

LIVE: FINAL EXAM PREPARATION

Lesson Description

In this lesson we:

- Work through various exam-type questions in preparation for the final exams.


Improve your Skills
Question 1

Audit Concepts

REQUIRED:

Choose the audit opinion from COLUMN B that best describes the audit report in COLUMN A. Write the letter (A – C) next to the question number (1.1.1 – 1.1.3).

(6)

COLUMN A (report)		COLUMN B (opinion)
1.1	Qualified audit report	A In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Shabba Ltd as at 28 February 2013.
1.2	Unqualified audit report	B We have not been able to obtain sufficient audit evidence to provide for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Khothule Ltd for the year ended 28 February 2013.
1.3	Disclaimer report	C In our opinion, except for the effect of the unauthorised interest-free loan to the Chief Executive Officer, the annual financial statements present fairly, in all material respects, the financial position of Dai Ltd.

1.1	
1.2	
1.3	



Question 2

Fixed assets

Computers were stolen on 28 February 2014, the end of the financial year. The computers were originally bought on 1 December 2012 for R54 000. The depreciation rate on computers is 33 $\frac{1}{3}$ % on cost. The insurance claim of R20 000 will be processed during April 2014.

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Question 3

The following relates to the mortgage loan from Zola bank:

- Mortgage loan at the beginning R300 000
- Interest is capitalised R 8 000
- Repayment of loan and interest for the year R 56 000
- Capital repayment of the loan will be the same in the next financial year ?

NON-CURRENT LIABILITIES	
Loan from: Zola bank	
CURRENT LIABILITIES	
Trade and other payables	
Current portion of loan	

Question 4

Rent income

Rent income, R115 500 included the rent for March and April 2014. Rent was increased by R500 per month on 1 October 2013.



Question 5

Prepare the following notes to financial statements on 28 February 2014:

- (a) Share capital (6)
- (b) Retained Income (11)

INFORMATION:

A Share Capital

Of the 500 000 authorised ordinary shares, 400 000 were issued by the end of the year. Three quarters of these shares were issued for 600 cents each in 2009 while a quarter was sold for 780 cents per share on 20 February 2014.

These new shares were sold cum (with) dividend

At the end of the financial year, 28 February 2014, 20 000 ordinary shares were repurchased for 800 cents per share. These shareholders were entitled to final dividends.

B The following balances appeared in the books on 28 February 2014:

Retained income (1 March 2013)	580 500
Earnings per share	165 cents

D Dividends

An interim dividend of 60 cents per share was paid. The new shares issued did not qualify for the interim dividend. A final dividend of 80 cents per share was declared on 26 February 2014.

(a) SHARE CAPITAL		
Authorised		
500 000 ordinary shares		
Issued Share Capital		
300 000 Ordinary shares in issue at the beginning of the year @ R6.00	1 800 000	
		6



(b) RETAINED INCOME	
Balance at the beginning of the year	
Net profit after tax	

11

Question 6

Inventory

Inventories comprise trading stock only. The business uses the weighted average method to value stock. The stock records show, among others, the following details:

	Quantity (units)	Cost price per unit	Total cost
Stock of cement bags at the beginning of the year	650	R80,00	R 57 250
Purchases	6 300		R569 500
April 2013	2 900	R85,00	R246 500
October 2013	3 400	R95,00	R323 000
Total available for sale	6 950		R626 750
Returns (October 2013)	250		
Sales	?	120	444 000
Closing stock	2 800		





6(a) Calculate the weighted average cost price per unit.

5

(b) Calculate the number of cement bags lost due to theft.

5

(c) Calculate the cost of sales.

3

Question 7
Internal Control

D Batty owns THREE shops. Apart from cricket bats, they also sell soccer balls and rugby jerseys.

REQUIRED:

Identify ONE problem in relation to each item sold, quoting figures in identifying each problem. In EACH case, advise Batty on how to solve the problem.

(9)

INFORMATION:

	Cricket bats	Soccer balls	Rugby jerseys
Number of units sold	615	1 435	200
Opening stock	20	80	10
Purchases	650	1 500	360
Closing stock	45	100	170
Stock turnover rate	19,4 times	9 times	0,5 times
Debtors' collection period	62 days	30 days	20 days
Average mark-up	74,2%	40%	100%

Identify ONE problem in relation to each item sold in the shop, quoting figures in identifying each problem. In EACH case, advise Batty on how to solve the problem.

Cricket bats

PROBLEM	SOLUTION

Soccer balls

PROBLEM	SOLUTION



Rugby jerseys

PROBLEM	SOLUTION

(9)

Question 8

The directors wish to take out a loan to raise additional capital for the company but they are unsure about whether to do so. Advise them on whether it is wise to borrow money by commenting on the appropriate financial indicators. (5)

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Answers
Question 1

1.1	C	✓✓
1.2	A	✓✓
1.3	B	✓✓

Question 2

Depreciation	18 000
Cost price	54 000
Acc depreciation (4 500+18 000)	(22 500)
Carrying value	31 500
Selling price	20 000
Loss on sale of asset	11 500
54 000x33.33/100x 3/12= 4 500	
54 000x 33.33/100x 12/12= 18000	
Loss of stolen equipment	
(54 000 □ - 4 500 □ - 18 000 □ = 31 500 - 20 000 □)	☑(11 500)

Question 3

NON-CURRENT LIABILITIES	☑204 000
Loan from: Zola bank (300 000✓ + 8 000 ✓ - 56 000 ✓ - 48 000✓✓)	204 000
CURRENT LIABILITIES	☑1 090 000
Current portion of loan	☑48 000



Question 4

$115\,500 - (7 \times 500) \times 3\,500 = 112\,000$

$112\,000 / 14 = 8000$ old rent

$8000 + 500 = 8500$ new rent

$8500 \times 2 = 17\,000$

Income statement

RENT INCOME (115 500✓ - 17 000 ✓✓✓) 98 500✓

Balance sheet

Trade and other payables

Deferred Income/Income received in advance 17 000✓✓

Question 5

(a) SHARE CAPITAL		
Authorised		
500 000 ordinary shares		
Issued Share Capital		
300 000 Ordinary shares in issue at the beginning of the year @ R6.00		1 800 000
100 000 Ordinary shares issued at R7.80 on 27 February 2014		780 000✓✓
20 000 Ordinary shares repurchased for R6.45 ✓✓ during the year		(129 000) ☑
380 000 Ordinary shares at the end of the year		2 451 000 ☑

6
6

(b) RETAINED INCOME		
Balance at the beginning of the year		580 500✓
Net profit after tax (165/100✓ X 380 000✓)		627 000☑
Repurchase of 20 000 ordinary shares (20 000 X 1.55) (See a)		(31 000) ☑☑
Dividends		(500 000)
Paid (300 000 ✓ x R0.60)		180 000✓
Recommended (400 000 ✓ X R0.80)		320 000✓

11
11



Balance at the end of the year	676 500 <input checked="" type="checkbox"/>

Question 6

(a)	Calculate the weighted average cost price per unit.	<table border="1"> <tr><td>5</td></tr> <tr><td>5</td></tr> </table>	5	5
	5			
	5			
<p style="text-align: center;">✓ ✓ ✓ ✓ <input checked="" type="checkbox"/> (One part correct)</p> <p style="text-align: center;">$(626\ 750 - 23\ 750) / (6950 - 250) = R90$</p> <p style="text-align: center;">(603 000 - 2marks) (6 700 - 2 marks)</p>				

(b)	Calculate the number of cement bags lost due to theft	<table border="1"> <tr><td>5</td></tr> <tr><td>5</td></tr> </table>	5	5
	5			
	5			
<p style="text-align: center;">✓ ✓ ✓ ✓ <input checked="" type="checkbox"/> (One part correct)</p> <p style="text-align: center;">$6\ 950 - 250 - 2\ 800 - 3\ 700 = 200$ units</p>				

(c)	Calculate the cost of sales	<table border="1"> <tr><td>3</td></tr> <tr><td>3</td></tr> </table>	3	3
	3			
	3			
<p style="text-align: center;">✓ <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> (One part correct)</p> <p style="text-align: center;">$444\ 000 / 120 = 3\ 700 \times 90 = R333\ 000$</p> <p style="text-align: center;">(See 3.2.2)</p> <p style="text-align: center;">OR</p> <p style="text-align: center;">✓ <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> (One part correct)</p> <p style="text-align: center;">$626\ 750 - 23\ 750 - 252\ 000 - 18\ 000 = 333\ 000$</p>				

Question 7

- ✓ Identifying problem
- ✓ Quoting figure
- ✓ Solution to problem

Cricket bats

PROBLEM	SOLUTION
Debtors take too long to pay their debts, 62 days.	Encourage debtors to pay faster by giving discounts for early payment, charge interest after 30 days, etc.

Soccer balls

PROBLEM	SOLUTION
45 Soccer balls are stolen (lost)	Improve internal control measures. More regular stock





	taking during the year.
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Rugby jerseys

PROBLEM	SOLUTION
Stock turnover rate is 0,5 times a year. Stock takes too long to sell.	Decrease the mark-up percentage. Market product by advertising more.

Question 8

<u>Debt Equity Ratio (Gearing/Leverage)</u>	<u>Returns on total capital employed</u>
<p>Borrowed Capital: Own capital i.e. Non Current liabilities: Shareholders Equity.</p> <p>Shows how the business is financed. If a great deal of loan is used, then the financial risk is increased. This is because even if profits drop, loans and interest will still have to be paid.</p> <p>When the debt equity ratio is greater than 1, the business is highly geared and the risk is high.</p> <p>If the business relies, to a large extent, on owner's equity, it may be regarded as a low risk business. This is because the capital never has to be repaid.</p> <p>When the debt-equity ratio is less than 1, the business is lowly geared and the risk is low.</p>	$\frac{\text{Net income before tax and interest on loans}}{\text{Average capital employed}} \times 100\%$ <p>1</p> <p>It is this return which must be compared with the interest rate on borrowed capital to see whether or not it is favourable to make use of borrowed capital.</p> <p>NOTE: Return > interest = favourable to borrow providing risk is not too great POSITIVE GEARING</p> <p>Return < interest = not favourable to borrow. NEGATIVE GEARING</p>

(4)

