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# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## SENIOR CERTIFICATE EXAMINATION

**ACCOUNTING**

**2015**

**MARKS: 300**

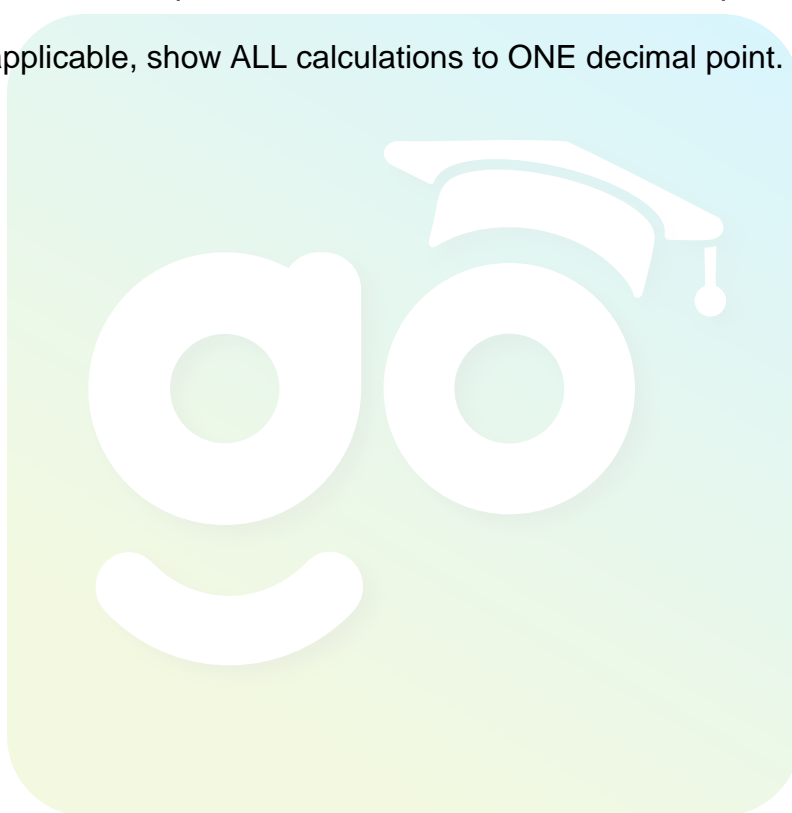
**TIME: 3 hours**

**This question paper consists of 23 pages and an answer book of 17 pages.**

## INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL workings in order to achieve part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer the questions.
6. Where applicable, show ALL calculations to ONE decimal point.



7. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 40 marks; 20 minutes	
Topic of the question:	This question integrates:
Reconciliations	<b>Financial accounting</b> Bank reconciliation Reconcile a Creditors' Ledger Account to a Statement of Account <b>Managing resources</b> Internal control and internal audit

QUESTION 2: 40 marks; 25 minutes	
Topic of the question:	This question integrates:
Manufacturing	<b>Managerial accounting</b> Production Cost Statement Analyse and interpret break-even point <b>Managing resources</b> Internal control and internal audit

QUESTION 3: 50 marks; 30 minutes	
Topic of the question:	This question integrates:
Asset management	<b>Managing resources</b> Asset Disposal Account Inventory valuation: FIFO and weighted average Internal control and internal audit

QUESTION 4: 65 marks; 40 minutes	
Topic of the question:	This question integrates:
Concepts, Income Statement, Notes to Balance Sheet	<b>Financial accounting</b> GAAP principles Prepare Income Statement Ordinary share capital and Retained income notes

QUESTION 5: 65 marks; 40 minutes	
Topic of the question:	This question integrates:
Cash Flow Statement, Interpretation and Auditors' Report	<b>Financial accounting</b> Cash Flow Statement Analyse and interpret financial information Independent auditors' report <b>Managing resources</b> Internal control Ethics and professional bodies

QUESTION 6: 40 marks; 25 minutes	
Topic of the question:	This question integrates:
Cash Budgets	<b>Managerial accounting</b> Analyse and interpret a Cash Budget <b>Managing resources</b> Internal control and internal audit

**QUESTION 1: RECONCILIATIONS****(40 marks; 20 minutes)****1.1 BANK RECONCILIATION**

You are presented with information from the records of Protea Stationers for May 2015. The sole owner is Peter Pan.

**REQUIRED:**

- 1.1.1 Show the entries that must be recorded in the Cash Journals by completing the table provided in the ANSWER BOOK. Totals are not required. (15)
- 1.1.2 Prepare the Bank Reconciliation Statement on 31 May 2015. (10)
- 1.1.3 As internal auditor you are not happy with the manner in which cash is being controlled in this business. Identify TWO problems and provide figures to support your answer. Give advice on how these problems can be avoided in future. (6)

**INFORMATION:****A.** Information from the Bank Reconciliation Statement on 30 April 2015:

Favourable balance as per Bank Statement		27 300
Outstanding deposits:	Dated 12 April 2015	16 000
	Dated 28 April 2015	21 500
Outstanding cheques:	No. 1010 (dated 10 November 2014)	2 000
	No. 1366 (dated 29 April 2015)	7 200
	No. 1590 (dated 18 May 2015)	12 600
Favourable balance as per Bank Account in the Ledger		43 000

**B.** A comparison of the May 2015 Bank Statement with the May 2015 Cash Journals revealed the following:

- Bank charges of R840 on the Bank Statement were not recorded in the Journals.
- A dishonoured cheque for R6 800 appeared on the Bank Statement. This cheque was received from A Apple, a debtor, in settlement of his account of R7 250.
- Interest of R860 credited on the Bank Statement was not recorded in the Journals.
- Cheque No. 1654 issued to a creditor, Hatfield Stores, appeared correctly on the Bank Statement as R7 940. This was recorded as R9 740 in the Cash Payments Journal.
- A debit order of R880 for the monthly insurance appeared twice on the Bank Statement, but no entry has been made in the Journals. The bank will rectify this on the Bank Statement next month.

- C.** Items that appeared in the April Bank Reconciliation Statement:
- Only cheque No. 1366 and the deposit of R21 500 appeared on the Bank Statement for May 2015.
  - Cheque No. 1010 was issued to the Union Tennis Club in payment of the owner's membership fees. The club no longer exists.
  - The outstanding deposit of R16 000 is in respect of cash received as commission. This did not appear on the Bank Statement. The cashier in charge of deposits stated that she was robbed on the way to the bank. The owner authorised that this amount be written off as the business will not be able to recover the money.
- D.** The May 2015 Cash Receipts Journal reflected the following outstanding deposits:
- R15 500 on 14 May 2015
  - R20 200 on 29 May 2015
- E.** Cheques from the May 2015 Cash Payments Journal not presented for payment:
- No. 1660 for R5 600 (dated 27 May 2015)
  - No. 1698 for R7 555 (dated 23 July 2015)
- F.** The Bank Statement on 31 May 2015 reflected a favourable balance of R9 175.

1.2 **CREDITORS' RECONCILIATION**

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

**REQUIRED:**

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 balances at the end of March 2015. (9)

**INFORMATION:**

Balance of Meteor Suppliers in Creditors' Ledger of Comet Traders	R10 705
Balance on the statement received from Meteor Suppliers	R19 120

A comparison between the Creditors' Ledger Account of Meteor Suppliers and the statement of account showed the following differences:

- A.** An invoice for R9 870 received from Meteor Suppliers was correctly recorded in the Creditors Ledger Account. The amount was incorrectly recorded as R8 790 on the statement.
- B.** Comet Traders entered a discount of R375 relating to a payment of R5 000 on 15 March 2015. Meteor Suppliers did not approve this discount stating that the payment was received late.
- C.** The statement of account reflected returns valued at R890. The Creditors' Ledger Account showed R690. It was established that Comet Traders miscalculated the value of the goods returned.
- D.** An invoice for R2 160 received from Meteor Suppliers was incorrectly recorded as a debit note in the Creditors' Ledger.
- E.** A direct transfer of R5 000 by Comet Traders was recorded in the Cash Payments Journal on 29 March 2015. The statement of account from Meteor Suppliers was dated 25 March 2015.

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**QUESTION 2: MANUFACTURING****(40 marks; 25 minutes)****2.1 KASI MANUFACTURERS**

Kasi Manufacturers is a small manufacturing business that produces one style of T-shirt. The financial year ended on 30 April 2015.

**REQUIRED:**

2.1.1 Complete the following:

- Factory Overhead Cost Note (Refer to Information D.) (10)
- Production Cost Statement (14)

2.1.2 The accountant is of the opinion that the workers are not properly supervised.

- Identify TWO separate problems relating to the supervision of workers. Quote figures to support your answer.
- In EACH case, provide a possible solution. (8)

**INFORMATION:****A. Balances at the end of the financial year**

	30 APRIL 2015	30 APRIL 2014
Work-in-process	?	R18 680

**B. Raw material stock**

Fabric is issued from the storeroom to the factory using the weighted-average method.

	QUANTITY (METRES)	TOTAL COST
Fabric on hand (1 May 2014)	12 000 m	R96 000
Purchases of fabric	48 000 m	R603 000
Fabric issued to factory	?	?
Fabric on hand (30 April 2015)	15 000 m	?

**C. Direct labour**

The business employs six factory workers who manufacture the products.

The following is expected of each worker:

- To work 8 hours normal time per day for 5 days a week
- To work for 48 weeks a year
- To produce two T-shirts an hour

All workers worked the number of hours as indicated below.

	HOURS	RATE	NUMBER OF WORKERS	TOTAL
Normal time	1 400	R39	6	R327 600
Overtime	960	R78	6	?
	2 360			?

**D. Factory overhead cost**

The bookkeeper prepared the following incorrect Factory Overhead Cost Note:

Indirect material cost	R11 040
Indirect labour cost	33 345
Depreciation: Factory equipment	12 945
Depreciation: Delivery vehicles	35 000
Water and electricity	34 200
Sundry expenses	8 400
	<b>134 930</b>

- He omitted to transfer 30% of the water and electricity amount to the Administration Cost Account.
- Sundry expenses: The bookkeeper has shared this expense equally among the factory, sales and administration departments, but he should have actually used the ratio 4 : 1 : 1.

**E. Additional information**

- The business produced 23 100 T-shirts during the financial year.
- The cost of production of each T-shirt was R54.

**2.2 ZIPHO WOODWORK MANUFACTURERS**

Zipho Woodwork Manufacturers produce and sell wooden tables. The business is owned by Nozipho Sithole.

**REQUIRED:**

2.2.1 Should the business be satisfied with the number of tables that were produced and sold during this financial year? Explain. Quote relevant figures in your answer. (3)

2.2.2 Nozipho, the owner of the business, aimed for a profit of R200 000 for this financial year.

How many tables must she make to achieve the target of R200 000 profit? Provide a suitable calculation to support your answer. (5)

**INFORMATION:**

	<b>TOTAL</b>	<b>PER UNIT</b>
Sales	R922 500	R150
Variable costs	R430 500	R70
Fixed costs	R446 400	
Number of units produced and sold	6 150	
Break-even number of units	5 580	



**QUESTION 3: ASSET MANAGEMENT****(50 marks; 30 minutes)**

You are provided with information relating to Jabulani Hypermarket for the financial year ended 28 February 2015.

**3.1 INVENTORIES**

Jabulani Hypermarket sells a specific brand of shampoo to the public. The business uses the periodic inventory system and the FIFO method to value their stock of shampoo.

**REQUIRED:**

- 3.1.1 What does *FIFO* stand for? (1)
- 3.1.2 Calculate the value of the closing stock on 28 February 2015 according to the FIFO method. (7)
- 3.1.3 The suppliers informed the owner that the cost price of shampoo will increase to R96 per unit and the carriage will increase to R8 per unit. Calculate the selling price that the owner will have to charge for these goods in order to achieve a mark-up of 60%. (3)
- 3.1.4 The insurance company is prepared to pay out only 80% of the total value of the goods destroyed by a fire. Calculate the loss that should be reflected in the Income Statement. (4)
- 3.1.5 The owner has submitted the claim form for the loss of stock as a result of the fire to the insurance company. However, the number of units destroyed in the fire was reflected as 1 500. Explain what you would say to the owner regarding this insurance claim. (2)

**INFORMATION:**

The following details were taken from the accounting records of Jabulani Hypermarket for the year ended 28 February 2015:

Stock on hand per physical count	Number of items	Total value
On 1 March 2014	2 100	R147 000
On 28 February 2015	2 700	?

Goods purchased and destroyed			
<b>Note:</b>			
(i) In addition to the unit prices reflected below, the business also pays R5,00 per unit to have the goods delivered to the shop.			
(ii) 1 050 items were destroyed by fire. These were all from the January 2015 purchases.			
	Number of items	Cost price per item (excluding carriage)	Total purchase price
<b>Purchases</b>	9 600		R774 500
April 2014	3 500	R75	R262 500
September 2014	3 700	R80	R296 000
January 2015	2 400	R90	R216 000
<b>Sales</b>			
7 600 units were sold at R120 each.			

**3.2 FIXED ASSETS**

The following information relates to the fixed/tangible assets of Jabulani Hypermarket for the year ended 28 February 2015.

**REQUIRED:**

- 3.2.1 Refer to Information **A**, **B** and **C**. Calculate the amounts indicated by (i)–(iii). Show the workings in the space provided in the ANSWER BOOK. (7)
- 3.2.2 Refer to Information **D**. Prepare the Asset Disposal Account for the computer sold on 30 November 2014. (13)
- 3.2.3 Refer to Information **E**. You are the internal auditor of Jabulani Hypermarket. The owner has asked you to investigate the control of trolleys and baskets used in the business.
- (a) Explain how the Fixed Assets Register will assist you in your duties as internal auditor. Provide ONE point. (2)
- (b) The stock of trolleys and baskets is classified as a fixed asset. Give ONE suitable reason for this. (2)
- (c) The owner has received numerous complaints from his customers about the trolleys and baskets. On a busy day the business often has up to 420 customers in the shop at the same time.
- Identify and explain THREE major problems (with figures) relating to the control of the trolleys and baskets. In EACH case, provide a valid, practical solution to improve the control over these assets. (9)

**INFORMATION:**

- A.** Information from the financial statements for the year ended 28 February 2015:

<b>FIXED/TANGIBLE ASSETS</b>	<b>LAND AND BUILDINGS</b>	<b>VEHICLES</b>	<b>EQUIPMENT</b>
Carrying value on 1 March 2014	2 500 000	264 600	<b>(i)</b>
Cost	2 500 000	552 000	900 000
Accumulated depreciation	0	(287 400)	(224 000)
Movement			
Additions	<b>(ii)</b>	0	470 000
Disposals at carrying value	0	0	
Depreciation	0	<b>(iii)</b>	
Carrying value on 28 February 2015	3 200 000		
Cost	3 200 000		
Accumulated depreciation	0		

- B.** The business has two vehicles. The following details appeared in the Fixed Assets Register:

	Vehicle 1	Vehicle 2
Cost	240 000	312 000
Accumulated depreciation on 1 March 2014	(225 000)	(62 400)
Carrying value on 1 March 2014	15 000	249 600

**NOTE:** Vehicle 1 is old and is reaching the end of its useful life.

- C.** The business provides for depreciation on its fixed assets as follows:
- On vehicles at 25% p.a. on cost
  - On equipment at 20% p.a. on the diminishing-balance method. Equipment comprises shopping baskets, trolleys, computers, fridges and other general shop equipment.
- D.** A computer was sold for cash to Mash Crusaders on 30 November 2014. A loss of R250 was incurred as the computer was slightly damaged. According to the Fixed Assets Register, the computer was originally purchased for R9 200. Accumulated depreciation on this item was R6 400 on 1 March 2014.
- E.** The following information refers to the trolleys and baskets of the business:

	TROLLEYS	BASKETS
Number of units on hand on 1 March 2014	148	120
Additional units purchased during the financial year at R2 000 each for the trolleys and R250 each for the baskets	112	35
Number of damaged units written off during the financial year	14	60
Number of units on hand as per physical count on 28 February 2015	210	95
Repair and maintenance cost for units during the financial year	R1 800	R16 000



**QUESTION 4: CONCEPTS, INCOME STATEMENT, NOTES TO BALANCE SHEET**  
**(65 marks; 40 minutes)****4.1 CONCEPTS – GAAP PRINCIPLES****REQUIRED:**

Choose an explanation from COLUMN B that matches a concept in COLUMN A. Write only the letter (A–E) next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

<b>COLUMN A (CONCEPT)</b>	<b>COLUMN B (EXPLANATION)</b>
4.1.1 Historical cost	A Figures used in financial statements should be realistic (conservative).
4.1.2 Matching	B All important items should be shown separately in financial statements.
4.1.3 Going concern	C Income and expenses must be recorded in the correct financial year.
4.1.4 Materiality	D Financial statements are prepared with the understanding that the company will continue operating in the future.
	E All assets are recorded at their original cost price.

(4 x 1) (4)

**4.2 PRINCE LIMITED**

You are provided with information for the financial year ended 28 February 2015.

**REQUIRED:**

- 4.2.1 Complete the Income Statement for the year ended 28 February 2015. (42)
- 4.2.2 Prepare the Ordinary Share Capital Note. (8)
- 4.2.3 Prepare the Retained Income Note. (11)

**INFORMATION:****EXTRACT FROM THE PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2015**

<b>Balance Sheet Accounts Section</b>	<b>Dr</b>	<b>Cr</b>
Ordinary share capital		6 800 000
Retained income (1 March 2014)		1 368 000
Loan: Y-Lend Bank		1 609 000
Trading stock	1 910 000	
Bank	626 200	
Petty cash	6 605	
Debtors' control	792 000	
Creditors' control		974 600
SARS (Income tax)	523 600	
Provision for bad debts		43 600
Fixed deposit: Money Bank (8%)	990 000	
<b>Nominal Accounts Section</b>		
Sales		?
Cost of sales	14 974 000	
Rent income		374 950
Interest on fixed deposit		53 260
Bad debts recovered		4 150
Audit fees	147 600	
Advertising	960 000	
Salaries and wages	1 300 000	
Directors' fees	1 130 000	
Packing material	76 200	
Sundry expenses	?	
Bad debts	24 000	
Ordinary share dividends	?	

**ADJUSTMENTS AND ADDITIONAL INFORMATION:**

- A.** Selling prices are determined by using a mark-up of 40% on cost. However, trade discounts of R53 600 were allowed to special customers during the financial year.
- B.** The physical stocktaking on 28 February 2015 reflected the following stock on hand:
- Trading stock            R1 890 000
  - Packing material        R8 500
- C.** An amount of R20 500 is still outstanding to a director for his fees.
- D.** Total depreciation for the year is R299 200.
- E.** A debtor, B Khozo, with an outstanding balance of R42 000, has left the country. His account must be written off as irrecoverable.
- F.** The provision for bad debts must be adjusted to 5% of the outstanding debtors.

- G.** One of the employees was on sick leave and was omitted from the Salary Journal for February 2015. His salary details are as follows:

Gross salary	Deductions	Net salary	Employers' contribution
?	R5 000	R12 000	R3 000

All employers' contributions are debited to the Salaries and Wages Account.

- H.** Make provision for the outstanding interest on fixed deposit. The fixed deposit has not changed during the financial year. Interest is not capitalised.
- I.** The rent income includes rent received for March 2015. The rent income increased by R1 425 on 1 September 2014.
- J.** The loan statement received from Y-Lend Bank on 28 February 2015 indicated the following:

	R
Balance at beginning of financial year	2 509 000
Repayments during financial year	900 000
Interest capitalised	?
Balance at end of financial year	1 984 000

- K.** Income tax for the financial year was calculated as R540 000. This is 30% of the net profit before tax.
- L.** The figure for sundry expenses is the balancing figure in the Income Statement.
- M.** Shares and dividends:
- The authorised ordinary share capital consists of 1 000 000 ordinary shares of which 70% was issued before 1 March 2014.
  - Interim dividends of 80 cents per share was declared and paid on 1 September 2014.
  - During October 2014 a further 100 000 shares were issued at R12 each. This was properly recorded.
  - On 28 February 2015 a final dividend of 65 cents per share was declared.
  - On 28 February 2015 it was decided to buy back 160 000 shares from a dissatisfied shareholder at R9,10 per share. This transaction has not been recorded yet.

**QUESTION 5: CASH FLOW STATEMENT, INTERPRETATION AND AUDITORS' REPORT**  
**(65 marks; 40 minutes)**

You are provided with information extracted from the records of Maxie Ltd for the financial year ended 28 February 2015. When financial indicators are required to support answers, you must provide the name of the financial indicator and the actual figure, ratio or percentage.

**REQUIRED:**

- 5.1 Complete the note for Cash Generated from Operations for the year ended 28 February 2015. (10)
- 5.2 Complete the Cash Flow Statement for the year ended 28 February 2015.  
Some of the figures are entered in the ANSWER BOOK.  
Where notes are not required, show ALL workings. (21)
- 5.3 Calculate the following for 2015 (round off calculations to ONE decimal point):
- 5.3.1 Current ratio (3)
  - 5.3.2 Debt-equity ratio (3)
  - 5.3.3 Net asset value per share (3)
- 5.4 On 1 March 2014 additional shares were issued at R5,00 each. Will the existing shareholders be satisfied with this price? Explain. Quote relevant financial indicators with figures in your explanation. (5)
- 5.5 The directors decided to pay back a large portion of the loan. Do you think that this was a wise decision? Quote TWO relevant financial indicators and figures to support your answer. (7)
- 5.6 Besides paying back the loan, the directors have taken other major decisions that have affected the cash balances. State TWO other major decisions (exceeding R200 000) and quote the figures from the Cash Flow Statement. In EACH case, state how the decision will affect the future of the company. (6)
- 5.7 Refer to the extract of the auditors' report (Information G).
- 5.7.1 Choose the correct word from those given in brackets. Write down the word and briefly explain your choice.  
  
Maxie Ltd received a/an (unqualified/qualified/disclaimer of opinion) auditors' report. (3)
  - 5.7.2 Explain the consequences of this auditors' report for the chief executive officer (CEO) and/or the company. State TWO points. (4)

**INFORMATION:****A. Extract from the Income Statement for the year ended 28 February 2015**

	<b>R</b>
Depreciation	178 000
Interest expense	52 000
Income tax	93 520
Net profit after income tax	240 480

**B. Figures obtained from the Balance Sheet and notes on 28 February**

	<b>2015 R</b>	<b>2014 R</b>
Fixed assets (carrying value)	2 568 730	2 174 390
Financial assets (fixed deposit)	150 000	230 000
<b>Current assets</b>	<b>413 600</b>	<b>496 810</b>
Inventories	194 600	262 000
Trade debtors	214 000	198 000
SARS: Income tax	-	2 110
Cash and cash equivalents	5 000	34 700
<b>Shareholders' equity</b>	<b>2 392 480</b>	<b>1 848 000</b>
Ordinary share capital	2 016 000	1 520 000
Retained income	376 480	328 000
<b>Non-current liabilities</b>	<b>500 000</b>	<b>800 000</b>
<b>Current liabilities</b>	<b>239 850</b>	<b>253 200</b>
Trade creditors	124 800	165 200
Shareholders for dividends	96 000	88 000
SARS: Income tax	6 300	-
Bank overdraft	12 750	-

**C. Share capital**

- The business has an authorised share capital of 800 000 ordinary shares.
- 400 000 shares were issued before 28 February 2014.
- On 1 March 2014 an additional 200 000 shares were issued at R5,00 each.
- On 1 September 2014 the company repurchased 120 000 shares from a dissatisfied shareholder at R4,50 each.
- After the above transactions there were 480 000 shares in issue.

**D. Fixed assets**

Extensions to the existing buildings were undertaken during July 2014.  
There were no other movements of fixed assets during the financial year.

**E. Dividends**

An interim dividend of R60 000 was paid on 30 September 2014.  
The final dividend was declared on 28 February 2015.

**F. The following financial indicators were calculated for the past two financial years:**

	2015	2014
Solvency ratio	4,5 : 1	2,8 : 1
Current ratio	?	1,9 : 1
Acid-test ratio	1 : 1	0,9 : 1
Debt-equity ratio	?	0,4 : 1
Return on average capital employed	10,2%	13,2%
Return on shareholders' equity	11,3%	11,8%
Net asset value per share	?	462 cents
Market price of shares (on the securities exchange)	512 cents	490 cents
Current interest rate on loans	12%	13%

**G. Extract from the report of the independent auditors****Basis for Opinion**

In terms of the company policy on travelling for business purposes, all business travelling arrangements outside the country (international trips) must be approved by the board of directors. The application must be supported by quotations and details of the organisations to be visited on the trip.

During the year the CEO approved three overseas business trips without referring it to the board of directors. Documentation for these trips could not be produced.

**Audit Opinion**

In our opinion, except for the item described above, the annual financial statements present fairly, in all material respects, the financial position of Maxie Ltd as at 28 February 2015, and its financial performance and cash flows for the year then ended in accordance with IFRS and the Companies Act (Act 61 of 1973) of South Africa.

**Snow and White**

Chartered Accountants (SA)  
Pretoria  
28 May 2015

## QUESTION 6: CASH BUDGETS

(40 marks; 25 minutes)

You are provided with an incomplete Cash Budget of Kyalami Traders for the period 1 July 2015 to 31 August 2015. The business is owned by Charles Pieterse.

### REQUIRED:

- 6.1 Calculate the credit sales for July 2015 and then complete the Debtors' Collection Schedule for August 2015. (6)
- 6.2 Calculate the missing amounts indicated by (i)–(v) on the Cash Budget. (12)
- 6.3 Refer to Information **D** and **G**. The workers are dissatisfied with the increases they will be receiving in August 2015. They have also indicated that they will embark on strike action in October 2015 if the owner, Charles, does not address their concerns.
- 6.3.1 Give ONE reason (with figures) why the workers are dissatisfied. (2)
- 6.3.2 Give ONE reason (with figures) that Charles could use to justify the increases that he is going to give the workers. (2)
- 6.4 On 31 July 2015 you compared the budgeted amounts with the actual amounts and found the following:

	JULY 2015	
	BUDGETED	ACTUAL
Sales	R108 000	R84 000
Cost of sales	72 000	60 000
Gross profit	36 000	24 000
Delivery costs	10 800	12 600
Advertising costs	18 000	23 000

- 6.4.1 Charles decided to offer trade discounts to special customers in July 2015.  
In your opinion, has this benefitted the business? Provide figures to support your answer. (2)
- 6.4.2 Explain what you would say to Charles about the control of:
- Delivery costs
  - Advertising costs
- Quote figures to support your answer and provide ONE point of advice in EACH case. (6)

6.5 Refer to information **F** and **G**.

Charles requires your advice regarding the new vehicle.

6.5.1 Calculate the purchase price of the new vehicle. (4)

6.5.2 Apart from the deposit and the monthly instalment of R6 250, explain how the next Cash Budget will be affected. State THREE points. (6)

### INFORMATION:

#### A. Sales, cost of sales and debtors' collection

(i) Actual and budgeted sales and cost of sales:

	SALES		COST OF SALES	
	R		R	
	BUDGETED	ACTUAL	BUDGETED	ACTUAL
May	105 000	78 000	70 000	52 000
June	123 000	89 100	82 000	60 000
July	108 000		72 000	
August	84 000		?	

(ii) 60% of the total sales are for cash.

(iii) Credit sales are collected as follows:

- 20% collected in the month of sale
- 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

#### B. Delivery costs

- All goods sold are delivered to customers free of charge.
- The delivery costs are budgeted at 10% of sales.

#### C. Stock levels and payments to creditors

- The business uses a mark-up of 50% on cost.
- The business maintains a fixed-base stock by replacing stock on a monthly basis.
- 75% of the total purchases are on credit.
- Creditors are paid in the month following the month of purchase to take advantage of a 5% discount.

#### D. Salaries

- The workers will receive an increase of 3% in August 2015.
- The bookkeeper will also receive an increase in August 2015.

#### E. Insurance

- The insurance premium is paid at the end of each month.
- The monthly premium will increase by 10% on 1 August 2015.

**F. Details relating to the delivery expenses and new vehicle**

Charles thinks that in order to improve his cash flow, he should rather purchase a delivery vehicle in September 2015 and discontinue using PQ Deliveries for this service.

Charles would have to pay a 10% deposit through the business. His father has agreed to provide interest-free finance for the balance of the cost. Charles would have to repay his father R6 250 per month over 36 months.

**G. Extract from the Cash Budget for the two months ending 31 August 2015**

<b>Receipts</b>	<b>JULY</b>	<b>AUGUST</b>
Cash sales of merchandise	64 800	50 400
Collection from debtors	46 440	
Rent income	7 500	8 250
Additional capital to be contributed		100 000
Commission income		
Total receipts		
<b>Payments</b>		
Cash purchase of trading stock	18 000	(i)
Payment to creditors	(ii)	51 300
Salary: Bookkeeper	18 000	19 800
Salary: Five workers	32 000	(iii)
Telephone	3 500	3 750
Advertising	18 000	12 000
Insurance	(iv)	2 904
Delivery costs (payable to PQ Deliveries)	10 800	8 400
Other operating expenses		
Drawings	25 000	25 000
Total payments		
<b>Cash surplus/deficit</b>	(22 600)	
<b>Bank balance at beginning of month</b>	(10 200)	(v)
<b>Bank balance at end of month</b>		(120 000)