



Province of the
EASTERN CAPE
EDUCATION

NATIONAL SENIOR CERTIFICATE

GRADE 12

SEPTEMBER 2014

ACCOUNTING MARKING GUIDELINE

GENERAL RULES:

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

This marking guideline consists of 17 pages.

QUESTION 1

(35 marks; 21 minutes)

STOCK VALUATION AND INTERNAL CONTROLS

1.1 Calculate the:

- closing stock balance on 28 February 2014, using the first-in-first-out (FIFO) method of stock valuation.

$$\begin{aligned}
 620 \checkmark \times R65 \checkmark &= R40\,300 \checkmark && \text{one part correct} \\
 (940 - 620) \times R60 \checkmark &= R19\,200 \checkmark && \text{one part correct} \\
 320 \checkmark &&& \\
 &= 59\,500 \checkmark && \text{one part correct}
 \end{aligned}$$

7

- cost of sales of the DVDs sold.

$$\begin{aligned}
 53\,950 \checkmark + (223\,760 \checkmark - 217\,600 \text{ (3 marks)}) &+ \overset{(80 \times R77)}{6\,160 \checkmark \checkmark} + \overset{(3\,470 \times R5)}{17\,350 \checkmark \checkmark} - \overset{(1.1.1)}{59\,500 \checkmark} = 229\,400 \checkmark \\
 &&& \text{one part correct}
 \end{aligned}$$

$$\text{Or: } (830 \times R65) + (1\,270 \times R77) + (980 \times R67) + (200 \times R60) = 229\,400$$

Or:

$$80 \times R72 = 5\,760 \text{ may also be accepted in which case the cost of sales will be } 229\,800$$

8

- total number of units sold.

$$\begin{aligned}
 &\overset{4\,220 \checkmark \checkmark}{\text{Sales: } (830 + 3\,470 - 80) - 940 \checkmark} = 3\,280 \text{ units } \checkmark \text{ one part correct}
 \end{aligned}$$

4

- total sales amount.

$$\begin{aligned}
 300 \times R75) + (2\,980 \times R100) &= R320\,500 \checkmark - R229\,400 \checkmark = R91\,100 \checkmark \text{ one part correct} \\
 22\,500 \checkmark \checkmark &\quad 298\,000 \checkmark \checkmark && (1.1.2)
 \end{aligned}$$

5

- Gross profit

$$R320\,500 - R229\,400 = R91\,100 \checkmark \checkmark \text{ one part correct}$$

Or

$$320\,500 - 229\,800 = 90\,700 \text{ Gross profit if R72 is used.}$$

2

1.2

Is the FIFO method appropriate for this product? Explain.

Yes / No ✓

A valid explanation ✓✓

No: low value goods bought in bulk / value of goods very similar / more control and documentation for FIFO (record keeping)

Yes: better control of products / can detect loss easily / distinguish older versions from newer ones / customers look for latest releases.

3

1.3

With regard to the fixed selling price, what advice would you offer Reg about his pricing policy?

Any ONE valid response ✓✓

- Reduce the mark-up percentage to attract more customers.
- Have different mark-up % for later versions which are in demand.
- Sell old stock in clearance sales.

2

1.4

Reg buys his stock from registered suppliers based in Durban. He is frustrated about the “unfair competition” that he faces in this industry.

- **Provide a reasonable explanation for the “unfair competition” that concerns Reg.**

Any valid explanation ✓✓

- Copying of CDs and selling in flea markets (piracy)
- Sale of illegal copies. (“black market” sales)
- Downloading and distributing to friends.

2

- **Give a practical suggestion that Reg can use to overcome this competition and improve the performance of the business.**

One valid suggestion ✓✓

- Need to offer other services such as repairs/installations.
- Offer specials and discounts.
- Stock related products such as TVs and entertainment centres.

2

QUESTION 2

50 marks; 30 minutes

VAT AND RECONCILIATIONS

2.1.1

(a)	Output VAT	✓✓
(b)	VAT exempted	✓✓
(c)	Evasion	✓✓
(d)	Input VAT	✓✓

8

2.1.2

(a) Calculate the amount of VAT that Billy must either pay to or receive from SARS.

Output VAT: $10\,710 \checkmark\checkmark + 336 \checkmark - 175 \checkmark\checkmark = 10\,871$

Input VAT: $7\,280 \checkmark\checkmark + 1\,232 \checkmark\checkmark - 105 \checkmark = 8\,407$

Due to SARS: 2 464 ☒ (one part correct in each section above)

Accept alternative presentation in calculations (such as ledger accounts / signs reversed, etc.)

11

(b) Explain why Billy benefits from being registered for VAT. Quote figures to support your answer.

Any valid explanation (with figures) ✓✓ Explanation without figures (1 mark)

Although he owes SARS R2 464 (2.1.2), if he was not registered for VAT, then he cannot charge VAT, although he will be paying VAT when he purchases good and/or services. (Paid R7 280 on purchases and R1 232 on essential services.)

2

(c) Dodgey Dealers, one of Billy's suppliers, offered Billy goods valued at R5 850 for R2 500. He stated that Billy must pay cash and he will not issue an invoice.

• **What advice would you offer Billy?**

A valid explanation ✓✓ (must mention the ethical issue)

- It is unethical to engage in such transactions.
- Dodgey clearly wants to evade taxes.
- Getting caught will result in fines, and bad publicity.
- Good business practice must uphold integrity, transparency and honesty.

2

2.2 CREDITORS RECONCILIATION

2.2.1

TRANSACTION		BALANCE
Balance as per Creditors Ledger Account		35 260
(a)		360 ✓✓
(b)		1 650 ✓✓
(c)		(1 840) ✓✓
(d)		2 400 ✓
(e)		-
TOTAL DUE		37 830 <input checked="" type="checkbox"/>

Accept different presentations (either using brackets or (-) or using debits and/or credits.

8

2.2.2

What advice would you offer the manager regarding point (d)?

Any ONE valid explanation ✓✓ (must include disciplinary action for 2 marks)

- The manager must firstly pay back the amount, or it must be deducted from his salary (1 mark).
- Disciplinary hearing / warning letter / demotion / reduced bonus, etc.

2

2.2.3

Provide TWO internal control measures that can be implemented to prevent such incidences like the above in the future.

TWO valid points ✓✓ ✓✓

- Division of duties – one checks on another / separation of duties
- Constant/random inspection of documents and goods received (stock)
- Audits of stock records.

4

2.3 DEBTORS

2.3.1 Name the debtor/s whose account/s is/are not overdue.

K. Pillai ✓✓

2

2.3.2 Calculate the percentage of the amount owed by debtors that is above the credit period allowed.

$$\frac{(1\,520 + 980) \checkmark + (750 + 2\,150) \checkmark}{12\,000 \checkmark \checkmark} \times 100$$

$$= 45\% \checkmark \text{ (one part correct)}$$

5

2.3.3 Suggest THREE control measures that Gladys can implement to improve the collection from debtors.

Any THREE valid suggestions. ✓✓ ✓✓ ✓✓

- Reduce the credit terms to the acceptable norm of 30 days.
- Offer incentives for those that pay within the 30 days period.
- Charge interest on accounts overdue for more than 60 days.
- Send constant reminders and warning letters to defaulters.
- Hand over to debt collectors
- Do not write off debts until all attempts were made to recover the money.
- Introduce credit limits to prevent poor payers from buying more on credit.

6

50

QUESTION 3

(40 marks; 24 minutes)

MANUFACTURING CONCERNS

3.1 3.1.1 Factory Overhead note

Indirect material	49 606	✓
Rent expense (7 500 x 12)	90 000	✓✓
Water and electricity (97 000 x 80%)	77 600	✓✓
Insurance (42 000 x $\frac{5}{7}$)	30 000	✓✓
Indirect labour (114 600 ✓ + 19 500 ✓)	One part correct 134 100	✓
Factory sundry expenses	44 694	
TOTAL FACTORY OVERHEADS	Operation 426 000	✓

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3.1.2 Production Cost Statement

Direct material cost 42 440 ✓ + 480 000 ✓ + 28 200 ✓ – 36 800 ✓	One part correct 513 840	✓
Direct labour cost (1 800 x 4) x R45 324 000 ✓✓ + 35 000 ✓ + 29 160 ✓	One part correct 388 160	✓
Prime cost	Operation 902 000	✓
Factory overhead cost	(3.1.1) 426 000	✓
Total manufacturing costs	Operation 1 328 000	✓

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3.2 3.2.1 Calculate the number of units the business needed to produce in order to break-even.

$$\frac{426\,000 \text{ ✓} + 226\,500 \text{ ✓}}{(R110 - R65) \text{ R45 ✓✓}} = 14\,500 \text{ units ✓ (one part correct)}$$

5

3.2.2 Making reference to the previous year's figures, as well as the amount calculated in QUESTION 3.2.1, comment on whether the owner should be satisfied or not.

Yes/No ✓

Valid explanation making a comparison ✓✓ quoting figures ✓

Mark according to the answer in QUESTION 3.2

- Business produced more than the BEP in both years. (figures)
- The number of units needed to breakeven has increased significantly compared to the actual number of units produced.
- Implies that costs are increasing. May not be due to inflation.

4

3.3

3.3.1 Do you think that the government should limit the flow of textiles into the country? Explain.

Yes/No ✓ Valid explanation ✓✓

Yes: Give local producers the opportunity to grow (leads to growth in the economy)
Reduce competition with countries that have cheaper production costs.

No: Free enterprise/people should be given the opportunity to purchase according to choice/income.

3

3.3.2 What can Fab Fabrics do to stay in business? Provide TWO suggestions.

TWO valid suggestions ✓✓ ✓✓

- Look for cheaper suppliers of material without compromising quality.
- Buy in bulk to get discounts.
- Try to reduce overhead expenses and/or transport costs.
- Broaden the target market by advertising in neighbouring towns.
- Introduce alternative products with the waste/off cut material.

4

QUESTION 4

(70 marks; 42 minutes)

COMPANIES – FINANCIAL STATEMENTS AND AUDITING**4.1 Income Statement of Thevarani Ltd for the year ended 28 February 2014.**

Sales	560 000 x 100/8	7 000 000	✓✓
Cost of sales	Sales amount x 100/140	(5 000 000)	✓✓
Gross profit	Operation / 40% of cost of sales	2 000 000	✓
OTHER/OPERATING INCOME		55 000	
GROSS INCOME	Operation	2 055 000	✓
OPERATING EXPENSES	Operation (2 055 000 – 560 000)	(1 495 000)	✓
OPERATING PROFIT		560 000	
Interest income		15 800	✓
Net profit before interest expense	Operation	575 800	✓
Interest expense		(33 000)	✓✓
Net profit before income tax	Operation (380 000 + income tax)	542 800	✓
Income tax		(162 800)	✓
NET PROFIT AFTER TAX		380 000	

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4.2 4.2.1 Trade and other receivables

Debtors control		63 000	
Provision for bad debts	(3% of debtors control)	(1 890)	✓
Net trade debtors		61 110	
Prepaid expenses	(insurance)	3 920	✓✓
Accrued income	(rent income)	8 650	✓
SARS (Income Tax)	(170 000 – 162 800)	7 200	✓✓
	Operation (One part correct above)	80 880	✓

7

4.2.2 Ordinary share capital

400 000 ✓	Ordinary shares on 1 March 2013 (2 100 000 – 500 000)	One part correct 1 600 000	✓✓
100 000	Ordinary shares issued (at R5 each)	500 000	✓
(25 000) ✓	Ordinary shares re-purchased (at average price of R4,20 ✓)	(105 000)	✓
475 000 ✓	Ordinary shares on 28/02/2014	1 995 000	✓

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4.2.3 Retained income

Opening balance	234 000	
Net profit after tax	380 000	✓
Shares re-purchased (25 000 x 0,55) or 118 750 – 105 000	One part correct (13 750)	✓ <input checked="" type="checkbox"/>
Ordinary share dividend	(224 500)	<input checked="" type="checkbox"/>
• Interim dividend	120 000	✓
• Final dividend (475 000 x 0,22)	104 500	✓✓
Closing balance Operation (One part correct above)	375 750	<input checked="" type="checkbox"/>

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4.3 BALANCE SHEET AS AT 28 FEBRUARY 2014

ASSETS		
NON-CURRENT ASSETS	2 383 750	<input checked="" type="checkbox"/>
• Fixed assets	2 258 000	✓
• Financial assets (Fixed Deposit)	125 750	✓
CURRENT ASSETS	315 000	<input checked="" type="checkbox"/>
• Inventory	162 220	✓
• Trade and other receivables (4.2.1)	80 880	<input checked="" type="checkbox"/>
• Cash and cash equivalents (190 650✓ – 118 750✓)	71 900	<input checked="" type="checkbox"/>
TOTAL ASSETS	2 698 750	<input checked="" type="checkbox"/>
EQUITY AND LIABILITIES		
SHAREHOLDERS EQUITY	2 370 750	<input checked="" type="checkbox"/>
• Ordinary share capital (4.2.2)	1 995 000	<input checked="" type="checkbox"/>
• Retained income (4.2.3)	375 750	<input checked="" type="checkbox"/>
NON-CURRENT LIABILITIES	153 000	
• Loan: Sentry Bank (193 000✓ – 40 000 ✓)	153 000	✓
CURRENT LIABILITIES	175 000	<input checked="" type="checkbox"/>
• Trade and other payables (26 000 ✓ + 4 500✓)	One part correct 30 500	✓
• Shareholders for dividends (final dividends)	104 500	<input checked="" type="checkbox"/>
• Current portion of loan	40 000	✓
TOTAL EQUITY AND LIABILITIES 13	2 698 750	<input checked="" type="checkbox"/>

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23

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

- 4.4 The internal auditor warned the CEO that including his private entertainment expenditure under sundry expenses could cause problems for the business.

4.4.1 What GAAP/IFRS principle is the internal auditor referring to when this concern is expressed?

Business entity. ✓✓
(The owner and the business are separate entities)

2

4.4.2 Give TWO consequences for the business if the CEO does not take the advice of the internal auditor. (Give TWO points.)

Any TWO valid responses ✓✓ ✓✓

- The external auditor would qualify the audit report.
- The profit of the business would be understated, shareholders would not be happy.
- Investors would not be confident in the business (integrity/transparency)
- Credibility of the CEO.

4

- 4.5 At the annual general meeting, the directors proposed that R250 000 be spent in uplifting the sporting facilities at three local schools. Explain why such projects are considered by big companies. (Give TWO reasons.)

Any TWO valid responses ✓✓ ✓✓

- Corporate social responsibility.
- Investment in the community to enhance goodwill.
- Create a good/positive image of the company.
- Ploughing back to the community from which it gains profits.
- BEE points for development.
- Tax deductible.

4

QUESTION 5**(55 marks; 33 minutes)****CASH FLOW STATEMENT AND INTERPRETATION**

5.1

5.1.1	D	✓✓	
5.1.2	C	✓✓	
5.1.3	B	✓✓	
5.1.4	A	✓✓	

8

5.2

5.2.1 **Braelyn Traders Ltd****Cash Flow Statement for the year ended 30 April 2014**

OPERATING ACTIVITIES		128 840	
Cash generated from operations		613 940	
Interest paid		(85 500)	
Dividends paid		(164 400)	
Income tax paid		(235 200)	
INVESTING ACTIVITIES	Operation One part on box below correct	(425 240)	✓
Fixed assets purchased	mm for bracket (2 776 020 ✓ + 83 720 ✓ – 2 304 500 ✓)	One part correct (555 240)	✓
Investment matured	(280 000 – 150 000)	One part correct 130 000	✓✓
FINANCING ACTIVITIES	Operation One part on box below correct	236 000	✓
Proceeds from shares issued		336 000	✓
Loan repaid	mm for bracket (1 050 000 – 950 000)	One part correct (100 000)	✓✓
NET CHANGE IN CASH AND CASH EQUIVALENTS	Check operation from top down or from bottom	One part correct (60 400)	✓
Cash and cash equivalents (opening balance)		42 600	✓
Cash and cash equivalents (closing balance)	(27 800 – 10 000)	One part correct (17 800)	✓✓

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Workings shown as final totals, award the workings marks only.
 For method marks on the final total, the inflow and outflow must be shown
 (Brackets = outflow)

5.2.2 (a) Debt/equity ratio

950 000 ✓ : 2 055 100 ✓

0,46 : 1 or 0,5 : 1 ☒ (one part correct)
Shown as ratio (x : 1)

3

(b) Return on average shareholders' equity (ROSHE)

$\frac{450\,000 \text{ ✓}}{\frac{1}{2} \text{ ✓} (2\,055\,100 + 1\,633\,500) \text{ ✓✓}} \times 100 = 24,4\% \text{ ✓}$ (one part correct)
must be shown as a %

5

(c) Net asset value per share (NAV)

$\frac{2\,055\,100 \text{ ✓}}{500\,000 \text{ ✓✓}} \times 100 = 411 \text{ cents } \text{✓}$ (one part correct ; may be expressed as R)
(420 000 + 80 000)

4

5.2.3 Comment on the liquidity position of the business. Make reference to the current ratio and the acid test ratio in your answer.

TWO valid responses ✓✓ ✓✓ (award part marks if the ratios above are not mentioned)

- Liquidity is not satisfactory.
- The current ratio worsen from 1,6 : 1 to 1,3 : 1 and the acid test ratio also decreased from 0,7 : 1 to 0,4 : 1. The difference in these ratios clearly indicates that the business is holding too much stock.
- Business moved from a positive figure in the bank to an overdraft.
- There was a net outflow of cash.

4

5.2.4 The CEO wants to increase the loan by an additional R300 000 to finance extensions and renovations to the building. What advice would you offer her? Quote appropriate figures and/or financial indicators to support your opinion.

TWO valid points making reference to ratios and figures ✓✓ ✓✓

The **debt/equity** ratio has improved (low risk). This ratio decreased due to a repayment of the loan, as well as shares being issued. (0,64 : 1 to 0,5 : 1)

Although the **return on capital employed** is much higher than the lending rates at banks, it did show a decline. There is still however, positive gearing (there was no need to pay back a portion of the loan) (23,5% and bank rate is 9,5%)

It is possible that renovations and extensions may improve the image and productivity of the business – could be a long term proposition.

4

5.2.5 The directors plan to issue additional shares at R6,00 per share in the new year. Will prospective investors be eager to buy shares in this business? Explain, making use of relevant financial indicators.

Yes / No ✓

Explanation ✓✓ figures and/or financial indicators ✓✓

Relevant ratios: NAV and market price of shares

The NAV showed a small increase from the previous year. It is still not much higher than the average price of shares (R4,00).

The market price is also low, although it did show an improvement. This is a clear indication of investor confidence (supply and demand).

The asking price is much higher than the value of the shares.

5

5.2.6 The existing shareholders are pleased with the performance of their investment. Are they justified? Comment on the returns (ROSHE), earnings (EPS) and dividends (DPS).

Yes ✓

Mention of the trends in the ratios ✓ ✓ ✓

Comment for each , or a combined comprehensive comment ✓ ✓ ✓

The ROSHE increased (refer to 5.2.2(b)) from 17,5%

The EPS also increased to 101 cents from 85 cents

The DPS increased from 65 cents to 78 cents.

The high % ROSHE may be misleading due to previous year's performance.

It is still higher than interest rates on alternative investments.

The earnings per share indicate a drop in profits. The higher dividends may be a ploy to keep shareholders interested in the business.

No option:

Only if candidate's interpretation is based on an incorrect ROSHE calculation.

7

QUESTION 6

(50 marks; 30 minutes)

BUDGETING AND FIXED ASSET MANAGEMENT

6.1 6.1.1

(a)	$\begin{array}{ccccccc} \checkmark\checkmark & & & \checkmark\checkmark & & & \checkmark \\ 59\,040 & + & 288\,000 & = & 347\,040 & \text{(one part correct)} \\ (328\,000 \times 18\%) & + & (360\,000 \times 80\%) & & & & \end{array}$	5
(b)	$12\,400 \times 85\% \checkmark = 10\,540 \checkmark \quad \text{(one part correct)}$ <p>Or $12\,400 - 1\,860$</p>	2
(c)	$(340\,000 \checkmark \times \frac{100}{160} \checkmark) \times 40\% \checkmark = 85\,000 \checkmark \quad \text{(one part correct)}$ <p>212 500 (2 marks)</p>	4
(d)	$300\,000 \checkmark \times (9,5\% \times \frac{1}{12}) \checkmark = 2\,375 \checkmark \quad \text{(one part correct)}$	3
(e)	$36\,000 \times 175\% = 63\,000 \checkmark \checkmark \quad \text{(one part correct)}$ <p>Or $36\,000 + 27\,000 = 63\,000$</p>	2

6.1.2 **Sunny (the owner) wants to purchase a larger percentage of goods on credit.**

What advice would you offer him? (TWO points)

Any TWO valid points of advice. $\checkmark\checkmark \checkmark\checkmark$

- A good idea if it can improve cash flow if good credit terms are negotiated.
- Need to consider selling more on credit to increase sales, then there will be a reason to purchase more.
- Cash from sales is significantly less than cash spent on purchases.

4

6.2 FIXED ASSETS

6.2.1

A	$1\,980\,000 - 1\,550\,000 = 430\,000 \checkmark\checkmark$	<div>2</div>
B	(Refer to B) $720\,000 \checkmark - 250\,000 \checkmark = 470\,000 \boxtimes$ (one part correct)	<div>3</div>
C	(Refer to B) $470\,000 \boxtimes - 132\,000 \checkmark = 338\,000 \boxtimes$ (one part correct)	<div>3</div>
D	$\overset{588\,000}{(338\,000 \boxtimes + 250\,000 \checkmark)} - 481\,500 \checkmark = 106\,500 \text{ or } (106\,500) \checkmark$ (one part correct)	<div>4</div>
E	$176\,000 - 96\,200 = 79\,800 \checkmark\checkmark$	<div>2</div>
F	$96\,200 - 54\,150 \checkmark - 20\,050 \checkmark = 22\,000 \text{ or } (22\,000) \checkmark$ (one part correct)	<div>3</div>

6.2.2

Calculate the total accumulated depreciation on the equipment sold.

$$\begin{array}{rcl} & 45\,000 & \text{(answer of F above)} \\ (176\,000 \checkmark - 131\,000 \checkmark) - & 22\,000 \checkmark & = 23\,000 \checkmark \end{array}$$

Or

$$79\,800 + 20\,050 - 76\,850 = 23\,000$$

(The accumulated depreciation account)

4

6.2.3

When was the new vehicle purchased? (Show workings)

$$\text{Depreciation on B : } 470\,000 \times 20\% = 94\,000 \checkmark \checkmark$$

$$\begin{array}{l} \text{D above} \\ (106\,500 - 94\,000) = 12\,500 \checkmark \checkmark \end{array}$$

$$(250\,000 \times 20\% \times \frac{y}{12}) \checkmark = 12\,500 \quad y = 3 \text{ months } \checkmark$$

Therefore bought on 31 March 2014 or 1 April 2014 \checkmark

7

6.2.4

Provide a suitable reason why the business would sell a portion of their fixed property.

Any reasonable response $\checkmark \checkmark$

- The business may be experiencing cash flow problems.
- They may have got a good offer (large profit on sale of asset)
- Idle land not being productive.
- Planning to downsize the business with the view of leaving to better premises.

2

50

TOTAL: 300