory foreman 15 000 + 1 500	✓ <input checked="" type="checkbox"/> 16 500
Depreciation	✓ 7 400
Factory maintenance 8 000 + 3 500	✓ <input checked="" type="checkbox"/> 11 500
Electricity and water	✓ <input checked="" type="checkbox"/> 4 140
Factory rent 630 / 900 x R30 000	✓ <input checked="" type="checkbox"/> 21 000
Insurance 630 / 900 x R43 200 / 12	✓ <input checked="" type="checkbox"/> 2 520
	<input checked="" type="checkbox"/> 85 160

15

4.3	<p>Calculate the unit cost of production of finished goods for July 2008.</p> <p style="text-align: center;"> <input checked="" type="checkbox"/> ✓ ✓<input checked="" type="checkbox"/> $R371\ 800 / 410 \text{ tables} = R906,83$ </p>	<table border="1" style="width: 100%; height: 100%; text-align: center;"> <tr><td style="height: 20px;"> </td></tr> <tr><td style="font-weight: bold;">4</td></tr> </table>		4
4				
4.4	<p>Glen feels that the power cuts have had a significantly negative effect on his business. Name TWO points from the question which indicate that he is correct. Quote figures/calculations from the question to support your answer.</p> <p><i>Any TWO valid points, quoting evidence, e.g. ✓✓ ✓✓</i> <i>Responses may be expressed differently</i></p> <ul style="list-style-type: none"> • Production is 40 units short. • Loss of gross profit = $40 \times R500 = R20\ 000$. • The overtime wages paid cause a difference in Direct Labour Cost of $\frac{1}{2} \times R48\ 600 = R24\ 300$ i.e. R59,27 per table. • They were exceeding their BEP by 130 tables. During July, the margin reduced to 90 tables. 	<table border="1" style="width: 100%; height: 100%; text-align: center;"> <tr><td style="height: 20px;"> </td></tr> <tr><td style="font-weight: bold;">4</td></tr> </table>		4
4				
4.5	<p>Make TWO suggestions on how to improve efficiency in the use of direct materials.</p> <p><i>Responses may be expressed differently</i> <i>Any TWO valid points e.g. ✓✓ ✓✓</i></p> <ul style="list-style-type: none"> • Identify the exact amount of direct material required for each table • Proper documentation for stocks drawn from the store-room • Assess the degree of wastage (off-cuts) <p>Make TWO suggestions on how to improve the efficiency of the direct labourers.</p> <p><i>Responses may be expressed differently</i> <i>Any TWO valid points e.g. ✓✓ ✓✓</i></p> <ul style="list-style-type: none"> • Time & work study – inspect and calculate how long it takes for one table to be made • Proper training of direct workers • Assess procedure for clocking in & out • Monitor tea breaks, lunch breaks, sick leave etc • Reduce overtime – buy a generator to restrict work to normal time. 	<table border="1" style="width: 100%; height: 100%; text-align: center;"> <tr><td style="height: 20px;"> </td></tr> <tr><td style="font-weight: bold;">8</td></tr> </table>		8
8				

TOTAL MARKS
50

QUESTION 5

5.1	Match the components of the annual report in COLUMN 1 with the description in the COLUMN 2.	
	Column 1	Column 2
	1	C
	2	E ✓
	3	D ✓
	4	A ✓
5	B ✓	

4

5.2 Calculate the following financial indicators for 2008:**Acid-test ratio**

$$R248\ 500 - R99\ 500 = R149\ 000 \quad \checkmark\checkmark$$

$$R149\ 000 : R60\ 500 \quad \checkmark = 2,46 : 1 \quad \checkmark \text{ or } 2,5:1$$

Stock turnover rate

$$R99\ 500 + R62\ 500 / 2 = R81\ 000 \quad \checkmark\checkmark$$

$$R976\ 000 \quad \checkmark / R81\ 000 = 12 \text{ times p.a.} \quad \checkmark$$

Debt/Equity ratio

$$R150\ 000 \quad \checkmark : R1\ 657\ 040 \quad \checkmark = 0,09 : 1 \quad \checkmark \text{ or } 0,1:1$$

Net asset value per share

$$R1\ 525\ 000 / 2 = 762\ 500 \text{ shares} \quad \checkmark\checkmark$$

$$R1\ 657\ 040 \quad \checkmark / 762\ 500 \times 100 \text{ cents} = 217,3 \text{ cents} \quad \checkmark$$

Earnings per share

$$R525\ 000 \quad \checkmark / 762\ 500 \quad \checkmark = 68,9 \text{ cents} \quad \checkmark$$

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5.3	<p>Comment on the liquidity situation of the company. Quote THREE relevant financial indicators (actual ratios or percentages) to support your answer.</p> <p>General comment ✓✓ Good=2 Satisfactory=1 No/invalid comment 0</p> <p>The liquidity is generally satisfactory although some of the indicators may be considered to be too high, e.g. current ratio should be lower; creditors should be paid in a shorter period.</p> <p><i>Any THREE valid indicators named ✓✓✓</i> <i>Ratios/percentages quoted for each ✓✓✓</i></p> <p>Current ratio 2,1:1 → 4,1:1 Acid-test ratio 1,3:1 → 2,46:1 Stock turnover rate 8 times p.a. → 12 times p.a. Debtors collection period 30 → 30 days Creditors payment period 60 → 90 days</p>	<table border="1"> <tr><td> </td></tr> <tr><td>8</td></tr> </table>		8
8				
5.4	<p>The company directors feel that the shareholders should be very happy with the returns, earnings and dividends of the company. Quote THREE relevant financial indicators (actual ratios or percentages) to support their opinion.</p> <p><i>Any THREE valid indicators named ✓✓✓</i> <i>Ratios/percentages quoted for each ✓✓✓</i></p> <p>Improvement in % return: 25% → 33,3% Improvement in EPS: 55,2c → 68,9c Increase in DPS: 10c → 20c</p>	<table border="1"> <tr><td> </td></tr> <tr><td>6</td></tr> </table>		6
6				

5.5	<p>Refer to the market value of the share. Many people feel that the market value of the share on the JSE indicates whether or not the directors are doing a good job. Explain why the market value is so important in this regard.</p> <p><i>Responses may be expressed differently</i> Any valid explanation</p> <p>Explanation ✓✓ Good = 2 Satisfactory = 1 No/invalid explanation = 0</p> <ul style="list-style-type: none"> • The market value is the price at which shares are currently being sold. • When the market price is higher than the par value, it is an indication to the shareholders that the company is doing well. <p>If the company issued all its unissued shares next year, how much capital could they expect to raise for the company? Provide a calculation to support your opinion. Note that the authorised share capital comprises 1 000 000 ordinary shares of R2 par value.</p> <p>Authorised shares = 1 000 000 Issued shares = 1 525 000 / 2 = 762 500 ✓ Available shares = 1 000 000 – 762 500 = 237 500 ✓ Capital to be raised by the issue of unissued shares = 237 500 x R2 ✓ = R475 000 ✓</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">6</div>
5.6	<p>Rather than issue more shares, the directors are considering taking out additional loans. Quote TWO relevant financial indicators (actual ratios or percentages) to support their opinion.</p> <p><i>Any TWO valid indicators named ✓✓</i> <i>Ratios/percentages quoted for each ✓✓</i></p> <ul style="list-style-type: none"> • Return on capital employed for 2008 = 44,3% • Current interest rate = 13% • Debt : equity ratio decreased from 0,1:1 to 0,09:1 	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">4</div>

5.7	<p>The auditors have told the directors that Directors Fees must be shown separately in the financial statements and not part of Salaries and wages. The directors do not want to change this. What is your opinion on this problem? Explain.</p> <p><i>Any valid comment ✓✓✓</i></p> <ul style="list-style-type: none"> • Transparency regarding what the directors earn • Shareholders have a right to know what directors earn 	<table border="1"> <tr><td> </td></tr> <tr><td>3</td></tr> </table>		3
3				
5.8	<p>Refer to the newspaper article provided. The directors of Bhaga Toys Ltd are worried that a similar problem could occur in their company. Briefly explain why this would be a serious problem for the company. Name TWO points.</p> <p><i>Any TWO valid explanations ✓✓✓ ✓✓✓</i></p> <ul style="list-style-type: none"> • A delay would cause shareholders to become suspicious • Shareholders would not vote for these directors next year • New shareholders will avoid the company and share prices could drop • The directors would be guilty of a criminal offence. In terms of the Company's Act they have to produce financial statements within three months • It will affect the ability to raise capital/loans in future as investors will be suspicious <p><i>Excellent = 3 Good = 2 Weak = 1 No/invalid explanation = 0</i></p>	<table border="1"> <tr><td> </td></tr> <tr><td>6</td></tr> </table>		6
6				

TOTAL MARKS
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QUESTION 6

6.1	Explain why Land and Buildings are shown at a much lower figure in the financial statements. Mention the applicable GAAP concept to support your answer. ✓ Historical cost principle/Rule of prudence <i>Any valid explanation, e.g. ✓✓</i> Cannot verify the actual value until it is sold Prevents manipulation of figures	<table border="1"><tr><td> </td></tr><tr><td>3</td></tr></table>		3
3				
6.2	What is a <i>Fixed Assets Register</i>? <i>Any valid explanation, e.g. ✓✓</i> The Fixed Asset Register is the book in which all the assets owned by a business are recorded Explain how this register assists the internal auditor in the course of his duties. <i>Any valid explanation, e.g. ✓✓</i> Can cross-check physical counts of assets to this register & assists in ensuring that depreciation and asset disposal figures are accurate	<table border="1"><tr><td> </td></tr><tr><td>4</td></tr></table>		4
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6.3

ASSET DISPOSAL								
2008 Dec	31	Vehicles ✓		✓✓ 130 000	2008 Dec	31	Accu depreciation on vehicles ✓	✓✓ 58 000
							Bank ✓	✓ 72 000
				130 000				130 000

8

6.4

Note 1. FIXED/TANGIBLE ASSETS	Land and buildings	Equipment	Vehicles
Carrying value at beginning of year	✓ 1 420 000	435 000	✓ 330 000
Cost	✓ 1 420 000	615 000	900 000
Accumulated depreciation	0	✓ (180 000)	(570 000)
Movements			
Additions at cost	230 000	300 000	✓✓ 306 000
Disposals at carrying value	0	0	(72 000)
Depreciation for the year	0	✓✓ (90 000)	(64 000)
Carrying value at beginning of year	1 650 000	✓ 645 000	500 000
Cost	1 650 000	✓ 915 000	1 076 000
Accumulated depreciation	0	(270 000)	✓ (576 000)

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6.5 RYAN LIMITED		
CASH-FLOW STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2009		
CASH FLOW FROM OPERATING ACTIVITIES	<input checked="" type="checkbox"/>	335 000
Cash generated from operations	<input checked="" type="checkbox"/>	902 000
✓ Interest paid	<input checked="" type="checkbox"/>	(144 000)
✓ Taxation paid	<input checked="" type="checkbox"/>	(216 000)
✓ Dividends paid	<input checked="" type="checkbox"/>	(207 000)
CASH FLOW FROM INVESTING ACTIVITIES	<input checked="" type="checkbox"/>	(764 000)
✓ Purchase of tangible/fixed assets	<input checked="" type="checkbox"/>	(836 000)
✓ Proceeds from the sale of tangible/fixed assets	<input checked="" type="checkbox"/>	72 000
CASH FLOW FROM FINANCING ACTIVITIES	<input checked="" type="checkbox"/>	330 000
✓ Proceeds from the issue of shares	<input checked="" type="checkbox"/>	630 000
✓ Repayment of non current liabilities	<input checked="" type="checkbox"/>	(300 000)
Net change in cash and cash equivalents	<input checked="" type="checkbox"/>	(99 000)
Cash and cash equivalents at the beginning of the year	<input checked="" type="checkbox"/>	654 000
Cash and cash equivalents at the end of the year	<input checked="" type="checkbox"/>	555 000

Reconciliation between profit before taxation and cash generated from operations		
Profit before taxation		750 000
Adjustments for:		
✓ Depreciation (90 000 + 64 000)	✓☑	154 000
✓ Interest on loan	✓✓	144 000
Operating profit before changes in working capital		1 048 000
Changes in working capital	☑	(146 000)
Change in inventory	✓✓	(140 000)
Change in trade and other receivables	✓✓	84 000
Change in trade and other payables	✓✓	(90 000)
Cash generated from operations	☑	902 000

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Taxation paid		
Amount in the Income Statement	✓✓	(210 000)
Amount owing at the beginning of the year	✓	(24 000)
Amount owing at the end of the year	✓	18 000
	☑	(216 000)

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Dividends paid		
Amount in the Financial Statements	✓✓	(378 000)
Amount owing at the beginning of the year	✓	(81 000)
Amount owing at the end of the year	✓	252 000
	☑	(207 000)

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6.6	<p>The Cash-Flow Statement indicates certain important decisions that have been made by the directors. List THREE of these decisions. In each case provide a possible reason why the directors took that decision.</p> <p>THREE decisions ✓ ✓ ✓ Reason for THREE decisions ✓ ✓ ✓</p> <p>Any valid response e.g.</p> <table border="1"> <thead> <tr> <th style="text-align: left;">Decisions</th> <th style="text-align: left;">Reason</th> </tr> </thead> <tbody> <tr> <td>Acquired additional tangible/fixed assets</td> <td>Existing tangible assets may be obsolete, they sold a vehicle and needed to replace</td> </tr> <tr> <td>Issue of additional shares</td> <td>To repay part of the loan and/or pay for the purchasing of tangible assets</td> </tr> <tr> <td>Repayment of loan</td> <td>To reduce interest costs</td> </tr> </tbody> </table>	Decisions	Reason	Acquired additional tangible/fixed assets	Existing tangible assets may be obsolete, they sold a vehicle and needed to replace	Issue of additional shares	To repay part of the loan and/or pay for the purchasing of tangible assets	Repayment of loan	To reduce interest costs
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TOTAL MARKS
80

TOTAL: 300