

QUESTION A: A CASH FLOW STATEMENT

The information below was extracted from the Accounting records of **SUNFORD TRADERS LTD**

INSTRUCTIONS: Prepare the notes to the Cash Flow Statement for the year ended 28 February 2002. (56)

INFORMATION: Extract from **Income Statement** for the year ended 28 February 2002.

Net Income before tax	??
Depreciation	R33 675
Interest on loan	23 100

SUNFORD TRADERS LTD BALANCE SHEET AS AT 28 FEBRUARY 2002

ASSETS	NOTES	2002 R	2001 R
NON-CURRENT ASSETS			
Tangible Assets	3	929 000	745 500
Financial Assets		-	-
CURRENT ASSETS			
Inventories	4	245 170	227 490
Trade & other Receivables	5	121 920	115 220
Cash & Cash Equivalents	6	2 800	2 800
TOTAL ASSETS		1 307 890	1 091 010
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Ordinary Share Capital (R10 each)	7	900 000	700 000
Share Premium	8	40 000	20 000
Distributable Reserves/Retained Income	9	38 000	32 000
NON - CURRENT & LIABILITIES			
Mortgage Loan		150 000	180 000
CURRENT & LIABILITIES			
Trade & other Payables	10	179 899	159 010
Bank Overdraft		5 340	23 435
TOTAL EQUITY & LIABILITIES		1 307 890	1 091 010

NOTES TO BALANCE SHEET

3. TANGIBLE ASSETS

	2002	2001
Land & Buildings	600 000	521 000
Equipment (carrying value)	229 000	224 500
Vehicles	100 000	-
Total	929 000	745 000

5. TRADE & OTHER RECEIVABLES

	2002	2001
Trade Debtors	118 070	107 950
Accrued Income	1 650	1 250
Prepaid Expenses	2 200	1 900
SARS- Income Tax	-	-
Total	121 920	115 220

6. CASH & CASH EQUIVALENTS

	2002	2001
Petty Cash	800	800
Cash Float	2 000	2 000
Total	2 800	2 800

10. TRADE & OTHER PAYABLES

	2002	2001
Trade Creditors	84 970	76 275
Accrued Expense Interest on Loan	2 700	3 300
SARS- Income Tax	14 880	-
Shareholders for Dividends	72 000	56 000
Total	174 550	135 575

ADDITIONAL INFORMATION

- Old equipment was sold at carrying value on 28 February 2002 and replaced by new equipment costing R43 000.
- The new delivery vehicle was bought on 28 February 2002.
- Depreciation is written off as follows:
Equipment - 15% p.a. on diminishing balance method.
Vehicles - 20% p.a. on cost price.
- The new issue of shares took place on 1 March 2001.
- An interim dividend of 40c per share was paid out on 30 September 2001.
- The total income tax is 40% of net income.

QUESTION B: ANALYSIS AND INTERPRETATION: FINANCIAL STATEMENTS

REQUIRED

The financial year of **MARS LIMITED** ends on 28 February each year. Use the following information extracted from the accounting records to prepare the following: (60)

NB: All calculations must be shown.
All answers (where applicable) must be 2 decimal places
the formulae (where applicable) must be shown.

- Calculate the following on 28 February 2008:
 - Current ratio
 - Acid Test Ratio
 (8)
- The following results were found on 28 February 2007:
 - Current ratio 2,1 : 1
 - Acid Test ratio 1,1 : 1
 - Compare the results obtained for February 2008 with those given for February 2007 (4)
 - Name **three** possible factors responsible for the change. (6)
- The Net Value (NAV) per ordinary share was 115 cents on 28 February 2007.
 - Calculate the NAV per ordinary share for 28 February 2008 (5)
 - Name the **two** factors that contributed to the change in the NAV per share. (4)
- Calculate the return on average shareholders equity on 28 February 2008 (5)
- Comment on your calculations in Question 6 above. (4)
- Calculate the following for the current year:
 - Earnings per share (EPS) Dividends per share (DPS) (8)
- Should the shareholders be happy with their investment? Comment. (5)
- Calculate the return on capital employed, and comment on learning if the interest rate is 18% p.a. (8)

INFORMATION:

- Extract from the Income Statement for the year ended 28 February 2008:

Cash Sales	R590 000
Credit Sales	299 900
Interest Expense	70 200
Depreciation on Equipment	65 340
Depreciation on Vehicles	67 660
Net income before Tax	131 826
Net income after Tax	68 550

- List of balances on 28 February 2008:

	Notes	28 Feb 2008	28 Feb 2007
Ordinary Share Capital		R 505 500	R 445 500
Retained Income	3	111 060	93 060
Inventories		183 820	89 760
Trade & other Receivables	2	66 950	74 100
Cash & Cash Equivalents		32 610	15 180
Fixed/Tangible Assets/Property Plant & Equipment	1	826 960	776 820
Non-current Liabilities: Mortgage Loan		450 000	330 000
Trade & other Payables	4	43 800	87 300

Note: The par value of the shares was R1,00

- Extract from the notes to the financial statements:

1. Fixed Tangible Assets	Equipment	Vehicles	Total
Cost Price	460 680	669 240	1 129 920
Accumulated Depreciation	(82 500)	(270 600)	(353 100)
Carrying value at beginning of the year	378 180	398 640	(353 100)
Cost Price	410 190	891 990	1 320 180
Accumulated Depreciation	(139 260)	(335 940)	(475 200)
Carrying value at end of the year	270 930	556 050	826 980

Note: Motor Vehicles were sold at book value (carry value) but no vehicles were bought. Equipment was bought but none was sold.

2. Trade & other Receivables	2008	2007
Trade Debtors	51 410	74 100
SARS: Income Tax	15 540	-
Total	66 950	74 100

3. Retained Income/Accumulated Profits	
Balance on last day of previous year	93 060
Net profit after tax for the year	68 550
Ordinary dividends	(50 550)
Paid	(45 930)
Recommended	(4 620)
Balance on last day of year	111 060

2. Trade & other Payables	2008	2007
Trade Creditors	39 180	17 984
SARS: Income Tax	-	31 350
Shareholders for Dividends	4 620	37 966
Total	43 800	87 300

QUESTION C: COMPANY FINANCIAL STATEMENTS (70)

1. BALANCE SHEET
Snooze Easy Limited's financial year ends annually on 30 June.

- Calculate the depreciation on equipment for the year. (5)
- Use the information below and complete the Balance Sheet on 30 June 2008. (44)
- On the 30 June 2008, Snooze Easy Limited shares are sold at R14,50 per share on the JSE.
 - Do you think the shares would be worth buying?
 - Give one reason for your answer by quoting figures. (4)

INFORMATION

1. Ordinary share capital and premium
The authorized share capital comprises of 200 000 ordinary shares with a par value of R10,00 each. 150 000 shares were issued on 1 July 2005 at a premium R2,50 per share. 20 000 new shares were issued on 1 September 2007 at a premium of R3,75 per share.

2. Appropriation Account
The appropriation account is as follows in the General Ledger:

DR		APPROPRIATION ACCOUNT				CR	
Date	Details	Fol	Amount	Date	Details	Fol	Amount
2008 June 30	Income Tax		124 000	2008 June 30	Profit & Loss		139 000
	Dividends on ordinary shares		90 000		Retained Income		300 000
	Retained Income		225 000				
			439 000				439 000

3. Non-current liabilities

The loan statement from WP Bank reflected the following:

- A balance of R600 000 at the beginning of the year and R500 000 at the end of the year.
- Repayments are made on 31 May each year.
- The interest on loan is 15% p.a.

4. Tangible Assets

- Land and building is valued at R1 627 000
- The cost price of equipment at the beginning of the year was R700 000 and accumulated depreciation was R260 750. New equipment of R250 000 was purchased on 1 April 2008. No equipment was sold. Equipment is depreciated at 10% p.a. on cost price.

5. Dividends on Ordinary shares

The directors declared a dividend of 30 cents per share on 30 June 2008.

6. Other Post-adjustment Trial balances

	R
Creditors Control	309 000
Bank Overdraft	75 000
Cash Float	12 000

7. Financial Indicators

Current Ratio	2 : 1
Asset Test Ratio	0.8 : 1

8. Net asset value

The net asset value per ordinary share is R13,97

QUESTION D: INVENTORY SYSTEMS (30)

GEMS, owned by S. Siphos, sells cellphones. The business uses the periodic inventory system and the weighted average of valuating stock. The financial year ends on 29 February 2008.

REQUIRED

- Use the weighted average method to calculate the following (Round off calculation to the nearest Rand):
 - Value of stock on hand on 29 February 2008. (6)
 - The number of cellphones stolen. (4)
 - Gross profit for the year ended 29 February 2008 (6)
- The owner, S Siphos, is deciding to change the stock valuation method from the weighted average to FIFO. Calculate the Gross Profit using the FIFO method. (7)
- Calculate the value of closing stock using the FIFO method. (3)
- Which method of stock valuation provided above do you consider to be a better method for this business? Give ONE reason for your choice. (4)

INFORMATION

The following information appeared in the records of GEMS for the year ended 29 February 2008.

	Units	Unit Price	Total Price
Cellphones on hand: 1 March 2007	290	R540	R156 600
Purchase of Cellphones:			
June 2007	300	R570	R171 000
September 2007	180	R600	R108 000
November 2007	950	R550	R522 500
January 2008	400	R610	R244 000
Cellphones per stock take: 29 Feb 2008	330	?	?
Sale of Cellphones	1 750	R990	?

The business uses a fixed selling price of R990 to remain competitive in the market. Round off calculation to the nearest Rand.

QUESTION E (46)

Garth stores started business on 1 March 20.7

The following broad policy is presently in operation:

- Cash purchases of goods are 50% of total purchases.
- The monthly fixed stock level is R20 000.
- Cash sales are 40% of total sales.
- Debtors generally pay as follows:
60% one month after the sale
35% two months after the sale
5% are written off.
- Garth Stores has on its books 10 employees on equal pay.

GARTH STORES CASH BUDGET FOR THE THREE MONTHS ENDED 31 AUGUST 20.7

	JUNE	JULY	AUGUST
RECEIPTS			
Cash sales	24 000	26 400	29 040
Receipts from Debtors	41 400	38 400	36 360
Rent Income	4 600	4 600	4 600
	70 000	69 400	70 000
PAYMENTS			
Cash purchases of trading goods	15 000	16 500	18 150
Creditors for purchases of goods	20 000	15 000	16 500
Salaries & Wages	18 000	18 900	18 000
Other expenses	13 500	14 500	15 500
	66 500	64 900	68 150
Surplus Deficit	3 500	4 500	?
Cash at the beginning of the month	3 600	9 100	?
Cash at the end of the month	9 100	?	?

INSTRUCTION

- Calculate the cash at bank as at 31 August 20.7 (3)
- What is the mark up on cost of sales? Show workings. (8)
- What is the creditor's payment period?
Give a reason for your answer. (1)
- Comment on the comparison between the debtors collection period and the Creditor's payment period as worked out in (3) above. (3)
- What is the expected pattern of sales for the period June to August?
Give a reason for your answer. (4)
- Two workers will be awarded a bonus in July. What percentage of the monthly salary is this bonus? (5)
- Calculate the total sales for May 20.7 (5)
- Comment on the pattern of "Other expenses". (2)
- Should Garth Stores consider taking out a long term loan?
Give the reasons for your answer. (3)
- If the sole trader intends increasing sales by 30% p.m. what strategies could be put in place? (2)
- Fraud, theft, mismanagement and non-compliance are rife in both the private and public sectors. What aspects of the budget could lead to fraud, theft and mismanagement? (3)
- What action can be taken against staff for non-compliance of the business policy? (3)
- What controls must be put in place to prevent fraud, theft, mismanagement and non-compliance? (2)

