



Province of the
EASTERN CAPE
EDUCATION

NATIONAL SENIOR CERTIFICATE

GRADE 12

JUNE 2017

ACCOUNTING MARKING GUIDELINE

GENERAL RULES:

1. Award full marks for the correct final answers. If the answer is incorrect, mark the workings provided. If a workings figure/amount is shown as a final answer, allocate the working mark.
2. "Method" marks are denoted by
 - In calculations and final totals, at least one part of the workings must be correct to earn the mark.
 - In cases where answers of previous questions must be used, check the transfer.
 - Ignore brackets on statements, but check the operation before awarding marks.
3. Where penalties are applied, the marks for that section cannot be a negative. (foreign items)
4. For questions requiring explanations and comments, award part-marks. A good explanation will normally mention and explain a point. Beware of alternative wording reflecting the same points. This marking guideline provides some explanations – they are not conclusive. Read the candidates' responses and give credit for their interpretations.
5. Where appropriate/acceptable, accept recognisable abbreviations.
6. Educators are expected to work through the entire paper and make reasonable adjustments within the framework of the mark allocation.

This marking guideline consists of 13 pages.

QUESTION 1 RECONCILIATIONS

1.1 TRUE OR FALSE

| | |
|-------|---------|
| 1.1.1 | True ✓ |
| 1.1.2 | False ✓ |
| 1.1.3 | False ✓ |
| 1.1.4 | True ✓ |

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1.2 BANK RECONCILIATION

1.2.1

| ENTRIES FOR THE CRJ | | | ENTRIES FOR THE CPJ | | |
|---------------------|------------|---------------|-------------------------|------------|---------------|
| DETAILS OF SUNDRY | | AMOUNT | DETAILS OF SUNDRY | | AMOUNT |
| Total | b/f | 31 790 | Total | b/f | 22 500 |
| Drawings ✓ | | 1 500 ✓ | Insurance ✓ | | 635 ✓ |
| Trading stock ✓ | | 1 260 ✓ | Debtors control ✓ | | 1 220 ✓ |
| Rent income ✓ | | 5 600 ✓ | Interest on overdraft ✓ | | 170 ✓ |
| | | | Bank charges ✓ | | 355 ✓ |
| | | | | | |

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1.2.2 BANK RECONCILIATION STATEMENT ON 31 MARCH 2017

| | Debit | Credit |
|--------------------------------|---------|----------|
| Cr balance as per statement | | 3 700 ✓ |
| Cr deposit not yet recorded | | 14 820 ✓ |
| Dr outstanding cheques | No. 774 | 9 820 ✓✓ |
| | No. 816 | 3 180 ✓ |
| | No. 862 | 2 750 ✓ |
| Cr amount wrongly debited | | 2 800 ✓ |
| Dr balance as per Bank Account | 5 570 ✓ | |
| | 21 320 | 21 320 |

*Both totals

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1.2.3 As the internal auditor, why would you be concerned about the manner in which Siba performs her duties? Provide TWO points.

Any TWO valid points ✓✓ ✓✓

- Siba is responsible for many related tasks with little or no supervision. She may be negligent in performing her duties.
- Siba is not depositing money on a regular basis – she is probably rolling over cash.
- Siba may be tempted to engage in fraudulent behaviour due to no supervision.

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1.2.4 Provide a solution for the concerns you identified.

Any ONE solution ✓✓

Implement division of duties / provide supervision (line managers) to check work done / follow up on transactions with the bank (sms) / use a system of authorising certain important transactions.

2

1.3 CREDITORS RECONCILIATION

| | CHANGES TO THE CREDITORS LEDGER | CHANGES TO THE STATEMENT BALANCE |
|----------------|---------------------------------------|----------------------------------|
| BALANCE | 16 200 | 22 980 |
| A | + 420 ✓✓ | |
| B | | + 2 700 ✓✓ |
| C | + 1 880 ✓✓ (940 + 940) 1 mark each | |
| D | | - 2 180 ✓✓ |
| E | | - 5 000 ✓✓ |
| | 18 500 ☑* | 18 500 ☑* |

One part correct

| |
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| 12 |
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|-----------|-----------|--|
| Q1 | 45 | |
|-----------|-----------|--|

QUESTION 2 INVENTORY VALUATION

| | | |
|-----|---|--|
| 2.1 | <p>Calculate the value of the closing stock of Samsun cameras for the six months ended 31 March 2017.</p> <p>$(15 - 8) : 7 \checkmark \times 3\,200 \checkmark = 22\,400 \checkmark^*$ $(23 - 14) : 9 \checkmark \times 3\,680 \checkmark = 33\,120 \checkmark^*$</p> <p>TOTAL : 55 520 <input checked="" type="checkbox"/>* one part correct</p> | <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">7</div> |
| 2.2 | <p>Calculate the percentage gross profit earned on Nokin cameras.</p> <p style="text-align: center;">39 480 four marks 65 800 three marks</p> <p>$\frac{105\,280 \checkmark - (44\,000 \checkmark + 67\,200 \checkmark - 45\,400 \checkmark)}{65\,800 \checkmark \text{ see above}} \times 100 = 60\% \checkmark$ one part correct</p> | <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">6</div> |
| 2.3 | <p>Calculate the value of the closing stock of leather bags for the six months ended 31 March 2017.</p> <p>$(30 + 65 - 68) = 27 \checkmark \checkmark$ one part correct</p> <p>$25 \times 720 = 18\,000 \checkmark$ $2 \checkmark \times 675 \checkmark = 1\,350 \checkmark$ Total: 19 350 <input checked="" type="checkbox"/> one part correct</p> | <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">7</div> |
| 2.4 | <p>Comment on the stock holding period of leather bags. Quote figures.</p> <p>Comment <input checked="" type="checkbox"/><input checked="" type="checkbox"/> figures <input checked="" type="checkbox"/><input checked="" type="checkbox"/></p> <p>The stock holding period increased from 148 days to 157 days. This shows that the leather bags is not selling fast enough. Stock stays in stock for almost $\frac{1}{2}$ the year. Fortunately, leather bags are durable and has a long shelf life.</p> | <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">4</div> |
| 2.5 | <p>Tim wants to increase the sales of bags. What advice would you offer him? Provide ONE point.</p> <p>ONE valid point <input checked="" type="checkbox"/><input checked="" type="checkbox"/></p> <p>Advertise together with the cameras and other accessories. Lower the profit mark-up percentage or selling price. Buys stock in smaller quantities and more often (as needed) Base the sales on orders received.</p> | <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">2</div> |

2.6 MANAGEMENT OF INVENTORIES

2.6.1 What decision did Erna take regarding the selling price of the printers?

Any ONE decision ✓ Figures ✓

- He increased the mark-up from 50% to 75%.
- He increased the selling price from R1 875 to R2 625 / by R750 (by 40%).

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| |
| 2 |

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

Any TWO valid points ✓ ✓ Figure ✓ ✓

- Gross profit increased from R288 750 to R337 500 / by R48 750 (by 16,8%).
- Stock turnover rate decreased from 7,1 to 6,0 times.
- Sales of printers decreased from 462 to 300 units (by 36,1%).

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2.6.2 Was it a good idea for Erna to change to a cheaper supplier of fax machines?

YES/NO: No ✓

Explain ONE point.

Any valid point ✓ Figures ✓

- The gross profit decreased from R162 800 to R106 760 /by R56 040 (by 34,4%).
- The returns increased from 0 to 66 units (indicating that the customers were not satisfied with the quality of the product).
- The cheaper price of R476 did not affect the amount of units sold (785) or the stock turnover rate which remained constant at 5,0 (fax machines did not appear to be popular with customers).

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|-----------|-----------|--|
| Q2 | 35 | |
|-----------|-----------|--|

QUESTION 3 CONCEPTS AND INCOME STATEMENT

3.1 CONCEPTS

| | |
|-------|-----|
| 3.1.1 | C ✓ |
| 3.1.2 | A ✓ |
| 3.1.3 | D ✓ |
| 3.1.4 | B ✓ |

4

3.2 INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017

| | | | |
|----|-------------------------------------|---------------------------------|--|
| | Sales | 1 560 000 ✓ – 1 920 ✓ + 2 400 ✓ | 1 560 480 <input checked="" type="checkbox"/> * |
| | Cost of sales | 975 000 ✓ + 1 500 ✓ | (976 500) <input checked="" type="checkbox"/> * |
| 8 | Gross profit | | 583 980 <input checked="" type="checkbox"/> * |
| | Other income | | 334 500 |
| | Fee income | 241 520 ✓ + 180 ✓ | 241 700 ✓ |
| | Provision for bad debts-adjustment | 7 082 + 4 732 | 2 350 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> * |
| | Rent income | 82 650 ✓ + 7 800 ✓✓ | 90 450 <input checked="" type="checkbox"/> |
| 10 | Gross income | | 918 480 <input checked="" type="checkbox"/> * |
| | Operating expenses | | (808 480) |
| | Depreciation | | 24 200 ✓ |
| | Directors fees | 441 180 ✓ + 10 260 ✓✓ | 451 440 <input checked="" type="checkbox"/> * |
| | Salaries and wages | | 216 000 ✓ |
| | Insurance | 20 200 ✓ + 1 800 ✓✓ | 22 000 <input checked="" type="checkbox"/> * |
| | Bank charges | 10 820 ✓ + 1 280 ✓ | 12 100 ✓ |
| | Advertising | 12 400 ✓ – 3 400 ✓✓ | 9 000 <input checked="" type="checkbox"/> * |
| | Consumable stores | 32 620 ✓ - 3 220 ✓ | 29 400 ✓ |
| | Trading stock deficit | 123 900 – 123 700 | 200 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> * |
| | Audit fees | | 21 980 ✓ |
| | Sundry expenses | | 22 160 ✓ |
| 25 | Operating profit | | 110 000 <input checked="" type="checkbox"/> * |
| | Interest expense | (470 ✓ + 39 330 ✓✓) | (39 800) <input checked="" type="checkbox"/> * |
| | Net profit before income tax | | 70 200 ✓ |
| | Income tax | NPbT x 30% | (21 060) <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> |
| 8 | Net profit after income tax | | 49 140 <input checked="" type="checkbox"/> * |

51

*operation, one part correct

Q3

55

QUESTION 4 BALANCE SHEET AND NOTES

4.1 CONCEPTS

| | |
|-------|--------------------|
| 4.1.1 | Return on equity ✓ |
| 4.1.2 | Gearing ✓ |
| 4.1.3 | Liquidity ✓ |
| 4.1.4 | Solvency ✓ |

4

4.2.1 ORDINARY SHARE CAPITAL

| | | | |
|------------|------------------------------------|---------------------------------|--------------|
| 570 000 ✓✓ | Opening balance | check operation from the bottom | 3 412 000 ✓ |
| 130 000 ✓ | Shares issued at R6,60 each | | 858 000 ✓ |
| (75 000) ✓ | Shares re-purchased (ASP: 6,10 ✓✓) | | (457 500) ✓* |
| 625 000 ✓* | Closing balance | | 3 812 500 ✓ |

11

*one part correct

RETAINED INCOME

| | | | |
|------------------------------------|---|-----------|------|
| Opening balance | check operation working from bottom | 206 720 | ✓ |
| Net profit after income tax | (261 120 x $\frac{68}{32}$) | 554 880 | ✓ ✓* |
| Funds used for shares re-purchased | (75 000 ✓ x 0,90 ✓) R7,00 – ASP above | (67 500) | ✓* |
| Ordinary share dividends | | (256 600) | |
| Interim dividends | (570 000 ✓ x 18 cents ✓) | 102 600 | ✓* |
| Final dividends | (700 000 ✓ x 22 cents ✓) | 154 000 | ✓* |
| Closing balance | (625 000 ✓ x 6,80 ✓) – 3 812 500 ✓ 4 250 000 | 437 500 | ✓* |

16

*one part correct

4.2.2 BALANCE SHEET AS AT 28 FEBRUARY 2017

| | | | | |
|----|--|------------------|-----------|---------------------------------------|
| | NON CURRENT ASSETS | TA - CA | 4 857 700 | <input checked="" type="checkbox"/> |
| | • Fixed assets (carrying value) | | 4 607 700 | <input checked="" type="checkbox"/> |
| | • Fixed deposit | balancing figure | 250 000 | <input checked="" type="checkbox"/> |
| | CURRENT ASSETS | CL x 1,5 | 726 900 | <input checked="" type="checkbox"/> |
| | • Inventories | balancing figure | 489 400 | <input checked="" type="checkbox"/> |
| | • Trade and other receivables | | 234 000 | <input checked="" type="checkbox"/> |
| | • Cash and cash equivalents | | 3 500 | <input checked="" type="checkbox"/> |
| 10 | TOTAL ASSETS | TE + L | 5 584 600 | <input checked="" type="checkbox"/> |
| | EQUITY AND LIABILITIES | | | |
| | SHAREHOLDERS EQUITY | | 4 250 000 | <input checked="" type="checkbox"/> * |
| | • Ordinary share capital | | 3 812 500 | <input checked="" type="checkbox"/> |
| | • Retained income | See 4.2.1 | 437 500 | <input checked="" type="checkbox"/> |
| | NON-CURRENT LIABILITIES | | 850 000 | |
| | • Loan: Mani Bank | SE x 0,2 | 850 000 | <input checked="" type="checkbox"/> |
| | CURRENT LIABILITIES | | 484 600 | <input checked="" type="checkbox"/> * |
| | • Trade and other payable | | 167 000 | <input checked="" type="checkbox"/> |
| | • Shareholders for dividends | See 4.2.1 | 154 000 | <input checked="" type="checkbox"/> |
| | • SARS: Income tax (261 120 ✓ – 250 000 ✓) | | 11 120 | <input checked="" type="checkbox"/> * |
| | • Short term loan | | 90 000 | <input checked="" type="checkbox"/> |
| | • Bank overdraft | | 62 480 | <input checked="" type="checkbox"/> |
| 14 | TOTAL EQUITY AND LIABILITIES | | 5 584 600 | <input checked="" type="checkbox"/> * |

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| 24 |
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*one part correct

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| Q4 | 55 | |
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QUESTION 5 CASH FLOW STATEMENT AND INTERPRETATION & AUDIT REPORTS

5.1.1 CASH GENERATED FROM OPERATIONS

| | | |
|---|--|---|
| Net profit before tax | | 995 800 |
| Adjustments for: | | |
| Depreciation | | 135 700 ✓ |
| Interest expense | | 76 500 ✓ |
| | | 1 208 000 <input checked="" type="checkbox"/> # |
| Cash effects of changes in working capital | | 11 600 <input checked="" type="checkbox"/> # |
| Change in Stock (174 000 – 112 000) | | 62 000 ✓✓* |
| Change in Debtors (100 200 – 131 200) | | (31 000) ✓✓* |
| Change in Creditors (221 000 – 201 600) | | (19 400) ✓✓* |
| CASH GENERATED FROM OPERATIONS | | 1 219 600 <input checked="" type="checkbox"/># |

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*1 mark for the amount and 1 mark for the correct use of the brackets
#check operation, one part correct

5.1.2 Income tax paid

 one part correct
 $- 9\,400 + 298\,700 - 17\,300 = 272\,000$

4

Dividends paid

 one part correct
 $86\,400 + 239\,100 - 138\,600 = 186\,900$

4

5.1.3 EXTRACT OF THE CASH FLOW STATEMENT

| | | | |
|---|--|-------------|-----|
| | INVESTING ACTIVITIES | (942 700) | ☑* |
| | Purchases of fixed assets 2 688 000 ✓ – (3 450 000 ✓ + 214 300 ✓ + 135 700 ✓) | (1 112 000) | ☑* |
| | Proceeds on sale of equipment | 214 300 | ✓ |
| 9 | Change in investment (125 000 – 170 000) | (45 000) | ✓✓ |
| | FINANCING ACTIVITIES | 575 000 | ☑* |
| | Proceeds from shares issued (2 569 000 ✓ + 160 000 ✓✓ – 2 304 000 ✓) | 425 000 | ☑* |
| | Funds used to re-purchase shares | (200 000) | ✓ |
| 9 | Change in loan (800 000 – 450 000) | 350 000 | ✓✓ |
| | NET CHANGE IN CASH AND CASH EQUIVALENT | 316 500 | ☑* |
| | Cash and cash equivalents (opening balance) 51 600 – 3 600 | (48 000) | ✓☑* |
| 4 | Cash and cash equivalents (closing balance) | 268 500 | ✓ |

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*operation, one part correct, amount only correct with the correct use of the brackets

5.2 FOXX LTD AND WOLFE LTD

5.2.1 Identify the company that is managing its working capital more effectively. Refer to TWO financial indicators of both companies to support your choice of company.

Company : Foxx Ltd ✓

Comparison of TWO financial indicators ✓✓ ✓✓

1. Acid test ratio (Wolfe 0,7 : 1; Foxx 1,1 : 1) shows that Wolfe's current assets is high because of excess stock (stock piling)
2. Wolfe's stock holding period is also high 98 days (Foxx 35 days) which means that their sales is also not effective. Low turnover of stock.

Note: Do not accept current ratio

5

5.2.2 Comment on the dividend pay-out policy of each company. Explain the policy used and quote figures for each.

Foxx ✓✓ and Wolfe ✓✓

Foxx pays 95% (494/520) of the EPS to shareholders - DPS. Only 5% is retained by the business.

Wolfe pays 50% (325/650) of EPS to shareholders – DPS. 50% of profits is retained by the business for growth.

4

5.2.3 Comment on the decisions regarding the use of loans for each company. Make reference to TWO financial indicators for each company.

Foxx: financial indicators ✓✓ figures ✓
Wolfe: financial indicators ✓✓ figures ✓

Wolfe is lowly geared. Debt/equity is 0,1 : 1. Return on capital employed shows negative gearing. (6% compared to interest on loan which is 12%) Therefore it is good that they chose to use more own capital as borrowed capital would be costly for them.

Foxx is highly geared. Debt equity is 0,8 : 1. ROTCE (17%) shows that the business experiences positive gearing as the return is higher than the interest rate (12%).

6

5.2.4 Explain how prospective investors would react to the share price of each company. Quote figures to support your answer.

Comparing NAV and Market price of each company ✓✓
Comment on prospective investors ✓✓

Foxx has a higher NAV than Wolfe (945 cents / 530 cents).
Wolfe market price (710 cents) is better than their NAV.
Foxx market price (776 cents) is lower than their NAV.

Prospective investors will be more interested in Wolfe as the market price is an indicator of investor confidence in a company.

4

5.2.5 AUDIT REPORT

- **State the type of report received by each company.**

FOXX: Unqualified ✓

WOLFE: Disclaimer of opinion ✓

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- **Explain how the reports above will affect his decision concerning which company to invest his money.**

Good explanation ✓✓✓ satisfactory explanation ✓✓ weak ✓

Eastward would be concerned about Wolfe as the audit report creates a negative image of the company.
The external auditor is not satisfied with the internal controls. This suggests that there are many problems with management and control. Basic process are not being maintained. This will cause the share price to drop.

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| Q5 | 65 | |
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QUESTION 6 FIXED ASSETS AND VAT**6.1 FIXED ASSETS****6.1.1 Explain how the asset register will assist the internal auditor in the course of him performing his duties.**

ONE valid explanation ✓✓

- It helps to verify the value of individual assets.
- It shows the control of assets in terms of replacements, writing off and depreciation policies.
- It gives a breakdown of the total assets as reflected in the general ledger.
- It highlights the internal control process in terms of usage, maintenance and upkeep.

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6.1.2**GENERAL LEDGER OF ELIJAH TRADERS
ASSET DISPOSAL ACCOUNT**

| | | | | | | | | | |
|-------------|---|--------------------------------|--|---------------|-------------|---|--|--|-------------|
| 2016 Dec | 1 | Equipment 420 000 – 290 000 | | 130 000 ✓✓ | 2016 Dec | 1 | Accumulated depreciation on equipment ✓ | | 63 375 ☑ |
| | | 420 000 – 290 000 | | | | | 48 750 ✓ + 14 625 ✓✓ | | |
| | | | | | | | Debtors control ✓ | | 50 000 ✓ |
| | | | | | | | Loss on sale of asset ✓ | | 16 625 ✓ |
| | | | | 130 000 | | | | | 130 000 |
| | | | | | | | | | |

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6.1.3

| | WORKINGS | ANSWER |
|--------------|--|---------------|
| (i) | 2 165 000 – 625 000 | 1 540 000 ✓✓ |
| (ii) | 825 000 – 528 000 | 297 000 ✓✓ |
| (iii) | 528 000 ✓ x 20% ✓ = 105 600 ☑ 300 000 ✓ x 20% x $\frac{8}{12}$ ✓ = 40 000 ☑ | 145 600 ☑ |
| (iv) | 528 000 ✓ + 300 000 ✓ – 145 600 ☑ | 682 400 ☑ |
| (v) | 130 000 ☑ – 63 375 ☑ | 66 625 ☑ |

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6.2 VAT

6.2.1

| | VAT CONTROL | |
|----------------------|-------------|-----------|
| | DEBIT | CREDIT |
| Total due to SARS | | 5 206 ✓ |
| Total sales | | 20 300 ✓✓ |
| Total purchases | 13 160 ✓✓ | |
| Bad debts | 994 ✓ | |
| Discount received | | 882 ✓ |
| Returns to suppliers | | 672 ✓ |
| Discount allowed | 406 ✓ | |
| | 14 560 | 27 060 |

RECEIVABLE OR PAYABLE TO SARS:

27 060 – 14 560 = 12 500 ✓ PAYABLE ✓

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6.2.2

M. Booï suggested to Marties that she will supply certain trading goods for cash only and that she will not provide any documentation. Should Marties accept this offer? Explain.

No ✓

Explanation ✓✓

This is an attempt to defraud SARS. It is illegal and if caught will result in severe fines or disciplinary action.

It is unethical and dishonest business practice.
It will also tarnish the reputation of the business and people will lose confidence in the owner and will not support the business.

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| Q6 | 45 | |
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TOTAL: 300