



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

ACCOUNTING

NOVEMBER 2008

MEMORANDUM

This memorandum consists of 21 pages.

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NSC – Memorandum

**GRADE 12
ACCOUNTING
NOVEMBER 2008**

MARKS: 300 MINUTES: 180

QUESTION 1: 35 marks; 20 minutes	
Topic of question:	Learning outcomes covered:
Company concepts, records and VAT	LO1 Financial accounting - AS1 Define Accounting concepts - AS2 Record unique information for companies - AS7 Apply principles of VAT
QUESTION 2: 50 marks; 30 minutes	
Topic of question:	Learning outcomes covered:
Budgeting & corporate governance	LO2 Managerial accounting - AS3 Analyse and interpret a cash budget LO3 Managing resources - AS5 Code of ethics - AS6 Apply internal control and audit processes
QUESTION 3: 45 marks; 25 minutes	
Topic of the question:	Learning outcomes covered:
Manufacturing	LO2 Managerial accounting - AS2 Prepare, analyse and report cost information LO3 Managing resources - AS6 Apply internal control and audit processes
QUESTION 4: 65 marks; 30 minutes	
Topic of question:	Learning outcomes covered:
Company reporting	LO1 Financial accounting - AS5 Prepare financial statements - AS6 Analysing an audit report LO3 Managing resources
QUESTION 5: 70 marks; 45 minutes	
Topic of question:	Learning outcomes covered:
Cash flow and interpretation of a company	LO1 Financial accounting - AS5 Prepare and interpret financial statements LO3 Managing resources - AS5 Code of ethics
QUESTION 6: 35 marks; 30 minutes	
Topic of question:	Learning outcomes covered:
Fixed assets and internal control	LO3 Managing resources - AS3 Interpret and report on asset disposal - AS5 Code of ethics - AS6 Apply internal control and internal audit processes

QUESTION 1**1.1 Briefly explain why a company has to have 'Limited' or 'Ltd' in its name.**

Explanation ✓✓ expected responses:

- The owners' (shareholders') liability is limited to the amount they invested
- The shareholders are not responsible for the debts of the company / the company is liable for its liabilities
- Limited liability
- A company is a legal person in its own right
- The Companies Act requires 'Ltd' in the name
- The company is a public company – *Interpretation of question: Candidates might respond that the company is a public one.*

2

1.2 Briefly explain why Garland Ltd has to make special entries for VAT in its books.

✓✓

Good explanation – include collection from customers & payment to suppliers / owed to or by SARS (2 marks) Satisfactory explanation – answered in part (1 mark)

Expected responses:

- The business has to pay VAT to suppliers & collect VAT from customers (2 marks)
- The difference between input & output VAT must be calculated to pay over to SARS (2 marks)
- Sales exceed the minimum for VAT registration (2 marks)
- To record money owed to SARS / by SARS (2 marks)
- Tax legislation / Registration with SARS (2 marks)
- He is a VAT vendor (2 marks)
- To record VAT collected from customers (1 mark)
- To record VAT paid to suppliers (1 mark)

2

1.3

*Amounts marked even if details incorrect
* If two figures add up to R684 000*

	GENERAL LEDGER		AMOUNT
	Account debited	Account credited	
e.g.	Directors' fees	Bank	150 000
1.	Trading stock ✓	Creditors control ✓	350 000
	VAT Input / VAT Control ✓	<i>(accept in either line – ignore other credits – due to format of Afr ans book)</i>	49 000
2.	Bank ✓# <i>(accept in either line – ignore other debits – due to format of Afr ans book)</i>	Sales ✓#	*☑ 600 000
	Cost of sales ✓	VAT Output/VAT Control ✓#	✓ 84 000
3.	SARS (Income tax) ✓	Trading stock ✓	400 000
4.	Bank ✓	SARS (Income tax) ✓	143 550
5.	Dividends on ordinary shares ✓ <i>Can accept S/Hs for dividends</i>	Bank ✓	24 000
	Bank ✓ <i>(accept in either line – ignore other debits – due to format of Afr ans book)</i>	Ordinary share capital ✓	→ ✓ 240 000
6.		Share premium ✓	→ ✓ 72 000
	Income tax ✓	SARS (Income tax) ✓	154 356
7.	Dividends on ordinary shares ✓ <i>Do not accept Shareholders in this answer</i>	Shareholders for dividends ✓	✓✓ 71 400 (1 mark: 51 000)

25

Full marks if: Dr Bank Cr Sales R684 000 &
Dr Sales Cr VAT Output / VAT Control R84 000

1.4 The company plans to issue the remaining unissued shares next year.

1.4.1 How many shares will the company issue?

$$500\ 000 - 420\ 000 = 80\ 000$$

(300 000 + 120 000)

$$200\ 000 - 120\ 000 = 80\ 000$$

3

1.4.2 What is the minimum number of shares Gary will have to buy to retain control of the company?

He needs to own at least 250 000 + 1 shares

He currently owns 230 000 shares ✓✓✓ **3 or nil**

He needs to buy 20 000 + 1 = 20 001

OR 20 000 + 100 = 20 100

OR (51% of 500 000) – 230 000 = 25 000

3

TOTAL MARKS
35

QUESTION 2**2.1 LIMPOPO TRADERS****2.1.1 What is the main purpose of preparing a Cash Budget?**

Any valid answer ✓✓

Good answer: 2 marks; Answered in part: 1 mark

If candidate confuses income (revenue) with receipts and expenditure with payments: max 1 mark

Expected responses:

- To anticipate future receipts and payments (2 marks)
- To identify future bank balances (2 marks)
- To anticipate future cash movements (2 mark)
- To assist with control of / monitor receipts and payments (2 marks)
- Planning for the future (1 mark)
- To anticipate future receipts (1 mark)
- To anticipate future payments / how they will spend their money (1 mark)

2

2.1.2 Explanation of:

Any valid answer ✓✓ Figures not essential in answer

Good explanation: 2 marks; Satisfactory explanation: 1 mark

Expected responses to include a comparison of budget to actual (1 mark) & explanation (1 mark).

Repairs & maintenance:

Favourable variance (actual less than budget). Efficient and well controlled. Poor maintenance. ✓✓

Telephone:

Significantly overspent (actual more than budget). Extra control needed / tariff increase / unnecessary (private) calls not related to business. Unbudgeted items / unusual expenditure e.g. deliberately done to create awareness of the business / follow up on problems. ✓✓

Rent income:Significantly under budget (actual less than budget) / Budget was unrealistically high. Investigate shortfall e.g. poor collection, tenant has left, etc. ✓✓ **No marks if regarded as a payment.****Advertising:** Good planning / Budget fully spent as expected (could assess whether this is valid expenditure e.g. did they need to spend it all? / did they need a bigger allocation?) ✓✓

8

2.1.3 Calculate the total sales that may be expected in February 2009

$$144\ 000 \times 100 / 20 \text{ (i.e. } \times 5) = R\ 720\ 000$$

$$\text{OR } (57\ 600 \times 100 / 10) + 144\ 000 = R\ 720\ 000$$

$$\text{OR } 57\ 600 \times 100 / 10 \times 100 / 80 = R\ 720\ 000$$

$$\text{OR } 480\ 000 \times 150 / 100 = R\ 720\ 000$$

NB: This method applies only in the case of a fixed base stock policy

4

2.1.4

Wrong columns: no marks

Inspection: if 10% & 55% of Feb credit sales figure

DEBTORS COLLECTION SCHEDULE FOR TWO MONTHS ENDING 31 MARCH 2009			
	CREDIT SALES	COLLECTIONS:	
		FEBRUARY	MARCH
* If 576 000 not shown, rework workings done by learner			
February credit sales	✓✓ must be 80% of 2.1.3	✓✓# 57 600	✓✓# 316 800
March credit sales	648 000		✓✓ 64 800
	Both totals-inspection ✓	57 600	381 600

9

2.1.5 Give ONE point from the question to support Thabo's opinion, and ONE point against his opinion. Provide figures to support your points.

Any valid answer ✓✓✓ Figures are essential in answer – correspond to previous responses
Mention point: 1 mark; Figures must relate to the point: 2 marks

One point to support Thabo's opinion: ✓✓✓

Total sales are expected to increase / Extra customers (from R600 000) to R720 000 (3 marks)

OR They will earn extra gross profit of R40 000 (R240 000 instead of R200 000) (3 marks)

One point against Thabo's opinion: ✓✓✓

The cash flow is severely affected (difficult to pay for stock etc) e.g. in February cash collected from debtors and cash sales will be only R144 000 + R57 600 = R201 600 instead of R600 000 (3 marks)

OR Bad debts of 7% are expected (3 marks)

OR It takes 3 months to collect 93% of the credit sales (3 marks)

OR Collection period is 3 months but stock is bought for cash (3 marks)

OR Will severely affect cash balances / liquidity (1 mark)

OR Increased administration costs / More people to be employed (1 mark)

6

2.1.6 Explain THREE points other than those mentioned in QUESTIONS 2.1.2 to 2.1.5 above. Give figures or ratios/percentages from the question to support your explanations.

Any three valid answers ✓✓✓ ✓✓✓ ✓✓✓ Figures/ratios/% are essential in answer
Explain a point: 1 mark; Figures: 2 marks
Explanation may be limited to description of item in cash budget – inferences not needed.

Cash on hand / Total Receipts or Payments: The cash on hand decreased from R174 430 to R27 250 in February and March respectively / Receipts increased from R675 000 to R1093 600 (similarly for payments). Despite the extra money received (e.g through loan / fixed deposits) the business cash flow still seems disappointing.

Mortgage: A large part of the R900 000 bond is used to pay the operating expenses.

Fixed deposit maturing in March R470 000: The business is losing interest R3 000 because they have not reinvested these funds – used on running costs or drawings.

Cash purchases of stock (R400 000 for Jan etc): Could possibly buy on credit to allow more funds to flow in before creditors are paid.

Bank charges: Decreased by R5 000 due to less cash sales i.e. lower cash deposit fees / Fewer credit card sales.

Insurance: Increased by R2 310 due to the addition of vehicles. Consider to look for a better insurance deal.

Salaries & wages: Salaries increased by 20% during March The salaries should only increase with inflation rate \pm 7%. Wages increased by only 4% compared to 20% increase in salaries. Not fair.

Vehicle: Limit the vehicle expenses, R9 000 expense is very high for a new vehicle.

Drawings: The drawings affect ability to pay operating costs. Increase of 100% is excessive compared to the salaries and wages which increased by 20% and 4% respectively.

Sundry expenses: Increase by R1 000 per month (5% in Jan). Investigate if this is sufficient / necessary.

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2.2 PRESTIGE HOTELS LIMITED

2.2.1 **If you were a major shareholder in this company, what questions would you asked the managing director at the special meeting? Give TWO questions.**

Any two valid and separate questions ✓✓✓ ✓✓✓
Response does not have to be in question form
Valid response = 3 Invalid response = 0

Examples of expected responses (does not have to be in question form):

- How will this sponsorship benefit the company after a loss of R83m during the 2006/2007 financial year?
- What are the reasons for the loss of R83m?
- What are the reasons for retaining my shareholding in the company?
- What plans and control measures does management have in place to prevent another loss?
- What other plans does management have in place to decrease the operating loss / ensure a profit in future?
- How can you approve a sponsorship if a loan was needed?
- What response will be given to employees when only 8 % increase has been approved on their salaries?
- Why has the number of sponsorship events decreased significantly? Are they focusing on high-profile events only? Will it affect their overall profile?

6

2.2.2 **What should the managing director say at the special meeting to defend the board's decisions about the budget? Briefly explain TWO points.**

Any two valid and separate points ✓✓✓ ✓✓✓
Excellent = 3 Good = 2 Satisfactory = 1 Incorrect = 0

Examples of expected responses:

- In the long run the company and shareholders will benefit from increased profits when the marketing initiatives take effect.
- The decrease in sponsorship – reasons for this and effect on company
- Remuneration increases were given despite downturn in the economy – company's ability to sustain this
- Addressing social responsibility – King Code
- World wide exposure / publicity for the company – effect on future prospects
- Sponsorship is tax-deductible – effect to be ascertained – cost vs benefit
- Free accommodation will attract others to stay in the same hotel.

6

TOTAL MARKS
50

QUESTION 3**3.1 VALLEY MATTRESS MANUFACTURERS**

If = calculation below @ Inspection

If DMC & FOHC calculations are on the face of the PCS, mark those and transfer marks to the section below.

If candidates do both, mark both and give benefit to candidate.

PRODUCTION COST STATEMENT FOR YEAR ENDED 29 FEBRUARY 2008		
Prime/Direct cost	835 800	<input checked="" type="checkbox"/> @
Direct materials cost	535 000	<input checked="" type="checkbox"/> #
Direct labour cost	300 800	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
Factory overhead costs	382 300	<input checked="" type="checkbox"/> #
Total manufacturing costs	1 218 100	<input checked="" type="checkbox"/> @
Work-in-process at the beginning of the year	71 500	<input checked="" type="checkbox"/>
	1 289 600	
Work-in-process at the end of the year	(191 600)	<input checked="" type="checkbox"/>
Cost of production of finished goods	1 098 000	<input checked="" type="checkbox"/> @

9

CALCULATION OF RAW MATERIALS COSTS

Note: This is a calculation only – figures may be presented in a different format

Opening stock	95 000	<input checked="" type="checkbox"/>
Purchases	521 000	<input checked="" type="checkbox"/>
Carriage on purchases	29 500	<input checked="" type="checkbox"/>
	645 500	
Closing stock	(110 500)	<input checked="" type="checkbox"/> Brackets not essential
Raw materials issued to production	535 000	<input checked="" type="checkbox"/> Inspection & only if at least one component correct

5

CALCULATION OF FACTORY OVERHEAD COSTS

* Method mark if figure wrong but one part correct; -1 for R90 000 salesmen's commission

Factory indirect materials 20 500 + 77 500 - 18 000	80 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> * R18 000 must be - minus
Factory maintenance 37 000 + 11 000	48 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
Salary to factory foreman	105 000	<input checked="" type="checkbox"/> R195 000 will be 1 - 1
Water & electricity 4/5 x 21 000	16 800	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
Factory rent 800 / 1200 x 108 000	72 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
Depreciation on factory equipment	60 500	<input checked="" type="checkbox"/>
	382 300	<input checked="" type="checkbox"/> Inspection & only if at least one component correct

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3.2 SPRINGBOK T-SHIRT MANUFACTURERS**3.2.1 Calculate the unit costs for 2008 denoted by (a), (b) and (c).**

No marks for workings.

(a) = R14,71 ✓✓ accept R14,70

(b) = R 4,71 ✓✓ accept R4,70

(c) = R 6,03 ✓✓ accept R6,02

6

3.2.2 Compare the unit costs of 2008 with those of 2007. In each of the following cases give a possible reason (other than inflation) for the change:

Alternative valid responses to be accepted – one reason for the change in each case

Description of the change is not acceptable e.g. increased from R8,20 to R9,41 – reason must be provided in each case

- **Direct materials cost per unit** ✓✓
More efficient usage / Less wastage (better quality) /
Cheaper supplier / Trade discounts for bulk purchase /
Free delivery / Material obtained locally
- **Direct labour cost per unit** ✓✓
Inefficiency in production (more workers per unit) /
Wage rate correction (paid them higher wages) /
Increase in overtime (at higher rate) / Incentives for hard work
- **Factory overhead costs per unit** ✓✓
Greater number of units produced /
Economies of scale (fixed costs do not increase with production) /
Certain fixed costs were not incurred / they decreased
Proper control of costs /
Change in depreciation (in case of Dim Bal Method)

6

3.2.3 Calculate the break-even point for 2008:

Algebraic method also acceptable

$$\begin{array}{l}
 \frac{333\,000}{(45,00 - 28,82)} \quad \text{OR} \quad \frac{205\,000}{(45,00 - 14,71 - 9,41)} \\
 \text{OR } 28,83 \quad \text{OR } 14,70 \\
 \begin{array}{l}
 \swarrow \quad \searrow \\
 \checkmark \quad \checkmark \quad \checkmark \quad \checkmark \\
 205\,000 + 128\,000
 \end{array} \\
 = \frac{333\,000}{16,18} \quad \text{OR } 16,17 \quad \text{OR } 20,88 \\
 \text{OR } 20,89 \\
 \text{OR } 20,88 \\
 = 20\,580 \text{ or } 20\,581 \text{ or } 20\,594 \quad \text{OR } 9\,818 \text{ OR } 9\,813
 \end{array}$$

if any one part correct

Note: The first option is more correct, but as certain textbooks have treated this differently, two options are allowed in this paper.

Comment on the break-even point calculated above. Should the business be satisfied with the number of units that are currently being produced? Explain.

One mark for any opinion Yes/No – reason will depend on calculation of BEP above – this might be implied in the answer given

Yes ✓ - they are exceeding the BEP by a significant quantity ✓✓

Full marks if consistent with calculations above

8

TOTAL MARKS
45

QUESTION 4**4.1 SAMORA SPORTS LIMITED**

NB: If pre-adjustment figure is shown as the final answer, the relevant mark is still given

If final figures are correct award full marks - if incorrect, mark workings – if no workings in this case no marks

Foreign items i.e. Balance Sheet items – 1 each (max -2)

If interest is shown at top & bottom, apply –1 max for placement if marks are earned

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008		
Sales	1 703 200 ✓ – 17 000 ✓ – 6 200 ✓	✓ 1 680 000
Cost of sales	<i>If = Sales / 1.6</i>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> (1 050 000)
Gross profit	<i>If = Sales - COS</i>	<input checked="" type="checkbox"/> 630 000
Other income	<i>Inspection</i>	<input checked="" type="checkbox"/> 386 000
Service fee income	297 140 ✓ – 540 ✓	✓ 296 600
Rent income	105 000 ✓ – <input checked="" type="checkbox"/> 15 600 ✓✓	✓ 89 400
<i>Do not accept Interest here</i>		
		1 016 000
Operating expenses	<i>Inspection, brackets not essential</i>	<input checked="" type="checkbox"/> (680 000)
Salaries and wages	234 750 ✓ + 6 000 ✓	✓ 240 750
Employer's contributions	53 200 ✓ + 690 ✓	✓ 53 890
Audit fees	30 000 ✓ + 28 000 ✓	✓ 58 000
Directors' fees		✓ 230 000
Consumable stores	51 100 ✓ – 900 ✓	✓ 50 200
Bank charges	5 240 ✓ + 310 ✓	✓ 5 550
Sundry expenses	<i>Inspection - reasonable</i>	<input checked="" type="checkbox"/> 15 910
Trading stock deficit	13 000 + 4 800 <i>Any figure</i>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 17 800
Depreciation	6 400 ✓✓ + 1 500 ✓ / 4 700 + 3 200	✓ 7 900
<i>Do not accept Interest here</i>		
Operating profit	<i>If = 20% of Sales (either pre- or post-adj)</i>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 336 000
Interest income		✓ 11 200
		347 200
Interest expense		✓✓ (44 800)
Net profit before tax	<i>Inspection, inspect operations applied</i>	<input checked="" type="checkbox"/> 302 400
Income tax	<i>If = 30% of NP, brackets not essential</i>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> (90 720)
Net profit after tax	<i>Inspection – if tax deducted</i>	<input checked="" type="checkbox"/> 211 680

50

4.2

4.2.1 **Why does the Companies Act make it a requirement for public companies to be audited?**

Any one valid reason ✓ ✓

- To protect the shareholders / separation of ownership from control
- OR Public funds are used
- OR To ensure that it is a fair reflection of financial statements
- OR To ensure that directors are not misrepresenting the figures
- OR To be accountable to stakeholders e.g. shareholders, SARS
- OR To discourage fraud

2

4.2.2 **Name ONE other person who would be interested in this audit opinion, and give a reason for his/her interest in the opinion.**

Any one of the other stakeholders ✓ Reason ✓ ✓

Shareholders not acceptable in this answer

- **Prospective investors** (Financial Institutions) – To make investments
- **Lenders** – To see whether the company is solvent and security for their loans
- **Suppliers** – To see if amounts owed can be paid
- **SARS** – To calculate the tax accurately
- **Competitors** – To compare results
- **Trade unions** – For wage negotiations / job security
- **Board of directors / CFO** – To assess performance
- **Government** – For statistical information
- **Registrar of Companies** – To comply with legislation

3

4.2.3 **At the AGM, one of the shareholders says that he is not happy with the words 'fairly present' in the audit report. He wants the auditors to say that the financial statements are 'correct in all respects'.**

**What explanation should be given to this shareholder?
State ONE point.**

Any one valid explanation ✓ ✓ ✓

Excellent = 3 Good = 2 Satisfactory = 1 Incorrect = 0

Expected responses:

- Auditors give reasonable assurance because they do not check everything in the books of the company (sampling test only).
- Cost factor / time-consuming – if everything checked.

3

4.2.4 The directors are not happy with the high audit fees reflected in the Income Statement.

Explain why improvement in internal control will have a positive effect on the external auditors' fees. State ONE point.

Any one valid explanation that indicates less time spent on the audit ✓✓✓
Excellent = 3 Good = 2 Satisfactory = 1 Incorrect = 0

- Internal auditors will reduce mistakes made by employees
- External auditors will spend less time auditing the books.
- Admin should be in place – documents filed correctly.

3

4.2.5 SAICA is one of the main professional bodies governing accountants in this country.

Explain TWO of the main roles performed by the SAICA.

Any two valid reasons ✓✓ ✓✓

- Disciplinary procedure against member who is negligent
- Compliance with Code of Ethics / credibility
- Compliance with GAAP and IFRS
- Professional development / training / updated circulars
- Ensure high competence levels
- Control qualifications
- Market the profession
- Investigate complaints against members

4

TOTAL MARKS
65

QUESTION 5

5.1 Calculate the following financial indicators for 2008:

Ratios must be in correct order

5.1.1 **Debt/Equity ratio**

$$\overset{\checkmark}{1\ 980\ 000} / \overset{\checkmark}{4\ 123\ 000} \quad \text{OR} \quad 2\ 048\ 000 : 4\ 123\ 000$$

$$= 0,48 : 1 \quad \text{or} \quad 0,5 : 1 \quad \checkmark \quad \text{If any one part correct}$$

3

5.1.2 **Acid-test ratio**

$$(2\ 557\ 000 - 1\ 640\ 000) : 1\ 080\ 000$$

$$\text{OR} \quad (810\ 000 + 107\ 000) : 1\ 080\ 000$$

$$= 917\ 000 : 1\ 080\ 000$$

$$= 0,8 : 1 \quad \text{or} \quad 0,85 : 1 \quad \checkmark \quad \text{If any one part correct}$$

4

5.1.3 **Stock-turnover rate**

$$\frac{\overset{\checkmark}{5\ 625\ 000}}{\overset{\checkmark\checkmark}{1\ 575\ 000} \text{ or } 1\ 640\ 000} \quad \text{No mark for opening stock}$$

$$= 3,6 \text{ or } 3,57 \text{ times or } 3,4 \text{ times} \quad \checkmark \quad \text{If any one part correct}$$

4

5.1.4 **% return on average shareholders' equity (after tax)**

$$\frac{\overset{\checkmark}{904\ 000}}{\frac{1}{2}(4\ 123\ 000 + 2\ 640\ 000)} \times \frac{100}{1}$$

$$= \frac{\overset{\checkmark}{904\ 000}}{\overset{\checkmark\checkmark}{3\ 381\ 500}} \times \frac{100}{1} \quad \checkmark \quad \text{If any one part of denominator correct}$$

$$= 26,7\% \quad \checkmark \quad \text{If any one part correct}$$

4

5.1.5 **Net asset value per share**

$$\overset{\checkmark}{R\ 4\ 123\ 000} / \overset{\checkmark\checkmark}{1\ 100\ 000} \text{ shares}$$

$$= 374,8 \text{ cents} / 375 \text{ cents} / R3,75 \quad \checkmark \quad \text{If any one part correct}$$

4

5.2 Solvency and liquidity:

5.2.1 Briefly explain the difference between solvency and liquidity.

Solvency: ability to pay off debts / ability to meet all debts in the long-term / TA:TL / TA > TL / **positive equity** ✓

Liquidity: ability to pay off current / short-term debts / CA:CL / CA > CL ✓

2

5.2.2 Comment on the solvency of this business. Quote a financial indicator from the question to support your opinion.

Opinion – solvent ✓ Indicator ✓✓

The business is solvent / satisfactory

Assets > Liabilities by 2,2:1

OR Ratio decreased from 2,3:1 to 2,2:1

3

5.2.3 Comment on the liquidity of this business. Quote the financial indicators and the changes (trends) from the previous year to support your opinion.

Any four valid indicators ✓ ✓ ✓ ✓ 1 mark each

Trends quoted for each ✓ ✓ ✓ ✓ 1 mark each

Note: in each case allow can one figure to be quoted plus description of trend

Current ratio 1,8:1 → 2,4:1

Acid-test ratio 0,7:1 → 0,8:1

Stock turnover rate 2,4 → 3,6

Debtors collection period 72 → 51 days

Creditors payment period 67 → 49 days

General comment ✓✓

Could be done separately for each indicator

Good=2 Satisfactory=1

Liquidity improved – the trends in indicators have generally improved

10

5.3 Returns and share price:**5.3.1 Comment on the earnings, dividends and % return. Quote financial indicators and changes (trends) from the previous year to support your opinion.**

Improvement in EPS✓: 78,8c → 95,2c / diff 16,4 c✓

Decline in DPS✓: 65c → 57c / diff 8c✓

Improvement in % return✓: 23,9% → 26,7% / diff 2,8%✓

Accept ROTCE: 43,3% → 39,7% / diff 3,6%

Could mention the Dividend Payout rate (1 mark for comment): 57c out of 95,2c (1 mark for figures) instead of DPS and EPS: paying out more than half, but still retaining some income

Could compare (1 mark for comment) DPS 57c or EPS 95,2c (1 mark for figures) to market value of share R3,50: this is very favourable

Could compare % return (1 mark for comment) of 26,7% (1 mark for figures) to returns on alternative investments: 26,7% is better than other returns

6

5.3.2 Would you be satisfied with the performance of the share price? Comment and compare this to a financial indicator from the question to support your opinion.

Opinion: No ✓

Comment: Compare NAV to Market Price 374,8c > 350c ✓✓✓ (See 5.1.5) (undervalued – possible resignation of the CEO might be affecting this).

OR

Opinion: Yes (1 mark)

Comment: Only a 6% improvement in market price (1 mark)

Quote NAV: Increased from 330c to 374,8c / diff 44,8c (See 5.1.5) (max 2 marks)

Comment must include reference to NAV & Market price and figures for 3 marks
Reference to NAV only with figures: 2 marks Any other valid comment with figures: 1 mark

4

5.4 Calculate the missing figures in the Cash Flow Statement:

Full marks for answer – if incorrect, look at workings

T-accounts or CFS notes can be used in certain cases

$$(a) = \overset{\checkmark}{R426\ 000} - \overset{\checkmark}{18\ 000} - \overset{\checkmark}{32\ 000} = \overset{\checkmark}{R376\ 000}$$

$$(b) = \overset{\checkmark}{R600\ 000} + \overset{\checkmark}{R510\ 000} = \overset{\checkmark}{R1\ 110\ 000}$$

$$\text{OR } R2\ 910\ 000 - R1\ 800\ 000 = R1\ 110\ 000$$

$$(c) = \overset{\checkmark}{R1\ 980\ 000} - \overset{\checkmark}{R700\ 000} = \overset{\checkmark}{R1\ 280\ 000}$$

$$\text{OR } R2\ 810\ 000 - (R1\ 110\ 000 + R420\ 000) = R1\ 280\ 000$$

if any one part correct

$$(d) = R337\ 000 \checkmark$$

$$(e) = R107\ 000 \checkmark$$

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5.5 The Cash-Flow Statement highlights some significant (important) decisions taken by the directors over the past year. Explain TWO of these significant decisions. Quote figures to support your answer. Also explain how these decisions would benefit the company and the shareholders.

Any two decisions – one mark each ✓ ✓

Quoting of figures – one mark each ✓ ✓

e.g.

- Investment in fixed assets for new branches R3 357 000
- Issue of new shares: R1 110 000 / 300 000 shares
- Extra loan: R1 280 000 – see 5.4 (b) and (c)
- Profits retained from operations: R744 000
- Financial assets matured: R420 000

Any valid explanation on benefits to the company and shareholders – figures not required: ✓✓✓✓

Excellent = 4 Good = 3 Satisfactory = 2 Poor = 1 Incorrect = 0

e.g.

- Expanding the company leads to more profits in the future
- The shareholders will earn more dividends and the share price will probably increase
- Extra loans affect debt/equity ratio – benefit from gearing effect
- To reduce the loan amount and reduce interest
- Making use of proceeds of additional shares to earn more profit

8

5.6 At the AGM, the directors announce that the company will:

- conduct training of all employees in terms of morals and ethics
- donate funds towards cleaning up the environment.

Explain why this is necessary although this will cost the company a lot of money each year. State THREE points.

Two marks for each separate point ✓✓ ✓✓ ✓✓

Part-marks may be awarded if response is not clear or if the response is slightly off the point

Any three valid points, e.g.

- Training will improve customer service
- Will create better working environment – employees/unions happier
- Corporate responsibility towards the community – increase goodwill
- Published financial statements will look good
- Encourages new shareholders – favourable effect on share price
- Company gives to the community
- Improves company's image / profitability
- This is a form of publicity
- King Code advises this.

6

TOTAL MARKS
70

QUESTION 6

6.1

ASSET DISPOSAL							
June	30	Equipment ✓	✓✓ 79 200	June	30	Accu Depr on Equip ✓	✓☑# 15 840
						* Bank / Ace Insurance / Insurance claim / Debtors ✓	✓✓ 30 000
						* Loss on disposal/theft of assets ✓	✓☑\$ 33 360
			79 200			# Any figure \$ Inspection	79 200

* If these two entries are combined to debit Insurance Claim/Debtors/the Loss account/Suspense, then 2 marks for relevant details and 4 marks for R63 360.

12

6.2 What advice would you give Di? Explain ONE point.

Any one valid point provided it is ethical e.g. ✓✓✓

Excellent = 3 Good = 2 Satisfactory = 1 Unethical = 0

- She should take the morally and ethically correct action – advise Mike not to lay the insurance claim.
- Advise/find out if Milly knows about Mike's dishonesty – affects partners' relationship in the business
- Consider whistle-blowing issues – e.g. should she speak to Mike / advise Mike first / inform the partner or the insurance company

3

6.3 Explain how and why the Fixed Assets Register will assist the internal auditor in his duties.

Any valid response e.g. ✓✓✓

Excellent = 3 Good = 2 Satisfactory = 1 Incorrect = 0

- Assists internal control – he can check the physical existence of the assets and compare these to the register which must agree with the ledger – he will then be sure that all fixed assets are accounted for.
- Could see the complete history / life-span of the assets & their depreciation – for valuation of the asset & financial reporting.

3

6.4 In order to solve their cash flow problems, Mike has sold a portion of the premises at cost price. Milly disagrees with him on this. Do you support Milly's opinion? Give a reason.

Yes ✓ Any valid reason ✓✓

Reasons for Yes:

- This will affect the operations of the business in future.
- Property is a growing investment which will appreciate in future – they should have sold it at a lot more than cost price / market value.
- The property should rather have been kept and a mortgage loan should have been taken out.

OR

No ✓ Any valid reason ✓✓

Reasons for No:

- If the property is not being properly utilised or is situated in an area where there is no appreciation in property values

Do not accept solving of cash flow problem as a reason

3

6.5 Identify the cost price of delivery vehicle 3.

$$\begin{array}{rcl} & \checkmark & \checkmark & \checkmark \\ & R699\,000 & - (R315\,000 + R144\,000) & = R240\,000 \\ \text{OR } & R168\,000 & + R72\,000 & = R240\,000 \end{array}$$

Explain why delivery vehicle 2 is reflected at a book value of R1,00

The delivery vehicle is very old and has been fully depreciated, but the business must reflect it at a value in the books / The vehicle is still in use and has not reached the end of its life-span although full depreciated

✓✓ *part-marks may be given*

Do not accept accu depr of R143 999 as an answer

5

6.6 Identify and explain ONE major problem relating to each delivery vehicle or its driver. Quote figures from the information to support your answer. Provide a valid solution to each problem.

Delivery vehicle 1: Any valid problem identified ✓ Quoting of relevant figure ✓
Possible responses:

- The driver has been lazy/not working too hard – only did 280 deliveries in the year.
- The driver is absent from work too often – 50 days away from work.
- The vehicle is not being utilised enough – only did 10% of the trips yet it has the lowest running costs (R1,30).
- The driver is being paid the same salary as other drivers despite only doing 10% of the work.
- Lack of internal control/This vehicle is running at a loss – income R70 000 less expenses R88 400 = R18 400 loss.

Any valid solution related to the problem identified above ✓

Possible responses

- Pay drivers per delivery – this will encourage them to work harder.
- Allocate this vehicle to the busiest driver.

Delivery vehicle 2: Any valid problem identified ✓ Quoting of relevant figure ✓
Possible responses:

- The driver has been working too hard – did 8 deliveries per day (2100 / 260).
- This vehicle is old / has a high running cost yet it is used for 2 100 out of 3 680 deliveries.

Any valid solution related to the problem identified above ✓

Possible responses

- Allocate this vehicle to the least busy driver.
- Restrict usage of this vehicle.

Delivery vehicle 3: Any valid problem identified ✓ Quoting of relevant figure ✓
Possible responses:

The driver has been fraudulent – fees collected are R50 000 short (R325 000 – R275 000).

Any valid solution related to the problem identified above ✓

Possible responses

- Conduct an internal audit of fees collected.
- Conduct a disciplinary enquiry against the driver.

9

TOTAL MARKS
35

TOTAL: 300