

basic education

Department: Basic Education **REPUBLIC OF SOUTH AFRICA**

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

NOVEMBER 2017

MARKING GUIDELINES

MARKS: 300

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MARKING PRINCIPLES:

- 1. Unless otherwise stated in the marking guideline, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
- 2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
- 3. Full marks for correct answer. If answer incorrect, mark the workings provided.
- 4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
- 5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or sign or bracket is provided, assume that the figure is positive.
- 6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
- 7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
- 8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
- 9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark.
- 10. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
- 11. In calculations, do not award marks for workings if numerator & denominator are swapped this also applies to ratios.
- 12. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a 🗵.
- 13. Be aware of candidates who provide valid alternatives beyond the marking guideline.
- 14. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 17 pages.

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Please turn over

QUESTION 1

1.1

1.1.1	False √
1.1.2	False ✓
1.1.3	True √

1.2.1

Calculation of CRJ t	otal		Calculation of C	PJ tota
90 500			85 920	
9 750	\checkmark			
		2 900 in CRJ and	6 300	
		9 200 in CPJ Both for two marks	OR 9 200	$\checkmark\checkmark$
			(2 900)	
		(5 500) in CRJ one mark	11 000	$\checkmark\checkmark$
		5 500 in CPJ one mark	or 5 500 & 5 500 one mark each	• •
16 500	\checkmark		2 290	\checkmark
			750	\checkmark
900	\checkmark	May be combined as R320 OR R1 220-R900 in CPJ for two marks	1 220	\checkmark
117 650			107 480	

Foreign entries -1 e.g. 8 550; 13 590; 16 200; 30 000 Be aware of other foreign entries that are incorrectly duplicated in journals and/or reconciliation.

Bank account balance:

May prepare a ledger account

 $-5\ 210\ \checkmark\ +\ 117\ 650\ \ensuremath{\boxdot}\ -107\ 480\ \ensuremath{\boxdot}\ =\ R4\ 960\ \ensuremath{\boxdot}\ \ensuremath{\boxdot}\$

14

9

3

1.2.2

nk Reconciliation Statement May start with ledger balance	DEBIT	CREDIT	One- column method
Balance per Bank Statement check balancing figure	9 740⊠	Do not accept R1 450	9 740
Outstanding deposits		40 500 🗸 🗸	40 500
Outstanding cheques			
• 819	7 650 √		(7 650)
• 870	16 800 🗸		(16 800)
Outstanding EFT	2 250 ✓		(2 250)
Credit incorrect bank charges		900 √√	900
Balance per bank account see 1.2.1	4 960⊠		4 960
	41 400	41 400	

For 2-column method with brackets used, do not accept brackets/negatives in any column.

1.2.3 Explain the problem relating to deposits. Quote evidence.

Valid explanation ✓ Evidence ✓

Expected responses:

Deposits are not being done promptly / Late deposits (leads to cash flow problems)

OR

Rolling of cash / could indicate theft

Evidence: Dates or figures

- Deposit of <u>R30 000</u> / <u>17 May</u> / <u>approx. 16 days</u> was outstanding at month end
- Deposit of <u>R16 200</u> / <u>31 May</u> / <u>approx. 16 days</u> only reflected on statement on 16 June
- Deposit of <u>Slip 451</u> /<u>R40 500</u> / <u>25 June</u> outstanding at month-end

Explain TWO strategies to prevent this in future.

TWO valid points

- <u>Division of duties</u>: The person receiving the money and issuing receipts should be different from the person completing the deposit slip and another person should deposit the money at the bank so that one can serve as a check on the other.
- Senior personnel should check via internet banking / deposit slips that <u>deposits reflected daily</u>.
- Request <u>SMS from bank</u> for all transactions.
- Use a security company to collect the deposits on a daily/regular basis.
- Encourage debtors to make direct transfers (EFT).

TOTAL MARKS
30

2.1 GEVEN MANUFACTURERS

2.1.1 PRODUCTION COST STATEMENT

Direct material cost (1 050 0	000√ + 102 000√)	\checkmark	1 152 000
Direct labour cost	Prime cost – DMC	\checkmark	648 000
Prime cost		\checkmark	1 800 000
(– 84 0 Factory overhead cost (487	00 one mark +100 800 one mark) ' 200√ + 16 800√√)	✓ operation;	504 000 one part correct;
	operation Prime + FOHC	\checkmark	2 304 000
Work-in process (beginning)		✓	160 000
			2 464 000
Work-in process (end) Cr	operation TCP – subtotal above neck that is deducted; ignore brackets do not accept 160 000 or 0	V	(88 000)
Total cost of production 7	200 x R330 No part marks	\checkmark	2 376 000

2.1.2 ABRIDGED INCOME STATEMENT FOR YEAR ENDED 28 FEBRUARY 2017

Sales	✓ 4 080 000
See TCP 2.1.1 400 x R330 Cost of sales (336 000 √ + 2 376 000 ☑ - 132 000 √ √) OR 8 000-1 200 no part marks (1 200 x R280) + (6 800 x R330) one mark Could do FGS account two marks	✓ (2 580 000) Ignore brackets
Gross profit Sales - COS	☑ 1 500 000
20% x 126 000 126 000–100 800 (- 42 000 + 25 200 one method mark) Administration cost (148 400 ✓ - 16 800 ☑ see 2.1.1)	✓ (131 600) one part correct Ignore brackets
Selling and distribution cost (422 000 ✓ - 102 000 ✓) One part correct	✓ (320 000) Ignore brackets
Net profit operation (subtract AC & SDC) one part correct	☑ 1 048 400

14

4

2.2 **GYMWEAR MANUFACTURERS**

2.2.1 Shirts:

Calculate the break-even point for shirts. 64 two marks

530 000 ÷ (302 – 238) = 8 281,25 / 8 282 / 8 281 / 8281,3 \checkmark \checkmark \checkmark one part correct; do not accept R or c

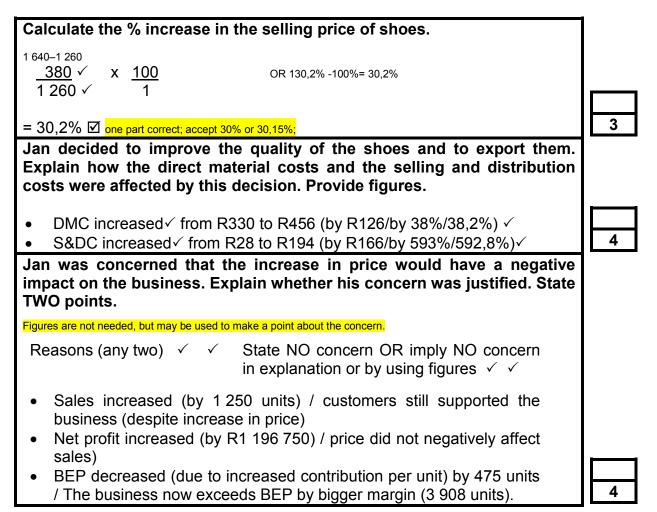
Identify ONE variable cost (with figures) that has not been well controlled. Give TWO possible reasons for this problem.

y two <u>different</u> reasons ges: lige increase / applied minimum n / increased salary scales (for to some workers ertime citivity (inefficiency) of workers / poorly trained workers over rate t affects productivity st due to training time (workers paid lue to load-shedding (power-cuts) / ck leave lation of wages (over-paid) workers; Absent workers; Poor budgeting tt the large decreases in the other
ige increase / applied minimum n / increased salary scales (for to some workers ertime ctivity (inefficiency) of workers / poorly trained workers over rate t affects productivity st due to training time (workers paid lue to load-shedding (power-cuts) / ck leave llation of wages (over-paid) workers; Absent workers; Poor budgeting
It the large decreases in the other
State or imply what the concern is $$
Inferior quality.
May affect the quality of the product
May cause sales to drop / may demotivate salespersons
Leads to loss of customers
Might be inferior and negatively affect business in future
t

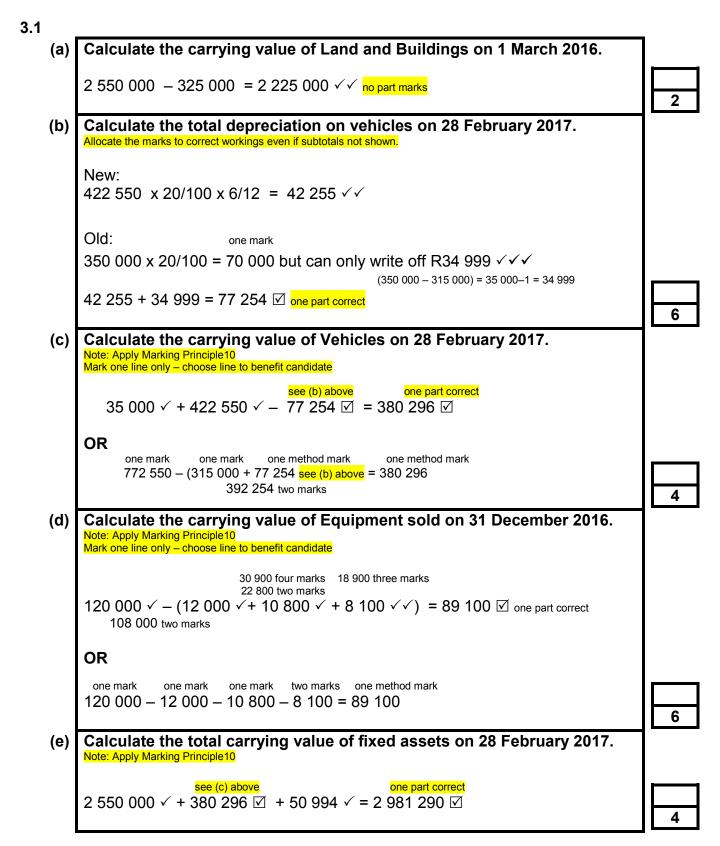
Expected responses: Part-marks for unclear/incomplete explanation

- No economies of scale / decrease in production by 8 900 units (25 000 to 16 100) •
- Lower production increased FC per unit by R11,72 or 55,2% (R21,20 to R32,92) •

2.2.2 Shoes:



TOTAL MARKS			
55			



3.2 BALANCE SHEET OF ODETTE LTD ON 28 FEBRUARY 2017 Placement presentation – 1 if marks earned in each case

Placement presentation – 1 if marks earned in each case		
ASSETS		
NON CURRENT ASSETS (TA – CA)	4 010 940	
Fixed assets See (3.1 e)	2 981 290	
3 Financial assets (Fixed Deposit) Non-current assets – Fixed assets	1 029 650	V
CURRENT ASSETS CL X 2,1	870 660	VV
Inventory	408 880	
Trade and other receivables 67 200 \checkmark - 270 \checkmark + 6 800 \checkmark + 10 350 \checkmark \checkmark	84 080	∕√*
Cash and cash equivalents	377 700	\checkmark
12 TOTAL ASSETS SHE + L	4 881 600	V
EQUITY AND LIABILITIESSHAREHOLDERS EQUITY675 000 v x 620 c v		
SHAREHOLDERS EQUIT 675 000 * x 620 C * 900 000 x 75%	4 185 000	
Ordinary share capital SE - 520 000	3 665 000	
4 Retained income	520 000	
NON-CURRENT LIABILITIES	282 000	
4 Loan: Beque Bank 284 000 + 48 000 - 50 000 332 000 two marks	282 000	√*
CURRENT LIABILITIES	414 600	√*
# Trade and other payables $184\ 000\checkmark + 5\ 600\checkmark$	189 600	⊻*
## SARS: Income tax 222 000 √√ - 209 000 √ 518 000 x 30/70	13 000	✓*
See no. of shares in SHE Shareholders for dividends (675 000 ☑ x 0,24√)	162 000	√*
Current portion of loan	50 000	$\checkmark\checkmark$
14 TOTAL EQUITY AND LIABILITIES	4 881 600	√*

*one part correct

37

#Trade and other payables can combine the other elements under current liabilities. Allocate the part-marks accordingly. If SARS and S/Hs for divs are included in T&OP, award one method mark in each case for workings included. ## Inspect treatment of SARS (income tax) to check if candidate deducts interest from net profit to calculate tax

3.3 AUDIT REPORT

As a shareholder, what concerns would you have regarding this audit report? Explain THREE points.

Any three <u>different</u> valid points $\sqrt{4}$ $\sqrt{4}$ $\sqrt{4}$

Note: Candidates should not restrict responses to the commenting on the two specific points in the audit report as there would be several concerns arising from those two points.

Expected responses:

- This is a disclaimer report (no audit opinion).
- It will have a negative effect on the company e.g. reputation / share price / demand for shares / bad publicity / potential investors lose confidence in the company.
- The corporate governance of the company is compromised /not in line with King Code.
- The correct procedure of approving directors' fees / bonuses was not followed.
- The directors have abused their position.
- The huge amount paid to directors could negatively affect the financial results/liquidity and solvency/profitability of the company.
- Insufficient audit evidence.

TOTAL MARKS
65

4.1

4.1.1	Directors	\checkmark	
4.1.2	Internal auditor	\checkmark	
4.1.3	Shareholder	\checkmark	
4.1.4	External auditors	\checkmark	
	•		

4.2 SO-FINE LTD

4.2.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

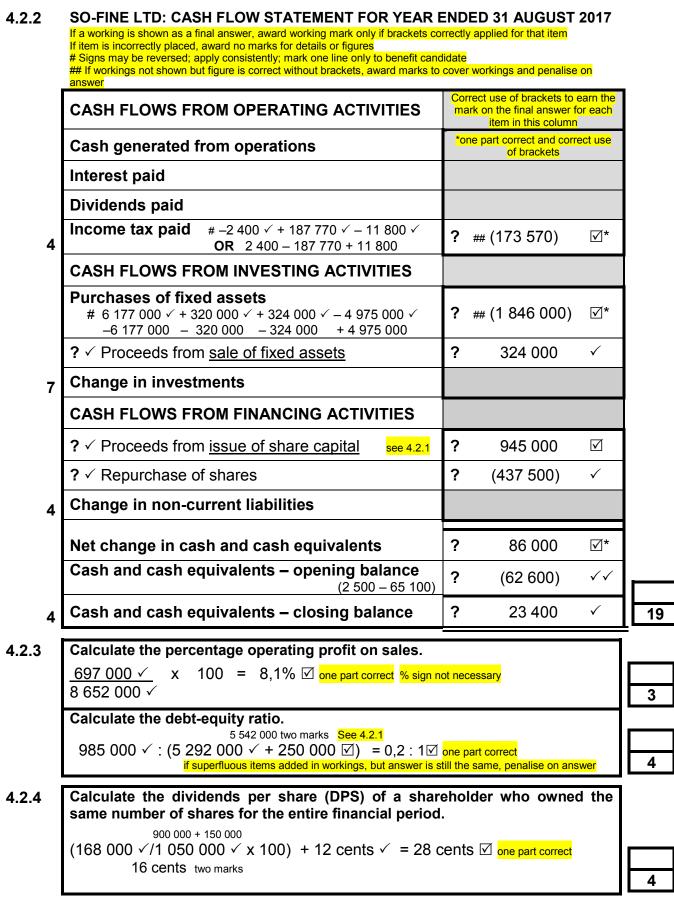
1 200 000 ordinary shares

ISSUED SHARE CAPITAL

900 000	Ordinary shares on 1 September 2016 Balancing figure; check that repurchase added back and issue deducted back	4 725 000	\checkmark	
150 000	Issued on 1 May 2016 at R6,30 each	945 000	✓ ✓	
(70 000)	Re-purchased 30 August 2017 (ASP: R5,40√√) <mark>5 292 000/980 000</mark> no part marks	(378 000) one part correct i.e.70 000 or R5,40; do not accept 437 500 as final answer		
980 000 ✓	Ordinary shares on 31 August 2017	5 292 000		7

RETAINED INCOME

Balance on 1 September 2016		147 370	
Net profit after income tax		438 130	
Shares repurchased (437 500 √ - 378 000 ☑) 70 000 x 0,85 Or 70 000 x (6,25 - ASP) 437 500/70 000 OSC above		(59 500)	∕√*
Ordinary share dividends	one part correct	(276 000)	∕√*
• Interim dividends (900 000 ✓ x 0,12	c) one part correct	108 000	\checkmark
Final dividends		168 000	✓ ✓
Balance on 31 August 2017	one part correct; n figures must be subtracted	250 000	√*



CASTRO LTD
Comment on the price of R9,10 charged by Castro Ltd for the new shares issued.
Compare issue price to market price or NAV $\sqrt{}$ Part-marks for partial or incomplete explanation Figures R12,00 or R10,73 $$ Could quote differences e.g. R2,90 or R1,63
 Expected responses: The shares were issued at the average share issue price. The existing shareholders are being rewarded as the price is lower than the R12,00 charged on the JSE and the NAV of R10,73. The shares could have been issued at the market price of R12,00 or the NAV of R10,73 (they have diluted the value of the shares).
Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators.
Explanation \checkmark \checkmark Financial indicators \checkmark \checkmark Figures \checkmark \checkmark
Superfluous indicators (i.e. more than two indicators) -1 max Expected responses: one mark
 Gearing has <u>improved</u> – less risk (as there was an issue of new shares) one mark debt-equity ratio decreased from 0,8 : 1 to 0,5 : 1 (by 0,3 : 1)
 one mark one mark ROTCE improved (due to increased efficiency / profits on new branch)
one mark from 15 % to 20 % (by 5% or 33,3%) <mark>Candidates may also compare ROTCE to their estimate of current interest rate</mark>
If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy?
$\sqrt{100000 \times 60\%} - (500000 \times 60\%) = 120000$
420 000 300 000 OR two marks one method mark (if x 60%) 200 000 x 60% = 120 000
How much would he have had to pay?
120 000 shares at R9,10 each = R1 092 000 ☑ ☑ If = no.shares (above) x R9,10 Henry decided NOT to buy these shares. Apart from the
% shareholding, explain TWO reasons why he has made a mistake by not taking up this option.
Explanation $\sqrt[4]{\sqrt{2}}$ Figures $\sqrt{2}$
Expected responses: Any two
 His dividends would have increased by R61 200 (51c x 120 000 shares). This is more than the interest he earned on the savings account R54 600 (1 092 000 see above x 5%)
•
 is more than the interest he earned on the savings account R54 600 (1 092 000 see above x 5%) He could buy the shares for capital growth - bought the shares for R9,10 and then could sell them on the JSE for R12,00 / total profit could have been

RONKI LTD

4.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators.

Explanation: $\sqrt{4}$ Superfluous indicators (i.e. more than two indicators) -1The liquidity situation has improved / is able to meet current debts / liquidity
ratios have decreased / liquidity ratios are more efficient

Financial indicators any two 🗸 🗸 Figures 🗸 🗸

- Current ratio has improved/decreased (from 3,5 : 1) to 1,9 : 1
- Acid-test ratio has improved/decreased (from 1,7 : 1) to 1,1 : 1
- Stock-holding period appears to be efficient at 54 days (less than 2 months)

6

3

4.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares.

Expected response: $\checkmark \checkmark$ Part-marks for partial or incomplete explanation The company is paying a premium above the average share price in order to entice shareholders to give up their shares / they wanted to increase returns by decreasing equity / this is a fair value same as the price on the JSE.

Compare price paid (R15,00) to

Any one figure ✓

- market value R15,00
- net asset value R13,30
- average issue price of shares R10,20

4.3.6 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd.

Explanation \checkmark \checkmark \checkmark Figures \checkmark \checkmark

Expected responses: Three <u>different</u> responses

- He has now become a majority shareholder. His 300 000 shares are 51,7% of the total shares (33,3% before the share buy-back)
- Due to the reduced number of shares, his return has improved i.e. EPS has increased by 95c / from 171c to 266c / ROSHE increased from 13% to 16%. (NOTE: EPS and ROSHE reinforce the same point).
- The reduced number of shares could have contributed to an increase in the DPS by 57c / by 55,3% / from 103c to 160c (Directors may have maintained the dividend pay-out policy).



TOTAL MARKS
85

5.1 CONCEPTS

5.1.1	Weighted average / WA	\checkmark
5.1.2	Perpetual	\checkmark
5.1.3	First-in-first-out / FIFO	\checkmark
5.1.4	Expense	\checkmark

5.2 HOT-WHEELS (PTY) LTD

Motorbikes:

5.2.1 Calculate the value of the closing stock on 30 September 2017 using the specific identification method. 18 – 8 15 – 11 18 – 10 (10 x 24 300) + (4 x 27 400) + (8 x 31 600) OR

OS

+ P one mark one mark 291 600 + 1 125 600

four marks one method mark - 811 800 = 605 400316 000 + 301 400 + 194 400

= CS

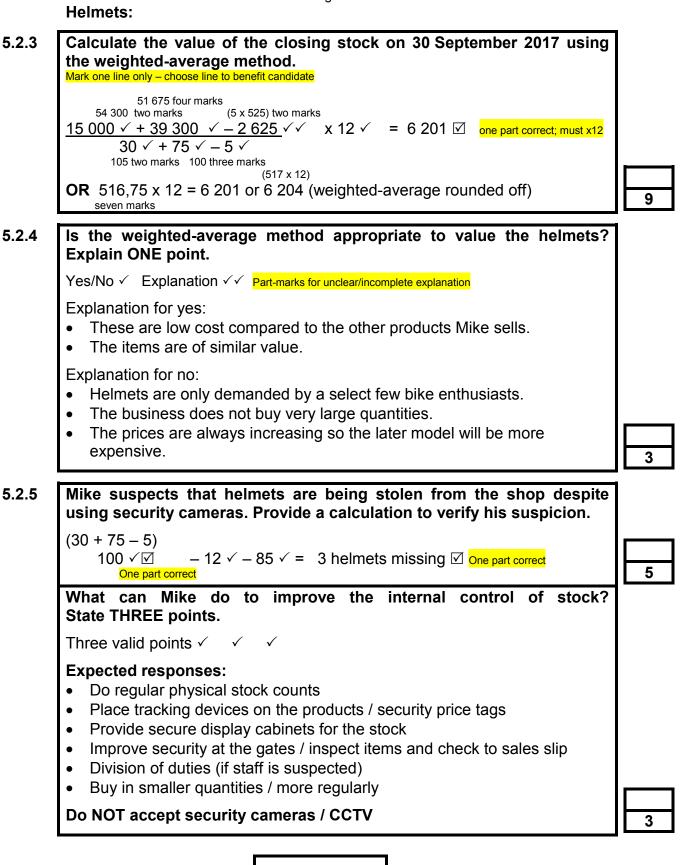
5.2.2 Mike requires your advice on the three different models of motorbikes in which he is trading. Explain TWO points of advice.

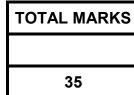
– COS

Any TWO valid points of advice ✓✓ $\checkmark\checkmark$ Part-marks for unclear/incomplete explanation

Expected responses:

- Reduce the price of AO2 to increase sales / A lower mark-up% will help in reducing stock levels.
- Discontinue / decrease the AO2 product and look at stocking alternative • later model products.
- Stock more AO3 products as they seem to be more popular and in an • affordable range.
- Stock more of the AO4 model because gross profit per unit is the biggest on the item.





QU _U.			
6.1	 Explain the main purpose of a Cash Budget. Explanation ✓ To predict the cash balances / cash flow for a period To project / plan / forecast receipts and payments. 		
	Explain the main purpose of a Projected Income Statement.		
	Explanation \checkmark To predict the profit that will be earned for a period		
	To plan / forecast income and expenses.	2	
6.2.1	Larry expects debtors to settle accounts by the end of the month following the sales transaction month.		
	Use the November figures to calculate the % of debtors that are expected to comply with the credit terms. Mark one line only – choose line to benefit candidate		
	181 440 two marks one part correct		
	$\frac{\sqrt{56000 + 125440}}{224000} \times 100 = 81\%$		
	two marks [*] one mark one method mark *allocate two marks to the first correct % calculation OR $25\% + 56\% = 81\%$		
	Use the November figures to calculate the % of bad debts expected. 8 960 three marks -181 440 one mark \checkmark (\checkmark) \checkmark \square one part correct		
	$\frac{224\ 000 - 56\ 000 - 125\ 440 - 33\ 600}{224\ 000} \times 100 = 4\%$		
	one mark one mark one mark one method mark		
	OR $100\% - 25\% - 56\% - 15\% = 4\%$	9	
6.2.2	Larry does not believe that his debtors' control clerk, Shirley, deserves a bonus on 31 October 2017.		
	Provide evidence to support his opinion.		
	Explanation (calculation / figures) from the Age Analysis \checkmark Figure \checkmark		
	58% of the amounts owed are still within the credit terms OR		
	42% of the amounts owed are not complying with terms		
	Offer Larry advice to improve debtors' collections (TWO points).		
	Two valid points \checkmark \checkmark		
	 Expected responses: Contact debtors through statements / phone calls / SMS / reminders Offer discounts for prompt payments. Give her a bonus if she collects the outstanding amounts Charge interest Refuse to sell to debtors who are not compliant 		
	 Improve screening process (so that bad debtors do not open accounts). 		
	Note: Do not accept implement screening of debtors (i.e. already debtors)	4	

6.3.1 Calculate the fixed % of sales used by Larry to budget for delivery expenses.
4% ✓✓ % sign not needed
Calculate the amount of the loan to be repaid on 31 December 2017. Mark one line only – choose line to benefit candidate

 \checkmark \checkmark \checkmark One part correct ÷ 0,085 = R72 000 510 x 12 2 975 – 2 465 OR one mark one mark one mark one method mark 510 x 12 100 = R72 000 Х 2 975 – 2 465 8.5 OR one method mark; one part correct two marks one mark (2 975 x 12 ÷ 0,085) – (2 465 x 12 ÷ 0,085) = 72 000 420 000 348 000 **OR** two marks one mark one method mark; one part correct 420 000 348 000 $1\ 200\ x\ 2\ 975\ -\ 1\ 200\ x\ 2\ 465\ =\ 72\ 000$ 8,5 8.5

6

6.3.2 Refer to variances in Information D. Explain why Larry would feel that all these variances are problems for his business. Figures not required

art-marks for unclear/incomplete explanati

COMMENT ON VARIANCES	
Cash sales are under budget√, while credit sales are over budget√. This will contribute to cash flow problem of the business. √	
The full advertising budget was not used (under-spent) \checkmark which could have led to the decline in sales. \checkmark	
There was no saving in packing materials (misuse of packing materials) \checkmark despite the decline in sales. \checkmark	
There should have been a bigger saving in delivery expenses as sales decreased by $9,4\%$, while delivery expenses decreased by only $2,3\%$. \checkmark / 4,3% of total sales while budget was 4%.	
_	

TOTAL MARKS