



KWAZULU-NATAL PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA



CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS) SUPPORT DOCUMENT

GRADE 12

ACCOUNTING

**MANUFACTURING, FORECASTING AND INTERNAL AUDITING &
CONTROL**

PAPER 2

SUPPORT DOCUMENT

2021

PREFACE

This support document is designed to assist Accounting teachers and learners on how to deal with assessment in the subject by taking into account the curriculum gaps as well as learning losses as a result of the impact of COVID-19 in 2020. It captures the types of questions which appeared in the recent NSC Examination Papers. Please use other documents for explanatory notes on topics covered in this one.

It will cover the following:

	TABLE OF CONTENTS	
A.	Value Added Tax (VAT)	3
B.	Reconciliations	9
C.	Budgeting	34
D.	Inventory Valuation	71
E.	Cost Accounting	79
F.	Tangible Assets	97

A. VALUE ADDED TAX

ACTIVITY A1

1.1 VAT

- 1.1.1 What does VAT stand for?
- 1.1.2 What is the current VAT rate in South Africa?
- 1.1.3. What is the VAT charged on the price of brown bread?
- 1.1.4 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

- 1.1.5 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 practise and state what consequences he could be faced with if he is reported to SARS.

ACTIVITY A1

1.1.

1.1.1	
1.1.2	
1.1.3	
1.1.4	(A)
	(B)
	(C)
	(D)

1.1.5. 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:

Consequences:

ACTIVITY A2

2.1 Choose the correct word from those within brackets. Write only the word next to the question number in your ANSWER BOOK.

- (i) VAT is a / an (direct / indirect) tax.
- (ii) VAT on purchase of R35 400 will (increase / decrease) the amount payable to SARS.
- (iii) VAT refundable by SARS is a / an (asset / liability) to the business.

2.2 The bookkeeper of Cooper Ltd. calculated the amount payable to SARS to be R112 539. The internal auditor found discrepancies in the calculation.

REQUIRED:

Calculate the correct amount payable to SARS. VAT is charged at 15%.

INFORMATION:

- (i) VAT on shop equipment purchased was not taken into account. The equipment amount of R15 525 was inclusive of VAT.
- (ii) VAT of R22 500 on a vehicle purchased by the company was recorded as output VAT.
- (iii) VAT of R7 500 was incorrectly added to a sale of R50 000. The sale of R50 000 was subject to a trade discount of 8%.

ACTIVITY A2

2.1		
(i)		
(ii)		
(iii)		
2.2	Details	Amount
	Incorrect amount payable	112 539
(i)		
(ii)		
(iii)		
	Correct amount payable	

ACTIVITY A3**3.1 VALUE ADDED TAX**

Indicate whether the following statements are TRUE or FALSE. Write only “true” or “false” next to the question number (3.1.1-3.1.5) in the ANSWER BOOK.

- 3.1.1 VAT returns to SARS must be submitted every two months.
- 3.1.2 Petrol is an example of a zero-rated VAT item.
- 3.1.3 The VAT collected by a business from sales, is called *output VAT*.
- 3.1.4 The illegal non-payment or deliberate underpayment of tax is called tax avoidance.
- 3.1.5 VAT may not be claimed on refreshments for office use.

3.2 HP STORES

You are provided with information relating to HP Stores for the VAT period ended 28 February 2021. The standard VAT rate of 15% is applicable.

REQUIRED:

- 3.2.1 After taking into account the errors and omissions, calculate the VAT amount that is either payable to or receivable from SARS. Indicate whether this amount is receivable or payable.
- 3.2.2 The internal auditor discovered that the owner used the VAT collected from customers to pay expenses of the business. Therefore, he was unable to pay the VAT owed to SARS on the due date.

State ONE point of concern that you would offer the owner concerning this practice.

INFORMATION:

- A. Amount due to SARS on 1 February 2021, R2 850.
- B. Amount from the journals on 28 February 2021:

	Including VAT	VAT Amount	Excluding VAT
Sales	R27 830	?	
Credit purchases of stock		?	12 000
Stock returned by debtors		R308	
Bad debts written off	R4 554	?	R3 960

- C. The following errors and omissions were noted:
- VAT on discounts granted to debtors was not recorded. The VAT on discount allowed amounted to R74.
 - Stock taken by the owner at cost value, R3 200 (excluding VAT), was not yet recorded in the books.
 - VAT on sales was recorded incorrectly. Certain goods with a selling price of R5 000 (excluding VAT) should have been recorded as zero-rated items.

ACTIVITY A3

3.1 VALUE ADDED TAX

3.1.1	
3.1.2	
3.1.3	
3.1.4	
3.1.5	

3.2.1 After taking into account the errors and omissions, calculate the VAT amount that is either payable to or receivable from SARS. Indicate whether this amount is receivable or payable.

VAT	

3.2.2 The internal auditor discovered that the owner used the VAT collected from customers to pay expenses of the business. Therefore, he was unable to pay the VAT owed to SARS on the due date.

State ONE point of concern that you would offer the owner concerning this practice.

ACTIVITY A4

4. VALUE-ADDED TAX (VAT)

Hilda Groceries is registered for VAT. The standard VAT rate is 15% and is applied on most products.

REQUIRED:

4.1.1 Implementation of VAT:

4.1.2 Explain why the government implemented VAT in South Africa.

State ONE point.

Explain why some products are zero-rated products. State ONE point

4.1.3 Calculate the amount payable to SARS in respect of VAT for the two months ended 30 April 2021.

INFORMATION:

A. Balance due to SARS on 1 April 2021, R9 450

B. Transactions for April 2021:

	AMOUNT EXCLUDING VAT	VAT AMOUNT	AMOUNT INCLUDING VAT
	R	R	R
Total sales	412 000	?	473 800
Purchases of trading stock	230 000	?	
Discount allowed to debtors		1 890	
Goods returned by customers		?	19 320
Bad debts recovered		1 140	
Drawings of trading stock by the owner		1 380	

ACTIVITY A4

4.1 VALUE-ADDED TAX (VAT)

4.1.1 Explain why the government implemented VAT in South Africa. State ONE point.
4.1.2 Explain why some products are zero-rated products. State ONE point.
4.1.3 Calculate

ACTIVITY A5

5.1 VAT

Samson Traders is registered for VAT. The VAT rate is 15%.

REQUIRED:

5.1.1 Calculate the figures indicated by **(a)** to **(d)** in the table below.

5.1.2 You are the internal auditor. The sole owner, Samson, used a business EFT to buy a new car for R460 000 including VAT. This car is kept at home for his wife's use. Samson says the vehicle must be recorded as a business asset and R60 000 must be recorded as a VAT input in the business' books.

Explain what you would say to Samson. Provide TWO points.

INFORMATION:

	EXCLUDING VAT	VAT AMOUNT	INCLUDING VAT
Sales returns	960	(a)	1 104
Purchase of stock	52 600	(b)	
Discount received	(c)	720	
Cash sales		(d)	112 470*

* This includes zero-rated goods that should have been sold for R5 500. The bookkeeper has incorrectly included VAT of R825 on these goods. This must be corrected.

ACTIVITY A5

5.1 VAT

5.1.1

	WORKINGS	ANSWER
(a)		
(b)		
(c)		
(d)		

5.1.2

You are the internal auditor. The sole owner, Samson, used a business EFT to buy a new car for R460 000 including VAT. This car is kept at home for his wife's use. Samson says the vehicle must be recorded as a business asset and R60 000 must be recorded as a VAT input in the business' books.

Explain what you would say to Samson. Provide TWO points.

Point 1

Point 2

B. RECONCILIATIONS**ACTIVITY B1****1.1 DEBTORS AGE-ANALYSIS**

The owner of Jumbo Traders, Sumi, approached you for assistance in connection with managing the debtors.

REQUIRED:

- 1.1.1 Explain how the Debtors' Age Analysis can assist with the control over debtors. Provide ONE point.
- 1.1.2 Calculate the average debtors' collection period (in days) for the financial year ended 31 August 2021.
- Comment on whether the business should be satisfied with this.
- 1.1.3 **Refer to Information C:**

Identify TWO different problems revealed by the Debtors' Age Analysis. Quote evidence and/or figures. In each case, provide advice to improve the internal control relating to the problem identified.

INFORMATION:

- A. The balance of the debtors' control was R19 800 on 1 September 2021.
- B. Total sales for the year amounted to R750 000.
- 40% of sales are for cash and the rest on credit.

C. DEBTORS' AGE ANALYSIS ON 31 AUGUST 2021

Credit Policy: Debtors are granted 30 days in which to settle their debts.						
NAME	CREDIT LIMIT	TOTAL	CURRENT MONTH	30 DAYS	60 DAYS	60 DAYS+
B. Botha	R 8 000	R 6 000	R 6 000			
C. Coma	30 000	32 000	11 574	R 3 000	R 3 710	R13 716
P. Pule	20 000	18 600	-	8 000	10 600	
R. Rome	18 600	19 600	3 000	4 240	12 360	
		76 200	20 574	15 240	26 670	13 716
			27%	20%	35%	18%

ACTIVITY B1

1.1 DEBTORS AGE-ANALYSIS

1.1.1 Explain how the Debtors' Age Analysis can assist with the control over debtors. Provide ONE point.

1.1.2 Calculate the average debtors' collection period (in days) for the financial year ended 31 August 2019.

Workings

Answer

Comment whether the business should be satisfied with this.

1.1.3 Identify TWO different problems revealed by the Debtors' Age Analysis. Quote evidence and/or figures. In each case, provide advice to improve the internal control relating to the problem identified.

	Problem Evidence/figures	Advice on internal control
Problem 1		
Problem 2		

ACTIVITY B2**DEBTORS RECONCILIATION AND AGE ANALYSIS**

Gumede Traders, owned By Sizwe Mngomezulu, sells building material for cash and on credit. Their credit terms are 30 days, but they are budgeting that 80% of their debtors will adhere to the credit terms.

REQUIRED:

- 2.1 Briefly explain why the balance of the debtors control account should correspond with the total of the list of debtors.
- 2.2 Calculate the correct closing balance of the debtors control account as at 30 June 2021.
- 2.3 Prepare a correct list of debtors of Gumede Traders on 30 June 2021. Show all calculations.
- 2.4 Study information A and C below then answer the following questions:
 - Does Gumede Traders have effective control over their debtors? Explain by quoting figures to motivate your answer.

State TWO actions that Gumede Traders could take in order to encourage debtors to settle their accounts according to the credit terms.

INFORMATION:

- A. Debtors age analysis schedule for June 2021:

TOTAL	CURRENT	30 DAYS	60 DAYS	90 DAYS
R187 500	R33 700	R26 300	R72 600	R54 900

- B. Balance according to the debtor's ledger on 30 June 2021.

Debtors	Amount due	Credit limits
S.M Qwabe	46 500	30 000
T,G Myeni	31 800	35 000
T.M Ngubo	27 000	30 000
J.P Ngcobo	63 200	40 000
P.S Zwane	8 600	10 000
	177 100	

- C. The following errors and omissions were discovered and must be corrected:

- (i) The debtors Journal was overcast by R4 100.
- (ii) Goods sold on credit to P.S Zwane were incorrectly posted to the account of T.G Myeni, R7 600.
- (iii) An allowance on damaged goods delivered to S.M Qwabe, R1 400, was posted to the wrong side of his account.
- (iv) An invoice issued to T.M Ngubo for, R2 300 was not entered in the books of Gumede Traders.
- (v) An EFT payment for R8 700, received from P.S Zwane in settlement of an invoice for R9 000, was returned by the bank due to insufficient fund. No entry was made of this.
- (vi) Goods sold on credit to J.P Ngcobo for R4 700, was correctly entered in the debtors Journal, but was posted to her account in the debtors' ledger as R7 400.

ACTIVITY B2

2.1 Briefly explain why the balance of the debtors control account should correspond with the total of the list of debtors.

2.2 Calculate the correct closing balance of the debtors control account as at 30 June 2021.

175 700

2.3 List of debtors of Gumede Traders on 30 June 2021.

S. M Qwabe	(46 500)	
T.G Myeni	(31 800)	
T.M Ngubo	(27 000)	
J.P Ngcobo	(63 200)	
P.S Zwane	(8 600)	

2.4 Does Gumede Traders have effective control over their debtors? Explain by quoting figures to motivate your answer.

State TWO actions that Gumede could take in order to encourage debtors to settle their accounts according to the terms.

ACTIVITY B3

DEBTORS RECONCILIATION AND INTERNAL CONTROL

3.1 DUNDEE TRADERS

Dundee traders sells lamp shades for cash and on credit. Their credit terms are 30 days, but they are budgeting that 80% of their debtors will adhere to the credit terms.

REQUIRED:

- 3.1.1 Briefly explain why the balance of the debtors control account should correspond with the total of the list of debtors
- 3.1.2 Calculate the correct closing balance of the debtors control account as at 30 September 2021
- 3.1.3 Prepare a correct list of debtors of Dundee traders on 30 September 2021 (Show all calculations)
- 3.1.4 Study information 1 and 2 below the answer the following question
- 3.1.4.1 Does Dundee traders have effective control over their debtors? Explain by quoting figures to motivate your answer
- 3.1.4.2 State TWO actions a company could take in order to encourage Debtors to settle their account according to the terms

INFORMATION

1. Debtors age analysis schedule for August 2021

Total	Current	30 Days	60 Days	90 Days
R 93 750	R16 850	R13 150	R 36 300	R 27 450

- 2 Balances according to the debtors ledger 30 September 2021

Debtors	Amount Due	Credit Limits
Z. Vilakazi	R 23 250	R 15 000
W. Xaba	R 15 900	R 17 500
H. Mtungwa	R 13 500	R 15 000
G. Smith	R 31 600	R 20 000
R. Sithole	R 4 300	R 5 000
TOTAL	R 88 550	

3. Balance of debtors control account on 30 September 2021 R83 750
4. The following errors and omissions were discovered and must be corrected
- (a) Goods sold on credit to G.Smith for R2 350, was correctly entered in the debtors journal, but was posted to the account of G.Smith in the debtors ledger as R3 700.
- (b) A EFT payment for R4 350 received from R. Sithole in settlement of an invoice for R 4 500 , was returned by the bank due to insufficient funds . No entry was made of this.
- (c) The debtors Journal was under totalled by R 2 050
- (d) An invoice issued to W.Xaba for R 1 150 was not entered in the books of Gumede traders
- (e) Goods sold on credit to Z.Vilakazi were incorrectly posted to the account of R.Sithole R3 800.
- (f) An allowance on damage goods delivered to H.Mtungwa R700 was posted to the wrong side of his account

ACTIVITY B3**DEBTORS RECONCILIATION AND INTERNAL CONTROL**

3.1.1	Briefly explain why the balance of the debtors control account should correspond with the total of the list of debtors
3.1.2	Calculate the correct closing balance of the debtors control account as at 30 September 2021
	R83 750

3.1.3 List of debtors of Dundee Traders on 30 September 2021. (Show all Calculations.

Z. Vilakazi (R 23 250	
W. Xaba (R 15 900	
H. Mtungwa (R 13 500	
G. Smith (R 31 600	
R. Sithole (R 4 300	

ACTIVITY B4**DEBTORS AGE ANALYSIS**

Nquthu Traders sell goods for cash and on credit.

REQUIRED:

- 4.1.1 Why is the preparation of a debtors' collection schedule and debtors' age analysis important internal control measures?
- 4.1.2 Calculate the percentage of debtors' accounts that comply with the credit terms.
- 4.1.3 Explain TWO measures to prevent losses due to bad debts in the future.

INFORMATION:

Debtors' age analysis on 28 February 2021:

TOTAL	CURRENT	30–60 DAYS	61–90 DAYS	MORE THAN 90 DAYS
R	R	R	R	R
600 400	72 048	48 032	312 208	168 112

The credit period is 60 days.

ACTIVITY B4

DEBTOR'S COLLECTION SCHEDULE AND AGE ANALYSIS:

4.1.1 Why is the preparation of a debtor's collection schedule and debtor's age analysis important internal control measures? Debtor's collection schedule:

Debtor's age analysis:

4.1.2 Calculate the percentage of debtors' accounts that comply with the credit terms.

4.1.3 Explain TWO measures to prevent losses due to bad debts in the future.

ACTIVITY B5

Greytown Traders sell goods for cash and on credit.

REQUIRED:

5.1 Greytown Traders have the telephone numbers of all their debtors. What other information should they obtain before allowing customers to open accounts? State TWO points with a reason in EACH case.

5.2 Refer to Information A, B and C.

5.2.1 Calculate The correct closing balance of the Debtors' Control Account on 31 October 2021.

5.2.2 The correct amounts owing by debtors:

5.2.2.1 J Botha (D2)

5.2.2.2 W Bhengu (D3)

5.2.2.3 C P Koek (D5)

5.2.3 Refer to Information D.

5.2.3.1 Calculate the percentage of debtors complying with the credit terms.

5.2.3.2 Explain TWO measures to improve collection from debtors.

INFORMATION:

A. Balance of the Debtors' Control Account on 31 October 2021, R179 500(before adjustments).

B. Debtors' list on 31 October 2016:

DEBTORS	FOLIO	AMOUNT
M Shezi	D1	60 200
J Botha	D2	37 500
W Bhengu	D3	19 500
D Xaba	D4	42 000
C Koek	D5	3 900
		163 100

C. The following errors and omissions must be taken into account:

(a) An invoice for R2 500 issued to W Bhengu was not recorded in the books of Greytown Traders.

(b) The total of the Debtors' Allowances Journal was posted to the Debtors' Control Account as R20 100 instead of R2 100

- (c) An invoice for R4 300 issued to C Koek was posted incorrectly to the account of J Botha.
- (d) Stock for R5 100 sold to C Koek was treated as a return of goods when posting it to the Debtors' Ledger Account of C Koek.
- (e) An EFT payment for R8 350, originally received from J Botha in settlement of debt of R8 500, was returned by the bank, No entries were made in the Debtors' Ledger.
- (f) An invoice for R3 600 issued to W Bhengu was recorded correctly in the Debtors' Journal, but posted as R6 300 to his account in the Debtors' Ledger.
- (g) The total for discount allowed in the CRJ was overstated by R500.

D. Debtors' age analysis on 30 September 2021:

TOTAL	CURRENT	30 – 60 DAYS	61 – 90 DAYS	MORE THAN 90 DAYS
201 200	35 300	23 300	76 700	65 900

The credit period is 60 days.

5.1	
5.2.1	
5.2.2	
5.2.3	

ACTIVITY B6**DEBTORS RECONCILIATION**

Information from the records of Majola Traders for September 2021 is presented. Some errors and omissions were noted. See information B

REQUIRED:

- 6.1.1 Calculate the correct debtors Control balance on 30 September 2021. Show figures and indicate + “ – or no change at EACH adjustment.
- 6.1.2 Calculate the correct total of the debtors list on 30 September 2021

INFORMATION:

A Balances on 30 September 2021 before errors and omissions:

- (i) Debtors Control , R 40 200
- (ii) Debtors list total from debtors ledger R 39 800

Debtors List on 30 September 2021		
	DEBIT	CREDIT
D.Costa	R 7 600	
E.Enderson	R 14 800	
E. Hazard		R 3 800
B.Zwane	R 21 200	
	R 43 600	R 3 800

B Errors and omissions:

- (i) No entry was made for an invoice issued to E.Hazard R 2 800.
- (ii) The total of the debtors journal was overcast by R 3 600.
- (iii) Trading stock returned by B.Zwane was posted to the wrong side of his Debtors Ledger Account, R1 600.
- (iii) Interest of R400 must be charged on the overdue account of E. Enderson.
- (iv) An amount of R 6 400 received from D.Costa was incorrectly recorded as R4 600 in the cash receipts journal and was posted as such to the General ledger and the Debtors Ledger.

6.1.1 DEBTORS RECONCILIATION

CORRECTIONS TO THE DEBTORS CONTROL ACCOUNT

Current Debtors Control Account Balance	R 40 200
A	
B.	
C.	
D.	
E.	
Correct Debtors Control Account Balance	



6.1.2 Debtors List on 30 September 2021

D.Costa (R 7 600	
E.Enderson (R 14 800	
E.Hazard (R – 3 800	
B.Zwane R 21 200	
Correct total of debtors list	

ACTIVITY B5

5.1 THE DEBTORS CONTROL ACCOUNT AND DEBTORS LIST

The bookkeeper of Mdolomba Mange made some mistakes and omitted certain transactions in preparing the Debtors Control Account and the Debtors List on 28 February 2021. You are the internal auditor .

REQUIRED:

- 5.1.1 List the corrections that the bookkeeper must make to the Debtors Control Account in the General Ledger and Debtors List .If no entry is applicable ,Write NO ENTRY

INFORMATION

Pre –Adjustment figures on 28 February 2021

Debtors Control Account balance		R 320 600
Debtors List total From the Debtors Ledger		R 340 800
Thando	R 59 200	
Sizwe	R 193 000	
Nathi	R 88 600	

ERRORS AND OMISSIONS

- A. The total of the debtors allowances journal was undercast by R26 000.
- B. The total of debtors journal was inaccurately added as R 104 500 instead of R124 700.
- C. An EFT payment of R86 000 from Nathi was correctly recorded in the cash receipts journal but the bookkeeper neglected to post this payment to the debtors account.
- D. An EFT payment for R 4 200 From Thando in settlement of their debt of R 4 600 was correctly recorded in the cash receipts journal but inadvertently posted to Sizwe”s Account .Rectify the error .
- E. A debit balance of R940 from Nathi “s account in the creditors ledger must be transferred to their account in the debtors ledger.
- F. Credit sales of trading stock to the value of R77 200 from Sizwe were wrongly entered as R 167 200 in the debtors journal and posted as such.
- G. Thando’s account was mistakenly credited with credit sales of trading stock to the value of R 30 000.

ACTIVITY B6

List the corrections that the bookkeeper must make to the Debtors Control Account in the general ledger and debtors list

	Debtors Control	Debtors List
Pre -Adjustment Balance / totals		
A.		
B.		
C.		
D.		
E.		
F.		
G.		

ACTIVITY B. 7**7.1 CREDITORS RECONCILIATION**

Information below relates to Busby Stores for September 2018.

REQUIRED:

- 7.1.1 Provide TWO reasons why it is important for the business to prepare the Creditors' Reconciliation Statement each month.
- 7.1.2 Calculate the correct Creditors' Control Account balance after taking into account the relevant errors and omissions.
- 7.1.3 Calculate the correct balances for creditors Zebo Suppliers and Leo Wholesalers, by taking into account the errors and omissions.

INFORMATION

- A** Balance and totals on 30 September 2018 (before errors and omissions).

Creditors control account in the General Ledger	R32 640
Creditor's list: (before errors and omissions)	
Zebo Suppliers	R16 500
Leo Wholesalers	R29 520

B ERRORS AND OMISSIONS

- (a) The Creditors control was under-cast by R5 020.
- (b) A credit invoice for trading stock purchased from Zebo Suppliers for R12 800 on 28 September 2018 was not recorded at all.
- (c) A payment of R3 150 to Leo Wholesalers was posted as an invoice in the Creditors' ledger. The CPJ was correct.
- (d) A debit note of R1 280 for goods returned to Zebo Suppliers was recorded in the Creditors' Journal in error and posted to the General Ledger accordingly. Posting to the Creditors' ledger was correctly done from the document.
- (e) VAT of R1 720 was omitted from an invoice from Zebo Suppliers.
- (f) Equipment purchased on credit from Blackwood Manufacturers, R4 900, was incorrectly posted to the account of Leo Wholesalers.
- (g) An invoice for R3 575 from Zebo Suppliers was incorrectly posted as R3 375 to their account in the Creditors' Ledger only.

ACTIVITY B7 ANSWER SHEET

7.1 CREDITORS RECONCILIATION

7.1.1 Provide TWO reasons why it is important for the business to prepare the Creditors' Reconciliation Statement.

7.1.2 Calculate the correct Creditors' Control Account balance after taking into account the relevant errors and omissions.

CREDITORS CONTROL ACCOUNT

32 640

7.1.3 Calculate the correct balances for creditors Zebo Suppliers and Leo Wholesalers, list by taking into account the errors and omissions.

Creditor	Workings	Balance
Zebo Suppliers	16 580	
Leo Wholesalers	29 520	

ACTIVITY B 8**8. CREDITORS' RECONCILIATION AND INTERNAL CONTROL**

A newly appointed bookkeeper of Molimo Traders has been having problems in preparing the monthly Creditors' Reconciliation, since the balance of the Creditor's Account in the Creditors' Ledger does not coincide with the statement of account received from the supplier.

REQUIRED:

8.1 Prepare a Creditors' Reconciliation Statement on 30 June 2019 and calculate the correct balance of Bailey Ltd in the Creditors' Ledger.

8.2 **Refer to Information D.**

Calculate the average creditors' payment period in days.

8.3 Provide TWO internal control measures which can be implemented by a business for good internal control over creditors.

INFORMATION:**A. Creditors' Ledger of Molimo Traders****BAILEY LTD**

Date	Details	Debit	Credit	Balance
June 01	Account rendered			18 510
07	Electronic payment	9 000		9 510
	Discount received	450		9 060
15	Invoice 5671		6 555	15 615
16	Debit Note 121	900		14 715
23	Invoice 5801		7 835	22 550
26	Invoice 6011		5 800	28 350
29	Electronic payment	10 000		18 350
	Discount received	500		17 850

B. Statement received from Bailey Ltd

BAILEY LTD				
STATEMENT OF ACCOUNT			Date: 25 June 2019	
Masukhane Street 498			Tel. 033 345 6901	
Pietermaritzburg 3201			Fax. 033 333 1455	
ACCOUNT OF:		MOLIMO	Account number: 09/7412	
TRADERS				
Date	Details	Credit		Balance
Jun 01	Account rendered			18 510
07	Receipt		9 000	9 510
	Discount		900	8 610
15	Invoice 5671		6 900	1 710
16	Debit Note 121		900	810
20	Invoice 5780	3 320		4 130
23	Invoice 5801	5 985		10 115

C. Additional information:

- (a) The discount reflected on 7 June on the statement of account is correct.
- (b) Trade discount of 5% was deducted on Invoice 5671. Bailey Ltd did not take this discount into account. They also made an error in recording Invoice 5671.
- (b) After an investigation, it was established that the invoice on 20 June is in respect of a purchase made by another business.
- (c) Invoice 5801 reflected on 23 June on the statement of account, is incorrect.
- (d) There are some entries in the Creditors' Ledger which do not appear on the monthly statement of account as these transactions took place after the statement date.

ACTIVITY B 9 (CREDIORS RECONCILIAION)**9.1. CREDITORS' RECONCILIATION**

Generation Suppliers received a statement of account from a creditor, Future Traders. The balance on the statement did not agree with that on the account of Future Traders in the Creditors Ledger of Generation Suppliers.

REQUIRED:

- 9.1.1** Although Future Traders offers credit terms of 60 days, Generations Suppliers prefers to settle their account within 30 days during certain months. Provide TWO points to indicate that it is not a good decision.
- 9.1.2** Complete the table in the ANSWER BOOK to show how the differences must be treated to reconcile the Creditors Ledger Account balance with the statement balance.

Write the amounts in the appropriate columns and indicate the increase or decrease with a (+) or (-) with each amount.

Total the columns to show the correct balance at the end of February 2020.

INFORMATION:

Balance of Future Traders in the Creditors Ledger of Generations Suppliers	R21 130
Balance on the statement received from Future Traders	R32 600

The following differences were identified:

- A.** An invoice for R13 300 received from Future Traders was correctly recorded in the Creditors Ledger Account. The amount was incorrectly recorded as R11 200 on the statement.
- B.** Generation Suppliers entered a 10% discount relating to a payment of R3 000 on 19 February 2020. Future Traders did not approve this discount stating that the payment was received late.
- C.** Goods returned, R500, appeared on the statement received. The bookkeeper of Generation Suppliers forgot to record this transaction.
- D.** Purchases of R3 035 from Future Traders were recorded as a debit note in the Creditors Ledger account.
- E.** A direct transfer of R7 000 by Generation Suppliers was recorded in the Cash Payment Journal on 27 February 2020. A discount of R700 for early payment was also recorded. The statement of account from Future Traders was dated 25 February 2020.

ACTIVITY B 9: ANSWERSHEET (CREDIORS RECONCILIAIONS)

CREDITORS' RECONCILIATION:

9.1.1

Although Future Traders offers credit terms of 60 days, Generations Suppliers prefers to settle their account within 30 days during certain months. Provide TWO points to indicate that it is not a good decision.

9.1.2.

	CREDITORS LEDGER OF GENERATION SUPPLIERS	STATEMENT FROM FUTURE TRADERS
	21 130	32 600
A		
B		
C		
D		
E		

ACTIVITY B 10 (CREDITORS RECONCILIATIONS)**CREDITORS RECONCILIATION AND VAT****10.1 CREDITORS' RECONCILIATION**

Phindi Stores buys goods on credit from Pearly Suppliers.

REQUIRED:

10.1.1 Show the changes that must be made:

- In the Creditors' Ledger Account in the books of Phindi Stores
- In the Creditors' Reconciliation Statement on 29 February 2020

10.1.2 The owner Phindi, suspects that the purchasing manager may be buying goods for himself through the business ordering system.

Suggest TWO internal control measures that he can use to ensure that such practices do not occur.

INFORMATION:**A. Creditors' Ledger of Phindi Stores****Pearly Suppliers**

DATE		DETAILS	FOL.	DEBIT	CREDIT	BALANCE
Feb.	01	Balance	b/d			37 750
	02	Invoice A12	CJ		11 400	49 150
	04	Debit Note 004	CAJ	1 650		47 500
	07	EFT	CPJ	15 000		32 500
		Discount received	CPJ	1 500		31 000
	20	Invoice A27	CJ		9 800	40 800
	23	EFT	CPJ	5 000		35 800
	24	Invoice A42	CJ		7 750	43 550
	28	EFT	CPJ	7 500		36 050
		Discount received	CPJ	750		35 300
	29	Invoice 722	CJ		8 600	43 900

B. Statement of account received from Pearly Suppliers

DATE		DETAILS	DEBIT	CREDIT	BALANCE
Jan.	25	Balance			47 250
	28	Receipt 110		9 500	37 750
Feb.	02	Invoice A12	1 400		39 150
	04	Credit Note 09	1 650		40 800
	07	Receipt 122		15 000	25 800
		Discount allowed		750	25 050
	18	Invoice A27	9 800		34 850
	23	Receipt 138		5 000	29 850
	24	Invoice A42	8 525		38 375
	25	Delivery charges	2 100		40 475

C. An investigation revealed the following errors and omissions:

- Invoice A12 was correct in the creditors ledger of Phindi Stores.
- Goods for R1 650 were returned by Phindi Stores to Pearly Suppliers on 4 February 2020.
- The discount allowed on 7 February 2020 is correct as per the statement of account from Pearly Suppliers.
- Pearly Suppliers omitted to deduct the trade discount on Invoice A42.
- Invoice 722 was for goods that Phindi Stores bought from another supplier, Diamond Suppliers.
- Pearly Suppliers charges a delivery fee to all its customers.
- The statement of account includes transactions up to 25 February 2020.

ACTIVITY B10: ANSWERSHEET (CREDITORS RECONCILIATIONS)

10.1 CREDITORS' RECONCILIATION

10.1.1

	CREDITORS' LEDGER	CREDITORS' RECONCILIATION STATEMENT
Balance	43 900	40 475
(a)		
(b)		
(c)		
(d)		
(e)		
(f)		
(g)		

10.1.2 Suggest TWO internal control measures that he can use to ensure that such practices do not occur.

ACTIVITY B11 CREDITORS RECONCILIATION)**CREDITORS' RECONCILIATION****VENUS TRADERS**

The Creditors' Control Account and creditors' list for July 2018 was prepared by an inexperienced bookkeeper.

REQUIRED:

Use the table provided to indicate corrections and entries that must be made to the Creditors' Control Account and the creditors' list.

Provide figures and a plus (+) or minus (-) sign for each correction.

(10)

INFORMATION:**A.**

	CREDITORS' CONTROL ACCOUNT	CREDITORS' LIST
Balance / Total	R40 130	R39 490

B. Transactions:

- (i) An invoice for R792 received from Universal Suppliers, was recorded incorrectly as R972 and posted accordingly.
- (ii) An EFT transfer of R8 400 to a creditor Mars Inc. was recorded correctly in the relevant journal. It was posted incorrectly as R8 800 to the Creditors' Ledger Account of Mars Inc.
- (iii) A credit note for R120 received from Saturn Ltd. was recorded in the Creditors' Journal. The transaction was recorded correctly in the ledger account of Saturn Ltd.
- (iv) Transfer a credit balance of R2 100 from the Debtors' Ledger account of J. Jupiter in the books of Venus Traders to their account in the Creditors' Ledger.

ACTIVITY B 11 (CREDITORS RECONCILIATION)

Use the table provided to indicate corrections and entries that must be made to the Creditors' Control Account and the creditors' list.

Provide figures and a plus (+) or minus (-) sign for each correction.

	Creditors' Control Account	Creditors' List
Balance/Total on 30 October 2018	R40 130	R39 490
(i)		
(ii)		
(iii)		
(iv)		
Balance / Total on 31 July 2018		

ACTIVITY B12 (CREDITORS RECONCILIATION)**12.1. CREDITORS' RECONCILIATION**

The information relates to Kirsten Traders for August 2019. Kirsten Traders buys goods on credit from Amla Suppliers.

REQUIRED:

Use the table provided to indicate the changes that must be made:

- In the Creditors' Ledger Account in the books of Kirsten Traders
- In the Creditors' Reconciliation Statement on 31 August 2019

INFORMATION:

The following differences were discovered when comparing the account in the Creditors' Ledger with the statement received from Amla Suppliers:

- A An invoice for R14 800 was recorded incorrectly as R1 480 on the statement received from the creditor.
- B The bookkeeper of Kirsten Traders recorded an invoice for R1 350 as a credit note.
- C The discount of R850 was in error, overstated by R350 in the Creditors' Ledger.
- D A direct transfer of R7 200 by Kirsten Traders did not appear on the statement due to the statement being processed early.
- E Goods for R2 700, returned by Kirsten Traders, was not recorded.

ACTIVITY B 12 : ANSWERSHEET (CREDITORS CONTROL)

C. BUDGETING

ACTIVITY C1: PROJECTED INCOME STATEMENT

You are provided with information relating to SAM'S Auto Repairs for the period 1 March 2021 to 30 April 2021. The business is owned by Samson Gumede.

- All transactions are strictly cash.
- The financial year ends on 30 April each year.
- The business repairs vehicles for which they charge service fees.
- If the repairs require new spare parts, these are charged to each customer's account separately.
- Consumable stores are used for repairing the vehicles. There is no charge for these items.

REQUIRED:

1.1 Calculate the:

- 1.1.1 Mark-up percentage on spare parts used in the Projected Income Statement for March 2021
- 1.1.2 % decrease in service fee income expected in April 2021
- 1.1.3 Additional space (in square metres) the business will rent from April 2021
- 1.1.4 Interest rate on the fixed deposit

1.2 Comment on the control of stock and explain how Amore intends to correct this. Quote figures.

1.3 Amore is considering changes to the fixed assets owned by the business.

- 1.3.1 Amore is thinking of purchasing the business premises rather than renting it. State ONE advantage and ONE disadvantage of this option.
- 1.3.2 Amore offers a free delivery service of spare parts to customers but plans to discontinue this service on 31 March 2021.

State TWO points to support this decision.

- 1.3.3 Calculate the cost of the new vehicle that she plans to purchase on 1 April 2021

1.4 **Refer to information E.**

You are provided with the projected and actual figures for February 2021. Quote figures in your explanation in EACH case below.

- 1.4.1 Explain whether Water and electricity has been well controlled, or not.
- 1.4.2 Explain whether you agree with Amore's decision not to use the full budget for Advertising. (2)
- 1.4.3 Explain whether Consumable stores have been well controlled, or not. (2)
- 1.4.4 Explain how Amore's decision about the mark-up percentage on spare parts has affected the business. (2)

INFORMATION:**A. Extract from the Projected Income Statement for the period 1 March 2021 to 30 April 2021:**

	MARCH 2021	APRIL 2021
	R	R
Service fee income from customers	225 000	204 750
Profit on sale of spare parts	34 312	45 750
Sales	80 062	114 750
Cost of sales	(45 750)	(67 500)
Other operating income		
Profit on disposal of delivery vehicle	12 000	0
Gross operating income		
Operating expenses		
Rent expense (see B below)	9 000	13 800
Water and electricity	7 800	7 800
Motor vehicle expenses	11 250	2 250
Security expenses	7 500	13 800
Advertising	7 050	7 050
Consumable stores (used for repair service)	45 000	45 000
Repairs and maintenance of equipment	22 500	0
Depreciation on vehicles (see D below)	4 500	13 500
Depreciation on equipment	2 250	2 250
Trading stock deficit	21 000	3 000
Operating profit		
Interest on fixed deposit (see C below)	8 550	4 050
Net profit		

- B.** Rent expense is calculated on a fixed amount per square metre. The business will rent 75 square metres in March 2021. On 1 April 2021 additional floor space will be rented at the same rate due to expansion.
- C.** A fixed deposit of R675 000 will mature on 31 March 2021.

D. Vehicles:

ITEM	COST PRICE	ACCUMULATED DEPRECIATION: 31/03/2021	DEPRECIATION RATE AND METHOD
Delivery vehicle	R540 000	R162 000	15% p.a. on cost
Toyota Hilux	?	0	

The delivery vehicle will be sold on 31 March 2021. The Toyota Hilux vehicle will be purchased on 1 April 2021 and used by the owner.

E. Figures provided for February 2021:

	PROJECTED	ACTUAL
Water and electricity (*see note below)	R 6 750	R 7 500
Advertising	7 050	2 700
Service fee income	225 000	191 250
Consumable stores	45 000	54 675
Sale of spare parts	193 050	145 800
Cost of sales	117 000	81 000
Profit on sale of spare parts	76 050	64 800
Mark-up percentage (on cost)	65%	80%

***NOTE:** The water and electricity tariff unexpectedly increased by 15% from 1 February 2021.

ANSWER SHEET



ACTIVITY C1

1.1.1 Calculate the mark-up percentage on spare parts used in the Projected Income Statement for March 2021.

1.1.2 Calculate the % decrease in service fee income expected in April 2021.

1.1.3 Calculate the additional space (in square metres) the business will rent from April 2021.

1.1.4 Calculate the interest rate on the fixed deposit.

1.2 Comment on the control of stock and explain how Sam intends to correct this. Quote figures.

1.3.1 Sam is thinking of purchasing the business premises rather than renting it. State ONE advantage and ONE disadvantage of this option.

Advantage:

Disadvantage:

1.3.2 Amore offers a free delivery service of spare parts to customers but plans to discontinue this service on 31 March 2021.

State TWO points to support this decision.

1.3.3 Calculate the cost of the new vehicle that she plans to purchase on 1 April 2021.

1.4.1 Explain whether Water and electricity has been well controlled, or not.

1.4.2 Explain whether you agree with Sam's decision not to use the full budget for Advertising.

1.4.3 Explain whether Consumable stores have been well controlled, or not.

1.4.4 Explain how Sam's decision about the mark-up percentage on spare parts has affected the business.

ACTIVITY C2: BUDGETS

You are provided with information relating to Sthembiso Hardware. The business is owned by Sthembiso Vezi

REQUIRED:

2.1 Complete the following statement:

The main reason why bad debts would not appear in the Cash Budget is because it is a/an

2.2 Calculate the missing amounts indicated by **(a)** to **(d)** in the Cash Budget for October and November 2020.

2.3 Complete the Debtors' Collection Schedule.

2.4 Calculate the percentage increase in sundry expenses.

2.5 The Cash Budget for October and November 2020 indicates that this business will face serious financial difficulties. Identify TWO items to support this statement. Quote relevant figures.

2.6 **Refer to Information K.**

Explain why each of the items reflects a problem for the business. State TWO points in EACH case.

INFORMATION**A. Extract from the Cash Budget**

	OCTOBER 2020	NOVEMBER 2020
CASH RECEIPTS		
Cash sales	(a)	237 600
Cash from debtors	178 600	?
Rent income	3 300	(c)
Loan: Glad Bank	-	201 600
Commission income	19 000	30 000
CASH PAYMENTS		
Cash purchases of trading stock	(b)	257 500
Payments to creditors for stock	32 350	28 250
Salaries and wages	61 240	61 240
Loan instalment		5 600
Interest on loan	-	(d)
Insurance	2 480	2 480
Drawings	19 800	19 800
Delivery expenses	31 000	31 000
Sundry expenses	87 600	89 790
Cash surplus/(deficit)		
Bank: Opening balance		
Bank: Closing balance	(82 800)	(49 300)

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- B.** The business has only one supplier. Commission of 5% of sales is receivable in the month following the sales.
- C.** Cash sales amount to 60% of total sales.
- D.** Total sales for September 2020 were R380 000.
- E.** 20% of the trading stock is bought on credit. The creditor is paid in full in the month following the month of purchase.
- F.** Collection from debtors:
- 45% settle accounts in the month of sales and receive 5% discount.
 - 50% settle accounts in the following month.
 - Provision is made for 5% bad debts.
- G.** A storage room in our building has been let since 15 October 2020. The tenant was required to pay only half the rent amount for October. He was informed that rent increases by 10% on 1 November each year.
- H.** Sundry expenses are expected to increase by a fixed percentage each month.
- I.** The loan, at 11.5% p.a. interest, will be taken out on 1 November 2020.
- The loan will be repaid in 36 equal monthly instalments commencing on 30 November 2020.
 - Interest on the loan is also payable at the end of each month commencing on 30 November 2020. Interest is not capitalized.
- J.** The bank has granted Sthembiso an overdraft facility of R44 000.
- K.** Sthembiso is concerned about the following items, which were under/over budget for September 2020

Item	Budgeted	Actual	Under/over budget
Collection from debtors	174 200	61 800	Under
Drawings	19 800	57 200	Over
Insurance	2 480	0	Under

ACTIVITY C2

- 2.1 The main reason why bad debts would not appear in the Cash Budget is because it is a/an
- 2.2 Calculate the missing amounts indicated by (a) to (d) in the Cash Budget for October and November 2020.
- | | Calculation | Amount |
|-----|-------------|--------|
| (a) | | |
| (b) | | |
| (c) | | |
| (d) | | |

2.3

Complete the Debtors' Collection Schedule.

	CREDIT SALES	OCTOBER	NOVEMBER
September		76 000	
October		102 600	
November	158 400		
		<u>178 600</u>	

2.4

Calculate the percentage increase in sundry expenses.

2.5

The Cash Budget for October and November 2020 indicates that this business will face serious financial difficulties. Identify TWO items to support this statement. Quote relevant figures.

2.6

Explain why each of the items reflects a problem for the business. State TWO points in EACH case.

Item	Explanation
Collection from debtors	
Drawings	
Insurance	

ACTIVITY C3: CASH BUDGET

You are provided with information relating to HKH Traders for the three months ending 31 December 2020. The business is owned by Lizzy Ndou.

REQUIRED:

- 3.1 Complete the following sentences by filling in the missing word(s). Write only the word(s) next to the question number (4.1.1 – 4.1.2) in the ANSWER BOOK.
- 3.1.1 The main purpose of preparing the Cash Budget is...
- 3.1.2 ONE item in the Cash Budget that will not be reflected in a Projected Income Statement is...
- 3.2 Prepare the Debtors' Collection Schedule for December 2020.
- 3.3 Calculate the missing figures in the Cash Budget indicated by (i) to (v).
- 3.4 In order to increase sales and the number of customers, Lizzy intends to advertise that credit limits for all credit customers will be increased to R35 000 and that new customers are welcome to open accounts during January.
- Give TWO points of advice to Lizzy regarding this decision.

INFORMATION:

A. Sales, purchases and cost of sales:

- Total sales expected

2020		
October	November	December
R500 000	R350 000	R300 000

- 60% of sales are on credit, the rest are for cash.
- The business uses a mark-up of 100% on cost at all items.
- Stock is replaced monthly
- 20% of all purchases are for cash, the rest are on credit.
- Creditors are paid TWO months after the purchase of stock.

B. Debtors' collection:

The credit limit for each debtor is R25 000. In the past, debtors have settled their accounts as follows. HKH Traders prepares its budget on this basis:

- 20% of debtors settle accounts in the month of the sale to receive a 5% discount.
- 30% settle in the 1st month following the sales month (30 days)
- 40% settle in the 2nd month (60 days)
- 10% are written off in the 3rd month.

C. Debtors' Collection Schedule:

Months		2020			
		Credit sales R	October R	November R	December R
Actual	August	345 000	138 000		
	September	480 000	144 000	192 000	
Expected	October	300 000	57 000	90 000	?
	November	210 000		39 900	63 000
	December	180 000			?
			339 000	321 900	?

D. Extract from the Cash Budget:

	2020		
	October	November	December
	R	R	R
RECEIPTS:			
Cash sales	200 000	(i)	120 000
Receipts from debtors	339 000	321 900	
Rent income			
Loan from Sharp Bank (interest rate:12%)	400 000		
PAYMENTS:			
Cash payments	50 000	35 000	30 000
Payments to creditors	230 000	320 000	(ii)
Repayment of loan		40 000	40 000
Interest on loan		4 000	(iii)
Wages	32 500	22 048	(iv)
Advertising	(v)	6 758	6 758
Sundry expenses			
Cash balance at the end of the month	350 000	200 000	(50 000)

E. Loan and interest on loan:

The interest on the loan and the monthly loan instalments are payable at the end of each month. Interest is not capitalized.

F. Wages:

- In October the business will have 5 employees, each earning R1 300 per week.
- All the employees are paid their wages on Fridays. There are five Fridays in October and four Fridays in November and December 2020.
- One employee has served notice of his resignation on 31 October 2020 and the other employees will be given a 6% increase on that date.
- The business plans to employ two more staff members at the same weekly wage as the others on 1 December 2020.

G. Advertising:

The advertising budget will be increased by 9% with effect from 1 November 2020.

ACTIVITY C3

3.1 Complete the following sentences by filling in the missing word(s). Write only the word(s) next to the question number (4.1.1 – 4.1.2)

3.1.1 The main purpose of preparing the Cash Budget is...

3.1.2 ONE item in the Cash Budget that will not be reflected in a Projected Income Statement is...

3.2 Prepare the Debtors' Collection Schedule for December 2020

Months		2020			
		Credit sales	October	November	December
Actual	August	345 000	138 000		
	September	480 000	144 000	192 000	
Budgeted	October	300 000	57 000	90 000	
	November	210 000		39 900	63 000
	December	180 000			
			339 000	321 900	

3.3 Calculate the missing figures in the Cash Budget indicated by (i) to (v).

	CALCULATION	ANSWER
(i)		
(ii)		
(iii)		
(iv)		
(v)		

3.4 In order to increase sales and the number of customers, Lizzy intends to advertise that credit limits for all credit customers will be increased to R35 000 and that new customers are welcome to open accounts during January.

Give TWO points of advice to Lizzy regarding this decision.

ACTIVITY C4

Nikke Stores is a retail business that sells sporting goods. The business was originally owned by Bennie Becker. The financial year ends on 31 December each year. As his wife studied Accounting at school, he has asked her to prepare a Cash Budget for the business, and to enter the actual figures each month.

In February 2020, you are provided with this Cash Budget which also reflects the actual figures.

The business had a bank overdraft of R325 400 on 1 December 2019.

In order to solve the overdraft problem, Bennie Becker decided to admit Mark Mtini as a new business partner on 28 December 2019. This was not anticipated when Mary drew up the Cash Budget at the beginning of December. The partnership agreement stated that Mtini's capital contribution comprised a transfer of cash, R250 000, and a new delivery vehicle valued at R180 000.

REQUIRED:

1. Bennie Bekker feels that his wife has made two mistakes in compiling the budget. He says that she has incorrectly left out the following:
 - the monthly depreciation of R4 800 per month
 - the new delivery vehicle valued at R240 000 which was provided as capital by Mtini.What would you say to Bennie?
2. Complete the Debtors Collection Schedule for December 2019 and January 2020.
3. Calculate the following for January 2020:
 - % increase in the budgeted salaries and wages
 - % decrease in the amount budgeted for commission income.
4. The R9 000 per month is the monthly repayment on the purchase of the existing vehicle which was bought several months ago for R196 000. At the time of purchase, a deposit of R46 000 was paid. The instalment is to be paid over 24 months. Calculate the total finance charges incurred in the purchase of this vehicle.
5. Bennie Bekker's son, Bart, used the business vehicle to attend his Matric farewell party. He was involved in an accident. The insurance company refused to repair the damaged vehicle as he was not listed as a designated driver of the vehicle and the vehicle was not being used for business purposes. Bennie authorized the payment for the repairs to the damaged vehicle and charged this cost to Vehicle Expenses. Bear in mind that the business has over-budgeted on the normal vehicle expenses and is only spending 75% of the budgeted amount on this item.
 - What effect did the damage caused by Bart have on the budget?
 - Mtini has become aware of this. What is he likely to say to Bennie? Provide TWO points.

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6. Refer to the Rent in the Cash Budget. A rent increase of 10% takes effect on 1 January 2020. The actual rent received in December was as per the budget.
 - Calculate the rent income for December 2019
 - Provide a suitable explanation for the actual amount of rent collected in January 2020 being different from the budgeted amount.
7. Payments to creditors:
 - Calculate the budgeted amount to be paid to creditors in January 2020.
 - Mtini feels that the business need not buy any goods for cash, and that all goods should be bought on credit. In your opinion, will this improve the business Cash Budget? Explain.
8. Bennie Bekker decided to repay the existing loan from Alpha Lenders in full on 30 November 2019 as the interest rate was very high. The interest of 15% p.a. on this loan was not capitalized. He then decided to take out a new loan with Minty Bank on 1 December 2020. Interest is capitalized on this loan and according to the agreement a monthly amount of R4 000 is to be paid to the Minty Bank on the 25th day of each month.
 - Explain the difference between interest that is capitalized and interest that is not capitalized.
 - Calculate the amount of the loan to be repaid on 30 November 2019.
9. Use the Cash Budget to identify the missing figures, totals and balances designated A-D. You are not required to identify the figures designated with a question mark (?)
10. Mtini is worried that the business is not controlling the debtors properly. He asks you for a short report. Include the following in your report:
 - A calculation of the average debtors' collection period (in days) for the year, and a comment on this calculation.
 - The % of debtors who are complying with the credit terms (as indicated in the Debtors Age Analysis)
 - A brief comment on this above two calculations.
 - Details of the main mistakes that the business is making with regard to the debtors and the names of specific debtors to illustrate these main problems.
11. Consider the actual and budgeted figures for Advertising, Telephone and Insurance. (Note that Mtini has not drawn any funds as yet). Comment on each item, and offer ONE point of advice in each case.
12. Bennie has made two significant decisions by taking out a new loan and admitting a partner to the business. What would you say to Bennie about these decisions and the effect on the cash flow of the business?

INFORMATION:

1. **Cash Budget for two months ending 31 January 2020 (with actual figures in the shaded columns):**

Receipts	December 2019		January 2020	
	BUDGETED	ACTUAL	BUDGETED	ACTUAL
Cash sales	480 000	452 000	330 000	208 000
Receipts from debtors	?	189 980	?	222 685
Commission income	24 000	?	20 400	12 000
Loan from Minty Bank	0	0	0	120 000
Rent income	?	?	15 950	31 900
Capital from M Mtini	0	250 000	0	0
Total Receipts	778 798	926 480	?	594 585
Payments				
Cash purchases	222 500	245 750	155 000	110 380
Payments to creditors	181 800	162 000	?	184 000
Telephone	2 800	4 500	2 800	4 200
Repayment on existing vehicle	9 000	9 000	9 000	9 000
Vehicle expenses	8 000	6 400	8 000	37 500
Salaries and wages	68 000	82 800	72 080	72 080
Advertising	5 000	5 000	5 000	5 000
Sundry operating expenses	23 380	19 400	17 300	17 320
Insurance	22 000	16 000	22 000	16 000
Drawings by Bennie Bekker	25 000	25 000	25 000	35 000
Interest on overdraft	4 020	?	?	0
Interest on loan	500	500	500	0
Repayment of loans	0	?	0	4 000
Total Payments	572 000	620 370	516 930	494 480
Cash surplus / shortfall	206 498	306 110	?	100 105
Bank (Opening balance)	(325 400)	(325 400)	A	C
Bank (Closing balance)	?	(19 290)	B	D

2. **Purchases and Sales of trading stock:**

Stock is replaced on a monthly basis.

50% of stock is usually purchased on credit.

Creditors are paid in the month after the purchases, to take advantage of a 10% discount.

Goods are sold at a constant mark-up of 80% on cost.

The budget is worked out on the following total sales figures:

October 2019	November 2019	December 2019	January 2020
R603 00	R727 200	R801 000	R558 000

Credit sales constitute 40% of the total sales.

3. **Expected collections from debtors:**

Debtors' are told that they are expected to pay in the current month or in the month following the sales transaction month. However, the budget is compiled as follows:

10% is collected in the transaction month. A discount of 5% is allowed for any payment received in the transaction month.

50% is collected in the month after the transaction month.

35% is collected in the second month after the month of sale.

4. **Debtors Age Analysis on 31 December 2019**

DEBTORS	CREDIT LIMIT	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
M. Minaj	45 000				49 100	49 100
U. Usher	85 000			7 800	40 680	48 480
B. Beiber	30 000				24 000	24 000
B. Britney	100 000	49 125	45 240	9 050	25 865	129 280
J. Jemson	12 000		6 500			6 500
W. West	50 000				22 000	22 000
D. Drake	120 000	29 800	39 000	24 000	26 680	119 480
H. Hannah	25 000			31 100	9 300	40 400
W. Wayne	45 000		4 350	23 270	8 740	36 360
Other debtors		?	?	?	?	?
		R 156 725	R 234 250	R 172 500	R 201 300	R 764 775
		90 day	60 days	30 days	Current	
Percentage		%	%	%	%	100%

5. **Actual figures extracted from the financial statements for the year ended 31 December 2019:**

For the year

Total sales	R4 600 000
Cash sales	R2 200 000
Credit sales	R2 400 000

1 January 2019 31 December 2020

Trade debtors	R 295 225	R764 775
---------------	-----------	----------

1. What would you say to Bennie about the mistakes that he says his wife has made in compiling the budget with regard to the depreciation and the contribution of a new delivery vehicle?

2. Debtors Collection schedule for December 2019 & January 2020

MONTH	CREDIT SALES	DECEMBER 2019	JANUARY 2020
October			
November			
December			
January			
Cash from debtors			

3. Calculate the % increase in the budgeted salaries and wages in January 2020

Calculate the % decrease in the amount budgeted for commission income in January 2020

4. Calculate the total finance charges incurred in the purchase of the vehicle.

5. Effect on the budget:

TWO points that Mtini would mention to Bekker:

6. Calculation of rent income budgeted for December 2019:

Suitable explanation:

3

7. Calculate the budgeted payments to creditors in January 2020.

Mtini feels that the business need not buy any goods for cash, and that all goods should be bought on credit. In your opinion, will this improve the business Cash Budget? Explain.

4

8. Explain the difference between interest that is capitalized and interest that is not capitalized.

Calculate the amount of the loan repaid on 31 December 2019.

3

9. Use the Cash Budget to identify the missing figures, totals and balances designated A-D. You are not required to identify the figures designated with a question mark (?).

A	B	C	D
---	---	---	---

4

10. Calculation of the average debtors' collection period (in days) for the financial year:

The % of debtors who are complying with the credit terms (as indicated in the Debtors Age Analysis):

A comment on the above two calculations:

Details of the main mistakes that the business is making with regard to the debtors. Also provide the names of specific debtors to illustrate these main problems, and suggest a solution for each mistake:

MISTAKES	DEFAULTING DEBTOR/S	SOLUTION

11. Consider the actual and budgeted figures for Advertising, Telephone and Advertising. (Note that Mtini has not drawn any funds as yet). Comment on each item, and offer ONE point of advice in each case.

	COMMENT	ADVICE
Advertising		
Telephone		
Insurance		

12. Bennie has made two significant decisions by taking out a new loan and admitting a partner to the business. What would you say to Bennie about these decisions and the effect on the cash flow of the business?

ACTIVITY C5: (CASH BUDGET AND PROJECTED INCOME STATEMENT)

Khumbulani TRADERS

Khumbulani Myende owns KHUMBULANI Traders. You are provided with information for two months.

REQUIRED:

- 5.1 Complete the Cash Budget for November and December 2020. Certain figures have been entered for you.

INFORMATION:

- A. Extract from the Projected Income Statement:

	NOVEMBER 2020	DECEMBER 2020
Sales	R1 050 000	R997 500
Cost of sales	600 000	570 000
Commission income	7 000	8 000
Sundry expenses	22 500	?
Depreciation	2 200	2 200
Wages and salaries	?	256 000
Bad debts	19 500	34 125
Advertisements	0	11 000
Discount allowed	20 475	18 900
Interest expense (9% p.a.)	3 780	3 510

B. ADDITIONAL INFORMATION:

- (i) Cash sales amount to 40% of all sales.
- (ii) A mark-up of 75% on cost is maintained. Stock is replaced in the same month as sales.
- (iii) 20% of all purchases of stock are bought for cash.
- (iv) All creditors are paid in full in 30 days (in the month following the purchase).
- (v) Commission is received one month after it is earned. Commission is budgeted to increase by R1 000 per month.
- (vi) Sundry expenses consist of cash items only. It is expected to decrease by 8% each month.
- (vii) Wages and salaries for December 2020 include a bonus of R40 000 for the manager. A wage and salary increase of 8% for all employees will be applied from 1 December 2020.
- (viii) Advertisements will appear in a newspaper on the first day of each month, commencing on 1 December. Payment to cover three advertisements will be made in full on 15 November.
- (ix) The interest rate is 9% p.a. Interest is not capitalised and is paid monthly. A portion of the loan will be repaid on 30 November 2020.

5.2 KHUMBULANI BEDS (PTY) LTD

You are provided with information for two months ending 31 October 2020. The business sells one type of bed.

REQUIRED:

- 5.2.1 Calculate the percentage increase in the amount budgeted for salaries and wages for October 2020. Should the employees be satisfied with this? Explain.
- 5.2.2 The financial director is pleased with the work being done by the bookkeeper and internal auditor. Identify an expense that indicates that he is correct. Explain your answer.
- 5.2.3 A competitor, BB Beds, which sells only for cash, opened a store nearby on 1 October 2020.
- Comment on how the new competitor has affected the sales of Khumbulani Beds. Provide figures.
 - Explain how Khumbulani Beds has responded to this problem. Provide THREE points. Provide figures.
- 5.2.4 Cash balances:
- Comment on the cash balances. Provide figures.
 - Explain how the directors can improve the cash balances in future. Explain TWO points.

INFORMATION:

- A. Expected sales, cost of sales and deliveries:
- The business budgets on selling 300 beds per month.
 - The cost price of each bed is R3 000 and the selling price is R5 000. No discounts are allowed.
 - The stock of beds is replaced in the month of sale.
 - Suppliers are paid in the month of purchase.
 - The business uses Cape Deliveries to deliver the beds to each customer.

B. Extract from the Cash Budget:

	SEPTEMBER 2020		OCTOBER 2020	
	PROJECTED	ACTUAL	PROJECTED	ACTUAL
Cash surplus (deficit) for month	110 000	125 000	120 000	(440 000)
Cash at beginning of month	105 000	105 000	215 000	230 000
Cash at end of month	215 000	230 000	335 000	(210 000)

C. Extract from the Projected Income Statement:

	SEPTEMBER 2020		OCTOBER 2020	
	PROJECTED	ACTUAL	PROJECTED	ACTUAL
Number of beds sold	300 beds	320 beds	300 beds	240 beds
Cash sales	1 200 000	1 280 000	1 200 000	300 000
Credit sales	300 000	320 000	300 000	900 000
Total sales	1 500 000	1 600 000	1 500 000	1 200 000
Cost of sales	(900 000)	(960 000)	(900 000)	(720 000)
Gross profit	600 000	640 000	600 000	480 000
Operating expenses	(313 000)	(323 000)	(407 600)	(374 960)
Directors' fees	80 000	80 000	80 000	36 000
Salaries and wages	30 000	30 000	31 800	31 800
Advertising	10 000	10 000	10 000	40 000
Delivery costs (Cape Deliveries)	150 000	160 000	150 000	168 000
Audit fees	0	0	90 000	50 000
Rent expense	28 000	28 000	30 800	34 160
Sundry expenses	15 000	15 000	15 000	15 000
Operating profit	287 000	317 000	192 400	105 040

ACTIVITY C5 – (CASH BUDGET AND PROJECTED INCOME STATEMENT)

5.1 Khumbulani TRADERS
CASH BUDGET FOR NOVEMBER AND DECEMBER 2020

CASH BUDGET	NOVEMBER 2020 R	DECEMBER 2020 R
CASH RECEIPTS:		
Cash sales		399 000
Cash from debtors	536 025	597 975
Commission income		
Total receipts		
CASH PAYMENTS:		
Cash purchases of stock		114 000
Payments to creditors	520 000	
Sundry expenses	22 500	
Total payments	935 280	874 210
Surplus (deficit)	26 745	
Opening bank balance	(56 000)	
Closing bank balance	(29 255)	

5.2 Khumbulani BEDS (PTY) LTD

5.2.1 Calculate the percentage increase in the amount budgeted for salaries and wages for October 2020

Should the employees be satisfied with this? Explain.

5.2.2 The financial director is pleased with the work being done by the bookkeeper and internal auditor. Identify an expense that indicates that he is correct.

Explain your answer.

5.2.3 Comment on how the new competitor has affected the sales of Khumbulani Beds. Provide figures.

Explain how Khumbulani Beds has responded to this problem. Provide THREE points. Provide figures.

Point 1	
Point 2	
Point 3	

5.2.4 **Comment on the cash balances. Provide figures.**

Explain how the directors can improve the cash balances in future. Explain TWO points.

ACTIVITY C6: BUDGETING

6.1 **Explain why:**

6.1.1 Bad debts will not appear in a cash budget.

6.1.2 A cash budget is an effective internal control mechanism.

6.2 **INGWEMABALA LTD**

Ingwemabala Ltd is registered with an authorised share capital of 750 000 ordinary shares. On 1 September 2020, 515 000 ordinary shares were in issue.

REQUIRED:

6.2.1 **Refer to Information A.**

Calculate the cash expected to be collected from debtors during November 2020. Please note:

- ▮ Debtors are not allowed any discounts
- ▮ Bad debts are applicable

6.2.2 Calculate the missing amounts denoted by **(a)** to **(e)** on the cash budget provided in **information F**.

6.2.3 Calculate:

- (i) The amount of the loan that will be paid back on 1 November 2020
- (ii) The total cost of the new vehicle purchased on 31 July 2020

6.2.4 A young shareholder is of the opinion that the company should not spend money on staff training – they should employ trained personnel.

- ▮ Explain why the company spends money on staff training. Give ONE point.
- ▮ What can the business do to ensure that trained personnel remain in the employ of the business? Give ONE point.

INFORMATION:

A. Incomplete Debtors Collection Schedule for the three months in 2020.

MONTHS	CREDIT SALES	SEPTEMBER	OCTOBER	NOVEMBER
July	108 000	12 960		
August	104 400	46 980	12 528	
September	93 000	37 200	41 850	?
October	102 000		40 800	?
November	111 600			?
Total collection from debtors				?

B. Cash sales is 40% of total sales.

C. Cost of sales figures:

SEPTEMBER	OCTOBER	NOVEMBER
96 875	106 250	116 250

D. Cash purchases amounts to 20% of total purchases.

Stock sold in a month is replaced in the same month (the business maintains a base stock).

E. Creditors for stock purchases are paid in the month following the purchase (30 days) to take advantage of a 5% discount.

F. Cash Budget for the two months ending November 2020

	OCTOBER	NOVEMBER
Receipts		
Cash Sales	68 000	74 400
Cash from Debtors	95 178	6.2.1
Rent Income	(a)	16 985
Interest on investment		
Additional shares issued	513 000	
Total receipts		
Payments		
Cash purchases of stock	21 250	(b)
Payment to creditors	73 625	(c)
Salaries and wages	126 400	133 984
Interest on loan	2 000	1 750
Staff training programme	-	18 000
Advertising	8 160	(d)
Ordinary share dividends	-	(e)
Vehicle instalment	4 750	4 750
Sundry expenses		
Total payments		



- G. The rent will increase by 7,5% on 1 November 2020.
- H. Advertising is a fixed percentage of cash sales.
- I. A new vehicle was purchased on 31 July 2020. A deposit of R40 000 was paid and the balance is to be settled by a fixed monthly instalment over four years.
- J. Additional shares were issued on 1 October 2020 at R5,40 per share.
- An interim dividend of 15 cents per share will be paid on 30 November 2020. The new shareholders qualify for interim dividends.
- K. Part of the loan will be re-paid on 1 November 2020. Interest on loan at 10% p.a. is payable on the last day of each month. Interest on loan is not capitalised.

ACTIVITY C 6: BUDGETING

6.1.1 Explain why bad debts expense does not appear in a cash budget.

6.1.2 Explain why a cash budget is an effective internal control mechanism. Provide ONE reason.

6.2 INGWEMABALA LTD

6.2.1

MONTHS	CREDIT SALES	SEPTEMBER	OCTOBER	NOVEMBER
July	108 000	12 960		
August	104 400	46 980	12 528	
September	93 000	37 200	41 850	
October	102 000		40 800	
November	111 600			
Total collection from debtors			95 178	

6.2.2 Calculations

(a)

(b)

(c)

(d)

(e)

6.2.3 Calculate the amount of the loan that will be paid back on 1 November 2020.

Calculate the total cost of the new vehicle purchased on 31 July 2020.

6.2.4 A young shareholder is of the opinion that the company should not spend money on staff training – they should employ trained personnel. Explain why the company spends money on staff training? Give ONE point.

What can the business do to ensure that trained personnel remain in the employ of the business? Give ONE point.

ACTIVITY C7: CASH BUDGET, ANALYSIS AND INTERPRETATION AND PROBLEM SOLVING

7.1 The incomplete cash budget and information were taken from the financial records of Ndinisa Stores.

REQUIRED:

- 7.1.1 Calculate the credit purchases for May 2020 and complete the Creditors' Payment Schedule for the period 1 May to 30 June 2020.
- 7.1.2 Calculate the missing figures indicated by A–C on the Cash Budget provided.
- 7.1.3 Sundry expenses, among other expenses, are expected to increase sharply due to the forecast rise in the inflation rate on 1 June 2020. **Refer to information E.**
- Calculate the expected percentage increase in sundry expenses.
 - Suggest and explain TWO measures that can be taken to lessen the possible adverse impact of the rise in prices.
- 7.1.4 **Refer to Information H.**

Briefly comment with figures on each item and provide ONE point of advice to the owner.

INFORMATION:

A. Total sales for 2020:

	Actual	Budgeted
March	600 000	
April	750 000	
May		800 000
June		890 000

- B.**
- Credit sales constitute 60% of total sales.
 - The business sells goods at cost plus 25% mark-up.
 - 30% of all stock is bought for cash.
 - Fixed base method of stock is in use. Stock sold is replaced in the same month.
- C.** Creditors will be paid as follows:
- 60% in the month following the transaction month (after 30 days) less 5% discount.
 - 40% in the second month following the transaction month (after 60 days).

D. Creditors Payments Schedule for the period 1 May to 30 June 2020

Month	Credit Purchases	May	June
March	336 000	134 400	
April	420 000	239 400	?
May	?		?
		373 800	?

E. CASH BUDGET FOR THE PERIOD 1 MAY TO 30 JUNE 2020

	May 2020	June 2020
RECEIPTS		
Cash sales	A	356 000
Collections from debtors		
Fixed deposit (9% p.a.)		B
Interest on fixed deposit	2 700	1 800
Rent income	15 000	15 000
Other cash income	52 400	55 000
PAYMENTS		
Cash purchases of stock		C
Payments to creditors		
Water and electricity	5 000	5 200
Sundry expenses	24 000	30 000
Advertising	4 000	5 000
Surplus (Shortfall/Deficit) for the month		
Bank balance at the beginning of the month	11 850	
Bank balance at the end of the month		

F. Interest on fixed deposit is calculated at 9% per year and is earned at the end of each month. It is expected to remain unchanged over the budget period.

G. The fixed deposit will be increased on 1 June 2020.

H.

May 2020	Budget	Actual
Water and electricity	R5 000	R6 500
Rent income	R15 000	R8 000

7.2 PROBLEM SOLVING

Brand Cell Phones sells one brand of cell phones. The owner, Glenys Masala, has three branches in different shopping centres/malls (refer to the table below).

The annual figures from the three branches for the financial year ended 29 February 2020 were presented to the owner.

REQUIRED:

Identify ONE problem in relation to each branch. Quote relevant figures. In each case, offer Glenys Masala advice to solve the problem.

	Umlazi Megacity Mall	Kwanyandu Mall	Ezimbuzini Mall
Number of cell phones available for sale	170	450	400
Number of cell phones sold during the year	170	225	80
Closing stock	0	210	320
Selling price per cell phone	R6 000	R6 000	R8 000
Mark-up percentage	50%	50%	100%
Amount banked (deposited) during the year	R980 000	R1 350 000	R640 000

ACTIVITY C7

7.1.1 Creditors Payments Schedule for the period 1 May – 30 June 2020

Month	Credit purchases	May	June
March	336 000	134 400	
April	420 000	239 400	
May			
		373 800	

7.1.2

Calculate the missing figures indicated by A–C on the Cash Budget provided.

A

B

C

7.1.3

Calculate the expected percentage increase in sundry expenses.

Suggest and explain TWO measures that can be taken to lessen the possible adverse impact of the increase in prices.

7.1.4

Refer to information H. Briefly comment with figures on each item and provide ONE point of advice to the owner.

Item	Comment and figures	Advice
Water & electricity		
Rent income		

7.2

Identify ONE problem in relation to each branch. Quote relevant figures. In each case, offer Glenys Masala advice to solve the problem.

Problem	Solution
Umlazi Megacity Mall	Umlazi Megacity Mall
Kwanyandu Mall	Kwanyandu Mall
Ezimbuzini Mall	Ezimbuzini Mall

ACTIVITY C8: CASH BUDGET

You are provided with a partially completed Cash Budget of Ugu Souvenirs Ltd.

REQUIRED:

- 8.1 Identify the following:
 - Price paid per share for the re-purchase of the shares in October.
 - Bank balance at the end of September.
- 8.2 Calculate and comment on the percentage increase that the employees will get in October.
- 8.3 Calculate the figures represented by A – C.
- 8.4 The owner is not happy with the rent. He plans to terminate the rent agreement on 1 October 2020 and purchase the property.
 - According to the Cash Budget, how would he pay for the property?
 - Apart from saving on rent expense, provide TWO advantages of buying the property.
 - Provide TWO disadvantages of buying the property.

INFORMATION:

**A. UGU SOUVENIRS LTD.
CASH BUDGET FOR THE TWO MONTHS ENDING
31 OCTOBER 2020.**

CASH RECEIPTS	SEPTEMBER	OCTOBER
Cash sales	A	1 681 120
Collections from debtors	787 500	B
Mortgage loan (1 October 2020)		500 000
Interest on fixed deposit	3 000	
Fixed deposit and interest		366 000
TOTAL RECEIPTS	2 670 700	3 331 680
CASH PAYMENTS		
Cash purchases of inventory	948 000	900 600
Payments to creditors	623 438	C
Wages and salaries	322 500	341 850
Director's fees	400 000	600 000
Interest on loan		7 000
Interest on overdraft		5 400
Operating expenses	487 500	487 500
Rent expense	27 000	
Land and building (cost price)		910 000
Rates on property		1 520
Advertising	110 600	168 112
Repurchase of shares - see Info B (i)		52 000
TOTAL PAYMENTS	2 919 038	4 074 382
Surplus (deficit)	?	(742 702)
Bank balance at beginning of month	86 525	(161 813)
Bank balance at end of month	?	?

B. Additional information:

- (i) A shareholder owning 10 000 shares has financial difficulty. The directors agreed to buy back his shares in October. The average issue price is R5,00.
- (ii) The mark-up is 70%.
- (iii) Sales figures:

Month	Cash sales	Credit sales
July	R1 968 750	R843 750
August	1 837 500	787 500
September	?	805 800
October	1 681 120	?

- (iv) 30% of sales are on credit.
- (v) Debtors are collected as follows:
 - 70% in the month after the sales transaction.
 - 28% in the second month after the sales transaction.
 - 2% will be written off as bad.
- (vi) Stock is replaced in the same month that it is sold.
- (vii) 60% of inventory purchases are for cash.
- (viii) Creditors are paid within 30 days (in the month after the purchase transaction in order to receive 5% discount).

D. INVENTORY VALUATION

ACTIVITY D1	INVENTORY VALUATION FIFO AND WEIGHTED AVERAGE
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1.1 You are provided with information relating to Hi-Tech World Traders for the year ended 28 February 2021.

The business sells only high-definition decoders. The periodic inventory system and the weighted average stock valuation method are in operation. They buy all their stock from one supplier.

REQUIRED

1.1.1 Explain ONE main difference between the periodic and continuous (perpetual) inventory systems.

1.1.2 Using the weighted average stock valuation method calculate the following:

- Value of closing stock on 28 February 2021
- Gross profit for the year ended 28 February 2021

1.1.3 Calculate the value of closing stock using the FIFO method.

1.1.4 B Thabani, the owner, asked you to switch to the FIFO-method of inventory valuation when you are going to prepare the financial statements for 2021. What will your response be to this request?

INFORMATION:

- A. Stock on 1 March 2020 (100 decoders) valued at R83 150 (this included carriage on purchases)
- B. Purchases during the year totalled 1 150 units for R1 121 250, and are summarized as follows:

May 2020	250 units at R 945 each	R 236 250
October 2020	800 units at R 975 each	R 780 000
January 2021	100 units at R 1 050 each	R 105 000

- C. Carriage on purchases during the year was charged at R35 per decoder by the supplier.
- D. Returned 10 defective decoders purchased during January 2021, to the supplier.
The supplier granted a full refund including carriage.
- E. A selling price of R1 095 was maintained throughout the year. Sales amounted to R1 215 450.
- F. On 28 February 2021, a physical stocktaking revealed stock of 130 decoders on hand.

1.2 You are provided with information relating to AA Car Dealers. The business uses the specific identification method of valuing stock.

The following items are in stock at the beginning of the May 2021.

	Description	Cost price	Published Selling Price
Item 1	Audi A1 (1.2 litre engine)	R170 000	R215 000
Item 2	Audi A3 (2.0 litre engine)	R270 000	R324 000
Item 3	Audi A6 (1.8 litre engine)	R330 000	R380 000
Item 4	Audi A8 (3.0 litre engine)	R580 000	R650 000

Items 1 and 3 are sold for cash during May 2021 at their published selling price.

REQUIRED:

1.2.1 Calculate the following:

- Value of trading stock on 31 May 2021. (3)
- Gross profit earned during May 2021. (3)

1.2.2 Explain why it would be unreasonable for this business to value its stock items on the basis of FIFO or weighted average. (2)

ACTIVITY D1	INVENTORY VALUATION
1.1	
1.1.1	Explain ONE main difference between the periodic and continuous (perpetual) inventory systems.
1.1.2	Using the weighted average stock valuation method calculate the following: Value of closing stock on 28 February 2021
	➤ Gross profit for the year ended 28 February 2021 (5)

1.1.3	Calculate the value of closing stock using the FIFO method. (6)
1.1.4	B Thabani, the owner, ask you to switch to the FIFO-method of inventory valuation when you are going to prepare the financial statements for 2021. What will your response be to this request? (3)

1.2

<p>1.2.1 Calculate the following:</p> <ul style="list-style-type: none">• Value of trading stock on 31 May 202. (3) • Gross profit earned during May 2021. (3)
1.2.2. Explain why it would be unreasonable for this business to value its stock items based on FIFO or weighted average.(2)

ACTIVITY D2	INVENTORY, INTERNAL CONTROL, VAT AND ETHICS	
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CONCEPTS

2.1 Match the features below to either FIFO or Weighted average method. Write only the stock method next to the relevant number in your ANSWER BOOK.

2.1.1	Suitable for stock with limited shelf life	
2.1.2	Stock values are realistic as they are based on the most recent cost prices.	
2.1.3	Might not reflect current costs if prices increase significantly over the accounting period.	
2.1.4	Is calculated by dividing the total cost of goods purchased by the total number of units bought.	

2.2 The information supplied below was taken from the books of MP Traders, trading in oranges. The business values stock periodically and uses the FIFO method.

REQUIRED:

2.2.1 Refer to the abridged stock register below and calculate the following:

- (A) The value of closing stock
- (B) The cost of sales

2.2.2 The owner, M Phezulu, suspects that some bags could be missing or stolen. He approaches you for help. Do a calculation to confirm his suspicion.

2.2.3 Suggest THREE (separate) internal control measures that he can introduce to prevent or lessen stock losses.

INFORMATION:

Inventories comprise trading stock only. The stock records for June and July 2021 show the following details:

	Quantity(bags)	Price per bag	Total cost
Stock of oranges on 1 June 2021	1 500	R17.10	R22 500
Purchases	5 500		119 700
June 2021	2 500	R20.52	51 300
July 2021	3 000	R22.80	68 400
Returns to suppliers (July 2021)	300		
Sales	?	R33.06	195 054
Returns by debtors	50	R33.06	?
Closing stock (31 July 2021)	640		

ACTIVITY D2	INVENTORY, INTERNAL CONTROL, VAT AND ETHICS
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2.1 CONCEPTS

2.1.1	
2.1.2	
2.1.3	
2.1.4	

2.2

2.2.1 (A)	The value of closing stock (3)
--------------	--------------------------------

(B)	The cost of sales (7)
2.2.2	The owner, M Phezulu, suspects that some bags could be missing or stolen. He approaches you for help. Do a calculation to either confirm or dismiss his suspicion.
2.2.3	Suggest THREE internal control measures that he can introduce to prevent or decrease stock losses.

ACTIVITY D3 (INVENTORY VALUATION)

- 3.1. Choose the correct term from those given in brackets. Write only the term next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.
- 3.1.1 The most recent purchases will be considered as closing stock in the (FIFO/weighted average) stock valuation method.
- 3.1.2 Merchandise purchased is recorded in a Trading Stock Account in the (perpetual/periodic) inventory system.
- 3.1.3 Carriage on purchases is recorded as an (asset/expense) in the periodic inventory system.

3.2	PHOTO-FIX TRADERS
The information relates to Photo-fix Traders for the financial year ended 30 April 2021. The business is owned by N Maduna and sells two models of cameras (Grand and De-Lux) and photo frames.	
(a)	The stock of cameras is valued using the specific identification method.
(b)	Photo frames are valued using the weighted average method.

REQUIRED:

- 3.2.1 Calculate the value of closing stock of **cameras** on 30 April 2021.
- 3.2.2 Calculate the value of closing stock of **photo frames**.
- 3.2.3 The owner suspects that **photo frames** are being stolen. Provide a calculation to confirm his suspicions.
- 3.2.4 Tom is thinking of employing an assistant at a wage of R3 500 per month to control the stock of **photo frames**. Explain why this is NOT a good idea. Provide TWO points with figures/calculations

INFORMATION:

The following information is in respect of the year ended 30 April 2021:

A. CAMERAS: STOCK, BOUGHT AND SOLD

	BOUGHT			UNITS SOLD
	UNITS	UNIT COST	TOTAL	
GRAND MODEL				
Opening stock	20	R5 500	R110 000	14
Purchases	240	R5 750	R1 380 000	170
DE-LUX MODEL				
Net purchases:	270		R1 104 000	235
September 2019	180	R4 000	R720 000	140
Returns	(30)	R4 000	(R120 000)	
January 2020	120	R4 200	R504 000	95

B PHOTO FRAMES: STOCK, BOUGHT AND SOLD

	UNITS	AMOUNTS
Opening stock	60	R7 200
Purchases	720	R108 000
Returns	30	R4 500
Closing stock	80	?
Sales	657	

3.3 MANAGEMENT OF INVENTORIES

The information relates to Lyle Furnishers for the financial year ended 28 February 2021. The business sells cupboards, tables and chairs. No stock went missing during the year.

3.3 REQUIRED

Provide ONE different problem (with figures) relating to EACH product and ONE solution to EACH problem

INFORMATION

	CUPBOARDS	TABLES	CHAIRS
Opening stock (units)	200	160	1 300
Purchases (units)	2 500	3 050	6 000
Selling price per unit	R1 750	R850	R350
Credit sales (units)	800	2 400	2 100
Returns to suppliers (units)	500	10	0
Cash sales (units)	1 000	600	2 250
Closing stock (units)	400	200	2 950
Cash received from cash sales	R1 750 000	R470 000	R787 500

ACTIVITY D3 INVENTORY VALUATION AND PROBLEM SOLVING

3.1

3.1.1	
3.1.2	
3.1.3	

3.2	Photo-fix Traders
3.2.1	Camera (Specific identification)
3.2.2	Photo frames (weighted average)
3.2.3	The owner suspects that photo frames are being stolen. Provide a calculation to confirm his suspicions.
3.2.4	Tom is thinking of employing an assistant at a wage of R3 500 per month to control the stock of photo frames. Explain why this is NOT a good idea. Provide TWO points with figures/calculations.

3.3

Provide ONE different problem (with figures) relating to EACH product and ONE solution to EACH problem		
Products	Problems	Solutions
Cupboard		
Tables		
Chairs		

E. COST ACCOUNTING

ACTIVITY E1

1.1 ZENZELE MANUFACTURERS

The following information relates to ZENZELE Manufacturers, a small business that manufactures photo frames. The financial year ended on 30 April 2021.

REQUIRED:

- 1.1.1 Prepare the Production Cost Statement for the year ended 30 April 2021.
- 1.1.2 Complete the abridged (shortened) Income Statement to calculate the net profit for the year ended 30 April 2021.

INFORMATION:

A.

Stock records	30 APRIL 2021	30 APRIL 2020
Raw material stock	R58 560	R37 600
Work-in-process stock	?	R142 000

- Purchases of raw materials for the financial year amounted to R555 000.
- Defective material valued at R21 000 was returned to suppliers.

B. The business produced 39 000 units at a cost of R45 each.

C. The following information was calculated on 30 April 2021.

	R
Direct material cost	?
Direct labour cost	716 960
Factory overhead cost (See D below.)	468 450
Selling and distribution cost (See D below.)	609 850
Administration cost (See D below.)	443 950
Cost of production of finished goods	?
Gross profit	1 250 000

D. The following items must be taken into account:

- Administration cost includes the annual insurance premium of R22 750; however, 60% must be allocated to the factory.
- Factory overhead cost includes the full amount of rent paid, R36 300. However, this should have been allocated according to floor area. The areas are: factory 400 square metres, office 120 square metres, shop 80 square metres.

1.2 UNIT COSTS AND BREAK-EVEN ANALYSIS

Bill's Manufacturers is a business that produces pencil cases. Bill is concerned about his cost of production.

REQUIRED:

- 1.2.1 Explain the difference between *fixed cost* and *variable cost*.
- 1.2.2 Calculate the break-even point for 2021.
- 1.2.3 Comment on the break-even point and the level of production for 2020 and 2021. Explain why the owner should be satisfied or not.
- 1.2.4 Identify the variable cost that should be of great concern to the owner. Explain and provide a calculation to support your answer.
- 1.2.5 Despite the fact that there was a decrease in the fixed costs per unit, the owner is still not satisfied with his control over the fixed costs. Explain and provide calculation(s) to support his opinion.

INFORMATION:

	PENCIL CASES UNIT COSTS	
	2021	2020
Variable costs	R11,60	R11,00
Direct material cost	6,03	5,80
Direct labour cost	4,05	3,50
Selling and distribution cost	1,52	1,70
Fixed cost	R5,40	R5,50
Factory overhead cost	3,50	3,65
Administration cost	1,90	1,85
Selling price per unit	R17,80	R16,50
	Units	Units
Units produced and sold	80 000	65 000
Break-even units	?	65 000

NOTE: Take the inflation rate of 8% into account.

ACTIVITY E1 ANSWER SHEET

1.1 ZENZELE MANUFACTURERS

1.1.1 PRODUCTION COST STATEMENT ON 30 APRIL 2021

Direct labour cost	716 960
Prime cost	
Total manufacturing cost	
Work in process at beginning of year	142 000
Cost of production of finished goods	

1.1.2 Complete the abridged (shortened) Income Statement to calculate the net profit for the year ended 30 April 2021.

Gross profit	1 250 000
Net profit	

1.2 UNIT COSTS AND BREAK-EVEN ANALYSIS

1.2.1 Explain the difference between *fixed cost* and *variable cost*.



--

1.2.2 Calculate the break-even point for 2021.

--

1.2.3 Comment on the break-even point and the level of production for 2020 and 2021. Explain why the owner should be satisfied or not.

--

1.2.4 Identify the variable cost that should be of great concern to the owner. Explain and provide a calculation to support your answer.

--

1.2.5 Despite the fact that there was a decrease in the fixed costs per unit, the owner is still not satisfied with his control over the fixed costs. Explain and provide calculation(s) to support his opinion.

--

ACTIVITY E2: MANUFACTURING

2.1 CONCEPTS

Give ONE cost category for each of the following descriptions by choosing a cost category from the list below. Write only the cost category next to the question number (1.1.1–1.1.4) in the ANSWER BOOK.

direct material cost; direct labour cost; factory overhead cost;
administration cost; selling and distribution cost

- 2.1.1 Salaries paid to office workers
- 2.1.2 Cost of raw materials used in the production process
- 2.1.3 Commission paid to salespersons
- 2.1.4 Rent paid for factory buildings

2.2 CHELSEA MANUFACTURERS

You are provided with information relating to CHELSEA Manufacturers for the year ended 29 February 2021. The business produces one style of handbag.

REQUIRED:

- 2.2.1 Calculate the:
 - Direct labour cost
 - Direct material cost
- 2.2.2 Prepare the Production Cost Statement.
- 2.2.3 The owner is concerned about the production level in 2021.
 - Calculate the break-even point for 2021.
 - Explain whether the owner should be concerned or not. Provide figures.
- 2.2.4 The owner is not satisfied with the internal control of the raw material.

Calculate the following regarding the raw material (fabric):

- Metres of fabric stolen from the storeroom
- Metres of fabric wasted in the factory

Provide a strategy to improve the internal control in EACH case above.

INFORMATION:

A. Workers involved in the manufacturing process:

NO. OF WORKERS	WAGE	EARNINGS PER WORKER	
		5	Basic (normal wage)
	Overtime	Basic rate + 75%	90 hours

NOTE:
Deductions: 8,5% of basic wage
Employer's contribution: 11,5% of basic wage

B. Raw material (fabric):

Raw material purchased is kept in a storeroom before being issued to the factory for production. Stock is valued according to the weighted-average method.

Storeroom stock records:



	METRES	TOTAL AMOUNT (R)
Balance on 1 March 2020	1 350	131 500
Purchases:	5 400	584 000
May 2020	2 500	265 000
September 2020	2 900	319 000
Raw material issued to factory	5 500	?
Stock balance on 29 February 2021	940	?

C. There is no work-in-process stock.

D. Other costs for the financial year (after all the adjustments):

Factory overhead cost	Fixed cost	R343 340
Administration cost	Fixed cost	R226 660
Selling and distribution cost	Variable cost	R217 340

E. Additional information on 29 February 2021:

- 4 200 handbags were produced and sold at R450 each.
- Total sales amounted to R1 890 000.
- Total variable cost per unit was R300.
- 1,25 metres of fabric was used to make one handbag.

ACTIVITY E2

2.1	2.1.1	
	2.1.2	
	2.1.3	
	2.1.4	

2.2.1

Calculate direct labour cost.
Calculate direct material cost.

2.2.2 Production Cost Statement for the year ended 29 February 2021:

Prime cost	
Cost of production of finished goods	

2.2.3

Calculate the break-even point for 2021.

Explain whether the owner should be concerned or not. Provide figures.

2.2.4

The owner is not satisfied with the internal control of the raw material (fabric).

	STOREROOM: Raw material stolen	FACTORY: Raw material wasted
CALCULATION: metres of fabric		
STRATEGY		

ACTIVITY E3

3.1 CONCEPTS

Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (3.1.1–3.1.3) in the ANSWER BOOK.

- 3.1.1 Commission on sales will be classified as an administration cost.
- 3.1.2 Advertising is part of factory overhead costs.
- 3.1.3 Carriage on raw materials purchased increases the cost of raw materials issued for production.

3.2 TREK BIKES MANUFACTURERS

You are provided with information relating to TREK BIKES Manufacturers for the year ended 31 December 2020. The business manufactures one type of bicycle.

REQUIRED:

- 3.2.1 Prepare the following notes to the Production Cost Statement:
 - Direct labour cost
 - Factory overhead cost
- 3.2.2 Prepare the Production Cost Statement.

INFORMATION:

A. Stock balances:

	31 December 2020	1 January 2020
Raw materials stock		
Work-in-process stock	?	R160 000
Finished goods stock	R95 000	R110 000
Indirect factory materials	R15 100	R13 200

B. Employees in the production process:

Number of employees	14 employees
Basic monthly salary of each employee	R7 000
Total overtime hours per employee for the year	144 hours
Overtime rate per hour	R65

Employment benefits:

- All employees in the production process work the same number of overtime hours.
- UIF deductions from the basic salary are 1%. The employer contributes an additional 1% of the **basic** salary to UIF.

C. The factory foreman is entitled to an annual salary of R156 000 (including UIF and pension benefits).

D. Accounts appearing in the General Ledger on 31 December 2020:

Water and electricity	R104 000
Rent expense	R115 200
Insurance	R71 400

- 10% of the water and electricity was used by the administration office. The factory used the rest.
- Rent is divided between the different sections according to floor space:

	Total	Factory	Administration	Sales
Floor space	1 500 m ²	600 m ²	400 m ²	500 m ²

- Insurance of R2 800 is still outstanding for December 2020. Insurance is divided in a ratio of 3 : 2 : 2 between the factory, administration and sales departments.

E. Indirect materials of R38 400 were bought for the factory during the financial year.

F. The following figures were calculated for the financial year:

- Depreciation on factory equipment, R277 220
- Direct (raw) materials issued for manufacturing, R2 100 000

G. Details from the Income Statement for the year:

Sales of finished goods	R6 200 000
Cost of sales of finished goods	R4 015 000

3.3 PEELS HONEY

This business produces and sells one type of syrup. The sole owner is Craig Manning. The financial year-end is 31 October.

REQUIRED:

- 3.3.1 Calculate the break-even point for the year ended 31 October 2020. (4)
- 3.3.2 Should the business be satisfied with the number of units that they produced and sold during the current financial year? Explain. Quote figures. (3)
- 3.3.3 Give TWO possible reasons for the increase in the direct material cost per unit in the current financial year. (4)
- 3.3.4 Craig suggests that, in order to improve financial results in the new financial year, the quantity of syrup per bottle must be reduced by 10% and the selling price must remain the same. Give TWO valid reasons why he should not do this. (4)

INFORMATION:

The following information was taken from the accounting records:

	31 October 2020		31 October 2019	
	Total	Per unit	Total	Per unit
Sales	R1 792 000	R28,00	R1 794 000	R23,00
Variable costs	R1 024 000	R16,00	R975 000	R12,50
Fixed costs	R736 000	R11,50	R630 000	R8,08
Direct material cost	R656 000	R10,25	R592 800	R7,60
Break-even point	?		60 000 units	
Number of units produced and sold	64 000 units		78 000 units	

ACTIVITY E3

3.1 CONCEPTS

3.1.1	
3.1.2	
3.1.3	

3.2 TREK BIKES MANUFACTURERS

3.2.1 DIRECT LABOUR COST

FACTORY OVERHEAD COST

3.2.2 PRODUCTION COST STATEMENT
DECEMBER 2020

FOR THE YEAR ENDED 31

Direct (raw) material cost	2 100 000
Prime cost	
Total manufacturing cost	
Work-in-process (beginning of year)	160 000
Cost of production of finished goods	

3.3 PEELS HONEY

3.3.1

3.3.2

3.3.3

3.3.4

ACTIVITY E4

4.1 HANGING LOOPS CURTAINS

HANGING LOOPS Curtains produce curtains to any client's specifications. The financial information is provided for the financial year which ends on 31 March 2021.

REQUIRED

Use the information below to answer the following questions:

4.1.1 Complete the following for the financial year:

- Production Cost Statement
- Factory Overhead Note

(All other calculations must be shown in brackets.)

4.1.2 Provide a calculation to prove how the Direct Material Cost were calculated as R2 270 000.

INFORMATION

A Balances:

	31 March 2021	1 April 2017
Direct Material	R292 600	R224 000
Work in Process	?	R69 500
Indirect Material	R4 300	R3 800

B Transactions during the year:

Direct Material

- Direct material bought during the year, R2 500 200
- Defective material returned to suppliers, R140 000
- On 31 March 2021, a consignment of material worth R36 000, was partly damaged in a truck accident. The supplier informed the owner that 60% of the material could still be used and the purchase was accordingly recorded. This transaction took place after the final stock figure was calculated.

Salaries and wages

- Salaries and wages paid during the year, R780 000. R260 000 of this was paid to the factory manager and R175 000 to the administrative staff.
- The business also contributes to the following staff members' pension funds:
 - Factory manager: R26 000
 - Production staff: R34 500

Other costs:

- The VAT (15%) on Indirect Material purchased during the year was R4 695. Indirect Material is used in the factory only.
- Factory insurance for the year, R62 400. Included is an annual policy taken out on 1 December 2017 worth R21 600.
- The Trial Balance reflects Factory rent as R77 000. The rent for March is still outstanding. The rent increased on 1 March 2021 with R700 per month.
- Depreciation on factory equipment, R160 000.
- Depreciation on delivery vehicle, R42 700 .

C Additional information:

- Cost of sales for the year was R2 605 200.
- 80% of all curtains produced, was sold during the year.

4.2 GLASS AND CO.

Glass and Co. produces glass bottles used for food storage. Their financial year ends on 31 July 2021.

REQUIRED

- 4.2.1 Explain why it is important to calculate the Breakeven Point.
- 4.2.2 Why is the production staff's wages seen as a variable cost, but the factory cleaner's wages is a fixed cost?
- 4.2.3 Calculate the following:
- (a) Factory overhead per unit
 - (b) Total Fixed Cost
 - (c) Variable cost per unit
- 4.2.4 Calculate the Breakeven Point. Should Glass and Co. be satisfied with their current production of 15 000 units? Explain.

Factory overhead cost

4.1.2 Provide a calculation to prove how the Direct Material Cost were calculated as R2 270 000.

4.2 GLASS AND CO.

4.2.1 Explain why it is important to calculate the Breakeven Point.

4.2.2 Why is the production staff's wages seen as a variable cost, but the factory cleaner's wages is a fixed cost?

4.2.3 Calculate the following:

(a) Factory overhead per unit



(b) Total Fixed Cost

(c) Variable cost per unit

4.2.4

Calculate the Breakeven Point.

Should Glass and Co. be satisfied with their current production of 15 000 units?
Explain.

F. TANGIBLE ASSETS / FIXED ASSETS

ACTIVITY F1

1. TANGIBLE ASSET, ETHICS, GAAP AND INTERNAL CONTROL

The information given below was extracted from the accounting records of Sizwe LTD. on 31 August 2021

REQUIRED:

- 1.1.1 Refer to the Tangible asset note to the balance sheet as at 31 August 2021 and additional information 3 and prepare the Asset Disposal Account.
- 1.1.2 Refer to the Tangible asset note to the Balance sheet and fill in the missing figures denoted by (*)
- 1.1.3 At the Annual General Meeting, a shareholder, P. Query felt that the directors were manipulating the financial statements of the company by understating the value of the tangible assets. He felt that the Land and buildings should be reflected at its current market value of R5, 5 million instead of the cost price. If you are the accountant of the business, how will you respond to P. Query. You must use the relevant GAAP principle in your explanation.
- 1.1.4 Christo, the owner of CC printer used a business EFT for R10 000 to purchase a laptop for his son as a birthday gift. He informs you, the accountant to record this R10 000 as a purchase of equipment for business use. In your opinion, is this an acceptable business practice? Give reasons for your answer.

INFORMATION:

2. Note to the Balance sheet as at 31 August 2021

Note1: Fixed Asset/Tangible Asset	Land and Building	Equipment	Vehicles
Cost price	*	490 000	*
Accumulated Depreciation	0	(203 000)	(520 000)
Carrying value- at the beginning of the year	*	*	460 000
MOVEMENTS			
Additional at cost	*	150 000	240 000
Disposal at CV	0	0	(81 920)
Depreciation for the year	0	*	(104 000)
Carrying value –at the end of the year	2 400 000	*	*
Cost price	2 400 000	*	1 020 000
Accumulated Depreciation	0	(286 500)	(505 920)

3. Additional information

- A. The following invoice was received from Tash Construction and recorded.
 - Extension to the director's board room 280 00.
 - Repairs to the roof, R 20 000.
- B. Equipment was purchased on 1 June 2021. No equipment was sold during the year.
- C. Vehicles
 - A new vehicle was purchased on 1 June 2021
 - An old delivery van was sold on credit at a profit of R 5 000 on 21 August 2021
- D. Depreciation should be provided as follows:
 - Equipment: 10% p.a. on cost price.
 - Vehicles: 20% p.a. on the diminishing balance method.

- **ACTIVITY F1**
- **ANSWER SHEET**
- **1.1.1**

**GENERAL LEDGER OF SIZWE LTD
NOMINAL ACCOUNT SECTION
ASSET DISPOSAL ACCOUNT**

1.1.2

Note to the Balance sheet as at 31 August 2021

Note 1: Fixed Asset/Tangible Asset	Land and Building	Equipment	Vehicles
Cost price		490 000	
Accumulated Depreciation	0	(203 000)	(520 000)
Carrying value- at the beginning of the year			460 000
MOVEMENTS			
Additional at cost		150 000	240 000
Disposal at CV	0		(81 920)
Depreciation for the year	0		(104 000)
Carrying value –at the end of the year	2 400 000		
Cost price	2 400 000		1 020 000
Accumulated Depreciation	0	(286 500)	(505 920)

-
-

1.1.3 If you are the accountant of the business, how will you respond to P. Querry. You must use the relevant GAAP principle in your explanation

1.1.4. In your opinion, is this an acceptable business practice? Give reasons

-
-
ACTIVITY F2

Problem solving, analysis and interpretation of Assets

- Barry and Brenda Ndlovu run a taxi business Called BBN Taxi Service. They are concerned that his revenue from tax fares has not met their budget of R2 000 000 and that the fuel and repairs costs have exceeded his budget for R950 000.

The following information from the ledger, the Fixed Asset Register and other records on 28 February 2021, the last day of the financial year.

REQUIRED:

2.1. Consider the information provided below. Identify two problems per taxi. Quote amounts to support your opinion.

INFORMATION:

Details	Taxi 1	Taxi 2	Taxi 3
Name of the driver	JAMES	BONGI	MBUSO
Date of purchased	1 March 2021	1 March 2020	1 March 2021
Cost price of Vehicle	52 000	205 000	360 000
Accumulated depreciation	51 999	123 000	72 000
Amount of revenue brought in	1 080 000	288 000	306 000
Kilometres covered for the past year	120 000km	70 000km	34 000km
Fuel and repairs cost for the year	732 000	336 000	160 000
Fuel and repair costs per kilometre	6.10	4.80	4.70

ACTIVITY F2

ANSWER SHEET

Problem solving, analysis and interpretation

TAXI 1	
TAXI 2	
TAXI 3	

ACTIVITY F3.

ETHICS AND CONTROL, PROBLEM SOLVING

Required:

Refer to each below and explain:

- ✓ Whether you think a problem exist or not.
- ✓ How you would handle each case

INFORMATION:

3.1.1 The owner's son who is a university student use the business vehicle on Saturday to go out clubbing with his friends. The business policy states that no business vehicle should be used for private purpose.

3.1.2 The business owns a plasma TV which is used mainly for presentations for client. The personnel Manager takes it home during weekends to watch sport.

3.1.3 The owner gave some lap-top computer belongings to his wife. He instructed the bookkeeper not to record this.

3.1.4The Secretary frequently receives expensive gifts from a computer software company. She buys computer software and equipment from this company.

ANSWER SHEET
ACTIVITY F3

NO	PROBLEM	SOLUTION
3.1.1		
3.1.2		
3.1.3		
3.1.4		



KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA



CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS) SUPPORT DOCUMENT

GRADE 12

ACCOUNTING

PAPER 2

TEACHERS GUIDE

2021

ACTIVITY A1

1.1.1	Value Added Tax	
1.1.2	15 %	
1.1.3	Zero Rated	
1.1.4	A	PAYE
	B	salary
	C	Customers
	D	Indirect
1.1.5	<p>Comment:</p> <ul style="list-style-type: none"> It is unethical, you must be a registered VAT vendor to charge tax All money collected from customers for VAT must be paid to SARS <p>Consequences:</p> <ul style="list-style-type: none"> The owner may face the legal implications which may results to jail sentence SARS can pose a penalty to the business 	

ACTIVITY A2

2.1	
(i)	Indirect
(ii)	Decrease
(iii)	Asset

2.2	Details	Amount
	Incorrect amount payable	112 539
(i)	Shop rent paid	(2 025)
(ii)	Vehicle purchased (-22 500 – 22 500)	(45 000)
(iii)	Correction on invoice (-7 500+ 6 900) or 50 000 x 8% x 15%	(600)
	Correct amount payable	64 914

ACTIVITY A3

3.1 VALUE ADDED TAX

3.1.1	True
3.1.2	False
3.1.3	True
3.1.4	False
3.1.5	True

3.2.1 After taking into account the errors and omissions, calculate the VAT amount that is either payable to or receivable from SARS. Indicate whether this amount is receivable or payable.

VAT	
1 800	2 850
308	3 630
594	480
74	
750	
Balance b/d 3 434	

OR

$$-2\ 850 - 3\ 630 + 1\ 800 + 308 + 594 + 74 - 480 + 750 = 3\ 434$$

OR

$$2\ 850 + 3\ 630 - 1\ 800 - 308 - 594 - 74 + 480 - 750 = 3\ 434$$

Payable to SARS

3.2.2 The internal auditor discovered that the owner used the VAT collected from customers to pay expenses of the business. Therefore, he was unable to pay the VAT owed to SARS on the due date.

State ONE point of concern that you would offer the owner concerning this practice.

ONE valid point

- It is unethical.
- The business is an agent of SARS – money collected on behalf of SARS should not be used to defray other operational expenses.

ACTIVITY A4

Explain why the government implemented VAT in South Africa. State ONE point.

- Additional source of revenue for the government.
- To fund infrastructure/ plans of the government.
- To provide for basic services for the communities

Explain why some products are zero-rated products. State ONE point.

- To make basic necessities affordable to indigent/ poor communities

Calculate the amount payable to SARS in respect of VAT for the two months ended 30 April 2021.

WORKINGS

$$9\ 450 + 61\ 800 - 34\ 500 - 1\ 890 - 2\ 520 + 1\ 140 + 1\ 380 = 34\ 860$$

ACTIVITY A5

5.1

5.1.1	WORKINGS	ANSWER
(a)	$1\ 104 - 960$	144
(b)	$52\ 600 \times 15\%$	7 890
(c)	$720 \times 100/15$	4 800
(d)	$\frac{(112\ 470 - 6\ 325) \times 15/115}{5\ 500 + 825}$ OR $\frac{112\ 470 \times 15/115}{14\ 670 - 825}$ OR $(97\ 800 - 5\ 500) \times 15\%$	13 845

5.1.2 You are the internal auditor. The sole owner, Samson, used a business cheque to buy a new car for R460 000 including VAT. This car is kept at home for his wife's use. Samson says the vehicle must be recorded as a business asset and R60 000 must be recorded as a VAT input in the business' books.

Explain what you would say to Samson. Provide TWO points.

Expected responses for two marks:

- This is tax evasion / he is attempting to reduce the amount due to SARS for VAT (this is illegal and unethical)
- He will be increasing the input VAT, effectively reducing the amount due to SARS.
- He could be fined or imprisoned because it is a criminal offence.
- Personal transactions and business transactions should be kept separate (Business entity concept) / Samson should pay for this out of his private bank account.
- As the car is not used for business purposes, the full amount of R460 000 should either be treated as drawings or a reduction of his capital contribution.

**B 7: CREDITORS RECONCILIATIONS
MEMORANDUM**

7.1 CREDITORS RECONCILIATION

7.1.1 Provide TWO reasons why it is important for the business to prepare the Creditors' Reconciliation Statement.

- It helps to detect fraud, errors and omissions.
- It helps to identify differences between the balance in the statement and the balance in the business' records.
- It is an internal control measure.

4

7.1.2 Calculate the correct Creditors' Control Account balance after taking into account the relevant errors and omissions.

CREDITORS CONTROL ACCOUNT

$$32\ 640 + 5\ 020 + 12\ 800 - 1\ 280 - 1\ 280 + 1\ 720 = 49\ 620$$

6

7.1.3 Calculate the correct balances for creditors Zebo Suppliers and Leo Wholesalers, list by taking into account the errors and omissions.

Creditor	Workings	Balance
Zebo Suppliers	16 580 + 12 800 + 1 720 + 200	31 300
Leo Wholesalers	29 520 - 6 300 - 4 900	18 320
		49 620

10

ACTIVITY B 8

8.1 CREDITORS' RECONCILIATION AND INTERNAL CONTROL

8.1.1 CREDITORS' RECONCILIATION STATEMENT ON 30 JUNE 2019

	R
Balance as per statement of account	10 115
Invoice 5671 6 555	13 455
6 900 + (6 900 - 345) OR one mark one mark 13 800 - 345	
Invoice 5780	(3 320)
Invoice 5801	1 850
Invoice 6011	5 800
Electronic payment	(10 000)
Discount received	(500)
	17 400

Calculate the correct balance of Bailey Ltd in the Creditors' Ledger.

$$17\,850 - 450 = 17\,400$$

13

8.2.1 Refer to Information D.

Calculate the average creditors' payment period in days.

$$\frac{114\,000 + \frac{1}{2}(50\,000 + 64\,000)}{416\,100} \times 365$$

$$= \frac{57\,000}{416\,100} \times 365$$

two marks one mark

$$= 50 \text{ days } \boxed{\checkmark}^*$$

5

2.2.2

Provide TWO internal control measures which can be implemented by a business for good internal control over creditors.

- The statement of account of individual creditors must be reconciled with their accounts in the Creditors' Ledger.
- Conduct internal audits to minimise the possibility of fraud and error.
- Check documents to ensure accuracy of calculations and entries.
- Ensure that items ordered from creditors are correctly received.
- Ensure that all purchases have valid authorisation.
- Ensure that creditors are paid on time to make use of discounts / avoid interest charged discounts.

- Make full use of credit terms to assist cash flow.

4

ACTIVITY B9

CREDITORS' RECONCILIATION:

9.1.1

Although Future Traders offers credit terms of 60 days, Generations Suppliers prefers to settle their account within 30 days during certain months. Provide TWO points to indicate that it is not a good decision.

- Keep money as long as possible in own bank account to earn interest.
- First collect money from debtors to pay creditors.
- If no early payment discount is offered.
- Pay as late as possible, but avoid unnecessary interest charged.

2

9.1.2

	CREDITORS LEDGER OF GENERATION SUPPLIERS	STATEMENT FROM FUTURE TRADERS
	21 130	32 600
A		+ 2 100
B	+ 300	
C	- 500	
D	+ 6 070	
E		- 7 700
	27 000	27 000

10

ACTIVITY B 10

10.1 CREDITORS' RECONCILIATION

10.1.1

	CREDITORS' LEDGER	CREDITORS' RECONCILIATION STATEMENT
Balance	43 900	40 475
(a)		+ 10 000
(b)		- 3 300
(c)	+ 750	
(d)		8 525 - 7 750 - 775
(e)	- 8 600	
(f)	+ 2 100	
(g)		(7 500 + 750) - 8 250
	38 150	38 150

10

10.1.2

Suggest TWO internal control measures that he can use to ensure that such practices do not occur.

- Division of duties /rotate duties. (the manager must not be the only person responsible for ordering and recording goods.)
- Have special order forms to be signed by two people.
- Check documents regularly against deliveries.
- Do regular/random stock counts to verify stock records.

4

ACTIVITY B 11

11.1. Use the table provided to indicate corrections and entries that must be made to the Creditors' Control Account and the creditors' list.

Provide figures and a plus (+) or minus (-) sign for each correction.

	Creditors' Control Account	Creditors' List
Balance/Total on 30 October 2018	R40 130	R39 490
(i)	- 180	- 180
(ii)		+ 400
(iii)	- 240	
(iv)	+2 100	+ 2 100
Balance / Total on 31 July 2018	41 810	41 810

ACTIVITY B 12

12.1 CREDITORS' RECONCILIATION

	Creditors' Ledger	Creditors' Reconciliation Statement
Balance	28 370	25 300
A		+13320
B	+2700	
C	+350	
D		-7200
E	-2700	-2700
	28720	28720

ACTIVITY C1

1.1.1 **Calculate the mark-up percentage on spare parts used in the Projected Income Statement for March 2021.**

$$34\,312P / 45\,750 \checkmark \times 100 = 75\% \checkmark \quad \text{one part correct}$$

3

1.1.2 **Calculate % decrease in service fee income expected in April 2021.**

$$20\,250 \checkmark / 225\,000 \checkmark \times 100 = 9\% \checkmark \quad \text{one part correct}$$

(225 000 – 204 750) one mark

3

1.1.3 **Calculate the additional space (in square metres) the business will rent from April 2021.**

$$9\,000 / 75 = R120 \checkmark$$

$$13\,800 / R120 = 115 \text{ sqm} \checkmark$$

Additional space = 115 – 75 = 40 square metres one part correct

OR

4 800 one mark

$$(13\,800 - 9\,000) = 40 \text{ sqm one method mark}$$

120 two marks

3

1.1.4 **Calculate the interest rate on the fixed deposit.**

$$8\,550 - 4\,050$$

$$\frac{4\,500 \checkmark \times 12 \checkmark}{675\,000 \checkmark} \times 100 = 8\% \checkmark \quad \text{one part correct}$$

4

1.2

Comment on the control of stock and explain how Amore intends to correct this. Quote figures.

Each item ✓✓ Figures ✓ Comparison figures not essential

Trading stock deficit reduced to R3 000 (was high at R21 000)

Increase in security expenses by R6 300 / from R7 500 to R13 800 / by 84%.

3

1.3.1

Sam is thinking of purchasing the business premises rather than renting it. State ONE advantage and ONE disadvantage of this option.

Advantage ✓✓ part-mark for unclear / incomplete answer

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

Disadvantage ✓✓ part-mark for unclear / incomplete answer

- Rates on property must be paid.
- Additional maintenance costs will be incurred.
- Large initial cash outlay or an additional monthly instalment, including interest.
- Not easy to relocate quickly
- Costs and time involved in selling a building.

4

1.3.2

Sam offers a free delivery service of spare parts to customers, but plans to discontinue this service on 31 March 2021.

State TWO points to support this decision.

Any TWO relevant points: ✓✓ ✓✓ part-marks for unclear / incomplete answer

- Customers will be forced to have the spare parts fitted as part of the service offered by the business.
- The business will be saving on the running cost of the delivery vehicle
- The main line of business is the repairing of vehicles – the sale of spare parts supports this
- The profit on sale of spare parts is considerably lower than the fee income for the repair service.

4

1.3.3

Calculate the cost of the new vehicle that she plans to purchase on 1 April 2021.

$\frac{9\,000}{0,15} \times 12 = R720\,000$ ✓ one part correct
0,15 ✓ or 15%

4

<p>1.4.1</p>	<p>Explain whether Water and electricity has been well controlled, or not.</p> <p>Comment on control ✓ Figures ✓</p> <p>This expense has been well-controlled. If the projected amount of R6 750 considered the increase, it would have been R7 762,50. Only R7 500 was spent (R262,50 less than the adjusted projected amount.)</p> <p>OR</p> <p>The projected amount (R6 750) has not taken in account the tariff increases of 15% affected on 1 February 2021, which would have led to an adjusted projected amount of R7 762,50.</p>	<p style="text-align: center;">2</p>
<p>1.4.2</p>	<p>Explain whether you agree with Sam's decision not to use the full budget for Advertising.</p> <p>Comment on decision ✓ Figures ✓</p> <p>The actual amount spent is R4 350 less than the budgeted/projected. / The amount spent (R2 700) is lower than the projected amount (R7 050). This was a poor decision and the full amount should have been used (considering that that mark-up on cost was also adjusted from the projected 65% to 80%).</p> <p>This had a negative effect on fee income (R33 750 less than projected) and sales of spares (R47 250 less than projected)</p>	<p style="text-align: center;">2</p>
<p>1.4.3</p>	<p>Explain whether Consumable stores have been well controlled, or not.</p> <p>Comparison of fee income and consumable stores ✓ Figures ✓</p> <p>Part-mark for unclear / incomplete answer Comparison figures not necessary but may enhance explanation</p> <p>Fee income was less than budgeted by R33 750 (15%) whilst servicing expenses was over the budget by R9 675 (21,5%). An actual decrease in fee income should see a proportional decrease in consumable stores used. This indicates a lack of control.</p>	<p style="text-align: center;">2</p>
<p>1.4.4</p>	<p>Explain how Sam's decision about the mark-up percentage on spare parts has affected the business.</p> <p>Comparison of mark-up% and sales ✓ Figures ✓</p> <p>Part-mark for unclear / incomplete answer Comparison figures not necessary but may enhance explanation</p> <ul style="list-style-type: none"> • The increase in the mark-up percentage (65% to 80%) negatively impacted in spare-part sales. • Sales was less than projected by R47 250 (R193 050 to R145 800). • Profit on sales was less than projected by R11 250 (R76 050 to R64 800). 	<p style="text-align: center;">2</p>

ACTIVITY C2

2.1 The main reason why bad debts would not appear in the Cash Budget is because it is a/an

It is a non-cash item ✓✓

2

2.2 Calculate the missing amounts indicated by (a) to (d) in the Cash Budget for October and November 2020.

	Calculation	Amount
(a)	30 000 $\square \div 5\%$ or $\times 100/5$ ✓ $\times 60\%$ ✓ correct One part	360 000 \square
(b)	R28 250 ✓ $\times 80/20$ ✓ correct One part	113 000 \square
(c)	6 600 ✓✓ (3 300 $\times 2$) $\times 110\%$ ✓ correct One part	7 260 \square
(d)	201 600 ✓ $\times 11,5\%$ ✓ $\times 1/12$ ✓ correct One part	R1 932 \square

15

2.3 Complete the Debtors' Collection Schedule.

	CREDIT SALES	OCTOBER	NOVEMBER
September	152 000 ✓✓	76 000	
October	240 000 $\square \square$ 6.1(a) $\div 60$ $\times 40$	102 600	120 000 \square 50% of Oct credit sales
November	158 400	158 400 $\times 45\%$ $\times 95\%$	67 716 $\square \square \square$
		178 600	187 716 \square operation

9

2.4 Calculate the percentage increase in sundry expenses.

$\frac{2\ 190 \checkmark \checkmark}{(89\ 790 - 87\ 600)} = 2,5\% \square$ One part correct

87 600 ✓

4

2.5 The Cash Budget for October and November 2020 indicates that this business will face serious financial difficulties. Identify TWO items to support this statement. Quote relevant figures.

Item ✓ ✓ Figures ✓ ✓

- The estimated overdraft for October is R82 800 and for November it is R49 300. (This exceeds the overdraft limit of R44 000 as approved by bank.)
- The business is going to acquire a loan of R201 600 in November 2020.

4

2.6

Explain why each of the items reflects a problem for the business. State TWO points in EACH case.

Item	Explanation
Collection from debtors	Any two valid reasons ✓ ✓ <ul style="list-style-type: none"> • Collections are much lower than expected. • This will cause a cash flow problem. • Internal control of debtors is poor.
Drawings	Any two valid reasons ✓ ✓ <ul style="list-style-type: none"> • This puts strain on meeting more important business expenses. • This creates a further cash flow problem. • It is not a good business practice (unethical) for the owner to draw more money while the business is struggling. (Increased loans, overdraft)
Insurance	Any two valid reasons ✓ ✓ <ul style="list-style-type: none"> • The policy will lapse (risk of being uninsured). • It will be difficult to replace assets. • There could be an increase in premiums in future.

6

ACTIVITY C3

3.1 Complete the following sentences by filling in the missing word(s). Write only the word(s) next to the question number (4.1.1 – 4.1.2)

3.1.1 The main purpose of preparing the Cash Budget is...

Any valid point. ✓✓
 To plan
 To predict cash flows/ determine receipts and payments for the future
 To control cash

2

3.1.2 ONE item in the Cash Budget that will not be reflected in a Projected Income Statement is...

Any valid point. ✓✓
 Loan/Assets/Payments to creditors/Drawings/Receipts from debtors/Fixed deposits/Capital/Dividends

2

3.2 Prepare the Debtors' Collection Schedule for December 2020

Months		2020			
		Credit sales	October	November	December
Actual	August	345 000	138 000		
	September	480 000	144 000	192 000	
Budgeted	October	300 000	57 000	90 000	120 000 ✓✓
	November	210 000		39 900	63 000
	December	180 000			34 200 ✓✓
			339 000	321 900	217 200 ✓

5

3.3 Calculate the missing figures in the Cash Budget indicated by (i) to (v).

	CALCULATION	ANSWER	
(i)	350 000✓ x 40%✓	140 000	✓
(ii)	(500 000 x 100/200) = 250 000✓✓ x 80%✓	200 000	✓
(iii)	360 000✓ x 1%✓ OR 43 200 (1 mark) ÷12 (1 mark)	3 600	✓
(iv)	6✓ x R1 378✓ x 4 weeks✓	33 072	✓
(v)	6 758✓ x 100÷109✓	R6 200	✓

17

3.4 In order to increase sales and the number of customers, Lizzy intends to advertise that credit limits for all credit customers will be increased to R35 000 and that new customers are welcome to open accounts during January.

Give TWO points of advice to Lizzy regarding this decision.

Any TWO valid points. ✓✓ ✓✓

- Do not sell more on credit as this will worsen the overdraft
- He must screen debtors properly (e.g. pay slip/ credit reference), not simply allowing them to open accounts without checking the ability to pay.
- Only increase credit limits of customers who settle their debts promptly
- He must improve the rate of collection from debtors by charging interest

4

TOTAL MARKS
30

ACTIVITY C4

4.1. What would you say to Bennie about the mistakes that he says his wife has made in compiling the budget with regard to the depreciation and the contribution of a new delivery vehicle?

These are not mistakes. Both are non-cash items which do not affect the bank balances so they must not be in a Cash Budget. ✓✓

2

4.2. Debtors Collection schedule for December 2019 & January 2020 ✓✓✓✓

All figures correct =4 marks; Mostly correct =3; Some correct =2; Few correct=1; None correct =0

MONTH	CREDIT SALES	DECEMBER 2019	JANUARY 2020
October	241 200	84 420	
November	290 880	145 440	101 808
December	320 400	30 438	160 200
January	223 200		21 204
Cash from debtors		260 298	283 212

4

4.3. **Calculate the % increase in the budgeted salaries and wages in January 2020**

$$\frac{4\ 080}{68\ 000} \times \frac{100}{1} = 6\% \checkmark \square$$

Calculate the % decrease in the amount budgeted for commission income in January 2016

$$\frac{3\ 600}{24\ 000} \times \frac{100}{1} = 15\% \checkmark \square$$

4

4.4. **Calculate the total finance charges incurred in the purchase of the vehicle.**

$$(9\ 000 \times 12) \\ 46\ 000 + 216\ 000 - 196\ 000 = R66\ 000$$

2

4.5. **Effect on the budget:**

$$\text{Cost of repairs} = 37\ 500 - (75\% \times 8\ 000) = 31\ 500$$

TWO points that Mtini would mention to Bekker:

Any two valid points e.g.

- This was irresponsible as insurance terms have been violated.
- The repairs should be debited to drawings as this is a personal expense.

4

4.6. **Calculation of rent income budgeted for December 2015:**

$$15\ 950 \times 100/110 = R14\ 500 \checkmark \text{ any one part correct}$$

Suitable explanation:

Any one valid explanation e.g.

- The tenant paid the February rent in advance.
- Additional unused property was rented out at the same rate.

3

7. **Calculate the budgeted payments to creditors in January 2016.**

$$\begin{aligned} \text{December total sales} &= 801\ 000 \\ \text{Cost of sales: } &801\ 000 \times 100/180 = 445\ 000 \\ \text{Credit purchases: } &222\ 500 \\ \text{Paid in January} &= 222\ 500 - 22\ 250 = R200\ 250 \end{aligned}$$

Mtini feels that the business need not buy any goods for cash, and that all goods should be bought on credit. In your opinion, will this improve the business Cash Budget? Explain.

Yes. This will mean that the R222 500 to be paid for cash sales in December will then be paid in January, which will improve the cash balance at the end of December by this amount. When the amount is paid in January they will also earn a R22 250 discount as well. There is also a similar effect in the following month.

4

4.8. **Explain the difference between interest that is capitalized and interest that is not capitalized.**

Interest that is capitalized is added to the loan. Monthly repayments include the repayment of the loan and interest. Interest that is not capitalized is paid separately.

Calculate the amount of the loan repaid on 31 December 2015.

$$500 \div 0,15 \times 12 = R40\ 000$$

3

4.9. **Use the Cash Budget to identify the missing figures, totals and balances designated A-D. You are not required to identify the figures designated with a question mark (?).**

All figures correct =4 marks; Mostly correct =3; Some correct =2; Few correct=1; None correct =0

A	B	C	D
(118 902)	(80 872)	19 290	119 395

4

4.10. **Calculation of the average debtors' collection period (in days) for the financial year:**

$$\frac{530\ 000}{\frac{1}{2}(535\ 225 + 764\ 775)} \times 365 = 80 \text{ days}$$

The % of debtors who are complying with the credit terms (as indicated in the Debtors Age Analysis):

$$(R156\ 725 + R234\ 250) \div R764\ 775 \times 100 = 51,1\%$$

A comment on the above two calculations:

It is unacceptable that the debtors are taking so long to pay and that only half of them are complying with the credit terms. □

Details of the main mistakes that the business is making with regard to the debtors. Also provide the names of specific debtors to illustrate these main problems, and suggest a solution for each mistake:

PROBLEMS	DEFAULTING DEBTOR/S	SOLUTION/ADVICE
Exceeding the credit limit	Minaj, Britney, Hannah	Do not continue supplying these debtors; reduce their credit limits; give incentives for cash purchases.
Taking longer than the credit term	Britney, Jemson, Drake, Wayne	Charge interest on overdue accounts; settlement discounts to encourage early settlement of accounts.

2

2

1

6

4.11. Consider the actual and budgeted figures for Advertising, Telephone and Advertising. Comment on each item, and offer ONE point of advice in each case.

	Comment ✓✓✓	Advice ✓✓✓
Advertising	The expense is the same as budgeted. This appears to be well planned. However, when one looks at the monthly sales, it shows that advertising is not effective.	They should consider increasing the advertising budget. Can be strategically linked to sales. The business must look at trends/codes played at different seasons and budget accordingly.
Telephone	Always overspending / under budgeted	Need extra control, investigate whether there is a need to increase (calling debtors etc) or if it is being abused.
Insurance	This is R6 000 under-budget each month.	They should consider whether they are still adequately covered or whether they have genuinely negotiated a better rate. This might be false advertising if the insurance company fails to pay out for legitimate claims.

6

4.12. **Bennie has made two significant decisions by taking out a new loan and admitting a partner to the business. What would you say to Bennie about these decisions and the effect on the cash flow of the business?**

Any valid response **Excellent answer = 3 marks; Good = 2; Satisfactory/Poor = 1; Incorrect = 0**

Expected response:

Although he has used these strategies to convert his large overdraft into a positive balance, he should rather have looked at the real reasons for the shortcomings e.g. credit sales now account for 52 % (2.4m/4.6m) of total sales and debtors are not being well controlled. He now has extra interest to pay, even though the interest rate is better, as the loan raised is larger than the one cancelled. Also he has to share profits with another partner now – when he starts to take drawings, the cash situation will get worse.

3

TOTAL MARKS
50

ACTIVITY C5

5.1 Khumbulani TRADERS
CASH BUDGET FOR NOVEMBER AND DECEMBER 2020

CASH BUDGET		NOVEMBER 2020	DECEMBER 2020
		R	R
CASH RECEIPTS:			
Cash sales		420 000	399 000
Cash from debtors		536 025	597 975
Commission income		✓ 6 000	✓ 7 000
Total receipts	5	<input checked="" type="checkbox"/> 962 025	1 003 975
CASH PAYMENTS:			
Cash purchases of stock		120 000	114 000
Payments to creditors		520 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 480 000
Sundry expenses		22 500	✓ 20 700
Wages and salaries		✓ 200 000	✓ 256 000
Advertisements		✓✓ 33 000	0
Repayment of loan		<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 36 000	
Interest on loan		✓ 3 780	✓ 3 510
Total payments	17	935 280	874 210
Surplus (deficit)		26 745	<input checked="" type="checkbox"/> 129 765
Opening bank balance		(56 000)	✓ (29 255)
Closing bank balance		(29 255)	<input checked="" type="checkbox"/> 100 510
			25

5.2 Khumbulani (PTY) LTD

5.2.1 Calculate the percentage increase in the amount budgeted for salaries and wages for October 2015.

$$\frac{1\ 800}{30\ 000} \times \frac{100}{1} = 6\% \checkmark\checkmark$$

Should the employees be satisfied with this? Explain.

Yes / No – compare to inflation rate / compare to directors fees ✓

3

5.2.2 The financial director is pleased with the work being done by the bookkeeper and internal auditor. Identify an expense that indicates that he is correct.

✓ Audit fees

Explain your answer.

The audit fees are much lower than expected, which means that they spent less time on the audit / records were in order

Expected response for 1 mark: Audit fees lower than expected

3

5.2.3 **Comment on how the new competitor has affected the sales of Khumbulani Beds. Provide figures.** Comment

✓✓ Figures ✓✓

Cash sales are ¼ of the amount budgeted
Cash sales projected R1,2m while actual was R300 000
Actual cash sales for Sept were R1,28m and dropped to R300 000 in Oct
Budgeted cash sales was 80% but actually achieved 20%
Sales decreased by 60 beds
Gross profit decreased by R120 000 (R2 000 gross profit per bed)
Sales decreased by R400 000

Explain how Khumbulani Beds has responded to this problem. Provide THREE points. Provide figures.

Point 1	They deliberately increased credit sales (R300 000 was budgeted but R900 000 was sold on credit).
Point 2	They increased delivery expenses to expand their target market / improve after-sales service. (Budgeted R150 000 but spent R168 000; 12% increase).
Point 3	They spent R40 000 on advertising (Budgeted R10 000; 300% overspent). / Decreased directors fees by R44 000 to fund more advertising R30 000.

13

5.2.4 **Comment on the cash balances. Provide figures.**

Any valid comment ✓ Figure/s ✓ Expected responses:

Disappointing / they expected a closing balance of R335 000
The actual balance is an overdraft of R210 000 (difference R545 000)
Actual balance for Sept is R230 000 while Oct reflects an overdraft of R210 000. (Difference R440 000).

Explain how the directors can improve the cash balances in future. Explain TWO points.

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

Expected responses for 1 mark:

Decrease expenses / increase income / decrease rent / increase sales

6

QUESTION 6: BUDGETING

6.1.1 **Explain why bad debts expense does not appear in a cash budget.**

Any valid explanation □□

Bad debts is a non-cash expense. It does not involve a flow of cash.

--

6.1.2 Explain why a cash budget is an effective internal control mechanism. Provide ONE reason

Any valid reason

- It helps to plan receipts and payments.
- It highlights payments (expenses) that are not well controlled.
- It helps to ensure that cash is available for essential payments.

2

6.2 INGWEMABALA LTD

MONTHS	CREDIT SALES	SEPTEMBER	OCTOBER	NOVEMBER
July	108 000	12 960		
August	104 400	46 980	12 528	
September	93 000	37 200	41 850	11 160 <input type="checkbox"/>
October	102 000		40 800	45 900 <input type="checkbox"/>
November	111 600			44 640 <input type="checkbox"/>
Total collection from debtors			95 178	101 700 <input type="checkbox"/>

	Calculations	Answer
(a)	$16\,985 \times \frac{100}{107,5}$	15 800 <input type="checkbox"/>
(b)	$116\,250 \times 20\%$	23 250 <input type="checkbox"/>
(c)	$106\,250 \times 80\% = 85\,000 \times 95\%$ $21\,250 \times 80/20 = 85\,000$	80 750 <input type="checkbox"/>
(d)	$\frac{\quad}{\quad} \times 100 = 12\% \Rightarrow 74\,400 \times 12\%$	8 928 <input type="checkbox"/>
(e)	$\frac{\quad}{\quad} + 515\,000 = 610\,000 \times 0,15$	91 500 <input type="checkbox"/>

6.2.3 Calculate:

(a) The amount of the loan that will be paid back on 1 November 2020.

$$2\,000 \times 12/0,1 = 240\,000 \square$$

$$1\,750 \times 12/0,1 = 210\,000 \square$$

30 000 was repaid \square one part correct

(b) The total cost of the new vehicle purchased on 31 July 2020.

$$4\,750 \times 48 = 228\,000 \square\square + 40\,000 \square = 268\,000 \square \text{ One part correct}$$

6.2.4 A young shareholder is of the opinion that the company should not spend money on staff training – they should employ trained personnel. Explain why the company spends money on staff training? Give ONE point.

A valid explanation □□

- The company must be able to show that they are committed to the growth and development of the society that supports its venture (the triple bottom line).
- Giving back to society.
- Involvement in economic growth.
- CSR and the King code requires companies to invest in their communities.

What can the business do to ensure that trained personnel remain in the employ of the business? Give ONE point.

A valid explanation □□

- Ensure that market related salaries are paid.
- Make workers feel valued and appreciated.
- Sign contracts to remain with business for a specified period.
- Get employees to participate in profit sharing options.

ACTIVITY C7

7.1.1 Creditors Payments Schedule for the period 1 May to 30 June 2020

Month	Credit purchases	May	June
March	336 000	134 400	
April	420 000	239 400	168 000✓✓
May	448 000✓✓		If 60% x 95% of May 255 360☑☑
		373 800	423 360☑

7

7.1.2 Calculate the missing figures indicated by A–C on the Cash Budget provided.

A

$800\,000 \checkmark \times 0,40 \checkmark = 320\,000 \checkmark$ operation one part correct

3

B

$900 \checkmark \times 100/9 \checkmark \times 12/1 \checkmark = 120\,000 \checkmark$ operation one part correct

4

C

$890\,000 \checkmark \times 100/125 \checkmark \times 0.30 \checkmark = 213\,600 \checkmark$ operation one part correct

4

7.1.3 Calculate the expected percentage increase in sundry expenses.

6 000 ✓ / 24 000 ✓ X 100 / 1 = 25% ✓ operation one part correct

3

Suggest and explain TWO measures that can be undertaken to lessen the possible adverse impact of the rise in prices.

Any TWO points ✓✓ Explanation ✓✓

- Stock pile to take advantage of the current prices so that for the next few months after the rise in prices you maintain the current selling prices (ensure competitive urge over competitors);
- Compare suppliers' prices and pick suppliers with better prices and conditions;
- Buy in bulk to take advantage of discounts; and save on transport cost
- Negotiate discounts with suppliers;

4

7.1.4

Refer to information H. Briefly comment with figures on each item and provide ONE point of advice to the owner.		
Item	Comment and figures ✓✓✓✓	Advice ✓✓
Water and electricity	The actual expenditure is R1 500 more than the budgeted amount; Overspent by R1 500; Not well managed as the actual exceeds the budgeted amount by R1 500 (R6 500 – R5 000)	Ensure that there are no water leaks; Educate the employees on using water and electricity sparingly Electrical appliances that are not used are switched off; That lights during the day are switched off Budget realistically.
Rent income	Not well controlled as R8 000 instead of the budgeted R15 000 was collected; R7 000 less	Issue tenants with reminders monthly; Charge interest on outstanding rent; Warn defaulting tenants of possible eviction; etc.

6

7.2

Identify ONE problem in relation to each branch. Quote relevant figures. In each case, offer Glenys Masala advice to solve the problem.

Problem (with evidence) ✓✓ ✓✓ ✓✓	Solution (one per branch) ✓ ✓ ✓
<p>Umlazi MegaCity Mall Missing cash of R40 000</p> <p>Business ran out of stock and lost on potential sales.</p>	<p>Umlazi MegaCity Mall Check the money before banking. Division of duties.</p> <p>Order more stock.</p>
<p>Kwamnyandu Mall 15 cellphones stolen</p>	<p>Kwamnyandu Mall Regular stock taking/Internal control.</p>
<p>Ezimbuzini Mall Mark-up percentage of 100% too high. Sale only 20% of the stock.</p> <p>Keeping too much stock only sold 70 of the 360 units</p>	<p>Ezimbuzini Mall Decrease the mark-up to 50% as the other malls. Sales promotion: Kwamnyandu sale 50% and Umlazi MegaCity 100%.</p> <p>Transfer some stock to Umlazi MegaCity Mall.</p>

40
40

Activity C8.

8.1

Identify the following:
Price paid per share for the re-purchase of the shares in October.
$52\ 000 / 10\ 000 \checkmark = R5,20 \checkmark$
Bank balance at the end of September.
$= (161\ 813) \text{ or } 161\ 813 \text{ unfavourable } \checkmark$


3

8.2

Calculate and comment on the percentage increase that the employees will get in October?
$341\ 850 - 322\ 500 = 19\ 350 / 322\ 500 \checkmark = 6\% \checkmark$
Comment: $\checkmark\checkmark\checkmark\checkmark$
Directors fees of R400 000 increased to R600 000 per month so this reflects a 50% increase. Employees might feel aggrieved that they are getting 6% while directors are getting 50% increases.
or
Employees can be satisfied with a 6% increase in salary since it is in line with the inflation rate of average 6%.

6

8.3

8.3.1	Calculate the expected cash sales for September 2020.	
	Calculation	Answer
	$805\ 800 \checkmark \times 70 \checkmark / 30 \checkmark$	
	or	
	Total purchases:	
	Sept: $948\ 000 \times 100/60 \checkmark = 1\ 580\ 000$	
	Total sales:	
	$1\ 580\ 000 \times 170 / 100 \checkmark = 2\ 686\ 000$	
	Cash sales:	
	$2\ 686\ 000 \times 70/100 \checkmark$	$1\ 880\ 200 \checkmark$
	or	
	$30/100 \times \checkmark = 805\ 800 \checkmark \quad \times = 2\ 686\ 000 \times 70\%$	
	\checkmark	

4

8.3.2	Debtors Collection schedule	
	Credit sales	Oct
	August credit sales:	
	$787\ 500 \checkmark \times 28\% \checkmark$	$220\ 500 \checkmark$
	September credit sales:	
	$805\ 800 \checkmark \times 70\% \checkmark$	$564\ 060 \checkmark$

--

		784 560 <input checked="" type="checkbox"/>	7
--	--	---	---

8.3.3	Calculate the payments to creditors in October 2020.	
	Calculation	Answer
	Sept cash purchases 948 000 ✓ x 40/60 ✓✓ x 95/100 ✓ OR 1880 200 x 100/70 ✓ x 100/170 ✓ x 40/100 ✓ x 95/100 ✓	= 600 400 ✓
		5

8.4

The owner is not happy with the rent. He plans to terminate the rent agreement and purchase the property on 1 October 2020.		
According to the Cash Budget, how would he pay for the property?		6
Acquire a loan ✓ R500 000 ✓ Fixed deposit expires ✓ R366 000 ✓ Overdraft ✓ R 44 000 ✓ OR (904 515) OR Cash payment of R910 000		
Apart from saving on rent expense, provide TWO advantages of buying the property. ✓ ✓		2
<ul style="list-style-type: none"> • The building would increase his assets and creditworthiness. • Buildings appreciate in value and can be sold with a profit. • Interest on loan is then R7 000 per month instead of R27 000 rent expense. • Interest on overdraft would be R5 400 per month instead of R27 000 rent expense. • Rates on property R1 520 per month, not near R27 000 rent expense. • Forfeit the R3 000 interest on fixed deposit, but have an asset of R910 000. • Can earn rent income out of lease. 		
Provide TWO disadvantages of buying the property. ✓ ✓		2
<ul style="list-style-type: none"> • Interest on loan is then R7 000 per month. • Interest on overdraft would be R5 400 per month. • Rates on property would be R1 520 per month. • Forfeit the R3 000 interest on fixed deposit. • Owner responsible for the repairs and/ maintenance. • Owner responsible for the insurance of the building. 		

TOTAL MARKS
35

ACTIVITY E1

1.1 ZENZELE MANUFACTURERS

1.1.1 PRODUCTION COST STATEMENT ON 30 APRIL 2021

Direct labour cost	716 960
Direct material cost 37 600 + 555 000 – 21 000 – 58 560	513 040
Prime cost DMC + DLC	1 230 000
Factory overhead cost (468 450 + 13 650 - 12 100*)	470 000
Total manufacturing cost Operation	1 700 000
Work-in-process (1 May 2020)	142 000
	1 842 000
Work-in-process (30 April 2021)	(87 000)
Cost of production of finished goods (39 000 x R45)	1 755 000

16

1.1.2 Complete the abridged (shortened) Income Statement to calculate the net profit for the year ended 30 April 2021.

Gross profit	1 250 000
Selling and distribution cost (609 850 ✓ + 4 840 <input checked="" type="checkbox"/> * if adds to figure above) (36 300 x 8/60)	<input checked="" type="checkbox"/> (614 690)
Administration cost (443 950 ✓ – 13 650 <input checked="" type="checkbox"/> See 1.1.1 + 7 260 <input checked="" type="checkbox"/> * if adds to figure above) (36 300 x 12/60)	<input checked="" type="checkbox"/> (437 560)
Net profit Operation, S&DB and Admin costs must be subtracted	<input checked="" type="checkbox"/> 197 750

08

1.2 UNIT COSTS AND BREAK-EVEN ANALYSIS

1.2.1 Explain the difference between *fixed cost* and *variable cost*.

Any valid explanation ✓✓ **Two or zero marks. No part marks**

Fixed costs remain the same irrespective of the number of items manufactured.
Variable costs vary in direct proportion to the number of items manufactured.

2

1.2.2 Calculate the break-even point for 2021.

80 000 one mark x 5,40 one mark
432 000 ✓✓

R17,80 ✓ – 11,60 ✓
R6,20 two marks

5

= 69 678 units (accept 69 677) **One part correct**
NB: The word units not necessary but do not accept if R

1.2.3

Comment on the break-even point and the level of production for 2020 and 2021. Explain why the owner should be satisfied or not.

- In 2020 the break-even point was 65 000 ✓ units and they produced 65 000 ✓ units. The business broke even. ✓
- In 2021 the break-even point was 69 678/ 69 677 units and they produced 80 000 ✓ units. The business made a profit on 10 322/10 323 units.

See 1.2.2.

6

1.2.4

Identify the variable cost that should be of great concern to the owner. Explain and provide a calculation to support your answer.

Direct labour cost ✓
 Figures ✓
 Explanation ✓✓ **No part marks**

Direct labour cost increased from R3,50 to R4,05 / by 55 cents / by 15,7%

Explanation: DLC increased by more than the inflation or by more than DMC

4

1.2.5

Despite the fact that there was a decrease in the fixed costs per unit, the owner is still not satisfied with his control over the fixed costs. Explain and provide calculation(s) to support his opinion.

Fixed costs in 2021 = R432 000 **See 1.2.2**
 Fixed costs in 2020 = R65 000 ✓ x R5,50 ✓ = R357 500 OR
 Fixed costs increased by R74 500, i.e. 21% or 20,8%

4

ACTIVITY E2

2.1.1	<u>Administration</u> cost ✓	Accept recognisable abbreviations
2.1.2	<u>Direct material</u> cost	
2.1.3	<u>Selling and distribution</u> cost ✓	
2.1.4	Factory <u>overhead</u> cost ✓	

.2.1

Calculate direct labour cost.

$$(1\ 920 \times 5 \times R40) + (90 \times 5 \times 70) + (384\ 000 \times 11,5\%) = R459\ 660$$

OR

$$5 \times [(1\ 920 \times R40) + (90 \times 70)] + (76\ 800 \times 11,5\%) = R459\ 660$$

Calculate direct material cost.

$$\frac{131\ 500 \checkmark + 584\ 000 \checkmark}{1\ 350 \checkmark + 5\ 400 \checkmark} \times 5\ 500 \checkmark = 583\ 000 \checkmark \text{ **One part correct** }$$

6 750 two marks

OR Total VC – DLC – S&DC

1 260 000 two marks	see 1.2.1 ; one method mark	two marks	one method mark; one part correct
[4 200 x 300]	– 459 660	– 217 340	= 583 000

2.2.2 Production Cost Statement for the year ended 29 February 2016:

No abbreviations accepted

*✓ <u>Direct materia</u> cost (need not be first) See 1.2.1	583 000	✓
*✓ <u>Direct labour</u> cost See 1.2.1	459 660	✓
Prime cost If = DMC + DLC	1 042 660	✓
*✓ <u>Factory overhead</u> cost	343 340	✓
Cost of production of finished goods Operation one part correct	1 386 000	✓

2.2.3 Calculate the break-even point for 2016.

570 000 two marks

$$\frac{343\,340 \checkmark + 226\,660 \checkmark}{450 \checkmark - 300 \checkmark}$$
 150 two marks
 = 3 800 units ✓ One part correct; cannot be negative; cannot be R or c

5

Explain whether the owner should be concerned or not. Provide figures.

Yes / No is part of the explanation (No marks) Comment
 comparing BEP to level of production ✓✓
 Comparative figures ✓ (Refer to answer above; must compare BEP to production)
 Possible answers:
 • The owner should not be concerned as the business produced (4 200 – 3 800) 400 units more than the break-even point.
 • The owner should be concerned as the business produced (4 200 – 3 800) only 400 units more than the break-even point.
 • Owner should be concerned because they make a profit on 400 units only.

3

2.2.4 The owner is not satisfied with the internal control of the raw material (fabric).

	STOREROOM: Raw material stolen	FACTORY: Raw material wasted
CALCULATION: metres of fabric	6 750 two marks $1\,350 \checkmark + 5\,400 \checkmark$ $- 5\,500 \checkmark - 940 \checkmark$ $= 310 \text{ metres } \checkmark$ One part correct Answer must be less than 6 750 <p style="text-align: right;">Total: 5 marks</p>	two marks for both 4 200 x 1,25 $5\,500 \checkmark - 5\,250 \checkmark \checkmark$ $= 250 \text{ metres } \checkmark$ One part correct OR 200 units two marks one mark one m/mark $[(5\,500 / 1,25) - 4\,200] \times 1,25 = 250 \text{ m}$ 4 400 metres one mark Answer must be less than 5 500 <p style="text-align: right;">Total: 4 marks</p>
STRATEGY One point each ✓ ✓ Be alert to alternative valid responses.	Improve physical security / Regular stock counts / Foreman to supervise / sign / account for all raw materials taken from the storeroom / division of duties.	Train workers to improve efficiency / Use new updated equipment (new technology) / Use templates in cutting fabric to reduce offcuts / recycle the offcuts. Improve supervision. Do not accept theft.

ACTIVITY E3

3.1 CONCEPTS

3.1.1	False	✓
3.1.2	False	✓
3.1.3	True	✓

3

3.2 TREK BIKES MANUFACTURERS

3.2.1 DIRECT LABOUR COST

Basic salary (14 x 7 000) ✓ x 12 ✓	1 176 000	✓
Overtime (14 x 144) ✓ x 65 ✓	131 040	✓
UIF contributions (1 176 000 x 1%)	11 760	✓✓
	1 318 800	✓

9

FACTORY OVERHEAD COST

Indirect materials one part correct (13 200 ✓ + 38 400 ✓ – 15 100 ✓)	36 500	✓
Salaries: foreman	156 000	✓
Electricity and water (104 000 x 90%)	93 600	✓✓
Rent expense (115 200 x 600/1 500)	46 080	✓✓
Insurance (74 200 x 3/7)	31 800	✓✓
Depreciation: factory plant and machinery	277 220	✓
	641 200	✓

13

3.2.2 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015.

Direct (raw) materials cost	2 100 000	
Direct labour cost see 2.2.1	1 318 800	✓
Prime cost	3 418 800	✓
Factory overhead costs see 2.2.1	641 200	✓
Total manufacturing cost	4 060 000	✓
Work-in-process (beginning of year)	160 000	
	4 220 000	✓
Work-in-process at end	(220 000)	✓
Cost of production of finished goods (4 015 000 ✓ + 95 000 ✓ – 110 000 ✓)	4 000 000	✓

10

ACTIVITY E4

4.1 HANGING LOOPS CURTAINS

4.1.1 Production cost statement for the year ended 31 March 2021

Direct material	2 270 000
Direct labour 345 000 (2 marks) (780 000 – 260 000 – 175 000) ✓✓ + 34 500 ✓	☑ 379 500
Prime cost	☑ 2 649 500
Factory overhead cost Transfer from note	☑ 609 500
Total cost of production	3 259 000
Work in process (beginning of the year)	✓ 69 500
	3 328 500
Work in process (end of the year) Balancing figure, must be deducted	☑ (72 000)
Total cost of production of complete products 2 605 200 x 100/80	✓✓ 3 256 500

10

Factory overhead cost

Indirect labour (260 000 ✓ + 26 000 ✓)	*☑ 286 000
Indirect material (3 800 ✓ + 31 300 ✓✓ – 4 300 ✓)	*☑ 30 800
Insurance (62 400✓ – 14 400 ✓✓)	*☑ 48 000
Rent (77 000 + 7 700)	✓✓ 84 700
Depreciation	✓ 160 000
one part correct	*☑ 609 500

16

4.1.2

Provide a calculation to prove how the Direct Material Cost were calculated as R2 270 000.

14 400 + 7 200

36 000 x 60%

224 000 ✓ + 2 500 200 ✓ – 140 000 ✓ – (292 600✓ + 21 600 ✓)

= 2 270 000 ✓

6

4.2 GLASS AND CO.

4.2.1 Explain why it is important to calculate the Breakeven Point.

Any acceptable, relevant answer. ✓

So that the owner/manager knows how much products must be produced in order to cover all costs.

1

4.2.2 Why is the production staff's wages seen as a variable cost, but the factory cleaner's wages is a fixed cost?

Production staff is paid per unit/hour, so their labour cost would change as production levels change. ✓

The factory cleaner is paid a salary regardless of the amount of units produced. ✓

(Any acceptable answer)

2

4.2.3 Calculate the following:

(a) Factory overhead per unit

$$\frac{114\,000}{15\,000} = R7,60 \checkmark\checkmark$$

2

(b) Total Fixed Cost

$$114\,000 + 70\,400 = 184\,400 \checkmark\checkmark$$

2

(c) Variable cost per unit

$$142\,400 - 70\,400 = 72\,000 / 15\,000 = R4,80$$

34 ✓

$$(20,00 + 14,00) + 11,20 \checkmark + 4,80 \checkmark\checkmark = 50 \checkmark \text{ one part correct}$$

5

4.2.4 **Calculate the Breakeven Point.**

$$\frac{184\,400 \checkmark}{70 \checkmark - 50 \checkmark} \quad \text{(See b)} \quad \text{(See c)}$$

$$= 9\,220 \checkmark$$

Should Glass and Co. be satisfied with their current production of 15 000 units? Explain.

Compare BEF with level of production ✓ Figure ✓

They produce 5 780 more units than what is required to break even.

TOTAL MARKS
50

6

ACTIVITY F1:

**GENERAL LEDGER OF SIZWE LTD
NOMINAL ACCOUNT SECTION
ASSET DIPOSAL ACCOUNT**

1.1.1

2016 Aug	31	Vehicles	GJ	200 000√	2016 Aug	28	Accumulated depreciation on vehicles	GJ	118 080√√
		Profit and Loss of Asset	GJ	5 000√			Debtors control	GJ	8 920√
				205 000					205 000

1.1.2 Note to the Balance sheet as at 31 August 2016

Note1: Fixed Asset/Tangible Asset	Land and Building	Equipment	Vehicles
Cost price	2 120 000	490 000√	980 000
Accumulated Depreciation	0	(203 000)√	(520 000)√
Carrying value- at the beginning of the y		260 000	460 000√
MOVEMENTS			
Additional at cost	280 000	150 000√	240 000√
Disposal at CV	0	0	(81 920)√
Depreciation for the year	0	(56 500)	(104 000)√
Carrying value –at the end of the year	2 400 000	353 500	514 080
Cost price	2 400 000	640 000	1 020 000√
Accumulated Depreciation	0	(286 500)□	505 920)□

1.1.3 If you are the accountant of the business, how will you respond to P. Querry. You must use the relevant GAAP principle in your explanation.

- Financial statements are not misstated as land and buildings must be disclosed at the original cost as per GAAP concept of Historical Cost.
- Revaluing land and building at the market price can lead to tangible asset being overvalued.
- Its value can be manipulated.

1.1.4 In your opinion, is this an acceptable business practice? Give reasons for your answer

No

- Lap-top was purchased for the personal use of the owner's son not for the business purpose.
- Owners request is violating the business entity concept principle (GAAP)
- Therefore, the amount of R10 000 must be debited to his drawings account not to the equipment account.
- This is a violation of the income tax payable to SARS

ACTIVITY F2

Problem solving, analysis and interpretation

TAXI 1	<ul style="list-style-type: none"> • Higher running cost (6,10/km) • Age (fully depreciated) • Safety concern. • Earning R9.00/km (1 080 000/120 000) (profit R2.90)
TAXI 2	<ul style="list-style-type: none"> • Lack of revenue in comparison to the other taxis (R 288 000 i.e. R4 11/km) • Theft/fraud by the driver. • Revenue per km is less than running cost per km
TAXI 3	<ul style="list-style-type: none"> • Under-utilisation (34 000km-others doing almost 70 000km or 120 000km) • Running cost are low (R4 70/km)-should be used more • Lack of work ethics of the driver. • Any relevant answer

ACTIVITY F3.

NO	PROBLEM $\checkmark\checkmark$	SOLUTION $\checkmark\checkmark$
3.1	<ul style="list-style-type: none"> • He is not employee of the business. • Employees of the business may feel that they are being unfairly treated. 	<ul style="list-style-type: none"> • Owner must have a word with his son on the matter. • Must ensure his son about business policy and rules
3.2	<ul style="list-style-type: none"> • TV was purchased for business not for personal used. • Additional usage of the TV decrease its lifespan resulting in added cost for the business • This is not good for staff morale 	<ul style="list-style-type: none"> • Defaulters should be reprimanded. • Failure to comply could result in dismissal. • Frequent checks need to be undertaken by the auditor etc. <ul style="list-style-type: none"> ○ Any relevant ans
3.3	<ul style="list-style-type: none"> • The fixed asset register will not reconcile with actual physical stock on hand. • Asset will not be shown correctly in the balance sheet 	<ul style="list-style-type: none"> • According procedure for the disposal of asset will have to be explained to the owner. • Business entity concept.
3.4	<ul style="list-style-type: none"> • There may not be a problem if she follows correct procedure when buying items from this company. • Gift should actual be given to the business as the secretary represents the business when she orders from the company 	<ul style="list-style-type: none"> • Owner will have to check if he is getting the best deal with this company. • He will have to be convinced that the secretary is not compromising the interest of the business with that of her own.



CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS) SUPPORT DOCUMENT

GRADE 12



ACCOUNTING

PAPER 2

TEACHERS GUIDE

2021

1.1.1	Value Added Tax	
1.1.2	15 %	
1.1.3	Zero Rated	
1.1.4	A	PAYE
	B	salary
	C	Customers
	D	Indirect
1.1.5	<p>Comment:</p> <ul style="list-style-type: none"> It is unethical, you must be a registered VAT vendor to charge tax All money collected from customers for VAT must be paid to SARS <p>Consequences:</p> <ul style="list-style-type: none"> The owner may face the legal implications which may results to jail sentence SARS can pose a penalty to the business 	

ACTIVITY A2

2.1	
(i)	Indirect
(ii)	Decrease
(iii)	Asset

2.2	Details	Amount
	Incorrect amount payable	112 539
(i)	Shop rent paid	(2 025)
(ii)	Vehicle purchased (-22 500 – 22 500)	(45 000)
(iii)	Correction on invoice (-7 500+ 6 900) or 50 000 x 8% x 15%	(600)
	Correct amount payable	64 914

Activity A3

3.1 VALUE ADDED TAX

3.1.1	True
3.1.2	False
3.1.3	True
3.1.4	False
3.1.5	True

3.2.1

After taking into account the errors and omissions, calculate the VAT amount that is either payable to or receivable from SARS. Indicate whether this amount is receivable or payable.

VAT	
1 800	2 850
308	3 630
594	480
74	
750	
Balance b/d 3 434	

OR

$$-2\ 850 - 3\ 630 + 1\ 800 + 308 + 594 + 74 - 480 + 750 = 3\ 434$$

OR

$$2\ 850 + 3\ 630 - 1\ 800 - 308 - 594 - 74 + 480 - 750 = 3\ 434$$

Payable to SARS

3.2.2

The internal auditor discovered that the owner used the VAT collected from customers to pay expenses of the business. Therefore, he was unable to pay the VAT owed to SARS on the due date.

State ONE point of concern that you would offer the owner concerning this practice.

- It is unethical.
- The business is an agent of SARS – money collected on behalf of SARS should not be used to defray other operational expenses.

ACTIVITY A4

Explain why the government implemented VAT in South Africa. State ONE point.

- Additional source of revenue for the government.
- To fund infrastructure/ plans of the government.
- To provide for basic services for the communities

Explain why some products are zero-rated products. State ONE point.

- To make basic necessities affordable to indigent/ poor communities

Calculate the amount payable to SARS in respect of VAT for the two months ended 30 April 2021.

WORKINGS

$$9\ 450 + 61\ 800 - 34\ 500 - 1\ 890 - 2\ 520 + 1\ 140 + 1\ 380 = 34\ 860$$

5.1

5.1.1

	WORKINGS	ANSWER
(a)	$1\ 104 - 960$	144
(b)	$52\ 600 \times 15\%$	7 890
(c)	$720 \times 100/15$	4 800
(d)	$\frac{(112\ 470 - 6\ 325) \times 15/115}{5\ 500 + 825}$ <p>OR $\frac{112\ 470 \times 15/115}{14\ 670 - 825}$</p> <p>OR $(97\ 800 - 5\ 500) \times 15\%$</p>	13 845

You are the internal auditor. The sole owner, Samson, used a business cheque to buy a new car for R460 000 including VAT. This car is kept at home for his wife's use. Samson says the vehicle must be recorded as a business asset and R60 000 must be recorded as a VAT input in the business' books. Explain what you would say to Samson. Provide TWO points.

5.1.2

Expected responses for two marks:

- This is tax evasion / he is attempting to reduce the amount due to SARS for VAT (this is illegal and unethical)
- He will be increasing the input VAT, effectively reducing the amount due to SARS.
- He could be fined or imprisoned because it is a criminal offence.
- Personal transactions and business transactions should be kept separate (Business entity concept) / Samson should pay for this out of his private bank account.
- As the car is not used for business purposes, the full amount of R460 000 should either be treated as drawings or a reduction of his capital contribution.

1.1 DEBTORS AGE-ANALYSIS

1.1.1 Explain how the Debtors' Age Analysis can assist with the control over debtors. Provide ONE point.

Any ONE valid point. ✓✓ Part marks for partial/incomplete answers.

- Effective method of credit control
- Helps identify debtors who have not paid within the creditor terms granted.
- Interest can be charged to debtors not adhering to the business' policy
- Legal action can be taken against debtors who do not comply.

1.1.2 Calculate the average debtors' collection period (in days) for the financial year ended 31 August 2019.

Workings	Answer								
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">one mark</td> <td style="text-align: center;">one mark</td> </tr> <tr> <td style="text-align: center;">$\frac{1}{2} (19\ 800 + 76\ 200)$</td> <td style="text-align: center;">38,9 days/39 days <input checked="" type="checkbox"/></td> </tr> <tr> <td style="text-align: center;"><u>48 000</u> ✓✓</td> <td style="text-align: center;">X 365</td> </tr> <tr> <td style="text-align: center;">450 000 ✓✓</td> <td style="text-align: center;">correct</td> </tr> </table>	one mark	one mark	$\frac{1}{2} (19\ 800 + 76\ 200)$	38,9 days/39 days <input checked="" type="checkbox"/>	<u>48 000</u> ✓✓	X 365	450 000 ✓✓	correct	one part
one mark	one mark								
$\frac{1}{2} (19\ 800 + 76\ 200)$	38,9 days/39 days <input checked="" type="checkbox"/>								
<u>48 000</u> ✓✓	X 365								
450 000 ✓✓	correct								

Comment whether the business should be satisfied with this.

Any ONE valid point. ✓✓ Part marks for partial/incomplete answers.

Mark according to candidate's answer above

The business cannot be satisfied as debtors are not complying with the 30 days' credit terms.

Comparison with previous year to note improvement or otherwise can be mentioned.

1.1.3 Identify TWO different problems revealed by the Debtors' Age Analysis. Quote evidence and/or figures. In each case, provide advice to improve the internal control relating to the problem identified.

	Problem □ □ Evidence/figures □ □	Advice on internal control □ □
Problem 1	Certain debtors have exceeded their <u>credit limit</u> . C. Coma by R2 000 or R Rome by R1 000 Quote name or amount	Do not sell on credit to debtors who have exceeded their credit limits Track cases and monitor Improve internal controls such as computer system
Problem 2	Debtors do not abide by the <u>credit terms</u> of 30 days Pule, Coma and Rome (53% are taking longer)	Charge interest on overdue accounts; Offer discounts for early payment Send reminders/sms
Or	<u>Internal control problem:</u> The business is allowing debtors to exceed credit terms and limits	Install computer system to track debtors accounts; Monitor / supervise defaulting debtors

ACTIVITY B2 SOLUTION

List the corrections that the bookkeeper must make to the Debtors Control Account in the general ledger and debtors list

	Debtors Control	Debtors List
	Pre –Adjustment Balance / totals	
	R320 600	R 340 800
A.	-R 26 000	
B.	+ R20 200	
C.		-R86 000
D.		+R4 600 -R 4 600 Do not accept 0 as answer
E.	+R940	+ R940
F.	-R90 000	-R90 000
G.		+R60 000 +R30 000 +R30 000
	R 225 740	R 225 740

ACTIVITY B3

DEBTORS RECONCILIATION AND INTERNAL CONTROL

3.1.1	Briefly explain why the balance of the debtors control account should correspond with the total of the list of debtors
	The Debtors control account is a summary of all the debtors account in the debtors ledger

3.1.2	Calculate the correct closing balance of the debtors control account as at 30 September 2021
	(R 4 500) R83 750 + R 2 050 + R 1 150 + R 4 350 + R 150 = R 91 450
3.1.3	

3.1.4	Study information 1 and 2 below the answer the following question :
3.1.4.1	Does Gumede traders have effective control over their debtors? Explain by quoting figures to motivate your answer
	No.
	R 63 750 / R 93 750 X 100/1 = 68% of the debtors exceed the payment period (terms) of 60 days.
	Or
	Only 32% of the debtors keep to the credit terms of 60 days

3.1.4.2	State TWO actions a company could take in order to encourage Debtors to settle their account according to the terms (4)
---------	---

- Send reminders through text messages
- Charge interest on overdue account
- Allow discount to debtors who pay on time
- Issue monthly statement

4.1.1 DEBTORS COLLECTION SCHEDULE AND AGE ANALYSIS:

Why is the preparation of a debtor's collection schedule and debtors age analysis important internal control measures?

Debtors collection schedule: ☐☐

- Project anticipated receipts from debtors.
- Ensure debtors keep to credit terms.
- Act immediately if debtors do not comply.

Debtors age analysis: ☐☐

- Effective method of controlling length of overdue periods so that appropriate action can be taken, such as interest/legal action.
- Identify possible bad debts and send timeous notices.

4.1.2

Calculate the percentage of debtor's accounts that comply with the credit terms.

048 + 48 032

080☐	OR	480 320	
400 ☐		600 400	= 80%
= 20% ☐			100% - 80% = 20%

Explain TWO measures to prevent losses due to bad debts in the future.

Any TWO measures ☐☐ ☐☐ Screening of debtor must be very strict.

Credit limits must fit the profile.

Verify all information submitted./Run credit check.

Ask for 3 months' bank statements to check the available income after all other commitments.

4.ACTIVITY B6 SOLUTION

6.1.1 DEBTORS RECONCILIATION

CORRECTIONS TO THE DEBTORS CONTROL ACCOUNT

Current Debtors Control Account Balance	R 40 200
A	- R 3 600
B.	+ R 400
C.	-R 1 800
D.	No change
E.	+ R 2 800
Correct Debtors Control Account Balance	R 38 000

6.1.2 Debtors List on 30 September 2021

D.Costa (R 7 600 – R 1 800)	R 5 800
E.Enderson (R 14 800 + R 400)	R 15 200
E.Hazard (R – 3 800 + R 2 800)	(R 1000)
B.Zwane R 21 200 –R 1 600- R 1 600)	R 18 000
Correct total of debtors list	R 38 000

**B 7: CREDITORS RECONCILIATIONS
MEMORANDUM**

7.1 CREDITORS RECONCILIATION

7.1.1 **Provide TWO reasons why it is important for the business to prepare the Creditors' Reconciliation Statement.**

- It helps to detect fraud, errors and omissions.
- It helps to identify differences between the balance in the statement and the balance in the business' records.
- It is an internal control measure.

4

7.1.2 **Calculate the correct Creditors' Control Account balance after taking into account the relevant errors and omissions.**

CREDITORS CONTROL ACCOUNT

32 640 + 5 020 + 12 800 – 1 280 – 1 280 + 1 720 = 49 620

6

7.1.3 **Calculate the correct balances for creditors Zebo Suppliers and Leo Wholesalers, list by taking into account the errors and omissions.**

Creditor	Workings	Balance
Zebo Suppliers	16 580 + 12 800 + 1 720 + 200	31 300
Leo Wholesalers	29 520 – 6 300 – 4 900	18 320
		49 620

10

8.1 CREDITORS' RECONCILIATION AND INTERNAL CONTROL
 8.1.1 CREDITORS' RECONCILIATION STATEMENT ON 30 JUNE 2019

	R
Balance as per statement of account	10 115
Invoice 5671 6 555	
6 900 + (6 900 - 345)	13 455
OR one mark one mark	
13 800 - 345	
Invoice 5780	(3 320)
Invoice 5801	1 850
Invoice 6011	5 800
Electronic payment	(10 000)
Discount received	(500)
	17 400

Calculate the correct balance of Bailey Ltd in the Creditors' Ledger.

17 850 – 450 = 17 400



13

8.2.1

Refer to Information D.

Calculate the average creditors' payment period in days.

$$\frac{114\ 000 + \frac{1}{2}(50\ 000 + 64\ 000)}{416\ 100} \times 365$$

= 57 000 two marks x 365 one mark
 416 100 one mark
 = 50 days *

5

2.2.2 Provide TWO internal control measures which can be implemented by a business for good internal control over creditors.

- The statement of account of individual creditors must be reconciled with their accounts in the Creditors' Ledger.
- Conduct internal audits to minimise the possibility of fraud and error.
- Check documents to ensure accuracy of calculations and entries.
- Ensure that items ordered from creditors are correctly received.
- Ensure that all purchases have valid authorisation.
- Ensure that creditors are paid on time to make use of discounts / avoid interest charged discounts.

- Make full use of credit terms to assist cash flow.

4

B9

CREDITORS' RECONCILIATION:

9.1.1

Although Future Traders offers credit terms of 60 days, Generations Suppliers prefers to settle their account within 30 days during certain months. Provide TWO points to indicate that it is not a good decision.

- Keep money as long as possible in own bank account to earn interest.
- First collect money from debtors to pay creditors.
- If no early payment discount is offered.
- Pay as late as possible, but avoid unnecessary interest charged.

2

9.1.2

	CREDITORS LEDGER OF GENERATION SUPPLIERS	STATEMENT FROM FUTURE TRADERS
	21 130	32 600
A		+ 2 100
B	+ 300	
C	- 500	
D	+ 6 070	
E		- 7 700
	27 000	27 000

ACTIVITY B 10

10.1 CREDITORS' RECONCILIATION

10.1.1

	CREDITORS' LEDGER	CREDITORS' RECONCILIATION STATEMENT
Balance	43 900	40 475
(a)		+ 10 000
(b)		- 3 300
(c)	+ 750	
(d)		8 525 - 7 750 - 775
(e)	- 8 600	
(f)	+ 2 100	
(g)		(7 500 + 750) - 8 250
	38 150	38 150

10

10.1.2

Suggest TWO internal control measures that he can use to ensure that such practices do not occur.

- Division of duties /rotate duties. (the manager must not be the only person responsible for ordering and recording goods.)
- Have special order forms to be signed by two people.
- Check documents regularly against deliveries.
- Do regular/random stock counts to verify stock records.

4

ACTIVITY B 11

11.1. Use the table provided to indicate corrections and entries that must be made to the Creditors' Control Account and the creditors' list.

Provide figures and a plus (+) or minus (-) sign for each correction.

	Creditors' Control Account	Creditors' List
Balance/Total on 30 October 2018	R40 130	R39 490
(i)	- 180	- 180
(ii)		+ 400
(iii)	- 240	
(iv)	+2 100	+ 2 100
Balance / Total on 31 July 2018	41 810	41 810

ACTIVITY B 12

12.1 CREDITORS' RECONCILIATION

	Creditors' Ledger	Creditors' Reconciliation Statement
--	-------------------	-------------------------------------

Balance	28 370	25 300
A		+13320
B	+2700	
C	+350	
D		-7200
E	-2700	-2700
	28720	28720

ACTIVITY C1

1.1.1

Calculate the mark-up percentage on spare parts used in the Projected Income Statement for March 2021.

$34\,312P / 45\,750 \checkmark \times 100 = 75\% \checkmark$ one part correct

3

1.1.2

Calculate % decrease in service fee income expected in April 2021.

$20\,250 \checkmark / 225\,000 \checkmark \times 100 = 9\% \checkmark$ one part correct
 (225 000 – 204 750) one mark

3

1.1.3

Calculate the additional space (in square metres) the business will rent from April 2021.

$9\,000 / 75 = R120 \checkmark$
 $13\,800 / R120 = 115 \text{ sqm} \checkmark$
 Additional space = $115 - 75 = 40$ square metres \checkmark one part correct

OR

4 800 one mark
 $(13\,800 - 9\,000) = 40 \text{ sqm}$ one method mark
 120 two marks

3

1.1.4

Calculate the interest rate on the fixed deposit.

$8\,550 - 4\,050$
 $\frac{4\,500 \checkmark \times 12 \checkmark}{675\,000 \checkmark} \times 100 = 8\% \checkmark$ one part correct

4

1.2

Comment on the control of stock and explain how Amore intends to correct this. Quote figures.

Each item ✓✓ Figures ✓ Comparison figures not essential

Trading stock deficit reduced to R3 000 (was high at R21 000)

Increase in security expenses by R6 300 / from R7 500 to R13 800 / by 84%.

3

1.3.1

Sam is thinking of purchasing the business premises rather than renting it. State ONE advantage and ONE disadvantage of this option.

Advantage ✓✓ part-mark for unclear / incomplete answer

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

Disadvantage ✓✓ part-mark for unclear / incomplete answer

- Rates on property must be paid.
- Additional maintenance costs will be incurred.
- Large initial cash outlay or an additional monthly instalment, including interest.
- Not easy to relocate quickly
- Costs and time involved in selling a building.

4

1.3.2

Sam offers a free delivery service of spare parts to customers, but plans to discontinue this service on 31 March 2021.

State TWO points to support this decision.

Any TWO relevant points: ✓✓ ✓✓ part-marks for unclear / incomplete answer

- Customers will be forced to have the spare parts fitted as part of the service offered by the business.

- The business will be saving on the running cost of the delivery vehicle
- The main line of business is the repairing of vehicles – the sale of spare parts supports this
- The profit on sale of spare parts is considerably lower than the fee income for the repair service.

4

1.3.3

Calculate the cost of the new vehicle that she plans to purchase on 1 April 2021.

$$\frac{9\,000 \checkmark \times 12 \checkmark}{0,15 \checkmark \text{ or } 15\%} = R720\,000 \checkmark \text{ one part correct}$$

4

Refer to information E do it in answer book

1.4.1

Explain whether Water and electricity has been well controlled, or not.

Comment on control ✓ Figures ✓

Part-mark for unclear / incomplete answer Comparison figures not necessary but may enhance explanation

This expense has been well-controlled. If the projected amount of R6 750 considered the increase, it would have been R7 762,50. Only R7 500 was spent (R262,50 less than the adjusted projected amount.)

OR

The projected amount (R6 750) has not taken in account the tariff increases of 15% affected on 1 February 2021, which would have led to an adjusted projected amount of R7 762,50.

2

1.4.2

Explain whether you agree with Sam's decision not to use the full budget for Advertising.

Comment on decision ✓ Figures ✓

Part-mark for unclear / incomplete answer Comparison figures not necessary but may enhance explanation

The actual amount spent is R4 350 less than the budgeted/projected. / The amount spent (R2 700) is lower than the projected amount (R7 050). This was a poor decision and the full amount should have been used (considering that that mark-up on cost was also adjusted from the projected 65% to 80%).

This had a negative effect on fee income (R33 750 less than projected) and sales of spares (R47 250 less than projected)

2

1.4.3

Explain whether Consumable stores have been well controlled, or not.

Comparison of fee income and consumable stores ✓ Figures ✓

Part-mark for unclear / incomplete answer Comparison figures not necessary but may enhance explanation

Fee income was less than budgeted by R33 750 (15%) whilst servicing expenses was over the budget by R9 675 (21,5%). An actual decrease in fee income should see a proportional decrease in consumable stores used. This indicates a lack of control.

2

1.4.4

Explain how Sam's decision about the mark-up percentage on spare parts has affected the business.

Comparison of mark-up% and sales ✓ Figures ✓

Part-mark for unclear / incomplete answer Comparison figures not necessary but may enhance explanation

2

- The increase in the mark-up percentage (65% to 80%) negatively impacted in spare-part sales.
- Sales was less than projected by R47 250 (R193 050 to R145 800).
- Profit on sales was less than projected by R11 250 (R76 050 to R64 800).

ACTIVITY C2

2.1 The main reason why bad debts would not appear in the Cash Budget is because it is a/an

It is a non-cash item ✓✓

2

2.2 Calculate the missing amounts indicated by (a) to (d) in the Cash Budget for October and November 2020.

	Calculation	Amount
(a)	$30\,000 \div 5\%$ or $\times 100/5$ ✓ $\times 60\%$ ✓ One part correct	360 000 ✓
(b)	$R28\,250$ ✓ $\times 80/20$ ✓ One part correct	113 000 ✓
(c)	$6\,600$ ✓✓ $(3\,300 \times 2) \times 110\%$ ✓ One part correct	7 260 ✓
(d)	$201\,600$ ✓ $\times 11,5\%$ ✓ $\times 1/12$ ✓ One part correct	R1 932 ✓

15

2.3 Complete the Debtors' Collection Schedule.

	CREDIT SALES	OCTOBER	NOVEMBER
September	152 000 ✓✓	76 000	
October	240 000 $6.1(a) \div 60 \times 40$ ✓✓	102 600	120 000 ✓ 50% of Oct credit sales
November	158 400	$158\,400 \times 45\% \times 95\%$	67 716 ✓✓✓
		178 600	187 716 ✓ operation

9

2.4 Calculate the percentage increase in sundry expenses.

$2\,190$ ✓✓
 $(89\,790 - 87\,600) = 2,5\%$ ✓ One part correct
 $87\,600$ ✓

4

2.5

The Cash Budget for October and November 2020 indicates that this business will face serious financial difficulties. Identify TWO items to support this statement. Quote relevant figures.

Item ✓ ✓ Figures ✓ ✓

- The estimated overdraft for October is R82 800 and for November it is R49 300. (This exceeds the overdraft limit of R44 000 as approved by bank.)
- The business is going to acquire a loan of R201 600 in November 2020.

4

2.6

Explain why each of the items reflects a problem for the business. State TWO points in EACH case.

Item	Explanation
Collection from debtors	Any two valid reasons ✓ ✓ <ul style="list-style-type: none"> • Collections are much lower than expected. • This will cause a cash flow problem. • Internal control of debtors is poor.
Drawings	Any two valid reasons ✓ ✓ <ul style="list-style-type: none"> • This puts strain on meeting more important business expenses. • This creates a further cash flow problem. • It is not a good business practice (unethical) for the owner to draw more money while the business is struggling. (Increased loans, overdraft)
Insurance	Any two valid reasons ✓ ✓ <ul style="list-style-type: none"> • The policy will lapse (risk of being uninsured). • It will be difficult to replace assets. • There could be an increase in premiums in future.

6

TOTAL MARKS
40

ACTIVITY C3

3.1 Complete the following sentences by filling in the missing word(s). Write only the word(s) next to the question number (4.1.1 – 4.1.2)

3.1.1

The main purpose of preparing the Cash Budget is...

Any valid point. ✓✓

To plan

To predict cash flows/ determine receipts and payments for the future

2

To control cash

3.1.2 **ONE item in the Cash Budget that will not be reflected in a Projected Income Statement is...**

Any valid point. ✓✓

Loan/Assets/Payments to creditors/Drawings/Receipts from debtors/Fixed deposits/Capital/Dividends

2

3.2 **Prepare the Debtors' Collection Schedule for December 2020**

Months		2020			
		Credit sales	October	November	December
Actual	August	345 000	138 000		
	September	480 000	144 000	192 000	
Budgeted	October	300 000	57 000	90 000	120 000 ✓✓
	November	210 000		39 900	63 000
	December	180 000			34 200 ✓✓
			339 000	321 900	217 200 ✓

5

3.3 **Calculate the missing figures in the Cash Budget indicated by (i) to (v).**

	CALCULATION	ANSWER	
(i)	$350\,000 \times 40\%$	140 000	✓
		one part correct	
(ii)	$(500\,000 \times 100/200) = 250\,000 \times 80\%$	200 000	✓
		one part correct	
(iii)	$360\,000 \times 1\%$ OR $43\,200 (1 \text{ mark}) \div 12 (1 \text{ mark})$	3 600	✓
		one part correct	
(iv)	$6 \times R1\,378 \times 4 \text{ weeks}$	33 072	✓
		one part correct	
(v)	$6\,758 \times 100 \div 109$	R6 200	✓
		one part correct	

17

3.4 **In order to increase sales and the number of customers, Lizzy intends to advertise that credit limits for all credit customers will be increased to R35 000 and that new customers are welcome to open accounts during January.**

Give TWO points of advice to Lizzy regarding this decision.

Any TWO valid points. ✓✓ ✓✓

- Do not sell more on credit as this will worsen the overdraft
- He must screen debtors properly (e.g. pay slip/ credit reference), not simply allowing them to open accounts without checking the ability to pay.
- Only increase credit limits of customers who settle their debts promptly
- He must improve the rate of collection from debtors by charging interest

4

ACTIVITY C4

1. **What would you say to Bennie about the mistakes that he says his wife has made in compiling the budget with regard to the depreciation and the contribution of a new delivery vehicle?**

These are not mistakes. Both are non-cash items which do not affect the bank balances so they must not be in a Cash Budget. ✓✓

2

2. **Debtors Collection schedule for December 2019 & January 2020** ✓✓✓✓

All figures correct =4 marks; Mostly correct =3; Some correct =2; Few correct=1; None correct =0

MONTH	CREDIT SALES	DECEMBER 2019	JANUARY 2020
October	241 200	84 420	
November	290 880	145 440	101 808
December	320 400	30 438	160 200
January	223 200		21 204
Cash from debtors		260 298	283 212

4

3. **Calculate the % increase in the budgeted salaries and wages in January 2020**

$$\frac{4\,080}{68\,000} \times \frac{100}{1} = 6\% \quad \checkmark \checkmark \quad \text{any one part correct i.e. 4080 or 68 000}$$

Calculate the % decrease in the amount budgeted for commission income in January 2016

$$\frac{3\,600}{24\,000} \times \frac{100}{1} = 15\% \quad \checkmark \checkmark \quad \text{any one part correct i.e. either 3 600 or 24 000}$$

4

4. **Calculate the total finance charges incurred in the purchase of the vehicle.**

$$(9\,000 \times 12) + 46\,000 + 216\,000 - 196\,000 = R66\,000 \quad \checkmark \checkmark \quad \text{any one part correct}$$

2

5. **Effect on the budget:**

$$\text{Cost of repairs} = 37\,500 - (75\% \times 8\,000) = 31\,500 \quad \checkmark \checkmark \quad \text{any one part correct}$$

TWO points that Mtini would mention to Bekker:

4

Any two valid points e.g.

- This was irresponsible as insurance terms have been violated.
- The repairs should be debited to drawings as this is a personal expense.

6. **Calculation of rent income budgeted for December 2015:**

$$15\,950 \times 100/110 = R14\,500 \quad \square \checkmark \text{ any one part correct}$$

Suitable explanation:

Any one valid explanation e.g. □

- The tenant paid the February rent in advance.
- Additional unused property was rented out at the same rate.

3

7. **Calculate the budgeted payments to creditors in January 2016.**

December total sales = 801 000

Cost of sales: $801\,000 \times 100/180 = 445\,000$

Credit purchases: 222 500

Paid in January = $222\,500 - 22\,250 = R200\,250$ □

Mtini feels that the business need not buy any goods for cash, and that all goods should be bought on credit. In your opinion, will this improve the business Cash Budget? Explain.

Yes. This will mean that the R222 500 to be paid for cash sales in December will then be paid in January, which will improve the cash balance at the end of December by this amount. When the amount is paid in January they will also earn a R22 250 discount as well. There is also a similar effect in the following month. □

4

8. **Explain the difference between interest that is capitalized and interest that is not capitalized.**

Interest that is capitalized is added to the loan. Monthly repayments include the repayment of the loan and interest. Interest that is not capitalized is paid separately. □

Calculate the amount of the loan repaid on 31 December 2015.

$$500 \div 0,15 \times 12 = R40\,000 \quad \square$$

3

9. **Use the Cash Budget to identify the missing figures, totals and balances designated A-D. You are not required to identify the figures designated with a question mark (?).**

All figures correct =4 marks; Mostly correct =3; Some correct =2; Few correct=1; None correct =0

4

A (118 902) Ⓜ	B (80 872) Ⓜ	C 19 290 Ⓜ	D 119 395 Ⓜ
-------------------------	------------------------	----------------------	-----------------------

10.

Calculation of the average debtors' collection period (in days) for the financial year:

$$\frac{530\,000 \text{ Ⓜ}}{\frac{1}{2}(535\,225 + 764\,775)} \times 365 = 80 \text{ days Ⓜ}$$

The % of debtors who are complying with the credit terms (as indicated in the Debtors Age Analysis):

$$(R156\,725 + R234\,250) \div R764\,775 \times 100 = 51,1\% \text{ Ⓜ}$$

A comment on the above two calculations:

It is unacceptable that the debtors are taking so long to pay and that only half of them are complying with the credit terms. Ⓜ

Details of the main mistakes that the business is making with regard to the debtors. Also provide the names of specific debtors to illustrate these main problems, and suggest a solution for each mistake:

PROBLEMS Ⓜ	DEFAULTING DEBTOR/S Ⓜ	SOLUTION/ADVICE Ⓜ
Exceeding the credit limit	Minaj, Britney, Hannah	Do not continue supplying these debtors; reduce their credit limits; give incentives for cash purchases.
Taking longer than the credit term	Britney, Jemson, Drake, Wayne	Charge interest on overdue accounts; settlement discounts to encourage early settlement of accounts.

2

2

1

6

11.

Consider the actual and budgeted figures for Advertising, Telephone and Advertising. Comment on each item, and offer ONE point of advice in each case.

	Comment ⓂⓂ	Advice ⓂⓂ
Advertising	The expense is the same as budgeted. This appears to be well planned. However, when one looks at the monthly sales, it shows that advertising is not effective.	They should consider increasing the advertising budget. Can be strategically linked to sales. The business must look at trends/codes played at different seasons and budget accordingly.
Telephone	Always overspending / under budgeted	Need extra control, investigate whether there is a need to increase (calling debtors etc) or if it is being abused.

6

Insurance	This is R6 000 under-budget each month.	They should consider whether they are still adequately covered or whether they have genuinely negotiated a better rate. This might be false advertising if the insurance company fails to pay out for legitimate claims.
------------------	---	--

12. **Bennie has made two significant decisions by taking out a new loan and admitting a partner to the business. What would you say to Bennie about these decisions and the effect on the cash flow of the business?**

Any valid response **Excellent answer = 3 marks; Good = 2; Satisfactory/Poor = 1; Incorrect = 0**

Expected response:

Although he has used these strategies to convert his large overdraft into a positive balance, he should rather have looked at the real reasons for the shortcomings e.g. credit sales now account for 52 % (2.4m/4.6m) of total sales and debtors are not being well controlled. He now has extra interest to pay, even though the interest rate is better, as the loan raised is larger than the one cancelled. Also he has to share profits with another partner now – when he starts to take drawings, the cash situation will get worse.

3

ACTIVITYC 5

5.1 KHUMBULANI TRADERS CASH BUDGET FOR NOVEMBER AND DECEMBER 2020

CASH BUDGET	NOVEMBER 2020 R	DECEMBER 2020 R
CASH RECEIPTS:		
Cash sales	420 000	399 000
Cash from debtors	536 025	597 975
Commission income	✓ 6 000	✓ 7 000
Total receipts 5	<input checked="" type="checkbox"/> 962 025	1 003 975
CASH PAYMENTS:		
Cash purchases of stock	120 000	114 000
Payments to creditors	520 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 480 000
Sundry expenses	22 500	✓ 20 700
Wages and salaries	✓ 200 000	✓ 256 000
Advertisements	✓✓ 33 000	0

25

Repayment of loan	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 36 000	
Interest on loan	<input checked="" type="checkbox"/> 3 780	<input checked="" type="checkbox"/> 3 510
Total payments 17	935 280	874 210
Surplus (deficit)	26 745	<input checked="" type="checkbox"/> 129 765
Opening bank balance	(56 000)	<input checked="" type="checkbox"/> (29 255)
Closing bank balance	(29 255)	<input checked="" type="checkbox"/> 100 510

5.2 Sithembiso Beds (PTY) LTD

5.2.1 Calculate the percentage increase in the amount budgeted for salaries and wages for October 2015.

$$\frac{1\ 800}{30\ 000} \times \frac{100}{1} = 6\% \checkmark\checkmark$$

Should the employees be satisfied with this? Explain.

Yes / No – compare to inflation rate / compare to directors fees ✓

3

5.2.2 The financial director is pleased with the work being done by the bookkeeper and internal auditor. Identify an expense that indicates that he is correct.

✓ Audit fees

Explain your answer.

The audit fees are much lower than expected, which means that they spent less time on the audit / records were in order

Expected response for 1 mark: Audit fees lower than expected

3

5.2.3 Comment on how the new competitor has affected the sales of Sithembiso Beds. Provide figures. Comment ✓✓ Figures ✓✓

Cash sales are $\frac{1}{4}$ of the amount budgeted

Cash sales projected R1,2m while actual was R300 000

Actual cash sales for Sept were R1,28m and dropped to R300 000 in Oct

Budgeted cash sales was 80% but actually achieved 20%

Sales decreased by 60 beds

Gross profit decreased by R120 000 (R2 000 gross profit per bed)

Sales decreased by R400 000

Explain how Sithembiso Beds has responded to this problem. Provide THREE points. Provide figures.

Point 1

They deliberately increased credit sales (R300 000 was budgeted but R900 000 was sold on credit).

13

Point 2	They increased delivery expenses to expand their target market / improve after-sales service. (Budgeted R150 000 but spent R168 000; 12% increase).
Point 3	They spent R40 000 on advertising (Budgeted R10 000; 300% overspent). / Decreased directors fees by R44 000 to fund more advertising R30 000.

1.2.4 Comment on the cash balances. Provide figures.

Any valid comment ✓ Figure/s ✓ Expected responses:

Disappointing / they expected a closing balance of R335 000
The actual balance is an overdraft of R210 000 (difference R545 000)
Actual balance for Sept is R230 000 while Oct reflects an overdraft of R210 000. (Difference R440 000).

Explain how the directors can improve the cash balances in future. Explain TWO points.

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

Expected responses for 1 mark:

Decrease expenses / increase income / decrease rent / increase sales

6

Activity C7

7.1.1 Creditors Payments Schedule for the period 1 May to 30 June 2020

Month	Credit purchases	May	June
March	336 000	134 400	
April	420 000	239 400	168 000 ✓✓
May	448 000 ✓✓		If 60% x 95% of May 255 360 ✓✓
		373 800	423 360 ✓

7

7.1.2 Calculate the missing figures indicated by A–C on the Cash Budget provided.

A

$$800\,000 \checkmark \times 0,40 \checkmark = 320\,000 \checkmark \text{ operation one part correct}$$

3

B

$$900 \checkmark \times 100/9 \checkmark \times 12/1 \checkmark = 120\,000 \checkmark \text{ operation one part correct}$$

4

C

$$890\,000 \checkmark \times 100/125 \checkmark \times 0,30 \checkmark = 213\,600 \checkmark \text{ operation one part correct}$$

4

7.1.3

Calculate the expected percentage increase in sundry expenses.

6 000 ✓ / 24 000 ✓ X 100 / 1 = 25% ✓ **operation one part correct**

3

Suggest and explain TWO measures that can be undertaken to lessen the possible adverse impact of the rise in prices.

Any TWO points ✓✓ Explanation ✓✓

- Stock pile to take advantage of the current prices so that for the next few months after the rise in prices you maintain the current selling prices (ensure competitive urge over competitors);
- Compare suppliers' prices and pick suppliers with better prices and conditions;
- Buy in bulk to take advantage of discounts; and save on transport cost
- Negotiate discounts with suppliers;

4


7.1.4

Refer to information H. Briefly comment with figures on each item and provide ONE point of advice to the owner.

Item	Comment and figures ✓✓✓✓	Advice ✓✓
Water and electricity	The actual expenditure is R1 500 more than the budgeted amount; Overspent by R1 500; Not well managed as the actual exceeds the budgeted amount by R1 500 (R6 500 – R5 000)	Ensure that there are no water leaks Educate the employees on using wa and electricity sparingly Electrical appliances that are not used are switched off; That lights during the d are switched off Budget realistically.
Rent income	Not well controlled as R8 000 instead of the budgeted R15 000 was collected; R7 000 less	Issue tenants with reminders month Charge interest on outstanding rent; Warn defaulting tenants of possible eviction; etc.

6

7.2

Identify ONE problem in relation to each branch. Quote relevant figures. In each case, offer Glenys Masala advice to solve the problem.	
Problem (with evidence) ✓✓ ✓✓ ✓✓	Solution(one per branch) ✓ ✓ ✓
<p>Umlazi MegaCity Mall Missing cash of R40 000</p> <p>Business ran out of stock and lost on potential sales.</p> <p>Kwamnyandu Mall 15 cellphones stolen</p> <p>Ezimbuzini Mall Mark-up percentage of 100% too high. Sale only 20% of the stock.</p> <p>Keeping too much stock only sold 70 of the 360 units</p>	<p>Umlazi MegaCity Mall Check the money before banking. Division of duties.</p> <p>Order more stock.</p> <p>Kwamnyandu Mall Regular stock taking/Internal control.</p> <p>Ezimbuzini Mall Decrease the mark-up to 50% as the other malls. Sales promotion: Kwamnyandu sale 50% and Umlazi MegaCity 100%.</p> <p>Transfer some stock to Umlazi MegaCity Mall.</p> 

40
40

Activity C8.

8.1

Identify the following:
Price paid per share for the re-purchase of the shares in October.
$52\ 000 / 10\ 000 \checkmark = R5,20 \checkmark$
Bank balance at the end of September.
$= (161\ 813) \text{ or } 161\ 813 \text{ unfavourable } \checkmark$

3

8.2

Calculate and comment on the percentage increase that the employees will get in October?
$341\ 850 - 322\ 500 = 19\ 350 / 322\ 500 \checkmark = 6\% \checkmark$
Comment: $\checkmark\checkmark\checkmark\checkmark$
Directors fees of R400 000 increased to R600 000 per month so this reflects a 50% increase. Employees might feel aggrieved that they are getting 6% while directors are getting 50% increases.
or
Employees can be satisfied with a 6% increase in salary since it is in line with the inflation rate of average 6%.

6

8.3

8.3.1	Calculate the expected cash sales for September 2020.	
	Calculation	Answer
	$805\ 800 \checkmark \times 70 \checkmark / 30 \checkmark$ or Total purchases: Sept: $948\ 000 \times 100/60 \checkmark = 1\ 580\ 000$ Total sales: $1\ 580\ 000 \times 170 / 100 \checkmark = 2\ 686\ 000$ Cash sales: $2\ 686\ 000 \times 70/100 \checkmark$ or $30/100 \times \checkmark = 805\ 800 \checkmark \quad \times = 2\ 686\ 000 \times 70\% \checkmark$	1 880 200 \checkmark

4

8.3.2	Debtors Collection schedule	
	Credit sales	Oct
	August credit sales: $787\ 500 \checkmark \times 28\% \checkmark$	220 500 \checkmark
	September credit sales: $805\ 800 \checkmark \times 70\% \checkmark$	564 060 \checkmark
		784 560 \checkmark

7

8.3.3	Calculate the payments to creditors in October 2020.		
	Calculation	Answer	
	Sept cash purchases 948 000 ✓ x 40/60 ✓✓ x 95/100 ✓ OR 1880 200 x 100/70 ✓ x 100/170 ✓ x 40/100 ✓ x 95/100 ✓	= 600 400 ✓	5

8.4

The owner is not happy with the rent. He plans to terminate the rent agreement and purchase the property on 1 October 2020.			
According to the Cash Budget, how would he pay for the property?			
Acquire a loan ✓	R500 000 ✓		6
Fixed deposit expires ✓	R366 000 ✓		
Overdraft ✓	R 44 000 ✓ OR (904 515)		
OR Cash payment of	R910 000		
Apart from saving on rent expense, provide TWO advantages of buying the property. ✓ ✓			
<ul style="list-style-type: none"> • The building would increase his assets and creditworthiness. • Buildings appreciate in value and can be sold with a profit. • Interest on loan is then R7 000 per month instead of R27 000 rent expense. • Interest on overdraft would be R5 400 per month instead of R27 000 rent expense. • Rates on property R1 520 per month, not near R27 000 rent expense. • Forfeit the R3 000 interest on fixed deposit, but have an asset of R910 000. • Can earn rent income out of lease. 			2
Provide TWO disadvantages of buying the property. ✓ ✓			
<ul style="list-style-type: none"> • Interest on loan is then R7 000 per month. • Interest on overdraft would be R5 400 per month. • Rates on property would be R1 520 per month. • Forfeit the R3 000 interest on fixed deposit. • Owner responsible for the repairs and/ maintenance. • Owner responsible for the insurance of the building. 			2

TOTAL MARKS
35

ACTIVITY E1

1.1 ZENZELE MANUFACTURERS

1.1.1 PRODUCTION COST STATEMENT ON 30 APRIL 2021

Direct labour cost		716 960	
Direct material cost	37 600 + 555 000 – 21 000 – 58 560	513 040	<input checked="" type="checkbox"/>
Prime cost	DMC + DLC	1 230 000	<input checked="" type="checkbox"/>
Factory overhead cost	(468 450 + 13 650 – 12 100*)	470 000	<input checked="" type="checkbox"/>
Total manufacturing cost	Operation	1 700 000	<input checked="" type="checkbox"/>
Work-in-process (1 May 2020)		142 000	
		1 842 000	
Work-in-process (30 April 2021)	Operation	(87 000)	<input checked="" type="checkbox"/>
Cost of production of finished goods		1 755 000	<input checked="" type="checkbox"/>
	(39 000 x R45)		

16

1.1.2 Complete the abridged (shortened) Income Statement to calculate the net profit for the year ended 30 April 2021.

Gross profit		1 250 000
Selling and distribution cost		<input checked="" type="checkbox"/> (614 690)
(609 850 + 4 840 * if adds to figure above) (36 300 x 8/60)		One part correct
Administration cost		<input checked="" type="checkbox"/> (437 560)
(443 950 – 13 650 See 1.1.1 + 7 260 * if adds to figure above)		One part correct
(36 300 x 12/60)		
Net profit	Operation, S&DB and Admin costs must be subtracted	<input checked="" type="checkbox"/> 197 750

08

1.2 UNIT COSTS AND BREAK-EVEN ANALYSIS

1.2.1 Explain the difference between **fixed cost** and **variable cost**.
 Any valid explanation **Two or zero marks. No part marks**

Fixed costs remain the same irrespective of the number of items manufactured.
 Variable costs vary in direct proportion to the number of items manufactured.

2

1.2.2 Calculate the break-even point for 2021.

80 000 one mark x 5,40 one mark
 432 000
 R17,80 – 11,60

5

R6,20 two marks

= 69 678 units (accept 69 677) One part correct
 NB: The word units not necessary but do not accept if R

1.2.3

Comment on the break-even point and the level of production for 2020 and 2021. Explain why the owner should be satisfied or not.

- In 2020 the break-even point was 65 000 ✓ units and they produced 65 000 ✓ units. The business broke even. ✓
- In 2021 the break-even point was 69 678/ 69 677 units and they produced 80 000 ✓ units. The business made a profit on 10 322/10 323 units.

See 1.2.2.

6

1.2.4

Identify the variable cost that should be of great concern to the owner. Explain and provide a calculation to support your answer.

Direct labour cost ✓
 Figures ✓
 Explanation ✓✓ No part marks

Direct labour cost increased from R3,50 to R4,05 / by 55 cents / by 15,7%

Explanation: DLC increased by more than the inflation or by more than DMC

4

1.2.5

Despite the fact that there was a decrease in the fixed costs per unit, the owner is still not satisfied with his control over the fixed costs. Explain and provide calculation(s) to support his opinion.

Fixed costs in 2021 = R432 000 See 1.2.2
 Fixed costs in 2020 = R65 000 ✓ x R5,50 ✓ = R357 500 OR
 Fixed costs increased by R74 500, i.e. 21% or 20,8%

4

TOTAL MARKS

45

ACTIVITY E2

2.1

2.1.1	Administration cost	✓	Accept recognisable abbreviations
2.1.2	Direct material cost		
2.1.3	Selling and distribution cost	✓	
2.1.4	Factory overhead cost	✓	

2.1

Calculate direct labour cost.

one part correct
one part correct 31
one part correct
 one part correct; must be x 5

384 000 ✓
500 ✓ ✓
44 160 ✓

$(1\ 920 \times 5 \times R40) + (90 \times 5 \times 70) + (384\ 000 \times 11,5\%) = R459\ 660$

OR

76 800
6 300
8 832

$5 \times [(1\ 920 \times R40) + (90 \times 70)] + (76\ 800 \times 11,5\%) = R459\ 660$

Calculate direct material cost.

one
one mark
one mark
one mark
one m/mark

one
one m/mark
one
one part correct; must be x 5

m/mark one
our marks
one part correct
m/mark one
one part correct

131 500 ✓
+ 584 000 ✓
x 5 500 ✓
= 583 000 ✓
 One part correct

1 350 ✓
+ 5 400 ✓
6 750 two marks

OR Total VC – DLC – S&DC

1 260 000 two marks
see 1.2.1; one method mark
two marks
one method mark; one part correct

[4 200 x 300]
– 459 660
– 217 340
= 583 000

OR OS + P – (CS x R106) – (Theft x R106)

one mark
one mark
two marks
one mark
one method mark; one part correct

$131\ 500 + 584\ 000 - 99\ 640 - 32\ 860 = 583\ 000$

2.2.2

Production Cost Statement for the year ended 29 February 2016:

No abbreviations accepted

*✓ <u>Direct material</u> cost (need not be first)	See 1.2.1	583 000	<input checked="" type="checkbox"/>
*✓ <u>Direct labour</u> cost	See 1.2.1	459 660	<input checked="" type="checkbox"/>
Prime cost	If = DMC + DLC	1 042 660	<input checked="" type="checkbox"/>
*✓ <u>Factory overhead</u> cost		343 340	<input checked="" type="checkbox"/>
Cost of production of finished goods	Operation one part correct	1 386 000	<input checked="" type="checkbox"/>

*Must be correctly placed to get the mark for details; method mark for figure marked independently

2.2.3

Calculate the break-even point for 2016.

570 000 two marks

$$\frac{343\,340 \checkmark + 226\,660 \checkmark}{450 \checkmark - 300 \checkmark}$$
 150 two marks

= 3 800 units One part correct; cannot be negative; cannot be R or c

Explain whether the owner should be concerned or not. Provide figures.

Yes / No is part of the explanation (No marks) Comment

comparing BEP to level of production ✓✓

Comparative figures ✓ (Refer to answer above; must compare BEP to production)

Possible answers:

- The owner should not be concerned as the business produced (4 200 – 3 800) 400 units more than the break-even point.
- The owner should be concerned as the business produced (4 200 – 3 800) only 400 units more than the break-even point.
- Owner should be concerned because they make a profit on 400 units only.

5

3

2.2.4

The owner is not satisfied with the internal control of the raw material (fabric).		
	STOREROOM: Raw material stolen	FACTORY: Raw material wasted
CALCULATION: metres of fabric	6 750 two marks $1\,350 \checkmark + 5\,400 \checkmark$ $- 5\,500 \checkmark - 940 \checkmark$ $= 310 \text{ metres} \checkmark$ One part correct Answer must be less than 6 750 Total: 5 marks	two marks for both 4 200 x 1,25 $5\,500 \checkmark - 5\,250 \checkmark \checkmark$ $= 250 \text{ metres} \checkmark$ One part correct OR 200 units two marks one mark one m/mark $[(5\,500 / 1,25) - 4\,200] \times 1,25 = 250 \text{ m}$ 4 400 metres one mark Answer must be less than 5 500 Total: 4 marks
STRATEGY One point each ✓ ✓ Be alert to alternative valid responses.	Improve physical security / Regular stock counts / Foreman to supervise / sign / account for all raw materials taken from the storeroom / division of duties.	Train workers to improve efficiency / Use new updated equipment (new technology) / Use templates in cutting fabric to reduce offcuts / recycle the offcuts. Improve supervision. Do not accept theft.

11

ACTIVITY E3

3.1 CONCEPTS

3.1.1	False	✓
3.1.2	False	✓
3.1.3	True	✓

3

3.2 TREK BIKES MANUFACTURERS

3.2.1 DIRECT LABOUR COST

Basic salary (14 x 7 000) ✓ x 12 ✓ 98 000	one part	1 176 000	✓
correct			
Overtime (14 x 144) ✓ x 65 ✓		131 040	✓
UIF contributions (1 176 000 x 1%) (1% of basic)		11 760	✓✓
	one part correct	1 318 800	✓

9

FACTORY OVERHEAD COST

Indirect materials one part correct (13 200 ✓ + 38 400 ✓ - 15 100 ✓)		36 500	✓
Salaries: foreman		156 000	✓
Electricity and water (104 000 x 90%)		93 600	✓✓
Rent expense (115 200 x 600/1 500)		46 080	✓✓
Insurance (74 200 x 3/7)		31 800	✓✓
Depreciation: factory plant and machinery		277 220	✓
	operation	641 200	✓

13

3.2.2 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015.

Direct (raw) materials cost		2 100 000	
Direct labour cost	see 2.2.1	1 318 800	✓
Prime cost	operation	3 418 800	✓
Factory overhead costs	see 2.2.1	641 200	✓
Total manufacturing cost	operation	4 060 000	✓
Work-in-process (beginning of year)		160 000	
	operation	4 220 000	✓
Work-in-process at end	operation	(220 000)	✓
Cost of production of finished goods (4 015 000 ✓ + 95 000 ✓ - 110 000 ✓)		4 000 000	✓
	one part correct		

10

ACTIVITY E4

4.1 HANGING LOOPS CURTAINS

4.1.1 Production cost statement for the year ended 31 March 2021

Direct material		2 270 000
Direct labour	345 000 (2 marks) (780 000 – 260 000 – 175 000) ✓✓ + 34 500 ✓	☑ 379 500
Prime cost		☑ 2 649 500
Factory overhead cost	Transfer from note	☑ 609 500
Total cost of production		3 259 000
Work in process (beginning of the year)		✓ 69 500
		3 328 500
Work in process (end of the year)	Balancing figure, must be deducted	☑ (72 000)
Total cost of production of complete products	2 605 200 x 100/80	✓✓ 3 256 500

10

Factory overhead cost

Indirect labour (260 000 ✓ + 26 000 ✓)		*☑ 286 000
Indirect material (3 800 ✓ + 31 300 ✓✓ – 4 300 ✓)		*☑ 30 800
Insurance (62 400✓ – 14 400 ✓✓)		*☑ 48 000
Rent (77 000 + 7 700)		✓✓ 84 700
Depreciation		✓ 160 000
	one part correct	*☑ 609 500

16

4.1.2 Provide a calculation to prove how the Direct Material Cost were calculated as R2 270 000.

$$\begin{aligned}
 & 14\,400 + 7\,200 && 36 \\
 & 000 \times 60\% && \\
 & 224\,000 \checkmark + 2\,500\,200 \checkmark - 140\,000 \checkmark - (292\,600 \checkmark + 21\,600 \checkmark) && \\
 & = 2\,270\,000 \checkmark &&
 \end{aligned}$$

6

4.2 GLASS AND CO.

4.2.1 Explain why it is important to calculate the Breakeven Point.

Any acceptable, relevant answer. ✓

So that the owner/manager knows how much products must be produced in order to cover all costs.

1

4.2.2 Why is the production staff's wages seen as a variable cost, but the factory cleaner's wages is a fixed cost?

Production staff is paid per unit/hour, so their labour cost would change as production levels change. ✓

The factory cleaner is paid a salary regardless of the amount of units produced. ✓

(Any acceptable answer)

2

4.2.3 Calculate the following:

(a) Factory overhead per unit

$$\frac{114\,000}{15\,000} = R7,60 \checkmark \checkmark$$

2

(b) Total Fixed Cost

$$114\,000 + 70\,400 = 184\,400 \checkmark \checkmark$$

2

(c) Variable cost per unit

$$142\,400 - 70\,400 = 72\,000 / 15\,000 = R4,80$$

34 ✓

$$(20,00 + 14,00) + 11,20 \checkmark + 4,80 \checkmark \checkmark = 50 \checkmark \text{ one part correct}$$

5

4.2.4

Calculate the Breakeven Point.

$$\frac{184\,400 \checkmark}{70 \checkmark - 50 \checkmark} \text{ (See b)}$$

$$= 9\,220 \checkmark \text{ (See c)}$$

Should Glass and Co. be satisfied with their current production of 15 000 units? Explain.

Compare BEF with level of production ✓ Figure ✓

They produce 5 780 more units than what is required to break even.

TOTAL MARKS
50



6

ACTIVITY F1: (P2)
SOLUTIONS:

GENERAL LEDGER OF SIZWE LTD
NOMINAL ACCOUNT SECTION

1.1.1

ASSET DISPOSAL ACCOUNT

2016 Aug	31	Vehicles	GJ	200 000√	2016 Aug	28	Accumulated depreciation on vehicles	GJ	118 080√√
		Profit and Loss of Asset	GJ	5 000√			Debtors control	GJ	8 920√
				205 000					205 000

1.1.2 Note to the Balance sheet as at 31 August 2016

Note1: Fixed Asset/Tangible Asset	Land and Building	Equipment	Vehicles
Cost price	2 120 000	490 000√	980 000
Accumulated Depreciation		0 (203 000)√	(520 000)√
Carrying value- at the beginning of the year		260 000	460 000√
MOVEMENTS			
Additional at cost	280 000	150 000√	240 000√
Disposal at CV		0	(81 920)√
Depreciation for the year		0 (56 500)	(104 000)√
Carrying value –at the end of the year	2 400 000	353 500	514 080
Cost price	2 400 000	640 000	1 020 000√
Accumulated Depreciation		0 (286 500)∅	(505 920)∅

1.1.3 If you are the accountant of the business, how will you respond to P. Query. You must use the relevant GAAP principle in your explanation.

- Financial statements are not misstated as land and buildings must be disclosed at the original cost as per GAAP concept of Historical Cost.
- Revaluing land and building at the market price can lead to tangible asset being overvalued.
- Its value can be manipulated.

1.1.4 In your opinion, is this an acceptable business practice? Give reasons for your ans

No

- Lap-top was purchased for the personal use of the owner's son not for the business purpose.
- Owners request is violating the business entity concept principle (GAAP)
- Therefore, the amount of R10 000 must be debited to his drawings account not to the equipment account.
- This is a violation of the income tax payable to SARS

ACTIVITY F1: (P2)

SOLUTIONS:

GENERAL LEDGER OF SIZWE LTD

NOMINAL ACCOUNT SECTION

1.1.1

ASSET DIPOSAL ACCOUNT

2020 Aug	31	Vehicles	GJ	200 000√	2021 Aug	31	Accumulated depreciation on vehicles	GJ	118 080√√
		Profit and Loss of Asset	GJ	5000√			Debtors control	GJ	8 920√
				205 000					205 000

1.1.2 Note to the Balance sheet as at 31 August 2021

Note1: Fixed Asset/Tangible Asset	Land and Building	Equipment	Vehicles
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Carrying value- at the beginning of the year		260 000	460 000√
MOVEMENTS			
Additional at cost	280 000	150 000√	240 000√

Disposal at CV	0	0	(81 920) [√]
Depreciation for the year	0	(56 500)	(104 000) [√]
Carrying value –at the end of the year	2 400 000	353 500	514 080
Cost price	2 400 000	640 000	1 020 000 [√]
Accumulated Depreciation	0	(286 500) [□]	(506 920) [□]

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No

- Lap-top was purchased for the personal use of the owner's son not for the business purpose.
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- Therefore, the amount of R10 000 must be debited to his drawings account not to the equipment account.
- This is a violation of the income tax payable to SARS

ACTIVITY F2 (P2)

SOLUTIONS:

2. Problem solving, analysis and interpretation

TAXI 1	<ul style="list-style-type: none"> • Higher running cost (6,10/km) • Age (fully depreciated) • Safety concern. • Earning R9.00/km (1 080 000/120 000) (profit R2.90)
TAXI 2	<ul style="list-style-type: none"> • Lack of revenue in comparison to the other taxis (R 288 000 i.e. R4 11/km) • Theft/fraud by the driver.

	<ul style="list-style-type: none"> • Revenue per km is less than running cost per km
TAXI 3	<ul style="list-style-type: none"> • Under-utilisation (34 000km-others doing almost 70 000km or 120 000km) • Running cost are low (R4 70/km)-should be used more • Lack of work ethics of the driver. • Any relevant answer

ACTIVITY F3 (P2) SOLUTIONS

NO	PROBLEM $\checkmark\checkmark$	SOLUTION $\checkmark\checkmark$
3.1	<ul style="list-style-type: none"> • He is not employee of the business. • Employees of the business may feel that they are being unfairly treated. 	<ul style="list-style-type: none"> • Owner must have a word with his son on the matter. • Must ensure his son about business policy and rules
3.2	<ul style="list-style-type: none"> • TV was purchased for business not for personal used. • Additional usage of the TV decrease its lifespan resulting in added cost for the business • This is not good for staff morale 	<ul style="list-style-type: none"> • Defaulters should be reprimanded. • Failure to comply could result in dismissal. • Frequent checks need to be undertaken by the auditor etc. <ul style="list-style-type: none"> ○ Any relevant answer
3.3	<ul style="list-style-type: none"> • The fixed asset register will not reconcile with actual physical stock on hand. • Asset will not be shown correctly in the balance sheet 	<ul style="list-style-type: none"> • According procedure for the disposal of asset will have to be explained to the owner. • Business entity concept.
3.4	<ul style="list-style-type: none"> • There may not be a problem if she follows correct procedure when buying items from this company. • Gift should actual be given to the business as the secretary represents the business when she orders from the company 	<ul style="list-style-type: none"> • Owner will have to check if he is getting the best deal with this company. • He will have to be convinced that the secretary is not compromising the interest of the business with that of her own.