NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2011

ACCOUNTING: PAPER II

MARKING GUIDELINES

Time: 2 hours | 100 marks

These marking guidelines were used as the basis for the official IEB marking session. They were prepared for use by examiners and sub-examiners, all of whom were required to attend a rigorous standardisation meeting to ensure that the guidelines were consistently and fairly interpreted and applied in the marking of candidates' scripts.

At standardisation meetings, decisions are taken regarding the allocation of marks in the interests of fairness to all candidates in the context of an entirely summative assessment.

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, and different interpretations of the application thereof. Hence, the specific mark allocations have been omitted.

QUESTION 1 CREDITORS' RECONCILIATION (20 marks, 24 minutes)

1.1

Creditors' Ledger of Bell Beadworx
Tladi Trading (Pty) Ltd

Date		Details	Fol	Debit	Credit	Balance
2011 June	**1**	**Balance**	**b/d**			**12 990**
	6	**Invoice 4343 (7918)**	**CJ**		**3 780**	**16 770**
	9	**Cheque 1978**	**CPJ**	**12 990**		**3 780**
	12	**Debit note 43 (190)**	**CAJ**	**378**		**3 402**
	22	**Invoice 4349 (7923)**	**CJ**		**1 311**	**4 713**
	30	Invoice 4350 (7935)	CJ		3 400	8 113
Number should be 4350 or higher, reference need not be made to supplier number 7935.						
		Cheque fraud/journal voucher	GJ / CRJ		12 990	21 103
July	5	EFT (*NOT cheque no…)* Direct deposit Bank statement	CPJ	21 103		-

(7)

1.2

CREDITOR'S RECONCILIATION STATEMENT ON 30 JUNE 2011

Balance as per statement from Tladi Trading (Pty) Ltd	21 242
Error on invoice 7923 – VAT excl. amount shown	161
Calculation error on credit note 190 – only R78 credit calculated in balance. Discount omitted not debit note 43 ×	(300)
Amount owing	21 103

OR EFT (21 103)
Balance 0

(7)

Note: Details need not be exact, but should be able to explain the difference.

1.3 Ashton is not incompetent or is conducting fraudulent activities. (max 2)
Some discrepancies due to timing differences – stock delivered after statement
Most discrepancies due to creditor errors
Cheque was cashed by Millar Manufacturers (which may be a business that was set up by Ashton Millar) instead of Tladi Trading (Pty) Ltd as intended.
He may have recognised the incompetence of the Tladi Trading (Pty) Ltd bookkeeper as indicated by their many errors, and chosen to use this as an opportunity to embezzle funds.
Poor cash controls – only one signatory for cheques.
Leonie Bell should sign the cheques as primary signatory. (Max 6) (6)

Should fire him X

20

QUESTION 2 MANUFACTURING AND INVENTORY (30 marks, 36 minutes)

1.1 The price is constantly changing.
Cotton is not perishable and may not be used in the order bought. (2)

2.2 2.2.1 Used stock was shown at R50 instead of R52/using FIFO value instead of weighted average value.
Unit price was incorrectly calculated (as R54,67 on 2nd) – it should be R52 (as when bought on the 3rd).
Physical stock on hand does not match figure in inventory valuation – he has shown only 400 cones being used in the factory rather than the actual 600 cones transferred. (Max 4) (4)

2.2.2 16 400 – (100 × R52 = 5 200)
OR (600 × R52 = 31 200) – 20 000 = **R11 200 to be added (increased)** **(increased)**

Increased to 312 000

2.2.3 This would reduce cost of sales/inflate gross profit.
Reduced cost allows Brandon to earn his bonus.
Inflated gross profit makes Sechaba think the factory is doing better than it actually is.
It look as if Brandon is doing a better job managing the factory than he actually is.
It looks like Brandon is managing the factory well by keeping the costs down. (Max 2) (2)

2.3 2.3.1

Sechaba's Socks
Production cost statement for the month ended 30 June 2011

Direct costs	☑ 46 200
Direct raw materials (20 000 + 11 200 ☑ *see 2.2.2* OR (600 × R52)	31 200
Direct labour	15 000
Manufacturing overhead costs	17 000
Cost of finished goods produced	**63 200**

(5)

2.3.2

Sechaba's Socks
Trading statement for the month ended 30 June 2011

Sales (6 000 × R15)	90 000
Cost of sales	(63 200)
Gross profit	☑ 26 800

(3)

2.3.3 $\dfrac{\text{R17 120}}{(x - \text{R8,12})} = 6\,000$ units

$$x = \frac{17\,120}{6\,000} + 8{,}12$$

= R10,97 ☑ (4)

OR 6 000 x – (8,12 × 6 000) – 17 120 = 0

6 000 x = 65 870

x = R10,98

2.3.4 Buy direct from manufacturer.
Direct raw materials are by far the largest cost.
Cost per cone becomes [(R500 × 25) + 1 000 = 13 500]/(25 × 20 = 500 cones) = R27 compared to approximately R52 OR [(R500 × 30) + 1 000 = 16 000]/ 600 cones = R26,67 based on number of cones used in June OR cotton cost per pair becomes R2,70 vs. R5,20.
Although minimum order of 500 cones is more than the 200 cones bought in June, 600 cones were used, so this is feasible.
Since (6 000/600 = 10) pairs of socks can be made from 1 cone, this is a saving of (R5,20 – R2,70 = R2,50) per pair.
Can drop price to R12,50 and make the same profit.
More to springs / but find new customers or cheap transport
(Other cost reductions are not suitable based on information given) (Max 5) (5)

2.4 **Income statement:**
Income is not usually accounted for in the Production Cost Statement.
The income does not relate to the socks Sechaba has manufactured. OR
Production Cost Statement income or deduction:
It reduces the actual cost of production.
It is an income that would not have been earned if he was not producing the socks.
Deduction from overhead costs as these can now be shared. (Max 2) (2)

30

QUESTION 3 ANALYSIS OF PUBLISHED FINANCIAL STATEMENTS (50 marks, 60 minutes)

3.1 As part of reporting on their good corporate governance.
In line with recommendations of King III.
Ethical considerations – environmentally friendly
Creates good public image as seen to be concerned about environment and community. going green (Max 2) (2)

3.2 3.2.1 $\dfrac{1\,268}{\frac{1}{2}(3\,453 + 3\,072)}$ $\dfrac{\text{net profit}}{\text{average equity}}$ only
= 38,87% OR 38,9%
38,9% 2010 improved since 26,3% 2009. Despite OE
Excellent return, much better than could be earned from most other investments. (Max 2) (4)

3.2.2 Increased demand for shares.
Strong investor confidence in the company.
Shareholders were motivated by the huge increase in return on equity to invest in this company.
Reflects increase in net asset value.
Good dividends are being paid out.
Operating profit indicates a successful company. (Max 4)
Increased R1 Increased Ro De Market out of recession economic growth (4)

3.3 3.3.1 5 377 : 4 195 = 1,28 : 1 OR 1,3 : 1 workings 1, 2 (2)

3.3.2 (5 377 – 1 676 OR 778 + 6 + 2 917 = 3 701) : 4 195 = 0,88 : 1 OR 0,9 : 1 (2)
workings→ 0,8

3.3.3 Overdraft and short-term borrowings increased tremendously from R15 m to R1 034 m increased by 1019 CL increased + (1 304) figures only (2)

3.3.4 **Not a wise decision.**
Unnecessary with such large cash reserves.
OR Higher interest will be paid on overdraft than earned on current account/paid on loans.
OR Detrimental effect on liquidity.
OR Should rather have used cash reserves to pay off liabilities.
Wise decision.
No longer tied into long term loans. There is enough cash to settle overdraft.
Long term loan might have fallen due at this time. (Max 2) (2)

3.4 3.4.1 To ensure the audit is unbiased and objective as they are not involved in the day-to-day running of the business. No interest/ integrity/ prevent fraud
To ensure there are no inappropriate relationships between auditors and directors.
Non-executive directors are not dependent on executive directors for their positions. (Max 2) (2)

3.4.2 Ernst & Young and SAB&T *(only one or the other is also acceptable)* (1)

3.5 3.5.1 Not transparency x. To ensure consistency in reporting by different companies.
So that statements of one company can be compared to another.
So that interested parties understand the basis upon which the financial statements were prepared. (Max 2) fairness (2)

3.5.2 For transparency. Public Co.
To prevent auditors and directors paying themselves amounts that are not fair or reasonable.
Both auditors and directors are appointed by shareholders so they should know what they are being paid.
Materiality – relevant to shareholders deciding whether to reappoint them. (Max 1) (1)

3.6 3.6.1 Shrinkage – shoplifting/theft of stock
Obsolesence – outdated /reached its sell by date
Markdown – sale items e.g. clothes at end of season/slow moving stock
Breakages Transport damages (6)

3.6.2 73/1 738 = 4,2%
Fair, given that the shop sells food which is perishable/has expiry dates/ markdowns on slow-moving stock. (2)

3.6.3 Prudence – a conservative estimate of the value of inventory is shown, in line with expected recoverable value. OR
Matching – costs associated with a possible loss in inventory are being accounted for in the same period as the inventory is being held. (Max 2) (2)

3.7 R0,535 × 49 037 862 = R26 235 256 $\frac{49\ 037\ 862}{0,535}$ only
OR 429 × 5,78% = R24 796 200 (3)

3.8 3.8.1 **Food**:
Mark-up on food is only 30% compared to clothing 58 – 68%.
Operating profit margin on food is 4% compared to clothing 9 – 13%.
Operating profit on food has increased only slightly from R401m in 2009 to R442m in 2010 vs. clothing which has almost doubled from R694 in 2009 to R1 089m in 2010. (Max 3)

Gross profit
op exp.

Country Road:
Mark-up decreased from 155% in 2009 to 134% in 2010.
Operating profit margin is only 5 – 6% compared to clothing 9 – 13%.
Operating profit has decreased from R140m in 2009 to R123m in 2010 while clothing has almost doubled from R694m in 2009 to R1 089 in 2010.
Operating expenses margin (on sales) is 55% vs. food 19 – 20% and clothing 27 – 28%. (Max 3)
Gross profit better in clothing figures (6)

3.8.2 **Food**:
The food segment is necessary to attract customers to the store.
Many customers may only buy clothes and general merchandise as an afterthought while doing their grocery shopping.
Customers who come to shop for food are exposed to the clothing and other merchandise. (Max 2)
Country Road:
The reason for the poor performance was the challenging economic conditions in Australia, which may improve in the next year or two.
Mark-up of 134 – 155% is much higher than both clothes (60 – 66%) and food (30%), which will be a good opportunity in better economic times.
Mark-up reduced because of discounting that was necessary.
Could reduce high mark-up further.
Operating profit margin of 5 – 6% is greater than food 4%. (Max 2)
Job losses if close section (4)

3.8.3 Cut margins on Country Road still further until just less than closest competition, and boost with a creative marketing campaign to increase sales dramatically. Every extra rand of sales will contribute significantly to operating profit.
Hedge to avoid foreign exchange losses in Australia *(they do already, but not given in info)* (Max 3)
Discounting
Online buying
Bulk buying to reduce shipping costs (3)

50

Total: 100 marks