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 candidate’s response.
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.

These marking guidelines consist of 17 pages.
QUESTION 1

1.1

<table>
<thead>
<tr>
<th>1.1.1</th>
<th>False ✓</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.2</td>
<td>True ✓</td>
</tr>
<tr>
<td>1.1.3</td>
<td>True ✓</td>
</tr>
</tbody>
</table>

Accept recognizable abbreviations e.g. T or F

3

1.2 KRIGE SHIRTS

1.2.1 Calculate direct labour cost.

\[
\begin{align*}
3 \times 1960 \times 90 & = 529200 \text{ three marks} \\
529200 \text{ (normal time)} \times 12\% & = 63504 \text{ ✓ if 12\% of normal time} \\
1 \times 1680 \times 90 & = 151200 \text{ ✓ one part correct} \\
12146 & = 756050 \text{ ✓ one part correct} \\
529200 \times 112\% & = 592704 + 151200 + 12146 = 756050 \text{ five marks} \\
705600 & = 63504 + 360880 \text{ ✓} \\
(4 \times 1960 \times 90) - 90(1960 - 1680) + (3 \times 1960 \times 12\%) + 12146 & = 756050 \text{ three marks} \\
705600 & = 84672 - 25200 + 9022 \text{ ✓} \\
(4 \times 1960 \times 90) + (705600 \times 12\%) - 90(1960 - 1680) + (21168 - 12146) & = 756050 \text{ three marks} \\
705600 & = 756050 \text{ ✓} \\
\end{align*}
\]

9

1.2.2 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 31 JULY 2018

<table>
<thead>
<tr>
<th>Direct material cost</th>
<th>528 300</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct labour cost</td>
<td>see 1.2.1</td>
</tr>
<tr>
<td></td>
<td>756 050 ✓</td>
</tr>
<tr>
<td>Prime cost if DMC + DLC</td>
<td>1 284 350 ✓</td>
</tr>
<tr>
<td>Factory overhead cost</td>
<td>380 880 ✓</td>
</tr>
</tbody>
</table>

\[
\begin{align*}
\text{Factory overhead cost} & = 20000 \times 45000 \times 360880 \times \left( \frac{4}{9} \times (48750 - 3750) \right) \\
& = 380880 \text{ ✓ one part correct} \\
& = 1665230 \text{ Operation ✓} \\
\end{align*}
\]

1 665 230 ✓

Work-in-progress (1 August 2017) 35 570 ✓

1 700 800

Work-in-progress (31 July 2018) balancing figure (38 300) ✓

Cost of production of finished goods 1 662 500 ✓

Misplaced items (FOHC): award marks but penalise on prime cost
1.3 GEMMA'S MANUFACTURERS

1.3.1 Calculate the break-even point for the year ended 31 August 2018.

\[
\begin{align*}
118\,860 & \quad \text{two marks} \\
67\,200 & \quad \checkmark + 51\,660 \quad \checkmark \\
910 & \quad \checkmark - 577 \quad \checkmark \\
(180 + 252 + 145) & \quad \text{one mark} \\
-180 - 252 - 145 & \quad \text{one mark} \\
333 & \quad \text{two marks}
\end{align*}
\]

\[= 356,9 \text{ OR } 357 \text{ units } \checkmark \quad \text{one part correct} \]

1.3.2 Compare and comment on the break-even point and the production level achieved over the last two years. Quote figures.

Part-marks for partial answers

Compulsory response:
Comparison of the BEP with the level of production of 2018 \(\checkmark \checkmark \) Figures \(\checkmark \)
Business produced 63 units (15\%) more than the BEP (420 – 357) see 1.3.1
OR:
The business made a profit on only 63 units (420 – 357) compared to 105 units last year (540 – 435)

Other optional responses:
Comparison of 2017 and 2018 BEP or production \(\checkmark \checkmark \) Figures \(\checkmark \)
- BEP decreased from 435 units in 2017 to 357 units in 2018 (78 units; 17,9\%)
- The business produced 120 units (22,2\%) less than last year (540 – 420)

1.3.3 Give TWO reasons for the increase in direct material cost. Suggest ONE way to control this cost.

REASONS:
Any TWO valid reasons. \(\checkmark \checkmark \checkmark \) Part marks for partial/incomplete answers.
Inflationary increases / transport costs / increase in fuel price / scarcity.
Wastage due to poor workmanship.
Theft of material (in the factory) due to poor internal controls.
VAT increased to 15\%
Change in exchange rate (if raw materials imported)
Changed suppliers (more expensive) / Better quality raw materials

SUGGESTION:
Any ONE valid suggestion \(\checkmark \) Suggestion may be marked independently of reason
Look for cheaper suppliers without compromising quality.
Negotiate transport and delivery discounts.
Take advantage of bulk discounts.
Recycle waste material / use off-cuts
Train and supervise workers to minimise wastage.
Control stock regularly to identify shortages.
Buy stock as required to avoid stock piling and possible theft.

TOTAL MARKS

40
QUESTION 2

2.1  VAT

2.1.1  WORKINGS

<table>
<thead>
<tr>
<th></th>
<th>WORKINGS</th>
<th>ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>1 104 – 960</td>
<td>144 ✓</td>
</tr>
<tr>
<td>(b)</td>
<td>52 600 x 15%</td>
<td>7 890 ✓ ✓ one part correct</td>
</tr>
<tr>
<td>(c)</td>
<td>720 x 100/15</td>
<td>4 800 ✓ one part correct</td>
</tr>
<tr>
<td>(d)</td>
<td>(112 470 – 6 325) x 15/115</td>
<td>13 845 ✓ one part correct</td>
</tr>
</tbody>
</table>

2.1.2 You are the internal auditor. The sole owner, Samson, used a business cheque to buy a new car for R460 000 including VAT. This car is kept at home for his wife’s use. Samson says the vehicle must be recorded as a business asset and R60 000 must be recorded as a VAT input in the business’ books.

Explain what you would say to Samson. Provide TWO points.

TWO valid points ✓ ✓ ✓ ✓ part-marks for partial / incomplete answers; figures not required

Expected responses for two marks: Be aware of two points within one explanation

• This is tax evasion / he is attempting to reduce the amount due to SARS for VAT (this is illegal and unethical)
• He will be increasing the input VAT, effectively reducing the amount due to SARS.
• He could be fined or imprisoned because it is a criminal offence.
• Personal transactions and business transactions should be kept separate (Business entity concept) / Samson should pay for this out of his private bank account.
• As the car is not used for business purposes, the full amount of R460 000 should either be treated as drawings or a reduction of his capital contribution.

4
2.2 CREDITORS' RECONCILIATION

2.2.1 CREDITORS LEDGER: ACCOUNT OF MARITI SUPPLIERS

<table>
<thead>
<tr>
<th></th>
<th>STATEMENT OF ACCOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance</td>
<td>147 820</td>
</tr>
<tr>
<td>(a) + 1 800</td>
<td>145 060</td>
</tr>
<tr>
<td>(b) - 40 950</td>
<td></td>
</tr>
<tr>
<td>(c) + 30 000</td>
<td></td>
</tr>
<tr>
<td>(d) - 5 400</td>
<td></td>
</tr>
<tr>
<td>(e) - 8 100</td>
<td></td>
</tr>
<tr>
<td>(f) - 77 190</td>
<td></td>
</tr>
<tr>
<td></td>
<td>92 470</td>
</tr>
<tr>
<td>Both totals</td>
<td>92 470</td>
</tr>
</tbody>
</table>

Totals may be different; must include the opening balance. Focus on amounts if lines are mixed up. Penalty for foreign/superfluous entries; -1 per line provided a mark was scored on that line.

2.2.2 The internal auditor insists that direct payments (EFTs) must be used to pay suppliers.

**Explain ONE reason to support his decision.**
One reason ✅ part-marks for partial / incomplete answers

- It is quick and easy / easier to monitor / efficient / convenient / safer / cheques may be lost / not time-bound (business hours) / less bank charges / no need to keep track of outstanding cheques / makes claiming cash discounts easier / avoid interest on late payments

**Explain ONE internal procedure to ensure control over this system.**
One internal control measure ✅ part-marks for partial / incomplete answers

- For two marks:
  - Senior personnel authorized to make internet payments
  - Two people to authorise an EFT transaction (allocation of duties)
  - Security codes for users (unique codes) / change codes regularly
  - Notification from bank (sms / email) when payments are effected

- For one mark: Division of duties

2.2.3 Besides dismissing Vernon, provide ONE suggestion for action to be taken against him.

**ONE valid point ✅**

- Disciplinary hearing / criminal or civil charge / suspension / demotion / transfer to another department / deductions from his salary / written warning

**Provide ONE suggestion to prevent this problem in future.**

- Division or rotation of duties / one person check orders, the other receives stock / Stock records to be updated with every invoice / Proper authorization of orders / Ensure goods received at the gates are supported by order form and invoice / Regular stocks counts to compare to records

TOTAL MARKS

35
QUESTION 3

3.1 Current assets ✓
3.1.2 Operating income ✓
3.1.3 Non-current asset ✓
3.1.4 Operating expense ✓

3.2.1 TEMBISO LTD
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>4 760 000</td>
</tr>
<tr>
<td>(4 856 000 − 96 000) x 1.40 = 6 664 000 ✓*</td>
<td></td>
</tr>
<tr>
<td>96 000 x 90% = + 86 400 ✓*</td>
<td>6 750 400 ✓*</td>
</tr>
<tr>
<td>OR: (4 856 000 x 140/100) − (96 000 x 50/100)</td>
<td></td>
</tr>
<tr>
<td>6 798 400 − 48 000</td>
<td>one mark &amp; one method mark</td>
</tr>
</tbody>
</table>

Cost of sales: (4 856 000)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit</td>
<td>1 894 400 ✓</td>
</tr>
<tr>
<td>Other operating income</td>
<td>879 440</td>
</tr>
<tr>
<td>Gross income</td>
<td>2 773 840 ✓</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(1 255 000) ✓*</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>501 200</td>
</tr>
<tr>
<td>Audit fees</td>
<td>(65 400 ✓ + 21 800 ✓✓) x 100/75</td>
</tr>
<tr>
<td>Rent expense</td>
<td>(79 240 ✓ + 24 080 ✓✓)</td>
</tr>
<tr>
<td>Directors fees</td>
<td>(497 800 ✓ − 26 200 ✓✓) x 36/38</td>
</tr>
<tr>
<td>Sundry expenses</td>
<td>91 680 ✓</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1 518 840 ✓*</td>
</tr>
<tr>
<td>Interest income</td>
<td>balancing figure (accept a -ve figure)</td>
</tr>
<tr>
<td>Net profit before interest expense</td>
<td>NPBT + Interest expense</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(242 500) ✓</td>
</tr>
<tr>
<td>Net profit before tax</td>
<td>NPAT + Inc Tax</td>
</tr>
<tr>
<td>Income tax</td>
<td>(341 800 + 31 300 )</td>
</tr>
<tr>
<td>Net profit after tax</td>
<td>959 400</td>
</tr>
</tbody>
</table>

Foreign items (e.g. Balance Sheet items / dividends; see Principle 1) -1 max *one part correct
### 3.2.2 ORDINARY SHARE CAPITAL

**AUTHORISED SHARE CAPITAL**

| 1 600 000 ordinary shares |

**ISSUED SHARE CAPITAL**

| 1 280 000 Ordinary shares on 1 March 2017 | 6 976 000 |
| (300 000) Shares repurchased (ASP: R5.45) | (1 635 000) |
| operation 500 000 | balancing figure 3 475 000 |
| 1 480 000 Ordinary shares on 28 February 2018 | 8 816 000 |

**RETAINED INCOME**

| Balance on 1 March 2017 | 376 600 |
| Net profit after tax | 959 400 |
| Shares repurchased | (465 000) |
| Ordinary share dividends | (486 400) |
| Interim dividends (980 000 x 0.30) | 294 000 |
| Final dividends | 192 400 |
| Balance on 28 February 2018 | 384 600 |

### 3.2.3 EQUITY AND LIABILITIES SECTION OF THE BALANCE SHEET

**SHAREHOLDERS' EQUITY**

| operation (added) 9 200 600 |
| Ordinary share capital | 8 816 000 |
| Retained income | 384 600 |

**NON-CURRENT LIABILITIES**

| Loan LSO Bank 31 600 x 12 | 379 200 – 162 000 |
| (1 725 500 + 21 800 + 24 080) | 1 371 600 |

**CURRENT LIABILITIES**

| Trade and other payables | 460 000 |
| Shareholders for dividends | 192 400 |
| SARS: Income tax | 31 300 |
| Current portion of loan | 217 200 |

**TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES**

| 11 473 100 |
3.3 AUDIT REPORT

3.3.1

Point 1: 
**Opinion** ONE valid point ✓

The auditors found no problem to report / unqualified report / statistical sampling used / met the required standard

Point 2: 
**IFRS and Companies Act** ONE valid point ✓✓ Part-mark for partial answer

For two marks: Must cover local & global points

Companies operate in local and international contexts / may have local and international shareholders / compliance with national and international laws and standards / companies may operate on a global market and engages in international trade and locally / shareholders (investors) may come from all parts of the world / readers in any this country and other countries can understand how financial statements are prepared or presented

For one mark: Partial / incomplete answer

Comply with standards or laws / must comply with South African Companies Act / must comply with international standards

Point 3: 
**Independent** ONE valid point ✓✓ Part-mark for partial answer

Their opinion is unbiased / they have no personal interest in the company / No conflict of interest / They are authentic. They have high international standards of professionalism to maintain / They have a code of conduct.

3.3.2

Point 4: 
**TWO examples of ethical responsibilities:**

Any TWO valid examples ✓✓ ✓✓ Part-mark for partial answer

No colluding with management to overlook any material matter.

No accepting bribes or engaging in corruption.

Care taken in completing the audit and expressing the opinion.

The readers can rely on the information in the financial statement.

Being honest in their duties / have integrity / truthfulness / unbiased.

Complying with King Code or GAAP / Keep up to date with new requirements.

Point 5: 
**TWO examples of audit evidence:**

Any TWO valid example ✓✓ ✓✓ Part-mark for partial answer

Check the internal controls and the efficiency of the internal audit.

Source documents (provided by external organisations, provide verification)

Records such as asset registers, stock records etc.

Policies and procedures of the company

Report of an audit committee which assess the internal and external audit processes / Internal auditors report on ensuring internal controls are efficient

TOTAL MARKS

75
QUESTION 4

4.1 CALCULATION OF FINANCIAL INDICATORS FOR 2018

4.1.1 Calculate: % operating expenses on sales

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \frac{1,900,000 \times 100}{13,182,000} )</td>
<td>14,4% ✓ one part correct; accept 14% % sign not necessary</td>
</tr>
</tbody>
</table>

4.1.2 Calculate: Acid test ratio

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \frac{775,000 \text{ two marks}}{(2,427,000 - 1,652,000)} : 1,244,000 )</td>
<td>0,6 : 1 ✓ one part correct shown as x : 1</td>
</tr>
<tr>
<td>Or: ( \frac{(410,000 + 365,000)}{1,244,000} )</td>
<td></td>
</tr>
<tr>
<td>one mark</td>
<td>one mark</td>
</tr>
<tr>
<td>one mark</td>
<td>one mark</td>
</tr>
</tbody>
</table>

4.1.3 Calculate: % return on shareholders’ equity

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \frac{1,911,000 \times 100}{9,651,500 \text{ or } 7,191,000 \text{ or } 12,112,000} )</td>
<td>19,8% or 26,5% or 15,8% one part correct; % sign not necessary accept 20% or 26% or 27% or 16%</td>
</tr>
<tr>
<td>( \frac{7,191,000 + 12,112,000}{2} )</td>
<td></td>
</tr>
<tr>
<td>The ( \frac{1}{2} ) can only apply if these two figures are added i.e. for the answer of 9651 500</td>
<td></td>
</tr>
</tbody>
</table>

4.2 FIGURES FOR 2018 CASH FLOW STATEMENT

Be aware of alternative arrangements for calculations; accept final answers in brackets
Final answer need not indicate inflow or outflow – may ignore brackets
Choose the line which best benefits the candidates.

4.2.1 Calculate: Change in investments

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 000 ✓</td>
<td></td>
</tr>
</tbody>
</table>

4.2.2 Calculate: Income tax paid

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>( 819,000 - 15,000 - 74,000 )</td>
<td>730 000 ✓ one part correct</td>
</tr>
<tr>
<td>OR – 819 000 + 15 000 + 74 000</td>
<td></td>
</tr>
<tr>
<td>OR ledger account form OR brackets</td>
<td></td>
</tr>
</tbody>
</table>

4.2.3 Calculate: Fixed assets sold (at carrying value)

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>( - 12,154,000 - 412,000 + 4,840,000 + 8,031,000 )</td>
<td>305 000 ✓ one part correct</td>
</tr>
<tr>
<td>Or: ( 12,154,000 + 412,000 - 4,840,000 - 8,031,000 )</td>
<td></td>
</tr>
<tr>
<td>Or: ( 4,560,000 - 4,840,000 - 25,000 )</td>
<td></td>
</tr>
<tr>
<td>one mark</td>
<td>one mark</td>
</tr>
<tr>
<td>two method marks (see 4.2.1)</td>
<td></td>
</tr>
</tbody>
</table>

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4.3 EXPLANATIONS ON CASH FLOW STATEMENT

4.3.1 Explain why the directors are satisfied with the improvement in cash and cash equivalents since 1 July 2016. Quote figures.

ONE valid point ✔ relevant figure/s ✔

Part-marks for partial or unclear answers

Response for three marks (i.e. comment on two financial years):

Large negative balance of R609 000 (at end of 2016 fin.year) improved to positive R410 000 (at end of 2018 fin.year) / improved by R1 019 000.

OR

Large overdraft of R609 000 (at end of 2016) improved to R130 000 / by R479 000 by the end of the 2017 fin. year. Improvement continued in 2018; the overdraft was eradicated, and C&CE were positive R410 000 at end of 2018 fin. year.

Response for two marks (i.e. comment on one financial year):

In 2018 fin. year, C&CE increased from R5 000 to R410 000 / by R405 000

OR

In 2017 fin. year, overdraft of R609 000 decreased to R130 000 / by R479 000

OR

In 2018 fin. year, overdraft of R130 000 was eliminated, C&CE improved to positive R410 000 / by R540 000.

4.3.2 Identify THREE decisions that the directors made to pay for land and buildings.

Points (with figures)

<table>
<thead>
<tr>
<th>Decision 1 (with figures)</th>
<th>✔Issued shares (rights issue): R4m ✔</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision 2 (with figures)</td>
<td>✔Sale of fixed assets R305 000 see 4.2.3</td>
</tr>
<tr>
<td>Decision 3 (with figures)</td>
<td>✔Cash generated from operations; part of R1,85m ✔ / increase of R804 000</td>
</tr>
</tbody>
</table>

Any other valid point e.g.

- Items that may influence cash generated from operations R3,32m
- Increase in sales R5,4m / due to lower mark-up 72% to 58%
- Tax not paid R74 000
- Better collection from debtors (820 000 – 365 000)

Explain how these decisions affected the capital employed in the 2018 financial year. Quote figures. Any ONE of: Must quote appropriate figures ✔ ✔

- TCE increased by R4,171m / from R9,791m to R13,962m / by 29.9 42.6%
- OSHE increased by R4,921m / by 68,4% / OSC increased by R4m /
- Loan decreased by R750 000

Explain how these decisions affected the financial gearing in the 2018 financial year. Quote TWO financial indicators and their figures. part-mark if figure wrong

TWO relevant financial indicators ✔ ✔ figures and trend ✔ ✔

- Debt/equity ratio improved (decreased) from 0.4: 1 to 0.2:1
- ROTCE improved (increased) from 17,8% to 20,8% (while interest rate is 12%)

4.3.3 From the Cash Flow Statement identify ONE decision made by the directors in 2017 that they did NOT make in 2018, besides the points mentioned above. Give a possible reason for the decision in 2017.

<table>
<thead>
<tr>
<th>Any one decision ✔ (with figures) ✔</th>
<th>Possible reason ✔</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repurchase of shares, R1m</td>
<td>Satisfy shareholders / improve certain financial indicators; EPS; DPS; NAV</td>
</tr>
<tr>
<td>Issued no shares (i.e. Nil)</td>
<td>Maintain ROSHE or EPS or DPS; economic ROSHE not conducive to expansion in previous year</td>
</tr>
<tr>
<td>Increased the loan by R600 000</td>
<td>Because they did not issue shares</td>
</tr>
</tbody>
</table>
4.4 DIVIDENDS, RETURNS AND SHAREHOLDING

4.4.1 Calculate: Total interim dividends paid for the 2018 financial year

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔️ ✔️ 520 000 – 280 000</td>
<td>R240 000 one part correct</td>
</tr>
</tbody>
</table>

Calculate: Interim dividends per share for the 2018 financial year

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>see above 240 000 ✔️ x 100</td>
<td>30 cents ✔️ one part correct accept 30 or R0.30</td>
</tr>
</tbody>
</table>

4.4.2 Calculate total dividends earned by Dudu Mkhize for the 2018 financial year.

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>see 4.4.1 (380 000 x 0.3) + (490 000 x 0.75) 114 000 two marks 367 500 two marks</td>
<td>481 500 ✔️ one part correct</td>
</tr>
</tbody>
</table>

4.4.3 Calculate the minimum number of additional shares that Dudu should have bought.

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔️ ✔️ ✔️ 500 000 – 490 000 +1 or +2 or + 100 or 51% 1 000 000 shares x 50% Dudu’s shares OR: 500 001 – 490 000</td>
<td>10 001 or 10 002 OR 10 100 OR 20 000 ✔️ one part correct</td>
</tr>
</tbody>
</table>

OR: Accept all figures above in addition to the 110 000 already bought, 500 000 – 380 000 +1 or +2 or + 100 or 51% = 120 001 120 002 120 100 130 000

Response for one mark: She could have bought 152 000 shares (i.e. 380 000 x \( \frac{2}{5} \))
4.5.1 Explain why it was necessary to purchase properties in other provinces instead of in KZN.

- Any valid explanation e.g. Part-marks for unclear / incomplete answers
- To increase their target market / to increase sales / to generate new customers / to expand to areas where there is lots of money / because they exhausted the market in KZN / too much competition in KZN / low profits in KZN / to diversify their business operations (e.g. rental income) / because of better value for money in other provinces

4.5.2 Give advice on what Ben Palo should say about the following topics:

**Advice on what to say on earnings per share:**
- Explanation/trend ✓ Figures ✓ ✓
- EPS increased by 60% / from 130c to 208c / by 78c (compared to R28 or R12,11)

**Advice on what to say on % return earned:**
- Explanation/trend ✓ Figures ✓ ✓
- ROSHE (is above returns on alternative investments) increased from 14,4% to 19,8% / 26,5% / 15,8% see 4.1.3

**Advice on what to say on share price on the JSE:**
- Explanation/trend ✓ Figures ✓ ✓
- Market price increased R21,00 → R28,00
- Exceeds NAV R8,99 → R12,11

### TOTAL MARKS

70
QUESTION 5

5.1

5.1.1 C / FIFO
5.1.2 E / Specific Identification
5.1.3 A / Straight line
5.1.4 D / Diminishing balance

5.2 PACKER’S SUITCASE SHOP

5.2.1 Calculate the value of the closing stock on 30 June 2018 using the first-in-first-out method.

\[ \text{Value} = \text{Cost} \times \text{Units} \]

\[ 425 \times R\text{3 040} - 1368 000 - 76 000 = R1 292 000 \]

\[ 496 - 425 \text{ or units above} \]

\[ R1 500 030 \]

5.2.2 Charles suspects that suitcases have been stolen. Provide a calculation to support his concern.

Choose the line which best benefits the candidates.

\[ (3 155 - 25) \]

\[ 420 + 3 130 - 3 050 - 496 = 4 \text{ units} \]

\[ \text{one part correct} \]

5.2.3 Charles is concerned about the volume of stock on hand.

Calculate for how long his closing stock is expected to last.

\[ \frac{1 500 030 \times 365 \text{ (or 12)}}{913 500 + 8 384 850 - 1 500 030} \]

\[ 9 298 350 \text{ two marks / 7 798 320 three marks} \]

\[ = 70,2 \text{ days} \]

\[ \text{one part correct} \]

OR: 2,3 months

OR: IF UNITS ARE USED:

\[ 496 \times 12 = 1,95 \text{ months} \]

\[ 3 050 \text{ two marks} \]

ONE problem with keeping too much stock on hand: PART-mark for partial answer

Can become obsolete and therefore useless to customers.

Staff may see less movement in stock and decide to steal.

Cost of storage / lack of storage space.

ONE problem with keeping insufficient stock on hand: PART-mark for partial answer

Will not meet the needs of consumers – they may go elsewhere to buy.

Loss of income from sales.
### 5.3 MINDEW LIMITED

#### 5.3.1 WORKINGS

<table>
<thead>
<tr>
<th></th>
<th>WORKINGS</th>
<th>ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>(610 000 \checkmark)</td>
<td></td>
</tr>
<tr>
<td>(ii)</td>
<td>(13 000 - 3)</td>
<td>(12 997 \checkmark)</td>
</tr>
<tr>
<td>(iii)</td>
<td>New: (172 500 \times 10% \times 4/12 = 5 750 \checkmark) Old: (1 250 000 \times 10% = 125 000 \checkmark)</td>
<td>(130 750 \checkmark)</td>
</tr>
<tr>
<td>(iv)</td>
<td>(176 000 - (128 000 + 5 600 \checkmark))</td>
<td>(42 400 \checkmark)</td>
</tr>
<tr>
<td>(v)</td>
<td>(800 000 + 256 000 - 133 600 \checkmark)</td>
<td>(922 400 \checkmark)</td>
</tr>
</tbody>
</table>

#### 5.3.2 Explain how the internal auditor should check that movable fixed assets were not stolen.

**Any ONE point \(\checkmark\)**

- Conduct physical inspection (regular and random)
- Compare to fixed asset register

**Part-marks for unclear / incomplete answers**

- 2 marks

#### 5.3.3 As an independent auditor, what advice would you give? Provide ONE point.

**ONE valid point \(\checkmark\)**

- GAAP prescribes the historical (original) cost principle when recording assets and only recognising profits and/or losses on disposal (i.e. prudence).
- IFRS provides for revaluation (fair value) provided that this estimate can be measured reliably (evidence).
- Essentially, financial statements must not be overstated to create a false impression on profitability.
- There could be tax implications.

**Part-marks for unclear / incomplete answers**

- 2 marks

**TOTAL MARKS**

- 45 marks
QUESTION 6

6.1 Debtors' Collection Schedule for October 2018.

<table>
<thead>
<tr>
<th>MONTHS</th>
<th>CREDIT SALES</th>
<th>SEP. 2018</th>
<th>OCT. 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>369 600</td>
<td>81 312</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>384 400</td>
<td>211 420</td>
<td>84 568</td>
</tr>
<tr>
<td>September</td>
<td>403 200</td>
<td>76 608</td>
<td>221 760</td>
</tr>
<tr>
<td>October</td>
<td>420 000</td>
<td></td>
<td>79 800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>369 340</strong></td>
<td><strong>386 128</strong></td>
<td></td>
</tr>
</tbody>
</table>

6.2 Calculate:

(i) Cash sales for September

403 200 ✓ x 60/40 ✓ = 604 800 ✓ one part correct

Or 1 008 000 – 403 200 = 604 800 Or 1 008 000 x 60% = 604 800

(ii) Rent income for October

25 600 x 109% = 27 904 ✓ one part correct; must increase
25 600 + 2 304 = 27 904

(iii) Payments to creditors in October

1 008 000 x \( \frac{100}{175} \) x 50% = 288 000 ✓ one part correct

6.3 Calculate the % increase in salaries of sales assistants for October 2018.

\[
\frac{102 102 - 92 400}{92 400} \times 100 = 10,5\% \\
9 702 ✓ \times 100 = 10,5\% ✓ one part correct
\]

Explain whether the sales assistants should be satisfied with this increase.

Explanation ✓✓

They should be satisfied as a 10,5% increase is a fair increase which is above the current inflation rate.

OR

They may be dissatisfied when compared to the 25% increase to salaries of manager.
6.4 Refer to Information E:

6.4.1 Explain the effect of the new competitor on any TWO items in the budget for September. Provide figures.

TWO valid points ✓ ✓ figures ✓ ✓

- Total sales decreased from R1 008 000 to R840 000 (by R168 000).
- 40 fewer air-conditioners were sold.
- Cash sales are below budget (R604 800 – R336 000) / increase in credit sales (R504 000 – R403 200).
- Reduced delivery expenses (R67 200) and commission on sale (R25 200) due to poor sales.
- Cash surplus is less than budget (R22 500 compared to R63 000) / cash balance at end is less than expected (R120 500 compared to R161 000).

6.4.2 Identify TWO changes Donald implemented in October in response to the new competitor. Quote figures. Give ONE reason for EACH change.

<table>
<thead>
<tr>
<th>Item (with figures)</th>
<th>Possible reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in cash purchases from the expected R300 000 to R252 000</td>
<td>To improve cash flow</td>
</tr>
<tr>
<td>An increase in credit purchases 1 260 000 x 100/175 x 50% = 360 000 expected Actual: 720 000 – 252 000 = 468 000</td>
<td>To ensure supplies for increased sales.</td>
</tr>
<tr>
<td>Increased delivery from R67 200 to R138 240 / decided to overspend on delivery budget by R58 240</td>
<td>Offer of free delivery to increase sales volume</td>
</tr>
<tr>
<td>Wider target market; more units sold</td>
<td></td>
</tr>
<tr>
<td>More commission from R25 200 to R46 080 / overspent on commission by R14 560</td>
<td>To motivate sales staff to sell more products</td>
</tr>
<tr>
<td>Credit sales increased from R504 000 to R882 000.</td>
<td>Sold on credit to increase number of customers.</td>
</tr>
</tbody>
</table>

Do not accept advertising (no change)

6.4.3 Explain why Donald feels that his decisions were successful. Provide TWO points (with figures).

TWO valid points (with figures) ✓ ✓ ✓ ✓ Be aware of two points within one explanation

- Sales of air-conditioners exceeded budget by 50 units (300 – 250)
- Units sold increased from 200 to 300 / by 100 / by 50%
- Sales were R210 000 over budget (R1 050 000 compared to actual R1 260 000 / by 20%
- Total sales increased from R840 000 to R1 260 000 / by R420 000 / by 50%
- Increase in credit sales from the expected R420 000 to R882 000 / by R462 000 / by 110%
- Advertising did not increase (remained at R10 000) yet sales increased.

TOTAL MARKS

35

TOTAL: 300