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GRADE 12

SEPTEMBER 2020

**ACCOUNTING P2
MANAGERIAL ACCOUNTING, INTERNAL AUDITING
AND CONTROL**

MARKS: 150

TIME: 2 hours

This question paper consists of 12 pages, a 1-page formula sheet
and a 10-page answer book.

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. A FORMULA SHEET with financial indicators is attached to this question paper. You may use it if necessary
4. Show ALL workings to earn part-marks.
5. You may use a non-programmable calculator.
6. You may use a dark pencil or blue/black ink to answer the questions.
7. Where applicable, show ALL calculations to ONE decimal point.
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	TIME (Minutes)
1	Reconciliation	34	25
2	VAT and Inventory Valuation	40	30
3	Manufacturing and Cost Accounting	50	45
4	Fixed Assets	26	20

QUESTION 1: RECONCILIATION AND DEBTORS' AGE ANALYSIS**(34 marks; 25 minutes)****1.1 BANK RECONCILIATION**

The accountant of Mercure Limited received the Bank Statement on 31 July 2020 and compared it with the Cash Journals for July 2020.

REQUIRED:

Use the necessary information to prepare the Bank Reconciliation Statement on 31 July 2020 and determine the correct balance as per Bank Account in the General Ledger. A Bank Account is not required.

(8)**INFORMATION:**

A. On 31 July 2020 the Bank Statement showed a favourable balance of R3 600.

B. Item on the Bank Statement for July 2020 that does NOT appear in the Cash Journals:

A deposit of R3 800. It was discovered that the account of Mercure Limited was credited in error. The bank will correct it in August 2020.

C. Items in the Cash Receipts and Cash Payments Journals that do NOT appear on the Bank Statement:

- Deposit on 29 July 2020, R15 200

- Cheques:

No. 231 R2 020 (dated 26 July 2020)

No. 235 R1 570 (dated 31 August 2020)

D. Unmarked item in the Bank Reconciliation Statement for June 2020:

Cheque no. 156, R2 860 (dated 5 January 2020)

1.2 DEBTORS' AGE ANALYSIS

You are provided with the age analysis of debtors on 31 May 2020.

Terms allowed to debtors:

- All accounts to be paid in 30 days and 2% discount will be granted.
- If any account is not paid in 60 days, 5% interest will be charged.
- If any account is not paid in 90 days, the account is handed over.

NAME	>90 days	90 days	60 days	30 days	Current
D Daydream		90			
G Goodfella				1 550	4 200
H Hastie					3 250
P Platsak	4 250				
S Skinflint		880	3 500	1 525	2 185
TOTAL	4 250	970	3 500	3 075	9 635

- 1.2.1 How does the preparation of the Debtors' Age Analysis assist in the control of debtors? (3)
- 1.2.2 How much is owed by the debtors on 31 May 2020? (2)
- 1.2.3 Which debtor would you gladly give a credit reference? (2)
- 1.2.4 Which debtor would be 'handed over' and what does this mean? (3)

1.3 CREDITORS' RECONCILIATION

Dolphins Diving Equipment has had a large turnover of staff in the accounting department which resulted in both the Creditors' Control Account and the Creditors' List being prepared by inexperienced bookkeepers. You have been asked to assist.

- 1.3.1 What is the purpose of reconciling the balance on the Creditors' Control Account with the total of the Creditors' List from the Creditors' Ledger? State TWO points. (4)

- 1.3.2 Calculate the correct balance of the Creditors' Control Account and the correct total of the Creditors' List. Preliminary balance for Creditors' Control Account is R74 715 and total for Creditors' List is R32 595.

An investigation revealed the following errors and omissions.	
A.	The total of the Creditors' List was undercast by R900.
B.	A credit purchase from Micro Ltd for R3 720 was not entered in any journal.
C.	Trading stock returned to Express Ltd, R720, was entered correctly in the CAJ, but posted to the creditor's account as R270.
D.	The bookkeeper posted the total of the Creditors' Control column in the CPJ, R16 400, to the credit side of the Creditors' Control account.
E.	Makro & Co charged Dolphins Diving Equipment R43 interest for not paying their account on time. The bookkeeper did not know how to enter it.
F.	An invoice for R8 870 for stock purchased from Mini Market on account has been correctly recorded in the CJ, but has not been posted to their account.

(12)

QUESTION 2: VAT AND INVENTORY VALUATION (40 marks; 30 minutes)

2.1 VAT CONCEPTS

Change the underlined parts in the following sentences to make the statements TRUE. Write the answer next to the question numbers (2.1.1–2.1.2) in the ANSWER BOOK.

2.1.1 VAT is payable to the South African Reserve Bank. (1)

2.1.2 VAT is charged at 14% on fruit and vegetables. (1)

2.2 VAT CALCULATIONS

Peter Traders is a VAT registered business. The standard rate of VAT is 15%.

REQUIRED:

Calculate the correct amount of VAT the business has to pay.
Show ALL workings. (12)

INFORMATION:

The bookkeeper, John, prepared the VAT Control Account for the tax period ended 31 May 2020 and arrived at a VAT payable amount of **R43 820**.

However, the internal auditor has identified the following errors and omissions which must still be brought into account to calculate the correct VAT payable amount.

A	Sales invoices omitted from the Debtors' Journal, including VAT	R10 833
B	Damaged goods returned to suppliers, excluding VAT	18 600
C	VAT on sundry business expenses omitted	6 818
D	VAT on discounts received from suppliers	756
E	VAT on bad debts recovered	112
F	VAT on bad debts was recorded on the wrong side of the VAT Control Account	92

2.3 INVENTORY VALUATION

Joker Stores sells ladies' and men's watches.

- Ladies' watches are imported from Germany.
- Men's watches are manufactured locally.

The financial year ends on 31 August 2020.

REQUIRED:

2.3.1 Calculate the following in respect of the ladies' watches on 31 August 2020:

- (a) Value of closing stock (5)
- (b) Cost of sales (5)
- (c) Stock-holding period (in days), using average stock (4)

2.3.2 Calculate the following in respect of the men's watches on 31 August 2020:

- (a) Value of closing stock (7)
- (b) Sales (3)

2.3.3 Explain why the business uses different methods to value each type of watch. State ONE valid point. (2)

INFORMATION:

- A.**
- The business uses the following methods to value the stock of watches:
 - Ladies' watches – specific identification
 - Men's watches – weighted average
 - No watches were stolen or lost during the financial year.

B. Information related to ladies' watches:

	UNITS	UNIT PRICE	TOTAL AMOUNT	UNITS SOLD	TOTAL SALES
Opening stock	12	R6 500	R78 000	11	R125 125
Purchases:	35		R252 000		
September 2019	15	R6 800	R102 000	10	R119 000
January 2020	12	R7 300	R87 600	10	R127 750
April 2020	8	R7 800	R62 400	5	R68 250
	47		R330 000	36	R440 125

- The cost price of ladies' watches includes transport costs and customs duties.
- These watches are sold at a mark-up of 75% on cost.

C. Information related to men's watches:

	UNITS	UNIT PRICE	TOTAL AMOUNT
Opening stock	95	R340	R32 300
Purchases:	675		R259 900
September 2019	320	R375	R120 000
January 2020	210	R390	R81 900
April 2020	145	R400	R58 000

- Men's watches are sold at a fixed selling price of R520 each.
- Cost to transport the men's watches from local suppliers amounted to R11 950 for the financial year and is not included in the figures above.
- There were 92 men's watches in stock on 31 August 2020.

QUESTION 3: MANUFACTURING AND COST ACCOUNTING**(50 marks; 45 minutes)****3.1 CONCEPTS**

Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (3.1.1–3.1.2) in the ANSWER BOOK.

3.1.1 Carriage on raw materials purchased increases the cost of raw materials issued for production. (1)

3.1.2 Commission on sales will be classified as an administration cost. (1)

3.2 PRODUCTION COST STATEMENT

The following information was extracted from the accounting records at the end of the 2020 financial year.

REQUIRED:

3.2.1 Complete the Note for Direct Material Costs. (7)

3.2.2 Complete the Production Cost Statement on 29 February 2020. (15)

3.2.3 Complete the Income Statement for the year ended 29 February 2020. (11)

INFORMATION:

- A.** Railage on raw materials purchased, R180 000.
- B.** Salaries and wages amounted to R724 160 for the financial year. 50% of this amount can be attributed to wages of the employees who work directly on the products. The rest is shared equally between factory overheads and administration cost.
- C.** 96 000 finished units were manufactured during the financial year. The cost price of the finished units was R20 each.
- D.** Sales for the year amounted to R3 804 000. Goods are sold at a mark-up of 100% on cost.
- E.** Selling and distribution costs amounted to R594 860.
- F.** Administration costs are R 571 100. These do not include salaries and wages.

3.3 COST ACCOUNTING

You are provided with information from the records of Healthy Living, the producers of a type of breakfast cereal. The financial year ends on 31 August 2020.

REQUIRED:

- 3.3.1 Calculate the break-even point for the year ended 31 August 2020. (4)
- 3.3.2 Should the business be satisfied with the number of units that they have produced and sold during the current financial year? Explain. Quote figures. (3)
- 3.3.3 Give TWO possible reasons for the increase in the direct material cost per unit in the current financial year. (4)
- 3.3.4 Tyler, the owner, suggests that in order to improve financial results in the new financial year, the quantity of cereal per box should be reduced by 10% but the selling price must remain the same. Give TWO valid reasons why he should not do this. (4)

INFORMATION:

The following information was taken from the accounting records:

	31 AUGUST 2020		31 AUGUST 2019	
	TOTAL	PER UNIT	TOTAL	PER UNIT
Sales	R1 792 000	R28,00	R1 794 000	R23,00
Variable costs	R1 024 000	R16,00	R975 000	R12,50
Fixed costs	R736 000	R11,50	R630 000	R8,08
Direct material cost	R656 000	R10,25	R 592 800	R7,60
Break-even point	?		60 000 units	
Number of units produced and sold	64 000 units		78 000 units	

QUESTION 4: FINANCIAL AND INTERNAL CONTROL (26 marks; 20 minutes)**4.1 CONCEPTS**

Choose a description in COLUMN B that matches the concept in COLUMN A. Write only the letters (A–E) next to the question numbers (4.1.1–4.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
4.1.1	Professional body	A	The number of units produced increased considerably when compared to the previous year and will contribute to a profit
4.1.2	Intellectual Property Commission	B	Comparing actual with budgeted figures
4.1.3	Productivity	C	Maintains the integrity of the profession and institutes disciplinary action against those who breach standards
4.1.4	Internal control	D	Registration of companies
		E	To appoint a professional person with integrity in a productive position

(4 x 1)

(4)

4.2 ASSET MANAGEMENT CONTROL

You are provided with information from the records of Sharks Ltd.

INFORMATION:

A.	Extract information from the Balance Sheet	31 August 2020	31 August 2019
	Land and buildings	2 587 750	4 050 250
	Equipment at cost	1 500 000	1 200 000
	Accumulated depreciation on equipment	?	540 000

B. All the equipment, which had been bought on 31 August 2016, was traded in on 29 February 2020, for R600 000. New equipment was purchased on this date. Equipment is depreciated at 15% p.a. on cost.

C. No new land and buildings were bought during this year.

REQUIRED:

4.2.1 Prepare the Asset Disposal Account in the General Ledger. (10)

4.2.2 Complete the Note to the Financial Statements on 31 August 2020, for fixed assets. (12)

26

TOTAL: 150

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET

$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Total assets : Total liabilities	Current assets : Current liabilities
(Current assets – Inventories) : Current liabilities	Non-current liabilities : Shareholders' equity
(Trade and other receivables + Cash and 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.