higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

NATIONAL CERTIFICATE (VOCATIONAL)

FINANCIAL MANAGEMENT
NQF LEVEL 4

(3011014)

15 March 2018 (Y-Paper)
13:00–16:00

Nonprogrammable calculators may be used.

This question paper consists of 11 pages.

NCV

TIME: 3 HOURS
MARKS: 200

INSTRUCTIONS AND INFORMATION

1. Answer ALL the questions.
2. Read ALL the questions carefully.
3. Number the answers according to the numbering system used in this question paper.
4. Use only black or blue ink.
5. Use the time-allocation guideline below.
6. Write neatly and legibly.

QUESTIONS	TOPIC	MARKS	RECOMMENDED TIME
SECTION A			
1	Short questions	40	36 minutes
SECTION B			
2	All topics integrated	40	36 minutes
3	All topics integrated	40	36 minutes
4	All topics integrated	40	36 minutes
5	All topics integrated	40	36 minutes
	GRAND TOTAL	200	180 minutes

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SECTION A

QUESTION 1

1.1 Complete the following sentences by using the words in the list below. Write only the missing word/s next to the question number (1.1.1–1.1.5).

acid-test; reliable; capital; sole trader; budget diary; vehicles; profitability ratio; close corporation

1.1.1 A … is a useful tool to record activities for future planning.

1.1.2 … is an item under the equity section on the balance sheet.

1.1.3 A … pays tax in his/her personal capacity.

1.1.4 The … ratio can be used to assess a business' ability to meet its short-term obligations.

1.1.5 A computerised accounting system should be accurate… and fast for recording purposes.

(5 × 1) (5)

1.2 Complete the following sentences by filling in the missing word/s. Write only the word/s next to the question number (1.2.1–1.2.5).

1.2.1 A/An … statement is a record of the income and expenses incurred by a business for a defined period.

1.2.2 A potential business owner should ask the advice of a/an … before signing any legal agreements.

1.2.3 The name of a private company ends with the words ... (Ltd).

1.2.4 … costs fluctuates in proportion to the number of units produced.

1.2.5 A/An … is a short-term loan which allows a business to pay for expenses from its bank account even after its bank account goes into a negative balance.

(5 × 1) (5)

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1.3 Calculate:

1.3.1 The taxable income of a small business if the gross income is R125 000, the direct costs R19 605 and the indirect costs R22 825. All the direct and indirect costs were incurred for trade purposes. (3)

1.3.2 The marginal income per unit if the total variable cost is R1 225 and the total fixed cost R1 500. The total sales amounted to R3 490 and 10 units were produced during the period. Round off your answer to 2 decimals. (3)

1.3.3 The breakeven quantity using the information in QUESTION 1.3.2 above. Round off your answer to the nearest whole. (2)

1.3.4 The break-even value (in rands), based on the break-even quantity calculated in QUESTION 1.3.3 above. (2)

1.3.5 The UIF amount if a worker earned normal wages of R3 000 and R500 overtime. UIF is calculated at 1% of the normal wages. (2)

1.4 Name the form that an individual taxpayer will complete when he/she submits a tax return to SARS. (1)

1.5 The following BUDGETED information was extracted from the records of MTK Manufacturers:

Details	2015	2016
Number of units to be produced	2 000	3 000
Labour hours per unit	2 hours	2 hours
Cost per hour	R35	R40

1.5.1 Calculate the budgeted labour hours needed for production in:

(i) 2015
(ii) 2016 (2 × 2) (4)

1.5.2 Calculate the budgeted labour cost for:

(i) 2015
(ii) 2016 (2 × 2) (4)

1.5.3 Briefly explain the difference between *direct* and *indirect costs*. (2)

1.5.4 Give ONE example EACH of a direct PRODUCTION cost and an indirect PRODUCTION cost. (2)

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1.6 State whether the following expenses are fixed or variable:

1.6.1 Petrol

1.6.2 Stationery

1.6.3 Rental paid

1.6.4 Wages for casual workers

1.6.5 Insurance

(5 × 1) (5)
[40]

TOTAL SECTION A: 40

SECTION B

QUESTION 2

Read the scenario below and answer the questions.

Ledule Molefe is a L4 NCV Marketing student. She is passionate about designing and manufacturing furniture and started a business is called Ledule Design Furnishers.

She is currently designing furniture for her family, friends and relatives during her college holidays and uses the garage at her parents' home to manufacture and design the furniture.

Her 65-year-old mother is working at a supermarket, but will soon retire on pension. She is inspired by Ledule's brilliant work and wants to become a partner by investing some of her pension money to expand the business.

Ledule has manufacturing machinery and a second-hand delivery van that she bought while she was doing the part-time jobs during the past two years.

2.1 Which form of business ownership is Ledule Design Furnishers? (1)

2.2 Ledule is considering registering her business as a private company.

2.2.1 Briefly explain the term *limited liability*. (2)

2.2.2 Briefly explain to Ledule how business tax is paid in a:

(i) sole trader
(ii) private company (2 × 2) (4)

2.3 Name THREE sources of finance that Ledule may use if she decides not to take up her mother's offer to help expand her business. (3 × 2) (6)

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2.4 Afri Bank is prepared to grant Ledule a loan of R50 000 payable over 5 years at an interest rate of 11% pa.

Calculate the monthly repayments including interest on loan. Show ALL calculations. (7)

2.5 Name TWO fixed assets Ledule could use as security should she decide to take up the loan at Afri Bank. (2 × 2) (4)

2.6 Ledule allows her regular customers to purchase on credit. She allows them credit terms of 60 days.

Give THREE measures that she can implement in order to get payment from customers on time, especially those who regularly exceed the credit terms. (3 × 2) (6)

2.7 Give the accounting term when debtors who do not pay and their debt must be written off. (1)

2.8 Name any TWO statutory payments that a business makes. (2 × 2) (4)

2.9 Name any TWO components of a business plan. (2 × 2) (4)

2.10 Name the financial statement that indicates the financial performance of a business. (1)

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QUESTION 3

3.1 Define the term *budget.* (2)

3.2 Study the income statement of Ledule Design Furnishers below and answer the questions that follow:

Item	October 2016	
	Budgeted	Actual
Sales	105 000	112 000
Cost of sales	65 000	78 000
Gross profit	40 000	34 000
Operational costs	13 700	16 955
Salaries and wages	12 000	12 000
Electricity	1 000	1 370
Bank charges	150	185
Telephone expenses	350	400
Net profit for the year	26 100	?

3.2.1 Calculate the cost of sales variance for October 2016. State whether the variance is favourable or unfavourable. (3)

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3.2.2 Give TWO possible reasons for the cost of sales variance. (2 × 2) (4)

3.2.3 The records of Ledule Design Furnishers revealed that the budgeted electricity amount is less than the actual amount.

Give ONE tip to Ledule on how she can reduce the electricity cost. (2)

3.2.4 There is no variance in salaries and wages. Give ONE possible reason for this. (2)

3.2.5 Name TWO situations in which it would be appropriate to adjust the budget of a business. (2)

3.3 How often should a business like Ledule Design Furnishers prepare their financial statements? (1)

3.4 Ledule wants to purchase a specialised wood design machine for her business. The machine costs R28 000 and has an expected life span of five years. The estimated rate of return is 11%.

The following information is available regarding the machine:

Year	Estimated future cash inflow	Discount factor
1	R4 200	0,901
2	R6 600	0,812
3	R9 600	0,731
4	R12 000	0,639
5	R17 100	0,593

3.4.1 Calculate the net present value of the machine. Show ALL calculations and round off answers to TWO decimals. (7)

3.4.2 Should Ledule buy the wood machine? Give a reason for your answer. (2)

3.5 List any TWO benefits of periodic financial reporting. (2)

3.6 Briefly describe the payback method as an investment appraisal technique. (2)

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3.7 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (3.7.1 – 3.7.10).

3.7.1 The payback period method considers the time value of money.

3.7.2 The internal rate of return is used to evaluate the viability of investing in a project or fixed asset.

3.7.3 The purpose of the OID fund is to provide for employees when they become too old to work.

3.7.4 In order for Ledule to qualify for a bank overdraft she must not have any other bank accounts.

3.7.5 Creditors are individuals who buy goods on credit from a business.

3.7.6 The balance sheet shows the financial position of a business at a specific point in time.

3.7.7 Output VAT is an income for a business while input VAT is an expense.

3.7.8 The break-even quantity indicates the rand value of the sales that a business must achieve in order to breakeven.

3.7.9 When a business breaks even, its income is greater than its expenses.

3.7.10 Output VAT is collected on the sales of a business. (10 × 1) (10)

3.8 Suggest ONE method that Ledule can use to reduce costs in her business. (1)

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QUESTION 4

4.1 The following information was extracted from the records of Ledule Design Furnishers:

Balance Sheet of Ledule Design Furnishers on 28 February 2017

	2016 (R)	2017 (R)
Noncurrent assets	**16 786**	**24 233**
Equipment	14 786	19 233
Other financial assets	2 000	5 000
Current assets	**36 888**	**36 131**
Inventory	12 885	7 547
Trade receivables	22 003	28 284
Cash and cash equivalents	2 000	300
Total assets	**53 674**	**60 364**
Owner's equity	**31 006**	**41 058**
Noncurrent liabilities	**5 000**	**3 500**
Loan: PANDA Bank Ltd	5 000	3 500
Current liabilities	**17 668**	**15 806**
Trade creditors	17 668	11 606
Bank overdraft	–	4 200
Total equity and liabilities	**53 674**	**60 364**

Ledule needs your help to analyse the Balance Sheet. Assist her by answering the following questions. Show ALL formulae and calculations.

4.1.1 Calculate Ledule Design Furnishers' net worth for 2017. (4)

4.1.2 Calculate the current ratio for 2016. Round off your answer to 2 decimals. (4)

4.1.3 The current ratio for 2017 is 2,29 : 1. Compare the ratio to that of 2016 and comment on it. (2)

4.1.4 Ledule Design Furnishers' debt ratio for:

- 2016 was 2,37 : 1
- 2017 is 3,1 : 1

Compare the ratio for both the years and comment on it. (2)

4.2 Suggest TWO ways in which Ledule can effectively manage her creditors. (2 × 2) (4)

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4.3 **Income statement of Duncan Manufacturers for the year ended 28 February 2017**

	2016	**2017**
Sales	180 000	108 000
Cost of sales	143 700	58 500
Gross profit	36 300	49 500
Add: Other income	33 100	44 000
Less: Other expenses	5 240	5 700
Telephone	2 400	3 100
Electricity	3 300	4 240
Advertising	1 790	1 250
Wages	24 400	25 800
Refreshments	1 400	1 300
Fuel	4 680	4 890
Net profit for the year (before tax)	26 190	47 220

Show ALL calculations and round off your answers to TWO decimals.

4.3.1 Calculate the cost to income ratio for 2016. (4)

4.3.2 Calculate the net profit percentage on sales for 2016 and 2017. (5)

4.3.3 Give ONE possible reason for the change in the net profit ratio over the two years, as calculated in QUESTION 4.3.2 above. (2)

4.3.4 Calculate the turnover performance ratio for 2017. (5)

4.4 Define the term '*current assets'* and give ONE example of it. (3)

4.5 Name FIVE source documents that a business uses to enter transactions into its subsidiary journals. (5 × 1) (5)

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QUESTION 5

5.1 5.1.1 Define the term *capital allowance*. (2)

5.1.2 Give TWO examples of capital allowances. (2 × 2) (4)

5.2 Ledule Design Furnishers bought wood from Barileng Wood Suppliers for R10 888 including VAT. Furniture is manufactured from this wood and sold to Railway Furnishers for R27 500 excluding VAT.

Calculate the following for Ledule Design Furnishers:

5.2.1 Input and output VAT. (4)

5.2.2 The amount payable or refundable to SARS. Clearly indicate whether the amount is payable or refundable. (2)

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5.3 Indicate whether the following expenses of Ledule Design Furnishers are tax-deductible or not. Give ONE reason for each answer.

5.3.1 Ledule, the owner, paid for a family dinner to celebrate her mother's retirement.

5.3.2 Ledule Design Furnishers purchased a manufacturing machine to be used in the business.

5.3.3 Legal fees were paid to an attorney who was tracing a debtor whose debt was long overdue.

(3 × 2) (6)

5.4 Identify any TWO external constraints relating to Ledule's business. (2 × 2) (4)

5.5 Study the tax table below and answer the questions.

Tax rates for individuals	
Taxable income	**Rates of tax**
R0 – R122 000	18% of each R1
R122 001 – R195 000	R21 960 + 25% of amount over R122 000
R195 001 – R270 000	R40 210 + 30% of amount over R195 000
R270 001 – R380 000	R62 710 + 35% of amount over R270 000
R380 001 – R490 000	R101 210 + 38% of amount over R380 000
R490 001 and more	R143 010 + 40% of amount over R490 000

Tax rebates applicable:

Primary rebate	R8 280
Secondary rebate (for persons 65 years and older)	R13 320

5.5.1 Boikanyo is 66 years old and has a taxable income of R220 000 for the year of assessment. Calculate his tax payable. (7)

5.5.2 Keatlegile is 28 years old and has a taxable income of R115 000 per annum. Calculate her tax payable. (5)

5.6 Name TWO budgeting techniques that a business can use. (2)

5.7 Name ONE consequence of submitting a tax return late. (2)

5.8 Give TWO reasons why it is important for Ledule to prepare a business plan. (2)

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TOTAL SECTION B: 160
GRAND TOTAL: 200

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