

Name \_\_\_\_\_

#### **QUESTION 4: BALANCE SHEET AND AUDIT REPORT (70 marks; 40 minutes)**

##### **4.1 CONCEPTS**

Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (4.1.1 to 4.1.5) in the ANSWER BOOK

4.1.1 A fixed deposit maturing within the next 12 months will be shown as cash and cash equivalent in the Balance Sheet.

4.1.2 Earnings per share are calculated using the net profit before tax.

4.1.3 Net current assets are also referred to as net working capital.

4.1.4 Provision for bad debts is a liability.

4.1.5 Total capital employed consists only of ordinary shareholders' capital and retained income. (5 x 1) (5)

##### **4.2 MODISE LTD**

The information below relates to Modise Ltd. The financial year ended on 28 February 2018.

##### **REQUIRED:**

4.2.1 Prepare the Retained Income Note to the Balance Sheet on 28 February 2018. (12)

4.2.2 Complete the Balance Sheet on 28 February 2018. Show ALL workings. (38)

4.2.3 The directors want to give R500 000 to a local school. Give TWO reasons why companies take such decisions. (4)

##### **INFORMATION:**

###### **A. Extract of balances on 28 February 2018:**

	R
Ordinary share capital	13 650 000
Retained income (1 March 2017)	567 000
Fixed assets at carrying value	?
Fixed deposit: Peoples Bank	?
Loan from director	630 000
Debtors' control	554 000
Provision for bad debts (1 March 2017)	31 300
Bank (favourable)	?
Trading stock	1 015 000
Consumable stores on hand	25 000
Creditors' control	?
Expenses prepaid	19 240
SARS: Income tax (provisional tax payments)	900 000

**B. Share capital:**

- The authorised share capital of Modise Ltd is 6 500 000 ordinary shares.
- On 20 February 2018, 250 000 shares were repurchased at 25 cents above the average share price. This has been recorded.
- On 28 February 2018, the ordinary share capital comprised 4 550 000 ordinary shares.

**C. Dividends:**

- Interim dividends of R672 000 were paid on 28 August 2017.
- A final dividend of 36 cents per share was declared on 28 February 2018. All shares (including the shares repurchased on 20 February 2018) qualify for final dividends.

**D. Net profit before tax:**

- After taking all relevant information into account, the net profit before tax was accurately calculated to be R3 400 000.
- Income tax at 27% of the net profit must be taken into account.

**E. Fixed deposit:**

The interest on the fixed deposit was R48 000. The fixed deposit was invested on 1 May 2017 at 8% p.a.

**F. Loan from director:**

- The interest-free loan was received on 1 September 2015.
- This loan is to be repaid over six years in equal monthly instalments. The first repayment was made on 30 September 2015. All payments have been made to date.

**G. Provision for bad debts:**

The provision for bad debts must be adjusted to 6% of the outstanding debtors.

**H. The current ratio calculated after all adjustments was 1,5 : 1.**

### 4.3 AUDIT REPORT

You are provided with an extract from the audit report of the independent auditors of Denga Limited.

#### REQUIRED:

- 4.3.1 Briefly explain the role of an independent auditor. (2)
- 4.3.2 Did Denga Limited receive a qualified/unqualified/disclaimer of opinion audit report? Briefly explain your choice. (3)
- 4.3.3 State THREE possible consequences for the independent auditor if he had NOT mentioned the advertising expense in his report. (6)

#### INFORMATION:

##### **EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS**

###### **Independent Auditors' Responsibility**

We have audited the annual financial statements of Denga Limited, set out on pages 27 to 41 for the year ended 31 March 2017. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

###### **Basis for ... Opinion**

The advertising expense of R500 000 in the Income Statement could not be verified, as no documentation existed for part of this expenditure.

###### **... Audit Opinion**

In our opinion, except for the advertising expenses in the Income Statement which could not be verified, the financial statements fairly represent the financial position of the company at 31 March 2017.

**Khan & Kruger**

Chartered Accountants (SA), 15 May 2017

#### QUESTION 4

4.1

4.1.1	
4.1.2	
4.1.3	
4.1.4	
4.1.5	

4.2 MODISE LTD

4.2.1 RETAINED INCOME NOTE

Balance at beginning of year	R567 000
Ordinary share dividends	
Balance at end of year	

#### 4.2.2 MODISE LTD

##### BALANCE SHEET ON 28 FEBRUARY 2018

ASSETS	
Non-current assets	
Fixed assets	
Current assets	
Inventories	
<b>TOTAL ASSETS</b>	
<b>EQUITY AND LIABILITIES</b>	
Ordinary shareholders' equity	
Ordinary share capital	13 650 000
Non-current liabilities	
Current liabilities	2 600 000
Trade and other payables	
Shareholders for dividends	
SARS: Income tax	
<b>TOTAL EQUITY AND LIABILITIES</b>	

4.2.3 The directors want to give R500 000 to a local school. Give TWO reasons why companies take such decisions.

### 4.3 AUDIT REPORT

4.3.1 Briefly explain the role of an independent auditor.

4.3.2 Did Denga Limited receive a qualified/unqualified/disclaimer of opinion audit report?

Briefly explain your choice.

4.3.3 State THREE possible consequences for the independent auditor if he had NOT mentioned the advertising expense in his report.

Point 1:

Point 2:

Point 3: