

LO² - MANAGERIAL ACCOUNTING, AS 3
LO³ - MANAGING RESOURCES, AS5/AS6

Like any financial statement that is prepared, the projected income statement and cash budget maybe the subject of analysis and interpretation. It is possible to calculate certain ratios from the figures in the projected income statement but not in the cash budget.

The projected income statement and cash budget may reveal, amongst others, the following information:

- The mark-up percentage on cost of sales.
- The profitability of the business.
- The basis for depreciation.
- The percentage of specified expenses (e.g. advertising and selling expenses) on sales.
- The percentage cash and credit sales, as well as purchases.
- The expected amount of cash surplus or shortfall.
- The credit policy followed by the enterprise.
- The policy in respect of the payment of creditors for of goods purchased.
- The policy in respect of payment expenses.
- The enterprise's policy of the with regard to tangible assets.

ACTIVITY

You have been given the projected cash budget and income statement of Jenna Girls for the period 1 December 20.13 to 28 February 20.14. Jenna Girls designs handmade jewellery. The jewellery is made on special order. The financial year ends on 28 February.

Required:

Use the projected cash budget and income statement to answer the following questions. Show all calculations and ignore cents were applicable.

- 60% of sales are for credit. Debtors settle their accounts within 60 days (after two months). Does the enterprise allow discount to their customers?
- Calculate the total sales for December 20.13.
- Jenna Girls anticipate needing an overdraft in January 20.14. What can be done to avoid needing the overdraft? Provide one suggestion.
- What is the intended mark-up percentage on cost of sales?
- Inventory is the only credit purchase. 20% of the stock is bought on credit. What credit terms are allowed by creditors?
- Give reasons why the net profit has decreased in January and the business shows a net loss in February.
- Do you think it is wise to buy new equipment?
- Jenna plans to sell old equipment for cash during January 20.14. What is the carrying value of the equipment on the date of sale?
- What is the annual interest rate charged on the loan?
- The monthly salaries expense according to the projected income statement amount R15 900 per month. Why does the cash budget show a different amount for Jan. and Feb?
- The projected income from rent is to be increased. When will this occur and what will the percentage increase be?
- If the debt / equity ratio on 28 February 20.14 is 0,60: 1 what is the value of the owner's equity on this date?
- Do you think the bank will approve an overdraft facility in January 20.14?
- Will the bank overdraft affect the net profit? Give a reason for your answer.
- Jenna keeps five months of stock on hand. Comment on whether you think that this is acceptable and necessary for this business.

Information:

Jenna Girls Cash Budget: 1 December 20.13 - 28 February 20.14			
	December R	January R	February R
Cash Receipts			
Cash sales	60 000	48 000	39 000
Cash from debtors	82 500	75 000	90 000
Loan from Greedy Bank			
Rent income	3 000	3 750	3 750
Disposal of equipment		15 000	
Total Receipts	145 500	141 750	258 750
Cash Payments			
Cash purchases of inventory	96 000	76 800	62 400
Payments to creditors	26 250	24 000	19 200
Purchase of new equipment		189 000	
Operating cash expenses	9 150	9 750	10 200
Interest on loan			2 415
Salaries	15 900	21 200	10 600
Total Payments	147 300	320 750	104 815
Cash surplus/shortfall	(1 800)	(179 000)	153 935
Bank opening balance	67 500	65 700	(113 300)
Bank closing balance	65 700	(113 300)	40 635

Jenna Girls Projected Income: 1 December 20.13 - 28 February 20.14			
	December R	January R	February R
Sales	150 000	120 000	97 500
Cost of sales	(120 000)	96 000	(78 000)
Gross profit	30 000	24 000	19 500
Other operating income			
Rent income	3 000	3 750	3 750
Profit on sale of equipment		1 800	
Gross income	33 000	29 550	23 250
Operating expenses	(25 600)	(26 200)	(28 175)
Depreciation	550	550	2 075
Opening cash expensetion	9 150	9 750	10 200
Salaries	15 900	15 900	15 900
Profit/loss b/fore interest expense	7 400	3 350	(4 925)
Interest expense			(2 415)
Net profit/loss for the period	7 400	3 350	(7 340)

SUGGESTED ANSWERS TO ACTIVITY

- No cash sales for December 2.13 is R60 000.
Credit sales for December 2.13
 $\frac{60 \times R60\,000}{40} = R90\,000$ receivable February 2.14
- $R60\,000 + R90\,000 = R150\,000$
- Jenna Girls could either buy the equipment on credit or delay buying the equipment until the money is available
- $\frac{R\,30\,000}{R120\,000} \times 100 = 25\%$
February: Subtract the prepaid amount,
 $R15\,900 - R\,5\,300 = R10\,600$
- Cash purchases for December:
R96 000
Credit purchases for December:
 $\frac{20 \times R96\,000}{80} = R24\,000$
After 30 days (the following month).
- January:
 - A drop in sales and therefore also cost of sales.
 - The operating cash expenses increased.
 February:
 - A drop in sales and therefore also cost of sales.
 - Depreciation increased.
 - The operating cash expenses increased.
 - Interest expense.
- Yes, the new equipment replaced the old equipment that was sold.
- Selling price R 15 000
Profit on sale of equipment R 1 800
Carrying value R 16 800
- $\frac{R\,2\,415 \times 100}{R126\,000} = 23\%$
- January:
R5 300 will be prepaid, $R15\,900 + R5\,300 = R21\,200$
February:
Subtract the prepaid amount, $R15\,900 - R5\,300 = R10\,600$
- The percentage increase of 1 January or 31 January 20.14
 $\frac{R\,750 \times 100}{R3\,000} = 25\%$
- $R126\,000 \div 0,60 = R210\,000$
- Yes. During December 20.13 they had no long-term debts and therefore a favourable debt/equity ratio.
- Yes it will decrease their profit in January and increase the net loss in February because of the interest on overdraft to be paid.
- No, jewellery is made on special order, therefore five months of inventory on hand is not needed. Too much of the working capital is in the invested inventory.

EXAM "TIPS"

The end of year exam for Grade 12 is set, marked and moderated externally. The examiners are expected to follow the guidelines in the Subject Assessment Guidelines for accounting when setting the exam paper. The guidelines include the following:

- The end-of-year exam comprises one three-hour paper and should cover the Learning outcomes as indicated in this table:

Papers	Hours	Marks	LO 1	LO 2	LO 3
1	3	300	50-60%	20-25%	20-25%

- Assessment standards:

Assessment standards stipulated specifically for the grade	80%
Assessment standards stipulated in previous grades which effect assessment in subsequent grades	20%

- Each exam should cater for a range of cognitive levels and abilities in learners. A balanced paper should cover these skills:

Basic thinking skills (B) (factual recall)	30%
Moderately high thinking skills (M) (application & interpretation)	40%
High order thinking skills (H) (analysis, synthesis, evaluation)	30%

Keep this information in mind when you prepare for the exam. Your preparation cannot consist of learning only. You must understand what you have studied and know how you can apply

the knowledge in different situations, and how to analyse and evaluate the information.

In traditional learning situations the learner, the teacher and the subject matter are together involved in a learning process and the role of each is important. However **the key player** is the **individual learner**. You must accept the **challenge** of being responsible for your own success.

It is to your advantage that you know what percentage of each learning outcome the exam paper will cover and the breakdown of the basic, moderately high and high-order thinking skills. This should help you to prepare more effectively.

Note that the three learning outcomes are not independent but integrated. A specific question often covers more than one and sometimes all three learning outcomes. So you should broaden your way of thinking not think and reason in compartments. For example, when you study Companies (LO1), Manufacturing (LO2) or Budgets (LO2), consider the role that ethical behaviour, internal controls and auditing (LO3) plays in each case.

Words and concepts unique to accounting have been developed through the years to communicate financial information. You must master this accounting language. The process is continuous new concepts are added to the accounting vocabulary as the material becomes more advanced. In preparing for the final exam, make sure that your **accounting** language is intact.

YOU CANNOT 'SPOT' IN ACCOUNTING.

However, if you bear these facts in mind, you can make things a little easier for yourself:

- The main purpose of accounting is to report on the financial results (Income statement) and the financial state (Balance sheet) of a business. You can expect this aspect to be tested in some way or another. This includes final ledger accounts and especially **adjustments**. These adjustments apply to all forms of business and appear in almost all exam papers.
 - Trading inventory deficit
 - Consumable stores on hand
 - Accrued expenses
 - Accrued income
 - Prepaid expenses
 - Income received in advance
 - Additional bad debts
 - Adjusting the provision for bad debts
 - Depreciation (a thorough knowledge essential also when doing disposal of tangible assets)
 - Errors to be corrected

Once you have mastered the adjustment process, you can limit your revision of companies to the appropriation of the net profit, the equity section of the Balance sheet and any entries that are unique to the relevant form of business.

Other topics that you can expect are:

- Cash flow statements (companies)
- Ethical behaviour, internal controls and auditing (as a separate question or integrated with other questions)
- Disposal of tangible assets (as an independent question or as an adjustment)
- Validating and calculating inventories.
- Manufacturing accounts
- VAT
- Projected financial statements and budgets
- Reconciliation (bank, debtors, creditors)
- Salaries journal and/or Wages journal (often tested as an adjustment)
- Analysis and interpretation (companies).

Suggestions for answering questions on analysis and interpretations of financial statements :

- Learn the formulas and be sure that you know them very well
- Write down the relevant formula in your answer book
- Show all your workings
- Indicate whether your answer is in rands, per cent, cents per share, times per annum, etc.
- If you are asked to comment:
 - Take a decision if required (answer 'Yes or No' if asked; choose an alternative if given a list, etc.)
 - Refer to the answer you calculated (ratio, percentage, etc) Ref
 - Refer to the generally accepted norm (if applicable) to th
 - Compare the answer you calculated with the generally accepted norm (say which is bigger/better) e a
 - Compare the answer you calculated with a given ratio/percentage (say whether there is an improvement or not) NS
 - Give your deduction about the information you have (the situation has improved / deteriorated)

When you write an exam in accounting, **time management** is very important. The sooner you get into the habit of working within the suggested time allocation, the better. The marks allocated to each question, and the time recommended to answer the relevant questions, are normally indicated on the exam paper.

Dates are important in accounting. The examiner wants to see that you use dates correctly in your answers. You also need dates to be able to reason and do calculations. Pay special attention to dates throughout your preparation.

Avoid last minute rush. Make sure that your stationery and calculator are in good order and will not let you down during the exam.

Have a good night's sleep before writing your final exam. When the exam papers are handed out, stay calm, read the instructions carefully and work through the exam paper systematically.

