



# basic education

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

## NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

NOVEMBER 2017

MARKING GUIDELINES

**MARKS: 300**

### MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guideline, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark.
10. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
11. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
12. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a ☒.
13. Be aware of candidates who provide valid alternatives beyond the marking guideline.
14. Codes: f = foreign item; p = placement/presentation.

**These marking guidelines consist of 17 pages.**

**QUESTION 1**

1.1

1.1.1	False ✓
1.1.2	False ✓
1.1.3	True ✓

3

1.2.1

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

Foreign entries -1 e.g. 8 550; 13 590; 16 200; 30 000

Be aware of other foreign entries that are incorrectly duplicated in journals and/or reconciliation.

**Bank account balance:**

May prepare a ledger account

$$-5\ 210 \checkmark + 117\ 650 \checkmark - 107\ 480 \checkmark = R4\ 960 \checkmark$$

see CRJ +ve
see CPJ -ve
if one mark allocated in workings

14

1.2.2

**Bank Reconciliation Statement on 30 June 2017**

May start with ledger balance	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 1.2.1	4 960 ✓		4 960
	41 400	41 400	

Foreign entries -1 e.g. 8 550; 13 590; 16 200; 30 000

-1 incorrect / no details Foreign items -1

For 2-column method with brackets used, do not accept brackets/negatives in any column.

9

**1.2.3 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 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	☑ 2 304 000
	operation Prime + 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 160 000 or 0	☑ (88 000)
<b>Total cost of production</b> 7 200 x R330	No 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
<b>Cost of sales</b> (336 000 ✓ + 2 376 000 ☑ – 132 000 ✓✓)	See TCP 2.1.1 400 x R330	☑ (2 580 000)
<b>OR</b> 8 000–1 200 no part marks		☑ (2 580 000)
(1 200 x R280) + (6 800 x R330)	Could do FGS account	ignore brackets
one mark two marks one mark		
<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)		☑ (320 000)
<b>Selling and distribution cost</b> (422 000✓ – 102 000✓)	One part correct	☑ (320 000)
		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 Economising on material	Inferior quality. May affect the quality of the product
Comment on S&DC	Reduced advertising or reduced commission / reduced remuneration of salespersons Reduced distances for deliveries / discontinuing the service in certain areas Out-sourcing / using cheaper service providers	May cause sales to drop / may demotivate salespersons Leads to loss of customers 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.**

1 640–1 260

$$\frac{380 \checkmark}{1\ 260 \checkmark} \times \frac{100}{1}$$

OR 130,2% -100%= 30,2%

= 30,2%  one part correct; accept 30% or 30,15%;

3

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

4

**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) ✓ ✓ State NO concern OR imply NO concern in explanation or by using figures ✓ ✓

- 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).

4

<b>TOTAL MARKS</b>
55

## 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

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

see (b) above                      one part correct

OR

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

one mark    one mark    one method mark    one method mark  
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

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

30\,900 four marks    18\,900 three marks  
22\,800 two marks  
108\,000 two marks

OR

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

one mark    one mark    one mark    two marks    one method mark

6

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

Note: Apply Marking Principle 10

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

see (c) above                      one part correct

4

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

Placement presentation – 1 if marks earned in each case

	<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"/>
	<b>Inventory</b>	<b>408 880</b>	
	<b>Trade and other receivables</b> 67 200 ✓ – 270 ✓✓ + 6 800✓✓ +10 350 ✓✓	84 080	<input checked="" type="checkbox"/> *
	<b>Cash and cash equivalents</b> 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"/>
	<b>Ordinary share capital</b> SE – 520 000	3 665 000	<input checked="" type="checkbox"/>
4	<b>Retained income</b>	<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	13 000	<input checked="" type="checkbox"/> *
	Shareholders for dividends (675 000 <input checked="" type="checkbox"/> x 0,24✓) See no. of shares in SHE	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"/> *

37

\*one part correct

#Trade and other payables can combine the other elements under current liabilities. Allocate the part-marks accordingly.

If SARS and S/Hs for divs are included in T&amp;OP, award one method mark in each case for workings included.

## Inspect treatment of SARS (income tax) to check if candidate deducts interest from net profit to calculate tax



**3.3 AUDIT REPORT**

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

Any three different valid points ✓✓ ✓✓ ✓✓

Part-marks for unclear/incomplete explanation

**Note:** Candidates should not restrict responses to the commenting on the two specific points in the audit report as there would be several concerns arising from those two 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

4.1.1	Directors	✓
4.1.2	Internal auditor	✓
4.1.3	Shareholder	✓
4.1.4	External auditors	✓

4
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4.2 SO-FINE LTD

4.2.1 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) one part correct 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
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**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	<b>(276 000)</b> ✓*
• Interim dividends (900 000 ✓ x 0,12) one part correct	<b>108 000</b> ✓
• Final dividends	168 000 ✓ ✓
<b>Balance on 31 August 2017</b> one part correct; *both figures must be subtracted	<b>250 000</b> ✓*

9
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**4.2.2 SO-FINE LTD: CASH FLOW STATEMENT FOR YEAR ENDED 31 AUGUST 2017**

If a working is shown as a final answer, award working mark only if brackets correctly applied for that item  
 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  
 ## If workings not shown but figure is correct without brackets, award marks to cover workings and penalise on answer

	<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) <input checked="" type="checkbox"/> *	
	<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) <input checked="" type="checkbox"/> *	
	? ✓ 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 <input checked="" type="checkbox"/>	
	? ✓ Repurchase of shares	? (437 500) ✓	
4	Change in non-current liabilities		
	Net change in cash and cash equivalents	? 86 000 <input checked="" type="checkbox"/> *	
	Cash and cash equivalents – opening balance (2 500 – 65 100)	? (62 600) ✓✓	
4	Cash and cash equivalents – closing balance	? 23 400 ✓	<b>19</b>

**4.2.3 Calculate the percentage operating profit on sales.**  
 $\frac{697\,000 \checkmark}{8\,652\,000 \checkmark} \times 100 = 8,1\% \checkmark$  one part correct % sign not necessary

**Calculate the debt-equity ratio.**  
 5 542 000 two marks See 4.2.1  
 $985\,000 \checkmark : (5\,292\,000 \checkmark + 250\,000 \checkmark) = 0,2 : 1 \checkmark$  one part correct  
 if superfluous items added in workings, but answer is still the same, penalise on answer

**4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period.**  
 $\frac{900\,000 + 150\,000}{(168\,000 \checkmark / 1\,050\,000 \checkmark \times 100) + 12 \text{ cents} \checkmark} = 28 \text{ cents} \checkmark$  one part correct  
 16 cents two marks

**4.3 CASTRO LTD**

**4.3.1 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

**4.3.2 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)  
 from 15 % to 20 % (by 5% or 33,3%)  
 one mark one mark

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

6

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

$$\begin{matrix} \checkmark & & \checkmark & & \checkmark & \text{one part correct} \\ (700\,000 \times 60\%) - (500\,000 \times 60\%) = 120\,000 \\ 420\,000 & & 300\,000 & & & \end{matrix}$$

OR

$$\begin{matrix} \text{two marks} & & \text{one method mark (if x 60\%)} \\ 200\,000 \times 60\% = 120\,000 \end{matrix}$$

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.
- He would lose 120 000 votes at the AGM.

6

**RONKI LTD**

**4.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators.**

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

<b>6</b>

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

*Expected response:* ✓✓ Part-marks for partial or incomplete explanation  
 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

<b>3</b>

**4.3.6 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).

<b>6</b>

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

**QUESTION 5**

**5.1 CONCEPTS**

<b>5.1.1</b>	Weighted average / WA	✓
<b>5.1.2</b>	Perpetual	✓
<b>5.1.3</b>	First-in-first-out / FIFO	✓
<b>5.1.4</b>	Expense	✓

<b>4</b>

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

**Motorbikes:**

**5.2.1 Calculate the value of the closing stock on 30 September 2017 using the specific identification method.**

243 000 ✓✓ + 109 600 ✓✓ + 252 800 ✓✓ = 605 400 ✓ 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
one mark	one mark	four marks	one method mark
291 600	+ 1 125 600	– 811 800	= 605 400
		316 000 + 301 400 + 194 400	

<b>7</b>

**5.2.2 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.

<b>4</b>

**Helmets:**

**5.2.3 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

$$\begin{array}{r}
 51\ 675 \text{ four marks} \\
 54\ 300 \text{ two marks} \quad (5 \times 525) \text{ two marks} \\
 15\ 000 \checkmark + 39\ 300 \checkmark - 2\ 625 \checkmark \checkmark \times 12 \checkmark = 6\ 201 \checkmark \text{ one part correct; must x12} \\
 \hline
 30 \checkmark + 75 \checkmark - 5 \checkmark \\
 105 \text{ two marks} \quad 100 \text{ three marks}
 \end{array}$$

OR  $516,75 \times 12 = 6\ 201$  or  $6\ 204$  (weighted-average rounded off)  
seven marks

9

**5.2.4 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

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

$$\begin{array}{r}
 (30 + 75 - 5) \\
 100 \checkmark \checkmark - 12 \checkmark - 85 \checkmark = 3 \text{ helmets missing } \checkmark \text{ One part correct} \\
 \text{One part correct}
 \end{array}$$

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

<b>TOTAL MARKS</b>
35

## QUESTION 6

6.1	<p><b>Explain the main purpose of a Cash Budget.</b> Explanation ✓ To predict the cash balances / cash flow for a period To project / plan / forecast receipts and payments.</p> <p><b>Explain the main purpose of a Projected Income Statement.</b> Explanation ✓ To predict the profit that will be earned for a period To plan / forecast income and expenses.</p>	<b>2</b>
6.2.1	<p><b>Larry expects debtors to settle accounts by the end of the month following the sales transaction month.</b></p> <p><b>Use the November figures to calculate the % of debtors that are expected to comply with the credit terms.</b> <b>Mark one line only – choose line to benefit candidate</b></p> <p>181 440 two marks ✓                 ✓ <b>56 000 + 125 440</b> x 100 = <b>81%</b> ✓ <b>224 000</b></p> <p style="text-align: right;"><b>one part correct</b></p> <p><b>OR</b> two marks*   one mark   one method mark   <b>*allocate two marks to the first correct % calculation</b> <b>25% + 56% = 81%</b></p> <p><b>Use the November figures to calculate the % of bad debts expected.</b></p> <p style="text-align: center;">8 960 three marks -181 440 one mark</p> <p>✓             (             ✓             )             ✓             ✓ <b>one part correct</b> <b>224 000 – 56 000 – 125 440 – 33 600</b> x 100 = <b>4%</b> <b>224 000</b></p> <p><b>OR</b> one mark   one mark   one mark   one mark   one method mark <b>100% – 25% – 56% – 15% = 4%</b></p>	<b>9</b>
6.2.2	<p><b>Larry does not believe that his debtors' control clerk, Shirley, deserves a bonus on 31 October 2017.</b></p> <p><b>Provide evidence to support his opinion.</b></p> <p>Explanation (calculation / figures) from the Age Analysis ✓    Figure ✓</p> <p style="padding-left: 40px;">58% of the amounts owed are still within the credit terms</p> <p><b>OR</b></p> <p style="padding-left: 40px;">42% of the amounts owed are not complying with terms</p> <p><b>Offer Larry advice to improve debtors' collections (TWO points).</b></p> <p>Two valid points   ✓   ✓</p> <p>Expected responses:</p> <ul style="list-style-type: none"> <li>• Contact debtors through statements / phone calls / SMS / reminders</li> <li>• Offer discounts for prompt payments.</li> <li>• Give her a bonus if she collects the outstanding amounts</li> <li>• Charge interest</li> <li>• Refuse to sell to debtors who are not compliant</li> <li>• <u>Improve screening</u> process (so that bad debtors do not open accounts).</li> </ul> <p><b>Note:</b> Do not accept implement screening of debtors (i.e. already debtors)</p>	<b>4</b>



6.3.1

**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.**  
 Mark one line only – choose line to benefit candidate

✓                      ✓                      ✓                       One part correct

$$\frac{510}{2\,975 - 2\,465} \times 12 \div 0,085 = R72\,000$$

**OR**

one mark    one mark                      one mark                      one method mark

$$\frac{510}{2\,975 - 2\,465} \times 12 \times \frac{100}{8,5} = R72\,000$$

**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

$$\frac{1\,200 \times 2\,975}{8,5} - \frac{1\,200 \times 2\,465}{8,5} = 72\,000$$

6

6.3.2

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

Figures not required  
 Part-marks for unclear/incomplete explanation

	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

<b>TOTAL MARKS</b>
30

TOTAL: 300