



**education**

Department of  
Education  
FREE STATE PROVINCE

# **PREPARATORY EXAMINATION**

## **GRADE 12**

## **ACCOUNTING P2**

## **SEPTEMBER 2020**

## **MARKS: 150**

## **TIME: 2 HOURS**

**This question paper consists of 13 pages, a formula sheet and  
11-page answer book.**

# INSTRUCTIONS AND INFORMATION:

Read the following instructions carefully and follow them precisely.

1. Answer ALL questions.
2. A special ANSWER BOOK is provided in which to answer ALL questions.
3. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer questions.
6. Where applicable, show ALL calculations to ONE decimal point.
7. A data (formula) sheet is attached to this question paper. You may refer to this if necessary.
8. Write neatly and legibly.
9. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 35 marks; 25 minutes	
Topic:	This integrates:
Reconciliations & Age Analysis	Bank reconciliation Debtors Age Analysis Creditors' reconciliation Internal control

QUESTION 2: 40 marks; 35 minutes	
Topic:	This integrates:
Stock Valuation and VAT	VAT calculations Inventory valuation Internal control

QUESTION 3: 40 marks; 35 minutes	
Topic:	This integrates:
Manufacturing	Factory overhead costs Calculations BEP and Comment

QUESTION 4: 35 marks; 25 minutes	
Topic:	This question integrates:
Budgeting	Cash Budget Calculations Problem-solving

## QUESTION 1: RECONCILIATIONS

(35 marks; 25 minutes)

1.1 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.

1.1.1 An external auditor will want to inspect the Bank Reconciliation Statement at the end of each month. (1)

1.1.2 A debit balance on the Bank Statement reflects an unfavourable balance. (1)

1.1.3 An issued cheque that has been lost must be cancelled in the CRJ. (1)

### 1.2 BANK RECONCILIATION:

Transactions from the records of AB Stores for June 2020, are provided.

#### REQUIRED:

Analyse the transactions according to the columns provided in the ANSWER BOOK.

- Show amounts only for the Cash Journals and the Reconciliation Statement.
- Indicate a 'No entry' with an X. (9)

#### Example:

Cheque No. 614 for R750 appeared in the Cash Payments Journal, but not on the bank statement.

No.	Cash journals		Bank reconciliation statement		No entry
	CRJ	CPJ	Debit	Credit	
E.g.			750		

#### INFORMATION:

Transactions for June 2020:

- A.** The bank statement showed an overdraft of R3 640 on 1 June 2020.
- B.** A deposit of R8 500 that was made on 29 June 2020 in favour of AB Stores did not appear on the June bank statement.

- C.** A cheque for R2 640, received from a debtor S Louw, was returned by the bank marked R/D. The cheque was in settlement of her account of R2 700.
- D.** A cheque issued to Jet-savers for R400 was reported lost. This cheque must be cancelled and replaced by cheque No. 209.
- E.** Cheque No. 183 appeared on the June bank statement with the correct amount of R7 850. It was recorded as R8 750 in the June Cash Payments Journal.
- F.** A cheque (No. 584) for R1 430 appeared as a payment on the June bank statement. An investigation revealed that this was a cheque issued by BC Stores, and was recorded in error on the statement of AB Stores.

### 1.3 DEBTORS AGE ANALYSIS

Chelsey Traders sell goods for cash and on credit.

#### REQUIRED:

- 1.3.1 Why is the preparation of a debtors' collection schedule and debtors' age analysis important internal control measures? (4)
- 1.3.2 Calculate the percentage of debtors' accounts that comply with the credit terms. (3)
- 1.3.3 Explain TWO measures to prevent losses due to bad debts in the future. (4)

#### INFORMATION:

Debtors' age analysis on 28 February 2018:

TOTAL	CURRENT	30–60 DAYS	61–90 DAYS	MORE THAN 90 DAYS
R	R	R	R	R
600 400	72 048	48 032	312 208	168 112

The credit period is 60 days.

#### 1.4 CREDITORS' RECONCILIATION

Generation Suppliers received a statement of account from a creditor, Future Traders. The balance on the statement did not agree with that on the account of Future Traders in the Creditors Ledger of Generation Suppliers.

##### REQUIRED:

- 1.4.1 Although Future Traders offers credit terms of 60 days, Generations Suppliers prefers to settle their account within 30 days during certain months. Provide TWO points to indicate that it is not a good decision. (2)

- 1.4.2 Complete the table in the ANSWER BOOK to show how the differences must be treated to reconcile the Creditors Ledger Account balance with the statement balance.

Write the amounts in the appropriate columns and indicate the increase or decrease with a (+) or (-) with each amount.

Total the columns to show the correct balance at the end of February 2020. (10)

##### INFORMATION:

Balance of Future Traders in the Creditors Ledger of Generations Suppliers	R21 130
Balance on the statement received from Future Traders	R32 600

##### The following differences were identified:

- A. An invoice for R13 300 received from Future Traders was correctly recorded in the Creditors Ledger Account. The amount was incorrectly recorded as R11 200 on the statement.
- B. Generation Suppliers entered a 10% discount relating to a payment of R3 000 on 19 February 2020. Future Traders did not approve this discount stating that the payment was received late.
- C. Goods returned, R500, appeared on the statement received. The bookkeeper of Generation Suppliers forgot to record this transaction.
- D. Purchases of R3 035 from Future Traders were recorded as a debit note in the Creditors Ledger account.
- E. A direct transfer of R7 000 by Generation Suppliers was recorded in the Cash Payment Journal on 27 February 2020. A discount of R700 for early payment was also recorded. The statement of account from Future Traders was dated 25 February 2020.

**QUESTION 2: INVENTORY VALUATION & VAT**

**(40 marks; 35 minutes)**

**2.1 INVENTORY VALUATION**

Battery Specialist, owned by Thabo Lefo, sells two types of AA 6-pack unit batteries, Longlast and Petcell. The business uses the **periodic inventory system** to record their stock.

- FIFO method is used for Longlast
- Weighted average method is used for Petcell

**REQUIRED:**

2.1.1 Calculate the following for **Longlast AA 6-pack units**:

- The value of the closing stock on 31 October 2019. (6)

- 2.1.2
- Calculate the average stock-holding period. Note that the cost of sales amounted to R483 750 for the year ended 31 October 2019.
  - Comment on your findings above. (6)

2.1.3 The owner is concerned about the sales of Petcell AA 6-pack units and is considering to discontinue this product line.

Calculate the following for **Petcell AA 6-pack units** for the year ended 31 October 2019:

- The value of the closing stock. (5)
- The cost of sales of the Petcell AA 6-pack units. (3)
- The stock turnover rate for the year. (5)

2.1.4 Give TWO reasons why the owner must discontinue the sales of Petcell AA 6-pack units. (4)

**INFORMATION:**

**A. Stock valuation methods:**

- **FIFO method** for Longlast AA 6-pack units
- **Weighted average method** for Petcell AA 6-pack units

**B. Stock records showed the following balances:**

	Longlast AA 6-pack units			Petcell AA 6-pack units		
Date	Number of units	Price per unit	Total value	Number of units	Price per unit	Total value
1 Nov 2018	2 000	R20	R40 000	800	R35	R28 000
31 Oct 2019	?	?	?	1 850	?	?

**C. The following purchases and returns were reflected during the year:**

	Longlast AA 6-pack units			Petcell AA 6-pack units		
	Number of units	Price per unit	Total value	Number of units	Price per unit	Total value
<b>TOTALS:</b>	<b>35 000</b>		<b>756 000</b>	<b>3 000</b>		<b>120 200</b>
Nov 2018	(1 000)	R20	(20 000)	500	R35	R17 500
Jan 2019	17 000	R20	R340 000	-	-	-
March 2019	7 000	R22,50	R157 500	1 000	R39, 70	R39 700
June 2019	9 000	R23	R207 000	-	-	-
June 2019	(2 000)	R23	(R46 000)	1 500	R42	R63 000
Sept 2019	5 000	R23,50	R117 500	-	-	-

**D. Sales for the year were reflected as follows:**

Longlast AA 6-pack units			Petcell AA 6-pack units		
Number of Units	Selling price	Total value	Number of units	Selling Price	Total value
23 500	R35	R822 500	1 950	R75	R146 250

**E. Due to good internal control measures, there were no missing items.**

## 2.2 VAT

Battery Specialist is a registered VAT vendor and uses the invoice basis to record VAT. The standard VAT rate of 15% is applicable where necessary.

The information relates to the VAT period ended 31 August 2020.

### REQUIRED:

2.2.1 Calculate the VAT amount payable/receivable to/from SARS. (9)

2.2.2 The internal auditor discovered that two large credit sales transactions for R598 000 during August 2020 were not recorded in the respective journal. The owner insists that these will be recorded during September, due to current cash flow problems.

- Give ONE reason why the auditor would not be satisfied with this explanation. (2)

### INFORMATION:

Details of transactions	VAT EXCLUSIVE	VAT	VAT INCLUSIVE
Invoices issued to credit sales customers			R1 415 880
Invoices received from suppliers	R952 000		
Credit notes received from suppliers		R9 240	
Discount allowed to debtors for early payments of accounts		R5 520	
Debtors accounts written off as bad debts	R15 600		R17 940
Trading stock taken by owner for personal use.		R252	



### QUESTION 3: MANUFACTURING

(40 marks; 35 minutes)

#### 3.1 SOS MANUFACTURERS

The business specialises in the production of security alarms. The financial year ended on 30 September 2019.

#### REQUIRED:

Calculate and complete the following on 30 September 2019:

- 3.1.1 Direct materials issued to the factory for the year. (7)
- 3.1.2 The production cost of finished goods for the year. (5)
- 3.1.3 Factory Overhead Cost Note for the year. (13)
- 3.1.4 Complete the Production Cost Statement for the year. (7)

#### INFORMATION:

A. The following balances appeared in the stock accounts:

	30 September 2019	1 October 2018
Raw materials stock	R69 700	R54 700
Indirect materials stock	R2 730	R14 100
Work-in-progress stock	?	R65 050
Finished goods stock	R79 500	R100 450

- B. Purchases of raw materials during the year amounted to R1 135 000. Returned raw materials valued R4 700, has not been recorded.
- C. These invoices were omitted in connection with deliveries:
  - To SOS Manufacturers R3 500
  - From SOS Manufacturers R53 080
- D. Trade discount of R3 800 on raw materials had not been granted. SOS Manufacturers was entitled to this discount.
- E. Monthly insurance has remained constant for the last two years. Insurance paid for the year amounted to R121 520 and this included insurance paid in advance for October and November 2019. Insurance for the current year to be allocated to the selling and distribution department is R44 640 and R22 320 for the administration department and the rest for the factory.

- F.** Indirect material bought during the year was R250 400. Indirect material used is divided between the factory, administration, and selling and distribution department in the ratio of 1 : 1 : 3.
- G.** Sales for the year were R6 282 375. The business make use of 150% mark-up on cost price.
- H.** The rent for the selling and distribution department amounts to R171 500 for the current financial year. Rent is distributed between the departments: factory, administration, and selling and distribution as follows: 60% for the factory, 5% for administration and the balance for selling and distribution.
- I.** The following salary and wage expenses were incurred:

Description	Gross salaries/ wages	Contributions	
		Medical aid	UIF
Factory indirect labour	R312 800	R6 352	R3 128
Administration clerks	R80 000	R1 650	R1 600
Direct labour (production)	R790 000 including contributions		

### 3.2 H2O MANUFACTURES

H2O is a small manufacturing business that produces plastic water bottles. Owned by Wally.

#### REQUIRED:

- 3.2.1 Calculate the break-even point for H2O on 29 February 2020. (4)
- 3.2.2 Explain why Wally should be concerned about the profitability and sustainability of the business. Give TWO points with figures to support your answer. (4)

#### INFORMATION:

29 February 2020	Total	Per unit
<b>Variable costs:</b>		R11,75
Direct materials costs	R607 750	R5,50
Direct labour costs	R508 300	R4,60
Selling & distribution costs	R182 325	R1,65
<b>Fixed costs:</b>	R795 900	
Factory overheads cost	R548 400	
Administration costs	R247 500	
Selling price per unit		R18,85

Every year they sell all the goods they produced:

	29 February 2020	28 February 2019
Units produced and sold	110 500 units	98 000 units
Break-even point	?	78 000 units

**QUESTION 4: CASH BUDGETS**

**(35 marks; 25 minutes)**

You are provided with the Cash Budget of Rian Traders for three months ended 31 December 2019. The business is owned by Rian Green.

**REQUIRED:**

- 4.1 Explain why a business needs to prepare a Cash Budget every year. (2)
- 4.2 Calculate the expected receipts from debtors for November 2019. (5)
- 4.3 Calculate the amounts indicated by A–D in the Cash Budget. (4)
- 4.4 The rent income was increased by 9% on 1 November 2019. Calculate the rent income amount for October 2019. (3)
- 4.5 In your opinion, is Rian's capital contribution in November sufficient to support this business venture? Give ONE reason with figures to support your answer. (3)
- 4.6 Refer to the salaries and wages in the Cash Budget.
  - Calculate the percentage increase granted to the employees on 1 November 2019. (3)
  - In your opinion, will the employees be satisfied with this increase? Briefly explain. (3)
- 4.7 As the internal auditor you discover that the actual motor vehicle expenses for December 2019 were R9 600. Give TWO points that you would include in your internal auditors' report to Rian. (4)
- 4.8 A new vehicle will be purchased for R240 000 on 30 November 2019. The business will pay a deposit of 15% and the balance will be financed by Wesrand Bank. Rian will repay the capital portion to Wesrand Bank in equal monthly instalments over four years from 31 December 2019. Interest will be paid monthly to Wesrand Bank on the outstanding balance at a rate of 11% p.a.
  - Calculate the interest payable to Wesrand Bank in December 2019. (5)
  - Calculate the monthly repayments of the capital portion of the loan to Wesrand Bank. (3)

# INFORMATION

<b>EXTRACT FROM CASH BUDGET</b>			
	<b>2019 October</b>	<b>2019 November</b>	<b>2019 December</b>
<b>EXPECTED RECEIPTS</b>			
Cash sales (75% of total sales)	180 000	150 000	175 000
Debtors (30 days less 5%)	52 500	?	47 500
Rent income	?	10 464	?
Fee Income	2 000	?	?
Interest on fixed deposit		?	?
Capital		100 000	
	<b>247 100</b>	<b>325 000</b>	<b>C</b>
<b>EXPECTED PAYMENTS</b>			
Drawings	17 500	12 500	12 500
Motor vehicle expenses	6 500	6 500	6 500
Fixed deposit		60 000	
Deposit on vehicle purchased		?	
Sundry expenses	?	?	?
Monthly repayments to Wesrand			?
Interest paid to Wesrand			?
Salaries and wages	108 000	110 160	110 160
	<b>245 000</b>	<b>320 000</b>	<b>380 000</b>
Cash surplus/-deficit	2 100	5 000	<b>(143 500)</b>
Cash at the beginning of the month	92 000	<b>A</b>	<b>B</b>
Cash at the end of the month	<b>94 100</b>	<b>B</b>	<b>D</b>

35

TOTAL: 150

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET	
$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Total assets : Total liabilities	Current assets : Current liabilities
(Current assets – Inventories) : Current liabilities	Non-current liabilities : Shareholders' equity
(Trade & other receivables + Cash & cash equivalents) : Current liabilities	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	



education

Department of  
Education  
FREE STATE PROVINCE

SCHOOL: \_\_\_\_\_

LEARNER: \_\_\_\_\_

## PREPARATORY EXAMINATION

## ACCOUNTING P2

GRADE 12

SEPTEMBER 2020

## SPECIAL ANSWER BOOK

QUESTION	MARKS	INITIAL	MODERATOR
1			
2			
3			
4			
TOTAL			

This answer book consists of 11 pages.

## QUESTION 1: RECONCILIATIONS

- 1.1 Indicate whether the following statements are TRUE or FALSE. Write only 'True' or 'False' next to the question number.

1.1.1	
1.1.2	
1.1.3	

3

- 1.2 Analyse the transactions according to the columns provided in the ANSWER SHEET. Show amounts only for the Cash Journals and the Reconciliation Statement, and indicate a 'No entry' with an X.

No.	Cash Journals		Bank Reconciliation Statement		No entry
	CRJ	CPJ	Debit	Credit	
E.g.			750		
A					
B					
C					
D					
E					
F					

9

- 1.3 DEBTOR'S COLLECTION SCHEDULE AND AGE ANALYSIS:

- 1.3.1 Why is the preparation of a debtor's collection schedule and debtor's age analysis important internal control measures?  
Debtor's collection schedule:

Debtor's age analysis:

4



1.3.2

**Calculate the percentage of debtors' accounts that comply with the credit terms.**

3

1.3.3

**Explain TWO measures to prevent losses due to bad debts in the future.**

4

**CREDITORS' RECONCILIATION:**

1.4.1

Although Future Traders offers credit terms of 60 days, Generations Suppliers prefers to settle their account within 30 days during certain months. Provide TWO points to indicate that it is not a good decision.

2

1.4.2

	CREDITORS LEDGER OF GENERATION SUPPLIERS	STATEMENT FROM FUTURE TRADERS
	21 130	32 600
A		
B		
C		
D		
E		

10

TOTAL MARKS
35

## QUESTION 2: INVENTORY VALUATION & VAT

### 2.1 INVENTORY VALUATION:

- 2.1.1 Calculate the value of the closing stock of Longlast AA 6-pack units on 31 October 2019.

6

- 2.1.2 Calculate the average stock-holding period, given the cost of sales amounted to R483 750 for the year ended 31 October 2019.

Comment on your findings above:

6

- 2.1.3 The owner is concerned about the sales of Petcell AA 6-pack units, and considers to discontinue this product line:

Calculate the value of the closing stock of Petcell AA 6-pack units.

5

Calculate the cost of sales of the Petcell AA 6-pack units.

3

**Calculate the stock turnover rate for the year.**

5

**2.1.4**

**Give TWO reasons why the owner must discontinue the sales of Petcell AA 6-pack units.**

4

**2.2 VAT**

**2.2.1**

**Calculate the VAT amount payable/receivable to SARS.**

9

**2.2.2**

**Give ONE reason why the auditor would not be satisfied with this explanation.**

2

**TOTAL MARKS**

**40**

### QUESTION 3: MANUFACTURING

#### 3.1 SOS MANUFACTURERS

Calculate and complete the following on 30 September 2019:

3.1.1

Direct materials issued to the factory for the year.

7

3.1.2

The production cost of finished goods for the year.

5

3.1.3

Factory Overheads Cost Note for the year.


13

3.1.4

Complete the Production Cost Statement for the year.	
Prime cost	
Total cost of production of finished goods	

7

3.2 H2O is a small manufacturing business that produces plastic water bottles.

3.2.1

Calculate the break-even point for H2O on 29 February 2020.
---

4

3.2.2

Explain why Wally should be concerned about the profitability and sustainability of the business. Give TWO points with figures to support your answer.
--

4

TOTAL MARKS
40

#### QUESTION 4: CASH BUDGETS

- 4.1 Explain why a business needs to prepare a Cash Budget every year.

2

- 4.2 Calculate the expected receipts from debtors for November 2019.

5

- 4.3 Calculate the amounts indicated by A–D in the Cash Budget.

A	
B	
C	
D	

4

- 4.4 The rent income increased by 9% on 1 November 2019. Calculate the rent income amount for October 2019.

3

- 4.5 In your opinion, is Rian's capital contribution in November sufficient to support this business venture? Give ONE reason to support your answer.

3

4.6

**Calculate the percentage increase granted to the employees on 1 November 2019.**

3

**In your opinion, will the employees be satisfied with this increase? Briefly explain.**

3

4.7

**As the internal auditor you discover that the actual motor vehicle expenses for December 2019 were R9 600. Give TWO points that you would include in your internal auditors' report to Rian.**

4

4.8

**Calculate the interest payable to Wesrand Bank in December 2019.**

5

**Calculate the monthly repayments of the capital portion of the loan to Wesrand.**

3

TOTAL MARKS
35

**TOTAL: 150**





education

Department of  
Education  
FREE STATE PROVINCE

## **PREPARATORY EXAMINATION**

### **GRADE 12**

## **ACCOUNTING P2**

**SEPTEMBER 2020**

## **MARKING GUIDELINES**

**MARKS: 150**

### **MARKING PRINCIPLES:**

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no foreign item penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If the answer is incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer).
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
10. Operation means Check operation. One part correct means Operation & one part correct.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. In such cases, do not award the method mark. Indicate by way of ☒
12. Be aware that some candidates provide valid alternatives beyond the memorandum.
13. Codes: f = foreign item; p = placement/presentation.

**These marking guidelines consists of 10 pages.**

## QUESTION 1: RECONCILIATIONS

1.1

Indicate whether the following statements are TRUE or FALSE. Write only True or False next to the question number.

1.1.1	False	✓
1.1.2	True	✓
1.1.3	True	✓

3

1.2

Analyse the transactions according to the columns provided in ANSWER SHEET. Show amounts only for the Cash Journals and the Reconciliation Statement and indicate a 'No entry' in an X.

No.	Cash Journals		Bank Reconciliation Statement		No entry
	CRJ	CPJ	Debit	Credit	
E.g.			750		
A					X ✓
B				8 500 ✓	
C		2 640 ✓			
D	400 ✓	400 ✓	400 ✓		
E	900 ✓✓ #OR 8 750	#OR 7 850			
F				1 430 ✓	

# both for 2 marks

9

1.3 DEBTORS COLLECTION SCHEDULE AND AGE ANALYSIS:

1.3.1

Why is the preparation of a debtor's collection schedule and debtors age analysis important internal control measures?

Debtors collection schedule: ✓✓

- Project anticipated receipts from debtors.
- Ensure debtors keep to credit terms.
- Act immediately if debtors do not comply.

Debtors age analysis: ✓✓

- Effective method of controlling length of overdue periods so that appropriate action can be taken, such as interest/legal action.
- Identify possible bad debts and send timeous notices.

4

1.3.2

**Calculate the percentage of debtor's accounts that comply with the credit terms.**

$\begin{array}{r} 72\,048 + 48\,032 \\ \hline 120\,080 \checkmark \\ 600\,400 \checkmark \end{array}$	<b>OR</b>	$\begin{array}{r} 480\,320 \\ \hline 600\,400 \end{array} = 80\%$
$= 20\% \checkmark$		$100\% - 80\% = 20\%$

3

1.3.3

**Explain TWO measures to prevent losses due to bad debts in the future.**

Any TWO measures      ✓✓      ✓✓

Screening of debtor must be very strict.

Credit limits must fit the profile.

Verify all information submitted./Run credit check.

Ask for 3 months' bank statements to check the available income after all other commitments.

4

### CREDITORS' RECONCILIATION:

1.4.1

Although Future Traders offers credit terms of 60 days, Generations Suppliers prefers to settle their account within 30 days during certain months. Provide TWO points to indicate that it is not a good decision.

Any TWO points

✓ ✓

- Keep money as long as possible in own bank account to earn interest.
- First collect money from debtors to pay creditors.
- If no early payment discount is offered.
- Pay as late as possible, but avoid unnecessary interest charged.

2

1.4.2

	CREDITORS LEDGER OF GENERATION SUPPLIERS	STATEMENT FROM FUTURE TRADERS
	21 130	32 600
A		13 300 – 11 200 + 2 100 ✓✓
B	+ 300 ✓✓	
C	- 500 ✓	
D	(3 035 + 3 035) + 6 070 ✓✓	
E		- 7 000 one mark; -700 one mark - 7 700 ✓✓
	27 000 * <input checked="" type="checkbox"/>	27 000
	* <input checked="" type="checkbox"/> Operation one part correct. Both figures	

10

### TOTAL MARKS

35

## QUESTION 2: INVENTORY VALUATION & VAT

### 2.1 INVENTORY VALUATION:

#### 2.1.1

Calculate the value of the closing stock of Longlast AA 6-pack units on 31 October 2019.

$$\begin{array}{rclcl}
 5\,000 & \times & R23.50 & = & 117\,500 & \checkmark \\
 7\,000 & \times & R23 & = & 161\,000 & \checkmark \checkmark \quad \text{one part correct} \\
 \hline
 1\,500 & \times & R22.50 & = & 33\,750 & \checkmark \checkmark \quad \text{one part correct} \\
 13\,500 & & & = & 312\,250 & \checkmark \quad \text{one part correct}
 \end{array}$$

6

#### 2.1.2

Calculate the average stock-holding period, given the cost of sales amounted to R483 750 for the year ended 31 October 2019.

$$\begin{array}{rcl}
 352\,250 \text{ Two marks} & 176\,125 \text{ Three marks} & \\
 \frac{1}{2} \checkmark (40\,000 \checkmark + 312\,250 \checkmark) & & \frac{365}{483\,750 \checkmark} \times 1
 \end{array}$$

$$= 132,9 \text{ (133) days } \checkmark \text{ operation one part correct OR } 4,4 \text{ months}$$

Comment on your findings above:  $\checkmark$

Too much working capital locked up in stock, can lead to cash flow problems.

Possible stock losses in future, since batteries have a limited shelf life.

6

#### 2.1.3 The owner is concerned about the sales of Petcell AA 6-pack units, and considers to discontinue this product line:

Calculate the value of the closing stock of Petcell AA 6-pack units.

$$\begin{array}{rcl}
 148\,200 \text{ Two marks} & & \\
 (28\,000 \checkmark + 120\,200 \checkmark) & \times & 1\,850 \\
 (800 \checkmark + 3\,000) \checkmark & & \\
 39 \text{ Four marks} & & \\
 = R72\,150 \checkmark & \text{operation one part correct and must be } \times \text{ by } 1\,850
 \end{array}$$

5

Calculate the cost of sales of the Petcell AA 6-pack units.

$$\begin{array}{rcl}
 (28\,000 + 120\,200) \text{ both for one mark} & & \\
 148\,200 \checkmark - 72\,150 \checkmark & = & 76\,050 \checkmark \text{ operation one part correct}
 \end{array}$$

3

**Calculate the stock turnover rate for the year.**

$$\frac{76\,050 \checkmark \text{ see above}}{\frac{1}{2} \checkmark (28\,000 \checkmark + 72\,150 \checkmark \text{ see above})}$$

50 075 three marks

$$= 1,5 \text{ times per year } \checkmark \text{ operation one part correct}$$

5

2.1.4

**Give TWO reasons why the owner must discontinue the sales of Petcell AA 6-pack units.**

Any TWO reasons  $\checkmark \checkmark$   $\checkmark \checkmark$

The Petcell batteries are more expensive in comparison with the Longlast, customers prefer cheaper batteries even if the quality is not the same.

Sales far too low 1 950 compared to 23 500.

Stock turnover rate of 1.5 time is to low, approximately 240 days.  
see 2.2.3 above

Possible stock losses in future, since batteries have a limited shelf life. see 2.2.3 above

4

2.2 VAT

2.2.1

**Calculate the VAT amount payable/receivable to SARS.**

142 800 $\checkmark \checkmark$	184 680 $\checkmark \checkmark$
5 520 $\checkmark$	9 240 $\checkmark$
2 340 $\checkmark$	252 $\checkmark$
<u>43 512</u>	<u>43 512</u> $\checkmark$
	operation one part correct

**OR** Choose the line

$$184\,680 - 142\,800 + 9\,240 - 5\,520 - 2\,340 + 252 = 43\,512$$

$$- 184\,680 + 142\,800 - 9\,240 + 5\,520 + 2\,340 - 252 = 43\,512$$

9

2.2.2

**Give ONE reason why the auditor would not be satisfied with this explanation.**

Unethical.  $\checkmark$  He should not go along with the owner's request.  
They make use of the invoice basis to record VAT, so it has to be recorded and paid.  $\checkmark$

2

**TOTAL MARKS**

40

### QUESTION 3: MANUFACTURING

#### 3.1 SOS MANUFACTURERS

Calculate and complete the following on 30 September 2019:

##### 3.1.1

**Direct materials issued to the factory for the year.**

54 700 ✓ + 1 135 000 ✓ – 4 700 ✓ + 3 500 ✓ – 3 800 ✓ – 69 700 ✓  
= R1 115 000 ☒ operation one part correct

R53 080 -1 foreign

7

##### 3.1.2

**The production cost of finished goods for the year.**

Cost of Sales = 6 282 375 x 100/250 = 2 512 950

2 512 950 ✓✓ + 79 500 ✓ – 100 450 ✓

R2 492 000 ☒ operation one part correct

Finishing goods

100 450	2 512 950
2 492 000	79 500

5

##### 3.1.3

**Factory Overheads Cost Note for the year.**

Indirect Materials (14 100 + 250 400 – 2 730) ✓ x 1/5 ✓	52 354 * <input checked="" type="checkbox"/>
104 160 two marks	37 200 * <input checked="" type="checkbox"/>
Insurance (121 520 ✓ x 12/14) ✓ – 66 960 ✓	
Rent (171 500 ✓ x 60/35 ✓)	294 000 * <input checked="" type="checkbox"/>
Indirect Labour (312 800 + 6 352 + 3 128)	322 280 * <input checked="" type="checkbox"/> ✓
	705 834 <input checked="" type="checkbox"/>
	Operation one part correct

13

3.1.4

Complete the Production Cost Statement for the year.		
Direct Materials	see 3.1.1	1 115 000 ✓
Direct Labour		790 000 ✓
<b>Prime cost</b>	DMC + DLC	1 905 000 ✓
Factory Overheads	see 3.1.3	705 834 ✓
		2 610 834
Work-in-Progress beginning of year		65 050 ✓
		2 675 884
Work-in-Progress end of year	balancing figure	(183 884) ✓
<b>Total cost of production of finished goods</b>	see 3.1.2	2 492 000 ✓

7

3.2 H2O is a small manufacturing business that produces plastic water bottles.

3.2.1

Calculate the break-even point for H2O on 29 February 2020.	
795 900 ✓	
18,85 ✓ – 11,75 ✓	
7,10 two marks	
112 098,59/112 099 units	✓

4

3.2.2

Explain why Wally should be concerned about the profitability and sustainability of the business. Give TWO points with figures to support your answer.	
Points ✓ ✓	Figures ✓ ✓
<ul style="list-style-type: none"> <li>They did not produce and sell enough products to break even; 112 099 vs 110 500; they needed an extra 1 599 units to break even; making a loss by 1 599 units.</li> <li>Produced and sold 12 500 more units.</li> <li>BEP went up by 34 099 units.</li> </ul>	

4

TOTAL MARKS
40



## QUESTION 4: CASH BUDGETS

### 4.1 Explain why a business needs to prepare a Cash Budget every year.

Any valid answer ✓✓

To plan for future receipts and payments in order to ensure that they have enough cash.

Calculate the bank balance.

Prioritising – taking corrective measures from previous deviations.

Do not accept income and expenses

2

### 4.2 Calculate the expected receipts from debtors for November 2019.

$$180\,000 \checkmark \times 100/75 \checkmark \times 25\% = R60\,000 \checkmark \times 95/100 \checkmark \\ = R57\,000 \checkmark$$

$$\text{OR } 60\,000 \text{ three marks} - 3\,000 \text{ one mark} = 57\,000 \text{ one method}$$

$$\text{OR } R180\,000 \text{ one mark} \times 25/75 \text{ two marks} \times 95\% \text{ one mark} = 57\,000 \text{ one method mark}$$

5

### 4.3 Calculate the amounts indicated by A–D in the Cash Budget.

A	R94 100 ✓
B	A + 5 000 = 99 100 ✓
C	(143 500) + 380 000 = 236 500 ✓
D	(143 500) + 99 100 = (44 400) ✓ must be in brackets

4

### 4.4 The rent income increased by 9% on 1 November 2019. Calculate the rent income amount for October 2019.

$$10\,464 \checkmark \div 1,09 \checkmark = R9\,600 \checkmark \text{ one part correct}$$

$$\text{OR } 10\,646 - 864 = R9\,600$$

3

### 4.5 In your opinion, is Rain's capital contribution in November sufficient to support this business venture? Give ONE reason to support your answer.

Reason Yes/No ✓ Explanation ✓✓ Part marks can be awarded.

No, his capital contribution is not sufficient to support this business venture. Although his bank account is showing a surplus in November, in December his payments exceed his receipts.

Refer to 4.3 (B and D) above and mark according to the candidates answer.

3

4.6

**Calculate the percentage increase granted to the employees on 1 November 2019.**

$$2\,160\checkmark / 108\,000\checkmark \times 100 = 2\%\checkmark \quad \text{one part correct}$$

3

**In your opinion, will the employees be satisfied with this increase? Briefly explain.**

Yes/No✓ Any valid explanation ✓✓

No, the increase is lower than the inflation rate/the business can rather give a higher increase than investing money in a fixed deposit.

Yes, the business bank account is in overdraft, they can be glad to get an increase.

3

4.7

**As the internal auditor you discover that the actual motor vehicle expenses for December 2019 were R9 600. Give TWO points that you would include in your internal auditors' report to Rian.**

TWO valid points ✓✓ ✓✓

- The actual expenses exceed the budgeted amount – overspent.
- Maybe unexpected increase in fuel prices and maintenance cost.
- The use of the vehicles needs to be investigated in order to ensure that the vehicles are used responsibly (no abuse).
- Rian needs to ensure that the vehicles are serviced regularly in order to avoid unexpected repairs.

4

4.8

**Calculate the interest payable to Wesrand Bank in December 2019.**

$$240\,000\checkmark \times 85\%\checkmark = 204\,000 \times 11/100\checkmark \times 1/12\checkmark \\ = R1\,870\checkmark \quad \text{one part correct}$$

5

**Calculate the monthly repayments of the capital portion of the loan to Wesrand.**

$$204\,000\checkmark / 48\text{ months}\checkmark = R4\,250\checkmark \quad \text{one part correct}$$

see above

3

**TOTAL MARKS**

35

**TOTAL: 150**