

CAPE WINELANDS / WEST COAST EDUCATION DISTRICTS



PREPARATORY EXAMINATION

GRADE 12

ACCOUNTING P2

Stanmorephysics.com

SEPTEMBER 2022

MARKS: 150

TIME: 2 HOURS

This question paper consists of 10 pages,
a formula sheet and a 10-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	SUBJECT	MARKS	TIME (minutes)
1	Reconciliations	30	20
2	Cost accounting	50	40
3	Inventory	35	30
4	Budgets	35	30
TOTAL		150	120

QUESTION 1: CREDITORS' RECONCILIATION AND MANAGEMENT OF CASH
(30 marks; 20 minutes)

1.1 CREDITORS' RECONCILIATION

The inexperienced bookkeeper of Pink Traders completed the creditors' ledger account for Blue Suppliers, a major creditor of the business. The balance does not correspond with the outstanding balance according to the statement received from Blue Suppliers.

REQUIRED:

- 1.1.1 **Refer to Information A, B and C**
Complete the table in the answer book to reconcile the balance in the creditors ledger to the balance reflected on the statement. Show a "+" for increases and a "-" for decreases, next to each amount. (13)
- 1.1.2 **Refer to Information D**
Calculate the average creditors' payment period (in days). (5)
- 1.1.3 Provide TWO internal control measures which can be implemented to ensure better management over creditors. (4)

INFORMATION:

A Creditors' ledger of Pink Traders: Blue Suppliers (CL12)

Date	Details	Debit	Credit	Balance
01/06/22	Balance			R 20 500
05/06/22	Invoice 532		7 125	27 625
10/06/22	Debit note 57	750		26 875
14/06/22	EFT	10 000		17 875
	Discount	500		17 375
20/06/22	Invoice 575		7 900	25 275
23/06/22	Invoice 2 997		12 500	37 775
27/06/22	EFT	8 000		29 775
	Discount	400		29 375

B Statement received from Blue Suppliers:

<i>Blue Suppliers</i>				
Account of: Pink Traders			Date: 25 June 2022	
Date	Details	Debit	Credit	Balance
01/06/22	Balance			R 20 500
05/06/22	Invoice 532	7 500		28 000
10/06/22	Debit note 57	750		28 750
14/06/22	Receipt		9 000	19 750
	Discount		1 000	18 750
20/06/22	Invoice 575	9 700		28 450
20/06/22	Invoice 678	6 320		34 770

C Additional information:

- (i) Blue Suppliers neglected to deduct a 5% trade discount on Invoice 532.
- (ii) Debit note 57 was handled incorrectly by Blue Suppliers.
- (iii) Blue Suppliers granted Pink Traders a 10% discount on the payment on 14 June 2022, because the payment was made before the 15th of the month.
- (iv) Pink Traders entered Invoice 575 incorrectly.
- (v) Invoice 2 997 was for purchases from Green Stores and not from Blue Suppliers.
- (vi) Pink Traders neglected to enter Invoice 678.
- (vii) Blue Suppliers closes its entries on the 25th of every month.

D Information on 30 June 2022 (year-end):

Cost of sales	R1 440 000
Credit purchases for the year	832 200
Cash purchases for the year	360 000
Creditors' Control balance (1 July 2021)	100 000
Creditors' Control balance (30 June 2022)	128 000

1.2 MANAGEMENT OF CASH

You are provided with information from the records of Together Nurseries.

- 1.2.1 The bookkeeper presented the owner with a Bank Reconciliation Statement on 31 May 2022 and two large outstanding deposits were noticed. On further investigation of the receipt books, it appeared that these funds were received by the manager as follows:

- 15 May 2022 - R62 500
- 20 May 2022 - R50 600

Provide TWO concerns the owner should have regarding these deposits. (4)

- 1.2.2 Provide TWO suggestions that can be used to ensure that this does not happen again. (4)



QUESTION 2: COST ACCOUNTING

(50 marks; 40 minutes)

2.1 ADVANCED MANUFACTURERS

You are provided with information from the records of Advanced Manufacturers for the financial year ended 30 April 2022. They manufacture coffee tables.

REQUIRED:

2.1.1 Prepare the Production Cost Statement for the year ended 30 April 2022. (17)

2.1.2 Complete the abridged Statement of Comprehensive Income (Income Statement) for the year ended 30 April 2022. (10)

INFORMATION:

A	Stock records	30 April 2022	1 May 2021
	Raw material stock	R175 680	R112 800
	Work-in-progress stock	?	R426 000

B Extract from the records on 30 April 2022 (before additional information below):

Raw materials purchased	R1 665 000
Raw materials returned to suppliers	63 000
Direct material cost	?
Direct labour cost	2 150 880
Factory overhead	1 405 350
Selling and distribution	1 829 550
Administration cost	1 331 850
Cost of production of finished goods	?
Gross profit	3 750 000

C Additional information to be taken into account:

(i) The entire insurance expense of R68 250 was entered as administration cost in error. 60% of this expense should have been allocated to the factory overhead cost.



(ii) Factory overhead cost includes the total amount for rent paid for the financial year, R108 900. Rent expense should have been allocated according to floor area occupied, as follows:
Factory 400 m²; Shop 80 m²; Office 120 m²

D Production:

Advanced Manufacturers produced 39 000 units at a cost of R135 each.

2.2 UNIT COST AND BREAK-EVEN

Generation Manufacturers produces pencil cases.

REQUIRED:

- 2.2.1 Explain the difference between *fixed costs* and *variable costs*. (2)
- 2.2.2 Calculate the break-even point for 2022. (5)
- 2.2.3 Comment on the break-even point and the level of production for 2021 and 2022. Quote figures. (6)
- 2.2.4 Identify the variable cost which the owner should be concerned about. Explain and provide a calculation to support your answer. (4)
- 2.2.5 Even though there was a decrease in the fixed costs per unit, the owner is still not satisfied with the control over fixed costs. Explain why he feels this way and provide calculations to support his concern. (4)
- 2.2.6 Give ONE possible reason for the decrease in the selling and distribution cost. (2)

INFORMATION:

A

	PENCIL CASE UNIT COSTS	
	2022	2021
Variable costs	R34,80	R33,00
Direct material cost	18,09	17,40
Direct labour cost	12,15	10,50
Selling and distribution cost	4,56	5,10
Fixed costs	16,20	16,50
Factory overhead cost	10,50	10,95
Administration cost	5,70	5,55
Selling price per unit	53,40	49,50
Units produced and sold	240 000 units	195 000 units
Break-even point	?	195 000 units

B Additional information:

Assume an inflation rate of 6% for the current financial year.

QUESTION 3: INVENTORIES

(35 marks; 30 minutes)

3.1 INVENTORY VALUATION

You are provided with information on New Era Hats. The business sells sun hats. They use the periodic inventory system and the weighted average method to value their stock.

The business is owned by Claude Petersen. Jeremy, the manager, is responsible for the day-to-day running of the business.

REQUIRED:

- 3.1.1 Calculate the following for the financial year ended 28 February 2022:
- ✓ Value of closing stock (10)
 - ✓ Gross profit (6)
- 3.1.2 Claude discovered that Jeremy had stopped buying from their regular supplier of hats in August 2021 without informing him about this change. He also discovered that the new supplier is Jeremy's cousin.
- What advice can you offer Claude in this regard? State TWO points. (4)

INFORMATION:

A Stock balances

	UNITS	TOTAL
1 March 2021	412	R63 140
28 February 2022	320	?

B Purchases during the year:

MONTH	UNITS	UNIT COST	CARRIAGE (per unit)	TOTAL (including carriage)
May 2021	530	R135	R10,00	R76 850
July 2021	760	R142	R16,00	R120 080
October 2021	380	R156	R18,00	R66 120
December 2021	340	R168	R24,00	R65 280
TOTAL	2 010			R328 330

C Returns for the year: (Cost price plus carriage was refunded.)

FROM MONTH OF PURCHASE	UNITS	UNIT COST	CARRIAGE (per unit)	TOTAL (including carriage)
July 2021	10	R142	R16,00	R1 580
October 2021	8	R156	R18,00	R1 392
December 2021	4	R168	R24,00	R768
TOTAL	22			R3 740

D Donations:

20 sun hats from the May 2021 batch were donated to a local school who took learners on an educational tour.

E Sales:

1 986 hats were sold during the financial year at a selling price of R220 each.

3.2 STOCK MANAGEMENT (PROBLEM-SOLVING)

In addition to sun hats, New Era Hats also sells sunglasses and beach bags. Information from their stock records on 28 February 2022, is provided.

REQUIRED:

- 3.2.1 Because of problems with stock theft, Claude has installed security cameras. Despite this, he thinks that sun hats are still being stolen.

Provide a calculation to verify that sun hats are being stolen. Give TWO points of advice to Claude to address this problem.

(9)

- 3.2.2 Claude is unsure whether he is charging the correct prices for the sunglasses and the beach bags.

Give him advice on EACH product. Quote figures.

(6)

INFORMATION:

	SUN HATS (UNITS)	SUN- GLASSES (UNITS)	BEACH BAGS (UNITS)
Number of units sold	1 986	1 850	740
Opening stock	412	250	240
Closing stock	320	280	420
Purchases (less returns and donations)	1 968	1 880	920

Weighted average cost price per unit		R2 750	R390
Selling price per unit		R3 438	R702
Mark-up%		25%	80%
Stock holding period		52 days	163 days

35

QUESTION 4: BUDGETS AND INTERNAL AUDIT PROCESSES

(35 marks; 30 minutes)

4.1 Indicate whether the following statements are **TRUE** or **FALSE**. Write only 'TRUE' or 'FALSE' next to the question numbers (4.1.1 to 4.1.3) in the ANSWER BOOK.

- 4.1.1 Bad debts are an example of a payment in a Cash Budget.
4.1.2 A Projected Income Statement estimates the expected profit or loss for a specified period.
4.1.3 A decrease in a fixed deposit will be shown as a receipt in the Cash Budget.
- (3x1) (3)

4.2 FOURIE (PTY) LTD

Karin Fourie is the majority shareholder and CEO. You are provided with information for the period ending 31 July 2022. There are five other shareholders.

Refer to Information A

- 4.2.1 Calculate the missing amounts indicated by (i) and (ii) in the Debtors' collection schedule. (4)
Calculate the percentage discount allowed to debtors who settle in the month of the sales transactions. (5)
- 4.2.2 Calculate the following budgeted amounts:
Total sales for July 2022 (3)
Payment to creditors during June 2022 (4)
Additional loan to be acquired on 1 June 2022 (4)
- 4.2.3 The directors did not adhere to the Cash Budget during May 2022.
Identify TWO overpayments in May 2022. Provide figures.
Give a valid reason for EACH overpayment identified, to support their decisions. (6)

Refer to Information E.

- 4.2.4 Why are the auditors concerned that the agreement with Tradecor is unethical or possibly a crime? Explain THREE points. (6)

INFORMATION

A. Sales and debtors' collection: Estimates of total sales for 2022:

April	R150 000
May	R165 000
June	?

25% of all sales are on credit. The rest is for cash

Debtors are expected to settle as follows:

- 60% within the same month of sale, subject to a cash discount allowed.
- 38% in the month following the month of sale.
- 2% of debts are written off in the 2nd month following the month of sale.

Partially completed Debtors' Collection Schedule:

	CREDIT SALES	MAY	JUNE	JULY
May	R41 250	R23 760	(i)	
June	(ii)		R25 056	R16 530
July	R48 000			R27 648
				R44 178

B. Purchases of merchandise and payments to creditors:

The business uses a fixed-stock base with stock sold being replaced monthly.
The business uses a mark-up of 50% on cost.
20% of all merchandise is purchased for cash.
Creditors are paid in full in the month following the month of purchase.

C. Loan and interest:

The loan from Bokke Bank will be increased on 1 June 2022. Interest at 20% p.a. is not capitalised and is payable at the end of each month.

D. Extract from the Cash Budget for the three months ending 31 July 2022:

	MAY		JUNE	JULY
	Budgeted R	Actual R	Budgeted R	Budgeted R
RECEIPTS				
Cash sales	123 750	142 400	130 500	144 000
Collection from debtors	38 010	26 000		44 178
Loan			?	
Sale of property	0	320 000		
Sale of old vehicle	40 000	95 000		
PAYMENTS				
Cash purchase of stock	22 000	18 000	23 200	?
Payment to creditors	80 000	80 000	?	?
Salaries	28 000	28 000	28 000	42 000
Advertising	5 600	8 400	5 600	5 600
Staff training			30 000	
Interest on loan	6 000	6 000	7 500	7 500
Vehicle maintenance	12 200	36 350	5 800	5 800
Purchase of vehicle	235 000	235 000	-	-
Rent expense	0	0	0	0
Security personnel	8 000	6 500	8 000	8 000

E. Agreement with Tradecor:

The CEO, Karin Fourie, decided to sell one of the company's properties at book value. This property was originally bought for R320 000 in 1980. According to the sale agreement, the purchaser, Tradecor, would rent the property back to Fourie (Pty) Ltd for R26 000 per month with effect from 1 June 2022.

The auditors of Fourie (Pty) Ltd discovered that the sole owner of Tradecor is Karin Fourie's husband. They regard this agreement as unethical and possibly a crime.

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

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SCHOOL: _____

LEARNER: _____

PREPARATORY EXAMINATION



GRADE 12

ACCOUNTING P2

SEPTEMBER 2022

SPECIAL ANSWER BOOK

QUESTION	MAXIMUM MARKS	MARK OBTAINED	MODERATED MARK
1	30		
2	50		
3	35		
4	35		
TOTAL	150		

This answer book consist of 10 pages

QUESTION 1: CREDITORS' RECONCILIATION AND MANAGEMENT OF CASH
(30 marks; 20 minutes)

1.1 CREDITORS' RECONCILIATION

1.1.1

	Creditors' Ledger account of Blue Suppliers	Statement received from Blue Suppliers
Preliminary balance/total	R29 375	R34 770
(i)		
(ii)		
(iii)		
(iv)		
(v)		
(vi)		
(vii)		
Correct balance/total		

13

1.1.2	Calculate the average creditors' payment period (in days).

5

1.1.3	Provide TWO internal control measures which can be implemented to have a good internal control over creditors.

4

1.2

MANAGEMENT OF CASH

1.2.1	Provide TWO concerns the owner should have regarding these outstanding deposits.

4

1.2.2	Provide TWO solutions to ensure that this does not happen again.

4

TOTAL MARKS
30

QUESTION 2: COST ACCOUNTING

(50 marks; 40 minutes)

2.1 ADVANCED MANUFACTURERS

2.1.1 Production Cost Statement for the year ended 30 April 2022.

Direct labour cost	2 150 880
Prime cost	
Total manufacturing cost	
Work-in-progress (1 May 2021)	426 000
Cost of production of finished goods	

17

2.1.2 Abridged Statement of Comprehensive Income (Income Statement) for the year ended 30 April 2022.

Gross profit	3 750 000
Net profit	

10

2.2 UNIT COST AND BREAK-EVEN

2.2.1	Explain the difference between <i>fixed costs</i> and <i>variable costs</i> .

2

2.2.2	Calculate the break-even point for 2022.

5

2.2.3	Comment on the break-even point and the level of production for 2021 and 2022. Quote figures.

6

2.2.4	Identify the variable cost which the owner should be concerned about. Explain and provide a calculation to support your answer.

4

2.2.5	Even though there was a decrease in the fixed costs per unit, the owner is still not satisfied with the control over fixed costs. Explain and provide calculations to support his concern.

4



2.2.6	Give ONE possible reason for the decrease in the selling and distribution cost.

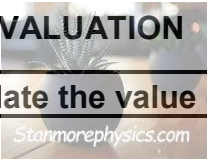
2

TOTAL MARKS
50

QUESTION 3: INVENTORIES

(35 marks; 30 minutes)

3.1 INVENTORY VALUATION

3.1.1	Calculate the value of closing stock on 28 February 2022.
	

10



	Calculate the gross profit for the year ended 28 February 2022.

6

3.1.2	What advice can you offer Claude in this regard? State TWO points.

4

3.2.1	<p data-bbox="256 268 1187 293">Provide a calculation to prove that sun hats are being stolen.</p> <p data-bbox="242 564 812 591">Give TWO points of advice to Claude.</p>
-------	--

3.2.2	<p>Claude is unsure whether he is charging the correct prices for the sunglasses and the beach bags.</p> <p>Give him advice on EACH product. Quote figures.</p>	
	PRODUCT	ADVICE WITH FIGURES
	<p>Sunglasses</p> 	
	<p>Beach bags</p> 	

TOTAL MARKS

35

QUESTION 4: BUDGETS AND INTERNAL AUDIT PROCESSES

(35 marks; 30 minutes)

4.1

4.1.1	
4.1.2	
4.1.3	

3

4.2.1

Calculate the missing amounts indicated by (i) and (ii) in the Debtors' Collection Schedule.		
	Workings	Answer
(i)		
(ii)		

4

Calculate the percentage discount allowed to debtors who settle in the month of the sales transactions.	
Workings	Amount

5

4.2.2

Calculate budgeted amounts:		
	Workings	Answer
Total sales for July 2022		
Payment to creditors during June 2022		
Additional loan to be acquired on 1 June 2022		

11



4.2.3

The directors did not adhere to the Cash Budget during May 2022. Identify TWO overpayments. Provide figures. Give a valid reason for EACH overpayment.

	Overpayment (with figures)	Reason
Point 1		
Point 2		

6

4.2.4

Why are the auditors concerned that the agreement with Tradecor is unethical or possibly a crime? Explain THREE points.

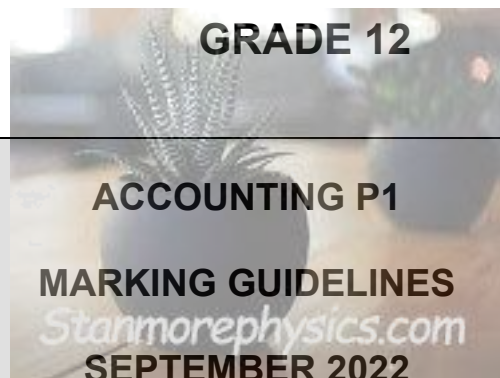
6

TOTAL MARKS
35

GRAND TOTAL
150

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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. Full marks for correct answer. If answer 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). 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. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer.
9. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
10. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
11. 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 ☒.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
13. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 10 pages.

QUESTION 1: CREDITORS' RECONCILIATION AND MANAGEMENT OF CASH

(30 marks; 20 minutes)

1.1 CREDITORS' RECONCILIATION

1.1.1

	Creditors' Ledger account of Blue Suppliers	Statement received from Blue Suppliers
Preliminary balance/total	R29 375	R34 770
(i)		- 375✓✓
(ii)		- 1 500✓✓ (-750 – 750) (one mark each)
(iii)	- 500✓✓	
(iv)	+ 1 800✓✓ (9 700 – 7 900) (two or 0)	
(v)	- 12 500✓	
(vi)	+ 6 320✓	
(vii)		- 8 000✓
		- 400✓
Correct balance/total	24 495✓*	24 495

* for both totals Opening balance/total have to be included

13

1.1.2

Calculate the average creditors' payment period (in days).

114 000 three marks
 $\frac{1}{2} \checkmark (100\ 000 \checkmark + 128\ 000 \checkmark) \times 365$
 $\frac{832\ 200 \checkmark}{832\ 200} \times 365$
 $\frac{114\ 000}{832\ 200} \times 365$
 50 days ✓ One part correct and MUST be multiplied by 365

5

1.1.3

Provide TWO internal control measures which can be implemented to have a good internal control over creditors.

Any TWO ✓✓✓✓

- Internal audits can minimise possibility of fraud
- Check documents to ensure accuracy of entries
- Proper authorisation for purchases
- Ensure creditors are paid on time to qualify for discounts / to maintain a good credit rating
- Make full use of credit terms to assist cash flow

4

1.2 MANAGEMENT OF CASH

1.2.1	Provide TWO concerns the owner should have regarding these outstanding deposits.
	<p>Any TWO ✓✓✓✓</p> <p>Possible theft/ fraud</p> <p>Rolling of cash</p>

4

1.2.2	Provide TWO solutions to ensure that this does not happen again.
	<p>Any TWO ✓✓✓✓</p> <p>Stanmorephysics.com</p> <ul style="list-style-type: none"> • Cash to be deposited daily OR cash collected daily by security company • Separation of duties • Encourage EFTs for debtors and other account-paying clients

4

TOTAL MARK
30

QUESTION 2: COST ACCOUNTING

(50 marks; 40 minutes)

2.1 ADVANCED MANUFACTURERS

2.1.1 Production Cost Statement for the year ended 30 April 2022.

Direct labour cost	2 150 880
Direct material cost (112 800✓ + 1 665 000✓ - 63 000✓ - 175 680✓)	1 539 120 ✓*
Prime cost	3 690 000 ✓
Factory overhead cost (1 405 350✓ + 40 950✓✓ - 36 300✓✓)	1 410 000 ✓
Total manufacturing cost	5 100 000 ✓*
Work-in-progress (1 May 2021)	426 000
	5 526 000 ✓
Work-in-process (30 April 2022)	(261 000) ✓*
Cost of production of finished goods	5 265 000 ✓✓

17

2.1.2 Abridged Statement of Comprehensive Income (Income Statement) for the year ended 30 April 2022.

Gross profit	3 750 000
Selling and distribution cost (1 829 550 ✓ + 14 520 ✓✓)	(1 844 070) ✓
Administration cost (1 331 850 ✓ - 40 950 ✓✓ sien 2.1.1 + 21 780 ✓✓)	(1 312 680) ✓
Net profit	593 250 ✓*

10

2.2 UNIT COST AND BREAK-EVEN

2.2.1	Explain the difference between <i>fixed costs</i> and <i>variable costs</i>.
	Any valid explanation ✓✓ Fixed cost remains the same irrespective of the number of units produced. Variable cost varies in direct proportion to the number of units produced.

2

2.2.2	<p>Calculate the break-even point for 2022.</p> <p>240 000 one mark x R16,20 one mark</p> <p>3 888 000✓✓</p> <p>53,40✓ – 34,80✓</p> <p>18,60 two marks</p> <p>209 032,2 → 209 033 units ✓</p>
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5

2.2.3	<p>Comment on the break-even point and the level of production for 2021 and 2022. Quote figures.</p> <p>Comment and compare BEP with Production for 2021 ✓✓ figure ✓</p> <p>Comment and compare BEP with Production for 2022 ✓✓ figure ✓ see 2.2.2</p> <p>In 2021 the break-even was 195 000 and 195 000 were produced and sold.</p> <p>The business broke even / no profit, and no loss was made.</p> <p>In 2022 the break-even was 209 033 units (See 2.2.2) and 240 000 units were produced and sold.</p> <p>The business made a profit on 30 967 units.</p>
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6

2.2.4	<p>Identify the variable cost which the owner should be concerned about. Explain and provide a calculation to support your answer.</p> <p>Direct labour cost ✓ increased by 15,7% (1,65/10,50) or by 1,65. ✓</p> <p>Direct labour cost increased by more✓ than the inflation rate of 6%. ✓</p> <p>OR: Accept Selling and distribution cost decreased by 54c – could affect sales in the future / competitors may enter the market</p>
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4

2.2.5	<p>Even though there was a decrease in the fixed costs per unit, the owner is still not satisfied with the control over fixed costs. Explain and provide calculations to support his concern.</p> <p>Explanation of economies of scale ✓✓</p> <p>Comparative figures quoted ✓✓</p> <p>In 2021 total fixed cost was R3 217 500(195 000 x R16,50) and</p> <p>In 2022 total fixed cost was R3 888 000 see 2.2.2</p> <p>OR</p> <p>Total fixed cost increased by R670 500 or by 20,8%.</p> <p>Total fixed cost is expected to remain fairly constant (or unchanged) irrespective of the number of units produced – within limits.</p>
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4

2.2.6	Give ONE possible reason for the decrease in the selling and distribution cost.
	<p>Any ONE valid explanation ✓✓</p> <p>More effective or local advertising Sales on commission base instead of fixed salary Cheaper deliveries</p> 

2

TOTAL MARK
50

QUESTION 3: INVENTORIES

(35 marks; 30 minutes)

3.1 INVENTORY VALUATION

3.1.1	<p>Calculate the value of closing stock on 28 February 2022.</p> $\frac{63\,140 \checkmark + 328\,330 \checkmark - 3\,740 \checkmark - 2\,900 \checkmark \checkmark}{412 \checkmark + 2\,010 \checkmark - 22 \checkmark - 20 \checkmark} \times 320$ <p>5 marks $\frac{384\,830}{2\,380} \times 320$ 4 marks</p> <p>9 marks $161,69 \times 320$</p> <p>= R51 740,80 Accept R51 741 <input checked="" type="checkbox"/> Must be x 320</p>
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10

	<p>Calculate the gross profit for the year ended 28 February 2022.</p> <div style="display: flex; justify-content: space-between;"> <div> <p>Sales (1 986 x R220)</p> <p>Cost of sales (384 830 <input checked="" type="checkbox"/> - 51 741 <input checked="" right;"="" text-align:="" type="checkbox/>)</p> <p>Gross profit</p> </div> <div style="/> <p>436 920 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/></p> <p>(333 089) <input checked="" type="checkbox"/></p> <p>103 831 <input checked="" type="checkbox"/> one part correct</p> </p></div> </div>
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6

3.1.2	<p>What advice can you offer Claude in this regard? State TWO points.</p> <p>Any TWO valid points <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/></p> <p>He should explain to Nelson that it is unethical to favour family/friends to the disadvantage of the business. There should be policies in place to make sure all employees understand and abide. Best quality and prices should always be a priority for the business.</p>
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4



3.2.1	<p>Provide a calculation to prove that sun hats are being stolen.</p> <p>412 ✓ + 1 968 ✓ - 320 ✓ - 1 986 ✓ = 74 <input checked="" type="checkbox"/> one part correct</p> <p>Give TWO points of advice to Claude.</p> <p>Any TWO valid points ✓✓ ✓✓</p> <p>Improve security/ security guards/ security tags on hats Restrict access to storeroom Order smaller quantities, more often/ order as needed Regular stock count and check against records</p>
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9

3.2.2	<p>Claude is unsure whether he is charging the correct prices for the sunglasses and the beach bags.</p> <p>Give him advice on EACH product. Quote figures.</p>	
	PRODUCT	<p>ADVICE WITH FIGURES</p> <p>Any valid advice ✓✓ ✓✓</p> <p>Figures ✓✓</p>
	Sunglasses	<p>Mark-up of 25% is deemed as reasonable by buyers. Selling price of R3 438 acceptable for buyers. 1 850 units are sold. Stock holding period is 52 days. Closing stock only 280 units.</p>
	Beach bags	<p>Mark-up of 80% is deemed as too high by buyers. Selling price of R702 is not acceptable for buyers. Only 740 units are sold. Stock holding period of 163 days/ way too long Closing stock of 420 units are too high. If mark-up % is reduced, sales may increase.</p>

6

TOTAL MARK
35

(35 marks; 30 minutes)

4.1

4.1.1	False✓
4.1.2	True✓
4.1.3	True✓

3

4.2.1

Calculate the missing amounts indicated by (i) and (ii) in the Debtors' Collection Schedule.

	Workings	Answer
(i)	41 250 x 38/100	15 675✓✓ one part correct
(ii)	16 530 x 100/38 OR 25 056 x 100/60 x 100/96 OR 130 500 x 25/75	43 500✓✓ one part correct

4

Calculate the percentage discount allowed to debtors who settle in the month of the sales transactions.

Workings	Answer
<p>990 three marks</p> <p>41 250 x 60%</p> <p>24 750✓✓ – 23 760✓ x 100</p> <p>24 750✓</p> <p>OR July:</p> <p>1 152</p> <p>(28 800 – 27 648)</p> <p>28 800</p> <p>June</p> <p>1 044</p> <p>(26 100 – 25 056)</p> <p>26 100</p>	<p>4%✓</p> <p>one part correct as a %, sign not necessary</p>

5

4.2.2

Calculate budgeted amounts:

	Workings	Answer
Total sales for July 2022	<p>48 000✓ + 144 000✓</p> <p>OR 48 000 x 100/25</p> <p>OR 144 000 x 100/75</p>	<p>192 000✓</p> <p>one part correct</p>
Payment to creditors during June 2022	<p>123 750 + 41 250 of 41 250 x 100/25 of</p> <p>123 750 x 100/75</p> <p>165 000✓ x 100/75✓ x 80%✓</p> <p>OR 22 000 x 80/20</p> <p>one mark two marks</p>	<p>88 000✓</p> <p>one part correct</p>
Additional loan to be acquired on 1 June 2022	<p>(7 500 – 600)</p> <p>1 500✓ x 100/20✓ x 12✓</p> <p>OR 1 500 x 12/20%</p> <p>one mark</p> <p>OR 450 000 – 360 000</p> <p>two marks</p> <p>Be aware of alternative ways to calculate this figure</p>	<p>90 000✓</p> <p>one part correct</p>

11

4.2.3

The directors did not adhere to the Cash Budget during May 2022. Identify TWO overpayments in May 2022. Provide figures. Give a valid reason for EACH overpayment identified, to support their decisions.

	Overpayment (with figures)	Reason
Point 1	Advertising✓ Paid R8 4000 or R2 800 more than budgeted or 50% over the budget✓	Wanted to increase sales✓ OR Special clearance sales required greater advertising
Point 2	Vehicle maintenance✓ Paid R36 350 or R24 150 more than the budgeted or 198% over the budget✓	To get a reasonable price when vehicle was sold / in order to use vehicle until replaced. ✓ OR Vehicles are old or damaged OR Used more frequently for free deliveries to increase sales.

6

4.2.4

Why are the auditors concerned that the agreement with Tradecor is unethical or possibly a crime? Explain THREE points.

Any THREE valid concerns ✓✓ ✓✓ ✓✓ Part marks for incomplete / partial / unclear responses

- The property was sold at carrying value (which is original cost / historical cost concept)
- Property appreciates in value and should be have been sold at a market-related price.
- The company could have benefitted from a large profit on sale of asset and an improved profitability.
- Total assets are depleted / valuable asset disposed
- Corruption / under-handed / unethical deal to enrich CEO and his wife (nepotism); no transparency or involvement of the Board of Directors in his decision.
- Consciously placing the business at financial risk / cash flow problems due to rent of R26 000 per month that must be paid and not budgeted for.

6

TOTAL MARK

35

GRAND TOTAL

150