



**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2018

**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 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 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 marking guideline 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'.
Note: Check operation means must be +, –, x or ÷ as per marking guideline, but some items can be + or – such as provision for bad debts adjustment/sale of asset.
Note: Where appropriate, use of numerator and denominator must be correctly applied to earn marks.
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 marking guideline.
13. Codes: f = foreign item; p = placement/presentation.

This marking guideline consists of 16 pages.

QUESTION 1: COST ACCOUNTING

1.1

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

1.1.1	Packing material	✓
1.1.2	Indirect material	✓
1.1.3	decrease	✓

3

1.2 LOLO MANUFACTURERS

1.2.1

Calculate the cost of the raw materials issued to the factory during the financial year.

$$87\,250 \checkmark + 694\,150 \checkmark + 21\,200 \checkmark + 4\,200 \checkmark - 65\,800 \checkmark \checkmark \checkmark$$

one mark two marks
76 300 – 10 500

$$= 741\,000 \checkmark \text{ one part correct}$$

one part correct

8

1.2.2

Calculate: Direct Labour Cost

$$423\,400 \checkmark + 12\,600 \checkmark \checkmark^* + 4\,234 \checkmark \checkmark + 126 \checkmark = 440\,360$$

one part correct

* (9 614 + 2 860 + 126) or 126 x 100 one part correct

7

Calculate: Factory Overhead Cost

Factory consumable stores	22 830 ✓
Salary – factory foreman	154 200 ✓
Water and electricity (132 360 + 3 240) x 75%	101 700 ✓✓
Factory sundry expenses	89 910
	<u>368 640</u> ✓

one part correct

-1 (max -2) for foreign items

5

1.2.3 PRODUCTION COST STATEMENT ON 28 FEBRUARY 2018

Direct material cost	see 1.2.1	741 000	<input checked="" type="checkbox"/>
Direct labour cost	see 1.2.2	440 360	<input checked="" type="checkbox"/>
Prime cost	DMC + DLC	1 181 360	<input checked="" type="checkbox"/>
Factory overhead cost	see 1.2.2	368 640	<input checked="" type="checkbox"/>
Total manufacturing cost	operation	1 550 000	<input checked="" type="checkbox"/>
Work-in-process (opening balance)		30 000	
		1 580 000	
Work-in-process (closing balance)	balancing figure	(40 000)	<input checked="" type="checkbox"/>
Total cost of production of finished goods		1 540 000	<input checked="" type="checkbox"/>
31 800 ✓ + 1 536 000* ✓✓ - 27 800 ✓			

11

* 2 457 600 x 100/160

one part correct

1.3 GRENS BAKERY

1.3.1 Calculate the break-even point for 2018.

$$\frac{249\,000 \checkmark}{61,60 \checkmark - 40,20 \checkmark} = 11\,636 \text{ units } \checkmark \text{ one part correct}$$

21,40 two marks

4

1.3.2 Explain whether Sydney should be concerned about the break-even point and the level of production. Quote figures.

Explanation comparing level of production with the BEP ✓✓ Figures ✓

- Sydney should not be concerned because he produced 3 364 units more than the break-even point (15 000 – 11 636) refer 1.3.1
- He is making a profit on 3 364 units.
- He is making a greater profit this year than last year (3 364 units above BEP compared to 850 units last year)

One mark option:
Comparing the difference in the BEP only, or the level of production only.

3

1.3.3 Give a possible reason for the change in the unit cost of direct material and of direct labour.

REASON: DIRECT MATERIAL COST	REASON: DIRECT LABOUR COST
Any one: ✓✓ The business is making use of cheaper suppliers. Buying local to cut down on transport costs. Taking advantage of bulk discounts.	Any one: ✓✓ Good wage increases negotiated by unions. More overtime worked.

4

Q1: TOTAL MARKS	45	
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QUESTION 2: BUDGETING

2.1.

TRUE OR FALSE	
2.1.1	False ✓
2.1.2	True ✓
2.1.3	False ✓

3

2.2 BANYAMA LTD

2.2.1

DEBTORS COLLECTION SCHEDULE			
MONTHS	CREDIT SALES	AUGUST	SEPTEMBER
July	157 500	94 500	56 700 ✓✓
August	144 900 ✓✓		86 940 ✓✓
CASH FROM DEBTORS			143 640 ☑

one part correct

7

2.2.2

	WORKINGS	ANSWER
(i)	216 900 x 30%	65 070 ✓✓
(ii)	207 000 x 100/180 = 115 000 ✓✓ 115 000 x 95% ✓ (or – 5 750 one mark)	109 250 ☑ one part correct
(iii)	163 440/12	13 620 ✓✓
(iv)	13 250 x 150%	19 875 ✓✓
(v)	84 000 two marks $\frac{(12\,600 \checkmark \times 100/15 \checkmark) - 12\,600 \checkmark}{24 \checkmark}$	2 975 ☑ one part correct
(vi)	$\begin{array}{r} \checkmark \\ 316\,800 \\ \hline 1 \end{array} - \begin{array}{r} (2\,310 \times 12) \text{ one mark} \\ \checkmark \\ 27\,720 \\ \hline 9\% \checkmark \\ 308\,000 \text{ three marks} \end{array}$	8 800 ☑ one part correct

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2.2.3

Refer to Information J:**Calculate the percentage increase in the manager's salary.**

16 830 – 15 300 two marks together
 $\frac{1\ 530 \checkmark\checkmark}{15\ 300} \times 100 = 10\% \quad \checkmark$ one part correct
 ✓

4

Comment on whether the salary and wage decision was justified. Quote figures.

Comment ✓✓ figure ✓

- Employees should receive at least an inflationary increase to maintain their standard of living (4–6%).
- The manager received a 10% increase which is way above the inflation rate. Refer above.
- The owners' drawings is excessive (50% more than normal). May be considered as wasteful expenditure.

3

Provide TWO possible consequences of this decision.

Possible consequences ✓✓ ✓✓

- Employees may decide to go on strike which will cause the business to lose business/profits.
- Unions can charge the business for unfair labour practices.
- Employees will not be motivated to improve/work in the best interest of the business.
- The business may get bad publicity through the press – poor image – lose customers, suppliers, financial institutions for loans.

4

Q2: TOTAL MARKS	40	
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QUESTION 3: FIXED ASSETS, INCOME STATEMENT AND AUDIT REPORT

3.1

3.1.1	Equity ✓
3.1.2	Current asset ✓
3.1.3	Non-current asset ✓
3.1.4	Expense ✓

4

3.2 YASHPAL LTD

3.2.1 Refer to Information A:

	WORKINGS	ANSWER
(i)	838 000 – 420 000	418 000 ✓✓
(ii)	838 000 x 15% = 125 700 ✓✓ 216 000 ✓ x 15% x 5/12 ✓ = 13 500 ✓ one part correct	139 200 ✓ one part correct
(iii)	26 250 ✓ – 4 250 ✓	22 000 ✓ one part correct

11

3.2.2

ASSET DISPOSAL (N12)

2018 Jan	1	Equipment	105 000 ✓✓	2018 Jan	1	Accumulated Depreciation on Equipment	83 000 ✓*
		Profit on sale of asset	4 250 ✓			Bank	26 250 ✓
			Equipment (622 000 – 517 000)				
			109 250				109 250
							*balancing figure

- 1 (max -2) Presentation; incorrect or no details provided

5

3.2.3 Income Statement for the year ended 28 February 2018

	Sales	COS x 175%	7 469 700	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
	Cost of sales	4 250 000 ✓ + 18 400 ✓✓	(4 268 400)	<input checked="" type="checkbox"/> *
7	Gross profit	Sales – COS	3 201 300	<input checked="" type="checkbox"/>
	Other income	operation	98 700	<input checked="" type="checkbox"/>
	Fee income		79 350	
	Discount received		14 280	✓
	Profit on sale of asset		4 250	✓
	<u>Provision for bad debts</u> adjustment (7 480 – 6 660)		820	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
6	Gross income	GP + OI	3 300 000	<input checked="" type="checkbox"/>
	Operating expenses	GI – OP	(1 350 000)	<input checked="" type="checkbox"/>
	Depreciation	(139 200 <input checked="" type="checkbox"/> + 35 400 ✓) 3.2.1 (ii)	174 600	<input checked="" type="checkbox"/> *
	<u>Trading stock</u> deficit (728 400 – 18 400 – 706 350)		3 650	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
	Packing material (43 730 – 3 880)		39 850	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
	Directors fees (336 500 ✓ + 23 500 ✓)		360 000	✓
	Audit fees (19 450 ✓ + 19 450 ✓)		38 900	✓
	Bad debts (23 555 ✓ + 11 245 ✓✓)		34 800	<input checked="" type="checkbox"/> *
	Rent expense (146 080 ✓ – 11 770 ✓✓)		134 310	<input checked="" type="checkbox"/> *
	Salaries and wages		222 700	✓
	Sundry expenses	balancing figure	341 190	<input checked="" type="checkbox"/>
25	Operating profit	PBIE – Int Inc	1 950 000	<input checked="" type="checkbox"/>
	Interest income	195 000 x 8% x ½	7 800	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
	Profit before interest expense		1 957 800	
	Interest expense	565 800 – 542 000	(23 800)	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
	Net profit before income tax	560 860 x 100/29	1 934 000	<input checked="" type="checkbox"/>
	Income tax		(560 860)	✓
8	Net profit after tax	560 860 x 71/29	1 373 140	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *

-1 for foreign items (max -2)

*Operation, one part correct

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3.3 AUDIT REPORT: PICOLI LTD

3.3.1 Briefly explain the role of the external auditor.

Explanation ✓✓

- Express an unbiased opinion on the fair presentation of financial statements.
- Protect the interest of shareholders by providing an independent, unbiased opinion on the financial statements.
- Assessing the internal controls and financial statements and reporting any discrepancies that do not conform to audit practices through the type of report they offer.

2

3.3.2 What type of audit report did Picoli Ltd receive? Explain.

TYPE: Qualified audit report ✓

EXPLANATION: Explaining the exception to fair presentation ✓✓

- The auditors found that the advertising expenses could not be verified.
- No documentation exists for the advertising expenses.
- They found a problem which they could not explain.

3

3.3.3 Why would an existing shareholder be concerned about this report? Provide TWO points.

Two valid points ✓✓ ✓✓

- Proper internal controls are not being observed by management.
- The reputation of the company may be affected (public image).
- Potential investors will not be interested in the company (share prices will drop).
- Possibility of fraud.

4

Q3: TOTAL MARKS	75	
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QUESTION 4: FINANCIAL STATEMENTS, CASH FLOW AND INTERPRETATION

4.1 CONCEPTS: MATCHING

4.1.1	F ✓
4.1.2	E ✓
4.1.3	A ✓
4.1.4	C ✓
4.1.5	B ✓

5

4.2 KHLOE LTD

4.2.1	Net profit before income tax	988 700
	Adjustments for:	
	Interest expense	124 900
	Depreciation	221 400 ✓
		1 335 000
	Changes in working capital	4 400 <input checked="" type="checkbox"/> *
	Decrease in inventories (163 300 – 123 800)	39 500 ✓ <input checked="" type="checkbox"/> *
	Increase in debtors (134 700 + 14 400) – 155 600	(6 500) ✓ <input checked="" type="checkbox"/> *
	Decrease in creditors 162 600 – (122 900 + 11 100)	(28 600) ✓ <input checked="" type="checkbox"/> *
	CASH GENERATED FROM OPERATIONS	1 339 400 <input checked="" type="checkbox"/>*

9

*one part correct

4.2.2 Amounts for the Cash Flow Statement.

WORKINGS	ANSWER
Income tax paid 27 200 ✓ + 296 600 ✓ + 12 700 ✓ (988 700 – 692 100) one mark	336 500 <input checked="" type="checkbox"/> one part correct
Dividends paid 111 000 ✓ + 317 400 ✓ – 142 400 ✓	286 000 <input checked="" type="checkbox"/> one part correct
Fixed assets purchased 1 437 200 ✓ + 221 400 ✓ + 283 500 ✓ – 1 120 400 ✓	821 700 <input checked="" type="checkbox"/> one part correct

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

4.2.3 Calculate: Net change in cash and cash equivalents

$124\,300 \checkmark + 61\,250 \checkmark\checkmark = 185\,550 \checkmark$ one part correct (76 750 – 15 500)
Or: $76\,750 - (15\,500 - 124\,300) = 185\,550$

4

4.3 KWEZI LTD

4.3.1 ORDINARY SHARE CAPITAL

760 000	Balance on 1 March 2017	3 648 000 ✓✓	
(30 000)	Share re-purchased (ASP: R4,80 ✓✓)	(144 000) ✓*	
150 000	Shares issued balancing figure	787 500 ✓	
880 000 ✓	Balance on 28 February 2018	4 291 500	
		*one part correct	7

4.3.2 Calculate: Net asset value per share

$$\frac{4\,488\,000 \checkmark \times 100}{880\,000 \checkmark \text{ see 4.3.1}} = 510 \text{ cents } \checkmark \text{ one part correct}$$

3

Calculate: Return on average shareholders' equity

$$\frac{545\,600 \checkmark}{\frac{1}{2} \checkmark (3\,724\,000 \checkmark + 4\,488\,000 \checkmark)} \times 100 = 13,3\% \checkmark \text{ one part correct}$$

4 106 000 three marks

5

4.3.3 Quote TWO financial indicators (with figures and trends) that indicate an improvement in the liquidity position of the business.

Current ratio ✓ improved from 1,4 : 1 to 1,9 : 1. ✓
 Average debtors collection period ✓ improved from 57 days to 38 days. ✓

4

4.3.4 The company paid back a large portion of the loan. Explain why this was a good decision. Quote TWO financial indicators (with figures).

TWO financial indicators ✓ ✓ figures ✓ ✓ explanation ✓ ✓

- Debt/equity improved from 0,5 : 1 to 0,2 : 1.
The business is now lowly geared / not making extensive use of loans.
- ROTCE dropped from 22,3% to 20,8%.
The company is still positively geared as this return is better than the interest rate on loans (11%).

6

4.3.5 Comment on the dividend pay-out policy over the past two years. Provide a possible reason for the policy adopted. Quote figures.

Comment on EPS and DPS for 2017 (with figures): ✓✓

The company paid 52 cents of 65 cents earned/ (80%).
Only 20% of the net profit was retained.

Comment on EPS and DPS for 2018 (with figures): ✓✓

The company paid 31 cents of 62 cents earned / (50%).
50% of the net profit was retained.

Reason for change ✓

A bigger % was retained for future expansion/growth.
Efforts being made to increase profitability or to address cash flow problems.

5

4.3.6 Explain whether the price paid for the share buy-back was fair. Quote TWO financial indicators (with figures) in your explanation.

Financial indicators (with figures) ✓ ✓ Explanation ✓✓

R5,20 was paid which was more than the market price of 485 cents (515 cents at end of year) and the NAV of 490 cents (510 cents at end of year).

Although the NAV and market price show an upward trend, the company paid too much for these shares.

4

Q4: TOTAL MARKS	65	
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QUESTION 5: INVENTORY VALUATION

5.1

5.1.1	Specific identification ✓
5.1.2	First-in-first-out (FIFO) ✓
5.1.3	Weighted-average ✓

3

5.2. CASUAL OUTFITTERS

5.2.1

Calculate: The amount paid for carriage on 11 June 2018

(835 x 130)

116 065 ✓ – 108 550 ✓✓ = 7 515 one part correct

4

Calculate: The value of the closing stock on 30 June 2018

320 008 four marks (15 x 142)

28 633 ✓ + 293 505 ✓ – 2 130 ✓✓ x 415 ✓ = 60 092 one part correct

230 ✓ + 1 995 ✓ – 15 ✓
2 210 three marks

9

5.2.2

Explain the effect that this decision will have on the gross profit.

It will reflect an increase in gross profit of R 4 853. ✓✓

2

Give ONE valid reason for and ONE valid reason against changing the stock valuation method.

REASON FOR ✓✓	Increased profitability creates a better image. Clients will have confidence in the business. Employees will feel a sense of security.
REASON AGAINST ✓✓	Comparing results would not be meaningful. Book-entry; create a false impression. Workers may expect (or negotiate) higher pay increases based on profitability.

4

5.2.3 Funiwe is concerned about the control of her stock of jeans. She has sold 1 788 pairs of jeans during the year. Provide a calculation to support her concern.

(230 + 1 995 – 15)
 2 210 – 415 – 1 788 = 7 missing
 ✓ ✓ ✓ one part correct

5

5.2.4 Comment on the stock balance on 30 June 2018. Is this appropriate? Explain. Provide ONE point.

Yes / No ✓ Explanation ✓✓

Yes
 Jeans are durable products that has a long shelf life.
 The business would be able to sell the jeans at any time.

No:
 The closing stock is almost double the opening balance. Money is tied up in excess stock.
 The jeans may go out of fashion and people would not want to buy.

3

5.3 PROBLEM SOLVING

5.3.1 What decision did Jay take regarding the selling price of the desks?

Increased the selling price ✓ from R360 to R420 (by R60) ✓✓
Or increased the mark-up percentage from 50% to 75% (by 25%)

3

Explain TWO points on how this decision has affected the business.

TWO points ✓✓ ✓✓ figures ✓✓

- The gross profit increased from R36 720 to R45 000 (by R8 280).
- The number of units sold decreased by 80 units (from 330 to 250).
- The stock turnover rate dropped from 7,4 time to 5,4 times.

6

5.3.2 Jay decided to buy his chairs from a cheaper supplier. Provide TWO points on why you feel that this was NOT a good decision.

TWO points ✓✓ ✓✓ figures ✓✓

- Not able to keep up to orders received by 120 units (500 – 380).
- Returns were very high; possible poor quality (56 units; 0 last year).
- Gross profit dropped from R21 600 to R11 664 (by R9 936).

6

Q5: TOTAL MARKS	45	
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QUESTION 6: RECONCILIATION AND VAT

6.1.1

NO	CREDITOR'S LEDGER ACCOUNT BALANCE	STATEMENT BALANCE
Balance	95 160	143 460
(i)		+ 5 400 ✓✓ 26 000 – 20 600
(ii)		- 820 ✓
(iii)		- 1 240 ✓
(iv)	+ 1 520 ✓	
(v)	- 4 880 ✓✓ 2 440 + 2 440	
(vi)	+ 47 500 ✓	
(vii)		- 7 500 ✓
TOTAL	139 300 ✓*	139 300 ✓*

11

Marks awarded for correct sign with amount. Accept the use of brackets for negative amounts.
*One part correct (does not have to be the same total)

6.1.2

**Refer to Information (vi):
Provide TWO possible actions that can be taken against M. Rice.**

TWO possible actions ✓✓ ✓✓ Part marks for short/unclear answers.

- Disciplinary hearing to establish trends or extent of unauthorised transactions.
- Deductions from salary to cover the amount outstanding.
- Legal action for malpractice.
- Demotion; transfer to some other job function.

Explain TWO internal control measures that the business can use to prevent such incidents in future.

TWO points ✓✓ ✓✓

- Division/rotation of duties to discourage such behaviour in future.
- Authorisation for all transactions with suppliers.
- Regular audits/random audits of stock and documents.

4

4

6.2 VAT

Calculate the final amount payable to SARS on 31 July 2018.

$$\begin{array}{cccccccccccc} 6 & 665 & + & 108 & 000 & - & 69 & 750 & + & 480 & - & 915 & - & 1 & 470 & - & 1 & 410 & = & 39 & 330 \\ \checkmark & & & \checkmark & & & \checkmark\checkmark & & \checkmark & & \checkmark & & \checkmark & & \checkmark\checkmark & & \checkmark\checkmark & & & & & \checkmark \text{ one part correct} \end{array}$$

Accept alternative calculations such as ledger account, signs reversed, output VAT – input VAT

11

Q6: TOTAL MARKS	30	
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TOTAL: 300