

**SOLUTIONS TO HOMEWORK: SESSION 3**  
**TOPICS 1 & 2: COMPANIES FINANCIAL STATEMENTS**

**QUESTION 5**

**5.1**

**5.1.1** Calculate the correct net profit before tax.

Incorrect net profit before tax		
<u>Add:</u>	377 200	✓
Trading Stock Surplus	9 000	✓✓
Rent income	10 800	✓✓
<u>Less:</u>		
Depreciation	(3 000)	✓
Provision for bad debts adjustment	(1 500)	✓
Directors Fees	(20 000)	✓✓
Interest on Loan	(51 200)	✓✓
Correct net profit before tax	321 300	☑ [12]

**5.1.2 Sabuso Ltd.****Notes to the Financial Statements on 28 February 2008**

Tangible Assets	Equipment
Cost at beginning of the year	275 000√
Accumulated depreciation at beginning of year	(64 000) √
Carrying value at beginning of year	211 000☑
<b>Movements</b>	
Additions at cost	70 000√
Depreciation	(25 000) √
Cost at end of year	345 000√
Accumulated depreciation at end of year	(89 000) √
Carrying value at end of year	256 000☑

**[8]****5.1.3 Sabuso Ltd.****Balance Sheet on 28 February 2008**

<b>ASSETS</b>	
Non-current assets	266 000☑
* Tangible assets	256 000☑
* Fixed Deposit : FNB	10 000√☑
Current assets	735 000☑
Inventories	480 000
Trade and Other Receivables	185 000
* Cash + Cash Equivalents (5 000√ + 65 000√)	70 000√
<b>TOTAL ASSETS</b>	<b>1 001 000☑</b>

**[9]**

<b>EQUITY AND LIABILITIES</b>			
Ordinary shareholders' equity		600 000✓	
* Ordinary Share Capital		300 000✓	
* Ordinary Share Premium		27 500✓	
Retained Income		272 500	(3)
Non-current liabilities			
* Loan : ABSA (299 200✓ - 66 000✓)		233 200☑	(3)
Current liabilities		167 800☑	
Trade and other payables ( 16 600 ✓ + 70 000✓ + 9 200✓ )		95 800☑	
* Current portion on loan (5 500 X 12)		66 000✓☑	
* Bank Overdraft		6 000✓✓	(10)
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1 001 000☑</b>	<b>[25]</b>

5.1.4 Answer the following Questions:

5.1.4.1	(a)	<ul style="list-style-type: none"> <li>Shortened Income Statement in terms of the Companies Act. ✓✓</li> <li>Contains only disclosable Incomes and Expenses.</li> </ul>	(2)
	(b)	<ul style="list-style-type: none"> <li>Easier to understand.</li> <li>Contains only material items (Immaterial Items not shown.)</li> <li>Confidential information need not be shown. 2 X ✓✓</li> </ul>	(4)
5.1.4.2	<p><b>Name of Concept</b> ✓ : List any one of Going-Concern, Matching, Materiality, Historic Cost, Prudence, Business Entity.</p> <p><b>Explanation:</b> ✓✓ Explain one of the above.</p> <p><b>Example:</b> ✓ Practical example</p>		(4)

<b>5.1.4.3</b>	<ul style="list-style-type: none"> <li>• Use of Historical Cost rule</li> <li>• Certain assets are not shown (goodwill, quality of management)</li> <li>• Time delay before publication (could be 6 months)</li> <li>• Directors report often only focuses on positive aspects etc. 2 X √√</li> <li>• Might be abridged statements</li> <li>• Materiality Etc.</li> </ul>	<b>(4)</b>
----------------	---	------------

**TOTAL MARKS: 51**

**5.2 CORPORATE GOVERNANCE AND AUDITING**

<b>5.2.1</b>	<p><b>(a) Refer to Example A.</b> To which interested party is this report aimed? Shareholders. √</p>	<b>(1)</b>
	<p><b>(b) Who prepared this report?</b> Directors√ or Chairman</p>	<b>(1)</b>
<b>5.2.2</b>	<p>Qualifications, Leadership Skills, Management Skills, Gender Equity, Black Economic Empowerment, Honesty/Ethics, Proven track record etc.</p> <p style="text-align: center;"><b>(Any 2 X √√)</b></p>	<b>(4)</b>
<b>5.2.3</b>	<p><b>Refer to Example B.</b></p> <p><b>(a) (Any 1 X √√)</b></p> <ul style="list-style-type: none"> <li>• Ethically correct to do so. (Put something back into the Community)</li> <li>• Companies benefit from the communities they serve.</li> <li>• Goodwill earned enhances companies sustainability.</li> <li>• Profits are likely to increase due to support of communities in the future.</li> </ul>	<b>(2)</b>
	<p><b>(b) (Explain one good point)</b></p> <ul style="list-style-type: none"> <li>• Ethical conduct and integrity leads to long term (sustainable) success. (profitability)</li> <li>• No-one wants to do business with people they don't trust.</li> <li>• Creates good corporate culture (values and attitudes)</li> <li>• Guide employees in dealing with each other, customers and other stakeholders. etc.</li> </ul> <p style="text-align: right;"><b>(Any valid point √√√ well explained)</b></p>	<b>(3)</b>

**[11]**

**TOTAL MARKS: 70 (5.1= 59 + 5.2 = 11 total = 70)**