



# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

NOVEMBER 2012

MEMORANDUM

**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 foreign item penalty for misplaced item). No double penalty applied.
2. Full marks for correct answer. If answer incorrect, mark the workings provided.
3. 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).
4. 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.
5. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
6. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
7. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
9. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
10. Codes: f=foreign item; p=placement/presentation.

**This memorandum consists of 20 pages.**

**QUESTION 1**

1.1

**Indicate whether the statements are TRUE or FALSE.**

1.1.1	False	✓✓
1.1.2	True	✓✓
1.1.3	False	✓✓
1.1.4	False	✓✓
1.1.5	True	✓✓

10

1.2.1

**Calculate the total value of the opening stock (A).**

$$600 \checkmark \times R85 \checkmark = R51\,000 \checkmark \quad \text{operation one part correct:}$$

3

1.2.2

**Calculate the value of the tiles received on 25 April 2012 (B).**

$$960 \checkmark \times R120 \checkmark + R5\,760 \checkmark = R120\,960 \checkmark \quad \text{operation one part correct}$$

$$R115\,200 \quad (2 \text{ marks})$$

4

1.2.3

**Calculate the value of closing stock using the weighted average method.**

$$\text{see 1.2.1} \quad \text{if } 1.2.2 + 94\,500 + 119\,700 \text{ inspect reasonable}$$

$$\frac{51\,000 \checkmark + 335\,160 \checkmark - 12\,000 \checkmark \text{ (or } 12\,600 \checkmark)}{3\,660 \checkmark} \times 1\,150 \checkmark$$

$$= \frac{374\,160 \text{ (or } 373\,560)}{3\,660} \times 1\,150$$

$$= R117\,563,93 \checkmark \quad \text{operation one part correct or } R117\,563,92 \text{ or } R117\,564$$

OR

$$R102,23 \times 1\,150 = R117\,564,50 \text{ or } R117\,565$$

$$R102,07 \times 1\,150 = R117\,380,50 \text{ or } R117\,380 \text{ or } R117\,381$$

(4 marks) (1 mark) (1 method mark)

6

**1.3.1 Calculate the amount owed to SARS for VAT.**

operation one part correct

✓            ✓            ✓✓            ✓            ✓✓            ✓           

$$70\ 000 - 114\ 800 + 8\ 400 - 5\ 600 - 1\ 750 + 2\ 100 = R41\ 650$$

**OR:** mark one line only

$$-70\ 000 + 114\ 800 - 8\ 400 + 5\ 600 + 1\ 750 - 2\ 100 = R41\ 650$$

**OR: Input/Output calculation**

$$\begin{aligned} \text{VAT OUTPUT} &= 114\ 800 - 8\ 400 + 1\ 750 - 2\ 100 = R106\ 050 \\ \text{VAT INPUT} &= 70\ 000 - 5\ 600 = \underline{R\ 64\ 400} \\ & \qquad \qquad \qquad \underline{R\ 41\ 650} \end{aligned}$$

**OR: Input/Output calculation**

$$\begin{aligned} \text{VAT OUTPUT} &= 114\ 800 + 1\ 750 + 5\ 600 = R122\ 150 \\ \text{VAT INPUT} &= 70\ 000 + 8\ 400 + 2\ 100 = \underline{R\ 80\ 500} \\ & \qquad \qquad \qquad \underline{R\ 41\ 650} \end{aligned}$$

**OR: VAT CONTROL**

8 400	114 800
2 100	1 750
70 000	5 600
<b>41 650</b>	

9

**1.3.2 What should John Smith do about this? Explain.**

Any valid explanation ✓✓✓  
 Excellent = 3 marks; good = 2 marks; satisfactory = 1 mark; incorrect = 0 marks

Response for three marks must mention the action (inform Amy and instruct her to cancel the entry) **and** must explain the reason (tax evasion / unethical / illegal). Award part-marks for partial answers.

Examples of responses:

- He should inform Amy that tax evasion is illegal, she should not have authorised this transaction. He must insist that the entry for R200 000 must be cancelled and the correct amount owed to SARS must be paid. (3 marks)
- He should warn Amy about what she is authorising because this is unethical/illegal and the entry must be cancelled. (3 marks)
- He must inform Amy or the bookkeeper that the VAT form must be correctly filled in, and this fraudulent entry must not be reflected. (3 marks)
- He must insist that the entry is cancelled because tax evasion is illegal. (3 marks)
- He must insist that this is corrected because he has a CA qualification and has to comply with a code of conduct. (2 marks)
- He must insist that this is corrected. (1 mark)
- This is fraudulent because the amount paid to SARS will be incorrect/understated (1 mark)
- The internal controls in the business are being circumvented by someone working in the business or by the owner (1 mark)
- Tax evasion is illegal / Manipulation of input tax (1 mark)
- Internal controls are defective (1 mark)
- This is unethical (1 mark)

3

<b>TOTAL MARKS</b>
<b>35</b>

**QUESTION 2**

2.1

**Complete the following sentences in your own words:**

Any valid explanation in each case ✓✓ ✓✓

One mark for mentioning internal control without any further explanation.

Two marks for explaining internal control measures (need not mention the words 'internal control').

**It is important to prepare a Bank Reconciliation Statement each month because** it is an important part of internal control which enables a business to check its bank balance to a document (the bank statement) received from the bank / to correct errors & omissions / identify outstanding cheques & deposits / detect fraud.

**It is important to prepare a Debtors' Age Analysis each month because** it is an important part of internal control which enables a business to identify debtors who are not complying with the credit terms / to ensure credit policies are followed / decide on action to be taken against certain debtors.

4

2.2.1

**Which GAAP principle will the bookkeeper apply when writing off the amount of R40 000? Briefly explain this principle.**

Principle of prudence ✓

part-marks for partial answer

Explanation (must show understanding of prudence): ✓✓

Possible responses for 2 marks:

- To treat transactions conservatively
- There is no guarantee that the money will be recovered and therefore it is treated as if it will not be recovered
- To make provision for possible losses in future.

3

**The bookkeeper wants to prevent a problem such as this in future? Give TWO solutions to improve internal control in this regard.**

Two separate points ✓✓ ✓✓ part-marks for partial answers

Possible responses for 2 marks:

- Division of duties
- Rotation of duties / employees to take leave
- Divide duties amongst employees so that the one can act as a check on the other
- Responsible staff members to check / make the deposits
- The person issuing receipts should not be the same person doing the deposits
- Regular and timely checks / monitor all large transactions
- Outstanding deposits must be investigated promptly
- Encourage EFT payments by customers / debtors
- Ask bank to send confirmation of deposits (e.g. sms)
- All cash received must be deposited daily (deposit slip must agree to receipts)
- Take strong disciplinary action over culprits (e.g. dismissal).

Do not accept preparation of bank reconciliation as a solution in this case.

Do not accept security cameras.

4

2.2.2

<b>BANK RECONCILIATION STATEMENT ON 31 MAY 2012</b>		
If 2-column method is used, assign appropriate headings to assist marking		
	Debit	Credit
✓ Balance as per <u>bank statement</u>	✓ 19 310	
✓ Outstanding cheques:		
▪ 967	✓ 4 790	
▪ 1122	✓ 4 650	
▪ 1129	✓ 8 540	
✓ Outstanding deposit		✓ 11 550
✓ Correction of error / wrongly entered		✓✓ 960
✓ Balance as per <u>bank account</u>	operation – balancing figure; debit or credit	<input checked="" type="checkbox"/> 24 780
	<b>37 290</b>	<b>37 290</b>

-1 for foreign items (max -2) e.g. R40 000, R2 340, R1 850, R920.  
Inspect operation to award marks

Balance as per Bank Statement	(19 310)
Outstanding cheques:	
▪ 967	(4 790)
▪ 1122	(4 650)
▪ 1129	(8 540)
Outstanding deposit	11 550
Correction of error	960
Balance as per bank account	(24 780)

<b>13</b>

2.3

	<b>Identification of TWO different problems, with evidence from the question</b>	<b>Internal control measure to correct each problem</b>
<b>Problem 1</b>	Identify problem (credit limits) ✓ Mention evidence ✓ <b>Figures not necessary in this case</b> <i>Problem:</i> Certain debtors are exceeding their credit limits <i>Evidence:</i> Fakude (exceeds by R700) or Martin (exceeds by R504).	Any valid advice ✓  Do not sell on credit to debtors who are likely to exceed their limits / ensure that they settle previous month's debt before buying on credit
<b>Problem 2</b>	Identify problem (credit periods) ✓ Mention evidence ✓ <b>Figures not necessary in this case</b> <i>Problem:</i> Most of the debtors are paying over periods longer than 30 days <i>Evidence:</i> 61% or R6 400 are taking longer / 39% within 30 days / Fakude & Howard exceed 60 days	Any valid advice ✓  Charge interest on overdue accounts/offer discounts for early payment/consider legal action against problem debtors

<b>6</b>

<b>TOTAL MARKS</b>
<b>30</b>

**QUESTION 3****3.1.1 CAPE CHOCOLATES – NOTE TO THE PRODUCTION COST STATEMENT FOR THE YEAR ENDED 30 JUNE 2012  
FACTORY OVERHEAD COST**

Factory indirect material <b>mark one row only</b> 80% ✓ x (7 200 ✓ + 56 000 ✓ – 7 500 ✓) 80% (1 mark) x 55 700 (3 marks) 5 760 (1 mark) + 44 800 (2 marks) – 6 000 (1 mark) <b>operation one part correct</b>	✓	44 560
Factory rent	✓	68 500
Factory maintenance (46 700 ✓ + 1 300 ✓) <b>operation one part correct</b>	✓	48 000
Water and electricity <b>two marks or nil</b>	✓✓	56 000
Depreciation / machinery <b>one mark or nil</b>	✓	12 800
Sundry expenses <b>two marks or nil</b>	✓✓	12 000
Wages of cleaner <b>one mark or nil</b>	✓	*23 000
Indirect salary (89 050 ✓ – 6 500 ✓ – 650 ✓) <b>operation one part correct</b>	✓	*81 900
* Could be combined as R104 900		
<b>Total factory overhead cost</b> <b>operation one part correct</b>	✓	346 760

- 1 foreign entries to a maximum of -2 in the case of additional entries added into the note  
e.g. R23 500, R9 500, R130 000

20

**3.1.2 CAPE CHOCOLATES – PRODUCTION COST STATEMENT FOR THE YEAR ENDED 30 JUNE 2012**

Mark for details applied if placement correct

✓ Direct/Raw materials cost <b>be aware of permutations</b> (18 000 ✓ + 650 000 ✓ + 12 300 ✓ – 35 000 ✓ – 20 000 ✓) 615 000 (2 marks) 662 300 (2 marks) 627 300 (3 marks)	✓	625 300 <b>one part correct</b>
✓ Direct labour cost (192 000 ✓ + 54 000 ✓) (3x 1600 x 40) + (900 x 60)	✓	246 000 <b>one part correct</b>
<b>Prime cost</b> <b>operation adding</b>	✓	871 300
✓ <u>Factory overhead</u> cost <b>see 3.1.1</b>	✓	346 760
<b>Total cost of production</b> <b>accept 1212 000 / operation</b>	✓	1 218 060
<b>Work-in-process on 1 July 2011</b>		<b>35 000</b>
		1 253 060
<b>Work-in-process on 30 June 2012</b> <b>check operation – work back from COP of FG</b> <b>This figure must work out to be a negative figure - check</b>	✓	(41 060)
<b>Cost of production of finished goods</b>		<b>1 212 000</b>

- 1 foreign entries to a maximum of -2 in the case of additional entries added in to the PCS

16

3.2.1

**Mark sections independently**

	<b>Blankets</b>	<b>Towels</b>
<b>Which production cost caused the biggest problem?</b>	Direct labour cost ✓	Direct material cost ✓
<b>Explanation and figures to support your opinion</b>	Increased by R10 (from R65 to R75; or 15%) ✓	Increased by R7 (from R20 to R27; or 35%) ✓
<b>Possible solution for Benny</b>	Train workers to work more efficiently / Work less overtime / Control working hours / Limit increases to inflation rate / Increase mechanisation / Pay according to productivity ✓	Secure a cheaper supplier / Ensure that workers do not waste raw materials / Improve security over DM ✓

6

3.2.2

**Benny does not know how to calculate the break-even point. Give the workings to prove that the 2012 break-even point of 12 298 units for blankets is in fact correct.**

$$\frac{R3\ 800\ 000}{(R430 - R121)} = \frac{R3\ 800\ 000}{R309} = 12\ 298 \text{ units}$$

OR

$$\begin{array}{ccccccc} \text{(one mark)} & & \text{(one mark)} & & \text{(one mark)} & & \text{(one mark)} \\ 5\ 288\ 140 & - & 1\ 488\ 058 & - & R3\ 800\ 000 & = & 82/0 \text{ (rounding off)} \\ (12\ 298 \times R430) & - & (12\ 298 \times R121) & - & R3\ 800\ 000 & = & 82/0 \text{ (rounding off)} \end{array}$$

4

3.2.3

**Refer to the number of blankets produced and sold in 2012, and the break-even point for blankets. Explain why these figures should be of concern to Benny. Quote figures to support your answer.**

Explanation on decline of number of units produced and sold ✓

Quoting of figures ✓

Explanation on increase in BEP ✓

Quoting of figures ✓

Expected responses for 4 marks (award part-marks for partial answers):

- They produced 3 702 units above the BEP. He is concerned because it is only 30% above the BEP.
- The number of blankets produced and sold has decreased by 9 000 units (from 25 000 to 16 000). The BEP has increased by 2 579 units (from 9 719 to 12 298).
- In 2011 15 281 units contributed to the profit (61%) in comparison to 2012 when only 3 702 units contributed to the profit (23%).
- This is of concern because he earns less profit on fewer units (probably because he is charging more than his competitors). The BEP is now 26% higher than it was; which means that he has to produce 26% more units before he starts making a profit.

4

**3.2.4 Which product should Benny increase in price by R15,00?**

Towels ✓

**Explain and quote figures to support your answer.**

Explanation ✓

Quoting of figures ✓

Expected responses for 2 marks:

- If he increases the price of towels to R125 it is still lower than the price of R130 charged by his major competitor (still R5 lower than competitor).
- He cannot increase the price of blankets because his price of R430 is already higher than the R410 charged by his major competitor (already R20 more).

**In this case, estimate how much extra net profit he could earn next year assuming that his level of production and sales will remain unchanged. Give a calculation to support your answer.**

80 000 x R15 = R1,2 m ✓✓

(1 mark if no calculation & answer is between R1m & R1,4m)

Could carry error through from above (e.g. focus on blankets approx R240 000)

5

TOTAL MARKS
55



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**QUESTION 4**

**4.1 Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–D) next to the question number (4.1.1–4.1.4).**

4.1.1	C	✓✓
4.1.2	A	✓✓
4.1.3	D	✓✓
4.1.4	B	✓✓

8
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**4.2 MASTER LIMITED****4.2.1 NOTE TO THE BALANCE SHEET ON 30 JUNE 2012**

<b>FIXED/TANGIBLE ASSETS</b>	<b>Land and Buildings</b>	<b>Equipment</b>	<b>Vehicles</b>
<b>Carrying value – 1 July 2011</b>	<b>930 000</b>	<b>220 000</b>	<b>519 200</b>
<b>Cost</b>	<b>930 000</b>	<b>561 000</b>	<b>814 000</b>
<b>Accumulated depreciation</b>	<b>0</b>	<b>(341 000)</b>	<b>(294 800)</b>
<b>Movements</b>			
Additions at cost	✓✓ 650 000	✓✓ 55 000	<b>0</b>
Disposal at carrying value (165 000 ✓ - 66 000 ✓ - 14 850 ✓) 80 850	<b>0</b>	<b>0</b>	<input checked="" type="checkbox"/> ( 84 150) operation one part correct
Depreciation (E: 2 750 ✓ + 56 100 ✓)	<b>0</b>	( <input checked="" type="checkbox"/> 58 850) operation one part correct	<b>(98 890)</b>
		Inspect reasonable	Inspect reasonable
<b>Carrying value – 30 June 2012</b>	<b>1 580 000</b>	<input checked="" type="checkbox"/> 216 150	<input checked="" type="checkbox"/> 336 160
<b>Cost</b>	<b>1 580 000</b>	<b>616 000</b>	✓✓ 649 000
<b>Accumulated depreciation</b>	<b>0</b>	<input checked="" type="checkbox"/> (399 850) Inspect reasonable	<input checked="" type="checkbox"/> (312 840) Inspect reasonable

17
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**4.2.2 Calculate the Retained Income on 30 June 2012. (You may prepare an Appropriation Account if you wish.)**

392 000 (2 marks)
345 000 (3 marks)

$39\ 000 \checkmark + 560\ 000 \text{ (or } 496\ 640 \checkmark) - 168\ 000 \checkmark - 126\ 000 \checkmark \checkmark - 219\ 000 \checkmark$   
 $= R86\ 000 \text{ or } R22\ 640 \checkmark$  operation one part correct  
 Mark one line only  
 OR  
 $- 39\ 000 - 560\ 000 \text{ (or } 496\ 640) + 168\ 000 + 126\ 000 + 219\ 000$   
 $= R86\ 000 \text{ or } R22\ 640 \checkmark$  operation one part correct  
 OR

**Appropriation Account**

168 000	560 000
126 000	(or 496 640)
345 000 219 000	39 000
<b>86 000 or 22 640</b>	

7
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## 4.2.3 MASTER LIMITED – BALANCE SHEET ON 30 JUNE 2012

<b>ASSETS</b>			
<b>Non-current assets</b>	operation if one part correct		<input checked="" type="checkbox"/> 2 237 310
<b>Fixed/Tangible assets</b>	see 4.2.1		<input checked="" type="checkbox"/> 2 132 310
✓ <u>Fixed deposits</u> : Sahara Bank (203 000 – 98 000)		5	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 105 000
			no part marks
<b>Current Assets</b>	operation if one part correct		<input checked="" type="checkbox"/> 358 090
<b>Inventories</b> (118 000 ✓ + 4 000 ✓)	operation one part correct		<input checked="" type="checkbox"/> 122 000
✓ Trade and other receivables / debtors 7 000 (2 marks) (68 000 ✓ – 1 450 ✓ + 175 000 ✓ – 168 000 ✓)	operation one part correct		<input checked="" type="checkbox"/> 73 550
✓ Cash and cash equivalents (98 000 ✓ + 61 340 ✓ + 3 200 ✓)	operation one part correct		<input checked="" type="checkbox"/> 162 540
<b>TOTAL ASSETS</b>	operation	16	<input checked="" type="checkbox"/> 2 595 400
<b>EQUITY AND LIABILITIES</b>			
<b>Ordinary shareholders' equity</b>	operation if one part correct		<input checked="" type="checkbox"/> 1 911 000
<b>Ordinary share capital</b>			<input checked="" type="checkbox"/> 1 825 000
<b>Retained income</b>	see 4.2.2	3	<input checked="" type="checkbox"/> 86 000 OR 22 640
<b>Non-current liabilities</b>			316 800
✓ Mortgage <u>loan</u> from Khaya Bank (306 240 ✓ + 63 360 ✓ – 52 800 ✓)	operation one part correct	5	<input checked="" type="checkbox"/> 316 800
<b>Current liabilities</b>	operation if one part correct		<input checked="" type="checkbox"/> 367 600
✓ Trade and other payables / creditors (77 500 ✓ + 18 300 ✓ + 219 000 ✓)	operation one part correct		<input checked="" type="checkbox"/> *314 800
✓ Short term portion of <u>loan</u>	see NCL above		<input checked="" type="checkbox"/> *52 800
			*Could be combined for 2 method marks as part of as R367 600
<b>TOTAL EQUITY AND LIABILITIES</b>	operation	9	<input checked="" type="checkbox"/> 2 595 400

38

TOTAL MARKS

70

**QUESTION 5****5.1 Write down the missing word in each case**

<b>5.1.1</b>	Solvent	✓✓
<b>5.1.2</b>	Risk/gearing	✓✓
<b>5.1.3</b>	Profitable	✓✓
<b>5.1.4</b>	Return	✓✓
<b>5.1.5</b>	Liquid	✓✓

10

**5.2.1 Calculate the acid-test ratio.**

$$\begin{aligned} & 80\,000 \text{ (2 marks)} \\ (190\,000 \checkmark - 110\,000 \checkmark) : 120\,000 \checkmark \\ = 0,7 : 1 \checkmark \text{ operation if one part correct} \end{aligned}$$

4

**5.2.2 Calculate the earnings per share (in cents).**

$$\begin{aligned} & \frac{330\,000 \checkmark}{180\,000 \checkmark \checkmark} \times \frac{100}{1} \\ = 183,3 \text{ cents } \checkmark \text{ operation if one part correct} \end{aligned}$$

4

**5.2.3 Calculate the net asset value per share (in cents).**

$$\begin{aligned} & \frac{1\,445\,000 \checkmark}{180\,000 \checkmark} \times \frac{100}{1} \\ & \text{see 5.2.2} \\ = 802,8 \text{ cents } \checkmark \text{ operation if one part correct} \end{aligned}$$

3

**5.2.4 Calculate the percentage return on average shareholders' equity.**

$$\frac{330\,000 \checkmark}{\frac{1}{2} \checkmark (1\,445\,000 \checkmark + 1\,133\,000 \checkmark)} \times \frac{100}{1}$$

2 578 000 (2 marks)

$$= \frac{330\,000}{1\,289\,000} \times \frac{100}{1}$$

$$= 25,6\% \checkmark \quad \text{operation if one part correct}$$

5

**5.2.5 Calculate the figures that will appear in the Cash Flow Statement for:****Repayment of loans**

$$630\,000 - 500\,000 = 130\,000 \checkmark \checkmark \quad \text{no part marks}$$

$$- 630\,000 + 500\,000 = -130\,000$$

2

**Proceeds of issue of ordinary shares**

$$160\,000 \checkmark + 56\,000 \checkmark = 216\,000 \checkmark \checkmark \quad \text{operation if one part correct}$$

$$\text{OR } 1\,088\,000 - 872\,000 = 216\,000$$

$$\text{OR } 1\,445\,000 - 1\,133\,000 - 357\,000 + 261\,000 = 216\,000$$

312 000 (1 mark)                      - 96 000 (1 mark)

4

**Fixed assets purchased (note that fixed assets with a book value of R105 000 were sold at carrying value).**

$$1\,667\,000 \checkmark + 40\,000 \checkmark + 105\,000 \checkmark - 1\,620\,000 \checkmark = 192\,000 \checkmark$$

operation if one part correct

**OR** use one line only

$$1\,620\,000 - 40\,000 - 105\,000 - 1\,667\,000 = -192\,000$$

**OR**

Start	1 620 000
Buy	<b>192 000</b>
Sell	(105 000)
Depr	<u>(40 000)</u>
End	<u>1 667 000</u>

**OR**

1 620 000	105 000
<b>192 000</b>	40 000
	1 667 000

5

## 5.3.1

**James is of the opinion that Pomi Ltd is handling its working capital more effectively and is in a better liquidity situation than Kwela Ltd. Explain and quote THREE financial indicators to support his opinion.**

Financial indicator	✓	✓	✓
Quoting of figures	✓	✓	✓
Explanation	✓	✓	✓

A combined explanation may be provided; figures must be provided but not necessarily for both companies; candidates cannot get full marks if superfluous indicators are used; If candidates provide additional irrelevant indicators, search for the correct ones in the answer provided by the candidate and award marks accordingly. For those who provide more than three options, penalty of -1 for an irrelevant indicator (max -2).

- Current ratio of Pomi Ltd is 1,5 : 1 and of Kwela Ltd is 6:1 (Kwela Ltd's ratio is 4 times bigger). Pomi has enough current assets to cover his current liabilities whereas Kwela Ltd is holding too much of his funds in the form of current assets which do not result in a return for the business.
- Acid test ratio of Pomi Ltd is 0,9 : 1 and of Kwela Ltd is 2,8 : 1. (Kwela Ltd's ratio is 3 times bigger). Even if Pomi is not able to sell all of his trading stock he should still be able to cover his short term debt. Kwela Ltd is holding much of his current assets in the form of trading stock (stock piling).
- Period for which enough stock is on hand for Pomi Ltd is 88 days and for Kwela Ltd is 150 days (almost 6 months). Pomi Ltd has enough stock for 3 months which is appropriate for a company selling running shoes as styles of shoes normally change seasonally. Kwela Ltd is holding stock for too long, styles will change and clients will not be interested in buying outdated styles resulting in obsolete stock.
- Debtors average collection period of Pomi Ltd is 25 days which is within the normal/acceptable credit terms and is much lower than the 53 days of Kwela Ltd.

9
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## 5.3.2

**Which company is making more use of loans? Quote a financial indicator for each company.**

Pomi Ltd ✓  
Debt / equity ratio 2 : 1 ✓ for Pomi Ltd and 0,3 : 1 ✓ for Kwela Ltd

**Explain whether or not it was a good idea for that company to make use of loans. Quote ONE financial indicator.**

No ✓  
Return on Capital Employed for Pomi is 13,6% ✓ which means that the return they are earning is lower than the interest he is paying on the loan (negative gearing) ✓

6
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**5.3.3 Kwela Ltd has a better percentage return, earnings and dividends than Pomi Ltd. Explain and quote THREE financial indicators for each company.**

Figures for Pomi Ltd	✓	✓	✓
Figures for Kwela Ltd	✓	✓	✓
Explanation	✓	✓	✓

Candidates cannot get full marks if superfluous indicators are used. If candidates provide additional irrelevant indicators, search for the correct ones in the answer provided by the candidate and award marks accordingly. For those who provide more than three options, penalty of -1 for an irrelevant indicator (max -2)

Expected responses for 3 marks:

- % ROSHE for Kwela Ltd is much higher (21,3%) than that of Pomi Ltd (11,2%). The shareholders of Kwela Ltd are earning a higher return than they would have on other similar investments whereas the shareholders of Pomi Ltd could possibly earn a higher interest rate on other similar investments.
- EPS for Kwela Ltd is 410 cents whereas Pomi Ltd is only earning 176 cents per share.
- DPS for Kwela Ltd is 240 cents whereas for Pomi it is only 185 cents per share.

Candidates could also combine their comment on EPS and DPS as follows for 6 marks: Kwela Ltd is retaining income (EPS 410 cents, DPS 240 cents) whereas Pomi Ltd is not retaining any income (EPS 176 cents, DPS 185 cents).

Candidates could also comment on EPS as follows for 3 marks: Kwela Ltd's EPS of 410 cents compares well to the NAV of the share of 609 cents; Pomi Ltd's EPS of 176 cents compares unfavourably to the NAV of 939 cents.

Candidates could also comment on DPS as follows for 3 marks: Kwela Ltd's DPS of 240 cents compares well to the NAV of the share of 609 cents; Pomi Ltd's DPS of 185 cents compares unfavourably to the NAV of 939 cents.

9
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**5.3.4 Explain why the existing shareholders of Kwela Ltd are happy with the current market value of their shares. Quote a financial indicator/figures to support your answer.**

Comparing market price and NAV of Kwela Ltd ✓ Figures ✓

Market price of Kwela Ltd is 750 cents which is higher than the NAV of 609 cents OR market price is 141 cents higher than the NAV. Kwela Ltd is thus able to fetch a price higher than the value of the shares in the books of the company.

**Explain why the existing shareholders of Pomi Ltd are very disappointed with the current market value of their shares. Quote a financial indicator/figures to support your answer.**

Comparing market price and NAV of Pomi Ltd ✓ Figures ✓

Market price of Pomi Ltd is 885 cents which is lower than the NAV of 939 cents OR market price is 54 cents lower than the NAV.

4
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## 5.4

**How would these audit reports influence James in deciding in which company to buy shares?****Explanation on the audit report of Kwela Ltd** ✓✓

Good = 2 marks; average = 1 mark; incorrect = 0 marks

Expected responses for 2 marks:

- James will know that he can rely on the figures in the financial statements as the company has received an unqualified audit report
- James will know that he can rely on the figures in the financial statements as there is fair presentation in all material respects
- The report is unqualified – it is a good (i.e. reliable) report.

Expected responses for 1 mark:

- The financial statements fairly present the financial position
- The report is unqualified
- He will be able to rely on the figures
- This will probably have a positive influence on his decision
- He will be comfortable with his decision.

**Explanation on the audit report of Pomi Ltd** ✓✓✓

Good = 3 marks; average = 2 marks; poor = 1 mark; incorrect = 0 marks

Expected responses for 3 marks:

- James will know that he cannot rely on the figures in the financial statements as the company has received an qualified audit report
- James will know that he cannot rely on the figures in the financial statements as they drew attention to shortcomings in the financial statements
- James will be unhappy because the fixed assets had been overvalued in the opinion of the auditors (which means that the true value of his possible investment is not certain as indicated by the net asset value).

Expected responses for 2 mark:

- The report is qualified – it is an unfavourable (i.e. unreliable) report

Expected responses for 1 mark:

- The financial statements do not fairly present the financial position in all respects
- The report is qualified
- He will not be able to rely on the figures
- This will probably have a negative influence on his decision
- He will be uncomfortable with his decision.

5

TOTAL  
MARKS

70



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**QUESTION 6****6.1 Explain why it is important for Jim to prepare a projected Income Statement.**

Valid explanation ✓✓

Good = 2 marks; satisfactory = 1 mark; incorrect = 0 marks

Expected response for 2 marks:

- To reflect the profit or loss the business can expect to make
- It enables him to plan properly and to anticipate any problems which could arise
- So that he can compare budgeted to actual figures in order to take corrective action.

Expected response for 1 mark:

- To see if the business is making a profit or loss
- To reflect projected income and expenditure.

2

**6.2 Calculate percentage increase in sales he expects in December.**

118 000 / 590 000 = 20% ✓✓ no part marks

**Explain why he has budgeted for this increase.**

Explanation ✓✓

Expected response for 2 marks:

- December should be a much busier period because of festive season (Christmas) or summer holidays
- There are more advertisements placed in December than in the other months.
- This is a shop focusing on holiday activities (so they should be busy during these periods)

4

**6.3 Calculate the mark-up percentage he actually achieved in October.**

$$\frac{220\,500}{490\,000} \times \frac{100}{1} = 45\% \quad \text{operation if one part correct}$$
**Explain whether or not it was a good idea to change the mark-up percentage from his original target.**

Yes / No ✓ Explanation ✓✓ part-marks for partial answers

*Explanation for no:*

Even though the actual sales were much more than budgeted, it did not result in a higher gross profit.

*Explanation for yes:*

- Sales increased significantly. (Although the gross profit was apparently the same), the business now has more customers (goodwill) which will benefit them in future.
- If they did not decrease their gross profit margin (from 60%) to 45%, they would not stay competitive and sales could drop and consequently net profit would drop.

6

6.4 Calculate the following figures in the Projected Income Statement:

	Workings	Answer
Rent income for November 2012	$5\,200 \checkmark \times \frac{105 \checkmark}{100}$ (one mark) R260 (one mark) $5\,200 + (5\% \times 5\,200)$	R5 460 <input checked="" type="checkbox"/> operation one part correct
Advertising for December 2012	$880 \checkmark \times 8 \checkmark$ 4 400 (one mark) (one mark) $4\,000 + 400 + 2\,640$	R7 040 <input checked="" type="checkbox"/> operation one part correct
Interest expense for November 2012	$15\% \checkmark \times 950\,000 \checkmark / 12 \checkmark$	R11 875 <input checked="" type="checkbox"/> operation one part correct

10

6.5 Refer to the actual and budgeted figures for October 2012. Identify the THREE overhead expenses that have been poorly controlled by Jim. Quote figures to support your answer.

Identification of THREE items:     
 Identification of figures:

Any three items:

- Maintenance of property is R3 000 over budget (R7 000/R4 000)
- Water and electricity is R4 400 over budget (R5 600/R1 200)
- Trading stock deficit is R4 300 over budget (R12 300/R8 000)

6

What advice would you offer Jim to improve his internal control over these overhead expenses? Explain.

Advice   part-marks for partial answers

Expected responses for 2 marks:

- Jim must inspect the reasons for being over budget (e.g. lack of care over property, water leaks, poor control of stock)
- He must take corrective action for the items that are over budget.
- He must budget more realistically in future.

2

6.6

**Jim is of the opinion that he could benefit financially if he accepts Samuel's offer. State THREE points that would have a positive effect on his Projected Income Statement for January 2013 if he accepts the offer. Give figures or information from the question to support your answer.**

Three separate points ✓ ✓ ✓  
 Figures ✓ ✓ ✓

Expected responses for 2 marks each:

- He will be saving interest on the loan – R10 625 or R11 250 or R11 875 / He will be paying no interest on loan (i.e. 0)
- He will be earning interest on a fixed deposit – 6% of R650 000 (R3 250)
- He will save on maintenance costs – R4 000 or R7 000 / He will incur no maintenance costs (i.e. 0)
- He will save on rates – R1 000 / He will not pay rates (i.e. 0)
- The rent expense is R125 less than the interest on the loan (R10 625 – R10 500)
- He will reflect a profit on sale of the property of R300 000 in the Income Statement.

6

6.7

**Jim is also conscious of the fact that there are negative points if he accepts the offer. State TWO points that Jim should consider before finalising his decision to sell the property. Explain.**

Two valid points ✓✓ ✓✓ figures not necessary in this case

Expected responses for 2 marks:

- He will be losing an asset which appreciates in value over time
- The value of the land and buildings may increase by more than the rent he is paying (R126 000 per year)
- He will be losing rent income (R5 460 per month)
- He will be paying rent (R10 500 per month)
- The rental will increase annually
- It could hamper future development of the business (if he does not own the fixed assets)
- He will not have collateral in the form of property.

4

<b>TOTAL MARKS</b>
40

**TOTAL: 300**