



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING
NOVEMBER 2017

MARKS: 300

TIME: 3 hours

This question paper consists of 21 pages and a 17-page answer book.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the 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 the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.

8. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 30 marks; 20 minutes	
Topic:	This question integrates:
Bank Reconciliation and Internal Control	Financial accounting Reconciling Bank Account with Statement Managing resources Internal control

QUESTION 2: 55 marks; 30 minutes	
Topic:	This question integrates:
Manufacturing	Managerial accounting Production Cost Statement Profit/Loss calculations Managing resources Analysing break-even and unit costs

QUESTION 3: 65 marks; 40 minutes	
Topic:	This question integrates:
Fixed Assets, Balance Sheet and Audit Report	Financial accounting Balance Sheet Audit report Managing resources Calculations: Fixed assets

QUESTION 4: 85 marks; 50 minutes	
Topic:	This question integrates:
Cash Flow Statement and Interpretation	Financial accounting Concepts Cash Flow Statement Interpretation of financial information

QUESTION 5: 35 marks; 20 minutes	
Topic:	This question integrates:
Inventory Valuation	Managerial accounting Concepts Inventory valuation calculations Managing resources Internal control

QUESTION 6: 30 marks; 20 minutes	
Topic:	This question integrates:
Budgets	Managerial accounting Cash Budget Calculations Problem-solving

QUESTION 1: BANK RECONCILIATION AND INTERNAL CONTROL
(30 marks; 20 minutes)

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

1.1.1 A favourable balance on the Bank Statement is indicated as a debit.

1.1.2 A post-dated cheque received must be entered on the date received.

1.1.3 An issued cheque that has been lost must be cancelled in the CRJ.

(3 x 1) (3)

1.2 MENZIES TRADERS

The given information relates to Menzies Traders for June 2017.

REQUIRED:

1.2.1 Calculate the following on 30 June 2017:

- Correct totals for the CRJ and CPJ
 - Bank account balance
- (14)

1.2.2 Prepare the Bank Reconciliation Statement on 30 June 2017. (9)

1.2.3 Explain the problem relating to deposits. Quote evidence. Explain TWO strategies to prevent this in future. (4)

INFORMATION:

A. The Bank Reconciliation Statement on 31 May 2017 showed the following:

Unfavourable balance on the Bank Statement	R1 450
Outstanding deposits:	
• 17 May 2017	30 000
• 31 May 2017	16 200
Outstanding cheques:	
• 605 (dated 16 December 2016)	9 750
• 812 (dated 10 April 2017)	8 550
• 816 (dated 25 May 2017)	13 590
• 819 (dated 15 August 2017)	7 650
• 823 (dated 31 May 2017)	2 900
Unfavourable balance on the Bank account in the Ledger	R5 210

B. Provisional Cash Journal totals on 30 June 2017:

- Cash Receipts Journal: R90 500
- Cash Payments Journal: R85 920

C. Entries in the Cash Journals for June 2017 that do not agree with the June Bank Statement:

JOURNAL	DOCUMENT	DATE	DETAILS	AMOUNT
CRJ	EFT 19	11	Paintco	R5 500
	Deposit slip 451	25	Cash sales	R40 500

NOTE: EFT 19 was incorrectly entered in the CRJ instead of the CPJ.

JOURNAL	DOCUMENT	DATE	DETAILS	AMOUNT
CPJ	Cheque 870	25	VN Ltd	R16 800
	EFT 21	30	SJ Stores	R2 250

D. Items on the Bank Statement dated 30 June 2017 that do not agree with the June Cash Journals:

DATE	DETAILS	DEBIT	CREDIT
02	Deposit (17/5)		30 000
05	Cheque 812	8 550	
09	Debit order (insurance)	2 290	
11	Direct transfer to Paintco (EFT 19)	5 500	
12	Cheque 816	13 590	
16	Deposit (31/5)		16 200
18	Direct transfer from S Smit (rent)		16 500
22	Cheque 823 (see note below)	9 200	
23	Unpaid cheque (B Blast settled his debt, R795)	750	
24	Service fee	1 220	

NOTE:

- Cheque 823: Bank Statement figure is correct.
- Service fees were overstated by R900. The bank will rectify the problem next month.

E. The Bank Statement on 30 June 2017 reflected a balance of R?.

QUESTION 2: MANUFACTURING

(55 marks; 30 minutes)

2.1 GEVEN MANUFACTURERS

The business produces wooden tables.

REQUIRED:

Prepare the following for the year ended 28 February 2017:

2.1.1 Production Cost Statement (14)

2.1.2 Abridged Income Statement (14)

INFORMATION:

A. Stock on hand:

	28 FEBRUARY 2017	1 MARCH 2016
Work-in-process	?	R160 000
Finished goods	400 tables, valued using FIFO method	1 200 tables at R280 = R336 000

B. Production and sales for the year:

- 7 200 tables were produced at a unit cost of R330 each.
- 8 000 tables were sold for R4 080 000.

C. Costs (before adjustments):

Administration	R148 400
Factory overheads	R487 200
Direct materials	R1 050 000
Direct labour	?
Selling and distribution	R422 000

Adjustments:

- Payment to EZ Transport, R102 000, was incorrectly allocated to Selling and Distribution. This was actually meant for delivering wood to the factory.
- The cleaning contract for the year, R126 000, was shared between Factory and Administration in the ratio 2 : 1. However, 80% should have been allocated to Factory.

D. Prime cost: R1 800 000 (after adjustments)

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2.2 GYMWEAR MANUFACTURERS

Gymwear Manufacturers is owned by Jan Fiks. They produce shoes and shirts for gym training. Jan requires assistance in interpreting his 2017 results. Note that one pair of shoes comprises one unit.

REQUIRED:

2.2.1 Shirts:

- Calculate the break-even point for shirts. (4)
- Jan is not satisfied with the variable costs per unit, even though the total variable costs per unit decreased by R6.
 - Identify ONE variable cost (with figures) that has not been well controlled. Give TWO possible reasons for this problem. (4)
 - Explain why Jan might be concerned about the large decreases in the other TWO variable costs. (4)
- Jan does not understand why the unit cost of production has increased when neither his fixed costs nor the variable costs have increased. Explain why this is so. State ONE point (with figures). (4)

2.2.2 Shoes:

- Calculate the % increase in the selling price of shoes. (3)
- Jan decided to improve the quality of the shoes and to export them. Explain how the direct material costs and the selling and distribution costs were affected by this decision. Provide figures. (4)
- Jan was concerned that the increase in price would have a negative impact on the business. Explain whether his concern was justified. State TWO points. (4)

INFORMATION:

	SHIRTS		SHOES	
	2017	2016	2017	2016
Break-even point	?	11 522	3 842	4 317
Units produced and sold	16 100	25 000	7 750	6 500
Net profit	R500 400	R620 000	R2 379 750	R1 183 000
Selling price per unit	R302	R290	R1 640	R1 260
Selling price of competitors	R310	R290	R1 100	R1 250
Total fixed costs (factory overhead and administration)	R530 000	R530 000	R2 340 000	R2 340 000
Total fixed cost per unit	?	?	R302	R360
Total variable costs per unit	R238	R244	R1 031	R718
Direct material costs per unit	R92	R116	R456	R330
Direct labour costs per unit	R131	R100	R381	R360
Selling and distribution costs per unit	R15	R28	R194	R28
Unit cost of production	R242	R228	R1 100	R1 004

QUESTION 3: FIXED ASSETS, BALANCE SHEET AND AUDIT REPORT
(65 marks; 40 minutes)

The following information relates to Odette Ltd. The financial year ended on 28 February 2017.

REQUIRED:

3.1 Refer to Information B.

Calculate the missing amounts denoted by **(a)** to **(e)**. (22)

3.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2017. Show workings. (37)

INFORMATION:

A. Amounts extracted from the records on 28 February 2017:

Balance Sheet accounts section	R
Ordinary share capital	?
Retained income (28 February 2017)	520 000
Fixed assets (carrying value)	?
Loan from Beque Bank	284 000
Trading stock	408 880
Net trade debtors	67 200
Fixed deposit: Elze Bank	?
Bank (favourable)	?
SARS: Income tax (provisional payments)	209 000
Creditors' control	184 000
Nominal accounts section (pre-adjustment amounts)	
Insurance	30 200
Rent income	108 450
Electricity	42 000

B. Fixed assets:

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT	TOTAL
Cost		350 000	460 000	
Accumulated depreciation		(315 000)		
Carrying value (01/03/2016)	(a)	35 000		
Movements:				
Additions	325 000	422 550	0	
Disposals	0	0	(d)	
Depreciation		(b)	(13 766)	
Carrying value (28/02/2017)	2 550 000	(c)	50 994	(e)
Cost		772 550	340 000	
Accumulated depreciation				

- Depreciation on vehicles is calculated at 20% p.a. on cost.
- The company has two vehicles on 28 February 2017. One of these vehicles was purchased on 1 September 2016.
- Extract from the Fixed Assets Register in respect of equipment sold:

Fridge (Model X3)			
Date purchased: 1 March 2014			
Date sold: 31 December 2016		Sold for: R81 250	
Depreciation rate: 10% p.a. (diminishing-balance method)			
	COST	DEPRECIATION	BOOK VALUE
28 February 2015	R120 000	R12 000	R108 000
29 February 2016		?	?
31 December 2016		?	?

- C. The electricity account for February 2017, R5 600, was still outstanding.
- D. The provision for bad debts must be increased by R270.
- E. An additional insurance policy was taken out on 1 November 2016. The annual premium of R10 200 was paid and recorded.
- F. The rent for February 2017 has not been received yet. The rent increased by 15% on 1 July 2016.
- G. Net profit after tax, R518 000, was calculated after taking into account all the adjustments above. Income tax is 30% of the net profit.
- H. 75% of the authorised share capital of 900 000 shares was in issue. The directors declared a final dividend of 24 cents per share on 28 February 2017.
- I. Extract from Beque Bank loan statement:

Balance on 1 March 2016	R376 000
Instalments (including interest)	R92 000
Interest capitalised	R48 000
Balance on 28 February 2017	?

NOTE:

- Interest has not been entered in the books.
 - R50 000 of the loan balance will be settled in the next financial year.
- J. The net asset value per share on 28 February 2017 is 620 cents.
- K. The current ratio is 2,1 : 1 on 28 February 2017.

3.3 AUDIT REPORT

An extract of the independent audit report of Karin Ltd for the financial year ended on 28 February 2017 is provided.

REQUIRED:

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

(6)

INFORMATION:

EXTRACT FROM THE AUDIT REPORT OF KARIN LTD

We have audited the annual financial statements of Karin Ltd for the year ended 28 February 2017. These financial statements are the responsibility of the company's directors.

Basis for Disclaimer of Opinion

In the course of our audit we established that bonuses paid to directors, amounting to R9,8 million, had not been authorised by the Remunerations Committee.

Audit Opinion

Because of the significance of the matters described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Karin Ltd for the year ended 28 February 2017.

Bongani and Botha, Chartered Accountants (SA)

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QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION

(85 marks; 50 minutes)

- 4.1 Choose a term to complete each of the following statements. Write only the term next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

shareholder(s); external auditor(s); director(s); internal auditor(s)

4.1.1 ... are appointed by the shareholders to manage the company.

4.1.2 The ... is employed by the company to set up functional internal control processes.

4.1.3 A ... is a person who invests in a company by buying shares.

4.1.4 ... are appointed by shareholders to give an unbiased opinion on the financial statements. (4 x 1) (4)

4.2 SO-FINE LTD

The given information relates to So-Fine Ltd for the financial year ended 31 August 2017.

REQUIRED:

4.2.1 Prepare the following notes to the Balance Sheet on 31 August 2017:

- Ordinary share capital (7)
- Retained income (9)

4.2.2 Complete the Cash Flow Statement by inserting only the details and figures indicated by a question mark (?). (19)

4.2.3 Calculate the following financial indicators on 31 August 2017:

- Percentage operating profit on sales (3)
- Debt-equity ratio (4)

4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period. (4)

INFORMATION:

A. Information from the Income Statement for the financial year ended 31 August 2017:

Sales	R8 652 000
Operating expenses	1 760 000
Depreciation	320 000
Interest expense	86 100
Operating profit	697 000
Income tax	187 770
Net profit after income tax	438 130

B. Information from the Balance Sheet on 31 August:

	2017 (R)	2016 (R)
Fixed assets (carrying value)	6 177 000	4 975 000
Fixed deposits	220 000	300 000
Loan: Dolphin Bank	985 000	450 000
Current assets	619 600	663 300
Current liabilities	490 000	614 300
Shareholders' equity	?	?
Ordinary share capital	5 292 000	?
Retained income	?	147 370
Cash and cash equivalents	23 400	2 500
Bank overdraft	-	65 100
Shareholders for dividends	168 000	120 000
SARS: Income tax	11 800 (Cr)	2 400 (Dr)

C. Share capital and dividends

- The authorised share capital comprises 1 200 000 ordinary shares.
- 900 000 ordinary shares were in issue on 1 September 2016.
- The company issued 150 000 ordinary shares at R6,30 per share on 1 May 2017.
- 70 000 ordinary shares were repurchased from shareholders on 30 August 2017. A cheque for R437 500 was issued for these shares. These shareholders qualify for final dividends.
- An interim dividend of 12 cents per share was paid on 1 February 2017.
- A final dividend was declared on 30 August 2017.

D. Fixed assets: Transactions during the current financial year.

- Old equipment was sold for cash at the carrying value of R324 000.
- Additional equipment and delivery vehicles were purchased.

(See QUESTION 4.3 on the next page.)

4.3 CASTRO LTD AND RONKI LTD

You are provided with information relating to two companies.

BACKGROUND INFORMATION:

- Henry Harries owns 300 000 shares in each company.
- **Castro Ltd** issued 200 000 new shares only to existing shareholders at the average issue price (R9,10). These funds were used to establish a new branch. No new loans were raised.
- **Ronki Ltd** paid R4 800 000 to repurchase 320 000 shares.

REQUIRED:

NOTE: Where comments or explanations are required, quote financial indicators and figures to support your answer.

CASTRO LTD

- 4.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued. (3)
- 4.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators. (6)
- 4.3.3 Henry had the option to buy some of the new shares issued by Castro Ltd. He had saved sufficient funds (interest rate 5% p.a.) for this purpose.
- If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy and how much would he have had to pay? (5)
 - 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. (6)

RONKI LTD

- 4.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators. (6)
- 4.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares. (3)
- 4.3.6 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd. (6)

ADDITIONAL INFORMATION:

Financial indicators and additional information from annual reports:

	CASTRO LTD		RONKI LTD	
	2017	2016	2017	2016
Debt-equity ratio	0,5 : 1	0,8 : 1		
Current ratio			1,9 : 1	3,5 : 1
Acid-test ratio			1,1 : 1	1,7 : 1
Stock-holding period			54 days	54 days
Number of shares in issue	700 000	500 000	580 000	900 000
Average share issue price	R9,10		R10,20	
Price paid for share repurchase			R15,00	
Price of share on JSE	R12,00		R15,00	
Net asset value per share	R10,73	R11,38	R13,30	R13,22
% return on shareholders' equity	23%	17%	16%	13%
% return on total capital employed	20%	15%		
Earnings per share	140 cents	196 cents	266 cents	171 cents
Total dividends	R357 000	R325 000	R928 000	R928 000
Dividends per share	51 cents	65 cents	160 cents	103 cents

QUESTION 5: INVENTORY VALUATION

(35 marks; 20 minutes)

5.1 CONCEPTS

Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (5.1.1–5.1.4) in the ANSWER BOOK.

- 5.1.1 The (specific identification/weighted-average) stock valuation method is best suited for products of similar value purchased in large quantities.
- 5.1.2 Cost of sales is determined at the point of sale in the (perpetual/periodic) inventory system.
- 5.1.3 Stock valued according to the (first-in-first-out/weighted-average) method determines stock on hand by recording the cost prices of the most recent stock purchases.
- 5.1.4 In the periodic inventory system, carriage on goods purchased is recorded as an (expense/asset) to the business. (4 x 1) (4)

5.2 HOT-WHEELS (PTY) LTD

You are provided with information relating to Hot-Wheels (Pty) Ltd for the three months ending 30 September 2017. The business trades in motorbikes and helmets.

Mike, the owner, wants to assess his stock records before any price increases during the year.

REQUIRED:

Motorbikes:

- 5.2.1 Calculate the value of the closing stock on 30 September 2017 using the specific identification method. (7)
- 5.2.2 Mike requires your advice on the three different models of motorbikes in which he is trading. Explain TWO points of advice. (4)

Helmets:

- 5.2.3 Calculate the value of the closing stock on 30 September 2017 using the weighted-average method. (9)
- 5.2.4 Is the weighted-average method appropriate to value the helmets? Explain ONE point. (3)
- 5.2.5 Mike suspects that helmets are being stolen from the shop despite security cameras being installed.
- Provide a calculation to verify his suspicion. (5)
 - What can Mike do to improve the internal control of stock? State THREE points. (3)

INFORMATION:

A. Motorbikes:

Information for three months ended 30 September 2017:

Stock on 1 July 2017:

MODEL	UNITS	COST PRICE PER UNIT (R)	TOTAL (R)
AO2	12	24 300	291 600

Total purchases:

MODEL	UNITS	COST PRICE PER UNIT (R)	TOTAL (R)
AO2	6	24 300	145 800
AO3	15	27 400	411 000
AO4	18	31 600	568 800
	39		1 125 600

Sales:

MODEL	UNITS SOLD	TOTAL SALES AMOUNT (R)
AO2	8	311 040
AO3	11	482 240
AO4	10	505 600
	29	1 298 880

B. Helmets:

Information for three months ended 30 September 2017:

Stock balances according to physical count:

	UNITS	COST PRICE PER UNIT (R)	TOTAL (R)
1 July 2017	30	R500	R15 000
30 September 2017	12		?

Purchases:

DATE	UNITS PURCHASED	COST PRICE PER UNIT (R)	TOTAL (R)
20 July 2017	25	R510	R12 750
20 August 2017	30	R525	R15 750
20 September 2017	20	R540	R10 800
TOTAL	75		R39 300

Returns: Five defective helmets from the purchases in August 2017 were returned to suppliers for a full refund.

Sales: 85 helmets were sold at R600 each.

QUESTION 6: BUDGETS

(30 marks; 20 minutes)

You are provided with information relating to Lamba Traders, a business owned by Larry Lamba. The business sells cleaning materials for cash and on credit. They deliver goods free of charge to local customers.

REQUIRED:

- 6.1 Explain the main purpose of a Cash Budget and a Projected Income Statement. (2)

6.2 Debtors:

Refer to Information A and Information B.

The credit terms allow debtors to settle accounts by the end of the month following the sales transaction month. No discount is allowed. However, based on past experience, Larry expects debtors to pay according to the Debtors' Collection Schedule.

- 6.2.1 Use the November figures to calculate the following:

- % of debtors that are expected to comply with the credit terms
- % of bad debts expected (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. Offer Larry advice to improve debtors' collections (TWO points). (4)

6.3 Projected Income Statement:

Refer to Information C and Information D.

- 6.3.1 Calculate:

- The fixed % of sales used by Larry to budget for delivery expenses (2)
- The amount of the loan to be repaid on 31 December 2017 (4)

6.3.2 Refer to variances in Information D.

- Explain why Larry would feel that all these variances are problems for his business. (9)

INFORMATION:

A. Debtors' Collection Schedule for the period ending 28 February 2018:

	CREDIT SALES R	COLLECTIONS			
		NOV. 2017 R	DEC. 2017 R	JAN. 2018 R	FEB. 2018 R
September	112 000	16 800			
October	134 400	75 264	20 160		
November	224 000	56 000	125 440	33 600	
December	358 400		89 600	200 704	53 760
January	179 200			44 800	100 352
February	112 000				28 000
		148 064	235 200	279 104	182 112

B. The debtors' clerk presented the following age analysis at the end of October 2017:

TOTAL	CURRENT MONTH	1 MONTH	2 MONTHS	3 MONTHS +
100%	18%	40%	23%	19%

C. Extract from the Projected Income Statement:

	NOV. 2017	DEC. 2017	JAN. 2018	FEB. 2018
Interest on loan (rate 8,5% p.a.)	R2 975	R2 975	R2 465	R2 465

D. Figures provided by the accountant on 31 October 2017:

	PROJECTED	ACTUAL	VARIANCE
Total sales	320 000	290 000	-30 000
Cash sales	96 000	50 000	-46 000
Credit sales	224 000	240 000	+16 000
Advertising	5 000	1 000	-4 000
Packing material	4 800	4 800	0
Delivery expenses	12 800	12 500	-300

STICKER

CENTRE NUMBER

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EXAMINATION NUMBER

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NATIONAL SENIOR CERTIFICATE

ACCOUNTING

GRADE 12

NOVEMBER 2017

SPECIAL ANSWER BOOK

QUESTION	MARKS	INITIAL	MOD.
1			
2			
3			
4			
5			
6			
TOTAL			

This answer book consists of 17 pages.

QUESTION 1

1.1

1.1.1	
1.1.2	
1.1.3	

3

1.2.1

Calculation of CRJ total	Calculation of CPJ total
90 500	85 920

Bank account balance:

14

1.2.2

Bank Reconciliation Statement on 30 June 2017		

9

1.2.3

Explain the problem relating to deposits. Quote evidence.**Explain TWO strategies to prevent this in future.****Strategy 1:****Strategy 2:**

4

TOTAL MARKS
30

QUESTION 2

2.1 GEVEN MANUFACTURERS

2.1.1

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017

Direct material cost	
Direct labour cost	
Prime cost	
Factory overhead cost	
Total cost of production	

14

2.1.2

ABRIDGED INCOME STATEMENT FOR YEAR ENDED 28 FEBRUARY 2017

Sales	
Cost of sales	
Gross profit	
Administration cost	
Selling and distribution cost	
Net profit	

14

2.2 GYMWEAR MANUFACTURERS

2.2.1 Shirts:

Calculate the break-even point for shirts.

4

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

ONE VARIABLE COST WITH FIGURES	REASONS
	Reason 1:
	Reason 2:

4

Explain why Jan might be concerned about the large decreases in the other TWO variable costs.

4

Jan does not understand why the unit cost of production has increased when neither his fixed costs nor the variable costs have increased. Explain why this is so. State ONE point (with figures).

4

2.2.2 Shoes:

Calculate the % increase in the selling price of shoes.

3

Jan decided to improve the quality of the shoes and to export them. Explain how the direct material costs and the selling and distribution costs were affected by this decision. Provide figures.

4

Jan was concerned that the increase in price would have a negative impact on the business. Explain whether his concern was justified. State TWO points.

Point 1:

Point 2:

4

TOTAL MARKS

55

QUESTION 3

3.1

(a) Calculate the carrying value of Land and Buildings on 1 March 2016.

2

(b) Calculate the total depreciation on Vehicles on 28 February 2017.

6

(c) Calculate the carrying value of Vehicles on 28 February 2017.

4

(d) Calculate the carrying value of Equipment sold on 31 December 2016.

6

(e) Calculate the total carrying value of Fixed Assets on 28 February 2017.

4

3.2 BALANCE SHEET OF ODETTE LTD ON 28 FEBRUARY 2017

ASSETS	
NON-CURRENT ASSETS	
CURRENT ASSETS	
Inventory	408 880
Trade and other receivables	
Cash and cash equivalents	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY	
Ordinary share capital	
Retained income	520 000
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
TOTAL EQUITY AND LIABILITIES	

3.3 AUDIT REPORT

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

Point 1:

Point 2:

Point 3:

6

TOTAL MARKS
65

QUESTION 4

4.1

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4

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	
	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
Ordinary share dividends	
Balance on 31 August 2017	

9

4.2.2 SO-FINE LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations		
Interest paid		
Dividends paid		
Income tax paid	?	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	?	
?	?	
Change in investments		
CASH FLOWS FROM FINANCING ACTIVITIES		
?	?	
?	?	
Change in non-current liabilities		
Net change in cash and cash equivalents	?	
Cash and cash equivalents – opening balance	?	
Cash and cash equivalents – closing balance	?	19

4.2.3 Calculate the percentage operating profit on sales.

	3
Calculate the debt-equity ratio.	4

4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period.

	4
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4.3 CASTRO LTD

4.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued.

3

4.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators.

6

4.3.3 If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy?

3

How much would he have had to pay?

2

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.

Reason 1:

Reason 2:

6

RONKI LTD

4.3.4

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

6

4.3.5

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

3

4.3.6

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

Point 1:

Point 2:

Point 3:

6

TOTAL MARKS
85

QUESTION 5

5.1 CONCEPTS

5.1.1	
5.1.2	
5.1.3	
5.1.4	

4

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.

7

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

Point 1:

Point 2:

4

Helmets:

5.2.3

Calculate the value of the closing stock on 30 September 2017 using the weighted-average method.

9

5.2.4

Is the weighted-average method appropriate to value the helmets? Explain ONE point.

3

5.2.5

Mike suspects that helmets are being stolen from the shop despite security cameras being installed. Provide a calculation to verify his suspicion.

5

What can Mike do to improve the internal control of stock? State THREE points.

Point 1:

Point 2:

Point 3:

3

TOTAL MARKS

35

QUESTION 6

6.1

Explain the main purpose of a Cash Budget.

Explain the main purpose of a Projected Income Statement.

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.

Use the November figures to calculate the % of bad debts expected.

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.

Offer Larry advice to improve debtors' collections (TWO points).

Point 1:

Point 2:

4

6.3.1

Calculate the fixed % of sales used by Larry to budget for delivery expenses.

Calculate the amount of the loan to be repaid on 31 December 2017.

6

6.3.2

Refer to variances in Information D. Explain why Larry would feel that all these variances are problems for his business.

	COMMENT ON VARIANCES
Sales	
Advertising	
Packing materials	
Delivery expenses	

9

TOTAL MARKS

30

TOTAL: 300



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

NOVEMBER 2017

MARKING GUIDELINES

MARKS: 300

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.

QUESTION 1

1.1

1.1.1	False ✓
1.1.2	False ✓
1.1.3	True ✓

3

1.2.1

Calculation of CRJ total		Calculation of CPJ total
90 500		85 920
9 750 ✓		
	2 900 in CRJ and 9 200 in CPJ Both for two marks	6 300 OR 9 200 ✓✓ (2 900)
	(5 500) in CRJ one mark 5 500 in CPJ one mark	11 000 ✓✓ or 5 500 & 5 500 one mark each
16 500 ✓		2 290 ✓
		750 ✓
900 ✓	May be combined as R320 OR R1 220-R900 in CPJ for two marks	1 220 ✓
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

$$-5\,210 \checkmark + 117\,650 \checkmark - 107\,480 \checkmark = R4\,960 \checkmark$$

see CRJ +ve

see CPJ -ve

if one mark allocated in workings

14

1.2.2

Bank Reconciliation Statement on 30 June 2017

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	

Foreign entries -1 e.g. 8 550; 13 590; 16 200; 30 000

-1 incorrect / no details Foreign items -1

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

9

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

Explain TWO strategies to prevent this in future.

TWO valid points ✓ ✓

accept short explanations; may be phrased differently

- Division of duties: 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 deposits reflected daily.
- Request SMS from bank for all transactions.
- Use a security company to collect the deposits on a daily/regular basis.
- Encourage debtors to make direct transfers (EFT).

4

TOTAL MARKS

30

QUESTION 2

2.1 GEVEN MANUFACTURERS

2.1.1

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017		
Direct material cost (1 050 000✓ + 102 000✓)	✓	1 152 000
Direct labour cost Prime cost – DMC	☑	648 000
Prime cost	✓	1 800 000
(– 84 000 one mark +100 800 one mark)	☑	504 000
Factory overhead cost (487 200✓ + 16 800✓✓) operation; one part correct	☑	2 304 000
operation Prime + FOHC	☑	2 304 000
Work-in process (beginning)	✓	160 000
		2 464 000
Work-in process (end) operation TCP – subtotal above Check that is deducted; ignore brackets do not accept 160 000 or 0	☑	(88 000)
Total cost of production 7 200 x R330 No part marks	✓✓	2 376 000

14

2.1.2

ABRIDGED INCOME STATEMENT FOR YEAR ENDED 28 FEBRUARY 2017		
Sales	✓	4 080 000
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) Could do FGS account one mark two marks one mark	☑	(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)	☑	(131 600) one part correct ignore brackets
Administration cost (148 400✓ – 16 800 ☑ see 2.1.1)	☑	(320 000) One part correct ignore brackets
Selling and distribution cost (422 000✓ – 102 000✓)	☑	1 048 400
Net profit operation (subtract AC & SDC) one part correct	☑	1 048 400

14

2.2 GYMWEAR MANUFACTURERS

2.2.1 Shirts:

Calculate the break-even point for shirts.

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

4

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

ONE VARIABLE COST WITH FIGURES Variable cost ✓ Figures ✓	REASONS ✓ ✓ Any two <u>different</u> reasons
Direct labour cost Increased by R31 (31%) (from R100 to R131)	<p>Expected responses:</p> <ul style="list-style-type: none"> Negotiated wage increase / applied minimum wage / inflation / increased salary scales (for qualifications) Paid bonuses to some workers Excessive overtime Lack of productivity (inefficiency) of workers Inexperienced / poorly trained workers High staff turnover rate Old equipment affects productivity Work hours lost due to training time (workers paid for training) / due to load-shedding (power-cuts) / due to paid sick leave Errors in calculation of wages (over-paid) <p>Do not accept: More workers; Absent workers; Poor budgeting</p>

4

Explain why Jan might be concerned about the large decreases in the other TWO variable costs.

	Explanations on the two VC's ✓ ✓	State or imply what the concern is ✓ ✓
Comment on DMC	Using cheaper material Economising on material	Inferior quality. May affect the quality of the product
Comment on S&DC	Reduced advertising or reduced commission / reduced remuneration of salespersons Reduced distances for deliveries / discontinuing the service in certain areas Out-sourcing / using cheaper service providers	May cause sales to drop / may demotivate salespersons Leads to loss of customers Might be inferior and negatively affect business in future

4

Jan does not understand why the unit cost of production has increased when neither his fixed costs nor the variable costs have increased. Explain why this is so. State ONE point (with figures).

Any one explanation ✓✓ Figures ✓✓

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)

4

2.2.2 Shoes:

Calculate the % increase in the selling price of shoes.

1 640–1 260

$$\frac{380}{1\,260} \times \frac{100}{1}$$

OR $130,2\% - 100\% = 30,2\%$

= 30,2% ☒ one part correct; accept 30% or 30,15%;

3

Jan decided to improve the quality of the shoes and to export them. Explain how the direct material costs and the selling and distribution costs were affected by this decision. Provide figures.

- DMC increased ✓ from R330 to R456 (by R126/by 38%/38,2%) ✓
- S&DC increased ✓ from R28 to R194 (by R166/by 593%/592,8%) ✓

4

Jan was concerned that the increase in price would have a negative impact on the business. Explain whether his concern was justified. State TWO points.

Figures are not needed, but may be used to make a point about the concern.

Reasons (any two) ✓ ✓ State NO concern OR imply NO concern in explanation or by using figures ✓ ✓

- Sales increased (by 1 250 units) / customers still supported the business (despite increase in price)
- Net profit increased (by R1 196 750) / price did not negatively affect sales)
- BEP decreased (due to increased contribution per unit) by 475 units / The business now exceeds BEP by bigger margin (3 908 units).

4

TOTAL MARKS

55

QUESTION 3

3.1

- (a) Calculate the carrying value of Land and Buildings on 1 March 2016.

$$2\,550\,000 - 325\,000 = 2\,225\,000 \checkmark\checkmark \text{ no part marks}$$

2

- (b) Calculate the total depreciation on vehicles on 28 February 2017.

Allocate the marks to correct workings even if subtotals not shown.

New:

$$422\,550 \times 20/100 \times 6/12 = 42\,255 \checkmark\checkmark$$

Old:

one mark

$$350\,000 \times 20/100 = 70\,000 \text{ but can only write off R34\,999 } \checkmark\checkmark\checkmark$$

$$(350\,000 - 315\,000) = 35\,000 - 1 = 34\,999$$

$$42\,255 + 34\,999 = 77\,254 \checkmark \text{ one part correct}$$

6

- (c) Calculate the carrying value of Vehicles on 28 February 2017.

Note: Apply Marking Principle 10

Mark one line only – choose line to benefit candidate

$$35\,000 \checkmark + 422\,550 \checkmark - 77\,254 \checkmark = 380\,296 \checkmark$$

see (b) above one part correct

OR

$$772\,550 - (315\,000 + 77\,254 \text{ see (b) above}) = 380\,296$$

one mark one mark one method mark one method mark
392\,254 two marks

4

- (d) Calculate the carrying value of Equipment sold on 31 December 2016.

Note: Apply Marking Principle 10

Mark one line only – choose line to benefit candidate

$$120\,000 \checkmark - (12\,000 \checkmark + 10\,800 \checkmark + 8\,100 \checkmark\checkmark) = 89\,100 \checkmark \text{ one part correct}$$

30\,900 four marks 18\,900 three marks
22\,800 two marks
108\,000 two marks

OR

$$120\,000 - 12\,000 - 10\,800 - 8\,100 = 89\,100$$

one mark one mark one mark two marks one method mark

6

- (e) Calculate the total carrying value of fixed assets on 28 February 2017.

Note: Apply Marking Principle 10

$$2\,550\,000 \checkmark + 380\,296 \checkmark + 50\,994 \checkmark = 2\,981\,290 \checkmark$$

see (c) above one part correct

4

3.2 BALANCE SHEET OF ODETTE LTD ON 28 FEBRUARY 2017

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	✓
	CURRENT ASSETS CL X 2,1	870 660	✓✓
	Inventory	408 880	
	Trade and other receivables 67 200 ✓ – 270 ✓✓ + 6 800 ✓✓ +10 350 ✓✓	84 080	✓*
	Cash and cash equivalents CA – Inv – T & OR	377 700	✓
12	TOTAL ASSETS SHE + L	4 881 600	✓
	EQUITY AND LIABILITIES		
	SHAREHOLDERS EQUITY 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 376 000–92 000 ✓ 284 000 + 48 000 – 50 000 332 000 two marks	282 000	✓*
	CURRENT LIABILITIES	414 600	✓*
	# Trade and other payables 184 000 ✓ + 5 600 ✓	189 600	✓*
	## SARS: Income tax 222 000 ✓✓ – 209 000 ✓ 518 000 x 30/70	13 000	✓*
	Shareholders for dividends (675 000 ✓ x 0,24 ✓) See no. of shares in SHE	162 000	✓*
	Current portion of loan	50 000	✓✓
14	TOTAL EQUITY AND LIABILITIES	4 881 600	✓*

37

*one part correct

#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 different valid points ✓✓ ✓✓ ✓✓

Part-marks for unclear/incomplete explanation

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.

6

TOTAL MARKS

65

QUESTION 4

4.1

4.1.1	Directors	✓
4.1.2	Internal auditor	✓
4.1.3	Shareholder	✓
4.1.4	External auditors	✓

4

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 ✓
150 000	Issued on 1 May 2016 at R6,30 each	945 000 ✓
(70 000)	Re-purchased 30 August 2017 (ASP: R5,40 ✓✓) 5 292 000/980 000 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) OSC above 437 500/70 000	(59 500) ✓*
Ordinary share dividends one part correct	(276 000) ✓*
• Interim dividends (900 000 ✓ x 0,12) one part correct	108 000 ✓
• Final dividends	168 000 ✓
Balance on 31 August 2017 one part correct; *both figures must be subtracted	250 000 ✓*

9

4.2.2 SO-FINE LTD: CASH FLOW STATEMENT FOR YEAR ENDED 31 AUGUST 2017

If a working is shown as a final answer, award working mark only if brackets correctly applied for that item
If item is incorrectly placed, award no marks for details or figures
Signs may be reversed; apply consistently; mark one line only to benefit candidate
If workings not shown but figure is correct without brackets, award marks to cover workings and penalise on answer

	CASH FLOWS FROM OPERATING ACTIVITIES	Correct use of brackets to earn the mark on the final answer for each item in this column
	Cash generated from operations	*one part correct and correct use of brackets
	Interest paid	
	Dividends paid	
4	Income tax paid # -2 400 ✓ + 187 770 ✓ - 11 800 ✓ OR 2 400 - 187 770 + 11 800	? ## (173 570) <input checked="" type="checkbox"/> *
	CASH FLOWS FROM INVESTING ACTIVITIES	
	Purchases of fixed assets # 6 177 000 ✓ + 320 000 ✓ + 324 000 ✓ - 4 975 000 ✓ -6 177 000 - 320 000 - 324 000 + 4 975 000	? ## (1 846 000) <input checked="" type="checkbox"/> *
	? ✓ Proceeds from <u>sale of fixed assets</u>	? 324 000 ✓
7	Change in investments	
	CASH FLOWS FROM FINANCING ACTIVITIES	
	? ✓ Proceeds from <u>issue of share capital</u> see 4.2.1	? 945 000 <input checked="" type="checkbox"/>
	? ✓ Repurchase of shares	? (437 500) ✓
4	Change in non-current liabilities	
	Net change in cash and cash equivalents	? 86 000 <input checked="" type="checkbox"/> *
	Cash and cash equivalents – opening balance (2 500 – 65 100)	? (62 600) ✓✓
4	Cash and cash equivalents – closing balance	? 23 400 ✓

19

4.2.3 Calculate the percentage operating profit on sales.

$$\frac{697\,000 \checkmark}{8\,652\,000 \checkmark} \times 100 = 8,1\% \checkmark \text{ one part correct } \% \text{ sign not necessary}$$

3

Calculate the debt-equity ratio.

$$985\,000 \checkmark : (5\,292\,000 \checkmark + 250\,000 \checkmark) = 0,2 : 1 \checkmark \text{ one part correct}$$

if superfluous items added in workings, but answer is still the same, penalise on answer

4

4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period.

$$\frac{900\,000 + 150\,000}{(168\,000 \checkmark / 1\,050\,000 \checkmark \times 100) + 12 \text{ cents } \checkmark} = 28 \text{ cents } \checkmark \text{ one part correct}$$

16 cents two marks

4

4.3 CASTRO LTD

4.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued.

Compare issue price to market price or NAV ✓✓ 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).

3

4.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators.

Explanation ✓ ✓ Financial indicators ✓ ✓ Figures ✓ ✓

Superfluous indicators (i.e. more than two indicators) -1 max

Expected responses:

- Gearing has improved – less risk (as there was an issue of new shares)
debt-equity ratio decreased from 0,8 : 1 to 0,5 : 1 (by 0,3 : 1)
- ROTCE improved (due to increased efficiency / profits on new branch)
from 15 % to 20 % (by 5% or 33,3%)

Candidates may also compare ROTCE to their estimate of current interest rate

6

4.3.3 If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy?

$$\begin{array}{ccc} \checkmark & & \checkmark \\ (700\,000 \times 60\%) - (500\,000 \times 60\%) = 120\,000 & \checkmark & \text{one part correct} \\ 420\,000 & 300\,000 & \end{array}$$

OR

$$\begin{array}{ccc} \text{two marks} & & \text{one method mark (if x 60\%)} \\ 200\,000 \times 60\% = 120\,000 & & \end{array}$$

3

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

2

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 ✓✓ ✓✓ Figures ✓ ✓
Part-marks for partial or incomplete explanation

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%)
- 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 R348 000 / would be a good buy as R12,00 exceeds NAV R10,73
- He would have earned more dividends on bigger investment (51c/910c = 5,6%)
- ROSHE would be 23% on a bigger investment.
- He would lose 120 000 votes at the AGM.

6

RONKI LTD

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

Explanation: ✓✓

Superfluous indicators (i.e. more than two indicators) -1

The 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

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

Expected response:

✓✓

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

3

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

Explanation ✓ ✓ ✓

Figures ✓ ✓ ✓

Expected responses: Three different 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).

6

TOTAL MARKS

85

QUESTION 5

5.1 CONCEPTS

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

4

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.

$$243\,000 \checkmark\checkmark + 109\,600 \checkmark\checkmark + 252\,800 \checkmark\checkmark = 605\,400 \checkmark \text{ one part correct}$$

$$\begin{matrix} 18-8 & 15-11 & 18-10 \\ (10 \times 24\,300) + (4 \times 27\,400) + (8 \times 31\,600) \end{matrix}$$

OR

OS one mark	+ P one mark	– COS four marks	= CS one method mark
291 600 + 1 125 600		– 811 800	= 605 400
		316 000 + 301 400 + 194 400	

7

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

Any TWO valid points of advice ✓✓ ✓✓
 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.

4

Helmets:

5.2.3

Calculate the value of the closing stock on 30 September 2017 using the weighted-average method.

Mark one line only – choose line to benefit candidate

$$\begin{array}{rcll} & 51\ 675 & \text{four marks} & \\ & 54\ 300 & \text{two marks} & (5 \times 525) \text{ two marks} \\ 15\ 000 \checkmark + 39\ 300 \checkmark - 2\ 625 \checkmark \checkmark & \times 12 \checkmark & = & 6\ 201 \checkmark \quad \text{one part correct; must x12} \\ \hline & 30 \checkmark + 75 \checkmark - 5 \checkmark & & \\ & 105 \text{ two marks} & 100 \text{ three marks} & \\ & & (517 \times 12) & \\ \text{OR } 516,75 \times 12 = 6\ 201 \text{ or } 6\ 204 & & & \text{(weighted-average rounded off)} \\ \text{seven marks} & & & \end{array}$$

9

5.2.4

Is the weighted-average method appropriate to value the helmets? Explain ONE point.

Yes/No ✓ Explanation ✓ ✓ Part-marks for unclear/incomplete explanation

Explanation for yes:

- These are low cost compared to the other products Mike sells.
- The items are of similar value.

Explanation for no:

- Helmets are only demanded by a select few bike enthusiasts.
- The business does not buy very large quantities.
- The prices are always increasing so the later model will be more expensive.

3

5.2.5

Mike suspects that helmets are being stolen from the shop despite using security cameras. Provide a calculation to verify his suspicion.

$$\begin{array}{rcll} (30 + 75 - 5) & & & \\ 100 \checkmark \checkmark - 12 \checkmark - 85 \checkmark = & 3 \text{ helmets missing } \checkmark & & \text{One part correct} \\ \text{One part correct} & & & \end{array}$$

5

What can Mike do to improve the internal control of stock? State THREE points.

Three valid points ✓ ✓ ✓

Expected responses:

- Do regular physical stock counts
- Place tracking devices on the products / security price tags
- Provide secure display cabinets for the stock
- Improve security at the gates / inspect items and check to sales slip
- Division of duties (if staff is suspected)
- Buy in smaller quantities / more regularly

Do NOT accept security cameras / CCTV

3

TOTAL MARKS

35

QUESTION 6

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 ✓

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

$$\begin{array}{r} 181\,440 \text{ two marks} \\ \checkmark \quad \quad \checkmark \\ 56\,000 + 125\,440 \quad \times 100 \quad = 81\% \\ \hline 224\,000 \checkmark \end{array} \quad \begin{array}{c} \text{one part correct} \\ \checkmark \end{array}$$

OR $\begin{array}{ccccc} \text{two marks*} & \text{one mark} & \text{one method mark} & \text{*allocate two marks to the first correct \% calculation} \\ 25\% & + & 56\% & = & 81\% \end{array}$

Use the November figures to calculate the % of bad debts expected.

$$\begin{array}{r} 8\,960 \text{ three marks} \\ -181\,440 \text{ one mark} \\ \checkmark \quad \quad \checkmark \quad \quad \checkmark \\ 224\,000 - 56\,000 - 125\,440 - 33\,600 \quad \times 100 \quad = 4\% \\ \hline 224\,000 \checkmark \end{array} \quad \begin{array}{c} \checkmark \text{ one part correct} \end{array}$$

OR $\begin{array}{ccccccc} \text{one mark} & \text{one mark} & \text{one mark} & \text{one mark} & \text{one method mark} \\ 100\% & - & 25\% & - & 56\% & - & 15\% \\ \hline & & & & & & 4\% \end{array}$

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 ✓ Figure ✓

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 ✓ ✓

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

✓ ✓ ✓ ☒ One part correct

$$\frac{510}{2\,975 - 2\,465} \times 12 \div 0,085 = R72\,000$$

OR

one mark one mark one mark one method mark

$$\frac{510}{2\,975 - 2\,465} \times 12 \times \frac{100}{8,5} = R72\,000$$

OR

two marks one mark one method mark; one part correct

$$\frac{(2\,975 \times 12 \div 0,085) - (2\,465 \times 12 \div 0,085)}{420\,000 - 348\,000} = 72\,000$$

OR

two marks one mark one method mark; one part correct

$$\frac{1\,200 \times 2\,975}{8,5} - \frac{1\,200 \times 2\,465}{8,5} = 72\,000$$

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

Part-marks for unclear/incomplete explanation

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

9

TOTAL MARKS

30

TOTAL: 300