



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2016

ACCOUNTING: PAPER II

MARKING GUIDELINES

Time: 2 hours

100 marks

These marking guidelines are prepared for use by examiners and sub-examiners, all of whom are required to attend a standardisation meeting to ensure that the guidelines are consistently interpreted and applied in the marking of candidates' scripts.

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

QUESTION 1 BUDGETS AND PROBLEM SOLVING (34 marks; 41 minutes)

1.1 Explain, giving **two points**, how a cash budget is used as a management tool.

Management will use it for planning their cash purchases to see what they can afford and in what month to make purchases.

It also alerts them to the need to cut down expenditure or to either take out a loan, invest more capital or apply for an overdraft facility.

Indicate fraud by comparing the actual to the budgeted amounts.

It is used as a form of control to see if their spending and receipts are going according to plan and to make necessary changes in the business. (2)

1.2 Explain why you think they have budgeted for so few hotel guests during December, which is in the middle of the holiday period, **and** yet their budgeted food and beverage sales have increased during the same month.

- Business people are less likely to go on business trips during the holiday/ Christmas period. Some businesses close down during the holiday season so there will be fewer business trips then.
- People are relaxing more – working less – so they are more likely to visit the pub and restaurant then (sold more drinks and meals). They may be hosting more end-of-year parties. People on holiday go out to restaurants more. (2)

1.3 Complete the Creditors Payment Schedule below:

Credit Purchases	2016 DECEMBER	2017 JANUARY
October R60 400	R12 080	–
November R65 200	49 552	13 040
December R82 000	–	62 320
Total payment	61 632	75 360

(3)

1.4 Calculate the numbers designated by the letters A–I. **Please note that you do not have to calculate the amounts with a "?", as there are no marks assigned to these.**

A	95 450
B	128 850
C	465 000
D	697 500
E	231 560
F	423 000
G	456 840 (F + 8%)
H	61 632 – from Question 1.3 (if added correctly)
I	75 360 – from Question 1.3 (if added correctly)

(9)

1.5 Explain **one control** they can implement to make their gym equipment last longer.

- Regularly service the equipment, regular maintenance.
- Have instructions so people do not misuse the equipment.
- Have a staff member around to supervise during busy periods or to pop in at regular intervals.
- Put in cameras to see how guests are using equipment. If equipment is broken, one can view footage to see who it was and charge them for breakages.
- Have an age restriction to who may use the equipment.
- Limit the time spent on the equipment. (2)

1.6 When Paul walked into the gym, he discovered three people using the gym who were not paying guests at the hotel. Explain in detail to Paul **one solution** to this problem.

- When you register at the hotel, you get a card that opens the gym door.
- Make sure access to the gym is not possible from outside the hotel but only through the area where guests are staying.
- Any other practical solution. Any 1 well explained.
- Short-term solution – 1 mark
- May not have a person standing at the gym as a control. (2)

Problem solving:

1.7 The main reason Sandton Sky Hotel is in overdraft by the end of the year is because they have so few bookings in December. Come up with **two alternative solutions** to bring in money over December.

- Give outside gym membership for December only.
- Let people in the neighbourhood use the pool at a price.
- Advertise family Christmas parties or end-of-year business parties in the restaurant.
- Have specials for elderly people who want to come to Gauteng to visit their grandchildren.
- Have specials during December and January for families to stay in the hotel.
- Discount rooms.
- Advertising – only 1 mark unless it has more depth and thought.
Any 2 × (4)

1.8 Paul is adamant about implementing power-saving alternatives over the next five years.

1.8.1 **Calculate the impact** that the three cost-saving initiatives he has researched would have on the electricity expense over the next year should they be implemented.

<p>Savings from LED lights: $780\ 000 \times 20/100 \times 75/100 = 117\ 000$ $156\ 000$</p>
<p>Savings from air-conditioning thermostats: $780\ 000 \times 15/100 \times 30/100 = 35\ 100$ $47\ 000$</p>
<p>Savings from solar geysers: $780\ 000 \times 35/100 = 273\ 000$</p>

(5)

1.8.2 Explain whether you would advise Paul to go ahead with the three cost-saving initiatives. In your explanation you need to show how long it will take for the savings to cover the costs of the initiatives together. You also need to mention one factor **not** linked to the costs.

<p>Calculation:</p> <p>Savings: $117\ 000 + 35\ 100 + 273\ 000 = 425\ 100$</p> <p>Costs: $235\ 000 + 102\ 500 + 640\ 000 = 977\ 500$</p> <p>$977\ 500/425\ 100 = 2,3$ years (2 years and 4 months)</p> <p>Other factor: These initiatives will increase the value of the hotel. The geysers will still have hot water during load-shedding. Low carbon footprint – eco-friendly.</p> <p>Advice: Go for it!</p>

(5)

34 marks

QUESTION 2 RECONCILIATIONS

(30 marks; 35 minutes)

2.1 Why is it important to send a statement of account to a customer every month on the same day of the month?

- So that there is constancy and the debtor knows that you are controlling his purchases and payments.
- So that you can keep track on the age analysis of the debtor.
- So that debtors know how much they owe each month and when their payment is due.

(2)

2.2 After taking Lerato's points into consideration, draw up the corrected age analysis.

Current	30 days	60 days	90 days
R900 – 350 = R550	R3 400 – 510 = R2 890	R2 000 – 1 650 = R350	R1 350 – 1 350 = R0

(4)

2.3 80% of all Longs and Shorts' sales are on credit.

2.3.1 Do you think the owner, Mrs Jones should reconsider allowing debtors 90 days credit?

- She should not change the credit terms because debtors seem to be adhering to them and they might be unhappy about the change and start to buy less if she changes the credit terms.

OR

- She should consider changing the credit terms as her debtors are taking three months to pay back their accounts while Longs and Shorts have to pay creditors in 30 days and this could cause liquidity problems unless they can negotiate better credit terms from creditors.
- Cash flow point – 1 mark. Must link to creditors to get both marks.
- Better cash flow if the debtors payment terms are reduced.

(2)

2.3.2 Looking at both the current and acid-test ratios, do they indicate that Longs and Shorts have the ability to pay off their current debts without experiencing liquidity problems **and** do these ratios represent a good situation for Longs and Shorts to be in?

If the current assets are greater than the current liabilities does not necessarily mean that they are unlikely to have liquidity problems because the current assets might be tied up in stock and debtors and not cash and so Mrs Jones might not be able to pay her creditors, so this could cause liquidity problems.

Looking at the difference between the current and acid test ratio it would seem they do not have too much stock, but could have too many debtors or cash.

They have enough assets to cover short-term debts – 2 marks max.

(4)

2.3.3 Mrs Jones realises that since her terms for the debtors are 90 days, she cannot charge them interest for taking 90 days to pay. Suggest an **alternative** solution to encourage her debtors to pay earlier. This solution may **not** be to give discounts for early payments.

They can run special competitions where prizes or discount vouchers are won for account holders whose accounts are fully paid off. (1)

2.4 Refer to the **bank reconciliation statement and information from the bank statement** to answer the following questions:

2.4.1. There is an incorrect entry in the bank reconciliation statement. State what it is.

Cheque 72 is stale. (2)

2.4.2 Calculate the **corrected bank balance** in the **bank account** of Longs and Shorts on 31 October 2016 **after** taking into account the incorrect entry and additional information. **Also state** whether this is a debit or credit balance in the bank account.

$3\ 130 + 1\ 300 - R2\ 800 - R2\ 500 + 90 + 480 = -R300$ <p>Credit</p>

(7)

2.4.3 Calculate the **balance on the bank statement on 31 October 2016** and state whether it is a negative or positive balance.

$DR\ 15\ 320 + 4\ 870 = R20\ 190$ $CR\ 10\ 990 + R7\ 900 + 300 = R19\ 190$ <p>Positive balance of R1 000</p>

(5)

2.4.4 Explain how there could be two outstanding deposits, and whether Mrs Jones should/should not be worried about them. Give reasons for each.

- There could be two outstanding deposits that have either not yet been received by the bank or not yet recorded by the bank.
- She should not be concerned with the deposit made on the 31st as it might have been deposited after the bank statement was sent. She should be concerned with the deposit on the 20th as the only reason the deposits would not have been deposited is if the person who claims to have deposited them, never did so or the bank is at fault, which is unlikely. She needs to find out where the money is.
- Any valid point – 1 mark.

(3)

30 marks

QUESTION 3 COMPANY ANALYSIS**(36 marks; 44 minutes)**

3.1 Calculate the number of shares that are in issue.

$$R5\ 631\ 600 \div 0,052 = 108\ 300\ 000 \text{ shares}$$

(1)

3.2 Calculate the shareholders' equity for 2015.

$$1,16 \times 108\ 300\ 000 = R125\ 628\ 000$$

(2)

3.3 Calculate the amount of the final dividends that MJ van Straaten and his family will be receiving.

$$63/100 \times R5\ 631\ 600 = R3\ 547\ 908$$

$$65/100 \times R5\ 631\ 600 = R3\ 660\ 540$$

(1)

3.4 Comment on the dividend policy. In your comment explain why you think the dividend policy will be detrimental or good for the company in the long term.

- Detrimental: the business will be limited in its growth if 50% of profits are handed to the shareholders.

OR

- Good: high dividends will attract shareholders and push up the share price.
- Good: 50% is retained for growth.

(2)

3.5 Give one way in which the other shareholders could be disadvantaged by the CEO owing 65% of the shares. State one way in which this could be an advantage to them.

Advantage:

- The CEO is more likely to want the company succeed as it is his family's fortune and inheritance.

Disadvantage:

- The CEO might make decisions that benefit him as a shareholder and not benefit the company, e.g. declaring high dividends because he wants to spend the money.
- Other shareholders have little influence on the company's growth/expansion/director's salary/dividends.

(2)

- 3.6 The King Code III states that the board should elect a chairman of the board who is an independent non-executive director. The CEO of the group should not also fulfil the role of chairman of the board. Explain why this is important.
- The CEO is involved in the day-to-day running of the company. The chairman should have a non-biased overview of the company.
 - Conflict of interest.
 - Transparency/accountability to shareholders.
 - Prevent fraudulent activities – 1 mark only. (2)

- 3.7 3.7.1 Explain how the devaluation of the rand will affect Verimark's profitability. In your explanation state which account in the Statement of Comprehensive Income is affected the most.
- Cost of sales; it will cost much more to import the trading stock and so the cost of sales will be much more expensive. (2)

- 3.7.2 Explain, by showing calculations, the impact of the devaluation of the rand on Verimark's sales if they were to import the same vacuum for US\$50 on 8 January 2016.

US\$50 × R16,18 = R809
 They will make a loss of R9 (1,13% loss) due to the devaluation of the rand.
 R115,50 increase on cost price (16,65%)
 New SP if mark-up is maintained – R933,27 (16,65% increase)

(2)

- 3.8 MJ van Straaten, the introductory information and CEO, stated in his report that to counter the negative effects of the rand, Verimark will improve its margins and maximise operational efficiencies as well as cost containment in the year ahead.

- 3.8.1 By studying the introductory information and Statement of Comprehensive Income, give two examples of how Verimark can improve its margins and maximise operational efficiencies as well as cost containment in the year ahead.
- Find cheaper (maybe local) suppliers.
 - Have more shelves in other shops like Game, rather than paying rent for their own shops.
 - Cut down on delivery. Could deliver everything at the end of a week.
 - Increase the mark-up.
 - Increase the online sales.
 - Cut operating expenses. Cut selling expenses.
 - Issue shares to pay back loan and cut out financing cost.
 - Find suppliers from a country with a more favourable exchange rate.
 - An example – a viable example. (4)

3.8.2 Explain how increasing the pace of new products introduced will affect Verimark's profitability.

With a larger range of products to choose from they will have more purchases from existing customers as well as new customers. This increase in their market size will result in greater profits.
 Appeal to more people – increase demand and sales.
 Increase stock turnover rate – increase sales.

(2)

3.9 Use the information in the Information Booklet and the amounts you have previously calculated to fill in the missing amounts in the Statement of Financial Position on 28 February 2015. **Please note that you do not have to calculate the amounts with a "?", as there are no marks assigned to these.**

A	40 820
B	33 450
C	67 353
D	59 836 – Balancing
E	81 229 – C + 13 876
F	4 085 – 129 713 – (3.2)

(6)

3.10 Verimark has a massive distribution network for those products ordered online and through the TV commercials to the customers. The directors have tasked the audit committee to audit the distribution network to see if they can cut costs and also make it more efficient.

3.10.1 How would the purpose of the external auditor's audit differ from this audit?

- An external audit would look at verifying the figures in the financial statement, not streamlining their processes.

(1)

3.10.2 Provide two pieces of audit evidence that the internal auditors could use to audit the distribution network.

- Check that order forms and delivery notes correspond.
- Check drivers' schedules and GPS trackers in the delivery vehicles to see that they don't drive longer distances than they need to.
- Do stock takes in the warehouses to see that stock is stored neatly and accounted for on stock sheets. Compare stock to stock sheets. Make sure there is not too much or too little stock in warehouse.
- Any other reasonable evidence.

(2)

3.11 3.11.1 Explain one cause of the market price of shares to falling/decreasing.

- If many people are trying to sell their shares, the price will drop, then profits decrease. So if something happens that investors don't like, e.g. fraud is discovered, a director resigns, more shares are issued, a drop in profit, then the share price will fall.
- Must impact on the demand of the share. (1)

Problem-solving:

3.11.2 If you were tasked with getting the market price of the share to improve, what two strategies would you implement?

- Implement the strategies to improve the profit, e.g. cutting costs.
- Release news articles with the strengths of Verimark.
- Buy back shares.
- Anything that increases the demand.
- Increase dividends.
- Interim dividends – 1 mark max (4)

3.12 After everything you have calculated and read about Verimark Holdings Ltd, give one advantage of investing in Verimark, and one disadvantage.

Advantage: (1)

- High dividends.
- The CEO and his family's fortune are tied up in Verimark so he will do his best to keep the business profitable.
- NAV increased.

Disadvantage: (1)

- Profit decreasing.
- Taking out too many dividends and not retaining enough.
- The share price is still dropping. (2)

36 marks

Total: 100 marks