

**TIME: 2 HOURS**  
**TOTAL: 100 MARKS**

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**READ THE FOLLOWING INSTRUCTIONS CAREFULLY**

1. This paper consists of 4 pages. Please check that your question paper is complete.
2. You may not use green or red ink. **You may use a pencil, but please use a soft, dark pencil.**
3. Workings must be shown in order to achieve part-marks.
4. The allocation of marks and the appropriate time to be taken for each question are as follows:

<b>Question 1: Management Accounting (41 marks; 49 minutes)</b>	
<b>Learning Outcome</b>	<b>Assessment standards</b>
Managerial Accounting Managing resources	<ul style="list-style-type: none"><li>• Prepare, analyse and interpret projected income statement and cash budget for a sole trader and also in a manufacturing environment</li><li>• Apply internal control and internal audit processes in a business environment.</li></ul>
<b>Question 2: Bank Reconciliations (34 marks; 41 minutes)</b>	
<b>Learning Outcome</b>	<b>Assessment standards</b>
Financial information Managing resources	<ul style="list-style-type: none"><li>• Analyse and interpret Bank, Debtors and Creditors reconciliations</li><li>• Apply internal control and internal audit processes in a business environment.</li></ul>
<b>Question 3: Case Study (25 marks; 30 minutes)</b>	
<b>Learning Outcome</b>	<b>Assessment standards</b>
Financial information Managing resources	<ul style="list-style-type: none"><li>• Analyse and interpret financial statements.</li><li>• Apply internal control and internal audit processes in a business environment.</li></ul>

**QUESTION 1 MANAGEMENT ACCOUNTING****41 MARKS; 49 MINUTES**

You are provided with an incomplete Cash Budget and additional information in respect of JJ Suppliers, a small trading business owned by JJ Jackson.

**REQUIRED**

Refer to the Cash Budget and answer the questions that follow.

**INFORMATION**

CASH BUDGET OF JJ SUPPLIERS FOR THE PERIOD 1 SEPTEMBER 2008 TO 31 DECEMBER 2008

	September	October	November	December
<b>CASH RECEIPTS</b>				
Cash sales	155 000	144 000	108 000	126 000
Cash receipts from debtors	0	0	18 000	71 400
Rent income	4 200	4 200	5 000	0
Sale of part of shop premises	0	0	380 000	0
Capital	0	185 000	0	0
<b>TOTAL RECEIPTS</b>	<b>159 200</b>	<b>333 200</b>	<b>511 000</b>	<b>197 400</b>
<b>CASH PAYMENTS</b>				
Cash purchases of stock	22 500	24 000	30 000	35 000
Payments to creditors	46 000	67 500	72 000	?
Salaries and wages	48 000	48 000	?	?
Motor vehicle expenses	12 000	13 000	14 000	15 000
Telkom and cell phone costs	8 000	9 000	11 000	15 000
Drawings	6 000	6 000	12 000	12 000
Sundry expenses	50 500	25 000	?	61 500
<b>TOTAL PAYMENTS</b>	<b>193 000</b>	<b>192 500</b>	<b>250 800</b>	<b>285 800</b>
<b>CASH SURPLUS/DEFICIT</b>	<b>(33 800)</b>	<b>140 700</b>	<b>260 200</b>	<b>?</b>
<b>BANK OPENING BALANCE</b>	<b>(60 000)</b>	<b>(93 800)</b>	<b>46 900</b>	<b>?</b>
<b>BANK CLOSING BALANCE</b>	<b>(93 800)</b>	<b>46 900</b>	<b>307 100</b>	<b>?</b>

DEBTORS COLLECTION SCHEDULE OF JJ SUPPLIERS FOR THE PERIOD 1 NOVEMBER 2008 TO 31 DECEMBER 2008

	CREDIT SALES	BUDGET PERIOD	
		November	December
November	72 000	18 000	50 400
December	84 000		21 000
Cash Receipts from Debtors		18 000	71 400

## ADDITIONAL INFORMATION

### 1. Inflation:

The owner has found it particularly difficult compiling the Cash Budget due to the high inflation rate that the country is experiencing at the moment. The inflation rate topped 11.6% in June 2008 and is expected to increase even further in the coming months.

### 2. Salaries and wages:

Monthly salaries and wages for all eleven existing staff members will be increased with effect from 1 November 2008. The increase will be as follows:

- The manager will receive an increase of 30% on his present monthly salary of R6 000.
- The ten shop assistants, who receive an equal salary, will each receive an increase of R300 per month.
- An additional shop assistant will be employed from 1 November 2008 at the same increased salary as the other shop assistants.

### 3. Debtors and sales:

- The owner decided to start selling stock on credit with effect from 1 November 2008.
- He has decided not to grant discounts for early payment.
- He expects that there will be some bad debts that will need to be written off .

## QUESTIONS

1. Calculate the missing figures for cash surplus/deficit and bank balances. (3)
2. Calculate the wages and salaries figures that would appear in the Cash Budget for November. (6)
3. The shop assistants are considering going on strike as they are not satisfied with the increases they will be receiving. Give three reasons why you, a labour consultant, would tend to agree with them. Support your reasons with evidence and figures obtained from the information given. (6)
4. It is assumed that all outstanding debts will be written off in the second month after the sale took place. Calculate the percentage of November's debtors that are expected to be written off as bad debts in January 2009. (5)
5. The owner feels that there is a problem regarding some of the income and expense items. At the end of November 2008, he compared the actual figures with the budgeted figures and noticed variances on certain items listed below. In each case provide the **most likely** cause of the variance and provide two points of advice for the owner as to how to solve each of these problems. (12)

	November Budget	November Actual
Cash sales	108 000	100 000
Motor vehicle expenses	14 000	16 000
Telkom and cell phone costs	11 000	12 000

6. Businessmen often find it difficult budgeting during inflationary periods. Explain why this is so and give three factors that may be the cause of this difficulty in the present economic climate. (5)
7. This Cash Budget has both positive and negative aspects to it. Taking the budget as a whole, should the owner be concerned with his cash situation over the budget period? Justify your opinion with evidence from the Cash Budget. (5)

**QUESTION 2****BANK RECONCILIATIONS****34 MARKS; 41 MINUTES**

The Bookkeeper has prepared the following Bank Reconciliation Statement of TT Traders for the month of August 2008. He is not certain if it is correct.

**REQUIRED**

Study the information below and answer the questions that follow.

**BANK RECONCILIATION STATEMENT AT 31 AUGUST 2008**

Balance per Bank Statement	12 500 CR
Outstanding Deposit	4 300
Outstanding Cheques	
No. 321 dated 31 March 2008	2 400
No. 533 dated 31 May 2008	1 300
No. 855 dated 15 September 2008	3 200
Correction of Error	100 DR
Balance per Bank Account	?

**QUESTIONS**

- While preparing the Bank Reconciliation Statement, the bookkeeper discovered that the Bank had incorrectly recorded a cheque for R2 100 issued by TT Traders as R1 200. He plans to record the R900 as other income if the bank fails to detect the error.
  - What do you think of the bookkeeper's actions? (1)
  - What effect would his decision have on the firm's profitability? (2)
  - What should the bookkeeper have done and how should he have treated this error in his August reconciliation procedures? (4)
- Taking into account no. 1 above, calculate the Bank Account balance and state whether it is favourable or unfavourable. (5)
- Explain how you would treat cheque no. 321 in September's reconciliation procedures if the cheque had not been presented for payment by 30 September. (2)
- Explain how you would treat cheque no. 855 in September's reconciliation procedures if the cheque had not been presented for payment by 30 September. (2)
- Explain how you would treat cheque no. 855 when preparing the financial statements on 31 August 2008. (4)
- How would you investigate what had happened to the outstanding deposit if it does not appear in September's Bank Statement? List three steps that you would take. (3)
- An error of R100 has been made.
  - Who was responsible for this error? (2)
  - Name two possible errors that could have been made resulting in the above correction having to be processed. (4)
- Why did a post-dated cheque received by TT Traders on 27 August 2008, but dated 27 September 2008, not appear in August's Bank Reconciliation Statement? (2)
- Bank Reconciliations are prepared as a form of internal control over cash. Name and explain one other control measure that the business could implement to safeguard its cash. (3)

**QUESTION 3****CASE STUDY****25 MARKS; 30 MINUTES**

Star Ltd is a small public company retailing in food and food related products. They have a number of outlets in and around the Durban area. They find it difficult competing against the major food chains and have strived to keep their prices low. As a result they have managed to capture a sizeable portion of the market, mainly amongst the lower income groups.

**REQUIRED**

Study the information below and answer the questions that follow.

**EXTRACT FROM THE CHAIRMAN'S REPORT:**

Of particular concern for the foreseeable future are the growing global food crisis and the protests against the rising price of food. In South Africa we are facing continuous interest rate hikes and the escalating price of fuel. Interest paid has increased during the year due to a R500 000 loan to fund property development.

As part of the company's strategy, Star Ltd has decided to sell certain basic foodstuffs at cost. We feel that while this will have an impact on the company, it is the right thing to do.

**EXTRACTS FROM THE FINANCIAL STATEMENTS FOR THE YEAR ENDED**

28 FEBRUARY 2008:

	2008	2007
TURNOVER	45 000 000	39 000 000
MARK-UP %	5%	7%
NON-CURRENT ASSETS	4 200 000	3 900 000
CURRENT ASSETS	5 000 000	3 900 000
CAPITAL AND RESERVES	1 400 000	1 200 000
NON-CURRENT LIABILITIES	1 300 000	800 000
CURRENT LIABILITIES	6 500 000	5 800 000
RETURN ON TOTAL CAPITAL EMPLOYED	7,4%	7,1%
EARNINGS PER SHARE	152 cents	148 cents
DIVIDENDS PER SHARE	120 cents	74 cents

**QUESTIONS**

1. Retailers are experiencing problems in the current economic climate in South Africa.
  - a) Name two problems that they are experiencing. (2)
  - b) How is Star Ltd hoping to address these problems? (1)
  
2. Compared to the major food chains, what problem might the company experience with its present strategy of keeping prices low and selling some foodstuffs at cost? (3)
  
3. Do you think that Star Ltd is experiencing liquidity problems? Support your answer by quoting figures from the Financial Statements. (Do not calculate ratios.) (2)
  
4. Star Ltd had a Debt : Equity ratio of 0,67 : 1 in 2007 and 0.93 : 1 in 2008.
  - a) Discuss the meaning of this ratio. (2)
  - b) What was the cause for the increase in this ratio? (2)
  - c) Comment on whether you think the decision taken by the directors resulting in this increase was good or bad for the shareholders. Give two reasons for your opinion. (5)
  - d) In your opinion what course of action should the directors have taken? (2)
  
5. Compare the company's earnings per share to the dividends per share.
  - a) What are the directors hoping to achieve by this policy? (2)
  - b) How might the shareholders benefit if the directors were to adopt a more conservative dividend policy in the future? (4)

# ANSWER BOOK

QUESTION	MARKS	PUPIL'S MARK
1	41	
2	34	
3	25	
TOTAL	100	
		%

## QUESTION 1

1.

	December
CASH SURPLUS/DEFICIT	
BANK OPENING BALANCE	
BANK CLOSING BALANCE	

2.

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3.

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4.

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2.

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3.

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4.

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5.

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6.

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7.

a)	
b)	

8.

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9.

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**QUESTION 3**

1.

a)	
b)	

2.

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3.

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4.

a)	
b)	
c)	
d)	

5.

a)	
b)	

# MEMO

## QUESTION 1

1.

	December
CASH SURPLUS/DEFICIT	(88 400) ✓
BANK OPENING BALANCE	307 100 ✓
BANK CLOSING BALANCE	218 700 ✓

2.

Manager:	R6 000 ✓	+ R1 800 ✓	=	R7 800
Old shop assistants:	R42 000 ✓	+ R3 000 ✓	=	R45 000
New shop assistant:			=	<u>R4 500</u> ✓
				R57 300 (✓)

3.

The owner's drawings will increase ✓ by 100%. ✓
The manager's salary will increase ✓ by 30%. ✓
The shop assistants will receive a 7,1% ✓ increase which is less than inflation. ✓

4.

R72 000 ✓ – (R18 000 + R50 400) ✓
= R3 600 ÷ R72 000 ✓ x 100
= 5% (✓)

5.

Cash sales	<p><b>Most likely cause:</b> Customers cutting down on spending in the month before Christmas. ✓✓</p> <p><b>Two points of advice:</b> Advertise more. Introduce commission to salesmen to boost sales. Reduce mark-up Discounts to cash paying customers (2 x 1 each)</p>
Motor vehicle expenses	<p><b>Most likely cause:</b> Increase in petrol price. ✓✓</p> <p><b>Two points of advice:</b> Internal control of vehicle usage. Cut down on unnecessary travelling. (2 x 1 each)</p>
Telkom and cell phone costs	<p><b>Most likely cause:</b> Use of phones for private calls. ✓✓</p> <p><b>Two points of advice:</b> Improve internal control procedures. Cell phones to approved employees only. Ask for itemised billing from Telkom. (2 x 1 each)</p>

6.

<p><b>Explanation:</b> Difficult to predict the future when factors are constantly changing. ✓✓</p> <p><b>Three factors:</b> Petrol price increases. Electricity price increases. Interest rate increases. (3 x 1 each)</p>
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7.

Yes. ✓  
 Sales are dropping.  
 He has had to put in extra capital.  
 He is planning on selling part of the shop premises in order to downsize. (ANY 2 x 2)  
 OR  
 No – Cash balance has improved. ✓

**QUESTION 2**

1.

a)	Opinion. Unethical/Fraudulent etc.	(1)
b)	Profits would be overstated.	(2)
c)	Contact the bank and point out the error. Put R900 in Bank Recon debit column as a correction of error.	(2) (2)

2.

$(12\ 500 + 4\ 300) ✓ - (2\ 400 + 1\ 300 + 3\ 200 + 100) ✓ - 900 ✓$   
 = R8 900 (✓)  
 Favourable ✓

3.

Cancel in the CRJ – the cheque is stale. (2)

4.

In Bank Reconciliation Statement under outstanding cheques. (2)

5.

Add to Trade Creditors. ✓✓  
 Add to Bank. ✓✓

6.

Contact the bank and point out the error.  
 Look at the deposit slip and see who deposited the money.  
 Look at the receipt and see who recorded the money received. (3)

7.

a)	The Bank.	(2)
b)	Deposit by another person entered on the Bank Statement by mistake. A deposit by us overstated. Interest credited by mistake. A cheque incorrectly recorded by the bank.	(ANY 2 x 2)

8.

A post-dates cheque cannot be deposited until the date on the cheque.  
 This cheque will only be recorded in the CRJ in September. (2)

9.

Separation of duties ✓ e.g. the person depositing the money will not be the same as the person preparing the Bank Reconciliation Statement. ✓✓  
 Proper authorisation ✓ – cheques must be signed by a senior manager. ✓✓  
 Etc (3)

### QUESTION 3

1.

a)	Increase in food prices. Global food crisis. Interest rate hikes. Fuel price increases.  <p style="text-align: right;">(2 x 1 each)</p>
b)	Selling certain basic foodstuffs at cost. ✓

2.

Difficult keeping their overheads low therefore lower profits. ✓✓✓
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3.

Yes – current liabilities are much higher than current assets. ✓✓
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4.

a)	Looks at how the company is financed – by own or borrowed money. Assesses the risk of the company.  <p style="text-align: right;">(2)</p>
b)	R50 million loan was taken out. ✓✓
c)	Bad ✓ Interest rates are high – more interest to pay. Negative gearing – ROTCE is lower than interest rates. Company is now highly geared.  <p style="text-align: right;">(ANY 2x 2)</p>
d)	They should have issued shares. ✓✓

5.

a)	Keep the shareholders happy because of the problems being experienced. (2)
b)	Future growth of the company. Increase in value of their shares. Greater future EPS. Better future DPS.  <p style="text-align: right;">(ANY 2x 2)</p>