



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

NOVEMBER 2009(1)

MEMORANDUM

MARKS: 300

This memorandum consists of 21 pages.

QUESTION 1**1.1**

Briefly explain why it is important that the balance of the Creditors' Control Account should agree with the total in the Creditors' List.

Good explanation = 2 marks; Poor explanation = 1 mark; Incorrect = 0 marks ✓✓

A poor explanation simply lists or mentions a point without an explanation of that point

A good explanation mentions and explains the point

For two marks:

- The control account is a summary of the creditors list therefore the two have to agree otherwise there is an error
- To facilitate good internal control whereby one process serves as a check on another (i.e. division of duties)
- To check that the recording and posting has been done correctly
- To detect and correct any omissions, errors and/or fraud
- To control the individual creditors accounts so that correct payments are made to them
- To ensure correct information before making payment to creditors

For one mark:

- To facilitate internal control
- To control the individual creditors accounts
- To check accuracy
- Both record the same information

2

1.2.1

List the corrections that the bookkeeper must make to the Creditors' Control Account in the General Ledger. The first one has been done for you as an example. If no entry is applicable, you must write 'NO ENTRY'.

The tick must apply to the figure and the positive/negative effect. Assume no + sign is positive.

Balance	R61 417
A	+ R3 400
B	+R7 200 ✓ – R7 200 ✓ OR No entry OR 0 (2 marks)
C	+ R258✓
D	+ R563✓
E	–R8 350 ✓ – R8 350 ✓ OR – R16 700 (2 marks)
F	No entry✓
G	– R2 100✓
H	No entry✓
I	+ R490✓
Final balance	R47 328☑

11

1.2.2 CREDITORS' LIST ON 31 JULY 2009

	Debit	Credit
Khan Traders (Dr 563 - 563)		NIL or 0✓
Thankful Stores (30 560 ✓ – [8 350 + 8 350] ☑ – 160 ✓) -16 700 See 1.2.1E	*Inspect operation any one part correct but adjustment made	13 700☑*
Connel Ltd (10 890 ✓ + 3 400✓ + 7 200 ✓ + 258 ✓)		21 748☑*
Yolisa Wholesalers (18 500 ✓ – 7 200 ✓ + 90 ✓ + 490 ✓)		11 880☑*
* Inspect operation		47 328☑*

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1.3 Provide THREE points for good internal control over creditors.

Any three valid and separate points ✓✓ ✓✓ ✓✓

Beware of alternative wording which reflects the same point.

Beware that two separate points could be in the same sentence.

Expected responses for 2 marks:

- Assess the efficiency of the creditors clerk in order to prevent errors from occurring
- Ensure that creditors are paid on time to make use of discounts
- Make full use of credit terms to assist cash flow
- Division of duties amongst members of the accounting department so that one person serves as a check on another
- Reconcile the balance on the creditors control account with the total of creditors' list to ensure accuracy on a monthly basis
- The statement of account of individual creditors must be reconciled (agreed) with their accounts in the creditors ledger
- Conduct internal audits to minimise the possibility of fraud or error / Check documents (e.g. invoices and credit notes) to ensure accuracy of calculations and entries
- Ensure that items ordered from creditors are correctly received (i.e. quantities, condition, price)
- Ensure that all purchases are correctly authorized (i.e. procurement policy)

6

TOTAL
MARKS

35

QUESTION 2

- 2.1 Although this business has done well, David is considering closing it down and investing his capital in fixed property. State TWO points that he should consider before making a final decision.**

Any two valid and separate points, e.g. ✓✓ ✓✓

Beware of alternative wording which reflects the same point.

Beware that two separate points could be in the same sentence.

- Soccer World Cup will be in SA soon – the business' merchandise will be relevant – keep the business operational until then (good profit opportunity for SWC)
- Financial implication to the business, future prospects
- Implications for staff – retrenchment
- Property prices are low and it is the right time to invest and cash in later / Property prices are expected to increase in the future
- Property can be rented out during the World Cup and in future the income for property is somewhat guaranteed
- Whether he will receive a good and fair value for his business

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- 2.2 Calculate the number of soccer balls stolen.**

$$1\,200\checkmark + 3\,400\checkmark - 3\,500\checkmark - 900\checkmark = 200\checkmark$$

5

- 2.3 Calculate the closing stock value of soccer balls using the weighted average method:**

$$\begin{array}{ccccccc} \checkmark & & \checkmark & & \checkmark & & \checkmark \\ (144\,000 + 502\,000 + 30\,200) / 4\,600 \times 900 = R132\,300 \end{array}$$

Calculate the closing stock value of soccer jerseys using the FIFO method:

$$\begin{array}{ccccccc} \checkmark & & \checkmark & & \checkmark & & \checkmark \\ (100 \times R300) + (150 \times R255) = R68\,250 \\ R30\,000 & & R38\,250 & & & & \end{array}$$

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2.4 Calculate the following for Soccer jerseys (you may prepare a Trading Account to calculate these figures):

Calculate cost of sales:

✓ ✓ ☒ ☒ **See 2.3** **Check operation, at least one part must be correct**

$$166\,400 + 602\,000 - 68\,250 = R700\,150$$

OR

1 accuracy mark [**1 accuracy mark and 1 method mark**] **1 method mark**

$$R166\,400 + [R80\,000 + R135\,000 + R318\,750] = R700\,150$$

$$(520 \times R320) + [(400 \times R200) + (600 \times R225) + (1250 \times R255)] = R700\,150$$

Beware that more variations are possible

Calculate mark-up% on cost:

See above

$$= \frac{(1\,108\,000 \checkmark - 700\,150 \text{ ☒})}{700\,150 \text{ ☒}} \times \frac{100}{1}$$

See above

OR

1 accuracy mark and 1 method mark

$$\frac{407\,850}{700\,150} \times \frac{100}{1}$$

Accept 58,2% or 58,25%

= 58,3 % ☒ **Check operation, at least one part must be correct**

Calculate stock turnover rate:

See COS above

$$\frac{700\,150 \text{ ☒}}{(68\,250 \text{ ☒} + 166\,400 \checkmark) / 2}$$

See 2.3

$$= \frac{700\,150}{117\,325}$$

Accept 6 times

= 5,97 times ☒ **Check operation, at least one part must be correct**

2.5 If David decides to continue with this business, what advice would you offer him? State TWO points and quote financial indicators or specific information from the question to support your answer.

Good advice = 2 marks; Satisfactory advice = 1 mark; Incorrect = 0 marks
Appropriate financial indicator/figures = 1 mark each

Any two valid and separate points:

Point 1: advice ✓✓ indicator ✓

Point 2: advice ✓✓ indicator ✓

Beware of alternative wording which reflects the same point.

Beware that two separate points could be in the same sentence.

Two marks for advice + one mark for figure:

- Implement tighter control measures over soccer balls – 200 balls were stolen
- Advertise to increase demand for the product especially balls because the turnover rate is low (3,9 times) compared to the jerseys (6 times)
- Sell only jerseys because the mark-up is higher (58,25% compared to 48,5%) and the turnover rate is better (6 times compared to 3,9 times)
- The business is carrying a lot of stock, particularly soccer balls – 900 on hand at end of year
- The stock for soccer balls must be turned over quicker – 3,9 times per annum.
- Should consider another supplier / importing them because the price increased by 50% from R120 to R180 (or by 22,5% from R120 to R147)
- Consider changing the mark-up % (increase / decrease) on the soccer balls from 58,3% to ensure higher sales and amounts – during the SWC the customers will probably pay higher price
- Consider another delivery service to reduce the carriage from R8,88 per ball (R30 200 / 3 400 balls)

One mark for advice + one mark for figure:

- Advertise to increase sales of balls of R1 120 000
- Selling price of R320 must change if cost increases (this advice is worth only one mark, figure one mark)
- Consider importing the soccer balls if they will be of better quality (no mark for financial indicator in this case).

6

TOTAL MARKS
40

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QUESTION 3**PRODUCTION COST STATEMENT****3.1.1 BAKONA BIN MANUFACTURERS
NOTES TO THE FINANCIAL STATEMENTS**

	DIRECT/RAW MATERIAL COST		R	
	Opening stock	✓	57 900	
	Purchases (1 622 700 ✓ – 23 100 ✓)		1 599 600	
	Carriage on purchases	✓	28 800	
			1 686 300	
	Closing stock	✓	(34 200)	
	Check operation, closing stock must be deducted	✓☑	1 652 100	
				7

	DIRECT LABOUR COST		R	
	Factory wages 1 152 000 + 288 000 No part marks No part marks (12 x R60 x 1600) ✓✓ + (12 x R240 x 100) ✓✓ Basic wage and overtime may be split over two lines		1 440 000	
	UIF contribution Could be included in wages line	✓	11 520	
	Check operation, at least one aspect correct	✓☑	1 451 520	
				7

	FACTORY OVERHEAD COST		R	
	Indirect materials (8 100 ✓ + 125 900 ✓ – 7 400 ✓)	✓	126 600	
	Indirect labour (241 000 ✓ + 2 410 ✓) May be split		243 410	
	Factory maintenance	✓	85 000	
	Rent expense (133 000 x ½) No part-marks	✓✓✓	66 500	
	Water and electricity (36 000 x 60%) No part-marks	✓✓	21 600	
	Depreciation	✓	52 000	
	Sundry expenses	✓	25 000	
	Check operation, at least one aspect correct	✓☑	620 110	
				16

Foreign items (e.g. Advertising): – 1 in any note (max – 3 in total)

3.1.2 PRODUCTION COST STATEMENT OF BAKONA BIN MANUFACTURERS FOR THE YEAR ENDED 28 FEBRUARY 2009

		TOTAL	
Direct/Raw materials cost	#See 3.1.1	✓#	1 652 100
Direct labour cost	✓ Details #See 3.1.1	✓#	1 451 520
Direct/Prime cost	Check operation	✓	3 103 620
Factory overhead cost	✓ Details #See 3.1.1	✓#	620 110
Total cost of production	Check operation	✓	3 723 730
Work-in-process on 1 March 2008		✓	169 500
	R169 500 must be +ve		
			3 893 230
Work-in-process on 28 February 2009		✓	(120 600)
	R120 600 must be -ve		
Cost of production of finished goods	Check operation	✓	3 772 630

10

3.1.3 Calculate the unit cost of production per plastic bin completed.

$$\frac{3\,772\,630}{58\,000}$$

✓ See 3.1.2 Must be the numerator
✓ Must be the denominator

= R65,05 ✓ Check method & operation, one part correct

3

3.2 Kool Manufacturers

3.2.1 One example of a fixed cost:

Any one valid example, e.g. ✓

Rent expense, Salaries, Indirect wages, Interest etc

(Accept Administration costs and Factory overhead costs or any parts thereof due to assumptions included in previous papers)

One example of a variable cost:

Any one valid example, e.g. ✓

Direct/Raw materials, Direct labour / Direct wages, Advertising, Selling and distribution, Commission on sales

2

3.2.2

Explain why it is important to calculate the expected break-even point for a business before the start of a financial year.

Good explanation = 2 marks; Satisfactory = 1 mark; Incorrect = 0 marks ✓✓

Two marks:

- So that any potential problems of low production can be foreseen
- To start corrective action promptly before losses occur
- No profits are made until break-even is reached
- Determine the minimum number of units to produce to prevent losses
- To produce enough products to set the production level to cover all costs
- To identify whether efficiency needs to be improved to produce the required number of units to make a profit
- To provide information to compile the budget to ensure that profits are achievable

One mark:

- To produce enough products
- Prevent low profits / prevent a loss
- Improve efficiency
- To compile a budget

2

3.2.3

Calculate the break-even point.

$$\begin{array}{ccc} \checkmark\checkmark & & \checkmark\checkmark \\ \text{R210 000} & / & \text{R15} \\ \text{Must be numerator} & & \text{Must be denominator} \end{array} = 14\,000 \text{ units} \quad \checkmark \text{ Any one part correct}$$

OR $\text{R210 000} / [\text{R40} - (\text{R300 000} / 12\,000)] = 14\,000 \text{ units}$

OR Let BEP = x; then $15x - 210\,000 = 0$; and $x = 14\,000 \text{ units}$

5

3.2.4

Comment on your calculation in 3.2.3. What advice would you offer to Kool Manufacturers? Briefly explain.

Give credit if responses are based on an incorrect calculation above (see 3.2.3)

Comment: Compare BEP to the 12 000 units produced ✓

e.g. The business is not producing enough units – they are below the BEP which means that the business will be making a loss.

Advice: Explanation = 2 marks; Point provided without explanation = 1 mark; Incorrect = 0 marks

Two marks: ✓✓

- Look at ways of economising on fixed / variable costs to reduce costs so that the BEP decreases
- Find a cheaper supplier of raw materials to reduce unit costs
- Avoid overtime to reduce labour costs
- Train direct workers to work more efficiently to increase productivity
- Avoid wastage of raw materials to reduce unit costs
- Increase selling price provided it does not lead to a reduction in sales volumes
- Spend more on advertising to increase sales volumes

One mark:

- Increase selling price
- Advertise
- Change supplier of raw materials
- Increase production

3

TOTAL MARKS
55

QUESTION 4**4.1.1 Calculate the profit or loss on disposal of the computer:**

$$\begin{array}{ccccccccc} \checkmark & & \checkmark & & \checkmark\checkmark\checkmark & & \checkmark & & \checkmark\checkmark \\ 22\,000 & - & 5\,500 & - & 1\,650 & - & 800 & = & \text{R}14\,050 \end{array}$$

OR

$$\begin{array}{ccccccccc} \checkmark & & \checkmark & & \checkmark\checkmark\checkmark & & \checkmark & & \checkmark\checkmark \\ 22\,000 & - & (5\,500 + 1\,650) & - & 800 & = & \text{R}14\,050 \end{array}$$

OR

Cost price	22 000	✓
Accu depr (5 500 ✓ + 1 650 ✓✓✓)	7 150	
Carrying value	14 850	
Disposal/Bank	800	✓
Loss on sale of asset	14 050	✓✓

Asset disposal

<i>Equipment</i>	✓ 22 000	<i>Accu depr (5 500 ✓ + 1 650 ✓✓✓)</i>	7 150
Ignore details here		<i>Bank</i>	✓ 800
		<i>Loss on sale of asset</i>	✓✓ 14 050
	<u>22 000</u>		<u>22 000</u>

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4.1.2 SIMPHIWE LTD

INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Sales (2 720 000 ✓ – 6 200 ✓ – 9 600 ✓)	✓	2 704 200
	Cost of Sales (1 310 000 ✓ – 6 400 ✓)	✓	(1 303 600)
8	Gross Profit Check operation, COS must be deducted	☑	1 400 600
	Other operating income Check operation	☑	157 180
	Fee income (104 750 ✓ – 750 ✓)	✓	104 000
	Rent income (56 000 ✓ – 8 000 ✓)	✓	48 000
	Bad debts recovered	✓✓	580
12	Trading stock surplus (490 000 – [479 000 + 6 400])	☑✓✓	4 600
	Gross operating income		1 557 780
	Operating Expense Check operation, mark figure only	☑	(1 331 350)
	Salaries and wages	✓	162 000
	Discount allowed	✓	905
	Insurance	✓	11 000
	Sundry expenses (39 250 ✓ – 3 200 ✓)	✓	36 050
	585 000 Directors fees (390 000 ✓ + 390 000 ✓ + 195 000 ✓)	✓	975 000
	Audit fees	✓	53 705
	Consumable stores	✓	24 000
	Provision for bad debts adjustment	✓✓	390
	Depreciation (1 650 ☑ + 16 800 ✓✓ + 35 800 ✓✓) See 4.1.1	☑	54 250
22	Loss on sale of asset See 4.1.1	☑	14 050
	Operating profit		226 430
	Interest Income	✓	2 500
	Profit before interest expense/finance cost		228 930
	Interest expense / Finance cost	✓✓	(18 000)
	Profit before tax		210 930
	Income Tax	✓	(63 280)
5	Net Profit after tax Check operation, tax and interest expense must be deducted	☑	147 650

4.2.1

Explain why it is important for the independent auditor to be a member of a professional body.

Any one valid reason, e.g. ✓✓

Can award part-marks for partial, unclear or incomplete answers

- So that readers of financial statements can have confidence in his opinion
- Assurance to the public that he/she is well trained on an on-going basis
- Disciplinary actions if negligent in performing duties
- Aware of latest trends e.g. IFRS, Companies Act, King Code
- Act in ethical manner (integrity, observe code of conduct)
- To benchmark quality of work

2

4.2.2

Refer to the underlined sentence in paragraph 1. Why do the auditors include this sentence in their report? Briefly explain.

Any one valid reason, e.g. ✓✓

Can award part-marks for partial, unclear or incomplete answers

- The auditor expresses an opinion, he/she does not prepare the financial statements
- If the auditor has anything to do with preparing the financial statements, he will not be able to express his opinion (conflict of interests, he would be biased)
- The auditor only checks on a test basis – the directors are responsible for the figures
- The directors work in the company on a daily basis – they must be held liable for errors or fraud
- The directors cannot delegate their responsibilities for the preparation of the financial statements.

2

4.2.3

Refer to the underlined words in paragraph 2.

(a) Give ONE example of 'evidence' that an auditor would use.

✓✓ Any valid proof of entries in the books or values in the books or financial statements concerning cash, fixed assets, loans, stock e.g. bank statements, stock sheets counts, invoices (source documents and supporting vouchers), fixed asset register

(b) Give ONE example of the 'accounting principles' he/she would assess as part of the audit. Explain why the auditor would inspect this principle.

One principle provided ✓ e.g. Explanation of reason: ✓✓ e.g.

Stock valuation method	Could lead to differences in profit
Valuation of fixed assets (historical cost & depreciation)	Could lead to differences in profit or net asset value
Matching principle	Income & expenses must be matched in correct accounting period
Prudence principle	Results must be conservatively reported
Going-concern principle	Affects valuation of assets

Any other valid principles and reasons acceptable – accept transparency, even though it's a King Code principle

5

4.2.4

Refer to Paragraph 3. Explain why you would you be satisfied with this audit opinion.

Any valid response ✓✓

Part-marks can be awarded for unclear or incomplete answers

Possible responses, e.g.

- The auditors have stated that they are satisfied with all aspects of the financial reporting by the directors/company
- This is a standard report – cannot expect better (fairly presented)
- No negative comments reported – if the auditor had been dissatisfied about anything he would have stated it here
- Complies with IFRS and Companies Act
- The auditors have not stated the report is qualified or withheld.

2

4.2.5

Refer to the disposal of the computer for R800 in Information 2J of QUESTION 4.1. Another director, Sam Smith, has complained that Ivor Steele has acted unethically in taking over the computer for R800. Ivor disagrees.

(a) Give one opinion to support Sam

Any one valid opinion ✓✓

Part-marks can be awarded for unclear or incomplete answers

- Ivor is benefiting from a very low charge on an asset that is worth a lot more to the company and hence the shareholders are losing as a result of this transaction (a large loss was made on this disposal).
- This sets a bad precedent for the company / misuse of his position as director; other employees might feel entitled to similar benefits.
- The directors do not own the company; the shareholders are the owners of the company.
- There is also tax implications – the director should be paying tax on this 'perk'.
- The transaction was not transparent – no discussion / disclosure on the disposal in advance.
- The asset was still of use to the company; the director has no right to take it.

(b) Give one opinion to support Ivor.

Any one valid opinion ✓✓

Part-marks can be awarded for unclear or incomplete answers

- The computer is already more than three years old, and computers have a relatively short life span.
- The computer is out-dated; it will probably not be upgradeable.
- The depreciation at 10% on cost price for computers is unrealistic and should therefore have had a lower carrying value.

NB: Do not accept that directors are owners.

4

TOTAL MARKS
70

QUESTION 5

5.1.1	Reconciliation between profit before taxation and cash generated from operations	
	Net profit before tax	844 300
	Adjustments i.r.o.	
	Depreciation	33 500
	Interest on borrowed funds	164 450
	Operating profit before changes in working capital	1 042 250
	Changes in working capital Check operation	<input checked="" type="checkbox"/> (135 530)
	Inventory	<div>Figure ✓</div> <div>Operation ✓</div> (141 000)
	Debtors	<div>Figure ✓</div> <div>Operation ✓</div> 16 000
	Creditors	<div>Figure ✓</div> <div>Operation ✓</div> (10 530)
	Cash generated from operations Check operation	<input checked="" type="checkbox"/> 906 720

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5.1.2 MANCHESTER LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2009

CASH FLOW FROM OPERATING ACTIVITIES	Check operation	<input checked="" type="checkbox"/> 337 165
Cash generated from operations	See 5.1.1	<input checked="" type="checkbox"/> 906 720
Interest paid	Figure must correct & outflow	✓ (164 450)
Dividends paid Mark entire line or T-account 52 525 ✓ + 217 480 ✓ – 133 440 ✓ OR – 52 525 – 217 480 + 133 440 OR 52 525 1 mark + 84 040 2 marks	If one part correct, figure must be outflow	<input checked="" type="checkbox"/> (136 565)
Taxation paid Mark entire line or T-account 7 750 ✓ + 253 290 ✓ + 7 500 ✓ OR – 7 750 – 253 290 – 7 500	If one part correct, figure must be outflow	<input checked="" type="checkbox"/> (268 540)
CASH FLOW FROM INVESTING ACTIVITIES	Check operation figure must show correct flow	<input checked="" type="checkbox"/> (506 885)
Purchase of fixed assets Mark entire line or T-account (see below) 3 440 885 ✓ – [2 967 500 ✓ – 100 000 ✓ – 33 500 ✓] OR 3 440 885 – 2 967 500 + 100 000 + 33 500 OR –3 440 885 + 2 967 500 – 100 000 – 33 500	If one part correct, figure must be -ve	<input checked="" type="checkbox"/> (606 885)
Proceeds from the sale of fixed assets		✓ 100 000
CASH FLOW FROM FINANCING ACTIVITIES	Check operation	<input checked="" type="checkbox"/> 78 470
Proceeds of shares issued 1 034 500 ✓✓ + 268 970 ✓ OR 2 085 000 (1 mark) – 1 050 500 (1 mark) + 268 970 (1 mark) OR 2 353 970 (2 marks) – 1 050 000 (1 mark)		✓ 1 303 470
Repayment of long term loans	Figure ✓ Outflow ✓	(1 225 000)
Net change in cash and cash equivalents	Check operation, do not accept 46250 or 47500 or 1250	<input checked="" type="checkbox"/> (91 250)
Cash and cash equivalents at the beginning of the year	Must be +ve	✓ 45 000
Cash and cash equivalents at the end of the year	Figure must be -ve	✓ (46 250)

Fixed Assets T-account	
2 967	100 000
500	33 500
606 885	3 440 885

5.2 Calculate the following for 2009:

5.2.1	Current ratio ✓ ✓ <input checked="" type="checkbox"/> <i>proper method & one part correct</i> $320\,000 : 390\,885 = 0,8 : 1$ (accept 0,82: 1) Must be in correct order and must be in the format x:1	<div></div> <div>3</div>
5.2.2	Acid-test ratio ✓ ✓ ✓ <input checked="" type="checkbox"/> <i>proper method & one part correct</i> $68\,750 : 390\,885 = 0,2 : 1$ (Accept 0,18 : 1) Must be in correct order and must be in the format x:1	<div></div> <div>4</div>
5.2.3	Net asset value per share ✓ ✓ <input checked="" type="checkbox"/> <i>proper method & one part correct</i> $R3\,120\,000 / 417\,000 \text{ shares} = 748,2 \text{ cents or } R7,48$ Must be in correct order and must be in cents or Rands	<div></div> <div>4</div>
5.2.4	Debt/Equity ratio (Gearing ratio) ✓ ✓ <input checked="" type="checkbox"/> <i>proper method & one part correct</i> $300\,000 : 3\,120\,000 = 0,1 : 1 \text{ or } 0,096 : 1$ Must be in correct order and must be in the format x:1	<div></div> <div>3</div>

5.3 Explain why the directors decided to reduce the long-term loan significantly during the current financial year. In your opinion, was this a wise decision? Explain, quoting evidence (figures/financial indicators) from the question.

Be aware of differing structures to the answer by learners. The following components should be covered:

Explanation of directors' decision: ✓✓

May award part marks for unclear or incomplete answers

Any one reason:

- The sale of extra shares has brought about an inflow of cash
- In the previous year the ROTCE (10%) was lower than the interest rates (15%).
- In the previous year the company was highly geared with a very high debt/equity ratio (> 1 : 1)

Opinion: Yes or No ✓

Explanation: ✓✓ **Evidence:** ✓

May award part marks for unclear or incomplete answers

Any one explanation for Yes:

- The debt/equity ratio is now very low (0,1 : 1) which indicates a low-risk situation
- The saving on interest has increased the profits as indicated by EPS from 135c to 189c or ROSHE from 21% to 26%
- The company is now in a positive gearing situation with ROTCE of 24% which is much higher than the interest rates.

Any one explanation for No:

- The directors have over-reacted because the evidence shows that they should now consider taking out more loans (ROTCE of 24% exceeds interest rates) and debt/equity ratio of 0,1:1 is low, indicating low risk
- The short-term liquidity is now a problem as the acid-test ratio is now 0,2:1 and the current ratio is 0,8:1
- The net change in cash was a negative of R91 250 which has caused short-term liquidity concerns.

6

5.4 Comment on the return on shareholder's equity, earnings and dividends earned by the shareholders. Quote evidence (figures/financial indicators) from the question.

Returns on shareholders equity

Quote financial indicator ✓	Any valid <u>specific</u> comment related to the indicator, e.g. ✓
ROSHE has increased from 21% to 26% OR: ROSHE is now 26% OR: ROSHE increased by <u>5%</u> points OR: ROSHE increased by 23,8%	This exceeds the returns on alternative investments

Earnings

Quote financial indicator ✓	Any valid <u>specific</u> comment related to the indicator, e.g. ✓
EPS has improved from 135c to 189c OR: EPS is now 189c OR: EPS increased by 54c or 40%	This compares well to the value of the share

Dividends

Quote financial indicator ✓	Any valid <u>specific</u> comment related to the indicator, e.g. ✓
DPS has declined from 105c to 72c OR: DPS is now 72c OR: DPS decreased by 33c or 31,4%	The company is retaining more of its profits OR: This increases the NAV OR: The dividend payout rate dropped to less than 50% of profits OR: Increases the infrastructure of the company

6

5.5 Calculate the premium at which the new shares were issued.

Number of shares issued = $(2\,085\,000 - 1\,050\,500) / R5 = 206\,900$ shares

268 970 ✓✓ / 206 900 ✓✓

= 130 cents / R1,30 ☒ Any one part correct, must be in cents or Rands

5

5.6

The existing shareholders are unhappy with the price at which the additional shares were sold? Discuss quoting ONE figure or financial indicator to support your answer.

Quoting of figures / financial indicator ✓

Comment ✓✓ Part-marks may be awarded for unclear, partial or incomplete comments

Expected responses:

- The shares were issued at a price of R6,30 which is lower than the NAV (R6,87 or R7,48) which means that the existing shareholders are being disadvantaged
- The shares were issued at a price of R6,30 which is lower than the market price (R6,80 to R7,80) which means that the existing shareholders are being disadvantaged

3

TOTAL MARKS
70

QUESTION 6**6.1 DEBTORS' COLLECTION SCHEDULE OF AFRICA CERAMICS
FOR THE PERIOD ENDING 31 DECEMBER 2009**

Month	Credit sales R	DEBTORS' COLLECTION		
		October 2009 R	November 2009 R	December 2009 R
August	360 000	64 800		
September	540 000	270 000	✓✓97 200	
October	450 000	129 600	✓✓225 000	✓✓81 000
November	420 000		✓✓120 960	✓✓210 000
December	420 000			☑ 120 960 See Nov above
TOTALS		464 400	☑ 443 160 Operation	☑ 411 960 Operation

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6.2 Compare the budgeted figures to the actual figures for October to comment on each of the following. State TWO points in each case:Any two valid and separate points in each case

One mark each, Figures need not be quoted

Expected responses, e.g.

Advertising

Candidates must compare advertising to sales ✓

- This led to an increase in Sales of R72 000
- Sales increased by only 12%
- Sales increased by R72 000 (credit sales up by R152 000, cash sales down by R80 000)

One other factor: ✓

- Overspent / Under budgeted by R10 000 (investigate reason)
- Overspent by 66% / Under-budgeted by 66% (investigate reason)
- They used a different strategy e.g. advertise on TV instead of in press.

Repairs & maintenance Any two valid comments ✓ ✓

- Under-spent / Over-budgeted by R12 700
- Consider if this is wise – fixed assets must not be neglected as they generate income for the business and neglecting repairs will lead to more expenditure in future
- Repairs & maintenance was well-managed / Good use of equipment that is why they under spent

Delivery expenses

Candidates must compare delivery expenses to sales ✓

- Does not correlate with sales which increased by 12% while delivery expenses increased by 110%
- Over-spend of R22 000 led to a R72 000 increase in sales

One other factor: ✓

- Over-spent / under-budgeted by R22 000 / they spent more than double the budget
- Investigate possible abuse / lack of control / poor strategies (e.g. out-sourcing might be too expensive)
- Poor maintenance of vehicles has led to high fuel costs

6

6.3 Joe is pleased that the number of customers has increased. You do not share his opinion that this increase in customers is good.

Any valid explanations related to numbers of customers based on information from the question, e.g.

	(a) Description of problem, quoting figures:	(b) Advice:
1	Describe problem ✓ Quote figure ✓ Credit sales were R152 000 more than expected, while cash sales were R80 000 less than expected (this creates a cash flow problem).	Comment (part-marks possible): ✓✓ Offer more favourable trade discounts to customers who buy for cash
2	Describe problem ✓ Quote figure ✓ Collections from debtors are R225 812 less than budget / This is expected to lead to increased bad debts (2%) or extra administration costs.	Comment (part-marks possible): ✓✓ Screen debtors more rigorously to determine creditworthiness OR Apply more stringent credit terms before debtors open accounts OR Follow-up on each debtor by way of statements, phone calls etc, or charge interest. OR Debtors need to be encouraged to pay quicker – offer discount and/or charge interest on overdue accounts.

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6.4 By looking at the Cash Budget in Information 3 and assuming all other items are in line with the budget would you expect the bank balance at the end of October to be favourable or unfavourable? Provide a reason for your answer.

Favourable or unfavourable balance? Unfavourable ✓

Reason: ✓✓

- Debtors collection is poor
- Cash sales are well under budget
- Cash purchases of trading stock have gone up
- Cash purchases are more than the cash sales and debtors collections

Also accept:

- Overall the variances on figures provided are negative
- Delivery expenses
- Advertising

3

TOTAL MARKS
30

TOTAL: 300