MARKING GUIDELINES

MARKS: 300

MARKING PRINCIPLES:
1. Unless otherwise stated in the marking guideline, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark.
10. Operation means ‘check operation’. ‘One part correct’ means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
11. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
12. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a ✗.
13. Be aware of candidates who provide valid alternatives beyond the marking guideline.

These marking guidelines consist of 17 pages.
**QUESTION 1**

### 1.1

<table>
<thead>
<tr>
<th>1.1.1</th>
<th>False ✓</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.2</td>
<td>False ✓</td>
</tr>
<tr>
<td>1.1.3</td>
<td>True ✓</td>
</tr>
</tbody>
</table>

### 1.2.1

<table>
<thead>
<tr>
<th>Calculation of CRJ total</th>
<th>Calculation of CPJ total</th>
</tr>
</thead>
<tbody>
<tr>
<td>90 500</td>
<td>85 920</td>
</tr>
<tr>
<td>9 750 ✓</td>
<td></td>
</tr>
<tr>
<td>2 900 in CRJ and 9 200 in CPJ Both for two marks</td>
<td>6 300 ✓ ✓</td>
</tr>
<tr>
<td>(5 500) in CRJ one mark 5 500 in CPJ one mark</td>
<td>OR 9 200 (2 900) ✓ ✓</td>
</tr>
<tr>
<td>16 500 ✓</td>
<td>11 000 ✓</td>
</tr>
<tr>
<td>900 ✓</td>
<td>2 290 ✓</td>
</tr>
<tr>
<td>May be combined as R320 OR R1 220-R900 in CPJ for two marks</td>
<td>750 ✓</td>
</tr>
<tr>
<td>117 650</td>
<td>107 480</td>
</tr>
</tbody>
</table>

Foreign entries -1 e.g. 8 550; 13 590; 16 200; 30 000
Be aware of other foreign entries that are incorrectly duplicated in journals and/or reconciliation.

**Bank account balance:**
May prepare a ledger account

\[-5 210 ✓ + 117 650 ✓ − 107 480 ✓ = R4 960 ✓\]

Bank Reconciliation Statement on 30 June 2017

<table>
<thead>
<tr>
<th>May start with ledger balance</th>
<th>DEBIT</th>
<th>CREDIT</th>
<th>One-column method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per Bank Statement check balancing figure</td>
<td>9 740✓</td>
<td>Do not accept R1 450</td>
<td>9 740</td>
</tr>
<tr>
<td>Outstanding deposits</td>
<td>40 500 ✓ ✓</td>
<td>40 500</td>
<td></td>
</tr>
<tr>
<td>Outstanding cheques</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 819</td>
<td>7 650 ✓</td>
<td>(7 650)</td>
<td></td>
</tr>
<tr>
<td>• 870</td>
<td>16 800 ✓</td>
<td>(16 800)</td>
<td></td>
</tr>
<tr>
<td>Outstanding EFT</td>
<td>2 250 ✓</td>
<td>(2 250)</td>
<td></td>
</tr>
<tr>
<td>Credit incorrect bank charges</td>
<td>900 ✓ ✓</td>
<td>900</td>
<td></td>
</tr>
<tr>
<td>Balance per bank account see 1.2.1</td>
<td>4 960✓</td>
<td>4 960</td>
<td></td>
</tr>
</tbody>
</table>

Foreign entries -1 e.g. 8 550; 13 590; 16 200; 30 000
-1 incorrect / no details Foreign items -1
For 2-column method with brackets used, do not accept brackets/negatives in any column.
1.2.3 Explain the problem relating to deposits. Quote evidence.

Valid explanation ✓  Evidence ✓

Expected responses:
Deposits are not being done promptly / Late deposits (leads to cash flow problems)
OR
Rolling of cash / could indicate theft

Evidence: Dates or figures
- Deposit of R30 000 / 17 May / approx. 16 days was outstanding at month end
- Deposit of R16 200 / 31 May / approx. 16 days only reflected on statement on 16 June
- Deposit of Slip 451 /R40 500 / 25 June outstanding at month-end

Explain TWO strategies to prevent this in future.

TWO valid points ✓ ✓ accept short explanations; may be phrased differently
- Division of duties: The person receiving the money and issuing receipts should be different from the person completing the deposit slip and another person should deposit the money at the bank so that one can serve as a check on the other.
- Senior personnel should check via internet banking / deposit slips that deposits reflected daily.
- Request SMS from bank for all transactions.
- Use a security company to collect the deposits on a daily/regular basis.
- Encourage debtors to make direct transfers (EFT).

TOTAL MARKS

30
QUESTION 2

2.1 GEVEN MANUFACTURERS

2.1.1 PRODUCTION COST STATEMENT
FOR THE YEAR ENDED 28 FEBRUARY 2017

<table>
<thead>
<tr>
<th>Cost Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct material cost</td>
<td>R1 152 000</td>
</tr>
<tr>
<td>Direct labour cost</td>
<td>R648 000</td>
</tr>
<tr>
<td><strong>Prime cost</strong></td>
<td>R1 800 000</td>
</tr>
<tr>
<td><strong>Factory overhead cost</strong></td>
<td>R504 000</td>
</tr>
<tr>
<td><strong>Total cost of production</strong></td>
<td>R2 376 000</td>
</tr>
</tbody>
</table>

2.1.2 ABRIDGED INCOME STATEMENT
FOR YEAR ENDED 28 FEBRUARY 2017

<table>
<thead>
<tr>
<th>Income/Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>R4 080 000</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>R(2 580 000)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>R1 500 000</td>
</tr>
<tr>
<td><strong>Administration cost</strong></td>
<td>R(131 600)</td>
</tr>
<tr>
<td><strong>Selling and distribution cost</strong></td>
<td>R(320 000)</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>R1 048 400</td>
</tr>
</tbody>
</table>
2.2 GYMWEAR MANUFACTURERS

2.2.1 Shirts:

Calculate the break-even point for shirts.

\[ \frac{530,000}{302 - 238} = 8,281.25 \]

\[ 8,281 \]

\[ 8,282 \]

\[ 8,281.3 \]

\[ \checkmark \checkmark \checkmark \checkmark \] one part correct; do not accept R or c

Identify ONE variable cost (with figures) that has not been well controlled. Give TWO possible reasons for this problem.

<table>
<thead>
<tr>
<th>ONE VARIABLE COST WITH FIGURES</th>
<th>REASONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable cost ( \checkmark )</td>
<td>Expected responses:</td>
</tr>
<tr>
<td>Figures ( \checkmark ) [ Direct labour cost ]</td>
<td>• Negotiated wage increase / applied minimum wage / inflation / increased salary scales (for qualifications)</td>
</tr>
<tr>
<td>[ Increased by R31 ] [ (31%) ] [ (from R100 to R131) ]</td>
<td>• Paid bonuses to some workers</td>
</tr>
<tr>
<td>[ \checkmark \checkmark \checkmark ] Any two different reasons</td>
<td></td>
</tr>
</tbody>
</table>

Direct labour cost

Increased by R31 
(31\%)
(from R100 to R131)

Do not accept: More workers; Absent workers; Poor budgeting

Explain why Jan might be concerned about the large decreases in the other TWO variable costs.

<table>
<thead>
<tr>
<th>Comment on DMC</th>
<th>Using cheaper material</th>
<th>Inferior quality.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economising on material</td>
<td>May affect the quality of the product</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Comment on S&amp;DC</th>
<th>Reduced advertising or reduced commission / reduced remuneration of salespersons</th>
<th>May cause sales to drop / may demotivate salespersons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced distances for deliveries / discontinuing the service in certain areas</td>
<td>Leads to loss of customers</td>
<td></td>
</tr>
<tr>
<td>Out-sourcing / using cheaper service providers</td>
<td>Might be inferior and negatively affect business in future</td>
<td></td>
</tr>
</tbody>
</table>

Jan does not understand why the unit cost of production has increased when neither his fixed costs nor the variable costs have increased. Explain why this is so. State ONE point (with figures).

Any one explanation \( \checkmark \checkmark \) Figures \( \checkmark \checkmark \)

Expected responses: Part-marks for unclear/incomplete explanation

• No economies of scale / decrease in production by 8 900 units (25 000 to 16 100)
• Lower production increased FC per unit by R11,72 or 55,2\% (R21,20 to R32,92)
2.2.2 Shoes:

Calculate the % increase in the selling price of shoes.

\[
\text{\% increase} = \frac{1640 - 1260}{1260} \times 100 = 30.2\% \text{ OR } 130.2\% - 100\% = 30.2\% \\
\text{\% increase} = 30.2\% \\
\]

Jan decided to improve the quality of the shoes and to export them. Explain how the direct material costs and the selling and distribution costs were affected by this decision. Provide figures.

- DMC increased from R330 to R456 (by R126 by 38.2\%)
- S&DC increased from R28 to R194 (by R166 by 592.8\%)

Jan was concerned that the increase in price would have a negative impact on the business. Explain whether his concern was justified. State TWO points.

Figures are not needed, but may be used to make a point about the concern.

Reasons (any two)

- Sales increased (by 1 250 units) / customers still supported the business (despite increase in price)
- Net profit increased (by R1 196 750) / price did not negatively affect sales
- BEP decreased (due to increased contribution per unit) by 475 units / The business now exceeds BEP by bigger margin (3 908 units).

TOTAL MARKS

- 3
- 4
- 4

55
QUESTION 3

3.1

(a) Calculate the carrying value of Land and Buildings on 1 March 2016.

\[ 2 \,550 \,000 - 325 \,000 = 2 \,225 \,000 \]  

\[ \checkmark \checkmark \text{no part marks} \]

(b) Calculate the total depreciation on vehicles on 28 February 2017.

Allocate the marks to correct workings even if subtotals not shown.

New:

\[ 422 \,550 \times 20/100 \times 6/12 = 42 \,255 \]  

\[ \checkmark \checkmark \]

Old:

\[ 350 \,000 \times 20/100 = 70 \,000 \text{ but can only write off R34 999 } \checkmark \checkmark \]

\[ (350 \,000 - 315 \,000) = 35 \,000 - 1 = 34 \,999 \]

\[ 42 \,255 + 34 \,999 = 77 \,254 \]  

\[ \checkmark \checkmark \text{one part correct} \]

(c) Calculate the carrying value of Vehicles on 28 February 2017.

Note: Apply Marking Principle

Mark one line only – choose line to benefit candidate

\[ 35 \,000 \checkmark + 422 \,550 \checkmark - 77 \,254 \]  

\[ \checkmark \checkmark = 380 \,296 \]  

OR

\[ 772 \,550 - (315 \,000 + 77 \,254 \text{ see (b) above} = 380 \,296 \]  

\[ 392 \,254 \text{ two marks} \]

(d) Calculate the carrying value of Equipment sold on 31 December 2016.

Note: Apply Marking Principle

Mark one line only – choose line to benefit candidate

\[ 30 \,900 \text{ four marks} \]  

\[ 120 \,000 \checkmark - (12 \,000 \checkmark + 10 \,800 \checkmark + 8 \,100 \checkmark \checkmark ) = 89 \,100 \]  

\[ \checkmark \text{one part correct} \]

\[ 108 \,000 \text{ two marks} \]

OR

\[ 120 \,000 - 12 \,000 - 10 \,800 - 8 \,100 = 89 \,100 \]

\[ \checkmark \checkmark \text{six marks} \]

(e) Calculate the total carrying value of fixed assets on 28 February 2017.

Note: Apply Marking Principle

\[ 2 \,550 \,000 \checkmark + 380 \,296 \checkmark + 50 \,994 \checkmark = 2 \,981 \,290 \]  

\[ \checkmark \checkmark \text{four marks} \]

\[ \checkmark \checkmark \text{six marks} \]
### 3.2 BALANCE SHEET OF ODETTE LTD ON 28 FEBRUARY 2017

**Placement presentation – 1 if marks earned in each case**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NON CURRENT ASSETS</strong> (TA – CA)</td>
<td>4 010 940 ✔</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>See (3.1 e) 2 981 290 ✔</td>
</tr>
<tr>
<td>Financial assets (Fixed Deposit)</td>
<td>1 029 650 ✔</td>
</tr>
<tr>
<td><strong>CURRENT ASSETS</strong> CL X 2.1</td>
<td>870 660 ✔ ✔</td>
</tr>
<tr>
<td>Inventory</td>
<td>408 880</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>84 080 ✔*</td>
</tr>
<tr>
<td>67 200 ✔ – 270 ✔ + 6 800 ✔ +10 350 ✔</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>377 700 ✔</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong> SHE + L</td>
<td>4 881 600 ✔</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EQUITY AND LIABILITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SHAREHOLDERS EQUITY</strong></td>
<td>4 185 000 ✔</td>
</tr>
<tr>
<td>Ordinary share capital</td>
<td>SE – 520 000 3 665 000 ✔</td>
</tr>
<tr>
<td>Retained income</td>
<td>520 000</td>
</tr>
<tr>
<td><strong>NON-CURRENT LIABILITIES</strong></td>
<td>282 000</td>
</tr>
<tr>
<td>Loan: Beque Bank</td>
<td>282 000 ✔*</td>
</tr>
<tr>
<td>376 000–92 000 ✔ ✔</td>
<td></td>
</tr>
<tr>
<td>284 000 + 48 000 – 50 000 ✔</td>
<td></td>
</tr>
<tr>
<td>332 000 two marks</td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td>414 600 ✔*</td>
</tr>
<tr>
<td># Trade and other payables</td>
<td>184 000 ✔ + 5 600 ✔</td>
</tr>
<tr>
<td>189 600 ✔*</td>
<td></td>
</tr>
<tr>
<td>## SARS: Income tax</td>
<td>13 000 ✔*</td>
</tr>
<tr>
<td>222 000 ✔ ✔ – 209 000 ✔</td>
<td></td>
</tr>
<tr>
<td>518 000 x 30/70</td>
<td></td>
</tr>
<tr>
<td>See no. of shares in SHE</td>
<td></td>
</tr>
<tr>
<td>Shareholders for dividends (675 000 ✔ x 0,24 ✔)</td>
<td>162 000 ✔*</td>
</tr>
<tr>
<td>Current portion of loan</td>
<td>50 000 ✔</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY AND LIABILITIES</strong></td>
<td>4 881 600 ✔*</td>
</tr>
</tbody>
</table>

*one part correct

#Trade and other payables can combine the other elements under current liabilities. Allocate the part-marks accordingly.

If SARS and S/Hs for divs are included in T&OP, award one method mark in each case for workings included.

## Inspect treatment of SARS (income tax) to check if candidate deducts interest from net profit to calculate tax.
3.3 AUDIT REPORT

As a shareholder, what concerns would you have regarding this audit report? Explain THREE points.

Any three different valid points ✓ ✓ ✓ ✓
Part-marks for unclear/incomplete explanation

Note: Candidates should not restrict responses to the commenting on the two specific points in the audit report as there would be several concerns arising from those two points.

Expected responses:
- This is a disclaimer report (no audit opinion).
- It will have a negative effect on the company e.g. reputation / share price / demand for shares / bad publicity / potential investors lose confidence in the company.
- The corporate governance of the company is compromised / not in line with King Code.
- The correct procedure of approving directors' fees / bonuses was not followed.
- The directors have abused their position.
- The huge amount paid to directors could negatively affect the financial results/liquidity and solvency/profitability of the company.
- Insufficient audit evidence.

TOTAL MARKS

65
QUESTION 4

4.1

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1.1</td>
<td>Directors ✓</td>
</tr>
<tr>
<td>4.1.2</td>
<td>Internal auditor ✓</td>
</tr>
<tr>
<td>4.1.3</td>
<td>Shareholder ✓</td>
</tr>
<tr>
<td>4.1.4</td>
<td>External auditors ✓</td>
</tr>
</tbody>
</table>

4.2 SO-FINE LTD

4.2.1 ORDINARY SHARE CAPITAL

**AUTHORISED SHARE CAPITAL**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 200 000 ordinary shares</td>
<td></td>
</tr>
</tbody>
</table>

**ISSUED SHARE CAPITAL**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>900 000</td>
<td>Ordinary shares on 1 September 2016 Balancing figure: check that repurchase added back and issue deducted back 4 725 000 ✓</td>
</tr>
<tr>
<td>150 000</td>
<td>Issued on 1 May 2016 at R6,30 each 945 000 ✓</td>
</tr>
<tr>
<td>(70 000)</td>
<td>Re-purchased 30 August 2017 (ASP: R5,40 ✓ ✓) 5 292 000/980 000 no part marks (378 000) one part correct i.e. 70 000 or R5,40; do not accept 437 500 as final answer</td>
</tr>
<tr>
<td>980 000 ✓</td>
<td>Ordinary shares on 31 August 2017 5 292 000</td>
</tr>
</tbody>
</table>

**RETAINED INCOME**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance on 1 September 2016</td>
<td>147 370</td>
</tr>
<tr>
<td>Net profit after income tax</td>
<td>438 130</td>
</tr>
<tr>
<td>Shares repurchased (437 500 ✓ – 378 000 ✓)</td>
<td>(59 500) ✓*</td>
</tr>
<tr>
<td>70 000 x 0,85 Or 70 000 x (6,25 – ASP) 437 500/70 000 OSC above</td>
<td></td>
</tr>
<tr>
<td>Ordinary share dividends one part correct</td>
<td>(276 000) ✓*</td>
</tr>
<tr>
<td>• Interim dividends (900 000 ✓ x 0,12) one part correct</td>
<td>108 000 ✓</td>
</tr>
<tr>
<td>• Final dividends</td>
<td>168 000 ✓</td>
</tr>
<tr>
<td>Balance on 31 August 2017 one part correct; both figures must be subtracted</td>
<td>250 000 ✓*</td>
</tr>
</tbody>
</table>
4.2.2 SO-FINE LTD: CASH FLOW STATEMENT FOR YEAR ENDED 31 AUGUST 2017

If a working is shown as a final answer, award working mark only if brackets correctly applied for that item
If item is incorrectly placed, award no marks for details or figures
# Signs may be reversed; apply consistently; mark one line only to benefit candidate
## If workings not shown but figure is correct without brackets, award marks to cover workings and penalise on answer

<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES</th>
<th>Correct use of brackets to earn the mark on the final answer for each item in this column</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash generated from operations</td>
<td>*one part correct and correct use of brackets</td>
</tr>
<tr>
<td>Interest paid</td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td></td>
</tr>
<tr>
<td>Income tax paid</td>
<td># –2 400 √ + 187 770 √ – 11 800 √ OR 2 400 – 187 770 + 11 800</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM INVESTING ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of fixed assets</td>
</tr>
<tr>
<td># 6 177 000 √ + 320 000 √ + 324 000 √ – 4 975 000 √ –6 177 000 – 320 000 – 324 000 + 4 975 000</td>
</tr>
<tr>
<td>? ✓ Proceeds from sale of fixed assets</td>
</tr>
<tr>
<td>Change in investments</td>
</tr>
<tr>
<td>CASH FLOWS FROM FINANCING ACTIVITIES</td>
</tr>
<tr>
<td>? ✓ Proceeds from issue of share capital</td>
</tr>
<tr>
<td>? ✓ Repurchase of shares</td>
</tr>
<tr>
<td>Change in non-current liabilities</td>
</tr>
<tr>
<td>Net change in cash and cash equivalents</td>
</tr>
<tr>
<td>Cash and cash equivalents – opening balance</td>
</tr>
<tr>
<td>Cash and cash equivalents – closing balance</td>
</tr>
</tbody>
</table>

4.2.3 Calculate the percentage operating profit on sales.

\[
\text{697 000} \times 100 = 8,1\% \checkmark \quad \text{one part correct} \quad \% \text{ sign not necessary}
\]

4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period.

\[
\frac{900 000 + 150 000}{168 000 \times 100} + 12 \text{ cents} \checkmark = 28 \text{ cents} \checkmark \quad \text{one part correct}
\]

4.2.4 Calculate the debt-equity ratio.

\[
5 542 000 \text{ two marks See 4.2.1}
\]

\[
985 000 \checkmark : (5 292 000 \checkmark + 250 000 \checkmark ) = 0,2 : 1 \checkmark \quad \text{one part correct}
\]

if superfluous items added in workings, but answer is still the same, penalise on answer
4.3 CASTRO LTD

4.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued.

Compare issue price to market price or NAV ✓ ✓ Part-marks for partial or incomplete explanation
Figures R12,00 or R10,73 ✓ Could quote differences e.g. R2,90 or R1,63

Expected responses:
- The shares were issued at the average share issue price. The existing shareholders are being rewarded as the price is lower than the R12,00 charged on the JSE and the NAV of R10,73.
- The shares could have been issued at the market price of R12,00 or the NAV of R10,73 (they have diluted the value of the shares).

4.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators.

Explanation ✓ ✓ Financial indicators ✓ ✓ Figures ✓ ✓ Superfluous indicators (i.e. more than two indicators) -1 max

Expected responses:
- Gearing has improved – less risk (as there was an issue of new shares)
  debt-equity ratio decreased from 0,8 : 1 to 0,5 : 1 (by 0,3 : 1)

- ROTCE improved (due to increased efficiency / profits on new branch)
  from 15 % to 20 % (by 5% or 33,3%)

Candidates may also compare ROTCE to their estimate of current interest rate

4.3.3 If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy?

✓ ✓ ✓ one part correct

(700 000 x 60%) – (500 000 x 60%) = 120 000

420 000 300 000

OR two marks one method mark (if x 60%)

200 000 x 60% = 120 000

How much would he have had to pay?

120 000 shares at R9,10 each = R1 092 000 ✓ ✓ If = no.shares (above) x R9,10

Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option.

Explanation ✓ ✓ ✓ ✓ Figures ✓ ✓ Part-marks for partial or incomplete explanation

Expected responses: Any two
- His dividends would have increased by R61 200 (51c x 120 000 shares). This is more than the interest he earned on the savings account R54 600 (1 092 000 see above x 5%)
- He could buy the shares for capital growth - bought the shares for R9,10 and then could sell them on the JSE for R12,00 / total profit could have been R348 000 / would be a good buy as R12,00 exceeds NAV R10,73
- He would have earned more dividends on bigger investment (51c/910c = 5,6%)
- ROSHE would be 23% on a bigger investment.
- He would lose 120 000 votes at the AGM.
### RONKI LTD

#### 4.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators.

**Explanation:** ✓✓  
The liquidity situation has improved / is able to meet current debts / liquidity ratios have decreased / liquidity ratios are more efficient

Financial indicators any two ✓✓  
Figures ✓✓ ✓
- Current ratio has improved/decreased (from 3,5 : 1) to 1,9 : 1
- Acid-test ratio has improved/decreased (from 1,7 : 1) to 1,1 : 1
- Stock-holding period appears to be efficient at 54 days (less than 2 months)

#### 4.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares.

**Expected response:** ✓✓  
The company is paying a premium above the average share price in order to entice shareholders to give up their shares / they wanted to increase returns by decreasing equity / this is a fair value same as the price on the JSE.

Compare price paid (R15,00) to Any one figure ✓
- market value R15,00
- net asset value R13,30
- average issue price of shares R10,20

#### 4.3.6 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd.

**Explanation** ✓✓ ✓  
Figures ✓✓ ✓

**Expected responses:** Three different responses
- He has now become a majority shareholder. His 300 000 shares are 51,7% of the total shares (33,3% before the share buy-back)
- Due to the reduced number of shares, his return has improved i.e. EPS has increased by 95c / from 171c to 266c / ROSHE increased from 13% to 16%.  (NOTE: EPS and ROSHE reinforce the same point).
- The reduced number of shares could have contributed to an increase in the DPS by 57c / by 55,3% / from 103c to 160c (Directors may have maintained the dividend pay-out policy).

### TOTAL MARKS

<table>
<thead>
<tr>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>85</td>
</tr>
</tbody>
</table>
QUESTION 5

5.1 CONCEPTS

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1.1</td>
<td>Weighted average / WA</td>
</tr>
<tr>
<td>5.1.2</td>
<td>Perpetual</td>
</tr>
<tr>
<td>5.1.3</td>
<td>First-in-first-out / FIFO</td>
</tr>
<tr>
<td>5.1.4</td>
<td>Expense</td>
</tr>
</tbody>
</table>

5.2 HOT-WHEELS (PTY) LTD

Motorbikes:

5.2.1 Calculate the value of the closing stock on 30 September 2017 using the specific identification method.

\[
\begin{align*}
243\,000 + 109\,600 + 252\,800 &= 605\,400 \quad \text{(one part correct)} \\
18 - 8 + 15 - 11 + 18 - 10 &= (10 \times 24\,300) + (4 \times 27\,400) + (8 \times 31\,600)
\end{align*}
\]

OR

\[
\begin{align*}
\text{OS} + P - \text{COS} &= \text{CS} \\
291\,600 + 1\,125\,600 - 811\,800 &= 605\,400 \\
316\,000 + 301\,400 + 194\,400 &= 701\,800
\end{align*}
\]

5.2.2 Mike requires your advice on the three different models of motorbikes in which he is trading. Explain TWO points of advice.

Any TWO valid points of advice

Part-marks for unclear/incomplete explanation

Expected responses:
- Reduce the price of AO2 to increase sales / A lower mark-up% will help in reducing stock levels.
- Discontinue / decrease the AO2 product and look at stocking alternative later model products.
- Stock more AO3 products as they seem to be more popular and in an affordable range.
- Stock more of the AO4 model because gross profit per unit is the biggest on the item.
Helmets:

5.2.3  **Calculate the value of the closing stock on 30 September 2017 using the weighted-average method.**  
Mark one line only – choose line to benefit candidate

\[
\begin{align*}
51 675 & \text{ four marks} \\
30 750 & \text{ two marks} \\
15 000 & \text{ 105 two marks} \\
39 300 & \text{ 100 three marks} \\
- 2 625 & \text{ (517 x 12) } \\
\end{align*}
\]

\[
15 000 \times 5 + 39 300 \times 2 - 2 625 \times 12 = 6 201 \checkmark \text{ one part correct; must x12}
\]

OR \[
51675 \times 12 = 6 201 \text{ or 6 204 (weighted-average rounded off) }
\]

5.2.4  **Is the weighted-average method appropriate to value the helmets? Explain ONE point.**

Yes/No \checkmark  Explanation \checkmark Part-marks for unclear/incomplete explanation

Explanation for yes:
- These are low cost compared to the other products Mike sells.
- The items are of similar value.

Explanation for no:
- Helmets are only demanded by a select few bike enthusiasts.
- The business does not buy very large quantities.
- The prices are always increasing so the later model will be more expensive.

5.2.5  **Mike suspects that helmets are being stolen from the shop despite using security cameras. Provide a calculation to verify his suspicion.**

\[
(30 + 75 - 5) \text{ 100 } \times 12 = 3 \text{ helmets missing } \checkmark \text{ One part correct}
\]

What can Mike do to improve the internal control of stock? State THREE points.

Three valid points \checkmark \checkmark \checkmark  

**Expected responses:**
- Do regular physical stock counts
- Place tracking devices on the products / security price tags
- Provide secure display cabinets for the stock
- Improve security at the gates / inspect items and check to sales slip
- Division of duties (if staff is suspected)
- Buy in smaller quantities / more regularly

Do NOT accept security cameras / CCTV

TOTAL MARKS

35
QUESTION 6

6.1 Explain the main purpose of a Cash Budget.
Explanation ✓
- To predict the cash balances / cash flow for a period
- To project / plan / forecast receipts and payments.

Explain the main purpose of a Projected Income Statement.
Explanation ✓
- To predict the profit that will be earned for a period
- To plan / forecast income and expenses.

6.2.1 Larry expects debtors to settle accounts by the end of the month following the sales transaction month.

Use the November figures to calculate the % of debtors that are expected to comply with the credit terms.
Mark one line only – choose line to benefit candidate

\[
\frac{181\,440}{224\,000} \times 100 = 81%
\]

Use the November figures to calculate the % of bad debts expected.

\[
\frac{8\,960}{224\,000} \times 100 = 4%
\]

6.2.2 Larry does not believe that his debtors’ control clerk, Shirley, deserves a bonus on 31 October 2017.

Provide evidence to support his opinion.

Explanation (calculation / figures) from the Age Analysis ✓

\[
\text{58\% of the amounts owed are still within the credit terms}
\]

OR

\[
\text{42\% of the amounts owed are not complying with terms}
\]

Offer Larry advice to improve debtors’ collections (TWO points).

Two valid points ✓ ✓

Expected responses:
- Contact debtors through statements / phone calls / SMS / reminders
- Offer discounts for prompt payments.
- Give her a bonus if she collects the outstanding amounts
- Charge interest
- Refuse to sell to debtors who are not compliant
- Improve screening process (so that bad debtors do not open accounts).

Note: Do not accept implement screening of debtors (i.e. already debtors)
6.3.1 Calculate the fixed % of sales used by Larry to budget for delivery expenses.

4%  ✓ ✓ % sign not needed

Calculate the amount of the loan to be repaid on 31 December 2017.

Mark one line only – choose line to benefit candidate

✓ ✓ ✓ ✓ One part correct

\[
\begin{align*}
510 \times 12 & \div 0,085 = R72 000 \\
2 975 - 2 465 & \\
\end{align*}
\]

OR

one mark one mark one mark one method mark

\[
\begin{align*}
510 \times 12 & \times 100 = R72 000 \\
8,5 & \\
2 975 - 2 465 & \\
\end{align*}
\]

OR two marks one mark one method mark; one part correct

\[
\begin{align*}
(2 975 \times 12 \div 0,085) - (2 465 \times 12 \div 0,085) = 72 000 \\
420 000 & \\
348 000 & \\
\end{align*}
\]

OR two marks one mark one method mark; one part correct

\[
\begin{align*}
1 200 \times 2 975 - 1 200 \times 2 465 = 72 000 \\
8,5 & \\
8,5 & \\
\end{align*}
\]

6.3.2 Refer to variances in Information D. Explain why Larry would feel that all these variances are problems for his business.

Figures not required

Part-marks for unclear/incomplete explanation

<table>
<thead>
<tr>
<th>COMMENT ON VARIANCES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
</tr>
<tr>
<td><strong>Advertising</strong></td>
</tr>
<tr>
<td><strong>Packing materials</strong></td>
</tr>
<tr>
<td><strong>Delivery expenses</strong></td>
</tr>
</tbody>
</table>

TOTAL MARKS

30

TOTAL: 300