



Province of the
EASTERN CAPE
EDUCATION

NATIONAL SENIOR CERTIFICATE

GRADE 12

SEPTEMBER 2017

ACCOUNTING MARKING GUIDELINE

MARKS: 300

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no foreign item penalty for misplaced items). 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 the answer is 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).
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 before awarding the mark.
10. 'Operation' means 'Check operation'. 'One part correct' means 'Operation and one part correct'.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. In such cases, do not award the method mark. Indicate by way of
12. Be aware that some candidates provide valid alternatives beyond the memorandum.
13. Codes: f = foreign item; p = placement/presentation.

This marking guideline consists of 16 pages.

QUESTION 1: RECONCILIATIONS

1.1 Choose the correct answer from the words provided within brackets. Write only the answer, next to each number.

1.1.1	Cash Receipts Journal (CRJ)	✓
1.1.2	Debit	✓
1.1.3	Credit note	✓
1.1.4	Cash discount	✓

4

1.2 DEBTORS RECONCILIATION

1.2.1 Calculate the correct Debtors Control balance on 30 June 2017.

$$74\ 600 - 3\ 500 \checkmark + 4\ 500 \checkmark \checkmark = 75\ 600 \checkmark \text{ one part correct}$$

(4 230 + 270)

4

1.2.2 Calculate the balances for the following debtors:

Pillai	21 600 ✓ - 1 600 ✓✓ + 4 500 <input checked="" type="checkbox"/> 1.2.1	24 500 <input checked="" type="checkbox"/> *
Tele	24 900 ✓ - 2 500 ✓	22 400 <input checked="" type="checkbox"/> *
Botha	11 100 ✓✓ + 2 700 ✓	13 800 <input checked="" type="checkbox"/> *

* One part correct

12

1.2.3 Calculate the percentage of debtors that are not complying with the 30 days credit terms.

$$\frac{36\ 400 \checkmark}{28\ 000 + 8\ 400 \checkmark} \times 100 = 52\% \checkmark \text{ one part correct}$$

70 000 ✓

3

Explain TWO internal control measures that JT Traders can use to ensure that only reliable clients are granted credit.

Any TWO control measures ✓✓ ✓✓

- Perform credit checks (references / listing / credit bureau) to check credit worthiness.
- Check employment history and salary advice to check if they can afford it.
- Contact details (residential/postal address and contact numbers) to get in touch with them if necessary.

4

1.3 CREDITORS RECONCILIATION

NO.	CREDITOR'S LEDGER ACCOUNT BALANCE	STATEMENT BALANCE
Balance	35 000	38 420
(i)	2 970 ✓✓ 7 740 – 4 770	
(ii)		(750) ✓✓
(iii)	1 000 ✓✓	
(iv)		(1 960) ✓✓ 980 + 980 (1 mark each)
(v)		(3 860) ✓✓
(vi)		7 120 ✓✓
TOTAL	38 970 <input checked="" type="checkbox"/> for both totals	38 970

13

Allocate 1 mark for the amount and 1 mark for the sign (accept brackets, negative sign)

Q1: TOTAL MARKS	40	
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QUESTION 2: INVENTORY VALUATION

2.1.

2.1.1	Weighted average ✓
2.1.2	FIFO ✓
2.1.3	Perpetual ✓
2.1.4	Periodic ✓
2.1.5	Specific identification ✓

5

2.2 **COMRADES LTD**

2.2.1

Calculate the selling price per unit for tracksuits.

$$\frac{296\,125}{515} = R575 \checkmark\checkmark \quad (2 \text{ marks or } 0)$$

2

2.2.2

Calculate the cost of sales of tracksuits using the FIFO method.

$$40\,000 \checkmark + 170\,450 \checkmark - 3\,500 \checkmark - \left(\begin{array}{l} 33\,570 \text{ (2 marks) one part correct} \\ 90 \times 350 \quad 6 \times 345 \end{array} + 2\,070 \checkmark\checkmark \right) = 173\,380 \checkmark \text{ one part correct}$$

7

2.2.3

Calculate the stock turnover rate of tracksuits (use the average stock).

$$\frac{173\,380 \checkmark}{\frac{1}{2} \checkmark (40\,000 \checkmark + 33\,570 \checkmark) \checkmark} = 4,71 / 4,7 \text{ times } \checkmark \text{ one part correct}$$

36 785 (three marks)

5

2.2.4

It was discovered that vests were missing from the June 2016 delivery. Calculate the number and value of the vests missing.**NUMBER MISSING:**

$$(160 \checkmark + 340 \checkmark) - 298 \checkmark - 186 \checkmark = 16 \checkmark \text{ one part correct}$$

VALUE:

$$16 \times R92 \checkmark = R1\,472 \checkmark \text{ one part correct}$$

7

2.2.5 Calculate the Gross Profit made by the vests department. Note that this department uses the weighted average method to value stock.

Sales	298 ✓ x R140 ✓	41 720 <input checked="" type="checkbox"/> *
Cost of sales	13 760 ✓ + 33 740 ✓ - 17 670 ✓	29 830 <input checked="" type="checkbox"/> *
Gross profit		11 890 <input checked="" type="checkbox"/> *

*one part correct

8

2.2.6 Identify TWO problems other than the missing vests in the VESTS department. Quote figures. In each case, provide a solution to the problem.

PROBLEM Problem identified ✓ ✓ Figure ✓ ✓	SOLUTION / ADVICE ✓ ✓
Problem 1: Days worked (172/264)	<ul style="list-style-type: none"> Investigate the reason for the low number of days worked. Monitor opening and closing times and the employees' leave-taking. Do cost-benefit analysis to determine whether to keep this department. Pay workers only for days worked.
Problem 2: Stock turnover rate (2 times) OR Lower sales (298/500 units) OR Stockpiling (186 units on hand)	<ul style="list-style-type: none"> Use an ordering system and buy according to orders. Sacrifice profit (lower mark-up) to increase sales.

6

Q2: TOTAL MARKS	40	
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QUESTION 3: COMPANY FINANCIAL STATEMENTS

3.1

3.1.1	B ✓
3.1.2	C ✓
3.1.3	A ✓

3

3.2 **RUHI LTD**3.2.1 **RETAINED INCOME**

Balance on 1 March 2016	(7 480 ✓ + 50 000 ☑#)	57 480	☑ one part correct
Funds used to repurchase shares	(40 000 x 1,25)	(50 000)	#✓✓
Net profit after income tax		681 720	✓
Ordinary share dividends		(389 200)	✓
Interim dividend		179 200	✓
Final dividend		210 000	✓
Balance on 28 February 2017		300 000	☑

10

operation

3.2.2 BALANCE SHEET AS AT 28 FEBRUARY 2017

	ASSETS		
	Non-current assets	operation	4 310 545 ✓
	Fixed assets		4 060 545
	Fixed Deposit (415 000 – 165 000)		250 000 ✓✓
	Current assets	CL x 1,5	889 455 ✓✓
	✓ Inventories (Trading Stock)		222 600 ✓
	✓ Trade and other receivables	balancing figure	289 455 ☑
	Cash and cash equivalents (212 400 ✓ + 165 000 ✓)		377 400 ✓
13	TOTAL ASSETS	Total Equity + Liabilities	5 200 000 ☑
	EQUITY AND LIABILITIES		
	Shareholders' equity	operation	3 900 000 ☑*
	Ordinary share capital	balancing figure	3 600 000 ☑
	Retained income	refer 3.2.1	300 000 ☑
	Non-current liabilities		707 030
	Loan: Dube Bank (831 800 ✓☑* – 124 770 ☑) (920 000 – 153 600 + 65 400) see CL		707 030 ☑*
	Current liabilities		592 970
	Trade and other payables		231 920
	Shareholders for dividends	see 3.2.1	210 000 ☑
	SARS: Income tax (306 280 ✓✓ – 280 000 ✓)		26 280 ☑*
	Current portion of loan	balancing figure	124 770 ☑
13	TOTAL EQUITY AND LIABILITIES		5 200 000

26

-1 foreign items (-2 max.) Misplaced items must be marked wrong. Current liability items may be combined
*one part correct

3.2.3

Do a calculation to show the number of shares that Bakkies must buy to gain control of the company.

$800\,000 \times 50\% + 1 = 400\,001$ or $(50\% + 100 = 400\,100)$ ✓✓

Shares are normally sold in batches (lots) of 100.

$600\,000 \times 42\% = 252\,000$ ✓✓

Bakkies must buy 148 001 / 148 100 shares one part correct

Accept: $800\,000 \times 51\% = 408\,000$ (in this case Bakkies must buy 156 000 shares)

5

Bakkies wants to buy the shares at the current net asset value without advertising them to the public. As an existing shareholder, why would you not be satisfied with this arrangement? Explain. Provide TWO points.

TWO valid points ✓✓

- It is illegal and unethical to act against the law as prescribed by the Companies Act.
- Companies Act requires that shares be advertised to the public (prospectus).
- He wants to pay less than the market price – this would disadvantage the company (investors are willing to pay more).

4

3.2.4

Ruhi Ltd is planning to spend R300 000 on staff development and training over the next two years. How will this expense be explained (disclosed) in the published annual report? Give TWO points.

TWO valid points ✓ ✓

- The directors will include this in the directors' report stating the company's commitment to community/employee skills development.
- This will form part of their corporate social responsibilities.
- It will highlight the company's compliance with the King Code.
- Emphasis on the triple bottom line.

2

Q3:
TOTAL MARKS

50

QUESTION 4: FINANCIAL STATEMENTS, CASH FLOW AND INTERPRETATION

4.1 CONCEPTS: MATCHING

4.1.1	D ✓
4.1.2	B ✓
4.1.3	A ✓

3

4.2 MANI LTD

4.2.1 SHARE CAPITAL

Authorised share capital

1 200 000 ordinary shares

Issued share capital

800 000	Ordinary shares on 1 July 2016	7 600 000 <input checked="" type="checkbox"/> *
200 000 <input checked="" type="checkbox"/> *	Shares issued at R9,80 each	1 960 000 ✓✓
(120 000) ✓	Shares repurchased (ASP: R9,56 ✓✓)	(1 147 200) <input checked="" type="checkbox"/>
880 000 ✓	Ordinary shares on 30 June 2017	8 412 800 ✓

10

*balancing figures

4.2.2 Amounts for the Cash Flow Statement.

(Final answer must show INFLOW or OUTFLOW of cash)

WORKINGS	ANSWER
<p>Dividends paid</p> <p>320 000 ✓ + 514 000 ✓ – 264 000 ✓</p> <p>Or 320 000 (one mark) + 250 000 (two marks) Accept alternative presentations (signs reversed or GL)</p>	<p>(570 000) <input checked="" type="checkbox"/></p> <p>one part correct and outflow</p>
<p>Income tax paid</p> <p>31 000 ✓ + 22 300 ✓ – 314 400 ✓</p> <p>Accept alternative presentations (signs reversed or GL)</p>	<p>(261 100) <input checked="" type="checkbox"/></p> <p>one part correct and outflow</p>
<p>Change in investment</p> <p>120 000 – 80 000</p>	<p>40 000 ✓<input checked="" type="checkbox"/></p> <p>one part correct and inflow</p>
<p>Change in loans</p> <p>1 250 000 – 950 000</p>	<p>300 000 ✓<input checked="" type="checkbox"/></p> <p>one part correct and inflow</p>

4

4

2

2

Accept alternative presentation of information such as signs reversed, ledger accounts etc.

4.2.3

Calculate the cost of the additional equipment purchased.

$$9\,806\,000 \checkmark + 440\,400 \checkmark + 510\,000 \checkmark - 8\,410\,800 \checkmark - 1\,800\,000 \checkmark = 545\,600 \checkmark$$

$$-9\,806\,000 \checkmark - 440\,400 \checkmark - 510\,000 \checkmark + 8\,410\,800 \checkmark + 1\,800\,000 \checkmark = -545\,600 \checkmark$$

one part correct

Accept alternative presentation of information such as signs reversed, ledger accounts etc.

6

4.2.4

NET CHANGE IN CASH AND CASH EQUIVALENTS

(161 300) ✓

Cash balance on 1 July 2016

98 500 ✓

Cash balance on 30 June 2017 2 500 ✓ - 65 300 ✓

(62 800) ✓*

5

-1 for poor presentation (No or incorrect details)

*one part correct

4.2.5

Calculate the gross profit percentage (mark-up percentage).

$$\frac{4\,290\,000 \checkmark}{7\,150\,000 \checkmark \checkmark} \times 100 = 60\% \checkmark \text{ one part correct}$$

4

Calculate the net asset value per share (NAV).

$$\frac{8\,801\,400 \checkmark}{880\,000 \checkmark} \times 100 = 1\,000 \text{ cents } \checkmark \text{ one part correct}$$

3

Calculate the return on average shareholders' equity.

$$\frac{\frac{733\,600}{\frac{1}{2} \checkmark (7\,821\,800 \checkmark + 8\,801\,400 \checkmark)} \checkmark \checkmark}{8\,311\,600} \times 100 = 8,8\% \checkmark \text{ one part correct}$$

6

4.2.6

Were the directors justified in increasing the loan? Explain. Quote TWO relevant financial indicators (with figures) in your answer.

YES or NO: ✓

Financial Indicators: ✓✓ ✓✓

Debt/Equity ratio : consistent over the year at 0,1 : 1

ROTCE: increase from 11,3% to 12,5%

Explanation: ✓✓

The company is lowly geared (using more own capital than borrowed capital).

The return on capital employed however shows that the company is negatively geared (earning less than the interest rate of 13%).

7

4.2.7

Explain why the shareholders are not satisfied with the dividend pay-out policy and their return earned. Quote financial indicators (with figures) in your explanation.

Dividend pay-out policy:

2016: 75/78 = 96,1% ✓✓

2017: 55/80 = 68,8% ✓✓

Return earned:

ROSHE increased from 7,9% to 8,8% (refer 4.2.5) ✓✓

Explanation: ✓✓

The shareholders may be dissatisfied with their dividends as the company decided to retain a larger percentage of the earnings than last year (last year distributed 96% of EPS compared to 69% this year). The directors may have explained their strategy in the annual reports.

Although their return on investment increased, it is still below the return on alternative investments.

8

4.2.8

Comment on the price paid to repurchase the shares on 31 March 2017. Quote TWO financial indicators (with figures) in your comments.

Financial indicators ✓✓ figures ✓✓ comment ✓✓

NAV: R9,78 at the beginning of the year.

Market price was R11,00 on 1 July 2016 and shows an upward trend (R11,20).

The company paid R10,00.

The price paid was therefore fair.

It did not compromise the company or the shareholders.

6

Q4: TOTAL MARKS	70	
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QUESTION 5: COST ACCOUNTING AND FIXED ASSETS

5.1

5.1.1	True ✓
5.1.2	False ✓
5.1.3	False ✓

3

5.2. **TS FINE-WEAR**

5.2.1

Direct labour cost

Normal time	5 x 1 800 x R70	630 000	✓ <input checked="" type="checkbox"/> *
Overtime	660 x R112 ✓✓	73 920	<input checked="" type="checkbox"/> *
Contributions	630 000 x 9%	56 700	<input checked="" type="checkbox"/> (9% of normal time)
		<u>760 620</u>	<input checked="" type="checkbox"/> *

*one part correct

7

5.2.2

	WORKINGS	ANSWER
(a)	6 500 ✓ + 2 500 ✓✓	9 000 <input checked="" type="checkbox"/>
(b)	$420\,000 + 76\,000 - 436\,000$ SOLD: 60 000 ✓✓ x 15% x $\frac{8}{12} = 6\,000$ <input checked="" type="checkbox"/> NEW: 76 000 x 15% x $\frac{3}{12} = 2\,850$ ✓✓ OLD: (420 000 ✓ - 60 000 <input checked="" type="checkbox"/>) x 15% = 54 000 <input checked="" type="checkbox"/>	62 850 <input checked="" type="checkbox"/>

4

9

5.2.3 **Factory overhead cost**

Indirect labour		300 000 ✓
Indirect material		52 750 ✓
Water and electricity	98 700 x $\frac{2}{3}$	65 800 ✓ <input checked="" type="checkbox"/> *
Insurance	(32 300 ✓ - 2 800 ✓✓) x 60%	17 700 <input checked="" type="checkbox"/> *
Rent expense	102 000 x $\frac{5}{8}$	63 750 ✓ <input checked="" type="checkbox"/> *
Depreciation	See 5.2.2 (b)	62 850 <input checked="" type="checkbox"/>
Factory sundry expenses		19 150
		<u>582 000</u> <input checked="" type="checkbox"/> *

12

*one part correct

5.2.4

Calculate: Cost of sales

29 500 x R60

Cost of sales: 46 000 ✓ + 1 770 000 ✓✓ - 41 000 ✓ = 1 775 000 ✓
one part correct

Accept alternative calculations including the Finished Goods Stock Account.

5

5.3

PASS MANUFACTURERS

5.3.1

Do a calculation to prove that the break-even point for jackets in 2017 is correct.

618 000

$$\frac{41,20 \checkmark \times 15\,000 \checkmark}{115 \checkmark - 73 \checkmark} = 14\,714/14\,715 \text{ units}$$

42

4

5.3.2

Comment on the break-even points and the level of production for both products. Quote figures.

Jackets:	Comment: ✓ figures ✓ The BEP shows an increasing trend (10 362 to 14 715 units) whilst the level of production remains constant (15 000 units). Decrease in profitability.
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Caps:	Comment: ✓ figures ✓ The level of production is constant at 9 500 units but the BEP dropped from 9 500 units to 7 134 units. No profit was made in 2016. 2017 showed a profit.
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4

5.3.3

Calculate the percentage increase in the selling price.

$$\frac{13,50 \checkmark \checkmark}{67,50 - 54,00} \times 100 = 25\% \checkmark \text{ one part correct}$$

54,00 ✓

4

Provide ONE reason why the owner felt it necessary to increase the selling price.

One valid reason ✓✓

He did not make a profit or loss in 2016 (broke even; units produced equal to the BEP)

An increase in selling price would invariably lead to a lower BEP if costs stays the same.

2

5.3.4

	COST IDENTIFIED (with figures) ✓✓ ✓✓	ADVICE OR SOLUTION One valid point per cost item ✓ ✓
Jackets	Cost: Direct material cost increased by 25% (from R32 to R40 per unit)	Look for cheaper suppliers. Take advantage of bulk discounts. Investigate wastage – train staff.
Caps	Cost: Direct labour cost increased by 24% (from 12,50 to 15,50) Or Selling and distribution increased by 29% (from 7,20 to 9,30)	Control overtime. Train staff to be more efficient. Give sales persons commission. Identify costs and monitor use. Reduce advertising. Maintain this strategy. *The above may have contributed to the better profits

6

Q5: TOTAL MARKS	60	
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QUESTION 6: BUDGETING

6.1 Explain why:

6.1.1 **Depreciation and bad debts will not appear in a Cash Budget.**
 Any valid explanation ✓✓
 Non-cash items are not included in a cash budget.
 A cash budget would only include cash receipts and cash payments.

2

6.1.2 **A cash budget is different from a Projected Income Statement.**
 Any valid explanation ✓✓
 A cash budget includes receipts and payments and shows plans for cash management. It shows the surplus/deficit and the bank balance.
 The PIS shows income and expenses (including non-cash items) and projects the profit or loss per month (for the budget period).

2

6.2 **KWT DISTRIBUTORS LTD**

MONTHS	CREDIT SALES	NOVEMBER	DECEMBER
September	180 000	32 400 ✓✓	
October	186 000	55 800	33 480 ✓✓
November	195 000 ✓✓	92 625	58 500 ✓✓ <small>30% of 195 000</small>
December	210 000		99 750 ✓✓
Total collection from debtors		180 825 ✓	191 730 ✓

12

6.2.2 Calculate:

	WORKINGS	ANSWER
(i)	Cash sales for December: 210 000 x 40/60	140 000 ✓✓
(ii)	Rent income amount for November: 19 710 ✓ x 100/108 ✓	18 250 ✓ <small>one part correct</small>
(iii)	Payments to creditors for November: 186 000 x 100/60 = 310 000 ✓✓ 310 000 x 100/125 = 248 000 ✓✓ 248 000 x 80% ✓	198 400 ✓ <small>one part correct</small>
(iv)	Salaries and wages for December: 180 600 ✓ – 35 600 ✓ – 35 600 ✓	109 400 ✓ <small>one part correct</small>
(v)	Loan instalment (including interest) for December: 138 000 ✓✓ (13 625 – 1 625) + (150 000 – 12 000) x 13% x 1/12 12 000 ✓ 1 495 (three marks)	13 495 ✓ <small>one part correct</small>

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6.2.3

Comment on the internal controls regarding the collection from debtors and the payment to creditors. Provide TWO points.

Any TWO valid points ✓✓ ✓✓

- Only 50% of the debtors comply with the credit terms.
- The cash from debtors do not cover the payments to creditors (per month).
- 80% of stock is bought on credit / only 20% cash purchases of stock.
- As cash
- Sales is a greater percentage of total sales, it may be wise to increase the percentage of cash purchases.
- Taking advantage of short-term credit is only beneficial if it eases cash-flow problems.

4

Q6: TOTAL MARKS	40	
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TOTAL: 300