

**WESTERFORD HIGH SCHOOL  
ACCOUNTING**

<b>GRADE 11</b>	<b>TERM 3, 2022 (Revised)</b> 100 marks	<b>CASE STUDY</b>
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<b>QUESTION 1</b>	<b>BUDGETING</b>	<b>(70 marks)</b>
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Study the following case study and complete the instructions that follow:

S. Potless is the owner of a cleaning business that trades as **Spotless Cleaning**. The business supplies cleaning material to guest houses and a few other businesses in the hospitality industry. The business also renders cleaning services to home owners who rent out their holiday homes over weekends through letting agents.

Since the lock down period was announced by the South African President due to the covid-19 pandemic, the business has experienced a remarkable decline in sales and other income.

S. Potless decided to change their product line to the selling of personal protection equipment (PPE) and sanitizing material. They will also replace their house cleaning services with the sanitation of buildings as from 1 September 2020. They were forced to make these changes as they did not earn any income for their usual cleaning services since 27 March 2020.

The business also has prospects of signing a big contract for the sanitation of a few government buildings in the area from 1 December 2020.

The following information was made available on 31 August 2020.

**Balances extracted from financial records on 31 August 2020:**

Equipment (including computers) at cost price	R180 000
Accumulated depreciation on equipment	60 000
Bank (dr)	112 500

**Sales**

<b>ACTUAL</b>		<b>BUDGETED (PROJECTED)</b>		
<b>July 2020</b>	<b>Aug 2020</b>	<b>Sept 2020</b>	<b>Oct 2020</b>	<b>Nov 2020</b>
R135 000	R126 000	R112 500	R180 000	R225 000

- **Credit sales:** 40% of all sales are on credit
- **Debtors collection trend:**
  - 40% in the month of sale when a 2½% settlement discount is allowed for prompt settlement.
  - 35% in the month following the sale (after 30 days)
  - 20% in the second month following the sale (after 60 days)
  - The rest is written off as irrecoverable in the third month after the sale (after 90 days)

**Sanitation services income**

A contract was secured with a chain group of stores for R20 500 per month from 1 September 2020.

**Purchases**

- The business uses a fixed stock base - stock sold is replaced in the same month
- A fixed mark-up percentage of 50% on cost is used
- 25% of the purchases are paid in cash
- Creditors are paid in the month following the purchases (after 30 days)

### Advertising

Advertising costs are based on projected monthly total sales and are paid in the same month by EFT. The advertising costs are expected to increase from 3% to 4% of the sales on 1 November 2020.

### Salaries

Salaries amount to R360 000 per year and will remain constant during the budget period.

### Other operating expenses

All other operating expenses are projected at R24 000 per month.

### Equipment

Equipment is depreciated at 15% p.a. on cost price.

A new laptop computer valued at R22 000 will be bought on credit for the accountant during October 2020. 50% deposit will be paid on receipt of the laptop. The remaining balance will be settled in two equal amounts from November 2020.

The old laptop will be sold at a loss of R3 000 to a staff member for cash on 15 November 2020. The cost price of the old laptop was R22 500 and the carrying value is calculated to be R7 000 on this date.

### Loan

A loan was made two years ago. The loan instalment which includes interest are R3 000 per month.

### Drawings

The owner, S. Potless, withdraws R18 000 cash and R750 stationery every month for her household use.

The owner intends to withdraw an additional R20 000 cash once off during December 2020. This cash amount will be paid to a friend who works for government as remuneration to secure the contract for the sanitation of the government buildings as from December 2020.

### REQUIRED

- 1.1 You are required to prepare a Debtors' Collection Schedule for the period 1 September 2020 to 30 November 2020. (15)
- 1.2 Complete the Cash Budget for the period 1 September 2020 to 30 November 2020. (50)
- 1.3 Calculate the total amount to be debited to the owner's drawings account for December 2020. (2)
- 1.4 What advice can you give to the owner with reference to the government contract which the business will secure in December 2020. (3)

70

<b>QUESTION 2</b>	<b>INVENTORY SYSTEMS</b>	<b>30 marks</b>
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Study the case study and answer the questions that follow:

Tedros Adhanom is the owner of **WHO Distributors**. The business imports N95-face masks in bulk from a supplier in Beijing (China) and repacks and supplies it in smaller quantities to local retailers. Their financial year ends on 30 June annually. The business uses the periodic inventory system.

The Beijing supplier uses their country's currency which is the Chinese Yuan (CNY).

N95-face masks are repacked in units (packs) of 10 masks per unit and sold at R65 per unit.

On 1 July 2019 WHO Distributors had 240 units on hand with a total cost price of R8 400.

On 30 April 2020 an additional 9 450 units were purchased at 14 CNY (Chinese Yuan) per unit from the supplier in Beijing. The exchange rate (ZAR to CNY) was R1 = 0,40 CNY.

WHO Distributors had to pay R96 900 for shipment fees via sea-transport and custom duties of R16 500 for importing the goods from Beijing.

During the financial year ended 30 June 2020 WHO sold 9 500 units at R65 per unit. The aim was to achieve a mark-up of 40%.

On 30 June 2020, the last day of the financial year, a physical stock take revealed that 150 units valued at R5 250 were still on hand.

Tedros Adhanom recently heard of a local factory, Nobred Producers, who also produce the N95-face masks. Nobred is willing to supply it to WHO at R48 per unit.

### INSTRUCTIONS / QUESTIONS

- 2.1 Calculate the **total and per unit rand-amount** that WHO Distributors paid for the 9 450 units purchased on 30 April 2020 from the Beijing supplier. (4)
- 2.2 Calculate the following for the period ended 30 June 2020:
- Cost of sales (6)
  - Gross Profit (4)
  - Actual mark-up % achieved (3)
- 2.3 Tedros Adhanom suspects that stock is being stolen from the business.
- Provide a calculation to verify his suspicion (5)
  - Name TWO measures that Tedros can use to improve the internal control of masks. (4)
- 2.4 Tedros is considering changing his supplier of the N95-face masks to support the local supplier Nobred Producers in future. State TWO points of advice to support his decision. (4)

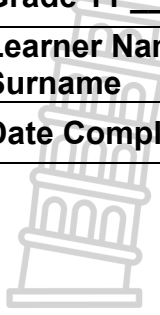
30

TOTAL

100

**ACCOUNTING**

Grade 11 _____	Case Study	Term 3, 2022
Learner Name & Surname		
Date Completed		



TOTAL MARK ACHIEVED
100

**QUESTION 1 (BUDGETING) (70)**

**SPOTLESS CLEANING**

**1.1 DEBTORS COLLECTION SCHEDULE: 1 SEPTEMBER 2020 – 30 NOVEMBER 2020**

	Credit sales	September	October	November
July				
August				
September				
October				
November				

15
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**1.2 CASH BUDGET FOR THE PERIOD 1 SEPTEMBER 2020 TO 30 NOVEMBER 2020.**

RECEIPTS	September	October	November
Cash sales			
<b>Total receipts</b>			
PAYMENTS			
Cash purchases			
<b>Total payments</b>			
Cash surplus (Cash Shortfall)			
Bank: opening balance			
Bank: closing balance			

50
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1.3	Calculate the total amount to be debited to the owner's drawings account for December 2020.	
		2

1.4	What advice can you give to the owner with reference to the government contract which the business will secure from December 2020.	
		3

	70
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<b>QUESTION 2 (INVENTORY SYSTEMS)</b>	<b>(30)</b>
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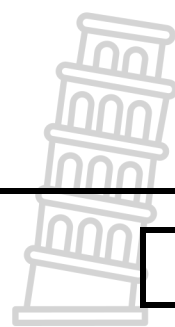
2.1	Calculate the total and per unit rand amount that WHO Distributors paid for the 9 450 units purchased on 30 April 2020 from the Beijing supplier.		
	<u>Per unit</u>	<u>In Total</u>	4

2.2	Calculate for the period ended 30 June 2020:	
	Cost of sales	6

	Gross Profit	
		4
	Actual mark-up% achieved	
		3

2.3	Provide a calculation to verify his suspicion	
		5
	What measures can Tedros use to improve the internal control of the masks (state TWO points)	
		4

2.4	State TWO points of advice to support his decision.	
		4



	30
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TOTAL
100

GRADE 11	TERM 3, 2022 (Revised) MARKING GUIDELINE	CASE STUDY
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**QUESTION 1 (DEBTORS COLLECTION AND CASH BUDGET) (70)**

**SPOTLESS CLEANING**

**1.1 DEBTORS COLLECTION SCHEDULE: 1 SEPTEMBER 2020 – 30 NOVEMBER 2020**

	Credit sales	September	October	November
July 2020	54 000 ✓	10 800 ✓		
August 2020	50 400 ✓	17 640 ✓	10 080 ✓	
September	45 000 ✓	17 550 ✓	15 750 ✓	9 000 ✓
October	72 000 ✓		28 080 ✓	25 200 ✓
November	90 000 ✓			35 100 ✓
		<b>45 990</b>	<b>53 910</b>	<b>69 300</b> ✓*

\*all totals one part correct

	<b>15</b>
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**1.2 CASH BUDGET FOR THE PERIOD 1 SEPTEMBER 2020 TO 30 NOVEMBER 2020.**

RECEIPTS	September	October	November
Cash sales	67 500 ✓	108 000 ✓	135 000 ✓
Cash from debtors (see 1.3 totals)	45 990 ☑	53 910 ☑	69 300 ☑
Cleaning services (all 3 for one mark)	20 500	20 500	20 500 ✓
Laptop			4 000 ✓✓
<b>Total receipts</b> (*all totals one part correct)	<b>133 990</b>	<b>182 410</b>	<b>228 800</b> ✓*
PAYMENTS	September	October	November
Cash purchases	18 750 ✓✓	30 000 ✓✓	37 500 ✓✓
Cash paid to creditors	63 000 ✓✓	56 250 ✓✓	90 000 ✓✓
Advertising	3 375 ✓✓	5 400 ✓✓	9 000 ✓✓
Operating expenses (#all 3 columns)	24 000	24 000	24 000 ✓#
Laptop		11 000 ✓✓	5 500 ✓✓
Loan	3 000	3 000	3 000 ✓
Drawings (##same as for Sept.)	18 000	18 000 ☑##	18 000 ☑##
Salaries (@ all 3 columns)	30 000 ✓✓	30 000 @	30 000 ✓@
<b>Total payments</b> (**all totals - workings)	<b>160 125</b>	<b>177 650</b>	<b>217 000</b> ☑**
Cash surplus (tot rec. less tot paym.)	(26 135) ↓ ☑	4 760 ↓ ☑	11 800 ↓ ☑
Bank: opening balance	112 500 ↓ ✓	86 365 ↓ ☑	91 125 ↓ ☑
Bank: closing balance	<b>86 365</b> ☑	<b>91 125</b> ☑	<b>102 925</b> ☑

	<b>50</b>
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<b>1.3</b>	<b>Calculate the total amount to be debited to the owner's drawings account for December 2020.</b>	
	$18\ 000 + 750 + 20\ 000 = 38\ 750 \checkmark\checkmark$	2

<b>1.4</b>	<b>What advice can you give to the owner with reference to the government contract which the business will secure from December 2020.</b>	
	<p><i>Excellent answer = 3 marks; Good answer = 2 marks; Satisfactory = 1; Wrong = 0</i> ✓✓✓</p> <p><i>Possible responses</i></p> <ul style="list-style-type: none"> <li>• It is unethical and represents corruption and fraud</li> <li>• Report corrupt officials/friends and/or refuse to pay cash bribe</li> <li>• The owner may be fined or face jail time if found guilty of unlawful behaviour / corrupting a government official</li> <li>• The owner should rather attempt to secure the contract through legal and fair tender processes</li> </ul>	3

	70
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**QUESTION 2 (INVENTORY SYSTEMS) (30)**

<b>2.1</b>	<b>Calculate the total and per unit rand amount that Who Distributors paid for the 9 450 units purchased on 30 April 2020 from the Beijing supplier.</b>		
	<u>Per unit</u>	<u>In Total</u>	
	✓✓ $14 / 0,40 = R35$	see per unit <input checked="" type="checkbox"/> one part correct <input checked="" type="checkbox"/> $9\ 450 \times 35 = R330\ 750$	4

<b>2.2</b>	<b>Calculate for the period ended 30 June 2020:</b>		
	<b>Cost of sales</b>		
	✓ <input checked="" type="checkbox"/> see 2.1	✓ <input checked="" type="checkbox"/> one part correct <input checked="" type="checkbox"/> $8\ 400 + 330\ 750 + 96\ 900 + 16\ 500 - 5\ 250 = 447\ 300$	6



<p><b>Gross Profit</b>                  ✓✓      <input checked="" type="checkbox"/> see CoS      <input checked="" type="checkbox"/> one part correct  <math>617\,500 - 447\,300 = \mathbf{R170\,200}</math></p>	<table border="1" style="width: 100%; height: 20px;"> <tr><td style="text-align: center;"> </td></tr> <tr><td style="text-align: center;">4</td></tr> </table>		4
4			
<p><b>Actual mark-up% achieved</b>  <input checked="" type="checkbox"/> see above    <input checked="" type="checkbox"/> see above      <input checked="" type="checkbox"/> one part correct  <math>170\,200 / 447\,300 \times 100 = \mathbf{38,1\%}</math> (accept 38%)</p>	<table border="1" style="width: 100%; height: 20px;"> <tr><td style="text-align: center;"> </td></tr> <tr><td style="text-align: center;">3</td></tr> </table>		3
3			

<b>2.3</b>	<p><b>Provide a calculation to verify his suspicion</b>                  ✓      ✓      ✓      ✓      <input checked="" type="checkbox"/> one part correct  <math>240 + 9\,450 - 9\,500 - 150 = \mathbf{40}</math></p>	<table border="1" style="width: 100%; height: 20px;"> <tr><td style="text-align: center;"> </td></tr> <tr><td style="text-align: center;">5</td></tr> </table>		5
5				
	<p><b>Name TWO measures that Tedros can use to improve the internal control of masks.</b>                  Any TWO valid points ✓✓    ✓✓                  Possible answers</p> <ul style="list-style-type: none"> <li>• Count stock regularly / randomly and check against stock records</li> <li>• Buy in smaller quantities but more regularly</li> <li>• Restrict access to the storeroom / Improve physical security e.g. security cameras</li> <li>• Division of duties where the person who is receiving goods is not the same person who orders the goods</li> </ul>	<table border="1" style="width: 100%; height: 20px;"> <tr><td style="text-align: center;"> </td></tr> <tr><td style="text-align: center;">4</td></tr> </table>		4
4				

<b>2.4</b>	<p><b>State TWO points of advice to support his decision.</b>                  Any TWO valid points ✓✓    ✓✓                  Possible responses</p> <ul style="list-style-type: none"> <li>• He will be supporting local business and investing /promoting economic growth (proudly South African)</li> <li>• Lower transport costs from local supplier</li> <li>• Do not have to wait for orders to be shipped from China.</li> <li>• Less hassles with customs and freight procedures / save on customs duties (R16 500)</li> <li>• Supplier is more accessible when needed or in cases with wrong / faulty deliveries</li> </ul>	<table border="1" style="width: 100%; height: 20px;"> <tr><td style="text-align: center;"> </td></tr> <tr><td style="text-align: center;">4</td></tr> </table>		4
4				

	30
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<b>TOTAL</b>
<b>100</b>