



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2022

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**[41 Minutes]**

- 1.1 Complete the Creditor's Payment Schedule below relating to Ink Solution.

Creditor's Payment Schedule for November 2022

	Ink and toner cost for the month	November
August 2022	$1\,530 \times 100/15$ 10 200	$10\,446 - 2\,646 - 6\,270$ 1 530
September 2022	$2\,646 \times 100/98 \times 100/25$ 10 800	2 646
October 2022	11 000	$11\,000 \times 60\% \times 95\%$ 6 270
		10 446

- 1.2 Complete the cash budget for November 2022. Show your calculations.

Cash Budget of Relax 'n Rent for November 2022

Receipts	258 920
Machine rental income	144 000
Per page income	114 920
Payments	Do not calculate
Creditors payment: Ink Solution	10 446
Creditors payment: Copy Ink Ltd for the old equipment $(1\,350\,000 + 432\,000) \div 4 \div 12$	37 125
Creditors payment: Copy Ink Ltd for the new equipment	26 950
Technician costs $(45\,600 \div 12) \times 1,6$	6 080
Water and electricity $7\,340 / 4$ or $7\,340 \times 40/160$	1 835
Salary: Sihle Bhengu	50 000
Salary: Mrs Bhengu $6\,900 + 2\,300$	9 200
Phone charges and WIFI	?
Office supply purchases $350 + 500$	850
Donations	14 000
Cash surplus / deficit	100 734
Balance at the beginning of the month	379 020
Balance at the end of the month	479 754

- 1.3 1.3.1 Using the statement from Copy Ink Ltd, complete the Equity and Liabilities part of the Statement of Financial Position as at 31 October 2022.

Extract from the Statement of Financial Position at 31 October 2022

EQUITY AND LIABILITIES	
Shareholder's Equity	436 320
Non-current liabilities: Copy Ink Ltd	675 000
Current liabilities	Do not calculate
Ink Solution	6 020
Copy Ink Ltd	337 500
Total equity and liabilities	Do not calculate

1 Mark for understanding that the amount excluding interest must go into the statement (R1 012 000) no matter in which liability column they put it.

1 method for splitting it into one third into the current portion, and 2 thirds into the non-current, no matter what amount was used.

- 1.3.2 Name the GAAP principle that dictates which figure, from the statement from Copy Ink Ltd, you used to complete the liabilities section above.

Matching / accrual or Fair presentation or Historical Cost

- 1.4 Calculate the cost of the new equipment.

$$26\,950 \times 12 \times 4 = 1\,293\,600$$

$$1\,293\,600 \times 100/132 = 980\,000$$

- 1.5 1.5.1 Calculate the debt equity ratio for 1 November 2022 should Relax 'n Rent buy the new machines.

$$675\,000 + 735\,000 : 436\,320$$

$$1\,410\,000 : 436\,320$$

$$3,23 : 1$$

- 1.5.2 **Based on the debt equity ratio** calculated in Question 1.5.1, do you think that Copy Ink Ltd should sell the new equipment to Relax 'n Rent on credit?

- Relax 'n Rent's debt is nearly four times their equity. This is very high risk.
- Based on the debt equity they should not extend his credit.

1.5.3 Relax 'n Rent has a 200% return on equity. Explain why Relax 'n Rent has such a high return on shareholder's equity.

- They have a return of 200% because Sihle did not put in any capital. All equity has been earned by the business.

1.5.4 Besides the gearing, explain two other factors that Copy Ink Ltd should look at before granting Relax 'n Rent more credit, then explain why you would advise Copy Ink Ltd to sell them/not sell them the new equipment.

- They have no cash flow problems. Good liquidity and excess cash.
- Relax 'n Rent pay with a debit order. Since their bank balance is good the debit orders would have not bounced – so reliable payments.
- If Relax 'n Rent defaults on their payments, Copy Ink Ltd would be able to take back their machines and cover any outstanding amount.

Yes

- With their excess cash flow they will be able to make the payments easily. They are not a credit risk. This will increase Copy Ink Ltd's sales.

1.6 Sihle has a suspicion that one of the technicians is charging him for going out to businesses to service or fix the machines, but is not actually going there. He is charging for jobs he did not do. Discuss a control measure Sihle can implement to stop this from happening.

- Relax 'n Rent can require the technician to fill in a job card of what was done with the date and time. The business needs to stamp or sign that this was done. These need to be handed in to get payment.

1.7 Sihle has hired you as an external auditor. Explain in detail why you would allow, or not allow, Mrs Bhengu's salary to remain in the Statement of Comprehensive Income.

- No, because this is not a business expense. She is not working for the business. It is unethical.
- It is tax evasion and is illegal.
- Yes cannot get a mark because it is illegal.

QUESTION 2: COMPANY ANALYSIS**[56 Minutes]**

2.1 In their financial statements, Italtile published a seven-year review. Discuss the value of this compared to just showing the latest two years.

- It shows trends and consistency.
- It will show the overall performance over time instead of only the current years where something like lockdown, looting or something out of the ordinary may have affected a year.

2.2 Study the seven-year review then answer the following questions:

2.2.1 Explain why the mark-up fluctuates from year to year.

- Italtile will probably have sales to sell the end-of-range products, and these amounts will differ from year-to-year.
- A change in demand for the products.

2.2.2 Discuss whether the directors would be pleased with the **2021** gross profit and mark-up. Motivate with two calculations.

- They should be very pleased as not only did their mark-up rise 18% from the previous year, but they sold more items increasing their cost of sales by 23% and their sales by 34,76%
- 2 Calculations

2.2.3 Comment on whether Italtile's operating expenses are being well controlled. Yes/No – the explanation will get the marks

- The difference between the gross profit and operating profit in 2015 was 24,8%. In 2021 it was 36,6%. This shows that more of the gross profit is being used for the expenses than previously. They will need to make sure that it does not keep on increasing.
- The difference between the gross profit and trading profit in 2015 and in 2021 is 393,31%. This is much higher than inflation.
- The increase in operating expenses has been justified as it has resulted in a higher turnover.

2.3 Italtile has an extensive property portfolio. Discuss two detailed advantages for Italtile to own most of the property on which their shops and distribution facilities are built.

- Property costs per m² are generally cheaper than rental costs. Added to this, over time the rent increases but the interest on the loan goes down as it decreases.
- It takes a lot of space to display tiles, bathroom ware and the products they sell. If they buy the land they can build showrooms the right size with large storerooms and place for deliveries since the stock is heavy and probably need to be offloaded with forklifts.
- The land and buildings add value to their financial position, and generally the land grows in value over time. This makes their financial position more stable and valuable.

Any reasonable explanation.

- 2.4 Refer to the financial ratios given and calculate the missing figures in the **2020** Statement of Financial Position. Do not calculate the "?". Show your calculations in the blocks.

	Rm
A	$897 \div (3,35 - 2,2) = 780$
B	$780 \times 3,35 = 2\,613$
C	$2\,613 - 897 - 860 = 856$
D	$5\,630 \times 0,2 = 1\,126$

- 2.5 2.5.1 Calculate the stock turnover rate for **2021**, then write a detailed comment on whether this would be a satisfactory rate for Italtile.

$\frac{5\,106}{(1\,164 + 897) \times \frac{1}{2}}$ $= 4,95 \text{ times}$

- 4,95 times is an excellent stock turnover rate for products that take years to go out-of-date and that do not go off or expire.

- 2.5.2 The current ratio has dropped from 4,6 : 1 in 2019 to 2,28 : 1 in 2021. Explain, providing a reason, whether this is an improvement or not.

- The current ratio is a balance between the current assets and the current liabilities. With a ratio of 4,6:1 the cash is either sitting in the current assets or they are not buying enough on credit or they are paying off their creditors really quickly. Dropping to 2,28 is an improvement as the current assets are more in balance with the current liabilities.
- There is an improvement in the debtors' collection period as well as the stock turnover rate, and more is being bought on credit. This shows that there is an improvement in the liquidity.

- 2.6 2.6.1 Analyse the cash flow movement shown in the seven-year review, and explain whether this is a good or bad way of handling their cash.

1 Mark for identifying where their cash comes from.

1 Mark for identifying where it goes to.

1 Mark for identifying that this is a good cash flow.

- It is good.
- They get the majority of their cash through their operating activities and through their financing activities.
- Their cash goes into investing activities which will grow their business further.

2.6.2 Write down two examples of the investing activities that Italtile has that were mentioned in the case study.

- Buying property
- Buying a controlling interest in related companies
- Investing in financial investments

2.7 2.7.1 Calculate the return on shareholder's equity for **2021**, and then comment on whether the directors of Italtile would be happy with the return.

$$\frac{2\,555}{(6\,713 + 5\,630)} \times \frac{72}{100} \times 100$$

$$\frac{1\,839,60}{6\,171,50} \times 100$$

$$= 29,81\%$$

- Yes they should. The return is up from 2019 (recovered from the effects of lockdown).
- It is much higher than an alternative investment.

2.7.2 Although the EPS was 141 cents, the DPS was only 106 cents. Discuss whether the shareholders would be pleased with the 106 cents, or whether they should have received a DPS of 141 cents.

- They should be happy because Italtile has given 75% of its earnings in dividends and retained 25% to build its value.
- The investors should be pleased because 75% of a good return of nearly 30% is excellent dividends. Plus they have retained 25% of their earnings which is a good decision for the future growth of the company.

2.7.3 Explain what the Net Asset Value represents and why the share price is so much higher than it.

- The Net Asset Value represents the book value of the share (equity divided by the amount of shares).
- The share price is higher than the book value because investors want this share as they think Italtile is a good investment.

2.8 Read the extract from the auditor's report, then answer the following questions.

2.8.1 What is the purpose of the external auditor's report?

- To let the shareholders know whether the financial statements are reliable.

2.8.2 Write down two pieces of audit evidence they would obtain to verify the water and electricity amount in the Statement of Comprehensive Income.

- They would take samples of the invoices (statements) from the municipality.
- They would look at the Cash Payments Journal and Bank Statement to see that the amount was paid.
- They could follow the process and make sure the CPJ was posted correctly to the ledger and trial balance.

2.9 Read the extract from the Corporate Governance report. Italtile is not allowed to count this as one of their corporate social responsibility programmes as, by law, these programmes are not allowed to benefit their employees or their families.

Explain the difference between Corporate Governance and a Corporate Social Responsibility programme. Then discuss whether Italtile should be spending time and effort on their Employee Wellness Programme if it does not count towards their corporate social responsibility programme.

- Corporate Governance is the ethical management of the company while CSR is what the company does to help the environment and community around the company.
- They should because it is ethical management towards their employees.
- Since on average 7 people in South Africa rely on a person who has a job, the more financially secure a person is, the better for the community. Italtile's employees will also work better if they feel cared for and have less financial worries. This will directly affect their families.

QUESTION 3: RECONCILIATIONS**(23 minutes)**

3.1 Explain the importance of a Debtors' Age Analysis.

- Used as a control mechanism to track debtors' payments and then take corrective action should payments not be made timeously.

3.2 Use the information in the information book to make corrections to the Debtors' Age Analysis. The Debtors' Age Analysis does not need to be totalled.

Incorrect/incomplete Debtors' Age Analysis drawn up on 31 October 2022.

120 + days	90 days	60 days	30 days	Current
16 000	3 500	89 400	120 350	92 680
– 16 000	– 2 300	– 12 800	– 13 000	– 4 900
		– 7 320		+ 25 300

3.3 In adjustment 1, Santa's sled was damaged and this caused a problem between Dazzling Designs and MegaSpend Mall. Jemma realised that something similar could happen again at any one of the malls that they decorate. Discuss what she can do to prevent this from becoming an issue in the future.

- Dazzling Designs could take out insurance on their big decorations.
- They could include a clause in their contract that if anything is damaged they must pay for the repairs.
- Secure deposits that are only refunded after the equipment has been returned. If damaged, the repairs are taken from the deposit.
- Set up the big, expensive decorations where the security stands in the mall.

3.4 3.4.1 Some of Dazzling Design's repeat cash customers are asking to open accounts. Discuss one reason as to whether Jemma should allow them to open accounts or not.

- Yes, they may spend more.
- Yes, they are repeat customers so you know that they pay.
- Yes, you know where they stay.
- No, it will be a lot more admin to keep track of them.
- No, they are hiring Dazzling Design already, so should keep on hiring them without credit.
- Bigger risk of bad debts.
- More risk of cash flow problems.

3.4.2 If Dazzling Designs were to open accounts for them, write down three terms and conditions that Dazzling Designs should put on their contracts.

- They must agree to a credit check.
- How long they have to pay.
- Penalties if they do not pay in time.
- Discount for early payment.
- They cannot have another event if they haven't paid for the previous one.

3.5 Compare the statement from Authentic Wood to their account in Dazzling Design's Creditors' Ledger. Use the additional information to complete the Creditor's Reconciliation statement below.

	Creditor's Reconciliation
Incorrect balance	106 810
Credit note 08	– 300
Invoice D53	– 15 960
Interest	– 18
EFT	– 47 300
	Do not calculate

Total: 100 marks