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education

Department:
Education
PROVINCE OF KWAZULU-NATAL

CURRICULUM GRADE 10 -12 DIRECTORATE

STEP AHEAD SUPPORT DOCUMENT

SOLUTIONS

GRADE 11

ACCOUNTING

2021

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ACTIVITY A1

FINANCIAL LEDGER ACCOUNTS

GENERAL LEDGER OF THEMBI STORES

Final Accounts Section

Dr **TRADING ACCOUNT** **(F1)** **Cr**

2020 Feb	28	Cost of Sales *		407 250	2020 Feb	28	Sales**		651 600
		Profit & Loss a/c		244 350					
				651 600					**651 600**

***Cost of Sales** = 246 750 x 100/60 = R411 250 (before adjustment (a)) Adjustment: 6 400 x 100/160 = R4 000 Corrected Cost of Sales = 411 250 - 4 000 = R407 250	****Sales**: 411 250 + 247 750 - 6 400 = 651 600

Dr **Profit and Loss account (F2)** **Cr**

2020 Feb	28	**Salaries & wages**		**107 390**	2020 Feb	28	Trading account		244 350
		Telephone	*1*	11 410			Rent income	*6*	74 800
		Insurance	2	7 800			Discount Received		2 360

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		Sundry expenses		37 910			Commission Income		12 890
		Bad debts		700			Interest on fixed deposit	7	4 000
		Discount allowed	*3*	1 060					
		Depreciation	*4*	50 700					
		Interest on loan	*5*	32 200					
		Capital (Net profit)		96 830					
				346 000					**346 000**

(You may show calculations in brackets in the account, but space is limited; rather show it below the account. Label it clearly)

ACTIVITY A2 (Partnership ledger)

2.1

Correct net profit:	
Net profit before adjustments	**735 425**
Provision for bad debts	2 600
Insurance ((8 100 ÷ 12) x 9)	6 075
Commission income	(4 100)
	740 000

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GENERAL LEDGER OF PRINCE TRADERS

Dr **Capital: William** **(B2)** **Cr**

2020 Feb	28	Balance	c/d	740 000	2019 Mar	1	Balance	b/d	520 000
					2020 Jan	31	Vehicles		220 000
				740 000					**740 000**
					2019 Mar	1	Balance	b/d	740 000

Current account: William **(B4)**

2019 Mar	1	Balance	b/d	8 800	2020 Feb	28	Interest on Capital	①	48 450
2020 Feb	28	Drawings: William		214 500			(214 500/13 x 12) Salary: William		198 000
		Balance	c/d	150 225			(4 820 000 - 20 000)x1% Bonus: William		48 000
							Appropriation		79 075
				373 525					**373 525**
					2020 Mar	1	Balance	b/d	150 225

① 59 400 / 660 000 x 100 = 9%; (520 000 x 9% x 11/12) + (740 000 x 9% x 1/12) = 48 450

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Appropriation account (F3)

2020 Feb	28	(59 400 + 48 450) Interest on Capital		107 850	2020 Feb	28	Profit and loss		740 000
		198 000 + (2500 x12) Salary: Harry		228 000					
		Salary: William		198 000					
		Bonus William		48 000					
		Current a/c: Harry ½		79 075					
		Current a/c: William ½		79 075					
				740 000					**740 000**

ACTIVITY B1 (FINANCIAL STATEMENTS)

ROCKSTAR TRADERS

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2020

Sales [2 140 210 – (10 210 + 1 000)]	2 129 000	
Cost of Sales [961 000 - 500]	(960 500)	
Gross Profit	1 168 500	
Other Operating Income	13 500	
Rent Income [86 800 – 18 480]	68 320	
Provision for bad debts adjustment	220	
Bad debts recovered	460	
Gross Operating Income	1 237 500	

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Total Operating Expenses	(226 100)	
Bank charges	8 200	
Telephone [5 200 + 700]	5 900	
Bad debts [3 300 + 300]	3 600	
Pension fund contributions [4 100 + 3 100]	7 200	
Salaries and wages [121 000 + 25 000]	146 000	
Insurance [18 000– 2 800]	15 200	
Packing material	20 000	
Trading stock deficit [109 500+50–105 000]	5 000	
Depreciation	15 000	
Operating Profit	1 011 400	
Interest Income	6 400	
Profit before interest expense	1 017 800	
Interest expense [15 400 + 1400 + 1 000]	(17 800)	
Net profit for the year	1 000 000	

ACTIVITY B 2 (Statement of Comprehensive Income, Notes)

2.1 JJ STORES

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2020

Sales	998 400	
Cost of Sales	(665 600)	
Gross Profit	332 800	
Other Operating Income	155 850	
Commission Income	**47 725**	
Rent Income (117 250 - 9 625)	107 625	
Provision for bad debts adjustment (3 936 - [68 750 x 5%])	500	
Gross Operating Income	488 650	

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Total Operating Expenses	(149 517)	
Salaries and wages	**45 500**	
Depreciation	**18 300**	
Sundry expenses	14 447	
Packing material (23 100 + 3 600)	19 500	
Water & Electricity (25 320 + 2 150)	27 470	
Insurance (21 455 – 1 455 [5820 x 3/12])	20 000	
Trading stock deficit (134 840 – 130 540]	4 300	
Operating Profit	339 133	
Interest Income (8 100 + 2 700 [120 000 x 9% x 3/12])	10 800	
Profit before interest expense	349 943	
Interest expense (374 600 - 86 400 - 327 000]	(38 800)	
Net profit for the year	311 133	

1 Dec '91 - 31 Mar '20: 4 months; Increase = 4 x 875 = R3 500

Old rent: 117 250 - 3 500 = 113 750; Old rent per month = 113 750 ÷ 13 = R8 750

New rent per month: 8 750+ 875 = R9 625

2.2 CAPITAL

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	JOZI	JAY	TOTAL	
Balance -beginning of year	240 000	360 000	600 000	
Additional capital	40 000		40 000	
Decrease of capital		(10 000)	(10 000)	
Balance - end of year	**280 000**	**350 000**	**630 000**	**8**

CURRENT ACCOUNTS

	JOZI	JAY	TOTAL	
Profit per Statement of Comprehensive Income	176 323	134 810	**311 133**	
Salaries	116 235	95 940	212 175	
Interest on capital	21 600	28 200	49 800	
Bonus (3% x sales)	29 952		29 952	
Primary distribution	167 787	124 140	291 927	
Share in remaining profit	8 536	10 670	19 206**	
Drawings	(31 889)	(62 503)	(94 392)	
Retained income for the year	144 434	72 307	216 741	
Balance- beginning of year	22 360	(10 100)	12 260	
Balance - end of year	**280 000**	**350 000**	**630 000**	

Salaries: Jozi = 113 400 + (3 x 945)	Salaries: Jay= (7 800 x 12) + (3 x 780)

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Interest on Capital: Jozi = (240 000 x 8% x 3/12) + (280 000 x 8% x 9/12)

Interest on Capital: Jay = (360 000 x 8% x 3/12) + (350 000 x 8% 9/12)

**Remaining profit = 311 133 - 291927 = 19 206   Shared: 19 206 ÷ 9 (4:5) = 2 134

Jozi: 2134 x 4 = 8 536;   Jay: 2134 x 5 = 10 670

Drawings: Jozi = 26 409 + (9590 x 100/175);   Jay: 57 403 + 5 100

2.3	**Provide TWO reasons to justify why she feels this way. In each case provide relevant figures to support your comments.**
	• Drawings is too high (R62 503 compared to R31 889) • Poor management of current account as it shows a negative balance of R10 100 • Withdrew R10 000 capital
	Propose TWO practical suggestions that the partnership can use to address the concern expressed by Jozi
	• Create a business policy to limit drawings - set fixed amounts per month/year • Revise the partnership agreement to stipulate what/how much can be drawn from the business.

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ACTIVITY B3

Sales (1 737 750 – 3 500)		1 734 250
Cost of sales (993 000 – 2 000) or (1 734 250 x 100/175)		(991 000)
Gross profit		743 250
Other operating income		116 500
Rent Income (81 792 + 7 632)		89 424
Commission income		20 076
Discount received (6 850 + 150)		7 000
Gross operating income		859 750
Operating expense	Adjusted sales x 24%	(416 220)
Depreciation		**71 680**
Salaries and wages		138 500
Consumable stores (11 900 – 2 900)		9 000
Bad debts (4 120 + 2 880)		7 000
Insurance (19 300 – 6 200)		13 100
Provision for bad debts adjustment (3 125 – 2 010)		1 115
Trading stock deficit		3 600
Sundry expenses		172 225
Operating profit		443 530
Interest income	(9 000 + 2 250)or (5 250 + 6 000)	11 250
Profit before interest expense		454 780
Interest expense	(161 250 + 257 250 – 375 000)	(43 500)
Net profit for the YEAR		411 280

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Trade debtors (68 880 – 2 880– 3 500)	62 500
Provision for bad debts (5% of Trade debtors)	(3 125)
Net trade Debtors	59 375
Accrued Income (7 632 + 2 750)	10 382
Prepared Expense	6 200
	75 957

ACTIVITY B4 (Statement of Financial Position & Notes)

4.1.1 CURRENT ACCOUNTS

	GOLD	**BROWN**
Profit per Statement of Comprehensive Income	237 200	162 800
Salaries (G: 11000 X 12)	132 000	**108 000**
Interest on capital	50 000	26 000
Bonus	12 000	
Primary distribution	194 000	134 000
Final distribution of remaining profit	43 200*	28 800*
Drawings (B: 10 000 + 4 600 [6900 x100/150])	**(12 000)**	(14 600)
Retained income for the year	225 200	148 200
Balance- beginning of year	**33 000**	(15 400)
Balance - end of year	**258 200**	**132 800**

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Interest on Capital: Gold = 500 000 x 10% Brown = (220 000 x 10% x 6/12) + (300 000 x 10% x 6/12) Final distribution: (400 000 - (194 000 + 134 000) = 72 000; G: 72 000 x 3/5 = 43 200; B: 72 000 x 2/5 = 28 800

4.1.2 TRADE AND OTHER PAYABLES

Trade Creditors	65 000
Accrued expenses	3 100
Income received in advance	8 250
Creditors for salaries	45 000
SARS: PAYE	22 500
	143 850

4.2 GOLDEN BAKERY

STATEMENT OF FINANCIAL POSITION AT 28 FEBRUARY 2019

ASSETS		
Non-current assets		1 530 000
Fixed/Tangible assets		1 380 000
Financial assets: Fixed deposit: Lama Bank (225 000- 75 000)		150 000
Current assets		312 560
Inventory (146 900 – 4 600 + 3 870)		146 170
Trade and other receivables (75 000 - 1 200 + 10 490+ 2 100)		86 390
Cash and cash equivalents (3 500+ 1 500+ 75 000)		80 000
Total assets		**1 842 560**
EQUITY AND LIABILITIES		
Capital & Reserves / Owner's equity		1 191 000
Capital (500 000 + 300 000)		800 000
Current accounts (258 200 + 132 800)		391 000

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Non-current liabilities		420 000
Loan: Mama Bank (480 000 – 60 000)		420 000
Current liabilities		135 000
Trade and other payables		143 850
Current portion of loan		60 000
Total equity and liabilities		**1 842 560**

ACTIVITY B5 (Financial Statements & Notes)

5.1.1 CAPITAL

	POLLARD	JANTJIES
Balance -beginning of year	350 000	450 000
Additional capital	250 000	
Withdrawal of capital	(50 000)	(150 000)
Balance - end of year	**550 000**	**300 000**

5.1.2 CURRENT ACCOUNTS

	POLLARD	JANTJIES
Net profit for the year	196 600	199 900
Salaries	120 000	**144 000**
Interest on capital	52 000	**49 500**
Bonus	**15 000**	
Primary distribution	187 000	**193 500**
Share in remaining profit	9 600	6 400
Drawings	**(72 000)**	**(96 000)**
Retained income for the year	124 600	103 900
Balance- beginning of year	22 500	(57 600)
Balance - end of year	**147 100**	**46 300**

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4.1.3 TRADE AND OTHER PAYABLES

Trade Creditors	**62 750**
Accrued expenses	12 700
Income received in advance	4 600
Creditors for salaries	8 200
SARS: PAYE (13 500 + 2 720)	16 220
UIF (120 + 120)	240
Pension Fund (1440 + 960 [1440 x 100/150])	2 400
	107 110

5.2 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

EQUITY AND LIABILITIES	
Owner's equity	1 043 400
Capital (550 000 + 300 000)	850 000
Current accounts (147 100 + 46 300)	193 400
Non-current liabilities	342 000
Loan: SB Bank (402 500 + 47 500 – 108 000)	342 000
Current liabilities	281 710
Trade and other payables	107 110
Bank overdraft (16 600 +50 000)	66 600
Current portion of loan	108 000
TOTAL EQUITY AND LIABILITIES	**1 667 110**

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Activity B6: PARTNERSHIPS

6.1 **CONCEPTS**

6.1.1	Income statement
6.1.2	Income received in advance
6.1.3	Balance sheet
6.1.4	Cash and cash equivalents

6.2.1 CURRENT ACCOUNT NOTE OF PARTNERS

	NTUBENI	**KOLISI**
Partners' salaries 240 000 + 60 000 or 25 000 x 12	300 000	240 000
Interest on capital 27 000 + 24 000	**42 000**	51 000
Partners' bonuses		24 000
Primary distribution	342 000	315 000
Final distribution	46 500	46 500
Net profit for the year	388 500	361 500
Drawings	**(345 000)**	**(375 000)**
Retained income	43 500	(13 500)
Balance at the beginning	**(30 000)**	**10 500**
Balance at the end	13 500	(3 000)

Final distribution: 750 000 – 657 000 (342 000+315 000) = 93 000 ÷ 2 = 46 500

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6.2.2 BALANCE SHEET ON 30 SEPTEMBER 2020

EQUITY AND LIABILITIES			
Owners' equity		810 500	
Capital (350 000 + 450 000)		800 000	
Current Account (13 500 – 3 000)		10 500	5
Non-current liabilities		198 000	
Loan	balancing figure: (TE&L – E- CL)	198 000	
Current liabilities		161 500	
Trade and other payables (60 500 +8 000 +7 500)		76 000	
Current portion of loan		50 000	
Bank overdraft		35 500	12
TOTAL EQUITY AND LIABILITIES		1 170 000	

*one part correct

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ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

ACTIVITY C1

1.1	Solvency ratio
1.2	% Mark-up OR % Gross profit on cost of sales
1.3	Return on equity (% Net profit of average Equity)
1.4	% Operating expenses on net profit
1.5	Acid test ratio (alternative method to calculate this ratio)

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Activity C2

1.Gross Profit on Sales: :Gross profit/Sales x 100/1
= 270 000/990 000 x 100/1
= **27.27%**

The actual gross profit on sales is 27.27% which is lower than the expected gross profit on sales (33.33%). Reasons for not achieving should be investigated. The difference can be ascribed to:

- Too liberal a policy of granting trade discounts.
- Poorly controlled seasonal / clearance sales where goods are sold at reduced prices.
- Incorrect pricing
- Petty thieving and shoplifting
- Damaged/ shop soiled goods sold at reduced prices.

2. Gross Profit on Cost of Sales:

Gross profit on cost of sales = 270 000/720 000 x 100/1
= **37.50%**

Expected gross profit on cost is 50% while the firm has achieved a 37.5% mark-up on cost. Difference is too large and should be investigated.

3 Net Profit on Sales:

. Net profit on sales: Net profit/Sales x 100/1

= 75 000/990 000 x 100/1

= **7.76%**

This calculation does not truly indicate operating efficiency but for all intents and purposes it can deduced that of all revenue generated through sales, only 7.76% is available for distribution to the partners. Decreased from 2019 (7.76% as opposed to 8.9%). A decrease in expenses or increase in the mark-up will yield better results.

4. Operating expenses on sales: Operating expenses/Sales x 100/1

= 49 000/990 000 x 100/1

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= **<u>4.95%</u>**

Indicates that 95.05% of all income is absorbed in expenses. Phenomenally large, especially when considering that it has deteriorated in 2020 (4.95% as opposed to 13%). Investigate the increased cost of acquiring goods and services.

5. **Operating Profit on Sales:**

Operating profits on sales: Operating profit/Sales x 100/1

= 221 000/990 000 x 100/1

= **<u>22.32%</u>**

Operating expenses accounts for 22.32% of all revenue derived from sales. Increased in 2020 (22.32% as opposed to 18%). Management should set up proper internal control procedures to monitor expenses

5. **Operating Expenses on Sales:**

. Operating expenses on sales: Operating expenses/Sales x 100/1

= 49 000/990 000 x 100/1

= **<u>4.95%</u>**

Indicates that 95.05% of all income is absorbed in expenses. Phenomenally large, especially when considering that it has deteriorated in 2020 (4.95% as opposed to 13%). Investigate the increased cost of acquiring goods and services.

5. **Solvency Ratio:**

Solvency Ratio = Total assets : Total liabilities

= 629 000 : (200 000 + 120 040)

= 629 000 : 340 040

=**<u>1.85: 1</u>**

Decreased in 2020 (1.85: 1 as opposed to 2.13: 1). For every R1 of outside funding, the firm has R1.85 of its own funds. The firm is technically solvent and will be able to sustain itself in the long term.

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5. Current Ratio:

Current Ratio = Current assets : Current liabilities

= 175 000 : 120 040

= **1.46: 1**

Deteriorated in 2020 (1.46 : 1 as opposed to 2.06 : 1). For every R1 owing, the firm has R1.46 available. The liquidity position is unsatisfactory because the firm will not have enough liquid funds to meet its commitments in the short term if debtors do not pay timeously or if stock does not sell fast enough.

Activity C3

3.1.1 Current Ratio:
Current assets: Current liabilities
440 000: 160 000
2.75: 1

3.1.2 Acid Test Ratio [Current assets – Inventories]: Current liabilities

[440 000 – 171 800]: 160 000

268 200: 160 000

1.68: 1

3.1.3 Comment on the current Ratio. The current Ratio for 2019 was 2:1

- The current ratio has increased from2 : 1 [2019] to 2.75 : 1 [2020]
- The current ratio [2.75: 1] indicates that the business can easily pay off its current debts

Comment on the Acid Test Ratio. The Acid Test Ratio for 2019 was 0.3:1

- The acid test has increased from 0.3 : 1 [2019] to 1.68: 1 [2020]
- The acid test ratio [1.68: 1] indicates that the business can easily pay off its current debts

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ACTIVITY C4

4.1.1 **Stock turnover rate**

$$\frac{1\ 440\ 000}{\frac{1}{2}(27\ 700 + 35\ 670)}$$

45,44 times

4.1.2 **Stock holding period**

$$\frac{31\ 685}{1\ 440\ 000} \times \frac{365}{1}$$

8 days

4.1.3 **Debtors collection period**

$$\frac{55\ 200}{604\ 800} \times \frac{365}{1}$$

33 days

ACTIVITY C5

5.1.1

- **Percentage net profit on sales**

  $$\frac{420\ 000}{2400\ 000} \times \frac{100}{1}$$

  17,5%

- **Current Ratio**

  380 000 : 200 000

  1,9 :1

- **Debt Equity Ratio**

  300 000 : 1 440 000

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0,2 : 1

- **Return on Partners' Equity**

$$\frac{420\ 000}{\frac{1}{2}(990\ 000 + 1\ 440\ 000)} \times \frac{100}{1}$$

34, 6%

5.1.2 200 000 X 0,7= 140 000

(1,9 - 1,2) =0,7

5.1.3
- Acid test ratio improved by 0,4: 1
- Stock turnover rate improved 1,5 times
- Stock holding period decreased by 42 days
- Debtors collection period decreased by 15 days

ACTIVITY C6

6.1.1 Acid test ratio

(65 000 – 28 000) : 47 000
0,8 : 1

6.1.2 Debt equity ratio

260 000 : 335 000

0,8 : 1

6.1.3 Return on partners' equity

$$\frac{83\ 450}{\frac{1}{2}(179\ 000 + 156\ 000)} \times \frac{100}{1}$$

50%

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6.2 Current ratio decreased by 0,29

Acid test ratio decreased by 0,38

6.3 Yes, Return on partners' equity increased from 25% to 50% by 25%

6.4 No, It is not a wise decision

Debt equity ratio is 0,8 : 1, the firm is highly geared or in high financial risk. No further loans should be taken .

ACTIVITY C7

7.1.1 **Acid test ratio**

378 200 - 176 000: 180 000

202 200: 180 000

1.1: 1

7.1.2 **Gross profit on cost of sales**

$$\frac{1\ 236\ 000}{2\ 060\ 000} \times \frac{100}{1}$$

= 60%

7.1.3 **Debt/equity ratio**

220 000: 988 200

0, 2: 1

7.2 **Should the partners be satisfied with the control over operating expenses**

No

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The Operating expenses on sales increased from 18% (2019) to 21% (2020)	
The net profit on sales decreases from 19,2% (2019) to 16,1% (2020)	

7.3 **Explaining of the Liquidity position of the business**

General comment: Liquidity position of the business is satisfactory – the business will be able to pay its current liabilities in the next financial year.

Current ratio: improved from 1,9: 1 (2019) to 21: 1(2020)

Acid test ratio improved 0,9 : 1 to 1,1 : 1

Stock turnover rate improved from 10 times to 12 times, stock is selling faster

7.4 **Explanation to justify why the partners took an additional loan.**

Debt equity ratio improved from 0, 3: 1 (2019) to 0, 2: 1 (2020) - indicate low financial risk – easy to obtains loans.

ACTIVITY C8

Calculate the acid test ratio for 2020

8.1 Workings	**Answer**
240 000 + 30 000) : 380 000	0,7:1

8.2	**Comment on the liquidity of the partnership. Recommend THREE ways in which the liquidity of the partnership can be improved.**

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- Current ratio decreased from 5:1 to 4:1 and acid test ratio increased from 0,5:1 to 0,7:1
- Business is too liquid at present, as it has too much trading stock on hand which is not earning any return
- *Recommendations:* mark prices down; lower the % mark-up; offer incentives to increase sales.
- Although the debtors' collection period decreased from 100 to 90 days, it is still too long. Creditors are paid promptly within 30 days - this may cause cash flow problems.
- *Recommendations:* sent regular statements to debtors; offer settlement discounts to encourage debtors to pay within 30 days; set credit limits; charge interest on overdue accounts
- Negotiate extended (longer) credit terms with creditors to increase the credit payment period to 60 days or longer.

8.3 If you were partner Tim, would you be satisfied with your return earned over the past two years? Motivate your answer.

NO

Although his return has increased by 2% (from 6% to 8%), this return is less than the return Tim could have earned on alternative investments, e.g. risk free fixed deposits or money-market accounts.

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.

- Mark-up % - the business achieved (40%) 10% less than their targeted mark-up (50%)
- Operating expenses - it has increased by 14% (18% - 32%) which is more than the average inflation rate (about 5%)

Operating profit on sales and net profit on sales - decreased by 4% and 3% respectively.
Partnership needs to increase sales to improve profitability.

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.

- ROTCE (28%) is higher than the interest rate on loan (13%) Positive gearing of 15%
- Debt/Equity ratio shows moderate financial risk at 0,5:1
- Partners should take out a loan to take advantage of the positive gearing effect and in this way gear up the returns with a moderate increase in risk.

ROTCE = Return on total capital employed

ACTIVITY C9

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9.1.1	**Calculate the solvency ratio for 2018**
	4 052 000 : 1 320 000 3,1:1

9.1.2 Comment on this ratio. Is this business likely to experience a solvency problem? Briefly explain
Opinion: No
Explanation: *Any ONE relevant aspect* • They have R3,10 assets to cover every R1 liabilities • Assets are significantly more than liabilities

9.2	**Calculate the Debt equity ratio for 2018**
	1 000 000 : 2 732 000 0,37: 1/ 0,4:1

9.2.1	**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**
	• Interest on the loan (14%) exceeds return on total capital employed (10,1%) – returns are negatively affected by the loan. • The debt/equity ratio has increased from 0,26:1 to 0,37:1. The degree of risk is increasing. • High interest charges – the loan has increased to R1m and the interest rate of 14% is higher than the ROTCE of 10,1% The only reason that the Debt/Equity ratio is still reasonable at 0,37 : 1 is that Thando has invested extra capital of R800 000 into the business.

9.3.1	**Calculate Thando's % return on average equity**

$$\frac{127\ 000}{1\ 365\ 000} \times \frac{100}{1}$$

9,3%

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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.**
	• Thando's return decreased from 17,3% to 9.3% - it is less than the return of 10,1% for the partnership • Tammy's return decreased from 16,6% to 14,7%, but is still higher than the partnership's return • Tammy has withdrawn R400 000 capital, while Thando has contributed an extra R800 000 – this is affecting their returns Tammy has a large unfavourable balance on her current account, while Thando has not drawn all the profits he is entitled to as reflected by his favourable current account balance of R90 000
9.4.	**Average debtors collection period for 2018** $\frac{320\ 000}{1\ 240\ 000} \times \frac{365}{1}$ 94 days
9.4.1	**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 support the customers' complaints** • Sales have declined from R4,2m to R3,1m • Trading stock on hand has declined from R440 000 to R180 000 • Stock turnover rate shows stock is being replaced 5,9 times p.a. (lower than 7 times)

9.5.	**State TWO points to support Tammy's opinion and TWO points to support Thando's opinion.**
	Tammy • Current ratio has decreased from 3,0:1 to 2,6:1 but current assets (CA) is significantly more than current liabilities (CL) (more than double as much). • Acid-test ratio has increased from 1,2:1 to 2,1:1. This indicates that Debtors and Cash are more than double the CL

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Thando

- Debtors are taking too long to pay (54 days increased to 94 days)
- Creditors are being paid too early (25 days decreased to 23 days)
- Sales has decreased from R4,2m to R3,1m
- Loans are now R1m which will mean more interest to pay and larger loan repayments - it will impact negatively on cash flow in the business.

BUDGETING

ACTIVITY D1

DEBTORS' COLLECTION SCHEDULE – PHINDILE TRADERS					
			Debtors collection		
Month	**Credit sales**	**Term**	**July**	**August**	**September**
May	24 000 × 40%	July	9 600		
June	29 000 × 60%	July	17 400		
	× 40%	Aug		11 600	
July	28 000 × 60%	Aug		16 800	
	× 40%	Sept			11 200
Aug	30 000 × 60%	Sept			18 000
Expected receipts			**27 000**	**24 800**	**29 200**

CASH BUDGET OF PHINDILE TRADERS – 01JULY 2019 – 30 SEPTEMBER 2019			
RECEIPTS	**July**	**August**	**September**
Cash sales	34 000	37 000	40 000
Receipts from debtors	27 000	24 800	29 200
Rent income	5 000	5 500	5 500
	66 000	67 300	74 700
PAYMENTS			

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Cash purchases	11 000	10 000	14 000
Creditors	26 000	25 000	28 000
Wages	10 000	11 000	11 000
Expenses	17 000	19 000	19 000
Equipment		6 000	
	64 000	71 000	72 000
Cash surplus /Deficit	2 000	(3 700)	2 700
Bank opening balance	28 000	30 000	26 300
Bank closing balance	30 000	26 300	29 000

Receipts less Payments = Surplus /Deficit
66 000 – 64 000 = 2 000

ACTIVITY D2

DEBTORS' COLLECTION SCHEDULE – MADUNA TRADERS			
Credit sales		**Debtors collection**	
		January	**February**
November	45 000 x 15%	6 750	
December	[48 000 x 50%] [48 000 x 15%]	24 000	7 200
January	[60 000 x 30%] [60 000 x 50%]	18 000	30 000
February	[54 000 x 30%]		16 200
Expected receipts		**48 750**	**53 400**

CASH BUDGET OF MADUNA TRADERS – 01January - 28 February 2019		
RECEIPTS	**January**	**February**

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Cash sales	40 000	36 000
Receipts from debtors	48 750	53 400
Rent income 2 500 X (115 ÷ 100)	2 500	2 875
Fixed Deposit	24 000	
Interest on fixed deposit (24 000 x 8%) ÷ 12	160	
Equipment	3 000	
TOTAL RECEIPTS	118 410	92 275
PAYMENTS		
Cash purchases of stock	20 000	17 000
Payments to creditors	21 850	28 500
Salaries [J,4 000 x 3] [F,5 000 x 2]	12 000	10 000
Loan : Future Bank [36 000 x 50%]	18 000	
Equipment		4 000
Other expenses	18 400	19 000
Interest on loan	420	210
TOTAL PAYMENTS	90 670	78 710
Cash Surplus (Shortfall)	27 740	13 565
Bank –Opening balance	(6 200)	21 540
Bank –Closing balance	21 540	35 105

Workings

Payment to creditors

January: 23 000 x (100% -5%)

23 000 x 95% = 21 850

February: 30 000 x 95% = 28 500

Interest on loan

January :(36 000 x 14%) ÷12 = 420

February :(18 000 x 14%) ÷12 = 210

ACTIVITY D3

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		*R2 130*		*R2 130*
3.1.1	35 200		35 200	22 000
3.1.2				1 420
3.1.3	62 200			2 150
3.1.4		8 460		460

3.2.1 **DEBTORS COLLECTION SCHEDULE**

MONTHS	CREDIT SALES		OCTOBER	NOVEMBER
September	**142 500**		78 375	
October	**176 400**		68 796	97 020
November	**174 800**			68 172
			147 171	165 192

3.2.2	**COMMENT** One valid point each for	**ADVICE** One relevant advice
Maintenance of vehicles	Underspent or over budgeted Not well controlled. Not making adequate use of money allocated.	Important to maintain vehicle regularly to improve performance and productivity. Do not compromise on this.
Collection from debtors	Poor collection policy / over-budgeted Estimates may be unrealistic.	Revise collection policy or be more vigilant in implementing the policy. Offer incentives for early payments or penalties for late payments. Send reminders to debtors.

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Telephone	Overspent or under-budgeted. Poor control over telephone use.	Investigate usage – may be wastage or valid use. Monitor calls – set rules for private use. Anticipate extra usage or price increases of

	October 2019	November 2019
CASH RECEIPTS		
Collection from debtors	147 171	165 192
Fee income for services rendered	**62 000**	**65 400**
Rent income	**8 200**	8 938
Commission income	**4 650**	4 905
Fixed deposit	**-**	**10 000**
Interest on fixed deposit	**375**	300
CASH PAYMENTS		
Fuel and oil	**32 600**	37 490
Maintenance of vehicles	**24 500**	24 500
Salaries	**25 500**	27 030
Drawings	500	500
Telephone	**2 300**	2 300
Sundry expenses	**3 120**	3 198
Interest on loan	2 750	2 750
Purchase of additional vehicle	-	29 440 (25 600 + 3 840)
	131 126	
Opening Balance	**22 104**	153 230

ACTIVITY D4

BUDGETING

4.1.1	**Why is it necessary to prepare a cash budget?**

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It is a financial plan indicating projected receipts and payments to ensure that there is sufficient cash to meet payments

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

They are non-cash items.

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.**

Cost of sales, Discount received, Discount allowed, Trading Stock deficit, Bad debts.

4.1.4	**Debtors' Collection Schedule for February 2019.**

CREDIT SALES PER MONTH		**JANUARY**	**FEBRUARY**
November	**57 000**	**8 550**	
December (57 500 X 15%)	**57 500**	**17 250**	8 625
January (56 000 X 30%)	**56 000**	**26 600**	16 800
February (54 600 X 50%) – 5%	**54 600**	**-**	25 935
TOTAL RECEIVED		**52 400**	51 360

4.1.5	**CASH BUDGET OF VARIA TRADERS FOR JANUARY AND FEBRUARY 2019**

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CASH RECEIPTS	JANUARY	FEBRUARY
Cash sales (54 600 x75/25)	**168 000**	163 800
Cash received from Debtors	**52 400**	51 360
Rent income (Jan: # 27500 – 12 000)	15 500	# 27 500
Fixed deposit		123 600
Interest on bank account (42 000 x 6% / 12) (see Opening balance)		210
TOTAL RECEIPTS	235 900	366 470
CASH PAYMENTS		
Payments to creditors	70 000	**81 000**
Sundry expenses	17 700	18 400
New assets purchased	**25 315**	
Salaries and wages 61 600 + ½ (30 800)	**61 600**	77 000
Interest on bank account (19 000 x 18% / 12)	285	
TOTAL PAYMENTS	174 900	176 400
CASH SURPLUS (SHORTFALL)	61 000	190 070
Bank (opening balance)	**(19 000)**	42 000
Bank (closing balance)	42 000	232 070

ACTIVITY D5

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BUDGETS

5.1 **DEBTORS COLLECTION SCHEDULE**

CREDIT SALES			NOV	
August	**R280 000**		**0**	
September	**R324 000**		**162 000**	
October	**R360 000**	x 26%	93 600	**A**
November	**R456 000**	x 15% x 98%	67 032	**B**
Total			**322 632**	

5.2 MADE IN LB DESIGNERS

PROJECTED INCOME STATEMENT FOR NOV 2016

	NOV	
Sales $\frac{456000}{1} X \frac{40}{60}$ (304 000 + 456 000)	760 000	**C**
Cost of Sales	(475 000)	**D**
GROSS PROFIT	285 000	**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 9% X R324 000	29 160	**F**
Discount allowed 2% x R68 400	1 368	**G**
Depreciation	**2 100**	
Trading stock deficit	**372**	
OPERATING PROFIT	**129 960**	
Interest expense	**(7 200)**	
NET PROFIT	**122 760**	

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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**	304 000	**H**
Cash from debtors	**111 628**	**139 320**	332 632	**I**
Rent Income 8 000 X 1.12	**8 000**	**8 000**	8 960	**J**
Loan from Fundbank	**0**	**180 000**	0	
Total receipts	**335 628**	**567 320**	645 592	**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 $\frac{18}{100} X \frac{180000}{1} X \frac{1}{12} = 2700 + 4500$	**4 500**	**4 500**	7 200	**L**
Salaries and wages 120 000 x 1.2	**120 000**	144 000	**96 000**	**M**
Advertising	**15 000**	**45 000**	**25 000**	
Sundry expenses	**10 000**	**10 000**	10 000	**N**
Total payments	**467 500**	**575 500**	**532 200**	
Surplus / Deficit	**(131 872)**	**(8 180)**	113 392	**O**
Opening bank balance	**24 000**	**(107 872)**	(116 052)	**P**
Closing bank balance	**(107 872)**	**(116 052)**	(2 660)	**Q**

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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.

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

Increases in **Cash Sales**.

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

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

ACTIVITY D6

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

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

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	17 556	64 680	4 620
October 2020	R 95 200		18 088	66 640
November 2020	R 98 000			18 620
		83 951	87 213	89 880

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6.2.2 **Projected Income Statement**

	Sept	October	November
Sales	132 000	136 000	140 000
Cost of Sales	(82 500)	(85 000)	(87 500)
Gross Profit	49 500	51 000	52 500
Other Operating Income	6 200	7 200	7 200
Commission Income	1 400	1 400	1 400
Rent Income	4 800	5 800	5 800
Gross Operating Income	55 700	58 200	59 700
Operating Expenses	(42 315)	(42 595)	(50 174)
Advertising	2 500	2 500	2 500
Salaries and Wages	21 600	21 600	28 800
Bad Debts	4 165	4 445	4 620
Depreciation	4 050	3 850	3 850
Sundry Expenses	10 000	10 200	10 404
Operating Profit	13 385	15 605	9 526
Interest Expense (on Loan)	(1 600)	(1 600)	(2 000)
Net Profit for the month	11 785	14 005	7 526

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ACTIVITY E 1

TRADING ACCOUNT

June	30	Cost of Sales(175 000-500)	174 500	June	30	Sales(350 000-1000)	349 000
		Profit and loss	174 500				
			349 000				349 000

ACTIVITY E2

2.1 CONCEPTS

Match the concept in Column A with the correct description in column B

NO.	ANSWER
2.1	C
2.2	D
2.3	E
2.4	B
2.5	A

2.2 CONCEPTS

State whether the following statement are true or false.

NO.	ANSWER
2.1.	True
2.2.	False ….purchases
2.3.	True
2.4.	True

ACTIVITY E3

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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.

		Perpetual system		**Periodic system**	
No	**Journal**	**Account debited**	**Account credited**	**Account debited**	**Account credited**
e.g.	**CJ**	**Trading stock**	**Creditors control**	**Purchases**	**Creditors control**
3.1	CPJ	Trading stock	Bank	Purchases	Bank
3.2	CAJ	Creditor control	Trading stock	Creditors control	Creditors allowances
3.3	GJ	Drawings	Trading stock	Drawings	Purchases
3.4	GJ	Donations	Stationery	Donations	stationery
3.5	CRJ	Bank Cost of sales	Sales Trading stock	Bank ________	Sales ________
3.6	CPJ	Trading stock	Bank	Carriage on purchases	Bank
3.7	DJ	Debtors control Cost of sale	Sales Trading stock	Debtors control __________	Sales __________
3.8	DAJ	Debtors allowances journal Trading stock	Debtors control Cost of sale	Debtors allowances _____	Debtors control ______________

ACTIVITY E4

INVENTORY SYSTEMS

4.1 Calculate the value of items purchased for the year ended 30 June 2020.

773 225 – 3 000– 800 – 1 400 = 768 025

4.2 **Trading Account**

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ACTIVITY E5

2019 July	1	Opening Stock	28 575	2019 June	30	Sales (1 237 160 – 4 200)	1 232 960
2020 June	30	Purchases	768 025			Closing Stock	31 650
		Carriage on Purchases	12 400				
		Profit and Loss	455 610				
			1 264 610				1 264 610

5.1 Calculate the number of face shield missing

890 + 1500 – 13 -2175 -190 = 30 face shields

5.2.1	Perpetual inventory system
5.2.2	Expense
5.2.4	Periodic Inventory System
5.2.5	Asset

5.3. Explain 3 differences between perpetual and periodic stock system

Perpetual Inventory System	Periodic Inventory systems
• Stock purchases recorded in trading stock account (asset)	• Stock purchases recorded in purchases account
• Expenses incurred in purchasing of goods (eg carriage on purchases) are charged to the trading stock account	• Expenses incurred in purchasing of goods (eg carriage on purchases) are recorded in carriage on purchases account(expense)
• Returns and allowances on stock purchased recorded in Trading stock account	• Returns and allowances on stock purchased recorded in purchases account
• Donations and stock taken by the owner are credited to the Trading stock account	• Donations and stock taken by the owner are credited to the Purchases account
• Balance of trading stock shows value of stock on hand	• Physical stock take (periodically) determines stock on hand
• Cost of sales is calculated on a continuous basis, therefor cost of sales account will show the total cost price of goods sold	• There is no cost of sales account a calculation required to determine cost of sales.

5.4

5.4.1	**Calculate cost of sales on 30 June 2020.**

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	19 200 + 756 000 + 74 600 – 336 000 = 514 800
5.4.2	**Calculate the average stock turnover rate** 514 800 / (19 200+336 000) ½ = 3 times (2,9 times)
5.4.3	• **Provide a calculation to verify her suspicion.** 160 + 6300 – 32 00 – 2800 = 460 units stolen
	• Count stock regularly/randomly and chech against stock records • Buy in smaller quantities but more regularly • Restrict access to the storeroom • Improve physical security e.g. controls at entrance DO NOT accept security cameras - it was given.

ACTIVITY E6

Identify ONE problem in each tuck shop, and provide ONE solution or advice in each case. In each case relevant figures must be quoted.

	PROBLEM IDENTIFIED WITH FIGURES	**ADVICE OR SOLUTION**
SHOP A	High stock(300 opening and 200 closing) They still received 400 units although they had stock on hand	Monitor sales and stock accordingly Stock control should be done daily. Control where stock is displayed. Could be within reach of children
SHOP B	Juice cash deposited is Short by R500 Chips too much unsold stock compared to opening balance (150 opening and 330 closing)	Do daily conciliations with managers. (till control) Monitor sales to order appropriately

ACTIVITY F7

INVENTORY SYSTEMS, ETHICS, INTERNAL CONTROL AND INTEPRETATION

7.1	Gross profit =60 000-30 000=30 000 Mark –up %= 30 000/30 000×100/1=100%
7.2	Cost of sale =45 000 Credit sale =45 000×200/100=R 90 000
7.3	- This is a serious matter need to be investigated immediately. -Need to find a person who is responsible or authorizing these donation and to whom these donations are being made.
7.4	a) Debit trading stock deficit, credit trading stock b) 64 300-58 300=R 6000 record this amount as an operating expenses. R58 300 that will show in that balance sheet for trading stock. c) The trading stock account may have to be re checked. It could happened that stock was marked incorrectly or the stock count is incorrect.

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	Could be a leakages- shoplifting by employees. d) Yes –stock may be purchased but not recorded in the trading stock account Error in the stock taking procedure could also result in surplus
7.5	The business not only loses the cost price of the goods withdrawn but also the profit that would have been made had the goods been sold.
7.6	• Sale could have been lower in this month that previous month. • Turnover in the previous month may have been high resulting in a low opening balance

ACTIVITY E8

NQUBUKA LTD Calculations, interpretation

8.1	a. average stock =106 200+69 000/2 =87 600 Stock turnover rate=700 800/87 600 =8 times
	b. stock period =87 600/700 800×365/1 =46 days
8.2	**Meaning** • Stock turnover rate indicate how many times the stock is being sold. • Number of days for which enough stock is on hand show how long it takes a business, on average, to sell its stock. . **Recommendation** • Stock turnover decrease by 2 in 2020 ,reason increasing competition from other stores etc. • Promote sales by advertising and offering incentives such discount. • Number of days decrease by 14days. This may be the existing clothing store where change of fashion can result in existing stock becoming obsolete or outdate.

ACTIVITY E9

9.1 EXPLAIN ONE DIFFERENCE BETWEEN THE PERPETUAL STOCK SYSTEM AND THE PERIODIC STOCK SYSTEM	
PERPETUAL STOCK SYSTEM	**PERIODIC STOCK SYSTEM**
Cost of sales calculated at point of sale Stock value can be determined/ identified at any time (from records) Cost of sales account used Stock bought regarded as an asset	Cost of sales calculated at end of financial period Stock value determined/identified by stock count Purchases account used Stock bought regarded as an expense

1. Provide ONE advantage and ONE disadvantage of each stock system.		
	ADVANTAGE	**DISADVANTAGE**

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PERPETUAL INVENTORY SYSTEM	Better control of stock – physical count will detect any losses. Theft can be detected and internal controls can be improved	Computer system is the most efficient means to operate this system – expensive. Manual would take much time and will result in many errors.
PERIODIC INVENTORY SYSTEM	Cheaper system to maintain. Suitable for a business with a variety of goods and services where it is difficult to determine the cost price	Theft will not be detected easily – less control. Will require more security measures. Final stock figure is only determined by counting the goods.

2. Analysis of transactions:

NO	ACCOUNT DEBITED	ACCOUNT CREDITED	ASSET	EQUITY	LIABILITY
(ii)	Carriage on purchases	Bank	- 92 200	- 92 200	
(iii)	Creditors control	Creditors allowances		+ 45 300	- 45 300

3. COST OF SALES

134 600 + 622 400 + 92 200 – 45 300 – 5 500 – 3 750 – 98 350 = 696 300

PROBLEM SOLVING		
	PROBLEM (WITH FIGURES)	**SUGGESTIONS**
QUEENS BRANCH	Missing units of stock (50 – 35) = 15 units Low advertising – 0,7% of sales	Need more effective stock control Check stock against records Set up security Budget more for advertising and assess if it is increasing sales
COFIMVABA BRANCH	Low sales volume 40/160 units Holding too much stock 120 units High advertising R6 720, not yielding results (15% of sales) High salary for sales person R7 500	Pay the salesperson a commission to improve sales Transfer stock to Tsolo branch. Monitor advertising to ensure that there is no abuse – extend the market
TSOLO BRANCH	No stock to meet demand (would run out) – nil (85 – 85) Deposit of sales money is short by R13 440	Monitor deposits, request notification from bank, division of duties, change managers, transfer more stock to this branch

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ACTIVITY E10: PERIODIC STOCK AND PROBLEM-SOLVING

LEDGER OF APLHA STATIONERY SHOP

TRADING ACCOUNT

2021 Feb	28	Opening stock	245 000	2021 Feb	28	Sales	1 532 900
		Purchases (960 000– 26 000 – 6 300 +54 000	978 500			Closing stock	302 000
		Carriage on purchases (35 000 + 4 800)	39 800				
		Customs duty	21 600				
		Profit and Loss (Gross profit)	550 000				
			1 834 900			***Details –1;***	1 834 900

COST ACCOUNTING

ACTIVITY F1

ACTIVITY F1 - CONCEPTS	
1.1.1	Fixed Cost
1.1.2	Indirect material cost
1.1.3	Selling and distribution cost
1.1.4	Variable cost
1.1.5	Administration cost

ACTIVITY F2 - CONCEPTS	
2.1.1	False
2.1.2	True
2.1.3	True

ACTIVITY F3 - CONCEPTS

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3.1.1	C
3.1.2	A
3.1.3	D

ACTIVITY F4 - CONCEPTS

4.1.1	C
4.1.2	D
4.1.3	E
4.1.4	A
4.1.5	B

ACTIVITY F5 – LEDGER ACCOUNTS

5.1.1

RAW MATERIALS STOCK ACCOUNT

2020 Mar	1	Balance b/d	80 000	2021 Feb	28	Raw materials issued	155 500
2021 Feb	28	Bank (120 000+10 500)	130 500			Balance c/d	55 000
			210 500				**210 500**
2021 Mar	1	Balance b/d	55 000				

5.1.2

WORK-IN-PROGRESS STOCK ACCOUNT

2020 Mar	1	Balance	25 000	2021 Feb	28	Finished goods stock	1 032 150
2021 Feb	28	Direct labour cost	550 000			Balance	40 000
		Direct materials cost	155 500				
		Factory overhead cost	341 650				
			1 072 150				**1 072 150**
2021 Mar	1	Balance	40 000				

5.1.3

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FACTORY OVERHEAD COST ACCOUNT							
2021 Feb	28	Water and electricity (27 000 x 2/3)	18 000	2021 Feb	28	Work-in-progress stock	341 650
		Rent (39 600 x 2/3)	46 400				
		Indirect materials (7 500 +22 300 + 700 – 5 300)x ¾	18 900				
		Factory foreman's salary	120 000				
		Cleaner's wages (37 800 x 75%)	28 350				
		Sundry expenses	110 000				
			341 650				**341 650**

ACTIVITY F6 – LEDGER ACCOUNTS

6.1.1

WORK-IN-PROGRESS STOCK ACCOUNT							
2020 Mar.	1	Balance b/d	33 150	2021 Feb	28	Finished goods stock	1 206 350
2021 Feb	28	Direct material cost (516 000 + 16 000 – 20 000)	512 000			Balance c/d	38 300
		Direct labour cost	519 650				
		Factory overhead cost	179 850				
			1 244 650				**1 244 650**
2021 Mar	1	Balance b/d	38 300				

6.1.2

FINISHED GOODS STOCK ACCOUNT							
2020 Mar	**1**	**Balance b/d**	**15 250**	2021 Feb	28	Cost of sales (1 800 000 +100 000) + 1,6	1 187 500
2021 Feb	28	Work-in-progress	1 206 350			Balance c/d	34 100
			1 221 600				**1 221 600**
2021 Mar	1	Balance b/d	34 100				

6.1.3

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FACTORY OVERHEAD COST ACCOUNT							
2021 Feb	28	Indirect labour (24 350 +65 060)	89 410	2021 Feb	28	Work-in-progress	179 850
		Indirect material cost (3 480 + 21 560 – 2 630)	22 410				
		Rent expense (39 200 x 65/100)	25 480				
		Insurance (8 700 x2/3)	5 800				
		Water and electricity (16 500 x 4/6)	11 000				
		Sundry expenses	25 750				
			179 850				**179 850**

ACTIVITY F7 – LEDGER ACCOUNTS

7.1.1 **Calculate the following for the financial year:**

Direct material cost

23 400 + 342 600 – 15 700 + 155 000 + 19 400 – 38 700 = 486 000

Direct labour cost

4 x 1 440 x R35	201 600
Contributions (201 600 x 10%)	20 160
Overtime	33 600
TOTAL	**255 360**

7.1.2

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WORK-IN-PROGRESS STOCK ACCOUNT							
2020 Mar.	1	Balance b/d	45 300	2021 Feb	28	Finished goods stock	1 000 000
2021 Feb	28	Direct material cost	486 000			Balance c/d	60 000
		Direct labour cost	255 360				
		Factory overhead cost	273 340				
			1 060 000				**1 060 000**
2021 Mar.	1	Balance b/d	60 000				

7.1.3

FINISHED GOODS STOCK ACCOUNT							
2020 Mar	1	Balance b/d	27 000	2021 Feb	28	Cost of sales	1 005 000
2021 Feb	28	Work-in-progress	1 000 000			Balance c/d	22 000
			1 027 000				**1 027 000**
2021 Mar	1	Balance	22 000				

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: Normal hours worked is below the contracted hours.	**Figures** They should be working 1 800 hours (40 x 45) but only 1 440 hours are worked (80%).
Point 2: Overtime hours are relatively high.	**Figures** 640/1 440 (44,4%) 640/1 800 (35,5%)

ACTIVITY F8 – LEDGER ACCOUNTS

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8.1 Calculate the following for the financial year:

8.1.1 Direct material cost

120 300 + 578 880 +868 320 + 25 000 – 185 660 = 1 406 840

8.1.2 Direct labour cost

12 000 x 42 = 504 000
2 000 x 84 = 168 000
504 000 + 168 000 = 672 000 x 9/10 = 604 800

8.1.3 Factory Overhead cost

67 200 + 140 000 + 61 280 + 210 000 + 25 400 + 132 500 = 636 380

8.2

WORK-IN-PROGRESS STOCK ACCOUNT

2020 July	1	Balance b/d	82 416	2021 June	30	Finished goods stock	2 626 846 balancing figure
2021 June	30	Direct material cost	1 406 840			Balance c/d	103 590
		Direct labour cost	604 800				
		Factory overhead cost	636 380				
			2 730 436				**2 730 436**
2021 July	1	Balance b/d	103 590				

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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.

- It is unethical to show contents which are not in the product.
- The business can be viewed negatively and not to be trusted/reputation.
- Loss of customers which can end up in decrease in sales/decrease in profits.
- Any logical answer

ACTIVITY F9 – LEDGER ACCOUNTS AND UNIT COSTS

9.1

A	800 000
B	Raw material issued
C	350 000
D	1 560 000
E	3 000 000
F	Finished goods stock

9.2

Identify TWO items that could be included under "Factory Overhead Costs".

- Indirect materials
- Indirect labour
- Factory depreciation
- Factory water and electricity

ANY LOGICAL ANSWER

9.3.1 The cost price per unit.

5 200 000/4 000 000
= R1.30

9.3.2 The break-even point for the year ended 30 June 2021.

$$\frac{3\,000\,000 + 1\,20\,000}{2.50 - 1.30}$$

$= \frac{4\,200\,000}{1.20}$

= 3 500 000 units

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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.** Yes 4 000 000 pencils were produce and sold and only 3 500 000 were needed to break-even.

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

Direct material costs will decrease due to the decrease in carriage on purchases.

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?

- Ensure that the local raw materials are up to standard before purchasing them.
- Have strict quality control procedures in place.
- **ANY LOGICAL ANSWER**

ACTIVITY F10 – LEDGER ACCOUNTS AND UNIT COSTS

10.1.1	**In which section of the General Ledger will this account be found?** Balance Sheet Section

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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

- Water and electricity
- Factory rent
- Factory insurance
- Indirect labour
- Indirect materials
- **Any logical overhead expense for a manufacturer**

b) R210 600

- Wood
- Glue
- Nails
- Varnish
- **Any logical raw material cost**

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	Carpenters – they physically make the tables.
Indirect Labour	Supervisor – they ensure that the work is being done but do not physically make the tables.

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

$$\frac{713\ 500}{1\ 200 - 870}$$

= 1 347 units

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.

Yes

3 950 beds were produced and only 1 347 beds were needed to break even and start making a profit.

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ACTIVITY F11 – BREAK-EVEN POINT ANALYSIS

11.1.1 **Calculate the break-even point for the period ended 31 August 2020.**

$$\frac{76\ 800 + 60\ 000}{860 - (180 + 255 + 155)}$$

= **507 units**

11.1.2 **Compare and comment on the break-even point and the level of production achieved over the last two years. Quote figures.**

The business was not able to break even during the current year (BEP: 507 units / produced 480 units). Ended up making a loss / a lower turnover than last year. The business produced less units this year compared to last year (540 in 2015 / 480 in 2016) The business was able to break-even last year by 32 (540 – 508) units.

11.1.3 **Provide TWO reasons for the increase in direct material cost and suggest ONE way in which Kunal can control this cost.**

TWO REASONS:
- Increased cost due to inflation / transport costs / scarcity.
- Wastage due to poor workmanship.
- Theft of material due to poor internal controls.

ONE SUGGESTION:
- Look for cheaper suppliers without compromising quality.
- Negotiate transport and delivery discounts.
- Take advantage of bulk discounts.
- Train and supervise workers to minimise wastage.
- Control stock regularly to identify shortages.

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ACTIVITY F12 – BREAK EVEN POINT ANALYSIS AND PROBLEM SOLVING

12.2 GRACIAS LTD.

12.2.1

A	18
B	2 400 000
C	1 500 000
D	30

12.2.2

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

$$\frac{1\ 100\ 000 + 400\ 000}{120 - (48 + 7)\ 55}$$

$$= \frac{1\ 500\ 000}{65}$$

= 23 076,92

= 23 077 units

12.2.3

Comment on the break-even point.

The break-even point for 2020 was 25 560 with a production of

36 000. For 2021 the break-even point is 23 077 units with a production of 50 000. Although the break-even point increased they will still make a profit.

12.2.4

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

Identification of expense with explanatory figures	**Possible cause for escalation**	**Possible solution to the problem.**
Increase in direct labour cost from	Increase in salaries. Worked overtime to produce the additional 14 000 units.	Limit the working hours to normal time. Training of workers to work more efficiently.

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R 22 per unit to R30 per unit. This is an escalation of 36%.		
Increase in selling and distribution cost from R4 per unit to R7 per unit, a 75% increase.	Increase in petrol price. Increase in collection and distribution of additional 14 000 units.	Limit the deliveries by doing proper logistical planning. Regular services so that vehicles' maintenance cost are as low as possible.

ACTIVITY F13

13.3.1 **Calculate the missing figures indicated by A and B.**

A	R23
B	R108 000

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

Calculation:

$$\frac{108\ 000}{55 - 23}$$
3 375

Comment:

- Although the break-even point is higher than the previous year it is still lower than production.
- The business is making a higher profit than the previous year.
- The total production for 2014 was 7 000 units and the break-even point 3 250 and for 2015 it was 9 000 units and the break-even point 3 375.
- The business is doing very well.

- The business is making a higher profit than the previous year.
- The total production for 2014 was 7 000 units and the break-even point 3 250 and for 2015 it was 9 000 units and the break-even point 3 375.

- The total production for 2015 is 9 000 units and the break-even point 3 375
- The business is making a profit

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ACTIVITY F14

14.1	**Calculate the following:**
	14.1.1 SELLING PRICE PER UNIT: R3 564 000 ÷ 396 000 = R9
	14.1.2 COST OF SALES: $R3\ 564\ 000 \times \frac{100}{200} = R1\ 782\ 000$ **Also accept:** **Finished goods: 542 000 + 1 872 000 – 759 000 = 1 655 000**

	14.1.3 VARIABLE COSTS PER UNIT R2 059 200 ÷ 374 400 = R5,50
	14.1.4 BREAK-EVEN POINT $\frac{R682\ 500}{(R9\ (See\ 2.3.1) - R5{,}50 (See\ 2.3.3))} = \frac{R682\ 500}{R3{,}50}$ = 195 000 Units

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'.**
The number of units that must be sold in order to cover the Fixed Costs. Thereafter, the manufacturer will make a profit.	

14.2.2	**Explain the effect the above decision will have on the fixed costs per unit and the break-even point.**

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FIXED COST:

As more units are produced the Fixed Costs per unit will decline.

BREAK-EVEN POINT:

If Variable Cost increases/decreases – BEP will also increase or decrease.

In this case Break-even point should stay unchanged.

ACTIVITY F15

15.1 GENERAL LEDGER OF THE CLOTHING FACTORY SHOP

Balance Sheet Section

Dr Raw materials stock (B5) Cr

2019 Mar	**1**	**Balance**	**b/d**	**164 800**	2020 Feb	29	Raw materials issued bal. figure		1 137 100
2020 Feb	29	Creditors control [950 800 + (300 000 x 75%)]		1 175 800			Balance	c/o	251 000
		Bank (carriage)		47 500					
				1 388 100					**1 388 100**
2020 Mar	1	Balance	b/d	251 000					

Work-in-progress (B6)

2019 Mar	1	Balance	b/d	223 700	2020 Feb	29	Finished goods stock		2 525 256
2020 Feb	29	Direct Material cost		1 137 100			Balance	c/o	445 450
		Direct labour cost (844 600+ 228 400 + 97 856)		1 170 856					
		Factory overheads		439 050					
				2 970 706					**2 970 706**
2020 Mar	1	Balance	b/d	445 450					

Finished goods stock (B7)

2019 Mar	1	Balance	b/d	569 500	2020 Feb	29	Cost of sales (4 071 208 x100/160)		2 544 505

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2020 Feb	29	Work-in-progress		2 525 256			Balance	c/d	550 251
				2 970 706					**2 970 706**
2020 Mar	1	Balance	b/d	445 450					

Factory overheads (C3)

2020 Feb	29	Indirect material (9 800+ 39 800 - 7 300) x 2/3		28 200	2020 Feb	29	Work in progress		439 050
		Rent expenses [(130 000 x12/13) x 600/1000]		72 000					
		Indirect labour (6 x 50 x 192) +(3x40x75)		66 600					
		Salary: Factory foreman		216 000					
		Depreciation		56 250					
				439 050					**439 050**

15.2.1	**Break-even point**	
	$\frac{612\ 000}{(270\ -\ 170)}$	**6 120**

15.2.2	**Patrick is satisfied with the break-even point. Explain. Quote figures.** They produced and sold 12 000 units and needed 6 120 to break-even. They are able to make profit.

VALUE ADDED TAX

ACTIVITY G1

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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.	False
1.1.2	Certain basic foods and essential items are zero-rated to assist the poor.	True
1.1.3	Maize meal is one of the example for VAT Exempted item.	False
1.1.4	Most businesses mark their stock with the selling price including VAT.	True
1.1.5	The standard rate for VAT in RSA is at 19%	False
1.1.6	VAT is payable to SARS.	True

(6)

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

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2.1.1	Value Added Tax
2.1.2	15%
2.1.3	0% or Zero
2.1.4	(A) – PAYE
	(B) – Salaries or Wages
	(C) – All Individuals or Businesses
	(D) – Indirect

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 what consequences he could be faced with if he is reported to SARS.
COMMENT: one valid explanation This practice is unethical since his business is not a registered vat vendor. **COMMENTS FOR one MARKS** unethical / illegal
CONSEQUENCES: ONE VALID EXPLANATION shady and his business may face charges for fraud by SARS. **CONSEQUENCES FOR one MARKS** arrested/ charged/ jailed

ACTIVITY G3: VAT Calculations

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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 = 800**	25%	**B = 1 000**	R150	**C = 1 150**
2	R400	**D = 60%**	R640	**E = 96**	**F = 736**
3	R900	**G = 33.3%**	R1200	**H = 180**	**I = 1 380**
4	**J = 2 000**	20%	**K = 2 400**	**L = 360**	R2760
5	**M = 560**	25%	**N = 700**	R105	**O = 805**
6	R1000	**P = 40%**	**Q = 1 400**	**R = 210**	R1610

ACTIVITY G4

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4.1 Differentiate between zero rated supplies and exempts supplies.

Zero rated-goods the government doesn't charge tax its sale but allows credits for the Vat paid on inputs.

Exempt-the government doesn't tax the sale of the good, but producers cannot claim a credit for the Vat they pay on inputs to produce it.

4.2. Distinguish between the tax evasion and tax avoidance

Tax evasion- Is taking illegal steps to avoid paying tax.eg not declaring income to the taxman.

Tax avoidance- Is defined as legal measures to use the tax regime to find ways to paying the lowest rate of tax.

4.2 Give TWO types of Zero rated supplies.

- Brown bread
- Maize products

4.3 Provide the missing figures indicated by A to E.

Amount exclusive	VAT amount	Amount inclusive
700	105	**A = 805**
B = 2 500	**C = 375**	2875
D = 5 200	780	**E = 5 980**

4.4 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)

Input Vat = 120 000 x 15/100

= 18 000

Output Vat = 161 000 x 15/115

= 21 000

21 000 – 18 000 **= R 3 000 (payables)**

ACTIVITY G5

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General Ledger of Nene Supermarket for July 2020

OUTPUT VAT ACCOUNT

2020 July	25	Returns	DAJ	720	2020 July	25	BANK	*CRJ*	6 390
		Discount all	CRJ	75					
		Bad debt	GJ	60					
		VAT control	GJ	5 535					

INPUT VAT ACCOUNT

2020 July	25	BANK	CPJ	3 750	2020 July	25	Drawings	*GJ*	63
							Returns	CAJ	150
							VAT control	GJ	3 537
				3 750					3 750

VAT CONTROL ACCOUNT

2020 July	25	VAT input	GJ	3 527	2020 July	25	VAT output	GJ	5 535
		Balance	c/d	2 008					
				5 535					5 535
							Balance	b/d	2 008

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ACTIVITY G6 – ANSWER SHEET

6.1 VAT CONCEPT

6.1.1	Output
6.1.2	South African revenue services (SARS)
6.1.3	0%

6.2 VAT CALCULATIONS

Calculate the amount receivable from or payable to SARS for VAT on 31 March 2019. 43 820 + 1 335 + 2 820 + 112 + 756 + 756 – 184 - 6 818 = 41 841 OR -43 820 – 1 335 – 2 820 – 112 – 756 + 184 + 6 818 = - 41 841
Receivable/Payable: PAYABLE

ACTIVITY D7

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

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

OR

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

OR

Balance at beginning = 21 375

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

Input 44 550 – 4 725 = <u>(39 825)</u>

<u>49 620</u>

OR

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

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

Receivable/Payable: Payable