



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2019

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 BUDGETS

(30 Marks; 36 Minutes)

1.1 Use the information given in the additional information to calculate the missing figures denoted with the letters A–G. The "???" must not be calculated. Show your calculations on the appropriate line.

A.	$6 \times 42\,000 = 252\,000$
B.	$\frac{2\,800 \times 12 \times 100}{8} = 420\,000$
C.	70 000
D.	$10\,275 \times \frac{4}{3} = 13\,700$
E.	$2\,660 \times \frac{100}{140} = 1\,900$
F.	1 500
G.	$6\,800 \times \frac{102}{100} = 6\,936$

1.2 Calculate the ratio that is used to show factory insurance versus the office insurance.

$13\,700 - 2\,740 = 10\,960$ $10\,960 : 2\,740$ 4 : 1
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1.3 Complete the factory overheads for April 2020.

Factory overheads $2\,750 + 35\,000 + 10\,960 + 6\,936 = 55\,646$

1.4 Complete the projected income statement for HCC Designs for April 2020.

Sales $(10 + 4 + 6) \times R42\,000$	840 000
Cost of Sales $840\,000 \times \frac{100}{1,25}$	(672 000)
Gross profit	Do not fill in
Operating expenses	Do not fill in
Depreciation: Truck	2 800
Office Insurance	2 740
Vehicle expenses	2 660
Office telephone	???
Office stationery $160 + 700$	860
Net profit for April	159 385

1.5 *Thabo has come to you for advice. He is very excited about the profit he can make per month and wants to go ahead with HCC Designs rather than looking for another job. Unfortunately, he does not have the money, and banks will not lend him the money nor allow him to go into overdraft.*

1.5.1 *Explain in detail, two different reasons why HCC Designs can have a profit of R159 385 in April, yet have an accumulated cash deficit of R1 236 361 in the same month.*

- HCC Designs put cash into buying equipment and a truck. These are assets and not expenses so only their depreciation will decrease the profit.
- Only 30% of sales are cash sales, so although sales is an income, only 30% of these sales will be in the cash budget for April.
- Most of the raw materials bought in April will only be sold in May.
- The deposit for the factory rent is not an expense but an asset, and will not be found in the income statement.

1.5.2 *Thabo has calculated that he will need just over R1 230 000 extra to start HCC Designs. He does not have this. Carefully study the budget and write down three solutions he can implement to solve his cash flow problems.*

- Thabo can rather hire/lease the equipment/truck to start with.
- Thabo could buy a cheap 2nd hand truck instead of the new one.
- He can ask the wood supplier to cut the wood so that he does not need to buy the expensive saws.
- Thabo can get private financing or a partner.
- He could rent a plot that would be cheaper than a commercial property.
- He could negotiate to buy his raw materials on credit.

QUESTION 2 MEMORANDUM

(28 Marks; 34 Minutes)

PART A

2.1 Complete the debtors age analysis as it should have appeared on the statement. Do **not** do any of the corrections but use **only** the numbers as they appear on the statement.

90 Days	60 Days	30 Days	Current
34 000 + 45 750	39 780	28 660	35 900
– 34 000 – 34 200	– 3 870		+ 462
= 11 550	= 35 910	= 28 660	= 36 362

2.2 Calculate the interest rate per month that Bumpless charged on the outstanding debts that were 90 days overdue.

$462 / 11\,550 \times 100 = 4\%$

2.3 Taking into consideration the differences, prepare the Creditor's Reconciliation and calculate the correct amount owed by PeaceOfPocket on 30 November 2019.

Creditors Reconciliation on 30 November 2019

Incorrect balance	112 482
• Invoice P79 cancelled	(45 750)
• Credit note P02	90
• Discount omitted	(1 800)
• Interest cancelled	(462)
• EFT (Can record full amount of invoice as one amount for 2 marks)	(27 227)
• Discount on the EFT	(1 433)
Correct amount owed by PeaceOfPocket	35 900

No method mark if the invoice corrected in the CL was added.

2.4 PeaceOfPocket has a payment policy that it adheres to. Study the information and explain its policy.

- It pays 95% of the outstanding invoices on the last day of the 30 day period.

2.5 Write down the best method that PeaceOfPocket should use to get its clients to pay their monthly insurance premiums. Explain what makes this the most suitable method for collecting the money.

- Debit orders
- The money will automatically be subtracted from the clients' accounts and transferred to theirs. PeaceOfPocket does not need to rely on its clients to pay.

2.6 *Udesh, the bookkeeper at PeaceOfPocket, knows the person whose car was fixed belonging to invoice P90 on 15 November. Someone had reversed into their car at the shops, denting their back bumper. The job was for Bumpless to replace the back bumper. Udesh also knows that the general cost of a back bumper for this car is R4 700. Udesh suspects the following:*

- *Instead of sending an invoice for the exact job that was done on the car, Bumpless is adding work and parts to each invoice.*
- *Bumpless is also sending extra invoices for which there was no work hoping PeaceOfPocket will not notice and pay the extra invoices (invoice P79).*

Explain a control system with two points that PeaceOfPocket can implement to stop the above from happening.

- They can get quotations from a minimum of 2 companies.
- The client can sign the quotation and the invoice to say they agree with the scope of work.
- Every claim would get a number. This number must be used when quoting and on the invoice.
- A spreadsheet can be kept of all the claim numbers and when the invoice is received it is compared to the claim number and the quotation for that claim number.
- They can have a policy that they only pay when they receive the invoice – they do not pay what the statement says.

per one control.

PART B

2.7 *Study the bank reconciliation on 31 October 2019 then calculate the bank balance as it would have appeared on the **Bank Statement** on 31 October 2019. Write down whether it is a **favourable** or **unfavourable** balance.*

R1 065
Negative

2.8 *Show how the transactions in the information book should be dealt with on 30 November by entering the given **amounts** into the table.*

Transaction	CRJ	CPJ	General Journal	Bank reconciliation		No entry
				Debit	Credit	
a)	3 160					
b)				2 408		
c)						3 700
d)		2 160	240			

QUESTION 3 MEMORANDUM**(42 Marks; 50 Minutes)**

3.1 *Study the extract from the Income Statement and the Breakdown of operating income per department then answer the following questions.*

3.1.1 *The operating expenses on profit increased from 191,5% in 2017 to 245,1% in 2018. Explain the main cause of this increase.*

- The decrease in sales

3.1.2 *Write down an area in the Income Statement that has improved.*

- Finance costs have decreased
- Other operating expenses have decreased
- Investment income has increased

3.1.3 *Tiger Brands withdrew all ready-to-eat meat products and closed the two Enterprise factories manufacturing these products. The factories closed at the beginning of March 2018.*

(a) *Even though the product recall loss was not part of the value added meat products, they still showed a loss. Discuss two expenses VAMP had that could have caused the loss.*

- They maintained the 1 600 permanent employees, so wage/salary and contribution costs.
- The factories were used for training, so they would have still had water/electricity/rates or rent/maintenance.
- Destroying the raw materials stock and the finished goods stock that had been bought/produced but could not be sold.

(b) *The financial report stated that VAMP had a material impact on the results. Describe the impact VAMP had on the profits and explain why this is material. Show necessary calculations.*

$$422,1 + 252 + 50,5 = R724,6 \text{ million loss due to VAMP}$$

$$724,6 \div 2\,417,1 \times 100 = 29,98$$

$$\text{OR } (422,1 + 252 = R674,1 \text{ million} = 27,89\%)$$

- The loss accounts for nearly 30% of the profit. This made a big difference to their results. (Accept the calculation without the 50,5.)

3.2 Calculate the figures A – C in the statement of financial position. Show the calculations.

Rm	
A	$189,82 \times R90 = 17\ 083,8$
B	$10\ 377 \div 1,8 = 5\ 765$
C	$23\ 979,2 - 17\ 083,8 (A) - 5\ 765 (B) = 1\ 130,4$

3.3 3.3.1 Calculate the acid test ratio for 2018. Explain why Tiger Brands would calculate this ratio and comment on their ratio for 2018.

$10\ 763 - 5\ 064 : 5\ 401,0$ $5\ 699 : 5\ 401,0$ $1,06 : 1$
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- To test whether the current debts can be paid off without having to sell inventory.

Comment:

- There are enough debtors and cash to pay off the current debts.

3.3.2 Explain a possible reason why the stock turnover rate decreased in 2018, and provide two reasons whether this rate is suitable for Tiger Brands.

Reason it dropped:

- The processed meats would have a quick turnover. They stopped manufacturing the meats, but still manufactured things that did not go off quickly like sweets.
Is this rate sufficient? Yes
- Tiger Brands first has to manufacture the stock – and the rate would include the raw materials, so 3 months is sufficient.
- Some of their products last a long time before going off, like spray and cook, Koo, spaghetti, etc. so they would balance out the rate for the things that need to be sold quickly.

3.4 Does Tiger Brands run the risk of going insolvent? Justify your answer by providing a calculation.

$23\ 928,4 : 6\ 463,2$ $3,7 : 1$

- Tiger Brands has no risk of going insolvent.

3.5 *Coronation Asset Management (Pty) Ltd invests money on behalf of their clients. Coronation is one of Tiger Brands' biggest shareholders, owning 3,5% of Tiger Brands.*

3.5.1 *Calculate the number of Tiger Brands shares that Coronation owns.*

$$189\,820\,000 \times 3,5\% = 6\,643\,700$$

3.5.2 *Calculate the total market value of the Tiger Brands shares that Coronation owns on 30 September 2018.*

$$6\,643\,700 \times 265,60 = R1\,764\,566\,720$$

3.5.3 *Discuss two factors that would have contributed to the decrease in the **demand** for Tiger Brands shares on the JSE.*

- Investors would have sold their shares when the Listeria hit, causing the shares to drop in price.
- More investors would have sold their shares when they saw the decrease in profits for Tiger Brands.

3.5.4 *Should Coronation want to sell their Tiger Brands shares, they have the option of either selling the shares directly back to Tiger Brands or selling them on the JSE. Explain why it would be disadvantageous for Coronation to sell their shares on the **JSE**.*

- The JSE price will drop and they will get less money as the price drops.
- They will not be able to sell all their shares at once. / It will take a long time to get all their shares sold.

3.5.5 *Discuss the financing options available should Tiger Brands want to repurchase their shares directly from Coronation.*

(a) *With reference to risk, return and gearing, explain whether Tiger Brands could finance the repurchase with a loan. (Show applicable calculations.)*

$$\begin{array}{l} 1\,062,2 : 17\,465,2 \\ 0,06 : 1 \end{array}$$

- Tiger Brands has low risk.
- The ROCE is 13,2% ✓ which is higher than the 9,5% interest rate.
- They could finance with a loan.

(b) *By using an appropriate figure, comment on whether Tiger Brands could finance the repurchase without the loan.*

- Coronation owns shares with a market value of just over R1 764 million. Should they sell it on the JSE the price will drop. Tiger Brands therefore can negotiate to repurchase them at a price below the market value. They have R1 581,1 million cash on hand at the end of the year. They do not have enough cash in the bank to be able to buy all of Coronation's shares but could possibly negotiate a lower price.

(c) *If Coronation offered to sell their Tiger Brands shares back to Tiger Brands for R250 per share, discuss why this would not be a sound business decision for Tiger Brands.*

The NAV is only R92,01. Repurchasing at R250 is expensive and is not a good investment for Tiger Brands to make into itself.

3.6 *Explain whether Tiger Brands behaved ethically once the Listeria outbreak was discovered. Give two points.*

Were ethical:

- They kept on the workers while the factories were closed.
- They immediately recalled, not only the food that had Listeria, but all the food produced in those factories.
- Trained the workers further.
- Give R10 million to help prevent this from happening again.

Total: 100 marks