



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ACCOUNTING
FEBRUARY/MARCH 2010
MEMORANDUM**

MARKS: 300

This memorandum consists of 21 pages.

QUESTION 1**1.1 How can the preparation of a Debtors Collection Schedule assist in controlling debtors?***Any valid explanation ✓✓*

Good explanation = 2 marks; Satisfactory = 1 mark;

Incorrect or no answer = 0 marks

- Project anticipated receipts from debtors.
- Ensure that Debtors keeps to terms of their accounts i.e. 30 days.
- Act if the debtors do not comply with credit terms.
- Compare anticipated budget with actual budgets.

How can the preparation of a Debtors Age Analysis assist in controlling debtors?*Any valid explanation ✓✓*

Good explanation = 2 marks; Satisfactory = 1 mark;

Incorrect or no answer = 0 marks

- Effective method of credit control.
- Action can be taken against debtors who do not comply by charging interest/legal action.
- Bad debts can be minimized.
- Make decisions based on age analysis of the debtor/s.

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1.2

| DEBTORS COLLECTION SCHEDULE: | | | | |
|-------------------------------------|--|-------------------|-------------------|-----------------|
| Month | Credit sales | March 2010 | April 2010 | May 2010 |
| | R | R | R | R |
| March 2010 | 960 000 / 12 ✓x 75% ✓ = 60 000 ✓ | ☑✓17 640 | ☑ 30 000 | ☑ 9 000 |
| | | | | |

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1.3 Calculate the debtors average collection period for the year ended 28 February 2010:

$$\frac{\text{Average debtors}}{\text{Credit Sales}} \times 365$$

$$\frac{63\ 000}{630\ 000} \times \frac{365}{1} = 36,5 \text{ days } \checkmark$$

Explain whether Howie should be satisfied with this. Provide a reason for your opinion.

Yes / No \checkmark

Valid reason depending on calculation $\checkmark\checkmark$

Possible reasons:

- Debtors are not complying with the 30 day credit term.
- He expected that some debtors would pay within the 60 days. The collection period is therefore not good.

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1.4 Explain FOUR points that you would include in your report. You must quote specific information from the Age Analysis of Debtors (TWO points) and from the Debtors Control account (TWO points) to support your answer.

Any four valid points $\checkmark\checkmark\checkmark$ $\checkmark\checkmark\checkmark$ $\checkmark\checkmark\checkmark$ $\checkmark\checkmark\checkmark$

Good explanation = 3 marks; Satisfactory = 2 marks; Poor = 1 mark;

Incorrect or no answer = 0 marks

Age Analysis of Debtors (TWO points)

- M Miller's debt exceeds 60 days – R13 000 outstanding for 60+ days.
- M Miller and N Ncube's balances are higher than the credit limits of R15 000.

Debtors Control account (TWO points)

- Dishonoured cheques amounts to 17,2% of payments received from debtors. Received R61 000 – dishonoured cheques R10 500 (R9 700 + R800). This is not acceptable.
- R2 000 bad debts written off. They sold too much on credit to unreliable debtors – customers are not screened properly.
- Debtors allowances is 5,7% of sales. Too much stock is returned by debtors, (R 3 000).

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1.5 How would these regulations influence Howie Furnishers in the granting of credit to clients? Explain TWO points.

Two points ✓✓ ✓✓

Possible answers:

- Potential customers should be thoroughly screened in order to decrease bad debts.
- Customers are gullible and the National Credit Act is needed to save customers from themselves.
- Selling on credit will increase sales – if potential customers are screened, bad debts will not increase with an increase in sales.
- Become aware of different policies and acts.
- Use Debt risk management technology when acquiring new clients.

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| TOTAL MARKS |
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| 35 |

QUESTION 2

2.1

Refer to Information 1. Briefly explain why it is appropriate for Paul to use the FIFO method for Golf clubs, and the Weighted Average method for Golf balls.

Good explanation = 2 marks; satisfactory = 1 mark; incorrect = 0 marks ✓✓

Golf clubs are a more expensive item of which not many are bought and sold. The prices can also differ substantially between different purchases. It is easy to keep track of movement of stock. Hence the FIFO method is appropriate.

Good explanation = 2 marks; satisfactory = 1 mark; incorrect = 0 marks ✓✓

Golf balls are less expensive. Thousands are being bought. It would not be easy to keep track of which balls are bought. Hence the weighted average method would be more appropriate.

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2.2

Calculation of value of closing stock of Golf clubs (FIFO method):

$$R67\,500 \checkmark + 67\,500 \checkmark + (55 \times 800) \checkmark\checkmark + 10\,250 \checkmark = R189\,250 \checkmark$$

44 000

Calculation of value of closing stock of Golf balls (Weighted Average method):

$$\frac{R11\,520 \checkmark + 112\,500 \checkmark\checkmark + 22\,500 \checkmark}{1\,200 \checkmark + 12\,000 \checkmark}$$

$$\frac{146\,520}{13\,200}$$

$$R11,10 \checkmark \times 550 \checkmark = R6105 \checkmark$$

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2.3 Calculate cost of sales of Golf clubs:

$$72\,000 \checkmark + 251\,250 \checkmark + 15\,000 \checkmark - 189\,250 \checkmark = R149\,000 \checkmark$$

Calculate gross profit on Golf clubs:

Sales – cost of sales = gross profit

$$222\,000 \checkmark - 149\,000 \checkmark = R73\,000 \checkmark$$

Calculate the VAT charged to customer on golf clubs sold

$$222\,000 \checkmark \times 14\% \checkmark = R31\,080 \checkmark$$

Calculate the mark-up % on Golf clubs:

$$73\,000 \checkmark / 149\,000 \checkmark \times 100 \\ = 49\% \text{ or } 48.9\% \checkmark$$

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2.4 Calculation regarding lack of popularity of the Golf clubs:

Calculation appropriate/correct in all respects = 3 marks

Calculation partially appropriate/correct = 1 to 2 marks

Inappropriate/incorrect calculation = 0 marks ✓✓✓

Any appropriate calculation, e.g.

- 47% of stock available were sold ($185/390 \times 100$) OR
- $205 / 185 \times 365 = 404$ days stock on hand.

Calculation regarding theft of the Golf balls:

Calculation appropriate/correct in all respects = 3 marks

Calculation partially appropriate/correct = 1 to 2 marks

Inappropriate/incorrect calculation = 0 marks ✓✓✓

Any appropriate calculation, e.g.

$1\,200 + 12\,000 - 10\,500 = 2\,700$ balls should be on hand
 $2\,700 - 550 = 2\,150$ missing golf balls OR

$$2\,150 \times R11,10 = R23\,865 \text{ shortage}$$

6

2.5 Explain THREE strategies that you would want to implement in this business were you to become a partner.

Explanation of strategy: ✓✓ ✓✓ ✓✓

- Implement stricter internal control measures to eliminate theft of stock, e.g. cameras, security staff, random bag searches.
- Avoid stock piling as the clubs are produced locally it would be easy to purchase as needed.
- Consider revising the mark-up policy on golf clubs. The current selling price may be higher than that of competitors.
- Consider advertising/marketing strategies to encourage greater turnover of golf clubs.
- Consider the possibility of purchasing golf balls locally at a lower price.
- Consider importing the golf clubs as it appears that the customers do not like the current product.

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| TOTAL MARKS |
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| 45 |

QUESTION 3**3.1 KANELA LIMITED
BALANCE SHEET ON 28 FEBRUARY 2010**

| | | |
|---|-----------|--|
| ASSETS | | |
| Non-current assets | | <input checked="" type="checkbox"/> 2 136 000 |
| Fixed assets (1 800 000 ✓ + 300 000 ✓ – 145 000 ✓✓) | | <input checked="" type="checkbox"/> 1 955 000 |
| Investments | | <input checked="" type="checkbox"/> 181 000 |
| Current assets | | <input checked="" type="checkbox"/> 1 584 000 |
| ✓ Inventories | | <input checked="" type="checkbox"/> 789 000 |
| ✓ Trade & other receivables (530 000 ✓ + 24 000 ✓) | | ✓ 554 000 |
| ✓ Cash & cash equivalents (175 000 ✓ + 66 000 ✓) | | ✓ 241 000 |
| TOTAL ASSETS | 19 | <input checked="" type="checkbox"/> 3 720 000 |
| EQUITY AND LIABILITIES | | |
| Ordinary shareholders' equity | | ✓✓ 2 064 000 |
| ✓ Ordinary share capital (1 200 000 ✓ + 400 000 ✓) | | ✓ 1 600 000 |
| ✓ Share premium | | ✓✓ 140 000 |
| ✓ Retained income | | <input checked="" type="checkbox"/> 324 000 |
| Non-current liabilities | | <input checked="" type="checkbox"/> 600 000 |
| Loan from Easi-Bank (1 500 000 – 900 000) | | ✓✓ 600 000 |
| Current liabilities | | <input checked="" type="checkbox"/> 1 056 000 |
| Trade & other payables (720 000 ✓ + 36 000 ✓) | | ✓ 756 000 |
| ✓ Short-term portion of loan | | ✓✓ 300 000 |
| TOTAL EQUITY AND LIABILITIES | 22 | <input checked="" type="checkbox"/> 3 720 000 |

3.2.1 The Managing Director, Jan Kriel, currently owns 45% of the issued shares. The board of directors has decided to issue the unissued shares to the public. Jan wants to use this opportunity to gain control of the company.

How many shares will Jan have to buy to gain control of the company?

He currently owns 45% of 800 000 shares = 360 000 ✓

He needs to own 50%+1 of 1 000 000 shares = 500 001 ✓
(accept 500 100 or 501 000)

He needs to purchase = 140 001 (accept 140 100 or 141 000)

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3.2.2 Jan plans to purchase the shares himself at par value without advertising the shares to the public. The current market price of a share is R3,10. If you were a shareholder in this company would you be satisfied with this arrangement? Explain.

No ✓

Explanation: ✓✓✓✓

Excellent explanation = 4 marks; Good explanation = 3 marks;
satisfactory explanation = 2 mark, Poor Explanation = 1 mark, incorrect = 0 marks

Candidates are expected to identify the ethical considerations e.g. the issue should be in line with the memorandum and articles of association, or freely available to the public unless special circumstances apply such as a rights issue, the fact that the issue price should be at current market value, or that the strategy to gain control of the company is inappropriate.

Expected response:

As this is a public company the shares should be offered to the public. The shares should be issued at the current market value of R3,10 which will bring in R620 000 to the company. If Jan pays the par value this would amount to only R400 000. He would therefore be benefiting while the other shareholders will be disadvantaged through dilution of the share price. Jan was not the majority shareholder before the issue of these shares. If he sells these shares to himself he will be have overall control of company decisions which will also impact on the other shareholders and directors.

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3.3.1 Explain why large companies like Kanela Ltd are expected to be involved in such projects.

Excellent explanation = 3 marks; Good explanation = 2 marks;
satisfactory explanation = 1 mark, incorrect = 0 marks

Expected responses:

- The King Code covers the triple bottom line concepts i.e. economic, social and environmental responsibilities OR
- Big companies rely on communities and the world around them in order to sustain profits. The fact that they are contributing back to the community is the right thing to do.

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3.3.2 Explain how the directors should reflect these projects in the annual report which is published for shareholders.

Excellent explanation = 3 marks; Good explanation = 2 marks;
satisfactory explanation = 1 mark, incorrect = 0 marks

Expected responses:

The cost of these projects should be highlighted in the Income statement or the notes to the financial statements. The directors should fully inform all readers of the financial statements about the nature of these projects and the good work that the company is involved in.

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3.4.1 What is the purpose of an independent audit report and who is it addressed to?

Purpose: ✓✓

To report on the company's financial records and determine whether there is a fair presentation of facts, and whether the policies are consistent with the previous year.

Addressed to: ✓

Shareholders

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3.4.2 Explain the difference between a qualified and an unqualified audit report.

An unqualified report is a report without any problems – good report ✓✓

A qualified report reveals problems in certain areas of the company – all is not well.

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3.4.3

The independent auditors want to qualify the report. List THREE consequences there could be for the company or its directors.

One mark per point listed ✓ ✓ ✓

- Existing shareholders would lose faith in the company and possibly sell their shares.
- Potential shareholders would not invest in the company
- Could result in a drop in the market price of the shares
- The financial statements would not be fairly presented
- Suppliers will lose faith in the company
- Internal control measures should be improved in order to prevent unethical transactions
- Directors could lose their jobs

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| TOTAL MARKS |
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| 65 |

QUESTION 4

4.1.1

Identify ONE major item of each of the following in a manufacturing business:

Factory overhead costs

Any one valid item - Possible answers

- Indirect materials
- Indirect labour
- Depreciation of factory plant and machinery
- Any expenses related to the **factory**, e.g. electricity

Selling and distribution costs

Any one valid item - Possible answers

- Salaries of sales personnel
- Travelling expenses
- Commission on sales
- Entertainment expenses

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4.1.2

The unit cost of production for suitcases

$$330\,000 \checkmark + 264\,000 \checkmark + 400\,000 \checkmark = 994\,000 / 2\,500 \checkmark$$

$$= R397,60 \checkmark$$

Variable cost per unit for suitcases

$$660\,000 \checkmark / 2\,500 \checkmark$$

$$= R264 \checkmark$$

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4.1.3

Calculate the break even point for the suitcases.

$$\frac{\text{Fixed costs}}{\text{SP per unit} - \text{VC per unit}}$$

$$\frac{400\,000 \checkmark + 250\,000 \checkmark}{520 \checkmark - 264 \checkmark}$$

$$= \frac{650\,000}{256}$$

$$= 2\,539,1 = 2\,540 \text{ units } \checkmark$$

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4.1.4 Identify TWO costs which have not been well controlled in respect of suitcases during this financial year. Quote appropriate figures to support your answer. In each case provide a possible solution to this trend.

Identify cost with appropriate figure ✓✓ ✓✓
Provide solution ✓✓ ✓✓

| Identify costs | Solution |
|--|---|
| Production increased by 20% while direct material costs increased by 65% (or from R100 to R132 per unit). Direct material costs increased from R200 000 to R330 000. | Investigate cheaper raw materials. Avoid wastage of raw materials. Train staff to avoid wastage. |
| Factory overhead expenses almost doubled from the previous year, R210 000 to R400 000. | Investigate factory expenses. Avoid wastage, e.g. electricity, telephone, repairs to machinery, etc. Implement control measures w.r.t. indirect labour and indirect materials. |
| Selling and distribution costs increased by 110% while sales decreased by 10%. | Implement strict control measures and limit travelling and entertainment expenses. |

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4.1.5 Phillip is considering producing only one line instead of the current two. Advise Phillip about whether he should retain the manufacturing of suitcases or sports bags. Provide appropriate figures from the question to support your answer.

Sports bags: ✓✓✓

- Production (4 000 units) is more than double the break-even required (1 867 units).
- The units produced have all been sold.

Suitcases: ✓✓✓

- Production (2 500) below break even (2 540). Certain costs have not been well controlled, viz. direct material, factory overheads and selling & distribution costs.

Phillip should retain manufacturing sports bags and stop producing suitcases. ✓

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| TOTAL MARKS |
| 30 |

QUESTION 5**5.1****General Ledger of Zee Limited****Final Accounts Section**

| APPROPRIATION ACCOUNT | | | | | | |
|-----------------------|-------------------------------|----|---------|-------------------|-------------------|-----------|
| 2010 Feb 28 | Income Tax ✓ | ✓ | 224 000 | 2010 Feb 28 | Profit and Loss ✓ | ✓ 747 000 |
| | Ordinary share dividends ✓ | ☑✓ | 425 000 | | Retained Income ✓ | ✓ 68 000 |
| | Retained Income ✓ | ✓ | 166 000 | | | |
| | | | | | | |
| | | | 815 000 | | | 815 000 |

5.2

ZEE LIMITED**CASH-FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2010**

| | | |
|--|-------------------------------------|------------------|
| Cash effects of operating activities | <input checked="" type="checkbox"/> | 233 350 |
| Cash generated from operations | | 878 600 |
| Interest paid | | (78 750) |
| Dividends paid | | (280 000) |
| Income tax paid (17 500 ✓ + 224 000 ✓ + 45 000 ✓) | <input checked="" type="checkbox"/> | (286 500) |
| | | |
| Cash effects of investing activities | <input checked="" type="checkbox"/> | 1203 000 |
| Purchase of fixed assets (56 000 ✓ + 1 928 600 ✓ + 1 047 000 ✓ – 2 937 600 ✓) | <input checked="" type="checkbox"/> | (94 000) |
| Proceeds of sale of fixed assets | | 1 047 000 |
| Proceeds of financial assets matured (330 000 ✓ – 80 000 ✓) | ✓ | 250 000 |
| | | |
| Cash effects of financing activities | <input checked="" type="checkbox"/> | 285 000 |
| Proceeds of issue of shares (1 800 000 ✓ – 700 000 ✓) | ✓ | 1 100 000 |
| Repayment of long-term loan (940 000 ✓ – 125 000 ✓) | ✓ | (815 000) |
| | | |
| Net change in cash and cash equivalents | <input checked="" type="checkbox"/> | 1 721 350 |
| Cash equivalents – beginning of year | | (922 000) |
| Cash equivalents – end of year | <input checked="" type="checkbox"/> | 799 350 |

5.3.1 Rate of stock turnover

$$\frac{\text{Cost of Sales}}{\text{Average Stock}}$$

$$\frac{1\,330\,000 \checkmark}{(210\,000 + 175\,000)/2 \checkmark}$$

$$6,9 \checkmark$$

4

5.3.2 Debt/Equity Ratio

Non-current liabilities: Shareholder's Equity

$$125\,000 \checkmark : 1\,966\,000 \checkmark$$

$$= 0,06:1 \checkmark$$

3

5.3.3 % Return on average shareholders' equity

$$\frac{\text{Net profit after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$$

$$\frac{747\,000 - 224\,000}{(1\,966\,000 + 768\,000) / 2} \times \frac{100}{1}$$

$$\frac{523\,000 \checkmark \checkmark}{1\,367\,000 \checkmark \checkmark} \times \frac{100}{1}$$

$$38,25\% \checkmark$$

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5.4 The Cash Flow Statement reflects some important decisions that have been taken by the directors during the current financial period.

State THREE of these decisions and explain the effect on the company. Quote figures to support your answer.

Excellent explanation with figures = 3 marks; good/satisfactory explanation with figures = 2 marks; satisfactory explanation with no figure = 1 mark; incorrect explanation = 0 marks

- Issued shares – generated R1 100 000 in order to repay loan and eliminate bank overdraft
- Sold fixed assets – generated R1 047 000 in order to repay loan and eliminate bank overdraft/could negatively effect profitability in future as infrastructure has reduced
- Used cash generated from issuing of shares and sale of fixed assets to repay loan – R815 000 to improve cash flow

9

5.5 One of the directors is of the opinion that the company should make more use of loans. Do you agree? Quote TWO relevant financial indicators to support your answer.

Yes ✓

Two relevant financial indicators ✓✓ ✓✓

- The debt : equity ratio decreased from 0,5:1 to 0,06:1 (shareholders' equity greatly exceeds long-term debts)
- Return on capital employed is 31,7% which exceeds the interest rate of 15% indicating positive gearing.
- The risk has been reduced.

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5.6 The directors feel that the shareholders should be satisfied with the performance of the company. Do you agree? Comment on the dividends, earnings and % return earned by the shareholders in the 2010 financial year. Quote financial indicators (actual ratios or percentages) to support your answer.

Yes/No ✓

- Dividends increased from 25 cents → 35 cents (10 cents). ✓✓
- This year dividends were 12 cents higher than the earnings which indicate that the dividends are being supported by accumulated funds and that less funds are being retained for the future. ✓✓
- Earnings per share decreased from 40 cents → 23 cents (7 cents) ✓✓
- % return on shareholders equity decreased substantially from 55% to 38,25%. ✓✓
- The return still exceeds returns on alternative investments. ✓

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| TOTAL MARKS |
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| 70 |

QUESTION 6**6.1.1 Calculation of monthly salary paid to each hair stylist:**

$$R25\ 500 / 3 = R8\ 500 \checkmark\checkmark$$

OR

$$R34\ 000 / 4 = R8\ 500$$

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6.1.2 Calculation of the % increase in wages that the cleaner will receive during the projected period:

$$272 / 3\ 400 \times 100 = 8\% \checkmark\checkmark$$

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6.1.3 Calculation of % interest rate on the fixed deposit:

$$\checkmark \quad \checkmark \quad \checkmark \quad \checkmark$$
$$3\ 315 / 468\ 000 \times 12 \times 100 = 8,5\%$$

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6.1.4 Calculation of rental per square metre:

$$24\ 600 / 60 = R410 \checkmark\checkmark$$

Calculation of number of additional square metres Helen will rent from 1 May 2010:

$$30\ 750 / 410 = 75 \text{ OR } 60 \times 30\ 750 / 24\ 600 = 75 \text{ sq metres}$$

$$\text{Increase} = 75 - 60 = 15 \text{ sq metres } \checkmark\checkmark$$

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6.2 Provide four comments that you would include in your internal auditor's report in respect of scenarios A, B, C and D below.

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| A | <p>Comment on telephone:</p> <p><i>Good answer = 2 marks; Satisfactory =1; Incorrect =0</i></p> <p><i>Expected response:</i> ✓✓: The telephone costs have exceeded projections by R1 950. These have not been well controlled and measures must be implemented to rectify this.</p> <p>Alternative correct and valid responses acceptable.</p> |
| B | <p>Comment on water & electricity:</p> <p><i>Good answer = 2 marks; Satisfactory =1; Incorrect =0</i></p> <p><i>Expected response:</i> ✓✓ The water & electricity costs are R1 100 under the projections. These have been well controlled especially considering the increase in electricity tariffs (and the increase in the number of customers).</p> <p>Alternative correct and valid responses acceptable.</p> |
| C | <p>Comment on fee income & consumable stores:</p> <p><i>Excellent answer = 3 marks; Good answer = 2 marks; Satisfactory =1; Incorrect =0</i></p> <p><i>Expected response:</i> ✓✓✓ There was a good increase in fee income (+14%) which indicates that the business is popular with its customers. The consumables stores (e.g. shampoos, conditioners) increased slightly (+5%) but not in the same proportion as the fees received.</p> <p>Alternative correct and valid responses acceptable.</p> |
| D | <p>Comment on sale of hair products, cost of sales & gross profit:</p> <p><i>Excellent answer = 3 marks; Good answer = 2 marks; Satisfactory =1; Incorrect =0</i></p> <p><i>Expected response:</i> ✓✓✓ There was a good increase in sales (+R24 500 / +28%) which was caused by the decrease in the mark-up % (from 75% to 60%). The increased sales volume on the lower mark-up resulted in an increase in the gross profit (+R4 500 / +12%). It appears that this was a good strategy.</p> <p>Alternative correct and valid responses acceptable.</p> |

6.3.1 Calculation of the cost of the new vehicle which Helen plans to purchase on 30 April 2010:

$$\checkmark \quad \checkmark \quad \checkmark \quad \checkmark$$

$$7\,100 / 0,2 \times 12 = R426\,000$$

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6.3.2

ASSET DISPOSAL

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|----------------|-------------------------------|----------|----------------|---|----------|
| 2010 July 1 | Equipment ✓ | ✓164 000 | 2010 July 1 | Acc depr on equipment ✓ (153750✓ + 6 150✓) | ✓159 900 |
| | Profit on disposal of asset ✓ | ☑ 18 900 | | Creditors control ✓ | ✓23 000 |
| | | 182 900 | | | 182 900 |

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6.3.3 State the effect that the following expenses will have on the expected profits of the business due to the purchase of the new equipment. Provide a calculations/ figure to support your answer.

Interest on loan:

$$15\% \text{ of } R379\,000 = R4\,737,50 \text{ pm} \checkmark \checkmark - \text{negative effect } \checkmark$$

Depreciation:

$$15\% \text{ } R402\,000/12 \text{ less } R2\,050 = R2\,975 \text{ pm} \checkmark \checkmark - \text{negative effect } \checkmark$$

Maintenance:

$$R3\,500 \text{ pm} \checkmark - \text{positive effect } \checkmark$$

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6.3.4 Helen is thinking of purchasing the business premises rather than renting them. Explain ONE major advantage and ONE major disadvantage of this option, with specific reference to the effect that the purchasing of the premises would have on projected profits.

Advantage: ✓

Saving on rent / Earn capital gains on property values

Disadvantage: ✓

Repairs and maintenance to be paid /

She will need a bond to finance this option (high repayments)

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6.3.5 Explain whether Helen has acted responsibly in the decisions she has taken/planned regarding the equipment and vehicles.**Equipment: ✓✓**

It was responsible of her to replace the old equipment. The new equipment will attract customers, will make working conditions better and will involve less maintenance.

Vehicles: ✓✓

With regard to the vehicles, it was irresponsible of her to purchase an expensive new car, especially as the customers travel to the business. Also, this meant that the fixed deposit was used to finance the expensive car. This money could have been used to finance the equipment without high interest charges.

Alternative correct and valid responses acceptable.

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6.4 Helen is not sure if she has made the right decision to give up her previous job many years ago and to invest R800 000 in this business. Refer to the projected monthly profit for this period. Based on these projections, what is your opinion on the decision which Helen took? Explain.

Reference to profits ✓✓

Comparison with other investments ✓✓

Opinion on decision ✓

Her projections show that she expects to earn an average of R66 549 pm from this business, approximately R798 564 pa.

She is losing out on interest on her savings – approximately R68 000 pa or R5 667 pm (based on interest rate 8,5% pa)

She is befitting by more than R700 000 pa, which means she has probably made the right decision.

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| TOTAL MARKS |
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| 55 |

TOTAL: 300