



ACCOUNTING

B U D G E T

GRADE 12



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA



Foreword

In order to improve learning outcomes the Department of Basic Education conducted research to determine the specific areas that learners struggle with in Grade 12 examinations. The research included a trend analysis by subject experts of learner performance over a period of five years as well as learner examination scripts in order to diagnose deficiencies or misconceptions in particular content areas. In addition, expert teachers were interviewed to determine the best practices to ensure mastery of the topic by learners and improve outcomes in terms of quality and quantity.

The results of the research formed the foundation and guiding principles for the development of the booklets. In each identified subject, key content areas were identified for the development of material that will significantly improve learner's conceptual understanding whilst leading to improved performance in the subject.

The booklets are developed as part of a series of booklets, with each booklet focussing only on one specific challenging topic. The selected content is explained in detail and include relevant concepts from Grades 10 - 12 to ensure conceptual understanding.

The main purpose of these booklets is to assist learners to master the content starting from a basic conceptual level of understanding to the more advanced level. The content in each booklets is presented in an easy to understand manner including the use of mind maps, summaries and exercises to support understanding and conceptual progression. These booklets should ideally be used as part of a focussed revision or enrichment program by learners after the topics have been taught in class. The booklets encourage learners to take ownership of their own learning and focus on developing and mastery critical content and skills such as reading and higher order thinking skills.

Teachers are also encouraged to infuse the content into existing lesson preparation to ensure in-depth curriculum coverage of a particular topic. Due to the nature of the booklets covering only one topic, teachers are encouraged to ensure learners access to the booklets in either print or digital form if a particular topic is taught.

Table of contents

1. How to use this study guide	3
2. Study and examination tips	4
3. Overview of the topic: budgeting	5
4. Unpacking the sections of the budget	8
4. Sales and collections from debtors	8
4.2 Purchases and payments to creditors	9
4.3 Unpacking the budget (calculations)	12
4.4 Analyzing and interpreting budget information	19
5. Check your answers	26
6. Message to grade 12 learners from the writers	36
7. Thank you	37
8. Answer book	38

1. How to use this study guide

The main intention of this study guide is to address the challenges with specific areas of subject content that was poorly answered in the past nsc papers. This is informed by the detailed question-by-question analysis and findings provided in the diagnostic reports. The material presented in this booklet focuses on the progression across the fet phase and the content overlap, as illustrated in the table below.

	GRADE 12	GRADE 10/11 (overlap)
Field 1: Financial Accounting	Companies <ul style="list-style-type: none"> • Concepts and bookkeeping • Financial Statements • Cash Flow, Ratios (analysis and interpretation) Reconciliations analysis Bank, Debtors and Creditors VAT	Bookkeeping (sole trader/ partnership) <ul style="list-style-type: none"> • Adjustments • Financial Statements • Ratios/ Interpretation Reconciliations prepare VAT concepts and calculations
Field 2: Managerial Accounting	Manufacturing concerns <ul style="list-style-type: none"> • Production Cost Statement • Unit cost calculations and break-even analysis Budgeting (analysis) <ul style="list-style-type: none"> • Projected Income Statement • Cash Budget 	Manufacturing <ul style="list-style-type: none"> • Concepts and ledger accounts • Break-even analysis Budgeting (prepare) <ul style="list-style-type: none"> • Concepts and preparation • Basic calculations
Field 3: Managing Resources	Stock valuation <ul style="list-style-type: none"> • FIFO, weighted average and specific identification Fixed asset management (analysis) Auditing, internal controls and ethics	Stock (clubs) <ul style="list-style-type: none"> • Perpetual and periodic Fixed assets (prepare) <ul style="list-style-type: none"> • Depreciation, disposal Auditing, internal controls and ethics

Grade 12 learners (and teachers) must first address prior knowledge (concepts and calculations), before moving to the more challenging aspects of analyzing, interpreting and commenting. The next logical step is to tackle examination-type questions with the understanding that all questions will make provision for the different cognitive levels.

This study guide provides:

- Explanatory notes comprising simple definitions, examples, formulae and short-cuts (handy hints).
- Short focus-activities to test specific skills and content.
- Application activities in the form of examination-type questions.
- Adapted questions from past examination papers.



Plan of Action:

- o You need to master the basic skills by using this manual, together with all other resources such as textbooks and study guides, to obtain more practice examples.
- o Test your knowledge by attempting a variety of examination questions.
- o Make notes of your shortcomings and start the process again until you are able to get the correct answers to the activities



2. Study and examination tips

Know the paper: General structure and layout.

- The Accounting paper is one 3-hour paper for 300 marks.
- It consists of 6 compulsory questions; the marks per question range from 30 to 80 marks. Each question comprises a number of sub-questions that catering for the different cognitive levels.
- The content covered must conform to the requirements of CAPS, as follows:

Financial Accounting	50% - 60%	150 – 180 marks
Managerial Accounting	20% - 25%	60 – 75 marks
Managing Resources	20% - 25%	60 – 75 marks

The trend in past papers was as follows:

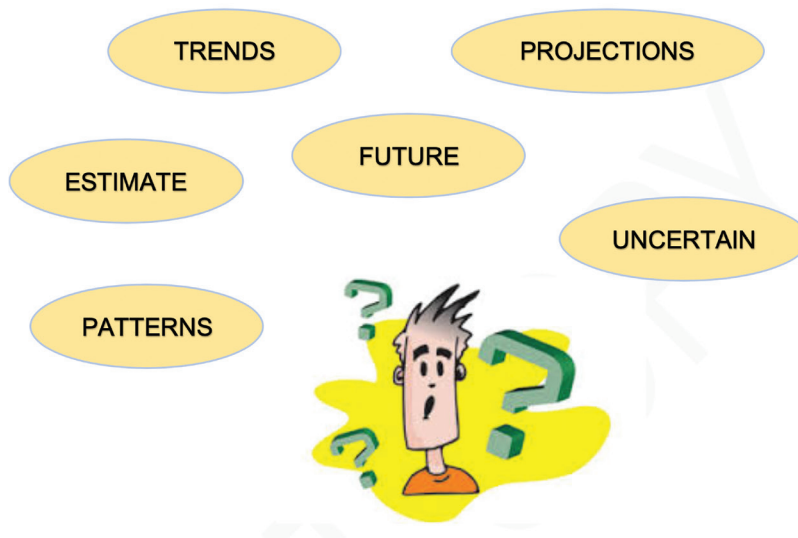
- Question 1, 2 and 6 are generally shorter questions (30 – 45 marks).
- Question 3 and 4 are generally the longer questions, comprising Financial Statements, the Cash Flow Statement and Interpretation.
- The question paper comes with a specially prepared ANSWER BOOK, with appropriate space, formatting and certain details, which means you can answer the questions in any order.

Strategy:

- √ Budgeting forms part of the Managerial Accounting field and, together with Manufacturing, it must constitute 20% – 25% of the paper.
- √ Past trends show that the topic is normally assessed in Question 5 or 6 and is 30 – 40 marks; ± 20 marks will require calculations and the balance will be on analysis and interpretation.
- √ Examiners will switch between the Cash Budget and the Projected Income Statement. There are subtle differences in interpretation, but the calculations are similar. (Detailed explanations are provided in Section 5 of this document).
- √ The calculations require good arithmetical ability, which is developed over a period of time, and starting in Grade 7.
- √ These skills must include calculating percentages, increases, decreases or specific amounts using equations.
- √ Interpretation requires good comprehension ability. Be mindful of the language of the paper, and practice using many past papers.

3. Overview of the topic: Budgeting

What are some of the words that come to mind?



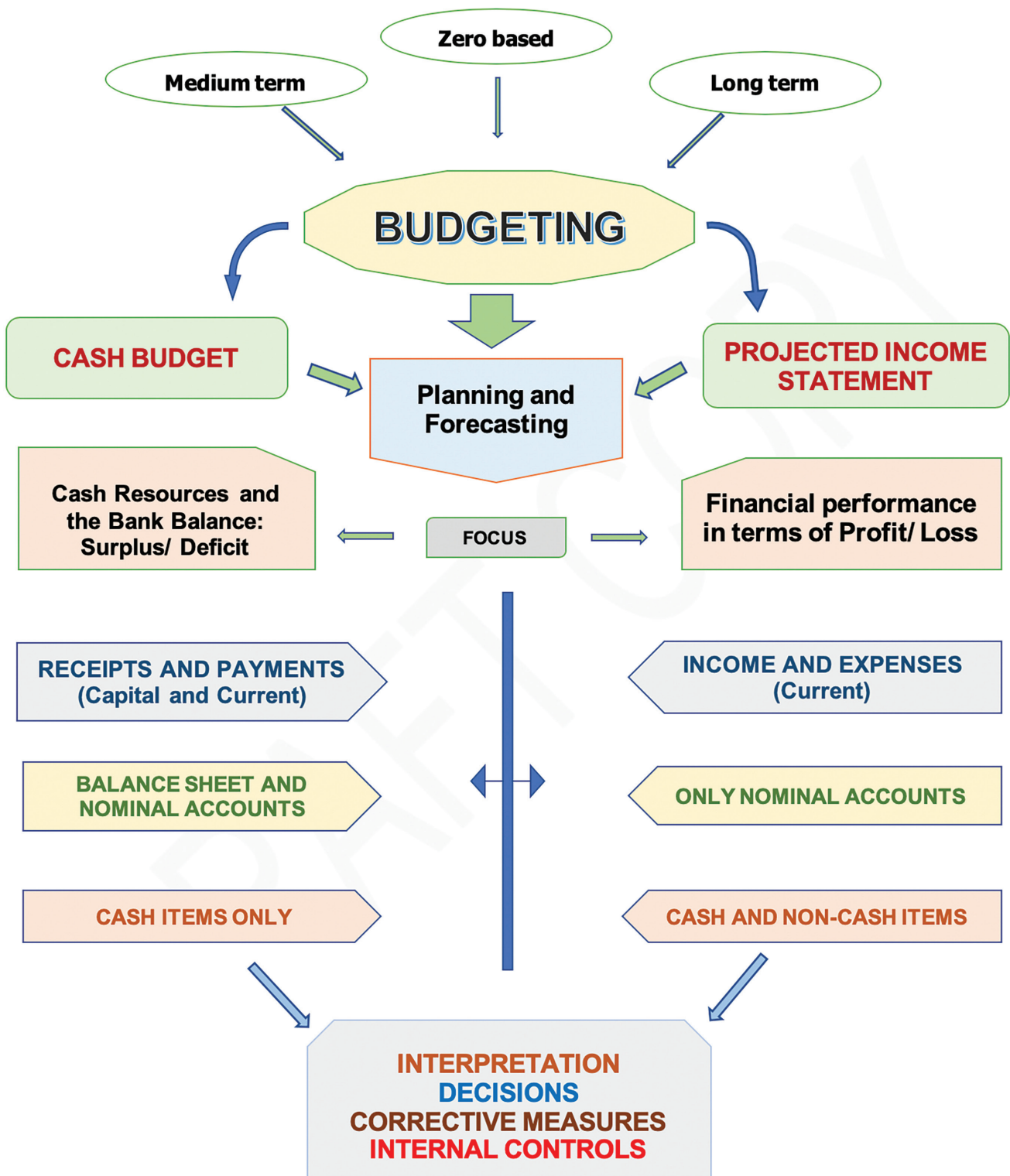
Discuss the words that are confusing Piet.

Make a list of other relevant words/ terms that came up in your discussion/ brainstorming session.

An **EXPLANATION** that highlights the purpose of budgeting:

Budgeting is an internal control tool that involves projecting business results, using existing business information as well as other external factors, making adjustments and taking decisions to achieve the objectives of the business.

Summary of the topic:



Start-up Activity: Do I understand the difference between Receipts, Payments, Income and Expenses?



Place the correct amount in the respective column/s. Amounts can apply to more than one column.

NO	INFORMATION	CASH BUDGET		PROJECTED INCOME STATEMENT	
		RECEIPT	PAYMENT	INCOME	EXPENSE
(a)	Cash sales are expected to be R7 400 per month at a 25% mark-up on cost.				
(b)	An old computer with a carrying value of R4 400 will be sold for R2 500 cash in the next month.				
(c)	Depreciation on equipment is estimated to be R950 per month.				
(d)	An annual insurance premium of R5 200 is paid by cheque. R1 200 of the payment is for the next financial year.				

What are we expected to cover in Grade 12?

• **Back to basics**

- o Concepts and terminology from previous Grades.
- o The difference between the Cash Budget and the Projected Income Statement.
- o Purpose of preparing a Cash Budget or a Projected Income Statement.

• **Arithmetical ability**

- o Calculate missing amounts in the budget.
- o Calculate amount/s for specific items using information from the budget, such as the loan balance or the total cost of a vehicle purchased.
 - ▶ The answers are usually:
 - specific amounts, percentages, increases, decreases or ratio relationships.

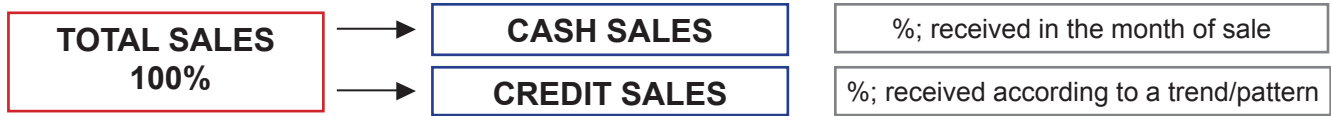
• **Analysis and Interpretation**

- o Compare Actual vs Budgeted figures:
 - ▶ Provide possible reasons for differences.
 - ▶ Provide solutions (internal controls).
- o Consider ethical issues in terms of cash management and adherence to the budget.
- o Problem solving:
 - ▶ Control of cash, debtors, creditors, stock
 - ▶ Business decisions such as buy/rent fixed assets, sales and profitability.



4. Unpacking the sections of the budget:

4.1 Sales and collection from debtors



EXAMPLE: Cash sales amounts to 30% of total sales.

Calculate the missing amounts.

	TOTAL SALES 100%	CASH SALES 30%	CREDIT SALES 70%
March	320 000	96 000	224 000
April	350 000		245 000
May	365 000	109 500	
June		120 000	

RECEIPT-TREND FROM DEBTORS: (Must equal 100% of credit sales)

- Percentage of credit sales, over 2, 3 or 4 months.
- First portion (part) collected in the month of sale or in the month following the sales month:
 - o Is there a discount offered for receipts in the first month?
 - o Is provision made for bad debts?

EXAMPLE: The trend in the way debtors settle their accounts is as follows:

20% pay in the month of sale and receive a 5% discount.

35% pay in the month following the month of sale.

40% pay two months after the sales month.

The balance are bad debts.

Debtors' Collection Schedule:

		Credit Sales R	20% May R	June R
Actual	March	224 000	89 600	
	April	245 000	85 750	98 000
Expected	May	255 000	101 854.5	89 425
	June	280 000		53 200
			223 895	240 625

224 000 Collected in:

March	April	May
20%	35%	40%

245 000 Collected in:

April	May	June
20%	35%	40%

255 500 Collected in:

May	June	July
20%	35%	40%

280 000 x 20% x 95%

4.2 Purchases and payments to creditors



At times, payment is made early to take advantage of a discount.

TOTAL PURCHASE AMOUNTS: (two possible options)

1. AMOUNTS ARE GIVEN									
Purchase amounts are provided in the question.									
Cash purchases are 20% of total purchases.									
Information:									
	March	April							
Sales	72 000	83 200							
Purchases	45 000	52 000							
			<table border="1"> <tr> <td>Cash Purchases</td> <td>20%</td> </tr> <tr> <td>March 45 000 x 20%</td> <td>9 000</td> </tr> <tr> <td>April 52 000 x 20%</td> <td>10 400</td> </tr> </table>	Cash Purchases	20%	March 45 000 x 20%	9 000	April 52 000 x 20%	10 400
Cash Purchases	20%								
March 45 000 x 20%	9 000								
April 52 000 x 20%	10 400								

2. COST OF SALES IS THE TOTAL AMOUNT PURCHASED									
The business maintains a base stock and stock is replaced monthly.									
Cash purchases are 20% of total purchases.									
The business uses a profit mark-up of 50% on cost.									
Information:									
	March	April							
Sales	102 000	88 500							
Purchases	?	?							
			<table border="1"> <tr> <td>Cash Purchases</td> <td>20%</td> </tr> <tr> <td>March 102 000 x 100/150 x 20%</td> <td>13 600</td> </tr> <tr> <td>April 88 500 x 100/150 x 20%</td> <td>11 800</td> </tr> </table>	Cash Purchases	20%	March 102 000 x 100/150 x 20%	13 600	April 88 500 x 100/150 x 20%	11 800
Cash Purchases	20%								
March 102 000 x 100/150 x 20%	13 600								
April 88 500 x 100/150 x 20%	11 800								

DO THE CALCULATIONS:

- The business maintains a base stock. Stock is replaced monthly.
 - Calculate the cash and credit purchases for the three months.
 - Identify the amount that will be paid in May 2017.
- Total sales:



2017		
March	April	May
R320 000	R350 000	R365 000

- Profit mark-up is **60%** on cost.
- 20%** of purchases are paid for in cash.
- Creditors are paid **two months after** the month of purchase.

	TOTAL SALES	COST OF SALES 100%	CASH PURCHASES 20%	CREDIT PURCHASES 80%
MARCH	320 000			
APRIL	350 000			
MAY	365 000			

Amount to be paid in May 2017:	
--------------------------------	--

LET'S PRACTICE: (Sales and Purchases)

The following information appeared in the books of **Mouse Traders**:

REQUIRED:

- 1.1 Complete the Debtors' Collection Schedule for June and July 2018.
- 1.2 Complete the section of the Cash Budget to show cash sales, cash from debtors, cash purchases and payments to creditors.

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:

- o The business maintains a base stock. Stock is replaced in the same month that sales take place.
- o Credit purchases makes up 60% of total purchases.
- o Creditors are paid two months after the month of purchase.

D. Schedule of total sales:

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

4.3 UNPACKING THE BUDGET: Examples of different calculations

	2017			
	January	February	March	
TOTAL RECEIPTS:	R	R	R	% of total sales
Cash sales	33 000	(i)	36 000	Refer Debtors Collection
Receipts from debtors	87 200	92 100	(ii)	
Rent income	9 200	(iii)		100+ the increase (x 108%)
Loan from partner (12%)	400 000	0	0	
TOTAL PAYMENTS:				% total purchase or the cost of sales
Cash purchases	18 500	(iv)	15 600	
Payments to creditors	22 600	24 300	(v)	Credit terms of supplier. Work back to previous month
Insurance		(vi)	2 457	
Interest on loan		4 000	(vii)	
Repayment of loan		40 000	40 000	
Salaries of sales assistants	9 040	9 040	(viii)	
Advertising	(ix)	?	1 080	Complex calculation
Sundry expenses	2 400	?	(x)	
SURPLUS/ DEFICIT	56 200	(xii)		
CASH BALANCE (OPENING)	(15 000)	(xi)		% of the previous month
Cash balance at end of month	41 200	39 500		

Working backwards:
(x100/105)

Based on loan amount, repaid
portion and rate (for 1 month)

% of another amount
on the budget

Change the signs when
working backwards

Closing balance of
previous month

ADDITIONAL INFORMATION:

(i)	Cash sales is 30% of total sales. February total sales is R130 000.	$130\ 000 \times 30\%$	39 000
(ii)	The amount must come from a Debtors Collection Schedule that must be prepared.		
(iii)	Rent income increases by 8% from 1 February 2017.	$9\ 200 \times 108\%$ $9\ 200 \times 8\% = 736; 9\ 200 + 736$	9 936
(iv)	Cash purchases accounts for 20% of total purchases. Total purchases for February 2017 is R81 000.	$81\ 000 \times 20\%$	16 200
(v)	Credit purchases are paid in 60 days (two months after purchase).	$18\ 500 \times 80/20$	74 000
(vi)	Insurance will increase by 5% in March.	$2\ 457 \times 100/105$	2 340
(vii)	The loan was received on 31 January 2017. A fixed instalment and interest are paid on the last day of each month. Interest is not capitalized.	$\frac{360\ 000}{(400\ 000 - 40\ 000) \times 12\% \times 1/12}$	3 600
(viii)	The business has four sales assistants; each earns the same wage. One sales assistant will receive a special bonus of 60% of her salary in March.	$9\ 040/4 = 2\ 260 \times 60\%$ $9\ 040 + 1\ 356$ $(3 \times 2\ 260) + (2\ 260 + 1\ 356)$	10 396
(ix)	Advertising is estimated at a fixed percentage of monthly cash sales.	$1\ 080/36\ 000 \times 100 = 3\%$; $33\ 000 \times 3\%$	990
(x)	Sundry expenses increase by 5% each month.	$2\ 400 \times 105\% = 2\ 520 \times 105\%$	2 646
(xi)	Closing balance for the previous month is the opening balance for the next month.		41 200
(xii)	Surplus/ Deficit + Opening balance = Closing Balance $y + 41\ 200 = 39\ 500$ $y = 39\ 500 - 41\ 200$		(1 700)

LET'S PRACTICE: (Calculations)

The following information appeared in the records of Abram Traders.

REQUIRED:

- 2.1 Complete the Debtors Collection Schedule.
- 2.2 Calculate the missing amounts in the budget for May and June.
- 2.3 Calculate the amount of the Fixed Deposit invested on 1 June.

INFORMATION:

A. Information for the budget period March – June 2018.

	ACTUAL		BUDGETED	
	MARCH	APRIL	MAY	JUNE
Sales (cash and credit)	148 500	168 000	142 500	?
Purchase of stock	99 000	112 000	?	103 000
Rent Income	11 200	11 200	?	?
Manager's Salary	15 400	15 400	?	?
Wages (Sales Assistants)	19 500	19 500	?	?
Advertising	?	?	?	2 438
Commission expense	4 455	5 040	4 275	?
Drawings	?	?	?	?
Interest on loan	3 600	3 600	?	?
Interest on fixed deposit	0	0	0	540
Sundry expenses	8 000	?	?	?

B. Additional Information:

- 25% of total sales are cash sales.
- Debtors pay according to the following trend:
 - 60% pay in the month following the transaction month.
 - 37% pay in the 2nd month after the transaction month.
 - 03% written off as bad debt.
- Stock is replaced in the month it was sold. A base stock is maintained.
 - o Goods are sold at a mark-up of 50% on cost.
 - o All purchases are made on credit. Creditors are paid in the following month and receive a 4% discount.
- Salaries and wages:
 - o The manager will receive a 10% increase on 1 June.
 - o The business employs three sales assistants on the same wage. They will receive a 6% inflationary increase on 1 May. One sales assistant will receive a bonus of 50% of her wages in June.
- Sundry expenses increase by 5% on the previous month.
- Rent income will increase by 9% on 1 May.
- Interest on loan is not capitalized. It is paid at the end of each month at 12% p.a. R50 000 of the loan will be paid on 31 May.
- The owner will draw R5 500 per month. R1 200 will comprise stock.
- The sales staff receive a commission equal to a fixed percentage of total sales.
- The advertising budget will increase by 6% on 1 June.
- A fixed deposit was invested on 1 June. Interest of 9% p.a. is receivable on 30 June.

ACTIVITY 1:

The information provided below relates to Brakpan Stationers.

REQUIRED:

- 1.1 Explain the importance of comparing budgeted figures with actual figures achieved for the same period. (2)
- 1.2 Calculate the missing amounts (indicated by a, b and c) in the Debtors' Collection Schedule for the budgeted period March to May 2015. (4)
- 1.3 Calculate the following budgeted figures:
- 1.3.1 Total sales for March 2015. (2)
 - 1.3.2 Payments to creditors during May 2015. (4)
 - 1.3.3 Salaries of the shop assistants for April 2015. (3)
 - 1.3.4 The % increase in the salary of the manager expected in May 2015. (3)
 - 1.3.5 Amount of the additional loan expected to be acquired on 1 April 2015. (3)
- 1.4 An official of the local municipality has offered to recommend Brakpan Stationers supply the municipality with 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? State TWO points. (4)
- 1.5 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 the figures to support your answer. Provide a valid reason for each over-payment to support the owner's decisions. (6)
 - Explain how the difference of opinion with his wife can be avoided in future. (2)
 - State TWO other strategies that the owner and his wife could consider in future to improve the results of the business. (2)

INFORMATION

A. Sales and debtors' collection:

- 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 cash sales. The rest of the sales are on credit.
- Debtors are expected to pay as follows:
 - 60% within the 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. Purchase of merchandise and payments to creditors:

- A fixed-stock base is kept, i.e. 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 who are employed on equal pay in March 2015. Nine of the shop assistants are entitled to a bonus equal to 80% of the monthly salary in April 2015.
- All shop assistants will receive a general increase in May 2015.

D. Loan:

An additional loan will be taken from Atlantic Bank on 1 April 2015. The interest rate is 14% p.a.

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
Collections 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 2:

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

REQUIRED:

- 2.1 List TWO items on the Projected Income Statement, that would not appear on a Cash Budget. (2)
- 2.2 Fill in the missing amounts denoted by A to E on the Projected Income Statement. (16)
- 2.3 Take the following additional information into account and calculate the following:
 - 2.3.1 The percentage increase in the wages of cleaners in December 2015. (4)
 - 2.3.2 The monthly salary due to the sales manager in December 2015. (4)
 - 2.3.3 Total credit sales expected in December 2015. (3)
 - 2.3.4 The balance of the loan on 1 November 2015. (3)

INFORMATION:

- A. The business uses a mark-up percentage of 60% on cost.
- B. Credit sales comprise 75% of total sales.
Sales are expected to increase by 10% per month and by 20% during December.
- C. 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.
- D. 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.
- E. Advertising expense per month is budgeted at a fixed percentage of total sales.
- F. Income tax is estimated to be 30% of the net profit before tax.

G. INFORMATION 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		?	?

4.4 ANALYSING AND INTERPRETING BUDGET INFORMATION

Frequently asked Questions (FAQ)

• **Comparing ACTUAL AMOUNTS to BUDGETED AMOUNTS.**

The difference is referred to as a **VARIANCE**.

ACTUAL AMOUNT	EXPLANATION
Well controlled	The actual amount is equal to or very close to the budgeted amount.
Over-budget	Under-spending. The amount is significantly lower than the budgeted amount.
Under-budget	Over-spending. The amount is significantly higher than the budgeted amount.

o Possible reason for the difference (variance).

o Possible solutions/ advice/ recommendations (internal controls).

ACTUAL AMOUNT	POSSIBLE REASON	SOLUTION/ADVICE
Well controlled	Well managed and communicated.	
Over-budget	Incorrect budgeting; trying to cut costs; lack of supervision; negligence. unrealistic budgeting.	Adjust the budget; do not attempt to cut the cost of essential services; always consult the budget.
Under-budget	Lack of supervision; no company rules; abusing privileges, unrealistic budgeting.	Investigate; set rules; supervise; adjust the budget if necessary.
	RELATE THE REASON/ ADVICE TO THE SPECIFIC ITEM BEING ANALYSED.	

EXAMPLE:

Kobus is concerned about the following items, which were under/ over budget for February 2016:

Item	Budgeted	Actual	Under/ over budget
Collections from debtors	174 200	61 800	Under
Payments to creditors	39 400	15 600	Under
Insurance	2 260	0	Under
Drawings	18 000	52 000	Over

Explain why each of the items reflects a problem for the business and advise Kobus regarding each case.

Item	Explanation
Collection from debtors	<p>Any two valid reasons ► Alternative valid answers acceptable.</p> <ul style="list-style-type: none"> • Collections are much lower than expected. • This will cause a cash flow problem. • Internal control of debtors is poor.
Payments to creditors	<p>Any two valid reasons ► Alternative valid answers acceptable.</p> <ul style="list-style-type: none"> • These are a lot lower than they should have been. • Suppliers will stop selling to the business. • Interest can be charged by the creditors. • Poor credit rating for the business.
Insurance	<p>Any two valid reasons ► Alternative valid answers acceptable.</p> <ul style="list-style-type: none"> • The policy will lapse (risk of being uninsured). • It will be difficult to replace assets. • There could be an increase in premiums in future.
Drawings	<p>Any two valid reasons ► Alternative valid answers acceptable.</p> <ul style="list-style-type: none"> • This puts strain on meeting more important business expenses, i.e. strain on cash resources. • This puts additional strain on the cash flow problem. • It is not ethical for the owner to draw more money while the business is struggling, e.g. increased loans, overdraft.

• OTHER INTERPRETIVE SCENARIOS:

- Related Receipts (income) and Payments (expenses)
 - o Sales is influenced and affected by Advertising, Delivery Expenses, Commission Expenses and Packing Material.
- **Rent or buy decisions**
 - o Property or fixed assets such as machinery. Take into consideration the availability of finance, the cost of borrowing, the long-term benefits of the asset etc.
- **Identifying steps taken by the owner to correct/ improve the cash-flow situation:**
 - o Observe the pattern of the cash balance (positive/ overdraft).
 - o Wasteful expenditure.
 - o Introduction of additional capital, loans or investments.

ACTIVITY 3:

Below is information relating to DIY Hardware. The business is owned by John Temba. His inexperienced bookkeeper, Mabel, has prepared a Cash Budget.

REQUIRED:

3.1 Identify TWO items that Mabel has incorrectly entered in the Cash Budget. (4)

3.2 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)

3.3 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)

3.4 Identify or calculate the missing figures C and D in the extract from the Cash Budget. (7)

3.5 Complete the Debtors' Collection Schedule for February 2013. (10)

3.6 Calculate the percentage increase in salary and wages from 1 February 2013. (2)

3.7 Calculate the interest on the fixed deposit for January 2013. (2)

3.8 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.

3.8.1 Calculate the delivery expense figure budgeted for January 2013. (2)

3.8.2 John is of the opinion that the delivery service is costing him too much. Which TWO points should John consider before deciding on whether or not to discontinue this service? (4)

3.9 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. (9)

JANUARY 2013		
	BUDGETED	ACTUAL
Advertising	1 600	0
Stationery	1 000	4 400
Staff training	2 000	700

3.10 John will have a problem with replacing 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 realizes 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, purchase of stock and cost of sales:

- Total sales for November 2012 to February 2013 were as follows:
 - o November: R150 000
 - o December: R200 000
 - o January: R160 000
 - o February: R140 000
- 60% of all sales are cash sales; the rest is credit sales.
- The mark-up is 33.3% 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, so as to receive a 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 expense for delivery 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

ACTIVITY 4:**(40 marks; 25 minutes)****4.1 Explain why:**

4.1.1 Depreciation and bad debts will not appear in a Cash Budget. (2)

4.1.2 A cash budget is different from a Projected Income Statement. (2)

4.2 KIT KAT DISTRIBUTORS LTD

You are provided with information for the budget period November and December 2018.

REQUIRED:

4.2.1 Complete the Debtors' Collection Schedule. (12)

4.2.2 Calculate the missing amounts in the Cash Budget denoted by (i) to (iv). (20)

4.2.3 Comment on the internal controls on collection from debtors and payment to creditors. Provide TWO points. (4)

INFORMATION:

A. Cash sales amount to 40% of total sales.

Goods are marked-up by 25% on cost.

B. Debtors are granted credit terms of 30 days. The actual collection trend revealed that:

- 50% of debtors pay in the month of the sale to receive a 5% discount.
- 30% is received in the month following the month of sales.
- 18% is collected in the second month after the sale.
- 2% of debtors is written off.

C. Stock is replaced in the month it was sold, i.e. a base stock is maintained.

D. 80% of stock is bought on credit. Creditors are paid in full in the month following the month the purchase was made.

E. Salaries and wages are expected to remain the same for the budget period. Staff members on leave in December will receive their pay in November – the total amount is R35 600.

F. A loan will be received from a director, Thabo, on 1 November 2018, at 13% interest p.a. Interest is not capitalised. A fixed monthly instalment and interest will be paid at the end of each month.

G. The company will pay an interim dividend in December.

H Rent increased by 8% on 1 November 2018.

I. Incomplete Debtors' Collection Schedule:

MONTH	CREDIT SALES	NOVEMBER	DECEMBER
September	180 000	32 400*	
October	186 000	55 800	*
November	*	92 625	*
December	210 000		*
TOTAL		*	*

J. Information from the Projected Income Statement:

	NOVEMBER 2018
Sales	325 000
Cost of sales	260 000
Commission income	24 800
Depreciation	12 600
Interest expense	1 625

K Incomplete Cash Budget for 2018:

RECEIPTS	NOVEMBER	DECEMBER
Cash sales	130 000	(i)
Cash from debtors		
Commission income	24 800	26 000
Rent income	(ii)	19 710
Loan from director Thabo	150 000	0
TOTAL RECEIPTS		
PAYMENTS		
Cash purchases of stock	52 000	56 000
Payments to creditors	(iii)	208 000
Directors fees	20 000	20 000
Salaries and wages	180 600	(iv)
Loan instalment (including interest)	13 625	(v)
Interim dividends	0	86 500
Sundry expenses	15 875	16 510
TOTAL PAYMENTS		

5. CHECK YOUR ANSWERS

Start-up Activity

Place the correct amount in the respective column/s.

Note that amounts can go in more than one column.

NO	INFORMATION	CASH BUDGET		PROJECTED INSOMCE STATEMENT	
		RECEIPT	PAYMENT	INCOME	EXPENSE
(a)	Cash sales are expected to be R7 400 per month at a 25% mark-up on cost.	7 400		7 400	5 920
(b)	An old computer with a carrying value of R4 400 will be sold for R2 500 cash in the next month.	2 500			1 900
(c)	Depreciation on equipment is estimated to be R950 per month.				950
(d)	An annual insurance premium of R5 200 is paid by cheque. R1 200 is for the next financial year.		5 200		4 000

EXAMPLE: Cash sales amounts to 30% of total sales.
Calculate the missing amounts.

	TOTAL SALES 100%	CASH SALES 30%	CREDIT SALES 70%
March	320 000	96 000	224 000
April	350 000	105 000	245 000
May	365 000	109 500	255 500
June	400 000	120 000	280 000

Debtors' Collection Schedule:

		Credit Sales R	2017	
			May R	June R
Actual	March	224 000	89 600	
	April	245 000	85 750	98 000
Expected	May	255 000	48 545	89 425
	June	280 000		53 200
			223 895	240 625

DO THE CALCULATIONS: PURCHASES AND PAYMENTS TO CREDITORS

	TOTAL SALES	COST OF SALES 100%	CASH PURCHASES 20%	CREDIT PURCHASES 80%
MARCH	320 000	320 000 x 100/160 200 000	40 000	160 000
APRIL	350 000	350 000 x 100/160 218 750	43 750	175 000
MAY	365 000	365 000 x 100/160 228 125	45 625	182 500
Amount to be paid in May 2017			160 000	

1.1 LET'S PRACTICE: (Sales and Purchases)

MONTH	CREDIT SALES	MAY	JUNE	JULY
March	49 000	8 820		
April	58 800	29 400	10 584	
May	51 800	14 763	25 900	9 324
June	63 000		17 955	31 500
July	56 000			15 960
CASH FROM DEBTORS		52 983	54 439	56 784

1.2 CASH BUDGET (EXTRACT)

CASH RECEIPTS	MAY	JUNE	JULY
Cash sales	12 950	15 750	14 000
Cash from debtors	52 983	54 439	56 784
CASH PAYMENTS			
Cash purchases of stock	14 800	18 000	16 000
Payments to creditors	21 000	25 200	22 200

Workings: Calculation of the cost of sales and credit purchases:

	MARCH	APRIL	MAY	JUNE	JULY
Sales	R61 250	R73 500	R64 750	R78 750	R70 000
Cost of Sales x 100/175	35 000	42 000	37 000	45 000	40 000
Credit Purchases COS x 60%	21 000	25 200	22 200	27 000	24 000

LET'S PRACTICE (Calculations)

2.1 DEBTORS COLLECTION SCHEDULE

MONTHS	CREDIT SALES		MAY	JUNE
March	111 375		52 725	
April	126 000		75 600	46 620
May	106 875			64 125
June				
			128 325	111 745

2.2 CASH BUDGET FOR THE PERIOD 1 MAY – 30 JUNE

	MAY	JUNE
Cash sales	35 625	38 625
Cash from debtors	128 325	111 745
Rent income	12 208	12 208
Payments to creditors	107 520	91 200
Manager's salary	15 400	16 940
Wages (shop assistants)	20 670	24 115
Interest on loan	3 600	3 100
Commission expense	4 275	4 635
Sundry expenses	8 820	9 261
Advertising	2 300	2 438
Drawings	4 300	4 300

2.3

Calculate the amount of the Fixed Deposit invested on 1 June.

$$540 \checkmark \times 12 \checkmark = 72\,000 \checkmark$$

$$9\% \checkmark$$

ACTIVITY 1: BRAKPAN STATIONERS

1.1

Explain the importance of comparing budgeted figures with actual figures achieved for the same period.

One valid explanation

Deviations can be determined and remedial measures can be put in place.

Establish whether the budgeting was realistic.

To identify trends of mismanagement of cash.

2

1.2

Calculate the missing amounts (indicated by a, b and c) in the Debtors' Collection Schedule for the budgeted period March to May 2015

a	6 048
b	5 320
c	15 750

4

1.3.1

Calculate budgeted total sales for March 2015.

$$10\,500 \times 100/20 = 52\,500$$

2

1.3.2

Calculate the amount budgeted for payments to creditors during May 2015.

40 000

$$70\,000 \times 100/175 \times 70\% = 28\,000 \text{ any one part correct}$$

or

$$12\,000/30 \times 70 = 28\,000$$

4

1.3.3

Calculate the budgeted salaries of the shop assistants for April 2015.

$$102\,000/12 = 8\,500 \quad 8\,500 \times 3 = 25\,500$$

$$15\,300 \times 9 = 137\,700$$

$$25\,500 \checkmark + 137\,700 \checkmark = 163\,200 \checkmark \text{ any one part correct}$$

$$\text{OR: } 102\,000 \text{ one mark} + 61\,200 \text{ one mark} = 163\,200$$

$$(102\,000 \times 80\% \times 9/12)$$

3

1.3.4

Calculate the % increase in the salary of the manager expected in May 2015.

3 200 (1 mark)

$$(19\,200 - 16\,000) \checkmark / 16\,000 \checkmark = 20\% \checkmark \text{ any one part correct}$$

3

1.3.5

Calculate the amount of the additional loan expected to be acquired on 1 April 2015.

$$875 \checkmark \times (100 \times 12) / 14 \checkmark = 75\,000 \checkmark \text{ any one part correct}$$

3

1.4

An official of the local municipality has offered to recommend that Brakpan Stationers supply the municipality with stationery to the value of R500 000. However, he will only do this if he is paid R20 000 in cash. Give advice in this regard. State TWO points.

Any two suggestions ✓✓ ✓✓

- This is actually a bribe, which is unethical.
- If this information is made public, it will have a negative effect on the business.
- The owner must submit a formal tender to secure a contract through the normal processes.

4

1.5

Identify THREE over-payments made in April. Provide figures to support your answer. Provide a valid reason for each over-payment to support the decision taken.

	Over-payment with figures Item and figure ✓ ✓ ✓	Valid reason ✓ ✓ ✓
1	The bonus paid to the manager in February 2015 (R24 000) was not taken into account.	He has retained the services of a valuable employee.
2	Purchase of vehicle (R180 000).	The difference between motor vehicle expenses and delivery expenses is R5 200 per month.
3	Cash purchase of merchandise (R28 000) was significantly higher than the budgeted figure (R12 000).	Possibly to take advantage of discounts on bulk purchases.

6

1.6

Explain how this difference of opinion with his wife can be avoided in future.

They should have a specific meeting to determine the budget jointly and the owner should consult his wife before spending on unbudgeted items. ✓✓

2

State TWO other strategies that the owner and his wife could consider in future to improve the results of the business.

Any two valid points: ✓ ✓

- Advertise monthly. / Reduce the number of shop assistants.
- Reinstate deliveries to customers. / Negotiate longer credit terms with suppliers.

2

ACTIVITY 2 : DAWN DISTRIBUTORS

2.1

Identify TWO items that Mabel has incorrectly entered in the Cash Budget.

Any TWO ✓ ✓

Cost of sales / Discount received / Depreciation / Trading stock deficit

2

2.2

A	Gross profit	$120\,000 - 75\,000 = 45\,000$ ✓✓	
B	Cost of sales	$132\,000 \checkmark \times \frac{100}{160} \checkmark \checkmark = 82\,500 \checkmark$ Or $132\,000 \times 62,5\%$ or $132\,000 - (132\,000 \times 37,5\%)$	
C	Advertising	$\frac{2\,400}{120\,000} = 2\%$ $132\,000 \checkmark \times 2\% \checkmark \checkmark = 2\,640 \checkmark$	
D	Salaries	$17\,100 \times 108\% = 18\,468$ ✓✓ Or $17\,100 + 1\,368 = 18\,468$	
E	Net Profit after tax	17 040 $(17\,625 - 585) \times 30\% = 5\,112$ $17\,040 \checkmark - 5\,112 \checkmark \checkmark = 11\,928 \checkmark$	16

2.3.1

The percentage increase in wages that the cleaners will receive in December 2015.

$$\frac{176 \checkmark \checkmark}{(3\,376 - 3\,200) \checkmark} \times 100 = 5,5\% \checkmark \quad (\text{one part correct})$$

4

2.3.2

The monthly salary due to the Sales Manager in December 2015.

$$\frac{(17\,100 - 300)}{2} = 8\,400 \quad (8\,400 \checkmark + 300 \checkmark) \times 108\% \checkmark = 9\,396 \checkmark$$

(one part correct)

4

2.3.3

Total credit sales expected in December 2015.

$$(99\,000 \checkmark \times 160\% \checkmark) \times 75\% = 118\,800 \checkmark \quad (\text{one part correct}) \quad \text{OR}$$

$$132\,000 \times 120\% = 158\,400 \times 75\% = 118\,800$$

3

2.3.4

The balance of the loan on 1 November 2015.

$$585 \checkmark \times 1200/9 \checkmark = 78\,000 \checkmark \quad (\text{one part correct})$$

3

ACTIVITY 3: DIY HARDWARE

3.1

Identify TWO items that Mabel has incorrectly entered in the Cash Budget.

Two items ✓✓ ✓✓

- Depreciation
- Furniture bought on credit

4

3.2

Apart from the items above, name TWO other items in the Payments Section of the Cash Budget that would NOT appear in a Projected Income Statement.

Any two items ✓✓ ✓✓

Expected responses:

Payment to creditors / Repayment of loan / Purchase of vehicle / Drawings

Cash purchases of stock

4

3.3

Identify or calculate A and B. Indicate negative figures in brackets.

A	R35 350
B	(R17 050)

3

3.4

Identify or calculate the missing figures C and D in the extract from the Cash Budget

C	$160\ 000 \checkmark \times 100/133\frac{1}{3} \checkmark = 120\ 000$; $120\ 000 \times 50\% \checkmark = R60\ 000 \checkmark$
D	$60\ 000 \checkmark \times 95\% \checkmark = 57\ 000 \checkmark$ any one part correct

3.5

Complete the Debtors' Collection Schedule for February 2013.

	Credit sales	February collections
December	R80 000	✓✓ 14 400
January	✓✓ R64 000	✓✓ 32 000
February	R56 000	✓✓ 16 800
TOTAL	operation	✓✓ 63 200

10

3.6

Calculate the % increase in salary and wages with effect from 1 February 2013.

$$1\ 800 / 15\ 000 \times 100 = 12\% \checkmark\checkmark$$

2

3.7

Calculate interest on the fixed deposit for January 2013.

$$42\ 000 \times 7\% / 12 = R245 \checkmark\checkmark$$

2

3.8.1

Calculate delivery expenses for January 2013.

R160 000 x 8% = R12 800 ✓✓

2

3.8.2

John is of the opinion that the delivery service is costing him too much. Which TWO points should John consider before deciding whether or not to discontinue this service?

Two factors ✓✓ ✓✓

- Whether his competitors are offering the service or not.
- What the reaction from his customers will be should he withdraw the service.
- The possibility of charging customers for the delivery service.
- The possibility of finding a cheaper delivery service.
- The possibility of using his own vehicle instead of sub-contracting this service.

4

3.9

Explain what you would say to John about each item at the end of January 2013. Give ONE point of advice in each case.

	Comment	Advice
Advertising	As he did not spend any money on Advertising, this will probably mean that he will not achieve budgeted sales.	Make sure that he utilises the advertising budget fully each month. (It is there for a purpose.)
Stationery	He spent significantly more than the budgeted figure.	Ensure that there is no wastage of stationery. / Keep unused stationery secured. / Find a cheaper supplier.
Staff training	He under-spent on the budget, which means that staff might not be interacting well with customers.	He must consider that staff training affects the manner in which staff interact with customers. This leads to efficiency and goodwill.

6

3.10

Consider each of the options below and explain **ONE** other advantage and **ONE** disadvantage related to each option.

	Other Advantage	Diadvantage
Option 1: Raise a new loan to be repaid over 36 months. The interest rate is 14% p.a..	He will own the assets and they could last longer than five years if he takes good care of them.	He has to pay interest of R1 750 per month + R4 167 per month to repay the loan.
Option 2: Hire (lease) the assets from IT Connect Ltd at R5 100 per month.	He does not have to raise a loan. / He does not have to pay interest on the loan./ He will not have to pay repair costs.	The lease charges are expensive, at R5 100 per month (R306 000 over the expected life span of five years.) / He never owns the assets and so continues to pay.
Option 3: Invite his friend James to become an equal partner in the business and to provide capital of R150 000.	He will have the necessary funds to purchase the assets which will then belong to, the business / They will share the workload and their skills.	He will have to share half his profits with his new partner.

6

ACTIVITY 4 :

4.1 Explain why:

4.1.1

Depreciation and bad debts will not appear in a Cash Budget.

Any valid explanation. ✓✓

Non-cash items are not included in a cash budget.

A cash budget only includes cash receipts and cash payments.

2

4.1.2

A cash budget is different from a Projected Income Statement.

Any valid explanation. ✓✓

A cash budget includes receipts and payments and shows plans for cash management. It shows the surplus/ deficit and the bank balance.

The PIS shows income and expenses (including non-cash items) and projects the profit or loss per month (for the budget period).

2

4.2 KIT KAT DISTRIBUTORS LTD

4.2.1

MONTHS	CREDIT SALES	NOVEMBER	DECEMBER
September	180 000	32 400	
October	186 000	55 800	33 480
November	195 000	92 625	58 500
December	210 000		99 750
Total collection from debtors		180 825 ✓	191 730

4

4.2.2 Calculate:

	WORKINGS	ANSWER
(i)	Cash sales for December: $210\ 000 \times 40/60$	140 000 ✓✓
(ii)	Rent income amount for November: $19\ 710 \checkmark \times 100/108 \checkmark$	18 250 ✓
(ii)	Payments to creditors for November: $186\ 000 \times 100/60 = 310\ 000 \checkmark \checkmark$ $310\ 000 \times 100/125 = 248\ 000 \checkmark \checkmark$ $248\ 000 \times 80\% \checkmark$	198 400 ✓
(iii)	Salaries and wages for December: $180\ 600 \checkmark - 35\ 600 \checkmark - 35\ 600 \checkmark$	109 400 ✓
(iv)	Loan instalment (including interest) for December: $138\ 000 \checkmark \checkmark \checkmark$ $(13\ 625 - 1\ 625) + (150\ 000 - 12\ 000) \times 13\% \times 1/12$ $12\ 000 \checkmark$ 1 495 (three marks)	13 495 ✓

2

3

6

4

5

4.2.3

Comment on the internal controls for collection from debtors and payments to creditors. Provide TWO points.

Any TWO valid points. ✓✓ ✓✓

- Only 50% of the debtors comply with the credit terms.
- The cash from debtors does not cover the payments to creditors every month.
- 80% of stock is bought on credit. / Only 20% is cash purchase of stock.
- As cash sales is a greater percentage of total sales, it may be wise to increase the percentage of cash purchases.
- Taking advantage of short-term credit is only beneficial if it eases cash-flow problems.

4

6. Message to grade 12 learners from the writers

**“Begin with the end in mind.”
Stephen Covey**

At the end of your journey in the GET phase, you were required to choose a subject set that will shape your career path. Hopefully, your choice was based on your aptitude, ambition and desire to become a successful individual, with a comfortable standard of living.

Let's be frank! Accounting is not for the faint-hearted. There are NO short-cuts. Success in Accounting demands hard work and dedication, but the rewards are satisfying.

The questions and topics covered in the examination papers are very predictable. You need to just extract the NSC papers for the last three years from the internet and compare the questions. If you do this, you will become familiar with the commonly asked questions and the style and format of the paper. You will also gain insight into the different ways in which questions can be asked.

Practice every day, do not be afraid to ask questions, engage in group studies and attend the many intervention programmes organized by your school and your Department of Education.

Effective planning will ensure that you:

Know the rules of the game and play it better than others.



7. Thank you

This Accounting module on the Analysis and Interpretation of financial information was developed by Mr P Govender, Mr A Leeuw, Mr M.P Shabalala, Mr Dorian Olifant and Ms ZJM Mampana (Subject Specialists, PED)

A special mention must be made of Mr Mzikaise Masango, the DBE curriculum specialist who, in addition to his contribution to the development of the guide, also coordinated and finalised the process.

These officials contributed their knowledge, experience and in some instances unpublished which they have gathered over the years to the development of this resource. The Department of Basic Education (DBE) gratefully acknowledges these officials for giving up their valuable time, families and expertise to develop this resource for the children of our country.

Administrative and logistical support was provided by Mr Noko Malope and Ms Vhuhwavho Magegeda. These officials were instrumental in the smooth and efficient management of the logistical processes involved in this project.

Look out for more modules that deal with other topics of the Grade 12 syllabus.

ANSWER BOOK

Start-up Activity:

Place the correct amount in the respective column/s.
Note that amounts can go in more than one column.

NO	INFORMATION	CASH BUDGET		PROJECTED INCOME STATEMENT	
		RECEIPT	PAYMENT	INCOME	EXPENSE
(a)	Cash sales are expected to be R7 400 per month at a 25% mark-up on cost.				
(b)	An old computer with a carrying value of R4 400 will be sold for R2 500 cash in the next month.				
(c)	Depreciation on equipment is estimated to be R950 per month.				
(d)	An annual insurance premium of R5 200 is paid by cheque. R1 200 is for the next financial year.				

EXAMPLE: Cash sales amounts to 30% of total sales.
Calculate the missing amounts.

	TOTAL SALES 100%	CASH SALES 30%	CREDIT SALES 70%
March	320 000	96 000	224 000
April	350 000		245 000
May	365 000	109 500	
June		120 000	

Debtors' Collection Schedule:

		Credit Sales R	2017	
			May R	June R
Actual	March	224 000	89 600	
	April	245 000	85 750	
Expected	May	255 000	48 545	
	June	280 000		
			223 895	

DO THE CALCULATIONS: PURCHASES AND PAYMENTS TO CREDITORS

	TOTAL SALES	COST OF SALES 100%	CASH PURCHASES 20%	CREDIT PURCHASES 80%
MARCH	320 000			
APRIL	350 000			
MAY	365 000			

Amount to be paid in May 2017	
-------------------------------	--

LET'S PRACTICE: (Sales and Purchases)

1.1 DEBTORS COLLECTION SCHEDULE:

MONTH	CREDIT SALES	MAY	JUNE	JULY
March	49 000	8 820		
April	58 800	29 400		
May	51 800	14 763	25 900	9 324
June			17 955	
July	56 000			
CASH FROM DEBTORS		52 983		

1.2 CASH BUDGET (EXTRACT)

CASH RECEIPTS	MAY	JUNE	JULY
Cash sales	12 950		
Cash from debtors	52 983		
CASH PAYMENTS			
Cash purchases of stock	14 800		
Payments to creditors	21 000		

Workings: Calculation of the cost of sales and credit purchases:

	MARCH	APRIL	MAY	JUNE	JULY
Sales	R61 250	R73 500	R64 750	R78 750	R70 000
Cost of Sales					
Credit Purchases					

LET'S PRACTICE (Calculations)

2.1 DEBTORS COLLECTION SCHEDULE

MONTHS	CREDIT SALES		MAY	JUNE
March	111 375			
April				
May	106 875			
June				

2.2 CASH BUDGET FOR THE PERIOD 1 MAY – 30 JUNE

	MAY	JUNE
Cash sales	12 950	
Cash from debtors	52 983	
Rent income		
Payments to creditors		
Manager's salary	14 800	
Wages (shop assistants)	21 000	
Interest on loan		
Commission expense		
Sundry expenses		
Advertising		
Drawings		

2.3:

Calculate the amount of the Fixed Deposit invested on 1 June.

ACTIVITY 1: BRAKPAN STATIONERS

1.1

Explain the importance of comparing budgeted figures with actual figures achieved for the same period.

2

1.2

Calculate the missing amounts (indicated by a, b and c) in the Debtors' Collection Schedule for the budgeted period March to May 2015.

a	
b	
c	

4

1.3.1

Calculate budgeted total sales for March 2015.

2

1.3.2

Calculate the amount budgeted for payments to creditors during May 2015.

2

1.3.3

Calculate the budgeted salaries of the shop assistants for April 2015.

3

1.3.4

Calculate the % increase in the salary of the manager expected in May 2015.

3

1.3.5

Calculate the amount of the additional loan expected to be acquired on 1 April 2015.

3

1.4

An official of the local municipality has offered to recommend that Brakpan Stationers supply the municipality with stationery to the value of R500 000. However, he will only do this if he is paid R20 000 in cash. Give advice in this regard. State TWO points.

4

1.5

Identify **THREE** over-payments made in April. Provide figures to support your answer. Provide a valid reason for each over-payment to support the decision taken.

	Over-payment with figures	Valid reason
1		
2		
3		

6

Explain how this difference of opinion with his wife can be avoided in future.

6

State **TWO** other strategies that the owner and his wife could consider in future to improve the results of the business.

6

ACTIVITY 2 : DAWN DISTRIBUTORS

2.1

Identify TWO items that Mabel has incorrectly entered in the Cash Budget.

2

2.2

A	Gross profit		
B	Cost of sales		
C	Advertising		
D	Salaries		
E	Net Profit after tax		16

2.3.1

The percentage increase in wages that the cleaners will receive in December 2015.

4

2.3.2

The monthly salary due to the Sales Manager in December 2015.

4

2.3.3

Total credit sales expected in December 2015.

3

2.3.4

The balance of the loan on 1 November 2015.

3

ACTIVITY 3: DIY HARDWARE

3.1

Identify TWO items that Mabel has incorrectly entered in the Cash Budget.

4

3.2

Apart from the items above, name TWO other items in the Payments Section of the Cash Budget that would NOT appear in a Projected Income Statement.

4

3.3

Identify or calculate A and B. Indicate negative figures in brackets.

A	
B	

3

3.4

Identify or calculate the missing figures C and D in the extract from the Cash Budget

C	
D	

7

3.5

Complete the Debtors' Collection Schedule for February 2013.

	Credit sales	February collections
December	R80 000	
January		
February	R56 000	
TOTAL		

10

3.6

Calculate the % increase in salary and wages with effect from 1 February 2013.

2

3.7

Calculate interest on the fixed deposit for January 2013.

2

3.8.1

Calculate delivery expenses for January 2013.

2

3.8.2

John is of the opinion that the delivery service is costing him too much. Which TWO points should John consider before deciding whether or not to discontinue this service?

4

3.9

Explain what you would say to John about each item at the end of January 2013. Give ONE point of advice in each case.

	Comment	Advice
Advertising		
Stationery		
Staff training		

6

3.10

Consider each of the options below and explain ONE other advantage and ONE disadvantage related to each option.

	Other Advantage	Disadvantage
Option 1: Raise a new loan at an interest rate of 14% p.a. to be repaid over 36 months		
Option 2: Hire (lease) the assets from IT Connect Ltd at R5 100 per month		
Option 3: Invite his friend James to become an equal partner in the business and provide capital of R150 000		

6

ACTIVITY 4:**4.1 Explain why:****4.1.1**

Depreciation and bad debts will not appear in a Cash Budget.	
	2

4.1.2

A cash budget is different from a Projected Income Statement.	
	2

4.2 KIT KAT DISTRIBUTORS LTD**4.2.1**

MONTHS	CREDIT SALES	NOVEMBER	DECEMBER	
September	180 000			
October	186 000	55 800		
November		92 625		
December	210 000			
Total collection from debtors				12

4.2.2. Calculate:

	WORKINGS	ANSWER	
(i)	Cash sales for December:		2
(ii)	Rent income amount for November:		3
(ii)	Payments to creditors for November:		6
(iii)	Salaries and wages for December:		4
(iv)	Loan instalment (including interest) for December:		5

4.2.3

Comment on the internal controls for collection from debtors and payments to creditors. Provide TWO points.

4



ACCOUNTING

BUDGETING

GRADE 12

Department of Basic Education
222 Struben Street, Pretoria, 0001
Private Bag X895, Pretoria, 0001, South Africa
Tel: (012) 357 3000 Fax: (012) 323 0601

Hotline: 0800 202 933

website
www.education.gov.za

facebook
www.facebook.com/BasicEd

twitter
www.twitter.com/dbe_sa

ISBN NO. 978-1-4315-3285-8