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GRADE 12

ACCOUNTING P2

SEPTEMBER 2021

MARKS: 150

TIME: 2 hours

**This question paper consists of 14 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	TOPIC	MARKS	MINUTES
1	Manufacturing	45	35
2	Debtors' Reconciliation and VAT	40	30
3	Stock Valuation	30	25
4	Budgeting	35	30
TOTAL		150	120

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QUESTION 1: MANUFACTURING**(45 marks; 35 minutes)**

- 1.1 Choose the cost item in the list provided that matches the example below. Write only the cost item next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

indirect labour; direct labour; direct materials; indirect materials

1.1.1 Cleaning materials used in the factory

1.1.2 Salary of the factory foreman

1.1.3 Cost of the raw materials used in the production process (3 x 1) (3)

1.2 **AFRESH CREATIONS**

Afresh Creations manufacture one type of bath towels. The financial year ended on 29 February 2020.

REQUIRED:

1.2.1 Calculate the direct material cost. (4)

1.2.2 Prepare the Production Cost Statement for the year ended 29 February 2020. (18)

1.2.3 **Refer to Information C.**

Normal time for all workers is 40 hours per week. The information provided in James' job card for the last week is a reflection of his attendance over the financial year.

Identify TWO concerns regarding the above situation. Also provide ONE suggestion to address the concerns identified. (6)

INFORMATION:**A. Stock balances:**

	29 FEBRUARY 2020	1 MARCH 2019
Raw material stock	R 314 500	R 115 200
Work-in-progress stock	?	53 500

B. Extract from the records on 29 February 2020:
(See Information C for adjustments.)

Raw materials purchased on credit	R 738 900
Damaged raw material returned to suppliers	15 300
Factory overhead cost	322 100
Production wages (direct labour)	598 750

C. Additional information:

- One worker, James, was omitted from the Production Wages Register. Details from his job card for the last week in February 2020 are as follows:

Hours worked	Normal rate	Overtime hours	Overtime rate
30	R120	5	R180
Total employer's contribution amounts to 10% of gross wage.			

- Insurance of R15 880 was incorrectly omitted from factory overhead costs. This includes a premium of R2 220 paid for the period 1 January 2020 to 30 June 2020. This expense must be allocated between the factory and the sales department in the ratio 3 : 1.
 - The bookkeeper included R39 600 (75%) of the wages to cleaners in the factory overhead cost. Only $\frac{2}{3}$ of this expense should be allocated to the factory.
- D.** The business produced 22 500 towels during the financial year, at R60 per unit.

1.3 FRAGRANCE MANUFACTURERS

This business manufactures perfumes and shampoo. The owner, Marie Klasen, has compared the profit she earned over the past two years (2019 and 2020).

REQUIRED:

- 1.3.1 Identify ONE variable cost of each product that was not well controlled. Note that the inflation rate is 6%. Quote figures. In each case, give a solution for the problem identified. (6)
- 1.3.2 Provide a calculation to prove that the break-even point of 26 250 units for **perfumes** in 2020 is correct. (4)
- 1.3.3 Comment on the break-even point and level of production of **perfumes**. State TWO points with figures. (4)

INFORMATION:

A. UNIT COSTS AND SELLING PRICES

	PERFUMES (Unit costs)		SHAMPOO (Unit costs)	
	2020 R	2019 R	2020 R	2019 R
FIXED COSTS	36,75	30,00	18,48	22,00
Factory overhead cost				
Administration cost				
VARIABLE COSTS	108,00	88,00	50,00	38,50
Direct material cost	50,00	48,00	25,00	15,00
Direct labour cost	40,00	30,00	18,00	17,00
Selling and distribution cost	18,00	10,00	7,00	6,50
SELLING PRICE	150,00	140,00	90,00	80,00

B. UNITS AND BREAK-EVEN POINT

Total units produced and sold	30 000	35 000	12 500	10 000
Break-even point (units)	26 250	20 200	5 775	5 300

QUESTION 2: DEBTORS' RECONCILIATION AND VAT (40 marks; 30 minutes)**2.1 DEBTORS' RECONCILIATION**

The information relates to Mamela Traders for September 2020.

REQUIRED:

- 2.1.1 Calculate the correct Debtors' Control balance on 30 September 2020. Show figures and indicate '+', '-' or 'no change' at each adjustment. (8)
- 2.1.2 Calculate the correct total of the Debtors' List on 30 September 2020. (11)
- 2.1.3 Despite sending monthly statements timeously, the accountant noticed that this was not effective in improving collections.
- **Refer to Information C.** Calculate the % of debtors who do not comply with the credit terms. (4)
 - **Refer to Information A.** Identify ONE other problem with regard to the control over debtors (2)
 - Provide TWO suggestions to address the problems identified. (2)

INFORMATION:**A. Balances on 30 September 2020 before taking into account the errors and omissions:**

- (i) Debtors' control balance in the General Ledger, R100 310.
- (ii) **List of debtors' balances:**

	Credit Limit	Balance
D Dlamini	R20 000	R27 000
G Swardt	30 000	22 470
N Nomandla	15 000	17 600
L Vos	40 000	34 440
X Meyer	10 000	(2 000)

B. Errors and omissions:

- (i) The total of the Debtors' Journal was overcast by R3 600.
- (ii) No entry was made for a sales invoice issued to Vos for R2 760.
- (iii) Interest of R230 must be charged on the overdue account of Swardt.
- (iv) Goods returned by Nomandla, R1 400, were posted to the wrong side of his account in the Debtors' Ledger. The entry in the General Ledger was correct.
- (v) The amount of R6 300 received from Dlamini was incorrectly recorded as R3 600 in the Cash Receipts Journal and posted as such to the Ledger Accounts.
- (vi) The balance of Meyer must be transferred to his account in the Creditors' Ledger.

C. On 30 September 2020, the Debtors' Age Analysis revealed the following:

Balance	Current Month	30 days	60 days	90 days
R99 000	R15 420	R22 200	R44 500	R16 880

Credit terms: Debtors are granted 30 days to settle their accounts.

2.2 VAT

FOREVER TRADERS

Tom Smith is the sole owner. The information relates to the VAT period ended 31 August 2020.

The standard VAT rate of 15% is applicable to all goods purchased and sold.

REQUIRED:

2.2.1 Calculate the VAT amount that is payable to SARS on 31 August 2020. (9)

2.2.2 During September, the accountant came across a document for furniture bought by Tom Smith for his personal home, for R46 000 cash. Tom said that R6 000 VAT included in this amount must be regarded as input VAT. Further investigation revealed that similar documents were regularly entered in the books over the past year.

Advise the accountant on dealing with this matter. State TWO points. (4)

INFORMATION:

A. Amount due to SARS on 1 August 2020 is R31 470.

B. The following transactions appeared in the records for August 2020:

DETAILS	EXCLUDING VAT	VAT AMOUNT	INCLUDING VAT
Total sales	R535 000	R80 250	R615 250
Purchases of stock	385 000	57 750	442 750
Discount received from suppliers	11 500	?	
Goods returned by debtors	22 500	?	25 875
Stock taken by owner at cost	9 600	?	
Debtors' accounts written off		?	36 800

QUESTION 3: INVENTORY VALUATION**(30 marks; 25 minutes)**

On-Time Watches (Pty) Ltd has two shareholders, Lizzy and Patsy Ndou. The business sells watches. The periodic inventory system and the first-in-first-out (FIFO) method is used to value the watches. The financial year-end was 30 June 2020.

The business sold only one type of watch, the XS Sports, in the past. Even though these watches were selling well, Lizzy felt that the business was not earning enough profit. She convinced Patsy that importing exclusive watches (the Euroclox) would be a good solution for this problem.

REQUIRED:

- 3.1 Calculate the following for the imported Euroclox watches on 30 June 2020, using the FIFO method:
- The value of the closing stock (5)
 - Stock-holding period (in days) using the closing stock amount (3)
 - % mark-up on cost (3)
- 3.2 Patsy was still not convinced about the decision to import the Euroclox watches, but it appears that Lizzy's decision was beneficial to the business. In each case below, quote figures or indicators.
- 3.2.1 Compare the mark-up % achieved on each model and comment on how this has affected the sales and profitability of the two models. (4)
- 3.2.2 Compare the stock-holding period for each model and the demand for each model and comment on how these affected the management of the stock items of the two models. (4)
- 3.3 Lizzy is interested in finding out if the weighted-average method of valuing the Euroclox watches will result in a significantly different stock value.
- Calculate the value of the 270 watches using the weighted-average method. (5)
 - Explain the effect this would have on the gross profit. Quote figures. (2)
 - Explain why it would not be appropriate for her to use the weighted-average method for the new watches in the future. State TWO points. (4)

INFORMATION:**A. Stock records for imported Euroclox watches:**

DATE	NUMBER OF UNITS	UNIT PRICE	TOTAL AMOUNT
Purchases:			
1 July 2019	200	R 1 615,50	R 323 100
30 September 2019	500	1 700,00	850 000
20 December 2019	1 200	1 900,00	2 280 000
25 March 2020	400	2 000,00	800 000
15 May 2020	250	2 400,00	600 000
Total purchases	2 550		R4 853 100
Returns: 15 May 2020	90		?
Available for sale	2 460		?
Stock on 30 June 2020	270		?
Sales	2 190	R2 700	R5 913 000
Cost of sales			R4 033 100

B. Information obtained from the financial records on 30 June 2020:

	EUROCLOX MODEL	XS SPORTS MODEL
Mark-up %	?	75%
Stock-holding period	?	120 days
Selling price per watch	R2 700	R560
Average cost price per watch	R1 842	R320
Average gross profit per watch	R858	R240
Gross profit	R1 879 900	R840 000
Sales of watches	R5 913 000	R1 960 000
Units sold	2 190 watches	3 500 watches
Closing units on hand	270 watches	1 381 watches

QUESTION 4: BUDGETS**(35 marks; 30 minutes)**

You are provided with information of Fantasy Laptops, a business owned by Ray Rennie, for the budget period December 2020 to February 2021.

The business sells various types of laptop computers and does not sell on credit. They also repair these items for customers at a fee.

REQUIRED:**4.1 Refer to Information A and B.**

Complete the Creditors' Payment Schedule for February 2021. (7)

4.2 Refer to Information C and D.

Calculate:

- % increase expected in security costs from 1 February 2021
- % commission paid to salespersons during February 2021
- Water and electricity budgeted for December 2020
- The loan repayment to be made on 31 December 2020 (12)

4.3 Refer to Information E.

The internal auditor has noticed that packing material was R800 overspent and consumable stores were R1 500 overspent.

Comment on the control of packing materials and consumable stores. Quote figures or calculations. (6)

4.4 Refer to Information D.

During the Coronavirus lock-down in April and May 2020, the business lost money because there were no sales and fee income. However, Ray had to continue making payments to keep the business afloat (as a going concern).

- Give ONE reason why he did not want to stop paying salaries and wages. (2)
- Identify ONE other payment in the list in Information D that he would not have been able to stop and give a reason. (2)
- Identify ONE payment in the list in Information D that he would have stopped and give a reason. (2)

4.5 Refer to Information F.

Ray Rennie, the owner, requires help in making a financial decision.

He is undecided as to whether he should lease or buy a delivery vehicle. His two options are reflected as Option X and Option Y.

Apart from generating more sales or having the use of the vehicle, state TWO advantages of EACH option. (4)

INFORMATION:**A. Mark-up % and sales:**

A mark-up of 75% on cost is used to set the sales prices of the laptops.

ACTUAL SALES		PROJECTED SALES		
October 2020	November 2020	December 2020	January 2021	February 2021
R490 000	R490 000	R770 000	R560 000	R525 000

B. Purchases and payment to suppliers (creditors):

- All stock is bought on credit.
- Stock sold is replaced in the month of sales.
- Some creditors offer a discount for payment in the month of purchase.
- 50% is paid in the month of purchase to earn a 10% discount.
- 30% is settled in the month after the purchase transaction month.
- 20% is settled in the second month after the purchase transaction month.

C. Information on specific items from the Cash Budget:

- **Security:** The guards are outsourced from Keepsafe Guarding.
- **Commission:** Salespersons are paid commission in the same month on sales only. They do not receive a fixed salary.
- **Water and electricity:** The expected increase from 1 January 2021 is 24%.
- **Loan and interest:** The loan from Delta Bank bears interest at 12,5% per year. Interest is not capitalised and a fixed loan repayment is made on 31 December each year.
- **Consumable stores:** These are used to repair laptops for customers.

D. Extract from the Cash Budget:

	December 2020	January 2021	February 2021
	R	R	R
Fee income: repair services	100 000	150 000	150 000
Interest on loan (12,5% p.a.)	9 375	8 125	
Repayment of loan	?		
Commission to salespersons	123 200	89 600	84 000
Consumable stores for repairs	42 000	63 000	63 000
Security	18 000	18 000	28 500
Water and electricity	?	18 600	18 600
Salaries and wages			
Packing materials			
Insurance			

E. The internal auditor identified the following figures for October 2020:

	Budgeted R	Actual R	Variance %
Sales	490 000	400 000	-18,4%
Fee income	85 000	126 000	+48,2%
Packing materials	22 000	22 800	+3,6%
Consumable stores	24 500	26 000	+6,1%

F. Options for securing a delivery vehicle:

Ray feels that he should buy a delivery vehicle for R520 000 or lease (hire) the vehicle on a monthly basis to enable his business to generate more sales after the Coronavirus lockdown. He has only R100 000 in his investments that he can use. These investments are currently earning interest at 6,5% p.a.

He has two options to consider:

Option X (buy the vehicle):

Purchase the vehicle by using the money in his investments and take out a new 5-year loan for R420 000 at a high interest rate. He will have to repay the loan over five years. Interest over the five years will be R176 000.

Option Y (hire/lease the vehicle):

Hire (lease) the vehicle from Sentinel Ltd for R15 000 per month over 60 months.

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.