NATIONAL SENIOR CERTIFICATE EXAMINATION
SUPPLEMENTARY EXAMINATION MARCH 2017

ACCOUNTING: PAPER II

MARKING GUIDELINES

Time: 2 hours 100 marks

These marking guidelines are prepared for use by examiners and sub-examiners, all of whom are required to attend a standardisation meeting to ensure that the guidelines are consistently interpreted and applied in the marking of candidates' scripts.

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QUESTION 1 BUDGETS AND PROBLEM-SOLVING (30 marks; 35 minutes)

Study page ii and iii of the Information Booklet and answer the following questions.

1.1 1.1.1 *Calculate how many units (ten-litre buckets) they intended to manufacture in December 2016.*

127 280 ÷ 296 = 430

(1)

1.1.2 *Calculate how many buckets they anticipated to sell in December.*

222 000 ÷ 370 = 600

(1)

1.1.3 *Discuss how Funzo Ice Factory could plan to sell so much more than they manufactured in December. In your discussion mention what you think July's sales will be compared to December's and the reason for this.*
They sell more in December as it is midsummer and people are enjoying themselves on holiday. (OR: July would not have large sales as it is winter.) They probably manufactured consistently throughout the year and stored it till summer. (3)

1.2 *By using the information given in the Information Booklet, calculate the purchase price of the new batch freezer.*

X × 18/100 × 1/12 = 12 900 X = R860 000 860 000 – 800 000 = 60 000. The freezer cost R60 000.

(5)

1.3 1.3.1 *Explain how the amount paid for the fruit in December was R47 200 but only R20 210 appears in the projected expenses. Where would the difference (R26 990) be recorded?*

- They only used R20 210 for manufacturing in December.
- The R26 990 would still be recorded in Raw Materials Stock. (2)

Problem-solving:

1.3.2 *Give two solutions to the problem of Funzo Ice Factory not being able to purchase enough fruit for their ice cream for the following year.*

- Could introduce new flavours without fruit with coffee, chocolate or other flavouring.
- They could import fruit and put up their prices. People know the prices have risen because of the drought so it would be expected.

Not accepting reduce fruit as it would ruin their reputation since they are gourmet. (2)

1.3.3 *Funzo wants to expand their operations so they can make a bigger profit. Give one suggestion on how they should do this.*

- Could produce smaller tubs and market them to individuals by selling them in existing shops.
- Could produce smaller tubs and sell them outside schools by people on bicycles.
- Online shop. (2)

1.4 *Complete the cash budget for the month of December. Do not fill in amounts indicated with "?" as there are no marks awarded for them.*

Cash budget for Funzo Ice Factory for December 2016

	December	
Receipts		
Cash sales	55 500	
Cash received from debtors	148 500	
Disposal of freezer 40 000 – 29 600 – 2 580	7 820	
Total receipts	211 820	
Payments		
Payments to creditors	21 546	
Fruit	47 200	
Packaging	**20 640**	
Labour	23 520	
Insurance	**430**	
Water and electricity	**6 020**	
Other variable overhead costs	**7 095**	
Administrative expenses	15 400	
Selling and distribution costs	8 500	
New batch freezer (from 1.2)	60 000	method mark
Total payments	210 351	
Surplus/deficit for December	**?**	
Bank on 1 December 2016	43 900	
Bank on 31 December 2016	**?**	(9)

1.5 *A lawsuit was brought against Funzo Ice Factory by Mr Claus stating that they had stolen a recipe from him on how to make delectable truffle ice cream. They are considering settling out of court for R50 000. Using December's figures calculate how many extra tubs of ice cream Funzo Ice Factory will need to sell to cover the extra cost.*

$$\frac{50\,000}{370 - (158 + 54 + 14 + 33)}$$

$$\frac{50\,000}{370 - 259}$$

= 50 000 / 111 = 450,45

Therefore, 451 extra tubs will need to be sold. (5)

30 marks

QUESTION 2 RECONCILIATIONS (29 marks; 35 minutes)

Study page iv of the Information Booklet and answer the following questions.

2.1 *There is one mistake that has **not** been mentioned that is in the bank reconciliation statement. Describe this mistake and where it should have been recorded instead.*

Cheque 577 is stale and should have been cancelled in the CRJ. (2)

2.2 *Calculate the bank account balance on 30 November 2016 after taking the errors and additional information into account, and state whether it is favourable or unfavourable. Show your workings.*

– 11 350 + 33 000 – 5 000 – 750 = 15 900 favourable (4)

2.3 *Explain how cheque 1035 will be treated in the financial statements.*

R750 will be added back to bank and subtract it from drawings (added back to owner's equity.) (2)

2.4 *Tubby has heard that if a shop has credit sales they can sell much more than if they only sell for cash. He spoke to his sister about this and she advised him not to sell on credit. Give **three** reasons why his sister would advise him not to have credit sales.*

People have to buy groceries anyway, so they will not buy much more on credit.
More chance of bad debts.
More paper work/telephoning, emailing, SMSing.
Hiring of extra people to keep control of the debtors.
Each reason (3)

2.5 *Tubby wonders if he should hire an internal auditor for a month because the business seems to be having problems with the accuracy of their recording of cash transactions.*

2.5.1 *Explain what an internal auditor does.*

An internal auditor will audit the procedures and processes: See whether they are effective and whether they are being followed, and suggest any improvements to management. (2)

2.5.2 *List **two** types of audit evidence that could be looked at by an internal auditor and explain what they would be compared to, to check the accuracy of the cash transactions.*

- Duplicate receipts – compare with the entries in CRJ.
- Cheque counterfoils – with the entries in CPJ.
- The bank statement – with the bank recon and CRJ and CPJ.
- CPJ – with the documents they paid, e.g. Invoices or creditor statements. (4)

Each audit evidence and what they are compared to.

2.6 *Use the statement from The Cereal Factory to draw up the debtor's age analysis as it should have appeared on the statement. Do **not** take the additional information into account.*

Current	30 days	60 days	90 days
5 600 – 1 400 + 11 250 = 15 450		8 300 – 2 100 – 4 800 = 1 400	7 500 – 7 300 – 200 = 0

(4)

2.7 *Use the additional information to draw up the creditor's reconciliation.*

Incorrect balance as per statement	**16 850**
Correction of invoice T108	900
Correction of invoice T120	(11 250)
EFT	(2 000)
	4 500

(4)

2.8 *How could cheque 1033 be in the bank reconciliation statement if it was received by The Cereal Factory on 28 November? (This is not a mistake.) They may not have deposited it as yet.*

It was delivered to Cereal Factory by hand, and they deposited it at the bank straight away, but it is still going through the bank process and has not yet appeared on the bank statement. (1)

2.9 *Tubby is upset that he never received the discount when he paid on 3 October. Explain to Tubby why he was not granted the discount.*

His oldest debt was more than 10 working days old. (1)

2.10 *The Cereal Factory are concerned that Tub's Groceries are not keeping to their credit terms, but they do not want to lose them as a customer, which they might do if they start charging them interest. Discuss **two** other procedures they can put in place to increase their chances of Tub's Groceries keeping to the credit terms.*

They can send (email) a statement every month.
They can phone to find out whether they received the statement.
They can SMS reminders.
They can phone and discuss payment.
Last resort – lawyer's letter.
Any procedure (not interest or discount unless they increased it) (2)

29 marks

QUESTION 3 COMPANY ANALYSIS (41 marks; 50 minutes)

Study pages v and vi of the Information Booklet and answer the following questions.

3.1 *List two reasons why a company would buy back their own shares*.
An insolvent estate of a shareholder or the estate of a deceased shareholder might ask if the company wants to buy the shares at a price lower than the JSE/market price.
To give to the directors as payment.
To be able to sell them at a later date.
To increase the EPS or DPS because there will be fewer shareholders. (2)

3.2 3.2.1 *Give one advantage of the directors owning a large amount of shares, and one disadvantage.*
Advantage: They are also an owner of the company so would have a personal interest in the company doing well.
Disadvantage: May make decisions to benefit themselves instead of the company as a whole. (2)

3.2.2 *Before the directors bought and sold shares their intention to do so was published as a news item. Explain why this was done.*
To promote transparency so that shareholders can make a decision if they too want to buy or sell their shares. (1)

3.2.3 *Mr Price Ltd wants to give R20 million of the treasury shares to the executive directors as a bonus. State which account will be debited and which will be credited.*
Account debited: Directors fees
Account credited: Treasury shares (2)

3.3 *Give **a detailed explanation** as to why the lease obligations are found under the non-current liabilities as well as the current liabilities.*
- The non-current lease would show the rent that one needs to pay for the rest of the contract excluding the next financial year.
- The current lease shows what one will be paying in the next financial year. (2)

3.4 3.4.1 *Calculate the acid-test ratio and discuss whether this ratio indicates a problem or not.*
Acid test is 4762 : 2633 = 1,81 : 1
Yes, they could be earning a better return on the cash if they invested in a fixed deposit. based on calculation. (3)

3.4.2 *If the cost of sales for 2015 is R9 196 million, calculate the stock turnover rate for 2015*.
$\frac{9\,196}{1\,572}$ = 5,85 times (2)

3.4.3 *Discuss, quoting a ratio or an amount, whether the decrease in the stock turnover rate has had a negative effect on the profitability of the business.*
This does not seem to have a negative effect as the sales increased.
OR
This does not seem to have a negative effect as the mark-up must have gone up – because the sales have gone up. (2)

3.4.4 *Calculate how many days Mr Price are taking to collect their debtors in 2015.*

$$\frac{(1\,998 + 1\,771)/2 \times 365}{(17\,285 \times 20\%)}$$

$$\frac{1\,884{,}5 \times 365}{3\,457}$$

= 199 days (5)

3.4.5 *Compare the debtors' collection of 2015 to 2014. What impact could the change in days have on Mr Price's cash flow?*
It will have a negative impact / will worsen the cash flow. (1)

3.5 *Give two advantages of the fact that 80% of Mr Price's sales are cash sales.*
Better for their cash flow/liquidity
Less chance of bad debt (2)

3.6 3.6.1 *Explain how the Return on Shareholders' Equity decreased if the net profit after tax increased.*
The equity increased more than the net profit. (1)

3.6.2 *Should the shareholders be concerned with the decrease? Give two points.*
No, the equity increased so the value of Mr Price has risen. The money from the shares issued and retained income can be used to grow Mr Price.
The return is a high return which is much higher than an alternative investment. (2)

3.6.3 *Income tax was calculated at 28%. Calculate the income tax expense.*
2 304 / 72 × 28 = R896. Must have R2 304. (2)

Study the extracts from the news articles on page v of the Information Booklet then answer the following questions:

3.7 3.7.1 *Reuters and Bloomberg report that the shares are 7,5% lower this year valuing the company at R58 billion. Explain how they would calculate this value.*
They would take the number of Mr Price shares on the JSE and multiply it by the market value of the share on the JSE. (2)

3.7.2 *The market value is higher than the actual value of Mr Price. Write down the actual value of the company and give two reasons for the market value being higher than the book value.*
- R5,03 billion.
- The assets can be under-valued, e.g. land and buildings gained value but have not been re-valued.
- The public regard Mr Price as a good business to own so there was high demand through the years. (3)

3.7.3 *Explain, with regard to the deteriorating rand, whether you think opening stores in Australia is a good idea.*
Yes, can earn Australian dollars. The cost of exporting clothes to Australia won't cost Mr Price as much as the extra income they will earn due to our poor exchange rate. Opening it and financing it will be very costly. (1)

3.7.4 *Explain, quoting figures or calculations, if you would advise the directors to take out a loan to finance the expansion into Australia when you* ***consider the risk****.*
213 : 5 030 = 0,04 : 1. Extremely low risk. Would advise them to.
(Only debt : equity ratio may be mentioned and not interest as the question is asking about risk.) (2)

3.7.5 *Give two factors against issuing shares to finance the expansion into Australia.*
- Will have to pay more dividends.
- Will weaken the EPS.
- Will affect the ROCE and ROSE negatively.

Any viable factor (2)

3.8 *If you have R10 000 to spend on shares. Give two reasons why you would/would not invest in Mr Price shares at R204,40 a share.*

For investing:
- There has been an increase in profitability.
- There has been an increase in value.
- Mr Price still has a long-term durable competitive edge, especially as the economy gets worse people will tend to buy cheaper clothing.
- The share price is now cheap for Mr Price and a good deal.
- They are investing into Australia.
- They are probably doing better than their competition.

Against investing
- Wait for the share price to drop further then buy.
- They did not meet their expected profits in the one quarter.
- Wait to see whether expanding into Australia is successful.

(2)

41 marks

Total: 100 marks

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