



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2012

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

1.1 Disciplinary hearing/warnings/dismissal **after disciplinary process**/civil prosecution. (2)

1.2 1.2.1 Must be objective/unbiased/not involved in the day-to-day running of the company.
Companies Act requires audit committee to be made up of non-executive directors.
Stated in the King Code (2)

1.2.2 Ernst & Young conducts external audit.
Verifies financial statements as an external, objective / independent auditor.
Audit committee is concerned with internal audit procedures and remedial action on a day-to-day basis. (2)

1.3

A	R534m	J	R1 565m
B	Operating expenses	K	R23 559m
C	R2 358m	L	R6 142
D	Taxation	M	Finance charges paid/interest paid
E	Non-current assets	N	Financing
F	Trade and other receivables	O	R1 969m outflow
G	R6 675 m	P	R3 679m
H	R1 710m		
I	R21 924m		

(17)

1.4 Depreciation (1)

1.5 1.5.1 Ordinary share dividends

2011 March	31	Bank	() 1 541	2011 March	31	Appropriation account / Accumulated profits	1 562
		Shareholders for dividends	21			(NOT R1 564m!)	
			1 562				1 562

(6)

1.5.2 $1\ 565\ 000\ 000 / 520\ 783\ 900 = 301c$ or R3,01 (accept 300c / 300.5c / R3 if working figures correct) (3)

1.5.3 No. 300c DPS is almost all EPS of 301c.
Or R1 565m profit only R3m re-invested./R1 562m paid out in dividends.
Almost all earnings were paid out.
Policy specifies profits should be reinvested but this has not happened.
Yes - A good dividends was paid out / competitive return received by shareholders only (2)

- 1.6 1.6.1 $27\,992\,000\,000 / 520\,783\,900 = R53,75$ OR 5375c (3)
- 1.6.2 Yes. They are a cheap investment. / They are undervalued. (*explanation*)
 Market value of R37 is much less than the NAV of R53,75. (*figures quoted*)
 High DPS of 300c earned by shareholders.
 OR No. The business is not doing well.
 ROI/operating profit/net profit margins are steadily declining (*quoted figures*) .
 Lack of confidence as Market value of R37 is much less than the NAV of R53,75.(2)
- 1.6.3 No. Dividends greatly reduced (*explanation*) from R11 848m in 2010 to R1 562m in 2011. (*Figures quoted*)
 Return on equity dropped considerably from 22% in 2007 to 8% in 2011.
 Operating profit margin dropped from 27% in 2007 to 12% in 2011.
 Net profit margin dropped from 18% in 2010 to 7% in 2011.
 DPS vs EPS does not bode well for long-term growth.
 Shareholders will not be happy that new shareholders are buying share more cheaply
only
 OR Yes – high DPS of 300c / ROSE higher than on other investments
 (*points in 1.6.3. can't be repeat of points used in 1.6.2.*) (4)
- 1.7 1.7.1 $(2\,358 + 1\,226 = 3\,584) / 42\,546 = 8,42\%$ or $3\,114 / 42\,546 = 7,3\%$ (3)
- 1.7.2 Finance charges/interest expense (1)
- 1.7.3 No. Too much is being spent on interest compared to profit
 Poor profit is of concern (greatly decreased over the past few years) so won't be able to pay off the loan easily
 Return on capital employed of 8% is less than interest on loan of 14%, i.e. negatively geared
 Return on capital employed is similar to interest on non-current liabilities of 8%, so loan is not particularly profitable
 They should rather have used their available cash investments instead of taking out the loan.
 (*Can't accept low risk / gearing, as the loan was not a wise decision because of other reasons*). (2)

QUESTION 2 BUDGETING

(30 marks, 36 minutes)

- 2.1 Expected: $36\,000 / 60\,000 = 60\%$ or $39\,000 / 65\,000 = 60\%$ $42\,000 / 70\,000 = 60\%$
 Actual: $16\,800 / 42\,000 = 40\%$
 Comment: Actual is much lower than expected/not well managed/cause for concern
 (must relate to calculation) (6)
- 2.2 Less debtors are paying on time.
 Less sales were made.
 Poor economy/recession.
 Beauty and relaxation treatments are a luxury which many people can no longer afford.
 Increased electricity and fuel costs mean less disposable incomes.
 No discounts given to entice them to pay within a month.
 She was too optimistic in her projections / projections are not realistic.
 Customers are not aware of debts if statements are not received.
 There is no penalty for late payment.
 No incentive to pay quickly.
 No control in place to ensure collection. (4)
- 2.3 $[\frac{1}{2} (24\,500 + 52\,425) = 38462,50] / 116\,000 \times 90$ (OR $\times 3$) = 29,84 = 30 days OR 1 month
 (at least two figures must be correct to get method mark) (5)
- 2.4 Yes. The debt is unpaid for some time. He was aware of credit terms.
 Blacklisting will protect other retailers from his non-payment.
 OR No. The reason for non-payment should first be investigated.
 B Miller should be warned of this possible action and first given a chance to settle his debt with this in mind. (2)
- 2.5 2.5.1 No. There is a lack of transparency as she has not given them any warning of changes. She should notify debtors first.
 OR Yes. Terms are 30 days. (2)
- 2.5.2 Not a good idea. Debtors are mostly complying with terms.
 She may lose good customers by offending them.
 She may lose customer loyalty.
 Rather offer settlement discounts as this is less offensive, as the improved cash flow will benefit the business.
 Notice of the implementation date should be given.
 OR It is a good idea to encourage debtors to pay earlier than they might have.
 Fine provided she has given them due warning. (4)
- 2.6 2.6.1
- | | October 2012
(Actual) | November
2012
(Budgeted) |
|-------------------------|----------------------------------|---|
| Cash receipts | 45 375 | ? |
| Debtors' collections | 29 375 | 40 000* |
| Cash sales | 16 000 | 15 000 |
| Cash payments | (55 500) | (63 900)* |
| Cash purchase of stock | 13 000 | 18 000* |
| Creditors' payments | 15 000 | 13 400* |
| Administrative expenses | 20 000 | 20 000 |
| Marketing expenses | 7 500 | 12 500 |
| Cash surplus/deficit | (10 125) | (8 900) |
| Opening bank balance | 8 225 | (1 900)* |
| Closing bank balance | (1 900) | (10 800)* |
- (6)

- 2.6.2 Obtain a short term loan.
- Negotiate longer credit terms from her suppliers.
- Reduce expenses.
- Pay creditors after 60 days.
- Increase cash sales by offering discounts.
- Provide more capital (for use as working capital).
- Sale of asset
- Find a cheaper supplier.
- Buy more on credit.
- Increase selling price / mark up.
- Increase sales volumes.

(1)

30

QUESTION 3 RECONCILIATIONS**(25 marks, 30 minutes)**

3.1 $-12\ 350 + 7\ 500 - 3\ 000 - 150 = -8\ 000$ (*Max 2 if total is incorrect*) (3)

3.2 Bank reconciliation statement of Bhagaloo Traders (Pty) Ltd on 29 February 2012.

Bank balance as per bank statement	2 100
Outstanding deposit	15 200
Outstanding cheques	
No. 753	(12 500)
No. 755	(5 600)
Bank error (8 000 - 800)	(7 200)
Bank balance as per bank account	(8 000)

(5)

(*Can use debit & credit columns. Must have some differentiation between positive and negative / debit and credit, or correct total. If not, -1*)

3.3 3.3.1 To see that the business is checking discrepancies between the accounting records and the bank statement.

To see that accounting controls have been put into place to control cash.

The Bank statement is an external document which can be used to verify the bank balance after differences have been identified.

To see that accounting systems are in place.

To see that fraud has not taken place *only*

(2)

3.3.2 Contact Kelvin Suppliers to check that they have received the payment.

Inspect the purchase document (e.g. cash slip) and a cheque requisition form signed by the authorised signatories.

Wait until the cheque is cleared at the bank the next month / check bank statement.

Look at receipt received from supplier as proof of payment.

Check that statement from supplier shows the payment.

(*i.e. external source document or verification from a third party*)

(2)

3.4 It has been deposited together with the deposit on the 21st instead.

Possible rolling of cash by a disreputable cashier (maybe this has been happening more often too) / Possible negligence or incompetence *only if did not identify deposited on 21st*

(2)

3.5 Deposit slips should be regularly checked (daily or weekly) against CRJ by a manager/someone other than bookkeeper or person making the deposit.

Provisional statements can be viewed via the Internet to check that deposits have been processed by the bank.

Division / separation of duties – get another employee to do deposit slips with the cashier to check that amounts on receipts = amount on deposit slips.

Owner could make the deposits himself.

Receive e-mail / SMS when deposit is made.

Check deposits using cell phone banking / phone bank to check.

(2)

3.6 Payment only for exclusive amount (R7 500)/VAT (of R1 050) must still be paid.

Exports to Swaziland are zero-rated, so they would not have been liable for the VAT.

Incorrect amount was paid (R7 500 instead of R8 550)

(max 2)

- 3.7 Add to/credit creditors / accrued expenses / trade and other payables OR
Decrease/credit rent expense / prepaid expenses
Add to/debit bank / cash and cash equivalents
Reverse transaction / adjust to exclude payment *only*
(*NOT reversal in CRJ*) (2)

20

Total: 100 marks