



**Western Cape
Government**
FOR YOU

Education



Western Cape Education Department

ACCOUNTING

Grade 12

TERM 3

2026

LEARNER ACTIVITIES

MANUFACTURING / COST ACCOUNTING

Basic concepts and calculations

Direct material cost (DMC)	Opening stock (OS)+ Purchases + Carriage on purchases - Closing stock (CS) = Raw materials used
Direct labour cost (DLC)	Normal wages (no. of workers x no. of hours x rate) ADD Overtime (no. of workers x no. of hours x rate) ADD UIF/Medical/Pension contributions
Factory / Manufacturing overheads (FOHC)	Indirect material (Opening stock (OS) + Purchases - Closing stock (CS)) Indirect labour (Cleaners, security, foreman) ADD contributions UIF/Pension Depreciation of Factory equipment Water & Electricity (Factory) All other factory expenses
Unit costs	Total cost divided by number of units produced
Fixed cost	FOHC + Administration costs (AC)
Variable cost	DMC + DLC + Selling & Distribution costs (SDC)

FORMAT OF THE ABRIDGED INCOME STATEMENT (short)

Direct material cost	
+ Direct labour cost	
= Prime cost	
+ Factory overhead cost	
= Total cost of production	
+ Work in process beg year	
- Work in process end year	(.....)
= Total cost of production of finished goods	**

Sales	
Less Cost of Sales (CoS)	(.....)
[OS + Cost of finished goods** - CS]	
Gross profit	
Selling & Distribution costs	
Administration costs	
Net profit	

ANALYSING PRODUCTION COSTS STATEMENTS

Calculating the cost per unit of certain cost items will reveal:

- which costs are higher/ lower as the budgeted costs,
- which items are exceptionally high and need to be controlled carefully
- how costs compare to previous years.

Calculate the break-even point (BEP):

- BEP determines the **quantity** produced where **no** profit or loss is shown;
- Income generated from sales is just enough to **cover** costs.
- **FORMULA:**

$$\frac{\text{TOTAL FIXED costs}}{(\text{selling price per unit} - \text{variable costs per unit})} = \dots \text{Number of products/units}$$

Comment on BEP / production levels:

= Compare BEP with the total number of units produced

e.g. In 2001 100 (BEP) of 1000 units BUT in 2002 80 (BEP) of 1000 units covered costs. Therefore, more effective production levels in 2002 as 20 less units covered costs (or more units available for profit). 900 units will earn a profit in 2001, but 920 units will earn a profit in 2002.

A drop / increase in production units and/or the BEP per year will influence your comment. It may help to work with %s... (2001: BEP was 10% and in 2002 BEP was 8% of total production = lower production costs)

POSSIBLE SOLUTIONS TO SAVE / DECREASE / CUT PRODUCTION COSTS:

- Bulk buying (buy in large quantities) to receive bulk discount
- Cash purchases to receive cash discounts
- Use alternative suppliers that offer more promising buying conditions
- Do a work study in the factory to determine whether the factory is using efficient production methods, e.g. reduce wastage of materials and labour time

TOPIC 1: COST ACCOUNTING

SESSION 1

BASELINE ASSESSMENT: COST CONCEPTS

REQUIRED:

- 1.1 Choose a cost category from **COLUMN B** that matches a description in **COLUMN A**. Write down only the letter (A–D) next to the question numbers (1.1 to 1.5).

COLUMN A		COLUMN B	
1.1.1	Raw materials used in the factory	A	direct labour costs
1.1.2	Advertising expenses	B	factory overhead
1.1.3	Office phone account	C	selling and distribution costs
1.1.4	Salary of the factory foreman	D	administration costs
1.1.5	Salary of the workers who make the items in the factory	E	direct material costs

- 1.2 Give ONE example of a fixed cost and ONE example of a variable cost.
- 1.3 Explain why it is important to calculate the expected break-even point for a business before the start of a financial year.
- 1.4 Calculate the break-even point for men's Run Fast running shoes for 2026.

	2026	2025
	R	R
Direct material costs	150,00	120,00
Direct labor costs	102,00	98,00
Selling and distribution costs	52,00	50,00
VARIABLE COST PER UNIT	304,00	268,00
Factory overhead	70,00	68,00
Administration costs	30,00	30,00
FIXED COST PER UNIT	100,00	98,00
Selling price per unit	R 400,00	R 400,00
Number of units produced and sold	4 500 units	4 500 units
Breakeven point	?	3 341 units

ACTIVITY 1: COST ACCOUNTING

- 1.1 The following information relates to the financial year ending 28 February 2026. The business manufactures one type of product.

REQUIRED:

Calculate the following to prepare the factory overhead note for the financial year-end. Use the tables provided in the answer book.

- Consumables used in the factory (see A and B)
- Factory rent (see C)
- Factory water and electricity (see C)
- Factory insurance (see C)

- 1.2 Complete the Production Cost Statement on 28 February 2026.

INFORMATION:

A. INVENTORY BALANCES:

	28 February 2026	28 February 2025
Work-in-process inventory	R145 800	R 35 100
Factory consumables on hand	R3 900	R2 500

B. Extract of transactions for year ended 28 February 2026 (before adjustments in Information C)

Raw material issued to the factory for production	R?
Consumables purchased on hand for the factory	29 800
Production wages	525 000
Employer contributions for workers in production	44 900
Rent expense for the office section	12 200
Water and electricity	54 400
Salaries: Factory Foreman (including benefits)	102 400
Salaries: Sales staff (including benefits)	60 300
Insurance	33 500
Sundry expenses: Factory	47 040
Sales department	10 200

C. ADDITIONAL INFORMATION:

The following production wage was omitted from the Wage Journal for the last week of February 2026:

Net wages owed to employee	R11 315
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- Total deductions for this employee amount to 27% of his gross wages. The employer pays 11% of the gross wages to the Pension Fund and 1% to the UIF.
- Rent is shared between the factory, sales and administration in the ratio 6:3:2. Only the administration part is recorded.
- The February 2026 water and electricity bill of R5 600 has yet to be paid. Note that 75% of this expense is related to the factory.
- Insurance includes an additional premium of R5 700 paid for the period 1 January 2026 to 30 June 2026. This expense is split between the factory and sales department in the ratio 4:1.

D. Primary costs for the year after adjustments amounted to R1 380 000.

E. The company produced 2 500 bags at a cost of R621 each.

ACTIVITY 2: COST ACCOUNTING

Sihle Sangweni owns two separate factories that manufacture products according to orders received. There is no work-in-progress stock. The year-end is 28 February.

2.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

- 2.1.1 Wages of factory cleaners is a direct labour cost.
- 2.1.2 Delivery costs of finished goods to retailers are a selling and distribution cost.
- 2.1.3 Depreciation on office equipment is an administration cost.

2.2 DESKS FACTORY

REQUIRED:

- 2.2.1 Complete the Factory Overhead Cost Note.
- 2.2.2 Calculate the total cost of production of finished goods.
- 2.2.3 Sihle wants to produce an additional 1 500 desks, while maintaining the selling price and costs. Calculate the additional profit he can expect.

2.3 CHAIRS FACTORY

REQUIRED:

- 2.3.1 Provide a calculation to confirm the break-even point for 2026.
- 2.3.2 Comment on the break-even point and the production level achieved. Quote figures.
- 2.3.3 Raw material consists of wood only. In 2026 the cost is R120 per square metre (m²) and 1,2 m² of wood is needed to make one chair.

During the year, 22 000 m² wood was dispatched to the factory. Sihle feels that the wood raw material was not well controlled.

- Provide a calculation to support his opinion.
 - Identify TWO possible causes of this problem. Provide a solution for EACH.
- 2.3.4 Give TWO reasons for the increase in direct labour cost. Provide a solution for EACH. Note that wages and salaries increased by 5% in the current financial year.

INFORMATION:

A. DESKS FACTORY

Extract of pre-adjustment amounts on 28 February 2026

	R
Indirect labour	296 500
Depreciation of factory plant	166 000
Advertising	24 500
Water and electricity	248 000
Rent expense	345 600
Insurance allocated to sales department	12 600
Factory sundry expenses	107 700

Adjustments to factory overheads for desks:

- Water and electricity for February 2026, R18 000, must be taken into account. 80% is allocated to the factory. The balance is an administration cost.
- Rent must be allocated according to floor area:
Factory: 810 m²
Office: 180 m²
Sales department: 90 m²
- 75% of insurance must be allocated to the factory. The balance applies to the sales department.

B. INFORMATION FOR BOTH FACTORIES

COSTS		DESKS 2026		CHAIRS (Unit costs)	
		Amount	Per unit	2019	2018
Variable	Direct material	R3 060 000	R340	R165	R124
	Direct labour	?	R160	R90	R70
	Selling and distribution	R720 000	R80	R50	R60
	Total variable costs		R580	R305	R250
Fixed	Factory overheads			R76	R75
	Administration	R360 000	R40	R20	R18

SELLING PRICES			
Per unit	R750	R390	R370

UNITS			
Produced and sold	9 000	16 000	15 000
Break-even point	8 471	18 071	12 400

QUESTION 1

1. Select the cost item from the list that matches the example below. Write only the cost item next to the question numbers (1.1 to 1.3) in the ANSWER BOOK. (3)

direct material; indirect labour; direct labour; administration costs
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- 1.1 Salary of the factory workers.
 1.2 Stationery used in the office.
 1.3 Transportation costs of raw materials delivered to the factory.

QUESTION 2
2. SPORTY MANUFACTURERS

The business manufactures and sells golf shirts. The financial year ended on 28 February 2026

- 2.1 Calculate direct material costs (6)
 2.2 Calculate the factory overheads (12)
 2.3 Prepare the Production Cost Statement for the year ending 28 February 2026. (8)

INFORMATION:
A. Stock balances on 28 February

	2026	2025
Direct material	221 000	184 000
Work-in-Process	?	312 000
Finished products	?	510 000

B. Figures provided by the accountant 28 February 2026

Direct material	730 000
Indirect material	27 750
Carriage on purchases: Direct material	32 000
Direct labour	616 200
Advertisements	18 600
Salary: Factory foreman	210 000
Rent expense: Factory	109 000
Water and electricity	20 010

C. Additional information

- The bookkeeper forgot to record an invoice of R125 000 on which a 12% trade discount was received on raw materials purchased.
- Two thirds (2/3) of the indirect material was used in the factory.

- Eight part-time employees are employed to clean the factory at R80 per hour. They each work 145 hours of normal time. Three of these employees worked 30 hours of overtime at normal time rate plus 60%.
- The accountant allocated 60% of water and electricity to the factory instead of 80%.

D. Production for the year: 14 000 shirts at a cost of R130 per shirt.

QUESTION 3

Garden Furniture Manufacturers is owned by Zandile Smith. The business manufactures garden chairs.

3.1 Refer to the information below:

- Should the business be satisfied with the number of chairs produced and sold during this financial year? Explain. Quote relevant figures in your answer. (3)
- Zandile wants to increase the number of units produced and sold in the next financial year to 30,000 while maintaining costs. Calculate the profit she will make from these units. (4)

3.2 Zandile is convinced that the cost of electricity in the factory has decreased in this financial year. Give **TWO** reasons that led to the decrease in the cost of electricity in the factory in the current financial year. (4)

INFORMATION:

A. Stock records of garden chairs:

		2026	2025
Number of units produced and sold		25 000	18 000
Breakeven point		8 871	9 360
Selling price		R60	R50
COST	TOTAL R	UNIT COST 2026 R	UNIT COST 2025 R
Direct material	250 000	10	12
Direct labour costs	375 000	15	11
Primary cost	625 000	25	23
Factory overhead	200 000	8	10
Administration costs	75 000	3	3
Selling and distribution	100 000	4	2

RECONCILIATIONS

BANK RECONCILIATION

Basic concepts

bank statement | bank reconciliation statements | electronic funds transfer (EFT) | future-dated EFT | outstanding deposit | advantages of EFTs

Bank (Ledger a/c): favourable (Dr) vs unfavourable (overdraft) bank balances (Cr)

Bank statement: favourable (Cr) vs unfavourable (overdraft) bank balances (Dr)

	ITEM	PROCEDURE / RULE(S)
1.	EFT made/generated (payments)	Enter in CPJ
2.	Direct deposits / EFTs received	Enter in CRJ
3.	Outstanding/Late deposit (in CRJ; not in BS yet)	Enter in BRS (as an outstanding deposit)
4.	Outstanding / Future dated EFTs (<i>in CPJ, not in BS yet</i>)	Enter in BRS (as outstanding EFTs)
5.	Errors on EFTs (incorrect amount and/or payee) (<i>cancelled</i>)	Bookkeeper needs to inform the bank to cancel the EFT; Reverse entry in CRJ (NB: An <i>incorrect payee</i> needs to pay back before the CRJ-entry can be made)
6.	Bank charges - items debited on BS	Enter in CPJ as ONE total
7.	Interest on credit (favourable) balance received (<i>a credit entry on BS</i>)	Enter in CRJ
8.	Interest on overdraft (<i>a debit entry on BS</i>)	Enter in CPJ
9.	Debit- and stop orders (payments in BS)	Enter in CPJ
10.	Withdraw cash from business bank a/c (<i>per debit- and/or credit card for wages, petty cash, etc.</i>)	Enter in CPJ
11.	Debit- and/or credit card payments (instead of EFTs) to suppliers and/or at pay points	Enter in CPJ (in the same month as the payment)
12.	Errors in CPJ (<i>EFT entry too much / too little and posted as such</i>)	Too much: Enter difference in CRJ; Too little: Enter difference in the CPJ
13.	Bank errors (shown on the BS)	Enter in BRS (<i>Bank will show correction on the next BS</i>)
14.	Fraud or negligence	Transaction/Corrective entry(entries) will be determined by the type of fraud or negligence (EFT or deposits??)

Format of Bank Reconciliation (BRS) – Double column

	Dr	Cr
Balance on bank statement	<i>unfavourable</i>	<i>favourable</i>
CR outstanding deposits		X

'New' calculated Bank account balance taken FROM the updated Bank account in the ledger

DR outstanding EFTs*: 1	X	
2	X	
Cr or Dr Correction of error		
Balance of bank account	<i>favourable</i>	<i>unfavourable</i>
	Column Total	Column Total

*Outstanding EFT made: EFT generated but it does not appear on the Bank statement yet

OR

Format of Bank Reconciliation (BRS) – Single column

Balance on bank statement	<i>Favourable/ (Unfavourable)</i>
Outstanding deposits	+
Outstanding EFTs*: 1	-
2	-
Correction of error	+/-
Balance of bank account	<i>Favourable/ (Unfavourable)</i>

'New' calculated Bank account balance taken FROM the updated Bank account in the ledger

Dr	Format of BANK account	Cr
Balance b/d (favourable)	OR Balance b/d (unfavourable)	
Total receipts CRJ	Total payments CPJ	
Balance c/o (Cr – Dr) (unfavourable)	OR Balance c/o (Dr – Cr) (favourable)	
TOTAL	TOTAL	
Balance b/d (Dr – Cr) (favourable)	OR Balance b/d (Cr – Dr) (unfavourable)	

New calculated Bank account balance to be shown in BRS

Comments

EFTs (future-dated or post-dated) issued at the end of a financial year

In the Statement of Fin Position: ADD to Bank (Dr); ADD to Trade and other creditors.

SUBTRACT from Bank overdraft, ADD to Trade and other creditors

GAAP principal for writing off AMOUNT: Rule of Prudence (e.g. cash deposit recorded in CRJ but does not appear in Bank statement [cashier could have been robbed OR he/she is rolling over cash on a monthly basis])

Internal control to avoid such issues: Division of duties (one person handles cash, another makes deposits)

Ethics

Roll over of cash (using cash and then making deposits towards end of month)

EFTs generated without supporting documents

DEBTORS RECONCILIATIONS

Basic concepts

debtors' age analysis | debtors' control account | debtors' list | bad debts | bad debts recovered | interest on overdue accounts

Reconciliation: Balance of Debtors Control **MUST** be equal to the **total of the Debtors List**

Understand the debtors' cycle

Invoice (DJ)	Credit note (DAJ)	Receipt (CRJ)	Petty cash voucher (PCJ)	Journal vouchers (GJ)
Sold on credit	Goods returned by debtors	Debtors paid their debt	Small cash payments made on behalf of debtor(s)	Correction of incorrect posting/errors

Dr		Debtors' control		Cr
Balance	b/d (opening)	Bank and Discount	CRJ	
Sales	DJ	Debtors allowance	DAJ	
Petty cash	PCJ	Journal credits	GJ	
Journal debits	GJ	Balance	o/d (closing)	

Debtors Ledger

	Fol	DR	CR	Bal
Balance	b/d			****
Invoice	DJ	***		+
Receipt	CRJ		***	-
Discount allowed	CRJ		***	-
Credit note	DAJ		***	-
Journal debits	GJ	***		+
Journal credits	GJ		***	-

How to reconcile (possible reasons for differences and how to act on it)

- **No entry in books:** correct an error in the control account and on list
- **Error on source documents:** correction in the control account and debtors' list
- **Posted to wrong debtors' account:** correct error in the debtors' list
- **Totals in journals are incorrect:** correct the total in the control account

Internal control

- Check creditworthiness / Limit bad debts by doing proper background investigation
- Each debtor must have an individual account
- Accurate/Complete records must be kept
- Send regular statements/ SMSs/ emails
- Give discounts for prompt payments
- Charge interest on overdue accounts / Hand over to lawyers

DEBTORS AGE ANALYSIS

TWO important items to look for when analysing debtor or credit management:

- Credit terms
- Credit limits
 - This analysis provides details of amounts owed by debtors and for how long.
 - Most businesses give debtors 30 days to pay. (credit term)
 - 30 days may be determined on invoice OR statement basis.
 - Statement basis - means 30 days from the date of the statement.

CREDITORS RECONCILIATIONS

Basic concepts

creditors' control account | creditors' list | interest on overdue accounts

Reconciliation: Creditors Control balance **MUST** be equal to the **total of the Creditors List**

A **Creditor's Ledger a/c** balance **MUST** correspond with **monthly statement received from a creditor**

Understand the creditors cycle

Source documents involved with Creditors

(and the effect of each on the Creditors' control (CC) and monthly statement (CMS))

Doc	Invoice (CJ)	Debit note (CAJ)	EFT made (CPJ)
<i>Reason for the doc</i>	Bought on credit	Goods returned to creditors	Payment made to creditor (may receive discount)
<i>Effect on CC and CMS</i>	Add to CC (cr) Add to CMS (dr)	Subtract from CC (dr) Subtract from CMS (cr)	Subtract from CC (dr) Subtract from CMS (cr)

Internal control

1. Decisions regarding:

- can supplier provide goods on a regular basis
- does supplier allow trade discount?
- payment terms
- does supplier give cash discounts

2. All items received - correct documents:

- Control if goods received correspond with the invoice when delivery is made
- Check for damaged items.
- If goods are damaged, return goods to supplier with a debit note
- If frequent problems occur, find alternative supplier

TOPIC 2: RECONCILIATION
SESSION 2

BASELINE ASSESSMENT: BANK RECONCILIATION

Study the items given below and indicate where you will record each item by placing an 'X' in the Cash Journal or No entry column. Use a '+' or '-' sign for the Bank Reconciliation column. The first one has been done for you.

	Item	Cash Journal		Bank Reconciliation Statement	No entry
		CRJ	CPJ		
1.	Bank charges as per bank statement.		X		
2.	Month-end balance of current bank statement. (favourable).				
3.	Amount on an EFT overstated in the CPJ.				
4.	Cancellation of an EFT that has been issued (within the bank's time frame).				
5.	Month-end balance of current bank statement (unfavourable).				
6.	EFT's not reflected on a bank statement.				
7.	Amount on an EFT understated in the CPJ.				
8.	Amount on an EFT received understated in the CRJ.				
9.	Previous month-end balance of bank statement (unfavourable).				
10.	Bank charges duplicated in error on bank statement.				
11.	Interest on overdraft.				
12.	Cancellation of discount on payment received incorrectly given.				
13.	Incorrect debit entry made in the bank statement.				
14.	Rent deposited into banking account by tenant.				
15.	Direct deposit made by debtor into banking account of the business.				
16.	Interest earned on current banking account.				
17.	Use of debit card to draw cash reflected on bank statement but omitted from cash journals.				
18.	Previous month-end bank account balance (favourable).				
19.	Current month-end bank account balance (unfavourable).				
20.	Incorrect credit entry made in the bank statement.				

ACTIVITY 1

- 1.1** Choose the correct answer from the words provided within brackets. Write only the answer, next to each number (1.1.1 – 1.1.3) in the ANSWER BOOK.
- 1.1.1 A (debit/credit) balance on the bank statement indicates an overdraft.
- 1.1.2 A (debit /credit) note is the source document for goods returned by a debtor.
- 1.1.3 A (cash discount/trade discount) is offered when accounts are settled within a certain time.
- 1.2** Kruger Stores employs Annie Skelm as their bookkeeper. She is also responsible for depositing money into the bank, and she processes EFT's receipts and payments. She is currently on leave and the owner; Marli asks you to prepare the Bank Reconciliation for May. The official bank statement received was dated 27 May 2026.

REQUIRED:

- 1.2.1 Calculate the correct totals in the Cash Receipts Journal (CRJ) and Cash Payments Journal (CPJ) for May 2026
- 1.2.2 Calculate the correct balance of the Bank account in the ledger on 31 May 2026
- 1.2.3 Prepare the Bank Reconciliation Statement on 31 May 2026.
- 1.2.4 Marli is concerned about the following transactions and is uncertain what to do about this. Explain what you would say to Marli about each of these issues:
- **EFT 639 for R62 900 in information (e):**
Marli was not aware of DD Traders as Kruger Stores does not trade with them. She conducted an investigation and has found that no goods were provided by this company. She has also heard that Annie's boyfriend, owns that company. Provide TWO points.
 - **Outstanding deposits:**
She is concerned about internal control at Kruger Stores

INFORMATION:

A. The Bank Reconciliation for April 2026:

	DEBIT	CREDIT
Balance per bank statement		141 200
Outstanding deposits:		
Dated 15 April 2022		65 000
Dated 30 April 2022		42 400
Outstanding EFTs:		
621 (dated 29 April 2022)	48 700	
624 (dated 30 April 2022)	54 100	
Balance per bank account	?	
	248 600	248 600

- B.** The provisional totals in the journals for May 2026 before reconciling to the bank statement are: CRJ: R634 700 and CPJ: R462 900
- C.** In comparing the April reconciliation to the May bank statement, the following was noticed:
- The outstanding deposit of R42 400 and EFT No. 621 for R48 700 appeared on the May bank statement.
 - The deposit of R65 000, dated 15 April, was never deposited into the bank account. See (d) below.
 - EFT 624 was recorded by the bank on the May statement as R45 100. It appears that Annie had recorded an incorrect amount in the CPJ. The bank statement is correct in this regard.
- D.** Marli has questioned Annie about the missing R65 000. She said that she was too busy at that time to go to the bank and had asked another worker to deposit this for her. She could not remember who this person was and said that she does not know what happened to the cash. Marli decides to write off the amount but will investigate further.
- E.** The May Bank Statement reflected the following items that did not appear in the journals:
- Bank charges of R1 750.
 - Interest of R2 750 on the current account.
 - An EFT received of R18 800 for rent received from a tenant who hired a storeroom from Kruger Stores.
 - An EFT received of R18 800 for rent received from a tenant who hired a storeroom from Kruger Stores.
 - A debit order for the cell phone contract of R7 340 was duplicated in error on the bank statement. The bank will correct this in June. The debit order was not entered in the CPJ.
 - A cash withdrawal of R5 690 by debit card to replenish the petty cash.
 - EFT 639 for R62 900 dated 23 May 2026 in favour of DD Traders.
- F.** The following items appeared in the Cash journals, but not on the bank statement:
- EFT 655 dated 29 May 2026 for R11 050
 - EFT 656 dated 30 May 2026 for R4 950
 - A deposit by a debtor of R31 800 on 30 May 2026
 - A deposit of R47 700 dated 30 May 2026 for cash sales.
- G.** The balance on the Bank Statement dated 27 May 2026 is R.....?

ACTIVITY 2

- 2.1** Choose the word(s) between the brackets to make the statement true. Write only the correct word(s) in the ANSWER BOOK provided.
- 2.1.1 Outstanding EFTs must be entered in the (CPJ/Bank Reconciliation Statement).
- 2.1.2 A (debit order/stop order) is an instruction to a third party that money must be deducted from your bank account.
- 2.1.3 It is the responsibility of the (internal/external) auditor to follow up on the Bank Reconciliation Statement.

2.2 MOUNTAIN TRADERS

The information below relates to April 2026. The official bank statement, used for reconciliation purposes, is e-mailed to the business on 25th of each month. The business has only one employee, Shaun, in charge of processing and controlling all cash in the business.

REQUIRED:

- 2.2.1 Calculate the correct bank account balance in the General Ledger on 30 April 2026. Indicate whether this is favourable or unfavourable.
- 2.2.2 Prepare the Bank Reconciliation Statement on 30 April 2026.
- 2.2.3 The internal auditor is concerned about the management of cash in the business.
- Explain TWO different problems to justify his concern. Quote figures and dates.
 - Give advice on how such problems can be avoided in future. Provide TWO points.

INFORMATION:

A. Extract from the Bank Reconciliation Statement on 31 March 2026

	R
Balance as per Bank Statement (unfavourable)	44 800
Outstanding deposit: 17 March 2026	16 800
20 March 2026	29 800
Outstanding EFTs: No 204	8 750
No 226	18 700
Balance as per bank account	?

B Provisional total of Cash Journals on 30 April 2026:

Cash Receipts Journal, 1 12 850
Cash Payments Journal, R125 128

C. Information on the April 2026 Bank Statement which did not appear in the April 2026 Cash Journals:

 UPTOWN BANK				
Current Account				
Mountain Traders		Statement number	4	
45 Avenue South		Statement date	25 April 2026	
Gauteng		Overdraft limit	R50 000	
ACCOUNT SUMMARY				
Opening balance on		25 March 2026	-R44 800	
Closing balance on		25 April 2026	R46 548	
DATE	TYPE	DETAILS	DEBIT	CREDIT
28 March	Deposit	Cash		16 800
	EFT 204	GH Suppliers	8 750	
	EFT 226	Smooth Traders	15 700	
1 April	Deposit	Cash		24 800
5 April	EFT	Stuart Properties –rent expense		22 500
14 April	Deposit	Cash		?
16 April	Debit card	Cash	650	
18 April	Debit order	Best Insurance	4 800	
20 April	Stop order	Varsity Education	3 500	
22 April		Service fees	600	
		Interest	180	
23 April	EFT	WIFI Express	2 200	
24 April	EFT	Marriot Fund		?

- The deposit on 1 April appeared correctly on the Bank Statement. An investigation revealed that the money went missing. The amount must be written off.
- EFT 226 appeared correctly on the Bank Statement. This was in favour of Naidoo Enterprises for merchandise purchased for cash.
- Paid Stuart Properties the monthly rent, R22 500. The bank incorrectly recorded this transaction and will rectify it.
- The deposit on 14 April was in respect of cash sales less 8% trade discount granted to customers. The cost was R24 000. The business uses a mark-up of 80% on cost.
- Debit card withdrawal on the 16th was to restore the petty cash.
- The stop order on 20 April 2026 is in favour of Varsity Education for the owner's child's tertiary

education.

- The EFT payment to WIFI Express on 23 April is not an account of the business but is Shaun's personal WIFI account. The owner notified the bank and instructed the bank to cancel this entry. The reversal will be reflected on the next statement.
- The EFT payment from Marriot Fund was an investment that matured, including interest for the year at 12% p.a. The total interest earned was R6 000.

D. The following information in the April 2026 Cash Journals does not reflect on the Bank Statement for April 2026.

- Outstanding deposit dated 29 April 2026, R?
- EFT 301 for R1 285 to GNA Stationers for Stationery purchased.
- EFT 309 for R12 800 to JH Traders to pay our account of R13 500.

TOPIC 2: RECONCILIATIONS
SESSION 2

BASELINE ASSESSMENT: CREDITORS RECONCILIATION

The bookkeeper of Ling-Ling Stores made some mistakes and omitted certain transactions in preparing the Creditors' Control Account and the Creditors' List on 31 May 2026. You are the internal auditor of the store.

REQUIRED:

Study the items given below and indicate where you will record each item by placing a '+' or '-' sign and the amount in the applicable column.

	ERRORS AND OMISSIONS	Creditors Control	Creditors List
	Balances on 31 May 2026	160 300	170 400
A.	The total of the Creditors Allowance Journal was undercast by R13 000.		
B.	The total of Creditors Journal was inaccurately added as R52 250 instead of R62 350.		
C.	A payment of R43 000 to Lwethu Stores was correctly recorded in the Cash Payments Journal but the bookkeeper neglected to post this payment to the creditor's ledger account.		
D.	An EFT for R2 100 issued to Rixi Traders in settlement of their debt of R2 300 was correctly recorded in the Cash Payments Journal but posted to Xiri Wholesalers account, in error.		
E.	A credit balance of R470 from Lwethu Stores' account in the Debtors Ledger must be transferred to their account in the Creditors Ledger.		
F.	Credit purchases of merchandise to the value of R38 600 from Xiri Wholesalers were wrongly entered as R83 600 in the Creditors Journal and posted as such.		
G.	Rixi Traders' account was mistakenly debited with credit purchases value of R15 000.		

ACTIVITY 1: CREDITORS RECONCILIATIONS

NATHI TRADERS

A statement of account was received from creditor Indi Suppliers on 25 May 2026. The outstanding balance does not correspond with the amount reflected in the creditors' ledger account.

REQUIRED:

- 1.1 Use the table provided in your answer book to make adjustments to:
- the Creditors Ledger of Indi Suppliers in the books of Nathi Traders.
 - the Statement of Account from Indi Suppliers.

Indicate + or – for each amount.

- 1.2 It has been discovered that the warehouse manager took goods purchased for his personal use, using the business order book. This invoice did not appear in the creditors' ledger account.
- What advice would you offer to the owner?
 - Provide TWO internal control measures that can be implemented to prevent such incidents like the above from occurring in the future.

INFORMATION:

A. CREDITORS LEDGER OF NATHI TRADERS

INDI SUPPLIERS				CL4		
DATE		DETAILS	FOL	DEBIT	CREDIT	BALANCE
2026 MAY	1	Account rendered				34 920
	5	Invoice No. 346			11 808	46 728
	7	Debit note No. 69		816		45 912
	13	EFT No. 207		22 788		23 124
		Discount		3 532		19 592
	14	Invoice No. 135			6 929	26 521
	23	Invoice No. 378			7 188	33 709
	24	Invoice No. 396			8 829	42 538
	30	Invoice No. 407			4 526	47 064

B. Statement of account received from Indi Suppliers

INDI SUPPLIERS STATEMENT OF ACCOUNT						
39 Carol-Anne Way Brentwood 7100				Tel: 021 370 2000 Fax: 021 374 2056 25 May 2026		
ACCOUNT OF NATHI TRADERS				ACCOUNT NO. NTI 674		
DATE		DETAILS	FOL	DEBIT	CREDIT	BALANCE
2026 MAY	1	Balance				34 920
	5	Invoice No. 346		10 296		45 216
	7	Credit Note No. 109		816		46 032
	13	Receipt No. 5140			22 788	23 244
	23	Invoice No. 378		7 188		30 432
	24	Invoice No. 396		9 810		40 242
	25	Interest on overdue account		29		40 271

C. DIFFERENCES NOTED

- (i) Invoice No. 346 on 5 May 2026 was correct according to the statement from Indi Suppliers.
- (ii) Indi Suppliers made an error in recording the return of goods on 7 May 2026.
- (iii) Nathi Traders qualified for an early settlement discount with the payment on 13 May 2026. Indi Suppliers granted only R2 532 as discount. They promised to correct on the next statement.
- (iv) Invoice 135 for R6 929 was incorrectly recorded in the Creditors' Ledger Account of Indi Suppliers. This purchase was made from Mandla Suppliers.
- (v) A trade discount of 10% was deducted on invoice 396. Indi Suppliers did not take this into account and promised to rectify on next statement.
- (vi) Invoice No. 407 did not appear on the statement received from Indi Suppliers as this transaction took place after their statement date.
- (vii) Indi Suppliers have correctly levied interest on R29 on the account.

ACTIVITY 2: CREDITORS RECONCILIATION

KHAYA STORES

Khaya Stores is owned by Peter Sithole. The business buys goods on credit from PN Suppliers. The business received a statement of account for February 2026.

REQUIRED:

2.1 Refer to Information A, B and C.

Use the table that is provided.

Indicate the changes to the Creditors' Ledger account in the books of Khaya Stores and the statement received from PN Suppliers to take into account the errors and omissions on 28 February 2026.

Indicate + or – for each amount.

2.2 Refer to Information D.

- State TWO benefits of using electronic funds transfers (EFTs) for payments to creditors.
- The internal auditor feels that this incident of fraud should never have occurred in this business.
 - Explain why he feels this way.
 - Explain how this could have been prevented. State TWO points.

INFORMATION

A. Creditors' Ledger of Khaya Stores

PN SUPPLIERS (CL8)					
DATE		DETAILS	DEBIT	CREDIT	BALANCE
			R	R	R
2026 Feb.	1	Balance			86 900
	5	Invoice 353		18 800	105 700
	7	Debit note 72	600		105 100
	13	EFT 428	22 800		82 300
		Discount	1 140		81 160
	14	Invoice A417		6 100	87 260
	16	Invoice 390		11 800	99 060
	23	Invoice 401		8 900	107 960
	24	EFT 676	12 000		95 960
	25	Journal voucher 221	2 660		93 300
	27	Invoice 556		7 700	101 000

B. Statement of account received from PN Suppliers

Khaya Stores 228 Rhino Street					
25 February 2026					
DATE		DETAILS	DEBIT	CREDIT	BALANCE
			R	R	R
2026 Feb.	1	Balance			86 900
	5	Invoice 353	10 800		97 700
	7	Credit note 109	600		98 300
	14	Receipt 632		22 800	75 500
	16	Invoice 390	12 980		88 480
	23	Invoice 401	8 900		97 380
	24	Receipt 961		12 000	85 380

C. Errors, omissions and other information:

- Invoice 353 on 5 February 2026 was correct according to the statement.
- PN Suppliers made an error in recording the goods returned on 7 February 2026.
- Khaya Stores entered a discount with the EFT payment on 13 February 2026. PN Suppliers informed the business that they do not qualify for this discount.
- Invoice A417 in the Creditors' Ledger Account of PN Suppliers was for goods purchased from LM Suppliers.
- The trade discount on Invoice 390 was not deducted by PN Suppliers.
- The bookkeeper transferred a debit balance from the Debtors' Ledger Account of PN Suppliers (Journal voucher 221) to their account in the Creditors' Ledger.
- The statement shows entries up to 24 February 2026 only.

- D. During an internal audit, the auditor noticed the following account in the Creditors' Ledger of Khaya Stores:

EXCESS TRADERS			CL24		
DATE		DETAILS	DEBIT	CREDIT	BALANCE
2026 Feb.	20	Invoice 11 334		R120 000	R120 000
	22	EFT	R120 000		R0

It was discovered that an EFT payment of R120 000 was made to Frank Adams, the sole owner of Excess Traders. Further investigation by the internal auditor revealed that this business is not operational, and that Frank Adams is a close relative of the accountant of Khaya Stores.

TOPIC 2: RECONCILIATIONS

SESSION 2

BASELINE ASSESSMENT: DEBTORS RECONCILIATION

CELINE'S BOUTIQUE

You are the internal auditor of Celine's Boutique. The Debtors' Control account and the Debtors' List for September 2025 were prepared by the bookkeeper, but there are some errors and omissions

REQUIRED:

1. Indicate the corrections that must be made to the Debtors' Control account in the General Ledger by showing the amounts with (+) for increase; (-) for decrease OR 'no change' where applicable.
2. Prepare the correct Debtors' List on 30 September 2025. Show workings

INFORMATION:

A. Pre-adjustment figures on 30 September 2025

Debtors' Control account balance	20 100
Debtors' List total from Debtors' Ledger	19 900

B. Debtors' List on 30 September 2025

	DEBIT	CREDIT
Get Tee	3 800	
M. Skirts	7 400	
J Skinny		1 900
T Curvey	10 600	

C. Errors and omissions:

- (i) The total of the Debtors' Journal was overcast by R1 800.
- (ii) Interest of R200 must be charged on the overdue account of M Skirts.
- (iii) An amount of R3 200 received from Get Tee was incorrectly recorded as R2 300 in the Cash Receipts Journal and posted accordingly to the Debtors' Ledger and the General Ledger.
- (iv) Merchandise returned by T Curvey, R800, was posted to the wrong side of his account in the Debtors' Ledger.
- (v) No entry was made for an invoice issued to J Skinny, R1 400.

ACTIVITY 1: DEBTORS RECONCILIATION

MAMELA TRADERS

This information relates to Mamela Traders for September 2025.

REQUIRED:

- 1.1 Calculate the correct Debtors' Control balance on 30 September 2025. Show figures and indicate '+', '-' or 'no change' at each adjustment.
- 1.2 Calculate the correct total of the Debtors' List on 30 September 2025.
- 1.3 Despite sending monthly statements timeously, the accountant noticed that this was not effective in improving debtors' collections.
 - **Refer to Information C.**
Calculate the % of debtors who do not comply with the credit terms.
 - **Refer to Information A.**
Identify ONE other problem with regards to the control over debtors.
 - Provide TWO suggestions to address the problems identified.

INFORMATION:

A. Balances on 30 September 2020 before taking into account the errors and omissions:

(i) Debtors' control balance in the General Ledger, R100 310.

(ii) List of debtors' balances:

	Credit Limit	Balance
D. Dlamini	R20 000	R27 000
G. Swardt	30 000	22 470
N. Nomandla	15 000	17 600
L. Vos	40 000	34 440
X. Meyer	10 000	(2 000)

B. Errors and omissions:

- (i) The total of the Debtors' Journal was overcast by R3 600.
- (ii) No entry was made for a sales invoice issued to Vos for R2 760.
- (iii) Interest of R230 must be charged on the overdue account of Swardt.
- (iv) Goods returned by Nomandla, R1 400, were posted to the wrong side of his account in the Debtors' Ledger. The entry in the General Ledger was correct.
- (v) The amount of R6 300 received from Dlamini was incorrectly recorded as R3 600 in the Cash Receipts Journal and posted as such to the Ledger Accounts.
- (vi) The balance of Meyer must be transferred to his account in the Creditors' Ledger

C. On 30 September 2025, the Debtors' Age Analysis revealed the following:

Balance	Current Month	30 days	60 days	90 days
R99 000	R15 420	R22 200	R44 500	R16 880

Credit terms: Debtors are granted 30 days to settle their accounts.

ACTIVITY 2: DEBTORS RECONCILIATION

INFORMATION

Credit terms: Debtors are granted 60 days' credit (2 months after the month of purchase) by Chino Stores.

Age Analysis of Chino Stores as at 31 May 2026

DEBTORS' NAME	CREDIT LIMIT	AMOUNT DUE	CURRENT	30 DAYS	60 DAYS	90 DAYS	OVER 90 DAYS
			MAY	APRIL	MARCH	FEB	
A Ley	3 000	2 416	1 416	1 000			
B Ney	500	392	392				
C Word	2 500	1 335	248	850	20	217	
D Vid	1 000	845					845
R Ose	1 000	600			400	200	
Total due		5 588	2 056	1 850	420	417	845
%		100%	37%	33%	7.5%	7.5%	15%

REQUIRED:

- 2.1 Identify the balance of the Debtors Control account in the General Ledger on 31 May 2026.
- 2.2 Explain the terms "credit limit" and "amount due" as used on the Age Analysis above.
- 2.3 Name the month when B. Ney purchase goods on credit from Chino Stores.
- 2.4 A. Ley applied to purchase additional goods of R900 on credit from Chino Stores. The accountant was not prepared to allow him this additional credit until he settles part of his account. How much must he pay before he is allowed to take the additional R900 worth of goods on credit?
- 2.5 As accountant of Chino Stores, write brief instructions to the Debtors Clerk as to the procedure you wish her to follow in order to collect the R217 outstanding by C. Word
- 2.6 D. Vid cannot be traced, and it is believed that he has left the country. His account has been overdue for more than 90 days and you as accountant have issued instructions to write off his account as irrecoverable.
Complete the table below to record this entry. The goods sold to David were marked up by 25% on cost.

Subsidiary Journal	Account Debited	Account Credited	Amount

- 2.7 Briefly discuss whether effective control is being exercised over debtors.

INFORMAL ASSESSMENT: BANK RECONCILIATION**(25 marks; 20 minutes)**

- 1.1** Match the statement in COLUMN A with a term from COLUMN B. (4)
Write only your answer (A–E) next to the question numbers (1.1.1 to 1.1.4) in the ANSWER BOOK, for example 1.1.5 F.

1.1.1	Interest debited on the bank statement	A.	Bank charges
1.1.2	The cost of using a current bank account	B.	Debit
1.1.3	A balance on a bank statement that represents a favourable balance	C.	Stop order
1.1.4	Authorises a fixed monthly payment to the same beneficiary	D.	Interest on overdraft
		E.	Credit

- 1.2** The information was extracted from the records of Pheasant Traders. The business uses the official bank statement, available on 26th of each month, to complete the bank reconciliation process

REQUIRED:

- 1.2.1 Calculate the correct cash journal totals for April 2026. Use (10)
the table provided in the ANSWER BOOK.
- 1.2.2 Calculate the Bank account balance on 30 April 2026. (4)
- 1.2.3 Prepare the Bank Reconciliation Statement on 30 April 2026. (7)

INFORMATION:

- A.** Extract of items that appeared on the Bank Reconciliation Statement on 31 March 2026:

Outstanding deposits on 26 March 2026	R9 500
on 31 March 2026	R10 500
Outstanding EFT no. 341	R4 650
Favourable balance on bank account in the ledger	R18 795

Note:

- The deposit on 26 March 2026 appeared on the April bank statement as R4 500. The difference must be written off as the cashier no longer works for the business.
 - All other outstanding amounts were correctly reflected on the April bank statement.
- B.** The cash journals reflected the following provisional totals before the bank statement for April 2026 were received.
- Total for Cash Receipts Journal, R91 230
 - Total for Cash Payments Journal, R101 050

- C.** The following items on the bank statement for April 2026, must still be taken into account:
- Service fees, R245; credit card levies, R750; cash handling fees, R430
 - Interest credited, R200
 - Debit order to Eagle Secure for business insurance, R2 100
 - Direct deposit of R7 500 by a debtor
- D.** EFT no. 375 was recorded as R6 000 in the CPJ. This EFT appeared on the April bank statement with the correct amount of R600.
- E.** A stop order for repayment on loan, R10 000, appeared on the April bank statement. The loan, however, was settled in March 2026. The loan company was informed of this mistake. This will be rectified on the next statement.
- F.** The following items appeared in the Cash Journals for April 2023, but not on the bank statement for April 2026:
- Deposit on 30 April 2023, R21 500
 - EFT no. 440, R2 250

INFORMAL ASSESSMENT: CREDITORS RECONCILIATION (12 marks; 10 minutes)

Amahle Traders buys goods on credit from Anna Suppliers.

REQUIRED:

- 1.1 Use the table provided in the ANSWER BOOK to show changes to the Creditors' Ledger account of Anna Suppliers in the books of Amahle Traders and the statement of account received from Anna Suppliers, to take into account the differences identified. (8)

Indicate a '+' or '-' next to each amount.

- 1.2 The internal auditor insists that direct payments (EFT) must be used to pay suppliers. (2)
- Provide one reason to support her decision. (2)
 - Provide one internal procedure to ensure control over this system.

INFORMATION:**A. Creditors ledger of Amahle Traders:****ANNA SUPPLIERS****FOL CL12**

DATE	DETAILS	DEBIT	CREDIT	BALANCE
2025 1	Balance			67 500
Aug 10	Invoice 209		81 000	
	EFT	33 750		
17	Debit note 674	8 640		
	Invoice 282		40 950	
	Invoice 301		25 000	
21	Invoice 360		50 250	
24	Debit note 995		8 100	
27	Journal voucher 570	5400		
31	EFT	77 190		147 820

B. Statement of account from Anna Suppliers

DATE		DETAILS	DEBIT	CREDIT	BALANCE
AMAHLE TRADERS 24 August 2025 103 Mevas Road					
2025 1		Balance			67 500
Aug 10		Invoice 209	81 000		
		Receipt 695		33 750	
	17	Credit note 741		6 840	
		Invoice 301	25 000		
	21	Invoice 360	20 250		
	24	Credit note 811		8 100	145 060

C. Differences noted:

- (i) The incorrect entry for debit note 674 in the creditors ledger account of Anna Suppliers related to the credit note 741 on the statement. The statement of account is correct.
- (ii) Invoice 282 was incorrectly reflected in the account of Anna Suppliers in the creditors ledger. The goods were purchased from Last Born Suppliers
- (iii) Invoice 360 was incorrectly recorded on the statement from Anna Suppliers.
- (iv) Anna Suppliers also purchased goods on credit from Amahle Traders, Amahle Traders has transferred a debit balance from the debtors ledger (Journal voucher 570). Anna Suppliers will offset this on the next statement.
- (v) The transaction on 24 August 2025 is for merchandise returned to Anna Suppliers.
- (vi) The statement reflects transactions up to 24 August 2025.

INFORMAL ASSESSMENT: DEBTORS RECONCILIATION (30 marks; 25 minutes)

Zig Zag Traders sells ladies clothing on credit. Debtors are allowed a credit term of 30 days to settle their accounts.

REQUIRED:

- 1.1** Provide TWO documents that Zig Zag Traders will need from potential debtors before they will be allowed to open accounts. (2)
- 1.2 Refer to Information A and B.**
Use the table provided in the ANSWER BOOK to calculate the following:
- The correct closing balance of the Debtors' Control Account on 30 September 2025. Indicate changes with '+' for an increase, '-' for a decrease or '0' for no change. (9)
 - The correct amounts owed by the following debtors only: (9)
 - A Barnes
 - C Davis
 - E Foley
- 1.3 Refer to Information C.**
Explain THREE different problems highlighted by the debtors' age analysis. Provide the name of a debtor and/or the figure(s) in EACH case. (6)
- 1.4 Refer to information D.**
Provide TWO points to support the internal auditor's concern that Susan's job description could lead to potential fraud. (4)

INFORMATION:

- A.** Balances on 30 September 2025, before taking into account errors and omissions in Information B:

- ✓ Debtors' Control Account: R228 000
- ✓ Extract from the debtors' list:

DEBTORS	FOLIO	AMOUNT
A Barnes	D10	R13 500
C Davis	D23	R25 000
E Foley	D35	R18 300

- B.** The following errors and omissions must be taken into account:
- (i) An invoice for R1 750 issued to A Barnes was not recorded in the books of Zig Zag Traders.
 - (ii) A direct deposit of R2 500 by E Foley was correctly recorded in the journal but incorrectly posted to the account of E Foges (another debtor) in the Debtors' Ledger.
 - (iii) The total of the Debtors' Journal, R62 500, was incorrectly recorded as R65 200 in the Debtors' Control Account.
 - (iv) Merchandise sold to C Davis, R3 500, was treated as a

return of goods and recorded in the Debtors' Allowances Journal.

- (v) R5 200, received from D Klein, a debtor whose outstanding balance was written off six months ago, was recorded in the Cash Receipts Journal as a receipt from a debtor.
- (vi) Merchandise returned by A Barnes was recorded in the relevant journal as R250 instead of R700 and posted accordingly.
- (vii) An EFT for R7 850, received from E Foley as part payment of his account, was entered correctly in the relevant journal but no entries were made in the Debtors' Ledger.

C. The following age analysis was compiled on 30 September 2025:

DEBTOR	CREDIT-LIMIT R	BALANCE R	CURRENT R	30 DAYS R	60 DAYS R	MORE THAN 90 DAYS R
J Blom	52 000	45 000	18 000	7 000	20 000	
Z Phi	22 000	29 000	3 000	26 000		
S Sah	16 000	12 500	12 500			
O Mach	6 000	6 000	2 000			4 000
Other debtors		146 300	55 244	48 192	30 148	12 716
		R238 800	R90 744	R81 192	R50 148	R16 716

D. Susan, a member of the sales staff, is also responsible for:

- Collecting cash from customers who choose to pay in this way
- Receiving goods returned and issuing credit notes to customers who return goods.

The internal auditor is not happy with Susan's job description as he feels it has the potential for fraud, which could lead to loss of cash and trading stock.

BUDGETING

Basic concepts

budgeting | forecasting | cash budget | projected statement of comprehensive income (aka *projected income statement*) | budgeted (or projected) figures | actual figures | budget period | debtors' collection schedule | creditors payment schedule | cash from debtors | payments to creditors | cash sales | credit sales | cash purchases | credit purchases | cash surplus | cash shortfall

Debtors' collection schedule

- This schedule is based on **credit sales only**
- MAY be required to calculate total sales first and work back to credit sales
 e.g. If Cash sales is 80%, then total sales will be: $\text{Cash sales} \times \frac{100}{80}$
 Now calculate credit sales, which is 20% of total sales = Total sales less cash sales
 NB: *ALTERNATIVE calculation to save time:* $\text{Credit sales} = \text{Cash sales} \times \frac{20}{80}$
- REMEMBER to TOTAL the debtors' collection or creditors' payment schedule

Cash Budget

- You will not be required to prepare a complete cash budget, but you will be expected to analyse a cash budget and complete certain calculations.
- Only do calculations that are required.
- The *Receipts from debtors'* amount will be calculated in debtors' collection schedule
- Payments to creditors: amount **could** be calculated in Creditor's payment schedule OR directly in the budget.
- **REMEMBER:** Purchases are Cost of Sales (Cash or Credit) where purchases amounts are not given directly
- Any **deficit** (payments are more than receipts) must be indicated in brackets () and must be subtracted from a favourable or debit bank balance.
- The first month's closing balance is ALWAYS the opening balance of the second month.

Calculations

Mark-up %	$\frac{\text{Sales} - \text{Cost of sales}}{\text{Cost of sales}} \times 100$	Answer must be in: ...%
% Increase/Decrease	$\frac{\text{New amount} - \text{Old amount}}{\text{Old amount}} \times 100$	...%
Given: Interest on loan: % p.a. and monthly interest amount Required: Calculate total Loan	$\frac{\text{Interest amount} \times 100 \times 12}{\text{months} \times \% \text{ interest}}$ NB: Use the same calculation for fixed deposit	R

Items NOT in Cash budget (Non-cash items)

Depreciation; Bad debts; Discount allowed; Discount received

Projected Income Statement

Format for Projected Income Statement is similar to an Income Statement but is prepared per month for budget period.

Items NOT in Projected Income Statement

Purchase of assets; Purchase of stock; Receipts from debtors; Payments made to creditors; Drawings; Capital contributions; Issued shares; Buy back of shares

Internal control

- Compare the **actual** with the **budgeted** amounts. Possible problems related to expenses or income can be identified and recommendations made based on these comparisons.
- Decide whether the expense or income has been **well controlled**/managed or not.
- Identify the LINK between budgeted income and budgeted expense/payment items, e.g. Advertising & Sales; Consumable stores & Fee income; Delivery expenses & Sales;
- Comment on 'challenges' e.g. office expenses / delivery expenses & working from home during lockdown; buying or renting/leasing an asset; spending on services, e.g. cleaning services outsourced vs paying cleaners....

TOPIC 3: BUDGETING
SESSION 3

BASELINE ASSESSMENT: BUDGETING

1. Match the explanations in column B to the concepts in column A on the answer sheet, e.g., 1. A.

COLUMN A		COLUMN B	
1.	Cash Inflow	A	Earnings of a business
2.	Cash outflow	B	Receipts are more than the payments
3.	Cash budget	C	Actual cash going out the business
4.	Income	D	Payments are more than the receipts
5.	Expenses	E	Costs incurred by the business
6.	Surplus	F	Actual cash coming into the business
7.	Deficit	G	Future predictions of all cash receipts, cash payments and the bank balance

ACTIVITY 1

You are provided with information relating to Super Smashers Panel Beaters for the budget period 1 August 2025 to 30 September 2025. The business is owned by Sparky Brite. The financial year ends on 30 September each year.

- The business operates on a strict cash basis.
- Nature of business:
 - Repairs damages on the body of vehicles to earn service fee income.
 - Sale of spare parts used in repairs as well as to over-the-counter customers.

Other consumables used during repair services are recorded as Service Fee Expenses. These costs are charged thereafter to clients' accounts.

REQUIRED:

- 1.1 State ONE difference between a Projected Statement of Comprehensive Income (Income Statement) and a Cash Budget.
- 1.2 Provide TWO possible reasons why Sparky does not allow credit to customers and indicate whether this is a good decision or not.
- 1.3 Calculate the following:
 - 1.3.1 The mark-up percentage maintained for the sale of spare parts.
 - 1.3.2 The percentage decrease in service fee income expected in September 2025.
 - 1.3.3 The additional space (in square metres) which the business plans to rent from September 2025.
 - 1.3.4 The interest rate on the fixed deposit. Note that the interest rate is expected to remain constant over the budget period.
- 1.4 Recent trends show that the stock of spare parts is not well controlled.

Comment on the control of stock and explain how Sparky intends to correct this. Quote specific items and figures from the Projected Statement of Comprehensive Income provided.
- 1.5 Sparky offered customers free delivery of spare parts but discontinued this service on 31 July 2025. State TWO points to support this decision.
- 1.6 **Refer to information D.**
Budgeted and actual figures for certain items for July 2025 are provided. Quote figures in your explanation in EACH case.
 - 1.6.1 Comment on the control over:
 - Service fee expenses
 - Water and electricity
 - 1.6.2 Sparky's decided not to use the full budget for advertising. Explain whether this was beneficial to the business or not.

INFORMATION:**A. Extract from the Projected Statement of Comprehensive Income (Income Statement) for the period 1 August 2025 to 30 September 2025:**

	AUGUST R	SEPTEMBER R
Service fee income from customers	224 000	203 840
Profit on sale of spare parts	34 350	50 625
Sales	80 150	118 125
Cost of sales	(45 800)	(67 500)
Other operating income		
Profit on disposal of the delivery vehicle	12 000	0
Gross operating income		
Operating expenses		
Rent expense (see note B)	9 000	13 800
Water and electricity	7 800	7 800
Motor vehicle expenses	11 250	2 250
Security expenses	7 500	13 800
Advertising	7 050	7 050
Consumable stores (Used for repair service)	45 000	45 000
Repairs and maintenance of equipment	22 500	0
Depreciation	6 750	15 750
Trading stock deficit	21 000	2 100
Operating profit		
Interest on fixed deposit (see note C)	8 550	4 050
Net profit		

- B.** Rent expense is calculated on a fixed amount per square metre. The business currently rents 75 square metres. On 1 September 2024, additional floor space will be rented at the same rate due to expansion.
- C.** A fixed deposit of R675 000 will mature on 31 August 2024.

D. Budgeted and actual figures for July 2025:

	BUDGETED	ACTUAL
	R	R
Service fee income	225 000	191 250
Service fee expenses	45 000	54 675
* Water and electricity	6 750	7 500
Advertising	7 050	2 700
Sale of spare parts	193 050	145 800
Cost of sales	117 000	81 000
Profit on sale of spare parts	76 050	64 800
Mark-up percentage (on cost)	65%	80%

***NOTE:** The water and electricity tariff unexpectedly increased by 15% from 1 July 2025 to August 2025.

ACTIVITY 2

You are provided with the Cash Budget and related information of Leboya Stores for the two months ended 30 November 2025, owned by Lebo Yarona.

REQUIRED:

- 2.1** Identify TWO items in the Cash Budget that will not appear in the Projected Statement of Comprehensive Income.
- 2.2** Credit terms allow debtors to settle their account by the end of the month following the month of sale. Discounts are granted to debtors who pay in the same month as sale. Bad debts are not applicable.
- 2.2.1 Complete the Debtors' Collection Schedule.
- 2.2.2 Calculate the missing figures indicated by (a) – (e) in the Cash Budget
- 2.3** Comment on the internal controls regarding collection from debtors and the payment to creditors. Give TWO points.

INFORMATION:

- A.** Cash sales amounts to 40% of total sales.
- B. Collection from debtors occur as follows:**
- 50% in the month of sale, subject to 5% discount.
 - 30% in the month following the sale.
 - 20% in the second month following the sale.
 - No bad debts are budgeted for.

C. Cost of sales and purchases:

- Goods are marked-up by 25% on cost.
- Stock is replaced in the same month (a base stock is maintained).
- 80% of stock is bought on credit. Creditors are paid in full in the month following the month of purchase.

D. The business invested money in a fixed deposit account on 1 October 2025. Interest is received monthly, calculated at 8% p.a. R30 000 of this fixed deposit matures on 31 October 2025.

E. Salaries and wages are expected to remain the same for the budget period. Staff members on leave in November will get their pay, totalling R46 500 at the end of October.

F. Commission income will increase by 7,5% from 1 November 2025.

G. Debtors' Collection Schedule

MONTH	CREDIT SALES	OCTOBER	NOVEMBER
August	90 000	18 000	
September	93 000	27 900	?
October	?	47 025	?
November	105 000		?
			?

H. Cash budget for two months ended 30 November 2025

	October	November
Receipts		
Cash sales	66 000	(a)
Cash from debtors		
Commission income	(b)	25 800
Interest on fixed deposit	600	(c)
Fixed deposit	30 000	
TOTAL RECEIPTS		
Payments		
Cash purchases of trading stock	26 400	28 000
Payments to creditors	(d)	105 600
Insurance	7 300	9 100
Bank charges	2 025	
Salaries and wages	216 500	(e)
Sundry expenses	4 050	4 200
TOTAL PAYMENTS		

INFORMAL ASSESSMENT: COST ACCOUNTING**(35 marks; 30 minutes)****FERNANDES TRADERS**

The information relates to the budget period August to October 2025. Claudio Fernandes is the owner of Fernandes Traders.

1. Complete the Debtors' Collection Schedule provided in the Answer Book. (4)
2. Calculate the missing amounts indicated by (a)–(e) on the Cash Budget provided. (Information I) (15)
3. To improve sales, Claudio decided to introduce online sales as a temporary measure from 1 August 2025. The budget was prepared before he made this decision. Online sales would require payments by credit card or EFT, and free deliveries would continue.
 - **Refer to Information G.** (4)
Comment on how the online sales have affected the actual cash and credit sales in August. Quote figures or calculations.
 - **Refer to Information H.** (4)
Identify TWO other costs already in the budget that were affected by the decision to go online and explain whether they were well controlled or not. Quote figures or calculations.
 - Provide ONE point that he should consider managing online sales as a permanent feature. (2)
4.
 - **Refer to Information F.** (4)
 - Calculate the cost price of the new delivery vehicle.
 - List TWO other costs related to the vehicle that Claudio will have to include in the budget. Figures are not required. (2)

INFORMATION:**A. Budgeted sales and collection from debtors:
(before the decision to introduce online sales)**

TOTAL SALES	JULY	AUGUST	SEPTEMBER	OCTOBER
	R210 000	R219 000	R222 000	R228 000

40% of the total sales are for cash.

- Credit sales are collected as follows:
 - 40% in the month of sale.
 - 55% in the first month following the sale
 - 5% in the second month following the sale

The balance is written off in the third month following the month of the sale.

- B. Purchases of stock and payments to creditors**
- Goods are sold at a mark-up of 50% on cost.
 - A fixed-based stock level is maintained by replacing stock sold on a monthly basis.
 - 70% of the total purchases are on credit.
 - Creditors are paid in the month following the month of purchase to take advantage of the 4% discount.
- C.** Salaries and wages are expected to increase by 7% p.a. effective from 1 October 2025.
- D.** Insurance premiums paid at the end of each month will increase by 9% p.a. from 1 October 2025.
- E.** The business will acquire a loan from XY Bank on 1 September 2025. A fixed monthly payment and interest at 12,5% p.a. is payable at the end of each month. Interest is not capitalized.
- F. Details relating to the proposed purchase of a new delivery vehicle:**
 Deliveries had been outsourced to Quick-Move Deliveries up to July 2025, but Claudio's father has offered to support his business by buying a delivery vehicle for him from 1 August 2025. Claudio agreed to repay his father R7 500 per month over 48 months to cover the monthly repayments. Claudio would, however, also pay the initial 20% deposit on the vehicle. It was an interest free loan.
- G. Budgeted and actual amounts for August 2025:**

	AUGUST 2025	
	BUDGETED	ACTUAL
Sales	R 219 000	R 295 650
Cash sales	87 600	162 000
Credit sales	131 400	133 650
Cost of sales	146 000	197 100
Gross profit	73 000	98 550

H. EXTRACT FROM THE CASH BUDGET

RECEIPTS	AUGUST		SEPTEMBER	OCTOBER
	BUDGETED	ACTUAL		
Cash sales			88 800	91 200
Collection from debtors			131 850	?
Loan: XY Bank			180 000	0
PAYMENTS				
Cash purchases of stock			(a)	45 600
Payments to creditors			98 112	(b)
Salaries and wages	41 500	41 500	41 500	(c)
Insurance			(d)	13 952
Repayment on loan: XY Bank			?	(e)
Interest on loan: XY Bank			1 875	1 750
Delivery cost (Quick Move)	32 850	53 217	33 300	34 200
Telephone and internet	10 500	18 900	11 025	11 400
Advertising	17 520	23 652	17 760	18 240
Packing material	39 420	47 300	39 960	41 040