



**education**

---

Department:

Education

**PROVINCE OF KWAZULU-NATAL**

**CURRICULUM GRADE 10 -12 DIRECTORATE**

**STEP AHEAD SUPPORT DOCUMENT**

**SOLUTIONS**

**GRADE 12**

**ACCOUNTING**

**2021**

Ledger Accounts

Answers

Activity A 1

Company Concepts: Baseline

Ledger accounts introduced are listed. Place a ✓ in the appropriate box/boxes.

	NAME OF LEDGER ACCOUNT	Balance Sheet Accounts	Nominal Accounts	ASSET	EQUITY	LIABILITY
1.	ORDINARY SHARE CAPITAL	✓			✓	
2.	RETAINED INCOME	✓			✓	
3.	SARS (INCOME TAX)	✓				✓
4.	SHAREHOLDERS FOR DIVIDENDS	✓				✓
5.	ORDINARY SHARE DIVIDENDS		✓			✓
6.	INCOME TAX		✓			✓
7.	APPROPRIATION ACCOUNT				✓	

ACTIVITY A2: GENERAL LEDGER ACCOUNTS

General Ledger of KwaZulu Ltd

ORDINARY SHARE CAPITAL

2019 Sept	30	Bank (50 000×2,50)	125 000	2019 Jan	01	Balance (b/d)	1 050 000
		Balance (c/d)	2 125 000		31	Bank (400 000 x R3)	1 200 000
			2 250 000				2 250 000
				2020 Jan	01	Balance (b/d)	2 125 000

**RETAINED INCOME**

2019 Sept	30	Bank (50 000 × 1,10)	55 000	2019 Jan	01	Balance	420 000
		Appropriation		2019 Dec	31	Appropriation	104 260
		Balance					
			524 260				524 260
				2020 Jan	01	Balance (b/d)	

**SARS (INCOME TAX)**

2019 Jun	30	Bank	30 000	2019 Dec	31	Income tax	142 240
Dec	01	Bank	70 000				
	31	Balance (c/d)	42 240				
			142 240				142 240
				2020 Jan	01	Balance (b/d)	42 240

**SHAREHOLDERS FOR DIVIDENDS**

				2019 Dec	31	Ordinary share dividends	144 500



**INCOME TAX**

2019 Dec	31	SARS (Income Tax)	142 240	2019 Dec	31	Appropriation	142 240

**ORDINARY SHARE DIVIDENDS**

2019J un	30	Bank	117 000	2019 Dec	31	Appropriation	261 500
Dec	31	Shareholders for dividends	144 500				
			261 500				261 500

**APPROPRIATION**

2019 Dec	31	Income Tax	142 240	2019 Dec	31	Profit & Loss	508 000
		Ordinary Share Dividends	261 500				
		Retained Income	104 260				
			508 000				508 000

Activity A3

DATE	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT	A	O	L
11/06	SARS: Income tax	Bank	R49 500	-	0	-
30/08	SARS: Income tax	Bank	R120 000	-	0	-
01/09	Bank	Ordinary share capital	R400 000	+	+	0
27/02	Dividend on ordinary shares	Shareholders for dividends	R490 000	0	-	+

Activity A 4



4.1.1	C
4.1.2	D
4.1.3	F
4.1.4	B
4.1.5	I
4.1.6	G
4.1.7	H
4.1.8	E
4.1.9	A

ACTIVITY A 5

**Calculate the profit/loss on the disposal of the office computers sold on March 2020.**

Depreciation for current year =  $18\ 600 \times 33\ \frac{1}{3} \times \frac{9}{12} = R4\ 650$

Accumulated depreciation =  $R9\ 400 + 4\ 650 = R14\ 050$

Cost price =  $R18\ 600$

Net book value at date of sale =  $R4\ 550$

Selling price =  $R7\ 000$

Profit =  $R2\ 450$

## 1.2. Dube computers (Pty) Ltd

## Income statement for the year ended 30 June 2020

<b>Sales</b>	<b>3 700 000</b>
<b>Cost of sales</b>	<b>(2 100 000)</b>
<b>Gross profit</b>	<b>1 600 000</b>
<b>Other income</b>	<b>40 800</b>
Commission income (36 000 + 2 350)	38 350
Profit on disposal of asset	2 450
<b>Gross operating income</b>	<b>1 640 800</b>
<b>Operating expenses</b>	<b>(836 510)</b>
<b>Staff costs</b>	<b>180 000</b>
Director fees (2 x (120 000 + 132 000))	504 000
Sundry expenses (45 000 – 1 700)	43 300
Depreciation 47 000 + 24 500 + 4 650)	76 150
Trading stock deficit (281 000 – 21 000 – 247 940)	12 060
Donations (2 x 10 500)	21 000
<b>Operating profit</b>	<b>804 290</b>
Interest on loan (290 000 + 16 500)	(45 500)
<b>Net profit before tax</b>	<b>758 790</b>
Income tax (194 000 + 37 000)	231 000
<b>Net profit after tax</b>	<b>527 990</b>

## ACTIVITY A 6

## 1.1. MQOMBOYI LTD

## 1.1.1. Statement of Comprehensive income (income statement) for the year ended 31 March 2020.

Sales( 10 563 280 + 36 720 )	10 600 000
<b>Cost of sales</b> (6 236 000 + 24 000)	(6 260 000)
<b>Gross profit</b>	<b>4 340 000</b>
<b>Operating income</b>	<b>112 000</b>
<b>Rent income</b>	<b>99 500</b>
Bad debts recovered	7 800
Provision for bad debts adjustment	1 600
Profit on sale of asset	3 100
<b>Gross operating income</b>	<b>4 452 000</b>
<b>Operating expenses</b>	<b>(3 710 000)</b>
<b>Directors fees</b>	<b>1 262 100</b>
<b>Water and electricity</b>	<b>218 000</b>
<b>Telephone</b>	<b>75 600</b>
<b>Audit fees</b>	<b>104 000</b>
<b>Sundry expenses</b>	<b>61 001</b>
Salaries and wages (1 280 000+9 100+3 900)	1 293 000
Employers contributions	318 200
Bad debts (22 300+8 000)	30 300
Consumable stores	49 800
Insurance (79 500-38 250)	41 250
Depreciation (34 999+80 000+41 800)+(92 500+1 750)	251 049
Trading stock deficit (364 200-24 000 – 334 500)	5 700
<b>Operating profit</b>	<b>742 000</b>
<b>Interest income</b>	<b>26 000</b>
<b>Profit before interest expense</b>	<b>768 000</b>
<b>Interest expense</b>	<b>(77 000)</b>
<b>Net profit before</b>	<b>691 000</b>
<b>Income tax</b>	<b>(193 480)</b>
<b>Net profit after tax</b>	<b>497 520</b>

1.2. NOTES TO THE BALANCE SHEET

1.3. Fixed/Tangible Assets

	Land and buildings	Vehicles	Equipment
Carrying value at beginning of the financial year	12 500 000	275 000	280 500
Cost	12 500 000	750 000	398 000
Accumulated depreciation	-	(475 000)	(117 500)
<b>Movements</b>			
Additions at cost	-	627 000	-
Disposals at carrying value	-	-	(6 500)
Depreciation	-	(156 799)	(94 250)
Carrying value at the end of the financial year	12 500 000		
Cost	12 500 000	1 377 000	370 000
Accumulated depreciation	-	(631 799)	(190 250)

Ordinary share capital

<b>Authorised:</b>	
8 000 000 shares	
<b>Issued:</b>	
1 200 000 shares in issue at beginning	4 800 000
(150 000) shares re-purchased ( ASP:R4.00)	(600 000)
850 000	5 100 000
1 900 000	9 300 000



## ACTIVITY A 7

## 1. STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2020 FOR KHANYA LTD

Sales (4 220 700 – 850)	4 219 850
Cost of sales (1 100 720 – 680)	(1 100 040)
Gross profit	3 119 810
Other income	12 860
Profit on sale of asset	12 500
Provision for bad debts adjustment (3 450 – 3 090)	360
Gross operating profit	3 132 670
Operating expenses	(2 293 750)
Sundry expenses	31 000
Bank charges	6 000
Audit fees	45 000
Directors fees (432 000 + 540 000)	972 000
Salaries and wages (940 000 + 9 000)	949 000
Employers contribution (103 400 + 90 + 900)	104 390
Rent expense (63 360 – 5 280)	58 080
Bad debts (2 790 + 540)	3 330
Depreciation (13 750 + 81 400 + 3 000 18 500)	116 650
Trading stock deficit 138 000 – (82 000 + 47 700)	8 300
Operating profit	838 920
Interest income	680
Profit before interest expense	839 600
Interest expense	(39 600)
Net profit before tax	800 000
Income tax for the year	(240 000)
Net profit after tax	560 000

## 1.2. Fixed Asset Note on 31 December 2020

FIXED/TANGIBLE ASSETS	VEHICLES
Carrying value-1 January 2020	309 100

<b>Cost</b>	<b>489 500</b>
<b>Accumulated depreciation</b>	<b>(180 400)</b>
<b>Movements</b>	
<b>Additions at cost</b>	<b>0</b>
Disposals at carrying value	(35 750)
<b>Depreciation</b>	<b>(95 150)</b>
<b>Carrying value-31 December 2020</b>	<b>178 200</b>
<b>Cost</b>	<b>407 000</b>
<b>Accumulated depreciation</b>	<b>(228 800)</b>

1.3. Trade and other payables

<b>Creditors (43 400 – 680 )</b>	<b>42 720</b>
<b>Shareholders for dividends</b>	<b>84 000</b>
<b>SARS:PAYE (14 100 + 1 600)</b>	<b>15 700</b>
Creditors for salaries	6 680
UIF (1 300 + 90 + 90 )	1 480
Pension fund( 14 500 + 630 + 900)	16 030
Accrued expenses	540 000
SARS: income tax ( 240 000 – 224 000)	16 000
	<b>722 610</b>

ACTIVITY B 1

MODISE LTD

1 RETAINED INCOME

Balance at beginning of year	R567 000
Funds used for shares repurchased (250 000 x R0,25)	(62 500)*
Net profit after tax (3 400 000 ÷ – 918 000) or 3 400 000 x 73%	
Ordinary share dividends	2 482 000 (2 400 000)*
Interim	672 000
Final (4 800 000 ÷ x <sup>36</sup> /100 ÷) or 36 cents or 0,36 (4 550 000 + 250 000)	1 728 000
Balance at end of year	586 500

2 MODISE LTD

BALANCE SHEET ON 28 FEBRUARY 2020

<b>ASSETS</b>		
<b>Non-current assets</b>	Operation, TA - CA	13 386 500
<b>Fixed assets</b>	Operation, balancing figure	12 666 500
Fixed deposit / Investments / Financial assets (48 000 ÷ x <sup>12</sup> /10 ÷ x <sup>100</sup> /80 ÷)		720 000
<b>Current assets</b>	(2 600 000 x 1,5)	3 900 000
<b>Inventories</b> (1 015 000 ÷ + 25 000 ÷)		1 040 000

* Cash and cash equivalents		2 320 000
<b>TOTAL ASSETS</b>	See total for E + L	<b>17 286 500</b>
<b>EQUITY AND LIABILITIES</b>		
Ordinary shareholders' equity		14 236 500
Ordinary share capital		<b>13 650 000</b>
* Retained income	See 1.2.1; could be -ve;	586 500
<b>Non-current liabilities</b>		<b>450 000</b>
* Loan from director (630 000 – 180 000) or 12/42		450 000
<b>Current liabilities</b>		<b>2 600 000</b>
Trade and other payables		674 000
Shareholders for dividends	See 1.2.1	1 728 000
Loan (current portion)	see above	180 000
<b>TOTAL EQUITY AND LIABILITIES</b>	, See OSHE + NCL + CL	<b>17 286 500</b>

**ACTIVITY B2**

**2.1 FIXED ASSETS**

(a)	285 000 – 91 200	193 800
(b)	142 500 - 45 600 – (96 900 x 20% x 9/12 )	82 365
(c)	<p>Remaining:</p> $(285\ 000 - 142\ 500) - (91\ 200 - 45\ 600)$ $142\ 500 - 45\ 600 =$ $= 96\ 900 \times 20\% = 19\ 380$ <p>New:</p> $180\ 000 \times 20\% \times 1/12 = 3\ 000$	36 915

Sold:

14 535 see (b)

## BALANCE SHEET ON 30 JUNE 2019

<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>	TA-CA	5 777 280
<b>Fixed assets</b>	NCA - FA	5 127 280
Financial assets: Fixed deposit (Shallow Bank)		650 000
<b>CURRENT ASSETS</b>		1 465 940
Inventories (450 000 – 5 000 + 15 300)		460 300
Trade and other receivables (430 000 - 17 200 + 79 800)		492 600
Cash and cash equivalents (510 640 + 2 400)		513 040
<b>TOTAL ASSETS</b>		7 243 220
		= TE and L
<b>EQUITY AND LIABILITIES</b>		
<b>ORDINARY SHAREHOLDERS' EQUITY</b> (800 000 x 6,36)		5 088 000
<b>Ordinary share capital</b>		3 746 500
Retained income	OSE - OSC	1 341 500
<b>NON-CURRENT LIABILITIES</b>		452 000
Loan: Gaga Bank (752 000 – 300 000)		452 000
<b>CURRENT LIABILITIES</b>		1 703 220
<b>Trade and other payables</b>		779 720
Current portion of loan		300 000
Shareholders for dividends (800 000 x 0,75)		600 000
SARS: Income tax		23 500
<b>TOTAL EQUITY AND LIABILITIES</b>		7 243 220

ACTIVITY C1

1.1

<b>CASH GENERATED FROM OPERATIONS</b>	
<b>Gross operating profit before changes in working capital</b>	<b>6 127 160</b>
<b>CHANGES IN WORKING CAPITAL</b>	<b>(221 960)</b>
<b>Change in inventory</b>	<b>(170 100)</b>
Change in trade and other receivables $(446\,900 + 2\,400) - 297\,200$	152 100
Change in trade and other payables $(321\,700 - (122\,300 - 4\,560))$	(203 960)
Cash generated from operations	5 905 200

1.2 Calculate the following amounts that will appear in the Cash Flow Statement or 28 February 2020:

1.3

**Dividends paid**

$$2\,137\,500 + 1\,200\,000 = 3\,337\,500$$

OR

$$2\,137\,500 + (3\,100\,000 - 1\,900\,000) = 3\,337\,500$$

1.4

**Tax paid**

$$+ 500\,000 - 1\,393\,200 + 200\,000 = (693\,200)$$

$$- 500\,000 + 1\,393\,200 - 200\,000 = 693\,200$$

$$500\,000 (1\,393\,200) \quad 200\,000 = (693\,200)$$

1.5

<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	4 400 000
Proceeds from new issue of shares <span style="float: right;">see 1.1</span>	7 800 000
Shares repurchased (1 290 000 + 510 000)  <b>OR</b>  (200 000 <small>see 1.1</small> X 9,00)	(1 800 000)
Mortgage loan repaid	(1 600 000)

**ACTIVITY C 2**

2.1 Calculate the missing amounts in the Cash Flow Statement.

	Missing item	Calculations	Amount
	Taxation paid	R158 700 – R15 400 – R12 000  <b>OR</b>  12 000 + 15 400 – 158 700	R131 300
	Proceeds from sale of fixed assets	R4 699 200 + R2 599 000 – Sold – R440 000 = R6 278 200	R580 000

2.2

<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	1 151 500
Proceeds of shares issued (2 809 500 – 2 328 000 + 225 000)	706 500
Repurchase of shares (50 000 x 5,50)	(275 000)
Proceeds from loans (2 940 000 – 2 220 000)	720 000



2.3 CASH AND CASH EQUIVALENTS

<b>Net change in cash and cash equivalents</b>	92 700
<b>Cash and cash equivalents at beginning of year</b>	(39 900)
<b>Cash and cash equivalents at end of year</b>	52 800

ACTIVITY C3

<b>Cash Flow Statement for the year ended 30 June 2020</b>	
<b>Cash flow from operating activities</b>	52 000
<b>Cash generated from operations</b>	<b>639 100</b>
Interest paid	(82 000)
Taxation paid (75 600 – 8 000 – 12 500)	(55 100)
Dividends paid (210 000 + 240 000) or ( 210 000 + 414 000 – 174 000)	(450 000)
<b>Cash flow from investing activities</b>	(374 900)
Purchase of fixed assets (1 505 400 + 61 000 + 23 500 – 1 201 500)	(388 400)
Sale of fixed assets	23 500
Change in fixed deposit ( 185 000 – 195 000)	(10 000)
<b>Cash flow from financing activities</b>	3 260 000
Sale of shares	3 584 000
Shares repurchased (40 000 x R4.10)	(164 000)
Change in loan (560 000 – 400 000)	(160 000)
<b>Net change in cash and cash equivalent</b>	<b>2 937 100</b>
<b>Cash and cash equivalent at the beginning (2 000 – 17 100)</b>	<b>(15 100)</b>
<b>Cash and cash equivalent at the end</b>	<b>2 922 000</b>

3.2

Apart from the dividends, identify TWO good decisions. Explain the effect of each decision on the company. Quote figures.

	Decision	Consequence
1	Sale of shares, R3 584 000	Improves cash flow – business can take advantage of investment opportunities
2	Purchase of fixed assets, R388 400	Improves operating efficiency – business can earn greater profits

## ACTIVITY C4

ZOLILE LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2020

## ACTIVITY D1

## CONCEPTS

1.1.1 C

1.1.2 D

1.1.3 B

1.1.4 A

## MIRIAM LTD

1.2.1 Comment on the overall liquidity position of the company. Quote THREE relevant financial indicators (with figures).

Any THREE valid indicators:

The current ratio increased from 1,7 : 1 to 1,8 : 1

The acid-test ratio decreased from 1,3 : 1 to 0,9 : 1.

The stock-holding decreased from 68 to 52 days.

The debtors' collection period increased from 30 to 47 days

	<p>Expected responses, e.g.:</p> <ul style="list-style-type: none"> <li>• The business is liquid/should have no problem in paying off its short-term debts.</li> <li>• Although the liquidity is good, the debtors are taking too long to pay.</li> </ul>	
1.2.2	<p>The directors decided to change the dividend pay-out policy in 2020. Provide calculations that indicate the policy change.</p>	
	<p>In 2019, the company paid 40 cents (DPS) of 112 cents (EPS) – 36%</p> <p>In 2020, the company paid 105 cents (DPS) of 107 cent (EPS) – 98%</p> <p>OR</p> <p>pay out increased from 36% to 98%</p> <p>DPS increased from 40 to 105 cents (by 65 cents) per share</p> <p>EPS decreased from 112 to 107 cents (by 5 cents) per share</p>	
	<p>Explain the effect of this change of policy on the company. State TWO points.</p>	
	<p>TWO valid points</p> <ul style="list-style-type: none"> <li>• Retained income decreased and this could affect future growth (expansion) of the business.</li> <li>• It would influence the share price / increase demand for the shares</li> <li>• It could motivate shareholders to vote for the directors at the AGM</li> <li>• Cash flow problem (one mark)</li> </ul>	
1.2.3	<p>One of the directors feels that the company should pay back the loan as soon as possible. What are your views about this? Quote and explain TWO relevant financial indicators with figures.</p>	
	<p>The debt/equity ratio is 0,3 : 1 / decreased from 0,4 : 1 to 0,3 : 1. The business is lowly geared. Low risk. They are not making much use of loans compared to own capital.</p> <p>The ROTCE dropped from 13% to 11%.</p>	

	The company is receiving a return (11%) that is less than the interest rate (14%) (negatively geared). They are not using the loans effectively to generate a profit. It was a good decision to pay back the loan.	
1.2.4	Explain why the shareholders are satisfied with the market price of the shares on the JSE. Quote figures/financial indicators.	
	<ul style="list-style-type: none"> <li>• Increased from 777 cents to 960 cents./ increased by 183 cents</li> <li>• The market price is higher than the NAV of 775 cents</li> <li>• There is a demand for shares in this company.</li> <li>• Investors are interested in buying shares.</li> </ul>	
	Explain why the shareholders are satisfied with the price at which the shares were repurchased. Quote figures/financial indicators.	
	The company paid 800 cents per share although the market value at the end of the year was 960 cents. / The company paid 160 cents less than the market value	

**ACTIVITY D2**

Choose a description in COLUMN B that matches the user of financial statements in COLUMN A. Write only the letters (A to D) next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

2.1.1	C	
2.1.2	D	
2.1.3	A	

<b>2.2.1</b>	<b>Retained income</b>		
	<b>Balance at beginning</b>	<b>560 000</b>	
	Net profit after tax (90 000 x 70/30 )	210 000	
	Share buy-back (30 000 x 2 )	(60 000)	
	Dividends (270 000 x 34/100 )	(91 800)	
	<b>Paid</b>	<b>27 500</b>	
	Final/declared (91 800 – 27 500)	64 300	
	<b>Balance at end</b>	<b>618 200</b>	
<b>2.2.2</b>	<b>As an existing shareholder what factors/ financial indicators would you assess in determining whether R10.20 per share is a fair issue price? Provide reasons for your choices.</b>		
	<p>NAV: improved from 490 cents to 1 033 cents/ by 543 cents</p> <p>Market price: improved from 485 cents to 850 cents / by 365 cents</p>		
	<b>Khethiwe owns 43% of the shares in issue on 30 June 2019. Calculate the minimum number of shares she must purchase in order to be a major shareholder.</b>		
	<p>She currently owns: <math>300\,000 \times 43\% = 129\,000</math> shares</p> <p>To be majority shareholder she needs: <math>(370\,000 \times 50\%) + 1 = 185\,001</math> shares</p> <p>She needs to buy: <math>185\,001 - 129\,000 = 56\,001</math> shares</p>		

	<p>The majority shareholder suggested that she should be given the first option to purchase the additional shares before they are advertised to the public. What advice would you offer to the directors concerning this proposal?</p>	
	<p>Legislation and governance regulations must be followed by everyone/the directors must apply the law to safeguard the integrity of the business/insider trading is illegal and unethical/nepotism as the CEO is abusing his position.</p>	
2.3	<p>Companies buy back shares from time to time. Explain the benefits from such transactions. Explain TWO benefits.</p>	
	<p>It improves the NAV which could impact positively on the market price of shares/it improves EPS which creates a better image of the company/it improves the DPS hence present shareholders will be satisfied/ shows that the company is solvent and liquid.</p>	
2.4	<p>Quote TWO financial indicators (with figures and trends) that indicate an improvement in the liquidity position of the business.</p>	

2.5	<p>The company paid back a large portion of the loan. Explain why this was a good decision. Quote TWO financial indicators (with figures)</p>	
	<p>Debt/equity ratio: decreased from 0.5:1 to 0.2:1. Lower financial risk/low geared</p> <p>ROTCE: decreased from 22.3% to 20.8%. Still positively geared as it is greater than interest on loan (11%).</p>	
2.6	<p>Comment on the dividend pay-out policy over the past two years. Provide a possible reason for the policy adopted. Quote figures.</p>	
	<p>2019: <math>52/63 \times 100 = 82.5\%</math></p>	
	<p>2020: <math>34/84 \times 100 = 40.5\%</math></p>	
	<p>A greater % was retained in 2020 for future expansion purposes.</p>	
<p>IVITY D 3</p>		
3.1.1.	<p>Calculate the net asset value per share on 29 February 2020</p>	
	<p><math>\frac{1\ 630\ 000}{400\ 000} \times 100</math></p>	
	<p>= 407,5 c/share Accept R4,08</p>	
3.1.2.	<p>Calculate the return on total capital employed for the 2020 financial year.</p>	
	<p><math>\frac{620\ 000 + 76\ 200}{\frac{1}{2}(1\ 280\ 000 + 520\ 000 + 1\ 630\ 000 + 380\ 000)} \times 100</math></p>	
	<p>(3 810 000 three marks)</p> <p>two marks</p>	

$$= \frac{696\,200}{1\,905\,000} \times 100$$

1 905 000

four marks

$$= 36,6\% \text{ Accept } 36,5\%$$

## ACTIVITY E1

### 1.1 INVENTORY SYSTEMS AND VALUATION

#### 1.1.1 Calculate the value of the closing stock on 31 August 2018.

$$\frac{31\,570 + 156\,050 - 1\,770 - 1\,400}{206 + 1\,005 - 11 - 10} \quad \begin{matrix} 10 \times 140 \\ \end{matrix}$$

$$= \frac{184\,450}{1\,190} \times 160 \quad (\text{R}155 \times 160)$$

$$= \text{R}24\,800$$

#### Calculate the gross profit on 31 August 2018.

Sales (993 x R220)	R 218 460
Cost of sales( 184 450 – 24 800)	(R159 650)
Gross profit	58 810

#### 1.1.2 Oratile has found that Zinhle changed the supplier of smart watches in January without informing her. He discovered that the new supplier of smart watches is a family member of Zinhle.

What advice would you offer to Oratile in this regard? State TWO points.

- Oratile must explain to Zinhle that this is unethical and that her decision to favour her family member is disadvantaging the business.
- He must put a procurement policy in place and must ensure that employees abide by this policy.
- It is important to support loyal suppliers but the quality and price of the product must not be compromised.



1.2 MANAGEMENT OF INVENTORIES

1.2.1 Provide a calculation to prove that smart watches are being stolen.

$$206 + 984 - 993 - 160 = 37$$

Give TWO points of advice.

Regular stock checks (count and check against records)

Order smaller quantities, but more frequently

Improve physical security, e.g. controls at entrance

1.2.2 Oratile is unsure whether he is charging the right prices for the Smart phones and Smart cameras. Give him advice on EACH product. Quote figures.

PRODUCT	ADVICE WITH FIGURES
Smart phones	<p>Any valid advice ✓✓ ✓✓</p> <p>Figure ✓ ✓</p> <p>Mark-up% is reasonable (25%) as they are selling a large number of units (895).</p> <p>Customers are prepared to pay the price being asked (R6 875).</p> <p>Stock holding period is only 21 days.</p>
Smart cameras	<p>Mark-up% possibly too high (80%).</p> <p>These products are not popular (only sold <math>370/580=60\%</math> units sold).</p> <p>Stock-holding period of 207 days. If mark-up is reduced, stock may sell quicker.</p>

ACTIVITY E2

2.1 Calculate the following on 28 February 2019:

2.1.1 Value of closing stock.

Workings	Answer
$195\,424 + 4\,034\,660 - 38\,584$ $49 + 788 - 7$ $5\,050 \times 220$	1 111 000

2.1.2 Gross profit for the year ended.

Workings	Answer
see 2.1.1                      see 2.1.1 COS: $4\,191\,500 - 1\,111\,000 = 3\,080\,500$ Gross profit: $3\,450\,300 - 3\,080\,500$	369 800

2.2.1 Calculate the stock value on 28 February 2019 using the FIFO method.

Workings	Answer
$200 - 7$ $193 \times 5\,512 = 1\,063\,816$ $220 - 193$ $27 \times 5\,145 = 138\,915$	1 202 731

--	--

**2.2.2 Explain the effect on gross profit if the FIFO method is used.**

A larger closing stock will result in a smaller cost of sales and hence a greater (an increased) gross profit.

The gross profit will be more compared to when weighted average method is used.

**2.2.3 As an internal auditor, explain the benefits of using the FIFO method to the owner and the accountant. State TWO points.**

Stock shown at recent prices, realistic.

Reflect a higher gross profit

Easy to apply

No manipulation of profits.

**2.3 Ching Lee feels that she was not able to achieve her targeted mark-up % for 2019.**

**Do (or perform) a calculation to confirm whether she is correct.**

Workings	Answer
see 2.1.2 $\frac{369\ 800}{3\ 080\ 500} \times 100$ see 2.1.2	12% t

OR:  $3\ 080\ 500 \times 25\% = 770\ 125$  (targeted); Actual was 369 800 (2.1.2)

Did not achieve target by 400 325

**Provide TWO suggestions that can be implemented in order to improve profitability.**

Give less trade discounts

Support local suppliers

Supervise sales to ensure correct prices are applied.

Consider after-sales services such as maintenance, repairs, installations.

**ACTIVITY E 3**

<b>3.1</b>	<b>Explain the difference between the specific identification method and weighted average method of valuing stock.</b>
	<p><b>Specific identification method</b></p> <ul style="list-style-type: none"> <li>- Each item is assigned a specific cost</li> <li>- the original purchase price recorded in a register</li> <li>- this data base is retrieved when item is sold.</li> </ul>
	<p><b>Weighted average method</b></p> <ul style="list-style-type: none"> <li>- The average price is calculated taking into account opening stock, purchases, returns and carriage on purchase, divided by the total number of units in relation to the above.</li> <li>- Therefore, final closing stock will be calculated on the average cost of the goods.</li> </ul>

2  
2

<b>3.2</b>	<b>Provide a calculation to show the number of cooler boxes missing.</b>
	$3\ 900 - (520 + 4\ 300 - 850 - 20) = 50$ <p><b>50 cooler boxes were missing.</b></p>

<b>3.3</b>	<b>Calculate the following in respect of cooler boxes:</b>
	<p><b>The value of the closing stock of cooler boxes.</b></p> $850 \times R67 = R56\ 950$
	<p><b>Cost of sales of cooler boxes.</b></p> $(31\ 200 + 291\ 400 - 1\ 000) - 56\ 950 = R264\ 650$
	<p><b>Gross profit on cooler boxes.</b></p> $387\ 000 - 264\ 650 = R122\ 350$

**2.4.1 Calculate the Stock Holding Period in days. Use Closing Stock in your calculation.**

56 950 see c

$$\frac{\text{closing stock in 2.3}}{264\ 650 \text{ see COS in 2.3}} \times \frac{365}{1}$$

= 78,5 days

**2.4.2 Comment on your findings in response to the manager's feelings.**

Stock holding period decreased / improved from 125 days to 78,5 days

Stock Turnover rate increased / improved from 2.9 to 5.7 times

Stock is selling faster

<b>2.5</b>	<b>Calculate the value of the closing stock of tents.</b>
$  \begin{array}{r}  14 \times R1\,400 = R\,19\,600 \\  7 \times R1\,680 = R\,11\,760 \\  7 \times R1\,540 = \underline{R\,10\,780} \\  \hline  R\,42\,140  \end{array}  $	

<b>2.6</b>	<b>If the mark-up percentage is 25% on cost price, calculate the total sales of tents for the period.</b>
$  \begin{array}{r}  14 \times 1\,260 \times 1,25 = R22\,050 \\  28 \times 1\,400 \times 1,25 = R49\,000 \\  28 \times 1\,680 \times 1,25 = R58\,800 \\  35 \times 1\,540 \times 1,25 = \underline{R67\,375} \\  \hline  R197\,225  \end{array}  $ <p>OR: <math>(17\,640 + 39\,200 + 47\,040 + 53\,900) \times 1,25 = R197\,225</math></p>	

E

**ACTIVITY E4**

**4.1 Choose the description from COLUMN B that best describes the stock valuation method in COLUMN A.**

<b>4.1.1</b>	C
<b>4.1.2</b>	A
<b>4.1.3</b>	B

**4.2 Calculate the following on 30 June 2016:**

**4.2.1 Closing stock**

$$65 \times 2\,900 = 188\,500$$

$$15 \times 2\,800 = \underline{42\,000}$$

$$230\,500$$

**Cost of sales**

$$138\,000 + 512\,000 + 26\,000 - 14\,500 - 230\,500$$

$$= 431\,000$$

**4.2.2 The owner suspects that generators had been stolen. Calculate the number of generators stolen.**


$$250 - 5 - 80 - 162 = 3$$



**Give TWO points of advice**

Expected responses

- Count stock regularly/randomly and check against stock records
- Order smaller quantities, but more frequently
- Improve physical security e.g. controls at entrance/security cameras
- Claim on insurance policy

<b>4.2.3</b>	<p><b>Calculate the value of closing stock using the weighted-average cost method.</b></p> $\frac{138\,000 + 512\,000 + 26\,000}{60 + 190 - 5}$ $\frac{661\,500}{245}$  $= 2700 \times 80 = 216\,000$
	<p><b>The owner, Mrs Westhuizen, thinks that changing to the weighted-average method will lessen her tax burden. She approaches you for advice. Provide TWO points of advice.</b></p> <p>Any two valid points</p> <ul style="list-style-type: none"><li>• It is true it will for a while reduce the tax liability as the gross profit using WAC is smaller/lower than when using FIFO but it is not permissible;</li><li>• It is unethical to manipulate stock valuation methods;</li><li>• To change would affect comparisons over financial years.</li></ul>



**ACTIVITY F**

**COST ACCOUNTING**

**ACTIVITY F1 (COST CONCEPTS)**

	<b>COLUMN A</b>		<b>COLUMN B</b>
1.1	Direct material	J	Material that forms part of the item produced
1.2	Indirect material	F	Materials that are used in the manufacturing process but do not form part of the product.
1.3	Direct labour	L	Labour directly involved in the manufacture of goods
1.4	Indirect labour	A	Labour used in the factory but not involved in the manufacture of the goods
1.5	Prime cost	H	Total direct costs
1.6	Factory overheads	B	Other expenses incurred by the factory other than direct.
1.7	Fixed costs	K	Costs that remain constant irrespective of the amount produced
1.8	Variable costs	D	Costs that vary in proportion to the amount of goods produced.
1.9	Total cost of production	I	Includes all costs involved in the production
1.10	Unit cost	C	Cost of one item produced
1.11	Mark-up	G	The profit made on the goods produced
1.12	Selling price	E	The price that the items are sold for.

ACTIVITY F2 (PRODUCTION COSTS)				
	Cost item	Production Costs		Not part of production costs
		Direct costs	Indirect costs	
2.1	Rent of factory		x	
2.2	Wages of cleaners		x	
2.3	Wages of employees using tools working on the product.	x		
2.4	Insurance of the equipment in the factory plant.		x	
2.5	Maintenance of the factory buildings.		x	
2.6	Cost of raw materials included in the finished products.	x		
2.7	Administrative costs.			x
2.8	Marketing costs			x

### ACTIVITY F3

3.1	Direct material costs	=	$18\ 870 + 6\ 000 + 530 + 600 + 1\ 500 = 27\ 500$
3.2	Direct labour costs	=	16 000
3.3	Prime costs	=	$27\ 500 + 16\ 000 = 43\ 500$
3.4	Manufacturing overheads	=	$5\ 000 + 2\ 000 + 500 + 4\ 500 + 11\ 400 = 23\ 400$
3.5	Total manufacturing costs	=	$43\ 500 + 23\ 400 = 66\ 900$
3.6	Unit price per canoe	=	$\frac{66\ 900}{30} = 2\ 230$
3.7	Selling price	=	$2\ 230 \times 170 = 3\ 791$

**ACTIVITY F4**

4.1.1

Production Cost Statement on 28 February 2019		
Direct Materials Cost (1 770 000 – 10 000)		1 760 000
Direct Labour Cost	Balancing figure	1 475 000
Prime Cost		3 235 000
Factory Overhead Cost (327 000 + 10 000)		337 000
Total Cost of Production		3 572 000
Work-in Process at the beginning of the year		37 600
		3 609 600
Work-in Process at the end of the year		(84 600)
Cost of Production of Finished Good		3 525 000
	(315 000 + 3 337 000 – 127 000)	

4.1.2

Calculate the Net profit	
Sales	6 390 000
Cost of sales	(3 337 000)
Selling and distribution cost	(603 000)
Administration cost	(810 000)
Net profit	1 640 000
<b>OR</b>	
$6\,390\,000 - 3\,337\,000 - 603\,000 - 810\,000 = 1\,640\,000$	

**ACTIVITY F5**

5.1.1

Calculate the Direct Material Cost	
Opening stock	180 000
Purchases (400 000 – 7 000)	393 000
Carriage on purchases	5 000
Less closing stock	(86 000)
	492 000

5.1.2

Calculate the Factory Overhead Cost	
-------------------------------------	--

Depreciation	32 000
Sundry expenses $(85\ 600 - 2\ 600) \times 60/100$	49 800
Indirect material $(25\ 000 + 35\ 000 - 9\ 000 - 18\ 000)$	33 000
Indirect labour $70\ 000 + 6\ 300$	76 300
Rent expenses $(56\ 500 + 5\ 500) \times 1\ 200/1\ 600$	46 500
Water and electricity $(98\ 000) \times 4/8$	49 000
	286 600

5.1.3

Production cost statement for the year ended 29 February 2020.		
Direct material	See 5.1.1	492 000
Direct labour $(175\ 000 + 15\ 750)$		190 750
Prime cost		682 750
Factory overheads	See 5.1.2	286 600
Production cost		969 350
Work-in-process at the beginning		150 000
		1 119 350
Work-in-process at the end $(1\ 119\ 350 - 870\ 000)$		(249 350)
Production cost of finished goods $(1\ 200\ 000 + 170\ 000 - 500\ 000)$		870 000

#### ACTIVITY F6

6.1.1

Calculate the break-even point for the year ended 28 February 2019.

$$\frac{246\ 000 + 102\ 500}{150 - 70}$$

$$4\ 356 \text{ or } 4\ 357 \text{ units}$$

6.1.2 **Should the business be satisfied with the number of units that are currently produced? Explain.**

Compare BEP with units produce and sold

see 6.1.1

They are producing 4 100 and the break-even is 4 356/4 357 units.

**OR**

Produce 256/257 units less than what is required to break-even.

6.1.3 **Despite the fact that there was an increase in the price of direct material, the direct material cost per unit decreased from R32 to R27. Give TWO valid reasons for the decrease.**

Any two valid points

- Better training of workers resulted to less wastage.
- Raw material obtained at a cheaper price.
- Greater care or efficiency in the use of raw material resulted to less wastage.
- Tighter control over use of raw material.

Award one mark for the following response

- Training of workers.
- Less wastage.

6.1.4 **Despite the fact that there was no increase in wages during the year, the direct labour cost per unit increased from R20 to R28. Give a valid reason for the increase.**

#### ACTIVITY F7

7.1.1 **Calculate the Break-even point for 2017.**

<u>97 600</u>
25- 17
8
12 200 units

7.1.2 **Explain why the owner should be concerned about the break-even point. Provide TWO points.**

Number of units produced is 12 200 same as the break-even point of 12 200. Which means the business is making no profit or loss.

Although the number of units produced increased from 11 800 to 12 200 still no profits were realised because fixed costs also increased.

7.1.3

**Provide one reason for the decrease in the Direct Material Cost.**

- There was less wastage of raw material during production.
- More efficiency during the production process.
- Sourcing out cheaper suppliers.
- Buying in bulk to negotiate discounts.

**ACTIVITY F8 (INFORMAL CLASS TEST)**

**8.1 GEVEN MANUFACTURERS**

8.1.1

**PRODUCTION COST STATEMENT**

**FOR THE YEAR ENDED 28 FEBRUARY 2017**

<b>Direct material cost</b> (1 050 000 + 102 000)		1 152 000
<b>Direct labour cost</b>	<b>Prime cost – DMC</b>	648 000
<b>Prime cost</b>		1 800 000
	(– 84 000 one mark +100 800)	504 000
<b>Factory overhead cost</b> (487 200 + 16 800)		
	<b>Prime + FOHC</b>	2 304 000
Work-in process (beginning)		160 000
		2 464 000
Work-in process (end)	<b>TCP – subtotal above</b>	(88 000)
<b>Total cost of production</b> 7 200 x R330		2 376 000

8.1.2

ABRIDGED INCOME STATEMENT		
FOR YEAR ENDED 28 FEBRUARY 2017		
Sales		4 080 000
	See TCP 8.1.1      400 x R330	
Cost of sales (336 000 + 2 376 000 – 132 000)		(2 580 000)
OR                    8 000–1 200		
(1 200 x R280) + (6 800 x R330)		
Gross profit	Sales – COS	1 500 000
	20% x 126 000	
	126 000–100 800	(131 600)
	(– 42 000 + 25 200 )	
Administration cost (148 400 – 16 800 see 8.1.1)		
Selling and distribution cost (422 000 – 102 000)		(320 000)
Net profit	(subtract AC & SDC)	1 048 400

8.2 GYMWEAR MANUFACTURERS

8.2.1 Shirts:

Calculate the break-even point for shirts.

$530\,000 \div (302 - 238) = 8\,281,25 / 8\,282 / 8\,281 / 8\,281,3$

Identify ONE variable cost (with figures) that has not been well controlled. Give TWO possible reasons for this problem.

<b>ONE VARIABLE COST WITH FIGURES</b> Variable cost Figures	<b>REASONS</b> Any two different reasons
Direct labour cost Increased by R31 (31%) (from R100 to R131)	Expected responses: <ul style="list-style-type: none"> <li>• Negotiated wage increase / applied minimum wage / inflation / increased salary scales (for qualifications)</li> <li>• Paid bonuses to some workers</li> <li>• Excessive overtime</li> <li>• Lack of productivity (inefficiency) of workers</li> <li>• Inexperienced / poorly trained workers</li> <li>• High staff turnover rate</li> <li>• Old equipment affects productivity</li> <li>• Work hours lost due to training time (workers paid for training) / due to load-shedding (power-cuts) / due to paid sick leave</li> <li>• Errors in calculation of wages (over-paid)</li> </ul>

Explain why Jan might be concerned about the large decreases in the other TWO variable costs.

Explanations on the two VC's

State or imply what the concern is

Comment on DMC	Using cheaper material	Inferior quality.
	Economising on material	May affect the quality of the product
Comment on S&DC	Reduced advertising or reduced commission / reduced remuneration of salespersons	May cause sales to drop / may demotivate salespersons
	Reduced distances for deliveries / discontinuing the service in certain areas	Leads to loss of customers



	Out-sourcing / using cheaper service providers	Might be inferior and negatively affect business in future
--	--	--

Jan does not understand why the unit cost of production has increased when neither his fixed costs nor the variable costs have increased. Explain why this is so. State ONE point (with figures).

- No economies of scale / decrease in production by 8 900 units (25 000 to 16 100)
- Lower production increased FC per unit by R11,72 or 55,2% (R21,20 to R32,92)

8.2.2

Shoes:

Calculate the % increase in the selling price of shoes.

1 640–1 260

$$\frac{380}{1\ 260} \times \frac{100}{1}$$

1 260      1

= 30,2%

OR  $130,2\% - 100\% = 30,2\%$

Jan decided to improve the quality of the shoes and to export them. Explain how the direct material costs and the selling and distribution costs were affected by this decision. Provide figures.

- DMC increased from R330 to R456 (by R126/by 38%/38,2%)
- S&DC increased from R28 to R194 (by R166/by 593%/592,8%)

Jan was concerned that the increase in price would have a negative impact on the business. Explain whether his concern was justified. State TWO points.

Reasons (any two)

State NO concern OR imply NO concern in explanation or by using figures

- Sales increased (by 1 250 units) / customers still supported the business (despite increase in price)
- Net profit increased (by R1 196 750) / price did not negatively affect sales)
- BEP decreased (due to increased contribution per unit) by 475 units / The business now exceeds BEP by bigger margin (3 908 units).

ACTIVITY G1

**1.1.1 What is the current VAT rate in South Africa?**

15%

**1.1.2 Is VAT paid on all items? Explain.**

No

**Explain**

Some items are exempt from VAT

**1.1.3 What is the difference between VAT input and VAT output?**

**VAT input-** is charged on goods bought.

**VAT output-** is charged on goods sold.

**1.1.4 The average turnover of Thabo Traders is R240 000 per annum.**

**The company is not registered for VAT.**

**(a) Explain if it is compulsory for the business to register as a VAT vendor**

No

**Explain:** The business generated a revenue which is less than R1 000 000 and not a VAT vendor, therefore it is not obliged to pay VAT.

**(b) Explain if the business would benefit if it registered as a VAT vendor**

Yes

**Explain :** A VAT Vendor is allowed to reclaim VAT input charged on purchases.

Avoid cash flow problems associated with a VAT return

**(c) Provide one disadvantage of being a VAT vendor**

- Higher administration cost
- Goods are charged at a higher price which may reduce demand.

**1.1.5 Explain tax evasion and the consequences thereof.**

**Explain VAT evasion-** is an illegal activity in which a person or entity deliberately avoids paying 'true' tax liability.

**1.2 VAT Calculations**

No.	ANSWERS
A	800
B	1000
C	1150
D	60%
E	96
F	736
G	33 1/3%
H	180
I	1380
J	2000
K	2400
L	360
M	560
N	700
O	805
P	40%
Q	1400
R	210



**ACTIVITY G 3**

**1.1 VAT CONCEPT**

3.1.1	Output
3.1.2	South African revenue services (SARS)
3.1.3	0%

**3.2 VAT CALCULATIONS**

**Calculate the amount receivable from or payable to SARS for VAT on 31 March 2019.**

$$43\ 820 + 1335 + 2820 + 112 + 756 + 756 - 184 - 6818 = 41841$$

OR

$$-43820 - 1335 - 2820 - 112 - 756 + 184 + 6818 = -41841$$

**Receivable/Payable: PAYABLE**

**ACTIVITY G 4**

**4.1.1 Calculate the amount of VAT payable to/ receivable from SARS on 31 May 2020.**

**Indicate whether the amount is payable or receivable.**

$$74\ 800 + 132\ 000 - 139\ 536 - 4\ 560 = 62\ 704 \quad \text{Payable}$$

**4.1.2 What comment would you offer Raymond Zondo concerning this practice? State TWO points.**

Any TWO valid answers

Raymond Zondo must keep accurate records of VAT and make timeous submissions to SARS for the following reasons:

- It is illegal business practice (fraud)/not prudent practice – can be charged / can be sentenced
- The business is an agent of SARS – money collected on behalf of SARS.
- The business will be liable for penalties/fines and charged with interest for late payments

ACTIVITY G 5

5.1

Calculate the amount receivable from or payable to SARS for VAT on 31 March 2019.

$$21\ 375 - 44\ 550 + 4\ 725 - 2\ 130 + 72\ 000 - 1\ 800 = 49\ 620$$

OR

$$-21\ 375 + 44\ 550 - 4\ 725 + 2\ 130 - 72\ 000 + 1\ 800 = 49\ 620$$

OR

Balance at beginning = 21 375

Output 72 000 - 1 800 - 2 130 = 68 070

Input 44 550 - 4 725 = (39 825)

49 620

OR

VAT CONTROL	
21 375	44 550
4 725	2 130
72 000	1 800
	<b>49 620</b>
98 100	98 100

VAT CONTROL	
44 550	21 375
2 130	4 725
1 800	72 000
<b>49 620</b>	
98 100	98 100

Receivable/Payable: Payable

## ACTIVITY H1

### BUDGETING

#### 1.1 Explain the difference between a Projected Income Statement and a Cash Budget.

- Cash Budget is used to look at predicted inflows and outflows of cash in order to predict the bank balances during each month of the budget period.
- A Projected Income Statement looks at the expected incomes and expenses during the budgeted period in order to show the predicted monthly net profit.

#### 1.2.1 Debtors Collection Schedule

	Credit Sales	Sept	October	November
July 2020	R 83 300	4 165		
August 2020	R 88 900	62 230	4 445	
September 2020	R 92 400	17 556	64 680	4 620
October 2020	R 95 200		18 088	66 640
November 2020	R 98 000			18 620
		83 951	87 213	89 880

#### 1.2.2 Projected Income Statement

	Sept	October	November
Sales	132 000	136 000	140 000
Cost of Sales	(82 500)	(85 000)	(87 500)
Gross Profit	49 500	51 000	52 500
Other Operating Income	6 200	7 200	7 200
Commission Income	1 400	1 400	1 400
Rent Income	4 800	5 800	5 800
Gross Operating Income	55 700	58 200	59 700
Operating Expenses	(42 315)	(42 595)	(50 174)
Advertising	2 500	2 500	2 500
Salaries and Wages	21 600	21 600	28 800
Bad Debts	4 165	4 445	4 620
Depreciation	4 050	3 850	3 850
Sundry Expenses	10 000	10 200	10 404
Operating Profit	13 385	15 605	9 526

Interest Expense (on Loan)	(1 600)	(1 600)	(2 000)
Net Profit for the month	11 785	14 005	7 526

**ACTIVITY H2  
BUDGETS**

2.1

DEBTORS COLLECTION SCHEDULE			NOV	
CREDIT SALES				
August	R280 000		0	
September	R324 000		162 000	
October	R360 000	x 26%	93 600	A
November	R456 000	x 15% x 98%	67 032	B
<b>Total</b>			<b>322 632</b>	

2.2

MADE IN LB DESIGNERS PROJECTED INCOME STATEMENT FOR NOV 2020			NOV	
Sales $\frac{456000}{1} \times \frac{40}{60} (304\ 000 + 456\ 000)$			760 000	C
Cost of Sales			(475 000)	D
<b>GROSS PROFIT</b>			<b>285 000</b>	<b>E</b>
<b>OTHER OPERATING INCOME</b>			<b>8 960</b>	
Rent Income			8 960	
<b>GROSS OPERATING INCOME</b>			<b>293 960</b>	
<b>OPERATING EXPENSES</b>			<b>(164 000)</b>	
Salaries and wages			96 000	
Advertising			25 000	
Sundry expenses			10 000	
Bad debts 9% X R324 000			29 160	F
Discount allowed 2% x R68 400			1 368	G
Depreciation			2 100	
Trading stock deficit			372	
<b>OPERATING PROFIT</b>			<b>129 960</b>	
Interest expense			(7 200)	



NET PROFIT	122 760	
------------	---------	--

2.3 MADE IN PZM DESIGNERS  
CASH BUDGET FOR THE 3 MONTHS ENDING 31 NOVEMBER 2020

CASH RECEIPTS	SEPT	OCT	NOV	
Cash sales	216 000	240 000	304 000	H
Cash from debtors	111 628	139 320	332 632	I
Rent Income 8 000 X 1.12	8 000	8 000	8 960	J
Loan from Fundbank	0	180 000	0	
<b>Total receipts</b>	<b>335 628</b>	<b>567 320</b>	<b>645 592</b>	<b>K</b>
CASH PAYMENTS				
Cash purchases	108 000	120 000	114 000	
Cash paid to creditors	210 000	252 000	280 000	
Interest on the loan $\frac{18}{100} \times \frac{180000}{1} \times \frac{1}{12} = 2700 + 4500$	4 500	4 500	7 200	L
Salaries and wages 120 000 [x 1.2]	120 000	144 000	96 000	M
Advertising	15 000	45 000	25 000	
Sundry expenses	10 000	10 000	10 000	N
<b>Total payments</b>	<b>467 500</b>	<b>575 500</b>	<b>532 200</b>	
Surplus / Deficit	(131 872)	(8 180)	113 392	O
Opening bank balance	24 000	(107 872)	(116 052)	P
Closing bank balance	(107 872)	(116 052)	(2 660)	Q

2.4 Discuss 2 ways, (other than increasing the loan), which indicates that the owners have taken the recession into account in the drawing up of the Cash Budget. Support your answers by quoting relevant figures.

The business increased the **advertising** in October from R15 000 to R45 000 in order to encourage customers to buy – this could include incentives.

Increases in **Cash Sales**.

More **monies received from debtors** – better internal control measures were put in place..

The business is obviously looking to **cut back on wages and salaries** – either through retrenchments or by working short time.

Any other acceptable answer.  
**ANY ACCEPTABLE ANSWER**

### ACTIVITY H3

**3.1.1 Provide TWO items that will not be included in a cash budget.**

**Provide a reason for your answer**

**ANY TWO**

Bad debts

- | Depreciation
- | Discount received
- | Discount allowed
- | Profit on sale of an asset
- | Loss on sale of an asset

**REASON**

It is non-cash items

**3.1.2 Explain the difference between a Projected Income statement and a Cash budget**

Projected income statement calculates the projected profit or loss

Cash budget calculates the expected cash available to the business

**3.1.3 Use the information given for the budgeted period. Comment on the debtor's collection policy in comparison to the creditor's payment policy**

Creditors are being paid 60 days after purchases.

Debtors are given up 90 days to settle accounts.

Creditors are being paid before debtors settle their account therefore the

business might experience a cash flow problem.

3.2

3.2.1

Month	Credit sales	July	August
May	225 000	56 250	22 500
June	300 000	176 400	75 000
July	275 000		161 700
August	325 000		
		232 650	259 200

3.2.2

RECEIPTS	JULY	AUGUST
Cash sales	275 000	325 000
Receipt from Debtors	232 650	259 200
Rent income	<b>35 000</b>	38 500
Fixed deposit		35 000
Asset disposal income	65 000	
<b>Total receipts (Award mark only if both amounts filled in)</b>	607 650	657 700
PAYMENTS		
Payment to Creditors	400 000	360 000
Salaries	57 750	<b>75 500</b>
Wages	57 750	57 750
Maintenance (Tangible assets)	<b>20 000</b>	<b>20 000</b>
Advertising	<b>18 000</b>	<b>16 500</b>
Drawings	<b>10 000</b>	<b>10 000</b>

Vehicle		90 000
<b>Total payments (Award mark only if both amounts filled in)</b>	<b>563 500</b>	<b>629 750</b>
Cash surplus (shortfall)	44 150	27 950
Bank: opening balance	(9 500)	34 650
Bank: closing balance	34 650	62 600

3.2.3

3.2.3 Comment briefly on each of the items on the budget. Provide ONE point of advice regarding each item		
Item	Comment	Advice
Advertising	Effectively managed.  3% of previous month's Sales.	Maintain effective management.  Improve further.
Maintenance	Not well managed.  Increased by R10 000 in July and by R7 000 in August	Budget realistically.  Improve control measures over maintenance to avoid major expenditure in the future.  Enter into maintenance contracts.
Rent income	Collected less than budgeted for each month.  Collection measures ineffective.	Improve collection by issuing reminders etc.  Charge interest on overdue rent.

ACTIVITY H4



4.1 CONCEPTS

4.1.1	What is the main purpose of preparing a Cash Budget?	
	<p><b>Expected responses</b></p> <p>To identify future bank balances</p> <p>Monitor or improve control over receipts and payments Anticipate future receipts and payments</p>	

4.1.2	Identify THREE items that should not be placed in the Cash Budget
	Bad debts
	Depreciation
	Trading stock on hand

<b>4.2.2. Cash Budget for the period 1 April 2020 to 31 May 2020</b>			
<b>Receipts</b>	<b>April</b>	<b>May</b>	
Cash sales	22 000	28 800	
Cash from debtors	24 180	23 604	
Rent income	15 000	15 000	
Fixed deposit		36 000	
Interest on fixed deposit		3 200	
<b>Total Receipts</b>		106 604	

**One mark for both totals**

	61 180	
<b>Payments</b>		
Cash purchases	9 920	11 760
Payments to creditors	12 360	11 840
Operating expenses	6 000	6 300
Drawings	240	240
Deposit on purchase of vehicle	45 000	
Salaries	7 000	7 350
<b>Total Payments</b>	80 520	37 490
Cash surplus / deficit	(19 340)	69 114
Balance on 1 April 2020	14 720	(4 620)
Balance on 31 May 2020	(4 620)	64 494

Deduct 1 mark for inclusion of Depreciation (R3 500)

4.2.1 Debtors' Collection Schedule from 1 April 2020 to May 2020

	Credit sales	April	May
February	23 600	4 248	
March	26 000	15 600	4 680
April	22 800	4 332	13 680
May	27 600		
		24 180	23 604



4.2.2. Cash Budget for the period 1 April 2020 to 31 May 2020

Receipts	April	May
Cash sales	22 000	28 800
Cash from debtors	24 180	23 604
Rent income	15 000	15 000
Fixed deposit		36 000
Interest on fixed deposit		3 200
<b>Total Receipts</b> <b>One mark for both totals</b>	61 180	106 604
Payments		
Cash purchases	9 920	11 760
Payments to creditors	12 360	11 840
Operating expenses	6 000	6 300
Drawings	240	240
Deposit on purchase of vehicle	45 000	
Salaries	7 000	7 350
<b>Total Payments</b>	80 520	37 490
Cash surplus / deficit	(19 340)	69 114
Balance on 1 April 2020	14 720	(4 620)
Balance on 31 May 2020	(4 620)	64 494
<b>Deduct 1 mark for inclusion of Depreciation (R3 500)</b>		

4.2.1 Debtors' Collection Schedule from 1 April 2020 to May 2020

	Credit sales	April	May
February	23 600	4 248	
March	26 000	15 600	4 680
April	22 800	4 332	13 680

May	27 600		
		24 180	23 604

**ACTIVITY H5**

**BUDGETS AND INTERNAL CONTROL**

<b>5.1.1</b>	<b>Rewrite the statement correctly.</b> <b>A cash budget is a financial statement that shows actual incomes and expenses for a specific period.</b>
	A cash budget is a financial plan that shows projected / anticipated receipts and payments for a specific period.

<b>5.1.2</b>	<b>Rewrite the statement correctly:</b> <b>A cash budget is prepared in order to calculate profit or loss.</b>
	A cash budget is prepared to calculate / determine a surplus or shortfall in cash at the end of a specific period. OR A cash budget is prepared to calculate / determine whether bank balance would be favourable or unfavourable at the end of a specific period.

<b>5.2.1</b>	<b>Collections from Debtors for September 2020.</b> <b>(Debtors' collection schedule)</b>															
	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3" style="text-align: center;"><b>DEBTORS COLLECTION SCHEDULE</b></th> </tr> <tr> <th style="text-align: center;"><b>Month / 2020</b></th> <th style="text-align: center;"><b>Credit Sales</b></th> <th style="text-align: center;"><b>September</b></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"><b>July</b></td> <td style="text-align: center;"><b>76 950</b></td> <td style="text-align: center;"><b>27 702</b></td> </tr> <tr> <td style="text-align: center;"><b>August</b></td> <td style="text-align: center;"><b>83 025</b></td> <td style="text-align: center;"><b>83 025 x 60%</b> <b>= R49 815</b></td> </tr> <tr> <td style="text-align: center;"><b>Total</b></td> <td></td> <td style="text-align: center;"><b>R77 517</b></td> </tr> </tbody> </table>	<b>DEBTORS COLLECTION SCHEDULE</b>			<b>Month / 2020</b>	<b>Credit Sales</b>	<b>September</b>	<b>July</b>	<b>76 950</b>	<b>27 702</b>	<b>August</b>	<b>83 025</b>	<b>83 025 x 60%</b> <b>= R49 815</b>	<b>Total</b>		<b>R77 517</b>
<b>DEBTORS COLLECTION SCHEDULE</b>																
<b>Month / 2020</b>	<b>Credit Sales</b>	<b>September</b>														
<b>July</b>	<b>76 950</b>	<b>27 702</b>														
<b>August</b>	<b>83 025</b>	<b>83 025 x 60%</b> <b>= R49 815</b>														
<b>Total</b>		<b>R77 517</b>														



--	--

<b>5.2.2</b>	<b>Payments to Creditors for September 2020.</b>
	$(110\,700 \times 100/180) - 5\% = 58\,425$ Or $61\,500 - 5\% = 58\,425$

<b>5.3</b>	<b>Cash Budget for the period 1 August 2014 to 30 September 2020.</b>		
	<b>CASH RECEIPTS</b>	<b>AUGUST</b>	<b>SEPTEMBER</b>
	Cash sales	27 675	24 300
	Receipts from debtors	78 975	77 517
	Loan received	90 000	
	<b>Total receipts</b>	<b>196 650</b>	<b>101 817</b>
	<b>CASH PAYMENTS</b>		
	Payments to creditors	54 150	58 425
	Operating expenses	8 250	8 250
	Water and electricity	3 000	3 300
	Salaries	14 000	15 120
	Wages	15 000	15 000
	Drawings	30 000	45 000
	Equipment		32 800
	<b>Total payments</b>	<b>124 400</b>	<b>179 770</b>
	Cash surplus (shortfall)	72 250	(77 953)
	Bank (opening balance)	35 200	107 450
	Bank (closing balance)	107 450	29 497

<b>5.4</b>	<b>Study the cash budget and identify TWO major problems. Briefly explain the consequences of each problem you identified and provide solutions to the problems.</b>

Problem	any one problem
Consequence	any one problem explained
Solution	any one solution provided

Problem and Consequence	Solution
No increase in employees' salaries. Workers' become disillusioned and their productivity levels decreases. Committed workers might leave to find work elsewhere due to unfair practice. / or The manager will receive an increase of 8%. Regarded as an unfair practice. or The owner will withdraw an additional R15 000 to tour through Africa (33% above his normal drawings)	Make provision for an inflation based increase for employees. Provide for performance incentives This would motivate them to be more efficient and productivity would improve.
No provision was made for advertising during budget months	Set aside a percentage of the month's sales towards advertising in order to generate increased sales and profit.

**ACTIVITY H6**

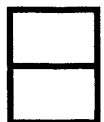
6.1  
6.2

**Explain the importance of comparing the actual figures to the budgeted figures in the cash budget.**

To determine of the items/costs were managed well and within the set limits  
(Any acceptable answer)

**Calculate the values marked (A) – (F).**

	Calculations
A	$1\ 080\ 000 \times 95\% = 1\ 026\ 000$
B	$1\ 800\ 000 \times \frac{100}{160} = 1\ 125\ 000$
C	$360\ 000 / 2 = 180\ 000$
D	288 200
E	$(675\ 400) + 288\ 200$ (see D) = (387 200)
F	$49\ 680 \times \frac{100}{115} = 43\ 200$



6.3 Refer to the figures for “Cash received from debtors”. Are the debtors adhering to the credit terms of the business? Provide figures to support your answer.

**Explanation:** Comparison of budgeted e and actual

They should have paid R864 000 and only paid R624 000

6.4 No new workers were employed during July and August 2018. What could possibly be a reason for the change in each of the actual figures for those two months?

	Reason
July	Workers worked overtime
August	Less workers came to work / Workers were on a strike

(Any acceptable answers for both scenarios)

6.5 The owner feels that the business pays less money by renting equipment than purchasing the equipment. Do you agree with her opinion? Provide TWO points to support your answer.

Yes/No Explanation

Yes

- Only hires equipment when necessary
- Does not have to pay maintenance on equipment
- Any other reasonable answer

No

- By purchasing their own equipment they will save money as the equipment will last longer than what the repayment period
- The equipment can be rented out to earn an additional income (if it is not in use in the business at that time)
- Any other reasonable answer

6.6

The business still faces a cash flow problem in August, even though a loan was obtained in July and the receipts from debtors improved.

Excluding these two items and the renting of equipment (as in 6.5), identify TWO other items, with figures, that needs attention. Also provide advice how these items can be managed.

Item	Figure	Advice
Creditors	960 000 or (b) 1 125 000 or 1 200 000	Buy less on credit, attempt more cash sales in order to qualify for a cash discount.
Drawings	150 000 or 210 000 or 168 000	Urge owner to decrease drawings so that the business can recover the cash flow
Salaries and wages	144 000 to 180 000 or 144 000 to 108 000	Pay workers a fixed salary; employ workers for a fixed term.

6.7

The owner bought the vehicle from the business for her son. The usual driver and the finance officer were unhappy with this. Prove each person's point by explaining ONE reason for each.

	Concern
<b>Driver</b>	He was supposed to have first option to buy the vehicle and now he can't go against the owner of the business.
<b>Finance officer</b>	The business received R60 000 less (R180 000 – R120 000) than what they would have received if the vehicle was sold to the driver.