

Name _____

QUESTION 4: AUDIT REPORT AND COMPANY FINANCIAL STATEMENTS

(80 marks; 45 minutes)

- 4.1 Choose a term in COLUMN B that matches an explanation in COLUMN A. Write only the letters (A–E) next to the question numbers (4.1.1 to 4.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
4.1.1	Reflects the financial position of the business on a specific date	A	Audit report
4.1.2	Shows whether the business made a profit or loss	B	Cash Flow Statement
4.1.3	Provides details about the movement of money with regard to operating, investing and financing activities	C	Balance Sheet
		D	Income Statement
4.1.4	Provides an unbiased opinion on the reliability of the financial statements of a business	E	Directors' report

(4 x 1) (4)

4.2 AUDIT REPORT

Extract from the audit opinion of Everest Ltd for the financial year ended 30 April 2018:

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 April 2018 and the results of their operations and cash flow for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2008 (Act 71 of 2008).

Kego and Murray Associates
Chartered accountants (SA)

31 July 2018

REQUIRED:

- 4.2.1 Choose the correct word from those given in brackets. Give ONE reason.
Everest Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report. (3)
- 4.2.2 Give ONE reason why the Companies Act requires public companies to be audited by an independent auditor. (2)
- 4.2.3 Newspaper reports have indicated that Kego and Murray Associates have been found guilty of misconduct in terms of audit work done at several large firms. Explain how this may influence shareholders of Everest Ltd. State TWO points. (4)

4.3 MVVS LTD

The information relates to the financial year ended 31 March 2019.

REQUIRED:

4.3.1 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 31 March 2019. (53)

4.3.2 Complete the following notes to the Balance Sheet:

- Fixed/Tangible Asset Note (8)
- Ordinary share capital (6)

INFORMATION:

Figures extracted from the Pre-adjustment Trial Balances on 31 March:

	2019	2018
	R	R
Ordinary share capital	9 300 000	4 800 000
Mortgage loan: Sapphire Bank	1 430 200	1 658 000
Land and buildings	12 500 000	12 500 000
Vehicles	1 377 000	750 000
Equipment	?	398 000
Accumulated depreciation on vehicles	?	475 000
Accumulated depreciation on equipment	?	117 500
Provision for bad debts	?	30 100
Trading stock	364 200	
Debtors' control	578 000	
Sales	10 563 280	
Cost of sales	6 236 000	
Rent income	99 500	
Directors' fees	1 262 100	
Water and electricity	218 000	
Telephone	75 600	
Audit fees	104 000	
Sundry expenses	61 001	
Salaries and wages	1 280 000	
Employer's contributions (medical, pension and UIF)	316 000	
Bad debts	22 300	
Consumable stores	53 200	
Interest income	?	
Insurance	79 500	
Depreciation (on equipment sold)	1 750	
Interest on loan	?	
Bad debts recovered	6 000	
Ordinary share dividends (interim)	375 000	

Adjustments and additional information:

- A. A credit invoice for R36 720 (after deducting a 10% trade discount) issued on 31 March 2019, was not recorded. Goods are marked up at 70% on cost.
- B. The physical stock count on 31 March 2019 revealed the following on hand:
- Trading stock, R334 500
 - Consumable stores, R3 400
- C. Debtor S Magnum was declared insolvent. His estate paid R2 000, which was 20% of his debt. The difference must be written off as a bad debt.
- D. R1 800 was received from a debtor, J Misting, whose debt had previously been written off. The bookkeeper incorrectly credited the amount to the Debtors' Control Account. Correct the error.
- E. Adjust the provision for bad debts to R28 500.
- F. Insurance includes an annual premium of R51 000 paid for the period 1 January 2019 to 31 December 2019.
- G. An employee was left out of the Salaries Journal for March 2019. The following details are applicable:
- Net salary of the employee, R9 100
 - The deductions by the employer totalled 30% of the gross salary
 - Employer's contributions were R2 200
- H. Interest on loan is capitalised. A fixed monthly repayment (including interest) of R25 400 was paid for the financial year.
- I. Fixed assets and depreciation:
- (i) Vehicles:
- Details for the three vehicles are as follows:

	Cost price	Accumulated depreciation 31 March 2018	Date purchased
1	R350 000	R315 000	1 October 2013
2	R400 000	R160 000	1 April 2016
3	R627 000		30 November 2018

- Vehicles are depreciated at 20% p.a. on cost.

(ii) Equipment:

- Equipment was sold for R9 600 cash on 31 August 2018. Only the following entries in respect of this sale were processed:

Cost price	28 000
Accumulated depreciation at the date of disposal	21 500
Depreciation for the current financial year	1 750

- Depreciation on the remaining equipment is calculated at R92 500 after taking all of the above into account.

J. Interest income is the missing figure in the Income Statement.

K. Income tax is calculated at 28% of the net profit. The net profit before tax was R691 000.

L. Shares and dividends:

- The company has an authorised share capital of 8 000 000 shares.
- The company had 1 200 000 shares in issue on 1 April 2018.
- 150 000 shares were repurchased on 30 November 2018. EFT payments totalling R825 000 were made for these shares.
- 850 000 additional shares were issued on 30 September 2018.

QUESTION 4

4.1

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4.2 AUDIT REPORT

4.2.1 Choose the correct word from those given in brackets.

Give ONE reason.

4.2.2 Give ONE reason why the Companies Act requires public companies to be audited by an independent auditor.

4.2.3 Newspaper reports have indicated that Kego and Murray Associates have been found guilty of misconduct in terms of audit work done at several large firms. Explain how this may influence shareholders of Everest Ltd. State TWO points.

4.3 MVVS LTD

4.3.1 Statement of Comprehensive Income (Income Statement) for the year ended 31 March 2019

Sales	
Cost of sales	
Gross profit	
Operating income	
Rent income	99 500
Gross operating income	
Operating expenses	
Directors' fees	1 262 100
Water and electricity	218 000
Telephone	75 600
Audit fees	104 000
Sundry expenses	61 001
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	
Net profit before tax	691 000
Income tax	
Net profit after tax	

4.3.2 NOTES TO THE BALANCE SHEET

Fixed/Tangible Assets

	Land and buildings	Vehicles	Equipment
Carrying value at beginning of financial year	12 500 000	275 000	280 500
Cost	12 500 000	750 000	398 000
Accumulated depreciation	-	(475 000)	(117 500)
Movements			
Additions at cost	-		-
Disposals at carrying value	-	-	
Depreciation	-		(94 250)
Carrying value at end of financial year	12 500 000		
Cost	12 500 000	1 377 000	
Accumulated depreciation	-		

Ordinary share capital

Authorised:		
8 000 000 shares		
Issued:		
1 200 000	shares in issue at beginning	