



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

NOVEMBER 2016

MARKS: 300

TIME: 3 hours

This question paper consists of 19 pages and a 15-page answer book.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.

8. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 45 marks; 25 minutes	
Topic of the question:	This question integrates:
Manufacturing	Managerial accounting Concepts Production Cost Statement Break-even analysis Managing resources Internal control

QUESTION 2: 40 marks; 25 minutes	
Topic of the question:	This question integrates:
Reconciliation, Age Analysis and VAT	Financial accounting Debtors' reconciliation Debtors' age analysis VAT calculations Managing resources Internal control

QUESTION 3: 70 marks; 40 minutes	
Topic of the question:	This question integrates:
Audit report and Income Statement	Financial accounting Concepts Income Statement Audit report Managing resources Fixed assets

QUESTION 4: 75 marks; 45 minutes	
Topic of the question:	This question integrates:
Cash Flow Statement and Interpretation	Financial accounting Concepts Cash Flow Statement Interpretation of financial information Managing resources Internal control

QUESTION 5: 30 marks; 20 minutes	
Topic of the question:	This question integrates:
Inventories	Managerial accounting Inventory valuation Managing resources Internal control

QUESTION 6: 40 marks; 25 minutes	
Topic of the question:	This question integrates:
Budgeting	Managerial accounting Cash Budget Calculations

QUESTION 1: MANUFACTURING

(45 marks; 25 minutes)

1.1 CONCEPTS

Give ONE cost category for each of the following descriptions by choosing a cost category from the list below. Write only the cost category next to the question number (1.1.1–1.1.4) in the ANSWER BOOK.

direct material cost; direct labour cost; factory overhead cost;
administration cost; selling and distribution cost

- 1.1.1 Salaries paid to office workers
- 1.1.2 Cost of raw materials used in the production process
- 1.1.3 Commission paid to salespersons
- 1.1.4 Rent paid for factory buildings (4 x 1) (4)

1.2 GUGU MANUFACTURERS

You are provided with information relating to Gugu Manufacturers for the year ended 29 February 2016. The business produces one style of handbag.

REQUIRED:

- 1.2.1 Calculate the:
- Direct labour cost (8)
 - Direct material cost (6)
- 1.2.2 Prepare the Production Cost Statement. (8)
- 1.2.3 The owner is concerned about the production level in 2016.
- Calculate the break-even point for 2016. (5)
 - Explain whether the owner should be concerned or not. Provide figures. (3)
- 1.2.4 The owner is not satisfied with the internal control of the raw material.
- Calculate the following regarding the raw material (fabric):
- Metres of fabric stolen from the storeroom (5)
 - Metres of fabric wasted in the factory (4)
- Provide a strategy to improve the internal control in EACH case above. (2)

INFORMATION:

A. Workers involved in the manufacturing process:

NO. OF WORKERS	WAGE		EARNINGS PER WORKER	
	Basic (normal wage)	Overtime	R40 per hour	1 920 hours
5			Basic rate + 75%	90 hours
NOTE: Deductions: 8,5% of basic wage Employer's contribution: 11,5% of basic wage				

B. Raw material (fabric):

Raw material purchased is kept in a storeroom before being issued to the factory for production. Stock is valued according to the weighted-average method.

Storeroom stock records:

	METRES	TOTAL AMOUNT (R)
Balance on 1 March 2015	1 350	131 500
Purchases:	5 400	584 000
May 2015	2 500	265 000
September 2015	2 900	319 000
Raw material issued to factory	5 500	?
Stock balance on 29 February 2016	940	?

C. There is no work-in-process stock.

D. Other costs for the financial year (after all the adjustments):

Factory overhead cost	Fixed cost	R343 340
Administration cost	Fixed cost	R226 660
Selling and distribution cost	Variable cost	R217 340

E. Additional information on 29 February 2016:

- 4 200 handbags were produced and sold at R450 each.
- Total sales amounted to R1 890 000.
- Total variable cost per unit was R300.
- 1,25 metres of fabric was used to make one handbag.

QUESTION 2: RECONCILIATION, AGE ANALYSIS AND VAT

(40 marks; 25 minutes)

2.1 Simply Traders sell goods for cash and on credit.

REQUIRED:

2.1.1 Simply Traders have the telephone numbers of all their debtors. What other information should they obtain before allowing customers to open accounts? State TWO points with a reason in EACH case. (4)

2.1.2 **Refer to Information A, B and C.**

Calculate:

- The correct closing balance of the Debtors' Control Account on 31 October 2016 (6)
- The correct amounts owing by debtors:
 - J Ramsay (D2)
 - W Smith (D3)
 - C Prince (D5) (12)

2.1.3 **Refer to Information D.**

- Calculate the percentage of debtors complying with the credit terms. (4)
- Explain TWO measures to improve collection from debtors. (4)

INFORMATION:

A. Balance of the Debtors' Control Account on 31 October 2016, R179 500 (before adjustments).

B. Debtors' list on 31 October 2016:

DEBTORS	FOLIO	AMOUNT
M Coley	D1	R60 200
J Ramsay	D2	37 500
W Smith	D3	19 500
D Cummings	D4	42 000
C Prince	D5	3 900
TOTAL		R163 100

C. The following errors and omissions must be taken into account:

- (a) An invoice for R2 500 issued to W Smith was not recorded in the books of Simply Traders.
- (b) The total of the Debtors' Allowances Journal was posted to the Debtors' Control Account as R20 100 instead of R21 000.

- (c) An invoice for R4 300 issued to C Prince was posted incorrectly to the account of J Ramsay.
- (d) Stock for R5 100 sold to C Prince was treated as a return of goods when posting it to the Debtors' Ledger Account of C Prince.
- (e) A cheque for R8 350, originally received from J Ramsay in settlement of debt of R8 500, was returned by the bank, marked R/D. No entries were made in the Debtors' Ledger.
- (f) An invoice for R3 600 issued to W Smith was recorded correctly in the Debtors' Journal, but posted as R6 300 to his account in the Debtors' Ledger.
- (g) The total for discount allowed in the CRJ was overstated by R500.

D. Debtors' age analysis on 30 September 2016:

TOTAL	CURRENT	30–60 DAYS	61–90 DAYS	MORE THAN 90 DAYS
201 200	35 300	23 300	76 700	65 900

The credit period is 60 days.

2.2 VALUE-ADDED TAX (VAT)

The information below relates to Creamline Traders for their two-month VAT period ended on 31 August 2016. All items are subject to 14% VAT.

REQUIRED:

Calculate the amount receivable from or payable to SARS for VAT on 31 August 2016. Indicate whether the amount is receivable or payable. (You may complete a VAT Control Account.)

(10)

INFORMATION:

A. Amount owed to SARS for July 2016, R14 250.

B. Details in respect of VAT for August 2016:

DETAILS	EXCLUDING VAT	VAT	INCLUDING VAT
Merchandise purchased/Expenses paid	R198 000		R225 720
Goods taken by owner for personal use		R2 940	
Returns by debtors		R1 120	
Debtors' accounts written off	R9 500		
Total sales			R332 880

QUESTION 3: AUDIT REPORT AND INCOME STATEMENT (70 marks; 40 minutes)

3.1 CONCEPTS

Choose the correct term to complete each of the following statements. Write only the term next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.

cash and cash equivalents; current asset; non-current asset; income;
net working capital; expense; current liability; non-current liability

- 3.1.1 Interest on a bank overdraft is a/an ...
- 3.1.2 Consumable stores on hand are a/an ...
- 3.1.3 The portion of a loan to be paid during the next financial year is regarded as a/an ... in the Balance Sheet.
- 3.1.4 The difference between current assets and current liabilities is known as ... (4 x 1) (4)

3.2 AUDIT REPORT

You are provided with an extract from the audit report of Fralezi Ltd.

REQUIRED:

- 3.2.1 To whom is the audit report addressed? (1)
- 3.2.2 Who has to ensure that the financial statements are prepared and presented at the annual general meeting? (1)
- 3.2.3 Choose the correct word from those in brackets. Write the answer next to the question number (3.2.3) and explain your choice.
Fralezi Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report. (2)
- 3.2.4 Explain why the independent auditors referred to pages 11–29 in the report. (2)

INFORMATION:

We have examined the financial statements set out on pages 11–29.

In our opinion, the annual financial statements present fairly, in all material respects:

- The financial position of Fralezi Ltd on 30 June
- The cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and as required by the Companies Act of South Africa

Roux and Pieterse
Chartered Accountants (CA)
Registered Accountants and Auditors
Schilbach Street, Parys

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3.3 INCOME STATEMENT

You are provided with information relating to Fralezi Ltd for the financial year ended 30 June 2016.

REQUIRED:

Complete the Income Statement for the financial year.

(60)

INFORMATION:

Figures extracted from the Pre-adjustment Trial Balance on 30 June 2016:

	R
Balance Sheet Accounts	
Mortgage loan: Parys Bank	333 200
Bank (favourable)	482 000
Debtors' control	116 500
Trading stock	209 500
Provision for bad debts	3 732
Nominal Accounts	
Sales (less allowances)	4 777 300
Cost of sales	?
Directors' fees	375 000
Salaries and wages	365 540
Sundry expenses	?
Depreciation	124 260
Audit fees	23 000
Repairs	100 000
Rent income	101 900
Interest income	?
Bad debts recovered	10 540
Packing material	13 600
Advertising	20 596
Loss of computer due to theft	9 300
Ordinary share dividends	200 000

Adjustments and additional information:

- A.** A credit note for R35 700 issued to a debtor, dated 27 June 2016, was not recorded. The cost price of these goods was R21 000. The goods were placed back into stock.
- B.** The business prices its goods at a mark-up of 70% on cost. Trade discount of R297 200 was allowed on invoices to certain customers.
- C.** Adjust the provision for bad debts of debtors to 4%.

- D.** Stock counts on 30 June 2016 revealed the following on hand:
- Trading stock, R225 500
 - Packing material, R3 700
- E.** External auditors are owed a further R7 250.
- F.** Interest on the loan is capitalised and has not been recorded yet. The loan statement from Parys Bank on 30 June 2016 reflected a closing balance of R372 920.
- G.** Corrections must be made in respect of a computer that was stolen on 31 March 2016.

The bookkeeper completed the following page in the Fixed Assets Register, using the incorrect method of depreciation:

SUNCREST COMPUTER	COST	DEPRECIATION	BOOK VALUE
1 July 2014	R42 000		R42 000
30 June 2015		R8 400	R33 600
31 March 2016		R6 300	R27 300
Insurance pay-out	R18 000		
Loss of computer due to theft	R9 300		

Depreciation on this asset should have been calculated at 20% p.a. on the diminishing-balanced method.

- H.** The monthly rent did not change during the year. During April 2016 the tenant paid R6 000 for repairs to the premises. He deducted this from his rent for May 2016, as repairs are the responsibility of the company. The repairs were not recorded. The rent for July 2016 was received and deposited during June 2016.
- I.** Advertising consists of a monthly contract with the local newspaper for the entire financial year. Advertising was paid for 11 months only. From 1 April 2016, the contract rate was decreased by R152 per month.
- J.** Net profit after tax is R504 000.

Use the following percentages to calculate certain missing figures:

- Operating profit on sales: 15%
- Income tax rate: 28% of net profit

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QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION

(75 marks; 45 minutes)

- 4.1 Choose a term from COLUMN B that matches the description in COLUMN A. Write only the letter (A–D) next to the question number (4.1.1–4.1.4) in the ANSWER BOOK, for example 4.1.5 E.

COLUMN A		COLUMN B	
4.1.1	Ability of the business to pay off all its debts	A	gearing
4.1.2	Ability of the business to pay off its short-term debts	B	return on equity
4.1.3	The benefit that shareholders receive for investing in the company	C	solvency
4.1.4	The extent to which a company is financed by loans	D	liquidity

(4 x 1) (4)

4.2 REID LTD

You are provided with information relating to Reid Ltd for the financial year ended 30 June 2016.

Where financial indicators are required to support your answer, name the financial indicator, the actual figure/ratio/percentage and trends.

REQUIRED:

- 4.2.1 Prepare the following notes to the Balance Sheet:

- Ordinary share capital (7)
- Retained income (9)

- 4.2.2 Calculate the following amounts for the Cash Flow Statement:

- Change in loan (2)
- Income tax paid (4)

- 4.2.3 Complete the extract from the Cash Flow Statement for cash and cash equivalents. (4)

- 4.2.4 Calculate the following financial indicators on 30 June 2016:

- Acid-test ratio (4)
- Debt-equity ratio (3)
- % return on average shareholder's equity (ROSHE) (5)
- Net asset value per share (NAV) (3)

4.2.5 The liquidity of the company has improved. Quote THREE financial indicators to support this statement. (6)

4.2.6 Dividend policy:

- Provide calculations to show the change in the dividend pay-out policy. (4)
- Explain why the directors decided to change the policy. State ONE point with figures. (2)

4.2.7 Mary is the CEO of the company. Her shareholding is as follows:

NUMBER OF SHARES	DATE PURCHASED	% SHAREHOLDING
420 000	10 January 2015	46,7%

- (a) Calculate Mary's % shareholding on 1 October 2015 after the repurchase of shares. (4)
- (b) Explain how Mary has benefitted from the decision to repurchase the shares. (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)

4.2.8 The Cash Flow Statement reflected fixed assets purchased to the amount of R4,5 million.

- Name TWO major sources of funding for these fixed assets with figures (over R1 000 000 each). (4)
- State for EACH source whether it was a good or bad decision. Explain your choice. Quote relevant financial indicators/figures to support your opinion. (6)

INFORMATION:

A. Share capital and dividends:

- 900 000 shares were in issue on 1 July 2015.
- 75 000 ordinary shares were repurchased from the estate of a deceased shareholder at R10,70 per share on 1 October 2015.
- The company issued 125 000 ordinary shares at R10,80 per share on 1 April 2016.
- The 2016 Cash Flow Statement reflected dividends paid of R434 250.

B. Extract from Income Statement for the year ended 30 June 2016:

	R
Sales	5 220 000
Cost of sales	3 600 000
Operating profit	1 295 000
Income tax	190 500
Net profit after tax	444 500

C. Extract from Balance Sheet on 30 June:

	2016	2015
	R	R
Fixed assets (carrying value)	17 420 950	14 683 300
Fixed deposit: Ken Bank	250 000	380 000
Current assets	1 015 000	456 000
Inventories (only trading stock)	564 000	281 500
Trade and other receivables (debtors)	246 000	167 000
Cash and cash equivalents	205 000	7 500
Shareholders' equity	10 050 750	9 540 000
Ordinary share capital	?	9 180 000
Retained income	?	360 000
Loan: Barbie Bank	8 000 000	4 500 000
Current liabilities	635 200	1 479 300
Trade and other payables	420 000	683 400
Shareholders for dividends	209 000	162 000
SARS: Income tax	6 200	23 400
Bank overdraft	-	610 500

D. The following financial indicators were calculated on 30 June:

	2016	2015
Current ratio	1,6 : 1	0,3 : 1
Acid-test ratio	?	0,1 : 1
Stock turnover rate	8,5 times	10 times
Debtors' collection period	36 days	43 days
Creditors' payment period	63 days	63 days
Solvency ratio	2,2 : 1	2,6 : 1
Debt-equity ratio	?	0,5 : 1
Return on total capital employed (ROTCE)	8,2%	9,5%
Return on shareholders' equity (ROSHE)	?	6,2%
Earnings per share (EPS)	51 cents	58 cents
Dividends per share (DPS)	55 cents	35 cents
Net asset value per share (NAV)	?	1 060 cents
Market price	1 000 cents	1 030 cents
Interest rate on loans	12%	12%

QUESTION 5: INVENTORIES

(30 marks; 20 minutes)

5.1 INVENTORY VALUATION

Matrix Traders sell three different types of laptops: Lexus, Granite and Vision. They use the periodic inventory system and the specific identification method to value stock.

REQUIRED:

5.1.1 Explain the following valuation methods:

- FIFO (2)
- Specific identification (2)

5.1.2 Calculate the cost price per laptop on hand on 1 October 2015. (2)

5.1.3 Calculate the value of the closing stock on 30 September 2016. (9)

INFORMATION:

The following information is in respect of the year ended 30 September 2016:

A. Opening stock:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
1 Oct. 2015	Lexus	118	?	R413 000

B. Purchases and returns:

DATE	MODEL	UNITS	COST PRICE PER UNIT	TOTAL
PURCHASES:				
Dec. 2015	Granite	410	R3 750	R1 537 500
Mar. 2016	Vision	630	R4 650	R2 929 500
RETURNS:				
Mar. 2016	Vision	20	R4 650	(R93 000)
Net purchases				R4 374 000

C. Sales for the year:

MODEL	UNITS	AMOUNT
Lexus	118	R598 850
Granite	356	R2 229 375
Vision	502	R4 247 775
		R7 076 000

5.2 MANAGEMENT OF INVENTORIES

You are provided with information from the books of Kyle's Office Equipment for the year ended 29 February 2016. The business sells office desks, chairs and printers.

Kyle took certain decisions at the beginning of the 2016 financial year.

REQUIRED:

Provide relevant figures for ALL the questions below.

5.2.1 Desks:

- What decision did Kyle take regarding the selling price of the desks? (2)
- How has this decision affected the business? State TWO points. (4)

5.2.2 Chairs:

Was it a good idea for Kyle to change to a cheaper supplier of chairs? Explain TWO points. (5)

5.2.3 Printers:

Kyle significantly reduced the selling price of printers in the 2016 financial year in response to a new competitor who sells the same model at R1 200.

Based on the information below, provide TWO separate suggestions to Kyle to improve the profit on printers in 2017. (4)

INFORMATION:

	DESKS		CHAIRS		PRINTERS	
	2016	2015	2016	2015	2016	2015
Orders received from customers	300	370	770	730	925	615
Gross units sold	300	365	770	730	725	615
Returns by customers	0	5	90	0	15	15
Selling price	R2 520	R1 920	R490	R714	R975	R1 326
Cost price	R1 400	R1 200	R350	R510	R780	R780
Mark-up %	80%	60%	40%	40%	25%	70%
Gross profit	R336 000	R259 200	R95 200	R148 920	R138 450	R327 600
Stock turnover rate	6,0	7,2	4,0	4,0	11,8	10,0

QUESTION 6: BUDGETING

(40 marks; 25 minutes)

You are provided with information relating to Mayhem (Pty) Ltd.

REQUIRED:

6.1 Refer to Information G.

6.1.1 Identify TWO items that the bookkeeper recorded incorrectly in the Cash Budget. (2)

6.1.2 Identify TWO items in the Cash Budget that would NOT appear in a Projected Income Statement. (2)

6.2 Complete the Debtors' Collection Schedule for October 2016. (9)

6.3 Calculate the missing amounts indicated by **(a)** to **(d)** in the Cash Budget. (18)

6.4 The directors compared the budgeted figures to the actual figures for September 2016.

	BUDGETED	ACTUAL
Sales	R288 000	R489 600
Salaries: Salespersons	R40 000	R12 000
Commission: Salespersons	R0	R66 150
Packing material	R14 400	R17 280

6.4.1 The directors changed the method of payment to the salespersons. Explain how this has benefitted the salespersons and the business. Quote figures. (4)

6.4.2 The directors are not concerned about the overspending on packing material. Explain why this is so. Quote figures or calculations. (5)

INFORMATION:

A. Projected Income Statement:

Information extracted for the three months ended 31 October 2016:

	AUGUST	SEPTEMBER	OCTOBER
	R	R	R
Sales	252 000	288 000	?
Cost of sales	?	(160 000)	?
Rent income	?	?	12 960
Discount received	3 600	4 000	?
Depreciation	5 400	5 400	5 400
Bad debts	2 800	3 350	?
Interest on loan	6 875	6 875	?

B. Sales:

- Sales are expected to increase by 15% in October 2016.
- Credit sales comprise 60% of total sales.
- The mark-up percentage is 80% on cost.

C. Debtors' collection:

- 50% is collected in the month of sale.
- 40% is collected in the month following the month of sale.
- 7% is collected two months after the sale.
- 3% is written off as irrecoverable.

D. Purchases:

- All purchases of stock are on credit.
- Stock is replaced in the month of sale. A base stock is maintained.
- Creditors are paid two months after purchase, subject to a 4% discount.

E. Directors' fees:

- The business had three directors earning the same monthly fee.
- On 30 September 2016 one of the directors resigned.
- The remaining directors will receive an increase of 35% in their monthly fee from 1 October 2016.

F. Loan:

- The loan was reduced by R52 800 on 30 September 2016.
- Interest at 12,5% p.a. is payable every month and is not capitalised.

G. Extract from the Cash Budget prepared by the bookkeeper:

	SEPTEMBER 2016	OCTOBER 2016
	R	R
RECEIPTS		
Cash sales	(a)	132 480
Cash from debtors	155 280	?
Rent income	12 000	12 960
Discount received	3 600	5 600
Fixed deposit	56 000	0
PAYMENTS		
Payments to creditors	156 000	(b)
Directors' fees	216 000	(c)
Salaries of salespersons	40 000	40 000
Repayment of loan	52 800	0
Interest on loan	6 875	(d)
Delivery expenses	27 500	27 500
Audit fees	60 000	0
Bad debts	3 200	3 600
Depreciation	17 400	17 400

CENTRE NUMBER

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EXAMINATION NUMBER

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NATIONAL SENIOR CERTIFICATE

ACCOUNTING

GRADE 12

NOVEMBER 2016

SPECIAL ANSWER BOOK

QUESTION	MARKS	INITIAL	MOD.
1			
2			
3			
4			
5			
6			
TOTAL			

This answer book consists of 15 pages.

Sticker

QUESTION 1

1.1

1.1.1	
1.1.2	
1.1.3	
1.1.4	

4

1.2.1

<p>Calculate direct labour cost.</p>
<p>Calculate direct material cost.</p>

8

6

1.2.2

Production Cost Statement for the year ended 29 February 2016:

Prime cost	
Cost of production of finished goods	

8

1.2.3

Calculate the break-even point for 2016.

5

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

3

1.2.4

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

	STOREROOM: Raw material stolen	FACTORY: Raw material wasted
CALCULATION: metres of fabric		
STRATEGY		

11

TOTAL MARKS

45

QUESTION 2

2.1.1

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

	Information to be obtained	Reason
Point 1		
Point 2		

4

2.1.2

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

6

Calculate the correct amounts owing by debtors.

	Calculations	Balance
J Ramsay (D2)	37 500	
W Smith (D3)	19 500	
C Prince (D5)	3 900	

12

2.1.3

Calculate the percentage of debtors complying with the credit terms.

4

Explain TWO measures to improve the collection from debtors.

4

2.2

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

Receivable/Payable:

10

TOTAL MARKS
40

QUESTION 3

3.1

3.1.1	
3.1.2	
3.1.3	
3.1.4	

4

3.2 AUDIT REPORT

3.2.1

To whom is the audit report addressed?

1

3.2.2

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

1

3.2.3

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

Explain your choice.

2

3.2.4

Explain why the independent auditors referred to pages 11–29 in the report.

2

3.3

FRALEZI LTD
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

Sales	
Cost of sales	
Gross profit	
Other income	
Operating expenses	
Directors' fees	
Salaries and wages	
Sundry expenses	
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	
Net profit before tax	
Income tax for the year	
Net profit after tax	504 000

TOTAL MARKS
70

60

QUESTION 4

4.1

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4

4.2.1 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

7

RETAINED INCOME:

Balance on 1 July 2015	360 000
Net profit after tax	444 500
Balance on 30 June 2016	

9

4.2.2

Calculate the change in loan for the Cash Flow Statement.

2

Calculate the income tax paid for the Cash Flow Statement.

4

4.2.3

Net change in cash and cash equivalents

4

4.2.4

Calculate the acid-test ratio on 30 June 2016.

4

Calculate the debt-equity ratio on 30 June 2016.

3

Calculate the % return on average shareholders' equity (ROSHE) for the year ended 30 June 2016.

5

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

3

4.2.5

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

6

4.2.6

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

4

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

2

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

4

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

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

4.2.8 The Cash Flow Statement reflected fixed assets purchased to the amount of R4,5 million.

Major sources of funding with figures (over R1 000 000 each)	Good/Bad decision	Explanation with financial indicators/figure
Source 1:		
Source 2:		

10

TOTAL MARKS

75

QUESTION 5

5.1 INVENTORY VALUATION

5.1.1 Explain the FIFO valuation method.

Explain the specific identification valuation method.

4

5.1.2 Calculate the cost price per laptop on hand on 1 October 2015.

2

5.1.3 Calculate the value of the closing stock on 30 September 2016.

9

5.2 MANAGEMENT OF INVENTORIES

5.2.1 What decision did Kyle take regarding the selling price of the desks?
 Provide figures.

2

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

4

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

YES/NO: _____

Explain TWO points. Provide figures.

5

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

Suggestion 1 (with figures):

Suggestion 2 (with figures):

4

TOTAL MARKS

30

QUESTION 6

6.1.1 TWO items recorded incorrectly in the Cash Budget:

2

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

2

6.2 DEBTORS' COLLECTION SCHEDULE

MONTHS	CREDIT SALES	SEPTEMBER	OCTOBER
July	120 000	8 400	
August	151 200	60 480	
September	172 800	86 400	
October			
		155 280	

9

6.3 AMOUNTS FOR THE CASH BUDGET

WORKINGS		AMOUNT
(a)	Cash sales for September	
(b)	Payments to creditors for October	
(c)	Directors' fees for October	
(d)	Interest on loan for October	

18

6.4.1

The directors changed the method of payment to the salespersons.
 Explain how this has benefitted the salespersons. Quote figures.

Explain how this has benefitted the business. Quote figures.

4

6.4.2

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

5

TOTAL MARKS
40

TOTAL: 300



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

NOVEMBER 2016

MEMORANDUM

MARKS: 300

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no foreign item penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If the answer is incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: If figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well e.g. R715 500 in Q1.2.1 would be 2 marks in final answer, not 3.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
10. 'Operation' means 'Check operation'. 'One part correct' means 'Operation & one part correct'.
Note: Check operation means must be +, –, x or ÷ per memo, but some items can be + or – such as Prov for bad debts adj.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. In such cases, do not award the method mark. Indicate by way of ☒
12. Be aware that some candidates provide valid alternatives beyond the memorandum.
13. Codes: f = foreign item; p = placement/presentation.

This memorandum consists of 15 pages.

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.

$$\begin{array}{ccc} \text{one part correct} & \text{one part correct} & \text{one part correct} \\ 384\,000 \checkmark \checkmark & 31\,500 \checkmark \checkmark \checkmark & 44\,160 \checkmark \checkmark \end{array} \quad \checkmark \text{ one part correct; must be } \times 5$$

$$(1\,920 \times 5 \times R40) + (90 \times 5 \times 70) + (384\,000 \times 11,5\%) = R459\,660$$

OR

$$\begin{array}{ccc} 76\,800 & 6\,300 & 8\,832 \\ 5 \times [(1\,920 \times R40) + (90 \times 70)] + (76\,800 \times 11,5\%) = R459\,660 \\ \text{one mark} \quad \text{one mark} \quad \text{one mark} \quad \text{one mark} \quad \text{one m/mark} \\ \text{one m/mark} \quad \text{one m/mark} \quad \text{one m/mark} \quad \text{one part correct; must be } \times 5 \end{array}$$

8

Calculate direct material cost.

$$\begin{array}{ccc} R106,00 \text{ four marks} & & \\ 715\,500 \text{ two marks} & & \\ \hline 131\,500 \checkmark + 584\,000 \checkmark & \times 5\,500 \checkmark & = 583\,000 \checkmark \text{ One part correct} \\ 1\,350 \checkmark + 5\,400 \checkmark & & \\ 6\,750 \text{ two marks} & & \end{array}$$

OR Total VC – DLC – S&DC

$$\begin{array}{ccccc} 1\,260\,000 \text{ two marks} & \text{see 1.2.1; one method mark} & \text{two marks} & \text{one method mark; one part correct} & \\ [4\,200 \times 300] & - 459\,660 & - 217\,340 & = 583\,000 \end{array}$$

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

$$\begin{array}{ccccc} \text{one mark} & \text{one mark} & \text{two marks} & \text{one mark} & \text{one method mark; one part correct} \\ 131\,500 + 584\,000 - 99\,640 - 32\,860 = 583\,000 \end{array}$$

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	✓
Prime cost	If = DMC + DLC	1 042 660	✓
*✓ <u>Factory overhead</u> cost		343 340	✓
Cost of production of finished goods	Operation one part correct	1 386 000	✓

8

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

1.2.3

Calculate the break-even point for 2016.

$$\begin{array}{r} 570\,000 \text{ two marks} \\ 343\,340 \checkmark + 226\,660 \checkmark \\ \hline 450 \checkmark - 300 \checkmark \\ 150 \text{ two marks} \end{array}$$

= 3 800 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).

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

11

TOTAL MARKS

45

QUESTION 2

2.1.1

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

Do not accept Telephone number of debtor

Can award two marks if information & reason is in same sentence

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

4

2.1.2

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

$$179\,500 + 2\,500 - 900 + 500 = 181\,600$$

One part correct
21 000 – 20 100 Signs cannot be reversed as this is Dr / Cr

OR: T-account with figures on correct sides

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

6

Calculate the correct amounts owing by debtors.

	Calculations	Balance
J Ramsay (D2)	8 500 two marks $37\,500 - 4\,300 + 8\,350 + 150$	*41 700
W Smith (D3)	+ 3 600 – 6 300 both for two marks $19\,500 + 2\,500 - 2\,700$	*19 300
C Prince (D5)	10 200 two marks $3\,900 + 4\,300 + 5\,100 + 5\,100$	*18 400

*One part correct for method mark

12

2.1.3

Calculate the percentage of debtors complying with the credit terms.

58 600 two marks

$$\frac{35\,300\checkmark + 23\,300\checkmark}{201\,200\checkmark} = 29,1\% \quad \checkmark \quad \text{One part correct}$$
 Accept 29%
 OR
 ignore 142 600 – not applicable to compliance

$$\frac{142\,600}{201\,200} = 70,9\% \quad \text{one mark}$$
 Complying = 29,1%
 one method & one accuracy mark
 OR
 17,5% one mark + 11,6% one mark = 29,1% one method & one accuracy mark

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

No mark for: Get debtors over 60 days to pay quicker or reduce credit limit of such debtors

4

2.2

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

Mark one line only. Cannot mix signs. Inspect candidates' responses. Award highest mark.

✓ ✓ ✓ ✓ ✓✓ ✓✓ ☒ One part correct

$$14\,250 - 27\,720 + 2\,940 - 1\,120 - 1\,330 + 40\,880 = 27\,900$$

$$40\,880 - 1\,120 = 39\,760 \text{ three marks}$$

OR

$$-14\,250 + 27\,720 - 2\,940 + 1\,120 + 1\,330 - 40\,880 = -27\,900$$

$$1\,120 - 40\,880 = -39\,760 \text{ three marks}$$

OR

Balance at beginning = 14 250
 Output 40 880 – 1 120 – 1 330 = 38 430
 Input 27 720 – 2 940 = (24 780)
 27 900

OR

VAT CONTROL	
27 720	14 250
*1 120	*2 940
*1 330	40 880
27 900	
58 070	58 070

Receivable/Payable: Payable ✓ Do not accept Receivable (irrespective of workings)

TOTAL MARKS

40

QUESTION 3

3.1

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

4

3.2 AUDIT REPORT

3.2.1

To whom is the audit report addressed?
Shareholders ✓

1

3.2.2

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

1

3.2.3

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

2

3.2.4

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

2

3.3

FRALEZI LTD
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

Sales (4 777 300 ✓ – 35 700 ✓) One part correct	<input checked="" type="checkbox"/> 4 741 600	
Cost of sales Award 3 marks if = Sales + 297 200 ÷ 1,7	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> (2 964 000)	
Gross profit One part correct, COS must be subtracted	<input checked="" type="checkbox"/> 1 777 600	7
Other income Operation one part correct	<input checked="" type="checkbox"/> 110 640	
Rent income (101 900 ✓ + 6 000 ✓✓ – 8 300 ✓✓) One part correct 107 900 three marks OR -2 300 four mark	<input checked="" type="checkbox"/> 99 600	
Bad debts recovered	✓ 10 540	
** Provision for bad debts adj. (3 732 ✓ – 3 232 ✓) One part correct Could be an expense if error made	<input checked="" type="checkbox"/> 500	
Gross operating profit Operation	<input checked="" type="checkbox"/> 1 888 240	12
Operating expenses Operation	<input checked="" type="checkbox"/> (1 177 000)	
Directors' fees	✓ 375 000	
Salaries and wages	✓ 365 540	
Sundry expenses Any figure less than Op Exps total; ignore brackets 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 -for old; + for new	<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 ✓) +1 900 two marks –152 one mark	✓ 9 900	
Advertising (20 596 ✓ + 1 748 ✓✓✓) One part correct	<input checked="" type="checkbox"/> 22 344	
Loss due to theft (9 300 ✓ + 1 260 <input checked="" type="checkbox"/> OR (28 560 one m/mark – 18 000 one mark) See depr adj above; opposite sign One part correct	<input checked="" type="checkbox"/> 10 560	
** Trading stock deficit 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	32
Operating profit Check = Sales x 0,15	<input checked="" type="checkbox"/> 711 240	
Interest income Profit before interest expense – Operating profit	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 28 480	
Profit before interest expense Operation from bottom up	<input checked="" type="checkbox"/> 739 720	
Interest expense Must be correctly placed & subtracted; brackets not essential	✓✓ (39 720)	
Net profit before tax Operation; must be more than R504 000	<input checked="" type="checkbox"/> 700 000	
Income tax for the year Ignore brackets	✓✓ (196 000)	9
Net profit after tax	504 000	

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

TOTAL MARKS

70

60

QUESTION 4

4.1

4.1.1	C	✓	Solvency
4.1.2	D	✓	Liquidity
4.1.3	B	✓	Return on equity
4.1.4	A	✓	Gearing

4

4.2.1 ORDINARY SHARE CAPITAL:

AUTHORISED SHARE CAPITAL

1 500 000 ordinary shares

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

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

7

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

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

9

4.2.2

Calculate the change in loan for the Cash Flow Statement.

$$8\,000\,000 - 4\,500\,000 = 3\,500\,000 \checkmark \checkmark \text{ No part marks}$$

Calculate the income tax paid for the Cash Flow Statement.

$$23\,400 \checkmark + 190\,500 \checkmark - 6\,200 \checkmark = 207\,700 \checkmark \text{ One part correct}$$

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

2

4

4.2.3

Net change in cash and cash equivalents

$$\checkmark \quad 808\,000$$

Cash and cash equivalents (beginning of year)

-610 500 one mark +7 500 one mark

$$\checkmark \checkmark \quad (603\,000)$$

Cash and cash equivalents (end of year)

$$\checkmark \quad 205\,000$$

4

4.2.4

Calculate the acid-test ratio on 30 June 2016.

1 015 000 one mark – 564 000 one mark
451 000 two marks

$$(246\,000 \checkmark + 205\,000 \checkmark) : 635\,200 \checkmark = 0,7 : 1 \checkmark \text{ One part correct; must be y:1}$$

4

Calculate the debt-equity ratio on 30 June 2016.

$$8\,000\,000 \checkmark : 10\,050\,750 \checkmark = 0,8 : 1 \checkmark \text{ One part correct; must be y:1 Accept } 0,79 : 1$$

3

Calculate the % return on average shareholders' equity (ROSHE) for the year ended 30 June 2016.

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

9 795 375 (3 marks)

$$= 4,5\% \checkmark \text{ One part correct; cannot be Rands, cents, units etc}$$

5

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

$$\frac{10\,050\,750 \checkmark}{950\,000 \checkmark} \times 100 = 1\,058 \text{ cents } \checkmark \text{ One part correct OR R10,58 OR 1057,9 cents}$$

See 4.2.1 Must be Rands or cents

3

4.2.5

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 4.2.4

Debtors' collection period – 43 days to 36 days

Do not accept creditors' payment period and stock turnover rate

If more than three indicators shown, -1 for superfluous / foreign indicator; max -2

6

4.2.6

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 4.2.4
- Market price decreased (from 1 030 cents) to 1 000 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

4.2.7

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

Do not award this mark if another figure added

$$\frac{420\,000 \checkmark}{(900\,000 \checkmark - 75\,000 \checkmark)} \times 100 = 50,9\% \checkmark \text{ One part correct Accept 51\%}$$

825 000 two marks

Must be below 100%; % sign not essential

4

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

Explanation $\checkmark \checkmark$ Part-mark for unclear / incomplete answer

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?

Responses for two marks: $\checkmark \checkmark$ 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

2

4.2.8

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 $\checkmark \checkmark$ Figures $\checkmark \checkmark$
Source 1: Increase in loan - R3 500 000 Source \checkmark Figures \checkmark Reference can be made to 2015 indicators.	Bad \checkmark	The company is negatively geared. ROTCE (8,2%) is lower than the interest rate on loans (12%). Must compare interest rate to ROTCE. OR Financial risk increased. The debt-equity ratio increased from 0,5 : 1 to 0,8 : 1 (See 4.2.4). Must be regarded as bad as there is negative gearing.
Source 2: Issue of shares - R1 350 000 Source \checkmark Figures \checkmark	Good \checkmark	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. OR 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. OR Mary is no longer the majority shareholder; owns 44% of the shares.
	OR Bad	ROSHE decreased from 6,2% to 4,5% See 4.2.4 EPS decreased from 58c to 51c NAV could have been higher than 1058c

10

TOTAL MARKS

75

QUESTION 5

5.1 INVENTORY VALUATION

5.1.1 Explain the FIFO valuation method.

Any valid explanation, e.g.

Part-marks for incomplete explanation

It is assumed that the first items bought are the first items sold. ✓✓

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. ✓✓

4

5.1.2 Calculate the cost price per laptop on hand on 1 October 2015.

$R413\,000/118 = R3\,500$ ✓✓

No part marks

2

5.1.3 Calculate the value of the closing stock on 30 September 2016.

PREFERRED METHOD

$[3\,750 \times (410 - 356)] + [4\,650 \times (630 - 20 - 502)] = R704\,700$
 54 two marks 108 three marks 610 two marks 128 two marks
 202 500 three marks 502 200 four marks One part correct

ALTERNATIVE METHOD WITH TOTALS

$(1\,537\,500 - 1\,335\,000) + (2\,929\,500 - 93\,000 - 2\,334\,300) = 704\,700$
 one mark two marks one mark one mark two marks one mark & one method mark
 202 500 502 200
 three marks four marks

ALTERNATIVE METHOD USING COST OF SALES

Candidates must know that opening stock has all been sold to get 3 marks on net purchases:

Net purchases	– Cost of Sales	= Closing stock
+ 4 374 000	1 335 000 two marks 2 334 300 two marks	= R704 700
one or three marks	– [(356 × R3 750) + (502 × R4 650)]	one mark & one method mark
-403 000 & +403 000 = 0	one mark one mark one mark one mark	

9

5.2 MANAGEMENT OF INVENTORIES

5.2.1 What decision did Kyle take regarding the selling price of the desks? Provide figures.

Decision ✓ Figures ✓

- He increased the mark-up from 60% to 80%.
- He increased the selling price from R1 920 to R2 520 / by R600 / by 31%.

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

4

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

YES/NO: No✓

Explain TWO points. Provide figures.

Any two valid points ✓ ✓ 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

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

One valid point for pricing ✓ 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

TOTAL MARKS

30

QUESTION 6

6.1.1

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

6.1.2

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

6.2

DEBTORS' COLLECTION SCHEDULE

MONTHS	CREDIT SALES	SEPTEMBER	OCTOBER
July	120 000	8 400	
August	151 200	60 480	✓✓ 10 584
September	172 800	86 400	✓✓ 69 120
October	✓✓ 198 720	50% of credit sales	☑☑ 99 360
		155 280	Operation one part correct ☑ 179 064

9

6.3

AMOUNTS FOR THE CASH BUDGET

	WORKINGS	AMOUNT
(a)	Cash sales for September 288 000 ✓ x 40% ✓ 172 800 one mark x 40/60 one mark OR 132 480 x 100/115 one mark one mark	3 R115 200 ✓ One part correct
(b)	Payments to creditors for October 252 000 ✓ x $\frac{100}{180}$ ✓ x $\frac{96}{100}$ ✓ 140 000 two marks – 5 600 one mark 241 920 two marks	4 R134 400 ✓ One part correct
(c)	Directors' fees for October 216 000 ✓ x $\frac{2}{3}$ ✓✓ x $\frac{135}{100}$ ✓ 144 000 three marks +50 400 one mark (72 000 + 25 200) x 2 one mark two marks one mark	5 R194 400 ✓ One part correct
(d)	Interest on loan for October Could use solve for x method ✓ ✓ ✓ ✓ 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	6 ✓✓ R6 325 One part correct

18

6.4.1

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

6.4.2

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

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

Figures ✓✓ ✓✓

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

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

OR

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

Response for one mark:

Packing materials will increase if sales increase.

5

TOTAL MARKS

40

TOTAL: 300