



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2018

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**(33 marks, 40 minutes)**

Read the article on Amzi Manufacturers Ltd in the Information Booklet and then answer the following questions.

- 1.1 Complete the Debtors Collection Schedule for February and March 2019, including the credit sales amounts for November and December 2018.

Debtors Collection Schedule for February and March 2019

	Credit sales	February	March
November	✓ 1 790 000	358 000	
December	✓ 1 700 000	☑ 850 000	☑ 340 000
January	1 870 000	✓ 561 000	☑ 935 000
February	2 040 000		612 000
		☑ 1 769 000	✓ 1 887 000

(8)

- 1.2 Calculate the missing amounts labelled A–H. **Show calculations. Do not calculate amounts indicated by a ?.**

A	$2\,040\,000 \times 15/85 = 360\,000$ ✓
B	$1\,769\,000$ ☑
C	$700\,000 \div 200 = 3\,500$ per person $90 \checkmark \times 4 \checkmark \times 3\,500 \checkmark = 1\,260\,000$
D	$66\,240 \times 100/92 \checkmark \times 40/60 \checkmark = 48\,000$
E	$68\,000 \times 60/40 \checkmark \times 92/100 \checkmark = 93\,840$
F	$310\,000 \times 112/100 = 347\,200$ ✓
G	$5\,100\,000 \div 10 \text{ years} \div 12 \text{ months} = 42\,500$ ✓
H	$569\,300$ ✓

(12)

- 1.3 They are expecting the factory overheads to increase by 12% in February.

- Explain what the main item is that will change and cause this increase.
- Calculate how much (rand value) this item will add to the factory overheads.

Item: The wages from the 10 workers who will oversee the production have moved from direct wages to factory overheads. ✓✓

OR: Large increase in electricity due to the robot arms.

OR: Large increase due to maintenance on robotic arms.

(2)

- 1.4 Use February's interest on the loan to calculate what percentage interest Amzi Manufacturers will be paying on their loan.

$$5\,100\,000 \checkmark \times 1/12 \checkmark \div X/100 = 38\,250 \checkmark$$

$$X = 9\% \text{ p.a. } \checkmark$$

(4)

- 1.5 *Looking at the deficit for February, explain whether Amzi Manufacturers Ltd needs to be worried about this.*

Do not need to be worried. The main reason for the deficit is the severance pay of R1 260 000. This is a once-off amount, only to be repeated in August and then never again. By the end of March they are in a surplus once again, and have a high surplus. ✓✓ for insight

(2)

- 1.6 (a) *Amzi Manufacturers Ltd plans to replace the other 100 direct factory workers with robotic arms and 10 factory supervisors in August. Use the **figures in the Cash Budget** and explain in detail two cost benefits **should** Amzi Manufacturers Ltd go ahead with this plan.*

- Per month saving on wages: $350\,000 - 35\,000 = R315\,000$. ✓
Plus they will save on the overtime as the robotic arms can do more than the production lines with the workers. ✓
- The severance pay will be covered by 4 months of saving the wages.
- The repayment on the loan and the interest are much less than the long-term savings on wages. ✓ With over a million surplus that can be expected most months, they can increase the payment on the loan and pay it back within a year, saving most of the interest. ✓

(4)

- (b) *In keeping with good corporate governance as per the King Code, write down a point they need to consider when making the decision to use the robotic arms in the factory.*

- In a country with high unemployment, they will be adding to it. ✓
- Triple bottom line – they should not only consider their profit, but also the effect on the community. Getting rid of wage earners will add to poverty and crime in the community. ✓

(1)

33 marks

QUESTION 2 COMPANY ANALYSIS**(42 marks; 50 minutes)**

Read the article on Aspen in the Information Booklet and then answer the following questions.

2.1 *The article seems to see Aspen's high gearing as a problem.*

- (a) *Explain what gearing refers to.*
The ratio between own and borrowed money ✓ in which the company is financed. ✓ (2)
- (b) *Give one advantage and one disadvantage of Aspen financing its assets through loans.*
Advantage:
• Does not dilute the ROSE / ROCE / EPS / DPS ✓
Disadvantage:
• Increases interest expense. ✓
• Have to pay loans back regardless of making a loss or a profit. (2)
- (c) *State whether Aspen has high risk. Calculate a ratio to back up your answer.*
Calculation:
• $38,4 \checkmark : 43,1 \checkmark$
 $= 0,89 : 1$
• **High risk?** Yes (2)
- (d) *Explain whether this is a problem.*
Is this a problem?
• No. With R5,1 billion net profit Aspen should be able to repay their debt quickly. ✓
• Debt used for expansion so Aspen's profit should continue to increase making it easy to repay the debt quickly. (1)

2.2 *During 2017 and 2018 Steinhoff has been investigated to see if its management committed fraud amounting to billions of rands despite the company having an internal audit committee. According to the King Code on Good Corporate Governance, a company should have an internal audit committee aimed at reducing the risk of fraud.*

(a) Give **two activities** that the internal audit committee should be responsible for in order to reduce the risk of fraud.

- They should have internal control processes in place to minimise theft and fraud. ✓
- They should audit each section of the company regularly. ✓
- They should audit each section of the company over time.
- They should see where the risks lie and put controls in place to minimise the risks.
- They should see whether the controls are being complied with.
- They should be selecting qualified, registered external auditors.
- They should be testing whether the external auditors are doing a good job.

(2)

(b) *The media has reported on the increasing amount of fraud taking place in the corporate world. Explain why company fraud committed over a couple of years reflects badly on the external auditing profession.*

- The financial statements are audited every year. This means that they missed fraud worth billions over several years. ✓✓
- Their processes should have picked up the fraud. So inadequate processes.
- Or this could mean that they were biased, and involved in the fraud.

(2)

2.3 (a) *Aspen's net profit increased from 2016 to 2017. Discuss **two** items in the Statement of Comprehensive Income, besides sales and gross profit, that led to this increase.*

- The operating expenses increased less than the GP increase, R1,1 billion (10,19%) ✓✓
- The financing cost reduced significantly, R0,8 billion (38,89%). ✓✓
- The reduction of tax also increased the net profit. R0,7 billion (38,89%) ✓✓

(4)

(b) *Saad explains the tension between providing reasonably priced medicine versus making a profit. Explain whether, in your opinion, the fine was justified. Give two points.*

No:

- The price had not risen for 40 years. ✓
- There is always a generic (alternative) medicine people could buy instead.
- There should be a free market. ✓

Yes:

- It is unethical as people are relying on the medicine.
- They should have inflationary increases annually, not a huge increase at once.

(2)

2.4 *The analyst said that Aspen ought to have disclosed what percentage of its growth was due to acquisitions and what percentage was due to existing sales. Write down which generally accepted accounting principle (GAAP) suggests this, and explain why it is important for shareholders to have this information.*

- Principle: materiality/transparency ✓
- Explanation: it is important so that the shareholders can see if Aspen's acquisitions are paying off ✓ and if there is a reasonable growth in the existing sales. ✓

(3)

Study the ratios given and then answer the following questions.

2.5 *Calculate the missing amounts in the 2016 Statement of Financial Position numbered A–E. **Show your calculations.***

A	$37,8 \div 1,8 = 21$ ✓
B	$0,7 \times 21 = 14,7$ ☑
C	$37,8 - 14,7 - 12,1 = 11$ ☑
D	$40,8 \div 96 \times 100 = 42,5$ ✓
E	$42,5 (D) + 40,8 + 21 (A) = 104,3$ ☑

(5)

2.6 (a) *Calculate the percentage of earnings per share that was retained by Aspen in 2017.*

$1\,123,4 - 287 = 836,4$ cents $836,4 \div 1\,123,4 \times 100 = 74,45\%$ ✓
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(1)

(b) *Write down two reasons why Aspen may have decided to retain such a large percentage of their earnings.*

- They are still making acquisitions/expansion. ✓
- They need to pay off the acquisitions they have made.
- They need to focus on paying back their large loans.
- Retaining profits to pay dividends the following year. ✓

(2)

(c) *Describe what the net asset value (NAV) represents.*

- The book value of the share based on the equity value per share. ✓

(1)

(d) *Study the one-year share price graph.*

- Write down the approximate share price on 30 June 2017.
- Explain how the NAV compares to the share price on 30 June.
- Give a possible reason for the difference in value.

Approximate share price:

- The share price was somewhere around 29 000 cents on 30 June 2017. ✓

Compare:

- About three times as much as the book value, even after dropping considerably. ✓

Reason:

- It could be that in the past the investors had a lot of faith in Aspen. ✓

- The land and buildings are possibly undervalued, but most of their expansion is recent and the acquisitions should have a current value.

(3)

- 2.7 (a) Calculate the stock turnover rate for 2017. Write down whether you think this rate is acceptable. Give two reasons to support your opinion.

Calculation:

$$\frac{21,3}{(13,6 + 14,7(B))} \times \frac{1}{2} = \frac{21,3}{14,15} = 1,51 \text{ times}$$

Not acceptable:

- Their medicines may expire before they are sold. ✓
- They will need lots of storage space which is expensive. ✓
- A new medicine may come onto the market and they will battle to get rid of all their old stock.

Acceptable:

- It is taking about 8 months from when the raw materials are recorded till the finished goods are sold. It is acceptable considering the stock must first be manufactured. ✓
- The stock turnover rate has increased from the previous year. ✓ (5)

- (b) Explain the main cause of the steep decrease in the current ratio from 2016 to 2017.

- Large increase of R13,8 billion in the current liabilities. ✓
- OR: Large increase of R8,1 billion in the current borrowings. (1)

- (c) Provide two reasons why Aspen might not be able to repay their short-term debts.

- Even if Aspen used all their cash, collected all their debts, they would not be able to pay off their current debts. ✓
- Plus, their stock is taking about 8 months to sell so they will not have high cash sales that they can use to pay off their current debts. ✓
- It will take them nearly 8 months to sell their stock, then they must still receive that money from the debtor they sold it to. Will be difficult to repay current debts. (2)

- 2.8 List two financial benefits that management will receive if they are given shares as an incentive.

- They receive the value the share is trading at on the JSE at the time. ✓
- They receive the benefit of future dividends. ✓ (2)

42 marks

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

- 3.1 *After reading the errors or omissions relating to Vet Med, make the applicable corrections in either the Creditors Reconciliation or the Creditors Ledger.*

	Creditors Ledger	Creditors Reconciliation
Incorrect balances on 30 Nov 2018	35 844	41 580
Discount 57 + 57	✓ (114)	
Invoice 147	✓ 90	
Debit note		✓ (160)
Post-dated cheque		✓ (7 000) or +7 000 to Ledger
Delivery order	✓ (1 400) or +1 400 to Recon	
	34 420	<input checked="" type="checkbox"/> 34 420

(6)

- 3.2 *What is the purpose of a Creditors Reconciliation Statement?*

- To reconcile the total of the creditors ledgers with the statements in order to look for outstanding figures or errors. ✓

(1)

- 3.3 (a) *Explain in detail what **Vet Med** should have done when they received the post-dated cheque described in point 4.*

- They should have put it in the safe ✓ and only entered it in the CRJ once it was due. ✓

(2)

- (b) *Describe how the above post-dated cheque should be treated in the financial statements of **Ed's Animal Clinic**. Also explain why this should be done.*

- Add R7 000 to bank / cash and cash equivalents. ✓
- Add R7 000 to creditors control / trade creditors / trade and other payables. ✓
- It should be done in order to ensure that the amounts shown in the financial statements accurately reflect the value of the assets/liabilities for the current year. ✓

(3)

- 3.4 *Not many people use cheques as a method of payment these days. Give two reasons why businesses prefer alternative methods of payment.*

- The cheque needs to be delivered to the payee, whereas they can pay with a credit card or EFT from home / their office. ✓
- There is a lot of cheque fraud. ✓
- The payment takes about two weeks to reflect in the account after being deposited at the bank, whereas an EFT takes only up to two days and a credit card is instant.

(2)

- 3.5 Use the information given in points 6 to 9 to draw up the corrected Debtors Age Analysis. The totals given are before the errors or mistakes were taken into account.

Age analysis of Paws Rescue Centre on 30 November 2018

90 days	60 days	30 days	Current
R100 720	R22 160	R15 130	R34 020
– 20 020 ✓	+ 13 200 ✓	+ 1 800 ✓	+ 538 ✓
= 80 700	= 35 360	= 16 930	= 34 558

(4)

- 3.6 Explain whether you think Ed's Animal Clinic is controlling its debtors well. Give two reasons to back up your opinion.

No

- The largest debt is the debt that has been outstanding for 90 days. ✓
- They have exceeded their credit limit of R30 000. ✓

(2)

- 3.7 Explain one possible consequence, besides possible bad debts, if debtors are not properly controlled.

- Possible cash flow problems / bad liquidity. ✓
- Difficult to keep track of so much outstanding debt – may have to hire an extra person to follow up debtors. ✓
- If the customer ends up owing so much that they cannot pay, they may find another vet instead.

(1)

- 3.8 Write down **four** accounting control measures Ed's Animal Clinic **does not seem to have in place**, but will need to introduce to manage the debtors in future.

- Do credit checks on all new debtors. ✓
- Email monthly statements. ✓
- SMS weekly reminders on debts. ✓
- Make sure that they do not buy anything more if they have gone over their limit, until they pay something back. ✓
- Phone to make payment arrangements on debts older than the credit limit or credit terms.
- Can institute discounts for payments within 30 days. (Can't change interest as it is an existing credit term. Neither a credit limit nor credit terms.)

(4)

25 marks

Total: 100 marks