

**ACCOUNTING**

**SUGGESTED ANSWERS**

**QUESTION : A**

**SUNFORD LTD**

**Cash flow statement for the year ended: 28 February 2002**

	Notes	
<b>Cash flows from operating activities</b>		<b><u>45270</u></b>
Cash generated from operations	1	217970
Interest paid		(23700)
Taxation paid	3	(57000)
Dividends paid	4	(92000)
<b>Cash flows from investing activities</b>		<b><u>(217175)</u></b>
Tangible Assets purchased	5	(222000)
Proceeds in disposal of Tangible Assets		4825
<b>Cash flows from financing activities</b>		<b><u>190000</u></b>
Proceeds from issue of shares		220000
Proceeds from non-current liabilities		-
		220000
Repayment of non-current liabilities		(30000)
<b>Net change in cash and cash equivalents</b>		
Cash and cash equivalents (Begin of year)		
Cash and cash equivalents (End of year)		<u>18095</u>

**Notes to the Cash flow statement for the year ended: 28 February 2002**

<b>1.</b>	<b>Cash generated from operations</b>	
	Net profit before tax	190000
	<b>Add: ADJUSTMENTS FOR :</b>	
	Depreciation	33675
	Interest Expense	<u>23100</u>
	Profit before changes in working capital	246775
	Changes in working capital	
	Increase in Inventories	(26680)
	Increase in Receivables	(10820)
	Increase in Payables	8695
		<u>217970</u>

<b>2.</b>	<b>Cash and cash equivalents</b>	<b>Net Change</b>	<b>Current</b>	<b>Previous</b>
	Bank	18095	(5340)	(23435)
	Petty Cash	-	800	800
	Cash Float	-	2000	2000
		18095	(2540)	(20635)

<b>3.</b>	<b>Taxation paid</b>	
	Amount at Begin of year – overpaid	4120
	Amount in financial statement	(76000)
	Amount at end of year – owing	14880
		<u>(57000)</u>
<b>4.</b>	<b>Dividend paid</b>	
	Amount at Begin of year – owing	(56000)
	Amount in financial statement	(108000)
	Amount at end of year – owing	72000
		<u>(92000)</u>
<b>5.</b>	<b>Tangible assets purchased</b>	
	Land and Buildings	(79000)
	Equipment	(43000)
	Vehicles	(10000)
		<u>(222000)</u>

**CALCULATIONS**

**Tangible Assets purchased**

	Land & Building	Equipment	Vehicles
C.V. at Begin of year	521000	224500	-
- sold	-	(4825)	-
- Depreciation	-	<u>(33675)</u>	-
	521000		-
+ purchases	79000	43000	100000
c.v. at end of year	600000	229000	100000

**Calculations : Interest paid**

Amount due at begin of year	(3300)
Amount in financial statement	(23100)
Amount due at end of year	<u>2700</u>
	<u>29100</u>

**CALCULATIONS**

**Net Profit before tax**

**Note: Retained Income**

Opening Balance		32000
+ Net income after tax		114000
- Dividends		(108000)
- Interim	36000	
- Final	72000	
Closing Balance		38000

90 0000 → share capital  
 10 → par value  
 = 90 000 shares  
 90 000 shares x 0.4 (DPS)  
 = 36 000

calculation of missing figure

↓  
used in calculating  
Net profit before tax  
as follows:

$$114000 \times \frac{100}{60} = \underline{190000}$$

**QUESTION : B**

1. Current Ratio

$$\begin{aligned} \text{Current Assets: Current Liabilities} \\ (183820 + 66950 + 32610) : 43800 \\ 283380 : 43800 \\ \underline{6 : 46 : 1} \end{aligned}$$

- Acid – Test Ratio

$$\begin{aligned} (\text{Current Assets – Inventories}) : \text{Current Liabilities} \\ (66950 + 32610) : 43800 \\ 99560 : 43800 \\ \underline{2.27 : 1} \end{aligned}$$

2. a) Both current ratio and Acid Test Ratios indicate a considerable improvement in results. Results are well above the margin of safety. No problems in paying off short term debt.

- b) - Increase in inventories
- Income Tax from SARS is a receivable.
- Decrease in Payables

3. a) Net Asset Value =  $\frac{\text{Ordinary Shareholder's Equity}}{\text{No. of shares issued}}$   
 =  $\frac{505500 + 111060}{505500}$   
 = 121.97 cents

- b) - Increase in number of shares issued.
- Increase in balance of Retained Income.

4. Return on Ordinary =  $\frac{\text{Net Income After Tax} \times 100}{\text{Average ordinary Shareholder's Equity}}$   
 =  $\frac{68550}{\frac{1}{2} (505500 + 445500 + 111060 + 93060)} \times \frac{100}{1}$   
 =  $\frac{68550}{577560} \times \frac{100}{1}$   
 = 11.87 %

- 5. - Above alternative investments eg: fixed deposit rate of +/- 8 %
- satisfactory return

6. Earnings per share =  $\frac{\text{Net income after tax}}{\text{No. of shares issued}}$   
 =  $\frac{68550}{505500}$   
 = 13.56 cents

$$\begin{aligned}
 - \text{ Dividends per share} &= \frac{\text{Total Dividends}}{\text{No of shares issued}} \\
 &= \frac{50550}{505500} \\
 &= 10 \text{ cents}
 \end{aligned}$$

7. Yes. Should be satisfied. Shareholders are receiving 74% of the company's earnings in the form of dividends.  
A return of 11.87% is also satisfactory because it is higher than forms of investment eg: a fixed deposit which pays +/- 8 % interest.

$$\begin{aligned}
 8. \text{ Return on Total} &= \frac{\text{Net income before tax + Interest}}{\text{Average capital Employed}} \times \frac{100}{1} \\
 &= \frac{131826 + 78000}{(505500 + 445500) \frac{1}{2} + 111060 + 93060 + 45000 + 33000} \times \frac{100}{1} \\
 &= \frac{209826}{967520} \times \frac{100}{1} \\
 &= \underline{21.69 \%}
 \end{aligned}$$

**QUESTION : C**

**1.1 Calculate the depreciation on equipment for the year.**

$$\frac{700000}{1} \times \frac{10}{100} \times \frac{12}{12} = R70000 -$$

$$\frac{250000}{1} \times \frac{10}{1} \times \frac{3}{12} = \frac{R6250}{R76250-}$$

(5)

**1.2 SNOOZE EASY LIMITED  
BALANCE SHEET ON 30 JUNE 2008**

	R
<b>ASSETS</b>	
<b>Non-current assets</b>	<u>2240000</u>
Tangible Assets (1627000) + (70000 + 250 000) – (260750 + 76250)	2240000
<b>Current assets</b> (535000 x 2)	1070000
<b>Inventories</b> (1070000 – 416000 – 12000)	642000
<b>Trade and other Receivables</b> (535000 x 0.8 – 12000)	416000
Cash and cash equivalents	12000
<b>TOTAL ASSETS</b>	<b>3310000</b>
<b>EQUITY AND LIABILITIES</b>	
<b>Capital and Reserves</b>	2375000
Ordinary share capital 1500000 + 200000 (150000 x R2.50) + (20000 x R3.75)	170 000 450000
Retained Income	225000
<b>Non-current liabilities</b>	<u>400000</u>
Loan : WP Bank (500000 – 100000)	400000
<b>Current Liabilities</b>	
Trade and other payables (309000 + 51000)	36000
Bank Overdraft	75000
Short Term Loan	100000
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3310000</b>

(44)

**1.3**

On 30 June 2008, Snooze Easy Limited shares are sold at R14,50 per share on JSE.

- Do you think the shares would be worth buying?
- Give one reason for your answer by quoting figures.

**Yes/No**

**Reason**

**Quoting of figures**

Possible answer: JSE prices is more than NAV share. High demand. Investors prepared to pay more than intrinsic value.

**(4)**

**QUESTION : D**

**1.1 CALCULATION OF WEIGHTED AVERAGE PRICE**

	<u>Value</u>	<u>No of Units</u>
Opening Balance :	156600	290
Purchases:		
June 07 :	171000	300
Sep 07 :	108000	180
Nov 07 :	522500	950
Jan 07 :	<u>244000</u>	<u>400</u>
	<u>1202100</u>	<u>2120</u>

- $\frac{1202100}{2120} = R567 \rightarrow$  Weighted Average Price
- $\frac{2120}{2120}$
- Therefore  $\rightarrow$  value of closing stock = 330 units x R567  
= R187110

**1.2**

No of units available for sale :	2120
No of units sold :	(1750)
No of units on hand :	370
No of units in stocktake :	<u>(330)</u>
No of units stolen :	<u>40</u>

**1.3**

Sales : (1750 x R990) :	R1732500
Cost of sales (1750 x R567) :	(R992250)
Gross Profit :	<u>R740250</u>

2.

Sales (1750 units x R990)	R1732500
Less: cost of sales (1750 units)	(R976400)
290 x R540 =	R156600
300 x R570 =	171000
180 x R600 =	108000
950 x R550 =	522500
<u>30 x R610 =</u>	<u>18300</u>
1750 units →	R976400
Gross Profit	R756100

3. 330 units x R610 = R201300

- FIFO** - Control over stock is facilitated, particularly over the quantities that should still be in stock.
- Materials are issued at then ACTUAL purchase price, thereby being realistic.

**QUESTION E**

1. R15450

2. Sales: (June)

$$\frac{24000}{1} \times \frac{100}{40} = \underline{60000}$$

Cost of sales: (June)

$$\frac{15000}{1} \times \frac{100}{50} = \underline{30000}$$

Gross Profit: (June) = 30000

$$\text{Mark - up \%} = \frac{30000}{30000} \times \frac{100}{1}$$

$$= 100 \%$$

→

3. 30 Days nett

4. Only 60% of outstanding debt is collected within 30 days. However, creditors must be paid in full after 30 days.

5. Increases by 10%

$$\rightarrow \text{July increase} \rightarrow \frac{2400}{2400} \times \frac{100}{1} = 10\%$$

$$\rightarrow \text{August increase} \rightarrow \frac{2640}{26400} \times \frac{100}{1} = 10\%$$

$$6. \frac{900}{18000} \times \frac{100}{1} = \underline{5\%}$$

**OR**

$$\frac{450}{9000} \times \frac{100}{1} = 5\%$$

$$7. \frac{40000}{1} \times \frac{200}{100} = 80000 \rightarrow$$

8. Increase of R1000 per month.

9. No – Position of risk is low  
No cash deficits.

10. - Aggressive advertising  
- Remain competitive

11. - Mismanagement of purchases of trading stock.  
- Incorrect entries on documentation regarding cash sales / credit sales.

12. - Disciplinary Action  
- Written warning  
- Meeting with trade union  
- Punitive Action  
- Inspection

13. - Checks and balances in respect of control and monitoring of funds.  
- Authorisation vouchers must be signed for every transaction.  
- Workers must be accountable and responsible.