



**education**

Lefapha la Thuto la Bokone Bophirima  
Noord-Wes Onderwys Departement  
North West Education Department  
**NORTH WEST PROVINCE**

**ACCOUNTING  
COLLECTABLE MARKS  
MATERIAL**

**GRADE 12**

**MARKING GUIDELINES**

## QUESTION 1

**COMPANIES**

1.1

1.1.1	Expense ✓
1.1.2	Current asset ✓
1.1.3	Current liabilities ✓
1.1.4	Net working capital ✓

4

1.2 **AUDIT REPORT**

1.2.1

<b>To whom is the audit report addressed?</b>
Shareholders ✓

1

1.2.2

<b>Who has to ensure that the financial statements are prepared and presented at the annual general meeting?</b>
Directors/Management / CEO / CFO ✓

1

1.2.3

<b>Fralezi Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.</b>
Mark the two parts independently.
Unqualified ✓
<b>Explain your choice.</b> Any valid response ✓
Fair presentation/ Clean audit / Did not state any shortcomings in the financial statements / In accordance with IFRS or Companies Act.

2

1.2.4

<b>Explain why the independent auditors referred to page numbers 11–29 in the report.</b>
Any valid explanation ✓✓
Part-marks for unclear / incomplete answers
<ul style="list-style-type: none"> <li>• Auditors are responsible for only parts/ certain pages of the annual report.</li> <li>• They are not accountable for the other information in the annual reports.</li> <li>• Financial statements on pages 11–29 were subjected to audit / examination.</li> <li>• Additional information, such as corporate social investment matters, is not audited.</li> </ul>
Do not accept statistical sampling as a reason.

2

## 1.3

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

<b>Sales</b> (4 777 300 ✓ - 35 700 ✓) One part correct	<input checked="" type="checkbox"/> 4 741 600	
<b>Cost of sales</b> Award 3 marks if = Sales + 297 200 ÷ 1,7	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> (2 964 000)	
<b>Gross profit</b> One part correct, COS must be subtracted	<input checked="" type="checkbox"/> 1 777 600	7
<b>Other income</b> Operation one part correct	<input checked="" type="checkbox"/> 110 640	
Rent income (101 900 ✓ + 6 000 ✓ ✓ - 8 300 ✓ ✓) One part correct -2 300 four marks	<input checked="" type="checkbox"/> 99 600	
Bad debts recovered	<input checked="" type="checkbox"/> 10 540	
** <u>Provision for bad debts</u> adj. (3 732 ✓ - 3 232 ✓) One part correct Could be an expense if error made	<input checked="" type="checkbox"/> 500	
<b>Gross operating profit</b> Operation	<input checked="" type="checkbox"/> 1 888 240	12
<b>Operating expenses</b> Operation	<input checked="" type="checkbox"/> (1 177 000)	
<b>Directors' fees</b>	✓ 375 000	
<b>Salaries and wages</b>	✓ 365 540	
<b>Sundry expenses</b> Any figure less than Op Exps total Beware of inappropriate figures being inserted in this line e.g. discount, insurance	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 129 406	
Depreciation (124 260 ✓ - 6 300 ✓ + 5 040 ✓ ✓) -1 260 three marks One part correct -14 700 + 13 440 three marks	<input checked="" type="checkbox"/> 123 000	
Audit fees (23 000 ✓ + 7 250 ✓)	✓ 30 250	
Repairs (100 000 ✓ + 6 000 ✓)	✓ 106 000	
Packing material (13 600 ✓ - 3 700 ✓) 1 748 three marks	✓ 9 900	
Advertising (20 596 ✓ + 1 900 ✓ ✓ - 152 ✓) One part correct	<input checked="" type="checkbox"/> 22 344	
Loss due to theft (9 300 ✓ + 1 260 <input checked="" type="checkbox"/> ) See depr adj above; opposite sign OR (28 560 one m/mark - 18 000 one mark) One part correct	<input checked="" type="checkbox"/> 10 560	
** <u>Trading stock deficit</u> One part correct but not 225 500 (209 500 ✓ + 21 000 ✓ ✓ - 225 500 ✓) Could be a surplus if error made	<input checked="" type="checkbox"/> 5 000	
<b>Operating profit</b> Check = Sales x 0,15	<input checked="" type="checkbox"/> 711 240	
<b>Interest income</b> Profit before interest expense - Operating profit	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 28 480	
<b>Profit before interest expense</b> Operation from bottom up	<input checked="" type="checkbox"/> 739 720	
<b>Interest expense</b> Must be correctly placed & subtracted	✓ ✓ (39 720)	
<b>Net profit before tax</b> Operation; must be more than R504 000	<input checked="" type="checkbox"/> 700 000	
<b>Income tax for the year</b> Ignore brackets	✓ ✓ (196 000)	9
<b>Net profit after tax</b>	<b>504 000</b>	

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

**QUESTION 2**

2.1

2.1.1	Current assets ✓
2.1.2	Operating income ✓
2.1.3	Non-current asset ✓
2.1.4	Operating expense ✓

4

**2.2.1 TEMBISO LTD****INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018**

	<b>Sales</b> (4 856 000 – 96 000 x 140%) + (96 000 x 90%) 6 664 000 ✓✓ 86 400 ✓✓	6 750 400	✓*
	<b>Cost of sales</b>	<b>(4 856 000)</b>	
6	<b>Gross profit</b>	1 894 400	✓*
	<b>Other operating income</b>	<b>879 440</b>	
	<b>Gross income</b>	2 773 840	✓*
2	<b>Operating expenses</b>	(1 255 000)	✓*
	<b>Salaries and wages</b>	<b>501 200</b>	
	Audit fees (65 400 ✓ + 21 800 ✓✓)	87 200	✓*
	Rent expense (79 240 ✓ + 24 080 ✓✓)	103 320	✓*
	Directors fees (497 800 ✓ – 26 200 ✓✓)	471 600	✓*
	Sundry expenses	91 680	✓
14	<b>Operating profit</b>	1 518 840	✓*
	<b>Interest income</b> <small>balancing figure</small>	56 160	✓
	<b>Net profit before interest expense</b>	1 575 000	✓*
	<b>Interest expense</b>	(242 500)	✓
	<b>Net profit before tax</b> <small>NPAT – Inc Tax</small>	1 332 500	✓
	<b>Income tax</b> (341 800 + 31 300)	(373 100)	✓✓
6	<b>Net profit after tax</b>	<b>959 400</b>	

\*one part correct

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### 2.2.2 ORDINARY SHARE CAPITAL AUTHORISED SHARE CAPITAL

<b>1 600 000 ordinary shares</b>
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#### ISSUED SHARE CAPITAL

1 280 000✓	Ordinary shares on 1 March 2017	6 976 000	✓
(300 000)	Shares repurchased (ASP: R5,45 ✓✓)	(1 635 000)	✓
500 000✓*	Shares issued *balancing figure	3 475 000	✓*
<b>1 480 000</b>	<b>Ordinary shares on 28 February 2018</b>	<b>8 816 000</b>	

7

#### RETAINED INCOME

<b>Balance on 1 March 2017</b>		<b>376 600</b>	
Shares repurchased		(465 000)	✓
Net profit after tax		959 400	✓
<b>Ordinary share dividends</b>	balancing figure	(486 400)	✓
• Interim dividends (980 000 x 0,30)	one part correct	294 000	✓✓
• Final dividends	balancing figure	192 400	✓
<b>Balance on 28 February 2018</b>		<b>384 600</b>	✓

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### 2.2.3 EQUITY AND LIABILITIES SECTION OF THE BALANCE SHEET

<b>SHAREHOLDERS' EQUITY</b>	operation (added)	9 200 600	✓
<b>Ordinary share capital</b>		<b>8 816 000</b>	
<b>Retained income</b>	see 5.2.2	384 600	✓
<b>NON-CURRENT LIABILITIES</b>		1 371 600	
Loan LSO Bank 31 600 x 12 (1 725 500 ✓ - 379 200 ✓ + 242 500 ✓) - 217 200 ✓	379 200 - 162 000	1 371 600	✓*
<b>CURRENT LIABILITIES</b>		900 900	✓*
<b>Trade and other payables</b> (414 120 ✓ + 21 800 ✓ + 24 080 ✓) audit fees rent expense		460 000	✓*
Shareholders for dividends	see 5.2.2	192 400	✓
SARS: Income tax		31 300	✓
Current portion of loan	see NCL above	217 200	✓
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>11 473 100</b>	✓

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**2.3 AUDIT REPORT**

**2.3.1**

**Point 1** **Opinion** ✓

The auditors found no problem to report / unqualified report / statistical sampling used

1

**Point 2** **IFRS and Companies Act** ✓✓

The company operates on a global market/engages in international trade  
 Due to technology, shareholders (investors) may come from all parts of the world  
 The company is influenced by the global economy/exchange rates etc.

2

**Point 3** **Independent** Part-mark for partial answer ✓✓

Their opinion is unbiased/they have no personal interest in the company  
 They are authentic. They have high international standards of professionalism to maintain./They have a code of conduct.

2

**2.3.2**

**Point 4** **TWO examples of ethical responsibilities:** ✓✓✓✓

Any TWO valid example

No colluding with management to overlook any material matter.  
 No accepting bribes or engaging in corruption  
 Care taken in completing the audit and expressing the opinion.  
 The readers can rely on the information in the financial statement

4

**Point 5** **TWO examples of audit evidence:** ✓✓✓✓

Any TWO valid example

Check the internal controls and that the internal auditor has done his job properly  
 An audit committee should be appointed to assess the internal and external audit processes (work with internal auditors to ensure internal controls are efficient)  
 Source documents (provided by external organisations, provide verification)  
 Policies and procedures of the company

4

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**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

see(b) above one part correct

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

**OR**

one mark one mark one method mark one method mark

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

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

30 900 four marks 18 900 three marks

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

108 000 two marks

**OR**

one mark one mark one mark two marks one method mark

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

6

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

see (c) above one part correct

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

4

## 3.2 BALANCE SHEET OF ODETTE LTD ON 28 FEBRUARY 2017

	<b>ASSETS</b>			
	<b>NON CURRENT ASSETS</b> (TA – CA)	4 010 940	<input checked="" type="checkbox"/>	
	Fixed assets See (3.1 e)	2 981 290	<input checked="" type="checkbox"/>	
3	Financial assets (Fixed Deposit) Non-current assets – Fixed assets	1 029 650	<input checked="" type="checkbox"/>	
	<b>CURRENT ASSETS</b> CL X 2,1	870 660	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Inventory	<b>408 880</b>		
	Trade and other receivables 67 200 ✓ – 270 ✓✓ + 6 800 ✓✓ + 10 350 ✓✓	84 080	<input checked="" type="checkbox"/>	*
	Cash and cash equivalents CA – Inv – T & OR	377 700	<input checked="" type="checkbox"/>	
12	<b>TOTAL ASSETS</b> SHE + L	4 881 600	<input checked="" type="checkbox"/>	
	<b>EQUITY AND LIABILITIES</b>			
	<b>SHAREHOLDERS EQUITY</b> 675 000 ✓ x 620 c ✓ 900 000 x 75%	4 185 000	<input checked="" type="checkbox"/>	
	Ordinary share capital SE – 520 000	3 665 000	<input checked="" type="checkbox"/>	
4	Retained income	<b>520 000</b>		
	<b>NON-CURRENT LIABILITIES</b>	282 000		
4	Loan: Beque Bank 376 000–92 000 ✓✓✓ 284 000+ 48 000 – 50 000 332 000 two marks	282 000	<input checked="" type="checkbox"/>	*
	<b>CURRENT LIABILITIES</b>	414 600	<input checked="" type="checkbox"/>	*
	#Trade and other payables 184 000 ✓ + 5 600 ✓	189 600	<input checked="" type="checkbox"/>	*
	## SARS: Income tax 222 000 ✓✓ – 209 000 ✓ 518 000 x 30/70 See no. of shares in SHE	13 000	<input checked="" type="checkbox"/>	*
	Shareholders for dividends (675 000 <input checked="" type="checkbox"/> x 0,24 ✓)	162 000	<input checked="" type="checkbox"/>	*
	Current portion of loan	50 000	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
14	<b>TOTAL EQUITY AND LIABILITIES</b>	4 881 600	<input checked="" type="checkbox"/>	*

NB: See alternative version to allow for SARS as a T&OR

\*one part correct

#Trade and other payables can combine the other elements under current liabilities.



### 3.3 AUDIT REPORT

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

Any three different valid 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

<b>TOTAL MARKS</b>
65

**QUESTION 4****4.1 CONCEPTS**

1.1.1	B ✓
1.1.2	D ✓
1.1.3	A ✓
1.1.4	E ✓

4

**4.2 PHAMBILI LIMITED****4.2.1 Prepare the following notes for the financial year ended 28 February 2019.****(a) Ordinary share capital**

500 000 ✓	Ordinary shares at beginning of the year	1 220 000 ✓
900 000 ✓	Shares issued at R3,00 ✓	2 700 000 ✓
(150 000) ✓	Shares repurchased at R2,80 ✓✓ ASP (Do not accept R0,75 as ASP)	(420 000) ✓
1 250 000 ✓	Ordinary shares in issue at the end	3 500 000 ✓

11

ASP – average share price

**(b) Retained income**

<b>Balance at the beginning of the year</b>	<b>355 500</b>
Net profit after tax 1 148 000 ✓ × <sup>72</sup> / <sub>28</sub> ✓	2 952 000 ✓
Funds used for repurchase of shares (150 000 × R0,75)	(112 500) ✓
<b>Ordinary share dividends</b> operation, one part correct	(975 000) ✓
Interim	350 000 ✓
Final (1 250 000 ✓ × R0,50 ✓) See above operation, one part correct	625 000 ✓
<b>Balance at the end of the year</b> inspect operation Must subtract ordinary share dividends and shares repurchased	2 220 000 ✓

11

4.2.2

**Complete the Balance Sheet (Statement of Financial Position) on 28 February 2019. Where notes are not required, show ALL workings. BALANCE SHEET ON 28 FEBRUARY 2019**

<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>	TA-CA	6 519 800	✓
Fixed Assets		1 499 500	✓
Financial Assets (Fixed Deposit)	balancing figure	5 020 300	✓
<b>CURRENT ASSETS</b>		<b>1 400 200</b>	3
Inventory (480 000 + 16 000)		496 000	✓✓
Trade and receivables (400 000 ✓ – 5 400 ✓ + 32 000 ✓✓)		426 600	✓
<b>Cash and cash equivalents</b> (1 010 100 ✓ – 532 500 ✓)		477 600	✓
<b>TOTAL ASSETS</b>		<b>7 920 000</b>	11
<b>EQUITY AND LIABILITIES</b>			
<b>ORDINARY SHAREHOLDERS' EQUITY</b>		5 720 000	✓
<b>Ordinary share capital</b>	See 3.2.1	3 500 000	✓
Retained income	See 3.2.1	2 220 000	✓
<b>NON-CURRENT LIABILITIES</b>		992 000	
<b>Loan</b> (1 376 000 ✓ – 384 000 ✓✓) (32 000 × 12) Operation, one part correct		992 000	✓✓
<b>CURRENT LIABILITIES</b>		<b>1 208 000</b>	5
<b>Trade and other payables</b> (177 500 ✓ + 10 000 ✓ + 11 500 ✓ + 625 000 ✓ See 3.2.1)		824 000 ✓/	
		* 199 000 /	
		** 1 208 000 /	
		*** 583 000	
Current portion of loan	See above	384 000	✓
Shareholders for dividends	See 3.2.1	625 000	
<b>NOTE: CURRENT PORTION OF LOAN + SHAREHOLDERS FOR DIVIDENDS CAN BE ADDED TO TRADE AND OTHER PAYABLES OR SHOWN SEPARATELY</b> * 177 500 + 10 000 + 11 500 = 199 000 ** 177 500 + 10 000 + 11 500 + 625 000 + 384 000 = 1 208 000 *** 177 500 + 10 000 + 11 500 + 384 000 = 583 000			
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7 920 000</b>	7

**4.3 AUDITING**

4.3.1 **Explain why the shareholders would be satisfied with this audit report.**

Any ONE relevant answer ✓✓

- This is a positive report / clean report / in accordance with IFRS or Companies Act.
- This is an unqualified report / the report was fairly presented as per the auditor's opinion.
- The auditors did not mention any irregularities / shortcomings in the financial statements.

2

4.3.2 **Tello Motloun, the managing director, has informed the auditors that he intends to buy the unissued shares for himself without informing the other shareholders. What advice should the auditors give to Tello? Explain.**

Valid explanation ✓✓

- Advice – This is unethical and the issue of new shares should be advertised to all according to the Memorandum of Incorporation / Companies Act.
- It is unethical as it constitutes insider trading.

2

4.3.3 **Explain why the auditors found it necessary to stipulate the page numbers in the report.**

Any ONE valid explanation ✓✓

- They are only responsible for the pages that they have stipulated in the report / only financial statements on Pages 23 – 89 were subjected to audit / examination.
- They are not accountable for the other information in the annual report.

2

4.3.4 **Explain TWO major consequences for Mxo and Frank should they be negligent in performing their duties.**

Any TWO explanations ✓✓ ✓✓

- Not to be re-appointed as auditors
- Face disciplinary procedures by the professional body
- Lose clients / fired by shareholders (because their integrity would be questioned)
- Can be sued

4

**QUESTION 5**

5.1

5.1.1	C	✓	Solvency
5.1.2	D	✓	Liquidity
5.1.3	B	✓	Return on equity
5.1.4	A	✓	Gearing

4

5.2.1

**ORDINARY SHARE CAPITAL:  
AUTHORISED SHARE CAPITAL**

1 500 000 ordinary shares

**ISSUED SHARE CAPITAL**

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✓
<b>Balance on 1 July 2015</b>		<b>360 000</b>
<b>Net profit after tax</b>		<b>444 500</b>
Funds used for repurchase of shares 75 000 ✓ x 0,50 ✓(10,70–ASP used) OR (802 500–figure from OSC) Must be in brackets or subtracted One part correct		(37 500) ✓ Do not accept 0
Ordinary share dividends Must be in brackets or subtracted One part correct		(481 250) ✓
Interim (434 250□ – 162 000□) One part correct OR 481 250 one mark – 209 000 one mark		272 250✓ Do not accept 162 000
Final		209 000 ✓
<b>Balance on 30 June 2016</b> Operation, one part correct		285 750✓

7

9

5.2.2

**Calculate the change in loan for the Cash Flow Statement.**

8 000 000 – 4 500 000 = 3 500 000 ✓✓ No part marks; brackets not needed

2

**Calculate the income tax paid for the Cash Flow Statement.**

23 400 ✓ + 190 500 ✓ – 6 200 ✓ = 207 700✓ One part correct; brackets not needed

4

OR

$$- 23\ 400 - 190\ 500 + 6\ 200 = -207\ 700$$

**OR** T-account with figures on correct sides

Debit	Credit
207 700	23 400
6 200	190 500

5.2.3

<b>Net change in cash and cash equivalents</b>	✓ 808 000	
Cash and cash equivalents (beginning of year) -610 500 one mark + 7 500 one mark	✓✓ (603 000)	
Cash and cash equivalents (end of year)	✓ 205 000	<b>4</b>

5.2.4

**Calculate the acid-test ratio on 30 June 2016.**

1 015 000 one mark – 564 000 one mark

451 000 two marks

(246 000 ✓ + 205 000 ✓): 635 200 ✓ = 0,7 : 1  One part correct; must be y:1

4

**Calculate the debt-equity ratio on 30 June 2016.**

8 000 000 ✓ : 10 050 750 ✓ = 0,8 : 1  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.**

$$\frac{444\ 500 \checkmark \times 100}{\frac{1}{2} \checkmark (10\ 050\ 750 \checkmark + 9\ 540\ 000 \checkmark)} = 1$$

9 795 375 (3 marks)

= 4,5%  One part correct; % sign not essential; cannot be Rands, cents, units etc

5

**Calculate the net asset value per share (NAV) on 30 June 2016.**

$\frac{10\ 050\ 750 \checkmark}{950\ 000 \checkmark} \times 100 = 1058 \text{ cents}$   One part correct OR R10,58 OR 1057,9 cents

950 000  See 2.2.1. Must be Rands or cents

3

5.2.5

**The liquidity of the company has improved. Quote THREE financial indicators to support this statement. Provide figures and trends.**

THREE valid indicators ✓✓✓ Figures and trends ✓✓✓

Current ratio – 0,3 : 1 to 1,6 : 1

Acid-test ratio – 0,1 : 1 to 0,7 : 1 **see 2.2.4**

Debtors' collection period – 43 days to 36 days

**Do not accept creditors' payment period and stock turnover rate**

6

5.2.6

**Provide calculations to show the change in the dividend pay-out policy.**

Comparison of DPS to EPS for 2015 ✓ Calculation / implied calculation ✓

Comparison of DPS to EPS for 2016 ✓ Calculation / implied calculation ✓

Possible calculations for two marks each:

- 2015:  $35/58 = 60,3\%$  **OR** 0,6:1 **OR** Paid out most of earnings/more than 50%
- 2016:  $55/51 = 107,8\%$  **OR** 1,1:1 **OR** Paid out more than earnings

Possible responses for one mark each:

- 2015: Paid out 35c of 58c earnings / retained 23c of 58c earnings
- 2016: Paid out 55c of 51c earnings / paid out 4c from previous earnings

4

**Explain why the directors decided to change the policy. State ONE point with figures.**

Any ONE valid explanation ✓ Relevant figures ✓

Responses for two marks:

To satisfy shareholders for:

- ROSHE decreased (from 6,2%) to 4,5%. **See 2.2.4**
- Market price decreased (from 1030 cents) to 1000 cents.
- EPS decreased (from 58 cents) to 51 cents.

Do not accept NAV going down; this is a result of the decision.

Responses for one mark:

- Satisfy shareholders / Encourage new shareholders
- To get directors re-elected at AGM

2

5.2.7

**(a) Calculate Mary's % shareholding on 1 October 2015 after repurchase of shares.**

$\frac{420\ 000}{(900\ 000 - 75000)} \times 100 = 50,9\%$   Accept 51%

825 000 two marks

4

**(b) Explain how Mary has benefitted from the decision to repurchase the shares.**

Explanation ✓✓

Mary became the majority shareholder

2

**(c) The independent auditor discovered that Mary had made the decision to repurchase the shares without informing the board of directors. Why should the independent auditor be concerned about this?**

2

Responses for two marks: ✓✓ **Part-mark for unclear / incomplete answer**

- Not good corporate governance / Not in accordance with King Code
- CEO cannot make these decisions without getting board approval
- Considered to be insider trading / Abuse of position for personal benefit
- Unethical / Not transparent

Responses for one mark:  
 Not good / not right / King Code / Corporate governance / Could have outvoted other shareholders or directors

5.2.8

**The Cash Flow Statement reflected fixed assets purchased to the amount of R4,5 million.** Mark source first. If this correct, decision must match source. Explanation must be relevant to the source.

Major sources of funding with figures (over R1 000 000 each)	Good/Bad decision	Explanation with financial indicators/figure Explanation ✓✓✓✓✓✓ Figures ✓✓✓✓
<b>Source 1:</b> Increase in loan - R3 500 000 Source ✓ Figures ✓ Reference can be made to 2015 indicators.	Bad ✓	The company is negatively geared. ROTCE (8,2%) is lower than the interest rate on loans (12%). <b>Must compare interest rate to ROTCE.</b> <b>OR</b> Financial risk increased. The debt-equity ratio increased from 0,5 : 1 to 0,8 : 1 (See 22.4). <b>Must be regarded as bad as there is negative gearing.</b>
<b>Source 2:</b> Issue of shares - R1 350 000 Source ✓ Figures ✓	Good ✓	Shares were sold for R10,80 per share which is greater than the market price of R10,30 (2015) or R10,00 (2016) or NAV of R10,60. <b>OR</b> If this amount was borrowed, interest of 12% will be payable / Has reduced the risk as D/E ratio would have been higher than 0,8:1. <b>OR</b> Mary is no longer the majority shareholder; owns 44% of the shares.
	<b>OR</b> Bad	ROSHE decreased from 6,2% to 4,5% <b>See 2.2.4</b> EPS decreased from 58c to 51c NAV could have been higher than 1058c

10
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75
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**QUESTION 6**

6.1

6.1.1	Directors	✓
6.1.2	Internal auditor	✓
6.1.3	Shareholder	✓
6.1.4	External auditors	✓

4

6.2 **SO-FINE LTD**6.2.1 **ORDINARY SHARE CAPITAL****AUTHORISED SHARE CAPITAL**

1 200 000 ordinary shares
---------------------------

**ISSUED SHARE CAPITAL**

900 000	<b>Ordinary shares on 1 September 2016</b> 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)	✓
			i.e. 70 000 or R5,40; do not accept 437 500 as final answer
980 000 ✓	<b>Ordinary shares on 31 August 2017</b>	<b>5 292 000</b>	

7

**RETAINED INCOME**

<b>Balance on 1 September 2016</b>	<b>147 370</b>
<b>Net profit after income tax</b>	<b>438 130</b>
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) ✓*
<b>Ordinary share dividends</b> one part correct	(276 000) ✓*
• Interim dividends (900 000 ✓ x 0,12) one part correct	108 000 ✓
• Final dividends	168 000 ✓ ✓
<b>Balance on 31 August 2017</b> one part correct; *both figures must be subtracted	<b>250 000</b> ✓*

9

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

Workings may be done as T-accounts; inspect answer booklet for these workings

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

	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		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)	✓*	
	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
	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)	✓*	
	? ✓ Proceeds from <u>sale of fixed assets</u>	? 324 000	✓	
7	Change in investments			
	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
	? ✓ Proceeds from <u>issue of share capital</u> see 4.2.1	? 945 000	✓	
	? ✓ Repurchase of shares	? (437 500)	✓	
4	Change in non-current liabilities			
	Net change in cash and cash equivalents	? 86 000	✓*	
	Cash and cash equivalents – opening balance (2 500 – 65 100)	? (62 600)	✓✓	
4	Cash and cash equivalents – closing balance	? 23 400	✓	19

**6.2.3 Calculate the percentage operating profit on sales.**

$\frac{697\,000}{8\,652\,000} \times 100 = 8,1\%$  ✓ one part correct Accept 8,06 or 8% sign not necessary

3

**Calculate the debt-equity ratio.**

5 542 000 two marks See 4.2.1  
 $985\,000 : (5\,292\,000 + 250\,000) = 0,2 : 1$  ✓ one part correct (accept 0,18 : 1

4

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

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

4

**6.3 CASTRO LTD**

**6.3.1 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

**6.3.2 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)  
 one mark one mark
- ROTCE improved (due to increased efficiency / profits on new branch)  
 one mark  
 from 15 % to 20 % (by 5% or 33,3%)

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

6

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

✓✓  one part correct

$$\begin{matrix} (700\ 000 \times 60\%) & - & (500\ 000 \times 60\%) & = & 120\ 000 \\ 420\ 000 & & 300\ 000 & & \end{matrix}$$

OR two marks one method mark (if x 60%)

$$200\ 000 \times 60\% = 120\ 000$$

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.

6

- He would lose 120 000 votes at the AGM.

## RONKI LTD

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

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

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

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

Expected response: ✓✓

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

### 6.3.6 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

<b>TOTAL MARKS</b>
<b>85</b>

**QUESTION 7****CALCULATION OF FINANCIAL INDICATORS FOR 2018**

7.1.1

**Calculate: % operating expenses on sales**

Workings	Answer
$\frac{1\,900\,000}{13\,182\,000} \times 100$	14,4% ✓✓ no part marks

2

7.1.2

**Calculate: Acid test ratio**

Workings	Answer
$\frac{775\,000 \text{ two marks}}{(2\,427\,000 \checkmark - 1\,652\,000 \checkmark) : 1\,244\,000 \checkmark}$ Or: $(410\,000 + 365\,000) : 1\,244\,000$	0,6 : 1 ✓ one part correct

4

7.1.3

**Calculate: % return on shareholders' equity**

Workings	Answer
$\frac{1\,911\,000 \checkmark}{9\,651\,500 \checkmark \checkmark} \times 100$ $\frac{1}{2} (7\,191\,000 + 12\,112\,000)$	19,8% ✓ one part correct

4

7.2

**FIGURES FOR 2018 CASH FLOW STATEMENT**

7.2.1

**Calculate: Change in investments**

Workings	Answer
625 000 – 600 000	25 000 ✓✓ No part marks

2

7.2.2

**Calculate: Income tax paid**

Workings	Answer
$819\,000 \checkmark - 15\,000 \checkmark - 74\,000 \checkmark =$	730 000 ✓ one part correct

4

7.2.3 Calculate: Fixed assets sold (at carrying value).

Workings	Answer
✓✓✓✓ – 12 154 000 – 412 000 + 4 840 000 + 8 031 000	305 000 ✓ <b>one part correct</b>
Or: 12 154 000 + 412 000 – 4 840 000 – 8 031 000	
Or: 4 560 000 – 4 840 000 – 25 000 <b>one mark      one mark      one mark + one method mark (see 7.2.1)</b>	

5

7.3 EXPLANATIONS ON CASH FLOW STATEMENT

7.3.1 Explain why the directors are satisfied with the improvement in cash and cash equivalents since 1 July 2016. Quote figures.

Large negative balance at beginning of 2017 was R609 000 but it improved to R130 000 by the end of that year. ✓

This improvement continues in 2018; the overdraft was eradicated, and the extra cash generated meant there was a positive balance of R410 000 at the end of the 2018 financial year. ✓✓

3

7.3.2 Identify THREE decisions that the directors made to pay for land and buildings.

	Points (with figures)
<b>Decision 1 (with figures)</b>	✓ Issued shares (rights issue): R4m ✓
<b>Decision 2 (with figures)</b>	✓ Sale of fixed assets R305 000 ✓
<b>Decision 3 (with figures)</b>	✓ Cash generated from operations; part of R1,85m ✓

6

7.3.3 From the Cash Flow Statement identify ONE decision made by the directors in 2017 that they did NOT make in 2018, besides the points mentioned above. Give a possible reason for the decision in 2017.

Decision ✓ (with figures) ✓	Possible reason ✓
Repurchase of shares R1m	To satisfy unhappy shareholders/ to improve EPS and DPS of existing shareholders

3

**7.4 DIVIDENDS, RETURNS AND SHAREHOLDING**

**7.4.1 Calculate: Total interim dividends paid for the 2018 financial year**

Workings	Answer
$\begin{array}{r} \checkmark\checkmark \\ 520\ 000 - 280\ 000 \end{array}$	$\checkmark \\ R240\ 000$

**Calculate: Interim dividends per share for the 2018 financial year**

Workings	Answer
$\frac{240\ 000 \checkmark}{800\ 000 \checkmark} \times 100$	$30\ \text{cents} \checkmark$

6
---

**7.4.2 Calculate total dividends earned by Dudu Mkhize for the 2018 financial year.**

Workings	Answer
$\begin{array}{r} \text{see 7.5.1} \\ \checkmark\checkmark\checkmark\checkmark \\ 380\ 000 \times 0,3 \quad 490\ 000 \times 0,75 \\ 114\ 000 + 367\ 500 = \end{array}$	$481\ 500 \checkmark$

5
---

**7.4.3 Calculate the minimum number of additional shares that Dudu should have bought.**

Workings	Answer
$\begin{array}{r} \text{of } 1\ 000\ 000 \text{ shares} \quad 500\ 000 \checkmark \\ \text{already has} \quad (490\ 000) \checkmark \\ \hline 10\ 000 \checkmark \end{array}$	$\begin{array}{r} 0\ 001 \\ 10\ 100 \\ 20\ 000 \checkmark \end{array}$

3
---

**7.5.1 Explain why it was necessary to purchase properties in other provinces instead of in KZN.**

Good explanation ✓✓ **Part-marks for unclear / incomplete answers**

to increase their target market / to generate new customers / to expand to areas where there is lots of money / because they exhausted the market in KZN / too much competition in KZN.

2

**Explain whether the decision to purchase these properties had the desired effect on sales. Quote figures.**

positive effect ✓ Figures ✓✓

sales increased by 850 bikes / from 900 to 1 750 / by 94,4%  
 by R5,442m / from R7,74m to R13,18m / by 70,3%

3

**Explain another strategy they used to solve the problem of low sales. Quote figures.**

positive effect ✓ Figures ✓✓

Decrease in MU% from 72% to 58% / by 14% led to increased sales

3

**7.5.2 Give advice on what Ben Palo should say about the following topics:**

**Advice on what to say on earnings per share:**

Explanation/trend ✓ Figures ✓✓

EPS increased by 60% / from 130c to 208c compared to R28 or R12,11

3

**Advice on what to say on % return earned:**

Explanation/trend ✓ Figures ✓✓

ROE (is above returns on alternative investments) increased from 14,4% to 19,8%

3

**Advice on what to say on share price on the JSE:**

Explanation/trend ✓ Figures ✓✓

Market price increased R21,00 ➔ R28,00

Exceeds NAV R8,99 ➔ R12,11

3

<u>70</u>
-----------



# **INVENTORIES**

## **QUESTION 1**

### **1.1 INVENTORY VALUATION**

#### **1.1.1 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. ✓✓

**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. ✓✓

<b>4</b>

#### **1.1.2 Calculate the cost price per laptop on hand on 1 October 2015.**

$R413\ 000/118 = R3\ 500$  ✓✓ No part marks

<b>2</b>

#### **1.1.3 Calculate the value of the closing stock on 30 September 2016.**

202 500 three marks    502 200 four marks

✓✓✓✓✓✓✓✓✓  One part correct

$[3\ 750 \times (410 - 356)] + [4\ 650 \times (630 - 20 - 502)] = R704\ 700$

54 two marks

108 three marks

610 two marks

128 two marks

<b>9</b>

## 1.2 MANAGEMENT OF INVENTORIES

1.2.1 **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%.

2

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

Any two valid points ✓✓ Figure ✓✓

- 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 300units / by 70 units / by 19%.
- Sales of desks decreased to 300 units / by 65 units / by 18%.

4

1.2.2 **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 ✓✓ Figure ✓✓

- 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

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

One valid point for pricing ✓ Figure ✓ One valid point for orders ✓ Figure ✓

**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.

4

30
----

**QUESTION 2**

**2.1 CONCEPTS**

Accept understandable abbreviations

2.1.1	Weighted average / WA	✓
2.1.2	Perpetual	✓
2.1.3	First-in-first-out/FIFO	✓
2.1.4	Expense	✓

4

**2.2 HOT-WHEELS (PTY) LTD**

**Motorbikes:**

**2.2.1**

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**

$$OS + P - COS = CS$$

$$\begin{matrix} \text{one mark} & \text{one mark} & \text{four marks} & \text{one method mark} \\ 291\ 600 + 1\ 125\ 600 & - & 811\ 800 & = & 605\ 400 \\ & & 316\ 000 + 301\ 400 + 194\ 400 & & \end{matrix}$$

7

**2.2.2**

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:**

2.2.3

**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

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

9

2.2.4

**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

2.2.5

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

$(30 + 75 - 5)$   
 $100 \checkmark \checkmark - 12 \checkmark - 85 \checkmark = 3$  helmets missing  One part correct  
 One part correct

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

35
----

**QUESTION 3**

3.1

3.1.1	C ✓
3.1.2	E ✓
3.1.3	A ✓
3.1.4	D ✓

4

**3.2 PACKER'S SUITCASE SHOP**

**3.2.1 Calculate the value of the closing stock on 30 June 2018 using the first-in-first-out method.**

$$\begin{array}{l}
 425 \checkmark \times 3\,040 = 1\,292\,000 \checkmark \quad \text{one part correct} \\
 \small{450 - 25} \\
 71 \checkmark \times 2\,930 = 208\,030 \checkmark \quad \text{one part correct} \\
 \small{496 - 425 \text{ or amount above}} \\
 = 1\,500\,030 \checkmark \quad \text{one part correct}
 \end{array}$$

5

**3.2.2 Charles suspects that suitcases have been stolen. Provide a calculation to support his concern.**

$$\begin{array}{l}
 \small{(3\,155 - 25)} \\
 420 + 3\,130 - 3\,050 - 496 = 4 \text{ units} \\
 \checkmark \checkmark \checkmark \checkmark \quad \text{one part correct}
 \end{array}$$

5

**3.2.3 Charles is concerned about the volume of stock on hand.**

**Calculate for how long his closing stock is expected to last.**

$$\begin{array}{l}
 \frac{1\,500\,030 \checkmark \text{ see 3.2.1}}{8\,384\,850} \times 365 \\
 913\,500 \checkmark + (8\,460\,850 \checkmark - 76\,000 \checkmark) - 1\,500\,030 \checkmark \text{ see 3.2.1} \\
 = 70,2 \text{ days} \checkmark \quad \text{one part correct}
 \end{array}$$

OR

$$\frac{496 \times 12}{3\,050} = 1,59 \text{ months} \quad \text{OR} \quad \frac{496 \times 365}{3\,050} = 59,4 \text{ days}$$

6

**ONE problem with keeping too much stock on hand:**

✓✓ Part-mark for partial answer

Can become obsolete and therefore useless to customers.  
Staff may see less movement in stock and decide to steal.

**ONE problem with keeping insufficient stock on hand:**

✓✓ Part-mark for partial answer

Will not meet the needs of consumers – they may go elsewhere to buy.

4

**3.3 MINDEW LIMITED**

3.3.1	WORKINGS	ANSWER
(i)	(1)	610 000 ✓
(ii)	✓ 13 000 – 1 OR 13 000 – 3 Carrying value  108 000 x 33 1/3% = 36 000 (too much)	12 999/12 997 ✓
(iii)	one part correct New: 172 500 ✓ x 10% x 4/12 ✓ = 5 750 ✓ Old: 1 250 000 x 10% = 125 000 ✓	130 750 ✓ one part correct
(iv)	$176\,000 \checkmark - (128\,000 \checkmark + 5\,600 \checkmark \checkmark)$ $\text{Carrying value} \quad (48\,000 \times 20\% \times 7/12)$ $133\,600$	42 400 ✓ one part correct
(v)	$800\,000 \checkmark + 256\,000 \checkmark - 133\,600 \checkmark \text{ see above}$ $\text{Carrying value} \quad (128\,000 + 5\,600) \text{ both}$	922 400 ✓ one part correct

17

**3.3.2 Explain how the internal auditor should check that movable fixed assets were not stolen.**

Any ONE point ✓✓

- Physical inspection (regular and random)
- Asset register

2

**3.3.3 As an independent auditor, what advice would you give? Provide ONE point.**

ONE valid point ✓✓

- GAAP expects us to use the historical cost principle when recording assets.
- Financial statements must not be overstated to create a false impression on profitability
- There could be tax implications.

2

45

# MANUFACTURING

## QUESTION 1

1.1

1.1.1	Administration cost ✓ Accept recognisable abbreviations	
1.1.2	Direct material cost ✓	
1.1.3	Selling and distribution cost ✓	
1.1.4	Factory overhead cost ✓	

4

1.2.1

**Calculate direct labour cost.**

384 000 ✓  31 500 ✓  44 160 ✓   one part correct; must be x 5  
 $(1\ 920 \times 5 \times R40) + (90 \times 5 \times 70) + (384\ 000 \times 11,5\%) = R459\ 660$

**OR**

76 800 6 3008 832  
 $5 \times [(1\ 920 \times R40) + (90 \times 70)] + (76\ 800 \times 11,5\%) = R459\ 660$   
one mark one mark one mark one mark one m/mark  
one m/mark one m/mark one m/mark one part correct; must be x 5  
 one part correct one part correct one part correct

**Calculate direct material cost.**

R106,00 four marks  
 715 500 two marks  
 $\frac{131\ 500 \checkmark + 584\ 000 \checkmark}{1\ 350 \checkmark + 5\ 400 \checkmark} \times 5\ 500 \checkmark = 583\ 000 \checkmark$  One part correct  
6 750 two marks

**OR Total VC – DLC – S&DC**

1 260 000 two marks see 1.2.1; one method mark two marks one method mark; one part correct  
 $[4\ 200 \times 300] - 459\ 660 - 217\ 340 = 583\ 000$

**OR OS + P – (CS x R106) – (Theft x R106)**

one mark one mark two marks one mark one method mark; one part correct  
 $131\ 500 + 584\ 000 - 99\ 640 - 32\ 860 = 583\ 000$

8

6

1.2.2

**Production Cost Statement for the year ended 29 February 2016:**  
 No abbreviations accepted

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

8

**1.2.3 Calculate the break-even point for 2016.**

570 000 two marks  

$$\frac{343\ 340 \checkmark + 226\ 660 \checkmark}{450 \checkmark - 300 \checkmark}$$
 150 two marks

= 3800 units  One part correct; cannot be negative; cannot be R or c

5

**Explain whether the owner should be concerned or not. Provide figures.**

Yes / No is part of the explanation (No marks)

Comment comparing BEP to level of production ✓✓

Comparative figures ✓ (Refer to answer above; must compare BEP to production)

Possible answers:

- The owner should not be concerned as the business produced (4 200 – 3 800) 400 units more than the break-even point.
- The owner should be concerned as the business produced (4 200 – 3 800) only 400 units more than the break-even point.
- Owner should be concerned because they make a profit on 400 units only.

3

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

	<b>STOREROOM: Raw material stolen</b>	<b>FACTORY: Raw material wasted</b>
<b>CALCULATION: metres of fabric</b>	6 750 two marks $1\ 350 \checkmark + 5\ 400 \checkmark$ $- 5\ 500 \checkmark - 940 \checkmark$ $= 310 \text{ metres } \checkmark$ One part correct  <b>Total: 5 marks</b>	two marks for both 4 200 x 1,25 $5\ 500 \checkmark - 5\ 250 \checkmark \checkmark$ $= 250 \text{ metres } \checkmark$ One part correct  200 units two marks      one mark one m/mark $[(5\ 500 / 1,25) - 4\ 200] \times 1,25 = 250 \text{ m}$ 4 400 metres one mark  <b>Total: 4 marks</b>
<b>STRATEGY</b> One point each ✓✓	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.

11

45
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**QUESTION 2**

**2.1 GEVEN MANUFACTURERS**

**2.1.1**

<b>PRODUCTION COST STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017</b>	
<b>Direct material cost</b> (1 050 000✓ + 102 000✓)	✓ 1 152 000
<b>Direct labour cost</b> Prime cost – DMC	☑ 648 000
<b>Prime cost</b>	✓ 1 800 000
(– 84 000 one mark+100 800 one mark)	☑ 504 000
<b>Factory overhead cost</b> (487 200✓ + 16 800✓✓)	operation; one part correct
operationPrime + 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 000or 0	☑ (88 000)
<b>Total cost of production</b> 7 200 x R330No part marks	✓✓ 2 376 000

14

**2.1.2**

<b>ABRIDGED INCOME STATEMENT FOR YEAR ENDED 28 FEBRUARY 2017</b>	
<b>Sales</b>	✓ 4 080 000
See TCP 2.1.1400 x R330	
<b>Cost of sales</b> (336 000 ✓+ 2 376 000 ☑– 132 000 ✓✓)	
<b>OR</b> 8 000–1 200no part marks	☑ (2 580 000)
(1 200 x R280) + (6 800 x R330)Could do FGS account one mark two marks one mark	ignore brackets
<b>Gross profit</b> Sales – COS	☑ 1 500 000
20% x 126 000 126 000–100 800	☑ (131 600)
(– 42 000 + 25 200 one method mark)	one part correct ignore brackets
<b>Administration cost</b> (148 400✓– 16 800 ☑see 2.1.1)	
<b>Selling and distribution cost</b> (422 000✓– 102 000✓)	☑ (320 000)
One part correct	ignore brackets
<b>Net profit</b> 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.**  
 64 two marks  
 $530\ 000 \div (302 - 238) = 8\ 281,25 / 8\ 282 / 8\ 281 / 8281,3$   
 ✓✓✓  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 different reasons
Direct labour cost Increased by R31 (31%) (from R100 to R131)	Expected responses: <ul style="list-style-type: none"> <li>• Negotiated wage increase / applied minimum wage / inflation / increased salary scales (for qualifications)</li> <li>• Paid bonuses to some workers</li> <li>• Excessive overtime</li> <li>• Lack of productivity (inefficiency) of workers</li> <li>• Inexperienced / poorly trained workers</li> <li>• High staff turnover rate</li> <li>• Old equipment affects productivity</li> <li>• Work hours lost due to training time (workers paid for training) / due to load-shedding (power-cuts) / due to paid sick leave</li> <li>• Errors in calculation of wages (over-paid)</li> </ul> Do not accept: More workers; Absent workers; Poor budgeting

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	Inferior quality.
	Economising on material	May affect the quality of the product
Comment on S&DC	Reduced advertising or reduced commission / reduced remuneration of salespersons	May cause sales to drop / may demotivate salespersons
	Reduced distances for deliveries / discontinuing the service in certain areas	Leads to loss of customers
	Out-sourcing / using cheaper service providers	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.**

$$\frac{1\ 640 - 1\ 260}{1\ 260} \checkmark \times \frac{100}{1} \text{ OR } 130,2\% - 100\% = 30,2\%$$

= 30,2%  one part correct; accept 30% or 30,15%; % sign not needed

<b>3</b>

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

<b>4</b>

**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)  $\checkmark\checkmark$                       State NO concern OR imply NO concern in explanation or by using figures  $\checkmark\checkmark$

- 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).

<b>4</b>

<b>TOTAL MARKS</b>
<b>55</b>

**QUESTION 3****3.1**

3.1.1	False	✓
3.1.2	True	✓
3.1.3	True	✓

<b>3</b>

**3.2 KRIGE SHIRTS****3.2.1****Calculate direct labour cost.**

3 □ x 1 960 □ x 90 □	529 200	three marks
529 200 x 12%	63 504	□□ one part correct
1 x 1680 x 90	151 200	□□ one part correct
	12 146	□
	756 050	□ one part correct

<b>9</b>

**3.2.2 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 31 JULY 2018**

<b>Direct material cost</b>	<b>528 300</b>
Direct labour cost <span style="float: right;">see 3.2.1</span>	756 050 □
<b>Prime cost</b> <span style="float: right;">DMC + DLC</span>	1 284 350 □
Factory overhead cost <span style="float: right;">20 000</span> 360 880 □ + (48 750 □ - 3 750 □ x 4/9) □	380 880 □
<b>Total production cost</b> <span style="float: right;">PC + FOHC</span>	1 665 230 □
<b>Work-in-progress (1 August 2017)</b>	35 570 □
	1 700 800
Work-in-progress (31 July 2018) <span style="float: right;">balancing figure</span>	(38 300) □
<b>Cost of production of finished goods</b>	1 662 500 □□

<b>12</b>

### 3.3 GEMMA'S MANUFACTURERS

3.3.1 Calculate the break-even point for the year ended 31 August 2018.

□□

$$\frac{67\,200 + 51\,660}{910 - (180 + 252 + 145)}$$

577 one mark

two marks

$$\frac{118\,860}{333}$$

333

two marks

356,9 OR 357 units □ one part correct

5

3.3.2 Compare and comment on the break-even point and the production level achieved over the last two years. Quote figures.

Comparison of the BEP with the level of production of 2018 – with figures □□ /Comparison of 2017 and 2018 BEP and/or production with figures □□ /General comment □□

Part-marks for partial answers  
see 3.3.1

The break-even point decreased from 435 units in 2017 to 357 units in 2018/The break-even point decreased by 78 units

The business produced less units this year compared to last year (540 in 2017/420 in 2018)

The business made a profit on only 63 units. (420 – 357)

6

3.3.3 Give TWO reasons for the increase in direct material cost. Suggest ONE way to control this cost.

#### REASONS:

Any TWO valid reasons. □□□□Part marks can be awarded

Increased cost due to inflation/transport costs/scarcity.

Wastage due to poor workmanship.

Theft of material due to poor internal controls.

#### SUGGESTION:

Any ONE valid suggestion related to the reason identified □

Look for cheaper suppliers without compromising quality.

Negotiate transport and delivery discounts.

Take advantage of bulk discounts.

Train and supervise workers to minimise wastage.

Control stock regularly to identify shortages.

5

# RECONCILIATIONS

## QUESTION 1

1.1.1

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

	Information to be obtained ✓ ✓	Reason ✓ ✓
<b>Point 1</b>	Salary advice slip / Proof of income	To set credit limits for each possible debtor To determine affordability
<b>Point 2</b>	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
<b>OR</b>	Contact details of family / friend	To track the debtor if other information is incorrect / changes
<b>OR</b>	Bank statement / balance	To check how the debtor is managing his finances
<b>OR</b>	Identity document	Ensure that correct personal details of customers are on record
<b>OR</b>	Credit references / Credit history	To check that they will not sell to bad debtors To check credit worthiness
<b>OR</b>	Email address	Prompt communication of statements of account

4

1.1.2

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

$$179\,500 \checkmark + 2\,500 \checkmark - 900 \checkmark \checkmark + 500 = 181\,600 \checkmark \checkmark \checkmark \text{ One part correct or R181\,100}$$

21 000 – 20 100

OR: T-account with figures on correct sides

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

6

1.1.2

**Calculate the correct amounts owing by debtors.**

	Calculations	Balance
<b>J Ramsay (D2)</b>	8 500 two marks 37 500 – 4 300✓ + 8 350✓ + 150✓	* <input checked="" type="checkbox"/> 41 700
<b>W Smith (D3)</b>	+ 3 600 – 6 300 <b>both</b> for two marks 19 500 + 2 500✓ – 2 700✓✓	* <input checked="" type="checkbox"/> 19 300
<b>C Prince (D5)</b>	10 200 two marks 3 900 + 4 300✓ + 5 100✓ + 5 100✓	* <input checked="" type="checkbox"/> 18 400

\*One part correct for method mark

12
----

1.1.3

**Calculate the percentage of debtors complying with the credit terms.**

58 600 two marks

$\frac{35\,300\checkmark + 23\,300\checkmark}{201\,200\checkmark} = 29,1\%$        One part correct  
 Accept 29%

OR

$\frac{142\,600}{201\,200} = 70,9\%$

$100\% - 70,9\% = 29,1\%$

OR     $17,5\% + 11,6\% = 29,1\%$

4
---

**Explain TWO measures to improve the collection from debtors.**

Any TWO relevant measures ✓✓ ✓✓      Part-marks for unclear / incomplete answers

Possible responses for two marks: Accept alternative valid responses

- Monthly statements must be sent out / emailed on time.
- Offer higher discounts for early payments.
- Add interest on overdue accounts.
- Do not sell to debtors exceeding the credit limit / not up to date with payments.
- Send SMS reminders to debtors.
- Employ services of an attorney or debt collector / sue the debtor.
- Encourage debtors to pay by debit order.

Possible responses for one mark: Interest / discount / SMS

4
---

1.2

**Calculate the amount receivable from or payable to SARS for VAT on 31 August 2016.**

Mark one line only. Cannot mix signs.

✓    ✓    ✓    ✓    ✓✓✓✓       One part correct

$14\,250 - 29\,700 + 3\,150 - 1\,200 - 1\,425 + 43\,800 = 28\,875$

43 800 – 1 200 = 42 600 three marks

OR

$- 14\,250 + 29\,700 - 3\,150 + 1\,200 + 1\,425 - 43\,800 = -28\,875$

1 200 – 43 800 = –42 600 three marks

OR

Balance at beginning		= 14 250
Output	43 800 – 1 200 – 1 425	= 41 175
Input	29 700 – 3 150	= <u>(26 550)</u>
		<u>28 875</u>

Mark one account only. Cannot mix sides. Inspect candidates' responses. Award highest mark. Items marked \* may be shown on the opposite side in brackets.

VAT CONTROL	
29 700	14 250
*1 200	*3 150
*1 425	43 800
<b>28 875</b>	
61 200	61 200

VAT CONTROL	
14 250	29 700
*3 150	*1 200
43 800	*1 425
	<b>28 875</b>
61 200	61 200

Receivable/Payable: Payable  Do not accept Receivable

<b>TOTAL MARKS</b>
<b>40</b>



2.1

2.1.1	False ✓
2.1.2	False ✓
2.1.3	True ✓

3
---

2.2.1

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
	(5 500) in CRJ one mark 5 500 in CPJ one mark	OR 9 200 ✓✓ (2 900)
16 500 ✓		11 000 ✓✓ or 5 500 & 5 500 one mark each
		2 290 ✓
900 ✓	May be combined as R320 OR R1 220-R900 in CPJ for two marks	750 ✓
117 650		1 220 ✓
		107 480

Foreign entries e.g. 8 550; 13 590; 16 200; 30 000 -1 (max -1)  
 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 ✓ + 117 650 ✓ - 107 480 ✓ = R4 960 ✓

14
----

2.2.2

**Bank Reconciliation Statement on 30 June 2017**

	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 2.2.1	4 960 ✓		4 960
	41 400	41 400	

Foreign entries e.g. 8 550; 13 590; 16 200; 30 000 -1 max  
 Be aware of other foreign entries that are incorrectly duplicated in journals and/or reconciliation  
 For 2-column method with no Debit/Credit indicated, assume left=Debit and right=Credit.

9
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**2.2.3 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 3**

**3.1 VAT**

**3.1.1**

	<b>WORKINGS</b>	<b>ANSWER</b>
(a)	1 104 – 960	144 ✓
(b)	52 600 x 15%	7 890 ✓✓
(c)	✓✓ $\frac{720}{1} \times \frac{100}{15}$	4 800 ✓
(d)	$\begin{array}{r} 112\,470 \times 15/115 \\ 14\,670 \checkmark\checkmark \end{array} - \begin{array}{r} 5\,500 \times 15\% \\ 825 \checkmark \end{array}$ $\begin{array}{r} 106\,145 \\ \text{OR } (112\,470 - 6\,325) \times \frac{15}{115} \\ 1 \qquad \qquad \qquad 115 \end{array}$ $112\,470 - 5\,500 = 106\,970 \checkmark\checkmark - 825 \checkmark =$ $\begin{array}{r} 106\,145 \times 15 \\ 115 \end{array}$	13 845 ✓

10
----

**3.1.2**

**You are the internal auditor. The sole owner, Samson, used a business cheque to buy a new car for R460 000 including VAT. This car is kept at home for his wife's use. Samson says the vehicle must be recorded as a business asset and R60 000 must be recorded as a VAT input in the business' books.**

**Explain what you would say to Samson. Provide TWO points.**

✓✓✓✓ part-marks for partial answers

<b>Point 1</b>	This is unethical/fraudulent/illegal as Samson is attempting to reduce the amount due to SARS for VAT.
<b>Point 2</b>	As the car is not used for business purposes, the full amount of R460 000 should be treated as drawings.
<b>Other possible valid explanations</b>	<p>Samson would be guilty of a criminal offence with subsequent consequences of a fine or imprisonment.</p> <p>Samson should pay for this out of his private bank account.</p>

4
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**3.2 CREDITORS' RECONCILIATION**

3.2.1

	<b>CREDITORS LEDGER: ACCOUNT OF MARITI SUPPLIERS</b>	<b>STATEMENT OF ACCOUNT</b>
<b>Balance</b>	<b>147 820</b>	<b>145 060</b>
<b>(a)</b>	+ 1 800 ✓✓	
<b>(b)</b>	- 40 950 ✓✓	
<b>(c)</b>		+ 30 000 ✓✓
<b>(d)</b>		- 5 400 ✓✓
<b>(e)</b>	- 16 200 ✓✓	
<b>(f)</b>		- 77 190 ✓✓
	92 470 ✓	92 470
	<b>For both totals</b>	

<b>13</b>

3.2.2 The internal auditor insists that direct payments (EFTs) must be used to pay suppliers.

**Explain ONE reason to support his decision.**  
 ONE reason ✓✓ Quick and easy/Easier to monitor

<b>2</b>
----------

**Explain ONE internal procedure to ensure control over this system.**  
 ONE internal control measure □□  
 Senior personnel authorized to make internet payments  
 Security codes for users  
 Notification from bank (sms) when payments are effected.

<b>2</b>

3.2.3 Besides dismissing Vernon, provide ONE suggestion for action to be taken against him.

ONE valid point ✓✓  
 Disciplinary hearing  
 Punitive measure such as a demotion/Transfer to another department /  
 Deductions from his salary  
**Provide ONE suggestion to prevent this problem in future.**  
 ONE valid suggestion ✓✓  
 Division of duties – one person check orders, the other receives  
 stock/Stock records to be updated with every invoice/Proper authorization  
 of orders/Ensure goods received at the gates are supported by order form  
 and invoice.

<b>4</b>

# BUDGETS

## QUESTION 1

**1.1.1 TWO items recorded incorrectly in the Cash Budget:**

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

Discount received  
Depreciation  
Bad debts

2

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

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

Cash from debtors  
Fixed deposit matures  
Payments to creditors  
Repayment of loan

2

**1.2 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 ☑ 179 064

9

**1.3 AMOUNTS FOR THE CASH BUDGET**

WORKINGS		AMOUNT
<b>(a)</b>	<b>Cash sales for September</b> 288 000 ✓ x 40% ✓ 172 800 one mark x 40/60 one mark	R115 200 ✓ <span style="background-color: yellow;">One part correct</span>
<b>(b)</b>	<b>Payments to creditors for October</b> 252 000 ✓ x 100/180 ✓ x 96/100 ✓ 140 000 two marks – 5 600 one mark 241 920 two marks	R134 400 ✓ <span style="background-color: yellow;">One part correct</span>
<b>(c)</b>	<b>Directors' fees for October</b> 216 000 ✓ x 2/3 ✓ x 135/100 ✓ 144 000 three marks + 50400 one mark  (72 000 + 25 200) x 2 one mark      two marks      one mark	R194 400 ✓ <span style="background-color: yellow;">One part correct</span>
<b>(d)</b>	<b>Interest on loan for October</b> <span style="background-color: yellow;">Could use solve for x method</span> ✓✓✓✓ 6 875 – (12,5% x 52 800 ÷ 12) 550 three marks 6 600 two marks 4 400 two marks one mark      one mark      one mark      one mark (660 000 – 52 800) x 12,5% ÷ 12 607 200 two marks	✓☑ R6 325 <span style="background-color: yellow;">One part correct</span>

18

1.4.1

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

**Explain how this has benefitted the salespersons. Quote figures.**

Explanation ✓ Figures ✓

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.

4

1.4.2

**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.

5

<b>TOTAL MARKS</b>
40

**QUESTION 2**

**2.1 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

**2.2.1 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.**

181 440 two marks **one part correct**  
 ✓✓

$$\frac{56\ 000 + 125\ 440}{224\ 000} \times 100 = 81\%$$

two marks\*one mark one method mark\***allocate two marks to the first correct% calculation**  
**OR** 25% + 56% = 81%

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

8 960 three marks  
 -181 440 one mark  
 ✓ ( ✓ ) ✓ **one part correct**

$$\frac{224\ 000 - 56\ 000 - 125\ 440 - 33\ 600}{224\ 000} \times 100 = 4\%$$

one mark one mark one mark one mark one method mark  
**OR** 100% - 25% - 56% - 15% = 4%

9

**2.2.2 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 collected as expected  
**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

2.3.1

**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.**

✓✓✓  One part correct

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

**OR**

$$\begin{array}{ccccccc} \text{one mark} & & \text{one mark} & & \text{one mark} & & \text{one method mark} \\ 510 & \times & 12 & \times & \frac{100}{8,5} & = & R72\,000 \\ 2\,975 - 2\,465 & & & & & & \end{array}$$

**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

$$\frac{1200 \times 2975 - 1\,200 \times 2\,465}{8,5} = 72\,000$$

6

2.3.2

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

Figures not required

	COMMENT ON VARIANCES
<b>Sales</b>	Cash sales are under budget✓, while credit sales are over budget✓. This will contribute to cash flow problem of the business. ✓
<b>Advertising</b>	The full advertising budget was not used (under-spent)✓ which could have led to the decline in sales. ✓
<b>Packing materials</b>	There was no saving in packing materials (misuse of packing materials) ✓ despite the decline in sales. ✓
<b>Delivery expenses</b>	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

30
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**QUESTION 3****3.1 Debtors' Collection Schedule for October 2018.**

MONTHS	CREDIT SALES	SEP. 2018	OCT. 2018
July	369 600	81 312	
August	384 400	211 420	84 568 ✓✓
September	403 200	76 608	221 760 ✓✓
October	420 000	x 20% x 95%	79 800 ✓✓
		<b>369 340</b>	386 128 ✓

<b>7</b>

\*one part correct

**3.2 Calculate:****(i) Cash sales for September**

$$403\,200 \checkmark \times 60/40 \checkmark = 604\,800 \checkmark \text{ one part correct}$$

$$\text{Or } 1\,008\,000 - 403\,200 = 604\,800 \quad / \quad 1\,008\,000 \times 60\% = 604\,800$$

**(ii) Rent income for October**

$$25\,600 \times 109\% = 27\,904 \checkmark \checkmark$$

**(iii) Payments to creditors in October**

✓✓✓

$$1\,008\,000 \times 100/175 \times 50\% = 288\,000 \checkmark \text{ one part correct}$$

<b>9</b>

**3.3 Calculate the % increase in salaries of sales assistants for October 2018.**

$$\frac{102\,102 - 92\,400}{92\,400} \checkmark \times 100 = 10,5\% \checkmark \text{ one part correct}$$

<b>3</b>

**Explain whether the sales assistants should be satisfied with this increase.**

Explanation ✓✓

They should be satisfied as a 10,5% increase is a fair increase which is above the current inflation rate.

**OR**

They may be dissatisfied when compared to the 25% increase to salaries of manager.

<b>2</b>

### 3.4 Refer to Information E:

#### 3.4.1 Explain the effect of the new competitor on any TWO items in the budget for September. Provide figures.

TWO valid point (with figures) ✓✓✓✓

- Total sales decreased from 1 008 000 to 840 000 (168 000).
- 40 fewer air-conditioners were sold.
- Decrease in cash sales (604 800 – 336 000)/increase in credit sales (504 000 – 403 200).
- Maintaining the advertising budget of R15 000 had no impact.
- Reduced delivery expenses (67 200) and commission on sale (25 200) due to poor sales.

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#### 3.4.2 Identify TWO changes Donald implemented in October in response to the new competitor. Quote figures. Give ONE reason for EACH change.

Item (with figures) ✓✓✓✓	Possible reason ✓✓
An increase in credit purchases/ decrease in cash purchases from the expected 300 000 to 252 000	To improve cash flow
Increased delivery from 67 200 to 138 240	Wider target market; more units sold
More commission from 25 200 to 46 080	To motivate sales staff to sell more products

***Do not accept advertising (no change)***

6

#### 3.4.3 Explain why Donald feels that his decisions were successful. Provide TWO points (with figures).

TWO valid points (with figures) ✓✓✓✓

- Increased sales from the budgeted 1 050 000 to actual 1 260 000.
- 50 more air-conditioners were sold.
- Increase in credit sales from the expected R420 000 to R882 000 may result in cash flow problems.

4

<b>TOTAL MARKS</b>
<b>35</b>

