education

Department of Education
FREE STATE PROVINCE

PREPARATORY EXAMINATION

GRADE 12

ACCOUNTING P2

SEPTEMBER 2024

MARKS: 150

TIME: 2 HOURS

This question paper consists of 15 pages, a formula sheet and an 11-page answer book.

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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. A Financial Indicator Formula Sheet is attached at the end of this question paper.
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 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	MINUTES
1	Reconciliations and Age Analysis	40	30
2	Stock Valuation	30	20
3	Cost Accounting (Manufacturing)	40	35
4	Budgeting	40	35
TOTAL		150	120

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QUESTION 1: RECONCILIATIONS AND INTERNAL CONTROL

(40 marks; 30 minutes)

1.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

1.1.1 Interest on overdrafts forms part of bank charges.

1.1.2 A credit balance on the Bank Statement reflects a favourable balance.

1.1.3 An error on the bank statement must be rectified in the Cash Journals of the business. (3)

1.2 **BANK RECONCILIATION**

The information relates to Hilke Stores for August 2024. The business uses the official bank statement downloaded on the 26th of each month.

REQUIRED:

1.2.1 Calculate the correct Bank Account balance in the General Ledger. (6)

1.2.2 Prepare the Bank Reconciliation Statement on 31 August 2024. (6)

INFORMATION:

A. Note no items from the July Bank Reconciliation Statement that need to be entered during August 2024.

B. The Bank Account balance in the General Ledger of R4 600 (unfavourable) was calculated before the August bank statement was received.

C. Information on the August 2024 Bank Statement not reflected in the August 2024 Cash Journals:

- Service fees, R370.
- An EFT payment to Smiley Stores R480 was reflected twice in error. The bank will rectify the error on 1 September 2024.
- Deposit of R17 300 for rent income.
- Debit order of R3 500 for water and electricity.

D. Information in the August 2024 Cash Journals, not reflected on the August 2024 Bank Statement:

- EFT no 827 on 31 August 2024 for R2 500 for insurance.
- Outstanding deposit of R12 340 on 28 August 2024.

E. The balance, according to the Bank Statement on 26 August 2024, R?

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1.3 DEEP DEBTS DEALERS

The debtors' age analysis on 31 August 2024 is provided. Credit terms are strictly 30 days. The owner tried to negotiate better terms with his creditors but could not. They only offer discounts on accounts settled within 30 days from the statement date.

REQUIRED:

1.3.1 Calculate the percentage of total debts exceeding the credit terms. (3)

1.3.2 Does the business keep tight control over its debtors? Explain. (4)

INFORMATION:

DEBTORS' AGE ANALYSIS ON 31 AUGUST 2024:

Name	Total	Current	30 days	60 days	90 days
Peter	8 350	6 250	2 100		
Tshepo	16 224	2 800	6 984	6 440	
Morné	23 632	3 632		15 500	4 500
Rahul	5 344	2 204			3 140
Mary	6 450		3 030	420	3 000
Total:	60 000	14 886	12 114	22 360	10 640

1.4 CREDITORS' RECONCILIATION

You are the internal auditor of Eiffel Traders. The Creditors' Control Account and Creditors' List were prepared by the bookkeeper, but you have picked up a few errors and omissions.

REQUIRED:

1.4.1 Use the table provided in the Answer Book to show the changes that must be made in the Creditors' control account and the Creditors list to consider the errors and omissions noted. Indicate an increase with '+' and a decrease with '–' with each amount. (12)

1.4.2 The external auditors suggested that all payments made by the business should be via EFTs, especially for suppliers.

- Give TWO advantages in support of this suggestion. (4)
- Name ONE procedure the business will have to put into place. (2)

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INFORMATION:

A. Balance/total on 31 August 2024:

Creditors' Control Account	R41 167
Creditors' Ledger	R58 667

B. Errors and omissions:

(i) An invoice received from Tuileries Wholesalers reflected VAT of R1 400, calculated at 14% of the transaction instead of the standard rate of 15%. The bookkeeper corrected this error in the Creditors' Ledger only.

(ii) A discount of R500 received from Montmartre Traders was omitted in the Creditors' Ledger account. The general ledger was correct.

(iii) Goods of R7 900 returned to Catacombs Stores were recorded in the correct journal but were posted to the creditor's ledger account as a credit purchase.

(iv) Jadon Traders has a debit balance of R792 in the Creditors' ledger. It must be transferred to their account in the Debtors' ledger.

(v) A refund of R1 100 made to a debtor Kayla was recorded in the Creditor's Control column of the Cash Payments Journal in error and posted as such. No entry was recorded in the creditors' ledger, as this account does not exist.

(vi) A credit invoice for trading stock purchased from Louvre Suppliers for R8 900 on 31 August 2024 was recorded in the Creditors' Journal as R10 700 and posted as such.

40

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QUESTION 2: INVENTORY VALUATION AND PROBLEM-SOLVING

(30 marks; 20 minutes)

SLEEP EAZEE MATTRESSES:

Les Lazy owns a mattress shop which sells mattresses to the public. The financial year ended on 31 August 2024.

- They make use of the periodic inventory system for all mattresses.
- They value the mattresses using the FIFO (first-in-first-out) method.

REQUIRED:

2.1.1 Calculate the rand value of the closing stock on 31 August 2024. (5)

INFORMATION:

A. Available stock:

Date	Number of mattresses	Unit cost (including carriage)	Total value
Opening stock: 1 September 2023	40	5 835	233 400
Total purchases:	111		778 000
October 2023	41	6 000	246 000
January 2024	42	8 000	336 000
May 2024	28	7 000	196 000
	151		1 011 400
Closing stock: 31 August 2024	31		?

B. Returns:

A total of two mattresses were returned from the May 2024 purchase. The carriage of R152 per mattress was non-refundable on these returns.

C. Sales:

- 118 mattresses were sold at R11 000 each.
- The total cost of sales for the year was R775 704.

2.1.2 Les discovered four mattresses (included in the closing stock figure) were damaged due to a burst water pipe in the storeroom. Les suggested the stock valuation method be changed to the weighted-average method before recording this loss.

- Calculate the rand value of the spoilt mattresses according to the weighted-average method. (5)
- Explain how this will impact the actual figure he will show as a loss. Quote figures. (2)
- Explain how this will impact the closing stock and cost of sales. Quote figures. (2)
- Explain TWO points of advice you will offer about changing the method of stock valuation. (4)

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2.2 INTERNAL CONTROL

DECIBELS

DJ Rock is the owner of Decibels. They sell Bluetooth speakers, headphones and earbuds. The financial year ends on 31 July each year. DJ Rock made the following decisions at the beginning of the financial year:

- He changed to a new supplier of headphones.
- He reduced the selling price of earbuds to R100 a set to counter a new audio repairs shop that sells the same brand of earbuds.

REQUIRED:

2.2.1 **Speakers:**

Provide TWO points which show that the customers are happy with the quality of the speakers. Quote figures. (4)

2.2.2 **Headphones:**

Explain why it was a good idea to change to a new supplier of headphones. State TWO points. Quote figures. (4)

2.2.3 **Earbuds:**

DJ Rock continued to experience problems with this product line in this financial year, even though he reduced the selling price in an attempt to counter the new competition. Give TWO points of advice to DJ Rock on whether he must discontinue or keep selling earbuds. Quote figures. (4)

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INFORMATION:

	Speakers		Headphones		Earbuds	
	2024	**2023**	**2024**	**2023**	**2024**	**2023**
Opening stock	180	70	100	215	60	90
Purchased during year	2 340	2 380	507	360	1 009	1 116
Units sold	2 380	2 270	610	490	880	1 160
Closing stock	80	180	102	100	225	60
Stockholding period	12 days	29 days	61 days	77 days	97 days	21 days
Returns from customers	0	0	5	15	36	14
	R	**R**	**R**	**R**	**R**	**R**
Value of closing stock	96 000	144 000	56 100	40 000	18 000	4 800
Cost price per unit	1 200	800	550	400	80	80
Selling price per unit	2 400	1 400	880	600	100	128
Gross profit	2 856 000	1 362 000	201 300	95 000	16 880	55 008
Mark-up %	100%	75%	60%	50%	25%	60%

30

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QUESTION 3: COST ACCOUNTING (40 marks; 35 minutes)

3.1 **Explain why:**

3.1.1 Factory rent is considered a fixed cost.

3.1.2 Bad debts are regarded as a selling and distribution cost. (2)

3.2 **BONGI MANUFACTURERS**

The business produces formal suits for men. The financial year ended on 31 August 2024.

REQUIRED:

3.2.1 **Refer to Information A:**
Prepare the correct Factory Overhead Cost Note. (10)

3.2.2 **Refer to Information B:**
Calculate the Direct Material Cost for the year. (5)

3.2.3 Complete the Production Cost Statement on 31 August 2024. (10)

3.2.4 The owner, Bongi, feels that the workers control production efficiently and has rewarded them with bonuses.

Identify TWO reasons that could make him feel this way and quote figures to support your reasons. (4)

3.2.5 In your opinion, were the bonuses justified? Quote figures. (2)

INFORMATION:

A. **Factory overhead costs:**
The bookkeeper prepared the following incorrect note:

Indirect labour cost	R168 660
Indirect material cost	24 350
Depreciation: Factory equipment	231 700
Depreciation: Delivery vehicles	32 800
Water and electricity	40 600
Rent expense	61 100
Sundry expenses	22 600
	581 810

The following errors and omissions were detected:

- Indirect material does not consider R700 of consumable items still in stock on 1 September 2023.
- The water and electricity account for August 2024 for R2 500 was not recorded yet. The business omitted to allocate 15% of the water and electricity amount to the sales department and 10% to the administration department.

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- The total rent amount was recorded in the factory overhead account. This amount included the rent for September 2024. Rent must be shared according to floor space occupied. The factory occupies twice the floor space as the sales and administration departments.
- The sundry expenses amount was split equally amongst the factory, sales and administration departments, but they should have used the ratio 6 : 2 : 1.

B. **Raw material stock (fabric for suits):**

Fabric is issued from the storeroom to the factory using the weighted-average method. Following are the stock records:

	QUANTITY (METRES)	TOTAL COST
Balance on 1 September 2023	1 200 m	R504 000
Purchases during the year	11 700 m	R4 914 000
Balance on 31 August 2024	800 m	**?**

- There was no material missing/stolen during the year.
- It takes 3 metres of fabric to manufacture each suit.

C. **Work-in-progress stock balances:**

1 September 2023 (opening balance)	R420 200
31 August 2024 (closing balance)	?

D. **Workers in the production of suits:**

The contract makes provision for the following, per worker:
- Normal time is 8 hours per day; 5 days a week; 48 weeks per year.
- Each worker is allowed to work 3 hours of overtime per week.

Bongi decided to reward the workers with a 10% bonus based on the normal-time wage for the financial year ended in August 2024.

The timesheet revealed the following hours worked:

	Number of workers	HOURS	RATE R	TOTAL R
Normal time	6	1 920	70	806 400
Overtime		800	105	**?**

E. **Production:**
During the financial year, 4 050 formal suits were produced at a unit cost of R1 670. The total cost of production amounted to R6 763 500.

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3.3 VINI BAG MANUFACTURERS

The business manufactures designer handbags. The owner is Vincent Louie.

REQUIRED:

3.3.1 Explain whether the business should be satisfied with the number of handbags produced and sold during this financial year. Quote figures. (3)

3.3.2 Vini aimed for a net profit of R1 700 000 for the financial year.

Calculate the number of handbags he had to make and sell to reach this target, using the same cost structure. (4)

INFORMATION:

	TOTAL AMOUNT	*PRICE PER UNIT (R)
Sales	R9 920 000	1 600
Variable costs	R4 774 000	770
Fixed costs	R4 361 490	
Number of units produced and sold	6 200 units	
Break-even number of units	5 255 units	

40

QUESTION 4: COST ACCOUNTING (40 marks; 35 minutes)

4.1 **Explain why:**

4.1.1 The Cash Budget as a management tool important is. (1)

4.1.2 The prepaid portion of the insurance premium is shown in the Cash Budget. (1)

4.2 **FRANK LTD**

REQUIRED:

4.2.1 **Refer to Information A.**
Complete the schedule for collection from debtors for September 2024. (6)

4.2.2 Calculate the missing amounts denoted by **(a)** to **(e)** on the Cash Budget extract provided in **Information F**. (19)

4.2.3 **Refer to information J.**
The owner is considering purchasing two new printers in September. He wants advice on whether he should go ahead with the purchase of these printers or renew the lease agreement. Quote figures to support your answer. (4)

4.2.4 **Refer to Information K.**
Actual and budgeted figures for July 2024 were provided.

Comment on the items listed, as specified in the table provided in the Answer Book. Quote figures. (9)

INFORMATION:

A. Incomplete Debtors' Collection Schedule for the three months in 2024.

MONTHS	CREDIT SALES R	JULY R	AUGUST R	SEPTEMBER R
May	135 000	33 750		
June	139 500	41 850	34 875	
July	144 000	57 600	43 200	?
August	153 000		61 200	?
September				?
Total collection from debtors			139 275	?

B. Cash sales are 50% of total sales.

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C. Debtors are paid according to the following trends:

- 40% paid in the month of sale.
- 30% paid in the month following the month of sale.
- 25% paid in the second month following the month of sale.
- 5% is written off as irrecoverable.

D. The business maintains a mark-up of 80% on cost.

E The stock sold in a month is replaced in the same month.

- Cash purchases amount to 25% of total purchases.
- Creditors for stock purchases are paid in the month following the purchase (30 days) to take advantage of a 5% discount.

F. **Extract of the Cash Budget for the two months:**

	AUGUST	SEPTEMBER
Receipts		
Cash Sales	153 000	159 750
Cash from Debtors	139 275	**?**
Rent Income	**(a)**	19 980
Payments		
Cash purchases of stock	42 500	**(b)**
Payment to creditors	114 400	**(c)**
Salaries and wages	122 500	129 850
Repayment of loan		**(d)**
Interest on loan	2 800	2 450
Community upliftment project		50 000
Advertising	21 420	22 365
Packing material	10 200	10 650
Two new printers		1 834
Printers' lease contract	**(e)**	
Delivery expenses	50 490	52 718

G. The rent will decrease by 7,5% on 1 September 2024, as two offices are no longer required.

H. Advertising is a fixed percentage of budgeted cash sales.

I. Part of the loan will be repaid on 1 September 2024. Interest on the loan at 14% p.a. is payable on the last day of each month and is not capitalised.

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J. The monthly lease contract, including printer maintenance and printing costs, expires on 31 August 2024. The service provider offered to extend the lease for another year with no price increase.

The annual lease contract specifications:

- 2 x printers @ R8 200 each
- 16 400 pages @ R0,12 each
- Maintenance @ R5 128

TAKE NOTE:
The owner plans to purchase two new printers in September 2024 and was offered credit terms of 12 monthly instalments; the total cost is R22 008 for both.

K. **Budgeted and Actual figures for July 2024:**

BUDGET ITEMS	BUDGETED R	ACTUAL R
Cash sales	144 000	73 800
Credit sales	144 000	140 400
Total sales	288 000	214 200
Advertising	20 160	20 580
Delivery expenses	47 520	43 760

40

TOTAL: 150

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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	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$ (See Note 1 below)	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$ (See Note 2 below)
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (See Note 3 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:
1. Trading stock at the end of a financial year may be used if required in a question.
2. Credit purchases may be used instead of cost of sales (figures will be the same if stock is constant).
3. 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.

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