



# basic education

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

## SENIOR CERTIFICATE EXAMINATIONS

**ACCOUNTING**

**2018**

**MARKS: 300**

**TIME: 3 hours**

ACCOUNTING  
1071E



10710E

**X05**



This question paper consists of 19 pages and a 16-page answer book.



**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 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. Write neatly and legibly.

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

| <b>QUESTION 1: 35 marks; 20 minutes</b> |   |
|---|---|
| <b>Topic:</b>                           | <b>This question integrates:</b>  |
| Bank Reconciliation and Control         | <b>Financial accounting</b><br>Bank Reconciliation<br><b>Managing resources</b><br>Internal control |

| <b>QUESTION 2: 45 marks; 30 minutes</b> |  |
|---|--|
| <b>Topic:</b>                           | <b>This question integrates:</b>   |
| Manufacturing                           | <b>Managerial accounting</b><br>Concepts and Production Cost Statement<br>Unit costs and break-even<br><b>Managing resources</b><br>Internal control |

| <b>QUESTION 3: 40 marks; 25 minutes</b> |  |
|---|--|
| <b>Topic:</b>                           | <b>This question integrates:</b>   |
| Inventory Valuation                     | <b>Managing resources</b><br>Concepts and specific identification method<br>Internal control |

| <b>QUESTION 4: 70 marks; 40 minutes</b> |   |
|---|---|
| <b>Topic:</b>                           | <b>This question integrates:</b>  |
| Balance Sheet and Audit Report          | <b>Financial accounting</b><br>Concepts, Note and Balance Sheet<br><b>Managing resources</b><br>Audit report and corporate governance |

| <b>QUESTION 5: 70 marks; 40 minutes</b>    |   |
|--|---|
| <b>Topic:</b>                              | <b>This question integrates:</b>  |
| Fixed Assets, Cash Flow and Interpretation | <b>Financial accounting</b><br>Cash Flow Statement and ratios<br>Interpretation of financial information<br><b>Managing resources</b><br>Fixed assets |

| <b>QUESTION 6: 40 marks; 25 minutes</b> |   |
|---|---|
| <b>Topic:</b>                           | <b>This question integrates:</b>  |
| Budgeting                               | <b>Managerial accounting</b><br>Cash Budget: analyse and interpret<br><b>Managing resources</b><br>Internal control |

**QUESTION 1: BANK RECONCILIATION AND CONTROL (35 marks; 20 minutes)**

The following information relates to Hartfield Suppliers for April 2018.

**REQUIRED:**

- 1.1 Bank reconciliation:
- 1.1.1 Show the entries that must be recorded in the Cash Journals by completing the table in the ANSWER BOOK. (14)
- 1.1.2 Calculate the Bank Account balance in the Ledger of Hartfield Suppliers on 30 April 2018. (3)
- 1.1.3 Prepare the Bank Reconciliation Statement on 30 April 2018. (8)
- 1.2 The internal auditor is concerned about the management of cash.
- 1.2.1 Explain TWO different problems to justify her concern. Quote figures. (4)
- 1.2.2 Give advice (TWO points) on how such problems can be avoided in future. (2)
- 1.3 Explain TWO benefits of using the electronic funds transfer (EFT) system rather than cheques for direct payments to suppliers. (4)

**INFORMATION:****A. Extract from the Bank Reconciliation Statement on 31 March 2018:**

|  |                             |         |
|--|-----------------------------|---------|
| Favourable balance as per Bank Statement |                             | R18 450 |
| Outstanding deposits:                    | Dated 10 March 2018         | 12 675  |
|  | Dated 25 March 2018         | 25 000  |
| Outstanding cheques:                     | 502 (dated 19 October 2017) | 4 800   |
|  | 613 (dated 24 April 2018)   | 13 400  |
|  | 614 (dated 26 April 2018)   | 6 950   |
| Favourable balance as per Ledger Account |                             | 30 975  |

**NOTE:**

- The outstanding deposit of R12 675 appeared on the Bank Statement on 28 April 2018.
- The outstanding deposit of R25 000 did not appear on the Bank Statement for April 2018. An investigation revealed that this money was never been deposited. The cashier employed in March has left the country and cannot be traced.
- Cheque 614, R6 950, was presented for payment.

**B. Provisional totals in the Cash Journals on 30 April 2018 before receiving the Bank Statement:**

- Cash Receipts Journal, R510 607
- Cash Payments Journal, R488 260

- C. Entry in the April 2018 Cash Receipts Journal, not in the April 2018 Bank Statement:

| DOCUMENTS        | DATE | DETAILS | BANK    |
|------------------|------|---------|---------|
| Deposit slip 998 | 20   | Sales   | R10 000 |

- D. Entries in the April 2018 Cash Payment Journal, not in the April 2018 Bank Statement:

| DOCUMENTS                       | DATE | DETAILS      | BANK   |
|---------------------------------|------|--------------|--------|
| Cheque 652 (dated 24 June 2018) | 25   | MM Suppliers | R5 650 |
| S Small (*EFT)                  | 30   | Drawings     | R2 500 |

\*EFT: electronic funds transfer/direct payment

- E. Information on the April 2018 Bank Statement, which did not appear in the April 2018 Cash Journals:

| DATE | DETAILS                       | DEBIT | CREDIT |
|------|-------------------------------|-------|--------|
| 10   | M Mamba (*EFT by tenant)      |       | 6 250  |
| 17   | Cash deposit fees             | 575   |        |
| 18   | Interest                      |       | 145    |
| 21   | Unpaid cheque: Apple          | 230   |        |
| 24   | Service fees                  | 1 425 |        |
| 28   | Debit order (Kruger Insurers) | 1 850 |        |
| 28   | Debit order (Kruger Insurers) | 1 850 |        |

**NOTE:**

- The unpaid cheque was received from debtor A Apple to settle his account of R250.
- The debit order for the monthly insurance appeared on the Bank Statement twice. The bank will rectify this on the Bank Statement for next month.

- F. Information in the April 2018 Bank Statement that does not agree with the Cash Payments Journal for April 2018:

|   |        |
|---|--------|
| Cheque 633, recorded as R2 630 in the Cash Payment Journal, appears correctly on the Bank Statement as follows: | R6 230 |
|---|--------|

- G. The Bank Statement on 30 April 2018 reflected a balance of R?.



**QUESTION 2: MANUFACTURING****(45 marks; 30 minutes)**

- 2.1 Choose ONE cost account for each of the following descriptions. Write only the cost accounts next to the question numbers (2.1.1 to 2.1.4) in the ANSWER BOOK.

|  |
|--|
| direct labour cost; direct/raw materials cost; factory overheads cost;<br>administration cost; selling and distribution cost |
|--|

- 2.1.1 Bad debts written off during the financial year
- 2.1.2 Pension fund contributions paid on behalf of the workers in the production process
- 2.1.3 Transport costs paid for raw materials purchased
- 2.1.4 Depreciation on office equipment (4 x 1) (4)

**2.2 TIGHT-FIT MANUFACTURERS**

The information relates to Tight-Fit Manufacturers, a business that manufactures denim jeans, for the financial year ended 31 March 2018.

**REQUIRED:**

- 2.2.1 Calculate:
- The value of the closing stock of raw materials of fabric using the weighted-average method (4)
  - The value of direct/raw materials issued for production (3)
  - The correct factory overhead costs (6)
- 2.2.2 Complete the Production Cost Statement on 31 March 2018. (12)
- 2.2.3 The business purchases raw materials from an overseas supplier, although there are numerous local suppliers. Give TWO reasons why the business should support local suppliers. (2)

**INFORMATION:****A. Stock balances on 31 March:**

|                 | 2018     | 2017     |
|-----------------|----------|----------|
| Work-in-process | ?        | R147 500 |
| Finished goods  | R118 000 | R231 000 |

**B. Raw materials (fabric):**

Raw materials, consisting of metres of fabric, are issued by the storeroom to the factory.

**Storeroom stock records:**

|                                       | <b>METRES</b> | <b>TOTAL AMOUNT<br/>R</b> |
|---------------------------------------|---------------|---------------------------|
| Stock on 1 April 2017                 | 5 000         | 535 000                   |
| Purchases:                            | 18 700        | 2 072 000                 |
| July 2017                             | 6 200         | 620 000                   |
| October 2017                          | 4 800         | 528 000                   |
| January 2018                          | 7 700         | 924 000                   |
| <b>Total available for production</b> | <b>23 700</b> | <b>2 607 000</b>          |
| Stock on 31 March 2018                | 3 900         | ?                         |

**C. Figures provided by the bookkeeper on 31 March 2018:**

|   |            |
|---|------------|
| Wages of factory workers (direct labour)        | R3 522 000 |
| Factory overhead cost (see Information D below) | R746 670   |
| Administration cost                             | R655 700   |
| Selling and distribution cost                   | R413 900   |

**D. Adjustments must be made to factory overhead cost in respect of the following:**

- Insurance of factory plant and equipment paid was R69 600 and incorrectly debited to the Administration Cost Account. Included in this is a new annual premium of R17 400 paid on 1 January 2018.
- Rent is allocated according to the floor space. However, the bookkeeper correctly allocated only R14 820 to the administration section.

| <b>FACTORY</b>     | <b>ADMINISTRATION<br/>OFFICE</b> | <b>TOTAL<br/>FLOOR AREA</b> |
|--------------------|----------------------------------|-----------------------------|
| 520 m <sup>2</sup> | 130 m <sup>2</sup>               | 650 m <sup>2</sup>          |

**E. Details from the Income Statement for the year ended 31 March 2018:**

|               |            |
|---------------|------------|
| Sales         | R9 747 000 |
| Cost of sales | 6 518 000  |
| Gross profit  | 3 229 000  |

### 2.3 BREAK-TIME MANUFACTURERS

Break-Time Manufacturers is a manufacturing business that produces lunch boxes for school children.

#### REQUIRED:

2.3.1 Calculate the following for the year ended 30 April 2018:

- Direct labour cost (2)
- Break-even point (4)

2.3.2 Explain why the owner should be concerned about the break-even point. Quote figures. (3)

2.3.3 The owner is concerned about the direct labour cost.

- Explain why the owner would NOT be satisfied with the direct labour cost per unit. Quote figures. (3)
- Give ONE solution to this problem. (2)

#### INFORMATION ON 30 APRIL:

|   | 2018          |          | 2017          |          |
|---|---------------|----------|---------------|----------|
|   | TOTAL COST    | PER UNIT | TOTAL COST    | PER UNIT |
| Direct labour cost (basic and overtime) | ?             | R7,56    | R1 646 400    | R5,60    |
| Total fixed costs                       | R3 102 500    | R9,36    | R1 989 000    | R6,77    |
| Total variable costs                    | R6 464 250    | R19,50   | R4 704 000    | R16,00   |
| Selling price per unit                  | R28,00        |          | R24,50        |          |
| Number of units produced and sold       | 331 500 units |          | 294 000 units |          |
| Break-even point                        | ?             |          | 234 000 units |          |





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**QUESTION 3: INVENTORY VALUATION****(40 marks; 25 minutes)****3.1 SPEEDY CYCLES**

You are provided with information for the year ended 31 May 2018. The owner is Fred Fakude. The business sells different models of bicycles. Fred uses the periodic inventory system and the specific identification method to value stock.

**REQUIRED:****3.1.1 Calculate:**

- Value of the closing stock of bicycles on 31 May 2018 (8)
- Cost of sales for the year ended 31 May 2018 (4)
- Gross profit for the year ended 31 May 2018 (3)

**3.1.2** Fred is satisfied that he is selling approximately 18 Cruze bicycles per month. However, he is concerned that the new Ryder model, despite its lower selling price, is not selling as quickly as the Cruze model.

- Calculate the selling price of a Ryder bicycle. (3)
- Calculate the average number of Ryder bicycles sold per month. (3)
- Indicate how long it will take Fred to sell the closing stock of the Ryder bicycles. Show calculations. (3)
- Give ONE possible reason for the slow sales of Ryder bicycles, and give advice (ONE point) to Fred in this regard. (4)

**INFORMATION:**

**A.** Three different models of bicycles were sold during the 2018 financial year.

| MODEL              | MARK-UP | UNITS SOLD | SALES             | OTHER INFORMATION                         |
|--------------------|---------|------------|-------------------|---|
| Tempo              | 60%     | 66         | R897 600          | This model is no longer produced.         |
| Cruze              | 60%     | 220        | R3 308 800        |   |
| Ryder              | 35%     | 98         | R979 020          | This model was introduced on 1 Sep. 2017. |
| <b>TOTAL SALES</b> |         |            | <b>R5 185 420</b> |   |

**B. Opening stock:**

| DATE        | MODEL | UNITS | COST PRICE PER UNIT | TOTAL    |
|-------------|-------|-------|---------------------|----------|
| 1 Jun. 2017 | Tempo | 70    | R8 500              | R595 000 |
|             | Cruze | 0     |                     |          |



**C. Purchases and returns:**

| DATE                 | MODEL | UNITS | COST PRICE PER UNIT | TOTAL             |
|----------------------|-------|-------|---------------------|-------------------|
| <b>PURCHASES:</b>    |       |       |                     |                   |
| 1 Jun. 2017          | Cruze | 260   | R9 400              | R2 444 000        |
| 1 Sep. 2017          | Ryder | 200   | R7 400              | R1 480 000        |
| <b>RETURNS:</b>      |       |       |                     |                   |
| Feb. 2018            | Ryder | 45    | R7 400              | (R333 000)        |
| <b>Net purchases</b> |       |       |                     | <b>R3 591 000</b> |

**3.2 MANAGEMENT OF INVENTORIES: CELIA'S CLOTHING**

Celia Mtolo owns a small clothing business. You are provided with information for the year ended 28 February 2018. The business sells T-shirts, jackets and pants.

Celia took certain decisions at the beginning of the 2018 financial year.

**REQUIRED:**

Quote relevant figures for ALL the questions below.

**3.2.1 T-shirts:**

Explain why it was NOT a good idea to change to a cheaper supplier of T-shirts. State TWO points.

(4)

**3.2.2 Jackets:**

Celia decided to change the supplier in 2018 and to change the mark-up %.

How has this decision affected the business? State TWO points.

(4)

**3.2.3 Pants:**

Celia reduced the selling price of pants significantly in the 2018 financial year in response to a new competitor who sells similar pants at R990.

Based on the information below, make TWO separate suggestions to Celia to improve the profit on pants in 2019.

(4)

**INFORMATION:**

|                      | T-SHIRTS |         | JACKETS |         | PANTS   |          |
|----------------------|----------|---------|---------|---------|---------|----------|
|                      | 2018     | 2017    | 2018    | 2017    | 2018    | 2017     |
| Gross units sold     | 1 200    | 1 080   | 150     | 165     | 280     | 325      |
| Returns by customers | 40       | 0       | 0       | 5       | 15      | 15       |
| Selling price        | R75      | R120    | R1 650  | R1 085  | R910    | R1 054   |
| Cost price           | R50      | R80     | R1 000  | R700    | R650    | R620     |
| Mark-up %            | 50%      | 50%     | 65%     | 55%     | 40%     | 70%      |
| Gross profit         | R29 000  | R43 200 | R97 500 | R61 600 | R68 900 | R134 540 |



**QUESTION 4: BALANCE SHEET AND AUDIT REPORT (70 marks; 40 minutes)****4.1 CONCEPTS**

Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (4.1.1 to 4.1.5) in the ANSWER BOOK

- 4.1.1 A fixed deposit maturing within the next 12 months will be shown as cash and cash equivalent in the Balance Sheet.
- 4.1.2 Earnings per share are calculated using the net profit before tax.
- 4.1.3 Net current assets are also referred to as net working capital.
- 4.1.4 Provision for bad debts is a liability.
- 4.1.5 Total capital employed consists only of ordinary shareholders' capital and retained income. (5 x 1) (5)

**4.2 MODISE LTD**

The information below relates to Modise Ltd. The financial year ended on 28 February 2018.

**REQUIRED:**

- 4.2.1 Prepare the Retained Income Note to the Balance Sheet on 28 February 2018. (12)
- 4.2.2 Complete the Balance Sheet on 28 February 2018. Show ALL workings. (38)
- 4.2.3 The directors want to give R500 000 to a local school. Give TWO reasons why companies take such decisions. (4)

**INFORMATION:****A. Extract of balances on 28 February 2018:**

|   | <b>R</b>   |
|---|------------|
| Ordinary share capital                      | 13 650 000 |
| Retained income (1 March 2017)              | 567 000    |
| Fixed assets at carrying value              | ?          |
| Fixed deposit: Peoples Bank                 | ?          |
| Loan from director                          | 630 000    |
| Debtors' control                            | 554 000    |
| Provision for bad debts (1 March 2017)      | 31 300     |
| Bank (favourable)                           | ?          |
| Trading stock                               | 1 015 000  |
| Consumable stores on hand                   | 25 000     |
| Creditors' control                          | ?          |
| Expenses prepaid                            | 19 240     |
| SARS: Income tax (provisional tax payments) | 900 000    |

**B. Share capital:**

- The authorised share capital of Modise Ltd is 6 500 000 ordinary shares.
- On 20 February 2018, 250 000 shares were repurchased at 25 cents above the average share price. This has been recorded.
- On 28 February 2018, the ordinary share capital comprised 4 550 000 ordinary shares.

**C. Dividends:**

- Interim dividends of R672 000 were paid on 28 August 2017.
- A final dividend of 36 cents per share was declared on 28 February 2018. All shares (including the shares repurchased on 20 February 2018) qualify for final dividends.

**D. Net profit before tax:**

- After taking all relevant information into account, the net profit before tax was accurately calculated to be R3 400 000.
- Income tax at 27% of the net profit must be taken into account.

**E. Fixed deposit:**

The interest on the fixed deposit was R48 000. The fixed deposit was invested on 1 May 2017 at 8% p.a.

**F. Loan from director:**

- The interest-free loan was received on 1 September 2015.
- This loan is to be repaid over six years in equal monthly instalments. The first repayment was made on 30 September 2015. All payments have been made to date.

**G. Provision for bad debts:**

The provision for bad debts must be adjusted to 6% of the outstanding debtors.

**H. The current ratio calculated after all adjustments was 1,5 : 1.**

### 4.3 AUDIT REPORT

You are provided with an extract from the audit report of the independent auditors of Denga Limited.

**REQUIRED:**

- 4.3.1 Briefly explain the role of an independent auditor. (2)
- 4.3.2 Did Denga Limited receive a qualified/unqualified/disclaimer of opinion audit report? Briefly explain your choice. (3)
- 4.3.3 State THREE possible consequences for the independent auditor if he had NOT mentioned the advertising expense in his report. (6)

**INFORMATION:****EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS****Independent Auditors' Responsibility**

We have audited the annual financial statements of Denga Limited, set out on pages 27 to 41 for the year ended 31 March 2017. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

**Basis for ... Opinion**

The advertising expense of R500 000 in the Income Statement could not be verified, as no documentation existed for part of this expenditure.

**... Audit Opinion**

In our opinion, except for the advertising expenses in the Income Statement which could not be verified, the financial statements fairly represent the financial position of the company at 31 March 2017.

**Khan & Kruger**

**Chartered Accountants (SA), 15 May 2017**



**QUESTION 5: FIXED ASSETS, CASH FLOW AND INTERPRETATION****(70 marks; 40 minutes)**

- 5.1 Choose a description in COLUMN B that matches the user of financial statements in COLUMN A. Write only the letters (A to D) next to the question numbers (5.1.1 to 5.1.4) in the ANSWER BOOK.

| COLUMN A           | COLUMN B   |
|--------------------|--|
| 5.1.1 Trade unions | A want to be assured that their investment in the company is used wisely   |
| 5.1.2 SARS         |  |
| 5.1.3 Shareholders | B use the financial statements to make decisions to manage the company     |
| 5.1.4 Directors    | C monitor whether their members are paid fairly                            |
|                    | D need to be assured that income tax is levied on the net profit correctly |

(4 x 1)

(4)

5.2 **MALOTRA LTD**

You are provided with information relating to Malotra Ltd for the financial year ended 28 February 2018. The company is registered with an authorised share capital of 1 200 000 ordinary shares.

**REQUIRED:**5.2.1 **Refer to Information A.**

Calculate the missing amounts denoted by (a) to (d) on the Fixed Asset Note.

(16)

## 5.2.2 Calculate the net profit after income tax on 28 February 2018.

(3)

## 5.2.3 Calculate the following for the Cash Flow Statement:

- Dividends paid (4)
- Funds used to repurchase shares (5)
- Proceeds from shares issued (5)

## 5.2.4 Complete the section for Cash and Cash Equivalents in the Cash Flow Statement.

(4)

## 5.2.5 Calculate the following financial indicators on 28 February 2018:

- Acid-test ratio (4)
- Debt-equity ratio (3)
- Return on average shareholders' equity (5)



- 5.2.6 The directors decided to increase the loan during the current financial year. Explain whether this was a good decision or not. Quote TWO financial indicators (with figures). (6)
- 5.2.7 Comment on the price paid for the shares repurchased on 1 January 2018. Quote TWO financial indicators (with figures). (5)
- 5.2.8 Thandi Nene owns 416 000 shares in the company. When the directors decided to issue a further 200 000 shares during October 2017, she decided not to buy more shares and rather spend her funds on an overseas holiday.
- Explain why you feel Thandi has made the wrong decision. Quote relevant figures or calculations to support your opinion. (6)

**INFORMATION:****A. Incomplete Fixed Asset Note:**

|                                      | LAND AND BUILDINGS | VEHICLES  | EQUIPMENT |
|--------------------------------------|--------------------|-----------|-----------|
| <b>Carrying value (1 Mar. 2017)</b>  | 4 256 350          | 535 250   |           |
| Cost                                 |                    | (b)       | 1 500 000 |
| Accumulated depreciation             |                    | (419 750) | (595 000) |
| <b>Movements:</b>                    |                    |           |           |
| Additions                            | (a)                | (c)       | 0         |
| Disposals                            |                    | 0         | (e)       |
| Depreciation                         |                    | (195 000) | (d)       |
| <b>Carrying value (28 Feb. 2018)</b> | 6 192 350          |           | 626 000   |
| Cost                                 |                    | 1 415 000 |           |
| Accumulated depreciation             |                    |           |           |

- An extension to the storeroom and improvements to the buildings were completed during the financial year.
- A new vehicle was purchased on 1 June 2017.
- Old equipment was scrapped at carrying value on 28 February 2018.
- Depreciation policy: Vehicles: 15% on cost  
Equipment: 20% on carrying value

**B. Income tax:**

- Income tax at 30% of the net income amounts to R286 200.

**C. Dividends:**

- Interim dividends were paid on 31 August 2017.
- Final dividends were declared on 28 February 2018.
- Only shareholders in the share register qualified for dividends.
- Dividends paid and declared for the current financial year: R332 000



**D. Ordinary Share Capital:**

|           |                                      |            |
|-----------|--------------------------------------|------------|
| 800 000   | Ordinary shares on 1 March 2017      | R5 760 000 |
| 200 000   | Shares issued on 1 October 2017      | ?          |
| (120 000) | Shares repurchased on 1 January 2018 | ?          |
| 880 000   | Ordinary shares on 28 February 2018  | R6 512 000 |

**NOTE:** Shares were repurchased at 60 cents above the average share price.

**E. Information extracted from the Financial Statements on 28 February:**

|  | 2018<br>R | 2017<br>R |
|--|-----------|-----------|
| Fixed deposit: Sisi Bank               | 100 000   | 240 000   |
| Loan: Mihla Bank                       | 1 500 000 | 600 000   |
| Current assets (including inventories) | 1 136 700 | 1 246 400 |
| Inventories                            | 471 100   | 717 550   |
| Current liabilities                    | 512 000   | 755 500   |
| Cash and cash equivalents              | 36 400    | 2 400     |
| Bank overdraft                         | 0         | 112 000   |
| Shareholders' equity                   | 6 843 300 | 5 826 500 |
| Shareholders for dividends             | 132 000   | 176 000   |

**F. Financial indicators on 28 February:**

|                                    | 2018       | 2017      |
|------------------------------------|------------|-----------|
| Current ratio                      | 2,2 : 1    | 1,6 : 1   |
| Acid-test ratio                    | ?          | 0,7 : 1   |
| Debt-equity ratio                  | ?          | 0,1 : 1   |
| Earnings per share                 | 77 cents   | 87 cents  |
| Dividends per share                | 40 cents   | 80 cents  |
| Return on average equity (ROSHE)   | ?          | 11,9%     |
| Return on capital employed (ROTCE) | 14,6%      | 16,4%     |
| Net asset value                    | 778 cents  | 728 cents |
| Interest rate on loans             | 12%        | 11%       |
| Market value of shares on JSE      | *780 cents | 725 cents |

**\*NOTE:** This value was unchanged over the past three months.

**QUESTION 6: BUDGETING****(40 marks; 25 minutes)**

You are provided with information relating to Magic Traders. The business is owned by Tony Salotte.

**REQUIRED:**

6.1 Complete the following statements:

6.1.1 The main purpose of a Cash Budget is to ... (2)

6.1.2 The main purpose of a Projected Income Statement is to ... (2)

6.2 Debtors' Collection Schedule and Projected Income Statement:

6.2.1 Complete the Debtors' Collection Schedule for June 2018. (7)

6.2.2 Determine the following amounts that will appear in the Projected Income Statement:

- Discount allowed for May 2018 (3)
- Bad debts written off in June 2018 (3)

6.3 Calculate the following:

- Cash sales for May 2018 (2)
- Payment to creditors in June 2018 (4)
- Salaries for May 2018 (5)

6.4 Tony compared the budgeted figures to the actual figures for April 2018.

|                      | BUDGETED | ACTUAL   |
|----------------------|----------|----------|
| Sales                | R480 000 | R576 000 |
| Advertising          | R8 000   | R11 000  |
| Wages of cleaners    | R9 000   | R12 500  |
| Cleaning materials   | R1 200   | R2 700   |
| Payment to creditors | R224 000 | R0       |

6.4.1 Tony is not concerned about the overspending in advertising. Explain why this is so. Quote figures to support your answer. (4)

6.4.2 State ONE consequence of not paying the amount due to creditors in April 2018. (2)

6.4.3 Refer to the figures above and to Information F. State TWO points in favour of appointing Gentex Cleaning Services. Also explain ONE point that Tony should consider before making this decision. (6)

**INFORMATION:****A.** Total sales:

|            | <b>ACTUAL</b> | <b>BUDGETED</b> |
|------------|---------------|-----------------|
| March 2018 | R420 000      |                 |
| April 2018 | R480 000      |                 |
| May 2018   |               | R300 000        |
| June 2018  |               | R360 000        |

**B.** Cash sales amount to 40% of the total sales.**C.** Debtors are expected to pay as follows:

- 30% in the month of sales. They receive a 5% settlement discount.
- 60% in the month following the sales month
- 9% in two months after the sales month
- 1% is written off as bad debts in the third month after sales

**D.** Purchases and payment to creditors:

- The business maintains a fixed-stock base level.
- Goods are sold at a mark-up of 50% on cost.
- 80% of all merchandise purchased is on credit.
- Creditors are paid in full in the month following the purchase month.

**E.** Salaries:

- Total salaries are R101 500 for April 2018.
- There are 7 employees who earn the same monthly salary.
- 1 employee will resign and leave on 30 April 2018.
- 4 employees will each receive a bonus of 80% of their salaries in May 2018.

**F.** The business pays wages to two cleaners, one of whom has been on sick leave in April and a substitute had to be employed. Tony is concerned that too much money is wasted on cleaning. He thinks that he should contract Gentex Cleaning Services to take over the cleaning process entirely. They will charge R8 000 per month.