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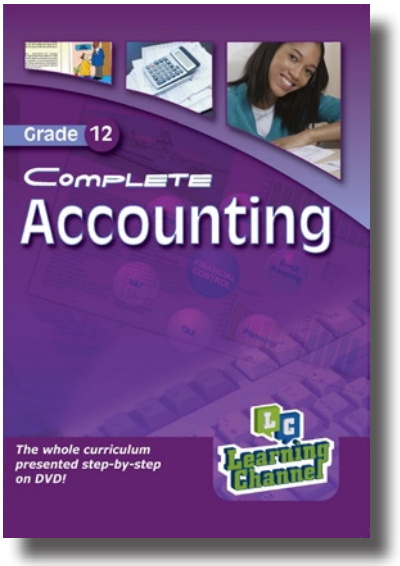

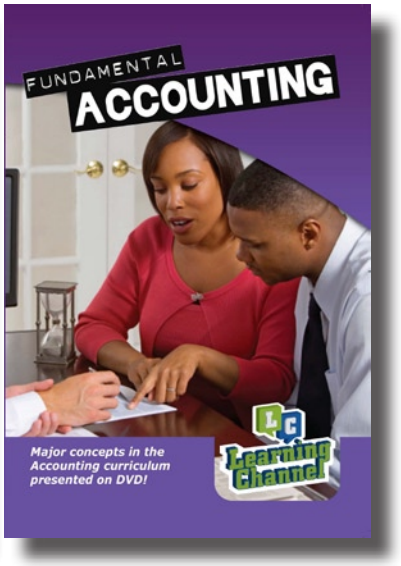

QUESTION 1

1.1 BANK RECONCILIATION

1.1.1 Why is it important for a business to prepare a monthly bank reconciliation statement? List TWO points.

Any TWO points (✓ ✓)

Possible answers:

- For internal control purposes
- To identify the correct bank balance/update records
- Deposits made and cheques issued not only affect the business but also the bank concerned.
- The business keeps a record of all cash transactions.
- The bank also keeps a record of its transactions with the business.
- The books of the business and that of the bank should agree and the bank balance should be the same in both books.
- Comparisons between the books of the business and that of the bank must be made on a monthly basis by preparing a Bank Reconciliation Statement.
- Errors and dishonesty can be detected on a monthly basis. (2)

1.1.2 One of the cheques not presented to the bank has been treated incorrectly. Which cheque is it? Explain your choice.

Cheque No. 421 ✓ for R3 500 is stale ✓ (older than six months). (2)

Indicate the correct course of action.

It must be cancelled in the cash receipts journal (CRJ). ✓✓ (2)

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

✓ ✓ ✓ ✓

R32 650 – R18 650 + R4 900 = R18 900

OR

– R32 650 + R18 650 – R4 900 = – R18 900 (4)

1.1.4 Explain how cheque No. 718 should be treated when preparing the financial statements as at 31 August 2009.

Learners may respond in different ways.

Decrease bank overdraft and increase creditors. ✓✓ (2)

Explain the reason for this treatment.

The funds have not been lost by the business. The amount is still owed to creditors. ✓✓ (2)

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.

Any ONE reason: ✓✓ e.g.

- Post-dated cheques (PDCs) received are recorded in the PDC register.
- PDCs are deposited on the day they are due.
- PDCs have no effect until the due date.
- Rule of prudence – do not record until certain. (2)

1.1.6 (a) Why should the internal auditor be seriously concerned about the difference of R10 000?
Response may be expressed differently.
This is a major error, or possibly fraud. ✓✓ (2)

(b) What should the internal auditor do about this? List TWO points.
Any TWO valid points (✓✓ ✓✓), e.g.

- Check from the receipts to the deposit slip to identify if all cash collected was deposited.
- Check if there is an error on the deposit slip.
- Investigate if the cash has been stolen – question the cashier/bookkeeper.
- Establish proper internal control procedures – division of duties – so that one person serves as a check on another to avoid this problem in future.
- Screen the employees (for trustworthiness).
- Owner does the banking himself/herself. (4)

1.2 CREDITORS' RECONCILIATION

1.2.1 Why should these two figures agree?
Various responses acceptable, e.g. ✓✓

- Figures in General Ledger should correspond with figures in Creditors' Ledger.
- This is the internal control procedure – one process is a check on another. (2)

1.2.2

Transaction	**Creditors' Control**	**Creditors' List**
Provisional balance/total	R62 660	R46 230
Transaction (a)		✓✓ + 480
Transaction (b)	✓✓ + 2 440	✓✓ + 2 440
Transaction (c)		✓✓ – 450
Transaction (d)	✓✓ – 16 400	
✓	**48 700**	**48 700**

(11)

TOTAL: 35

QUESTION 2

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.

Any TWO valid and separate points ✓✓

Note any alternative words with the same meaning (repetition).

Note two separate points in the same sentence.

- There are several major rugby events each year – Super 14, Currie Cup, Tri-Nations as well as all the local and overseas tours. Since the business carries stock of all these events, it's a good opportunity to make a profit, provided it is managed properly.
- Consider the financial implications for the business, also with regard to future prospects, such as the Rugby World Cup in 2012.
- Cost implications of retrenching personnel.
- Property prices are low and it is the right time to invest/property prices are expected to rise in the near future.
- Property can be rented out during the Soccer World Cup this year, and can also ensure a steady income in future.
- Will the owner get a reasonable price for his business in these economic times? (4)

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

1 200✓ + 3 400✓ – 3 500✓ – 900✓ = 200✓ (5)

2.3 Use the relevant information to calculate the closing stock value of rugby balls (using the weighted-average method).

(144 000✓ + 502 000✓ + 30 200✓) ÷ (4 600✓ × 900✓) = R132 000✓ (6)

Use the relevant information to calculate the closing stock value of rugby jerseys (using the FIFO method).

(100✓ × R300✓) + (150✓ × R255✓) = R68 250✓

R30 000 + R38 250 (5)

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

- **Cost of sales**

  166 400✓ + 602 000✓ – 68 250*✓ = 700 150✓

  *See Question 2.3.

  OR

  R166 400✓ + [R80 000 + R135 000✓✓ + R318 750] = R700 150✓

  (520 × R320) + [(400 × R200) + (600 × R225) + (1 250 × R250)] = R700 150

  Other variations are possible. (4)

- **Mark-up % on cost**

  $$\frac{(1\ 108\ 000\checkmark - 700\ 150\checkmark)}{700\ 150^{*}\checkmark} \times \frac{100\checkmark}{1}$$

  *See previous answer.

  OR

  $$\frac{407\ 850}{700\ 150} \times \frac{100}{1}$$ ✓✓ = 58,3% ✓✓ (accept 58,2% or 58,25%) (5)

- **Stock turnover rate**

$$\frac{700\ 150\checkmark}{(68\ 250\checkmark + 166\ 400\checkmark) \div 2} = \frac{700\ 150}{117\ 325} = 5{,}97 \text{ times } \checkmark\checkmark$$

Accept 6 times (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.

Excellent advice = 2 marks; good advice = 1 mark; wrong advice = 0 marks
Relevant financial indicators/figure = 1 mark each
Any two valid and separate points:
Point 1: advice ✓✓ indicator ✓
Point 2: advice ✓✓ indicator ✓
Note any alternative words with the same meaning (repetition).
Note two separate points in the same sentence.
Two marks for advice and 1 mark for indicator:

- Implement stricter controls over the rugby balls – 200 balls were stolen.
- Advertise to increase the demand for rugby balls and also to increase the stock turnover rate (3,9 times) compared to jerseys (6 times).
- Only sell jerseys, because the profit margin is larger ((58,25% compared to 48,5%) and the stock turnover rate is better (6 times compared to 3,9 times).
- The business carries a lot of stock, especially rugby balls – 900 in stock at the end of the year.
- The rugby balls need to be sold quicker – the stock turnover rate is 3,9 times per year.
- Consider getting another supplier, or to import the balls, because the cost price has increased by 50% from R120 to R180 (or by 22,5% from R120 to R147).
- Consider changing the % mark-up (increase/decrease) on rugby balls from 58,3%, so that you can increase your chances of sales – during Super 14 or Tri-Nations, or even the winter season, customers may be willing to pay a higher price.
- Consider using another delivery service, so as to reduce carriage of R8,88 per ball (R30 200 / 3 400 balls).

One mark for advice and one mark for indicator:

- Advertise to increase the sale of the rugby balls R1 200 000.
- The sales price of R320 needs to change if the costs increase (this is only worth one mark).
- Consider importing the rugby balls if they are of better quality (no mark for a financial indicator in this instance). (6)

TOTAL: 40

QUESTION 3

BAYETE BAGS

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2010

	Note	
DIRECT COSTS		✓ 764 500
Direct material costs	1	✓ 430 000
Direct labour costs	2	✓ 334 500
FACTORY OVERHEAD COSTS	3	✓ 274 720
Total manufacturing costs		✓ 1 039 220
Add: Work-in-progress at beginning of year		✓ 15 280
		1 054 500
Less: Work-in-progress at end of year		✓ (37 000)
Cost of production of finished goods		✓✓ 1 017 500

[9]

NOTE 1 DIRECT MATERIALS COST

Opening stock	✓✓ 20 000
Purchases	✓✓ 400 000
Carriage on purchases	✓✓ 50 000
	470 000
Less: Closing stock	✓✓ 40 000
Direct materials cost	✓ 430 000

[9]

NOTE 2 DIRECT LABOUR COST

Factory wages	✓✓ 300 000
Pension fund contributions (300 000 × 10,5%)	✓✓ 31 500
UIF contributions (300 000 × 1%)	✓✓ 3 000
Direct labour cost	✓ 334 500

[7]

NOTE 3 FACTORY OVERHEAD COST

Indirect materials (30 000 – 1 200)	✓✓ 31 200
Indirect labour (12 000 + 120)	✓✓ 12 120
Depreciation: factory equipment (35 000 + 7 500)	✓✓ 42 500
Maintenance: factory equipment (65 000 + 1 500)	✓✓ 66 500
Rent of factory buildings (78 000 × 80%)	✓✓ 62 400
Factory insurance, electricity and water (75 000 × 80%)	✓✓ 60 000
Factory overhead cost	✓ 274 720

[13]

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

- **Fixed costs:** Fixed costs are those costs that do not change with the number of units produced ✓ e.g. factory rent or salaries. ✓ (2)
- **Variable costs:** Variable costs are those that change in relation to the number of units produced ✓ e.g. direct materials ✓ (2)

3.2.2 Calculate the following unit costs for 2010:

- **Direct material cost per unit:** 620 000 ÷ 4 000 = R155 ✓✓ (2)
- **Factory overhead cost per unit:** 568 000 ÷ 4 000 = R142 ✓✓ (2)
- **Total variable cost per unit:**

(1 604 000 ÷ 4 000) ✓ + 98 ✓ = 401 + 98 = R499 ✓ (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.

Sales – Cost = Profit
✓ ✓ ✓ ✓ ✓ ✓
815 – [155 + 246 + 98] = [860 000 + 568 000]
815 – 499 = 1 428 000
316 ✓ = 1 428 000 ✓

$$\frac{1\ 428\ 000}{316} = 4\ 518{,}98 \text{ boots}$$

= 4 519 boots ✓

Or SP – VC = MP
815 – 499 = 16

$$\frac{860\ 000 + 568\ 000}{316} = 4\ 519 \text{ boots}$$

(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**

  Valid point mentioned ✓✓
  Appropriate figures quoted ✓✓

The administration costs need to be controlled better. This has increased from R160 per unit in 2009 to R215 per unit in 2010. (4)

- **Whether or not the price of the boots should be increased**

  Valid point mentioned ✓✓
  Appropriate figures quoted ✓✓

No, the price of boots cannot be increased. Similar pairs of boots cost R790, which is less than our current selling price of R815. In order to make a profit, the business needs to sell more boots. This may prove difficult if the price is increased. (4)

- **Whether the business will be in a position to meet the break-even point the next year**

  Valid point mentioned ✓✓
  Appropriate figures quoted ✓✓

Based on the given information, the business will not be able to meet break-even point. They have produced 4 000 pairs of boots, whereas the calculation in 3.2.3 determined that the business needs to produce 4 519 pairs of boots in order to break even. This is 519 units short, which means that the business needs to increase production and sales by 13%. (4)

TOTAL: 70

QUESTION 4

4.1 LULAMA LIMITED

4.1.1 Calculate the profit or loss on disposal of the computer. Show workings. You may prepare an Asset Disposal Account to identify the figure.

✓ ✓ ✓✓ ✓ ✓✓

22 000 – 5 500 – 1 650 – 800 = R14 050

OR

✓ ✓ ✓✓✓ ✓ ✓✓

22 000 – (5 500 + 1 650) – 800 = R14 050

OR

Cost price	22 000 ✓
Accumulated depreciation (5 500 ✓ + 1 650 ✓✓✓)	(7 150)
Net Book Value	14 850
Sales/Bank	800 ✓
Loss on sale of asset	14 050 ✓✓

Sale of assets			
Equipment	22 000	Accum. depreciation: Equipment (5 500 ✓+ 1 650 ✓✓✓)	7 150
		Bank	✓ 800
		Loss on sale of asset	✓✓ 14 050
	22 000		**22 000**

(8)

4.1.2 LULAMA LIMITED
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	Sales (3 125 000 ✓ – 6 200 ✓ – 9 600 ✓)	✓ 3 109 200
	Cost of sales (1 525 600 ✓ – 6 400 ✓)	(1 519 200)
8	Gross profit	✓ 1 590 000
	Other operating income	✓ 203 298
	Fee income (121 500 ✓ – 750 ✓)	✓ 120 750
	Rent income (72 800 ✓– 10 400 ✓)	✓ 62 400
	Bad debt recovered	✓✓ 648
12	Trading stock surplus (492 100 – [479 000 + 6 400])	✓✓✓19 500
	Gross operating income	**1 793 298**
	Operating expenses	✓ (1 394 010)
	Salaries and wages	✓ 252 000
	Discount allowed	✓ 1 100
	Insurance	✓ 9 000
	Sundry expenses (35 520 ✓ – 5 400 ✓)	✓ 30 120
	Directors' fees (390 000 ✓ + 390 000 ✓+ 195 000 ✓)	✓ 975 000
	Audit fees	✓ 45 600
	Consumable stores	✓ 12 500
	Provision for bad debts	✓✓ 390
	Depreciation (1 650 ✓ + 16 800 ✓✓ + 35 800 ✓✓)	✓ 54 250
22	Loss on sale of assets	✓ 14 050
	Operating profit	**399 288**

	Interest income	✓ 1 800
	Profit before interest/finance charges	401 088
	Interest paid/finance charges	✓✓ (18 000)
	Profit before tax	383 088
	Income tax	✓ (114 920)
5	**Net profit after tax**	✓ **268 168**

Irregular items: deduct 1 mark (max 2 marks deducted) (47)

4.2 4.2.1 Explain why it is important for the independent auditor to be a member of a professional body.

Any valid reason, e.g. ✓✓

May allocate partial marks for partial, unclear or incomplete answers.

- So that people reading the financial statements can trust his/her opinion
- Assuring that he/she is properly trained on a continuous basis
- Disciplinary action where there is negligence in the course of carrying out duties
- Awareness of the latest trends, e.g. IFRS, Companies Act, King Code
- Ethical behaviour (integrity, adheres to an ethical code of conduct)
- Setting the goal posts high to ensure quality of workmanship (2)

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

Any valid reason e.g. ✓✓

May allocate partial marks for partial, unclear or incomplete answers.

- The auditor is voicing an opinion; he does not prepare the financial statements.
- If the auditor had been involved in any way in the preparation of the financial statements, he would not have been able to voice an opinion (conflict of interest).
- The auditor operates control on a test basis only. The directors are responsible for the figures.
- The directors work in the company on a daily basis – they have to be held accountable for any mistakes or fraud.
- Directors may not delegate their responsibility in drawing up the financial statements. (2)

4.2.3 Refer to the underlined words in paragraph 2.

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

✓✓ Any valid proof of entries in the books, or values in the financial statements with regard to cash, fixed assets, loans, inventory, e.g. bank statements, stock control sheets, invoices (source document and supporting documents), fixed assets register, etc. (2)

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

One principle ✓ e.g.	**Explanation or reason ✓✓ e.g.**
Stock valuation method	Can lead to differences in profits
Valuation of fixed assets (historical costs and depreciation)	Can lead to differences in profits or NBV
Principle of periodicity	To ensure that income and expenses are reflected in the correct periods
Principle of prudence	Results should be reported in a conservative manner
Principle of going concern	Affects the valuation of assets

Any other valid principles or reasons are acceptable.
Accept transparency, even if it is a King Code principle. (3)

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

Any valid answer ✓✓
May allocate partial marks for partial, unclear or incomplete answers.
Possible answers:

- The auditors voice their satisfaction with all aspects of the financial reporting of the company.
- It is a standard report – one cannot expect more (prudence).
- No negative comments are reported – if the auditor is unhappy about any aspect, he will not mention it here.
- Agrees with IFRS and the Companies Act.
- The auditors have not stated that the report is qualified or withheld. (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.

Any valid reason ✓✓
May allocate partial marks for partial, unclear or incomplete answers.

- Allen benefits from a very low price for an asset that is worth a lot more, so the company (and therefore the shareholders) are prejudiced as a result of this transaction (the sale of the asset resulted in a huge loss).
- It creates a bad precedent for the company (misuse of his position as a director); other employees may feel that they are entitled to similar benefits.
- The directors are not the owners of the company. The shareholders are the actual owners.
- There are also tax implications – the director should pay tax on this benefit.
- The transaction is not transparent – no discussion or declaration was made prior to the sale.

- The asset could still have been used in the company; the director had no right to take ownership of it. (2)

(b) Give ONE opinion to support Allen.

Any valid reason ✓✓

May allocate partial marks for partial, unclear or incomplete answers.

- The computer is already more than 3 years old, and computers have a relatively short lifespan.
- The computer is obsolete, and cannot be upgraded.
- The depreciation at 10% on cost price is unrealistic for computers, and should therefore have a lower NBV.

NB: Do not assume that the directors are the owners. (2)

TOTAL: 70

QUESTION 5

5.1 Match the components of the annual report in COLUMN 1 with the description in the COLUMN 2.

Column 1	Column 2
1	C ✓
2	E ✓
3	D ✓
4	A ✓
5	B ✓

(4)

5.2 Calculate the following financial indicators for 2009:

- **Acid-test ratio**
  R248 500 – R99 500 = R149 000 ✓✓
  R149 000 : R60 500 ✓ = 2,46 : 1 ✓ or 2,5 : 1
- **Stock turnover rate**
  R99 500 + R62 500 / 2 = R81 000 ✓✓
  R976 000 ✓ / R81 000 = 12 times p.a. ✓
- **Debt/equity ratio**
  R150 000 ✓: R1 657 040 ✓ = 0,09 : 1 ✓ or 0,1 : 1
- **Net asset value per share**
  R1 525 000 / 2 = 762 500 shares ✓✓
  R1 657 040 ✓ / 762 500 × 100 cents = 217,3 cents ✓
- **Earnings per share**
  R525 000 ✓ / 762 500 ✓ = 68,9 cents ✓ (18)

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

General comment ✓✓ Good = 2 Satisfactory = 1 No/invalid comment = 0

The liquidity is generally satisfactory although some of the indicators may be considered to be too high, e.g. current ratio should be lower; creditors should be paid in a shorter period.

Any THREE valid indicators named ✓✓✓

Ratios/percentages quoted for each ✓✓✓

Current ratio 2,1 : 1 → 4,1 : 1

Acid-test ratio 1,3 : 1 → 2,46 : 1

Stock turnover rate 8 times p.a. → 12 times p.a.

Debtors' collection period 30 → 30 days

Creditors' payment period 60 → 90 days (8)

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

Any THREE valid indicators named ✓✓✓

Ratios/percentages quoted for each ✓✓✓

Improvement in % return: 25% → 33,3%

Improvement in EPS: 55,2c → 68,9c

Increase in DPS: 10c → 20c (6)

5.5 Refer to the market value of the 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.

Responses may be expressed differently

Any valid explanation

Explanation ✓✓

Good = 2 Satisfactory = 1 No/invalid explanation = 0

- The market value is the price at which shares are currently being sold.
- When the market price is higher than the par value, it is an indication to the shareholders that the company is doing well. (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.

Authorised shares = 1 000 000

Issued shares = 1 525 000 / 2 = 762 500 ✓

Available shares = 1 000 000 – 762 500 = 237 500 ✓

Capital to be raised by the issue of unissued shares = 237 500 × R2 ✓ = R475 000 ✓ (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.

Any TWO valid indicators named ✓✓
Ratios/percentages quoted for each ✓✓

- Return on capital employed for 2009 = 44,3%
- Current interest rate = 13%
- Debt : equity ratio decreased from 0,1 : 1 to 0,09 : 1 (4)

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

Any valid comment ✓✓✓

- There must be transparency regarding what the directors earn.
- Shareholders have a right to know what directors earn. (3)

5.8 Refer to the newspaper article provided. 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.

Any TWO valid explanations ✓✓✓✓✓✓
Excellent = 3 Good = 2 Weak = 1 No/invalid explanation = 0

- A delay would cause shareholders to become suspicious.
- Shareholders would not vote for these directors next year.
- New shareholders will avoid the company and share prices could drop.
- The directors would be guilty of a criminal offence. In terms of the Company's Act they have to produce financial statements within three months.
- It will affect the ability to raise capital/loans in future, as investors will be suspicious. (6)

TOTAL: 55

QUESTION 6

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

		DEBTORS' COLLECTION		
Month	**Credit sales R**	**January 2010 R**	**February 2010 R**	**March 2010 R**
November 2009	360 000	64 800		
December 2009	540 000	270 000	✓✓ 97 200	
January 2010	450 000	129 600	✓✓ 225 000	✓✓ 81 000
February 2010	420 000		✓✓ 120 960	✓✓ 210 000
March 2010	420 000			✓ 120 960
TOTALS		**464 400**	**✓ 443 160**	**✓ 411 960**

(13)

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

Any two separate valid points in each instance

One mark each, figures do not need to be cited.

Expected answers include:

Advertising

Candidates should compare advertising with sales. ✓

- It has led to an increase in sales of R72 000.
- Sales have only increased by 12%.
- Sales increase by R72 000 (Credit sales are up by R152 000, cash sales down by R80 000.)

One other point ✓

- Overspending/underbudgeting by R10 000 (investigate reason)
- Overspending by 66%/underbudgeting by 66% (investigate reason)
- They used another advertising strategy, e.g. on television instead of in the press.

Repairs and maintenance (2)

Any two valid comments:

- Underspent/overbudgeted by R12 700
- Should consider if this is wise – fixed assets should not be neglected because they generate income for the business, and neglecting repairs will lead to increased expenses in the future.
- Repairs and maintenance of the equipment were well controlled and utilised, so costs were below budget. (2)

Delivery expenses

Candidates should compare delivery expenses with sales. ✓

- Does not tie up with sales, which increased by 12%, while the delivery expenses increased by 110%.
- Overspending of R22 000 led to an increase in sales of R72 000.

One other point ✓

- Overspent or underbudgeted by R22 000. They have spent more than double the budgeted amount.
- Investigate possible misuse/lack of adequate controls/weak strategies (e.g. outsourcing may be too expensive).
- Poor maintenance of vehicles has led to high fuel costs. (2)

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

Any valid explanations with regard to the number of customers, based on information of the question, e.g.:

Explain problem ✓ quote figures ✓ advice ✓✓ (may award partial marks)

(a) Explain problem, quote figures	**(b) Advice**
1. Credit sales were R152 000 more than expected, while cash sales were R80 000 less than expected. (This creates a cash flow problem.) 2. Debtors' collections were R225 812 less than budgeted. It is anticipated that bad debts will increase (2%) or that there will be additional administration costs.	Offer more attractive discounts to customers who are buying for cash. Assess debtors more carefully to assess their creditworthiness. OR Apply stricter credit terms before debtors may open accounts. OR Follow up on each debtor by sending statements, phoning for money or raising interest. OR Debtors should be encouraged to pay sooner – offer a settlement discount or raise interest on arrear amounts.

(8)

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.

Favourable or unfavourable balance?

Unfavourable ✓

Reason: ✓✓

- Debtors' collections are weak.
- Cash sales are way below the budgeted amount.
- Cash purchases on trading stock have increased.
- Cash purchases are more than cash sales and cash received from debtors.

Also accept:

- On average, the variances from the figures are negative.
- Delivery expenses
- Advertising

(3)

TOTAL: 30

TOTAL: 300