



KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA



CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS)

LEARNER SUPPORT DOCUMENT

GRADE 11

ACCOUNTING

STEP AHEAD PROGRAMME



PREFACE

This support document serves to assist Accounting learners on how to deal with curriculum gaps and learning losses as a result of the impact of COVID-19 in 2021. It also addresses the challenging topics in the Grade 11 curriculum in Term 2 and 3.

Activities serve as a guide on how various topics are assessed at different cognitive levels and also preparing learners for informal and formal tasks in Accounting. It covers the following topics:

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A. BUDGETING

Budgeting is an important tool for internal control in any business. Budgets are prepared to forecast what will happen in the future.

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

The following will not be included in the cash budget:	
<ul style="list-style-type: none"> ▪ Bad debts ▪ Discount received ▪ Discount allowed ▪ Depreciation 	<ul style="list-style-type: none"> ▪ Loss on sale of an asset ▪ Profit on sale of an asset ▪ Drawings of trading stock

Concept	Explanation	Purpose
Cash budget	A forecast of cash receipts and cash payments	To forecast future receipts and payments.
Projected Income Statement	A forecast of income and expenses.	To forecast future profits or losses.
Debtors' collection schedule	A schedule (plan) of how the business will collect money from its debtors.	To forecast receipts from debtors.
Creditors' payment schedule	A schedule (plan) of how the business will pay its creditors.	To forecast payments to creditors.

Sales

- a) A business' main source of income is sales. These can be for cash or on credit.
- b) Cash sales are received immediately and will be entered as a receipt on the cash budget in the month of sale.
- c) The money from credit sales will be collected from debtors in the future.
- d) The cash and credit sales may need to be calculated from the given information.

DEBTORS COLLECTION SCHEDULE:

Use the following steps when preparing a debtors' collection schedule:

1. Calculate and enter the credit sales.
2. Take each month and insert the percentage that will be received in that month.
3. Do the calculations using credit sales to work out the amount to be received from debtors.
4. Total the columns for each month.

ACTUAL SALES: These are sales that have taken place in the months before the budget period. A portion of the credit sales may be collected in the budget period.

BUDGETED SALES: These are the estimated sales for the budget period

Worked example 1

Prepare the debtors' collection schedule for July, August, and September 2021 from the information below:

1. 60% of total sales are for cash.
2. Debtors are expected to pay as follows:
 - 50% in the same month as the credit sale transactions subject to a 10% discount.
 - 30% in the month following the credit sales transaction month
 - 17% in the second month following the credit sale transaction month
 - 3% is expected to be written off
3. Total sales:
 - Actual
 - June 2021 R160 000
 - Budgeted
 - July 2021 R150 000
 - August 2021 R180 000
 - September 2021 R200 000

ANSWERS:

	Credit sales	JULY		AUGUST		SEPTEMBER	
June 2021	R64 000	30%	19 200	17%	10 880		
July 2021	R60 000	50% – 10%	27 000	30%	18 000	17%	10 200
Aug 2021	R72 000			50% – 10%	32 400	30%	21 600
Sep 2021	R80 000					50% – 10%	36 000
			R46 200		R61 280		R67 800

First calculate 50% of the credit sales and then subtract the 10% discount from this figure [50% – 10% is not 40%].

Step 1	Step 2	Step 3
Calculate and enter credit sales. Cash sales = 60% Credit sales = 40%	Insert % to be collected in each month.	Do the calculations to work out the amount of credit sales collected in each month.
June: $R160\ 000 \times 40\%$ = R64 000 July: $R150\ 000 \times 40\% = R60\ 000$ August: $R180\ 000 \times 40\%$ = R72 000 Sept: $R200\ 000 \times 40\%$ = R80 000	See answer above.	June credit sales: No calculation as they are not part of this collection period July: $R64\ 000 \times 30\% = R19\ 200$ August: $R64\ 000 \times 17\% = R10\ 880$ July credit sales: July: $R60\ 000 \times 50\% = R30\ 000$ $R30\ 000 - 10\% = R27\ 000$ August: $R60\ 000 \times 30\% = R18\ 000$ Sept: $R60\ 000 \times 17\% = R10\ 200$ August credit sales: August: $R72\ 000 \times 50\% = R36\ 000$ $R36\ 000 - 10\% = R32\ 400$ Sept: $R72\ 000 \times 30\% = R21\ 600$ September credit sales: Sept: $R80\ 000 \times 50\% = R40\ 000$ $R40\ 000 - 10\% = R36\ 000$

Creditors' payment schedule (creditors' budget)

The following must be considered when the Creditors' budget is calculated:

- when and how much stock is purchased on credit and
- When is the payment due?

This forms part of the second step in the preparation of the main budget.

Required:

Calculate the expected payments to creditors for credit purchases for the budgeted period January to March 2022.

The Opening stock balance will be maintained as the stock basis. (This info has a twofold understanding:

- That the stock balance at the beginning of the month will be the same, every month, and
- That total purchases are equal to Cost of Sales when purchases are not given.)

INFORMATION:

Creditors are paid in full in the month following purchases (That means that the purchasing on credit during December will be paid at the end of January.)

Actual C A S H purchases of trading stock	November 2021	R10 000
	December 2022	R12 000
Budgeted CASH purchases of trading stock	January 2022	R10 000
	February 2022	R13 000
	March 2022	R14 500
Actual C R E D I T purchases of trading stock	November 2021	R14 000
	December 2022	R12 000
Budgeted CREDIT purchases of trading stock	January 2022	R10 000
	February 2022	R12 000
	March 2022	R13 000

The following template is the interpretation of the instruction that the Creditors will be paid in full the following month:

1	NOV	14 000	This amount will be paid at the end of December; however, this amount is not part of the budget month
2	DEC	12 000	R12 000 will be paid at the end January and forms part of the budget months
3	JAN	10 000	R10 000 will be paid at the end of January and February forms part of the budget months
4	FEB	12 000	R12 000 will be paid at the end of February and March forms part of the budget months
5	MARCH	13 000	This amount will be paid at the end of April and does not form part of the budget months

CREDITORS PAYMENTS SCHEDULE: BUDGETED PERIOD: JAN – MARCH 2022

MONTH	CREDIT PURCHASES	BUDGETED PERIOD				
		NOV	DEC	JAN	FEB	MAR
NOV	14 000					
DEC	12 000			12 000		
JAN	10 000				10 000	
FEB	12 000					12 000
MAR	13 000					
Payments to creditors				12 000	10 000	12 000

* Creditors are paid in full in the month following purchases



EXTRACT OF THE CASH BUDGET:

CASH PAYMENTS

CASH PAYMENTS	JANUARY	FEBRUARY	MARCH
Cash Purchases	10 000	13 000	14 500
Payments to Creditors	12 000	10 000	12 000

Whenever the credit purchases are not given, calculate the cost of sales from the given total sales (R6000)

E.g. Cost of Sales = 50 % on cost

Calculation:

Sales × 100/150 = Cost of sales (Purchases)

6000 × 100/150 = ?

ILLUSTRATION: CALCULATION OF THE PURCHASES AMOUNT OF STOCK.

"STOCK REPLENISHMENT WILL TAKE PLACE ON A MONTHLY BASIS AND THE OPENING BALANCE WILL BE MAINTAINED AS A BASE STOCK."

Here is an illustration what it means:

- If the opening balance is the same at every given month, then the Cost of sales will automatically be equal to the total purchases.
- So, when the stock purchased is not given, calculate cost of sales.
- Cost of Sales is equal to total purchases.
- Find the ratio between credit (eg. 80%) and cash purchases (eg. 20%) and calculate
- Complete the Creditors Payment schedule

Example of creditor's payment schedule:

Required:

Prepare a Purchases Payment Schedule of KIMA TRADERS for January 2022 to March 2022.

INFORMATION:

SALES FORECAST		BALANCES AT 31 DEC 2021	
January	R126 000	Trading Stock	R75 000
February	R130 000	Creditors	R60 000
March	R144 000		

ADDITIONAL INFORMATION:

1. Mark-up is equal to 100% on Cost price
2. Cash purchases of trading stock amount to only 20% of all purchases
3. All credit purchases are payable in the month following the month of Purchase.
4. Stock replenishment will take place on a monthly basis and the opening balance will be maintained as a base stock.

PROCEDURE TO FOLLOW:

1. Determine the budget months:

Answer: January to March 2022.

2. Does the question give you the purchases of stock?

Answer: No, therefore Cost of sales is equal to purchases of stock.

SOLUTION:

1.. CREDITORS PAYMENT SCHEDULE: BUDGETED PERIOD: JANUARY TO MARCH 2022

MONTH	PURCHASES	CREDIT PURCHASES	BUDGETED PERIOD				
			NOV	DEC	JAN	FEB	MAR
Balance of Creditors					60 000		
January	63 000	50 400				50 400	
February	65 000	52 000					52 000
March	72 000	57 600					
Payments to Creditors					60 000	50 400	52 000

EXTRACT OF THE CASH BUDGET:

CASH PAYMENTS:

CASH PAYMENTS	JANUARY	FEBRUARY	MARCH
Cash Purchases	12 600	13 000	14 400
Payments to Creditors	60 000	50 400	52 000

Projected Income Statement

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

What is the main aim of the Projected Income Statement?

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

By analysing it; management can ascertain whether:

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

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

Format of the Projected Income Statement

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

How to Prepare the monthly Projected Income Statement (Statement of Comprehensive Income)

1. Take as the starting point the actual Statement of Comprehensive Income.
2. Divide the figures by 12 to calculate the monthly figures

3. The following factors, amongst others, should be considered:
- Increase in expenses due to inflation, e.g. wages, fuel increases
 - Increase demand in particular months (season) due to events such as religious holidays, sports events, and international events etc.
 - Expected decline in sales due to increased competition.
 - Expected gross profit, i.e. mark-up on cost

NB. Some of the CALCULATIONS TO KNOW

- Mark up %= gross profit / cost of sales x100
- Surplus / deficit= Receipts – Payments
- Closing balance= Opening balance +/- Surplus/ deficit
- % change= difference / original amount x100
- Increased amount by % = $\frac{\text{Original amount} \times 100 + \% \text{ increase}}{100}$
- Decreased amount by %= $\frac{\text{Original amount} \times 100 - \% \text{ decrease}}{100}$
- Amount before increase= $\frac{\text{Increased amount} \times 100}{100 + \% \text{ increase}}$

Loan or Fixed deposit = $\frac{\text{Interest on loan / fixed deposit} \times 100 \times 12}{\text{Loan / Fixed deposit}}$

Loan / Fixed deposit

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

Ways to improve debtors' collections

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

Advantages of buying the business premises rather than renting

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

Disadvantages of buying than renting

- Rates on building must be paid
- Additional maintenance cost will be incurred
- Not easy to relocate

Ways to Improve cash balances in future

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

ACTIVITIES:

ACTIVITY A1 : CASH BUDGET

(39 marks; 23 minutes)

The information below appeared in the records of Kimberley Traders.

REQUIRED:

Complete the following in respect of the financial period December 2020 and January 2021. Some of the figures have been entered for you. You are required to enter the missing figures.

- 1.1 Debtors Collection Schedule (6)
- 1.2 Cash Budget (total column not required) (33)

INFORMATION:

- 1. Extract from list of balances on 1 December 2020:

Bank overdraft	R 4 330
Fixed deposit: Bloem Bank (16% p.a.)	24 000
Loan: Spring Bank (20% p.a.)	36 000

- 2. Actual and budgeted figures:

	ACTUAL		BUDGETED	
	October	November	December	January
Credit sales	45 000	48 000	60 000	54 000
Cash sales	30 000	32 000	40 000	36 000
Credit purchases	22 000	23 000	30 000	25 000
Cash purchases	15 500	17 000	20 000	17 000

- 3. It is expected that amounts owed by debtors will be collected as follows:
 - 30% in the same month in which the sales transaction takes place
 - 50% in the month after the sale takes place
 - 15% in the second month after the sale takes place
 - 5% to be written off in the third month after the sale takes place
- 4. Sundry operating expenses will be incurred as follows:
 - December R18 400
 - January R19 000

5. The fixed deposit matures on 31 December 2020. Interest on fixed deposit is received at the end of every month.
6. The business will sell old equipment for R3 000 cash on 31 December 2020. New equipment will be purchased on credit for R34 000 on 2 January 2021. The suppliers will require a deposit of R4 000 on that day. The balance will be paid off over six months commencing February 2021.
7. Depreciation will amount to R11 000 per month from December 2020.
8. Credit purchases are paid in full in the month following the purchases transaction month. A discount of 5% is received for this payment.
9. On 1 September 2020 Kimberley Traders borrowed R36 000 from Spring Bank. Half of the loan will be repaid on 31 December 2020. Interest for December was calculated to be R600. Interest on the loan must be paid monthly.
10. The business employs three shop assistants at a salary of R4 000 each per month. On 31 December one of the assistants will leave the business. The other two assistants will receive increases in salary of R1 000 per month each with effect from 1 January 2021.
11. Part of the building is let at R2 500 per month. The rent received will increase by 15% on 1 January 2021.

ACTIVITY A.1 ANSWER BOOK

KIMBERLEY TRADERS

3.1 DEBTORS COLLECTION SCHEDULE

	Credit sales R	December R	January R
• October	45 000	6 750	Nil
• November	48 000	24 000	7 200
• December	60 000		
• January	54 000	Nil	

(6)

ACTIVITY A2.

(40 Marks, 36 Minutes)

You are provided with the incomplete Cash Budget of Naldi Stores for the period 1 July 2021 to 30 September 2021. This business always uses a mark-up of 50% on cost.

Required:

- 2.1 Complete the Debtors' Collection Schedule for July 2021 to September 2021.
- 2.2 Calculate the amount that will be recorded in the Projected Income Statement for bad debts for August 2021. (3)
- 2.3 Calculate the missing amounts indicated by A to J on the Cash Budget. (24)

Information:

A Extract from the Cash Budget for the two months ending 30 September 2021:

Receipts	July	August	September
Cash sales of merchandise	64 800	A	66 150
Collection from debtors	46 008	?	?
Rent income	7 500	8 250	8 250
Additional capital contributed			250 000
Commission income	?	?	?
Total receipts	?	?	?
Payments			
Cash purchase of trading stock	18 000	17 750	B
Payments to creditors	55 350	C	47 925
Delivery costs (payable to MJ Deliveries)	8 640	D	8 820
Salaries and Wages	37 500	E	F
Internet data charges	3 500	G	G
Insurance	H	2 904	2 904
Other operating expenses	?	?	?
Drawings	25 000	25 000	25 000
Total payments	?	?	?
Cash surplus/deficit	(22 600)	?	J
Bank balance at the beginning of the month	(10 200)	?	(120 000)
Bank balance at the end of the month	I	(120 000)	163 000

B Sales, cost of sales and debtors' collection:

		Total Sales	Cost of Sales
Actual	May	105 000	70 000
	June	123 000	82 000
Budgeted	July	108 000	72 000
	August	106 500	?
	September	?	73 500

- 40% of total sales are on credit.
- Credit sales are collected as follows:
 - 20% collected in the month of sale to receive a 5% discount
 - 70% collected in the first month following the sale
 - 8% collected in the second month following the sale
 - The balance is written off in the third month following the month of sale.

C Stock levels and payments to creditors

- The business maintains a fixed-base stock by replacing stock sold on a monthly basis.
- 25% of the total purchases are for cash.
- Creditors are paid in the month following the purchase month to take advantage of a 10% discount.

D Delivery costs

- All goods sold are delivered to customers free of charge.
- The delivery costs are budgeted at 8% of sales.
- Delivery costs are paid in the month of the sale.

E Salaries and Wages

- Star Stores currently pays all staff members on the last day of each month.
- All employees will receive an increase of 6% from 1 August 2021.
- The manager, who earns R9 540 per month **after the abovementioned increase**, has submitted a resignation letter stating that her last day working for Star Stores will be on the 15th of September. The business does not plan to replace this employee.

F Internet data charges

- Star Stores currently has an internet contract costing R3 500 per month. This contract expires at the end of July 2021.
- Star Stores plans to find an internet supplier that is 15% cheaper than they are currently paying.

G Insurance

- The insurance premium is paid at the end of each month.
- The monthly premium will increase by 10% on 1 August 2021.

ACTIVITY A.2 ANSWER SHEET (40 Marks, 36 Minutes)

CASH BUDGET

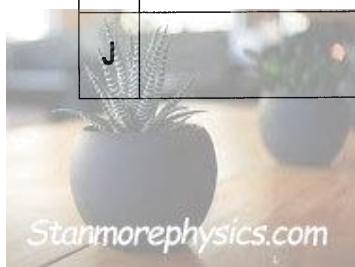
2.1 Debtors' Collection Schedule for July 2021 to September 2021. (13)

	Credit Sales	July 2021	August 2021	September 2021
May	42 000	3 360		
June	49 200	34 440		
July	43 200	8 208		
August				
September				
		46 008		

2.2 Calculate the amount they will be recorded in the Projected Income Statement for bad debts for August 2021. (3)

2.3 Calculate the missing amounts indicated by A to J on the Cash Budget. (24)

	Calculations	Amount
A		
B		
C		
D		
E		
F		
G		
H		
I		
J		



ACTIVITY A.3

CASH BUDGET

(63 marks; 28 minutes)

You are provided with information relating to In-Cell phones Providers for the two months ending 31 January 2022. Solly Solomons owns the business. The business has overdraft bank facilities of R50 000.

REQUIRED:

- 3.1 Debtors' Collection Schedule for the period 1 December 2021 to 31 January 2022. (8)
- 3.2 Calculate payments to creditors for the period 1 December 2021 to 31 January 2022. (8)
- 3.3 Cash Budget for the forecast period. (37)
- 3.4 Answer the questions that follow. (10)

INFORMATION

1. Sales and cost of sales:

	Actual Sales	Budgeted Sales	Cost of Sales
October 2021	100 000		75 000
November 2021	120 000		90 000
December 2021		160 000	120 000
January 2022		200 000	150 000

- 2. 20% of the total sales are sold on credit.
- 3. Debtors are expected to pay their accounts as follows:
 - 70% in the month following the month of sale
 - 28% two months following the month of sale
 - 2% is to be written off in the third month following the month of sale.
- 4. A fixed level of trading stock on hand is maintained throughout the year through replacement on a monthly basis.
- 5. Purchases of stock:
 - 65% of all stock is bought on credit
 - Creditors are paid in full in the month following the month of purchase to qualify for a 5% discount
- 6. It has been agreed that the owner, S. Solomons, will take unused equipment at book value in January for his own use, R2 000.
- 7. R120 000 was invested in fixed deposits with Star Bank on 1 November 2021. Interest is received on a monthly basis at 15% p.a. Half of these fixed deposits matures on 31 December 2021. The rest matures in February 2022.

8. Rent of R9 000 is payable by In-Cell Providers at the start of each month. This will be increased by 5% with effect from 1 January 2022.
9. Total salaries for November 2021 amount to R18 000. One employee, who earns R1 800 per month, will leave the business at the end of November 2021. The salaries of the remaining employees will be increased by 10% with effect from 1 January 2022.
10. A vehicle with a carrying value of R50 500 will be traded-in at book value on 1 December 2021 for a new vehicle costing R160 000. A deposit of R19 500 will be paid on 1 December 2021 and the balance of the outstanding amount will be paid in six equal instalments commencing 1 January 2022.
11. The bookkeeper is paid a monthly fee of R2 000.
12. Other operating expenses were R7 500 for November. These expenses are expected to increase by R500 each month thereafter.
13. The business has an overdraft of R17 000 at the beginning of December 2021. Interest is calculated by the bank on the balances at the beginning of each month. Provide for interest at the following rates (calculate your answers to the nearest R1,00):
 - Unfavourable balance: 2% per month
 - Favourable balance: 1% per month

3.4 QUESTIONS:

Consider the following information:

In order to take advantage of the increased demand for their product, the business must secure larger premises. Solly has the option of buying shop premises for R220 000. Although this means he will no longer pay rent, the business requires extra funds. This is a source of disagreement between Solly and his bookkeeper. The bookkeeper feels that Solly should provide additional capital, but Solly's wife is objecting to this as she feels they cannot afford to contribute more than R40 000.

The various options to finance the property are:

- Solly providing additional capital
- Raising a mortgage loan
- Increasing the overdraft
- Utilising remaining investments
- Selling fixed assets

- 3.4.1 Provide ONE good reason why Solly should buy the property. (2)
- 3.4.2 In your opinion, which of the above financing options should Solly follow? Explain briefly, in point form, how your suggestions would affect the cash budget. (8)
 (Note: You may decide on a combination of different options or you may decide on only one option).

ACTIVITY A3 SPECIAL ANSWER SHEET

3.1 Debtors Collection Schedule

<u>Amount of credit sales</u>		Receipts from debtors	
		December 2021	January 2022
October	R20 000		
November			
December			
January			

(8)

3.2 Payments to creditors

<i>Workings</i>	<i>Answer</i>
December 2021	
<u>January 2022</u>	

(8)

3.3 In-Cell Providers

Cash Budget for December 2021 and January 2022

	December 2021	January 2022
RECEIPTS		
Cash sales	128 000	160 000
Receipts from debtors		
TOTAL RECEIPTS		
PAYMENTS		
Cash purchases of stock	42 000	
Payments to creditors		
TOTAL PAYMENTS		
Surplus (deficit)		
Balance in bank at beginning of month	(17 000)	
Balance in bank at end of month		

(37)

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ACTIVITY A4 - CASH BUDGET AND PROJECTED INCOME STATEMENT

The following transactions were taken from the records of XMan Stores for the period ended 30 June 2021

Complete the table in the answer book by filling in the amounts only in the relevant column(s).

Example: The telephone account for June 2021, R2 130 was paid by cheque

No.	Amount in the Cash Budget for June 2021		Amount in the Projected Income Statement for June 2021	
	RECEIPT	PAYMENT	INCOME	EXPENSE
Example		R2 130		R2 130

- 4.1.1 The expected cash sales for June 2021 were estimated to be R35 200. The profit mark-up is 60% on cost.
- 4.1.2 Total depreciation on fixed assets for the financial year ended 30 June 2021 amounted R17 040.
- 4.1.3 Cash receipts from debtors for June 2021 are expected to be R62 200. Discounts of R2 150 will be allowed for early payments received
- 4.1.4 An instalment of R8 460 on the loan is expected to be paid on 25 June 2021. R460 of this amount is the interest on loan.

4.2 CASH BUDGET

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

REQUIRED:

- 4.2.1 Complete the Debtors Collection schedule for October 2021 and November 2021.
- 4.2.2 On 31 October 2021, the following figures were extracted from the records of the business. Explain what you would mention to Sonny about each of the items listed. Give ONE point of advice in each case.

	OCTOBER 2021	
	BUDGETED (R)	ACTUAL (R)
Maintenance of vehicles	24 500	21 380
Collection from debtors	147 171	115 620
Telephone	2 300	4 860

- 4.2.3 Complete the Cash Budget for October and November 2021.

INFORMATION:

A. A partially completed Cash Budget for October and November 2021.

	October 2021	November 2021
CASH RECEIPTS		
Collection from debtors		
Fee income for services rendered	62 000	
Rent income	8 200	
Commission income	4 650	
Fixed deposit		10 000
Interest on fixed deposit	375	
TOTAL RECEIPTS		
CASH PAYMENTS		
Fuel and oil	32 600	
Maintenance of vehicles	24 500	
Salaries		
Drawings		
Telephone	2 300	
Sundry expenses	3 120	
Interest on loan		
Purchase of additional vehicle	-	
TOTAL PAYMENTS		
SUPLUS/SHORTFALL	131 126	
Opening Balance	22 104	
Balance at the end of the month		

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

C. Debtors normally pay according to the following pattern:

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

D The rent income will be increased by 9%, and fuel and oil is expected to go up by 15 cents to the Rand, with effect from 1 November 2021.

E A fixed deposit is expected to mature on 1 November 2021. Interest on investment is earned at 9% p.a.

F Interest on the loan at 11% p.a. is payable monthly. The loan balance on 1 October 2021 was R300 000.

G Salaries are paid to the five drivers employed by the firm. All drivers are expected to get a 6% inflationary increase during November 2021.

H The business plans to buy an additional vehicle during November 2021. The total cost of the vehicle is R256 000 inclusive of finance charges. A deposit of 10% is payable. The balance will be settled over 60 months. The deposit and the first monthly instalment will be paid during November 2021.

I Commission income is a fixed percentage of the cash fee income for services rendered

J The owner draws R500 cash and takes R150 worth of consumable stores per month for his personal use

K Sundry expenses are expected to increase by 2,5% each month

L All other items on the budget are expected to remain the same over the budget period.

ACTIVITY A4- ANSWER SHEET

QUESTION 4: CASH BUDGET AND PROJECTED INCOME STATEMENT

4.1

No.	Amount in the Cash Budget for June 2021		Amount in the Projected Income Statement for June 2021	
	RECEIPT	PAYMENT	INCOME	EXPENSE
Example		R2 130		R2 130
4.1.1				
4.1.2				
4.1.3				
4.1.4				

4.2.1

DEBTORS COLLECTION SCHEDULE

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

4.2.2

	COMMENT	ADVICE
Maintenance of vehicles		
Collection from debtors		
Telephone		

	October 2021	November 2021
CASH RECEIPTS		
Collection from debtors		
Fee income for services rendered	62 000	65 400
Rent income	8 200	
Commission income	4 650	
Fixed deposit	-	10 000
Interest on fixed deposit	375	
TOTAL RECEIPTS		
CASH PAYMENTS		
Fuel and oil	32 600	
Maintenance of vehicles	24 500	
Salaries	25 500	
Drawings		
Telephone	2 300	
Sundry expenses	3 120	
Interest on loan		
Purchase of additional vehicle	-	
TOTAL PAYMENTS		
SUPLUS/SHORTFALL	131 126	
Opening Balance	22 104	
Balance at the end of the month		



B INVENTORY SYSTEM

A stock system is an administrative system that monitors, controls, and records the movement of stock through the business.

- From the time it is bought,
- To the time it is sold.

A stock system should be able to handle the movement of large quantities of stock.

The stock system should be able to provide the following information:

- The number of units on hand
- Cost price per unit
- Total value of units on hand
- Total value of stock sold

A stock system is also used to determine the cost price of stock sold (cost of sales), which ultimately influences the **gross profit** of the business,

Types of stock systems

Perpetual stock system

In the perpetual stock system, a continuous record is maintained of:

- The value of stock on hand (In the trading stock account), and
- The cost price of the goods sold (in the cost of sales accounting).

Suitable for the following businesses:

- Businesses that sell large items,
- Businesses of high value
- Businesses that have a low stock turnover.

Periodic stock system

In the periodic stock system:

- The value of stock on hand (closing stock) is determined by a physical stocktaking and;
- The cost of sales can only be calculated, once the value of closing stock has been determined.

Suitable for the following businesses:

- Businesses that sells a variety of items,
- Businesses of relatively low value,

	<i>Perpetual Stock System</i>	<i>Periodic Inventory System</i>
Purchase of stock When stock is bought	The trading stock account is debited	The Purchases Account is debited
Cost of sales The cost price of the goods sold	Is determined at every sale	Is only calculated at the end of a particular period once closing stock is determined.
Closing stock The closing stock amount	Is the balance in the Trading stock account at the end of a period?	Is only determined by doing a physical stocktaking.
Stock validation The validation of stock	Is done by comparing the book value in the Trading Stock Account to the physical stocktaking at the end of a period.	is difficult, because the physical stocktaking is taken to be the closing stock value.

DETERMINING GROSS PROFIT

PERPETUAL STOCK SYSTEM		PERIODIC STOCK SYSTEM	
Trading Account		Trading Account	
Cost of sales	Sales (net)*	Opening stock	Sales (net)*
Profit & Loss (Gross Profit)		Purchase (net)*	Closing stock
		Carriage on purchases	
		Custom duty	
		Profit & Loss (Gross profit)	

NOTES:

- Sales (net)* = Sales – Returns from debtors.
- Purchases (net)* = Purchases – Returns to creditors.

In the Perpetual stock system:

- **Cost of sales** is determined and recorded continuously and closed off to the Trading account at the end of the period.

In the Periodic stock system:

- Cost of sales is only determined at the end of the period in the Trading account as follows:

Cost of sales = (Opening stock+ Purchases + Carriage on purchases + customs duty) –Closing stock.

1.1. CONCEPTS

Match Column A with Column B

COLUMN A	COLUMN B
1.1.1. Transportation of goods purchased	A. Custom Duty
1.1.2. Inventory system that normal suitable for small businesses due to the expenses of acquiring the technology	B. Periodic Inventory System
1.1.3. Inventory that records the sale or purchase of inventory immediately through the use of computerized point-of –sale system.	C. Perpetual Inventory System
1.1.4. Tax levied on imported goods	D. Carriage on Purchases

1.2 SCANDALS STORES

Scandals Stores is a small business that is located near a popular beach. It sells Magazines, newspapers, and stationery. The periodic inventory system is in operation.

REQUIRED:

- 1.2.1. Calculate the value of items purchased for the year ended 30 April 2021
- 1.2.2. Complete the Trading Account in the General ledger of Scandals Stores for the year ended 30 April 2021. Show calculations in brackets, where needed.

INFORMATION:

- A. Stock of R25 600 was on hand on 1 April 2021.
- B. Stock costing R870 270 was purchased during the year.
- C. Returns to suppliers for the year amounted to R5 120.
- D. The owner donated stock costing R4 150 to the local schools to be used for reading.
- E. R19 000 was spent on the transport needed to get the stock to the business.
- F. The physical stock taking at the end of April 2021, revealed that stock on hand amounted to R31 650.
- G. Scandals Stores sales for the year amounted to R1 435 566 and returns from customers during the year was R5 060.

ACTIVITY B1 Answer Sheet

1.1.1	
1.1.2	
1.1.3	
1.1.4	

1.2 . SCANDALS STORES

1.2.1 Calculate the value of items purchased for the year ended 30 April 2021

1.2.2

Trading Account

ACTIVITY B 2

The following information relates to Warrinton Traders. The business uses the periodic inventory system. The business uses a mark-up of 25% on cost.

REQUIRED:

1. Calculate Cost of Sales.
2. Calculate the Gross Profit

INFORMATION

Extract from Pre-Adjustment Trial Balance on 28 February 2022.

Opening Stock	310 000
Sales	1 250 000
Drawings	65 000
Purchases	960 000
Carriage on purchases	24 000
Carriage on Sales	28 800
Custom Duties	15 000
Debtors Allowances	24 000

1. The bookkeeper of the business made the following error regarding donations of stock to a local school. The selling price was R3 400 and cost price R2 000. The following entry was made

DR	Donations	3 400
CR	Sales	3 400

Correct this error.

2. No entries have been made for the following transactions:

- On 28 February 2022, the owner took merchandise with a selling price of R3 500 for his own personal use.
- Goods purchased on credit from a supplier. The following invoice was received.
 - Merchandise R27 000
 - Delivery cost of merchandise R2 400
- A physical stock count showed a value of R305 000 worth of stock on hand on 28 February 2022.
- **After stocktaking**, a debtor returned goods with a selling price of R1 800. The goods were received however not added to the physical stock take.



CALCULATION OF COST OF SALES

ACTIVITY B 3

Donje Stores is a florist business that is located near the Beach. It sells flowers, umbrellas, sunglasses, and other items that beach-goers would like to purchase. The periodic inventory system is in operation.

REQUIRED:

3.1 Identify whether each of the following characteristics refer to the perpetual or periodic inventory system.

- 3.1.1. Stock purchases are recorded in an asset account called "Trading Stock"
- 3.1.2. Returns and allowances on stock purchased are credited to the Purchases account.
- 3.1.3. There is no cost of sales account.
- 3.1.4. Donations and Stock withdrawn by the owner are credited in the Purchases account.
- 3.1.5. Expenses incurred in purchasing stock are charged to the Trading stock Account.

3.2. Complete the Trading Account in the General Ledger of Donje Stores for the year ended 28 September 2021. Show the calculation of Purchases and Sales in brackets so that part marks can be awarded

INFORMATION

Flowers on hand (1 October 2020)	15 900
Flowers on hand (28 September 2021)	12 400
Cost price of flowers bought during the year	206 700
Carriage on sales	22 000
Cost of transporting the flowers to the shop	7 100
Sales of flowers during the year	430 720
Defective flowers returned by customers	3 600
Defective flowers returned by Donje Stores to suppliers	5 100
Flowers taken by Donje for her husband	1 300

3.1 Identify whether each of the following characteristics refer to the perpetual or periodic inventory system.

3.1.1	
3.1.2	
3.1.3	
3.1.4	
3.1.5	

3.2

Trading Account

The following information appears in the books of Romsele Traders on 28 February 2022.


Romsele Traders aims to sell tracksuits at a mark-up of 25% on cost.

REQUIRED:

- 4.1. Calculate the Cost of sales
- 4.2. Post to the Trading Account in the General Ledger of Romsele Traders.
Balance/ Close off the account on 28 February 2022, the end of the financial year.

INFORMATION:

Balances/ Totals on 28 February 2022:

Trading Stock (1 March 2021)		75 000
Purchases		420 000
Sales		635 000
Carriage on purchases		18 200
Carriage on sales		9 450
Customs duty		6 500
Creditor's allowance		7 900
Debtors' allowances		4 500

The following adjustments must be considered:

1. The stock on hand on 28 February 2022 as per physical stock take was R92 300.
2. The owner, Romsele took tracksuits for her holiday to Cape Town, selling price R5 500.
3. As part of their community project Romsele Traders donated 5 tracksuits with a selling price of R650 to the shelter for abused children.
4. Romsele Traders returned 10 tracksuits at a cost of R9 500 to the manufacturer.
5. Kasen, a dissatisfied customer returned the tracksuits that she had purchased at R650 selling price, after stock taking.

ACTIVITY B4 ANSWER SHEET

4.1. Calculation of Cost of Sales:

General Ledger of Romsele Traders
TRADING ACCOUNT

ACTIVITY B 5:

Nomonde Stores uses the periodic inventory system. Nomonde Stores aims to sell goods at a mark-up of 50% on cost.

REQUIRED:

- 5.1 Post to the Trading Account in the General Ledger of Nomonde Stores. Balance/ Close off the account on 28 February 2022, the end of the financial year.
- 5.2 Analyse the transactions (no.1 – 4) below.

The following information was taken from the books of Nomonde Stores on 28 February 2022.

INFORMATION:

Balances/ Totals on 28 February 2022:

Trading Stock (1 March 2021)	46 000
Purchases	190 000
Sales	450 000
Carriage on purchases	1 500
Carriage on sales	1 800
Customs duty	500
Creditor's allowance	4 000
Debtors' allowances	2 000

1. Sold goods on credit to debtor, T.Tenel, R6 500.
2. Owner, Nomonde took goods for personal use (selling price R1 980).
3. Purchased goods from Arbor Warehouse R15 000. Arbor Warehouse charged 10% delivery fee on the amount of goods purchased.
4. Stock on hand at year-end R62 000.

ACTIVITY B5 : ANSWER SHEET

5.1. General Ledger of Nomonde Stores

TRADING ACCOUNT

5.2.

No.	ACCOUNT DEBIT	ACCOUNT CREDIT	AMOUNT	A	OE	L
1						
2						
3						
4						

ABC Outfitters is a retail business which follows the periodic inventory method and is owned by P. Nut. She aims to achieve a mark-up of 60% on cost.

REQUIRED:

- 6.1 Prepare the following accounts in the General Ledger of ABC Outfitters. Balance/Close off all accounts on 28 February 2022. Where necessary show workings in brackets so part marks can be awarded.
 - 6.1.1 Purchases a/c
 - 6.1.2 Trading a/c
- 6.2 Calculate cost of sales.
- 6.3 Calculate the mark-up percentage achieved on cost. (2 decimal places)
- 6.4 Give TWO reasons why the expected mark-up percentage was not achieved.

INFORMATION:

The information that follows was extracted from the accounting records of ABC Outfitters on 28 February 2022:

Trading stock (1 March 2021)	60 000
Cash sales	340 000
Credit sales	560 000
Cash purchases	320 000
Credit purchases	324 000
Carriage on purchases	20 000
Carriage on sales	18 000
Drawings	26 000
Debtors allowances	9 800
Custom duties	19 600

No entries have been made for the following transactions:

1. R2 000 worth of goods were donated to the local shelter for street children.
2. An invoice for stock purchased on credit from Bendy Traders was not recorded. The invoice reflects the cost price of R9 000 and a delivery charge of R400. The value of stock has been included in the stock count on 28 February 2022.
3. The physical stock count on 28 February 2022 revealed trading stock costing R140 000 on hand.
4. Goods were returned to suppliers with a selling price of R5 600. These goods have not been included in the stock count on 28 February 2022.
7. A debtor, M. More returned goods on 28 February 2022 with a selling price of R2 400, which he said he did not order. These goods were placed back into stock after the stock taking took place.

6.1.2.

TRADING ACCOUNT

6.2. Calculate cost of sales

6.3. Calculate the mark-up percentage achieved on cost. (2 decimal places)

6.4. Give TWO reasons why the expected mark-up percentage was not achieved.

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

THINGS TO REMEMBER**1. Raw (direct) materials cost**

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

2. Direct labour cost

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

3. Factory overheads

- This is a very important section that attracts huge marks in exams and tests.
- These are all costs incurred in order to run the factory other than the direct materials and direct labour costs.
- In other words, these costs are in the factory but they are not directly identified or associated with the final product.
- Examples of factory overheads cost are inter alia rent, insurance, depreciation, electricity, indirect material cost, indirect labour cost, remuneration of a cleaner, salary of the supervisor/foreman/production manager, etc.

Take note that some of these costs could have been incurred by the whole business. In such cases those costs would have to be apportioned or prorated according to floor space, etc.

4. Prime costs (direct costs)

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

5. Indirect material cost

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

6. Indirect labour cost

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

7. Fixed costs

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

8. Variable costs

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

9. Total cost of production

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

10. Work in process/progress

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

11. Raw material stock account

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

12. Cost of production of finished goods

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

13. Unit costs

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

BREAK-EVEN POINT

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

by the unit cost



ACTIVITY C1 – LEDGER ACCOUNTS

1.1 STRUMPHER MANUFACTURERS

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

REQUIRED:

- 1.1.1 Calculate the following for the financial year:
 - Direct material cost
 - Direct labour cost
- 1.1.2 Record the following transactions in the General Ledger:
 - Work-in-progress stock
 - Finished goods stock
- 1.1.3 The owner is concerned about the control of workers in production. Provide TWO points that justify his concern. Quote relevant figures.

INFORMATION:

A. Stock balance:

	28 FEBRUARY 2022	1 MARCH 2021
Raw material stock	R38 700	R23 400
Work-in-process stock	60 000	45 300
Finished goods stock	22 000	27 000

B. Transactions for the year:

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

C. Details of workers in production

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

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

1.1.1 Calculate the following for the financial year:

Direct material cost	
Direct labour cost	

1.1.2

WORK-IN-PROGRESS STOCK ACCOUNT							

1.1.3

FINISHED GOODS STOCK ACCOUNT							

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

Point 1:	Figures
Point 2:	Figures

ACTIVITY C2 – LEDGER ACCOUNTS

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

REQUIRED:

- 2.1 Calculate the following for the year ended 30 June 2021:
 - 2.1.1 Direct Material Cost
 - 2.1.2 Direct Labour Cost
 - 2.1.3 Factory Overhead Cost

- 2.2 Prepare the Work-Progress Stock Account in the General Ledger for the year ended 30 June 2021.

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

ANSWER SHEET

2.1 Calculate the following for the financial year:

2.1.1	Direct material cost
2.1.2	Direct labour cost
2.1.3	Factory Overhead cost

2.2

WORK-IN-PROGRESS STOCK ACCOUNT							

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

ACTIVITY C 3 – LEDGER ACCOUNTS AND UNIT COSTS

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

REQUIRED:

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

INFORMATION

General Ledger of ON POINT Manufacturers

Balance Sheet Section

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

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

ADDITIONAL INFORMATION

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

ANSWER SHEET

3.1	A	
	B	
	C	
	D	
	E	
	F	

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

3.3.1 The cost price per unit.

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

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

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

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

ACTIVITY C4

4.1 RIETFontein MANUFACTURERS

You are provided with information for the year ended 30 June 2021. The business produces and sells T-shirts to advertise the town.

REQUIRED:

- 4.3.1 Calculate the missing figures indicated by **A** and **B**.
- 4.3.2 Calculate the break-even point and comment on the level of production for the year.

INFORMATION:

The number of T-shirts produced and sold increased from 7 000 T-shirts in 2014 to 9 000 T-shirts in 2021. The break-even point for 2020 was 3 250 units.

The following figures apply to the 2021 financial year:

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

ANSWER SHEET

4.3.1 Calculate the missing figures indicated by A and B.

A	
B	

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

CALCULATION:

COMMENT:

ACTIVITY C5

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

REQUIRED:

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

INFORMATION:

A.

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

- B. Raw Materials Stock purchases of R553 500 includes carriage on purchases of R40 000.
- C. Production wages totalling R90 000 was not recorded.
- D. Factory Overhead Cost was incorrectly calculated. The following adjustments must be taken into account:
- Depreciation on Factory Plant and Equipment amounting to R84 030 was omitted.
 - Indirect Materials included R3 500 worth of materials bought for the next financial year.
 - Advertising cost of R17 320 was included as R12 790.
 - The utilities amount of R10 290 in the Factory Overhead Cost account was apportioned in the Ratio of 2:1:1 between the factory and other departments respectively. It should have been in the ratio 4:2:1

E.

UNITS PRODUCED AND SOLD	Value	Units
Cost of Finished goods produced	R1 872 000	374 400
Sales (mark-up = 100% on cost)	R3 564 000	396 000

F.

COSTS AND BREAK EVEN	
Fixed Costs	R682 500
Variable Costs	R2 059 200
Administration Costs	R250 500
Selling and Distribution Costs	?
Break-Even Point	?

ANSWER SHEET

5.1	Calculate the following:	
	5.1.1	SELLING PRICE PER UNIT:
	5.1.2	COST OF SALES:
	5.1.3	VARIABLE COSTS PER UNIT
	5.1.4	BREAK-EVEN POINT
5.2	Waste Traders anticipates that demand will increase in the next financial year to 600 000 units. They aim to increase the number of units produced to meet this demand. They expect fixed costs to remain unchanged.	
5.2.1	Explain what you understand by the term 'break-even point'.	
5.2.2	Explain the effect the above decision will have on the fixed costs per unit and the break-even point.	
<p>FIXED COST:</p> <p>BREAK-EVEN POINT:</p>		

Value Added Tax

VAT is tax charged by a vendor (seller or supplier) on the supply of goods or for rendering a service.

VAT is a form of indirect taxation

Current VAT rate is 15%

What is the purpose of VAT?

Is to fund social and economic programs and to provide public goods and services such as schools, universities, hospitals, clinics, and roads as well as defence and security.

VAT Vendor	A person or business that supplies goods and services who register as a Vendor (trader).
Voluntary Registration	Businesses with a turnover of less than R1-million CAN register if they want to.
Zero Rated items	Items charged at 0% VAT but this can be changed by the government at any time. e. g fresh fruits, and vegetables, rice, maize, eggs, lentils, and cooking oil
VAT exempted items	Items on which no VAT is charged e. g Interest, rates educational services etc.
VAT inclusive	VAT is included in the amount. $VAT = \text{Amount} \times 15/115$
VAT exclusive	VAT is excluded in the amount. $VAT = \text{Amount} \times 15/100$
VAT input	VAT paid by the business on the purchase of goods and services.
VAT output	VAT collected by the business on the sale of goods and services.

APPROACH TO THE TOPIC

There are 2 methods of calculating amount payable or receivable from SARS. The first one is to use a formula: $VAT\ output - VAT\ input$. A negative balance makes it an ASSET (the amount is receivable) and a positive balance makes it a liability (the amount is payable).

- The second one is to draw up a **VAT control account**. The debit side of the account consist of the **VAT input** amounts and the credit side of the account consist of the **VAT output** amounts.
- VAT input amounts includes VAT on purchases of trading stock, equipment etc, VAT on expenses, VAT on returns from debtors, VAT on bad debts.
- VAT output includes VAT collected from sales. VAT on returns of merchandise, VAT on drawings of stock, VAT on bad debts recovered

ACTIVITY D1

VAT CONCEPT

INDICATE WHETHER THE FOLLOWING STATEMENTS ARE TRUE OF FALSE	ANSWER
1.1 VAT stands for VALUE ADDED TAX 1.2 The current VAT rate is 17% 1.3 Maize meal is one of the example of VAT exempted item 1.4 VAT is payable to SARS 1.5 Any business with sales of more than R300 000 MUST register as a VAT vendor	

ACTIVITY D2

VAT ANALYSIS



ANALYSE THE FOLLOWING ITEMS BY MAKING A CROSS(X) IN THE APPROPRIATE COLUMN				
	GOODS/ SERVICES	15% VAT	0% VAT	VAT exempts
2.1	Purchase of trading stock			
2.2	Fruits and vegetables			
2.3	Purchase of a personal computer			
2.4	Fuel			

ACTIVITY D3

Calculate the VAT amount by completing the table below

NO	Selling price before VAT (VAT exclusive price)	VAT Amount
3.1	R300	
3.2	R1 700	
3.3	R 21.72	
3.4	R2 445.75	
3.5	R92	
3.6	R215.80	

The table below indicates amounts for various sales transactions which are subject to VAT at 15%. Complete the table

E.G	R200	50%	R300	R45	R345
4.1	R400		R640		
4.2	R900		R1200		
4.3		25%		R150	
4.4		20%			R2 760

ACTIVITY D5

Cape Traders is a VAT registered business. ALL items subject to VAT at 15

REQUIRED

Calculate the amount of VAT either receivable or payable to SARS on 31 August 2021. Indicate whether this amount is **Payable** or **Receivable**

The owner has told the accountant to change the bad debts from R800 to R8000. Give one reason you disagree with him.

INFORMATION:

The following transactions relate to Cape Traders for the VAT period ended 31 August 2021

A	Balance owing by SARS on 1 August 2020	R34 800
B	Purchases of Trading Stock (VAT exclusive)	R1925 000
C	Cash and credit sales (VAT inclusive)	R2649 600
D	VAT on discount received from suppliers	R1 400
E	VAT on bad debts written off	R800

ACTIVITY D5 ANSWER SHEET

5.1	
	Receivable/Payable:
5.2	

Mr Kwanele is the sole owner of Manaba Supermarkets The following information was extracted from the accounting records for the month of July 2020

Required

Prepare the: Input Vat account , Output VAT account and the VAT control Account

Summary of transactions:

Total sales for a month	
Sales VAT amount from CRJ	6 390
Sales at 0% VAT	15 000
Total Purchases for a month	
Purchase VAT amount from CPJ	3 750
Payments that were VAT exempted	2 100
Drawings VAT amount	63
Debtors Allowances VAT amount	720
Creditors Allowances VAT amount	150
Discount allowed to customers (Excluding VAT)	500
Bad debts written off excluding VAT	400

