basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

# NATIONAL SENIOR CERTIFICATE

## GRADE 12

## ACCOUNTING P2

## NOVEMBER 2020

**MARKS: 150**

**TIME: 2 hours**

Accounting P2

10712E

X05

**This question paper consists of 14 pages, a formula sheet and a 10-page answer book.**

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GAUTENG

## 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 $^{2}/_{3}$ 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 |

**45**

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## 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.

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**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 |

**40**

## 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 |

**30**

## 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.

**35**

**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 | |
| $\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$ | $\frac{\text{Cost of sales}}{\text{Average trading stock}}$ |
| $\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$ | $\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$ |
| $\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$ | $\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*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.

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