

basic education

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

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING NOVEMBER 2016 MEMORANDUM

MARKS: 300

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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). Note: If figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well e.g. R715 500 in Q1.2.1 would be 2 marks in final answer, not 3.
- 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 & one part correct'. Note: Check operation means must be +, –, x or ÷ per memo, but some items can be + or – such as Prov for bad debts adj.
- 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 memorandum consists of 15 pages.

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Accounting

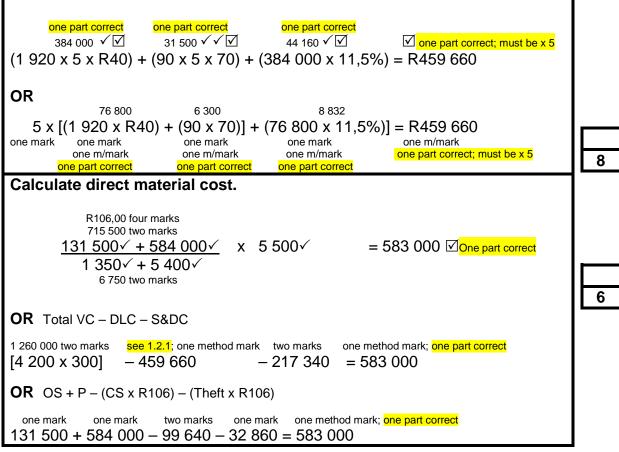
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QUESTION 1

1.1

| 1.1.1 | Administration cost | \checkmark | Accept recognisable abbreviations |
|-------|--------------------------|--------------|-----------------------------------|
| 1.1.2 | Direct material cost | \checkmark | |
| 1.1.3 | Selling and distribution | cost √ | |
| 1.1.4 | Factory overhead cost | \checkmark | |

1.2.1 Calculate direct labour cost.

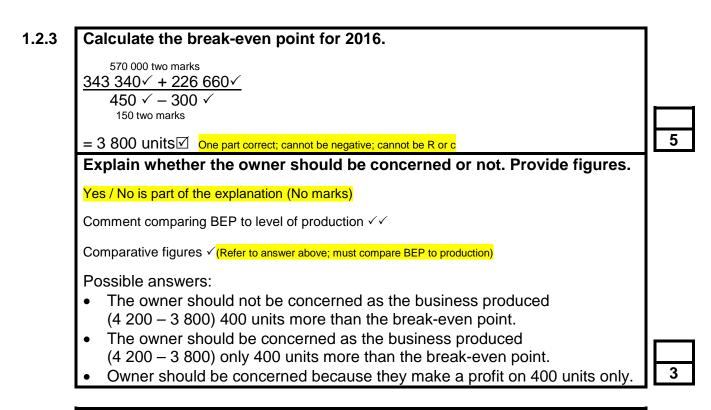


1.2.2 Production Cost Statement for the year ended 29 February 2016:

| *✓ Factory overhead cost Cost of production of finished goods | on one part correct | 343 340 1 386 000 | ✓ | |
|--|---------------------|----------------------|--------------|--|
| Prime cost | If = DMC + DLC | 1 042 660 | | |
| *√ <u>Direct labour</u> cost | See 1.2.1 | 459 660 | | |
| *√ <u>Direct material</u> cost (need not be first) | See 1.2.1 | 583 000 | \checkmark | |

*Must be correctly placed to get the mark for details; method mark for figure marked independently

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1.2.4

The owner is not satisfied with the internal control of the raw material (fabric).

| | STOREROOM: Raw material stolen | FACTORY: Raw material wasted |
|---|---|--|
| CALCULATION: metres of fabric | 6 750 two marks 1 350 \checkmark + 5 400 \checkmark - 5 500 \checkmark - 940 \checkmark = 310 metres $⊠$ One part correct Answer must be less than 6 750 Total: 5 marks | two marks for both 4 200 x 1,25 $5500 \checkmark -5250 \checkmark \checkmark$ = 250 metres \checkmark One part correct OR 200 units two marks one mark one m/mark [(5500 / 1,25) - 4 200] X 1,25 = 250 m 4 400 metres one mark Answer must be less than 5 500 Total: 4 marks |
| STRATEGY One point each ✓ ✓ Be alert to alternative valid responses. | Improve physical security / Regular stock counts / Foreman to supervise / sign / account for all raw materials taken from the storeroom / division of duties. | Train workers to improve efficiency / Use new updated equipment (new technology) / Use templates in cutting fabric to reduce offcuts / recycle the offcuts. Improve supervision. Do not accept theft. |

TOTAL MARKS

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QUESTION 2

2.1.1 Simply Traders have the telephone numbers of all their debtors. What other information should they obtain before allowing customers to open accounts? State TWO points with a reason in EACH case.

| Do not accept Telephone number of debtor | | | | | |
|---|---|--|--|--|--|
| Can award two marks if information & reason is in same sentence | | | | | |
| | Information to be obtained ✓ ✓ | Reason ✓ ✓ | | | |
| Point 1 | Salary advice slip / Proof of income | To set credit limits for each possible debtor To determine affordability | | | |
| Point 2 | Proof of residence / Address | To be able to trace debtors not adhering to credit terms and conditions To avoid fictitious debtors To be able to do a proper background check on each new debtor Constant reminders of amount owed To ensure that statements are sent to correct addresses | | | |
| OR | Contact details of family / friend | ily / To track the debtor if other information is incorrect / changes | | | |
| OR | Bank statement / balance | To check how the debtor is managing his finances | | | |
| OR | Identity document Ensure that correct personal details of customers are on record | | | | |
| OR | Credit references / Credit history | To check that they will not sell to bad debtors To check credit worthiness | | | |
| OR | Email address | Prompt communication of statements of account | | | |

2.1.2 Calculate the correct closing balance of the Debtors' Control Account on 31 October 2016.

OR: T-account with figures on correct sides

| Debit (plus) | Credit (minus) |
|--------------|---------------------------|
| 179 500 | *900 |
| 2 500 | Balance c/d 181 600 |
| 500 | *OR 21 000 |
| | credit <u>with</u> 20 100 |
| | debit |

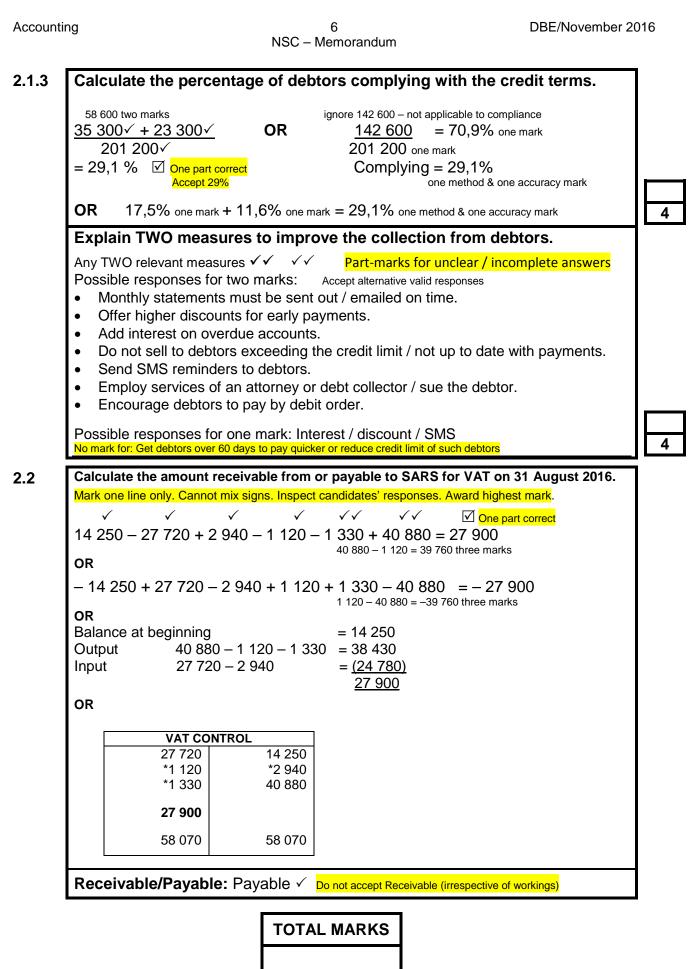
| Calculate the correct amounts owing by debtors. | | | | |
|---|---|----------|--|--|
| | Calculations | Balance | | |
| J Ramsay (D2) | ^{8 500 two marks} 37 500 – 4 300√ + 8 350√ + 150√ | *⊠41 700 | | |
| W Smith (D3) | + 3 600 - 6 300 <u>both</u> for two marks 19 500 + 2 500 \checkmark - 2 700 \checkmark \checkmark | *⊠19 300 | | |
| C Prince (D5) | $10\ 200\ \text{two marks}$ 3 900 + 4 300 \checkmark + 5 100 \checkmark + 5 100 \checkmark | *⊠18 400 | | |
| *One part correct for method mark | | | | |

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QUESTION 3

3.1

| 3.1.1 | Expense ✓ Accept recognisable abbreviations |
|-------|---|
| 3.1.2 | Current asset ✓ |
| 3.1.3 | Current liabilities √ |
| 3.1.4 | Net working capital ✓ |

3.2 AUDIT REPORT

3.2.1

To whom is the audit report addressed?

Shareholders√

3.2.2 Who has to ensure that the financial statements are prepared and presented at the annual general meeting?

Directors / Management / CEO / CFO ✓

3.2.3 Fralezi Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.

Mark the two parts independently.

Unqualified 🗸

Explain your choice. Any valid response \checkmark

Fair presentation / Clean audit / Did not state any shortcomings in the financial statements / In accordance with IFRS or Companies Act.

3.2.4 Explain why the independent auditors referred to page numbers 11–29 in the report.

Any valid explanation $\checkmark\checkmark$

Part-marks for unclear / incomplete answers

- Auditors are responsible for only parts / certain pages of the annual report.
- They are not accountable for the other information in the annual reports.
- Financial statements on pages 11–29 were subjected to audit / examination.
- Additional information, such as corporate social investment matters, is not audited.

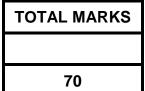
Do not accept statistical sampling as a reason.

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3.3 FRALEZI LTD INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

| | I FOR THE TEAR ENDED 30 JUNE | 2010 | | 1 |
|--|--|------------------------|-------------|----|
| Sales (4 777 300 √ – 35 7 | 700 ✓) One part correct | \checkmark | 4 741 600 | |
| Cost of sales | Award 3 marks if = Sales + 297 200 ÷ 1,7 | র্মন্থ (| (2 964 000) | |
| Gross profit | One part correct, COS must be subtracted | \checkmark | 1 777 600 | 7 |
| Other income | Operation one part correct | \checkmark | 110 640 | |
| Rent income (101 900 ✓ 107 900 thr | $(+6\ 000\ \checkmark\ -8\ 300\ \checkmark\)$ One part correct ree marks OR -2 300 four mark | \checkmark | 99 600 | |
| Bad debts recovered | | \checkmark | 10 540 | |
| ** Provision for bad de | <u>bts</u> adj. (3 732√– 3 232 √) One part correct Could be an expense if error made | \checkmark | 500 | |
| Gross operating prof | it Operation | V | 1 888 240 | 1: |
| Operating expenses | Operation | ☑ (| (1 177 000) | |
| Directors' fees | | \checkmark | 375 000 | |
| Salaries and wages | | \checkmark | 365 540 | |
| Sundry expenses | Any figure less than Op Exps total; ignore brackets res being inserted in this line e.g. discount, insurance | $\checkmark\checkmark$ | 129 406 | |
| Depreciation (124 260 ✓ | | V | 123 000 | |
| Audit fees (23 000 √ + 7 | | \checkmark | 30 250 | |
| Repairs (100 000 ✓ + 6 0 | 00 √) | \checkmark | 106 000 | |
| Packing material (13 60 | 00 √ – 3 700 √) | \checkmark | 9 900 | |
| +1 900 two Advertising (20 596 ✓ + ✓ | marks –152 one mark 1 748 $\sqrt[4]{\sqrt{3}}$ One part correct | \checkmark | 22 344 | |
| | $1 \checkmark + 1 260 \square$) See depr adj above; opposite sign | \checkmark | 10 560 | |
| ** <u>Trading stock</u> deficit (209 500 √ + 21 000 √ √ - | | \checkmark | 5 000 | 3 |
| Operating profit | Check = Sales x 0,15 | \checkmark | 711 240 | Ī |
| Interest income | Profit before interest expense – Operating profit | $\checkmark\checkmark$ | 28 480 | |
| Profit before interest | expense Operation from bottom up | \checkmark | 739 720 | |
| Interest expense Must be | correctly placed & subtracted; brackets not essential | $\checkmark\checkmark$ | (39 720) | |
| Net profit before tax | Operation; must be more than R504 000 | \checkmark | 700 000 | |
| Income tax for the ye | ar Ignore brackets | √ √ | (196 000) | 9 |
| Net profit after tax | | | 504 000 | |
| • | ward marks to workings if item misplaced: -1 for placem | | | |

Foreign items –1 (max –2) ** Award marks to workings if item misplaced; -1 for placement; max -2



| 60 | |
|----|--|

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QUESTION 4

4.1

| 4.1.1 | С | \checkmark | Solvency |
|-------|---|--------------|------------------|
| 4.1.2 | D | \checkmark | Liquidity |
| 4.1.3 | В | \checkmark | Return on equity |
| 4.1.4 | А | \checkmark | Gearing |

4

4.2.1 ORDINARY SHARE CAPITAL:

AUTHORISED SHARE CAPITAL

1 500 000 ordinary shares

ISSUED SHARE CAPITAL Presentation, incorrect or no details -1 (max -1)

| 900 000 | Ordinary shares on 1 July 2015 | 9 180 000 | | |
|-----------|---|--------------------------------|--|--|
| √(75 000) | Shares re-purchased (Average: R10,20) | ✓✓ (765 000) | | |
| √125 000 | Shares issued (R10,80 per share) | √1 350 000 | | |
| √950 000 | Ordinary shares on 30 June 2016 Operation one part correct; Repurchase deducted & Issued added | 9 765 000⊠ | | |

RETAINED INCOME: Presentation, incorrect or no details -1 (max -2)

| Balance on 1 July 20 ⁻ | 15 | 360 000 |
|--|---|-------------------------------|
| Net profit after tax | 444 500 | |
| Funds used for repurch 75 000 ✓ x 0,50 ☑ | nase of shares (10,70–ASP used) OR (802 500–figure from OSC) One part correct | (37 500) ☑ Do not accept 0 |
| Ordinary share dividen | ds Must be in brackets or subtracted One part correct | (481 250) 🗹 |
| Interim (434 250 OR 481 250 one | 272 250 Do not accept 162 000 | |
| Final | | 209 000 🗸 |
| Balance on 30 June 2 Must subtract repurchased shares | | 285 750⊠ |

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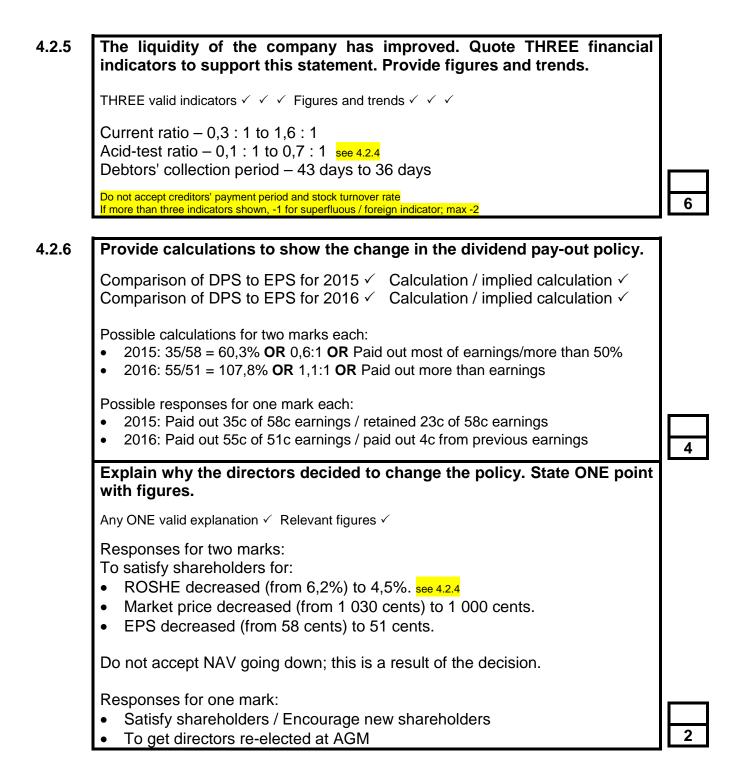
4.2.2 Calculate the change in loan for the Cash Flow Statement. 2 $8\ 000\ 000 - 4\ 500\ 000 = 3\ 500\ 000\ \checkmark\ \checkmark$ No part marks Calculate the income tax paid for the Cash Flow Statement. 23 400 \checkmark + 190 500 \checkmark - 6 200 \checkmark = 207 700 \checkmark One part correct OR - 23 400 - 190 500 + 6 200 = -207700**OR** T-account with figures on correct sides Debit Credit 207 700 23 400 6 200 190 500

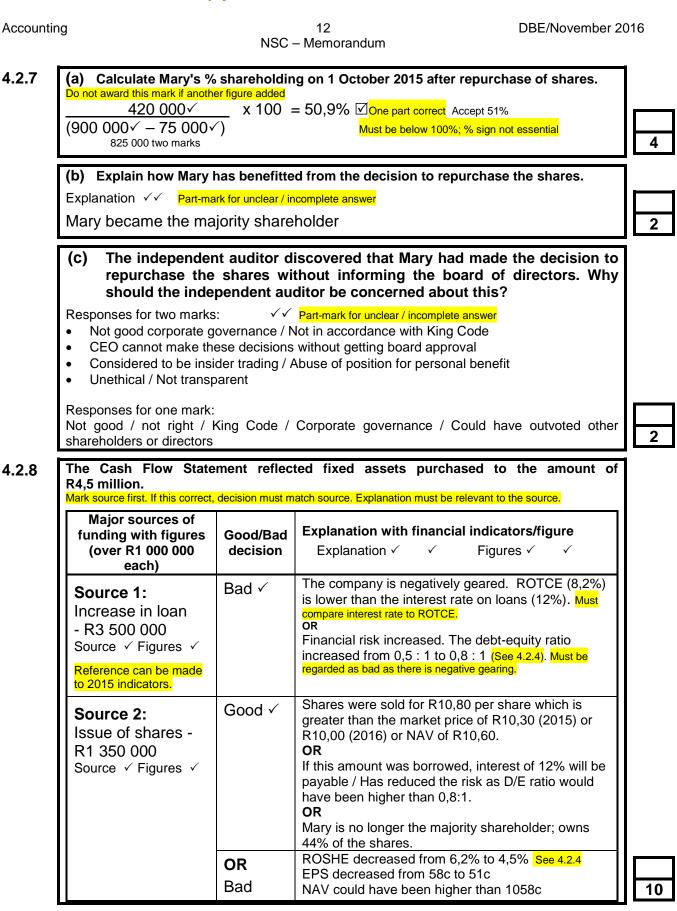
| Net change in cash and cash equivalents | ✓ 808 0 |
|--|---------------------------|
| Cash and cash equivalents (beginning of year) -610 500 one mark +7 500 one mark | √√ (603 0 |
| Cash and cash equivalents (end of year) | ✓ 205 0 |

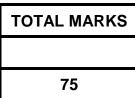
4.2.4 Calculate the acid-test ratio on 30 June 2016. 1 015 000 one mark - 564 000 one mark 451 000 two marks $(246\ 000\ \checkmark\ +\ 205\ 000\ \checkmark)$: 635 $200\ \checkmark\ =\ 0,7$: 1 \square One part correct; must be y:1 Calculate the debt-equity ratio on 30 June 2016. 8 000 000 \checkmark : 10 050 750 \checkmark = 0,8 : 1 \square One part correct; must be y:1 Accept 0,79 : 1 3 Calculate the % return on average shareholders' equity (ROSHE) for the year ended 30 June 2016. 444 500 Х <u>100</u> 1⁄₂ √ (10 050 750√ + 9 540 000√) 9 795 375 (3 marks) =4,5% \square One part correct; cannot be Rands, cents, units etc 5 Calculate the net asset value per share (NAV) on 30 June 2016. 10 050 750 ✓ x 100 = 1 058 cents ☑ One part correct OR R10,58 OR 1057,9 cents 950 000 **⊠**See 4.2.1 Must be Rands or cents 3



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5.1

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QUESTION 5

INVENTORY VALUATION

| 5.1.1 | Explain the FIFO valuation method. | | | |
|-------|---|---|--|--|
| | Any valid explanation, e.g. Part-marks for incomplete explanation | | | |
| | It is assumed that the first items bought are the first items sold. $\checkmark\checkmark$ | | | |
| | OR | | | |
| | Stock on hand is valued at the latest cost prices. | | | |
| | Explain the specific identification valuation method. | | | |
| | Any valid explanation, e.g. Part-marks for incomplete explanation | | | |
| | Each item of stock is valued at its original cost to the business. $\checkmark\checkmark$ | 4 | | |
| 5.1.2 | Calculate the cost price per laptop on hand on 1 October 2015. | | | |
| | R413 000/118 = R3 500 ✓ ✓ No part marks | 2 | | |
| 5.1.3 | Calculate the value of the closing stock on 30 September 2016. | | | |
| | PREFERRED METHOD202 500 three marks502 200 four marks \checkmark </th <th></th> | | | |
| | ALTERNATIVE METHOD WITH TOTALS | | | |
| | one mark two marks one mark one mark two marks one mark two marks one mark & one mark $(1\ 537\ 500\ -\ 1\ 335\ 000)$ + $(2\ 929\ 500\ -\ 93\ 000\ -\ 2\ 334\ 300)$ = 704 700 202 500 three marks four marks | | | |
| | ALTERNATIVE METHOD USING COST OF SALES | | | |
| | Candidates must know that opening stock has all been sold to get 3 marks on net purchases: | | | |
| | Net purchases- Cost of Sales= Closing stock $1 335 000 \text{ two marks } 2 334 300 \text{ two marks}$ $= Closing stock$ $+ 4 374 000$ $-[(356 \times R3 750) + (502 \times R4 650)]$ $= R704 700$ one or three marksone mark one mark one mark one mark one markone mark & one mark & one mark $-403 000 \& +403 000 = 0$ $= 0$ $= 0$ | 9 | | |

5.2

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| 5.2.1 | What decision did Kyle take regarding the selling price of the desks? Provide figures. |
|-------|---|
| | Decision ✓ Figures ✓ |
| | He increased the mark-up from 60% to 80%. He increased the selling price from R1 920 to R2 520 / by R600 / by 31%. |

MANAGEMENT OF INVENTORIES

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5

How has this decision affected the business? State TWO points. Provide figures.

Any two valid points \checkmark \checkmark Figure \checkmark \checkmark

- Gross profit increased from R259 200 to R336 000 / by R76 800 / by 29,6%.
- Stock turnover rate decreased from 7,2 to 6,0 times.
- Orders of desks decreased to 300 units / by 70 units / by 19%.
- Sales of desks decreased to 300 units / by 65 units / by 18%.

5.2.2 Was it a good idea for Kyle to change to a cheaper supplier of chairs?

YES/NO: No√

Explain TWO points. Provide figures.

Any two valid points \checkmark \checkmark Figure \checkmark \checkmark

- The gross profit decreased from R148 920 to R95 200 / by R53 720 / by 36%.
- The returns increased from 0 to 90 units / the customers are not satisfied with the quality of the product / Resulted in lower net sales 680 compared to 730.
- The cheaper price of R490 did not affect the stock turnover rate which remained constant at 4,0 / chairs did not appear to be popular with customers.

5.2.3 Based on the information given, provide TWO separate suggestions to Kyle to improve the profit on printers in 2017.

One valid point for pricing \checkmark Figure \checkmark

One valid point for orders \checkmark Figure \checkmark

Suggestion 1 (with figures):

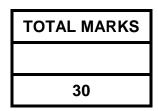
- Kyle should increase the price; Any figure between R975 and R1 200 OR
- Kyle should increase MU%; Figures: Any % between 25% and 70%.

Suggestion 2 (with figures):

- Kyle must plan purchase of printers / must follow up on orders to meet the demand of 925 units (i.e. 200 more than current sales)
 OR
- Kyle must maintain / improve stock turnover rate of 11,8 times

Responses for one mark only:

Find a cheaper supplier / Request deposits from customers / Payment in advance / Follow up on orders from customers / Negotiate a trade discount on purchases.



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QUESTION 6

Accounting

| 6.1.1 | TWO items record | led incorrectly in | the Cash Budget: | |
|-------|-------------------|------------------------------------|------------------|---|
| | Any TWO of: ✓ ✓ | / , -1 for invalid item; max -1 | | |
| | Discount received | Depreciation | Bad debts | 2 |

6.1.2 TWO items in the Cash Budget that would NOT appear in a Projected Income Statement:

Any TWO of: \checkmark \checkmark If more than two items given, -1 for invalid item; max -1

Cash from debtors Payments to creditors

Fixed deposit matures Repayment of loan

6.2 DEBTORS' COLLECTION SCHEDULE

| MONTHS | CREDIT SALES | SEPTEMBER | OCTOBER | |
|-----------|--------------|---------------------|-----------------------------|--|
| July | 120 000 | 8 400 | | |
| August | 151 200 | 60 480 | √√ 10 584 | |
| September | 172 800 | 86 400 | √√ 69 120 | |
| October | √√ 198 720 | 50% of credit sales | ☑☑ 99 360 | |
| | | 155 280 | Operation one part correct | |

6.3 AMOUNTS FOR THE CASH BUDGET

| | WORKINGS | AMOUNT |
|-----|---|--------------------------------|
| (a) | Cash sales for September | |
| | 288 000 ✓ x 40%✓ 3 172 800 one mark x 40/60 one mark 0R 0R 132 480 x 100/115 one mark one mark one mark | R115 200 ☑ One part correct |
| (b) | Payments to creditors for October | |
| | $252\ 000 \checkmark x^{100}/_{180} \checkmark x^{96}/_{100} \checkmark 4$ $140\ 000\ two\ marks - 5\ 600\ one\ mark$ $241\ 920\ two\ marks$ | R134 400⊠ One part correct |
| (c) | Directors' fees for October | |
| | $216\ 000 \checkmark x^{2}/_{3} \checkmark \checkmark x^{135}/_{100} \checkmark 5$ 144 000 three marks +50 400 one mark | R194 400⊠ One part correct |
| | (72 000 + 25 200) x 2 one mark two marks one mark | |
| (d) | Interest on loan for October | |
| | 6 875 - (12,5% x 52 800 ÷ 12) 550 three marks 6 600 two marks 4 400 two marks 6 | √⊠ R6 325 |
| | one mark one mark one mark one mark (660 000 - 52 800) x 12,5% ÷ 12 607 200 two marks | One part correct |

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6.4.1 The directors changed the method of payment to the salespersons.

Explain how this has benefitted the salespersons. Quote figures.

Explanation \checkmark Figures \checkmark

Although the salaries were reduced from R40 000 to R12 000, they received a commission of R66 150 (total: R78 150) / 95,4% or R38 150 more than their previous salaries.

Explain how this has benefitted the business. Quote figures.

Explanation ✓ Figures ✓

Actual sales are higher than the budgeted sales by R201 600 (489 600 – 288 000); sales are 70% higher than budget.

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6.4.2 The directors are not concerned about the overspending on packing material. Explain why this is so. Quote figures or calculations.

Explanation ✓ Both items i.e. Sales & Packing materials must be mentioned

Figures √√ √√

Candidates must quote percentages – if totals are quoted, award only one mark for each item Candidates must compare percentages of these two items to earn full marks

Sales were 70% over budget, while packing materials were only 20% over budget.

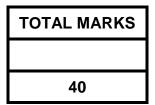
OR

Packing materials were budgeted at 5% of sales, while actual packing materials were only 3,5% of sales.

Response for one mark:

Packing materials will increase if sales increase.





TOTAL: 300