QUESTION 3: FINANCIAL STATEMENTS AND AUDIT REPORT (75 marks; 45 minutes)

non-current assets; current assets; equity; operating expenses; operating income

3.1.1 Trade and other receivables

3.1.2 Adjustments of provision for bad debts (decrease)

3.1.3 Fixed deposit maturing in three years' time

3.1.4 Trading stock deficit (4)

3.2 **TEMBISO LTD**

You are provided with information for the financial year ended 28 February 2018.

INFORMATION:

A. Balances/Totals on 28 February:

	2018	2017
Ordinary share capital	8 816 000	6 976 000
Retained income	384 600	376 600
Loan: LSO Bank	?	1 725 500
Trade creditors	414 120	
SARS: Income tax (provisional payments)	341 800	
Sales	?	
Cost of sales	4 856 000	
Total operating income	879 440	
Salaries and wages	501 200	
Audit fees	65 400	
Rent expense	79 240	
Directors' fees	497 800	
Sundry expenses	91 680	
Interest on fixed deposit	?	
Interest on loan	242 500	

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B. Adjustments and additional information:

(a) **Sale of goods:**

The company maintains a mark-up of 40% on cost. Note that old goods costing R96 000 (included in cost of sales) were sold at 10% below cost price.

(b) **Audit fees:**

75% of the annual fees have been paid.

(c) **Directors' fees:**

The company has three directors who earn the same fee. One director was paid two months in advance.

(d) **Rental:**

A storeroom was rented from 1 June 2017 at R11 200 per month. Rent increased by 7,5% on 1 December 2017. Provide for outstanding rent.

(e) **Loan: LSO Bank**

- Fixed monthly repayments, including interest, are R31 600.
- Capitalised interest amounted to R242 500 for the year ended 28 February 2018.
- Interest for the next financial year is expected to be R162 000.
- Part of the loan will be repaid within the next financial year.

(f) **Income tax for 2018:**

- R31 300 is still due to SARS.
- The correct net profit after tax is R959 400.

(g) **Share capital and dividends:**

Authorised share capital: 1 600 000 ordinary shares

1 March 2017	80% of the shares were in issue.
1 May 2017	300 000 shares were repurchased at R465 000 above the average share price.
31 August 2017	Interim dividends paid: 30 cents per share.
31 October 2017	Additional shares were issued.
28 February 2018	Final dividends were declared.

Complete the following for the year ended 28 February 2018:

3.2.1 Income Statement (Statement of Comprehensive Income) (28)

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3.2.1 **TEMBISO LTD**

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

Sales		
Cost of sales	**(4 856 000)**	
Gross profit		
Other operating income	**879 440**	
Gross income		
Operating expenses		
Salaries and wages	**501 200**	
Operating profit		
Interest income		
Net profit before interest expense		
Interest expense		
Net profit before tax		
Income tax		
Net profit after tax	**959 400**	**28**

3.2.2 Notes to the Balance Sheet (Statement of Financial Position) for:

- Ordinary share capital (7)
- Retained income (7)

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3.2.2 **ORDINARY SHARE CAPITAL**

AUTHORISED SHARE CAPITAL

1 600 000 ordinary shares

ISSUED SHARE CAPITAL

1 480 000	Ordinary shares on 28 February 2018	8 816 000	7

RETAINED INCOME

Balance on 1 March 2017	376 600	
Ordinary share dividends		
Balance on 28 February 2018		7

3.2.3 Equity and Liabilities section of the Balance Sheet (16)

3.2.3 **EQUITY AND LIABILITIES SECTION OF THE BALANCE SHEET**

SHAREHOLDERS' EQUITY		
Ordinary share capital	8 816 000	
Retained income		
NON-CURRENT LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		16

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3.3 **AUDIT REPORT**

Extracts from the audit report of Tembiso Ltd are provided.

INFORMATION:

	To Shareholders
	We have audited the financial statements set out on pages 8 to 52 ...
	Opinion
Point 1	In our opinion the financial statements present fairly, in all material respects, the financial position of the company as at 28 February 2018 ...
Point 2	... in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act (Act 71 of 2008) of South Africa.
	Basis for Opinion
Point 3	We are independent of the company ...
Point 4	We have fulfilled our ethical responsibilities, which are consistent with international standards ...
Point 5	... and the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

3.3.1 **Refer to points 1 to 3.**

Why did the auditors mention these points? Give ONE explanation for EACH point. (5)

3.3.1

Point 1 **Opinion** 1

Point 2 **IFRS and Companies Act** 2

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Point 3 Independent

2

3.3.2 **Refer to points 4 and 5.**

Explain TWO examples of:

- Ethical responsibilities
- Audit evidence (8)

75

3.3.2

Point 4 **TWO examples of ethical responsibilities:**

Example 1:

Example 2:

4

Point 5 **TWO examples of audit evidence:**

Example 1:

Example 2:

4

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