NATIONAL SENIOR CERTIFICATE EXAMINATION
SUPPLEMENTARY EXAMINATION – MARCH 2019

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.

The IEB will not enter into any discussions or correspondence about any marking guidelines. It is acknowledged that there may be different views about some matters of emphasis or detail in the guidelines. It is also recognised that, without the benefit of attendance at a standardisation meeting, there may be different interpretations of the application of the marking guidelines.

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QUESTION 1 BUDGETS

1.1 Fill in the missing amounts labelled A–H in the Cash Budget. The ?? do not need to be filled in. Show your calculations.

A	142 080 × 2 × 135 / 100 = 383 616
B	479 520 ÷ 1,35 ÷ 2 = 177 600
C	399 600 ÷ 1,35 ÷ 4 = 74 000 491 400 ÷ 1,35 ÷ 4 = 91 000 177 600 ÷ 2 × 92 / 100 = 81 696 246 696
D	54 500 ÷ 1,09 = 50 000
E	13 300 + 4 000 = 17 300
F	13 300 + 2 000 = 15 300
G	41 200 × 1,03 = 42 436
H	354 234 – 250 195 = 104 039

1.2 Below is a projected Income Statement for Stripy Pencil for the month of December 2018. The ?? do not need to be filled in.

Stripy Pencil

Projected Income Statement for December 2018

	December
Sales 491 400 + 399 600	891 000
Cost of sales 891 000 / 1.35	660 000
Gross profit	??
Operating expenses	??
• Rent expense	**50 000**
• Wages	15 300
• Water and electricity	40 000
• Advertising	**10 500**
• Administration 7 200 + (18 000 ÷ 12)	8 700
Operating profit	106 500
Interest expense	(3 045)
Net profit for December	**103 455**

1.3 In which month would you expect Stripy Pencil to have the most cash sales of stationery? Explain why you have chosen this month.
- January
- Back-to-school

1.4 Explain the main cause of **December's** overdraft.
- Having to pay half of the purchases made on behalf of Lakeside College in December without having received any money for it.

1.5 Explain the main reason that **January** had a deficit**.**
- Their first payment to the creditors for the Lakeside College purchases.

1.6 Discuss two actions that Stripy Pencil could take to avoid the overdraft.
- Take out a loan to pay for the stationery ordered for Lakeside College.
- They could negotiate with their creditors to pay later, or
- They could pay their creditors after two months and forgo the 8% discount.
- They could buy all instead of only half their stationery on credit.

1.7 Using figures, discuss whether Stripy Pencil should follow their budget and supply Lakeside College with stationery packs. In your discussion, mention two detailed points **for or against** the contract. In your conclusion, say what they should do.
- Stripy Pencil made R103 455 net profit for December. The Lakeside College sales contributed R127 400 to this profit. They would have made a loss without the Lakeside sale.
- The Lakeside sale is like an extra month's sale with no added expenses excepting the interest on the overdraft.
- Even though the Lakeside College sale caused an overdraft, Stripy Pencil had no problem paying it off once they received the money from the school.
- OR, no, they should not follow the budget. Should still sell to Lakeside College but institute some of the above plans in question 1.6 so that they do not have to pay interest on the overdraft.

Conclusion: they must definitely sell the stationery packs to Lakeside College.

The above must be marked with depth. One for a straightforward comment, and 2 × for a comment with insight.

1.8 Explain two actions Stripy Pencil could take in future to grow their profits.
- Supply stationery packs to more schools.
- Market their business to schools and businesses.
- Negotiate to extend their credit terms so that they do not incur interest on overdraft expenses.
- Institute electricity-saving devices or initiatives. Make sure all the equipment and lights are turned off after hours.
- Increase their advertising – have special promotions.

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QUESTION 2 RECONCILIATIONS (30 marks; 36 minutes)

2.1 When Carey's Cases received their statement from P&V Factory, it did not match the balance in their Creditors Ledger.

(a) Write down three procedures Carey's Cases should follow to reconcile the balance in the Creditors Ledger with the balance from the statement.

- Compare the Creditors Ledger with the statement.
- Phone P&V Factory and query.
- Look and see whether the source documents were correctly recorded in the journals.
- Look and see whether the journals were correctly posted to the Creditors Ledger.

(b) Study the statement and explain the mistake that P&V Factory made on the statement.

- P&V Factory granted discount on the payment of 12 January. This should not have been given since Carey's Cases had older debt still outstanding.

(c) Use the figures that appear on the statement to fill in the age analysis as it would have appeared at the bottom of the statement. Do NOT change any figures.

90 Days	60 Days	30 Days	Current
69 500 + 3 300 – 5 130 – 570 = R67 100	7 200 – 1 500 = R5 700	4 440	15 500 – 3 100 = R12 400

(d) Discuss whether P&V Factory are controlling their debtors well. Give three reasons for your opinion.

Opinion:
- No, they are not.

Reasons:
- The largest debt is the oldest debt.
- The amounts on the invoices are larger than the receipts, meaning that the debt is still growing.
- They should not have given the discount.

(e) P&V Factory are considering writing off all debt older than 60 days as their bookkeeper has no idea how to collect the debts. Write a 4-step debt collection policy that P&V Factory could use to ensure that debts are collected timeously.

- Only grant debt to those who pass a credit check.
- Set a payment term of 30 days.
- E-mail statements monthly on the same date.
- Send regular SMS reminders once the debt reaches 30 days.

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- Have someone phone when the debt reaches 60 days and see if alternative payment terms should be negotiated.

2.2 Using the errors listed in the Information Booklet, reconcile the statement received from P&V Factory with their account in the Creditors Ledger. Calculate the erroneous opening balance found in the Creditors Ledger.

	P&V Factory Statement	**Creditors Ledger**
Erroneous balances	**89 640**	81 800
Credit Note 06		3 600
Trade discount	(1 400)	(1 400)
Invoice X97	(4 440)	
EFT	(6 000)	
Trade discount omitted		(6 200)
	77 800	77 800

2.3 Study the Bank Reconciliation Statement in the Information Booklet, then answer the following questions.

(a) Explain how you know whether the balance from the Bank Reconciliation Statement is a positive or negative balance.

- The bank statement is from the point of view of a liability, so debit is the unfavourable side.

(b) Discuss two entries from the Bank Reconciliation Statement that will need an adjustment in the financial statements on 28 February 2019. **Explain why this is so**.

- The 31 March deposit can only be deposited in the next financial year.
- Cheque 95 is post-dated so needs to be cancelled in the statements.

(c) Explain what action Carey's Cases should take when they draw up the Bank Reconciliation Statement on 31 March 2019, if the following cheques **do not** appear on March's Bank Statement.

No. 54:	Cancel in the CRJ
No. 85:	Put it back in March's Bank Reconciliation Statement

QUESTION 3 FINANCIAL STATEMENTS

Study the financial statements then answer the following questions.

3.1 (a) Explain whether the increase in the cost of sales is a problem for Nu-World.

- It is not a problem.
- The cost of sales increased by 10,65% vs the sales that increased by 13,81% (or the gross profit increased 19,52%).
- The increase in the cost of sales means that they sold more items, not that they were more expensive, since their mark-up improved.

(b) Discuss whether Nu-World controlled their expenses well. Quote figures or calculations in your discussion.
Were the expenses well controlled?

- Yes
- While sales increased by 13,81%, expenses increased by only 3%.
- This is below inflation.
- This was in part due to the decrease of R66 821 in administrative costs.
- Although other operating expenses increased by 26%, the overall increase in expenses was well controlled.

3.2 Study the share performance and ratio information, then answer the following questions.

(a) Calculate the number of shares that were in issue on 31 August 2017.

170 500 000 ÷ R8 = 21 312 500 shares ✓

(b) Calculate the dividends expense for the year ended 31 August 2017.

21 312 500 × R3 = R63 937 500

(c) Give a possible reason why fewer shares were traded on the JSE, as well as the reason for the share price climbing during the 2017 year.

- More shareholders wanted to keep their shares due to the increase in the growth of the share price.
- Potential shareholders were willing to pay higher prices for shares as they were seen as increasingly valuable.

(d) In the *Business Report*, Amelia Morgenrood states that Nu-World shares are undervalued by investors. Do you agree with this assessment? Justify your answer by quoting figures/calculations.

- NAV = 1 014 246 000 ÷ 21 312 500 = 4 758,93 cents
- At the highest market value the shares were trading at 4 150 cents.
- This means that they were trading at 608 cents below their book value.
- Plus, the book value is normally undervalued due to appreciation of land and buildings.
- Agree, that they are undervalued and have growth potential in future.

(e) Calculate the return on shareholders' equity for 2017.

$$\frac{170\,500}{(1\,014\,246 + 924\,475) \times \frac{1}{2}} \times 100$$

$$\frac{170\,500}{969\,360{,}5} \times 100 = 17{,}59\ \%$$

(f) Discuss whether the investors should be pleased with their investment. Explain four different points, quoting figures or calculations.

- They should be pleased.
- EPS increased by 76,99%.
- DPS increased by 66,67%
- The ROSE increased by 8,97% and is higher than alternative investments.
- The market price of the share increased by 46,43% for the year. This is excellent growth and beats other investments.

(g) The directors were given 169 800 shares as year-end bonuses on 31 August 2017. Calculate the market value of the shares they were given, and explain an advantage, from the directors' point of view, to receive shares instead of a cash bonus, as well as from the company's point of view.

Calculation:
169 800 × 4 100 cents = R6 961 800

Advantage for the directors:

- The directors will not pay income tax on the shares they receive, unlike on their salaries.
- Their bonus has the potential to grow as the share price increases.

Advantage for the company:

- The directors will be more vested in the company and so will work at growing the company.
- The company will not need the cash flow to pay the bonuses.

3.3 (a) Study the current ratio and acid test ratio. Explain the main cause for these ratios being so high.

- Nu-World is not buying the bulk of their stock on credit. Very low creditors control.

(b) Discuss the increase in trade and other receivables. Give two points explaining whether this increase is a problem or not.

- Not a problem.
- Nu-World is selling to retail shops and other companies. They will normally have longer to pay, but there is less chance of bad debts.
- Increase in sales means that there is probably an increase in credit sales, leading to more debtors.
- The debtors' collection period has improved by 5 days.

3.4 (a) Read the general disclosure. Give a reason Nu-World had to disclose this information before the potential loss in Dick Smith Holdings Ltd had been calculated.

- Transparency
- Disclosure laws

(b) Write down the maximum potential loss (**in rand**) that Nu-World could suffer from Dick Smith Holdings Limited being liquidated.

5 900 000 × R9,70 = R57 230 000

(c) Explain whether Nu-World is likely to suffer the maximum loss or not. (Will they lose the entire amount they have invested in Dick Smith Holdings Limited?) Justify your answer.

- Probably not.
- The assets will be sold, and even if sold under their value, money will be raised from the sale to pay a portion of their debts.

3.5 Study the independent auditor's report and then answer the following questions.

(a) Write down why it is important for an independent auditor to audit the financial statements.
- To give an opinion on the fairness of the financial statements to the shareholders.

(b) One of the key areas that the independent auditor identified is the stock in transit. Discuss two actions that the independent auditor can take to audit the stock in transit.
- Can obtain documents from the group's shipping agents.
- Attend the year-end inventory counts for material warehouses, noting the condition of the inventories at year-end.
- Assess the reasonableness of how the inventory is valued.
- Can obtain documents (invoices) from the suppliers.

Total: 100 marks

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