



education

Department:

Education

PROVINCE OF KWAZULU-NATAL

CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS)

LEARNER SUPPORT DOCUMENT

GRADE 11

ACCOUNTING

STEP AHEAD PROGRAMME

2021

PREFACE

This support document serves to assist Accounting learners on how to deal with curriculum gaps and learning losses as a result of the impact of COVID-19 in 2020. It also captures the challenging topics in the Grade 10 -11 work. Activities should serve as a guide on how various topics are assessed at different cognitive levels and also preparing learners for informal and formal tasks in Accounting. It will cover the following topics:

A.	Final Accounts	3 – 7
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A. PARTNERSHIPS

THINGS TO REMEMBER

Final accounts

Calculation of interest on capital and final distribution of profits/losses.

Income statement

- Know the format and the use of signs (+/-) in the adjustment recorded in the income statement.
- Beware of foreign/misplacements entries in the income statement.
- Recording/Posting adjusted figures from income statement to relevant notes to balance sheet.
- Adjustments to be noted:
 - Provision for bad debt adjustment (income or expense).
 - Identifying trading stock deficit/surplus.
 - Rent income increased/decreased by % or amount during the financial year.
 - The correction of incorrect net profit.



Balance sheet

- Know the format of balance sheet.
- Don't record foreign entries in both balance sheet and notes.
- Fixed deposit maturing within the next 12 months to cash and cash equivalents.
- Loan payable within the next 12 months to be disclosed in the current liabilities.
- The use of financial indicators when preparing balance sheet. If Bank (debit) = note 6 cash and cash equivalents and If Bank (credit) = bank overdraft to current liability.

ACTIVITY A1 (Final Accounts)

An inexperienced bookkeeper of Thembi Stores prepared the Profit and Loss account for the financial year ended 28 February 2020. As the internal auditor, you discovered that certain year-end adjustments were not taken into account.

REQUIRED

- 1.1 Prepare the **Trading account** on 28 February 2020 to reflect the correct Sales and Cost of Sales figures
- 1.2 Prepare the **correct Profit and Loss account** for the year on 28 February 2020.

INFORMATION

An inexperienced bookkeeper prepared the Profit and Loss account below. It includes some errors and omissions.

**GENERAL LEDGER OF THEMBI STORES
FINAL ACCOUNTS SECTION**

Dr				Profit and Loss account (F2)				Cr			
2020				2020				2020			
Feb	28	Salaries & wages	107 390	Feb	28	Trading account	246 750	Feb	28	Rent income	74 800
		Telephone	10 450			Discount Received	2 360			Equipment	122 000
		Insurance	9 100			Interest on fixed deposit	4 000				
		Sundry expenses	37 910								
		Commission Income	12 890								
		Discount allowed	1 240								
		Depreciation	18 300								
		Net profit	262 620								
			449 910								449 910

The following have not yet been considered:

- (a) The gross profit was correctly calculated using the profit mark-up of 60% on cost. However the bookkeeper did not take the following into account:
A debtor had returned goods, valued at R6 400, on 28 February 2020.
- (b) Transactions involving debtors, not recorded, included:
 - Bad debts to be written off, R700
 - A discount allowed of R180 on a late payment must be cancelled.
- (c) The telephone account on February 2020 was received but not yet paid, R960
- (d) Rent income includes the rent for only 11 months. The rent amount was constant during the current financial year.
- (e) Insurance includes the total amount paid up to 30 April 2020.
- (f) The loan statement was received but no information from it was recorded. Details were:

Balance on 1 March 2019	R396 000
Total of monthly repayments (including interest)	102 000
Interest capitalized	?
Balance on 28 February 2020	326 200

- (g) Interest on the Fixed deposit of R60 000 at 8% p.a. was outstanding for the year ended 28 February 2020.
- (h) The new equipment was purchased on 1 March 2019. The depreciation shown above relates to this equipment only. Depreciation on the original equipment (cost R216 000) was not recorded. Depreciation on equipment is provided at a fixed percentage on cost.

GENERAL LEDGER OF PRINCE TRADERS

Dr		Current account: Harry						(B3)	Cr	
					2019 Mar	1	Balance	b/d	14 000	
					2020 Feb	28	Interest on Capital		59 400	

B. Adjustments

The bookkeeper has calculated the net profit as R735 425 but did not consider the following adjustments:

- William introduced an extra vehicle worth R220 000 as capital on 31 January 2020
- The provision for bad debts needs to be decreased by R2 600
- An annual insurance premium of R8 100 was paid and recorded on 1 December 2019. No adjustment entry has been made.
- Commission income received, R4 100 is for the next financial year. Make the necessary adjustment.
- William earns a fixed monthly salary. He has withdrawn his salary for 13 months. There are no other drawings.

C. Partnership agreement

The partnership agreement provides for the following:

- Interest on capital is paid to both partners at a fixed % per year.
- Harry earns R2 500 per month more than William as a salary.
- William earns a bonus of 1% of the net sales.
- Remaining profit will be divided equally between Harry and William

ACTIVITY A2 (Partnership ledger)

2.1		Correct net profit	
		Net profit before adjustments	735 425

2.2

GENERAL LEDGER OF PRINCE TRADERS

Dr		Capital: William						(B2)	Cr	

Current account: William (B4)

Appropriation account (F3)

2020 Feb	28				2020 Feb	28			

ACTIVITY B1 (Statement of Comprehensive Income)

Rockstars Traders is a business owned by partners R. Rocky and S. Star. The financial year ends on 28 February each year.

REQUIRED

- 1.1 Prepare the **Statement of Comprehensive Income** for the year ended 28 February 2020. (

INFORMATION

**A ROCKSTAR TRADERS
PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2020**

Balance sheet accounts section	Dr	Cr
Capital: R. Rocky		500 000
Capital: S. Star		450 000
Current account: R. Rocky	24 600	
Current account: S. Star		4 200
Drawings: R. Rocky	108 000	
Drawings: S. Star	208 000	
Land and buildings	1 620 000	
Vehicles	140 000	
Equipment	255 000	
Accumulated depreciation on equipment		120 000
Loan: Roll Bank (12 % p.a.)		140 000
Fixed deposit: Roll Bank (8 % p.a.)	80 000	
Trading Inventory	109 500	
Debtors control	58 600	
Provision for bad debts		2 580
Bank		36 510
Creditors control		115 200
Pension Fund		45 100
Nominal accounts section		
Sales		2 140 210
Cost of sales	961 000	
Debtors allowances	10 210	
Bank charges	8 200	
Telephone	5 200	
Rent income		86 800
Interest on fixed deposit		6 400
Bad debts	3 300	
Pension fund contribution	4 100	
Interest on loan	15 400	
Salaries and wages	121 000	
Insurance	18 000	
Packing material	35 890	
Interest on bank overdraft	1 000	
	3 647 000	3 647 000

B. ADJUSTMENTS AND ADDITIONAL INFORMATION:

1. A debtor, J. Jovi, returned merchandise delivered to him on 27 February 2020 at a selling price of R1 000. The goods were sold at a mark-up of 100% on the cost price. No entries were made for this transaction, but the items were included in the physical stock count.
2. Trading stock on hand, as determined by a physical stocktaking on 28 February 2020, amounted to R105 000
3. Packing material used during the financial year amounted to R20 000.
4. The telephone account for February 2020 received but not paid, R700.

5. A debtor, B. Idol, was declared insolvent. His estate paid only 60c in the rand. An amount of R450 was received from his estate and recorded. The remainder of his debt must be written off as irrecoverable. No entries have been made for this transaction.
6. An amount of R460 was received from a debtor whose account was previously written off. This has not been recorded.
7. The provision for bad debts must be adjusted to R2 360.
8. The partnership is sub-letting a section of the building to A. Rose. The rent is increased annually by 10% p.a. on 1 January. The rent was received quarterly in advance until 31 May 2020.
9. The amount for insurance includes an annual premium of R8 400 for the period 1 July 2019 to 30 June 2020.
10. The pre-adjustment trial balance was prepared before the Salaries Journal for February 2020 was posted. The following details appeared in the SJ:

Gross salaries		R25 000
Less: Deductions		R 7 600
PAYE	R4 500	
Pension fund	R3 100	
Net salaries		R 17 400
Employers contribution (pension fund)	R3 100	

NOTE: Payments (EFTs) for net salaries were made and recorded.

11. Depreciation on equipment amounts to R15 000 for the year.
12. Provide for any outstanding interest on loan. Interest is not capitalised.
13. Partnership agreement stipulations:
 - Partners are entitled to a monthly salary of R15 000 each.
 - Partners are entitled to interest on capital at 7% p.a.
 - The remainder of the profit or loss is shared equally between the partners.



Handwritten calculations and notes:

1) $\frac{100}{100} \times \frac{1000}{1} = 1000$

2) $10000 + 15000 = 115000$

3) $100000 - 10000 = 90000$

4) $100000 - 10000 = 90000$

5) $100000 - 10000 = 90000$

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49) $100000 - 10000 = 90000$

50) $100000 - 10000 = 90000$

ACTIVITY B1 (Statement of Comprehensive Income)

ROCKSTAR TRADERS

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2020

Sales	C 2140 210 - (10210 + 1000)	2 129 000	
Cost of Sales	C 961 000 - 500	960 000	
Gross Profit		1 160 300	
Other Operating Income		68 900	
Rent Income	C 36 800 - 1 2480	68 320	
Bad debts Rec		460	
Provision for Bad debts	(2580 - 2360)	220	
Gross Operating Income		1 237 500	
Total Operating Expenses		226 100	
Trading Stock		5 000	
packaging material	(35 890 - 15 890)	20 000	
Telephone	(5200 + 700)	5 900	
Bad debts	(3 300 + 300)	3 600	
Insurance	(18 000 - 2800)	15 200	
Salaries and wages	(121 000 + 25 000)	146 000	
provision contribution	(4 100 + 3100)	7 200	
Depreciation		15 000	
Bank charges		8 200	
Operating Profit		1 011 400	
Interest Income		6 400	
Profit before interest expense		1 017 800	
Interest expense	C 15 400 + 1400 + 1000	(17 800)	
Net profit for the year		1 900 000	

ACTIVITY B2 (Statement of Comprehensive Income, Notes)

The following information was extracted from the records of JJ Stores on 28 February 2020, the end of the current financial year. The partners are Ms Jozi and Mr Jay.

REQUIRED

- 2.1 Prepare the **Statement of Comprehensive Income** for the year ended on 28 February 2020.
NOTE: Some amounts are provided in the answer sheet. Show all workings in brackets.
- 2.2 Complete the **Notes** to the Statement of Financial Position:
 - Capital
 - Current accounts
- 2.3 Jozi is not happy with the manner in which Jay is handling his investment in the business.
 - Provide TWO reasons to justify why she feels this way. In each case, provide relevant figures to support your comments.
 - Propose TWO practical suggestions that the partnership can use to address the concern expressed by Jozi

INFORMATION

A. Extracts from the financial records:

Capital: Jozi (1 March 2019)	R240 000
Capital: Jay (1 March 2019)	360 000
Drawings: Jozi	26 409
Drawings: Jay	57 403
Current account: Jozi (1 March 2019)	(Cr) 22 360
Current account: Jay (1 March 2019)	(Dr) 10 100
Sales	998 400
Cost of sales	665 600
Net profit (as per Profit and Loss account)	311 133

B. Extract of Pre-adjustment amounts from the General Ledger on 28 February 2020:

Loan: Kudu Bank	?
Fixed deposit: Bok Bank (9% p.a.)	120 000
Debtors control	68 720
Provision for bad debts (1 March 2019)	3 936
Trading stock	134 840
Rent income	117 250
Insurance	21 455
Packing material	23 100
Water and electricity	25 320
Interest income	8 100
Sundry expenses	?

C. The following adjustments were taken into account to calculate the net profit:

- The annual stock take revealed the following stock on hand:
 - Trading stock, R130 540
 - Packing material unused, R3 600
- Adjust the provision for bad debts to 5% of the net trade debtors
- Interest on loan is capitalised. The loan statement received from Kudu Bank showed the following:

Loan balance on 1 March 2019	R374 600
Repayments for the year (including interest)	86 400
Interest capitalised	?
Loan balance on 28 February 2020	327 000

- The rent for March 2020 was received and deposited. Take into account that rent was increased by R875 from 1 December 2019.
- Insurance includes the annual policy for R5 820 paid on 1 June 2019.
- The water and electricity account for February 2020 was not yet paid, R2 150
- Interest on fixed deposit is not capitalised. Interest for the last quarter of this financial year is not yet received.

D. Transactions relevant to the partners:

- Jozi took goods from stock for her personal use. The selling price was R9 590. Goods are marked-up by 75% on cost. Only the trading stock entry was processed.
- Jay used a business cheque to settle his personal telephone account, R5 100
- The partnership agreement clause for salaries provided for the following:
 - Jozi R113 400 annually
 - Jay R7 800 per month

NOTE: The partners were entitled to an annual increase of 10% effective on 1 December each year. The above allowances were not adjusted with this increase.

- Interest on capital is calculated at 8% of the capital balances. On 1 June 2019, Jozi increased her capital by R40 000 and Jay decreased his capital by R10 000. These changes were not taken into account.
- Jozi is entitled to a performance bonus equal to 3% of the total sales.
- Partners share remaining profits or losses in the ratio of their capital balances at the end of the year.



ACTIVITY B2 (Statement of Comprehensive Income, Notes)

2.1 JJ STORES

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2020

Sales	(998 400)	998 400
Cost of Sales	(665 600)	(665 600)
Gross Profit		332 800
Other Operating Income		155 850
Commission Income		47 725
Rent Income	(117 750 + 96257)	10 7625
provision for Bad debts	(3456 - 3436)	50
Gross Operating Income		
Total Operating Expenses		
Salaries and wages		45 500
Depreciation		18 300
Sundry expenses		19 300
Trading stock deficit	(134 840 - 130 540)	4 300
packing material	(23100 - 8600)	14 500
water & electricity	(26 320 + 2150)	20 000
Insurance	(21 455 - 1455)	2 7470
Operating Profit		389 133
Interest income	(10 800)	10 800
Profit before interest expense		349 933
Interest Expense	(38 800)	(38 800)
Net profit for the year		311 133

2.2 CAPITAL

	JOZI	JAY	TOTAL
Balance -beginning of year			
Additional capital			
Decrease of capital			
Balance - end of year			

CURRENT ACCOUNTS

	JOZI	JAY	TOTAL
Profit per Statement of Comprehensive Income			
Retained income for the year			
Balance - beginning of year			
Balance - end of year			

2.3	Provide TWO reasons to justify why she feels this way. In each case provide relevant figures to support your comments.	
	Propose TWO practical suggestions that the partnership can use to address the concern expressed by Jozi	

**Activity B3: INCOME STATEMENT AND BALANCE SHEET NOTE
TYALI TRADERS**

The following information relates to the financial year ended on 30 June 2019.



REQUIRED

- 3.1 Complete the Income statement.
- 3.2 Prepare the Trade and other receivables note.

INFORMATION:

A. Extract from Pre-adjustment TRIAL balance on 30 June 2019

BALANCE ACCOUNT SECTION	
Vehicles	680 000
Accumulated depreciation on vehicles	150 000
Fixed deposit (at 9% p.a. at Nedbank)	160 000
Trading stock	302 500
Debtors control	68 880
Provision for bad debts	2 010
Loan: Mtolo Bank	375 000
NOMINAL ACCOUNT SECTION	
Sales (including 75% mark-up)	1 737 750
Cost of sales	?
Rent income	81 792
Commission income	20 076
Discount received	6 850
Interest on fixed deposit	8 500
Salaries and wages	138 500
Consumable stores	11 900
Insurance	19 300
Sundry expense	?
Bad debts	4 120

B. Additional information and adjustments:

- (a) Goods returned by a debtor B. Jonson, R3 500 (cost price of R2 000), were placed back to the shelves. The transaction was not recorded.
- (b) Stocktaking revealed that stock, cost price R3 600, were missing and consumable stores on hand amounted to R2 900.
- (c) The bookkeeper omitted a discount of R150 from Jula Traders, a creditor. This was for early payment of the account.
- (d) Outstanding debts of R2 880 must be written off.
- (e) Provision for bad debts must be adjusted to 5% of debtors.
- (f) Insurance of R9 300 was fully recorded. The amount was paid for the period from 1 May 2019 up to 31 October 2019.
- (g) Rent income was increased by 6% on 1 December 2018. The rent for June 2019 is still outstanding.
- (h) The bookkeeper recorded R60 000 as additional fixed deposit on 1 February 2019.
- (i) Operating expenses amounted to 24% of the adjusted sales for the year.
- (j) Operating expenses amounted to 24% of the adjusted sales for the year.
- (k) The loan statement is as follows:

Balance on 01 July 2018	375 000
Repayment of loan (including interest)	161 250
Balance on 30 June 2019	257 250

- (m) Depreciation for the year amounted to R71 680.

ACTIVITY B3: ANSWER SHEET

3.1 TYALI TRADERS

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2019



Sales (1737 750 - 3500)	1734 250
Cost of sales (991 000 + 2000)	(493 000)
Gross profit	741 250
Other operating income	116 020
Rent Income (817 92 + 7152)	889 44
Discount Received (6850 + 150)	7000
Comission Income	200 76
Gross operating income	857 270
Operating expense	(616 270)
Depreciation	71 680
Trading Stock (302 500 + 298 400)	3600
consumable stores (11900 + 7900)	14 800
Sundry Expense	17 8766
Bad debts (4120 - 2880)	1240
Insurance (19 300 - 9300)	6200
Salaries and wages	13 8500
Provision for Bad debts (3464 - 2010)	1434
Operating profit	641 050
Interest Income (4400 + 6000 + 8500)	28900
Profit before interest expense	669 950
Interest Expense	(43500)
Net profit for the year	626 450

3.2 TRADE AND OTHER RECEIVABLES

ACTIVITY B4 (Statement of Financial Position & Notes)

The information relates to Golden Bakery, owned by partners Martin Gold and Mary Brown for the financial year ended 28 February 2019.

REQUIRED

- 4.1 Prepare the following **Notes to the Statement of Financial Position**:
 - 4.1.1 Current accounts (Total column is not required)
 - 4.1.2 Trade and other payables
- 4.2 Complete the **Statement of Financial Position** as at 28 February 2019.

INFORMATION

A Extract from the Post-Adjustment Trial Balance on 28 February 2019:

Capital: Gold	500 000
Capital: Brown	300 000
Current account: Gold (1/3/2018)	33 000
Current account: Brown (1/3/2018)	(Dr) 15 400
Drawings: Gold	12 000
Drawings: Brown	10 000
Fixed (Tangible) assets at carrying value	?
Fixed deposit: Lama Bank (6% p.a)	225 000
Trading stock	146 900
Consumable stores on hand	3 870
Trade debtors	73 00
Trade creditors	65 000
Accrued Income / Income receivable*	10 490
Accrued expenses / Expenses payable*	3 100
Prepaid expenses	2 100
Income received in advance	8 250
Bank	(Cr) 27 710
Cash float	3 500
Petty Cash	1 500
Loan: Mama Bank (15% p.a.)	480 000
Creditors for salaries	45 000
SARS (PAYE)	22 500

B. Additional information

1. R75 000 of the fixed deposit will mature on 30 June 2019
2. R60 000 of the capital portion of the loan will be paid during the next financial year.
3. Brown took trading stock for personal use. The price on the goods reflected R6 900. The mark-up is 50% on cost. No entry was made in respect of this.
4. Brown increased his capital by R80 000 halfway during the financial year. This has been recorded properly.
5. The partnership agreement provides for:
 - Gold receives a salary of R11 000 per month and an annual bonus of R12 000.
 - Brown's annual salary is R108 000.
 - Partners are entitled to 10% interest on their capital investment.
 - Remaining profit and losses are shared between Gold and Brown in the ratio 3:2
6. The net profit for the year after all the adjustments had been processed was R400 000.

ACTIVITY B4 (Statement of Financial Position & Notes)

4.1.1 CURRENT ACCOUNTS

	GOLD	BROWN
Profit per Statement of Comprehensive Income		
Salaries		108 000
Drawings	(12 000)	
Retained income for the year		
Balance- beginning of year	33 000	
Balance - end of year		

6.1.2 TRADE AND OTHER PAYABLES

Trade Creditors	

ASSETS		
Non-current assets		
Fixed/Tangible assets		
Current assets		
Inventory (146 900)		
Total assets		
EQUITY AND LIABILITIES		
Capital & Reserves / Owner's equity		
Non-current liabilities		
Current liabilities		
Total equity and liabilities		1 842 560

ACTIVITY B5 (FINANCIAL STATEMENTS & NOTES)

The information relates to PJ Traders (partners Pollard and Jantjies). Their financial year ended 28 February 2020.

REQUIRED

- 5.1 Prepare the following notes to the Statement of Financial Position on 28 February 2020:
 - 5.1.1 **Capital**
 - 5.1.2 **Current accounts**
 - 5.1.3 **Trade and other payables**
- 5.2 Complete the **EQUITY AND LIABILITIES section** of Statement of Financial Position on 28 February 2020.

INFORMATION

A Balances from the ledger on 28 February 2020

Capital: Pollard	600 000
Capital: Jantjies	300 000
Current account: Pollard (1/3/2019)	(Cr) 22500
Current account: Jantjies (1/3/2019)	(Dr) 57 600
Drawings: Pollard	72 000
Drawings: Jantjies	96 000
Loan: SB Bank	402 500
Creditors control	62 750
SARS (PAYE)	13 500
Bank	(Cr) 16 600
Accrued expenses	12 700
Income received in advance	4 600
Accrued income	17 000
Prepaid expenses	16 300

B Changes to capital contributions

1. The following transactions were correctly recorded:
 - Partner Pollard deposited R250 000 on 1 November 2019
 - Partner Jantjies withdrew R150 000 on 1 December 2019
2. The following transaction was NOT recorded:
 - Partner Pollard withdrew R50 000 cash on 28 February 2020.

C Provisions of the partnership agreement

1. **Interest on capital:**
 - Pollard is entitled to 12% p.a. on his capital
 - Jantjies is entitled to R49 500 in total
2. **Salary allowance:**
 - Jantjies will receive R144 000 for the year
 - Pollard's monthly salary is R2 000 less than Jantjies
3. **Annual bonus:**
 - Pollard receives an annual bonus of R15 000
4. **Share in remaining profits/losses**
 The remaining profit of R16 000 must be shared between Pollard and Jantjies in the ratio 3 : 2

ACTIVITY B5 (Financial Statements & Notes)

5.1.1 CAPITAL

	POLLARD	JANTJIES
Balance -beginning of year		
Additional capital		
Withdrawal of capital		
Balance - end of year		

5.1.2 CURRENT ACCOUNTS

	POLLARD	JANTJIES
Net profit for the year		
Salaries		144 000
Interest on capital		49 500
Bonus	15 000	
Primary distribution		193 500
Share in remaining profit		
Drawings	(72 000)	(96 000)
Retained income for the year		
Balance- beginning of year		
Balance - end of year	147 100	46 300

5.1.3 TRADE AND OTHER PAYABLES

Trade Creditors	62 750

5.2 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

EQUITY AND LIABILITIES		
Owner's equity		
Non-current liabilities		
Current liabilities		
TOTAL EQUITY AND LIABILITIES		

ACTIVITY B6: PARTNERSHIPS

6.1 CONCEPTS

Choose the correct term from the list to complete each of the following statements. Write only the term next to the question number (8.1.1–8.1.4) in the ANSWER BOOK.

Current liabilities; income received in advance; balance sheet; cash and cash equivalents; income statement; prepaid expense

- 6.1.1 The statement reflecting the financial results of the company is called a/an....
- 6.1.2 The amount of rent paid by the tenant for the next financial year will be recorded as...
- 6.1.3 The statement reflecting the financial position of the company is called a/an ...
- 6.1.4 A fixed deposit that matures in the next financial year will be recorded under ... in the financial statements.

6.2 SS BROTHERS

S. Ntubeni and S. Kolisi are partners in this business. The financial year ended on 30 September 2019.

REQUIRED:

- 6.2.1 Complete the Current Account note for the financial year ended.
- 6.2.2 Complete the Equity and Liabilities section of the Balance sheet on 30 September 2020.

A. Extract from accounting records on 30 September 2020:

Capital: Ntubeni	350 000
Capital: Kolisi	450 000
Current account: Ntubeni (1 October 2019)	(Dr) 30 000
Current account: Kolisi (1 October 2019)	(Cr) 10 500
Trading stock	132 600
Loan: BANI Bank	?
Fixed deposit: Easy Bank	180 000
Creditors control	60 500
Accrued expenses	8 000
Accrued income	15 000
Prepaid expenses	22 000
Income received in advance	7 500
Cash float	4 500
Bank	(Cr) 35 500
Petty cash	1 000
Drawings: Ntubeni	345 000
Drawings: Kolisi	375 000
Profit and loss (Net profit)	750 000

- B. On 31 March 2020 Kolisi increased his capital contribution with R50 000. This was recorded.
- C. The partnership agreement states the following:
- Interest on capital of 12 % p.a.
 - Kolisi received an annual salary of R240 000.
 - Ntubeni received a salary of R5 000 per month more than Kolisi due to extra management responsibilities.
 - Kolisi received a bonus of 10% of his annual salary.
 - Remaining profits are shared equally between the partners.
- D. R50 000 will be paid on the capital amount of the loan in the next financial year.
- E. Total assets for the year amounted to R1 170 000.

Activity B6: Partnerships

6.1 Concepts

6.1.1	
6.1.2	
6.1.3	
6.1.4	

6.2.1 CURRENT ACCOUNTS NOTE OF PARTNERS

	NTUBENI	KOLISI
Partners' salaries		
Interest on capital	42 000	
Partners' bonuses		
Drawings	(345 000)	(375 000)
Balance at the beginning	(30 000)	10 500
Balance at the end		

6.2.2 BALANCE SHEET ON 30 SEPTEMBER 2020

EQUITY AND LIABILITIES	
Owners' equity	
Non-current liabilities	
Current liabilities	
TOTAL EQUITY AND LIABILITIES	

C: ANALYSIS AND INTERPRETATION**THINGS TO REMEMBER**

- Definition of concepts.
- Users of financial Statement.

(i) Explaining categories of the financial indicators.

- Profitability ratios – can be divided into Margins: Gross profit on Sales, gross profit on cost of sales, Profit Returns: Net Profit on sales , Operating Profit on sales
- Efficiency of the business – how does the business has ability to control its expenses: operating profit on sales and operating expense on sales.
- Solvency of business – Looking at how firm acquisition has been funded – own or borrowed.
- Liquidity – Definition – Explaining difference between current ratio and acid - test ratio.

(ii) Guidelines that need to be followed when commenting on a ratio.

- State whether ratio increased or decreased compared to the previous year.
- State whether the ratio is better or worse than the norm – provide reason for increase or decrease.
- Make it short and to the point – reach a conclusion on the firm is performance.
- Operating profit on sales and net profit on sales are similar – checking on controlling expenses only difference is interest taken into account on net profit on sales.
- Operating expenses on sales if decreases show that business is more efficient in controlling its expenses.

Formulae:

$$\text{Gross profit on sales} = \frac{\text{gross profit}}{\text{Sales}} \times \frac{100}{1}$$

$$\text{Gross profit on cost of sales} = \frac{\text{gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$$

$$\text{Operating profit on sales} = \frac{\text{operating profit}}{\text{Sales}} \times \frac{100}{1}$$

$$\text{Operating expenses on sales} = \frac{\text{operating expenses}}{\text{Sales}} \times \frac{100}{1}$$

$$\text{Net profit on sales} = \frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1}$$

$$\text{Solvency Ratio} = \text{Total Assets} : \text{Total liabilities}$$

$$\text{Debt – Equity Ratio} = \text{NCL} : \text{Partners equity}$$

$$\text{Net Assets} = \text{Total Assets} - \text{Total Liabilities}$$

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

$$\text{Acid – test Ratio} = \text{Current Assets} - \text{Inventories} : \text{Current Liabilities}$$



ACTIVITY C1 (Financial indicators) (5 marks; 5 minutes)

Name the financial indicator for each formula below. Write your answer in the Workbook.

1.1	Total assets : Total liabilities
1.2	$\frac{\text{Gross profit}}{\text{Cost of Sales}} \times \frac{100}{1}$
1.3	$\frac{\text{Net profit}}{\text{Average Owner's Equity}} \times \frac{100}{1}$
1.4	$\frac{\text{Operating expenses}}{\text{Net profit}} \times \frac{100}{1}$
1.5	(Trade and other receivables + Cash & cash equivalents) : Current liabilities
5	

ACTIVITY C1 (Financial indicators)

1.1	
1.2	
1.3	
1.4	
1.5	

ACTIVITY C 2

The following information was extracted from the accounting records of Khumalo Traders, distributors of school stationery. The undertaking is owned by two brothers, Siphon and Sizwe. Calculate and comment on each of the following:

1. Gross profit on sales
2. Gross profit on cost of sales
3. Net profit on sales
4. Operating profits on sales
5. Operating expenses on sales
6. Solvency ratio
7. Current ratio
8. Acid test ratio

Information:**Extract of Income Statement for year ended 28 February 2020:**

Turnover (sales)	495 000
Cost of sales	360 000
Operating expenses	110 500
Interest on loans	18 000
Net profit for year	37 500

Extract of Balance Sheet as at 28 February 2020

	Note	
Tangible assets		197 000
Financial assets		30 000
Current assets		87 500
Inventories	1	60 000
Trade and other receivables	2	25 000
Cash and cash equivalents		2 500
TOTAL ASSETS		314 500
Owners' Equity		144 480
Capital		125 000
Current accounts		19 480
Non-current liabilities		110 000
Current liabilities		60 020
Trade and other payables	3	60 020
TOTAL EQUITY AND LIABILITIES		314 500

Notes to Balance Sheet:

	2020
1. INVENTORIES	
Trading stock	58 000
Consumable stores on hand	2 000
2. TRADE AND OTHER RECEIVABLES	
Trade debtors	22 000
Provision for Bad Debts	(1 100)
Income accrued	1 300
Prepaid expenses	2 800
3. TRADE AND OTHER PAYABLES	
Trade creditors	42 000
Expenses accrued	2 520
Income received in advance	15 500

Calculations in respect of 2019:

INDICATOR	2019
1. Gross profit on sales	33.3%
2. Gross profit on cost of sales	50%
3. Net profit on sales	8.9%
4. Operating profit on sales	13%
5. Operating expenses on sales	18%
6. Solvency ratio	2.13:1
7. Current ratio	2.06:1
8. Acid test ratio	1.12:1

Answer sheet : ACTIVITY C2

1. Gross Profit on Sales:

2. Gross Profit on Cost of Sales:

3. Net Profit on Sales:

4. Operating Profit on Sales:

5. Operating Expenses on Sales:

6. Solvency Ratio:

7. Current Ratio:

8. Acid Test Ratio:

ACTIVITY C3

NT Traders is a partnership business that is owned by N Naser and T Turner. The financial year ends on the 28 February 2020.

Required:

Answer the following questions. Show workings so that part marks can be awarded. Where necessary, show your answers to one decimal place.

3.1 Liquidity

3.1.1 Calculate the current ratio for 2020

3.1.2 Calculate the acid test ratio for 2020.

3.1.3 Comment briefly on these ratios for 2020. The current ratio for 2019 was 2:1 and the acid test ratio for 2019 was 0,3:1

3.2 Solvency:

3.2.1 Calculate the solvency ratio on 28 February 2020.

3.2.2 Comment on the solvency ratio. The solvency ratio for 2019 was 3.6 : 1

Information:

Extract from the Income Statement for the year ending 28 February 2020

Sales [40% was on credit]	1 800 000
Cost of sales	1 080 000
Net profit	280 000
Depreciation on equipment	37 200
Depreciation on vehicles	98 000

Information from the Balance Sheet as at:

	28 February 2020	28 February 2019
Fixed assets [carrying value]	1 929 500	1 172 000
Current assets	440 000	420 000
Inventories [all trading stock]	171 800	351 200
Trade and other receivables	140 000	60 000
Cash and cash equivalents	128 200	8 800
Partners' equity	2 037 500	1 150 000
Capital: Naseer	700 000	300 000
Capital: Turner	800 000	600 000
Current a/c: Naseer	200 000	80 000
Current a/c: Turner	337 500	170 000
Mortgage loan: JK Bank [15% p.a]	172 000	232 000
Current liabilities	160 000	210 000
Trade and other payables	160 000	210 000

ACTIVITY C4

Answer the questions based on the information taken from the financial statements of Candy- Bar Treats, a partnership owned by Candy Sweets and Barone Spicy, their coffee shop in the CBD is known for the fresh food and fast service.

Information

	2020	2019
Capital : C Sweets	350 000	350 000
Capital : B Spicy	500 000	500 000
Current Accounts C.Sweets	2 500(dr)	20 620
Current Account B. Spicy	1 800	3 100
Trading Inventory	35 670	27 700
Trade Creditors(40% of all purchases are on credit)	34 240	20 480
Trade Debtors(30% of all sales are on credit)	55 000	50 000
Net profit for the year	450 000	
Final Distribution C Sweets	150 000	300 000
Sales	2 016 000	
Cost of sales	1 440 000	

Required

Calculate the following for 2020, Comment on your findings.

- 4.1.1 Rate of Stock Turnover (2019: 44.9 times)
- 4.1.2 Stock holding period in days (2019: 40 days)
- 4.1.3 Average Debtors collection in days (2019: 40 days)
- 4.1.4 Average Creditors Payment period in days (2019: 33.7 days)

- 4.2. Calculate B Spicy's earnings on his investment
- 4.3 Calculate S Sweets earnings as a % on her investment
- 4.4 Calculate the Return on Partner's Equity

ANSWER SHEET B4

ACTIVITY C5

You are provided with information obtained from the financial statements of MS Traders. The business is owned by partners, Megan and Shenai.

Required:

Study the information and answer the questions that follow.

Information:

Extract from the Income Statement for the year ended:

	28 February 2020	28 February 2019
Sales	2 400 000	1 900 000
Cost of sales	1 280 000	1 160 000

Extract from the Balance Sheet as at:

	28 February 2020	28 February 2019
Fixed assets (carrying value)	1 160 000	1 020 000
Investments {6% p.a.}	400 000	100 000
Current assets	380 000	320 000
Total Assets	1 940 000	1 440 000
Owners' Equity	1 400 000	990 000
Capital: Megan	840 000	620 000
Capital: Shenai	630 000	358 000
Current a/c: Megan	80 000[dr]	16 000 [cr]
Current a/c: Shenai	50 000[cr]	4 000 [dr]
Non-current liabilities [12% p.a.]	300 000	360 000
Current liabilities	200 000	90 000
Total Equity and Liabilities	1 940 000	1 440 000

Financial indicators calculated on:

	28 February 2020	28 February 2019
Gross profit on cost of sales	87.5%	64%
Operating expenses on sales	20%	22%
Operating profit on sales	21.8%	19.5%
Net profit on sales	?	17.2%
Current ratio	?	2.5:1
Acid-test ratio	1.2:1	0.8:1
Stock turnover rate	6 times	4.5 times
Stock holding period	60 days	102 days
Debtors collection period	30 days	45 days
Creditors payment period	60 days	60 days
Debt/Equity ratio	?	0.35:1
Total assets to total liabilities	3.9:1	3:1
Return on Partner's Equity	32.8%	30.5%

Questions:

5.1.1. Calculate the following financial indicators on 28 February 2020:

- Percentage net profit on sales
- Current ratio
- Debt/Equity ratio
- Return on Partners' Equity

5.1.2 Use the acid test ratio to calculate the amount of trading stock on hand on 28 February 2020.

5.1.3. Comment on the liquidity position of the business on 28 February 2020. Refer to **THREE financial indicators**.

ANSWER SHEET C5**ACTIVITY C 6****Required:**

Study the information extracted from the books of Happy Traders, a partnership business, with partners: H. Harry and P.Pather and answer the questions that follow.

Information:

The Net Profit from the Income Statement was R83 450

Extract of other balances/information

	28 February 2020	28 February 2019
Capital: Harry	175 000	275 000
Capital: Pather	150 000	250 000
Current account: Harry	4 000 (cr)	8 000 (dr)
Current account: Pather	6 000 (cr)	4 000 (cr)
Long-term loan (14% p.a.)	260 000	300 000
Current assets (including inventory)	65 000	70 000
Current liabilities	47 000	42 000
Trading stock	28 000	24 000
Current ratio	1,38:1	1,67:1
Acid test ratio	?	1.18:1
Debt to equity ratio	?	0.37:1
Return on Partners' Equity	?	25%

Questions:

6.1 Calculate the following for 2020

6.1.1 Acid-test ratio (4)

6.1.2 Debt/equity ratio

6.1.3 Return on Partners' Equity (6)

6.2 Does the business have a liquidity problem? Quote two financial indicators (with figures) to substantiate your answer.

6.3 Should the Partners' be satisfied with their Returns? Explain

6.4 The business is considering expanding and opening another branch. To finance this, the partners are considering taking out a further loan. Do you consider this to be a wise decision? Support your answer by referring to a relevant financial indicator.

ANSWER SHEET C6

ACTIVITY C 7

You are provided with information extracted from the accounting records of Little Pea Stores for the year ended 31 August 2020. The business is owned by two partners: Roo and Chico.

Required:

7.1 Calculate the following for 2020.

7.1.1 Acid test ratio (4)

7.1.2 Gross profit on cost of sales (4)

7.1.3 Debt/equity ratio (3)

7.2 Should the partners be satisfied with the control of the operating expenses? Briefly explain, quoting relevant calculations to support your answer. (5)

7.3 Roo and Chico are uncertain about the liquidity position of the business. They ask you for your opinion. Quote three relevant financial indicators and explain to them the liquidity position of the business. (8)

7.4 The business wants to expand in the next financial year and needs additional capital. The partners have decided to take out additional loan of R400 000 instead of contributing more capital. Explain, quoting two financial indicators to justify their decision. (6)

INFORMATION:

1. Extract from the Income statement for the year ended 31 August 2020.

Sales	R3 296 000
Cost of sales	R2 060 000

2. Extract from the Appropriation account prepared on 31 August 2020.

	Roo	Chico
Interest on capital	60 000	86 250
Salaries	150 000	132 000
Share of profits	<u>34 600</u>	<u>69 200</u>
	<u>244 600</u>	<u>287 450</u>

3. Extract of the balance sheets as at 31 August.

	2020	2019
Fixed assets	760 000	810 000
Investments: Fixed deposit at 6% p.a.	250 000	200 000
Current assets	378 000	286 000
Total assets	1 388 200	1 296 000
Partners equity	988 200	896 000
Capital account: Roo	500 000	300 000
Capital account: Chico	500 000	600 000
Current account: Roo	Dr 42 000	Cr 4 000
Current account: Chico	Cr 30 000	Dr 8 000
Non-current liabilities at 10% p.a.	220 000	250 000
Current liabilities	180 000	150 000
Total equity and liabilities	1 388 200	1 296 000
Trading stock (included in current assets)	176 000	156 000

4. Financial indicators

	2020	2019
Mark- up percentage achieved	60%	63%
Operating expenses on sales	21%	18%
Net profit on sales	16,1%	19,2%
Current ratio	2,1: 1	1,9: 1
Acid test ratio	?	0,9: 1
Debt equity ratio	?	0,3: 1
Return on total capital employed	47,1%	45,8%

ANSWER SHEET C 7**ACTIVITY C8 (Analysis & interpretation) (25, marks; 20 minutes)**

Jody and Tim are partners in a partnership, JT Sports Outfitters. They sell sports gear to local schools. The business aims at achieving a mark-up of 50% on cost.

The financial indicators below were calculated from the financial statements for the past two years ended 30 September.

REQUIRED

Study the extract from the financial statements and financial indicators and then answer the questions in your Workbook.

INFORMATION**A. Extract from the Statement of Financial Position with comparative figures:**

	2020	2019
Non-current liabilities (13%p.a)	220 000	180 000
Trading stock	1 270 000	650 000
Trade and other receivables (all debtors)	240 000	50 000
Cash and Cash equivalents	30 000	25 000
Trade and other payables (all creditors)	380 000	150 000

B. Financial indicators

	2020	2019
% Return on average equity (PartnerJody)	14%	13%
% Return on average equity (PartnerTim)	8%	6%
Current ratio	4 : 1	5 : 1
Acid-test ratio	?	0,5 : 1
Creditors average payment period	30 days	30 days
Debtors average collection period	90 days	100 days
Return on total capital employed	28%	32%
Debt/Equity ratio	0,5 : 1	0,3 : 1
Interest rate on loans	13%	12%
Gross profit on cost of sales	40%	42%
Gross profit on sales	29%	39%
Net profit on sales	4%	7%
Operating expenses on sales	32%	18%
Operating profit on sales	9%	13%

QUESTIONS:

In your answers, quote the actual ratios / Percentages from the above list to support your answer.

- 8.1 Calculate the acid test ratio for 2020. (3)
- 8.2 Comment on the liquidity of the partnership. Recommend THREE ways in which the liquidity of the partnership can be improved. (9)
- 8.3 If you were partner Tim, would you be satisfied with your return earned over the past two years? Motivate your answer. (4)
- 8.4 On which areas of the Statement of Comprehensive Income should the owners concentrate in order to improve the profitability of the business? List TWO points and motivate your answer. (4)
- 8.5 The partners are considering the expansion of the operations of the business. In order to do this, they are considering taking out a large loan at an interest rate of 13% or admitting a new partner into the business. Which of these two methods of financing do you advise for this business? Explain in detail. (5)

ACTIVITY C8 ANSWER SHEET

ACTIVITY C9 (Analysis & Interpretation) (40 marks, 30 minutes)

The information relates to Tamthan Electronics, owned by partners Tammy and Thando. Their financial year ends annually on 28 February.

REQUIRED

Study the information and answer the questions which follow. In support of your answers you have to quote figures and/or the actual financial indicator(s) (ratios/percentages) where appropriate. (40)

INFORMATION

Extracts from the ledger on 28 February 2018.

CAPITAL: THANDO							
				2017 Mar. 1	Balance	b/d	900 000
				Aug.31	Bank		800 000
							1 700 000

CURRENT ACCOUNT: THANDO							
2018 Feb. 28	Drawings: Thando		77 000	2017 Mar 1	Balance	b/d	40 000
	Balance	c/d	90 000	2018 Feb.28	Salary: Thando		70 000
					Interest on Capital		48 000
					Appropriation acc		9 000
			167 000				167 000
				2018 Mar. 1	Balance	b/d	90 000



Extract from the Statement of Financial Position on 28 February

	2018	2017
Fixed assets	3 052 000	2 270 000
Investments	150 000	180 000
Current assets	850 000	720 000
TOTAL ASSETS	4 052 000	3 170 000
Owners' equity	2 732 000	2 330 000
Non-current liabilities (14% p.a.)	1 000 000	600 000
Current liabilities	320 000	240 000
TOTAL EQUITY & LIABILITIES	4 052 000	3 170 000

Amounts obtained from the financial statements

	2018	2017
Sales (40% on credit)	R3 100 000	R4 200 000
Cost of sales	1 820 000	2 640 000
Operating profit	365 800	600 600
Net profit	269 000	520 000
Capital – Tammy	1 000 000	1 400 000
Capital – Thando	1 700 000	900 000
Current Account – Tammy	(58 000)	(10 000)
Current Account – Thando	90 000	40 000
Trading stock	180 000	440 000
Trade debtors	410 000	230 000
Trade creditors	245 000	184 000

Financial indicators calculated from the financial statements

	2018	2017
Operating profit as a % of sales	11,8%	14,3%
Net profit as a % of sales	8,6%	12,2%
Current ratio	2,6:1	3,0:1
Acid-test ratio	2,1:1	1,2:1
Stock turnover rate	5,9	7,0
Debtors' average collection period	?	54 days
Creditors average payment period	23 days	25 days
Solvency ratio	?	3,88:1
Debt/Equity ratio	?	0,26:1
Return on total capital employed	10,1%	11,2%
% return on average equity	12,9%	17,1%
% return earned by Tammy	14,7%	16,6%
% return earned by Thando	?	17,3%

QUESTIONS:

- 9.1 **Solvency:**
- 9.1.1 Calculate the solvency ratio for 2018. (3)
- 9.1.2 Comment on this ratio. Is this business likely to experience a solvency problem? Briefly explain. (3)
- 9.2 **Gearing and profitability:**
- 9.2.1 Calculate the debt/equity ratio for 2018. (3)
- 9.2.2 Thando is not happy with the debt/equity ratio and feels that it is negatively affecting the performance of the business. State TWO points (financial indicators) to support his opinion. (4)

- 9.3 **Returns and equity:**
- 9.3.1 Calculate Thando's % return on average equity. (4)
- 9.3.2 Thando is of the opinion that his return is unsatisfactory and that Tammy is taking advantage of her senior position in the partnership. State TWO points to support Thando's opinion. (6)
- 9.4 **Liquidity:**
- 9.4.1 Calculate the average debtors' collection period for 2018. (5)
- 9.4.2 Customers are complaining that the business seldom stocks the products they would like to buy. Explain, stating TWO points. Quote figures and financial indicators to prove the customers' complaints. (4)
- 9.4.3 The partners disagree about the liquidity situation.
- Tammy is not worried about the liquidity situation for the immediate future.
 - Thando feels that there is danger signs for the long-term sustainability of the business as far as liquidity and cash flow are concerned.
- State TWO points to support Tammy's opinion and TWO points to support Thando's opinion. (8)



ANSWER SHEET C9 (Analysis & Interpretation)

D: BUDGETING**THINGS TO REMEMBER****What is the Cash Budget**

- It is a financial plan indicating projected receipts and payments to ensure that there is sufficient cash to meet future payments.
- A cash budget deals only with cash transactions, namely the receipt and payment of cash.
- Transactions that are not cash related will not be considered in the preparation of cash budget.
 - These transactions include: Depreciation, Stock taken by the owner for personal use, Discount allowed and received, Bad debts, Profit/ loss on sale of fixed assets.
- The structure of the Cash Budget
- Differences between the Receipts and Payments
- Calculation of sales using ratios as well as percentage. Cash Sales are recorded under Receipts in the cash budget and Credit sales are used to calculate the Debtors collection schedule and Cost of Sales.
- Know how to calculate cash Surplus and Cash Deficit
- The closing cash balance of the current month will be the opening balance of the following month.
- Know how to do the Arithmetic calculations.

Preparation of the Debtors Collection Schedule

- Credit sales (Actual and Budgeted) will be analysed in the collection procedure and all information in this respect is processed into a Debtors Collection Schedule.
- Debtors collection schedule consist of credit sales and budget period.
- The calculation of cash sales and credit sales from total sales using the given % or ratio.
- Know how to apply the Debtors Collection Policy on credit sales and to take note of Discounts.
- The totals of the Debtors collection Schedule must be transferred to the Cash Budget under Receipts as Collection from Debtors.

Preparation of the Creditors Payments Schedule

- In order to improve cash flow, the business may purchase stock on credit. On fulfilling all business credit application requirements, the business can negotiate relevant payment terms with its creditors. Such terms will be followed in making payments to creditors during budget period. This information may be presented in the form of Creditors Payment Schedule.
- The calculation of credit and cash purchases from total purchases using % or ratio
- Cash purchases is recorded in the cash budget and credit purchases in the creditors payment schedule.
- If total purchases is not given use the cost of sales. If the cost of sales is not given, calculate it using the mark-up %.

Projected Income Statement

- The main aim of the business is to make a **Profit**. Regular and thorough planning is essential. Budgeting is an integral part of this process. Budgeting is forecasting for the future. The current budget is used to plan for the future.
- Likewise, the enterprise has to prepare a **Projected Income Statement** for the future from the current income statement
- The key here is to remember that we are trying to determine the future **profits**, and thus the Projected income Statement will include
 - All income that is expected to be earned during the budget period, **whether received or not**
 - All expenses that are expected to be incurred during the budget period, **whether paid or not**.

What is the main aim of the Projected Income Statement?

Projected income Statement is an essential tool used to monitor and plan the profitability of the business enterprise.

By analysing it; management can ascertain whether:

- The business will be profitable over the budget period
- The projected figures are satisfactory
- Expenses need to be cut.
- The business can afford to hire additional staff, run an advertising campaign and so on.

If it predicts a loss in a specific month, the management can make suitable arrangements to try to prevent this from materialising.

Format of the Projected Income Statement

The Projected income Statement has the same format as the "normal Income Statement, **except**, that here the figures are based on **future projections** and **not past results**, also often several columns are required since the budget period may span **over several months or even years**.

How to Prepare the monthly Projected Income Statement

1. Take as a starting point the actual Income Statement of the past year.
2. Divide the figures by 12 to calculate the monthly figures
3. The following factors, amongst others, should be taken into account:
 - Increase in expenses due to inflation, e.g. wages, fuel increases
 - Increase demand in particular months (season) due to events such as religious holidays, sports events, and international events etc.
 - Expected decline in sales due to increased competition.
 - Expected gross profit, i.e. mark-up on cost

NB. Some of the CALCULATIONS TO KNOW

- Mark up %= $\frac{\text{gross profit}}{\text{cost of sales}} \times 100$
- Surplus / deficit= Receipts – Payments
- Closing balance= Opening balance +/- Surplus/ deficit
- % change= $\frac{\text{difference}}{\text{original amount}} \times 100$
- Increased amount by % = $\frac{\text{Original amount} \times 100 + \% \text{ increase}}{100}$
- Decreased amount by %= $\frac{\text{Original amount} \times 100 - \% \text{ decrease}}{100}$
- Amount before increase= $\frac{\text{Increased amount} \times 100}{100 + \% \text{ increase}}$
- Loan or Fixed deposit = $\frac{\text{Interest on loan / fixed deposit} \times 100 \times 12}{\%}$

- Interest rate on loan / fixed deposit= $\frac{\text{interest amount} \times 12 \times 100}{\text{Loan / Fixed deposit} \times \%}$

Compare actual figures to budgeted figures to ensure that the budget figures are realistic and also comment on the control of income and expenses.

Ways to improve debtors collections

- Remind them by sending statements/ phone calls/sms/email
- Offer discounts on early payments
- Charge interest on late payments
- Refuse to sell on credit to debtors who are not compliant

Advantages of buying the business premises rather than renting

- Will not have to pay rent in future
- Business will acquire a fixed asset, which increases the value of a business
- Extra space will be rented out to receive additional income

Disadvantages of buying than renting

- Rates on building must be paid
- Additional maintenance cost will be incurred
- Not easy to relocate
- Costs and time involved in selling the property

Ways to Improve cash balances in future

- Encourage debtors to pay faster
- Negotiate with creditors for longer payment terms
- Raise more capital / issue more shares
- Move to cheaper premises
- Charge clients for deliveries
- Take out a loan (to reduce overdraft and interest)
- Decrease mark up to improve sales
- Look for alternative income e.g. commission

BUDGETING**ACTIVITY D1**

Remember: Cash budgets deal with expected inflow (Receipts) and outflow (Payments) of cash. Receipts and payments are of Revenue and Capital nature

The following will **not** be included in the cash budget :

- | | |
|--|---|
| <ul style="list-style-type: none"> ▪ Bad debts ▪ Discount received ▪ Discount allowed ▪ Depreciation | <ul style="list-style-type: none"> ▪ Loss on sale of an asset ▪ Profit on sale of an asset ▪ Drawings of trading stock |
|--|---|

Let's do the activity together

The following information was extracted from the records of Phindile Traders. Use the information provided below to draw up the:

- Debtors Collection schedule for the three months ending 30 September 2019
- Cash budget for the three month period ending 30 September 2019

(a)

	Actual information		Budgeted information		
	May	June	July	August	September
Cash sales	20 000	26 000	34 000	37 000	40 000
Credit sales	24 000	29 000	28 000	30 000	24 000
Wages	10 000	10 000	10 000	11 000	11 000
Rent income	5 000	5 000	5 000	5 500	5 500
Cash purchases	17 000	16 000	11 000	10 000	14 000
Credit purchases	20 000	26 000	25 000	28 000	26 000
Other expenses	17 000	17 000	17 000	19 000	19 000

(b) New computer will be bought on 01 August by cheque, R6 000.

(c) Additional information.

- Phindile Traders had a favourable balance of R28 000 on 01 July 2019
- Debtors normally pay their accounts as follows :
 - 60 % one month after the date of sale
 - 40% two months after the date of sale
- Creditors are paid in full one month after purchase
- Other expenses are paid in the month they occur.

ACTIVITY D2 ANSWER SHEET

DEBTORS' COLLECTION SCHEDULE – MALEBO TRADERS					
Month	Credit sales	Term	Debtors collection		
			July	August	September
Expected receipts					
CASH BUDGET OF MALEBO TRADERS – 01 JULY 2013 - 30 SEPTEMBER 2019					
RECEIPTS		July	August	September	
Cash sales					
Receipts from debtors					
.....					
PAYMENTS		July	August	September	
Cash purchases					

ACTIVITY D2 – DEBTORS COLLECTION SCHEDULE AND CASH BUDGET**REQUIRED**

You are provided with the information from Maduna Traders. You are required to complete the following for January and February 2019:

- Debtors Collection schedule
- Cash budget for January and February

INFORMATION**A. EXTRACT FROM THE LIST OF BALANCES ON 31 DECEMBER 2018**

Fixed Deposit (8 % p.a.)	24 000
Loan: Future Bank (14 % p.a.)	36 000

B. ACTUAL AND BUDGETED FIGURES

	Actual		Budgeted	
	November	December	January	February
Credit sales	45 000	48 000	60 000	54 000
Cash sales	50 000	55 000	40 000	36 000
Credit purchases	22 000	23 000	30 000	25 000

C. Transactions

1. It is expected that the amounts owed by debtors will be collected as follows:

- 30 % in the same month in which the transaction took place
- 50% in the month after the sales take place
- 15% in the second month after the sales took place
- 5% is to be written off in the third month after the sales take place

2. The Fixed deposit matures on the 31st of January 2019. Interest on Fixed Deposit is received at the end of each month.

3. The business will sell the old equipment on 31 January 2019 for R3 000 cash. New equipment will be purchased on credit for R34 000 in February. The supplier will require a deposit of R4 000 and the balance will be paid over six months commencing in March 2019.

4. Depreciation will increase from R6 700 to R7 000 from January 2019.

5. Credit purchases are paid in full in the month following the purchases transaction Month. A discount of 5% is received for this payment

6. The loan from Mayibuye Bank was made on 01 November. Half of the loan will be repaid on 31 January 2019. Interest on loan must be paid monthly.

7. The business employs three shop assistants at a salary of R4 000 each per month. On 31 January one of the assistants will leave the business. The other two assistants will receive the increase R1 000 each per month with effect from 1 February.

8. Part of building is let at R2 500 per month. The rent received will increase by 15% on 1 February.

9. Maduna Traders has an unfavourable bank balance of R6 200

Note: The interest on **Fixed deposit** and **Loan Account** is not capitalised.

3.2 **CASH BUDGET**

RCN Transport owned by Khetha Mthethwa is a small business that offers a delivery service. Their financial year ends on 30 September each year.

REQUIRED:

3.2.1 Complete the Debtors Collection schedule for October 2019 and November 2019.

3.2.2 On 31 October 2019, the following figures were extracted from the records of the business. Explain what you would mention to Sonny about each of the items listed. Give ONE point of advice in each case.

	OCTOBER 2019	
	BUDGETED (R)	ACTUAL (R)
Maintenance of vehicles	24 500	21 380
Collection from debtors	147 171	115 620
Telephone	2 300	4 860

3.2.3 Complete the Cash Budget for October and November 2019.

INFORMATION:

A. **A partially completed Cash Budget for October and November 2019.**

	October 2019	November 2019
CASH RECEIPTS		
Collection from debtors		
Fee income for services rendered	62 000	
Rent income	8 200	
Commission income	4 650	
Fixed deposit		10 000
Interest on fixed deposit	375	
TOTAL RECEIPTS		
CASH PAYMENTS		
Fuel and oil	32 600	
Maintenance of vehicles	24 500	
Salaries		
Drawings		
Telephone	2 300	
Sundry expenses	3 120	
Interest on loan		
Purchase of additional vehicle	-	
TOTAL PAYMENTS		
SUPPLUS/SHORTFALL	131 126	
Opening Balance	22 104	
Balance at the end of the month		

B. Services rendered to customers on credit is as follows:

C. Debtors normally pay according to the following pattern:

40%	pay their accounts during the transaction month to take advantage of the 2,5% discount.
55%	pay in the month following the transaction month.
	The balance is usually written off as bad debts after the second month.

- D The rent income will be increased by 9%, and fuel and oil is expected to go up by 15 cents to the Rand, with effect from 1 November 2019.
- E A fixed deposit is expected to mature on 1 November 2019. Interest on investment is earned at 9% p.a.
- F Interest on the loan at 11% p.a. is payable monthly. The loan balance on 1 October 2019 was R300 000.
- G Salaries are paid to the five drivers employed by the firm. All drivers are expected to get a 6% inflationary increase during November 2019.
- H The business plans to buy an additional vehicle during November 2019. The total cost of the vehicle is R256 000 inclusive of finance charges. A deposit of 10% is payable. The balance will be settled over 60 months. The deposit and the first monthly instalment will be paid during November 2019.
- I Commission income is a fixed percentage of the cash fee income for services rendered
- J The owner draws R500 cash and takes R150 worth of consumable stores per month for his personal use
- K Sundry expenses is expected to increase by 2,5% each month
- L All other items on the budget are expected to remain the same over the budget period.

ACTIVITY D3 - ANSWER SHEET

QUESTION 1: CASH BUDGET AND PROJECTED INCOME STATEMENT

3.1

No.	Amount in the Cash Budget for June 2019		Amount in the Projected Income Statement for June 2019	
	RECEIPT	PAYMENT	INCOME	EXPENSE
Example		<i>R2 130</i>		<i>R2 130</i>
3.1.1				
3.1.2				
3.1.3				
3.1.4				

3.2.1 **DEBTORS COLLECTION SCHEDULE**

MONTHS	CREDIT SALES		OCTOBER	NOVEMBER
September	142 500			
October	176 400			
November	174 800			

3.2.2

	COMMENT	ADVICE
Maintenance of vehicles		
Collection from debtors		
Telephone		

3.2.3

	October 2019	November 2019
CASH RECEIPTS		
Collection from debtors		
Fee income for services rendered	62 000	65 400
Rent income	8 200	
Commission income	4 650	
Fixed deposit	-	10 000
Interest on fixed deposit	375	
TOTAL RECEIPTS		
CASH PAYMENTS		
Fuel and oil	32 600	
Maintenance of vehicles	24 500	
Salaries	25 500	
Drawings		
Telephone	2 300	
Sundry expenses	3 120	
Interest on loan		
Purchase of additional vehicle	-	
TOTAL PAYMENTS		
SUPLUS/SHORTFALL	131 126	
Opening Balance	22 104	
Balance at the end of the month		

ACTIVITY D4**CASH BUDGETS****4.1 VARIA TRADERS**

You are provided with information from the books of VARIA Traders. Their financial year ends on 31 December each year

REQUIRED:

- 4.1.1 Why is it necessary to prepare a Cash Budget?
- 4.1.2 Why does depreciation and profit on sale of asset not appear in the Cash Budget?
- 4.1.3 Name TWO items other than **depreciation** and **profit on sale of asset** which will appear in the Projected Income Statement but will not be included in the Cash Budget.
- 4.1.4 Complete the Debtors' Collection Schedule for February 2019.
- 4.1.5 Complete the Cash Budget for January and February 2019.

INFORMATION:

• CASH BUDGET FOR JANUARY AND FEBRUARY 2019		
CASH RECEIPTS	JANUARY	FEBRUARY
Cash sales	168 000	
Cash received from debtors	52 400	
Rent income		
TOTAL RECEIPTS		
CASH PAYMENTS		
Payments to creditors		81 000
Sundry expenses		
New assets purchased	25 315	
Salaries and wages	61 600	
TOTAL PAYMENTS		
CASH SURPLUS (SHORTFALL)		
Bank (opening balance)	(19 000)	
Bank (closing balance)		

B Balances on 31 December 2018:

Fixed Deposit: Stanger Bank	120 000
Creditors control	70 000
Income received in advance (Rent Income)	12 000
Accrued expenses (Sundry expenses)	17 700

C Sales and Purchases

Actual and Projected Credit Sales (Credit sales are 25% of total sales)		Credit Purchases
Month	Credit Sales	
November 2018	57 000	
December 2018	57 500	70 000
January 2019	56 000	81 000
February 2019	54 600	74 000

D Debtors are expected to pay as follows:

- 50% in the transaction month, subject to 5% discount
- 30% in the month following the transaction month
- 15% in the second month after the transaction month
- 5% will be written off as bad debts after the third month.

E All goods are bought on credit. Creditors are paid one month after the month of purchase.

F The monthly Rent Income of R25 000 will increase by 10% on 1 January 2019.

G Sundry expenses are expected to increase by R700 per month on 1 January 2019. Sundry expenses are paid after one month

H Two full time employees each earn R30 800 per month. On 1 February 2019 an extra person will be employed at half the cost of the other employees.

I The fixed deposit matures on 1 February 2019. The amount of R123 600 is receivable at maturity

J Interest on the bank account is paid or received every month and is calculated on the balance as at the 1st day of each month as follows:

- 18% per annum on unfavourable balance (overdraft)
- 6% per annum on favourable balance.

ACTIVITY D4 ANSWER SHEET

4.1.1	Why is it necessary to prepare a cash budget?

1

3.1.2	Why does depreciation and profit on sale of asset not appear in the Cash Budget?

1

4.1.3	Name TWO items other than depreciation and profit or loss on sale of asset which will appear in the Projected Income Statement but will not be included in the Cash Budget.

2

4.1.4 Debtors' Collection Schedule for February 2019.			
CREDIT SALES PER MONTH		JANUARY	FEBRUARY
November	57 000	8 550	
December	57 500	17 250	
January	56 000	26 600	
February	54 600	-	
TOTAL RECEIVED		52 400	

8

4.1.5 CASH BUDGET OF VARIA TRADERS FOR JANUARY AND FEBRUARY 2019		
CASH RECEIPTS	JANUARY	FEBRUARY
Cash sales	168 000	
Cash received from Debtors'	52 400	
Rent income		
TOTAL RECEIPTS		
CASH PAYMENTS		
Payments to creditors		81 000
Sundry expenses		
New assets purchased	25 315	
Salaries and wages	61 600	
TOTAL PAYMENTS		
Bank (opening balance)	(19 000)	

20

ACTIVITY D5

BUDGETS

You are provided an **Incomplete** Projected Income Statement and Cash Budget for three months ending November 2018 of Made in P Z M Designers which sells smart casual clothing to teenagers

REQUIRED:

Use the given information to complete A -

- 5.1 Complete the Debtors Collection Schedule (**A and B**) for the month of **November 2018**, in your answer book. The credit sales amounts are provided on the answer sheet.
- 5.2 Complete the Projected Income Statement (**C – G**) in the answer sheet provided. Show all calculations to earn part marks.
- 5.3 Complete the Budget (**H – Q**) in the answer sheet provided. Show all calculations to earn part marks.
- 5.4 Over the past few months the economic recession has had a serious impact on the clothing industry in South Africa. Discuss 2 ways, (other than increasing the loan), which indicates that the owner has taken the recession into account in the drawing up of this Cash Budget. Support your answers by quoting relevant figures.

ADDITIONAL INFORMATION

1. SALES:

All goods sold are marked up by 60% on cost. The credit sales figures have been inserted on the Debtors Collection Schedule provided in the answer book.

2. PURCHASES:

PZM Designers work on a fixed stock base i.e. stock sold each month is replenished in the same month. 40% of all purchases are for cash. No discounts are expected to be granted by creditors over the next 3 months.

3. DEBTORS COLLECTION PERIOD:

A survey reveals that debtors are expected to pay their accounts as follows:

- 15% Within the same month as the sale subject to the 2% discount
- 26% In the month following the sale.
- 50% In the second month following the sale.
- 9% Are written off as bad debts at the end of the second month following the sale.

4. RENT INCOME:

Rent is expected to increase by 12% in November 2018.

5. LOAN FROM FUNBANK:

The loan from Funbank is expected to increase on the 1 October 2018. Interest is charged at 18% p.a. and the interest on the new loan will be paid monthly starting from the 1 November 2018.

6 SALARIES AND WAGES

The salaries and wages will increase by 20% in October 2018 and then decrease by 33⅓% in November 2018.

7 SUNDRY EXPENSES

Sundry expenses remain the same throughout the year.

5.1

DEBTORS COLLECTION SCHEDULE			NOV	
CREDIT SALES				
August	R280 000		0	
September	R324 000		162 000	
October	R360 000			A
November	R456 000			B
Total			322 632	

5.2

MADE IN PZM DESIGNERS
PROJECTED INCOME STATEMENT FOR NOV 2018

	NOV	
Sales		C
Cost of Sales		D
GROSS PROFIT		E
OTHER OPERATING INCOME	8 960	
Rent Income	8 960	
GROSS OPERATING INCOME	293 960	
OPERATING EXPENSES	(164 000)	
Salaries and wages	96 000	
Advertising	25 000	
Sundry expenses	10 000	
Bad debts		F
Discount allowed		G
Depreciation	2 100	
Trading stock deficit	372	
OPERATING PROFIT	129 960	
Interest expense	(7 200)	
NET PROFIT	122 760	

5.3 **MADE IN PZM DESIGNERS**

CASH BUDGET FOR THE 3 MONTHS ENDING 31 NOVEMBER 2018

CASH RECEIPTS	SEPT	OCT	NOV	
Cash sales	216 000	240 000		H
Cash from debtors	111 628	139 320		I
Rent Income	8 000	8 000		J
Loan from Nedbank	0	180 000	0	
Total receipts	335 628	567 320		K
CASH PAYMENTS				
Cash purchases	108 000	120 000	114 000	
Cash paid to creditors	210 000	252 000	280 000	
Interest on the loan	4 500	4 500		L
Salaries and wages	120 000		96 000	M
Advertising	15 000	45 000	25 000	
Sundry expenses	10 000	10 000		N
Total payments	467 500	575 500	532 200	
Surplus / Deficit	(131 872)	(8 180)		O
Opening bank balance	24 000	(107 872)		P
Closing bank balance	(107 872)	(116 052)		Q

19 MARKS

5.4 **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.**

ACTIVITY D6**BUDGETING****REQUIRED:**

- 6.1 Explain the difference between a Projected Income Statement and a Cash Budget.
- 6.2 Complete the following for September to November 2020. (Some amounts have been entered for you.):
- 6.2.1 Debtors Collection Schedule.
- 6.2.2 Projected Income Statement

INFORMATION**Green Tree Stores Income Statement for the year ended 31 August 2020**

Sales	1 600 000
Cost of Sales	(1 000 000)
Gross Profit	600 000
Other Operating Income	73 600
Rent Income	56 800
Commission Income	16 800
Gross Operating Income	673 600
Operating Expenses	(456 500)
Salaries	240 000
Advertising	30 000
Bad Debts	20 000
Depreciation	48 600
Sundry Expenses	117 900
Operating Profit	217 100
Interest Expense (on Loan)	(19 200)
Net Profit for the year	197 900

ADDITIONAL INFORMATION

1. Sales (including forecasted sales) for the period 1 July 2019 to 30 November 2020 are shown below:

	Total Sales	Cash Sales	Credit Sales
July 2020	119 000	35 700	83 300
August 2020	127 000	38 100	88 900
September 2020	132 000	39 600	92 400
October 2020	136 000	40 800	95 200
November 2020	140 000	42 000	98 000

2. Credit Sales are expected to be collected as follows:
- 20% in transaction month to receive a 5% discount.
 - 70% in the month after the transaction.
 - 5% two months after the transaction.
 - 5% irrecoverable and is written off two months after the transaction.

3. The current percentage mark up on cost will be maintained throughout the budget period.
4.
 - An increase in salaries becomes effective on 1 September each year. An increase of 8% has been budget for on 1 September 2020.
 - The business currently has 3 employees earning the same monthly salary. From 1 November 2020, a fourth employee, who will earn the same salary, will be employed.
5. The monthly rental was increased by R800 on 1 October 2020. The business intends to increase the tenants rent by R1 000 from 1 October 2020.
6. Green Tree Stores currently pays interest in their loan at a rate of 8% per annum. The capital portion of the loan remained unchanged during the previous financial year. The business plans to increase this loan by R60 000 on 1 November 2020.
7. The business plans for dispose of unused equipment at a book value by the end of September 2020. This will decrease the depreciation on equipment by R200 per month from 1 October 2020. (Note that no assets were bought or sold during the financial year ended 31 August 2020. Assets are depreciated on cost)
8. Sundry expenses are estimated at R10 000 in September and thereafter to increase by 2% per month.

ANSWER SHEET
ACTIVITY D6
BUDGETING

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

6.2.1 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			
October 2020	R 95 200			
November 2020	R 98 000			

6.2.2 Projected Income Statement

	Sept	October	November
Sales	132 000	136 000	140 000
Cost of Sales			
Gross Profit			
Other Operating Income			
Commission Income	1 400	1 400	1 400
Advertising	2 500	2 500	2 500
Net Profit for the month			

E: INVENTORY SYSTEMS

START HERE

ANALYSIS OF TRANSACTIONS /ACCOUNTING EQUATION

Study the following transactions and ensure that learners know how to close off all Nominal accounts to the Trading account being the first final account at the end of the financial year.

TRANSACTIONS	PERIODIC INVENTORY		PERPETUAL INVENTORY	
	OPERATING TRANSACTIONS	DEBIT	CREDIT	DEBIT
1 Cash purchases of trading stock,	Purchases	Bank	Trading Stock	Bank
2 Credit purchases of trading stock	Purchases	Creditors Control	Trading Stock	Creditors Control
3 Donation of trading stock	Donations	Purchases	Donations	Trading Stock
4 Owner took stock for own use	Drawings	Purchases	Drawings	Trading Stock
5 Theft of stock	Theft of Stock	Purchases	Theft of Stock	Trading Stock
6 Trading stock returned to Creditors	Creditors Control	Purchases	Creditors Control	Trading Stock
7 Payment of transport of stock	Carriage on Purchases	Bank	Trading Stock	Bank
8 Transport on credit	Carriage on Purchases	Creditors Control	Trading Stock	Creditors Control
9 Payment of import/ custom duties	Import / custom duties	Bank	Trading Stock	Bank
10 Cash sales	Bank	Sales	Bank	Sales
			Cost of Sales	Trading Stock
11 Credit sales	Debtors Control	Sales	Debtors Control	Sales
			Cost of Sales	Trading Stock
12 Returns by debtors	Debtors Allowances	Debtors Control	Debtors Allowances	Debtors Control
			Trading stock	Cost of sales
13 Payment of deliveries to clients	Carriage on Sales	Bank	Carriage on Sales	Bank

CLOSING TRANSFERS:

1. Debtors Allowances to Sales	Sales	Debtors Allowances	Sales	Debtors Allowances
2. Opening balance of Trading Stock to Opening Stock account	Opening Stock	Trading Stock	-	-
3. Closing Stock account to Trading Stock account	Trading Stock	Closing Stock	-	-
4. Net Sales to Trading Account	Sales (net)	Trading Account [F1]	Sales (net)	Trading Account [F1]
			Trading Account[F1]	Cost of Sales
5. Net Purchases to Trading Account	Trading Account[F1]	Purchases (net)		
6. Carriage on Purchases to Trading Account	Trading Account[F1]	Carriage on Purchases		
7. Custom / Import Duties to Trading account	Trading Account[F1]	Custom Duties		
8. The gross profit to Profit and Loss	Trading Account[F1]	Profit and Loss [F2]	Trading Account[F1]	Profit and Loss [F2]

THINGS TO REMEMBER**Periodic Stock System****What is periodic Inventory System**

- It is a stock management system that does not require continuous updating of trading stock values.
- The trading stock account is not updated with the movement of stock, making it difficult to determine the value of stock at any given time.
- The cost price of stock sold (cost of sales) is not determined at point of sale but only when physical stock take (stock count is completed)


Advantages	Disadvantages
<ul style="list-style-type: none"> • It is cost effective as there is no outlay for expensive equipment e.g. expensive bar code and scanning systems • Quick and easy to use with minimum administration required • Ideal for smaller businesses where the cost price per item cannot be easily determined 	<ul style="list-style-type: none"> • Stock theft/leakages are difficult to identify • Gross profit can only be determined at the end of the month/week when a stock take is done as there is no cost of sales entries and regular updates of the Trading stock account • Value of stock is determined periodically with a physical stock take

Comparison of the two stock systems

Perpetual Inventory System	Periodic Inventory systems
<ul style="list-style-type: none"> • Stock purchases recorded in trading stock account (asset) 	<ul style="list-style-type: none"> • Stock purchases recorded in purchases account
<ul style="list-style-type: none"> • Expenses incurred in purchasing of goods (eg carriage on purchases) are charged to the trading stock account 	<ul style="list-style-type: none"> • Expenses incurred in purchasing of goods (eg carriage on purchases) are recorded in carriage on purchases account(expense)
<ul style="list-style-type: none"> • Returns and allowances on stock purchased recorded in Trading stock account 	<ul style="list-style-type: none"> • Returns and allowances on stock purchased recorded in purchases account
<ul style="list-style-type: none"> • Donations and stock taken by the owner are credited to the Trading stock account 	<ul style="list-style-type: none"> • Donations and stock taken by the owner are credited to the Purchases account
<ul style="list-style-type: none"> • Balance of trading stock shows value of stock on hand 	<ul style="list-style-type: none"> • Physical stock take (periodically) determines stock on hand
<ul style="list-style-type: none"> • Cost of sales is calculated on a continuous basis, therefor cost of sales account will show the total cost price of goods sold 	<ul style="list-style-type: none"> • There is no cost of sales account a calculation required to determine cost of sales.

Explanation of advantages and disadvantages of perceptual and periodic system

	Advantages	Disadvantages
Perpetual system	<ul style="list-style-type: none"> • Cost price of the goods sold and gross profit can be determine when goods are sold. • Trading stock recorded are always updated when trading stock is sold • Trading can be easily controlled through regular stock counts. • Trading stock deficit can be calculated immediately. • Stock losses can be quickly identified and improve internal control measure. 	<ul style="list-style-type: none"> • It is expensive to administer and requires the use of computer. • It is very time consuming because when stock is sold, the cost of sale needs to be calculated. • It is difficult to monitor costs related to the acquisition of stock e.g. carriage on purchases, custom duty, because this cost are added to the trading stock account

Periodic system	Advantages	Disadvantages
	<ul style="list-style-type: none"> It is suitable for business that sell low cost items with high volume of turnover's nurseries. It is easy to implement, no cost of sale entries are made when goods are sold. It is cheaper to administer and it does not require complicated bookkeeping 	<ul style="list-style-type: none"> Available stock cannot be determine immediately without physical stock count. It is difficult to control stock.. Physical stock count must to be conducted regularly. Stock losses due to theft are not easily detected. Cost price of good cannot be calculated when goods are sold. This only done at the end of the accounting period

CALCULATIONS

COST OF SALES

Opening stock + Purchases + Carriage on Purchases + Custom Duties – Returns (creditors allowances) – Closing stock

NUMBER OF UNITS MISSING

Opening no of units + units purchased – units returned – units sold – closing units

NET PURCHASES

Purchases – creditors allowances – donations of stock – drawings of stock

NET SALES

Sales – debtors allowances

GROSS PROFIT

Sales – Cost of sales

Explanation of ledger accounts approach

Comparison of how gross profit is calculated

Perpetual inventory system	Periodic inventory system
Sales – Cost of sales = gross profit	Step 1: cost of sales calculation Opening stock +purchases +carriage on purchases +import duty -Closing stock = Cost of sale Step 2: Sales - Cost of sales = Gross profit

Comparison of trading account

Perpetual inventory system	Periodic inventory system
Cost of sale Sales - Debtors allowances Profit and loss Mark up on cost calculation $(\text{sales} - \text{Cost of sales}) / \text{Cost of sales} \times 100$ Or gross profit / Cost of sales $\times 100$	Opening stock Sales - Debtors allowances Purchases Closing stock Carriage on purchases Import duty Profit and loss Mark up on cost calculation $(\text{sales} - \text{Coast of sale}) / \text{cost of sale} \times 100$ Or gross profit / Cost of sales $\times 100$

Example of purchases account under the periodic system is shown below.

GENERAL LEDGER OF DHLAMINI CC
NOMINAL ACCOUNT

PURCHASES ACCOUNT

2020 Dec	31	TOTAL (1)	b/f	XXXX	2020 Dec	31	CREDITORS CONTROL (5)	CAJ	Xxx
		BANK (2)	CPJ	XXXX			DONATION (6)	GL	Xxxx
		CREDITORS CONTROL (3)	CJ	XXXX			DRAWINGS (7)	GJ	Xxxx
		PETTY CASH(4)	PCJ	XXXX					

- Total of the purchases account at the end of the previous month and brought forward for December(as purchases is an expense account it has a total and not a balance
- Stock purchased and paid for by cheque or electronic transfer.
- Stock purchased on credit.
- Stock purchased and paid for from petty cash.
- Stock returned to suppliers (creditors).
- Stock donated.
- Stock taken by the owners for their personal use.

BASELINE ACTIVITY

REQUIRED:

Prepare the trading account of Jit Traders for 30 June 2021

Sales	350 000	
Cost of Sales	(175 000)	
Gross Profit	175 000	
Information		
A debtor ZN Vilakazi returned stock at a selling price R1 000 (mark-up on cost 100%)		

TRADING ACCOUNT

ACTIVITY E1
1.1 CONCEPTS

COLUMN A		COLUMN B	
1.1.1	Carriage on purchases	A	Inventory system that normal suitable for small businesses due to the expenses of acquiring the technology
1.1.2	Perpetual system	B	Customs duty
1.1.3	Inventory system	C	Transport cost incurred when stock is bought
1.1.4	Tax levied on import goods	D	Inventory that records the sale or purchase of inventory immediately through the use of computerized point-of –sale system.
1.1.5	Periodic system	E	Process by which you track your good throughout your entire supply chain.

1.2 REQUIRED:

State whether each of the following statements are TRUE or FALSE. If FALSE, correct the Underlined WORD/S to make the statement TRUE.

- 1.2.1 In the perpetual inventory system, cost of sales is calculated after each sales transaction.
- 1.2.2 When using the periodic inventory system, all stock purchased is recorded in the trading stock account.
- 1.2.3 There is no need to purchase expensive equipment when using the periodic inventory method.
- 1.2.4 Businesses that use the perpetual stock system can detect theft relatively easily.

ACTIVITY E 2

Use the table provided to record the following transactions.

NOTE: The bank balance is favourable at all times.

Example: purchase merchandise on credit form a supplier.

No	Journal	Perpetual system		Periodic system	
		Account debited	Account credited	Account debited	Account credited
e.g.	Creditors journal	Trading stock	Creditors control	Purchases	Creditors control

Transactions:

- 2.1. Purchase good and paid by cheque.
- 2.2. Return damaged goods to a supplier
- 2.3. The owner took merchandise at a cost for personal use.
- 2.4. Donated stationery to a children's home on behalf of the business.
- 2.5. Sold goods to a customer and receive credit card payment.
- 2.6 .paid for carriage on purchases by Electronic transfer (EFT)
- 2.7. Sold good on account to a customer.
- 2.8. Customer returned damaged goods sold on credit.

ANSWERSHEET**ACCOUNTING EQUATION**

No.	Journal	Perpetual inventory system		Periodic inventory system	
		Account debited	Account credited	Account debited	Account credited
2.1					
2.2					
2.3					
2.4					
2.5					
2.6					
2.7					
2.8					

ACTIVITY E3**INVENTORY SYSTEMS**

Vilakazi Stores is a small business that is located near a popular beach. It sells sunglasses, umbrellas, towels and other items that beach-goers would like to purchase. The periodic inventory system is in operation.

REQUIRED

- 3.1 Calculate the value of items purchased for the year ended 30 June 2020
- 3.2 Complete the Trading Account, correctly closed off, in the General ledger of Sunshine Traders for the year ended 30 June 2020. Show calculations in brackets, where needed.

INFORMATION:

- A. Stock of R28 575 was on hand on 1 July 2019.
- B. Stock costing R773 225 was purchased during the course of the year.
- C. Returns to suppliers for the year amounted to R3 000.
- D. The owner donated stock costing R800 to the local municipality to use as prizes during the June beach festival.
- E. R12 400 was spent on the transport needed to get the stock to the business.
- F. A further R1 400 worth of stock was taken by the owner for his son's birthday party.
- G. The physical stock take at the end of June 2018, revealed that stock on hand amounted to R31 650.
- H. Sunshine Stores sales for the year amounted to R1 237 160 and returns from customers during the course of the year was R4 200.

3.1 Calculate the value of items purchased for the year ended 30 June 2018.

--

3.2 **Trading Account**

ACTIVITY E4

The information relates to SANITIZER TRADERS ON 30 JUNE 2020. The business sell face shields to customers.

REQUIRED

4.1 Calculate the number of face shield missing

	NO. OF UNITS	AMOUNT (R)
Opening stock	890	142 400
Purchases	1500	240 00
Returns	13	2080
Carriage on purchases		10 500
Closing Stock	190	30 400
Sales	2157	539 250

ACTIVITY E4

4.1 Calculate the number of face shield missing

4.2 **Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (3.1.1 – 3.1.4) on the ANSWER SHEET**

- 4.2.1 Cost of sales is determined at the point of sale in the (Perpetual/periodic inventory system).
- 4.2.2 In the periodic inventory system, Carriage on purchases is recorded as an (asset/expense)
- 4.2.3 3.1.3 The (perpetual/periodic) system is more suited for low-value goods, purchased in bulk.
- 4.2.4 3.1.4 Merchandise purchased is recorded as an (asset/expense) in the perpetual inventory system.
- 4.3 Explain 3 differences between perpetual and periodic stock system
- 4.4 Periodic Inventory system

The information provide relates to Musk Stores for the year ended 30 June 2020. The business is owned by Zweli Mkhize and managed by Julius Malema.

REQUIRED:

- 4.4.1 Calculate cost of sales on 30 June 2020.
- 4.4.2 Calculate the average stock turnover rate
- 4.4.3 Zweli suspects that stock is being stolen despite security cameras being installed
 - Provide a calculation to verify her suspicion
 - What can Zweli do to improve the internal control of stock? State two points.

INFORMATION

	UNITS	AMOUNT
Sales	3 200	768 000
Opening Stock	160	19 200
Purchases	6 300	756 000
Carriage on purchases		75 600
Closing stock	2 800	336 000

ACTIVITY E5

PROBLEM SOLVING: MANAGEMENT OF STOCK				
<p>Baker is the owner of two school tuck shops. Betty is the manager of Shop A and Benny is the manager of school B</p> <p>Each manager is paid R1 000 per week</p> <p>Each tuck shop sells only chips and juices. The chips cost R5-00 per packet and are sold at profit mark-up of 50% on cost. The juice is marked by 25% and is sold for R10-00 each</p>				
REQUIERED:				
<p>Identify ONE problem in each tuck shop, and provide ONE solution or advice in each case. In each case relevant figures must be quoted.</p>				
INFORMATION				
	SHOP A		SHOP B	
	CHIPS	JUICE	CHIPS	JUICE
Opening Stock (units)	300	200	150	90
Stock supplied by Baker	400	400	400	400
Closing stock (units)	200	150	330	120
Units sold	420	450	220	370
Cash deposited (Rands)	R3150	R4500	R1 650	R3200

ACTIVITY E6**INVENTORY SYSTEMS, ETHICS, INTERNAL CONTROL AND INTEPRETATIONS****6.1****Trading Account**

2019 JAN	1	Balance	b/d	20 000	2019 Jan	31	Cost of sales	CRJ	30 000
	31	Bank	CPJ	50 000			Cost of sale	DJ	45 000
		Petty cash	PCJ	200			Creditors control	CAJ	1 400
		Creditors control	CJ	80 000			Donation	GJ	10 000
		Cost of sale	DAJ	1 000			Balance	c/d	64 300
				151 200					
		Balance		64 300					

REQUIRED :

- 6.1 Total cash sale for the month amounted to R60 000. Thandeka operation uses a fixed mark-up percentage on all their products. Calculate the mark-up percentage.
- 6.2 Calculate the total credit sales for the month.
- 6.3 The owner become aware of the donation of R500 for the first time. Further investigations revealed that stock donations of between R500 and R1 000 were being made regularly in the past. Since the owner has not authorized these donations what plan of action would you recommend to him?
- 6.4 A physical stock-take was conducted on 31 January 2019. The stock count revealed an amount of R58 300.
- Provide the double entry to record the shortfall
 - Assume that 31 January 2019. Is the end of the financial period?
 - What amount will be shown in the income statement in respect of the shortfall?
 - What amount will be shown in the balance sheet for trading stock?
 - What suggestions do you have regarding the shortfall in January? In the past stock shortages have occurred but were not as large as this one.
 - Is it possible for there being a trading stock surplus? Give two examples to explain how this can happen
- 6.5 The owner has withdrew a large amount of stock for his person use. He withdraws about the same amount every month. What is your opinion on the stock withdrawals by the owner?
- 6.6 Compare the opening stock with the closing stock. Give two possible reasons for the large differences

ACTIVITY E7

The information below was extracted from the accounting records of NQUBUKA limited, a clothing dealer, on 28 February 2020. this company sells for cash and on credit: all purchases are on credit. Cost of sales is equal to purchases.		
Information :		
1.	Extract from income statement for the year ended 28 February 2020	
	Sales : credit	R 630 000
	Cash	580 000
	Cost of sale	700 800
2	Notes to the financial statement:	
		2020
		2019
A	Inventory Trading stock	106 200
B	Trade and other receivable Trade debtors	89 300
C	Trade and other payable Trade creditors	76 000
		38 000
7.1	Calculate the following for 2020. (the previous year's indicators are provided in brackets). a) Stock turnover rate. 2019: 10 times b) Number of days for which enough stock is on hand 2019:60days	
7.2	Explain the meaning of the calculation above. Comment on you observations and make your recommendations.	

ACTIVITY E 8 EXTENSION ACTIVITIES**8.1 STOCK SYSTEMS**

Bezzie's Centre sells fabric and dress making products. The business uses the periodic inventory method to record stock. The financial year ended on 31 October 2020.

REQUIRED:

- 8.1.1 Explain ONE difference between the perpetual stock system and the periodic stock system.
- 8.1.2 Provide ONE advantage and ONE disadvantage of each stock system.
- 8.1.3 Analyse transactions (ii) and (iii) in terms of the accounting equation. Complete the table provided. Show increase (+) and decrease (-) for assets, equity and liabilities.
- 8.1.4 Calculate the cost of sales for the financial year ended 31 October 2016.

INFORMATION:

A Stock balance on 1 November 2019, R134 600

B Transactions during the current financial year

	R
(i) Cash and credit purchases of trading goods.	622 400
(ii) Transport cost on trading goods paid by cheque.	92 200
(iii) Damaged goods returned to creditors.	45 300
(iv) Goods donated to a local school (fund raising)	5 500
(v) Goods taken by the owner for personal use.	3 750
(vi) Cost of goods returned by debtors taken into stock.	7 250

Stock take on 31 October 2020 revealed that R98 350 was on hand.

8.2	MANAGEMENT OF STOCK – PROBLEM SOLVING		
Fundani Electronics is a retail business that sells car accessories. The business has branches operating in Queens, Cofimvaba and Tsolo.			
Fundani, the owner, was concerned about the sale of a single brand of car radio and requested the figures for this product from each branch.			
The information presented are for the three months ended 31 July 2020.			
REQUIRED:			
Identify a different problem in each branch, quoting the relevant figures for each. Also provide a possible solution to the problems identified.			
INFORMATION:			
Information relating to the single brand of car radios			
	QUEENS	COFIMVABA	TSOLO
Stock balance on 1 May 2020	230	160	85
Number of units sold during the period	180	40	85
Stock balance on 31 July 2020	35	120	NIL
Selling price per radio	R1 120	R1 120	R1 120
Deposit of sales revenue	R201 600	R44 800	R81 760
Advertising of radios	R1 400	R6 720	R6 120
Monthly salary of sales person	R7 000	R7 500	R7 500
8.3 ALPHA STATIONERY SHOP			
You are provided with information relating to Alpha Stationery Shop for the year ended 28 February 2021. The business uses the periodic inventory method.			
REQUIRED:			
8.3.1	Prepare the Trading Account. Show workings in brackets		
8.3.2	Calculate cost of sales. Show ALL workings.		
8.3.3	Calculate the mark-up % achieved.		
8.3.4	The business aims at a mark-up % of 65%. Give TWO possible reasons for the actual mark-up % being different from the intended mark-up%.		
INFORMATION:			
A	Trading stock was valued as follows:		
	R245 000 on 1 March 2020		
	R302 000 on 28 February 2021		
B	Goods purchased during the year on credit, R960 000		
C	Goods returned to suppliers, R26 000		
D	Carriage paid to KZN Deliveries during the year:		
	<ul style="list-style-type: none"> • On goods delivered to Alpha Stationery Shop, R35 000 • On goods delivered to customers, R22 000 		
E	One supplier, Penguin Paper, admitted that an error had been made on an invoice for goods delivered during the year. The invoice stated that a 10% trade discount had been granted. The amount of the invoice, R37 800, is included in the figure mentioned in INFORMATION 2 above. Penguin Paper has agreed that a 25% trade discount should have been granted. They issued a credit note for the appropriate amount.		
F	Goods comprising gold-plated pens were imported from Top Notch Pens in the USA.		

	Payment of 6 000 US dollars was made to Top Notch Pens immediately. The exchange rate is R9,00 to a US dollar. Alpha Stationery Shop also paid R4 800 to Fedex to transport the pens. Customs duty on these goods was levied at 40% and this was paid to SARS when the goods arrived in the country.
G	The owner, Alan Alpha, took goods costing R3 200 for personal use.
H	Goods were sold during the year for R1 532 900.

ACTIVITY E8

8.1

8.1.1 EXPLAIN ONE DIFFERENCE BETWEEN THE PERPETUAL STOCK SYSTEM AND THE PERIODIC STOCK SYSTEM					
PERPETUAL STOCK SYSTEM			PERIODIC STOCK SYSTEM		
8.1.2 Provide ONE advantage and ONE disadvantage of each stock system.					
	ADVANTAGE		DISADVANTAGE		
PERPETUAL INVENTORY SYSTEM					
PERIODIC INVENTORY SYSTEM					
8.1.3	Analysis of transactions:				
NO	ACCOUNT DEBITED	ACCOUNT CREDITED	ASSET	EQUITY	LIABILITY
(ii)					
(iii)					
8.1.4 COST OF SALES					
8.2	PROBLEM SOLVING				
	PROBLEM (WITH FIGURES)			SUGGESTIONS	
QUEENS BRANCH					
COFIMVABA BRANCH					
TSOLO BRANCH					

F. COST ACCOUNTING / MANUFACTURING

COST CONCEPTS

Manufacturing business	<p>A trading enterprise is an enterprise that buys and sells manufactured products at a profit. In a trading enterprise we talk about purchased and sold trading stock.</p> <p>A service enterprise is an enterprise where persons use their skills to provide a service to the community.</p> <p>A manufacturing enterprise is an enterprise that manufactures products (completed products) from raw materials.</p> <p>(It transforms raw materials into finished or completed products. It important to remember that after the product is manufactured it then has to be sold.)</p>
Costing	It is the calculation of the costs involved in producing a product
Unit	The word used to describe a single product made in the factory
Direct material costs	The raw material actually needed to make the product – also called Direct raw material cost
Indirect material costs	These are materials that are not directly involved with the manufacturing of the product (e.g. cleaning material costs, packing materials)
Direct labour costs	This is the amount paid to workers who actually manufacture the product
Indirect labour costs	This is the amount paid to workers in the factory who are not directly involved with the making of the product e.g. the cleaning staff)
Factory overheads	These are the expenses to run the factory, but none of them are directly involved with the making of the product. (e.g. factory rent) Indirect labour and indirect materials are treated as part of factory overheads
Prime production cost	Direct material cost plus direct labour cost
Total production cost or manufacturing costs	It is the total cost to produce the products. Prime cost plus factory overhead cost (Direct material cost + Direct labour cost + Factory overhead cost)

THINGS TO REMEMBER

1. Raw (direct) materials cost

- These are the materials that go into a final product.
- They are directly identified with the final product.
- The finished product of one business can become the raw material of another business e.g. sugar from the mill becomes a raw material in the manufacture of chocolates.
- They also include costs like carriage on purchases, import duties, custom duties, etc.
- Materials purchased from another country have to be recorded in the South African currency i.e. rand values (exchange rate)
- **Raw materials cost forms part of prime cost/direct cost**



2. Direct labour cost

- This refers to the labour costs of those workers directly involved in the manufacture of the goods e.g. wages of factory workers.
- Without them no production will take place
- It takes into account factors like hours, rate per hour, normal rate, overtime rate, days worked, weeks worked, months worked, bonuses, etc.
- **Direct labour cost forms part of prime cost/direct cost**

3. Factory overheads

- This is a very important section that attracts huge marks in exams and tests.
- These are all costs incurred in order to run the factory other than the direct materials and direct labour costs.
- In other words these costs are in the factory but they are not directly identified or associated with the final product.
- Examples of factory overheads cost are inter alia rent, insurance, depreciation, electricity, indirect material cost, indirect labour cost, remuneration of a cleaner, salary of the supervisor/foreman/production manager, etc. **Take note that some of these costs could have been incurred by the whole business. In such cases those costs would have to be apportioned or prorated according to floor space, etc.**

4. Prime costs (direct costs)

- These are costs that are directly involved in the production of finished goods viz **Direct (raw) material costs and direct labour costs.**

5. Indirect material cost

- These materials **are not directly identified with** the manufacture of a finished product but they are still necessary in the production process, e.g. lubricating oil, petrol, cleaning materials, etc.

6. Indirect labour cost

- This labour cost is important but the workers are not directly involved in the production process, e.g. the cleaning staff, maintenance staff, foreman, factory manager, etc.

7. Fixed costs

- These are costs that remain constant within a period of time irrespective of the amount of goods produced.
- Such costs do not vary or change with the level of production.
- Example is factory rent, depreciation, insurance, etc.
- **Unless stated otherwise, factory overhead costs and administration costs are treated as fixed costs**

8. Variable costs

- These are costs that vary or change with the level of production, e.g. raw materials.

9. Total cost of production

- This takes in account raw materials cost, direct labour cost and factory overhead cost.

10. Work in process/progress

- This refers to the partially finished product which is still waiting for completion.
- This is an asset account and it is a balance sheet account
- It increases on the debit side and decreases on the credit side of the ledger

11. Raw material stock account

- This refers to the raw materials that have been purchased in order to be used in the production process.
- This is an asset account and it is a balance sheet account
- It increases on the debit side and decreases on the credit side of the ledger
- Materials issued for production are credited on this account as raw material issued account.

12. Cost of production of finished goods

This is equal total manufacturing cost + work in progress at the beginning – work in progress at the end

13. Unit costs

- This refers to the cost of producing one item.
- If there is *no work in progress* the formula is :
$$\text{unit cost} = \frac{\text{total manufacturing cost}}{\text{Number of units produced}}$$
- If there is *work-in- progress* the formula is:
$$\text{unit cost} = \frac{\text{cost of production of finished goods}}{\text{Number of units produced}}$$

BREAK-EVEN POINT

- This is a point where a business neither make a profit nor a loss
- If the business has actually produced units that are above the break-even point it means it has made profit.
- If the business has actually produced units that are equal to break-even units it means it has neither make a profit nor a loss
- If the business has actually produced units below break-even units it means that the business has made a loss
- **Break-even point (units) = $\frac{\text{Fixed cost}}{\text{SP per unit} - \text{VC per unit}}$**
- The above BEP MUST expressed in units
- To calculate break-even point value (Rands) you must first calculate the BEP(UNITS) and thereafter multiply your answer by the unit cost

ACTIVITY F1 - CONCEPTS

- 1.1 Identify ONE cost account for each of the descriptions from the list below. Write only the answer next to the question numbers (1.1.1 to 1.1.5) in the ANSWER BOOK.

variable cost; factory overhead cost; direct labour cost; indirect labour cost; direct material cost; indirect material cost; selling and distribution cost; fixed cost; administration cost
--

- 1.1.1 This cost stays the same, even when the number of items manufactured changes.
1.1.2 The cost of raw materials that are not directly involved in manufacturing products.
1.1.3 Bad debts for the accounting period.
1.1.4 Selling and distribution cost as well as direct material cost and direct labour cost are also referred to as ...
1.1.5 Rent expenses of the office for the accounting period. (5)

ACTIVITY F2 - CONCEPTS

- 2.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.
- 2.1.1 Wages of factory cleaners is a direct labour cost.
2.1.2 Delivery costs of finished goods to retailers are a selling and distribution cost.
2.1.3 Depreciation on office equipment is an administration cost. (3 x 1) (3)

ACTIVITY F3 - CONCEPTS

3.1 Choose a description in COLUMN B to match the concept in COLUMN A. Write only the letter (A – D) next to the number (3.1.1 – 3.1.3) in the ANSWER BOOK.

COLUMN A		COLUMN B	
3.1.1	Direct material	A	The varnish purchased to use on the school desks
3.1.2	Indirect material	B	The carpenter in the factory's salary
3.1.3	Indirect labour	C	The wood purchased to produce school desks
		D	The salary of the factory foreman

(3)

ACTIVITY F4 - CONCEPTS

4.1 Match the terms in **Column A** with an appropriate example/explanation from **Column B**. Write only the letter (A – E) next to the numbers (4.1.1 – 4.1.5) in the ANSWER BOOK.

COLUMN A		COLUMN B	
4.1.1	Fixed cost	A.	Cost of raw materials used in the production process.
4.1.2	Indirect labour	B.	Completely manufactured goods ready for distribution to retailers.
4.1.3	Selling and distribution cost	C.	Debit order payment for the monthly factory rent and insurance.
4.1.4	Variable cost	D.	Wages paid to factory maintenance and cleaning staff.
4.1.5	Finished goods	E.	Cheque paid to the Daily Dispatch for a three month advertising contract.

(5)

ACTIVITY F5 – LEDGER ACCOUNTS

You are provided with information relating to Kitty Delights Manufacturers for the financial year ended 28 February 2021. The business manufactures 1 kg packets of cat food.

The perpetual inventory system is used for all stocks, except in the case of indirect materials where the periodic system is used.

REQUIRED:

- 5.1 Prepare the following Ledger Accounts:
 - 5.1.1 Raw Materials Stock (8)
 - 5.1.2 Work-in-progress Stock (11)
 - 5.1.3 Factory Overhead Cost (16)

INFORMATION:

	28 FEBRUARY 2021	1 MARCH 2020
Raw materials stock	R55 000	R80 000
Work-in-progress stock	40 000	25 000
Finished goods stock	10 600	62 500
Indirect materials (consumable stores on hand)	5 300	7 500

TRANSACTIONS DURING THE YEAR:

- (a) **Raw materials:**
Bought for cash, R120 000. An additional R10 500 was paid for transporting raw materials to the factory.
- (b) The following costs are to be split between the three departments according to floor area: Factory (200 square metres); Sales Department (50 square metres) and the Administration Department (50 square metres):
 - Water and electricity paid during the year amounted to R25 200. The February 2021 account of R1 800 has not been paid yet.
 - Rent: Total for the year, R69 600.
- (c) **Indirect materials:**
Bought on credit during the year, R22 300. An additional R700 was paid out of petty cash to have these materials delivered to the factory. 75% of all indirect materials are used in the factory.
- (d) **Wages and salaries for the year:**

Salary of factory foreman	R120 000
Production wages	550 000
Administration salaries	151 200
Commission paid to salesman	72 000
Wages of the cleaner ($\frac{3}{4}$ of the cleaner's time is spent in the factory)	37 800
- (e) **Other sundry expenses (including depreciation):**

Factory	R110 000
Administration department	322 000
Sales department	175 000
- (f) 50 000 packets of cat food (dry pellets) were produced during the current financial year.

ANSWER SHEET

5.1.1 RAW MATERIALS STOCK ACCOUNT							

INFORMATION:

A. Balances taken from the records of Union Manufacturers:

	28 February 2021	1 March 2020
	R	R
Factory indirect material	2 630	3 840
Work-in-progress stock	38 300	33 150
Finished goods stock	34 100	15 250

B. Summary of transactions for the year ended 28 February 2021:

	R
Raw materials purchased (all issued to factory)	516 000
Factory indirect materials purchased	21 560
Direct labour	?
Indirect labour	24 350
Factory manager's salary	65 060
Rent expense	39 200
Insurance	8 700
Water and electricity	16 500
Bad debts	2 980
Sundry factory expenses	25 750
Sales net of trade discount	1 800 000

C. Additional information:

- (a) The mark-up % used in pricing goods is 60%. Trade discounts of R100 000 were granted.
- (b) Raw materials:
 - R16 000 was paid for transporting raw materials.
 - Raw materials were returned to the suppliers, R20 000.

NOTE: No entry has been recorded for these items.
- (c) Two-thirds of the insurance expense relates to the factory.
- (d) Water and electricity must be allocated to the factory, sales department and the office in the ratio 4 : 1 : 1 respectively.
- (e) 65% of the rent expense must be allocated to the factory.

ANSWER SHEET

6.1.1

WORK-IN-PROGRESS STOCK ACCOUNT							

6.1.2

FINISHED GOODS STOCK ACCOUNT							
2020	1	Balance b/d	15 250				
Mar							

6.1.3

FACTORY OVERHEAD COST ACCOUNT							

ACTIVITY F7 – LEDGER ACCOUNTS

7.1 STRUMPHER MANUFACTURERS

Strumpher Manufacturers produces rugby balls which are supplied to local schools and retailers in the Despatch area. The financial year ends on 28 February each year.

REQUIRED:

- 7.1.1 Calculate the following for the financial year:
 - Direct material cost (7)
 - Direct labour cost (5)
- 7.1.2 Record the following transactions in the General Ledger:
 - Work-in-progress stock (10)
 - Finished goods stock (6)
- 7.1.3 The owner is concerned about the control of workers in production. Provide TWO points that justify his concern. Quote relevant figures. (6)

INFORMATION:

A. Stock balance:

	28 FEBRUARY 2021	1 MARCH 2020
Raw material stock	R38 700	R23 400
Work-in-process stock	60 000	45 300
Finished goods stock	22 000	27 000

B. Transactions for the year:

- (i) Raw material for R342 600 was purchased on credit.
- (ii) Damaged raw material worth R15 700 was sent back to creditors.
- (iii) Cash purchases of raw material amounted to R155 000.
- (iv) Delivery cost on cash purchases of raw material, R19 400.
- (v) Total factory overheads for the year amounted to R273 340.

C. Details of workers in production

Number of workers	4
Normal hours worked (basic)	1 440 hours per worker
Normal time as per contract	40 hours per week, 45 weeks per year
Normal time rate	R35 per hour
Total overtime hours worked	640 hours
Overtime paid	R33 600

The business contributes 1% to the UIF and 9% to the pension fund on behalf of all employees.

ANSWER SHEET

7.1.1 Calculate the following for the financial year:

Direct material cost
Direct labour cost

7.1.2

WORK-IN-PROGRESS STOCK ACCOUNT							

7.1.3

FINISHED GOODS STOCK ACCOUNT							

7.1.3 The owner is concerned about the control of workers in production. Provide TWO points that justify his concern. Quote relevant figures.

Point 1:	Figures
Point 2:	Figures

ACTIVITY F8 – LEDGER ACCOUNTS

Snuggle Bag Manufacturers is a business that provides thick winter blankets in a variety of colours and designs. The financial year ends on 30 June each year.

REQUIRED:

- 8.1 Calculate the following for the year ended 30 June 2021:
 - 8.1.1 Direct Material Cost (6)
 - 8.1.2 Direct Labour Cost (6)
 - 8.1.3 Factory Overhead Cost (11)

- 8.2 Prepare the Work-Progress Stock Account in the General Ledger for the year ended 30 June 2021. (12)

- 8.3 The manager is thinking of reducing the quality of material used in manufacturing blankets. This change will not be revealed to customers (labels will not be changed). Comment. (3)

ANSWER SHEET

8.1 Calculate the following for the financial year:

8.1.1	Direct material cost
8.1.2	Direct labour cost
8.1.3	Factory Overhead cost

8.2

WORK-IN-PROGRESS STOCK ACCOUNT							

8.3 The manager is thinking of reducing the quality of material used in manufacturing blankets. This change will not be revealed to customers (labels will not be changed). Comment.

ACTIVITY F9 – LEDGER ACCOUNTS AND UNIT COSTS

ON POINT Manufacturers is a medium size factory, owned by Mrs HB. Led, that manufactures pencils. The business sells all pencils for R2.50 each. The perpetual inventory system is in use.

REQUIRED:

- 9.1 Complete the missing details/figures labelled by letters A to F. (9)
- 9.2 Identify **TWO** items that could be included under “Factory Overhead Cost”. (2)
- 9.3 Calculate the following if 4 000 000 pencils were made during the year:
 - 9.3.1 The cost price per unit (3)
 - 9.3.2 The breakeven point for the year ended 30 June 2021. (5)
 - 9.3.3 Should the owner, Mrs HB Led be satisfied with the number of pencils made and sold during the year? Support your answer by quoting figures. (3)
- 9.4 Mrs HB Led has been considering buying some of her raw materials from a local supplier in KwaZulu Natal rather than from the current supplier in the Western Cape.
 - 9.4.1 Explain the effect this will have in the Direct Materials Costs. Give **ONE** reason for your answer. (3)
 - 9.4.2 Mrs HB Led is concerned that the quality of the pencils may deteriorate if she uses local raw materials. What can she do to ensure that this does not happen? (2)

INFORMATION

**General Ledger of ON POINT Manufacturers
Balance Sheet Section**

RAW MATERIALS STOCK ACCOUNT B2							
2020 July	1	Balance	440 000		2021 June	30	(B) 1 560 000
2021 June	30	Bank	(A)				Balance (C)
		Creditors control	400 000				
		Carriage on Purchases	180 000				
		Import and Customs Duty	90 000				
			1 910 000				1 910 000
2021 July	1	Balance	(C)				

WORK-IN-PROCESS STOCK ACCOUNT B3							
2020 July	1	Balance	300 000	2021 June	30	(F)	5 200 000
2021 June	30	Direct Materials Cost	(D)			Balance	?
		Direct Labour Cost	(E)				
		Factory Overhead Cost	1 200 000				
			?				?
2021 July	1	Balance	?				

ADDITIONAL INFORMATION

- Prime costs for the year amounted to R4 560 000.
- There were no finished goods on hand at either the beginning or the end of the year.
- Direct Labour Cost and Factory Overhead Costs are considered to be fixed, whereas Direct Material Cost is variable.

ANSWER SHEET

9.1	A	
	B	
	C	
	D	
	E	
	F	

9.2 Identify TWO items that could be included under “Factory Overhead Costs”.

9.3.1	The cost price per unit.
9.3.2	The break-even point for the year ended 30 June 2021.

9.3.3 Should the owner, Mrs HB Led be satisfied with the number of pencils made and sold during the year? Support your answer by quoting figures.

9.4.1 Explain the effect this will have in the Direct Materials Costs. Give ONE reason for your answer.

9.4.2 Mrs HB Led is concerned that the quality of the pencils may deteriorate if she uses local raw materials. What can she do to ensure that this does not happen?

ACTIVITY F10 – LEDGER ACCOUNTS AND UNIT COSTS

10.1 GENERAL LEDGER AND INTERPRETATION

REQUIRED:

Study the Work-in-Progress Stock account in the General Ledger of Themba’s Wooden Tables and answer the questions that follow:

- 10.1.1 In which section of the General Ledger will this account be found? (1)
- 10.1.2 Identify **TWO** items that can be included in each of the following amounts in the Work-in-Progress Stock account:
 - a) R112 300 (2)
 - b) R210 600 (2)
- 10.1.3 Themba currently employs one supervisor and 3 carpenters to make the tables. Identify which of his employees are considered to be direct and indirect labour. Explain your reasoning by giving an example of the type of work each employee will be completing. (4)
- 10.1.4 If this business made 160 wooden tables and sold each table for R4 350, calculate the following:
 - a) The cost price per table. (2)
 - b) The mark-up percentage applied by Themba’s Tables. (4)

INFORMATION:

WORK-IN-PROGRESS STOCK ACCOUNT B3							
2020 March	1	Balance	96 800	2021 Feb	28	Finished Goods Stock	464 000
2021 Feb	28	Direct Materials Cost	210 600			Balance	93 500
		Direct Labour Cost	137 800				
		Factory Overhead Cost	112 300				
			557 500				557 500
2021 March	1	Balance	93 500				

10.2 BREAK-EVEN POINT

Billy Bob's Beds produced and sold 3 950 single beds for the year ended 31 August 2020. The following information was extracted from their books:

INFORMATION:

	for 3 950 beds
Sales	R4 740 000
Variable Costs	R2 646 500
Fixed Costs	R713 500

10.2.1 Calculate the break-even point for the year ended 31 August 2020. (5)

10.2.2 Should Billy Bob's Beds be satisfied with the number of single beds that were made during the year ended 31 August 2020? Explain. (3)

ANSWER SHEET

10.1.1	In which section of the General Ledger will this account be found?
--------	--

10.1.2 Identify TWO items that can be included in each of the following amounts in the Work-in-Progress Stock account:

c) R112 300

d) R210 600

10.1.3 Themba currently employs one supervisor and 3 carpenters to make the tables. Identify which of his employees are considered to be direct and indirect labour. Explain your reasoning by giving an example of the type of work each employee will be completing.

Direct Labour	
Indirect Labour	

10.2.1 Calculate the break-even point for the year ended 31 August 2020.

--

10.2.2 Should Billy Bob's Beds be satisfied with the number of single beds that were made during the year ended 31 August 2020? Explain.

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ACTIVITY F11 – BREAK EVEN POINT ANALYSIS AND PROBLEM SOLVING

11.1 KUNAL'S SECURITY GATES

Kunal's Security Gates makes security gates according to orders received. The information below is for the financial year ended 31 August 2020.

REQUIRED:

- 11.1.1 Calculate the break-even point for the period ended 31 August 2020. (6)
- 11.1.2 Compare and comment on the break-even point and the level of production achieved over the last two years. Quote figures. (6)
- 11.1.3 Provide TWO reasons for the increase in direct material cost and suggest ONE way in which Kunal can control this cost. (5)

INFORMATION:

A. Cost information for the year ended 31 August:

		2020		2019
		TOTAL AMOUNT	UNIT COST	UNIT COST
Direct material cost	Variable cost	86 400	R180	R156
Direct labour cost	Variable cost	122 400	R255	R242
Factory overhead cost	Fixed cost	76 800	R160	R156
Selling and distribution cost	Variable cost	74 400	R155	R152
Administration cost	Fixed cost	60 000	R125	R129

B. Additional information for the financial year ended 31 August:

	2020	2021
Total sales	R412 800	R459 000
Selling price per unit	R860	R850
Number of units produced and sold	480 units	540 units
Break-even point	?	508 units

ANSWER SHEET

11.1.1	Calculate the break-even point for the period ended 31 August 2020.
11.1.2	Compare and comment on the break-even point and the level of production achieved over the last two years. Quote figures.
11.1.3	Provide TWO reasons for the increase in direct material cost and suggest ONE way in which Kunal can control this cost. REASONS: SUGGESTION:

ACTIVITY F12 – BREAK EVEN POINT ANALYSIS AND PROBLEM SOLVING

12.1 GRACIAS LTD.

REQUIRED:

- 12.1.1 Calculate the missing figures marked **a–d**. Write only the answers in the ANSWER BOOK. (4)
- 12.1.2 Calculate the break-even point for 2021. Assume that factory overheads and administration cost is regarded as fixed cost. (5)
- 12.1.3 Comment on the break-even point (3)
- 12.1.4 Identify TWO unrealistic escalations of expenses. Give a possible cause for each as well as a possible solution to the problem. (8)

INFORMATION:

	2021	2020
Finished stock	105 800	22 700
Number of units made and sold	50 000	36 000
Break-even point	?	25 560
Selling price	R120	R100

Costs in Rand	Total cost 2021	Unit cost 2021	Unit cost 2020
	R	R	R
Direct/Raw materials	900 000	a	24
Direct labour cost	c	b	22
Prime cost	d	48	46
Factory overheads	1 100 000	22	20
Administration costs	400 000	8	6
Selling and distribution	350 000	7	4

	2021	2020
	R	R
Total cost of production	?	2 446 000

ANSWER SHEET

12.1.1 Calculate the missing figures marked a–d. Write only the answers in the ANSWER BOOK.

A	
B	
C	
D	

12.1.2 Calculate the break-even point for 2021. Assume that factory overheads and administration cost is regarded as fixed cost.

12.1.3 Comment on the break-even point

12.1.4 Identify TWO unrealistic escalations of expenses. Give a possible cause for each as well as a possible solution to the problem.

<u>Identification of expense with explanatory figures</u>	<u>Possible cause for escalation</u>	<u>Possible solution to the problem.</u>

ACTIVITY F13

13.1 RIETFONTEIN MANUFACTURERS

You are provided with information for the year ended 30 June 2015. The business produces and sells T-shirts to advertise the town.

REQUIRED:

- 13.3.1 Calculate the missing figures indicated by **A** and **B**. (2)
- 13.3.2 Calculate the break-even point and comment on the level of production for the year. (7)

INFORMATION:

The number of T-shirts produced and sold increased from 7 000 T-shirts in 2014 to 9 000 T-shirts in 2015. The break-even point for 2014 was 3 250 units.

The following figures apply to the 2015 financial year:

	TOTAL COST	UNIT COST
Sales	R495 000	R55,00
Variable costs	R207 000	A
Fixed costs	B	R12,00

ANSWER SHEET

13.3.1

Calculate the missing figures indicated by A and B.

A	
B	

13.3.2

Calculate the break-even point and comment on the level of production for the year.

CALCULATION:

COMMENT:

ACTIVITY F14

Waste Traders manufactures bags from organic, recycled materials. Waste Traders uses the **Perpetual Stock** system and a mark-up of **100%** on cost.

REQUIRED:

- 14.1 Calculate the following:
 - 14.1.1 Selling price per unit
 - 14.1.2 Cost of Sales
 - 14.1.3 Variable cost per unit
 - 14.1.4 Break-even point
- 14.2 Waste Traders anticipates that demand will increase in the next financial year to 600 000 units. They aim to increase the number of units produced to meet this demand. They expect fixed costs to remain unchanged.
 - 14.2.1 Explain what you understand by the term 'break-even point'.
 - 14.2.2 Explain the effect that the above decision will have on the **fixed cost** per unit and the **break-even point**.

INFORMATION:

A.

Balances / totals on 30 June	2015	2014
Raw Material Stock	92 400	78 900
Work-in-Process Stock	?	175 000
Finished goods stock	759 000	542 000
Factory overhead cost	362 790	
Production Wages	990 000	

B. Raw Materials Stock purchases of R553 500 includes carriage on purchases of R40 000.

- C. Production wages totalling R90 000 was not recorded.
- D. Factory Overhead Cost was incorrectly calculated. The following adjustments must be taken into account:
 - Depreciation on Factory Plant and Equipment amounting to R84 030 was omitted.
 - Indirect Materials included R3 500 worth of materials bought for the next financial year.
 - Advertising cost of R17 320 was included as R12 790.
 - The utilities amount of R10 290 in the Factory Overhead Cost account was apportioned in the ratio of 2:1:1 between the factory and other departments respectively. It should have been in the ratio 4:2:1

E.	UNITS PRODUCED AND SOLD	Value	Units
	Cost of Finished goods produced	R1 872 000	374 400
	Sales (mark-up = 100% on cost)	R3 564 000	396 000
F.	COSTS AND BREAK EVEN		
	Fixed Costs	R682 500	
	Variable Costs	R2 059 200	
	Administration Costs	R250 500	
	Selling and Distribution Costs	?	
	Break-Even Point	?	

ANSWER SHEET

14.1	Calculate the following:
14.1.1	SELLING PRICE PER UNIT:
14.2.2	COST OF SALES:
14.1.3	VARIABLE COSTS PER UNIT
14.1.4	BREAK-EVEN POINT
14.2	Waste Traders anticipates that demand will increase in the next financial year to 600 000 units. They aim to increase the number of units produced to meet this demand. They expect fixed costs to remain unchanged.
14.2.1	Explain what you understand by the term 'break-even point'.

14.2.2	Explain the effect the above decision will have on the fixed costs per unit and the break-even point.
<p>FIXED COST:</p> <p>BREAK-EVEN POINT:</p>	

ACTIVITY F15

15.1 THE CLOTHING FACTORY SHOP

Nkosi Mlambo is the owner of this business which produces and sells tracksuits. The information below relates to what her factory is producing.

REQUIRED:

15.1.1 Complete the **ledger accounts**. Close off properly at the end of the year on 28 February 2020:

- Raw materials stock (11)
- Work-in-progress (14)
- Finished goods stock (8)
- Factory overheads (19)

INFORMATION:

A. Balances:	28 February 2020	1 March 2019
Raw materials stock	R251 000	R164 800
Work-in-progress	445 450	223 700
Finished goods	?	569 500
Indirect material	7 300	9 800

B. Transactions for the financial year ended 28 February 2020:		
Purchases on credit:Raw materials		950 800
Purchases:Indirect materials		39 800
Carriage on purchases of raw materials paid		47 500
Advertising		29 500
Rent expense		130 000
Depreciation: Factory equipment		56 250
Delivery vehicles		49 500
Sales (profit margin of 60%)		4 071 208

C. Additional information:

1. The bookkeeper forgot to record an invoice for raw material purchased, R300 000. 25% trade discount was received on this transaction.
2. Two thirds (2/3) of the indirect materials were used in the factory.
3. **Salaries and wages**
 - Salary of the factory foreman, R216 000.
 - Summary of factory workers' earnings:

Deductions			Employer's contributions	Net wages
PAYE	UIF	Pension		
R140 000	R9 600	R78 800	R97 856	R844 600
Total deductions = R228 400				

NOTE: Contributions are regarded as part of factory Wages costs.

- **Indirect wages:**
Six casual workers clean the factory at R50 an hour. They each worked 192 hours normal time. Three of them worked 40 hours of overtime at the normal rate plus 50%.
4. Rent expense includes rent for March 2020. There was no increase in the rent during the financial year. Rent is proportionally allocated to the various departments according to floor space occupied:
 - Factory 600 m²
 - Administration offices: 250 m²
 - Sales department: 150 m²

15.2 FAST MOVERS FACTORY SHOP

This business is owned by Patrick Pillay. He requires your assistance. In each case, quote figures to support your opinion.

INFORMATION

	2020	2019
Total units produced & sold	12 000 units	9 000 units
Break-even point in units	?	7 000 units
Selling price per unit	R270,00	R220,00
Total Variable Costs	R2 040 000	R1 560 000
Total Fixed Cost	612 000	

REQUIRED:

- 15.2.1 Calculate the break-even point for 2020. (4)
- 15.2.2 Patrick is satisfied with the break-even point. Explain. Quote figures to prove his opinion. (4)

ANSWER SHEET

GENERAL LEDGER OF THE CLOTHING FACTORY SHOP

Balance Sheet Section

Dr		Raw materials stock (B5)				Cr	
2019							
Mar	1	Balance	b/d	164 800			

G: VALUE ADDED TAX

CONCEPT	EXPLANATION
VAT Vendor	A person or business that supplies goods or services who register as a vendor (trader).
Compulsory Registration	All businesses with a turnover of more than R1-million MUST register as a vendor (trader).
Voluntary Registration	Businesses with a turnover of less than R1-million CAN register if they want to.
Zero-rated items	Items charged at 0% VAT, but this can be changed by the government at any time. E.g. Fresh fruit and vegetables, brown bread, milk, maize, rice, lentils and cooking oil.
VAT-exempt items	Items on which no VAT is charged. E.g. interest, rates, export services, educational services and childcare services.
VAT inclusive	VAT is included in the amount. $VAT = 15/115 \times \text{Amount}$.
VAT exclusive	VAT is excluded from the amount. $VAT = 15/100 \times \text{Amount}$.
VAT Input	VAT paid by a business on the purchases of goods and services (which can be claimed back from SARS).
VAT Output	VAT collected by the business on the sale of all goods and services (which needs to be paid over to SARS).

APPROACH TO THE TOPIC

- There are two methods that can be used to arrive at the amount payable to or receivable from SARS. You can either draw up the VAT Control account or you can do a calculation.
- You are advised to use the VAT Control account because the format of the account is easier to remember. **VAT Input** amounts (money to be claimed back from SARS) are entered on debit side and **VAT Output** amounts (money collected and to be paid over to SARS) are entered on the credit side.
- VAT Input will include VAT on purchases (trading stock, equipment etc.), VAT on expenses, VAT on returns from debtors, VAT on bad debts
- VAT Output will include VAT collected from sales, VAT on returns of merchandise, VAT on drawings of stock, VAT on Bad debts recovered.
- When VAT Input is more than VAT output (i.e. VAT Control account has a debit balance) the difference is receivable from SARS. When VAT Output is more than VAT Input (the VAT Control account has a credit balance) the difference is payable to SARS
- VAT Calculations
 $VAT\ output - VAT\ input = \text{amount payable to SARS}$
VAT inclusive calculations: When VAT is included in an amount (VAT Inclusive)
 The calculation for VAT will be **the amount x 15/115**.
VAT exclusive: When VAT is excluded (VAT exclusive) the calculation for VAT will be **the amount x 15/100**.

ACTIVITY G1

1.1. VAT STATEMENTS

INDICATE WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE.		ANSWER
1.1.1	Any business with sales of more than R200 000 must register as a VAT vendor.	
1.1.2	Certain basic foods and essential items are zero-rated to assist the poor.	
1.1.3	Maize meal is one of the example for VAT Exempted item.	
1.1.4	Most businesses mark their stock with the selling price including VAT.	
1.1.5	The standard rate for VAT in RSA is at 19%	
1.1.6	VAT is payable to SARS.	

1.2 VAT ANALYSIS

ANALYSE THE FOLLOWING ITEMS BY MAKING A CROSS (X) IN THE APPROPRIATE COLUMN.

	GOODS / SERVICES	15% VAT	0% VAT	VAT EXEMPTS
1.2.1	Residential rent expense			
1.2.2	Vehicle purchases			
1.2.3	Fuel			
1.2.4	Purchase of a personal computer			
1.2.5	Hotel accommodation fee			
1.2.6	Public transport fee			
1.2.7	Beans			

ACTIVITY G2

2.1.1 What does VAT stand for? (2)

2.1.2 What is the current VAT rate in South Africa? (2)

2.1.3. What is the VAT charged on the price of brown bread? (2)

2.1.4 Complete the following table in respect of VAT:



Taxes paid by	Type of taxation	Direct or indirect taxation	Taxes paid on
Employees	A	Direct	B
C	VAT	D	Goods/expenses/services

2.1.5 A Shady, owner of Shady Stores, is not registered for VAT. However, he charges VAT to all his customers and he does not pay the VAT over to SARS. Comment on his practice and state the consequences he could be faced with if he is reported to SARS. (8)

ACTIVITY G3: VAT Calculations

The table below indicates amounts for various sale transactions, which are subject to Vat at 15%.

Complete the table.

No.	Cost price	% Mark-Up	VAT Exclusive Price	VAT Amount	VAT Inclusive Price
e.g.	R200	50%	R300	R45	R345
1	A =	25%	B =	R150	C =
2	R400	D =	R640	E =	F =
3	R900	G =	R1200	H =	I =
4	J =	20%	K =	L =	R2760
5	M =	25%	N =	R105	O =
6	R1000	P =	Q =	R =	R1610

ACTIVITY G4

VAT

- 4.1 Differentiate between zero rated supplies and exempts supplies. (4)
- 4.2. Distinguish between the tax evasion and tax avoidance (4)
- 4.3 Give TWO types of Zero rated supplies. (4)
- 4.4 Provide the missing figures indicated by A to E.

Amount exclusive	VAT amount	Amount inclusive
700	105	A
B	C	2875
D	780	E

(10)

- 4.5 Calculate the VAT payable at the end of the month if:
 Total purchases for the month was R120 000 (exclusive of VAT)
 Total sales for the month were R161 000 (inclusive of VAT) (6)

ACTIVITY G4 Answer sheet

4.1 Differentiate between zero rated supplies and exempts supplies.

(4)

--

4.2. Distinguish between the tax evasion and tax avoidance

(4)

--

4.3 Give TWO types of Zero rated supplies.

(4)

--

4.4 Provide the missing figures indicated by A to E.

Amount exclusive	VAT amount	Amount inclusive
700	105	A =
B =	C =	2875
D =	780	E =

(10)

4.5 Calculate the VAT payable at the end of the month if:

Total purchases for the month was R120 000 (exclusive of VAT)

Total sales for the month were R161 000 (inclusive of VAT)

(6)

--

ACTIVITY G5

Mr Jumbo is the sole owner of Guduza Supermarkets. The following information was extracted from the accounting records for the month of July 2020.

Summary of transactions:

Total Sales for a months	
Sales VAT amount from CRJ	6 390
Sales @ 0% VAT	15 000
Total Purchases for a months	
Purchases VAT amount from CPJ	3 750
Payments that were VAT exempted	2 100
Drawings VAT amount	63
Debtors allowances VAT amount	720
Creditors allowances VAT amount	150
Discount allowed to customers excluding VAT	500
Bad debts written off excluding VAT	400

Required: Prepare the Input VAT, Output VAT and VAT Control account.

**ANSWERSHEET
ACTIVITY G5**

**GENERAL LEDGER
OUTPUT VAT ACCOUNT**

INFORMATION:

The bookkeeper, Felix, prepared the VAT Control Account for the tax period ended 31 May 2020 and arrived at a VAT payable amount of **R43 820**.

However, the internal auditor has identified the following errors and omissions which must still be brought into account to calculate the correct VAT payable amount:

I.	Sales invoices omitted from the Debtors' Journal, exclusive VAT	8 900
II.	Damaged goods returned to suppliers, inclusive VAT	21 620
III.	VAT on bad debts recovered	112
IV.	VAT on bad debts was recorded on the wrong side of the VAT Control Account	92
V.	VAT on discounts received from suppliers exclusive VAT	5 040
VI.	VAT on sundry business expenses omitted	6 818


ACTIVITY G6 – ANSWER SHEET

6.1 VAT CONCEPT

6.1.1	
6.1.2	
6.1.3	

6.2 VAT CALCULATIONS

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



Receivable/Payable:

Workings