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

This memorandum consists of 15 pages.
QUESTION 1

1.1 BANK RECONCILIATION AND INTERNAL CONTROL

1.1.1 Calculate the correct bank balance on 30 June 2015.

<table>
<thead>
<tr>
<th>Cash Receipts Journal (figures only)</th>
<th>Cash Payments Journal (figures only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R 87 220</td>
<td>R 74 860</td>
</tr>
<tr>
<td>✓ 21 000</td>
<td>✓ 1 800</td>
</tr>
<tr>
<td>✓ 10 500</td>
<td>✓ 6 500</td>
</tr>
</tbody>
</table>

Both essential: 2 marks

8 960: 3 marks

8750 / 6710 / 2460: 2 marks

1 800

210

Foreign items -1 (max -2)

Bank balance on 30 June 2015:

33 100 2 method marks

See CRJ total See CPJ total

– 2 300 ✓ ✓ + 118 720 ✓ = 30 800 ✓ one part correct

OR: – 2 300 + 87 220 – 74 860 + 21 000 + 10 500 – 1 800 – 6 500 – 2 250 – 210 = 30 800

1.1.2 Bank Reconciliation Statement on 30 June 2015

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per Bank Statement</td>
<td>R 20 400 Balancing figure</td>
<td>R 20 400 ✓</td>
</tr>
<tr>
<td>Credit outstanding deposit</td>
<td>18 500</td>
<td>18 500 ✓ ✓</td>
</tr>
<tr>
<td>Debit outstanding cheques:</td>
<td>Could use – signs</td>
<td></td>
</tr>
<tr>
<td>No. 962 (4 500)</td>
<td>R 4 500 ✓ ✓</td>
<td></td>
</tr>
<tr>
<td>No. 982 (2 200)</td>
<td>2 200 ✓</td>
<td></td>
</tr>
<tr>
<td>No. 986 (1 400)</td>
<td>1 400 ✓</td>
<td></td>
</tr>
<tr>
<td>Balance as per Bank Account</td>
<td>30 800</td>
<td>30 800 ✓ See 1.1.1</td>
</tr>
</tbody>
</table>

38 900 38 900

-1 incorrect / no details (max -2) Foreign entries -1 (max -2)

For 2-column method with no Debit/Credit indicated, assume left=Debit and right=Credit.
For 2-column method with brackets used, do not accept brackets/negatives in any column.

1.1.3 Refer to Information E. Identify TWO separate problems with evidence from the information. Give advice for EACH problem.

<table>
<thead>
<tr>
<th>PROBLEM WITH EVIDENCE</th>
<th>ADVICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theft / Fraud / Error/ Internal control measures are lacking. Some of the cash slips (R7 000) have not been deposited / recorded. Problem ✓ Evidence ✓ Figures not required</td>
<td>Check that the total of cash slips agree to the total of the deposit slip. ✓ Specific advice required based on evidence.</td>
</tr>
<tr>
<td>Rolling of cash / The deposit occurs much later after receipt of cash (15 days). Problem ✓ Evidence ✓ Figures not required</td>
<td>Cash collected must be deposited immediately / Sales person must not deposit cash / Divide duties ✓ Specific advice required based on evidence.</td>
</tr>
</tbody>
</table>
1.2 DEBTORS’ AGE ANALYSIS

1.2.1 As the internal auditor, what concerns would you have over Susan’s job description? Explain.

Any ONE valid point ✓ ✓ Incomplete / unclear answer: 1 mark

For 2 marks:
- Lack of division of duties negatively affects internal control.
- Susan is the only person dealing with invoicing and receipt of cash.
- Nobody is checking Susan’s work.

For 1 mark:
- Division of duties / Internal control

1.2.2 Identify TWO debtors who could have their credit limits increased.
Pillay ✓
Crooks ✓ -1 for superfluous name (max -2)

1.2.3 Explain THREE different problems reflected by the Debtors’ Age Analysis. Give evidence to support your answer.

There must be 3 separate problems i.e. Payment periods + Credit limits + Selling to those who are not settling previous debts

Part-marks for partial answers / partially correct answers

<table>
<thead>
<tr>
<th>Problem</th>
<th>Explanation of problem with evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Problem 1</td>
<td>Slow payers / Non-payers / Lack of adherence to time terms / Possibility of bad debts / Bad</td>
</tr>
<tr>
<td>Evidence</td>
<td>Specific evidence required i.e. names or figures</td>
</tr>
<tr>
<td>Problem 2</td>
<td>Credit limit / Not adhering to credit limit / Bad internal control of credit limits</td>
</tr>
<tr>
<td>Evidence</td>
<td>Specific evidence required i.e. names or figures</td>
</tr>
<tr>
<td>Problem 3</td>
<td>Sales continue to be made to debtors whose accounts are overdue / Bad control of sales to debtors</td>
</tr>
<tr>
<td>Evidence</td>
<td>Specific evidence required i.e. names or figures</td>
</tr>
</tbody>
</table>

Aucamp / Ndlovu / Muller were allowed to buy even though they have debts which are 60 / 90 days old

TOTAL MARKS

40
QUESTION 2

2.1 INVENTORY VALUATION

2.1.1 Explain the difference between the perpetual stock system and the periodic stock system.

Any valid difference with comparison ✔✔

Incomplete / one-system only explanation: 1 mark

Expected responses:

<table>
<thead>
<tr>
<th>Perpetual stock system</th>
<th>Periodic stock system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of sales calculated at point of sale</td>
<td>Cost of sales calculated at end of financial period</td>
</tr>
<tr>
<td>Stock value can be determined/identified at any time (from records)</td>
<td>Stock value determined/identified by stock count</td>
</tr>
<tr>
<td>Cost of sales account used</td>
<td>Purchases account used</td>
</tr>
<tr>
<td>Stock bought regarded as an asset</td>
<td>Stock bought regarded as an expense</td>
</tr>
</tbody>
</table>

2.1.2 Calculate the value of the stock on hand on 28 February 2015 using the weighted-average method.

1 mark only

$346,800 + 3,686,400 \div (150 \times 1 \text{ mark} \times 200 \times 1 \text{ mark})$

$= R4,033,200 \div 650$

$= R6,324 \times 650$

If subtracted

$= 3,853,200 \times 650$

$= 1,140 \times 650$

$= R741,000$ ✔ one part correct

2 marks

OR:

IF UNITS ARE USED

$650 / 2,730 \times 365 = 86.9 \text{ or } 87 \text{ days}$

2.1.3 Calculate how long (in days) it will take to sell the closing stock of 650 jackets. Use the closing stock in your calculation.

see 2.1.2 one part correct

$741,000 \div 365 = 86.9 \text{ or } 87 \text{ days}$ ✔

2.1.4 Calculate the value of the closing stock using the FIFO method.

✓ ✔ ✔ ✔ one part correct

$R632,400 + (140 \times R1,200) = R800,400$

$\div 168,000$ 3 marks

Give ONE reason in favour of changing to the FIFO method. ✔✔

Incomplete / unclear reason: 1 mark

- Gross profit will be higher because closing stock would be higher
- Jackets are discrete products / Easy to count or identify jackets individually
- Value of jackets is continuously changing and valued at more recent/realistic prices

Give ONE reason against changing to the FIFO method. ✔✔

Incomplete / unclear reason: 1 mark

- No need to change as profit will be the same in the long-term
- Unethical to manipulate the profit by changing the method of stock valuation
- Tax would increase in first year as a result of increased profit
- The change would affect comparisons across financial years
2.2 INTERNAL CONTROL

2.2.1 Calculate the number of shirts stolen.

\[ 400 \times 7 \times 380 \times 270 = 7 \times 200 = 310 \text{ one part correct} \]

Give TWO points of advice.

Any two valid points ✓ ✓ ✓ Award part-marks for incomplete answers

Expected responses for 2 marks:
- Count stock regularly / randomly and check against stock records
- Order smaller quantities, but more frequently
- Improve physical security e.g. controls at entrance / security cameras
- Claim on insurance policy

Expected responses for 1 mark: Stock counts / Security cameras / Insurance

2.2.2 Product | Comment on stock holding period and give figures | Explanation on how it will affect the business
--- | --- | ---
Jackets | See 2.1.3
87 days on hand which is appropriate / 87 days is too high as they are halfway through winter. | Will be able to meet demand for the winter season.

Shirts | Too few shirts are being kept on hand 14 days. | They are likely to run out of stock and not meet the demand / lose customers.

Jeans | Too many jeans are on hand to support the sales, 319 days. | Could end up not selling these items as fashion changes / Cash tied up in stock.

2.2.3 Josy is unsure whether she is charging the right prices for her products. Give her advice on EACH product. Quote figures.

| Product | Advice with figures | Figures |
--- | --- | ---
Jackets | Maintain / increase the price see 2.1.3
Sold 2730 units / 80% of stock sold / 87 days holding period | ✓ ✓ ✓

Shirts | Maintain / increase the price [Price of R310 not relevant to rate of turnover]
Sold 7200 units / 93% of stock sold / only 14 days’ holding period | ✓ ✓ ✓

Jeans | Reduce the price
Sold only 320 units / 53% of stock sold / 319 days holding period / 70% mark-up / R350 gross profit on R500 cost | ✓ ✓ ✓

TOTAL MARKS

50
QUESTION 3

3.1 PRIDONA LIMITED

3.1.1 Calculation of the correct net profit after tax

<table>
<thead>
<tr>
<th>Description</th>
<th>Incorrect net profit</th>
<th>Correct net profit before tax</th>
<th>Income tax</th>
<th>Net profit after tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorrect net profit</td>
<td>2 493 600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading stock deficit</td>
<td>−11 300</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for bad debts adjustment</td>
<td>+2 400</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent income</td>
<td>−2 800</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>+4 500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Correction of error: Asset disposal</td>
<td>6 800</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Correct net profit before tax**
Operation, one part correct, reasonable, must be approx. R2m

<table>
<thead>
<tr>
<th>Description</th>
<th>Correct net profit before tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>−750 000</td>
</tr>
<tr>
<td>Net profit after tax</td>
<td>1 750 000</td>
</tr>
</tbody>
</table>

3.1.2 RETAINED-INCOME NOTE ON 30 JUNE 2015

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>2 700 000</td>
</tr>
<tr>
<td>Net profit after tax</td>
<td>see 3.1.1</td>
</tr>
<tr>
<td>Repurchase of shares</td>
<td>1 750 000</td>
</tr>
<tr>
<td>Dividends</td>
<td>(1 475 600)</td>
</tr>
<tr>
<td>Interim</td>
<td>600 000</td>
</tr>
<tr>
<td>Final</td>
<td>875 600</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>2 952 400</td>
</tr>
</tbody>
</table>
### PRIDONA LIMITED

#### BALANCE SHEET AS AT 30 JUNE 2015

<table>
<thead>
<tr>
<th><strong>ASSETS</strong></th>
<th></th>
<th><strong>EQUITY AND LIABILITIES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NON-CURRENT ASSETS</strong></td>
<td><strong>8 950 000</strong></td>
<td><strong>ORDINARY SHAREHOLDERS' EQUITY</strong></td>
</tr>
<tr>
<td>Fixed assets at carrying value</td>
<td><strong>8 950 000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td><strong>Must be in final column as 191 900 to get 2 marks</strong></td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td><strong>315 700</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td><strong>492 400</strong></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Transfer OE + L</strong></td>
<td><strong>2 952 400</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NON-CURRENT LIABILITIES</strong></td>
<td></td>
<td><strong>207 000</strong></td>
</tr>
<tr>
<td>Mortgage loan: Custom Bank</td>
<td><strong>207 000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td><strong>262 800</strong></td>
</tr>
<tr>
<td>Trade and other payable</td>
<td><strong>262 800</strong></td>
<td></td>
</tr>
<tr>
<td>Current portion of loan</td>
<td><strong>55 200</strong></td>
<td></td>
</tr>
<tr>
<td>SARS: Income tax</td>
<td><strong>25 000</strong></td>
<td></td>
</tr>
<tr>
<td>Shareholders for dividends</td>
<td><strong>875 600</strong></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL EQUITY AND LIABILITIES</strong></td>
<td></td>
<td><strong>9 950 000</strong></td>
</tr>
</tbody>
</table>

*Items under CL may be combined*

**Foreign entries -1 (max -2)**
**Presentation / Incorrect or incomplete details -1 (max -2)**
**SARS R725 000 may not be shown as a current asset; final balance must be under CL**
**Other misplaced BS items are not foreign – simply mark as wrong**
3.2 AUDIT REPORT

3.2.1 Choose the correct word from those given in brackets.
Disclaimer ✓

Give a reason. ✓
Must explain that no opinion was expressed / must explain a reason why no opinion was expressed. Mark the reason independent of word chosen above.

The external auditors did not express an opinion on the financial statements of Trimex Ltd

Auditors were unable to express an opinion because they were not able to verify a significant part of the company's transaction

Auditors were unable to express an opinion because there was insufficient evidence

2

3.2.2 Explain TWO consequences of this audit report for the company and/or the CEO.

Any two consequences ✓ ✓ ✓ ✓ Award part-marks for incomplete answers

Responses for 2 marks:

• The directors will be held accountable.
• This is a bad publicity / negative point against the image of the company and CEO
• It could affect the share price and demand for shares
• The CEO / Directors might not be re-elected at the next AGM
• Shareholders / investors will lose faith in the directors / company
• Inquiry / investigation into the company or its directors
• The company could be de-listed on the JSE
• The auditors will be more vigilant in future / could increase audit fees if they spend more time on the audits in future.

Responses for 1 mark:

The CEO will be fired / Written warning / Investigation / Suspension.

4

TOTAL MARKS
60
QUESTION 4

4.1

<table>
<thead>
<tr>
<th>4.1.1</th>
<th>Internal Auditor</th>
<th>✓ Mark wrong if more than one response for each</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1.2</td>
<td>Independent Auditor</td>
<td>✓</td>
</tr>
<tr>
<td>4.1.3</td>
<td>Director</td>
<td>✓</td>
</tr>
<tr>
<td>4.1.4</td>
<td>Balance Sheet</td>
<td>✓</td>
</tr>
</tbody>
</table>

4.2 SENZO LTD

4.2.1 Calculate income tax paid.

\[
\begin{align*}
1 175 000 & \quad – 846 000 \quad \text{Must be both} \\
9 800 & \quad + 329 000 \quad ✓ \quad + 6 400 \quad ✓ = 345 200 \quad ✓ \quad \text{one part correct} \\
–9 800 & \quad – 329 000 \quad – 6 400 = –345 200
\end{align*}
\]

Mark one line only. Signs may be reversed but must be consistent.
Ledger T-account may be drafted. Figures could be in brackets.

4.2.2 Calculate proceeds from disposal of fixed assets (carrying value).

\[
\begin{align*}
\text{4 698 300} & \quad + \quad \text{4 352 800} \\
9 000 & \quad + \quad 329 000 \quad ✓ \quad + \quad 6 400 \quad ✓ = 345 500 \quad ✓ \quad \text{one part correct} \\
\text{2 598 300} & \quad + \quad 2 100 000 \quad – \quad 4 137 700 \quad – \quad 215 100 = 345 500 \\
–2 598 300 & \quad – \quad 2 100 000 \quad + \quad 4 137 700 \quad + \quad 215 100 = –345 500
\end{align*}
\]

Mark one line only. Signs may be reversed but must be consistent.
Ledger T-account may be drafted. Figures could be in brackets.

4.2.3 Calculate net change in cash and cash equivalents.

\[
\begin{align*}
(153 000 \quad ✓ \quad – \quad 2 500 \quad ✓) & \quad + \quad 88 900 \quad ✓ = 239 400 \quad ✓ \\
150 500
\end{align*}
\]

OR

\[
\begin{align*}
1 & \quad \text{mark} \quad 1 & \quad \text{mark} \quad 1 & \quad \text{mark} \quad 1 & \quad \text{mark} \\
(88 900 – 2 500) & \quad + \quad 153 000 \quad = 239 400 \\
86 400
\end{align*}
\]

Indicate whether this is a net inflow or net outflow of cash.

Net inflow ✓ Depends on calculation above

4.2.4 CASH EFFECTS OF FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th>Proceeds from shares issued</th>
<th>705 000 ✓*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 967 000 ✓ + 258 000 ✓ – 2 520 000 ✓</td>
<td>One part correct, must be inflow 4 marks if amount correct but in brackets</td>
</tr>
</tbody>
</table>

Re-purchase of shares

\[
\begin{align*}
60 000 & \quad ✓ \times \text{R5,20} \quad ✓ \quad 4,30 + 0,90 \quad \text{both figures together} \\
(312 000) & \quad ✓* \quad \text{One part correct must be outflow} \\
1 & \quad \text{mark} \quad 1 & \quad \text{mark} \quad 2 & \quad \text{marks} \quad 1 & \quad \text{method mark}
\end{align*}
\]

Increase in non-current liabilities (Loans)

<table>
<thead>
<tr>
<th>700 000 ✓</th>
</tr>
</thead>
</table>

Must be inflow for 2 marks

Ledger account formats may be used to show calculations.
*If answer is combined as a net inflow, award only 1 method mark on final answer, not 2.
*If net effect has been shown with workings, mark as follows:

\[
\begin{align*}
2 967 000 & \quad – \quad 2 520 000 \quad – \quad 54 000 \quad = 393 000 \\
1 & \quad \text{mark} \quad 1 & \quad \text{mark} \quad 2 & \quad \text{marks} \quad 1 & \quad \text{method mark}
\end{align*}
\]
4.2.3 **Calculate the acid-test ratio for 2015.**

\[ \frac{340300}{(662300 - 322000):510500} \]

OR \[ \frac{245000 + 6400 + 88900}{510500} \]

\[ = \frac{0.7}{1} \] OR \[ 0.67:1 \]

**NOT** \[ 0.6:1 \]

---

Calculate the return on shareholders' equity (ROSHE) for 2015. (Use average equity in your calculation.)

\[ \frac{846000}{\frac{1}{2}(2718000 + 3439500)} \times 100 \]

\[ = \frac{27.5\%}{1} \]

**OR** \[ 27.47\% \]

**OR** \[ 27.48\% \]

---

**Calculate the net asset value per share (NAV).**

\[ \frac{3439500 + 690000}{690000} \times 100 \]

\[ = 498.5 \text{ cents} \]

**OR** \[ R4.99 \]

**OR** \[ 499 \text{ cents} \]

**OR** \[ 498.47 \text{ cents} \]

**OR** \[ 498.48 \text{ cents} \]

---

4.3 **DON LTD AND KEY LTD**

4.3.1 **Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange (JSE).** Explain how this will influence your choice of company.

<table>
<thead>
<tr>
<th>Company</th>
<th>Financial indicators or explanations thereof; with figures</th>
<th>Explanation, must involve a choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don Ltd</td>
<td>JSE price 400c &gt; NAV 310c</td>
<td>I would invest in Don Ltd as the shares seem to be in good demand</td>
</tr>
<tr>
<td>Key Ltd</td>
<td>JSE price 645c &lt; NAV 750c</td>
<td>I would invest in Key Ltd as the shares seem to be under-valued</td>
</tr>
</tbody>
</table>

**OR** I would not invest in Don Ltd as the shares might be overpriced

**OR** I would not invest in Key Ltd as the shares might be in low demand
4.3.2 Compare and comment on the dividend pay-out policies of the two companies.

<table>
<thead>
<tr>
<th>Company</th>
<th>DPS</th>
<th>EPS</th>
<th>Distributions % of earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don Ltd</td>
<td>360 cents</td>
<td>420 cents</td>
<td>86%</td>
</tr>
<tr>
<td>Key Ltd</td>
<td>490 cents</td>
<td>980 cents</td>
<td>50%</td>
</tr>
</tbody>
</table>

Don Ltd is distributing a higher percentage of income earned; Key Ltd has decided to retain half of EPS.

OR
Don Ltd appears to keep shareholders satisfied by giving them good dividends; Key Ltd appears to have plans for growth (better long term benefits) / equalisation of dividends over time.

Financial indicators or explanations thereof; with figures

Award part-marks for incomplete answers.

4.3.3 Comment on the degree of risk and gearing. Explain how this will influence your choice of company.

<table>
<thead>
<tr>
<th>Company</th>
<th>D/E ratio</th>
<th>ROTCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don Ltd</td>
<td>0.3 : 1</td>
<td>15.6%</td>
</tr>
<tr>
<td>Key Ltd</td>
<td>1.6 : 1</td>
<td>10.2%</td>
</tr>
</tbody>
</table>

I choose Don Ltd as financial risk is low and gearing is positive (ROTCE exceeds interest).

OR
I choose Don Ltd for its positive gearing (ROTCE exceeds interest) but they are not making effective use of loans.

OR
I do not choose Key Ltd as there is high financial risk and negative gearing / too much money borrowed and not able to use the funds effectively.

OR
I choose Key Ltd as there is high use of loans and, if they can improve efficiency (ROTCE), profit would improve significantly.

Financial indicators or explanations thereof; with figures

Must use D/E and ROTCE

Comparison, must involve a choice

Accept valid alternative terminology

Award part-marks for incomplete answers.

4.3.4 Apart from the points mentioned above, what other factors would you consider before deciding in which company you are going to invest? Explain TWO points.

- ROSHE: Don Ltd’s return (17.2%) is much higher than that of Key Ltd (9.1%).
- Liquidity: Key Ltd has a better current ratio (1.5:1) / acid-test ratio (0.8:1).
- Stock turnover: Key Ltd is managing stock more efficiently (62 days).
- Debtors’ collection: Key Ltd’s collection period is good (26 days).
- Corporate social responsibility: indicates good reputation of company (King Code).
- Directors: good professionalism will benefit the company and shareholders.
- Audit report: indicates if the auditors have detected any problems or not.

Could present factors that they omitted from 4.3.1-4.3.3

Figures not essential

Award part-marks for incomplete explanations.

TOTAL MARKS

65
**QUESTION 5**

5.1 **BRUCE TRADERS**

**CASH BUDGET FOR NOVEMBER AND DECEMBER 2015**

<table>
<thead>
<tr>
<th>CASH BUDGET</th>
<th>NOVEMBER 2015</th>
<th>DECEMBER 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH RECEIPTS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash sales</td>
<td>✓✓ 420 000</td>
<td>399 000</td>
</tr>
<tr>
<td>Cash from debtors</td>
<td>536 025</td>
<td>597 975</td>
</tr>
<tr>
<td>Commission income</td>
<td>✓ 6 000</td>
<td>✓ 7 000</td>
</tr>
<tr>
<td>Total receipts</td>
<td>✓ 962 025</td>
<td>1 003 975</td>
</tr>
<tr>
<td></td>
<td>Operation both columns, one part correct</td>
<td></td>
</tr>
</tbody>
</table>

| **CASH PAYMENTS:**    |               |               |
| Cash purchases of stock | ✓✓ 120 000 | 114 000 |
| Payments to creditors | 520 000 | ✓✓ 480 000  
If R600 000 = cash Purchases Nov |
| Sundry expenses        | 22 500 | ✓ 20 700 |
| Wages and salaries     | ✓✓✓ 200 000 | ✓ 256 000 |
| Advertisements         | ✓✓ 33 000 | 0 |
| Repayment of loan      | Any figure | ✓✓ ✓ 36 000  
2 marks if correct figure in wrong column |
| Interest on loan       | ✓ 3 780 | ✓ 3 510 |
| Total payments         | 17 | 935 280 874 210 |
| Surplus (deficit)      | Operation | 26 745 ✓ 129 765 |
| Opening bank balance   | (56 000) | ✓ (29 255) |
| Closing bank balance   | Operation | (29 255) ✓ 100 510 |

Superfluous/foreign entries -1 per item (max – 3) for Advertising for Dec, bad debts, discount, depreciation

5.2 **SLEEPZI BEDS (PTY) LTD**

5.2.1 Calculate the percentage increase in the amount budgeted for salaries and wages for October 2015.

\[
\frac{1800 \times 100}{30000} = 6\% \quad \checkmark \quad \text{% sign not essential here}
\]

Should the employees be satisfied with this? Explain.

Yes / No – compare to inflation rate / compare to directors fees ✓
5.2.2 The financial director is pleased with the work being done by the bookkeeper and internal auditor. Identify an expense that indicates that he is correct.

✓ Audit fees

Explain your answer. Any valid explanation ✓ ✓ Part-marks for partial answers

Expected response for 2 marks:
The audit fees are much lower than expected, which means that they spent less time on the audit / records were in order

Expected response for 1 mark: Audit fees lower than expected

5.2.3 Comment on how the new competitor has affected the sales of Sleepezi Beds. Provide figures.

<table>
<thead>
<tr>
<th>Comment ✓ ✓ Figures ✓</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash sales are ¼ of the amount budgeted</td>
</tr>
<tr>
<td>Cash sales projected R1,2m while actual was R300 000</td>
</tr>
<tr>
<td>Actual cash sales for Sept were R1,28m and dropped to R300 000 in Oct</td>
</tr>
<tr>
<td>Budgeted cash sales was 80% but actually achieved 20%</td>
</tr>
<tr>
<td>Sales decreased by 60 beds</td>
</tr>
<tr>
<td>Gross profit decreased by R120 000 (R2 000 gross profit per bed)</td>
</tr>
<tr>
<td>Sales decreased by R400 000</td>
</tr>
</tbody>
</table>

Explain how Sleepezi Beds has responded to this problem. Provide THREE points. Provide figures.

Part-marks for incomplete explanations Consider other valid alternatives

Point 1 They deliberately increased credit sales (R300 000 was budgeted but R900 000 was sold on credit). Explanation ✓ ✓ Figures ✓

Point 2 They increased delivery expenses to expand their target market / improve after-sales service. (Budgeted R150 000 but spent R168 000; 12% increase). Explanation ✓ ✓ Figures ✓

Point 3 They spent R40 000 on advertising (Budgeted R10 000; 300% overspent). / Decreased directors fees by R44 000 to fund more advertising R30 000. Explanation ✓ ✓ Figures ✓

5.2.4 Comment on the cash balances. Provide figures.

Any valid comment ✓ ✓ Figure/s ✓ Expected responses:

Disappointing / they expected a closing balance of R335 000
The actual balance is an overdraft of R210 000 (difference R545 000)
Actual balance for Sept is R230 000 while Oct reflects an overdraft of R210 000. (Difference R440 000).

Explain how the directors can improve the cash balances in future. Explain TWO points. Any valid comment ✓ ✓ ✓ Award part-marks for incomplete explanations

Expected responses for 2 marks:

Encourage debtors to pay faster Charge clients for deliveries
Negotiate with creditors for longer payment terms Take out a loan (to reduce the overdraft and interest)
Raise more capital / issue more shares Decrease mark-up to increase sales
Move to cheaper premises Look for alternative income e.g. commission

Expected responses for 1 mark:
Decrease expenses / increase income / decrease rent / increase sales

TOTAL MARKS

50
QUESTION 6

6.1 SNAZZY HANDBAGS

<table>
<thead>
<tr>
<th>PRODUCTION COST STATEMENT ON 30 SEPTEMBER 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Must be in correct section / Accept abbreviations</td>
</tr>
<tr>
<td>Foreign items -1 (max -2) e.g. S&amp;DC R219 200 &amp; AC R380 000</td>
</tr>
<tr>
<td>If categories are incorrectly placed, penalise on mark for details, but mark workings; will also lose method mark on prime cost subtotal</td>
</tr>
<tr>
<td><strong>Direct material cost</strong> (976 000 ( \pm 17 000 ))</td>
</tr>
<tr>
<td><strong>Direct labour cost</strong></td>
</tr>
<tr>
<td><strong>Prime Cost</strong></td>
</tr>
<tr>
<td><strong>Factory overhead cost</strong></td>
</tr>
<tr>
<td>14 720 (4 marks)</td>
</tr>
<tr>
<td>(442 080 ( \pm 20 800 )) + 8 320</td>
</tr>
<tr>
<td>+ 1 920 ( \pm 1 920 )</td>
</tr>
<tr>
<td>12 800 (3 marks)</td>
</tr>
<tr>
<td><strong>Manufacturing cost</strong></td>
</tr>
<tr>
<td>Work-in-process (1 October 2014)</td>
</tr>
<tr>
<td>Work-in-process (30 September 2015)</td>
</tr>
<tr>
<td>Total cost of production</td>
</tr>
</tbody>
</table>

6.2 HEALTHY LIFESTYLE COOKWARE

6.2.1 Calculate the variable cost per unit for 2015.

\[
\frac{2 160 000}{27 000} = R 80
\]

3 marks

Calculate the break-even point for 2015.

\[
\frac{2 850 000}{R 175} = 30 000 \text{ units} \quad \text{(One part correct)}
\]

5 marks
6.2.2 Explain why the owner should be concerned about the break-even point and level of production. Provide TWO points. Provide figures. There must be an explanation in each case.

<table>
<thead>
<tr>
<th>Point 1</th>
<th>Current production of 27 000 is less than the break-even point of 30 000 units. See 6.2.1. Figures ✓ Explanation ✓</th>
</tr>
</thead>
<tbody>
<tr>
<td>Point 2</td>
<td>Low level of production / Decrease in the level of production from 32 000 units in 2014 to 27 000 in 2015. Figures ✓ Explanation ✓</td>
</tr>
<tr>
<td>OR</td>
<td>BEP increased from 28 000 to 30 000 units. See 6.2.1 – need to produce more units to break even.</td>
</tr>
</tbody>
</table>

6.2.3 Identify ONE other problem relating to this business. Provide figure(s).

- Increase in VC/u from R65 to R80 / increase in FC of R190 000 / decrease in turnover by R235 000.
- A small percentage increase in selling price (9.4%) is not adequate to cover costs.
- Selling price of R175 is higher than the R170 of the competitor. Difficult to compete in the market for pots.
- Loss made in 2015: 4 725 000 – (2 850 000 + 2 160 000) = (285 000); compared to profit in previous year of R220 000.

TOTAL MARKS

35

TOTAL: 300