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PREPARATORY EXAMINATION

GRADE 12

ACCOUNTING P2

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:

- 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.
- 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

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.	