



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA



NATIONAL SENIOR CERTIFICATE

GRADE 12



ACCOUNTING P2

NOVEMBER 2021

MARKS: 150

TIME: 2 hours

This question paper consists of 14 pages,
a formula sheet and a 12-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. If you choose to do so, you may use the Financial Indicator Formula Sheet attached at the end of this question paper. The use of this formula sheet is NOT compulsory.
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	TOPIC	MARKS	MINUTES
1	Debtors' Reconciliation and Age Analysis	30	25
2	Cost Accounting	45	35
3	Budgeting	35	30
4	Inventories and Fixed Assets	40	30
TOTAL		150	120

QUESTION 1: DEBTORS' RECONCILIATION AND AGE ANALYSIS**(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 2021. 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 2021, 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 2021:

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
TOTALS						
		R238 800	R90 744	R81 192	R50 148	R16 716
		100%	38%	34%	21%	7%

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.

QUESTION 2: COST ACCOUNTING**(45 marks; 35 minutes)****2.1 PRUDY MANUFACTURERS**

The information relates to the financial year ended 28 February 2021. The business produces one style of travelling bag. The owner is Prudy Sithole.

REQUIRED:

Complete the following for the year ended 28 February 2021:

2.1.1 Production Cost Statement (10)

2.1.2 Abridged Statement of Comprehensive Income (Income Statement) (11)

INFORMATION:**A. Stock balances:**

	28 February 2021	1 March 2020
Finished goods stock	R96 000	R72 000

There is no work-in-progress at the beginning or end of the year.

B. Raw material issued to the factory for production, R1 494 000.

C. Production wages:

Information extracted from the production wages records:

NET WAGES PAID TO PRODUCTION WORKERS	TOTAL DEDUCTIONS
R647 400	22% of gross wages

D. The bookkeeper calculated the following costs for the year ended 28 February 2021:

Factory overhead cost	R520 280
Selling and distribution cost	R224 960
Administration cost	R187 760



It was discovered that she did not take the following into account:

- The telephone account of R22 400 was posted in error to the factory overhead cost. This expense relates to the office.
- The entire amount of rent expense, R98 400, was posted to the factory overhead cost. This expense should have been split in the ratio 7 : 2 : 1 between the factory, sales and administration departments.
- The insurance expense of R26 400 was divided equally between the factory overhead cost and the sales department in error. 60% of this expense relates to the factory and the balance applies to the sales department.

E. Sales:

Total sales for the year amounted to R4 433 600.

2.2 CONTROL OF RAW MATERIAL

After completing the statements in QUESTION 2.1, the internal auditor of Prudy Manufacturers suspects that the raw material (fabric) is not being controlled well in the storeroom and the factory.

2.2.1 Calculate:

- The metres of fabric missing from the storeroom
- The metres of fabric wasted in the factory

Apart from installing cameras, provide a specific strategy to improve internal control in the storeroom and factory. In EACH case, provide a different point.

(6)

2.2.2 Calculate the total cost of fabric lost and wasted and explain how this loss should be shown in the statements mentioned in QUESTION 2.1.

(3)

INFORMATION:

A. Raw material (fabric):

Fabric used in production is issued to the factory from the storeroom, as required. The record of fabric is as follows:

	METRES	TOTAL AMOUNT
Raw material issued to factory	12 450	R1 494 000
Balance on 1 March 2020	2 700	324 000
Purchase of fabric during the year	10 800	1 296 000
Balance on 28 February 2021	850	102 000

B. Additional information:

- Fabric is purchased at a fixed cost price of R120 per metre.
- It takes 1,5 metres of fabric to make one travel bag.
- 7 800 bags were produced during the financial year.



2.3 ROSEMARY'S TOY FACTORY

This factory manufactures toy teddy bears. There is no work-in-progress stock at the beginning or end of each year. The financial year ends on 31 December.

Rosemary decided to address the problem of low profits made in 2020 by making some changes to improve sales and production.

REQUIRED:

- 2.3.1 Provide a calculation to confirm that the break-even point for the 2021 financial year is correct. (3)
- 2.3.2 Explain why Rosemary is pleased with the production level, sales and break-even point. Quote figures. (4)
- 2.3.3 Explain to Rosemary why the fixed cost per unit decreased from R56,00 to R45,71. (2)
- 2.3.4 Rosemary made deliberate decisions regarding variable costs to improve the business.
- Explain the decisions that she might have taken on these costs and how these could have had positive effects on the business. Quote figures. (6)

INFORMATION:

	31 DECEMBER 2021		31 DECEMBER 2020	
	AMOUNT R	UNIT COST R	AMOUNT R	UNIT COST R
Direct material cost	490 000	100,00	320 000	80,00
Direct labour cost	274 400	56,00	288 000	72,00
Selling and distribution cost	176 400	36,00	96 000	24,00
VARIABLE COST	940 800	192,00	704 000	176,00
Factory overhead costs	160 000	32,65	160 000	40,00
Administration cost	64 000	13,06	64 000	16,00
FIXED COST	224 000	45,71	224 000	56,00
Selling price per unit	R255		R240	
Units produced and sold	4 900 units		4 000 units	
Break-even point	3 556 units		3 500 units	

QUESTION 3: BUDGETING**(35 marks; 30 minutes)**

Shepstone Traders sell household appliances for cash and on credit. They also charge fees for repairing appliances, but only for cash. The business owner is Brian Johns. The information relates to the budget period November 2021 to January 2022.

REQUIRED:

3.1 Calculate the amounts indicated by **(a)–(c)** on the Debtors' Collection Schedule provided in the ANSWER BOOK. (6)

3.2 Calculate the amounts indicated by **(a)–(c)** on the Cash Budget provided in Information F. (9)

3.3 **Workload of employees: Refer to Information G.**

Brian is concerned about the workload of his staff. He plans to reduce the sales staff by one person. The other sales staff members are not happy with this plan.

- Provide TWO points that Brian can explain to his sales staff to justify his plan. Quote figures. (4)

- Explain why the repair staff members are not satisfied with their workload. Quote figures. (3)

- What suggestions can you offer to solve the problem of the workload of employees? Provide TWO points. (4)

3.4 **Sales trends: Refer to Information G.**

Comment on the cash and credit sales figures for November 2021. Explain why Brian is concerned. Quote figures. (3)

3.5 **Variances:** The budgeted and actual figures for November 2021 are provided.

Comment on the control over fuel for the delivery vehicle and the consumable stores used for repairs. Quote figures.

	BUDGETED R	ACTUAL R	VARIANCE
Sales	798 000	707 000	– 91 000
Fee income	32 000	66 000	+ 34 000
Fuel for leased delivery vehicle	20 800	19 900	– 900
Consumable stores for repairs	8 000	12 100	+ 4 100

(6)

INFORMATION:**A. Sales and cost of sales:**

	September 2021	October 2021	November 2021	December 2021	January 2022
Total sales	R735 000	R770 000	R798 000	R910 000	R882 000
Cost of sales	R420 000	R440 000	R456 000	R520 000	R504 000

B. Credit sales: 40% of total sales are on credit.

C. Debtors paid according to the following trend:

- 30% paid in the month of sale and receive a 5% discount.
- 45% paid in the month following the month of sale.
- 22% paid in the second month following the month of sale.

Bad debts are taken into account in the third month.

D. Purchases and payments to creditors:

- 80% of the stock is purchased on credit.
- Stock sold is replaced in the month of sales.
- Creditors are paid two months after the purchase month.

E. Information on specific items from the Cash Budget:

- Rent income will be increased by 9% p.a., effective from 1 January 2022.
- Shepstone Traders undertake special and extensive cleaning and sanitisation during December each year. This has the effect of increasing the cleaning services budget by 65%, in December only. The normal monthly fee is expected to increase by 5% p.a. commencing on 1 January 2022.

F. Extract from the Cash Budget:

RECEIPTS	Dec. 2021	Jan. 2022
Cash sales	R546 000	R529 200
Fee income (repairs)	38 400	52 200
Rent income	(a)	20 056
PAYMENTS		
Cash purchases	104 000	100 800
Payments to creditors	352 000	(b)
Consumable stores (repairs)	9 600	13 050
Fuel	21 840	23 930
Cleaning services	15 510	(c)
Salaries to sales staff	82 000	87 330
Wages to repair staff	11 000	11 715
Advertising	36 400	35 280

G. Information for November 2021:

Number of sales employees, including the driver	5	
Number of repairs employees	2	
	BUDGETED	ACTUAL
Number of customers: Sales	230	175
Number of customers: Repairs	70	136
Total sales	R798 000	R707 000
Cash sales	478 800	142 000
Credit sales	319 200	565 000
Gross profit	342 000	303 000
Fee income (cash only)	32 000	66 000
Salaries: Sales staff	82 000	82 000
Wages: Repairs staff	11 000	11 000

QUESTION 4: INVENTORIES AND FIXED ASSETS

(40 marks; 30 minutes)

4.1 INVENTORIES

Justime Footwear (Pty) Ltd sells one brand of running shoes. The business uses the weighted-average method to value these shoes. The periodic inventory system is used.

REQUIRED:

Calculate the following on 28 February 2021, the financial year-end:

4.1.1 Value of the closing stock (7)

4.1.2 Stock turnover rate (4)

INFORMATION:

The following information relates to the running shoes.

A. Balances:

DATE	QUANTITY (PAIRS)	TOTAL VALUE (INCLUDING CARRIAGE)
1 March 2020	206	R101 090
28 February 2021	420	?

B. Purchases during the year:

	NUMBER OF ITEMS	COST PRICE PER ITEM	TOTAL AMOUNT
Purchases	2 490		R2 236 700
15 April 2020	560	R820	R459 200
20 September 2020	1 120	R900	R1 008 000
5 January 2021	810	R950	R769 500

C. Carriage on purchases:

A fixed cost of R25 per unit is paid for each pair of running shoes delivered to the shop. This rate was unchanged during the financial year. This is not included above.

D. Returns:

60 pairs of running shoes were returned from the September 2020 purchase. A refund of the cost price was received from the supplier. The carriage on purchases was not refunded.

E. Sales:

2 216 units were sold at R1 400 each, R3 102 400.

NOTE: There were no stolen items.

- 4.1.3 Justime (Pty) Ltd trades in three types of footwear. The table below indicates the overall performance for the year.

The directors are satisfied with the management of running shoes but not with the boots and sandals:

- The boots are imported and Justime (Pty) Ltd is the only business in town selling these boots.
- The sandals are locally made and all competitors sell them at R480 each.

Comment on the stock turnover rates for boots and sandals and identify the major problem relating to EACH product. Quote figures.

	RUNNING SHOES	BOOTS	SANDALS
Mark-up %	57,3%	80%	33 ¹ / ₃ %
Selling price	R1 400	R2 900	R480
Average cost price	R890	R1 610	R360
Gross profit per pair	R510	R1 290	R120
Total gross profit	R1 130 160	R1 122 300	R1 368 000
Orders received from customers	2 216 pairs	870 pairs	15 000 pairs
Sales	2 216 pairs	870 pairs	11 400 pairs
Items on hand at year-end	420 pairs	440 pairs	150 pairs
Stock on hand at year-end	?	R708 400	R54 000
Stock turnover rate	?	2 times	76 times

(6)

4.2 FIXED ASSETS

The following information relates to the fixed/tangible assets of Justime Footwear (Pty) Ltd. The financial year ended on 28 February 2021.

REQUIRED:

- 4.2.1 List THREE points for good internal control over movable fixed assets. (3)

- 4.2.2 Refer to Information A and B.

Calculate the cost of land and buildings purchased on 31 August 2020. (3)

- 4.2.3 Refer to Information A and C.

Calculate depreciation on the vehicle for the year ended 28 February 2021. (2)

- 4.2.4 Refer to Information A and D.

The business depreciates equipment at 30% p.a. on the diminishing-balance method. On 30 November 2020, they decided to trade in a photocopy machine for a new model.

- Calculate the loss on the photocopy machine that was traded in on 30 November 2020. (6)
- Calculate depreciation on the new photocopy machine and on the remaining old equipment for the year ended 28 February 2021. (7)



- 4.2.5 The CEO feels that the land and buildings are worth at least R10 000 000 and wants to adjust the figure in the Statement of Financial Position (Balance Sheet) accordingly. Explain why the auditor does NOT agree. (2)

INFORMATION:

A. Extract from Trial Balances on 28 February:

	2021 R	2020 R
Balance Sheet accounts section		
Land and buildings	6 250 000	5 500 000
Vehicle	480 000	480 000
Accumulated depreciation on vehicles	?	450 000
Equipment	2 190 000	2 100 000
Accumulated depreciation on equipment	?	1 440 000

B. Land and buildings:

Glamour Construction provided an invoice on 31 August 2020 after completing the new storage facilities. The full invoice amount was paid and debited to land and buildings. However, the auditor found that repairs to the old storeroom, R60 000, were included in the invoice. This has not been corrected.

C. Vehicles:

The company has only one vehicle. The depreciation rate is 25% p.a. on cost.

D. Equipment:

A photocopy machine was traded in on 30 November 2020 for R88 000 for a better model. The cost price of the new model that was delivered on 1 December 2020 was R410 000. The fixed asset register reflected the following:

Fixed asset register:

Category:	Photocopy machine	
Model:	Clearfont X23	
Date purchased:	1 March 2019	
Cost price:	R320 000	
Depreciation rate:	30% on diminishing-balance method	
Date	Depreciation	Carrying value
28 February 2020	R96 000	R224 000
30 November 2020	?	?

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET

$\frac{\text{Gross profit} \times 100}{\text{Sales} \quad 1}$	$\frac{\text{Gross profit} \times 100}{\text{Cost of sales} \quad 1}$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses} \times 100}{\text{Sales} \quad 1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
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	
$\frac{\text{Average trading stock} \times 365}{\text{Cost of sales} \quad 1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors} \times 365}{\text{Credit sales} \quad 1}$	$\frac{\text{Average creditors} \times 365}{\text{Cost of sales} \quad 1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share} \times 100}{\text{Earnings per share} \quad 1}$	$\frac{\text{Dividends for the year} \times 100}{\text{Net income after tax} \quad 1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	

NOTE:

- * In this case, if there is a change in the number of issued shares during a financial year, the weighted-average number of shares is used in practice.

STICKER

CENTRE NUMBER

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EXAMINATION NUMBER

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NATIONAL SENIOR CERTIFICATE

ACCOUNTING P2

GRADE 12

NOVEMBER 2021

SPECIAL ANSWER BOOK

QUESTION	MARKS	INITIAL	MOD.
1			
2			
3			
4			
TOTAL			

This answer book consists of 12 pages.

QUESTION 1

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.

Calculate: Correct closing balance of the Debtors' Control Account on 30 September 2021. Indicate changes with '+' for an increase, '-' for a decrease or '0' for no change.

PROVISIONAL BALANCE	228 000
(i)	
(ii)	
(iii)	
(iv)	
(v)	
(vi)	
(vii)	

9

Calculate: Correct amounts owed by the following debtors only.

DEBTOR	WORKINGS	ANSWER
A Barnes	(13 500	
C Davis	(25 000	
E Foley	(18 300	

9

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.

PROBLEM	NAME OF DEBTOR WITH FIGURES

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

TOTAL MARKS
30

QUESTION 2

2.1 PRUDY MANUFACTURERS

2.1.1 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2021

Direct material cost	1 494 000
Prime cost	
Factory overhead cost 520 280	
Cost of production of finished goods	

10

2.1.2 ABRIDGED STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT) FOR THE YEAR ENDED 28 FEBRUARY 2021

Sales	4 433 600
Cost of sales	
Gross profit	
Other expenses	
Selling and distribution costs 224 960	
Administration cost 187 760	
Net profit for the year	

11

2.2 CONTROL OF RAW MATERIAL

2.2.1

Calculate the metres of fabric:	Internal control strategy
Missing from the storeroom	
Wasted in the factory	

6

2.2.2

Calculate the total cost of fabric lost and wasted.	
WORKINGS	ANSWER
Explain how this loss should be shown in the statements mentioned in QUESTION 2.1.	

3

2.3 ROSEMARY'S TOY FACTORY

2.3.1

Provide a calculation to confirm that the break-even point for the 2021 financial year is correct.
--

3

2.3.2 Explain why Rosemary is pleased with the production level, sales and break-even point. Quote figures.

4

2.3.3 Explain to Rosemary why the fixed cost per unit decreased from R56,00 to R45,71.

2

2.3.4 Rosemary made deliberate decisions regarding variable costs to improve the business.

Explain the decisions that she might have taken on these costs and how these could have had positive effects on the business. Quote figures.

Cost	Comment and positive effect (with figures)
Direct material cost	
Direct labour cost	
Selling and distribution cost	

6

TOTAL MARKS

45



QUESTION 3

3.1 DEBTORS' COLLECTION SCHEDULE

Calculate the amounts indicated by (a)–(c)

	Credit Sales R	December 2021 R	January 2022 R	Bad debts
Oct. 2021	308 000	67 760		(a)
Nov. 2021	319 200	143 640	70 224	
Dec. 2021	364 000	103 740	(b)	
Jan. 2022	352 800		(c)	
		315 140		

6

3.2 Calculate the amounts indicated by (a)–(c) on the Cash Budget in Information F

(a) Rent income for December 2021:	
WORKINGS	ANSWER
(b) Payment to creditors in January 2022	
WORKINGS	ANSWER
(c) Payment for cleaning services in January 2022	
WORKINGS	ANSWER

9

3.3 Workload of employees: Refer to Information G.

Provide TWO points that Brian can explain to his sales staff to justify his plan. Quote figures.

4

Explain why the repair staff members are not satisfied with their workload. Quote figures.

3

What suggestions can you offer to solve the problem of the workload of employees? Provide TWO points.

4

3.4 Sales trends:

Comment on the cash and credit sales figures for November 2021. Explain why Brian is concerned. Quote figures.

3

- 3.5 Comment on the control over fuel for the delivery vehicle and the consumable stores used for repairs. Quote figures.

EXPENSE	COMMENT (with figures)
Fuel for delivery vehicle	
Consumable stores for repairs	

6

TOTAL MARKS
35

QUESTION 4

4.1.1	Calculate: Value of the closing stock on 28 February 2021	
	WORKINGS	ANSWER

7

4.1.2	Calculate: Stock turnover rate	
	WORKINGS	ANSWER

4

4.1.3	Comment on the stock turnover rates for boots and sandals and identify the major problem relating to EACH product.		
		Comment on stock turnover rate (with figures)	Identify major problem
	Boots		
	Sandals		

6

4.2 FIXED ASSETS

4.2.1 List **THREE** points for good internal control over movable fixed assets.

--

3

4.2.2 Calculate: Cost of land and buildings purchased on 31 August 2020

WORKINGS	ANSWER

3

4.2.3 Calculate: Depreciation on the vehicle for year ended 28 February 2021

WORKINGS	ANSWER

2

4.2.4

Calculate: Loss on photocopy machine traded in on 30 November 2020

WORKINGS	ANSWER

6

Calculate: Depreciation on the new photocopy machine and on the remaining old equipment for the year ended 28 February 2021

WORKINGS	ANSWER
Depreciation on the new photocopy machine:	

2

Depreciation on the remaining old equipment:

5

4.2.5

The CEO feels that the land and buildings are worth at least R10 000 000 and wants to adjust the figure in the Statement of Financial Position (Balance Sheet) accordingly. Explain why the auditor does NOT agree.

2

TOTAL MARKS

40

TOTAL: 150



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Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P2

NOVEMBER 2021

MARKING GUIDELINES



MARKS: 150

MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guidelines, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no 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. Unless otherwise stated, give full marks for correct answer. If answer incorrect, mark workings.
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). Note: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
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. If candidates provide more than the required number of responses, inspect all responses to give benefit to the candidate. Penalties may be applied for foreign entries if earning full marks not related to Q (max -2 per Q).
8. This memorandum is not for public distribution; as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
9. Where penalties are applied, the marks for that section of the question cannot be a final negative.
10. Where method marks are awarded for operation, marker must inspect reasonableness of answer.
11. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
12. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
13. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a ☒.
14. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
15. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 12 pages.

QUESTION 1**1.1 Provide TWO documents that Zig Zag Traders will need from potential debtors before they will be allowed to open accounts.**

Any two ✓ ✓ accept recognisable abbreviations

- Identity document (ID)
- Salary advice slip / proof of income / proof of registration (student)
- Proof of residence (municipal bill / from statements) / residential address
- References / credit history / not listed on credit bureau / credit score / Income tax certificate (ITC)
- Bank statement (3 months)
- Criminal record (police clearance record)

2

1.2 Calculate: Correct closing balance of the Debtors' Control Account on 30 September 2021. Indicate changes with '+' for an increase, '-' for a decrease or '0' for no change.

PROVISIONAL BALANCE	228 000
(i)	+ 1 750 ✓
(ii)	0
(iii)	(62 500 – 65 200) two marks – 2 700 ✓✓
(iv)	+ 7 000 ✓✓ +3 500 one mark + 3 500 one mark
(v)	+ 5 200 ✓
(vi)	(250 – 700) two marks – 450 ✓✓
(vii)	0
	R238 800 ✓ one part correct; must include provisional balance

Accept brackets for – sign; if no sign assume positive
-1 foreign entries (max - 2); see ii and vii.

9

Calculate: Correct amounts owed by the following debtors only:

DEBTOR	WORKINGS	ANSWER
A Barnes	(13 500 + 1 750 ✓ – 450 ✓)	14 800 ✓*
C Davis	(25 000 + 3 500 ✓ + 3 500 ✓) or 7 000 two marks	32 000 ✓*
E Foley	(18 300 – 2 500 ✓ – 7 850 ✓)	7 950 ✓*

Pre-printed balances are not regarded as "one part correct" *one part correct

9

1.3

Explain THREE different problems highlighted by the debtors' age analysis. Provide the name of a debtor and/or figure(s) in EACH case.

PROBLEM ✓ ✓ ✓	NAME OF DEBTOR AND / OR FIGURES ✓ ✓ ✓ Accept "other debtors" if figures are provided Accept name of debtor / figures if included with the problem
Not adhering to <u>credit terms</u> / slow payers	<ul style="list-style-type: none"> • J Blom; R20 000 > 30 days • O. Mach; R4 000 > 90 days • Other debtors: 42 864 > 60 days • 28% of debtors do not comply with terms (66 864 / 238 800)
Exceeding <u>credit limits</u>	<ul style="list-style-type: none"> • Z Phi: Exceeds credit limit by R7 000 (limit R22 000; balance R29 000)
<u>Poor / ineffective internal controls</u> over debtors (Allowing defaulting debtors to buy on credit / exceed limits set)	<ul style="list-style-type: none"> • O. Mach: current purchase of R2 000 whilst R4 000 of balance > 90 days • J. Blom: current purchase of R18 000 whilst R20 000 of balance > 60 days • Other debtors with current purchases of R55 244 whilst R30 148 of balance is > 60 days and R12 716 > 90 days

6

1.4

Provide TWO points to support the internal auditor's concern that Susan's job description could lead to potential fraud.

Any TWO separate or different points ✓✓ ✓✓ **part marks for incomplete / partial / unclear responses**

- Too many related functions performed by one person - could compromise efficiency / job not done well
- Lack of supervision could lead to negligence / rolling over of cash / theft / no authorisation for returns / not applying returns policy effectively
- No division of duties – temptation to engage in fraudulent transactions / manipulating sales or returns / creating false documents / mismanagement / poor record-keeping (stock sheets / debtors)
- No continuity of tasks / tasks may not get done / lag behind if Susan is on leave / absent.
- Cash is easily stolen (not using electronic payments / credit cards / EFT)

4

TOTAL MARKS**30**

QUESTION 2

2.1 PRUDY MANUFACTURERS

2.1.1 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2021

Direct material cost	1 494 000
Direct labour cost 647 400 x 100/78 or + 182 600	830 000 ✓✓ one part correct
Prime cost DMC + DLC	2 324 000 ✓
Pre-adjustment figure is not regarded as "one part correct" Factory overhead cost no part marks on each sub-figure in workings 520 280 – 22 400 ✓ – 29 520 ✓✓ + 2 640 ✓✓	471 000 ✓ one part correct
Cost of production of finished goods PC + FOHC	2 795 000 ✓

10

2.1.2 ABRIDGED STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT) FOR THE YEAR ENDED 28 FEBRUARY 2021

Sales	4 433 600
Cost of sales 72 000 + 2 795 000 see PCS (2.1.1) – 96 000 award ONE method mark for one part correct	(2 771 000) ✓✓*
Gross profit Sales – COS	1 662 600 ✓
Pre-adjustment figures are not regarded as "one part correct" Other expenses ignore brackets	(462 000) ✓*
Selling and distribution costs 224 960 + 19 680 ✓ – 2 640 ✓ see FOHC above	242 000 ✓*
Administration cost 187 760 + 22 400 ✓ + 9 840 ✓ 98 400 x 10% / if 50% of SDC	220 000 ✓*
Net profit for the year GP – OE	1 200 600 ✓

11

*one part correct





2.2 CONTROL OF RAW MATERIAL

2.2.1

Calculate the metres of fabric:	Internal control strategy ✓ ✓ * do not accept "install cameras"
Missing from the storeroom $\begin{array}{r} 1\ 050 \\ (2\ 700 + 10\ 800 - 12\ 450) - 850 \\ = 200 \text{ metres } \checkmark \checkmark \\ \text{one part correct} \end{array}$	<ul style="list-style-type: none"> Physical counts / random inspections / keep detailed stock records / control or monitor the movement of fabric Rotation / division of duties / storeroom manager to be accountable Improve security at receipt / dispatch points / limit access to storeroom Storeroom staff to have lockers (no bags allowed in storeroom)
Wasted in the factory $\begin{array}{r} 7\ 800 \times 1,5 \text{ metres} \\ 12\ 450 - 11\ 700 = 750 \text{ m } \checkmark \checkmark \\ \text{one part correct} \end{array}$ OR $\begin{array}{r} 12\ 450 / 1,5\text{m} \\ 8\ 300 - 7\ 800 \\ 500 \quad \times 1,5\text{m} \end{array}$	<ul style="list-style-type: none"> Improve training Use cutting patterns / technology Improve supervision Make use /or buy good quality material Effective use of off-cuts Incentives for minimizing wastage Regular servicing of machines

6

2.2.2

Calculate the total cost of the metres of fabric lost and wasted.	
WORKINGS	ANSWER
$\begin{array}{r} 200 + 750 \text{ see 2.2.1} \\ 950\text{m} \times \text{R120} \end{array} \text{ OR } \begin{array}{r} 200 \times 120 \quad 750 \times 120 \\ \text{R24 000} + \text{R90 000} \end{array}$	$\text{R114 000 } \checkmark \checkmark$ <p>If amounts calculated in 2.2.1 x R120 Two or nothing</p>
Explain how this loss should be shown in the statements mentioned in QUESTION 2.1 on the previous page. Any valid answer, e.g. ✓ <ul style="list-style-type: none"> Amount shown as an <u>expense item</u> (on the Income Statement) Examples of possible expense items: e.g. loss due to theft / administrative cost / selling and distribution cost increased direct material cost / adjust factory overhead cost / cost of sales 	

3

2.3 ROSEMARY'S TOY FACTORY

2.3.1

Provide a calculation to confirm that the break-even point for the 2021 financial year is correct.

$$\frac{224\ 000 \checkmark}{255 \checkmark - 192 \checkmark} = 3\ 556 \text{ units}$$

63 two marks

Numerator and denominator must be marked as such

OR

Sales at BEP (255 x 3555,55)	Total FC	VC at BEP (192 x 3 555,55)	
906 665	– 224 000	– 682 665	= 0
one mark	one mark	one mark	

3

2.3.2

Explain why Rosemary is pleased with the production level, sales and break-even point. Quote figures.

Valid comparison ✓✓ Figures ✓✓ **part marks for incomplete / partial / unclear responses**

Must mention Production (and sales) and BEP for four marks

- Produced and sold 1 344 units above the BEP (4 900 – 3 556) / making a profit on 1 344 units
- Made a profit (includes production and sales) on 1 344 units (4 900 – 3 556) in 2021 compared to 500 units (4 000 – 3 500) in 2020 / profit on an additional 844 units (168,8%)
- Profit (includes production and sales) was R84 672 (1 344 x R63) in 2021 and R32 000 (500 x R64) in 2020; an increase in of R52 763 (164,8%)
- Sales / production increased by 900 units (4 900 – 4 000) / by 22,5% whereas BEP increased by only 56 (3 556 – 3 500) / by 1,6%. – good control over costs.

Two-mark options: **Only ONE of: (max 2 marks)**

- Revenue from sales increased from R960 000 to R1 249 500 (R289 500 / 30,2%)
- Comparison of units produced only (4 900 – 4 000) / by 900
- Comparison of BEP only (3 556 – 3 500) / by 56

4

2.3.3

Explain to Rosemary why the fixed cost per unit decreased from R56,00 to R45,71.

ONE point that either mentions or explains economies of scale ✓✓ **Two marks or nothing**

- Economies of scale: As more units are produced, fixed cost per unit would decrease
- Increased production (by 900 units) resulted in a decrease in fixed cost per unit, due to fixed cost remaining fairly constant or not influenced by levels of production
- The average fixed cost per unit would decrease as units produced increases / total fixed costs (constant) are divided by a large number of units.

2

2.3.4

Rosemary made deliberate decisions regarding variable costs to improve the business. Explain the decisions that she might have taken on these costs and how these could have had positive effects on the business. Quote figures.

Cost	Comment and positive effect (with figures) Unit costs must be compared (not the total amounts for cost items)
Direct material cost Comment (with figure) ✓ Positive effect ✓	Increased from R80 to R100 per unit / by R20 / 25% <ul style="list-style-type: none"> • Improved quality of teddy bears; justifies price increase • Better quality – satisfied customers – less returns – improved sales – higher profits
Direct labour cost Comment (with figure) ✓ Positive effect ✓	Decreased from R72 to R56 per unit / by R16 / 22,2% <ul style="list-style-type: none"> • Improved efficiency through training • Better supervision of normal-time targets / more control over overtime. • Shift from physical labour to machines
Selling and distribution cost Comment (with figure) ✓ Positive effect ✓	Increased from R24 to R36 per unit / by R12 / 50% <ul style="list-style-type: none"> • More advertising increased sales • Delivering to a wider area / offered free delivery • Commission to motivate sales persons

6

TOTAL MARKS**45**

QUESTION 3

3.1 DEBTORS' COLLECTION SCHEDULE Calculate the amounts denoted by (a)–(c)

	Credit Sales R	December 2021 R	January 2022 R	Bad debts
Oct 2021	308 000	67 760		(a) 13 860✓✓
Nov 2021	319 200	143 640	70 224	
Dec 2021	364 000	103 740	(b) 245 700✓✓	
Jan 2022	352 800		(c) 150 822✓✓	
		315 140		

6

3.2 Calculate the amounts denoted by (a)–(c) on the Cash Budget.

(a) Rent income for December 2021:	
WORKINGS	ANSWER
$20\,056 \times 100/109$ or $20\,056 - 1\,656$	18 400 ✓✓ one part correct
(b) Payment to creditors in January 2022	
WORKINGS	ANSWER
$456\,000 \checkmark \times 80\% \checkmark$ OR $456\,000 - 91\,200$ (20% of 456 000) one mark one mark	364 800 ✓ one part correct
(c) Payment for cleaning services in January 2022	
WORKINGS	ANSWER
$15\,510 \checkmark \times 100/165 \checkmark \times 105/100 \checkmark$ one mark one mark OR $\frac{15\,510 \times 105}{165}$ one mark (as denominator)	9 870 ✓ one part correct Accept: 9 400 as a final answer: three marks; 9 400 + 470; four marks; 9 400 + any other amt: three marks only

9

3.3 Workload of employees:

Provide TWO points that Brian can explain to his sales staff to justify his plan. Quote figures.

Be aware of alternative ways of expressing statistics

TWO points (with figures) ✓✓ ✓✓

part marks for incomplete / partial / unclear responses

- He budgeted for 230 customers; only 175 was recorded / 55 less (23,9%) / 76%
- Sales was less than budgeted (798 000 – 707 000) / by R91 000 / 11,4%
- Salaries are set at a basic rate of R16 400 per worker (cost the business when budgeted sales are not achieved)

Assuming 5 workers (including driver)

- Each worker was expected to attend to 46 customers (230/5); but the actual is an average of 35 customers (175 /5) / 11 less / 23,9%
- Retrenching one person will not affect the expected workload of the remaining 4 workers, projecting an average of 44 (175/4) customers (expected 46)

Assuming 4 sales staff (excluding driver)

- Each worker expected to attend to 58 (230/4) but actual is 44 (175/4) / 14 less / 24%
- If one is retrenched, the average customers per worker is 58 (175/3) customers; same as the expected 58 (230/4).

4

Explain why the repair staff members are not satisfied with their workload. Quote figures.

Be aware of alternative ways of expressing statistics

ONE point ✓ figures ✓✓

- They are over-worked. Customers (from 70 expected to 136-actual) / 66 more than expected / 94% more / 194%. Customers prefer to repair rather than buy.
- They are expected to attend to 35 customers per worker but attended to 68 customers (an average of an additional 33 customers per worker)
- Fee income is R34 000 more than expected / 66 000 – 32 000 / 106%
- Wages fixed at a basic rate of R5 500 per worker – not influenced by workload / commission, and is R10 900 less than a sales worker.

3

What suggestions can you offer to solve the problem of the workload of employees? Provide TWO points.

TWO different points ✓✓ ✓✓

part marks for incomplete / partial / unclear responses

- Train the sales staff member to do repairs
- Suggest incentive bonuses / overtime pay
- Negotiate a better wage package / commission
- Train staff to work in other departments / rotation
- Employ temporary staff / casual workers / employ more workers

4

3.4 Sales trends:

Comment on the cash and credit sales figures for November 2021. Explain why Brian is concerned. Quote figures.

Comment on both cash sales ✓ and credit sales ✓ (with comparison of budget and actual figures) ✓

Comment on cash sales only (with comparison of budget and actual figures) one mark

Comment on credit sales only (with comparison of budget and actual figures) one mark

Expected responses for 3 marks:

- Cash sales are lower than expected by R336 800 / 70,3% / (478 800\$ – 142 000) whilst credit sales are higher than expected by R245 800 / 77% / (565 000 – 319 200\$)
- Cash sales are now only 20% of total sales (142 000/707 000) expected 60%; whilst credit sales are now 80% of total sales (565 000 / 707 000); expected 40%

3

3.5 Comment on the control over fuel for the delivery vehicle and the consumable stores used for repairs. Quote figures.

EXPENSE	COMMENT (with figures) Explanation ✓ ✓ Figures: must compare budget to actual percentages ✓✓ ✓✓ Allocate ONE mark for relevant total amounts for EACH expense
Fuel for delivery vehicle	Fuel expense is not well controlled, assuming that all customers require delivery <ul style="list-style-type: none"> Budgeted at 2,6% of total sales (20 800/798 000); actual was 2,8% of actual sales (19 900/707 000) Total sales less than budgeted by 11,4% / by R91 000 Fuel is less than budgeted by 4,3% / by R900
Consumable stores for repairs	Efficient control over consumable stores / well controlled / indication of minimal wastage <ul style="list-style-type: none"> Budgeted to spend 25% of fee income (8 000/32 000); actual usage was 18,3% (12 100/66 000) Fee income is more than budgeted by 106% / by R34 000 Consumable stores are only 51,3% more than the budgeted amount / by R4 100.

6

TOTAL MARKS	35
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QUESTION 4:**4.1.1 Calculate: Value of the closing stock on 28 February 2021**

WORKINGS	ANSWER
<p>2 346 040 four marks 2 182 700 two marks 60 x 900 2 490 x 25</p> $\frac{101\,090\checkmark + 2\,236\,700\checkmark - 54\,000\checkmark + 62\,250\checkmark}{2\,636\checkmark} \times 420$ <p>206 + 2 490 – 60</p> <p>Numerator and denominator must be marked as such</p> <p>OR: R890 six marks x 420</p>	<p>R373 800 <input checked="" type="checkbox"/></p> <p>One part correct must be x 420</p>

7

4.1.2 Calculate: Stock turnover rate

WORKINGS	ANSWER
<p>Using units:</p> $\frac{2\,216\checkmark}{\frac{1}{2}\checkmark(206 + 420)\checkmark}$ <p>313 two marks</p> <p>Using amounts:</p> $\frac{1\,972\,240\text{ one m.marks}}{\frac{1}{2}(2\,346\,040 - 373\,800)\text{ see 4.1.1.}}$ <p>one mark one m.mark see 4.1.1</p> <p>237 445 two m.marks</p> <p>Numerator and denominator must be marked as such</p>	<p>7,1 times <input checked="" type="checkbox"/></p> <p>one part correct; accept 7 times</p> <p>8,3 times <input checked="" type="checkbox"/></p> <p>one part correct; accept 8 times</p>

4

4.1.3 Comment on the stock turnover rates for boots and sandals and identify the major problem relating to EACH product. Quote figures.

	COMMENT ON STOCK HOLDING RATE (WITH FIGURES) Comment ✓ ✓ Figures ✓ ✓	IDENTIFY MAJOR PROBLEM Explanation of problem ✓ ✓ Figures are not necessary; may enhance the quality of responses
Boots	<ul style="list-style-type: none"> STR of 2 (average every 6 months) experiences slow sales / generating good gross profit (R1 122 300) Mark-up of 80% may be too high; expensive for customers – (exclusive clientele) 	Too much stock on hand (62% of total closing stock) / Money tied up in stock (R708 400) will impact on liquidity / also a security risk / theft / can become obsolete.
Sandals	<ul style="list-style-type: none"> STR is 76 (every 5 days); Low mark-up of 33,3% makes this very affordable / in demand; hence sandals are a good seller 	Business is not meeting the orders (3 600 not supplied (15 000 – 11 400) / Not enough stock on hand to meet orders / may run out of stock / Loss of revenue of R1 728 000 (could have a negative impact on liquidity.

6

4.2 FIXED ASSETS

4.2.1 List THREE points for good internal control over movable fixed assets.

Any THREE valid points ✓ ✓ ✓

Accept short, specific statements; do not accept general statements e.g. "good management" or "division of duties"

- Maintain an updated fixed asset register / depreciation / carrying value / condition
- Regular physical inspection / count the items / identification tags (barcodes)
- Service and maintenance plans, and ensure that this is done regularly
- Insurance plan to cover loss / damage / accidents
- Keep a log book and mileage / install tracking devices
- Note drivers / users in a register / authorisation for use / record of time in/out.
- Only trained personnel to use technical equipment
- Cameras to monitor use of equipment
- Secure premises for storage / locked garage / alarm system in premises

3

4.2.2 Calculate: Cost of land and buildings purchased on 31 August 2020

WORKINGS	ANSWER
$6\,250\,000 - 5\,500\,000$ $R750\,000 \checkmark - 60\,000 \checkmark$	R690 000 ✓

3


4.2.3 Calculate: Depreciation on vehicle for year ended 28 February 2021

WORKINGS	ANSWER
$R480\,000 \times 25\% = R120\,000$; but carrying value is R30 000 Maximum permitted: R30 000	$R30\,000 - R1$ $R29\,999$ ✓✓

2

4.2.4

Calculate: Loss on photocopy machine traded in on 30 November 2020

WORKINGS	ANSWER										
<p>224 000 two marks (30% x 224 000 x 9/12) two marks</p> <p>320 000✓ – (96 000✓ + 50 400✓<input checked="" type="checkbox"/>) – 88 000 ✓</p> <p>146 400 three marks</p> <p>173 600 four marks</p> <p>OR</p> <table border="1"> <thead> <tr> <th colspan="2">Asset Disposal</th></tr> </thead> <tbody> <tr> <td>Equip 320 000 one mark</td><td>(96 000 + 50 400)</td></tr> <tr> <td></td><td>Acc dep 146 400 three marks</td></tr> <tr> <td></td><td>Cred contr 88 000 one mark</td></tr> <tr> <td></td><td>Loss on sale 85 600 method mark</td></tr> </tbody> </table> <p>Be alert to other valid alternative presentations for calculations</p>	Asset Disposal		Equip 320 000 one mark	(96 000 + 50 400)		Acc dep 146 400 three marks		Cred contr 88 000 one mark		Loss on sale 85 600 method mark	<p>85 600<input checked="" type="checkbox"/></p> <p>One part correct</p> 
Asset Disposal											
Equip 320 000 one mark	(96 000 + 50 400)										
	Acc dep 146 400 three marks										
	Cred contr 88 000 one mark										
	Loss on sale 85 600 method mark										

6

Calculate: Depreciation on the new photocopy machine and on the remaining old equipment for the year ended 28 February 2021

WORKINGS	ANSWER
<p>Depreciation on the new photocopy machine:</p> <p>R410 000 x 30% x 3/12</p> <p>Accept alternative expressions e.g. 0,3; 30/100; ¼; 25%; 0,25 as one part correct</p>	<p>R30 750✓<input checked="" type="checkbox"/></p> <p>One part correct</p>
<p>Depreciation on the remaining old equipment:</p> <p>Choose and mark ONE option consistently</p> <p>OPTION 1: * 30% is not "one part correct"</p> <p>(2 100 000 – 320 000) = 1 780 000 ✓<input checked="" type="checkbox"/> one part correct</p> <p>(1 440 000 – 96 000) = (1 344 000) ✓<input checked="" type="checkbox"/> one part correct</p> <p>2 100 000 – 1 440 000 – 224 000 436 000 four marks x 30%*</p> <p>OPTION 2: * 30% is not "one part correct"</p> <p>(2 100 000 – 1 440 000) x 30% = 198 000 one mark + one m.mark</p> <p>(320 000 – 96 000) x 30% = (67 200) one mark + one m.mark</p> <p>OPTION 3: * 30% is not "one part correct"</p> <p>(2 100 000 – 1 440 000) x 30% = 198 000 one mark + one m.mark</p> <p>[320 000 – (146 400 – 50 400)] x 30% = (67 200) one mark + one m.mark</p>	<p>R130 800<input checked="" type="checkbox"/></p> <p>One part correct If x 30%</p>

5

4.2.5

The CEO feels that the land and buildings are worth at least R10 000 000 and wants to adjust the figure in the Statement of Financial Position (Balance Sheet) accordingly. Explain why the auditor does NOT agree.

Any valid reason ✓✓ part marks for incomplete / partial / unclear responses

- Historical cost rule: should be shown at their original cost price /
- Prudence: to be conservative in reflecting assets on financial statements
- Profit can be recognised / realised on disposal
- Unethical to manipulate figures in the financial statements / inflated value
- CEO's opinion does not seem to be based on clear evidence; needs evaluation / appraiser

2

TOTAL MARKS

40

TOTAL: 150