



Prof Johan Burger

**2017 Managing Institutional Capacity 1
Diploma Programme in Public Accountability
Module code 13 206 171; twenty credits
Preparation for November examination
June examination MEMORANDUM**



Part A of examination paper

- **As with June paper: OPEN BOOK**
- **Answer in spaces provided. You may do calculations on your own scrap paper**
- **PART A: Working Capital Management (US 119331 – 35 marks) Questions 1 to 3**
- **June paper posted on SUNLearn and discussed here**



Part A of examination paper

Question 1: Working capital cycle and average investment in working capital 10 marks

Calculate working capital cycle, average investment in inventory, average investment in accounts receivable, average value of accounts payable and the average investment in working capital (Rand), assuming 365 days per year for Notsorich Local Municipality. The Municipality has R4 400 000 revenue per year, costs of services amount to 50% of total revenue, purchases for goods to use during service delivery amounts to 50% of costs of services. The average age of inventory is 50 days; average collection period is 60 days and average payment period 40 days.



Part A of examination paper

To calculate:

First write down all given or derived values:

- AAI = 50 days (given)
- ACP = 60 days (given)
- APP = 40 days (given)
- Revenue = R4 400 000 (given)
- Cost of services = R2 200 000 (50% of revenue)
- Purchases = R1 100 000 (50% of cost of services)



Part A of examination paper

To calculate

Then calculate equations and write down answers on lines in paper:

- Working capital cycle: $AAI + ACP - APP$
- Working capital cycle: $50 + 60 - 40 = 70$ days



Part A of examination paper

To calculate

Then calculate equations and write down answers on lines in paper:

- Average investment in inventory:

$$\begin{aligned}\text{Inventory (R)} &= \frac{\text{Cost of services} \times \text{AAI}}{\text{Days of year}} \\ &= \frac{\text{R2 200 000} \times 50}{365} \\ &= \text{R301 369.86}\end{aligned}$$



Part A of examination paper

To calculate

Then calculate equations and write down answers on lines in paper:

- Average investment in accounts receivable:

$$\begin{aligned}\text{Accounts receivable (R)} &= \frac{\text{Revenue} \times \text{ACP}}{\text{Days of year}} \\ &= \frac{\text{R4 400 000} \times 60}{365} \\ &= \text{R723 287.67}\end{aligned}$$



Part A of examination paper

To calculate

Then calculate equations and write down answers on lines in paper:

- Average value of accounts payable:

$$\begin{aligned}\text{Accounts payable (R)} &= \frac{\text{Purchases x APP}}{\text{Days of year}} \\ &= \frac{\text{R1 100 000 x 40}}{365} \\ &= \text{R120 547.95}\end{aligned}$$



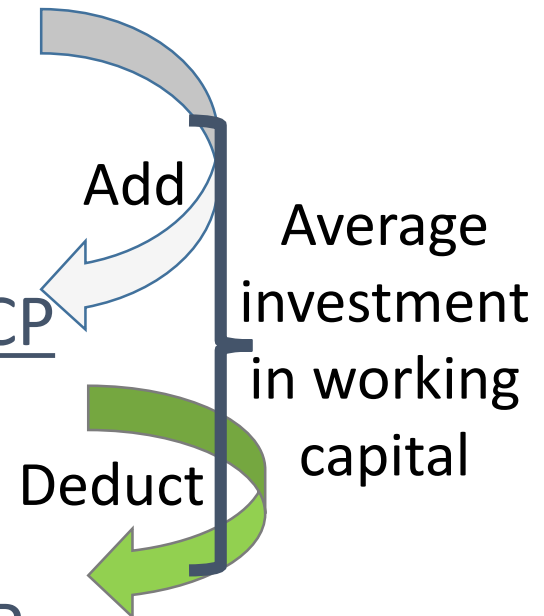
Part A of examination paper

$$\text{Working Capital Cycle (Days)} = \text{AAI} + \text{ACP} - \text{APP}$$

$$\text{Inventory (R)} = \frac{\text{Cost of services} \times \text{AAI}}{\text{Days of year}}$$

$$\text{Accounts receivable (R)} = \frac{\text{Revenue} \times \text{ACP}}{\text{Days of year}}$$

$$\text{Accounts payable (R)} = \frac{\text{Purchases} \times \text{APP}}{\text{Days of year}}$$





Part A of examination paper

To calculate

Then calculate equations and write down answers on lines in paper:

- **AVERAGE INVESTMENT IN WORKING CAPITAL**
= R301 369.86 + R723 287.67 - R120 547.95
= R904 109.58



Part A of examination paper

Question 2: Ratio analysis and interpretation 16 marks

Analyse and interpret the Current and Acid Test and Turnover of Accounts Receivable ratios for the previous and current year and Annual Debtors Collection Rate for the current year of the municipal statements provided

To calculate: Follow the arrows

To interpret: Compare values with set standard and look at difference between two years where applicable



US 119331 Generic Financial Statements			
Test Number:			44
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2013			
ASSETS			
Net Assets and Liabilities	Note	2013	2012
Current Assets		R 368 403 228	R 346 071 567
Inventory		R 22 372	R 2 172 874
Non-current assets held for sale			R 664 125
Trade receivables from exchange transactions		R 87 000	
Trade receivables from non-exchange transactions		R 27 131 506	
VAT receivable		R 0	R 8 485 000
Bank, cash and cash equivalents		R 247 803 259	R 209 340 681
Operating lease assets		R 719 296	R 658 433
Current portion of long-term receivables		R 4 887	R 4 887
Non-current Assets		R 1 700 907 733	R 1 664 257 268
Property, plant and equipment		R 1 565 554 991	R 1 519 318 323
Intangible assets		R 931 948	R 968 613
Investment property		R 111 443 747	R 120 988 395
Heritage assets		R 22 915 406	R 22 915 406
Long-term receivables		R 61 641	
Total Assets		R 2 010 328 834	
LIABILITIES			
Current Liabilities		R 135 531 281	R 199 345 883
Consumer deposits		R 8 943 173	R 8 949 427
Provisions		R 13 282 885	R 25 936 378
Creditors		R 75 592 459	R 132 804 070
Unspent conditional grants and receipts		R 4 825 807	R 7 814 023
Operating lease liabilities		R 101 728	R 48 906
VAT payable		R 2 594 147	R 0
Current portion of long-term liabilities		R 30 191 081	R 23 793 080
Non-current Liabilities		R 374 387 494	R 272 642 873
Long-term liabilities		R 210 026 594	R 131 222 715
Retirement benefit liabilities		R 110 624 709	R 92 976 617
Non-current provisions		R 49 204 018	R 44 089 015
Trust fund		R 4 532 173	R 4 354 526
Total Liabilities		R 509 918 775	R 471 988 756
Total Assets and Liabilities		R 1 559 392 186	R 1 538 340 078
NET ASSETS			
		R 1 391 968 702	R 1 386 401 110
Statutory funds		R 60 660	R 147 331
Accumulated surplus		R 1 391 908 042	R 1 386 253 778
Total Net Assets		R 1 559 392 186	R 1 538 340 078

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

2012:

$$\frac{R346\ 071\ 567}{R199\ 345\ 883} = 1,736$$

2013:

$$\frac{R368\ 403\ 228}{R135\ 531\ 281} = 2,718$$

Acceptable and
improving to good



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ASSETS			
Net Assets and Liabilities	Note	2013	2012
Current Assets		R 368 403 228	R 346 071 567
Inventory		R 2 192 372	R 2 172 874
Non-current assets held for sale		R 208 200	R 664 125
Trade receivables from exchange transactions			R 94 537 256
Trade receivables from non-exchange transactions			R 208 250
VAT receivable			
Bank, cash and cash equivalents	R 24/		
Operating lease assets		R 719 296	
Current portion of long-term receivables		R 4 887	
Non-current Assets		R 1 700 907 733	R 1 700 907 733
Property, plant and equipment		R 1 565 554 991	R 1 565 554 991
Intangible assets		R 931 948	
Investment property		R 111 443 794	R 120 988 395
Heritage assets			R 22 915 406
Long-term receivables			R 66 531
Total Assets		R 2 069 310 961	R 2 010 328 834
LIABILITIES			
Current Liabilities		R 135 531 281	R 199 345 883
Consumer deposits		R 8 943 173	R 8 949 427
Provisions		R 13 282 885	R 25 936 378
Creditors		R 75 592 459	R 132 804 070
Unspent conditional grants and receipts		R 4 825 807	R 7 814 023
Operating lease liabilities		R 101 728	R 48 906
VAT payable		R 2 594 147	R 0
Current portion of long-term liabilities		R 30 191 081	R 23 793 080
Non-current Liabilities		R 374 387 494	R 272 642 873
Long-term liabilities		R 210 026 594	R 131 222 715
Retirement benefit liabilities		R 110 624 709	R 92 976 617
Non-current provisions		R 49 204 018	R 44 089 015
Trust fund		R 4 532 173	R 4 354 526
Total Liabilities		R 509 918 775	R 471 988 756
Total Assets and Liabilities		R 1 559 392 186	R 1 538 340 078
NET ASSETS			
Statutory funds		R 60 660	R 147 331
Accumulated surplus		R 1 391 908 042	R 1 386 253 778
Total Net Assets		R 1 559 392 186	R 1 538 340 078

$$\text{Acid Test Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

2012:

$$\frac{R346\ 071\ 567 - R2\ 172\ 874}{R199\ 345\ 883}$$

R199 345 883

= 1,725

2013:

$$\frac{R368\ 403\ 228 - R2\ 192\ 372}{R135\ 531\ 281}$$

R135 531 281

= 2,702

Acceptable and improving to good



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Current Assets		R 368 403 228	R 346 071 567
Inventory		R 2 192 372	R 2 172 874
Non-current assets held for sale		R 3 508 200	R 664 125
Trade receivables from exchange transactions		R 87 043 710	R 94 537 256
Trade receivables from non-exchange transactions		R 27 131 506	R 30 208 250
VAT receivable		R 0	R 8 485 062
Bank, cash and cash equivalents		R 247 803 259	R 209 340 681
Operating lease assets		R 719 296	R 658 433
Current portion of long-term receivables		R 4 887	R 4 887
Non-current Assets		R 1 700 907 733	R 1 664 257 268
Property, plant and equipment		R 1 565 554 991	R 1 519 318 323
Intangible assets		R 931 948	R 968 613
Investment property		R 111 443 747	R 120 988 395
Heritage assets		R 22 915 406	R 22 915 406
Long-term receivables		R 61 641	R 66 531
Total Assets			
LIABILITIES			
Current Liabilities			
Consumer deposits			
Provisions			
Creditors			
Unspent conditional grants and receipts		R 4 825 907	R 7 044 029
Operating lease liabilities		R 101 728	R 48 906

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013					
Budget			Actual		
2012	2013	Revenue	Note	2013	2012
		Revenue from non-exchange transactions			
R 130 801 976	R 141 297 164	Property rates		R 277 089 560	R 258 813 605
R 6 725 538	R 6 874 175	Fines		R 13 200 751	R 7 950 036
R 749 375	R 762 300	Licences and permits		R 798 831	R 577 759
R 3 342 075	R 3 431 863	Income from agency services		R 4 038 040	R 3 613 088
R 204 913 074	R 188 601 886	Government grants and subsidies		R 194 388 296	R 203 811 757
		Revenue from exchange transactions			
R 368 586 749	R 414 036 392	Service charges		R 385 677 691	R 347 287 809
R 9 731 433	R 11 125 103	Rental of facilities and equipment		R 9 562 930	R 10 625 266
R 10 450 000	R 8 305 000	Interest earned - external investments		R 8 198 781	R 9 937 983
R 2 973 300	R 3 721 300	Interest earned - outstanding receivables		R 2 434 462	R 2 873 626
R 7 472 212	R 11 996 919	Other income		R 10 248 560	R 8 404 215
R 2 362 500	R 2 750 000	Gain on disposal of property, plant and equipment		R 0	R 1 931 407
		Collection costs		R 674 088	R 1 718 214

$$\text{Turnover of Accounts Receivable} = \frac{\text{Revenue (credit)}}{\text{Accounts Receivable}}$$

2012:

$$= \frac{(R258\ 813\ 605 + R347\ 287\ 809 + R2\ 873\ 626) + (R94\ 537\ 256 + R30\ 208\ 250 + R4\ 887)}{R124\ 750\ 393} = 4,882 \text{ times}$$



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Inventories		R 2 192 372	R 2 172 874
Non-current assets held for sale		R 3 508 200	R 664 125
Trade receivables from exchange transactions		R 87 043 710	R 94 537 256
Trade receivables from non-exchange transactions		R 27 131 506	R 30 208 250
VAT receivable		R 0	R 8 485 062
Bank, cash and cash equivalents		R 247 803 259	R 209 340 681
Operating lease assets		R 719 296	R 658 433
Current portion of long-term receivables		R 4 887	R 4 887
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Investment property		R 111 443 747	R 120 988 395
Heritage assets		R 22 915 406	R 22 915 406
Long-term receivables		R 61 641	R 66 531
Total Assets			
LIABILITIES			
Current Liabilities			
Consumer deposits			
Provisions			
Creditors			
Unspent conditional grants and receipts			
Operating lease liabilities		R 101 728	R 48 906

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013					
Budget			Actual		
2012	2013	Revenue	Note	2013	2012
		Revenue from non-exchange transactions			
R 130 801 976	R 141 297 164	Property rates		R 277 089 560	R 258 813 605
R 6 725 538	R 6 874 175	Fines		R 13 200 751	R 7 950 036
R 749 375	R 762 300	Licences and permits		R 798 831	R 577 759
R 3 342 075	R 3 431 863	Income from agency services		R 4 038 040	R 3 613 088
R 204 913 074	R 188 601 886	Government grants and subsidies		R 194 388 296	R 203 811 757
		Revenue from exchange transactions			
R 368 586 749	R 414 036 392	Service charges		R 385 677 691	R 347 287 809
R 9 731 433	R 11 125 103	Rental of facilities and equipment		R 9 562 930	R 10 625 266
R 10 450 000	R 8 305 000	Interest earned - external investments		R 8 198 781	R 9 937 983
R 2 973 300	R 3 721 300	Interest earned - outstanding receivables		R 2 434 462	R 2 873 626
R 7 472 212	R 11 996 919	Other income		R 10 248 560	R 8 404 215
R 2 162 500	R 2 750 000	Gain on disposal of property, plant and equipment		R 0	R 1 931 407
		Collection costs			
				R 674 088	R 1 718 214

$$\text{Turnover of Accounts Receivable} = \frac{\text{Revenue (credit)}}{\text{Accounts Receivable}}$$

2013:

$$= \frac{(R277\ 089\ 560 + R385\ 677\ 691 + R2\ 434\ 462)}{(R87\ 043\ 710 + R27\ 131\ 506 + R4\ 887)} = 5,826 \text{ times}$$

$$\frac{R665\ 201\ 713}{R114\ 180\ 103}$$



Part A of examination paper

To calculate: Follow the arrows

To interpret: Compare values with set standard and look at difference between two years where applicable

- Turnover of accounts receivable:
- Below 6 times is inadequate
- Improvement from previous to current



Part A of examination paper

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Trade receivables from non-exchange transactions		R 27 131 506	R 30 208 250
VAT receivable	R 0	R 8 485 062	R 8 485 062
Bank, cash and cash equivalents		R 247 803 259	R 209 340 681
Operating lease assets		R 719 296	R 658 433
Current portion of long-term receivables		R 4 887	R 4 887
Non-current Assets		R 1 700 907 733	R 1 664 257 268
Property, plant and equipment		R 1 565 554 991	R 1 519 318 323
Intangible assets		R 931 948	R 968 613
Investment property		R 111 443 747	R 120 988 395
Heritage assets		R 22 915 406	R 22 915 406
Long-term receivables		R 61 641	R 66 531
Total Assets and Liabilities		R 1 559 392 186	R 1 538 340 078
NET ASSETS		R 1 391 968 702	R 1 386 401 110
Statutory funds		R 60 660	R 147 331
Accumulated surplus		R 1 391 908 042	R 1 386 253 778
Total Net Assets		R 1 559 392 186	R 1 538 340 078

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013					
Budget		Actual			
2012	2013	Revenue	Note	2013	2012
		Revenue from non-exchange transactions			
R 130 801 976	R 141 297 164	Property rates		R 277 089 560	R 258 813 605
R 6 725 538	R 6 874 175	Fines		R 13 200 751	R 7 950 036
R 749 375	R 762 300	Licences and permits		R 798 831	R 577 759
R 3 342 075	R 3 431 863	Income from agency services		R 4 038 040	R 3 613 088
R 204 913 074	R 188 601 886	Government grants and subsidies		R 194 388 296	R 203 811 757
		Revenue from exchange transactions			
R 368 586 749	R 414 036 392	Service charges		R 385 677 691	R 347 287 809
R 9 731 433	R 11 125 103	Rental of facilities and equipment		R 9 562 930	R 10 625 266
R 10 450 000	R 8 305 000	Interest earned - external investments		R 8 198 781	R 9 937 983
R 2 973 300	R 3 721 300	Interest earned - outstanding receivables		R 2 434 462	R 2 873 626
R 7 472 212	R 11 996 919	Other income		R 10 248 560	R 8 404 215
R 3 468 500	R 3 350 000	Grants received from other departments		R 3 468 500	R 3 350 000
Total Revenue	R 1 400 263 047			R 1 559 392 186	R 1 538 340 078
		Expenditure			
R 7 244 974	R 8 495 405	Bad debts		R 16 790 000	R 8 007 368
R 2 622 851	R 2 679 820	Collection costs		R 674 088	R 1 718 214
R 45 307 661	R 48 786 799	Depreciation and amortisation		R 55 638 014	R 48 648 138
R 34 402 343	R 34 141 927	Repairs and maintenance		R 31 342 017	R 30 322 622
R 20 947 946	R 24 237 582	Interest paid		R 12 727 474	R 11 392 862
R 154 739 123	R 174 977 514	Bulk purchases		R 172 762 277	R 153 380 428
R 0	R 0	Loss on disposal of property, plant and equipment		R 5 493 634	R 954 091
		Loss on revaluation of investment property		R 9 544 648	
R 9 319 750	R 11 291 500	Contracted services		R 11 328 171	R 8 899 451
R 201 216 419	R 190 873 543	General expenses		R 146 021 964	R 167 933 125
R 737 255 717	R 775 839 471	Total Expenditure		R 748 798 060	R 682 497 387
R 11 652 515	R 17 062 631	Surplus / (deficit) for the year		R 156 839 841	R 173 229 251

$$\text{Annual debtors collection rate} = \frac{\text{Last 12 months' receipts}}{\text{Last 12 months' billed}}$$

Please note the following differences from the examples in the Learner Guide: The Generic Statement of Financial Position differs as follows from the examples in the Learner Guide: (1) There is no "overdraft" item. (2) In order to derive "consumer debtors", "trade receivables from exchange transactions" and "trade receivables from non-exchange transactions" (both under "current assets") must be added together. (3) There are no longer "call investment deposits" as separate item, these are already included with "bank, cash and cash equivalents" (under "current assets"). The Generic Statement of Financial Performance refers to "interest earned - outstanding receivables" whereas "interest earned outstanding debtors" has been used in the Learner Guide examples.

Part A of examination paper



- Last 12 months' receipts:

(Trade receivables from exchange transactions PLUS Trade receivables from non-exchange transactions of PREVIOUS year in Statement of Financial Position)

+

(Property Rates + Service Charges + Interest Earned from Outstanding Receivables of CURRENT year in Statement of Financial Performance)

-

(Trade receivables from exchange transactions PLUS Trade receivables from non-exchange transactions of CURRENT year in Statement of Financial Position)

Divide by Last 12 months billed: Same as



Part A of examination paper

(R94 537 256 + R30 208 250)

+

(R277 089 560 + R385 677 691 + R2 434 462)

-

(R87 043 710 + R27 131 506)

Divide by

(R277 089 560 + R385 677 691 + R2 434 462)



Part A of examination paper

R124 745 506 + R665 201 713 – R114 175 216

R665 201 713

= R675 772 003

R665 201 713

= 1,01 X 100 (to make percentage)

= 101%

Part A of examination paper



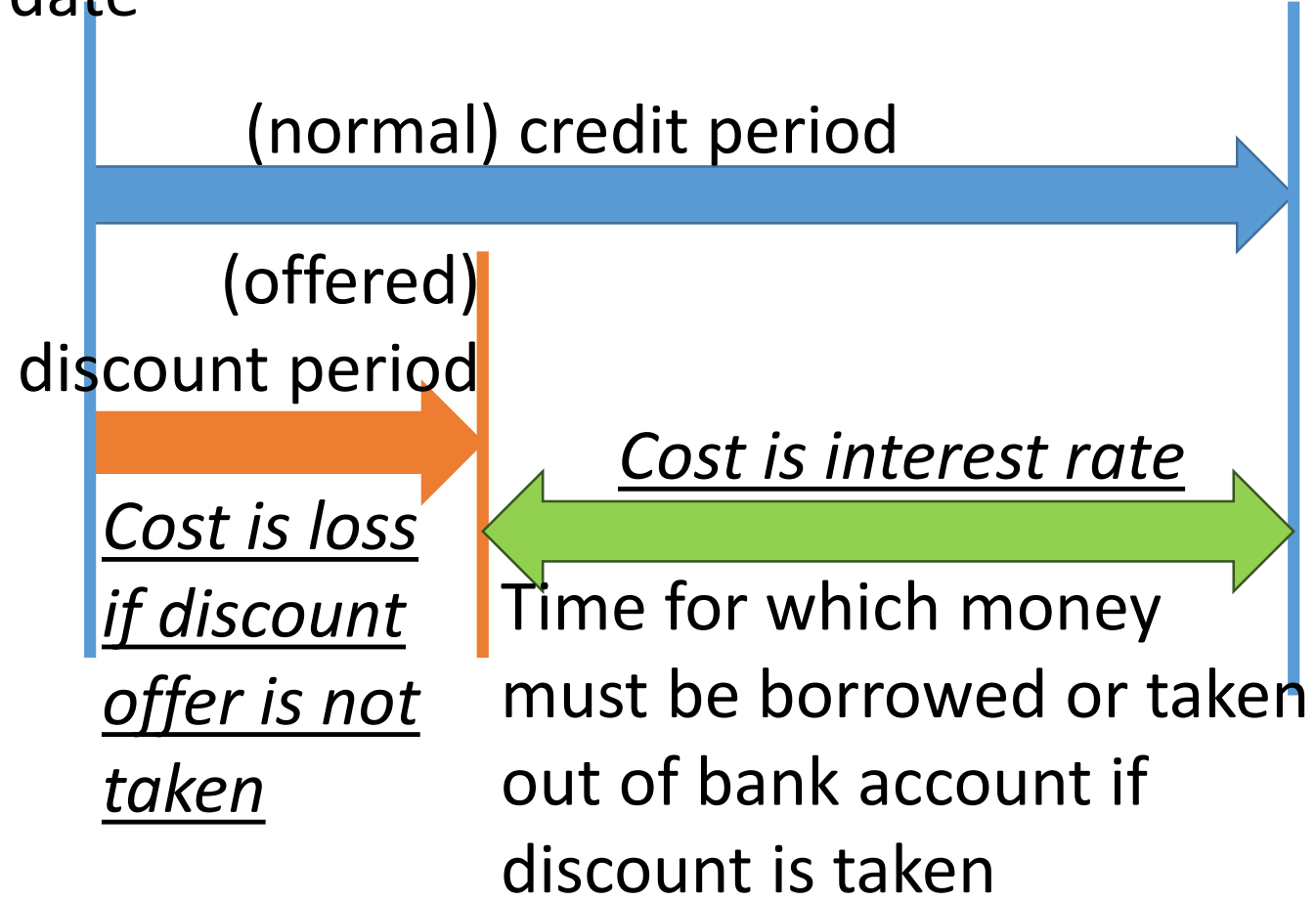
Question 3: Cost to give up discount 9 marks

Notsorich Local Municipality has just procured goods from one of its suppliers to a value of R440 000 and was offered 2/10 net 30 EOM. Short term funding by means of a bank overdraft will cost the municipality 13 per cent. Assume 365 days in the year. Calculate cost to give up the discount and what the amount payable will be, all costs, interest on short term funding included, considered.

Part A of examination paper



Purchase
date



Part A of examination paper



Cost to give up discount:

$$\frac{\text{Discount \%}}{(100\% - \text{Discount \%})} \times \frac{365 \text{ days}}{(\text{Credit period} - \text{Discount period})} \times 100$$

$$\frac{2}{98} \times \frac{365}{20} \times 100 = 37,24 \%$$

Answer is higher than overdraft interest rate,
therefore cost to give up discount is higher than cost
of discount

Part A of examination paper



Total interest on short term funding if discount is taken:

- R440 000 – R8 800 (2 percent which is discount)
- $R431\,200 \times 13\% \times 20/365$ (interest on credit period minus discount period)
= R3 071.56

Total amount payable, all costs considered:

$$R431\,200 + R3\,071.56$$
$$= R434\,271.56$$