

CONTROL TEST 2

Marks: 100

Time: 60 minutes

You are provided with a question paper and an answer book.

Instructions

- Answer all questions.
- Use the formats provided in order to reflect your answers.
- Workings must be shown in order to achieve part-marks.
- Non-programmable calculators may be used.

Question 1: Budget and internal control	(21)
Question 2: Periodic inventory system, concepts and internal control	(42)
Question 3: Manufacturing ledger accounts	(37)

Question 1: Budgets

The owner, Luke Nguyen, of Nguyen Styles is experiencing problems completing his cash budget for the period 1 January 20.9 to 31 March 20.9. He approached you at the end of December 20.8 to help him with, amongst others, the calculation of certain figures.

Information

- 1 Cash at the Bank on 31 December 20.8 amounts to R8 900.
- 2 The cash sales of goods during December 20.8 amounted to R35 000. It is expected that cash sales will increase at a rate of 10% per month.
- 3 Credit purchases of trading inventory will be as follows:

	R
January 20.9	10 000
February 20.9	12 000
March 20.9	18 000

Payments to creditors will be 60 days after purchase. Credit purchases of trading inventory for November 20.8 and December 20.8 amounted to R8 000 and R8 500 respectively.

- 4 Credit sales to debtors

Cash is collected from Debtors in respect of credit sales as follows:

- 10% in the month of sale
- 60% in the month thereafter
- 30% in the third month

The business experiences no bad debts.

- 5 With regard to business expenses, salaries and wages will be increased on 1 March by R3 000 per month. Total salaries and wages currently amount to R7 000 per month for three employees.
- 6 The following is the incomplete Debtors Collection Schedule

	Credit sales	January	February	March
November 20.8	R22 000	R6 600		
December 20.8	R23 500	R14 100		
January 20.9	R24 000	R2 400		
February 20.9	R30 000			
March 20.9	R36 000			
		R23 100		

Required

Use the information provided to answer the following questions.

- 1 Calculate the cash sales of goods for February 20.9. (5)
- 2 What amount will be paid during March to the business creditors? (1)
- 3.1 Complete the Debtors Collection Schedule as at the end of the question. (8)
- 3.2 Do you think the business maintains good internal control over its debtors? Motivate. (4)
- 4 Calculate the total amount paid for salaries and wages during March 20.9. (3)

[21]

Question 2: Periodic inventory system

Tero Stores is a retail business owned by Tero Tladi. He uses the periodic inventory method and prices his articles at a mark-up of 50% on cost.

Information

The following balances appeared in the Pre-Adjustment Trial Balance at the year end, 28 February 20.9:

Balance Sheet Accounts Section	R
Trading inventory (1 March 20.8)	60 000

Nominal Accounts Section	
Sales	580 000
Purchases	332 000
Carriage on purchases	18 000
Carriage on sales	12 000
Other overhead expenses	143 000

No entries were made for the following:

- At the year end the physical inventory count revealed that inventory costing R42 000 was on hand.
- A debtor returned goods with a selling price of R4 800, which he said he did not order. These goods were placed back into inventory for resale. No trade discount was granted. The goods were returned after the physical stock count was done.

- Tero took goods for personal use at cost price, R2 300. The selling price was R3 680.
- An invoice for the inventory purchased was not recorded. The cost price was R5 400 and delivery charge was R650.

Required

- 1 Prepare the TRADING account for the year ended 28 February 20.9. Show all workings in brackets. (21)
- 2 Calculate the mark-up percentage used during the year. Show all workings. (5)
- 3 Tero is concerned that his sales dropped during the 20.9 financial year. The figures for the previous year:

Sales	R600 000
Cost of sales	R480 000

 Comment briefly on the results for 20.9 by providing two comments. (6)
- 4 Briefly explain the main advantage of the perpetual inventory system. (2)
- 5 Briefly explain the main advantage of the periodic inventory system. (2)
- 6 Discuss the following preventive internal control measure:
 - 6.1 Bar coding (3)
 - 6.2 Special plastic devices attached to inventory (3)

[42]

Question 3: Manufacturing

The accounting period of Prime Furniture Manufacturers ends annually on the last day of June.

Information

Balances	30 June 20.8 R	30 June 20.9 R
Raw materials inventory	R38 640	R36 000
Work-in-progress	R26 700	R23 800
Finished inventory	R28 800	?
Consumables stores on hand (indirect material: factory)	0	R3 960

Transactions during the year	R
Purchases of wood	354 000
Sales commission	64 500
Insurance	10 600
Water and electricity	43 200
Delivery costs	11 500
Sales (finished goods)	1 291 400
Sales of unprocessed goods at cost	2 640
Cleaning materials (indirect material)	14 760
Maintenance costs: factory	16 900
Sundry expenses	9 560

Additional information

- All carriage paid on wood purchased was recorded by the bookkeeper as delivery costs.
- The insurance expense is divided equally between the factory and sales section.
- 70% of all water and electricity is consumed by the manufacturing section and the rest by administration.
- Finished goods are sold at a gross profit of 120% on cost.
- The factory uses twice as much cleaning material as the sales section.
- The book value of the factory plant amounts to R310 000 on 1 July 20.8. 10% of this amount must be imputed as an expense for the accounting period under review.
- Labour cost for the year:

	R
Direct labour	142 476
Indirect labour	122 730

Required

1	Calculate the following:	
1.1	Raw materials issued	(6)
1.2	Manufacturing overheads	(10)
2	Prepare the following General Ledger accounts:	
2.1	WORK-IN-PROGRESS INVENTORY	(12)
2.2	FINISHED GOODS INVENTORY	(9)
		[37]
		TOTAL: 100