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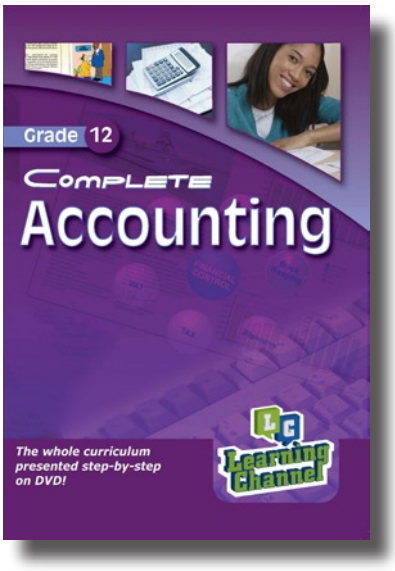

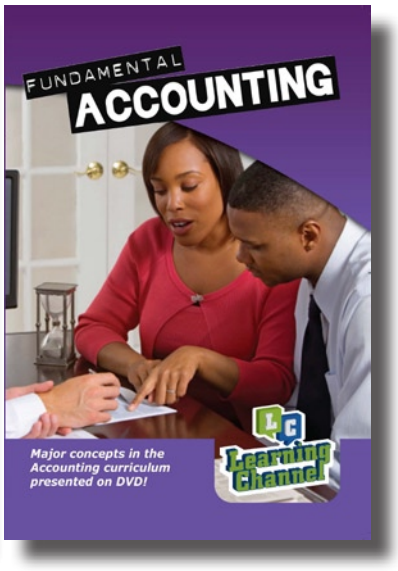

GRADE 12 ACCOUNTING

QUESTION PAPER

INSTRUCTIONS AND INFORMATION

1. Answer ALL the questions.
2. Workings must be shown in order to achieve part-marks.
3. Non-programmable calculators may be used.
4. Use a dark pencil or blue/black ink to answer the questions.
5. Use the information given in the table below as a guide when answering the questions. Try NOT to deviate from it.

QUESTION 1: 35 marks, 20 minutes	
The topic of the question is:	**Learning Outcomes covered:**
Bank and creditors' reconciliations	**LO1** Financial accounting – **AS4** *Analyse and interpret reconciliations* **LO3** Managing resources – **AS6** *Apply internal control and audit processes*

QUESTION 2: 40 marks, 25 minutes	
The topic of the question is:	**Learning Outcomes covered:**
Inventory valuation and control	**LO1** Financial accounting – **AS5** *Interpretation of financial information* **LO3** Managing resources – **AS4** *Inventory valuation* – **AS6** *Apply internal control and audit processes*

QUESTION 3: 70 marks, 40 minutes	
The topic of the question is:	**Learning Outcomes covered:**
Manufacturing – production cost	**LO2** Managerial accounting – **AS2** *Prepare, analyse & report cost information*

QUESTION 4: 70 marks, 40 minutes	
The topic of the question is:	**Learning Outcomes covered:**
Financial statements and audit of a company	**LO1** Financial accounting – **AS5** *Financial statements* – **AS6** *Independent auditor's report* **LO3** Managing resources – **AS3** *Asset disposal* – **AS5** *Professional bodies*

QUESTION 5: 55 marks, 35 minutes	
The topic of the question is:	**Learning Outcomes covered:**
Interpretation of financial information	**LO1** Financial accounting – **AS1** *Define concepts* – **AS5** *Interpret financial statements* **LO3** Managing resources – **AS5** *Code of ethics & role of professional bodies*

QUESTION 6: 30 marks, 20 minutes	
The topic of the question is:	**Learning Outcomes covered:**
Debtors' collection and interpretation of budget	**LO2** Managerial accounting – **AS3** *Analyse and interpret a cash budget* **LO3** Managing resources – **AS6** *Apply internal control and audit processes*

QUESTION 1

RECONCILIATIONS **(35 marks; 20 minutes)**

1.1 BANK RECONCILIATION

You are provided with information from the Bank Reconciliation Statement of Letaba Trading Post on 31 August 2009. The business banks with BankServ.

REQUIRED:

1.1.1 Why is it important for a business to prepare a monthly Bank Reconciliation Statement? List TWO points. (2)

1.1.2 One of the cheques not presented to the bank has been treated incorrectly. Which cheque is it? Explain your choice. Indicate the correct course of action that should be taken. (4)

1.1.3 Calculate the correct balance for the bank account in the ledger of Letaba Trading Post (take into account your response to QUESTION 1.1.2 above). (4)

1.1.4 Explain how cheque No. 718 should be treated when preparing the financial statements as at 31 August 2009, and explain the reason for this treatment. (4)

1.1.5 Explain why a post-dated cheque received by Letaba Trading Post on 20 August 2009, but dated 20 September 2009, does not appear in the Bank Reconciliation Statement. (2)

1.1.6 In September the internal auditor noticed that the deposit of R18 650 that appeared in the August Bank Reconciliation Statement, appeared on the September Bank Statement from BankServ as R8 650. BankServ is correct.

(a) Why should the internal auditor be seriously concerned about the difference of R10 000? (2)

What should the internal auditor do about this? List TWO points. (4)

INFORMATION:

The following items appeared on the Bank Reconciliation Statement of Letaba Trading Post as at 31 August 2009. The bookkeeper is not sure if any errors were made.

Bank overdraft as per the bank statement from BankServ	R32 650
Outstanding deposit (31 August 2009)	18 650
Outstanding cheques	
No. 421 (dated 8 February 2009)	3 500
No. 718 (dated 12 September 2009)	1 250
No. 865 (dated 24 August 2009)	3 650
Balance as per bank account in the ledger of Letaba Trading Post	?

1.2 CREDITORS' RECONCILIATION

The Creditors' Control Account and Creditors' List of Supa Savings were prepared by an inexperienced bookkeeper. She identified the following figures at the end of the month:

Creditors' Control balance: R62 660

Creditors' List total: R46 230

REQUIRED:

1.2.1 Why should these two figures agree? (2)

1.2.2 Calculate the amended balance of the Creditors' Control Account and Creditors' List. Use the format provided to show your workings. (11)

INFORMATION:

An investigation revealed the following:

(a) An adding error in the Creditors' List resulted in the total being undercast by R480.

(b) A credit purchase of letterheads from EeziPrint for R2 440 was left out of the books in error.

(c) Trading stock returned to Used Less Ltd., R720, was entered correctly in the Creditors' Allowances Journal (CAJ) but was posted as R270 to the creditors' account of Used Less Ltd.

(d) The Creditors' Control total in the Cash Payments Journal is R8 200. The bookkeeper credited this to the Creditors' Control Account by mistake. **[35]**

QUESTION 2

INVENTORY VALUATION AND CONTROL **(40 marks; 25 minutes)**

You are provided with information relating to Big Boys Traders, owned by Dennis Hart, for the financial year ended 28 February 2010. The business is situated in Durban.

Dennis buys and sells rugby balls and jerseys. The business uses the periodic inventory system.

The rugby balls are bought from South African suppliers, and the rugby jerseys of different clubs and countries are imported from overseas.

Dennis employs salespeople to control each item of stock:

Jacko controls and sells the rugby balls.

Cato controls and sells the rugby jerseys.

Dennis has decided on the following accounting policies to value inventory:

Rugby balls – Weighted-average method

Rugby jerseys – First-in-first-out method (FIFO)

REQUIRED:

2.1 Although this business has done well, Dennis is considering closing it down and investing his capital in fixed property. List TWO points that he should consider before he makes a final decision. (4)

2.2 Dennis suspects that a number of rugby balls have been shoplifted. Calculate the number of rugby balls that have been stolen. (5)

2.3 Use the relevant information to calculate the closing stock value of:

Rugby balls (using the weighted-average method) (6)

Rugby jerseys (using the FIFO method) (5)

Show your workings to earn part-marks.

2.4 Calculate the following for rugby jerseys (you may prepare a Trading Account to calculate these figures):

Cost of sales (4)

Mark-up % on cost (5)

Stock turnover rate (5)

2.5 If Dennis decides to continue with this business, what advice would you offer him? List TWO points and quote financial indicators or specific information from the question to support your answer. (6)

INFORMATION:

1. Inventories:

The stock was valued as follows at the beginning and at the end of the financial year respectively:

	Rugby balls			Rugby jerseys		
Date	**No. of units**	**Per unit**	**Total value**	**No. of units**	**Per unit**	**Total value**
01/03/09	1 200	R120	R144 000	520	R320	R166 400
28/02/10	900	?	?	250	?	?

2. Purchases:

During the financial year ended 28 February 2010, the following stock items were purchased:

	Rugby balls			Rugby jerseys		
Date of purchases	**No. of units**	**Per unit**	**Total value**	**No. of units**	**Per unit**	**Total value**
31/03/09	1 300	R120	R156 000	400	R200	R80 000
30/06/09	900	R150	R135 000	600	R225	R135 000
30/09/09	1 000	R175	R175 000	1 400	R255	R357 000
02/01/10	200	R180	R36 000	100	R300	R30 000
Totals	**3 400**		**R502 000**	**2 500**		**R602 000**

3. Carriage on purchases:

During the year, the business paid a total of R30 200 to transport rugby balls to the shop. The price of the rugby jerseys includes carriage.

4. Sales:

Items	**Details**	**Total**
Rugby balls	3 500 units at R320 each	R1 120 000
Rugby jerseys	2 770 units at R400 each	R1 108 000

5. Financial indicators:

Items	**Mark-up % on cost**	**Stock turnover rate**
Rugby balls	48,5%	3,9 times p.a.
Rugby jerseys	?	? times p.a.

[40]

QUESTION 3

MANUFACTURING **(70 marks; 40 minutes)**

3.1 BAYETE BAGS

You are provided with information relating to Bayete Bags for the financial year ended 28 February 2010. This is a manufacturing business, owned by the Bayete family. They manufacture large handbags and sell these at a mark-up of 40% on cost.

REQUIRED:

Prepare the Production Cost Statement of Bayete Bags for the year, together with the notes. Use the format provided below.

BAYETE BAGS

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2010

	Note	
DIRECT COSTS		
Direct material costs	1	
Direct labour costs	2	
FACTORY OVERHEAD COSTS	**3**	
Total manufacturing costs		
Add: Work-in-progress at beginning of year		
Less: Work-in-progress at end of year		
Cost of production of finished goods		

(9)

Your notes should have the following headings, and should be totalled and balanced.

NOTE 1: DIRECT MATERIALS COST (9)

NOTE 2: DIRECT LABOUR COST (7)

NOTE 3: FACTORY OVERHEAD COST (13)

INFORMATION:

The following balances appeared, amongst others, in the Ledger on 1 March 2009 (the beginning of the financial year):

Factory equipment – at cost	350 000
Accumulated depreciation on factory equipment	120 000
Office equipment – at cost	90 000
Accumulated depreciation on office equipment	14 000
Stock of finished goods (600 bags)	33 000
Work-in-progress stock	15 280
Direct/raw materials stock	20 000
Stocks on hand at the end of the year	
Stock of finished goods (400 bags)	22 000
Work-in-progress stock	37 000
Direct/raw materials stock	40 000
Factory consumable stores	1 200
Production:	
Number of finished bags produced during the year	20 000 units

Transactions during the year ended 28 February 2010:

1. **Raw materials** were imported at a cost of R400 000.
2. The cost of **transporting** these materials from the suppliers was R50 000.
3. **Salaries and wages paid:**
   - Five factory workers at R5 000 per month
   - One cleaner at R2 000 per month (this cleaner works in the factory 50% of his time)
   - One office worker at R6 000 per month.
4. **Pension fund:** All employees, except the cleaner, contribute to the pension fund. The deduction from earnings is 7,5%, while the business contributes 10,5% of monthly earnings towards the pension fund.
5. **UIF:** The law states that a 1% deduction will apply to earnings by all employees. The business contributes an additional 1%.
6. **Consumable stores** purchased during the year:
   - For factory use, R30 000
   - For office use, R15 000.
7. **Depreciation** on all equipment is calculated at 10% p.a. on cost. Note that new factory equipment, at a cost of R150 000, was bought on 1 September 2009.
8. **Selling expenses:**
   - Advertising, R10 000
   - Delivery expenses, R24 000.
9. **Maintenance:** Repairs to factory equipment were paid, R65 000. A further R1 500 is owed for repairs done during February 2009, but this has not been paid yet.
10. The following were paid for the factory and office. These payments are to be allocated between the factory and the office in the ratio 80% to 20% respectively.
    - **Rent**, R78 000
    - **Insurance, water and electricity**, R75 000.

3.2 BRAKRIVIER BOOT MANUFACTURERS

You are the managerial accountant of Brakrivier Boot Manufacturers. You have compiled the information shown below. For the past two years the business has been experiencing consistent losses. The owners have requested your assistance in planning for the future to make the firm profitable.

NOTES:

- There was no work-in-progress at the beginning or the end of each year.
- All pairs of boots produced were sold.
- The price of similar quality pairs of boots produced by competitors is R790.

REQUIRED:

3.2.1 Explain what is meant by the following and give an example of each:

Fixed costs (2)

Variable costs (2)

3.2.2 Calculate the following unit costs for 2010:

- Direct material cost per unit (2)
- Factory overhead cost per unit (2)
- Total variable cost per unit. (3)

3.2.3 Calculate the total number of pairs of hiking boots the business must produce in order to break even (i.e. to not make a profit or a loss). Use the 2010 figures in your calculation. (9)

3.2.4 You have been asked to compile a report to solve the problem of consistent losses. List the points that you would include in this report under the following headings (quote figures from the information to support your opinions):

- The costs that need to be better controlled (4)
- Whether or not the price of the boots should be increased (4)
- Whether the business will be in a position to meet the break-even point for the next year. (4)

INFORMATION:

BRAKRIVIER BOOT MANUFACTURERS

	2010		2009	
	Total	**Per unit**	**Total**	**Per unit**
Information from income statement:	**R**	**R**	**R**	**R**
Sales	3 260 000	815	2 124 000	708
Cost of sales	(2 172 000)	(543)	(1 590 000)	(530)
Gross profit	1 088 000	272	534 000	178
Administration cost (fixed cost)	(860 000)	(215)	(480 000)	(160)
Selling and distribution cost (variable cost)	(392 000)	(98)	(300 000)	(100)
Net profit (loss)	(164 000)	(41)	(246 000)	(82)

	2010		2009	
	Total	**Per unit**	**Total**	**Per unit**
Information from production costs statement:	**R**	**R**	**R**	**R**
Direct material cost	620 000	?	480 000	160
Direct labour cost	984 000	246	690 000	230
Prime cost/total direct cost	1 604 000	?	1 170 000	390
Factory overhead cost	568 000	?	480 000	160
Total cost of production	2 172 000	543	1 650 000	550
Number of units produced and sold	4 000 pairs of boots		3 000 pairs of boots	

[70]

QUESTION 4

FINANCIAL STATEMENTS AND AUDIT (70 marks; 40 minutes)

4.1 LULAMA LIMITED

You are provided with the Pre-Adjustment Trial Balance of Lulama Limited. The company buys and sells cellphones; they also repair cellphones for their customers, for which they charge a fee. These fees are credited to the Fee Income Account in the General Ledger.

REQUIRED:

4.1.1 Refer to Information 2J below. Calculate the profit or loss on disposal of the computer. Show all workings. You may prepare an Asset Disposal Account to identify the figure. (8)

4.1.2 Complete the Income Statement for the year ended 30 June 2010. The notes to the financial statements are NOT required. (47)

INFORMATION:

1. LULAMA LIMITED

PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 JUNE 2010

	DEBIT	CREDIT
Balance Sheet Accounts Section	**R**	**R**
Ordinary share capital		1 300 000
Share premium		170 730
Retained income (1 July 2009)		170 000
Loan from First Bank		90 000
Land and buildings at cost	1 628 520	
Vehicles at cost	220 000	
Equipment at cost	190 000	
Accumulated depreciation on vehicles (1 July 2009)		41 000
Accumulated depreciation on equipment (1 July 2009)	37 000	
Debtors' control	36 600	
Creditors' control		17 960
Trading stock	479 000	
Bank		13 500
Petty cash	2 200	
SARS – Income tax	83 500	
Provision for bad debts		1 440

Nominal Accounts Section	**R**	**R**
Sales		3 125 000
Cost of sales	1 525 600	
Debtors' allowances	6 200	
Salaries and wages	252 000	
Discount allowed	1 100	
Fee income		121 500
Rent income		72 800
Insurance	9 000	
Sundry expenses	35 520	
Directors' fees	390 000	
Audit fees	45 600	
Consumable stores	12 500	
Interest income		1 800
Ordinary share dividends	88 000	

2. ADJUSTMENTS:

A. Prepaid expenses in respect of sundry expenses at year-end, R5 400, have not been taken into account.

B. On 30 June 2010, R648 was received from A Loser, whose account had previously been written off as irrecoverable. The amount was entered in the Debtors' Control column in the Cash Journal.

C. The provision for bad debts must be adjusted to R1 830.

D. There were two directors at the start of the accounting period. Directors' fees have been paid for the first half of the accounting period. On 1 January 2010, a third director was appointed. All three directors earn the same monthly fee. Provide for the outstanding fees owed to the directors.

E. Rent has been received for 14 months.

F. The following credit note was left out of the Debtors' Allowances Journal for June in error. The mark-up on goods sold was 50% on cost.

LULAMA LTD		**CREDIT NOTE 136** 28 June 2010	
Credit: Cells4U Ltd P O Box 51565, West Beach, 7441		**Unit Price**	**Total**
24	Cellphones returned	R400	R9 600
	Reduction on fee charged for repair of cellphones		R750
	TOTAL		**R10 350**

G. A physical stock count on 30 June 2010 reflected the stock of cellphones on hand as R492 100.

H. The loan statement from First Bank reflected the following:

Balance at beginning of financial year	R 150 000
Repayments during the year	R 78 000
Interest capitalised	R ?
Balance at end of financial year	R 90 000

I. Depreciation on vehicles is calculated at 20% p.a. on the diminishing-balance method.

J. Depreciation on equipment is calculated at 10% p.a. on the cost price. Note that an item of equipment was taken over by one of the directors, Allen Sbu, on 30 March 2010 for personal use for R800 cash. The relevant page from the Fixed Asset Register is provided below. No entries have been made in respect of the disposal of this asset.

FIXED ASSETS REGISTER			**Page 12**
ITEM: VYE Computer		LEDGER ACCOUNT: Equipment	
DATE PURCHASED: 1 January 2007		COST PRICE: R22 000	
DEPRECIATION POLICY: 10% on cost price			
Date	**Depreciation calculations**	**Current depreciation**	**Accumulated depreciation**
2007 30 June	R22 000 × 10% × $^{6}/_{12}$	R1 100	R1 100
2008 30 June	R22 000 × 10% × $^{12}/_{12}$	R2 200	R3 300
2009 30 June	R22 000 × 10% × $^{12}/_{12}$	R2 200	R5 500
2010 31 Mar	?	?	?

K. Income tax for the year amounts to R114 920.

4.2 You are provided with the following extract taken from the report of the independent auditors.

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

Paragraph 1 We have audited the annual financial statements of Lulama Limited set out on pages 8 to 17 for the year ended 30 June 2010. 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.

Paragraph 2 **An audit includes:**

- Examining, on a test basis, evidence supporting the amounts in the financial statements
- Assessing the accounting principles used and significant estimates made by management
- Evaluating the overall financial statement presentation.

Paragraph 3 **Audit opinion**

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 June 2010 and the results of their operations and cash flow for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 1973 (Act 61 of 1973) in South Africa.

Moore and Simpho, Chartered Accountants (SA) 5 Sept 2010

REQUIRED:

4.2.1 Explain why it is important for the independent auditor to be a member of a professional body. (2)

4.2.2 Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain. (2)

4.2.3 Refer to the underlined words in paragraph 2.

(a) Give ONE example of 'evidence' that an auditor would use. (2)

(b) Give ONE example of the 'accounting principles' the auditor would assess as part of the audit. Explain why the auditor would inspect this principle. (3)

4.2.4 Refer to paragraph 3. Explain why you would be satisfied with this audit opinion. (2)

4.2.5 Refer to the disposal of the computer for R800 in Information 2J of QUESTION 4.1. Another director, Sipho Smith, has complained that Allen Sbu has acted unethically in taking over the computer for R800. Allen disagrees.

(a) Give ONE opinion to support Sipho.

(b) Give ONE opinion to support Allen. (4)

[70]

QUESTION 5

INTERPRETATION OF FINANCIAL INFORMATION (55 marks; 35 minutes)

You are provided with information relating to Isisi Dolls Limited.

REQUIRED:

5.1 A company's published annual report comprises five main parts.
Match the components of the annual report in COLUMN 1 with the description in COLUMN 2. The first one has been done for you.

Write only the letter (A–E) next to the question number (1–5), for example 6 – C.

COLUMN 1		COLUMN 2	
COMPONENTS OF THE ANNUAL REPORT		DESCRIPTION	
1	Income Statement	A	This is a written verbal explanation of the operations of the company during a financial year.
2	Balance Sheet	B	This reflects whether or not the shareholders can rely on the financial statements.
3	Cash-Flow Statement	C	This reflects the profit/loss of the company for the year.
4	Directors' Report	D	This reflects the effect of the operating, financial and investing activities on the cash resources.
5	Independent Auditor's Report	E	This reflects the net worth of the company.

(4)

5.2 Refer to information 1, 2 and 3 at the end of this question.
Calculate the following financial indicators for 2009:

- Acid-test ratio (4)
- Stock turnover rate (4)
- Debt/equity ratio (3)
- Net asset value per share (4)
- Earnings per share. (3)

5.3 Comment on the liquidity situation of the company. Quote THREE relevant financial indicators (actual ratios or percentages) to support your answer. (8)

5.4 The company directors feel that the shareholders should be really satisfied with the returns, earnings and dividends of the company. Quote THREE relevant financial indicators (actual ratios or percentages) to support their opinion. (6)

5.5 Refer to the market value per share. Many people feel that the market value of the share on the JSE indicates whether or not the directors are doing a good job.

Explain why the market value is so important in this regard. (2)

If the company issued all its unissued shares next year, how much capital could they expect to raise for the company? Provide a calculation to support your opinion. Note that the authorised share capital comprises 1 000 000 ordinary shares of R2 par value. (4)

5.6 Rather than issue more shares, the directors are considering taking out additional loans. Quote TWO relevant financial indicators (actual ratios or percentages) to support their opinion. (4)

5.7 The auditors have told the directors that Directors' Fees must be shown separately in the financial statements and not as part of Salaries and Wages. The directors do not want to change this. What is your opinion on this problem? Explain. (3)

5.8 Refer to the newspaper article below.

SEASCAPES LTD SUSPENDED FROM JSE OVER NO ANNUAL REPORT

[By Yura Liar, 20 Aug. 2010]

The trading of shares of linen company Seascapes Ltd were suspended by the JSE yesterday after the company failed to publish its annual report three months after the end of their financial year-end.

The CEO of Seascapes Ltd issued a statement, claiming the auditors had withheld their report, thereby causing a delay. The auditors could not be reached for comment.

The company has since postponed its AGM. Yet the shareholders remain in the dark as to the reason for the postponement.

Prior to the JSE's action, the share price of Seascapes Ltd dropped 30% to 140 cents per share.

The directors of Isisi Dolls Ltd are worried that a similar problem could occur in their company. Briefly explain why this would be a serious problem for the company. List TWO points. (6)

INFORMATION:

1. The following information was extracted from the Income Statement for 2009:

• Cost of sales	R976 000
• Interest on loan (interest 13% p.a.)	25 000
• Net profit before tax	750 000
• Net profit after tax	525 000

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

	2009	2008
Current ratio	4,1:1	2,1:1
Acid-test ratio	?	1,3:1
Stock turnover rate	?	8 times p.a.
Debtors' collection period	30 days	30 days
Creditors' payment period	90 days	60 days
Debt/equity ratio	?	0,1:1
% return on average shareholders' equity (after tax)	33,3%	25%
% return on total capital employed (before tax)	44,3%	25,8%
Net asset value per share	?	213,6 cents
Market value per share	240 cents	220 cents
Dividends per share	20 cents	10 cents
Earnings per share	?	55,2 cents

3. BALANCE SHEET AS AT 31 DECEMBER 2009

	2009	2008
ASSETS		
Non-current assets	**1 619 040**	**1 611 000**
Fixed assets (carrying value)	1 619 040	1 611 000
Current assets	**248 500**	**157 500**
Inventory	99 500	62 500
Trade and other receivables	100 000	40 000
Cash and cash equivalents	49 000	55 000
TOTAL ASSETS	**1 867 540**	**1 768 500**
EQUITY AND LIABILITIES		
Ordinary shareholders' equity	**1 657 040**	**1 495 000**
Ordinary share capital (R2,00 par value)	1 525 000	1 400 000
Share premium	52 000	40 000
Retained income	80 040	55 000
Non-current liabilities	**150 000**	**200 000**
Mortgage loan: Blouberg Bank (13% p.a.)	150 000	200 000
Current liabilities	**60 500**	**73 500**
Trade and other payables	60 500	73 500
TOTAL EQUITY AND LIABILITIES	**1 867 540**	**1 768 500**

[55]

QUESTION 6

DEBTORS' COLLECTION AND CASH BUDGET (30 marks; 20 minutes)

Cape of Storms Irrigation is owned by Dan Sprayer. He sells a wide range of irrigation parts. The information below was extracted from the books.

REQUIRED:

6.1 Complete and total the Debtors' Collection Schedule for February and March 2010. (13)

6.2 Refer to Information 3 below. Compare the budgeted figures to the actual figures for January to comment on each of the following. List TWO points in each case.

- Advertising
- Repairs and maintenance
- Delivery expenses (6)

6.3 Dan is pleased that the number of customers has increased. You do not share his opinion that this increase in customers is a positive factor.

(a) Explain TWO problems you have identified and quote figures from the question to support your answer. (4)

(b) Give ONE point of advice in each case. (4)

6.4 By looking at the Cash Budget in Information 3 and assuming all other items are in line with the budget, would you expect the bank balance at the end of January to be favourable or unfavourable? Give a reason for your answer. (3)

INFORMATION:

1. DEBTORS' COLLECTION SCHEDULE FOR CAPE OF STORMS IRRIGATION FOR THE PERIOD ENDING 31 MARCH 2010

DEBTORS' COLLECTION				
Month	**Credit sales**	**January 2010**	**February 2010**	**March 2010**
	R	**R**	**R**	**R**
November 2009	360 000	64 800		
December 2009	540 000	270 000		
January 2010	450 000	129 600		
February 2010	420 000			
March 2010	420 000			
TOTALS		**464 400**		

2. EXPECTED COLLECTION FROM DEBTORS:

- 75% of all sales are expected to be on credit.
- 30% of debtors settle accounts during the transaction month to benefit from a 4% discount for prompt payment.
- 50% of debtors settle accounts in the month following the transaction month.
- 18% settle accounts during the second month after the transaction month.
- 2% is written off as irrecoverable after 60 days.

3. BUDGETED AND ACTUAL FIGURES:

At the end of January, the following actual figures were identified and compared to the budgeted figures:

From the Projected Income Statement:	**OCTOBER BUDGET R**	**OCTOBER ACTUAL R**
Total sales	600 000	672 000
Cash sales	150 000	70 000
Credit sales	450 000	602 000

From the Cash Budget:	**OCTOBER BUDGET R**	**OCTOBER ACTUAL R**
Collections from debtors	464 400	238 588
Purchase of trading stock	375 000	420 000
Advertising	15 000	25 000
Repairs and maintenance	16 500	3 800
Delivery expenses	20 000	42 000
Bank balance at end of month	120 000	?

[30]

TOTAL: 300