



NATIONAL SENIOR CERTIFICATE EXAMINATION  
NOVEMBER 2023

## **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 BUDGETS**

- 1.1 Complete the debtors' collection schedule for November and December.

**Debtors' collection schedule for November and December 2023.**

	Credit sales	November	December
September	<b>159 750</b>	<b>79 875</b>	—
October	<b>162 000</b>	<b>59 616</b>	81 000
November	155 250	—	$155\,250 \times 40\% \times 92\%$ <b>57 132</b>
		Do not calculate	Do not calculate

- 1.2 Calculate the missing amounts labelled 'A' to 'G' in the cash budget. Do not calculate the '?'. Show your calculations.

A	$155\,250 \text{ (from 1.1)} \times 10/90 = 17\,250$	
B	$700 \times 250 = 175\,000$ $175\,000 \times 10\% = 17\,500$	
C	$13\,800 \times 75/25 = 41\,400$ $41\,400 \times 95/100 = 39\,330$	
D	$155\,250 \times 100/90 = 172\,500$ $172\,500 \div 250 = 690$ $690 \times 18 = 12\,420$	OR $17\,250 \times 100/10 = 172\,500$ OR $17\,250 + 155\,250 = 172\,500$
E	$45\,000 + 70\,000 = 115\,000$	
F	$3\,680 \times 26/23 = 4\,160$	
G	$8\,900 + 700 = 9\,600$	

- 1.3 The embroidery machine was purchased on 1 March 2020 and it is depreciated on cost at 9% p.a. Its monthly depreciation is R975. Calculate the cost of the embroidery machine.

$$975 \times 100/9 \times 12/1 = 130\,000$$

- 1.4 Nobuhle is considering expanding her factory. One of the things she is looking at is buying a DTG (digital garment printing) machine so she can print T-shirts. She thinks more people will buy printed shirts than embroidered shirts. She will then get rid of the embroidery machine.

The DTG machine costs R491 760 and should last 15 years. It will be depreciated on a fixed cost basis. The ink costs per shirt will be 80 cents.

- 1.4.1 Calculate the **NEW monthly** breakeven number of units should iNkankane Clothing change the embroidery for printing. The selling price will remain at R250 per shirt.

<p>Fixed costs: <math>84\,242 - 975 + 2\,732 = 85\,999</math></p> <p style="text-align: right;">94,80</p> <p>Contribution per unit: <math>250 - (104 - 10 + 0,80) = 155,20</math></p> <p><math>\frac{85\,999}{155,20}</math></p> <p><math>= 554,12</math> so 555 units</p>
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- 1.4.2 Discuss in detail whether it will be a good decision **financially** for iNkankane Clothing (Pty) Ltd to purchase and start using the printing machine instead of carrying on with embroidering.

- The breakeven if they were to switch to printing instead of embroidering would drop by 22 units.
- It is financially sound to buy the DTG machine.
- Although the DTG machine is very expensive, and therefore the depreciation makes the factory overheads much higher, the ink is much cheaper than the embroidery thread, and therefore the contribution per unit is higher.

- 1.4.3 Write down **two other** items Nobuhle would need to consider before she purchases the DTG machine.

- How much will it cost to train someone to use it;
- How often it needs to be serviced;
- How much more will insurance on the DTG machine cost;
- The demand for the new shirts;
- The speed – printing is probably faster per shirt than embroidery.

1.5 Nobuhle is scared that if she expands the company's operations and hires more workers, she will lose touch with the staff she already employs, and her factory could then be subject to strike action. Read the quotes about employees.

1.5.1 Discuss whether she should increase the workers' wages by starting to pay contributions like medical aid or pension fund. Motivate your answer with reasons. You need to discuss three points in your answer.

- Nobuhle should because anyone getting a minimum wage will not be able to afford pension or medical aid. It is ethical to pay a pension fund so that your workers will be able to retire one day. Also, you want your workers to be well so that they can work well. They therefore should have the means to go to the doctor as soon as they get sick.
- The increase in wages could motivate them to increase performance making them more productive.
- The company has the potential of making more profit when the workers are more productive.

1.5.2 Advise Nobuhle on how to keep her current workers motivated and productive, should she need to hire more workers.

- Send them for training/upskill them.
- Give incentives for excellent work or beating deadlines, e.g. share options to the most productive employees.
- Know their names.
- Praise good work.

**QUESTION 2      COMPANY ANALYSIS**

2.1 Looking at the profitability of both companies, it appears as though Mr Price is more profitable than Foschini.

2.1.1 (a) State one area of profitability in which Foschini fared better than Mr Price. Give two reasons for your answer.

- Sales
- Foschini sold more than the previous year.
- Foschini's mark-up has improved from the previous year while Mr Price's has not.
- Foschini's mark-up is higher.
- (Any reasonable point based on sales/gross profit/mark-up.)

(b) State the **main reason** why Mr Price is more profitable than Foschini.

Mr Price has better control over their operating expenses.

2.1.2 (a) Describe what the financial indicator/ratio 'net profit on sales' shows.

- The possible amount available to shareholders should the company wish to pay a portion in dividends.
- The percentage of the sales that is left as net profit after subtracting all the expenses.

(b) Who do you think would be most pleased with their 2022 **net profit**? The directors of Mr Price or the directors of Foschini? Explain your reasoning.

- Although Mr Price's net profit is higher, their net profit on sales has only improved by 0,2%, while Foschini's is 12,4% more than 2021.  
✓ This is an excellent improvement.
- Mr Price's net profit increased by R691 million (26% increase) vs Foschini's R4 772 million (256,28%) increase. Foschini's directors will be most pleased.

2.2 2.2.1 Mr Price's advantage over competitors is that 84% of their sales are cash sales. Explain, by studying the current assets only, how this has affected their liquidity compared to Foschini. Quote calculations in your explanation.

- Mr Price's Trade and Other Receivables are only 24,15% of their total current assets, whereas it makes up 37,29% of Foschini's.
- The cash and cash equivalents make up 41,09% of Mr Price's current assets, but only 23,87% of Foschini's.

2.2.2 In the financial year ending 31 March 2023, Mr Price saw an increase in customers wanting to buy on credit. They said that they will be cautious when considering whether to grant credit to customers.

(a) Calculate the debtor's collection period for **Mr Price** for **2022**.

$$\frac{(2\,749 + 2\,316) \times 1/2}{26\,685 \times 16\%} \times 365$$

$$\frac{2\,532,5}{4\,269,6} \times 365$$

$$= 216,5 \text{ days}$$

(b) Explain why you think Mr Price has been/not been cautious (careful) when granting credit.

- Mr Price's debtors are taking 216,5 days to pay. This is more than seven months. If they were being careful in selecting their debtors, their debtors should be paying faster.

2.2.3 (a) Calculate **Foschini's** stock turnover rate for **2022**.

$$\frac{22\,343}{(9\,349 + 8\,336) \times 1/2}$$

$$22\,343 / 8\,842,5$$

$$= 2,53 \text{ times}$$

(b) Foschini reports that their inventory is at a sensible level. Discuss, by providing reasons, whether or not you agree with this statement.

- Foschini only gets new stock twice a year. This is not a lot for the products they sell. There are more chances of theft and having to sell their products on sales.

2.3 2.3.1 Calculate the net asset value for **Mr Price** for **2021**.

$$10\,838\,000\,000 \div 257\,857\,140 = 4\,203 \text{ cents} / R42,03$$

2.3.2 Why would an investor also consider the net asset value when studying the market value of Mr Price's shares?

- Indicates whether the shares are overvalued or undervalued, and this in turn affects the investor confidence in the company.
- It is the book value of the shares so an investor can see by how much more (or less) the shares are trading on the JSE.

2.4 Foschini did not issue any dividends in 2021. Discuss whether or not this was a good decision.

- This was a good decision.
- They made a loss R1 862 million (–5,7 EPS). Giving dividends would have made the equity worse (or retained profit worse).
- (Their liquidity and solvency is fine, so that would not be the reason.)

**OR**

- No, this was not a good decision.
- The investors would have wanted dividends and may sell their shares because they did not get any. (Only 1 mark for a no.)

2.5 Calculate **Foschini's** solvency ratio for **2022** and then comment on it.

43 313	:	11 427 + 12 748
43 313	:	24 175
		1,79 : 1

- The assets are nearly twice the total liabilities so they are not at risk of going insolvent.

2.6 2.6.1 Foschini wants to carry on buying manufacturing plants in South Africa. By providing an in-depth analysis of the risk, gearing and return of The Foschini Group, would you, as a bank representative, lend them the money?

- Their debt-equity ratio is 0,6 : 1. This is still fairly low to medium risk.
- Foschini has a return on capital employed of 9,5%. The average interest rate is also 9,5%. This means that they are neither positively nor negatively geared.
- Foschini's return has increased from –6,8% to 9,5%.
- Their return went up by 16,3%. This is a large increase and hopefully they will carry on increasing their profit and return.
- Conclusion: I would take the chance and lend them the money. Any conclusion that makes sense.

2.6.2 The other option of financing is to issue more shares.

- (a) Write down one advantage of issuing more shares over expanding the loan.
- The debt-equity ratio will be positively affected.
  - Save on interest.
- (b) It is said that issuing shares is a more expensive way of financing than taking out a loan. Discuss, by providing two reasons, why some people think this.
- Investors expect dividends on a regular basis. The dividends could be more than the interest. When the loan is paid off, the interest decreases, whereas the shares stay issued, and the dividends are expected to increase every year.

2.7 The director's report states that Foschini continues to suffer from crime-related incidents in South Africa. Discuss the role that the internal auditor has in preventing crime from within the business.

- The internal auditors analyse where the problem areas or weak points are, and then put controls in place to fix it.

2.8 198 Foschini stores were damaged in the civil unrest. The Group performed an assessment to identify if the losses related to store assets should be capitalised or treated as repairs and maintenance.

Explain how they would decide whether the cost of repairs to the stores would be added to Land and Buildings (capitalised) or treated as Repairs and Maintenance.

- If it increases the value of the store then the costs should be capitalised.
- If the value of the store stays the same as it was before it was damaged, then it should be treated as repairs and maintenance.



**QUESTION 3 RECONCILIATIONS**

3.1 Study the statement from Kitchenware Suppliers. They have three terms and conditions. Analyse whether Kitchenware Suppliers enforced these. Also analyse whether Lavender Cottage adhered/kept to them.

- They granted discount when there was still an outstanding amount owing from more than 30 days. Did not stick to them.
- They granted interest after 60 days – stuck to the terms.
- They did not enforce the credit limit. Did not stick to them.

3.2 Fill in the age analysis as it would appear at the bottom of the statement from Kitchenware Suppliers. Ignore all errors and omissions and use **only** the figures given in the statement. Show all the figures that go into each block. You do **not need to total** each block.

90 Days	60 Days	30 Days	Current
54 240 + 42 480 (96 720) – 31 500 – 47 411	49 700 – 12 500	379 + 63 200	1 412

One mark for the invoices over 90, 60 and 30 days: 96 720, 49 700, 63 200

3.3 If you worked for Lavender Cottage and were in charge of paying the creditors, explain a change you would make to how Lavender Cottage pays their creditors (based on how they pay Kitchenware Suppliers). Explain why you would make this change.

- Any suggestion that will either ensure Lavender Cottage pays more regularly to help the cash flow, or a suggestion that will prevent Lavender Cottage from breaking the credit terms and getting a bad reputation, and to prevent being charged more interest.
- 1 mark for the suggestions, and 1 mark for the reason.

3.4 Reconcile the statement received from Kitchenware Suppliers to their account in the creditors' ledger of Lavender Cottage by taking the errors and omissions into consideration. Show the amounts that would go into the creditor's reconciliation statement and the amounts that would be entered into their creditors' ledger account.

	Creditors Reconciliation Statement	Creditors Ledger
Incorrect balance	120 000	119 188
1. Invoice 63		(1 800)
2. Discount	1 500	
3. Credit note 37	(2 700)	
4. Interest	1 087 – 1 412 (325)	1 087
	Do not calculate	Do not calculate

- 3.5 Liyah sends employees to the shops with the business credit card to purchase packing material, refreshments, and small items of trading stock. A whistle-blower told her that some of these employees are buying things for themselves with Lavender Cottage's credit card.

Discuss a control system that the internal auditors could put in place to stop employees from buying personal items with the business' credit card.

**Marked with rubric**

1 mark	2 marks	3 marks
Has a slight chance of working.	Expensive or time-consuming but should stop employees using the credit card for their own purchases, or one gap but generally should work.	Cheap and easy, and should stop employees using the credit card for their own purchases.

Example of an answer that would earn 3 marks:

- Only one employee should be authorised to use the business credit card.
- They should have a list of items they need to buy signed by Liyah or a manager.
- When they get back, Liyah or someone in finance should compare the till slip with the list.

Example of an answer that would earn 2 marks:

- The till slips from the credit card purchases will be sent to the accounting department who will check the slips.

**OR**

- Only one employee will be allowed to use the credit card. They will get a list of items to buy from the manager.

Example of an answer that would earn 1 mark:

- The manager will give a list of items to be purchased to the employee.

**OR**

- Only one person is allowed to use the credit card.

**Total: 100 marks**