



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2014

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

Column A		Answer
1.1.1	Profitability	D
1.1.2	Liquidity	E
1.1.3	Solvency	A
1.1.4	Return	C
1.1.5	Gearing	B

(5)

1.2 It enables shareholders to measure whether the company is improving or not. One is then able to compare from one year to the next.

(1)

1.3 1.3.1

Calculation:
 $7996 - 7224 = 772 \div 7224 \times 100 = 10.69\%$
 $7996/7224 \times 100 = 110,68 - 100 = 10,68\%$
 $7224 \times 10,7\% = 7996$
 $7224/7996 \times 100$

(2)

1.3.2

Calculation:
 $EPS = 240\,000\,000 \div 181\,218\,149 \times 100 = 132,44$
 $\% \text{ increase} = 132,44 - 117,2 = 15,24 \div 117,2 \times 100 =$
 One mark for either 117,2 or 15,24 = 13,00%
 Accepted 12.97%; 12.63% Accepted answer without the % sign
 Yes as it has increased from last year and this increase is greater than the inflation rate.
OR Yes, it is a reasonable increase.
OR Compare to market price of R17,45

(5)

1.3.3

Yes, he should go ahead and buy shares in Clover.
 Any **two reasons** well explained each. Accepted without figures as long as the reason was given, i.e. it increased from the previous year, etc.

- The return on shareholder's equity has increased from 11,08 to 11,96%
- The price he is being offered is R15,00 which is well below the market price of R17,45
- The NAV is R11,68 and the market price is R17,45. This shows investor confidence.
- The DPS has increased from 28c to 32c
- The EPS has increased from 117c to 132c
- NAV increased from 1058,56 to 1157.65
- Market Value increased from 13,65 to 17,45
- Profit increased from R210 M to R240 M

No

- Overpriced as NAV R11,68 and price paid R15
- Only 24,24% is paid out as dividends ($32/132 \times 100$)

(4)

- 1.4 1.4.1 Current ratio = 1.70 : 1
 Current liabilities = R 1 445 000 000
 Current assets = $1,7 \times 1\,445 = R2\,456\,500\,000$ or R2 456.5m (1)
- 1.4.2 Acid Test ratio = 1,20 : 1
 Current ratio = 1,70 : 1
 Inventories = $0,5 \times 1\,445 = R722\,500\,000$ or R722,5 m (2)
- 1.4.3 722 500 000 *See fig 1.4.2* $\div 5\,840\,000\,000 \times 365 = 45,16$ or 46 days
OR $722\,500\,000 \div 5\,840\,000\,000 \times 12 = 1,48$ or 1,5 months
 If used **average stock** max of two marks.
 If used formula for stock turnover of rate and then converted it to days and it is correct – full marks. (3)
- 1.4.4 The reduction in the amount of short term borrowings from R421 m to R173 m.
 Current Liabilities decreased from 1761 to 1234
 If inventory figure calculate in 1.4.2 is greater than R850M then can accept this for 2 marks as the greatest change in liquidity. (2)
- 1.4.5 Yes the directors should be pleased (reason + figure) (**max 6**)
 The current ratio has increased from 1,32 : 1 to 1,70 : 1
 The acid test ratio has increased from 0,99 : 1 to 1,20 : 1
 They have reduced their short term borrowings from R421 m to R173 m
 Stock turnover rate decreased from 9,85 times to 8,82 times.
 Net working capital has increased to R1011M. (6)

1.5 1.5.1 Besides reporting on the financial results and position of the company they also need to report on the non-financial aspects such as the sustainability of the company in terms of people and the environment.
Economic results, environmental, community (people, profit, planet.) (3)

1.5.2 They developed technologies to extend the shelf life of their core milk range and introduced a new innovative tub. Both of this has increased market share and lowered costs. It is more environmentally friendly – milk is not wasted and jobs will increase as their market share and sales increase. The innovations improved profitability, which effectively protects jobs for the workforce.
(Accepting competitive as profitable.)
Must have two or three innovations = 2 – 3 marks (1 mark each)
Must have minimum of one link (1 mark per link, but must explain. If they list 2 innovations and explain the link to both as one link they will get 2 marks.) (4 max.)

1.5.3 They increased their long term borrowings from R207 m to R873 m (Increase of R666m also acceptable. This is a calculation so we also accepted increase of 321,74%. Must have been calculated correctly.)

OR Issue of new shares from R684m to R726m (by R42m is acceptable.)

OR Increase short term and long term borrowings from R628m to R1 046 m (2)

1.5.4 Gearing 2013: $873 : 2116 = 0,41 : 1$
Rounding to 1 decimal also accepted for 2 marks.
Incorrectly rounding to 0,42 accepted for 1 mark.
Making the left-hand side 1, therefore, $1 : 2,42$ accepted for 1 mark but must be correct.

ROCE also accepted:

$$\frac{345 + 56}{(873 + 207 + 2116 + 1896)} \div 2 \times 100$$

$$\frac{401}{2546} \times 100 = 15,75\%$$

This is a significant increase from the debt/equity ratio of 2012 of 0.11 : 1 (Saying there was an increase was enough for the mark.)

However, the company is still lowly geared and could still be able to access additional borrowed funds if necessary. Creditworthy = lowly geared = no concern = ratio is still ok (all accepted as the same point).

OR Increase in risk/gearing has been beneficial to the company because of an increase in ROSHE.

Can only compare interest rate (not given) to ROCE if they calculated it. They would need to consider the interest rate. (4)

1.5.5 Transparency/integrity/disclosure
Also accepted honest, trustworthy, ethical, accountability.
Not accepting leadership or anything else that could be good or bad. (1)

1.5.6. So shareholders are aware of it and cannot say that he is being under-handed.

OR Good corporate governance/ conflict of interest/ transparency / prevent fraud.

Auditors should check that the supply agreement and prices given to Mr Buchner are the same as to all other suppliers. They should check invoices received from Mr Buchner and bank payments/cheques paid to Mr Buchman to confirm if these agreements are being honoured.

Investigate the **quality control** processes.

Also accepting:

Compare prices

Looking at quality control processes (not accepting check quality)

Interviews reasonable explanation

Document give example of doc

Inspections explanation

Look at his salary

Not accepting:

Insider trading

(5)

50 marks

QUESTION 2 BUDGETING**(27 marks, 30 minutes)**

- 2.1 To detect possible problems, internal control, errors, differences
OR To take corrective actions (1)
- 2.2 A = R1 026 000
B = R1 125 000
C = R180 000
D = R288 200
E = R(387 200) must be –387 200 **OR** –624 200(675 400 – 51 200)
F = R43 200 (8)
- 2.3 Collection in October should be:
 $(840\,000 \div 40 \times 60) = 1\,260\,000 - 5\% = R1\,197\,000$
Collection in October is R920 000 If 1197000 not there, look for 920000 and 1260000 (calculations max 2 marks)
No, customers are not adhering to the credit policy of 30 days as not all debtors have made payments in full – there is still an amount outstanding.
(2 marks explanation)(4)
- 2.4 One of the employees probably asked for an advance on his October salary as the September salary is more by the exact amount that the October salary is less.
If he received his salary one month earlier, then he would not be entitled to be paid again in October. Salary prepaid, overtime, unpaid leave, 1st payment of vehicle, error in figures (180000/108000), strikes (1 max.)
- 2.5 $10\,080 \div 540\,000 = 2\%$
Yes, prices are increasing rapidly and 2% is still acceptable when compared to other increasing costs such as electricity. It is a poor budgeting technique to have such a huge figure for sundry expenses.
OR
No, this increase is excessive as 24% p.a. is way above the current inflation rate per annum. It is a poor budgeting technique to have such a large amount budgeted for sundry expenses.
Sundry expenses should be broken down as to what it includes, sundry expenses need to be cut down, they are too high. (3)
- 2.6
- They have budgeted for lower sales than actually achieved. Probably could have sold more if they had bought more stock and advertised more. They could also increase mark-up to increase revenue. Increase cash sales.
 - Negotiate better credit terms with creditors so that money comes in from debtors before having to pay creditors.
 - Reduce withdrawals by owner until cash flow is not a problem.
 - Do not re-invest any portion of fixed deposit (frees up cash available).
 - Reduce or retrench staff, sundry expenses
 - Must not mention debtors collection or take out further loans. (6 max.)

2.7 2.7.1 He knows the service history of the car and how well it was driven and maintained.
 He is not paying someone else profit for selling their vehicle but instead getting a car at a better than market price.
 Does not need to finance car.
 Revenue or income stays within the business.
 Does not need to pay dealer's costs or charges. (2)

2.7.2 No, this was not ethically correct.

It is company policy (i.e. an employee perk) that the driver of the vehicle gets 1st option to purchase the vehicle. This transaction smacks of nepotism and will not engender trust amongst the employees.

OR

Yes, it is ethical as it is his own businesses and it affects his own profit.

If they had sold the vehicle to the driver they would not have made a loss, since they would have disposed of the vehicle at carrying value. By selling it to the owner's son, they have now made a loss on the sale of the vehicle.

OR

Sales Staff will be unhappy and might not take as much care with their vehicles knowing that there is a possibility that they might no longer be offered the option to buy the vehicle.

OR

SARS will probably disallow the loss on disposal of R69 000 as a tax deduction as the owner is benefiting from this.

OR

The employee might now ask for a bonus in lieu of the perk that he is no longer getting.

Yes – sold fixed assets as needed money.

Unethical – selling vehicle for less, avoiding tax. (2)

27 marks

QUESTION 3 RECONCILIATIONS

(23 marks, 30 minutes)

PART A Bank Reconciliation

- 3.1 D (1)
- 3.2 C (1)
- 3.3 A (1)
- 3.4 D (1)
- 3.5 A (1)
- 3.6 B or D (1)
- 3.7 D (1)

PART B Debtors

3.8 RECONCILIATION OF MR WEST'S ACCOUNT

Correction of Errors	Amount
Balance as per statement	5 980
Payment of annual fees	(28 500)
Discount on payment of annual fees	(1 500)
Reversal of Mr North's payment	10 000
Additional cost of Science textbook	200
Concussion testing error	320
Reversal of rugby camp	(1 700)
Correction of Life Orientation credit note (2xR150)	(300)
	(15 500)

Acceptable if no details are given.

Accepting if detail indicates the amount needs to be added or subtracted, i.e. debit or credit, add or less.

Acceptable if candidate has reversed the figures. (If not consistent – marks awarded for the most correct.)

If final total is (15 500) (given) then a mark is awarded, alternatively if the total was added correctly, the mark will be awarded.

Acceptable if (18 500) and (1 500) are shown as (30 000) – 2 marks. (8)

3.9

- Comment
- This is unethical. The account is not in arrears: in fact it is prepaid.
- The child cannot be 'punished' for the parent not paying the account.
- The student **should** be registered.
- If the candidate suggests this is a good strategy, it must be substantiated with why, e.g. it is a good way for the school to ensure that fees are paid.
- Suggestion
- Use other punitive methods to collect fees such as charging interest on outstanding accounts.
- Parents have an excellent record of paying sundry billing. The IEB fee will probably be paid next month.
- Rather send a reminder – but register the child so as not to disadvantage her.
- Hold back the report/final marks.
- Meet with parents to resolve the situation. (2)

- 3.10 Age analysis makes it easier to see how long amounts have been outstanding on a debtors account and who must be charged interest.
It is a good internal control measure for the collection of fees
To see how much the debtors owe.
To check the collection from debtors.
Must demonstrate an understanding of age analysis. (1)

- 3.11 3.11.1 The R5 000 000 represents the total of Term 1 fees of 500 students.
 $500 \times R10\ 000 = R5\ 000\ 000$
School fees.
Starting amount.
Amount owed to school.
Opening amount.
But not school fees for the **year** or balance carried over from previous year or 'balance'. (1)

- 3.11.2 The R13 500 represents the total of sundry billing for January, for example, text books, levies or additional (extra) charges. (1)

- 3.11.3 No, the parents are not paying back the fees in the time allowed as there is still an amount of R1 000 000 of term 1 fees owing at the end of April 2014.
Yes, **most** have paid by April.
Can't just say no – must show that they have looked at the age analysis and noted that there are fees outstanding after the first month. (1)

3.11.4 2 × for each suggestion well explained.

- A better incentive than the current 5% discount for annual fees paid upfront is necessary.
- A smaller discount for fees per term paid in advance should be considered.
- Larger discount.
- Have letter stating percentage of parents who have paid each month.
- Have special draws/prizes for parents paying in time.
- Don't allow the students to go on tours.
- Charge interest sooner than May.
- Phone calls to parents to remind them.
- Better screening before students allowed are to enrol.
- No tours.
- Don't release report.
- Don't allow to purchase more textbooks.
- Make sure the accounts are in order.
- Credit limit or freeze account.
- Reminders
- SMS'es
- Emails
- Send out accounts regularly.

(2)

23 marks

Total: 100 marks