NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2013

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 1.1.1 606 000 000/ 459 863 000 = 132c OR 606 / 459.863 = 132c (3)

1.1.2 It has increased compared to EPS for 2011.
A large part of earnings was retained by the business – only 66c was paid out OR 50 % of possible earnings paid out as dividends. (2)

1.1.3 Yes – share value will increase as business value increased with retained earnings.
50 % retained for expansion.
50 % of earnings paid out.
OR
No – dividends are very small compared to the value of shares.
Shareholders wanting short term returns would prefer to have earnings paid out immediately.
(Yes/no must relate to the answer and the dividend policy.) (2)

1.2 1.2.1 Increase in price of sugar
(China's) increased demand for sugar
Increase in demand.
Decreased supply due to drought.
Mark-up increased.
Revenue from electricity supplied to Swaziland.
(Answer must relate to revenue therefore control of expenses not an acceptable answer.) (2)

1.2.2 Future growth in share price as a result of worldwide increase in the demand for sugar (especially China).
Strong demand for Illovo shares – confidence in the company and its products or good corporate governance.
EPS has increased which makes it an attractive investment.
Cost cutting measures regarding electricity will have beneficial effect.
(Must highlight growth and then give a reason for 2 marks.) (2)

1.3 1.3.1 It will be used to generate future income.
It is owned by or belongs to Illovo Sugar Limited.
Illovo needs sugar cane to produce sugar.
Raw materials stock.
Stock only 1 mark allocated. (2)

1.3.2 Cane roots will take more than a year to generate cash.
Growing cane will generate cash within a year.
(Must differentiate between non-current and current.) (2)

1.4 1.4.1 4 511/ 2 416 = 1,87 : 1 (4 511/ 2 416 = 1.9 : 1) (3)

1.4.2 Cash and cash equivalents includes savings, short term investments, cash float, petty cash, etc.
Fixed deposit maturing.
More than one bank account.
(NOT current account, unless two different accounts specified) (2)

1.4.3 Cash and cash equivalents has increased from R718m to R1 390m
(difference R672 m)
OR
Loans increased by R1 539m, therefore increasing cash. (Link must be demonstrated for 2 marks.) (2)

1.5 1.5.1 606/ ½ (6 465 + 5 975) = 9,74%
(Criteria for method mark: needed to use net profit and an equity figure.) (5)

1.5.2 Yes – It is **comparable** to other investment returns/better than current money market earnings. (1)

1.6 1.6.1 To see what shares are worth according to the financial statements (businesses books) vs. market value. (2)

1.6.2 6 465 000 000/ 459 863 000 = R14,06 (or 1406c)
(Rand or cents sign had to be given.)
(Dropping of the millions is acceptable must be consistent.) (3)

1.6.3 Profits were retained by the business
Retained earnings increased
Profits were not paid out as dividends
Revaluation of assets – not assets purchased. (1)

1.7 1.7.1 2 530 : 6 465 = 0,39 : 1 (2 530 : 6 465 = 0,4 : 1) (3)

1.7.2 Increased (1)

1.7.3 Interest rate on borrowed money
Return on capital employed
Whether or not the business is positively geared.
How effectively the business will use the extra funds borrowed.
(Must have two separate answers.) (2)

1.7.4 When ROCE is greater than interest on borrowed money.
Business is positively/low geared.
Big enough profits to pay back loan.
(Cash flow not an acceptable answer.) (2)

1.8 1.8.1 Appointment of suppliers should be authorised by at least two managers.
At least three (or more than one) quotes should be obtained or tenders received.
Supplier appointments should be reviewed annually.
The quality of suppliers' products and services should be reviewed by someone other than the managers who appointed them.
Severe disciplinary measures should be taken against any infringements.
Division of responsibility, i.e. invoices should be processed by a different staff member to the one making payment to the supplier.
Transparency, i.e. if family member involved must be disclosed.
Background checks on company submitting tender.
Fair deadlines.
Tenders need to be advertised.
Other valid suggestions may be considered – they should be effective in preventing bribery and corruption in supplier appointments therefore control measure must relate to example and be explained. (4)

1.8.2 Residue fibre (bagasse) is used to generate electricity.
Illovo qualified for the SRI index.
Responsible investment in emerging markets.
Generating and supplying electricity to Swaziland.
Use of smaller emerging developments. (4)

50 marks

QUESTION 2 BUDGETING (25 marks, 30 minutes)

2.1 6 400/25% = 25 600 OR $48\ 000 \times \frac{38\ 400}{72\ 000}$ OR $48\ 000 \times \frac{32\ 000}{60\ 000}$ OR

$48\ 000 \times \frac{40}{60} \times \frac{80}{100}$ (2)

2.2 Projected statement of income for the three months ended 31 January 2014.

Sales (60 000 + 72 000 + 48 000 = 180 000) + (32 000 + 38 400 + 25 600 (must relate to 2.1) = 96 000))	276 000 (4 marks if total correct without brackets.)
Cost of sales	**(150 000)**
Gross profit	126 000
Operating expenses	(96 840)
Administrative expenses	**7 500**
Marketing expenses	15 000
Bad debts (1 300 + 1 440 + 1 600)	4 340
Depreciation	10 000
Rent expense	60 000
Operating profit	29 160
Finance costs/interest expense	(12 500)
Net profit	**16 660**

(Brackets must be used in order to get Operating Expenses and Finance Costs marks.) (13)

2.3 2.3.1 126 000/150 000 = 84% (if only correct figure.)
(Method mark only if same as 2.2 gross profit) (2)

2.3.2 Trade discounts are offered to retailers.
Discount given to retailers. (1)

2.4 2.4.1 Financially viable:

It is financially viable as increased income would exceed costs.

Expected increase in sales: R920 000 × 50% = R460 000 p.a. OR
R38 333 p.m. (or R1 380 000)

Expected increase in gross profit = R460 000 × $\frac{126}{276}$ = R210 000 p.a. OR
R17 500p.m.

AND

Should property be bought:

Property should be bought as it is more cost effective and it will then be owned.

Expected increase in rent: R120 000 p.a. or R10 000 p.m.

Expected increase in interest: R500 000 × 9% = R45 000 p.a. OR
R3 750 p.m. (or R1 125 000) (or R1 125 000 + 500 000 = R1 625 000) (compound interest was R4 311 540)

Property should be bought as it is more cost effective and it will then be owned.

If calculations incorrect and show that property should be rented. (5)

2.4.2 The recession might result in lower sales than expected.

Additional expenses like additional salaries, would be incurred with expansion.

Possible capital gain on property purchased.

Increase in inflation.

Market to expand.

Any other operating expense highlighted.

Investigate whether current space being used optimally.

Any other reasonable reason given e.g. now need to register for VAT)

(If interest and rent have not been mentioned in 2.4.1 they may be mentioned here.) (2)

25 marks

QUESTION 3 RECONCILIATIONS (25 marks, 30 minutes)

3.1

STATEMENT

P. Jadhu

Date		**Details**	**Debit**	**Credit**	**Balance**
2013 Aug	12	Invoice 803	3 000,00		3 000,00
	13	Credit note 51 (inv 803)		100,00	2 900,00
	18	Receipt 698		2 900,00	nil
	30	**Cheque dishonoured**	**R2 900,00**		**R2 900,00**
Sept	**25**	**Receipt of cash (B/S)**		**R2 900,00**	**Nil**
Oct	**26**	**Invoice 817**	**R3 750,00**		**R3 750,00**

(-1 foreign entries/-1 date order (max -1)) (3)

3.2

J. Robertson DL 26

Date		**Details**	**Debit**	**Credit**	**Balance**
2013 Aug	10	Invoice 807	3 600,00		3 600,00
Sept	12	Credit note 54 (inv 803)		1 300,00	2 300,00
	20	Invoice	3 500		
	30	Interest on overdue account	23,00		5 823,00
Oct	2	Credit note 57 (inv 810)		2 400,00	3 423,00
	26	Invoice 854	1 700,00		5 123,00
	29	**Receipt of cash (B/S)**		**2 300,00**	**2 823,00**
	31	**Interest on overdue account**	**11,23**		**2 834,23**

(Method mark for balancing account correctly.) (3)
(Interest must not be rounded off and must be a debit entry for mark.)

3.3

DEBTOR	Credit Limit	July	August	September	October	Total
		+60 days	**60 days**	**30 days**	**current**	
P. Jadhu	R8 000				R3 750	
J. Robertson	R3 000		3 600 – 1 300 – 2 300 = 0 (must indicate '0' or '–') (Workings without total acceptable.)	3 500 +23 –2 400 = R1123 (Workings without total acceptable.)	R1 711,23 (Or R1 700 if no interest calculated in ledger or as a therefore figure but only if other figures in column correct.)	*(see interest in 3.2)*
L. Bierman	R1 500			R704	R2 600	R3 304
Other Debtors			R7 656	R3 045	R5 858,77	
		R8 352	**R7 656**	**R4 872**	**R13 920**	**R34 800**
Percentage of debt		**24%**	**22%**	**14%**	**40%**	**100%**

(9)

3.4 Problems:

Debtors are allowed 30 days to pay back accounts, but 46% of the debt is over 30 days.

Debtor L. Bierman and J. Robertson have gone over their credit limit and have been allowed to buy more – either they should be enforcing this or allow him/her to increase their limit.

J. Robertson returns lots of goods – a stricter returns policy may be needed.

Solutions:

They could extend the credit terms to 60 days but encourage debtors to pay earlier by offering a discount for paying within 30 days.

Could have different credit terms for good debtors – giving them longer credit terms and increasing their credit limit.

Should hand over debtors after 60 days for legal action.

Send statements or reminders to debtors via SMS to encourage them to pay on time.

Debtor P. Jadhu's cheques bounce. Encourage other means of payment.

They must look at the goods being sold because the returns are high and they may be a problem with the quality.

Blacklistingbut recognizing due process.

Increase interest on overdue accounts.

Suspend accounts if overdue.

Screen debtors before offering credit.

(Note: 4 points must be given with at least one from each category to obtain full marks. Maximum 8 marks regardless of number of points given.) (8)

3.5 Customers who prefer to buy on credit may be lost.

Customer loyalty may decrease, etc.

Proportion of cash versus credit sales.

Loss of income from interest on overdue accounts.

Putting cash machines in shop.

Danger for customers having to carry cash.

Risk of having increased amounts of cash on premises both from employees being tempted or robbery.

Higher bank charges for cash depositing fees/credit or debit card transactions.

(2)

25 marks

Total: 100 marks