

**GAUTENG DEPARTMENT OF EDUCATION
PREPARATORY EXAMINATION
2020**

**10712
ACCOUNTING
P2**

TIME: 2 hours

MARKS: 150

14 pages + formula page

ACCOUNTING (Paper 2)	10712/20	2
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INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL workings in order 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 the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.

8. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 35 marks; 30 minutes	
Topic:	This question integrates:
Reconciliation and VAT	Financial accounting Bank Reconciliation VAT Managing resources Internal control Ethics

QUESTION 2: 40 marks; 30 minutes	
Topic:	This question integrates:
Manufacturing	Managerial accounting Concepts Production Cost Statement Break-even analysis

QUESTION 3: 45 marks; 35 minutes	
Topic:	This question integrates:
Fixed Assets and Inventory Valuation	Financial Accounting Fixed assets Managing Resources Inventory Valuation Internal control

QUESTION 4: 30 marks; 25 minutes	
Topic:	This question integrates:
Budgeting	Managerial Accounting Cash budget calculations Managing resources Internal control

QUESTION 1: RECONCILIATION AND VAT**(35 marks; 30 minutes)****1.1 BANK RECONCILIATION**

You are provided with information relating to Woodmead Traders. They require your help in preparing their Bank Reconciliation Statement for June 2020. Their financial year-end is 30 June 2020.

REQUIRED:

- 1.1.1 Identify the items that must be entered in the CRJ. (4)
- 1.1.2 Identify the items that must be entered in the CPJ. (3)
- 1.1.3 Prepare the Bank Reconciliation Statement on 30 June 2020. (7)
- 1.1.4 Explain how the business must handle item 9. (2)
- 1.1.5 In your opinion, was it wise of Woodmead Traders to invest R100 000 on fixed deposit on 15 June 2020? Explain your answer. Quote specific figures or details from the question to support your answer. (3)

INFORMATION:

The Bank Reconciliation Statement on 31 May 2020 reflected the following:

Favourable balance as per bank statement	R44 000
Outstanding deposit (dated 31 May 2020)	R55 200
Outstanding cheques:	
No. 7155 (dated 15 December 2019)	R5 000
No. 7710 (dated 20 May 2020)	R22 800
No. 7747 (dated 31 July 2020)	R136 000
Unfavourable Balance as per bank account	R64 600

On comparing the June Bank Statement from Stander Bank with the Cash Receipts Journal (CRJ) and Cash Payments Journal (CPJ) for June, the following were noted:

- Item 1 A deposit of R55 200 appeared on the Bank Statement on 1 June 2020 but not in the June journals.
- Item 2 A deposit of R37 200 appeared in the CRJ on 29 June 2020 but not on the June Bank Statement.
- Item 3 Commission income of R10 000 was deposited directly into the bank account of Woodmead Traders by Oxford Products. This appeared on the Bank Statement but not in the journals.

- Item 4 Bank charges of R1 070 appeared on the Bank Statement but not in the journals.
- Item 5 Interest of R410 was credited on the Bank Statement, but has not been entered in the journals.
- Item 6 The Bank Statement reflected a dishonoured cheque of R3 800. This cheque was originally recorded in the CRJ on 5 June 2020. It was received from M McGee in settlement of his debt of R4 500.
- Item 7 The Bank Statement reflected a favourable balance of R120 000 on 15 June 2020. Woodmead Traders put through a direct transfer to Maxima Bank for R100 000 on this date in order to earn a higher return on a fixed deposit for 6 months. This transaction has been entered in the journals and on the Bank Statement.
- Item 8 Cheque No. 7155 is stale and must be cancelled. The cheque was originally issued as a donation to the Rhino Sanctuary but it was lost in the post. It was decided to increase the donation and an EFT (electronic funds transfer) for R6 000 was made to the Rhino Sanctuary. No entry has been made.
- Item 9 On 30 June 2020 a debtor, J Collins, presented a cheque dated 30 July 2020 for R12 200 in settlement of his debt.
- Item 10 Cheque No. 7710 for R22 800 appeared on the June Bank Statement but not in the June journals.
- Item 11 An EFT (electronic funds transfer) of R15 400 appeared on the 30 June 2020 in the CPJ but not on the June Bank Statement received on 29 June 2020.
- Item 12 A sundry entry of R44 appeared on the Bank Statement on 16 June 2020. This is a fraudulent entry by a bank employee. The R44 also appeared on the Bank Statements on 16 April 2020 and 16 May 2020 and Woodmead Traders recorded these amounts as 'bank charges' in the CPJ for April and May. Stander Bank has agreed to reverse all three amounts immediately.

1.2 VAT

EKUDIBENG TRADERS

The following information was taken from the accounting records of Ekudibeng Traders. The financial year end is 29 February 2020. All goods bought and sold are subject to 15% VAT.

REQUIRED:

Use the information below to answer the following questions.

- 1.2.1 Calculate the amounts marked (A) to (C). (7)
- 1.2.2 Calculate the VAT amount payable to/receivable from SARS on 29 February 2020. Indicate if the amount will be recorded under the current assets or current liabilities in the Balance Sheet. (7)
- 1.2.3 Give TWO reasons for the entry of R576 on the debit side of the account. (2)

INFORMATION

- A.** The following General Ledger account reflects a consolidation of the VAT Input and Output accounts:

VAT CONTROL ACCOUNT

2020 Feb	29	Debtors' Control	GJ	576	2020 Feb	29	Bank	CRJ	15 360
		Debtors' Control	DAJ	2 304			Debtors' Control	DJ	23 040
		Creditors' Control	CJ	(A)			Drawings	GJ	(C)
		Bank	CPJ	(B)			Creditors' Control	CAJ	1 800

B. Additional information:

That total credit purchases for February 2020 amounts to R138 000 (including VAT).

- That total credit purchases for February 2020 amounts to R138 000 (including VAT).
- Cash purchases amount to 25% of total purchases.
- The owner withdraws trading stock with a cost price of R6 000 (excluding VAT) for personal use. The business makes use of a 60% mark-up on cost.

QUESTION 2: MANUFACTURING**(40 marks; 30 minutes)****2.1 MANGA MANUFACTURERS**

The following information was extracted from the records of Manga Manufacturers. The financial year ended on 30 September 2020. The business produces ethnic blankets.

REQUIRED:

- 2.1.1 Calculate the value of the closing stock of raw materials. (5)
- 2.1.2 Calculate the direct material cost issued for production. (4)
- 2.1.3 Calculate the direct labour cost. (8)
- 2.1.4 Complete the production cost statement for the year ended 30 September 2020. (11)

INFORMATION:**A. Raw material (Fabric):**

The business uses the FIFO method of stock valuation. Manga Manufacturers produced **16 160** blankets for the year ended 30 September 2020.

	Number of metres	Cost per metre	Total Amount (R)
Opening stock	2 400	R162	388 800
Closing stock	6 800	?	

B. Purchases and returns of raw material:

	Number of metres	Cost per metre	Total Amount (R)
October 2019 purchases	11 000	R162	1 782 000
November 2019 purchases	16 000	R173	2 768 000
March 2020 purchases	4 000	R168	672 000
March 2020 returns	(400)	R168	(67 200)
	30 600		5 154 800

C. Labour cost:

- There are ten factory workers and each worked 1 920 hours per year, at a rate of R25 per hour. Together they worked 560 hours of overtime at twice the normal rate per hour.
- The factory assistant is paid R80 000 for the year. She spends 75% of her time cleaning the factory and 25% of the time sewing labels on the blankets.
- The business contributes 1% to the UIF for all employees.

D. Other costs for the financial year (after all the adjustments):

	2020 (R)	2019 (R)
Total fixed costs per unit	252	227
• Factory overheads cost per unit	?	206
• Administration cost per unit	22	21

E. Stock balances that appeared in the books of Manga Manufacturers:

	2020 (R)	2019 (R)
Work in process	20 000	60 000
Finished goods stock	?	520 000

There were 840 completed blankets on hand at the end of the year.

2.2 MISCHKA MAGIC

The information relates to Mischka Magic, a business that manufactures marshmallows. The financial year ended on 31 August 2020.

REQUIRED:

- 2.2.1 Explain why it is necessary to calculate the break-even point each year. Provide TWO reasons. (4)
- 2.2.2 Provide a calculation to prove that the break-even point is 3 998 units. (4)
- 2.2.3 Should Mischka be concerned about the break-even point for 2020? (4)

INFORMATION:

	2020		2019
	TOTAL COST	PER UNIT	PER UNIT
Total fixed costs	R109 945	R54,97	R52,50
Total variable costs	R120 000	R60,00	R25,00
Selling price per box	R87,50		R70,00
Number of boxes produced and sold	2 000		1 500
Break-even point	3 998		1 750

QUESTION 3: FIXED ASSETS AND INVENTORY VALUATION

(45 marks; 35 minutes)

3.1 TALLIES LTD

You are provided with information relating to Tallies Ltd for the financial year ended 29 February 2020.

REQUIRED:

Refer to Information A.

Calculate the missing amounts denoted by **(A)** to **(C)** on the Fixed Assets Note. (12)

INFORMATION:

A. Incomplete Fixed Assets Note:

	VEHICLES	EQUIPMENT
Carrying value (01/03/ 2019)		
Cost	500 000	1 200 000
Accumulated depreciation	(480 000)	(350 000)
Movements:		
Additions	460 000	0
Disposals	?	(C)
Depreciation	(A)	(B)
Carrying value (29/02/2020)		600 000
Cost	460 000	
Accumulated depreciation		

- A new vehicle was purchased on 1 June 2019.
- On 1 October 2019, the old vehicle, cost price R500 000, was donated to a local children's home. The accumulated depreciation on this vehicle was R480 000 on 1 March 2019.
- Old equipment was scrapped at carrying value on 29 February 2020.
- Depreciation is calculated as follows:
Vehicles at 15% on cost
Equipment at 20% on carrying value method

3.2 INVENTORY VALUATION

You are provided with information relating to Cases for Places for the 2020 financial year. The business sells handbags and suitcases. You are provided with figures relating to the lccug handbag. They use the periodic inventory system and the weighted average method to value stock.

REQUIRED:

3.2.1 Calculate the value of the closing stock on 29 February 2020. (10)

3.2.2 Calculate the following for the year ended 29 February 2020:

- Cost of sales (3)
- Gross profit (3)
- Average stock-holding period (in days) (5)

3.2.3 Should the owner be satisfied with the stock-holding period calculated above? Explain. Quote figures. (3)

NOTE: The stock-holding period for 2019 was 65 days.

INFORMATION:

A. Stock balances:

DATE	UNITS	TOTAL (including carriage)
1 March 2019	90	R25 640
29 February 2020	194	?

B. Purchases:

DATE	UNITS	COST PRICE PER UNIT (excluding carriage)	TOTAL
15 March 2019	350	R280	R 98 000
20 July 2019	624	R310	R193 440
9 September 2019	1 095	R290	R317 550
10 February 2020	515	R300	R154 500
TOTAL	2 584		R763 490

C. Carriage on purchases:

Spot-on Deliveries transports the handbags to the business at a fixed cost of R20 per handbag. This rate remained unchanged.

D. Returns:

60 of the handbags purchased on 9 September 2019 were returned. The supplier credited the business with the cost price per item. No refund was received for carriage on purchases of these returns.

E. Sales: 2 420 units at R450 each

3.3 FIT & SLIM

Fit & Slim is an outlet of Sports Galore Wholesalers. Stock is valued using the FIFO method. The following figures have been given to the owner but he is not happy as the actual figures as per stocktaking and the figures of the Trading Stock records in the books do not agree.

REQUIRED:

Identify ONE different problem in respect of the manner in which each product is managed. Quote figures to support your answer. In each case offer practical advice.

(9)

	Gym towels	Golf caps	T-shirts
Opening stock in unit	120	80	150
Purchases in units	5 600	960	1 200
Sales in units for the year	4 800	840	930
Closing stock in units	810	200	420
Selling price per unit	R45	R125	R350
Period of stock on hand	50 days	70 days	215 days
Cash deposited for the year	R216 000	R100 000	R325 500

QUESTION 4: BUDGETING

(30 marks; 25 minutes)

You are provided with information relating to QwaQwa Dairy Products. The business sells dairy products with a shelf life of two months. The financial year ends on 31 May 2020. The bookkeeper presented the Cash Budget for the three months ended 31 August 2020. A number of errors occurred on the budget.

REQUIRED:

- 4.1 Identify TWO items which should not appear in this cash budget. (2)
- 4.2 Complete the Debtors' Collection Schedule for July and August 2020. (4)
- 4.3 The owner wants to improve the control over debtors. Credit terms are 30 days.
- 4.3.1 Explain why the owner is concerned. Give TWO reasons with supporting figures. (4)
- 4.3.2 Suggest ONE measure that he could introduce to improve the situation. (2)
- 4.4 Calculate the following:
- 4.4.1 The missing amount denoted by (a) to (c) in the extract from the cash budget (8)
- 4.4.2 The interest on loan amount expected to be paid in August 2020 (4)
- 4.4.3 The mark-up percentage obtained for the year ended 30 May 2020 (3)
- 4.5 Comment on whether the change in mark-up, was a good decision or not. Show relevant figures to support your answer. (3)

INFORMATION:

- A. The following information was taken from the financial statements on 31 May 2020 and 2019

	2019	2020
Sales	?	1 875 000
Cost of sales	900 000	1 250 000
Profit margin	70%	?

- B. Debtors are expected to settle their accounts as follows:

- 30% within the same month as the sale
- 40% in the following month after sale
- 25% in the second month following the sale
- The rest will be written-off in the third month

- C. The business has three employees earning the same salary. They will each receive an increase of R900, effective from 30 June 2020. One employee's child was sick. He did not report for duty the whole month nor did he report to the supervisor to explain the situation.

NB: The policy of QwaQwa Dairy Products is 'no work, no pay'.

- D. Municipal services are expected to decrease by 10% in August due to load shedding and water cuts.
- E. The owner, Ms Padi is planning to go on holiday with her family during August. This will result in her withdrawing one third more than her normal monthly withdrawal.
- F. A loan was received on 29 February 2020. The instalment will be paid on 31 August 2020 together with interest at 12% p.a.

- G. **An extract from the Cash budget for the three months ended 31 August 2020:**

Receipts	JUNE		JULY	AUGUST
	BUDGETED	ACTUAL	BUDGETED	BUDGETED
Cash sales				
Cash receipts from debtors	57 200	52 500	73 850	?
Discount received	2 300	2 400	2 500	2 500
Rent income	5 000	5 000	5 200	5 200
Payments				
Total cost of sales	200 000	210 000	190 000	180 000
Credit purchases of stock	145 000	153 000	148 000	137 000
Loss on sale of an asset	-	-	1 900	-
Salary	23 700	(a)	23 700	23 700
Municipal services	4 000	4 800	4 000	(b)
Depreciation	7 500	7 800	7 500	7 500
Loan instalment (including interest)	-	-	-	26 500
Drawings (Cash)	27 000	27 000	27 000	(c)

- H. Debtors' age analysis on 30 June 2020

CREDIT TERMS: 30 days

Amount owing	30 days	60 days	90 days	120 days
121 500	47 385	38 880	21 870	13 365
	39%	32%	18%	11%

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)

$$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$$

$$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$$

$$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$$

$$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$$

$$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$$

$$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$$

$$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$$

$$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$$

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.

END