higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

# NATIONAL CERTIFICATE (VOCATIONAL)

## FINANCIAL MANAGEMENT
## NQF LEVEL 4

(3011014)

**23 November 2018 (Y-Paper)**
**13:00–16:00**

**A nonprogrammable calculator may be used.**

**This question paper consists of 12 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. Show ALL calculations in order for marks to be allocated.
5. Use only BLACK or BLUE ink. Answers written in lead pencil will not be marked.
6. Use the table below as a guide on how much time to spend on each question.
7. Write neatly and legibly.
8. Where applicable, VAT is charged at **14%**.

| QUESTIONS | TOPICS | MARKS | RECOMMENDED TIME GUIDE |
|---|---|---|---|
| **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 |
| | **TOTAL** | **200** | **180 minutes** |

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## SECTION A

## QUESTION 1

1.1 Choose an item from COLUMN B that matches a description in COLUMN A. Write only the letter (A–M) next to the question number (1.1.1–1.1.10).

| COLUMN A | | COLUMN B | |
|---|---|---|---|
| 1.1.1 | This form of ownership enjoys limited liability | A | repairs and maintenance of business buildings |
| 1.1.2 | This form of ownership does not enjoy limited liability | B | budgetary control |
| 1.1.3 | A tax-deductible expense | C | break-even |
| 1.1.4 | An individual's personal income tax return form | D | labour strikes |
| 1.1.5 | A lender will require this document for a loan application | E | companies |
| 1.1.6 | A non-tax deductible expense | F | financial position |
| 1.1.7 | External constraint | G | IT12 |
| 1.1.8 | Balance sheet | H | decision-making |
| 1.1.9 | The comparison of planned and actual income and expenditure | I | partnership |
| 1.1.10 | Point where total income = total costs | J | positive variance |
| | | K | domestic expenses |
| | | L | certificate of registration |
| | | M | profit |

(10 × 1) (10)

1.2 Various options are given as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number (1.2.1–1.2.5).

1.2.1 ... is known as an indirect tax levied by the government.

A Pay-as-you-earn
B Value-added tax
C Provisional tax
D Standard income tax

1.2.2 VAT charged by a business on its sales is known as …

A input VAT
B output VAT
C provisional tax
D standard income tax

1.2.3 A business' gross income is R185 000 and its deductible operating expenses are R61 000 and the personal expenses of the owner is R15 000. Its taxable income is ...

A R124 000.
B R246 000.
C R61 000.
D R109 000.

1.2.4 If the total fixed costs of a business increases and the marginal income per unit remains unchanged, then the break-even … .

A value will decrease
B units will decrease
C units will increase
D units will remain unchanged

1.2.5 A business' rental expense is R3 500, electricity is R9 250 and insurance is R1 500. It's total fixed cost is …

A R5 000.
B R3 500.
C R10 750.
D R12 750.

(5 × 1) (5)

1.3 The following information was extracted from the records of Limpopo Traders:

| | |
|---|---|
| Units produced and sold | 20 000 @ R5 |
| Fixed cost | R15 000 |
| Variable cost per unit | R2 per unit |

Calculate the:

1.3.1 Total variable cost

1.3.2 Total cost

1.3.3 Marginal income or contribution per unit

1.3.4 Breakeven units

1.3.5 Breakeven rand (value)

(5 × 3) (15)

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1.4 Study the following information that was extracted from the records of Limpopo Traders on 31 December 2015 and answer the questions that follow:

| ITEM | BUDGETED | ACTUAL |
|---|---|---|
| Advertising | R2 890 | R3 100 |
| Repairs | R3 400 | R3 900 |
| Insurance | R1 700 | R1 700 |
| Printing | R295 | R210 |
| Electricity | R570 | R590 |
| Sales | R9 300 | R8 800 |

1.4.1 Increase the advertising budget for January 2016 by 20%, based on the actual amount for December 2015. (2)

1.4.2 Calculate the variance for repairs AND indicate if it is a favourable or unfavourable variance. (2)

1.4.3 Calculate the variance for printing AND indicate if it is a favourable or unfavourable variance. (2)

1.4.4 Decrease the electricity for January 2016 by 15% based on the actual amount for December 2015. (2)

1.4.5 Is the variance for sales is favourable or unfavourable? (1)

1.4.6 Name one of Limpopo Trader's fixed-cost. (1)
**[40]**

**TOTAL SECTION A: 40**

## SECTION B

ALL the questions in SECTION B are based on the following scenario:

Matilda Burger worked for a photography company after completing her Financial Management diploma at the Technical and Vocational Education and Training college in her town.

She gained financial and creative experience in this industry as she had a passion for taking photographs of different cultures in their various forms in South Africa. Matilda worked in this industry for a few years before she identified a gap in the market for the designing of low-priced birthday cards, greeting cards and various other cards depicting the different cultures in South Africa.

Her parents gave her permission to run her business, *Snapshot*, from a flat on their property that she rents from them. She bought a reliable vehicle and top of the range digital camera using some of her savings. She also purchased developing and printing equipment with money she borrowed from her parents.

While she was attending a photography course she became friends with Morne Carels, who is a good photographer and she is considering discussing a partnership with him. Recently, Matilda obtained three good contracts to design cards and she resigned from her job.

## QUESTION 2

2.1 Matilda's parents gave her a loan to purchase expensive developing and printing equipment. Give TWO advantages of borrowing from family and friends. (4)

2.2 State ONE disadvantage if Matilda invests all her savings in her business. (2)

2.3 Matilda must constantly update her business plan with current and relevant information. State TWO sources from which she can obtain this current and up-to-date information. (2)

2.4 Give TWO advantages for Snapshot if Morne Carels becomes a partner in the business. (4)

2.5 Name any TWO of Matilda's personal assets. (2)

2.6 Complete the following sentences by writing only the answer next to the question number (2.6.1–2.6.2).

2.6.1 Snapshot is a small business. Matilda can register the business as a VAT vendor voluntarily if the turnover was more than ... for the past twelve months.

2.6.2 If Snapshot's turnover is more than ... per year, then it is compulsory to register the business as a VAT vendor.

(2 × 1) (2)

2.7 State THREE requirements of a good filing system for Snapshot. (3)

2.8 Matilda applied for a loan of R50 000 from Cap Bank. The loan is repayable in equal instalments over 4 years at 9% interest per annum.

Calculate the monthly instalment including interest. Show ALL the calculations and round-off the answer to TWO decimal places. (6)

2.9 Indicate whether the following of Snapshot's costs are DIRECT or INDIRECT. Write only the word 'Direct' or 'Indirect' next to the question number (2.9.1–2.9.4).

2.9.1 Ink cartridges for printing the birthday cards

2.9.2 Birthday cards printing paper

2.9.3 Camera memory cards

2.9.4 Coffee and milk

(4 × 1) (4)

2.10 Snapshot purchases special card printing paper from various suppliers, such as Paper Man Ltd. Paper Man Ltd manufactures each box for R120 and sells them to Snapshot for R300 each box.

Study the following information from the records of Paper Man Ltd and answer the questions that follow:

| BOXES OF PRINTING PAPER | VARIABLE COSTS | FIXED COSTS | TOTAL COSTS | TOTAL SALES | PROFIT/ LOSS |
|---|---|---|---|---|---|
| 40 | R4 800 | R7 200 | | R12 000 | |
| 80 | R9 600 | R7 200 | R16 800 | R24 000 | |
| 120 | R14 400 | | **2.10.1** | R36 000 | **2.10.2** |
| 140 | R16 800 | | R24 000 | R42 000 | R18 000 |
| 160 | R19 200 | | R26 400 | **2.10.4** | |
| 200 | **2.10.3** | | | | |

2.10.1 Calculate the total cost of 120 boxes of paper. (2)

2.10.2 Calculate the profit/loss when 120 boxes of paper are sold. (2)

2.10.3 Calculate the variable cost when 180 boxes of paper are produced. (2)

2.10.4 Calculate the total sales of 160 boxes of paper. (2)

2.10.5 How many boxes of paper must be sold to break even? (1)

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2.11 Matilda purchases ink and photographic paper on credit from Ink CC. Mention TWO risks of not paying a supplier on time. (2)
**[40]**

## QUESTION 3

3.1 Define the term *budget.* (2)

3.2 State TWO internal constraints that Snapshot could experience AND mention how Matilda can manage each constraint.
(2 × 2) (4)

3.3 Briefly explain the term *flexible budgeting*. (2)

3.4 Study the table below and answer the questions that follow:

| ITEM | NOVEMBER 2015 - BUDGETED |
|---|---|
| Turnover | R185 000 |
| Less: Cost of sales | R130 850 |
| Gross profit | R54 150 |
| Plus: Other income | R3 250 |
| Less: Operating expenses | R32 050 |
| Net profit | R25 350 |

3.4.1 Calculate the variance for the operating expenses if the actual amount is R36 020 for November 2015. (2)

3.4.2 Actual cost of sales for November 2015 was R59 500. Calculate the variance for the cost of sales for November 2015. (2)

3.4.3 The actual turnover is R197 000. State if the variance in turnover is positive or negative. (1)

3.4.4 State ONE possible reason for the variance in QUESTION 3.4.3. (2)

3.4.5 Advise Matilda on TWO ways in which she can improve the cashflow position of her business. (2 × 2) (4)

3.5 Calculate the net present value (NPV) of an underwater camera that Matilda is planning to purchase. The cost of this camera is R48 000 and it has a useful life of 4 years. The expected rate of return is 10%.

The following cashflows are expected from the camera:

- R20 000 for year 1
- R22 000 for year 2
- R15 000 for year 3
- R12 000 for year 4

The discounted factors for 10% are as follows:

- Year 1: 0.909
- Year 2: 0.826
- Year 3: 0.751
- Year 4: 0.683

Show ALL the calculations. (7)

3.6 Should Matilda buy the above camera? Give ONE reason for your answer. (2)

3.7 Name TWO other investment appraisal techniques in addition to the NPV. (2)

3.8 Give Matilda TWO guidelines on how to effectively manage her debtors. (2)

3.9 Briefly explain the difference between a *current liability* and a *noncurrent liability* and give an example of each one. (4)

3.10 State TWO ways in which Matilda can keep Snapshot's overheads down. (2)

3.11 Name any TWO external constraints that could prevent Matilda from reaching her aims and objectives. (2)
**[40]**

## QUESTION 4

4.1 Name TWO advantages to Matilda for her business to produce regular financial reports. (4)

4.2 Briefly explain the term *zero-based budgeting*. (2)

4.3 Matilda will have to register for the Unemployment Insurance Fund (UIF) soon. Give ONE aim of the UIF. (2)

4.4 Study the following summary of the income statement for Snapshot and answer the questions that follow. Round off all your answers to 2 decimals:

| INCOME STATEMENT | DECEMBER 2014 | DECEMBER 2015 |
|---|---:|---:|
| Turnover | R180 900 | R195 000 |
| Cost of sales | R52 500 | R55 700 |
| Gross profit | R128 400 | R139 300 |
| Add: Other income | R1 750 | R1 900 |
| Less: Operating expenses | R29 150 | R26 450 |
| Net income before interest | R101 000 | R114 750 |
| Interest paid | R2 500 | R2 400 |
| Net income after interest | R98 500 | R112 350 |

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4.4.1 Calculate the net profit percentage for 2015. (3)

4.4.2 The net profit percentage for 2014 was 54.45%. Compare this ratio for both the years and provide ONE comment on it. (2)

4.4.3 Calculate the turnover performance ratio for 2015. Show the formula. (5)

4.4.4 Use incremental budgeting of 12% to calculate the budgeted gross profit for December 2016. (3)

4.5 Suggest TWO ways in which Matilda can practice control over her budget. (2)

4.8 Study the following extract from Snapshot's records and answer the questions.

| **BALANCE SHEET OF SNAPSHOT AS AT 31 DECEMBER** | | |
|---|---|---|
| | **2014** | **2015** |
| | **R** | **R** |
| Noncurrent assets | 155 000 | 155 000 |
| Current assets | 32 750 | 35 300 |
| Total assets | 187 750 | 190 300 |
| Owners' equity | 164 750 | 166 800 |
| Noncurrent liabilities | 15 000 | 15 000 |
| Current liabilities | 8 000 | 8 500 |
| Total equity and liabilities | 187 750 | 190 300 |

*Additional information:*

| | | |
|---|---|---|
| Profit before tax | R98 500 | R112 350 |
| Credit purchases | R8 000 | R8 500 |

**Show ALL formulae and calculations.**

4.8.1 Calculate the current ratio for 2015. (4)

4.8.2 Give ONE comment on the current ratio calculated in QUESTION 4.8.1. (2)

4.8.3 Calculate the return on investment (ROI) for 2015. (4)

4.8.4 The ROI for 2014 was 59.79%. Compare and comment on the ROI for both years (2014 and 2015). (2)

4.9 Give TWO examples when SARS can fine or imprison the owner of a business. (2)

4.10 Mention TWO things that could happen to Matilda if she fails to prepare regular financial reports for Snapshot. (2)

4.11 Name ONE of Snapshot's liabilities from the case study. (1)

**[40]**

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## QUESTION 5

5.1 Briefly explain the term *tax rebate.* (2)

5.2 A business' total wages for December 2017 is R12 500. Calculate the total amount the business will pay to the Unemployment Insurance Fund (including the employee and employer's contribution at 1% each). (3)

5.3 Give ONE reason why Matilda should safely store receipts for a business. (1)

5.4 Name any THREE components that Matilda should include in her business plan. (3)

5.5 Matilda purchased a laptop for R7 999, which has a useful life of 3 years.

Depreciation on the laptop is provided at 25% per annum using the straight-line method. Calculate the depreciation on the laptop for the first 2 years. (3)

5.6 Indicate to Matilda if the following expenses of Snapshot are TAX-DEDUCTIBLE or NOT TAX-DEDUCTIBLE. Write only 'Tax-deductible' or 'Not tax-deductible' and give a reason for each answer.

5.6.1 Depreciation on the camera equipment

5.6.2 Attorney's fees to take a debtor to court for not paying his account.

5.6.3 Interest paid on the late payment of income tax to SARS

(3 × 2) (6)

5.7 During December 2015 Snapshot sold cards for R21 250 to a debtor. The business purchased stock to produce these cards for R7 150. Other income amounted to R200 and wages of R1 350 were paid.

Calculate the gross profit. (2)

5.8 Briefly explain how a sole trader is taxed. (2)

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5.9 Use the tax tables below to answer the questions that follow. Show all calculations:

| TAX TABLES | |
|---|---|
| **TAXABLE INCOME** | **RATES OF TAX** |
| **Rand** | **Rand** |
| 0–174 550 | 18% of taxable income |
| 174 551–272 700 | 31 419 + 25% of taxable income above174 550 |
| 272 701–377 450 | 55 957 + 30% of taxable income above 272 700 |
| 377 451–528 000 | 87 382 + 35% of taxable income above 377 450 |
| 528 001–673 100 | 140 074 + 38% of taxable income above 528 000 |
| 673 101 and above | 195 212 + 40% of taxable income above 673 100 |

| ***Tax Rebates:*** | |
|---|---|
| Primary | R12 726 |
| Secondary: Persons over 65 years | R7 110 |
| Tertiary: Persons 75 years and older | R2 367 |

5.9.1 Thuli is 48 years old and her taxable income is R29 000 per month. Calculate her tax payable. (6)

5.9.2 Matilda's 72-year-old father works part-time and earns taxable income of R180 000 per annum. Calculate his tax payable. (6)

5.10 Name ONE thing that the government does with the taxes that it collects from individuals and businesses. (1 × 2) (2)

5.11 Matilda's parents charge her rent of R5 000 per month. They informed her that her rent will increase by 10% as from 1 January 2016.

Matilda has projected that her variable costs will increase by 5% as from 1 December 2015.

Calculate her rent for:

5.11.1 December 2015

5.11.2 January 2016

(2 × 2) (4)
**[40]**

**TOTAL SECTION B: 160**
**GRAND TOTAL: 200**

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