NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2015

# ACCOUNTING: PAPER II

## MARKING GUIDELINES

Time: 2 hours 100 marks

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**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.**

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## QUESTION 1 RECONCILIATION

1.1 His current ratio would not be affected as the current asset stock would increase and the current liabilities would increase. Stock be an asset.
However, acid test ratio would become more unfavourable – because the current assets without stock would not increase but the current liabilities would increase.
Debt increasing. (2)

1.2 Liquidity: Thabo's Café can buy stock on credit and then sell it for cash. They are therefore not likely to have a liquidity problem. Delay paying creditors, increase in cash flow, more working capital. (any one point)
Profitability: They can even invest that cash for a month and earn interest which will affect profitability before they have to pay back their creditors. However they are unlikely to earn an interest rate of more than the 8% p.a. they would be given if they paid back early. Receive discounts, more stock to sell, avoid going into overdraft and incurring interest on overdraft. (any one point) (2)

1.3 Reconciliations ensure that errors or omissions are picked up, discrepancies fixed and both parties involved aligned. Internal control, fraud, external documents compared to internal documents.

- Bank reconciliation
- Petty Cash Reconciliation (Comparing Petty cash with PCV's)
- Stock reconciliation (stock take).
- Fixed Asset register (3)

1.4 1.4.1 CBS views Thabo's Café as a debtor, as Thabo owes them. It's a matter of perspective. This is the statement they are sending from their point of view. (1)

1.4.2

| | Debtors' Age Analysis of outstanding debt | | | |
|---|---|---|---|---|
| | | 110,00 | 181,40 | 1 781,73 |
| or | | | 291.40 | 1781,73 |
| or | 110 | 181.40 | 1781.73 | max |

(3)

1.5 1.5.1 2 073,13 – 1 340,67 +24 – (94,18 – 84,22) 9,96 = 746,50
–1 FE, only if full marks can be achieved but there are foreign entries.

**OR**

865.40+ 116.25 + 256.13 +184,56 max
– 31,66 – 300 -250 max
– 94.18
–1 FE, only if full marks can be achieved but there are foreign entries. (5)

1.5.2

| | |
|---|---|
| **Balance as per ledger on 31/08/2014** | **1 034,94** |
| Invoice B55 – correction of error | ( 300 ) |
| Credit Note 245 (correction of error on DN) 5/08 (43,22 – 31,66) | 11,56 |
| | 746,50 ☑ Mark is CA or if amount is the same as 1.5.1 |

(3)

1.5.3 Because the R300 paid back was for amount owing from June, not August. (1)

**20 marks**

**QUESTION 2**

**PART A**

2.1 2.1.1 A
2.1.2 C
2.1.3 B
2.1.4 B
2.1.5 A
2.1.6 D (6)

2.2 It is not only important to see if a profit was realised and what the financial position of the balance sheet is like but also to see how the company spends its money and where the money came from and how well their cash flow was managed. (3)

**OR**

Look at different Financial Perspectives. only.

2.3 2.3.1 Financial statements were fairly accurately compiled. Reliable.

2.3.2 That they were prepared using the same standards followed by other international companies. They were produced according to IFRS compliance is key for international trade. Can be compared to any other international / national companies. Any 1 point.

2.3.3 They were produced in compliance to the Companies Act which governs all South African companies. Adhere/ complied to act / Proper Procedures followed. Any 1 point. (3)

2.4 Illegal collections. Energy Losses / Meter Tampering / Primary energy costs / technical and non-technical losses. Both marks for mentioning one point. (2)

2.5 2.5.1 Eskom should insist that municipalities should monitor this and illegal connections should be cut off immediately as it is dangerous and life threatening. They should also try to subsidise poor communities or install prepaid meters.
Other options: Eskom must inform the municipality that the township requires legal electricity connections. OR Charge the municipalities and subsidise payments.
1 mark for making a suggestion that is ethical to solve the problem.
2 marks for a viable suggestion that has been well explained. (2)

2.5.2 The municipalities are being charged for the electricity. However, due to the illegal connections, the township residents are not being charged, so the municipalities are not able to pay Eskom. This lack of income will affect their cash flow poorly and also cause liquidity problems as Eskom cannot pay their debt or build more infrastructure.
One mark for mentioning debtors/ Trade and Rec / Money owed by Municip.
Two marks for a good explanation of how this affects liquidity or cash flow.
(2)

2.5.3 Acid Test Ratio for 2015: **OR** Creditors Payment Period
(65 124 – 28 870) : 74 294 = 340.61 OR 346.19 days
0,49 : 1

There is NOT sufficient liquidity to cover current liability requirements as both the current and acid test ratios indicate that there are not enough current assets to pay off current debt. Average debtors collection is high and this too will impact negatively on ESKOM's liquidity.

One mark for stating that they agree/disagree with the text.
Two marks for comparing any of the ratios (Acid Test, Current/ Trade Rec/ Trade Pay) with either liquidity or solvency (if Trade + Pay was done). (5)

2.6 17 000 ÷ 56 658 × 100 = 30%
The electricity plants require a lot of maintenance to keep running as the plants are old and more areas need electrical connections. Theft of Cables / Negligence (2)

2.7 This increase is too high when compared to the general profitability of Eskom. Operating profit on turnover which is only 10% for 2015, or has increased by only 15% from 2014. (Allocate mark for any 1 reference to any profitability ratio.) This is not an ethical decision, considering that the price of electricity has increased so much that it is becoming unaffordable. Inflation is roughly 5%, so such high salary increases are not justified. (Allocate mark for correctly referring to one additional valid point.)

**OR**

An increase in salaries is justified as the OP and NP have increased by 28% and 37% respectively, however, the amount of the salary increase is too high. (3)

2.8 It refers to fuel supplies that will only be realised or used in 12 + months. (1)

2.9 2.9.1 $$\frac{9\ 22\overset{\checkmark}{6} + 7\ 24\overset{\checkmark}{7}\ [4\ 772 + 2\ 475]}{(119\ 784 \checkmark + 109\ 139 \checkmark + 310\ 915 \checkmark + 224\ 446 \checkmark\ )\frac{1}{2}} \times 100 = 4,31\%$$ (6)

2.9.2 High Gearing: The debt : equity indicates very high gearing for 2015.
Solvency: This is not a problem, as their solvency indicates that their non-current liabilities are under control.
The forecasted risk is exceptionally high, however seems manageable considering that solvency will still not be problematic.
Compared to the cost of borrowing, Eskom is also negatively geared as the cost of borrowing exceeds their ROCE.
This might result in cash flow problems. (4)

**PART B**

Decision to Invest in …

First mark: naming ratio and correct numbers quoted.

Second Mark: correct explanation that validates decision. Must link to final decision.

| **Falcon Ltd.** | **Microdot Ltd.** |
|---|---|
| • Net Profit margin of 4.65% is stable from previous year of 4.58%. This is good. | • Net Profit Margin has increased by 58% from 2014 to 2015. Although the NP margin is lower than Falcon, it shows good growth in future. |
| • Turnover has increased by 8.5% since 2014. This is very good. | • Turnover, although being lower than Falcon, has increased by 21%. This shows incredible growth. |
| • Solvency Ratio has decreased from 1.35:1 to 1.12:1 in 2015, which is a more acceptable ratio. | • The solvency ratio might seem bad (0.56:1), however this is due to the loans required for expansion. This ratio has improved since 2014. |
| • EPS has increased by 11.2% (from 4 882c to 5 620c) since 2014. This shows good growth. | • EPS has increased by 23.47% (from 720c to 889c) which is excellent. |
| • DPS is good, despite the decrease from 38% of EPS to 37.3% in 2015. | • In 2014 18% of the EPS was paid in dividends. This has increased to 21.6% in 2015. Shareholders are earning increased returns through dividends. |
| • DPS has also increased from previous year (1 855c to 2 097c) which could be due to buy-back of shares. | • DPS – more dividends were paid in 2015 (192c) versus 2014 (130c), however, this might be due to retaining income for expansion. This is favourable for long term investments. |
| • Market Value is higher than NAV – 9 746c per share vs. NAV of 9 064c. This shows investor confidence. | • Market Value (3 546c for 2015) is lower than the NAV (3 694c for 2015). This is not ideal, but it might be because the company is fairly new and unknown, so demand is low. MV has become more aligned with the NAV. |
| • ROSHE has increased from 2014 – 22.43% (2014) to 22.68% (2015). This is positive. | • ROSHE (17.65% in 2015) is a satisfactory return. In time, this will increase more as the business grows. |
| • ROSHE's return for 2015 (17.69%) is an acceptable return considering the risk involved in purchasing shares. | • The shares are more affordable (3 546c vs 9 746c for Falcon) and the growth looks promising. |

If growth is indicated from one year to the next in ANY ratio and it validates the choice made – give 2 marks.

(11)

**50 marks**

## QUESTION 3 ASSET MANAGEMENT

3.1 Inventory quantity and availability is known at all times and updated on a continuous basis or cost of sales is always known. Define why.
They have the necessary equipment to record the details of a sale carefully. Can calculate stock losses/Large quantities of small items, but the learner must mention a consideration of costs for equipment.

**OR**

They are able to calculate the profit on stock sold immediately. (2)

3.2 Calculate the total **number of battery 6-pack units** that were lost/stolen during the first half, and the second half of the month.

| Date | Duracell units | Energizer units | Total |
|---|---|---|---|
| From 1 to 15 June | 228 – 212 = 16 | 280 – 278 = 2 | 18 |
| From 16 to 30 June | 286 – 264 = 22 | 270 – 50 – 215 = 5 | 27 |
| | | | 45 m |

(5)

3.3 3.3.1 Concept of materiality refers to immaterial items not having to be shown on financial statements. Not important, so don't show OR Very important so must show. (1)

3.3.2 This was applied incorrectly as the shrinkage is substantial and it is important to be made aware of it. (1)

3.4 3.4.1 Staff – The back shelves are near the staff exit to Bathrooms and the Store Room. The reason given must link to the space.

**OR**

Customers – It is at the back of the store, out of sight from the tellers and the Manager's Office. (2)

3.4.2

| Staff | Customers |
|---|---|
| • Have supervision in the store room to ensure that staff do not have access to their personal bags/handbags whilst taking a break.<br>• Staff are to be searched before going into the bathrooms or rest areas.<br>• More regular stock takes compared to stock sold as recorded by a computerised system. | • Have staff walking around the shop to keep an eye on customers if assistance is needed.<br>• Keep smaller valuable items like batteries locked behind a glass display.<br>• Ensure that all batteries/high risk items are kept at the front of the store or in clear view.<br>• Tag products electronically, which will trigger an alarm if not removed upon payment of the product. |

3 reasons (3)

3.5 3.5.1

| FIFO | WEIGHTED AVERAGES |
|---|---|
| 20 units @ R32 = R640 or calc<br>30 units @ R42 = R1 260 or calc<br><br>50 units = R1 900 | 20 @ R32 = R640<br>OR 300@R32 = R9 600<br>280 @ R42 = R11 760<br>Weighted Av price =<br>R12 400/300 = R41,33<br>OR 21360 / 580 = R36.83<br>(mark is for using the units as calculated initially.)<br>50 units @ R41,33 = R2 066,50 m<br>BUT only if 50 units is used in this final calculation. |

(7)

3.5.2 Not ethical as they do not present the information fairly without bias. It is also incorrect as they have not treated stock valuation consistently, so values relating to stock from previous months/years are not comparable. (1)

3.6 3.6.1 CoS = 212 × R32 each = R6 784 (1)

3.6.2 $\dfrac{6\ 784}{\frac{1}{2}\left(9\ 600 + \left(72 \times 32 + 228 \times 42\right)\right)}$ (Same as answer in 3.6.1)

$= \dfrac{6\ 784}{\frac{1}{2}\left(9\ 600 + 11\ 880\right)}$

$= \dfrac{6\ 784}{10\ 740} = 0,63$ times

If ratio is inverted, mark it but -2 at the end. (6)

3.7 The company policy is sufficient, as they are not selling out before the 15 days. Approximately 63% of their stock is sold out within the 15 day period. Shelves are never completely empty. (one valid point)
Purchase amounts indicated that no tall stock sold out. (1)

**30 marks**

**Total: 100 marks**