 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**QUESTIONS**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SUBJECT** | **ACCOUNTING** | **GRADE** | 12 | **DATE** | TERM 2 |
| **TOPIC** | **TERM 2 TOPICS AS PER REVISED ATP** | **Term 2** | | | |
| **TIME ALLOCATION** | **AS PER REVISED ATP** | **TIPS TO KEEP HEALTHY**  1. **WASH YOUR HANDS** thoroughly with soap and water for at least 20 seconds. Alternatively, use hand sanitizer with an alcohol content of at least 60%.  2. **PRACTICE SOCIAL DISTANCING** – keep a distance of 1m away from other people.  3. **PRACTISE GOOD RESPIRATORY HYGIENE**: cough or sneeze into your elbow or tissue and dispose of the tissue immediately after use.  4. **TRY NOT TO TOUCH YOUR FACE.** The virus can be transferred from your hands to your nose, mouth and eyes. It can then enter your body and make you sick. | | | |
| **INSTRUCTIONS** | **See Required** |



**INVENTORY VALUATION**

**EXPLANATORY NOTES**

Trading stock represents the most valuable and least liquid current asset.

Its place on the **Balance Sheet:**

This amount is the actual amount in stock; after a physical stock count

**STOCK RECORDING SYSTEMS**

**PERPETUAL SYSTEM**

**PERIODIC SYSTEM**

* Has a Trading Stock account and a Cost of Sales account
* Stock-take done to verify stock deficit/surplus
* Trading Stock is recorded in a Purchases account (N)
* Stock-take done to establish stock balance (Closing stock / unsold)
* Cost of sales must be calculated.

|  |  |
| --- | --- |
| **Non-current assets** |  |
|  |  |
| **Current assets** | 195 000 |
| **Trading stock** | **123 000** |
| Trade and other receivables | 67 000 |
| Cash and cash equivalents | 5 000 |
|  |  |

**CALCULATING COST OF SALES:**

|  |
| --- |
| **Cost of Sales = Opening Stock + Net Purchases\* + Carriage on Purchases – Closing Stock** |

**\*Net Purchases = Purchases – Returns – Donations – Drawings – Advertising – Loss (fire)**

**Question 1: Calculating COST OF SALES under the periodic inventory system**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Bezzie’s Centre sells fabric and dress making products. The business uses the periodic inventory method to record stock. The financial year ended on 31 October 2016. | | | | | | |  | |
|  |  | | | | | |  | |
| **REQUIRED:** | | | | | | |  | |
|  |  | | |  | | |  | |
| 1.1 | Analyse transactions **(ii)** and **(iii)** in terms of the accounting equation. Complete the table provided. Show increase (+) and decrease (-) for assets, equity and liabilities. | | | | | | (8) | |
|  |  | | |  | | |  | |
| 1.2 | Calculate the cost of sales for the financial year ended 31 October 2016. | | | | | | | (8) |
|  |  | | |  | | |  | |
|  | **INFORMATION:** | | | | | |  | |
|  |  | |  | | | |  | |
|  | A. | | Stock balance on 1 November 2015, R98 500. | | | |  | |
|  |  | |  | | | |  | |
|  | B. | | Transactions during the current financial year: | | **R** | |  | |
|  |  | |  | |  | |
|  |  | i) | | Cash and credit purchases of trading goods | 552 250 |  |  | |
|  |  | ii) | | Transport cost on trading goods paid by cheque. | 42 000 |  |  | |
|  |  | iii) | | Damaged goods returned to creditors. | 25 500 |  |  | |
|  |  | iv) | | Goods donated to a local school (fund raising) | 15 000 |  |  | |
|  |  | v) | | Goods taken by the owner for personal use. | 6 000 |  |  | |
|  |  | vi) | | Cost of goods returned by debtors taken into stock. | 8 400 |  |  | |
|  |  | |  | | | |  | |
|  | C. | | Stock take on 31 October 2016 revealed that R76 250 was on hand. | | | |  | |

**FIRST-IN-FIRST-OUT (FIFO)**

**Example:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **INFORMATION:** | | | | | | |  |
| **A.** | **Stock balances:** | | **UNITS** | **UNIT PRICE** | **TOTAL** | |  |
|  | **1 March 2019** | | **20** |  | **R 6 030** |  |  |
|  | **28 February 2020** | | **38** |  | **?** |  |  |
|  |  | | | | | |  |
| **B.** | **Purchases during the year:** | | **UNITS** | **UNIT PRICE** | **TOTAL** | |  |
|  | **May 2019** | | **40** | **R345** | **R 13 800** |  |  |
|  | **September 2019** | | **45** | **R360** | **16 200** |  |  |
|  | **January 2020** | | **30** | **R375** | **11 250** |  |  |
|  | **TOTAL** | | **115** |  | **41 250** |  |  |
|  |  | | | | | |  |
| **C.** | **RETURNS: Three units (3) from September 2019 purchases.** | | | | | |  |
|  |  | | | | | |  |
| **D.** | **Total sales revenue amounted to R41 400 (92 units)** | | | | | |  |
|  |  | | | | | |  |
| **MAIN CALCULATIONS:** | | | | | | |  |
| **1.** | **CLOSING STOCK**  **VALUE** | **38** units: Start from the last purchases, working upwards.  30 from Jan 2020 at R375 11 250  8 from Sept 2020 at R360 2 880 Answer: **R14 130**  Note: Always check from which batch goods were returned.  If the 3 were returned from Jan 2020 then you would take  27 x R375 and 11 x R360. | | | | |  |
| **2.** | **COST OF SALES** | Use the Cost of Sales formula from periodic inventory system.  Opening stock + Purchases + Carriage – Returns – Closing Stock  Closing stock is always the amount calculated above.  6 030 + 41 250 – (3 x R360) – **14 130** = **32 070** | | | | |  |
| **3.** | **GROSS PROFIT** | Sales – cost of sales (calculated above)  41 400 – 32 070 = **9 330**  Note: If sales amount not given, look for units sold x selling price; Or a profit mark-up on cost (you have to calculated cost of sales) | | | | |  |
| **4.** | **MISSING ITEMS** | Use the units only (no R amounts) There are many alternative ways.  Compare: units available for sale: 132 (20 + 115 – 3)  Units sold (92) should have = 40 as closing stock  But there are only (38) given on table  Therefore 2 missing | | | | |  |
| **5.** | **STOCK HOLDING PERIOD** | Know your formula from the list of financial indicators.  Read carefully to check of if you must use the closing stock (final stock) or the average stock.  Let’s try the average stock formula:  ½ (6 030 + 14 130\*) x 365 = 114,7 days or 115 days.  32 070\*  \* figures calculated above | | | | |  |
|  |  | | | | | |  |
|  | **Important points:** | | | | | |  |
|  | * Could be asked to calculate % gross profit achieved GP/COS x 100 | | | | | |  |
|  | Stock turnover rate check formula sheet | | | | | |  |
|  |  | | | | | |  |
|  | * **Carriage on purchases:** Could be one overall amount given or per unit.   Would affect returns (if covered by the supplier or not). | | | | | |  |
|  |  | | | | | |  |

**QUESTION 2:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **PACKER'S SUITCASE SHOP Nov 2018** | | | |  | |
|  | | | |  | |
| Charles Packer sells travel suitcases. The year-end is 30 June 2018. | | | |  | |
|  | | | |  | |
| **REQUIRED:** | | | |  | |
|  |  | | |  | |
| 2.1 | Calculate the value of the closing stock on 30 June 2018 using the first-in-first-out (FIFO) method. | | | (5) | |
|  |  | | |  | |
| 2.2 | Charles suspects that suitcases have been stolen. Provide a calculation to support his concern. | | | (5) | |
|  |  | | |  | |
| 2.3 | Charles is concerned about the volume of stock on hand.   * Calculate for how long his closing stock is expected to last. | | | (6) | |
|  | * State ONE problem with keeping too much stock on hand and ONE problem with keeping insufficient stock on hand. | | | (4) | |
|  |  | | |  | |
| **INFORMATION:** | | | |  | |
|  | |  | |  | |
| * **Stock balances:** | | | |  | |
| |  |  |  |  | | --- | --- | --- | --- | |  | **UNITS** | **UNIT PRICE** | **TOTAL** | | Opening stock | 420 | R2 175 | R913 500 | | Closing stock | 496 |  | **?** | | | | |  | |
| * **Purchases, returns and carriage:** | | |  | |
| |  |  |  |  |  | | --- | --- | --- | --- | --- | |  | | **UNITS** | **UNIT PRICE** | **TOTAL** | | **Purchases** | | **3 155** |  | **R8 460 850** | |  | September 2017 | 850 | R2 250 | R1 912 500 | |  | December | 980 | R2 670 | R2 616 600 | |  | March 2018 | 875 | R2 930 | R2 563 750 | |  | June\* (see returns) | 450 | R3 040 | R1 368 000 | |  | |  |  |  | | **Returns\*** (from June purchases) | | 25 | R3 040 | R76 000 | | | |  | |
| * **Sales:** 3 050 travel suitcases were sold at R4 200 each. | | |  | |

|  |  |  |
| --- | --- | --- |
| **QUESTION 3: Mar 2015** | | |
|  | | |
| **Jankjies Electronics** sells LCD flat-screen television sets. The business is owned by Jane jankjies. As she has other businesses to run, she cannot be at the shop very often. She employs Marlan Miller to run the shop for her. The business uses the periodic inventory system and the first-in-first-out (FIFO) method to value the stock. The financial year-end is 28 February 2015. | |  |
|  | |  |
| **REQUIRED:** | |  |
|  |  |  |
| 3.1 | Calculate the value of the closing stock on 28 February 2015 using the FIFO method. | (7) |
|  |  |  |
| 3.2 | Calculate the following: |  |
|  | * Cost of sales | (6) |
|  | * Average mark-up % achieved for the year | (4) |
|  |  |  |
| 3.3 | **Refer to Information D.**  Provide a calculation to prove whether the information given by the cleaner is true or not. | (6) |
|  |  |  |
| 3.4 | Jane is concerned that the final stock of 145 television sets is not appropriate for her business. Provide a calculation or figures to support her opinion, and explain. | (4) |
|  |  |  |
| 3.5 | Jane has adjusted the selling prices during the year to attract new customers. Comment on whether or not this strategy has benefitted the business. Provide figures. | (4) |
|  |  |  |
| 3.6 | Provide TWO points to assist Jane in improving internal control in her business. | (4) |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **INFORMATION:** | | | | | | | |  |
|  |  | | | | | | | |  |
|  | **A.** | **Stock balances:** | |  | |  | |  |  |
|  |  |  | | **UNITS** | | | **UNIT PRICE** | **TOTAL** |  |
|  |  | 1 March 2014  (inclusive of transport costs) | | 70 | | | R5 500 | 385 000 |  |
|  |  | 28 February 2015 | | 145 | | | ? | ? |  |
|  |  |  | | | | | | |  |
|  | **B.** | **Purchases of television sets during the financial year ended 28 February 2015:** | | | | | | |  |
|  |  |  | **NUMBER OF UNITS** | | **UNIT PRICE** | | **CARRIAGE** | **TOTAL** |  |
|  |  | May 2014 | 150 | | R5 000 | | R18 750 | R768 750 |  |
|  |  | August 2014 | 120 | | R4 750 | | R15 000 | R585 000 |  |
|  |  | December 2014 | 90 | | R4 450 | | R11 250 | R411 750 |  |
|  |  | TOTAL | 360 | |  | | **R45 000** | **R1 765 500** |  |
|  |  |  | | | | | | |  |
|  | **C.** | **Returns to suppliers:**  Three television sets from the August 2014 purchases were damaged. The television sets were returned to the suppliers. The suppliers also reversed the carriage on these items. | | | | | | |  |
|  |  |  | | | | | | |  |
|  | **D.** | **Possible theft of television sets:**  Jane has been informed by a cleaner that he suspects Marlan of giving away television sets to his family members and friends. | | | | | | |  |
|  |  |  | | | | | | |  |
|  | **E.** | **Sales for the year were as follows:**   |  |  |  |  | | --- | --- | --- | --- | |  | **Selling price** | **Quantity** | **Total** | | March to July 2014 | R9 100 | 80 units | R728 000 | | August to November 2014 | R9 800 | 30 units | R294 000 | | December 2014 | R7 500 | 150 units | R1 125 000 | | January to February 2015 | R9 800 | 16 units | R156 800 | |  |  | **276 units** | **R2 303 800** | | | | | | | |  |

**WEIGHTED AVERAGE METHOD**

* This method is suitable for low valued goods purchased in large quantities;
* Their price range do not necessarily fluctuate to make a significant difference;
* Hence, it makes sense to simply find the average cost price of the goods available for sale;
* And use this amount (called the weighted average) to calculate the value of the closing stock.

**Example:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **INFORMATION:** | | | | | | |  |
|  |  | | | | | |  |
| **A.** | **Stock balances:** | | **UNITS** | **UNIT PRICE** | **TOTAL** | |  |
|  | **1 March 2019** | | **20** |  | **R 6 030** |  |  |
|  | **28 February 2020** | | **38** |  | **?** |  |  |
|  |  | | | | | |  |
| **B.** | **Purchases during the year:** | | **UNITS** | **UNIT PRICE** | **TOTAL** | |  |
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|  | **September 2019** | | **45** | **R360** | **16 200** |  |  |
|  | **January 2020** | | **30** | **R375** | **11 250** |  |  |
|  | **TOTAL** | | **115** |  | **41 250** |  |  |
|  |  | | | | | |  |
| **C.** | **RETURNS: Three units (3) from September 2019 purchases.** | | | | | |  |
|  |  | | | | | |  |
| **D.** | **Total sales revenue amounted to R41 400 (92 units)** | | | | | |  |
|  |  | | | | | |  |
| **MAIN CALCULATIONS:** | | | | | | |  |
|  |  | | | | | |  |
| **1.** | **CLOSING STOCK**  **VALUE** | Find the weighted average, then multiply by units of closing stock;  Formula:  *x closing stock units*  46 200  *x 38 units =* ***13 300***  132  Note:   * 46 200/132 = 350. This is the weighted average. * Always check from which batch goods were returned. * If carriage is given as a separate amount, add to numerator. | | | | |  |
| **2.** | **COST OF SALES** | Use the Cost of Sales formula from periodic inventory system, as you have done for FIFO.  Opening stock + Purchases + Carriage – Returns – Closing Stock  Closing stock is always the amount calculated above.  [6 030 + 41 250 – (3 x R360)] \* – **13 300** = **32 900**  **\*** *this amount will always be equal to the numerator for the weighted average calculation above.* | | | | |  |
| **3.** | **GROSS PROFIT** | Sales – cost of sales (calculated above) \* same as FIFO; different CS value 41 400 **– 32 900** = **8 500**  **Note:** If sales amount not given, look for units sold x selling price; Or a profit mark-up on cost (you have calculated cost of sales) | | | | |  |
| **4.** | **MISSING ITEMS** | Use the units only (no R amounts) There are many alternative ways. \* as you have done for FIFO 132 – 92 – 38 = 2 | | | | |  |
| **5.** | **STOCK HOLDING PERIOD** | Know your formula from the list of financial indicators.  Read carefully to check if you must use the closing stock (final stock) or the average stock.  Let’s try the final stock formula:  13 300 x 365 = 147,5 days (you could use months, then it would be x 12)  32 900\*  \* figures calculated above | | | | |  |
|  |  | | | | | |  |
|  | **Important points:** | | | | | |  |
|  | * Could be asked to calculate % gross profit achieved GP/COS x 100 | | | | | |  |
|  | Stock turnover rate check formula sheet | | | | | |  |
|  |  | | | | | |  |
|  | * **Carriage on purchases:** Could be one overall amount given or per unit.   Would affect returns (if covered by the supplier or not). | | | | | |  |
|  |  | | | | | |  |

**QUESTION 1:**

|  |  |  |
| --- | --- | --- |
| You are provided with information relating to Quality Building Suppliers for April 2019. They buy boxes of floor tiles and sell them to retailers around Hazyview. They use the weighted-average method for stock valuation and the periodic inventory system. | |  |
|  | |  |
| **REQUIRED:** | |  |
|  | |  |
| 1.1 | Calculate the total value of the opening stock (A). | (3) |
|  |  |  |
| 1.2 | Calculate the value of the tiles received on 25 April 2019 (B). | (4) |
|  |  |  |
| 1.3 | Calculate the value of the closing stock using the weighted-average method. | (6) |
|  |  |  |
| 1.4 | Calculate the gross profit. | (4) |
|  |  |  |
| 1.5 | Do a calculation to prove that this business has good control over their stock. | (5) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **INFORMATION** | **BOXES OF TILES ON HAND** | **VALUE PER UNIT** | **CARRIAGE ON PURCHASES** | **TOTAL VALUE** |
| Opening stock (1 April 2019) | 600 | R85,00 |  | **(A)** |
|  |  |  |  |  |
| **Boxes of tiles purchased during the month** | **3 160** |  |  | **?** |
| 10 April 2019 | 1 000 | R90,00 | R4 500 | R94 500 |
| 20 April 2019 | 1 200 | R95,00 | R5 700 | R119 700 |
| 25 April 2019 | 960 | R120,00 | R5 760 | **(B)** |
|  |  |  |  |  |
| Damaged tiles from 20 April, returned to supplier. Carriage was not covered by supplier. | 100 | **?** |  | **?** |
|  |  |  |  |  |
| Sales for the month | 2 510 | R160,00 |  | R401 600 |
|  |  |  |  |  |
| Closing stock (30 April 2019) | 1 150 | **?** |  | **?** |

**QUESTION 2:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| The information relates to Smart Uniforms for June 2019. The business is owned by Harry Vuso. They buy and sell school blazers. The business uses the weighted-average method for stock valuation and the periodic inventory system.  **REQUIRED:** | | | | | | |  |
|  |  | | |  |  | | |
| 2.1 | | Calculate the total amount paid for carriage on the purchases on 11 June 2019. | | | | | (4) |
|  | |  | | | | |  |
| 2.2 | | Calculate the value of the closing stock on 30 June 2019 using the weighted-average method. | | | | | (8) |
|  |  | | |  |  | | |
| 2.3 | | Harry is considering a change in the method of valuing stock. The value of closing stock using the FIFO method will be R20 850 higher than the value using the weighted-average method. | | | | |  |
|  | |  | | | | |  |
|  | | * Explain the effect that this will have on the gross profit. | | | | | (2) |
|  | | * Give ONE valid reason **for** and ONE valid reason **against** changing the stock valuation method. | | | | | (4) |
|  | | | | | | |  |
| 2.4 | | Harry is concerned about the control of his stock of blazers. He has sold 2 900 blazers during the year. Provide a calculation to support his concern. | | | | | (4) |
|  | | | | | | |  |
| **INFORMATION:** | | | | | | |  |
|  |  | |  | |  | | |
| **A.** | | **Inventory balances:**   |  |  |  |  | | --- | --- | --- | --- | | **Date** | **No. of units** | **Price per unit** | **Total cost** | | 1 June 2019 | 410 | R190 | R77 900 | | 30 June 2019 | 580 | **?** | **?** | | | | | |  |
|  |  | |  | |  | | |
| **B.** | | **Purchases during the month:**   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Date** | **No. of units** | **Price per unit** | **Carriage on purchases** | **Total cost** | | 11 June 2019 | 1 600 | R215 | **?** | R352 600 | | 18 June 2019 | 1 210 | R240 | Nil | R290 400 | | 26 June 2019 | 470 | R265 | R3 300 | R127 850 | | **Total purchases** | **3 280** |  |  | **R770 850** | | **Returns**:  from 18 June purchases | 5 |  | | R1 200 | | | | |  | |

**QUESTION 3:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Josy Fashions uses the periodic stock system and the weighted-average method to value stock of jackets. Josy Arrakal owns the business. | | | | |  |
|  | | | | |  |
| **REQUIRED:** | | |  | |  |
|  | | |  | |  |
| 3.1 | Explain the difference between the *perpetual stock system* and the *periodic stock system*. | | | (2) | |
|  |  |  | |  | |
| 3.2 | Calculate the value of the stock on 29 February 2020 using the weighted-average method. | | | (9) | |
|  |  |  | |  | |
| 3.3 | Calculate how long (in days) it will take to sell the closing stock of 650 jackets. Use the closing stock in your calculation. | | | (5) | |
|  |  | | |  | |
| 3.4 | Josy is considering a change in the method of valuing stock. | | |  | |
|  |  | | |  | |
|  | * Calculate the value of closing stock using the FIFO method. | | | (6) | |
|  | * Give ONE reason in favour of and ONE reason against changing to the FIFO method. | | | (4) | |
|  | | |  | |  |
| **INFORMATION:** | | |  | |  |
|  | | |  | |  |
| Records of jackets: | | |  | |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | **UNITS** | **UNIT PRICE** | **TOTAL** |
| Opening stock (1 March 2019) | | 300 | R1 156 | R346 800 |
| **Purchases** | | **3 230** |  | **R3 686 400** |
|  | April 2019 | 1 400 | R1 050 | R1 470 000 |
|  | July 2019 | 1 320 | R1 200 | R1 584 000 |
|  | November 2019 | 510 | R1 240 | R632 400 |
| **Subtotal** | | **?** |  | R4 033 200 |
| Goods returned (from July purchases) | | 150 | **?** | **?** |
| **Sales** | | **2 730** | **R1 425** | **R3 890 250** |
| Closing stock (29 February 2020) | | 650 | **?** | **?** |

|  |  |  |  |
| --- | --- | --- | --- |
| 3.5 | Josy Fashions also sells shirts and jeans.  **REQUIRED:** | | |
|  | 3.5.1 | Calculate the number of shirts stolen. Give TWO points of advice. |  | | (9) | |
|  |  |  |  | |  | |
|  | 3.5.2 | Comment on the stock-holding period of EACH product and explain how these would affect the business. Quote figures. |  | | (9) | |
|  |  |  |  | |  | |
|  | 3.5.3 | Josy is unsure whether she is charging the right prices for her products. Give her advice on EACH product. Quote figures. |  | | (6) | |
|  |  |  |  | |  | |
|  | **INFORMATION:**  Summary for the year: | | |  | |  | |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **JACKETS (UNITS)** | **SHIRTS (UNITS)** | **JEANS (UNITS)** |
| Number of units sold | 2 730 | 7 200 | 320 |
| Opening stock | 300 | 400 | 0 |
| Closing stock | 650 | 270 | 280 |
| Purchases (less returns) | 3 080 | 7 380 | 600 |

|  |  |  |  |
| --- | --- | --- | --- |
| Weighted-average cost per unit | **See 3.2** | R150 | R500 |
| Selling price per unit | R1 425 | R310 | R850 |
| Stock-holding period | **See 3.3** | 14 days | 319 days |

**Specific Identification Method**

* This method is suitable for high valued, unique stock items, purchased in limited quantities.
* High priced items; each item is assigned its individual cost price as per the invoice (price paid);
* The cost of sales will be the individual cost of the specific items sold;
* The closing stock amount will be the total of the individual cost of each unsold item.

**SIMPLE ILLUSTRATION:**

**The business sells cars.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **LIST OF ITEMS (STOCK)** | **COST PRICE** | **ITEMS SOLD** | | **UNSOLD ITEMS**  **(Closing Stock)** |
| **COST** | **SELLING PRICE** |
| BMW x3 | R420 000 | R420 000 | R560 000 |  |
| BMW x5 | R630 000 |  |  | R630 000 |
| VW Polo | R180 000 | R180 000 | R230 000 |  |
| Toyota Corolla | R220 000 | R220 000 | R275 000 |  |
| Honda civic | R160 000 |  |  | R160 000 |
|  | **R1 610 000** | **R820 000** | **R1 065 000** | **R790 000** |

**Total value of goods available for sale**

**Cost of Sales**

**Closing stock amount**

**Sales** amount

**Profit: R245 000**

* Closing stock = cost of the unsold items: R790 000
* Cost of sales = cost of items sold: R820 000 or **OS + P + COP – CS**; 1 610 000 – 790 000

**Example:**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **INFORMATION:** | | | | | | | |  |
|  | |  | | | | | |  |
| A. | **Opening Stock** | | **Model** | **Units** | **Unit cost** | **Total** | **UNITS SOLD** |  |
|  | 1 March 2019 | | **YYY** | **6** | **R9 000** | **R54 000** | **5** |  |
|  | **ZZZ** | **8** | **R7 000** | **R56 000** | **6** |  |
|  |  | |  |  |  | **110 000** |  |  |
|  |  | | | | | | |  |
| B. | **Purchases:** | | **Model** | **Units** | **Unit cost** | **Total** | **UNITS SOLD** |  |
|  | June 2019 | | **YYY** | **10** | **R9 000** | **R90 000** | **YYY: 18**  **ZZZ: 9** |  |
|  | **ZZZ** | **5** | **R7 500** | **R37 500** |  |
|  | September 2019 | | **YYY** | **15** | **R9 000** | **R135 000** |  |
|  | **ZZZ** | **8** | **R7 500** | **R60 000** |  |
|  |  | |  |  |  | **322 500** |  |  |
|  |  | | | | | | |  |
| C. | **Sales:**  **YYY is sold at a profit mark-up of 75% on cost.**  **ZZZ is sold at a fixed selling price of R14 500 each.** | | | | | | |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **MAIN CALCULATIONS:** | | |  |
|  |  | |  |
| **1.** | **CLOSING STOCK**  **VALUE** | Add the cost price of the unsold items; do each model separately;  Look at units available and units sold. The question will not give the number of items unsold (closing stock units).  **YYY:** (6 + 10 + 15) – (5 + 18) or 31 – 23; 8 units x R9 000 = **R72 000**  **ZZZ:** *Notice the cost of the opening balance is different*  8 – 6; 2 units x R 7000 = **R14 000;** and (5 + 8) – 9; 4 units x R7 500 = **R30 000**  Therefore: Closing stock: 72 000 + 14 000 + 30 000 = **R116 000** |  |
| **2.** | **COST OF SALES** | Can consider the total cost of items sold:  (5 x 9 000) + (6 x R7 000) + (18 x R9 000) + (9 x R7 500)  45 000 42 000 162 000 67 500 = 316 500  OR: Use the cost of sales formula (famous one!)  Opening Stock + Purchases + COP – Returns – Closing Stock  110 000 322 500 0 0 116 000 = **316 500** |  |
| **3.** | **GROSS PROFIT** | Sales – cost of sales (calculated above) \* same as FIFO; different CS value  **YYY:** Selling price: R9 000 x 175% = **R15 750 x 23 = 362 250**  **ZZZ: R14 500 x 15 = 217 500**  579 750 – 316 500 = **263 250** |  |
| **4.** | **MISSING ITEMS** | Unusual to have missing items due to the large, expensive items  Security would be more intense.  If tested, always check by examining the units only; per model. |  |
| **5.** | **STOCK HOLDING PERIOD** | Know your formula from the list of financial indicators.  Read carefully to check if you must use the closing stock (final stock) or the average stock. |  |
|  |  | |  |
|  | **Important points:** | |  |
|  | * Could be asked to calculate % gross profit achieved GP/COS x 100 | |  |
|  | Stock turnover rate check formula sheet | |  |
|  |  | |  |
|  | * **Carriage on purchases:** Could be one overall amount given or per unit.   Would affect returns (if covered by the supplier or not). | |  |
|  |  | |  |

**QUESTION 1:**

|  |  |  |
| --- | --- | --- |
| Bamjee Stores sells two types of men's watches:   * Johx, imported from Germany, valued using the specific identification method * Kwatz, locally manufactured, valued using the weighted average method   The financial year ended on 31 August 2019. No watches were stolen or lost during the financial year.  **REQUIRED:** | |  |
|  |  |  |
| 1.1 | Calculate the following in respect of Johx watches on 31 August 2019: |  |
|  | |  |
|  | 1. Value of closing stock 2. Cost of sales amount 3. Gross profit, and the % gross profit achieved. 4. Average stock-holding period (in days) | (4)  (5)  (6)  (4) |
|  | |  |
| **INFORMATION:** | |  |
|  |  |  |
| **A.** | Information relating to Johx watches: |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **UNITS** | **UNIT PRICE** | **TOTAL AMOUNT** | **UNITS SOLD** | **TOTAL SALES** |
|  | Opening stock | 12 | R6 500 | R78 000 | 11 | R104 500 |
|  | **Purchases:** | **35** |  |  |  | |
|  | September 2018 | 15 | R7 200 | R108 000 | 22 | R209 000 |
|  | January 2019 | 12 | R7 200 | R86 400 |
|  | April 2019 | 8 | R7 200 | R57 600 |
|  |  | **47** |  |  | **33** |  |
|  |  | | | | | |
|  | * The cost price of Johx watches includes transport costs and customs duties. | | | | | |
|  | * These watches are sold at R9 500 each. | | | | | |

**QUESTION 2:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **HOT-WHEELS (PTY) LTD** | | | | | | | | | | | | | | | | | |  |
|  | |  | | | | | | | | | | | | | | | |  |
| You are provided with information relating to Hot-Wheels (Pty) Ltd for the three months ending 30 September 2019. The business buys and sells motorbikes and helmets.  Mike, the owner, wants to assess his stock records before any price increases during the year. | | | | | | | | | | | | | | | | | |  |
|  | |  | | | | | | | | | | | | | | | |  |
| **REQUIRED:** | | | | | | | | | | | | | | | | | |  |
|  |  | | | | | | | | | | | | | | | | |  |
| **Motorbikes:** | | | | | | | | | | | | | | | | | |  |
|  | | |  | | | | | | | | | | | | | | |  |
| 2.1 | | | Calculate closing stock value on 30 September 2019 using the specific identification method. | | | | | | | | | | | | | | | (7) |
|  | | |  | | | | | | | | | | | | | | |  |
| 2.2 | | | Mike requires your advice on the three different models of motorbikes in which he is trading. Explain TWO points of advice. | | | | | | | | | | | | | | | (4) |
|  | | |  | | | | | | | | | | | | | | |  |
| **Helmets:** | | | | | | | | | | | | | | | | | |  |
|  | | |  | | | | | | | | | | | | | | |  |
| 2.3 | | | Calculate the value of the closing stock on 30 September 2019 using the weighted-average method. | | | | | | | | | | | | | | | (9) |
|  | | |  | | | | | | | | | | | | | | |  |
| 2.4 | | | Is the weighted-average method appropriate to value the helmets? Explain ONE point. | | | | | | | | | | | | | | | (3) |
|  | | |  | | | | | | | | | | | | | | |  |
| 2.5 | | | Mike suspects that helmets are being stolen from the shop despite security cameras being installed.   * Provide a calculation to verify his suspicion. | | | | | | | | | | | | | | | (5) |
|  | | | * What can Mike do to improve the internal control of stock? State THREE points. | | | | | | | | | | | | | | | (3) |
|  | | |  | | | | | | | | | | | | | | |  |
| **INFORMATION:** | | | | | | | | | | | | | | | | | |  |
|  | | | |  | | | | | | | | | | | | | |  |
| **A.** | | | | **Motorbikes:** Information for three months ended 30 September 2019: | | | | | | | | | | | | | |  |
|  | | | |  | | | | | | | | | | | | | |  |
|  | | | |  | | | **MODEL** | | | **UNITS** | **UNIT PRICE (R)** | | | **TOTAL (R)** | | | |  |
|  | | | | Stock balance on 1 July 2019 | | | AO2 | | | 12 | 24 300 | | | 291 600 | | |  |  |
|  | | | | Purchases for the three-month period  30 September 2019 | | | AO2 | | | 6 | 24 300 | | | 145 800 | | |  |  |
|  | | | | AO3 | | | 15 | 27 400 | | | 411 000 | | |  |  |
|  | | | | AO4 | | | 18 | 31 600 | | | 568 800 | | |  |  |
|  | | | |  | | |  | | | 39 |  | | | 1 125 600 | | |  |  |
|  | | | |  | | | | | | | |  | | | |  | |  |
|  | | | |  | | | **MODEL** | | | **UNITS SOLD** | | | | **TOTAL (R)** | | | |  |
|  | | | | Sales for the three-month period ended  30 September 2019 | | | AO2 | | | 8 | | | | 311 040 | | |  |  |
|  | | | | AO3 | | | 11 | | | | 482 240 | | |  |  |
|  | | | | AO4 | | | 10 | | | | 505 600 | | |  |  |
|  | | | |  | | |  | | | 29 | | | | 1 298 880 | | |  |  |
|  | | | |  | | | | | | | | | | | | | |  |
| **B.** | | | | **Helmets:** Information for three months ended 30 September 2019: | | | | | | | | | | | | | |  |
|  | | | |  | | | | | | | | | | | | | |  |
|  | | | | **Stock balances:** | | **UNITS** | | **UNIT PRICE (R)** | | | | | **TOTAL (R)** | | | | |  |
|  | | | | 1 July 2019 | | 30 | | R500 | | | | | R15 000 | | |  | |  |
|  | | | | 30 September 2019 | | 12 | |  | | | | | **?** | | |  | |  |
|  | | | | **Purchases** | |  | |  | | | | |  | | | | |  |
|  | | | | 20 July 2019 | | 25 | | R510 | | | | | R12 750 | |  | | |  |
|  | | | | 20 August 2019 | | 30 | | R525 | | | | | R15 750 | |  | | |  |
|  | | | | 20 September 2019 | | 20 | | R540 | | | | | R10 800 | |  | | |  |
|  | | | | **TOTAL** | | 75 | |  | | | | | R39 300 | |  | | |  |
|  | | | |  | |  | |  | | | | |  | | | | |  |
|  | | | | **Returns:** Five damaged helmets from August 2019 were returned to suppliers for a full refund. | | | | | | | | | | | | | |  |
|  | | | |  |  | | | |  | | |  | | | | | |  |
|  | | | | **Sales:** 85 helmets were sold at R600 each. | | | | | | | | | | | | | |  |

**QUESTION 3:**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **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 | | Calculate:   * Value of the closing stock of bicycles on 31 May 2018 * Cost of sales for the year ended 31 May 2018 * Gross profit for the year ended 31 May 2018 | | | | | | | | (8)  (4)  (3) |
|  | |  | | | | | | | |  |
| 3.2 | | 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. * Calculate the average number of Ryder bicycles sold per month. * Indicate how long it will take Fred to sell the closing stock of the Ryder bicycles. Show calculations. * Give ONE possible reason for the slow sales of Ryder bicycles, and give advice (ONE point) to Fred in this regard. | | | | | | | | (3)  (3)  (3)  (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 | Model is no longer produced. | | Cruze | 60% | 220 | R3 308 800 |  | | Ryder | 35% | 98 | R979 020 | Model was introduced on 1 Sep. 2017. | | **TOTAL SALES** | | | **R5 185 420** |  | | | | | | | | |  |
|  | |  | | | | | | | |  |
| **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** | |  |
|  | | **PURCHASES:** | | | | | | | |  |
|  | | 1 Jun. 2017 | Cruze | | 260 | R9 400 | | R2 444 000 | |  |
|  | | 1 Sep. 2017 | Ryder | | 200 | R7 400 | | R1 480 000 | |  |
|  | | **RETURNS:** | | | | | |  | |  |
|  | | Feb. 2018 | Ryder | | 45 | R7 400 | | (R333 000) | |  |
|  | | **Net purchases** | | | | | | **R3 591 000** | |  |

**CONSOLIDATION:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Nov 2019**  **QUESTION 3: INVENTORY VALUATION (45 marks; 25 minutes)** | | | | | |
|  | | |  | |  |
| George Grande is the majority shareholder and CEO of Grande Ltd. The company supplies hotels with cabinets and lamps.  The periodic system is used. The year-end is 30 September 2019. | | | | |  |
|  | | |  | |  |
| **REQUIRED:** | | | | |  |
|  |  | | | |  |
| **CABINETS** | | | | |  |
|  |  | | | |  |
| 3.1 | | Calculate the value of closing stock for cabinets on 30 September 2019 using the first-in first-out method. | | | (6) |
|  | |  | | |  |
| 3.2 | | In 2019, the company decided to extend the target market and to grant trade discounts to increase sales. | | |  |
|  | |  | | |  |
|  | | 3.2.1 | | Calculate the % mark-up achieved in 2019. | (4) |
|  | |  | |  |  |
|  | | 3.2.2 | | Provide TWO points (with figures) to prove that this decision achieved its aims. | (4) |
|  | |  | |  |  |
|  | | 3.2.3 | | The CEO feels that this decision also negatively affected the company.   * Provide TWO points (with figures) to support his opinion. | (4) |
|  | |  | | * Give the directors advice to solve this problem. Explain TWO points. | (2) |
|  | |  | | |  |
| **LAMPS** | | | | |  |
|  | |  | | |  |
| 3.3 | | Calculate the stockholding period for lamps (use closing stock). | | | (3) |
|  | |  | | |  |
| 3.4 | | George is concerned about the control of lamps. An investigation revealed that the store manager was supplying local boarding houses with lamps without documentation.   * Calculate the number of missing lamps. | | | (5) |
|  | | * Give TWO suggestions to solve this problem. | | | (4) |
|  | |  | | |  |
| **TELEVISION SETS** | | | | |  |
|  | |  | | |  |
| 3.5 | | During April 2019, while George was in hospital, Bruce Swann (the chief financial officer) decided to include television sets in their product range. He was able to secure bulk discounts from Roseway on two TV set models, namely LYN and KYA. | | |  |
|  | |  | | |  |
|  | | Calculate the value of the closing stock of TV sets on 30 September 2019 using the specific identification method. | | | (7) |
|  | |  | | |  |
| 3.6 | | An employee of Roseway told George that Bruce received a 10% 'commission' from Roseway for buying excess stock. George wants to discuss this at the next board meeting. | | |  |
|  | |  | | |  |
|  | | Explain THREE different concerns that George would have about this problem. | | | (6) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **INFORMATION:** | | |  | |
|  |  | | |  | |
| **A.** | | **Stock records of cabinets and lamps:** |  | |
|  | | |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | **CABINETS** | | | **LAMPS** | | |  | **UNITS** | **UNIT PRICE** | **TOTAL** | **UNITS** | **TOTAL** | | **Stock balances** | | | | | | | 1 Oct. 2018 | 370 | R800 | R296 000 | 600 | R108 000 | | 30 Sep. 2019 | 280 |  | **?** | 265 | R59 625 | | **Purchases: 2019** | | | | | | | January | 800 | R920 | R736 000 | 1 200 | R240 000 | | April | 1 200 | R990 | R1 188 000 | 1 800 | R432 000 | | July | 250 | R1 100 | R275 000 | 800 | R210 000 | | **Total** | **2 250** |  | **R2 199 000** | **3 800** | **R882 000** | | **Returns** | **20** | R1 100 |  |  |  | | **Sales** |  |  |  | **3 675** |  | | **Cost of sales** |  |  |  |  | **R930 375** | |  | |
|  | |  |  | |
| **B.** | | **Information relating to cabinets:** |  | |
|  | | |  |  |  | | --- | --- | --- | |  | **2019** | **2018** | | Sales | R3 480 000 | R3 375 000 | | Cost of sales | R2 170 500 | R1 950 000 | | Units sold | 2 320 | 2 500 | | Selling price per unit | R1 500 | R1 400 | | % mark-up achieved | **?** | 73% | | Customers on record | 37 | 26 | |  | |
|  | |  |  | |
| **C.** | | **Stock records of television sets:** |  | |
|  | | |  |  |  |  |  | | --- | --- | --- | --- | --- | |  | **MODELS** | **UNITS** | **UNIT PRICE** | **TOTAL** | | **Purchases** |  |  |  |  | | May 2019 | LYN | 800 | R6 000 | R4 800 000 | |  | KYA | 950 | R7 200 | R6 840 000 | | July 2019 | LYN | 500 | R6 000 | R3 000 000 | |  | KYA | 500 | R7 200 | R3 600 000 | | **TOTAL** |  | **2 750** |  | **R18 240 000** | | **Sales** | LYN | 430 | R8 400 | R3 612 000 | |  | KYA | 540 | R10 080 | R5 443 200 | |  | |
|  | |  |  | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **June 2019**  **QUESTION 2: INVENTORY VALUATION (40 marks; 25 minutes)** | | | | | | | | |
|  |  | | | |  | | | |
| 2.1 | Choose the correct term from those given in brackets. Write only the term next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK. | | | | | | |  |
|  |  | | | | | | |  |
|  | 2.1.1 | | | The most recent purchases will be considered as closing stock in the (FIFO/weighted-average) stock valuation method. | | | | (3) |
|  |  | | |  | | | |
|  | 2.1.2 | | | Merchandise purchased is recorded in a Trading Stock Account in the (perpetual/periodic) inventory system. | | | |
|  |  | | |  | | | |
|  | 2.1.3 | | | Carriage on purchases is recorded as an (asset/expense) in the periodic inventory system. | | | |
|  |  | | | |  | | | |
| 2.2 | **PHOTO-FIX TRADERS** | | | | | |  | |
|  |  | | | | | |  | |
|  | The information relates to Photo-fix Traders for the financial year ended 30 April 2019. The business is owned by Tom Samuels and sells two models of cameras (Grand and De-Lux) and photo frames.   * The stock of cameras is valued using the specific identification method. * Photo frames are valued using the weighted average method. | | | | | |  | |
|  |  | | | | | |  | |
|  | **REQUIRED:** | | | | | |  | |
|  |  | | |  | | |  | |
|  | 2.2.1 | | | Calculate the value of closing stock of **cameras** on 30 April 2019. | | | (9) | |
|  |  | | |  | | |  | |
|  | 2.2.2 | | | Calculate the value of closing stock of **photo frames**. | | | (8) | |
|  |  | | |  | | |  | |
|  | 2.2.3 | | | The owner suspects that **photo frames** are stolen. Provide a calculation to confirm this. | | | (5) | |
|  |  | | |  | | |  | |
|  | 2.2.4 | | | Tom is thinking of employing an assistant at a wage of R3 500 per month to control the stock of **photo frames**. Explain why this is NOT a good idea. Provide TWO points with figures/calculations. | | | (6) | |
|  |  | | |  | | |  | |
|  | **INFORMATION:** | | | | |  | | | |
|  |  |  | | | |  | | | |
|  | The following information is in respect of the year ended 30 April 2019: | | | | |  | | | |
|  |  | |  | | |  | | | |
|  | **A.** | | **CAMERAS: STOCK, BOUGHT AND SOLD** | | |  | | | |
|  |  | | |  |  |  |  |  | | --- | --- | --- | --- | --- | |  | **BOUGHT** | | | **UNITS SOLD** | | **UNITS** | **UNIT COST** | **TOTAL** | |  |  |  |  |  | | **GRAND MODEL** |  |  |  |  | | Opening stock | 20 | R5 500 | R110 000 | 14 | | Purchases | 240 | R5 750 | R1 380 000 | 170 | |  |  |  |  |  | | **DE-LUX MODEL** |  |  |  |  | | **Net purchases:** | **270** |  | **R1 104 000** | **235** | | September 2018 | 180 | R4 000 | R720 000 | 140 | | Returns | (30) | R4 000 | (R120 000) |  | | January 2019 | 120 | R4 200 | R504 000 | 95 | | | |  | | | |
|  |  | |  | | |  | | | |
|  | **B.** | | **PHOTO FRAMES: STOCK, BOUGHT AND SOLD** | | |  | | | |
|  |  | | |  |  |  |  |  | | --- | --- | --- | --- | --- | |  | **UNITS** | | **AMOUNTS** | | | Opening stock | 60 |  | R7 200 |  | | Purchases | 720 |  | R108 000 |  | | Returns | 30 |  | R4 500 |  | | Closing stock | 80 |  | **?** |  | | Sales | 657 |  |  |  | | | |  | | | |

**COST ACCOUNTING (MANUFACTURING)**

**PRIOR KNOWLEDGE:**

**Terms and concepts unique to Manufacturing Concerns as introduced in Grade 10 & 11:**

* Fixed and Variable Costs
* Direct and Indirect costs (material and labour)
* Prime cost
* Factory Overhead Costs
* Selling and distribution costs
* Administration costs

**In addition to the above, learners were also introduced to the different Stock Accounts, as follows:**

* Raw material stock
* Work in progress stock
* Finished goods stock

**WHAT ARE WE EXPECTED TO DO IN GRADE 12 ??**

A good understanding of the ledger accounts is essential to prepare and comment on:

* The Production Cost Statement
* Prepare an abridged (short-form) Income Statement
* Analyse and interpret unit cost information
* Break-even analysis
* Internal control processes and ethical issues.

**THE PRODUCTION COST STATEMENT: FORMAT**

|  |  |  |  |
| --- | --- | --- | --- |
| **SNAZZY HANDBAGS** | | |  |
| **PRODUCTION COST STATEMENT ON 30 SEPTEMBER 2017** | | |  |
|  | **R** | |  |
| **Direct material cost** | **959 000** | **☑** | Calculation:  **Raw Material Stock Account** |
| **Direct labour cost** | **755 000** | **✓** | Calculation: **Production hours normal rate/overtime/contributions** |
| **Prime Cost** | **1 714 000** | **☑** | **DMC + DLC** |
| **Factory overhead cost** | **436 000** | **☑** | **Note;** Calculations; %; ratios; floor space; proportion |
| **Manufacturing cost** | **2 150 000** | **☑** | **Prime Cost + FOHC** |
| **Work-in-progress (1 October 2016)** | **74 000** | **✓** | Opening stock |
|  | **2 224 000** | **☑** | **MC + OB (WIP)** |
| **Work-in-progress (30 September 2017)** | **(36 500)** | **✓** | Closing Stock\* always subtracted |
| **Total cost of production of finished goods** | **2 187 500** | **🗹** | Inspect operation (CS subtracted)\* |
|  | | |  |
| \*  If **working from top**, with amounts given, **subtract closing stock**. | | | |
| If **number of units produced** and **unit cost** given, there would be a balancing figure. | | | |
| If total cost of production of finished goods must be **calculated using the Finished Goods** **Stock balances** and the **cost of sales**, then WIP (closing stock) will be a balancing figure. | | | |
|  | | |  |

|  |  |
| --- | --- |
| **CALCULATING THE COST ACCOUNTS NEEDED TO COMPLETE THE STATEMENT:** |  |
|  |  |
| 1. **DIRECT MATERIAL COST: (Variable Cost)** |  |
|  |  |
| * **Normally shown as a working using information relevant for the**   **Raw Material Stock Account:** |  |
|  |  |
| \* Opening Stock + Purchases + Carriage on Purchases – Returns – Closing Stock |  |
| \* Units transferred to the factory (weighted average; number of metres) |  |
|  |  |
| 1. **DIRECT LABOUR COST: (Variable Cost)** |  |
|  |  |
| * Refers to specialised labour or production wages. Payment for the actual production of the final products. |  |
| **Calculation involving:** Number of workers |  |
| Normal time: number of hours per worker and rate |  |
| Overtime: number of hours and overtime rate |  |
| Employer’s contributions (UIF, Pension, etc.) |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1. **FACTORY OVERHEAD COST: (Fixed Cost)** | | | | |  |
|  | | | | |  |
| Indirect factory materials (5 950 + 36 000 – 8 750) | | 33 200 | 🗸🗸 | ***Consumable stores*** used in the factory (note stock balances) | |
| Salaries and wages | | 290 000 | 🗸🗸 | Or ***Indirect labour*** – relating to supervisors, cleaners etc. | |
| Rent expense (291 000 x 240/300) | | 232 800 | 🗸🗸 | Note the **floor space** used. | |
| Insurance (49 200 🗸 x 12/15 🗸 x 40% 🗸)  (49 200 – 9 840) or 39 360 two marks | | 15 744 | 🗹\* | Could involve an ***adjustmen*t** and/or a ***% applicable*** to the factory | |
| Telephone (28 800 x 3/6) ratio 3:2:1 | | 14 400 | 🗸🗸 | Using **a *ratio allocated*** to the factory | |
| Sundry factory expenses | | 189 856 | 🗸 | Some amounts are ***given*** | |
|  | | 776 000 | ☑\* |  | |
|  |  |  | | ***\* be careful of foreign items*** | |

**ACTIVITY 1:**

|  |  |  |  |
| --- | --- | --- | --- |
| The information relates to Cape Chocolates for the financial year ended 30 June 2012. | | | |
|  | | |  |
| **REQUIRED:** | | |  |
|  | | |  |
| Prepare the following for the year ended 30 June 2012: | | |  |
|  | | |  |
| 1.1 Factory Overhead Note to the Production Cost Statement | | | (20) |
|  | | |  |
| 1.2 Production Cost Statement. | | | (16) |
|  | | |  |
| **INFORMATION:** | |  |  |
|  | |  |  |
| A. | **Stock balances:**   |  |  |  | | --- | --- | --- | |  | **30 JUNE 2012** | **1 JULY 2011** | | Direct-/Raw-material stock | R20 000 | R18 000 | | Work-in-progress stock | ? | R35 000 | | Indirect material stock | R7 500 | R7 200 | |  |  |
|  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| B. | **Transactions for the year:** | | | |  |
|  |  | | | |  |
|  | (i) | Raw materials:   * Purchases during the year, R650 000; additional transport cost, R12 300. * Raw materials not ordered were returned to the supplier, R35 000. | | |  |
|  |  |  | | |  |
|  | (ii) | Factory rent paid, R68 500. | | |  |
|  |  |  | | |  |
|  | (iii) | Advertising paid, R23 500. | | |  |
|  |  |  | |  |  |
|  | (iv) | Factory maintenance paid, R46 700. R1 300 will be paid in July 2012. | |  |  |
|  |  |  | |  |  |
|  | (v) | Water and electricity paid, R80 000 (split between factory, 70% and office, 30%). | | |  |
|  |  |  | |  |  |
|  | (vi) | Indirect material purchased, R56 000. 80% were used in the factory. | | |  |
|  |  |  | |  |  |
|  | (vii) | Depreciation: Office equipment, R9 500; factory machinery, R12 800. | | |  |
|  |  |  | |  |  |
|  | (viii) | | Sundry expenses paid, R21 000. This is allocated according to floor space used; as follows: 4 : 2 : 1 for factory, office and sales department respectively. | |  |
|  | (ix) | | Salary and wages:   * Wages paid to the cleaner, R46 000 (50% of time spent in the factory.) * Three factory workers were employed. Each work 1 600 hours’ normal time during the year at R40 per hour, and 300 hours each overtime at a rate of 50% more than the normal rate. * The factory foreman was paid a total of R89 050. This includes his salary for July 2012. Note that he received an increase of R650 per month with effect from 1 January 2012. He has been employed all year. * Salary paid to the office assistant, R130 000 for the year. | |  |
|  |  | |  | |  |
|  | (x) | | The cost of production of chocolates for the year is R1 212 000. | |  |

**ACTIVITY 2:**

|  |  |  |
| --- | --- | --- |
| Abe Accessories manufactures cell-phone covers. The financial year ended on 29 February 2016. | |  |
|  |  |  |
| **REQUIRED:** | |  |
|  |  |  |
| 2.1 | Prepare the Factory Overhead Cost Note. Show ALL calculations in brackets. | (15) |
|  |  |  |
| 2.2 | Prepare the Production Cost Statement for the year ended 29 February 2016. | (8) |
|  |  |  |
| **INFORMATION:** | |  |
|  |  |  |
| **A.** | |  |  |  | | --- | --- | --- | | **Stock balances:** | **29 FEBRUARY 2016** | **1 MARCH 2015** | | Work-in-process stock | R9 320 | R30 640 | |  |
|  |  |  |
| **B.** | **Transactions for the year ended 29 February 2016:**   |  |  | | --- | --- | | Consumable stores used in the factory | R129 300 | | Salaries and wages: Production wages | **?** | | Other factory workers | R97 500 | | Sundry expenses: Factory | R31 500 | | Offices | R28 000 | | Water and electricity | R50 000 | | Insurance | R24 000 | |  |
|  |  |  |

|  |  |  |
| --- | --- | --- |
| **C.** | **Additional information and adjustments** |  |
|  |  |  |
|  | * The factory cleaner omitted from the salaries list for February 2016:  |  |  |  |  | | --- | --- | --- | --- | | **Gross salary** | **Deductions** | **Net salary** | **Employer's Contribution** | | R3 800 | R420 | R3 380 | R380 |   The employer's contribution is added to the salaries and wages. |  |
|  |  |  |
|  | * R4 000 is still outstanding for water and electricity for February 2016. The factory uses 60% of the water and electricity. |  |
|  |  |  |
|  | * Insurance has been paid from 1 March 2015 to 30 June 2016. Insurance is allocated to the factory, administration and sales depts. in the ratio 3 : 2 : 1. |  |
|  |  |  |
| **D.** | The business manufactured 10 500 cell-phone covers at a cost of R82,40 per unit. |  |

**ACTIVITY 3:**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Information for Infinity Hats for the financial year ended 28 February 2017 is provided. | | | | | | | | | |  | |
|  |  | |  | | |  | | | |  | |
| **REQUIRED:** | | | | | | | | | |  | |
|  | |  |  | | |  | | | |  | |
| 3.1 | | Prepare the Factory Overhead Cost Note. | | | | | | | | 14) | |
|  | |  |  | | |  | | | |  | |
| 3.2 | | Complete the Production Cost Statement for the year ended 28 February 2017. | | | | | | | | (10) | |
|  | |  |  | | |  | | | |  | |
| **INFORMATION:** | | | | | | | | | |  | |
|  | |  |  | | |  | | | |  | |
| **A.** | | **Extract from stock records on 28 February 2017:** | | | | | | | |  | |
|  | |  | | |  |  | | | |  | |
|  | |  | | | **2017** | | **2016** | | |  | |
|  | | Work-in-process | | | R94 000 | | **R?** | | |  | |
|  | | Indirect factory materials | | | R8 750 | | R5 950 | | |  | |
|  | |  | | | | | | | |  | |
| **B.** | | **Transactions/Information for year ended 28 February 2017:** | | | | | | | |  | |
|  | |  | |  | | | | |  |  | |
|  | | Raw materials issued for production | | | | | | | **R ?** |  | |
|  | | Indirect materials purchased | | | | | | | 36 000 |  | |
|  | | Salaries and wages | | | | | | | 2 900 000 |  | |
|  | | Rent expense | | | | | | | 291 000 |  | |
|  | | Insurance | | | | | | | 49 200 |  | |
|  | | Telephone allocated to the administration section | | | | | | | 28 800 |  | |
|  | | Sundry factory expenses | | | | | | | 189 856 |  | |
|  | |  | |  | | | | |  |  | |
| **C.** | | 45% of salaries and wages are paid to employees who work directly in the production process and 10% must be allocated as the salary of the factory foreman. | | | | | | | | |  |
|  | |  | |  | | | |  | | |  |
| **D.** | | Rent expense must be distributed according to floor space used. The factory occupies 2 400 m2. Selling and distribution and the administration sections occupy the remaining 600 m2. | | | | | | | | |  |
|  | |  | |  | | | |  | | |  |
| **E.** | | The insurance premium has been paid up to 31 May 2017. Insurance is shared between factory, selling and distribution and the administration sections in the ratio 4 **:** 4 **:** 2. | | | | | | | | |  |
|  | |  | |  | | | |  | | |  |
| **F.** | | 20% of the telephone expense must be allocated to the factory. The remaining amount is shared equally between selling and distribution and the administration sections. | | | | | | | | |  |
|  | |  | |  | | | |  | | |  |
| **G.** | | 40 000 hats were produced during the financial year at a cost of R120 per hat. | | | | | | | | |  |
|  | |  | |  | | | |  | | |  |

**THE ABRIDGED (SHORT-FORM) INCOME STATEMENT**

|  |  |  |
| --- | --- | --- |
| **This is essentially the Income Statement (to show the Net Profit for the year) as all expenses are closed off to the 5 cost accounts.** | | |
|  | | |
| **Sales** | **2 180 000** | Includes the ***profit mark-up%*** |
| **Cost of sales** | **(1 400 000)** | On the ***credit side*** of the Finished Goods Stock |
| **Gross profit** | **780 000** |  |
| **Operating expenses** | **(213 800)** |  |
| Selling and distribution cost\* | 125 860 | All expenses related to the ***selling activity***. |
| Administration costs\* | 87 940 | All expenses related to the ***office and admin***. |
| **Net profit for the year** | **566 200** | **\*calculate as per for factory overheads** |

**ACTIVITY 4:**

|  |  |  |
| --- | --- | --- |
| **GEVEN MANUFACTURERS:** The business produces wooden tables. | | |
|  | |  |
| **REQUIRED:** | |  |
|  | |  |
| Prepare the following for the year ended 28 February 2017: | |  |
|  |  |  |
| 4.1 | Production Cost Statement | (14) |
| 4.2 | Abridged Income Statement | (14) |

|  |  |  |
| --- | --- | --- |
| **INFORMATION:** |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **A.** | **Stock on hand:** | |  | |
|  | |  |  |  | | --- | --- | --- | |  | **28 FEBRUARY 2017** | **1 MARCH 2016** | | Work-in-process | **?** | R160 000 | | Finished goods | 400 tables, valued using  FIFO method | 1 200 tables at R280  = R336 000 | | |  | |
| **B.** | | * 7 200 tables were **produced** at a unit cost of R330 each. * 8 000 tables were **sold** for R4 080 000. |  | |
|  | |  |  | |
| **C.** | | **Costs** **(before adjustments):**   |  |  | | --- | --- | | Administration | R148 400 | | Factory overheads | R487 200 | | Direct materials | R1 050 000 | | Direct labour | **?** | | Selling and distribution | R422 000 | |  | |
|  | | **Adjustments:**   * A payment of R102 000 was incorrectly allocated to Selling and Distribution. This was actually meant for delivering wood to the factory. * The cleaning contract, R126 000, was incorrectly shared between Factory and Administration in the ratio 2 : 1. It should have been 80% to the Factory. | |  | |
|  | |  | |  | |
| **D.** | | **Prime cost:** R1 800 000 (after adjustments) | |  | |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **UNIT COST CALCULATIONS, BREAK-EVEN ANALYSIS AND INTERPRETATION** | | | | |  |
|  |  | | | |  |
| **Calculating Unit Costs:** = R9,45 | | | | |  |
|  | | | | |  |
| **Calculating Break-even point (number of units):** = 4 321 units | | | | |  |
|  | | | | |  |
| ***Important points:*** | | | | |  |
|  | | | | |  |
| * Number of units **produced** and number of units **sold** must be considered when calculating certain unit costs. | | | | |  |
|  | | | | |  |
| * **Fixed and variable costs** are normally clearly stated. If not given, then it is assumed as follows: | | | | |  |
| * + Direct Material Cost   + Direct Labour Cost   + Selling and Distribution Cost | | | | **Variable Costs** |  |
|  | | | |  |  |
| * Factory Overhead Cost * Administration Cost | | | | **Fixed Costs** |  |
|  | | | | |  |
| * **Contribution per unit:** *Refers to the profit made on each item sold* | | | | |  |
|  | | | | |  |
| **Selling Price (per unit) – Variable Cost (per unit)** | | | | |  |
| *Sales amount ÷ number of units sold (DMC + DLC + SDC) ÷ number of units produced/sold* | | | | |  |
|  | | | | |  |
| **Interpretation of the amounts calculated above, and commenting** | | | | |  |
|  | | | | |  |
| **With regards to Unit Costs:** | | * **COMPARE:** Current year to previous year * **TREND:** Was there an Increase or Decrease? (Amount/%) * **COMMENT:** Possible explanation/reasons for the trend * **ADVICE:** What must the manager **DO**? | | |  |
|  | |  | | |  |
| **With regard to the Break-even point:** | | * **COMPARE:** Current year to previous year   ***Number of units produced against BEP***  *BEP of this year against last year*  *Units produced this year against last year*   * **TREND:** Better than/worse than; more than/less than * **COMMENT:** *Satisfied/Not Satisfied*   *Are we making a profit/loss?*  *Is the actual production too close to the BEP?*  *How can we manage expenses?* | | |  |
|  | |  | | |  |
| **RELATED QUESTIONS:** | | | * **Integration with other topics/sections (Inventory valuation)** | |  |
|  | | | * **Calculating wastage (if metres used; fabric; timber)** | |  |
|  | | | * **Ethical issues (quality of the products)** | |  |
|  | | | * **Internal control (stock missing)** | |  |
|  | | | * **Problem solving (comparing TWO products)** | |  |

**ACTIVITY 5:**

**HEALTHY LIFESTYLE COOKWARE** manufactures enamel pots.

**REQUIRED:**

|  |  |  |  |
| --- | --- | --- | --- |
| 5.1 | Calculate the following for the financial year ended 31 August 2015: |  |  |
|  | * Variable cost per unit |  | (3) |
|  | * Break-even point |  | (5) |
|  |  |  |  |
| 5.2 | Explain why the owner should be concerned about the break-even point and level of production. Provide TWO points. Provide figures. |  | (4) |
|  |  |  |  |
| 5.3 | Identify ONE other problem relating to this business. Provide figure(s). |  | (2) |
|  |  |  |  |
| **INFORMATION:** | |  |  |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
|  | **ENAMEL POTS** | |
| **2015** | **2014** |
| Number of units produced and sold | 27 000 | 32 000 |
| Total fixed cost | R2 850 000 | R2 660 000 |
| Total variable cost | R2 160 000 | R2 080 000 |
| Selling price per unit | R175 | R160 |
| Selling price of competitor | R170 | R130 |
| Break-even point in number of units | **?** | 28 000 |
| Total sales | R4 725 000 | R4 960 000 |

**ACTIVITY 6:**

**Charley’s Manufacturers.** The financial year ended on 31 December 2012.

**REQUIRED:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 6.1 | Calculate the following: | | |  |
|  |  |  | |  |
|  | 6.1.1 | Total selling and distribution costs | | (2) |
|  |  |  | |  |
|  | 6.1.2 | Administration cost per unit | | (2) |
|  |  |  | |  |
|  | 6.1.3 | Total cost of production for 2012 | | (4) |
|  |  |  | |  |
| 6.2 | Break-even Analysis: | | |  |
|  |  |  | |  |
|  | 6.2.1 | Calculate the break-even point for 2012. | | (6) |
|  |  |  | |  |
|  | 6.2.2 | Will Charley be satisfied with the number of units produced? Explain quoting figures to support your answer. | | (3) |
|  |  |  | |  |
| 6.3 | The current inflation rate is 6%. Salary and wage increases were also 6%. Charley is concerned about the control over certain costs. Refer to Information 3 below for a comparison of this year's costs with the costs of last year. | | |  |
|  |  | | |  |
|  | 6.3.1 | | **Direct materials cost:**  Explain why Charley should not be too concerned about the direct materials cost. Provide figures to support your answer. | (2) |
|  |  | |  |  |
|  | 6.3.2 | | **Direct labour cost and factory overhead cost:**  Provide figures to explain why direct labour and factory overhead cost should be of major concern to him. In each case, name a possible problem which led to an increase in each of these costs. Provide practical advice to solve each of the problems you have suggested. | (8) |
|  |  | |  |  |
| **INFORMATION:** | | | |  |
|  | | | |  |
| A. | **Work-in-process**  There was no work-in-process stock or finished goods stock at the beginning or end of the year. | | |  |
|  |  | | |  |
| B. | **Production and sales**   |  |  |  | | --- | --- | --- | |  | **2012** | **2011** | | Dresses produced and sold | 5 500 units | 6 300 units | | Selling price | R250 | R200 | | Break-even point | **?** | 3 310 units | | | |  |
|  |  | | |  |
| C. | **Unit costs**  The following costs were extracted from the financial records of Charley Manufacturers.   |  |  |  |  | | --- | --- | --- | --- | |  | **2012 Total Amount** | **2012 Per unit** | **2011 Per unit** | | ***Variable costs:*** | **?** | **R160** | **R141** | | Direct labour | R275 000 | R50 | R32 | | Direct materials | R522 500 | R95 | R94 | | Selling and distribution | **?** | R15 | R15 | |  |  |  |  | | ***Fixed costs:*** | **R231 000** | **?** | **R31** | | Factory overheads | R165 000 | R30 | R21 | | Administration | R66 000 | ? | R10 | | | |  |

**ACTIVITY 7:**

|  |  |  |
| --- | --- | --- |
| **KHUMALO'S CATERING** | |  |
|  | |  |
| Khulamo owns a small business that produces pies and doughnuts which he supplies to local school tuck shops.  Where comments/explanations are required below, quote figures, unit costs or financial indicators to support your opinions. | |  |
|  | |  |
| **REQUIRED:** | |  |
|  |  |  |
| 7.1 | Identify ONE unit cost for doughnuts and TWO unit costs for pies that were major problems in 2014, considering that the inflation rate was 5%. For each unit cost identified, give a possible cause of the problem and give advice on how to rectify it. | (12) |
|  |  |  |
| 7.2 | Khumalo feels that he can produce and sell more doughnuts. Calculate the number of extra doughnuts he must produce and sell to make an additional profit of R15 000. Assume that the unit costs and selling price for 2014 remain unchanged. | (4) |
|  |  |  |
| 7.3 | Khumalo is concerned about the financial performance of his business and the fact that a new competitor has opened in the area.   * Name the product which has been negatively affected by the new competitor. * Comment on how this would have affected the net profit on this product. | (5) |

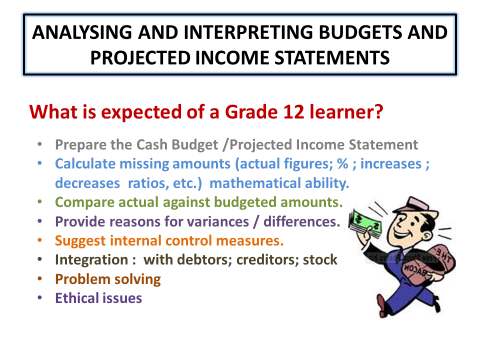
|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **INFORMATION** | **DOUGHNUTS** | | **PIES** | |  |
|  | **2014** | **2013** | **2014** | **2013** |  |
|  | Total units produced & sold | 55 000 units | 51 000 units | 35 000 units | 44 000 units |  |
|  | Break-even point (units) | 21 667 units | 24 074 units | 38 095 units | 18 519 units |  |
|  |  | | | | |  |
|  | Ben's selling price per unit | R8,00 | R7,00 | R12,50 | R12,00 |  |
|  | Selling price of competitor | R8,60 | - | R12,50 | - |  |
|  |  | | | | |  |
|  | **VARIABLE COSTS PER UNIT** | **R5,00** | **R4,30** | **R8,30** | **R5,85** |  |
|  | Direct material cost per unit | R1,95 | R2,05 | R5,05 | R2,20 |  |
|  | Direct labour cost per unit | R1,90 | R1,55 | R2,20 | R2,60 |  |
|  | Selling & distribution cost per unit | R1,15 | R0,70 | R1,05 | R1,05 |  |
|  |  | | | | |  |
|  | **FIXED COSTS PER UNIT** | **R1,18** | **R1,27** | **R4,57** | **R3,64** |  |
|  | Factory overhead cost per unit | R0,67 | R0,78 | R3,38 | R2,50 |  |
|  | Administration cost per unit | R0,51 | R0,49 | R1,19 | R1,14 |  |

**BUDGETING**

**Exercise of projecting business results using existing business information as well as external factors such as inflation or the state of the economy - (forecasting and making adjustments to achieve the objectives of the business)**

**CONCEPTS AND PRIOR KNOWLEDGE:**

* Cash Budget
* Projected (Forecast) Income Statement
* Cash and non-cash items
* Receipts and Payments / Income and Expenses
* Balance Sheet Accounts and Nominal Accounts / Capital and Current
* Debtors collection schedule
* Creditors payment schedule

**DEBTORS COLLECTION SCHEDULE**

|  |  |  |  |
| --- | --- | --- | --- |
| 2. | **Debtors' collection:** | |  |
|  | In the past, debtors have settled their accounts as follows.   * **20%** of debtors settle accounts in the **month of the sale** to receive a **5%** discount. * **30%** settle in the 1st month following the sales month (30 days). * **40%** settle in the 2nd month (60 days). * **10%** are written off in the 3rd month. | | |
|  |  |  |  |
| 3. | **Debtors' Collection Schedule:**   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  |  |  | **2017** | | | |  |  | **Credit sales**  **R** | **January**  **R** | **February**  **R** | **March**  **R** | | **Actual** | November | 345 000 | 138 000 |  |  | | December | 480 000 | 144 000 | 192 000 |  | | **Expected** | January | **300 000** | 57 000 | 90 000 | **A** | | February | 210 000 |  | 39 900 | 63 000 | | March | **180 000** |  |  | **B** | |  |  |  | 339 000 | 321 900 | **C** | | |  |

|  |  |  |
| --- | --- | --- |
| **A** | ***January credit sales is collected as follows:***  Jan (20%) – 5% discount; Feb (30%); **March (40%)**  **300 000** x 40% | 120 000 ✓✓ |
| **B** | ***March credit sales is collected as follows:***  **March (20%) – 5% discount**; Apr (30%); May (40%)  **180 000** x 20% = 36 000 x 95% (100% - 5%) / 36 000 x 5% = 1 800  ✓ ✓ | 34 200 🗹  **36 000 – 1 800** |
| **C** | 120 000 🗹 + 63 000 ✓ + 34 200 🗹 | 217 200 🗹 |

**PAYMENTS TO CREDITORS:**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| * **Total sales:**  |  |  |  | | --- | --- | --- | | **2017** | | | | **January** | **February** | **March** | | **R500 000** | R350 000 | R300 000 |  * Stock is **replaced monthly**. * The business uses a **mark-up of 60%** on cost at all times. * **20% of all purchases** are for cash, the rest are on credit. * Creditors are **paid TWO months after** the purchase of stock. | ***Base stock*** *is maintained.*  *Stock sold in a month* ***is replaced*** *in the same month; therefore*  *Need to* ***calculate cost of sales****;*  ***80% is on credit***  *January 80% is paid in March*  *February 80% is paid in April* |
| 1.  ***January total sales***: 1. Calculate Cost of Sales: **500 000** x 100/160 = **312 500**  2. Calculate credit purchases: **312 500** x 80% = **250 000**  **Paid in March.** | |

**ACTIVITY 8: CASH AND CREDIT SALES AND PURCHASES**

The following information appeared in the books of Mouse Traders:

**REQUIRED:**

8.1 Complete the Debtors’ Collection Schedule for June and July 2018.

8.2 Complete the section of the Cash Budget as provided in the ANSWER BOOK.

**INFORMATION:**

A. The business uses a profit mark-up of 75% on cost.

B. **Sales:**

* + Cash Sales account for 20% of total sales.
  + Debtors pay according to the following pattern:
    - 30% in the month of sales subject to a 5% discount;
    - 50% in the month following the sales month;
    - 18% two months after the sales month.

C. **Purchases:**

* + The business maintains a base stock. Stock is replaced in the month of sales.
  + Credit purchases makes up 60% of total purchases.
  + Creditors are paid two months after the month of purchases.

D. **Schedule of total sales:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **MARCH** | **APRIL** | **MAY** | **JUNE** | **JULY** |
| R61 250 | R73 500 | R64 750 | R78 750 | R70 000 |

**BUDGET STRUCTURE:**

* Only cash items; Paid or received in the month applicable (Receipts and Payments);
* Includes Balance Sheet Accounts (Capital) and Nominal Accounts (Current)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2017** | | |
|  | **January** | **February** | **March** |
| **TOTAL RECEIPTS:** | **R** | **R** | **R** |
| **Cash sales** | 33 000 | **(i)** | 36 000 |
| Receipts from debtors | 87 200 | 92 100 | **(ii)** |
| **Rent income** | **9 200** | **(iii)** | **10 143** |
| **Loan from partner (12%)** | **400 000** | **0** | **0** |
|  |  |  |  |
| **TOTAL PAYMENTS:** |  |  |  |
| Cash purchases | 18 500 | **(iv)** | 15 600 |
| **Payments to creditors** | 22 600 | 24 300 | **(v)** |
| **Interest on loan** |  | **4 000** | **(vi)** |
| **Repayment of loan** |  | **40 000** | **40 000** |
| **Salaries of sales assistants** | 9 040 | 9 040 | **(vii)** |
| **Advertising** | **(viii)** | **?** | 1 080 |
| **Sundry expenses** | **2 400** | **?** | **(ix)** |
| SURPLUS/DEFICIT | 56 200 | **(xi)** |  |
| CASH BALANCE (OPENING) | (15 000) | **(x)** |  |
| Cash balance at end of month | 41 200 | 39 500 |  |

**SPECIFIC CALCULATIONS:**

(i) **Cash Sales:** % of total sales.

(ii) **Receipts from debtors:** Amount from the Debtors Collection Schedule

(iii) **Rent income: *Rent increases by 5% in February; increases by 5% in March***

**9 200** x 105% = 9 660; **10 143** x 100/**105** = 9 660

(iv) **Cash Purchases:** % of total purchases (Cost of sales)

(v) **Payments to creditors:** % of total purchases and paid after y months.

(vi) **Interest on loan: *The loan was received on 31 January 2017;***

***Repayments and Interest are paid on the last day of each month.***

***Interest is not capitalised.***

(400 000 – 40 000) x 12% x 1/12 = 3 600

(vii) **Salaries of sales assistants: *The business has 4 sales assistants; each earns the same wages. One sales assistant will receive a special bonus of 60% of her salary in March.***

**9 040**/4 = 2 260 x 60% = 1 356

9 040 + 1 356 = 10 396

6 780 3 616

(3 x 2 260) + (2 260 + 1 356) = 10 396

(viii)  **Advertising: *Advertising is estimated at a fixed percentage of monthly cash sales.***

1 080/36 000 x 100 = 3%; **33 000** x 3% = 990

(ix) **Sundry expenses:** ***Sundry expenses increases by 5% each month.***

**2 400** x 105% = **2 520** x 105% = 2 646

(x) **Opening balance in February:** Must be the closing balance of the previous month. **41 200** (given)

(xi) **Surplus/Deficit in February:** (xi) + 41 200 = 39 500

(xi) = 39 500 – 41 200

**=** – **1 700**

**ACTIVITY 9:**

|  |
| --- |
| The information relates to Brakpan Stationers. |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **REQUIRED:** | | | | | | |  |
|  |  | | |  |  |  |  |
| 9.1 | Explain the importance of comparing budgeted figures with actual figures achieved for the same period. | | | | | | (2) |
|  |  | | |  |  |  |  |
| 9.2 | Calculate the missing amounts (indicated by **a, b** and **c**) in the Debtors' Collection Schedule for the budgeted period March to May 2015. | | | | | | (4) |
|  |  | | |  |  |  |  |
| 9.3 | Calculate the following budgeted figures: | | | | | |  |
|  |  | |  | |  |  |  |
|  | 9.3.1 | | Total sales for March 2015 | | | | (2) |
|  | 9.3.2 | | Amount for payments to creditors during May 2015 | | | | (4) |
|  | 9.3.3 | | Salaries of the shop assistants for April 2015 | | | | (3) |
|  | 9.3.4 | | The percentage increase in the salary of the manager expected in May 2015 | | | | (3) |
|  | 9.3.5 | | Amount of the additional loan expected to be acquired on 1 April 2015 | | | | (3) |
|  |  | |  | |  |  |  |
| 9.4 | An official of the local municipality has offered to recommend Brakpan Stationers to supply stationery to the value of R500 000. However, he will only do this if he receives a cash payment of R20 000 from the owner. | | | | | |  |
|  |  |  | | |  |  |  |
|  | What advice would you offer? adState TWO points. | | | | | | (4) |
|  |  |  | | |  |  |  |
| 9.5 | The owner’s wife is angry that he has not been adhering to the cash budget. The owner says that he deliberately did not keep to the budget because he wanted to improve the overall results of the business.   * Identify THREE over-payments in April. Provide figures to support your answer. Provide a valid reason for each over-payment to support Vukile's decisions. * Explain how this difference of opinion with his wife can be avoided in future. * State TWO other strategies that Vukile and his wife could consider in future to improve the results of the business. | | | | | | (6)  (2)  (2) |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **INFORMATION** | | | | | | | | | | | |  |
| **A.** | **Sales and debtors' collection:** | | | | | | | | | | |  |
|  | * The TOTAL sales for April 2015 and May 2015 have been estimated as follows: | | | | | | | | | | |  |
|  |  | |  | | | |  | | |  | |  |
|  |  | | April 2015 | | | | 70 000 | | |  | |  |
|  |  | | May 2015 | | | | 78 750 | | |  | |  |
|  |  | | | | | | | | | | |  |
|  | * 80% of all sales are for cash. The rest is on credit. | | | | | | | | | | |  |
|  | * Debtors are expected to pay as follows: | | | | | | | | | | |  |
|  |  |  | | | |  | | |  | | |  |
|  |  | 60% within the same month of sale, subject to a 4% discount | | | | | | | | | |  |
|  |  | 38% in the month following the month of sale | | | | | | | | | |  |
|  |  | 2% of debts are written off in the second month following the month of sale | | | | | | | | | |  |
|  | * **Debtors' collection schedule:** | | | | | | | | | | |  |
|  |  | | | **Credit sales**  **R** | **March**  **R** | | | **April**  **R** | | | **May**  **R** |  |
|  | February | | | 31 500 | 11 970 | | |  | | |  |  |
|  | March | | | 10 500 | **(a)** | | | 3 990 | | |  |  |
|  | April | | | 14 000 |  | | | 8 064 | | | **(b)** |  |
|  | May | | | **(c)** |  | | |  | | |  |  |
|  |  | | |  | 18 018 | | | 12 054 | | |  |  |
|  |  | | | | | | | | | | |  |
| **B.** | **Purchases of merchandise and payment to creditors:** | | | | | | | | | | |  |
|  | * A fixed-stock base is kept where the stock sold is replaced at the end of that month. | | | | | | | | | | |  |
|  | * The business uses a mark-up of 75% on cost. | | | | | | | | | | |  |
|  | * 70% of all merchandise is purchased on credit. | | | | | | | | | | |  |
|  | * Creditors are paid in full in the month following the month of purchase. | | | | | | | | | | |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **C.** | **Salaries:** | | |  |
|  | **Shop assistants** |  |  |  |
|  | * The business has 12 shop assistants employed on equal pay in March 2015. Nine of the shop assistants are entitled to a bonus equal to 80% of the monthly salary during April 2015. | | |  |
|  | * All shop assistants will receive a general increase during May 2015. | | |  |
| **D.** | **Loan:** | | |  |
|  | An additional loan will be taken from Atlantic Bank on 1 April 2015 at 14% p.a. interest. | | |  |
|  |  | | |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **E.** | **Extract from the Cash Budget for the three months ending 31 May 2015:** | | | | | | |  |
|  | **Receipts** | **March** | | **April** | | | **May** |  |
|  | **Budgeted** | | **Budgeted** | ***Actual*** | | **Budgeted** |  |
|  | Cash sale of stock | 42 000 | | 56 000 | ***59 200*** | | 63 000 |  |
|  | Collection from debtors | 18 018 | | 12 054 | ***12 800*** | | ? |  |
|  | Rent income | 5 600 | | 6 160 | ***6 160*** | | 6 160 |  |
|  | Additional loan acquired | 0 | | ? | ***?*** | | 0 |  |
|  | **Payments** |  | |  |  | |  |  |
|  | Cash purchase of stock | 9 000 | | 12 000 | ***28 000*** | | 13 500 |  |
|  | Payment to creditors | 58 500 | | 21 000 | ***21 000*** | | ? |  |
|  | Salaries of shop assistants | 102 000 | | ? | ***?*** | | 110 160 |  |
|  | Salary of manager | 16 000 | | 16 000 | ***40 000*** | | 19 200 |  |
|  | Interest on loan (14% p.a.) | 6 300 | | 7 175 | ***7 175*** | | 7 175 |  |
|  | Delivery expenses to customers | 9 200 | | 9 200 | ***0*** | | 9 200 |  |
|  | Insurance (paid annually) | 0 | | 27 000 | ***27 000*** | | - |  |
|  | Advertising | 0 | | 0 | 0 | | 20 000 |  |
|  | Purchase of vehicle | 0 | | 0 | ***180 000*** | | 0 |  |
|  | Vehicle expenses | 0 | | 0 | ***4 000*** | | 4 000 |  |
|  | Sundry expenses | 5 300 | | 5 300 | ***5 300*** | | 5 800 |  |
|  |  |  |  | | |  | |  |

**ACTIVITY 10:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| You are provided with information relating to DIY Hardware. The business is owned by John Temba. His inexperienced bookkeeper, Mabel, has prepared a Cash Budget.  **REQUIRED:** | | | | |  |
|  |  | | | |  |
| 10.1 | Identify TWO items that Mabel has incorrectly entered in the Cash Budget. | | | | (4) |
|  |  | | | |  |
| 10.2 | Apart from the items mentioned above, name TWO other items in the **Payments Section** of the Cash Budget that would NOT appear in a Projected Income Statement. | | | | (4) |
|  |  | | | |  |
| 10.3 | After correcting all the errors John has identified the following: | | | |  |
|  | |  |  |  | | --- | --- | --- | |  | **JAN 2013** | **FEB 2013** | | Cash deficit for the month | (14 950) | (52 400) | | Cash at the beginning of the month |  | 35 350 | | Cash at the end of the month | **A** | **B** | | | | |  |
|  | Identify or calculate **A** and **B**. Indicate negative figures in brackets. | | | | (3) |
|  |  | | | |  |
| 10.4 | Identify or calculate the missing figures **C** and **D** in the extract from the Cash Budget. | | | | (7) |
|  |  | | | |  |
| 10.5 | Complete the Debtors' Collection Schedule for February 2013. | | | | (10) |
|  |  | | | |  |
| 10.6 | Calculate the percentage increase in salary and wages from 1 February 2013. | | | | (2) |
|  |  | | | |  |
| 10.7 | Calculate the interest on the fixed deposit for January 2013. | | | | (2) |
|  |  | | | |  |
| 10.8 | John pays Speedy Deliveries to deliver hardware to his customers free of charge. He budgets for this at a rate of 8% of total monthly sales. | | | |  |
|  |  | | | |  |
|  | 10.8.1 | Calculate the delivery expense figure budgeted for January 2013. |  | (2) | |
|  | 10.8.2 | John is of the opinion that this expense is costing him too much. Which TWO points should John consider before deciding on whether or not to discontinue this service? | | (4) | |
|  |  |  | |  | |
| 10.9 | On 31 January 2013 you identified the figures below. Explain what you would say to John about each of the following items at the end of January 2013. Give ONE point of advice in each case.   |  |  |  | | --- | --- | --- | |  | **JANUARY 2013** | | |  | **BUDGETED** | **ACTUAL** | | Advertising | 1 600 | 0 | | Stationery | 1 000 | 4 400 | | Staff training | 2 000 | 700 | | | | (6) | |
| 10.10 | John will have a problem to replace his old computers and cash registers in March 2013. The cost of these items amounts to R150 000 and he expects them to last 5 years. However, he does not have cash available to pay for this. His options are:   * Raise a new loan at an interest rate of 14% p.a. to be repaid over 36 months * Hire (Lease) the assets from IT Connect Ltd at R5 100 per month * Invite his friend James to become an equal partner in the business and provide capital of R150 000   John realises that all three options have the advantage of not requiring the R150 000 outlay in March 2013.  Consider each of these options and explain ONE other advantage and ONE disadvantage of each option. Provide figures to support your answer. | | | (6) | |

**INFORMATION:**

|  |  |  |
| --- | --- | --- |
| A. | **Sales, purchases of stock and cost of sales:**   * Total sales for November 2012 to February 2013 were as follows: * November: R150 000 * December: R200 000 * January: R160 000 * February: R140 000 * 60%of all sales are cash, the rest is on credit * The mark-up is 33⅓% on cost of sales at all times * Stock is replaced on a monthly basis   50% of all purchases are cash, the rest is on credit |  |
|  |  |  |
| B. | **Debtors' collection:**  Debtors are expected to pay as follows:   * 30% of debtors pay their accounts in the month of sale (current) * 50% pay in the month following the sales transaction month (30 days) * 18% pay in the second month (60 days) * 2% are written off |  |
| C. | **Creditors' payment:**  Creditors are paid in the month after purchases to receive 5% discount. |  |

|  |  |  |
| --- | --- | --- |
| **D. EXTRACT FROM THE CASH BUDGET FOR JANUARY AND FEBRUARY 2013** | | |
|  |  |  |
|  | **JAN 2013** | **FEB 2013** |
| **RECEIPTS** |  |  |
| Cash sales | 96 000 | 84 000 |
| Collection from debtors | 70 000 | ? |
| Interest on fixed deposit (7% p.a.) | ? | 0 |
| Fixed deposit: Magic Bank maturing on 1 Feb. 2013 | 0 | 42 000 |
| Commission income | ? | ? |
| Rent income | 8 500 | 8 800 |
|  |  |  |
| **PAYMENTS** |  |  |
| Salary and wages | 15 000 | 16 800 |
| Stationery | 1 000 | 1 000 |
| Telephone | ? | ? |
| Payment to creditors | 71 250 | **D** |
| Cash purchase of stock | **C** | 52 500 |
| Repayment of existing loan |  | 100 000 |
| Furniture bought on credit | 30 000 |  |
| Delivery expenses of hardware to customers | ? | 11 200 |
| Training of staff | 2 000 | 2 000 |
| Advertising | 1 600 | 1 400 |
| Depreciation | 12 500 | 12 500 |
| Sundry expenses | 3 500 | 3 600 |
| Drawings by owner | ? | ? |
| Vehicle expenses | 0 | 500 |

**PROJECTED INCOME STATEMENT**

* Focus is on Income and Expenses (Structure of an Income Statement)
* Only Nominal Accounts
* Includes Cash and Non-Cash Income and Expenses
* Income and Expenses are apportioned over the budget period.
* Emphasis is on the Profit/Loss over the budget period.

**ACTIVITY 11:**

You are provided with a partially completed Projected Income Statement prepared by the bookkeeper of Dawn Distributors for the period 1 October 2015 to 31 December 2015.

**REQUIRED:**

11.1 List TWO items on the Projected Income Statement provided, that would not appear

on a cash budget. (2)

11.2 Fill in the missing amounts denoted by **A** to **E** on the Projected Income Statement. (16)

11.3 Taking into account the additional information, calculate the following:

11.3.1 The percentage increase in wages of cleaners in December 2015 (4)

11.3.2 The monthly salary due to the sales manager in December 2015 (4)

11.3.3 The total credit sales expected in December 2015 (3)

11.3.4 The loan balance on 1 November 2015 (3)

11.4 Provide a valid reason for the difference between the actual and budgeted

figures for Depreciation and Trading Stock deficit. (4)

**INFORMATION:**

1. The business uses a mark-up percentage of 60% on cost.
2. Credit sales comprise 75% of total sales.

Sales are expected to increase by 10% per month and by 20% during December.

1. The business employs a sales manager and an administration manager. The sales manager earns R300 more than the administration manager (per month). The managers are entitled to an increase of 8% p.a. from 1 December 2015.
2. R20 000 of the loan is repayable on 30 November 2015. Interest on loan at 9% p.a. is payable every quarter. The next payment is due on 1 January 2016.
3. Advertising expense per month is budgeted at a fixed percentage of total sales.
4. Income tax is estimated to be 30% of the net profit before tax.
5. **INFORMATION (AMONGST OTHERS) FROM THE PROJECTED INCOME STATEMENT FOR OCTOBER TO DECEMBER 2015.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **OCTOBER** | | | | **NOVEMBER** | **DECEMBER** |  |
|  | **BUDGETED** | | | **ACTUAL** | **BUDGETED** | **BUDGETED** |  |
| Sales | 120 000 | |  | 98 400 | 132 000 | ? |  |
| Cost of sales | 75 000 | |  | 58 800 | **B** | 99 000 |  |
| **Gross profit** |  | **A** |  |  | ? | ? |  |
| **Other income** | 20 700 | |  | 18 200 | 20 700 | 21 200 |  |
| Rent income | 10 000 | |  | 10 000 | 10 000 | 10 000 |  |
| Discount received | 1 200 | | | 1 000 | 1 200 | 1 200 |  |
| Commission income | 9 500 | | | 7 200 | 9 500 | 10 000 |  |
| **Gross operating income** |  |  |  |  |  |  |  |
| **Operating expenses** | 48 300 | |  |  | ? | ? |  |
| Salaries (managers) | 17 100 | |  | 17 100 | 17 100 | **D** |  |
| Wages (cleaners) | 3 200 | | | 3 200 | 3 200 | 3 376 |  |
| Maintenance | 4 000 | | | 1 650 | 4 000 | 4 000 |  |
| Telephone | 2 000 | | | 4 280 | 2 000 | 2 500 |  |
| Insurance | 1 800 | | | 1 800 | 1 800 | 1 800 |  |
| Advertising | 2 400 | | | 1 900 | **C** | 3 168 |  |
| Depreciation | 6 200 | | | 8 000 | 6 200 | 8 000 |  |
| Trading stock deficit | 0 | | | 680 | 0 | 500 |  |
| Stationery | 3 150 | | | 3 100 | 3 200 | 3 250 |  |
| Sundry operating expenses | 8 450 | | | 8 420 | 8 500 | 8 550 |  |
| **Operating profit** | 17 400 | |  |  | ? | ? |  |
| Interest income | 225 | |  | 200 | 200 | 200 |  |
| **Profit before interest expense** | 17 625 | |  |  |  |  |  |
| Interest expense | 585 | |  | 585 | 585 | 435 |  |
| **Net profit before income tax** | ? | | |  | ? | ? |  |
| Income tax | ? | | |  | ? | ? |  |
| **Net profit after tax** |  | **E** |  |  | ? | ? |  |

**fin**