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ACCOUNTING

GRADE 12

REVISION 2023

TERM 2

(Revised in 2021; Cheques out)

Solutions

Term 2 Revision:

- Inventory valuations
- Fixed Assets
- Cost Accounting/Manufacturing
- Reconciliations

TEST YOUR KNOWLEDGE

INVENTORY VALUATION

1.1	Specific identification ✓		
1.2	FIFO ✓		(3)
1.3	Weighted average ✓		
2.	Opening Stock ✓ [+ Purchases] ✓ [- returns] ✓ [- Items sold (Sales)] ✓ [- Closing stock] ✓ <i>(sign must be correct)</i>		(5)
3.1	<u>Cost of Sales</u> ✓ Ave Stock [Ave stock = $\frac{1}{2}$ (Opening stock + Closing stock)]		(1)
3.2	$\frac{\text{Gross Profit}}{\text{Cost of sales}} \times 100$ ✓		(1)
			10

FIXED ASSETS

1	Historical cost				(1)
2	1. Cost price		2. Accumulated Depreciation		(2)
3.	1. + (plus)	2. - (minus)	3. - (minus)		(3)
4.	register				(1)
					7

MANUFACTURING

1.1.	False	Wages of factory cleaners is an <u>INDIRECT</u> labour cost. OR Wages of factory <u>WORKERS</u> is a direct labour cost.		(2)
1.2	True			(1)
1.3	True			(1)
1.4	False	Factory overheads is a DIRECT COST		(2)
1.5	False	Breakeven point is the <u>number of items</u> produced to cover costs.		(2)
				8

RECONCILIATIONS

1	1. Control (account)	2. List		(2)
2.	1. Ledger account	2. statement		(2)
3.	debit			(1)
				5

INVENTORY VALUATION

ACTIVITY 1

1.1 Calculate the following on 28 February 2019:

1.1.1 Value of closing stock

Workings	Answer
$ \begin{array}{r} \text{4 191 500 four marks (5 512 x 7) two marks} \\ 195\,424\checkmark + 4\,034\,660\checkmark - 38\,584\checkmark\checkmark \\ \hline 49\checkmark + 788\checkmark - 7\checkmark \\ \text{830 three marks} \\ \text{eight marks} \\ 5\,050\checkmark \times 220\checkmark \end{array} $	$1\,111\,000\checkmark$ one part correct

10

1.1.2 Gross profit for the year ended.

Workings	Answer
$ \begin{array}{l} \text{see 1.1.1} \quad \text{see 1.1.1} \\ \text{COS: } 4\,191\,500\checkmark - 1\,111\,000\checkmark = 3\,080\,500 \\ \text{(195 424 + 4 034 660 - 38 584) one mark} \\ \text{Gross profit: } 3\,450\,300\checkmark - 3\,080\,500\checkmark \end{array} $	$369\,800\checkmark$ one part correct

5

1.2.1 Calculate the stock value on 28 February 2019 using the FIFO method.

Workings	Answer
$ \begin{array}{l} 200 - 7 \\ 193\checkmark \times 5\,512\checkmark = 1\,063\,816\checkmark \\ 220 - 193 \\ 27\checkmark \times 5\,145\checkmark = 138\,915\checkmark \\ \text{Be aware of alternative arrangements} \end{array} $	$1\,202\,731\checkmark$ one part correct

7

1.2.2 Explain the effect on gross profit if the FIFO method is used.

Any valid point ✓✓

A larger closing stock will result in a smaller cost of sales and hence a greater (an increased) gross profit.

The gross profit will be more compared to when weighted average method is used.

2

1.2.3

As an internal auditor, explain the benefits of using the FIFO method to the owner and the accountant. State TWO points.

Any TWO valid points ✓✓ ✓✓ part marks for short/incomplete statements

Stock shown at recent prices, realistic.

Reflect a higher gross profit

Easy to apply

No manipulation of profits.

4

1.3

John Fortune feels that he was not able to achieve the targeted mark-up % for 2019.

Do (or perform) a calculation to confirm whether she is correct.

Workings	Answer
see 1.1.2 $\frac{369\,800}{3\,080\,500} \times 100$ see 1.1.2	12% ✓ one part correct
OR: $3\,080\,500 \times 25\% = 770\,125$ (targeted); Actual was 369 800 (1.1.2) Did not achieve target by 400 325	

3

Provide TWO suggestions that can be implemented in order to improve profitability.

Any TWO valid suggestions ✓✓ ✓✓

Give less trade discounts

Support local suppliers

Supervise sales to ensure correct prices are applied.

Consider after-sales services such as maintenance, repairs, installations.

4

35

ACTIVITY 2**CABINETS**

2.1

Calculate the value of closing stock using FIFO.	
Workings	Answer
If 280 – units in first part $(230 \checkmark \times 1\,100 \checkmark) + (50 \checkmark \times 990 \checkmark)$ $253\,000 \qquad 49\,500$	one part correct R302 500 ☒

6

2.2.1

Calculate the % mark-up achieved in 2019.	
Workings	Answer
$\frac{3\,480\,000 - 2\,170\,500}{2\,170\,500} \checkmark \checkmark \times 100$ $\frac{1\,309\,500}{2\,170\,500} \checkmark$	one part correct 60,3% ☒

4

2.2.2

Provide TWO points (with figures) to prove that this decision achieved its aims.	
☒ ☒ TWO different & valid points ☒ ☒ Figures	Sales increased to R3 480 000 (from R3 375 000) / by R105 000 / by 3,1% Number of customers increased to 37 (from 26) / by 11 / by 42%

4

2.2.3

The CEO feels that this decision also negatively affected the company. Provide TWO points (with figures) to support his opinion. Do not accept Mark-up % here	
☒ ☒ TWO different & valid points ☒ ☒ Figures	Gross profit decreased to R1 309 500 (from R1 425 000) / by R115 500 / by 8,1% / Cost of sales increased to R2 170 500 (from R1 950 000) / by R220 500 / by 11,30% Average units per customer dropped to 63 (from 96) (2 500/26) (2 320/37) / by 33 / by 34% Units sold dropped by from 2 500 to 2 320 / by 180 / by 7,2%

4

Give the directors advice to solve this problem. Explain TWO points.	
☒ ☒ TWO different & valid points	Restrict (be selective with) trade discounts to good customers only Find a cheaper supplier (to compensate for keeping selling prices low) Increase marketing / advertising in areas outside the current areas targeted Provide other incentives such as after-sales services, maintenance or free deliveries

2

LAMPS

2.3

Calculate the stockholding period for lamps (use closing stock).	
Workings	Answer
OR $\frac{59\,625 \checkmark \times 365}{930\,375 \checkmark \times 1} \quad \frac{265}{3\,675} \text{ one mark} \times \frac{365}{1} \text{ one mark}$	one part correct one method mark 23,4 days ☒ OR 0,8 months OR 26,3 days OR 0,9 months

3

2.4

Calculate the number of missing lamps.													
Workings	Answer												
<table><tr><td>Op.stock</td><td>Purchases</td><td>Clos.stock</td><td>Sales</td></tr><tr><td>600</td><td>+ 3 800</td><td>- 265</td><td>- 3 675</td></tr><tr><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr></table>	Op.stock	Purchases	Clos.stock	Sales	600	+ 3 800	- 265	- 3 675	✓	✓	✓	✓	one part correct 460 ☒
Op.stock	Purchases	Clos.stock	Sales										
600	+ 3 800	- 265	- 3 675										
✓	✓	✓	✓										
Give TWO suggestions to solve this problem.													
✓✓✓ TWO valid & different suggestions part-marks for partial or incomplete answers	Divide duties / delegate to different employees												
	Threaten strong disciplinary action (in future) / recover cost from culprit												
	Increase supervision at regular intervals / random physical inspection of stock												
	Change to the perpetual inventory system to record stock												
	CCTV as an internal control measure												
	Insist on proper documents for all stock supplied												

5

4

TELEVISION SETS

2.5

Calculate the value of the closing stock of TV sets on 30 September 2019 using the specific identification method.	
Workings	Answer
LYN: $7\,800\,000 \checkmark - 2\,580\,000 \checkmark \checkmark = R5\,220\,000$ (4 800 000 + 3 000 000) (430 x 6 000) three marks [(800 + 500) x 6 000] OR 870 two marks x R6 000 one mark (1 300 - 430)	one part correct R11 772 000 ☒
KYA: $10\,440\,000 \checkmark - 3\,888\,000 \checkmark \checkmark = R6\,552\,000$ (6 840 000 + 3 600 000) (540 x 7 200) three marks (1 450 x R7 200) OR 910 two marks x R7 200 one mark (1 450 - 540)	

7

2.6

Explain THREE different concerns George would have about this problem.	
THREE different & valid concerns ✓✓✓ part-marks for partial or incomplete answers	Directors engaging in fraud and corruption / bribes / conflict of interests
	Unethical behaviour of CFO places the company placing at risk
	Image of the company negatively affected / will affect the share price and further investments from potential investors
	High stock value is tied up in stock / Obsolete / Affects liquidity
	Shareholders may want to sell their shares
	It will negatively affect the audit report
	Business will lose goodwill as it is unethical

6

45

ACTIVITY 3

Identify ONE problem in relation to each branch. Quote relevant figures to support your answer. In each case, offer Ben advice on how to solve the problem.

	PROBLEM ✓✓ ✓✓	ADVICE ✓✓ ✓✓
MSB BRANCH	Only R120 000 deposited instead of R127 600 – R7 600 cash is missing. 60% of total sales is on credit.	Division of duties Regular check on sales and deposit. Increase cash sales/ reduce the credit sales.
APB BRANCH	8 units were returned. Worked only 75% of the normal time/ worked 96% of the overtime	Set sales targets. Calculate commission on net sales. Minimise overtime hours.

8

FIXED ASSETS**ACTIVITY 1**

1.1

GENERAL LEDGER OF EASTEND STORES
ASSET DISPOSAL

2018 Apr	20	Equipment ✓ (13 200 x 6)	✓✓ 79 200	2018 Apr	20	Accumulated depreciation on Equipment ✓ ①	✓✓ 15 840
						Bank ✓ (5 000 x 6)	✓✓ 30 000
						Loss on sale/theft of asset ✓ (dr - cr)	✓ 33 360
			79 200			☑ both totals	79 200

12

① See Fixed Assets note: 491 240 - 157 080✓ - 350 000✓;
Closed off with a "balance" : -1 max

1.2

Show the double entry in the general ledger for the replacement of the computers on 30 April 2018. Indicate the correct amount.

Account debited	Account credited	Amount
Equipment ✓	Creditors Control ✓ (OR Office Smart)	48 000 ✓ (8 000 x 6)

3

1.3 Explain how a fixed asset register will assist the internal auditor in controlling fixed assets.

Any ONE explanation of a fixed asset register w.r.t the internal control process: ✓✓

- The physical existence of each asset item can be confirmed when a physical count is compared with the register.
- Entries in the journals/ledgers may be compared with the asset register to ensure accurate recordkeeping of assets.
- The historic value of assets is recorded in the register to support valuation of each item.

2

1.4 Explain why an asset item may be shown at a carrying value of R1 in the balance sheet.

- The asset has reached the end of its life ✓ and value is completely written off. ✓
- It is still in use and needs to be recorded in asset records. ✓

3

1.5 One of the office employees, Gill, knows that the insurance policy only covers theft if there is evidence of forced entry. She also saw Mike breaking the security gate of the office to make the incident look like forced entry. Gill is not sure whether Milly knows about this. What advice would you give Gill? Explain one point.

Any ONE point of ETHICAL advice:

3 marks: ✓✓✓

- Gill should convince Mike to not submit/lodge the claim based on false information.
- Gill should find out whether Milly is aware of Mike's actions and discuss the claim with Milly.
- Gill may consider informing Sosure about Mike's deceit (be a "whistle-blower").

2 marks: ✓✓

If Milly was aware of Mike's deceit (breaking the gate to make it look like forced entry), she may lose her management position.

NO marks:

Mike should fire Milly or Gill if they tell Sosure.

3

1.6 In order to solve their cash flow problems, Mike wants to sell a portion of the premises at cost price. Milly disagrees with him on this. Give one reason why you would support Milly in this regard.

Any ONE argument to support Milly's view point: ✓✓

- Selling fixed property may not solve cash flow problems as operational effectiveness may be lost, e.g. lower productivity, less production/operation space.
- Property's value usually appreciates (increases) and may be sold for more than cost/carrying value over a longer period.
- Mike should keep the premises for future expansion.
- He should rather make a short/medium term loan or apply for a bank overdraft.

2

25

ACTIVITY 2

2.1

Calculate the profit or loss on disposal of the computer on 31 August 2018.

$$30\,000 - (13\,680 + 1\,632) - 8\,000 = 6\,688$$

✓ ✓ ✓✓ ✓ ✓ one part correct

OR**Asset disposal**

Equipment	30 000	Accumulated depreciation on equipment (13 680 + 1 632)	15 312
		Bank	8 000
		Loss on sale of asset	6 688
	30 000		30 000

6

2.2

Calculate the total depreciation for the year.

New Vehicle: $950\,000 \times 20\% \times 3/12 = 47\,500$ ✓✓ one part correct
 132 999 four marks

Old $570\,000 \times 20\% = 114\,000$ ✓ (only 85 499 ✓ can be written off)

Equip: $(660\,000 - 30\,000) \times 20\% = 122\,000$ ✓
 630 000 one mark 164 320 one mark 94 768 four marks

Asset disposal (see 2.1) = 1 632 ✓

Total: $(47\,500 + 85\,499 + 93\,136 + 1\,632) = 227\,767$ ✓

9

2.3

Suggest ONE internal control measure that the internal auditor can perform to verify the tangible assets figure in the Statement of Financial Position.

Any one valid points ✓✓

- Check the fixed asset register agrees with an actual physical inspection of the tangible assets.
- Check that all controls are adequate and are actually being implemented.
- Check the documentation and financial records to ensure that all purchase and sale of fixed assets have been recorded correctly.

2

17

ACTIVITY 33.1 **Calculate the cost of new delivery vehicles purchased for the Cash Flow Statement:**

$$10\,152\,700 + 425\,000 + 389\,500 - 7\,915\,400 - 2\,250\,000 = 801\,800$$

✓ ✓ ✓ ✓ ✓

801 800 ✓
 one part correct
 (With signs)

6

ACTIVITY 4**4.1 Calculate:**

(i) Depreciation for the current year							
Workings	Answer						
225 000 ✓ x 25% x 8/12 ✓	one part correct R37 500 ✓						
(ii) Carrying value of vehicle sold							
Workings	Answer						
✓ ✓ 225 000 – 37 500 see (i) above 100 000 + 75 000 + 37 500 OR: 400 000 – 212 500	Two marks R187 500 If wrong, mark workings Cannot get full marks if superfluous workings						
Profit/Loss on sale of asset							
Workings	Answer						
✓ ✓ 195 000 – 187 500 see (ii) above	Two marks R7 500 If wrong, mark workings Cannot get full marks if superfluous workings						
Fixed assets carrying value on 28 February 2019							
Workings	Answer						
✓ ✓ see (i) above ✓ see (ii) above 10 190 000 – 37 500 – 187 500 225 000 two method marks OR: 10 190 000 – (400 000 – 212 500 + 37 500) one mark one method mark one method mark Also accept ledger account format <table border="1" data-bbox="380 1268 756 1354"> <tr> <td>10 190 000</td><td>37 500</td></tr> <tr> <td></td><td>187 500</td></tr> <tr> <td></td><td>9 965 000</td></tr> </table>	10 190 000	37 500		187 500		9 965 000	one part correct R9 965 000 ✓
10 190 000	37 500						
	187 500						
	9 965 000						

5

2

4

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ACTIVITY 5**5.1 FIXED ASSET REGISTER**

Item <i>Delivery vehicle</i>	Model <i>Ford V 800</i>	Registration number <i>BBC 200 GP</i>	
Bought from <i>Hatfield Auto</i>	Date bought <i>1 April 2017</i>	Cost price <i>R120 000</i>	
Method of depreciation <i>Diminishing balance-method</i>		Rate of depreciation <i>20% p.a.</i>	
Date sold: <i>1 September 2019</i>		Sold to: <i>Stolen</i>	
Selling price: R63 504		Profit/Loss on disposal:	
Depreciation history			
Date	Current depreciation	Accumulated depreciation	Carrying value
28 Feb. 2018	$120\,000 - 0 \times \frac{20}{100} \times \frac{11}{12}$ = 22 000	22 000	98 000
28 Feb. 2019	$120\,000 - 22\,000 \times \frac{20}{100} \times \frac{12}{12}$ = 19 600	41 600	78 400
1 Sept. 2019	$120\,000 - 41\,600 \times \frac{20}{100} \times \frac{6}{12}$ = 7 840	49 440	70 560

16

16**5.2 Calculate the amount that the insurance company will pay out.**

$$70\,560 \times 0,9 = 63\,504$$

3**5.3 Give two security measures which Universal Traders can install to prevent theft of assets**

- Install alarm systems or gear locks.
- Security staff to protect vehicle.
- Lock up garages built for all vehicles.

4

MANUFACTURING (Cost Accounting)

ACTIVITY 1

1.1 DESKS FACTORY

1.1.1 Factory Overhead Cost Note

Indirect labour	R 296 500	
Depreciation on factory plant	166 000	
Water and electricity (248 000 + 18 000) x 80% OR – 53 200 198 400 + 14 400	212 800✓✓*	
Factory rent (345 600 x 810/1080) or – 86 400	259 200✓✓*	
Insurance (12 600 x 75/25) or x 3 OR 50 400 – 12 600	37 800✓✓*	
Factory sundry expenses	107 700✓	
-1 (Foreign items) Advertising *one part correct	1 080 000✓*	8

1.1.2 Calculate the total cost of production of finished goods.

Workings	Answer	
$ \begin{array}{r} 3\,060\,000 \\ \checkmark\checkmark \end{array} + \begin{array}{r} 9\,000 \times 160 \text{ two or no marks} \\ 1\,440\,000 + 1\,080\,000 \\ \checkmark\checkmark \quad \checkmark \text{ see 1.1.1} \end{array} $	R5 580 000 ✓ one part correct	
OR: units DMC/u DLC/u FOHC/u $ \begin{array}{r} 9\,000 \times (340 + 160 + 120) \\ \text{one mark} \quad \text{one mark} \quad \text{one mark} \quad \text{one method mark} \end{array} $	$ \begin{array}{r} 620 \text{ three marks} \\ (\text{see 1.1.1} \div 9\,000) + 500 \\ \text{three marks} \end{array} $	6

1.1.3 Sihle wants to produce an additional 1 500 desks. Calculate the additional profit he can expect.

Workings	Answer	
Extra units x Contribution per unit $ \begin{array}{r} 750 \text{ one mark} - 580 \text{ one mark} [340+160+80] \\ 1\,500\checkmark\checkmark \times 170\checkmark\checkmark\checkmark \end{array} $	Correct operation & one part correct ✓ R255 000	6

1.2 CHAIRS FACTORY

1.2.1 Provide a calculation to confirm the break-even point for 2019.

Workings	Answer	
$ \begin{array}{r} 16\,000 \times 96 \text{ or } 1\,536\,000 \text{ two marks} \\ 1\,216\,000\checkmark + 320\,000\checkmark \\ 390\checkmark - 305\checkmark \text{ 85 two marks} \end{array} $		
OR: Sales VC FC $ 7\,047\,690 - 5\,511\,655 - 1\,536\,000 = 35 \text{ or } 0 \text{ one mark each} $		4

1.2.2 Comment on the break-even point and the production level achieved. Quote figures. *If differences are shown for figures, this carries two marks*

Comment on BEP ✓ Figures ✓ Comment on production ✓ Figures ✓
 Responses for four marks:

- Produced 16 000 units but BEP is 18 071 (or see 1.2.1) units so they will make a loss
- Produced 2 071 less than BEP so they will make a loss.
- Production increased from 15 000 to 16 000 units (by 1 000) and BEP increased from 12 400 to 18 071 units (by 5 671).
- In 2018 they made a profit on 2 600 units.

4

1.2.3 Sihle feels that wood raw material was not well controlled. Provide a calculation.

METRES	Actual issue: 22 000m ✓ Budget: 16 000 ✓ x 1,2 ✓ = 19 200m ✓ OR: Wastage = 2 800m four marks <i>Choose one line</i>
OR: UNITS	Expected: 22 000 one mark / 1,2 one mark = 18 334 one mark Actual: 16 000 one mark OR 2 334 fewer chairs made four marks <i>Choose one line</i>
OR: TOTAL COSTS	22 000 one mark x 120 16 000 one mark x 1,2 one mark x 120 one mark Expected: = R2 640 000 Actual = R2 304 000 OR Extra cost = R336 000 four marks <i>Choose one line</i>
OR: UNIT COSTS	Expected: 1,2 one mark x R120 one mark = R144 one mark Actual = R165 one mark OR Extra unit cost = R21 per unit extra four marks <i>Choose one line</i>
OR: % PROD	DMC increased by 33% (R165 – R124; 41 ÷ 124) two marks Units produced increased by 7% (1 000 ÷ 15 000) two marks

4

Identify TWO possible causes of this problem. Provide a solution for EACH.

	POSSIBLE CAUSES	SOLUTION FOR EACH
✓ ✓ TWO valid & different causes with solutions ✓ ✓	Wastage / unskilled workers	Train workers; supervise regularly Use technology (stencils / templates)
	Damage (fire / water)	Secure storage / check deliveries
	Theft of wood	Internal controls / stock counts / supervision / buy in smaller quantities / install cameras
	Poor quality wood	Source other suppliers / check deliveries

4

1.2.4 Give TWO reasons for the increase in direct labour cost. Provide a solution for EACH.

	REASONS	SOLUTION FOR EACH
✓ ✓ TWO valid & different reasons with solutions ✓ ✓	Load shedding	Generator or solar power
	Workers dissatisfied with increase / Protests	Engagement / communicate with union
	Inflation / wage increase / bonus	Improve productivity
	Overtime	Restrict overtime / more workers (avoid overtime)
	Inefficient / slow workers	Pay per unit produced / improve monitoring procedures / training programme

4

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ACTIVITY 2 MANUFACTURING**2.1.1 Calculate: Direct Material costs**

72 500✓ + 1 618 300 ✓ - 17 000✓✓ - 52 700✓✓ = 1 621 100✓ one part correct

OR

Opening Stock	72 500
Purchases	1 618 300
Returns	(17 000)
Closing stock	(52 700)
Balance at the end of the year	1 621 100

7

2.1.2 Factory overhead costs

Total before adjustments	536 025
Cleaning material (28 800 x 2/3)	✓* 19 200
Rent expenses (126 500 + 11 500✓) x 3/6✓ or 50%	* 69 000
Water and electricity (46 000 x 75%)	✓* 34 500
Factory foreman salary (15 200 x 12) + 15 200	✓* 197 600
Wages (975 x 3 x 52) ✓✓ + (20%✓ x 152 100✓) 152 100 30 420	* 182 520
* one part correct	1 038 845 one part correct

15

2.1.3 Production Cost Statement for the year ended on 30 June 2019

Direct Material (see 2.1.1)	1 621 100
Direct Labour	465 000
Prime cost operation	2 086 100
Factory overhead costs ✓ see 2.1.2	1 038 845
Total cost of production operation	3 124 945
Work in process at the beginning of the year	181 410
	3 306 355
Work in process at the end balancing figure	133 605
Cost of production of finished goods	3 172 750

8

2.2.1 Explain to the owner why it is important to calculate the break-even point each year. Provide TWO reasons.

Any two valid reasons ✓✓ ✓✓

- To plan levels of production to be profitable.
- To determine the minimum units to produce to cover all costs.
- To establish whether productivity has to be improved to make the necessary profit.

4

2.2.2 Provide workings to show that the break-even point of 1 912 units on 28 February 2019 was correctly calculated.

$$\frac{219\,880}{175 - 60} = 1\,912 \text{ units}$$

115 two marks

3

2.2.3 Explain why Zonke should not be concerned over the break-even point for 2019. Quote figures to support your answer.

Comment ✓ figure ✓✓

(Refer to 2.2.2)

- The units produced and sold are above the break-even point by 2 088 units (4 000 – 1 912) that means he is making profit.
- The number produced increased with 1 000 units (from 3 000 to 4 000). The business is making profit
- There is an increase of (2 088 – 1 250) 838 units over the BEP when compared to the previous financial year

3

40

ACTIVITY 3 MANUFACTURING

3.1 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019

Direct material cost (3100 000 + 204 000)	3 304 000 ✓✓
Direct labour cost Prime cost – DMC	1 296 000 ✓
Prime cost	4 600 000 ✓
Factory overhead cost (974 400 ✓ + 46 200 ✓✓) (84 000–37 800) Operation; one part correct	1 020 600 ✓
operation Prime + FOHC	5 620 600 ✓
Work-in process (beginning)	500 800 ✓
	6 121 400
Work-in process (end) operation TCP – subtotal above Check that is deducted / ignore brackets / do not accept 500 800 or 0	(775 400) ✓
Total cost of production 10 800 X 495	5 346 000 ✓✓

13

3.2

**ABRIDGED INCOME STATEMENT FOR THE YEAR ENDED
28 FEBRUARY 2019**

Sales	8 160 000
Cost of sales (672 000✓ + 5 346 000 ☒ - 18 000✓) See TCP 3.1 Could do FGS account ignore brackets	(6 000 000) ☒
Gross profit Sales - COS	2 160 000 ☒
Administration cost (296 800 + 1 000) one part correct / ignore brackets	(297 800) ✓ ☒
Selling and distribution cost ✓ (844 000 - 1000 ✓ - 46 200 ☒) (84 000-37 800) One part correct / ignore brackets	(796 800) ☒
Net profit operation (subtract AC & SDC) one part correct	1 065 400 ☒

12

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RECONCILIATIONS**ACTIVITY 1 DEBTORS RECONCILIATION**

1.1 State the balance of the Debtors Control account in the General Ledger on 31 May 2019.

R24 500 ✓✓

2

1.2 Which debtor in the age analysis may receive discount? Motivate your answer with one reason.

Debtor:

V. Veejay ✓

Reason: ✓✓ (Any ONE applicable reason)

- He is the only debtor whose debt is not older than 30 days.
- His debt is less than 30 days old.
- He bought on credit/paid back within the past 30 days/month.
- He does not have outstanding debt that is older than 30 days.

Do NOT accept: He owes less than his credit limit.

3

1.3 Explain the term 'Credit Limit' used in the age analysis.

Any ONE answer, e.g.: ✓✓

- It is the maximum amount of credit granted to a debtor by the credit provider/business/supplier.
- The debtor may not owe more than this amount at any time.
- The debtor may not run an account of more than this amount at any time.

2

1.4

S. Solly and P. Peter are not honouring the credit terms for debtors. Suggest ONE internal control measure to address this situation.

Any ONE possible internal control measure (action): ✓✓

- Send early reminders (e.g. SMS/email/statements).
- Send an enquiry to query why their accounts have not been paid.
- Charge interest on the amounts over 60 days.
- Temporarily close the account until the outstanding amounts have been settled.
- Threaten to hand the account over to debt collectors.
- Threaten to blacklist the debtor.
- Check the books to be certain that no error(s) has been made by the business.

2

1.5

Calculate the amount for the provision on 31 May 2019.

$$5\% \checkmark \times 24\,500 \checkmark = \text{R1 225} \checkmark \text{ operation; any one part correct}$$

(see 1.1) (subtracted from R1 400= max 1 for R 1225)

3

1.6

Creditors List on 31 May 2019

Mjila Wholesalers (5 450 - 850✓ - 3 000✓ - 90)✓	Consider signs	operation; one part correct
		✓ 1 510
Stan Stores (2 800 + 1 260✓ - 280✓ - 280✓)	Consider signs:	operation; one part correct
		✓ 3 500
	operation / inspection	✓ 5 010

9

1.7

What is your opinion about the credit terms allowed to debtors with regards to the terms Nissen Traders are allowed by their creditors? Make one recommendation in this regard.

Opinion: Any ONE possible opinion ✓✓

- Debtors are allowed 60 days while creditors are paid within 30 days.
- It may result in cash flow problems, as payment is made to creditors before cash is received from customers/debtors

Recommendation: Any ONE possible recommendation ✓✓

- Shorten debtors' collection period from 60 to 30 days by incentives e.g. cash discounts on early payments received.
- Negotiate with creditors to increase payment period from 30 to 60 days.

4

25

ACTIVITY 2 CREDITORS RECONCILIATION

2.1

Provide TWO reasons why it is important for the business to prepare a monthly Creditors' Reconciliation Statement.

Any two relevant reasons ✓✓ ✓✓

- It helps to detect fraud, errors and omissions.
- It helps to identify differences between the balance in the statement and the balance in the business' records.
- It is an internal control measure.

4

2.2

Calculate the correct Creditors' Control Account balance after taking into account the relevant errors and omissions.

$$87\ 690 + 5\ 020 + 12\ 800 - 1\ 280 - 1\ 280 + 1\ 720 = 104\ 670$$

✓

✓

✓

✓

✓

✓

✓ one part correct

6

2.3

Calculate the correct balances for creditors Zebo Suppliers and Leo Wholesalers, list by taking into account the errors and omissions.

Creditor	Workings	Balance
Zebo Suppliers	16 580 + 12 800✓ + 1 720✓ + 200✓✓	31 300*✓
Leo Wholesalers	29 520 - 6 300✓✓ - 4 900✓	18 320*✓
	✓ - operation one part correct	49 620✓

10

20

ACTIVITY 3 CREDITORS' RECONCILIATION

	Creditors' Ledger	Creditors' Reconciliation Statement
Balance	28 370	25 300
A		+ 13 320 ✓✓ (14 800 – 1 480)
B	+ 2 700 ✓✓ 1 350 + 1 350	
C	+ 350 ✓	
D		– 7 200 ✓
E	–2 700✓	–2 700✓
Operation – both totals	28 720 ☑	28 720

9

-1 for superfluous items, only if marks awarded for that line. Max -2

ACTIVITY 4 BANK RECONCILIATION (no cheques)**4.1.1 State THREE advantages of EFTs.**

✓ ✓ ✓ THREE different & valid advantages	Less fraud
	Convenient or easy to use
	Can be done from business or home; not restricted to business hours / time-saving
	Payment/receipts are instant / account is updated immediately / no long queues to deal with
	Lower bank charges

3

4.1.2 Janet, the bookkeeper, has been assigned the duty of processing and controlling all EFTs.**Explain TWO reasons why the internal auditor was concerned about this.**

Part marks for unclear answer.

✓✓ ✓✓ TWO different & valid reasons	Too many related job functions / No division of duties (no checks and balances) / Possible fraud
	She may be negligent in performing her duties.
	Lack of supervision can result in abuse / payments not made on time
	If Janet is absent, there may not be any continuity.

4

4.2

Show the changes in the Cash Journals for June 2019			
CASH RECEIPTS JOURNAL		CASH PAYMENTS JOURNAL	
27 470	Provisional totals	32 400	
-1 if 1 125 entered here and entered only once in CPJ	For one mark: R1 125 in CRJ & R1 125 x 2 in CPJ	1 125 ✓✓	
(7 950 – 5 950) 2 000 ✓✓	Two marks or 0 7 950 CRJ one mark 5 950 CPJ one mark		
		175 ✓✓	
2 800 ✓✓			
130 ✓✓			
32 400	TOTALS ☒ Check operation; both totals correctly added	33 700	
-1 foreign or superfluous items max -1 e.g. 9 500			11

4.3

Calculate: Bank Account balance		
Workings	Answer	
9 200 + 32 400 – 33 700 ✓ ☒ ☒ see 4.2 see 4.2	one part correct 7 900 ☒	4

4.4

BANK RECONCILIATION STATEMENT ON 30 JUNE 2019			
	DEBIT	CREDIT	
Cr Balance per bank statement	Balancing figure Could be Dr or Cr	5 480 ☒	
Cr Outstanding deposit		9 675 ✓	
Cr Incorrect entry		1 125 ✓✓	
Dr Outstanding EFTs			
614	3 800 ✓✓		
617	4 580 ✓		
Dr Balance per bank account	see 4.3 7 900 ☒	Do not accept 9 200	
	16 280	16 280	8

30