



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

**NSC 2019
MEO 2019
SC CANDIDATES**

GRADE 12

ACCOUNTING

NOVEMBER 2020

MARKING GUIDELINES

MARKS: 300

MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guideline, 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). Note: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
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. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
11. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
12. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a ☒.
13. Be aware of candidates who provide valid alternatives beyond the marking guideline.
14. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 15 pages.

QUESTION 1

| | | | |
|-----|-------|-----|-------------------------------------|
| 1.1 | 1.1.1 | B ✓ | (bad debts) |
| | 1.1.2 | D ✓ | (production wages) |
| | 1.1.3 | E ✓ | (bank charges) |
| | 1.1.4 | C ✓ | (depreciation of factory machinery) |
| | 1.1.5 | A ✓ | (raw material to production) |

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1.2 BERGVIEW MANUFACTURERS**1.2.1 FACTORY OVERHEAD COST NOTE**

| | | |
|---|---------|----|
| Salary of factory foremen | 150 000 | ✓ |
| Depreciation on factory equipment | 145 000 | ✓ |
| Indirect material (12 400 ✓ + 33 100 ✓ – 14 300 ✓) | 31 200 | ☑* |
| Insurance 60 000 x 3/6 or – 30 000 | 30 000 | ✓✓ |
| Water and electricity (115 000 ✓ + 12 000 ✓) x 80% ✓ OR 127 000 – 25 400 OR 92 000 + 9 600 | 101 600 | ☑* |
| Rent expense 113 000 ✓ x 7 200 / 9 000 ✓ OR 113 000 – 22 600 | 90 400 | ☑* |
| Be alert to various permutations of amounts and award marks accordingly | 548 200 | ☑* |

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*one part correct

**1.2.2 PRODUCTION COST STATEMENT
FOR YEAR ENDED 29 FEBRUARY 2020**

*one part correct

| | | |
|---|--|------------------|
| Direct material cost | | 2 200 000 |
| Direct labour cost | | 1 209 300 ✓ |
| Prime cost | DMC + DLC | 3 409 300 ✓ |
| Factory overhead cost | see 1.2.1 | 548 200 ☑ |
| Total production cost | operation | 3 957 500 ☑ |
| Work-in-progress at beginning | | 130 000 |
| | | 4 087 500 |
| Work-in-progress at end | balancing figure (accept +ve difference) | (40 500) ☑ |
| Cost of production of finished goods | (140 000 ✓ + 4 062 500 ✓ – 155 500 ✓) 6 500 000 x 100/160 Accept alternative workings e.g. Ledger format | 4 047 000 ☑* |

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-1 P Poor presentation (max -1) (no details); accept recognisable abbreviations such as DLC, FOHC

1.3 EASY FOODS

1.3.1 Explain why the change in units produced affected the fixed costs per unit.

Any ONE valid reason ✓✓ part marks for incomplete / unclear answer

- Fixed cost are not influenced by production levels; decrease in units produced and sold will increase the fixed costs per unit.
- Fixed costs remained constant while the number of units decreased.
- Economies of scale is only achieved if there is an increase in production

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1.3.2 Give TWO possible reasons for the increase in direct material cost per unit. Any TWO valid reasons ✓✓ ✓✓ part marks for incomplete / unclear answers

| | |
|-----------------|--|
| Reason 1 | <ul style="list-style-type: none"> • Increase in price of raw material / including inflation • No bulk discounts due to decreased production • Importing raw material (exchange rate / import duties) |
| Reason 2 | <ul style="list-style-type: none"> • Increase in transport and/or storage cost of raw material • Scarcity – price hikes due to higher demand • Wastage of raw material / poor management and control in production process / poorly trained workers • Possible theft of raw material |

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1.3.3 Explain why the business should not be satisfied with the level of production and the break-even point. Compare and quote figures for both years.

Comparison ✓ ✓ figures for each year ✓✓ ✓✓

Any TWO of: Compare **BEP** of 2019 to **production** of 2019;
 Compare **production** of 2019 to **production** of 2018
 Compare **BEP** of 2019 to **BEP** of 2018

- Produced 54 000 units and the break-even point is 50 976; 3 024 above BEP.
- Production decreased from 65 000 to 54 000 units (by 11 000 units / 16,9%)
- BEP increased from 50 000 to 50 976 units (976 units / 2%)
- Profit on 3 024 units in 2019 in comparison to profit on 15 000 units in 2018 / Drop in profits by 11 976 units

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1.3.4 Explain ONE reason against this option.

ONE reason ✓✓ part marks for incomplete / unclear answers

- This may be considered as unethical / illegal if not disclosed on packaging / can be sued / reported to consumer council
- Will incur additional costs in producing new packaging / advertising
- The customers will not be happy and sales would drop even more / lose customers to competitors
- Negative impact on image of the business, when discovered.

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| TOTAL MARKS |
| 45 |

QUESTION 2

2.1 VAT

No part marks for workings

| Calculate the VAT amounts and indicate the effect of EACH. | | | |
|--|-------|------------|--|
| DETAILS | | VAT AMOUNT | EFFECT <small>Accept + or -</small> |
| Total sales | | R81 675 | Increase |
| Purchases of stock | (i) | R26 235 ✓ | Decrease ✓ |
| Drawings of stock | (ii) | R4 800 ✓✓ | Increase ✓ |
| Bad debts | (iii) | R915 ✓✓ | Decrease ✓ |

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2.2 BANK RECONCILIATION AND INTERNAL CONTROL

2.2.1 Show the entries that must be recorded in the Cash Journals.

| Cash Receipts Journal (figures only) | | Cash Payments Journal (figures only) |
|---|--|---|
| 65 570 | two marks for both 11 850* CRJ 14 550* CPJ | 64 790 |
| 31 350 ✓ | | 2 700* ✓✓ |
| 150 ✓ | 33 500* CRJ 44 000* CPJ | 10 500* ✓✓ |
| | no part marks | 9 750 ✓ |
| | two marks for both* | 3 375 ✓ |
| | 600 (CRJ) 1 200 (CPJ) | 600* ✓✓ |
| 97 070 | | 91 715 |

10

-1 foreign items (max -1) for any amount that earns a mark in 2.2.3.

2.2.2 Calculate the Bank Account balance on 30 April 2020.

| Workings | Answer |
|---|---|
| - 3 450 ✓ + 97 070 ✓ - 91 715 ✓ <small>See CRJ total See CPJ total</small> <small>Accept ledger account format</small> | 1 905 ✓ <small>one part correct</small> |

4

CRJ and CPJ totals must include the provisional totals given

2.2.3 Bank Reconciliation Statement on 30 April 2020

| | One column method | Debit | Credit |
|--|-------------------|--|--|
| Balance per Bank Statement | 11 955 | <small>Balancing figure / could be debit</small> | 11 955 ✓✓ <small>Do not accept 19 500</small> |
| Credit outstanding deposit | 27 750 | | 27 750 ✓ |
| Debit outstanding cheques/EFT: | | | |
| No. 615 | (15 750) | 15 750 ✓ | |
| No. 965 | (6 750) | 6 750 ✓ | |
| No. 980 | (8 600) | 8 600 ✓ | |
| EFT | (7 300) | 7 300 ✓ | |
| Correction of error/wrong entry | 600 | | 600 ✓ |
| Balance per Bank Account | 1 905 | 1 905 ✓* | <small>see 2.2.2 (Dr / Cr)</small> |
| <small>-1 Presentation (max -1) for no details</small> | | 40 305 | 40 305 |

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-1 foreign items (max -1) for any amount that earns a mark in 2.2.1.

2.2.4

| | | |
|--|--|---|
| As internal auditor you are not happy with the control of cash in this business. Explain TWO problems to confirm your suspicion. Quote figures. Give advice on how EACH problem can be avoided in future. | | |
| | Explanation with evidence Explanation ✓ ✓ Evidence ✓ ✓ | Advice ✓ ✓ |
| Problem 1 | Theft / Fraud / Internal control measures are lacking. Cash slips have not been recorded, R10 500 | Supervision (checking) of cash slips against deposit slip / bank notifications (sms) for all transactions / Recon / EFT / Use security company for deposits |
| | Rolling of cash / security risk. Deposit of R50 400 occurs 14 days later / Deposit of R27 750 outstanding from 24 April. | Cash collected must be deposited immediately/ Sales person must not deposit cash/Divide duties / Supervisor must check before depositing. |
| Problem 2 | Delayed payments. Post-dated cheques; R15 750 (30 Oct 2020) and R6 750 (30 May 2020) | Purchase goods according to resources available; schedule / plan purchases (budget) |

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Accept the same advice if appropriate / relevant to both problems identified, such as 'Division of duties'.

2.3

DEBTORS' AGE ANALYSIS

2.3.1

| |
|---|
| Explain how the debtors' age analysis will assist the business in managing debtors' more effectively. |
| Valid explanation ✓✓ part marks for incomplete / unclear answers |
| <ul style="list-style-type: none"> • Helps the business to identify slow or defaulting debtors, or possible bad debts • Highlights debtors in good standing so that their credit rating can be reviewed • It can expose the problem of allowing debtors to exceed their credit limit • Exposes weaknesses in internal control processes so that corrective measures can be taken. |

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2.3.2

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| Explain TWO separate problems highlighted by the age analysis. Provide evidence for EACH. | | |
| Evidence must be shown. May be in explanation column; Accept name or explanation or amount. | | |
| Any TWO of: | | |
| | Explanation ✓ ✓ | Evidence ✓ ✓ |
| Problem 1 | Certain debtors are exceeding the <u>credit terms</u> (slow payers) possible bad debts | D Duma, S Swart 90 days ; 60/90 days (1 425) (6 000; 12 750) |
| | Debtors are exceeding <u>credit limit</u> | P Palm: 20% above limit R1 050 / (R6 300 – R5 250) |
| Problem 2 | Granting slow-paying debtors to continue purchasing / to exceed credit limits (internal control) | D Duma, S Swart |

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2.3.3

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| State TWO strategies that Tonga Hardware can use to ensure that only reliable applicants are granted credit. |
| Any TWO valid strategies ✓ ✓ TWO different options form the list: |
| Perform credit checks (references / listing / credit bureau) |
| Check employment history / salary advice / bank statement |
| Contact details (residential or postal <u>address</u> / contact numbers or emails) |

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| TOTAL MARKS |
| 45 |

QUESTION 3

3.1

| | | |
|-------|----------------------------------|----------|
| 3.1.1 | First in first out ✓ | FIFO |
| 3.1.2 | Weighted average method ✓ | WA |
| 3.1.3 | Specific identification method ✓ | SI / SIM |

Accept abbreviations

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| 3 |
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3.2 JJ FASHION HOUSE

3.2.1

| | |
|--|---|
| Calculate: Value of the closing stock using the weighted-average method | |
| Workings | Answer |
| <p>1 858 200 two marks (124 500 + 1 813 000) (130 x 610) 1 937 500 ✓ – 79 300 ✓ x 380 ✓ 3 390 ✓ – 130 ✓ (240 + 3 150) 3 260 two marks WA: 570 four marks</p> | <p>216 600 ✓ one part correct</p> |
| Calculate: Gross profit | |
| Workings | Answer |
| <p>see above see above 2 764 800 ✓ – (1 858 200 ✓ – 216 600 ✓) 1 937 500 – 79 300 1 641 600 two marks IF UNITS ARE USED: (960 – 570) x 2 880 one mark one mmark one mark</p> | <p>1 123 200 ✓ one part correct</p> |

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3.2.2

| | |
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| Calculate how long (in days) it will take to sell the closing stock of the jeans. | |
| Workings | Answer |
| <p>see 3.2.1 216 600 ✓ x 365 ✓ 1 641 600 ✓ see 3.2.1 (COS) OR: IF UNITS ARE USED one mark one mark one mark <u>380</u> x 365 OR <u>380</u> 2 880 2 880 / 365 one mark one mark</p> | <p>48,2 days ✓ one part correct</p> |

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3.2.3

| Calculate: Value of closing stock using the FIFO method | |
|---|---|
| Workings | Answer |
| 400 – 130 270 ✓ x 610 ✓ = 164 700 <input checked="" type="checkbox"/> one part correct 110 <input checked="" type="checkbox"/> x 580 ✓ = 63 800 <input checked="" type="checkbox"/> one part correct 380 – 270 see above | 228 500 <input checked="" type="checkbox"/> one part correct |
| State ONE advantage of using the FIFO method. Any ONE point ✓✓ part marks for incomplete / unclear / partial responses | |
| <ul style="list-style-type: none"> Higher gross profit because of higher closing stock value / lower cost of sales Purchase price of jeans is always increasing due to demand / inflation Stock <u>valued at the most recent prices</u>; less chance of being obsolete / outdated Gross profit will be based on current market related values Easier to use this method. | |

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3.2.4

| Calculate the number of jackets stolen. | |
|---|--|
| Workings | Answer |
| (1 760 + 6 500) 8 260 ✓ – 2 980 ✓ – 5 020 ✓ OR – 8 260 + 2 980 + 5 020 | 260 <input checked="" type="checkbox"/> one part correct |
| Give TWO solutions to solve the problem. Any TWO valid points ✓✓ ✓✓ part marks for incomplete / unclear / partial responses | |
| Expected responses for 2 marks: | |
| Solution 1 | <ul style="list-style-type: none"> Count stock regularly and compare against stock records Improve / employ security to control at exit points Install security cameras at strategic points (CCTV) |
| Solution 2 | <ul style="list-style-type: none"> Order smaller quantities, but more frequently as required Staff screening / lockers for staff (if they are suspected) Tracking devices / security tags on products Insure goods so that you can claim on insurance policy |

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3.2.5

| The internal auditor is concerned about the stock levels and selling price of jackets. Explain reasons for his concern, with figures, and give different advice in EACH case. Be alert to advice that may apply to both, such as 'reduce mark-up%' | | |
|---|---|---|
| Concern | Explanation (with figures) ✓ ✓ ✓ ✓ | Advice ✓ ✓ |
| Stock level | Stock holding period increased from (103 days) to 216 days (by 113 days) / high closing stock balance 2 980 (1 220 more than opening stock / 36% of available stock; possible obsolescence or theft | Clearance sale to get rid of excess stock / Order in line with demand |
| Selling price | Mark-up % increased (from 70%) to 107% (to R1 450 or by R380) Customers find the price of R1 450 as being too high | Reduce mark-up% / selling price / Offer trade discounts / Advertise to increase customers |

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| TOTAL MARKS |
| 40 |

QUESTION 4

4.1

| | Workings | Answer |
|-------|--|--------------------------------|
| (i) | Cost of land and buildings at beginning of year $9\,650\,000 + 850\,000$ Award one mark if this working is shown without the final answer given | R10 500 000 ✓✓ |
| (ii) | Depreciation of vehicles for the year New: $625\,000 \times 20\% \times 3/12 = 31\,250$ ✓✓ one part correct Old: $1\,281\,000 \times 20\% = 256\,200$ ✓✓ one part correct | R287 450 ✓ one part correct |
| (iii) | Disposal of equipment $21\,000 - (15\,000 + 450)$ ✓ $15\,450$ three marks <small>(6 000 x 15% x 6/12)</small> | R5 550 ✓ one part correct |
| (iv) | Accumulated depreciation of equipment $200\,000 + 42\,450 - 15\,450$ ✓ see (iii) above | R227 000 ✓ one part correct |

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(iii) and (iv) accept as workings: Ledger format; signs reversed; brackets

4.2

ORDINARY SHARE CAPITAL:**ISSUED SHARE CAPITAL**

| | | |
|--------------|--|---------------------------------|
| 800 000 | Shares in issue at beginning | 4 800 000 |
| 400 000 ✓ | shares issued during year | 3 600 000 ✓ balancing figure |
| (60 000) | shares re-purchased (ASP: R7.00) | (420 000) ✓✓ |
| 1 140 000 ✓* | shares in issue at end closing number of shares x R7.00 | 7 980 000 ✓✓* |

7

-1 P if no details (max -1)

*one part correct

RETAINED INCOME:

| | |
|---|---------------|
| Balance at beginning | 1 181 250 |
| Net profit after tax | 2 534 400 |
| Shares re-purchased 60 000 ✓ x R3,80 ✓ OR 648 000 – 420 000 10,80 – 7,00 | (228 000) ✓* |
| Dividends | (2 377 200) ✓ |
| Interim 1 200 000 ✓ x 124 cents ✓ or 124% or x 1,24 or 124/100 | 1 488 000 ✓* |
| Final | 889 200 |
| Balance at end operation; shares repurchased and OSD must be subtracted | 1 110 450 ✓ |

8

*one part correct

**4.3 BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)
ON 31 MARCH 2020**

| | | |
|---|---|---|
| ASSETS | | |
| Non-current assets | | 11 458 500 |
| Fixed assets at carrying value | | 11 458 500 |
| Current assets | TA – 11 458 500 | 2 715 750 <input checked="" type="checkbox"/> |
| Inventories | balancing figure | 1 303 850 <input checked="" type="checkbox"/> |
| Trade and other receivables (881 000 ✓ + 2 500 ✓✓ + 41 900 ✓ + 32 500 ✓✓) | 7 | 957 900 <input checked="" type="checkbox"/> * |
| Cash and cash equivalents | | 454 000 |
| TOTAL ASSETS | 11 See Total Equity + Liabilities | 14 174 250 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> |
| EQUITY AND LIABILITIES | | |
| Ordinary shareholders' equity | OSC + Ri | 9 090 450 <input checked="" type="checkbox"/> |
| Ordinary share capital | see 4.2 OSC | 7 980 000 <input checked="" type="checkbox"/> |
| Retained income | 3 see 4.2 Ri | 1 110 450 <input checked="" type="checkbox"/> |
| Non-current liabilities | | 2 382 000 |
| Mortgage loan: (2 508 000 ✓ + 258 000 ✓ – 384 000 ✓✓✓) | 642 000 two marks – 258 000 one mark 6 | 2 382 000 <input checked="" type="checkbox"/> * |
| Current liabilities | | 2 701 800 <input checked="" type="checkbox"/> * |
| Trade and other payables* could include other CL items (1 318 000 ✓ + 32 000 ✓ + 65 000 ✓✓) | | 1 415 000 <input checked="" type="checkbox"/> * |
| Shareholders for dividends | see 4.2 | 889 200 ✓✓ |
| SARS: Income tax (985 600 ✓✓ – 972 000 ✓) # | | 13 600 <input checked="" type="checkbox"/> * |
| Current portion of loan | see NCL above | 384 000 <input checked="" type="checkbox"/> |
| TOTAL EQUITY AND LIABILITIES | 14 SE + NCL + CL | 14 174 250 <input checked="" type="checkbox"/> |

*one part correct

-1 foreign items (max -2); misplaced items: mark workings only. -1 Presentation (no details) max -1
SARS: Income tax could be a DR (CA) if Income tax incorrectly calculated

34

TOTAL MARKS**65**

QUESTION 5

5.1

| | |
|-------|-----------------------|
| 5.1.1 | External ✓ |
| 5.1.2 | Directors ✓ |
| 5.1.3 | Balance Sheet ✓ |
| 5.1.4 | Cash Flow Statement ✓ |

4

5.2

BOMBAY LTD

| CASH FLOW STATEMENT FOR YEAR ENDED 29 FEBRUARY 2020 | | |
|---|--|----------------|
| CASH EFFECTS OF OPERATING ACTIVITIES | | |
| Cash generated from operations | | |
| Interest paid | | |
| Income tax paid | | |
| 4 | Dividends paid 121 000 two marks 126 000 ✓ + 286 000 ✓ – 165 000 ✓ OR – 126 000 – 286 000 + 165 000 Accept other arrangements for calculations eg: brackets ; ledger account | (247 000) ✓* |
| CASH EFFECTS OF INVESTING ACTIVITIES | | |
| 5 | Fixed assets purchased 4 830 000 ✓ + 34 500 ✓ + 312 600 ✓ – 3 760 100 ✓ OR – 4 830 000 – 34 500 – 312 600 + 3 760 100 Accept other arrangements for calculations eg: brackets ; ledger account | (1 417 000) ✓* |
| 1 | Proceeds from the sale of fixed assets | 34 500 ✓ |
| Change in fixed deposit | | |
| CASH EFFECTS OF FINANCING ACTIVITIES | | |
| 1 | Proceeds from shares issued | 1 240 000 ✓ |
| 5 | Repurchase of shares 5 880 000 ✓ – 1 240 000 ✓ – 5 360 000 ✓ – 96 000 ✓ OR – 5 880 000 + 1 240 000 + 5 360 000 + 96 000 OR 120 000 one mark x 6,80 three marks Accept other arrangements for calculations eg: brackets ; ledger account | (816 000) ✓* |
| 2 | Change in loan 1 300 000 – 950 000 one mark if 350 000 with no brackets | (350 000) ✓✓ |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | | (82 700) ✓ |
| operation (from bottom) | | |
| Cash and cash equivalents (opening balance) | | 56 400 ✓ |
| 4 | Cash and cash equivalents (closing balance) – 28 800 + 2 500 one part correct | (26 300) ✓✓ |

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* one part correct and must be in brackets / if no brackets, full marks for workings
 If inappropriate use of brackets, or not, full marks cannot be earned on that line.

5.2.2

| Calculate: % operating profit on sales | | |
|---|---|---|
| Workings | Answer | |
| $\frac{1\,122\,500 \checkmark}{4\,824\,000 \checkmark} \times 100$ | 23,3% <input checked="" type="checkbox"/> one part correct; accept 23% express as %, sign not necessary | 3 |
| Calculate: Acid-test ratio (NOTE: The current ratio is 1,6 : 1.) | | |
| Workings | Answer | |
| 774 000 x 1,6 two marks $(1\,238\,400 \checkmark\checkmark - 619\,000 \checkmark) : 774\,000 \checkmark$ 619 400 three marks | 0,8 : 1 <input checked="" type="checkbox"/> one part correct as x : 1 | 5 |
| Calculate: Net asset value (NAV) per share | | |
| Workings | Answer | |
| 6 422 800 two marks $(5\,880\,000 \checkmark + 542\,800 \checkmark) \times 100$ 980 000 <input checked="" type="checkbox"/> one part correct (900 000 + 200 000 – 120 000) | 655,4 cents <input checked="" type="checkbox"/> one part correct or 655 cents accept R6,55 | 5 |

Note: The 100 is not regarded as 'one part correct' for the method mark

5.3 TWO COMPANIES: LULU LTD AND COCO LTD

5.3.1

| | |
|--|---|
| <p>Explain which company has the better liquidity. Quote TWO financial indicators to support your opinion.</p> <p>Part marks for incomplete / unclear / partial explanation</p> <p>Explanation and Financial Indicators for Lulu:</p> <p>Liquidity ratios of <u>Lulu Ltd</u> <input checked="" type="checkbox"/> are <u>more efficient</u> <input checked="" type="checkbox"/> than that of Coco Ltd. Current ratio 1,7 : 1 <input checked="" type="checkbox"/> Acid test ratio 0,9 : 1 <input checked="" type="checkbox"/></p> <p>OR</p> <p>Explanation and Financial Indicators for Coco:</p> <p>Liquidity ratios of <u>Coco Ltd</u> one mark are <u>higher / they have more CA</u> one mark Coco has more liquid assets than stock (0,6 : 1 compared to 0,8 : 1 in Lulu) Current ratio 4,2 : 1 one mark Acid test ratio 3,6 : 1 one mark</p> | 4 |
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5.3.2

| | |
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| <p>Comment on the earnings per share and the % return on equity of Lulu Ltd. Give TWO reasons why the shareholders will be satisfied with these indicators. Quote figures.</p> <p>Financial indicators with figures and trend <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> Explanation <input checked="" type="checkbox"/></p> <p>EPS increased (from 233 cents) to 273 cents (by 40 cents / 17,2%) ROSHE increased (from 14%) to 25% (by <u>11%</u> / 78,6%)</p> <p>This exceeds the returns on alternative investments (such as interest on fixed deposits which is 6%).</p> | 5 |
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5.3.3 Comment on the market value of the shares in Coco Ltd. Explain TWO points. Quote figures.

TWO valid points. ✓ ✓ Figures ✓ ✓

- **Compare to NAV:** Market value of R18,80 is higher than the NAV of R17,86 (by 0,94). Indicates good demand for the shares / positive image of the company / company is doing well.
- **Compare to purchase price:** He originally bought the shares for R28,00 but the market price is now R18,80 (indicates poor financial return)

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5.3.4 Compare the dividend pay-out rates of both companies and explain why the directors of EACH company decided on these pay-out rates. Quote figures or calculations.

Lulu Ltd: 110c (DPS)/273 cents(EPS) or 40,3% ✓
They retained 59,7% of the EPS for future growth / expansion ✓
OR This is to benefit shareholders through the NAV and share price

Coco Ltd: 200c (DPS)/171 cents (EPS) or 117% ✓
They decided to keep shareholders happy / reward shareholders for low dividends in previous years / have no plans for growth ✓

Be alert to different presentation of information.

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5.3.5 Noah says that the dividend of 110 cents per share he earned from Lulu Ltd is better than the dividend of 200 cents per share from Coco Ltd. Give ONE point to prove that he is incorrect. Quote figures or calculations.

ONE explanation / comparison (with figures)
No marks for individual / random amounts stated.

200 cents – 110 cents = 90 cents more per share was earned in Coco Ltd.
✓ ✓ ✓ ✓

OR: He earned 90 cents more per share in Coco Ltd. four marks

Also be alert to learners who commented in the following way to prove Noah is correct:

In Lulu Ltd, he earned 110c on a share which cost him 700c (16%) two marks

In Coco Ltd, he earned 200 cents on a share which cost him 2 800c (7%) two marks

OR:

In total he earned dividends of R440 000 from Lulu Ltd, and R200 000 from Coco Ltd four marks

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5.3.6 Comment on the risk and gearing of EACH company. Quote TWO financial indicators.

THREE marks per company: Financial Indicator with figure and Comment
Accept the correct figures (if financial indicators are not mentioned)

Lulu Ltd:

Debt/equity ratio is 0,8 : 1 ✓
ROTCE is 20% ✓

Comment ✓

The business makes extensive use of loans (high risk) /
ROTCE is higher than the interest rate of 13%, indicating positive gearing

Coco Ltd:

Debt/equity ratio is 0,2 : 1 ✓
ROTCE is 10% ✓

Comment ✓

The business does not rely on loans (low risk) /
ROTCE is lower than interest rate of 13%, indicating negative gearing

Arrangement of information may vary; financial indicators and/or comment may be compared in the same statement

| |
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5.3.7 Noah wants to buy shares in Lulu Ltd on the JSE at current market value to become the majority shareholder and CEO. Calculate how much Noah will have to pay for the shares that he needs.

| Workings | |
|---|--|
| $\frac{1\ 100\ 000}{2 + 1}$ $\frac{(550\ 001 \checkmark - 400\ 000 \checkmark) \times R9,50 \checkmark}{150\ 001} = R1\ 425\ 009,50 \checkmark$ <p style="text-align: center;">150 001 two marks</p> <p>OR 50% + 100</p> $\frac{(550\ 100 - 400\ 000) \times R9,50}{150\ 100} = R1\ 425\ 950$ <p>OR 51%</p> $\frac{(561\ 000 - 400\ 000) \times R9,50}{161\ 000} = R1\ 529\ 500$ <p>OR 14% x 1 100 000 or 15% or 13,7%</p> $154\ 000 \times R9,50 = R1\ 463\ 000$ | <p style="text-align: center;">one part correct</p> |

| |
|---|
| |
| 4 |

| |
|--------------------|
| TOTAL MARKS |
| 70 |

QUESTION 6

6.1

| | |
|-------|---------|
| 6.1.1 | False ✓ |
| 6.1.2 | True ✓ |
| 6.1.3 | True ✓ |

Accept T or F

3

6.2

KURUMAN (PTY) LTD

6.2.1

Calculate the missing amounts indicated by (i) and (ii) in the Debtors' Collection Schedule.

| | Workings | Answer |
|------|--|--|
| (i) | 41 250 x 38/100 | 15 675 ✓ <input checked="" type="checkbox"/> one part correct |
| (ii) | 16 530 x 100/38 OR 25 056 x 100/60 x 100/96 OR 130 500 x 25/75 | 43 500 ✓ <input checked="" type="checkbox"/> one part correct |

4

Calculate the percentage discount allowed to debtors who settle in the month of the sales transactions.

| Workings | Answer |
|--|--|
| 990 three marks $41\,250 \times 60\%$ $\frac{24\,750 \checkmark\checkmark - 23\,760 \checkmark}{24\,750 \checkmark} \times 100$ OR: July: $\frac{1\,152}{28\,800 - 27\,648}$ June: $\frac{1\,044}{26\,100 - 25\,056}$ | 4% <input checked="" type="checkbox"/> one part correct as a %, sign not necessary |

5

6.2.2

Calculate budgeted amounts:

| | Workings | Answer |
|--|---|--|
| Total sales for July 2020 | 48 000 ✓ + 144 000 ✓ OR 48 000 x 100/25 OR 144 000 x 100/75 | 192 000 <input checked="" type="checkbox"/> one part correct 3 |
| Payment to creditors during June 2020 | 123 750 + 41 250 / 41 250 x 100/25 / 123 750 x 100/75 165 000 ✓ x 100/150 ✓ x 80% ✓ OR 22 000 x 80/20 one mark two marks | 88 000 <input checked="" type="checkbox"/> one part correct 4 |
| Additional loan to be acquired on 1 June 2020 | (7 500 – 6 000) 1 500 ✓ x 100/20 ✓ x 12 ✓ OR 1 500 x 12 / 20% one mark one mark one mark OR 450 000 – 360 000 two marks one mark | 90 000 <input checked="" type="checkbox"/> one part correct 4 |

Be aware of alternative ways to calculate this figure

11

6.2.3 The directors did not adhere to the Cash Budget during May 2020. Identify TWO overpayments. Provide figures. Give a valid reason for EACH overpayment.

| | Overpayment (with figures) | Reason |
|----------------|---|--|
| Point 1 | Advertising ✓ Paid R8 400 or R2 800 more than budgeted or 50% over the budget ✓ | Wanted to increase sales ✓ OR Special clearance sales required greater advertising. |
| Point 2 | Vehicle maintenance ✓ Paid R36 350 or R24 150 more than the budgeted or 198% over the budget ✓ | To get a reasonable price when vehicle was sold / in order to use vehicle until replaced ✓ OR Vehicles are old or damaged OR used more frequently for free deliveries to increase sales |

| |
|---|
| 6 |
|---|

6.2.4 Why are the auditors concerned that the agreement with Tradecor is unethical or possibly a crime? Explain THREE points.

Any THREE valid concerns ✓✓ ✓✓ ✓✓ part marks for incomplete / unclear / partial responses

| | |
|----------------------------|--|
| Point 1 | <ul style="list-style-type: none"> • The property was sold at carrying value (which is its original cost / historical cost concept) • Property appreciates in value and should be have been sold at a market-related price. • The company could have benefitted from a large profit on sale of asset and an improved profitability. • Total assets are depleted / valuable asset disposed • Corruption / under-handed / unethical deal to enrich CEO and his wife (nepotism); no transparency or involvement of the Board of Directors in this decision • Consciously placing the business at financial risk / cash flow problems due to rent of R26 000 per month that must be paid and not budgeted for. |
| Point 2 | |
| Point 3 | |
| Other valid answers | |

| |
|---|
| 6 |
|---|

the same point (concern) can be stated differently / repeated.
Award marks for appropriate responses not included in the list above.

| |
|--------------------|
| TOTAL MARKS |
| 35 |

TOTAL: 300