



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

NOVEMBER 2010

MEMORANDUM

MARKS: 300

MARKING PRINCIPLES:

1. 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. Full marks for correct answer. If answer incorrect, mark the workings provided.
3. 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).
4. 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.
5. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
6. Where method marks are awarded for operation, marker must inspect the reasonableness of the answer before awarding the mark.

QUESTION 1

1.1

NO.	GENERAL LEDGER		A	O	L
	ACCOUNT DEBIT	ACCOUNT CREDIT			
			If blank assume 0 -1 per line for foreign entry Mark sign + or – independent of the details		
1.	SARS – Income Tax	Bank	-	0	-
2.	Dividends on ordinary shares ✓	Bank ✓	-✓	-✓	0
OR	Shareholders for dividends ✓		-✓	0	-✓
3.	Bank ✓	Share Premium ✓	+✓	+✓	0
4.	Dividends on ordinary shares ✓ #	Shareholders for dividends ✓	0	-✓	+✓
# Do not accept Shareholders for Dividends in debit column					
5.	Income Tax ✓	SARS (Income Tax) ✓	0	-✓	+✓

16

1.2 Provide the missing figures as indicated by (A) to (D). Show workings to earn part-marks.

A:
250 x R125 = R31 250 ✓✓ Two marks or nothing

B:
(260 ✓ x R105 ✓) + R4 000 ✓ = R31 300 ✓
OR 27 300 ✓✓ + R4 000 ✓ = R31 300 ✓

C:
250 ✓ + (1 010 – 10) ✓ – 275 ✓ = 975 ✓
OR 240 ✓ + 1 010 ✓ – 275 ✓ = 975 ✓

D:
See A if B + 90 000
 $\frac{31\,250 \checkmark + 121\,300 \checkmark - 1\,050 \checkmark}{1\,250 \checkmark} = R121,20 \checkmark$ operation if one part correct

15

1.3.1 Calculate the VAT payable to SARS or receivable from SARS.

$$R31\ 024 - R9\ 780 = R21\ 244 \quad \checkmark\checkmark \quad \text{Two marks or nothing}$$

State whether the amount is payable or receivable.

Payable \checkmark

3

1.3.2 Calculate the VAT on net purchases for February 2010.

$$R72\ 000 \checkmark \times 14\% \checkmark = R10\ 080 \quad \checkmark \quad \text{operation if one part correct}$$

3

1.3.3 Calculate the amount of VAT that would be reflected on the invoices that were issued to the debtors during February 2010.

$$R141\ 930 \checkmark \times \frac{14}{114} \checkmark = R17\ 430 \checkmark$$

3

TOTAL MARKS
40

QUESTION 2**2.1 Why does a business prepare a Bank Reconciliation Statement each month?**

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

Expected responses for 2 marks:

- Improves internal control by minimising fraud or error because records are checked to an external source
- Improves internal control by identifying outstanding cheques and deposits
- To compare the books of the business with that of the bank in order to detect errors and/or dishonesty at an early stage
- The books of the business and that of the bank should agree and the bank balance should be the same in both books
- To reconcile the bank balance to the bank statement

Expected responses for 1 mark:

- Internal control purposes
- To reconcile the bank account
- To identify the correct bank balance / update records
- To identify outstanding cheques and deposits
- Errors and dishonesty can be detected on a monthly basis

2

2.2 Calculate the correct totals in the CRJ and CPJ for October 2010.

	CRJ	CPJ
Provisional totals	510 000	463 600
	✓ 6 200	✓ 30 000
	✓ 102	✓ 1 310
# Be alert to R2 630 in CRJ & R6 230 in CPJ = R3 600 net effect: 1 mark	✓ 5 500	✓ 1 700
		✓✓ 18 000
Foreign items -1		#✓ 3 600
Operation if one part correct	521 802	<input checked="" type="checkbox"/> 518 210

10

2.3**BANK RECONCILIATION STATEMENT AS AT 31 OCTOBER 2010**

	Debit	Credit
Balance as per Bank Statement		✓ 40 092
Outstanding cheques:		
No. 613 ✓	✓ 13 400	
No. 652 ✓	✓ 3 800	
No. 655 ✓	✓ 1 300	
Outstanding deposits ✓		✓ 12 700
Balance as per bank account Operation if one part correct	<input checked="" type="checkbox"/> 34 292	
	52 792	52 792
If 2-column method used without Debit / Credit headings assume left=Debit and right=Credit		
OR single column method OR could start with ledger balance		
Balance as per Bank Statement		✓ 40 092
Less outstanding cheques: Or brackets or – may be used		
No. 613 ✓	Inspect treatment of figures to award marks if Add/Less not reflected	✓ 13 400
No. 652 ✓		✓ 3 800
No. 655 ✓		✓ 1 300
Add outstanding deposit ✓		✓ 12 700
Balance as per bank account Operation if one part correct		<input checked="" type="checkbox"/> 34 292
- 1 foreign entries		

10

2.4.1 If you were the owner of this business, what steps would you take against Joe Cryme? Provide TWO steps.

Any TWO valid steps ✓ ✓ One mark each

Possible answers:

- Set up a disciplinary hearing for Joe to answer to the allegations
- Recover what is possible from his salary that is owing to Top Dog
- Institute legal action against him (if the costs of the legal action are likely to be less than the amount recoverable)
- Terminate his employment with the firm / fire him
- Suspend Joe pending the investigation / move him to another department
- Lay a charge against Joe at the police station and get a case number

Note: Mentioning professional bodies is not relevant.

2

2.4.2 Explain why the rule of prudence will be used in accounting for the fraudulent activities in the books and the financial statements.

Any valid explanation which indicates understanding of the rule of prudence

Excellent explanation = 3 marks; Good = 2 marks; Satisfactory = 1; Incorrect = 0 ✓✓✓

Expected response for 3 marks:

- The business must regard this transaction in a pessimistic light as there is no certainty that any amounts will be recovered.

Expected response for 2 marks:

- The rule of prudence dictates a conservative approach in reporting profits.

Expected response for 1 mark:

- Pessimistic approach
- Conservative approach

3

2.4.3 Explain what was wrong with the procedures in the accounting department which led to this type of fraudulent activity.

Any valid explanation mentioning division of duties

Full explanation of one aspect = 3 marks

Good explanation = 3 marks; satisfactory explanation = 2 marks; poor explanation = 1 mark; incorrect explanation = 0 marks ✓✓✓

Any aspects listed / mentioned without explanation = 1 mark each

Expected response for 3 marks:

Joe Cryme is responsible for all the vital activities relating to receipts, deposits and payments. Duties should be divided amongst employees in the business so that one employee serves as a check on another.

Expected response for 1 mark each (max 2 if no explanation)

Lack of internal control

OR Lack of division of duties

OR Lack of supervision

OR Signatories on cheques are not acting responsibly

3

TOTAL
MARKS

30

QUESTION 3

3.1 MULTIPLE-CHOICE QUESTIONS

3.1.1	B ✓✓	If more than one response per question mark it incorrect.
3.1.2	C ✓✓	
3.1.3	A ✓✓	
3.1.4	C ✓✓	

8

3.2.1 Calculate the value of the raw materials that were issued to the factory for the year ended 28 February 2010. (You may prepare the Raw Materials Stock Account to assist with your calculation.)

operation if one part correct

$$\begin{array}{r}
 \checkmark \quad \quad \quad \checkmark \quad \quad \quad \checkmark \quad \quad \quad \checkmark \quad \quad \quad (259\ 125 \checkmark - 2\ 100 \checkmark) \quad \quad \quad \checkmark \\
 160\ 000 + 1\ 023\ 475 + 22\ 500 + 3\ 750 - 257\ 025 = 952\ 700 \\
 160\ 000 + 1\ 023\ 475 + 22\ 500 + 3\ 750 - 259\ 125 + 2\ 100 = 952\ 700
 \end{array}$$

Raw Materials Stock

Balance	✓ 160 000	Direct Material Cost	operation if one part correct ☑ 952 700
Bank / Creditors' control	✓ 1 023 475	Balance (259 125 ✓ - 2 100 ✓)	257 025
Carriage on Purchases (22 500 ✓ + 3 750 ✓)	26 250	Mark figures only. Ignore details as account not essential.	
	1 209 725		1 209 725

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3.2.2 NOTES TO THE FINANCIAL STATEMENTS

DIRECT LABOUR COST		R
Production wages (723 800 ✓ + 6 200 ✓)	✓	730 000
UIF contribution If 1% of the final figure above	<input checked="" type="checkbox"/>	7 300
Operation if one part correct UIF must be added	<input checked="" type="checkbox"/>	737 300
PAYE -1 if entered		
		5

FACTORY OVERHEAD COST		R
Salary of foreman	✓	150 000 or 151 500
Consumable stores – factory 6 000 ✓ + 43 000 ✓ - 7 000 ✓	Operation if one part correct <input checked="" type="checkbox"/>	42 000
Depreciation 177 500 ✓✓ + 12 500 ✓✓ Or 101 250 ✓✓ + 88 750 ✓✓	Operation if one part correct <input checked="" type="checkbox"/>	190 000
Water and electricity (163 000 ✓ + 4 200 ✓) x 60% ✓ Or 97 800 ✓ + 2 520 ✓✓	Operation if one part correct <input checked="" type="checkbox"/>	100 320
Sundry expenses	✓	194 680
Operation if one part correct	<input checked="" type="checkbox"/>	677 000 or 678 500
		16

-1 insufficient details in 3.2.2

Do not accept negative figures as final answer in these notes i.e. no method mark

3.2.3 PRODUCTION COST STATEMENT OF FATIMA MANUFACTURERS FOR THE YEAR ENDED 28 FEBRUARY 2010

	TOTAL
Direct materials cost See 3.2.1	<input checked="" type="checkbox"/> 952 700
Direct labour cost See 3.2.2	<input checked="" type="checkbox"/> 737 300
Prime cost operation adding	<input checked="" type="checkbox"/> 1 690 000
Factory overhead cost See 3.2.2	<input checked="" type="checkbox"/> 677 000 or 678 500
Total cost of production	2 367 000 or 2 368 500
Work-in process at the beginning of the year	<input checked="" type="checkbox"/> 158 000
	2 525 000 or 2 526 500
Work-in process at the end of the year	(125 000)
check operation – work back from TCOP	<input checked="" type="checkbox"/> or (126 500)
This figure must work out to be a negative figure - check	or (104 000)
Total cost of production of finished goods (198✓ / 1,65✓) x 20 000 ✓	
Or 198✓ / (165 / 100) ✓ x 20 000 ✓	Operation if one part correct <input checked="" type="checkbox"/> 2 400 000
Or 120 ✓✓ x 20 000 ✓	2 422 500
Or (48,30 + 37,38 + 34,32) ✓✓ x 20 000 ✓	

10

3.2.4 (a) Explain whether Fatima should be concerned about the break-even point for 2010. Quote figures to support your answer.

Explanation: ✓

Yes, she should be concerned as units produced is close to BEP

Or

Yes, as the BEP has increased significantly from the previous year

Or

No, she is still exceeding the BEP.

Quoting of figures: ✓✓ Any two valid figures which support the explanation

Compare 20 000 units produced to BEP of 19 548 (difference 452 units counts as two figures)

Or

BEP is 97,7% of total units (97,7% counts as two figures)

Or

Compare BEP 19 548 to 11 300 of the previous year (difference 8 248 units counts as two figures)

Or

Compare units of 20 000 to 24 000 of previous year – affects BEP (difference 4 000 units counts as two figures)

3

(b) Give a possible reason, other than price changes, for the change in EACH of the unit costs provided above.

*Any valid explanation (other than price changes), e.g.
(Part marks may be awarded for partially correct answers.)*

Figures are not required

Raw materials cost per unit	There was less wastage (or more efficiency) of raw materials in producing the product. ✓✓ OR (Accept for one mark: Alternative supplier or bulk discount)
Direct labour cost per unit	Workers were more efficient in producing each article. ✓✓ OR Less overtime worked OR Higher skilled workers OR More efficient machinery (Do not accept: Fewer workers / retrenchment)
Factory overhead cost per unit	The number of units produced decreased from 24 000 to 20 000 units resulting in an increase in the FOHC per unit (from R30,25 per unit to R34,32) as these costs are fixed. (Note to marker: Total FOHC decreased from R726 000 to R686 400; there were no increases in costs) ✓✓ OR Wastage in some costs e.g. water & electricity OR Extra depreciation on new equipment

6

TOTAL MARKS
55

QUESTION 4

4.1	<p>Choose an explanation from COLUMN B that matches a concept in COLUMN A.</p> <table border="1" style="margin: 10px auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 2px;">COLUMN A</th> <th style="text-align: left; padding: 2px;">COLUMN B</th> <th style="padding: 2px;"></th> </tr> </thead> <tbody> <tr> <td style="padding: 2px;">4.1.1</td> <td style="padding: 2px;">B ✓✓</td> <td rowspan="5" style="padding: 2px; vertical-align: top;"> If more than one response per question mark it incorrect. </td> </tr> <tr> <td style="padding: 2px;">4.1.2</td> <td style="padding: 2px;">D ✓✓</td> </tr> <tr> <td style="padding: 2px;">4.1.3</td> <td style="padding: 2px;">E ✓✓</td> </tr> <tr> <td style="padding: 2px;">4.1.4</td> <td style="padding: 2px;">C ✓✓</td> </tr> <tr> <td style="padding: 2px;">4.1.5</td> <td style="padding: 2px;">A ✓✓</td> </tr> </tbody> </table>	COLUMN A	COLUMN B		4.1.1	B ✓✓	If more than one response per question mark it incorrect.	4.1.2	D ✓✓	4.1.3	E ✓✓	4.1.4	C ✓✓	4.1.5	A ✓✓	<table border="1" style="margin: 0 auto;"> <tr><td style="width: 20px; height: 20px;"></td></tr> <tr><td style="text-align: center;">10</td></tr> </table>		10
COLUMN A	COLUMN B																	
4.1.1	B ✓✓	If more than one response per question mark it incorrect.																
4.1.2	D ✓✓																	
4.1.3	E ✓✓																	
4.1.4	C ✓✓																	
4.1.5	A ✓✓																	
10																		

4.2 APPROPRIATION ACCOUNT

2010			✓		2010			
Feb.	28	Income tax ✓	103 200		Feb.	28	Profit and loss	344 000
		Dividends on Ordinary Shares ✓ (80 000 + 87 500)	✓✓ 167 500				Retained Income ✓ Or Accumulated / Unappropriated profit / earnings	✓ 26 000
		1 mark each if answer incorrect Do not accept Shareholders for dividends						
		Retained Income ✓ Or Accumulated / Unappropriated profit / earnings	#✓ 99 300				Operation if one part correct Do not accept R26 000 on the debit side	
			370 000				Foreign entries -1	370 000

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4.3 MODJAJI LIMITED

BALANCE SHEET AS AT 28 FEBRUARY 2010

ASSETS			
Non-current assets	operation if one part correct	<input checked="" type="checkbox"/>	2 154 100
Fixed assets (2 106 500 ✓ – 32 400 ✓)		✓	2 074 100
Fixed deposit at Leakage Bank	5	✓	80 000
Current assets	operation if one part correct	<input checked="" type="checkbox"/>	184 300
Inventory (61 200 ✓ + 4 600 ✓)		<input checked="" type="checkbox"/>	65 800
Trade and other receivables (52 000 ✓ + 1 100 ✓ - 2 600 ✓ + 1 000 ✓) OR 52 000 + 1 100 - 2 475 + 1 000	operation if one part correct	<input checked="" type="checkbox"/>	51 500
Cash and cash equivalents (54 500 ✓ + 12 500 ✓)	operation if one part correct 13	<input checked="" type="checkbox"/>	67 000
TOTAL ASSETS	operation if one part correct	<input checked="" type="checkbox"/>	2 338 400
EQUITY AND LIABILITIES			
Ordinary shareholders' equity	operation if one part correct	<input checked="" type="checkbox"/>	1 899 300
Ordinary share capital		✓	1 750 000
Share premium	4	✓	50 000
Retained income	see 4.2	<input checked="" type="checkbox"/>	99 300
Non-current liabilities	4		168 000
Long-term loan: Oka Lenders (235 200 ✓ - 67 200 ✓✓) see below	operation if one part correct	<input checked="" type="checkbox"/>	168 000
Current liabilities	operation if one part correct	<input checked="" type="checkbox"/>	271 100
Trade and other payables 8 200 (81 300 ✓ + 11 500 ✓ + 87 500 <input checked="" type="checkbox"/> + 15 400 ✓✓ + 103 200 ✓ – 95 000 ✓) See 4.2 SARS & Shareholders for dividends may be shown separately		<input checked="" type="checkbox"/>	203 900 operation if one part correct
Current portion of loan Accept as part of T&OP	11	<input checked="" type="checkbox"/> See above	67 200
TOTAL EQUITY AND LIABILITIES	operation if one part correct	<input checked="" type="checkbox"/>	2 338 400

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If aspect is misplaced or is not placed within the BS format, apply penalty of -1 each time
 Poor presentation / no details / incorrect sequence of items under CA -1 each time (max -2)

4.4.1 What is an external (independent) auditors' report?

Any valid explanation ✓✓ one mark for partially correct answer

Expected responses for 2 marks:

- An opinion expressed by the independent auditor (appointed by the shareholders) on whether the financial statements fairly present the results and state of affairs of the company.
- An opinion expressed by the independent auditor on his sample test of transactions of the company.

2

4.4.2 Why is it important for an external auditor to be 'independent'?

Any valid explanation ✓✓ one mark for partially correct answer

Expected response:

- Because of the separation of ownership of a company (by shareholders) from the control of a company (by directors)
- It is essential that the external auditor be free to express an unbiased opinion that is not influenced by others.
- Because the Companies Act requires the auditor to be independent.
- Because independence gives credibility to his report (it enables others to rely on the report).

2

4.4.3 Why is it important for an external auditor of a public company to be a member of a professional body, such as SAICA?

Any valid explanation ✓✓ one mark for partially correct answer

Expected response:

- Assurance of his knowledge of accounting and auditing principles and procedures (all technical aspects & legislation)
- Disciplinary procedures should he be negligent in his duties (code of conduct / code of professional practice)
- Continuous professional training development
- Ensures standardisation of treatment of financial statements (IFRS etc)

2

4.4.4 You have been appointed as the external auditor of Modjaji Limited. The managing director, Tom Burke, has asked you to reflect his directors' fees of R3,6m under Salaries and Wages in the Income Statement. Would you agree with his request? Give a reason.

Opinion No ✓ Any valid reason ✓✓ one mark for partially correct answer

Expected response:

- This is a material amount which is of interest to the shareholders who have appointed the directors and it should therefore be shown separately in the financial statements (concept of materiality)
- It is a disclosable item (according to Companies Act) – not ethical to hide the amount
- Transparency is an important characteristic in corporate governance.

3

Two partially correct answers under 4.4.1 to 4.4.4 can equate to one complete answer

TOTAL MARKS**65**

QUESTION 5

5.1		ASSET DISPOSAL			
2009 Dec. 31	✓ Equipment	✓ 40 000	2009 Dec. 31	✓ Accumulated depreciation on equipment (12 000 ✓ + 3 000 ✓) <i>If separate lose mark on total</i>	✓ 15 000
				✓ Bank	<input checked="" type="checkbox"/> 25 000
	-1 for any extra entry				<i>Operation any one part correct</i>
		40 000	<i>operation</i>	<input checked="" type="checkbox"/> both totals agree	40 000

9

5.2	FIXED (TANGIBLE) ASSETS	Land and Buildings	Equipment
		R	R
	Carrying value at beginning of year	4 139 000	165 000
	Cost	4 139 000	300 000
	Accumulated depreciation	0	(135 000)
	Movements		
	Additions	0	160 000
	Disposal <i>-1 if no details</i>	✓✓ (1 375 000)	<i>See 5.1</i> <input checked="" type="checkbox"/> (25 000)
	<i>-1 if no details</i> Depreciation <i>see 5.1 – do not accept 12 000</i> 39 000 ✓✓ + 3 000 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> + 10 000 ✓✓ 19 500 ✓+ (19 500 ✓+ 3 000 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>) + 10 000 ✓✓	0	<input checked="" type="checkbox"/> (52 000)
	Carrying value at end of year	2 764 000	<i>Operation from bottom up</i> <input checked="" type="checkbox"/> 248 000
	Cost	✓✓ 2 764 000	✓ 420 000
	Accumulated depreciation	0	<i>Any reasonable negative figure</i> <input checked="" type="checkbox"/> (172 000)

15

5.3 OKUHLE LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

Cash effects of operating activities		327 100
Cash generated from operations		570 400
Interest paid		(89 200)
Dividends paid		(76 500)
Income tax paid		(77 600)
<p>If workings are not shown but answer is correct, award full marks (with penalty on the final mark if inflow or outflow incorrectly reflected)</p> <p>If items are misplaced, award the marks but -1 each time for misplacement</p>		
Cash effects of investing activities operation one part correct	<input checked="" type="checkbox"/>	1 240 000
✓ Fixed assets / Property & equipment must be shown as outflow	✓	(160 000)
✓ Sale of fixed assets 1 375 000 <input checked="" type="checkbox"/> + 25 000 <input checked="" type="checkbox"/> see 5.2 must be shown as inflow	<input checked="" type="checkbox"/>	1 400 000
Cash effects of financing activities operation one part correct	<input checked="" type="checkbox"/>	(202 000)
✓ Issue of shares 150 000 ✓ + 18 000 ✓ must be shown as inflow	✓	168 000
✓ Long-term loan 650 000 ✓ – 280 000 ✓ must be shown as outflow	✓	(370 000)
Net change in cash equivalents operation	<input checked="" type="checkbox"/>	1 365 100
Cash equivalents – beginning of year		(1 295 000)
Cash equivalents – end of year operation	<input checked="" type="checkbox"/>	70 100

5.4 List THREE of these significant decisions. Quote figures to support your answer.

Allocate 1 mark for the item and 1 mark for the figure

Must have the compulsory item plus 2 optional items

Compulsory : 2 marks ✓✓

- Fixed assets sold for R1 400 000 (or L&B sold for R1 375 000) (see 5.3)

Optional 2 marks each = 4 marks ✓✓ ✓✓

- Bank overdraft was paid off – cash resources moved from negative R1 295 000 to positive R70 100 (see 5.3)
- Loan was repaid by R370 000 (see 5.3)
- Shares were issued for R168 000 (see 5.3)
- Dividends decreased from 60c to 24c thereby increasing retained income

6

5.5.1 Earnings per share

R217 000 ✓ / 380 000 shares ✓ = 57,1 cents ✓ operation - one part correct
Candidate cannot get full marks if a foreign aspect is introduced

3

5.5.2 Debt-equity ratio

Must be in this sequence

R280 000 ✓ / R2 753 800 ✓ = 0,1 : 1 ✓ operation - one part correct
Candidate cannot get full marks if a foreign aspect is introduced
The ratio must in the format x:1

3

5.5.3 Return on average capital employed

$$\frac{310\,000\checkmark + 89\,200\checkmark}{\checkmark(3\,110\,000 + 3\,033\,800) / 2} \times \frac{100}{1}$$

any one part correct

$$= \frac{399\,200}{3\,071\,900} \times \frac{100}{1}$$

$$= 13\% \checkmark \text{ operation - one part correct}$$

5

5.6 Comment on the debt-equity ratio and the return on average capital employed. Quote the figures of these financial indicators and comment on EACH.

Quoting of relevant figures ✓ ✓ See 5.5.2 & 5.5.3
Comment on each ✓ ✓

Debt equity ratio decreased from 0,3 : 1 to 0,1 : 1 which indicates that the company is relying less on loans (lowly geared / low risk).

The return on capital employed of 13% is lower than the interest rate on the loan of 16% which indicates that there is negative gearing, i.e. the company should not make use of outside loans in future.

OR As there was positive gearing ratio last year the loan should not have been repaid.

The ROCE dropped from 19% to 13% - this indicates that the company will not benefit from the use of external loans bearing interest at 16%.

4

5.7 Comment on the liquidity position for 2010. Quote THREE relevant financial indicators (actual ratios or figures) to support your answer.

Comment:

Any valid comment ✓✓

Two marks for a global overall on whether the liquidity situation is good or bad (this may be mentioned in the section on financial indicators).

If partial comments are provided under 5.7, max 1 mark may be awarded.

Expected response:

The liquidity is satisfactory because the company should not have any problem in settling its current debts (current assets are approximately double the current liabilities, the liquid assets exceed the current liabilities and the stock, debtors and creditors period are satisfactory). *Candidates could mention that increase in stock period might be a problem (depends on type of business).*

Financial indicators (actual ratios or figures):

Quoting of relevant indicators ✓ ✓ ✓
Any three valid ratios or figures ✓ ✓ ✓

Current ratio: This improved from 0,3 → 1,9

Acid test ratio: This improved from 0,2 → 1,2

Stock period: This increased from 40 days → 60 days

Debtors period: This decreased from 32 days → 15 days

Creditors period: This increased from 30 days → 42 days

If candidates provide additional irrelevant indicators, search for the correct ones in the answer provided by the candidate and award marks accordingly. Penalty of -1 max for irrelevant indicators.

8

5.8

An existing shareholder is disappointed with the price of R5,60 at which the new shares were sold. Quote a financial indicator to support their opinion and comment on it.

Comparison of share issue price with NAV of R7,25 ✓

Comment: ✓✓ The issue price is less than the net asset value – the company should have raised a lot more through the shares issued.

OR

He may be disappointed with the fact that the market is not prepared to pay at least the book value of the share.

One mark for partially correct answer The issue price is under-valued.

3

5.9

A friend of yours is not interested in buying shares in this company. Quote figures for TWO financial indicators, other than those discussed above, to support his opinion and comment on EACH.

Mentioning the name of the indicators ✓ ✓

Quoting of relevant figures ✓ ✓

Explanation of two relevant financial indicators ✓ ✓

- The return on shareholders equity dropped from 16% to 8,3% and this might be marginally above returns on other investments.
- The earnings per share dropped from 105 cents to 57,1 cents (see 5.5.1) which is low in comparison to the value of the shares
- The dividends per share dropped from 60 cents to 24 cents which is low in comparison to the value of the shares
- The dividend pay-out rate dropped from 57% to 42% which indicates that the company might have reduced dividends in order to solve its liquidity problems

Do not accept comments on share price, net asset value, liquidity, debt-equity and return on capital employed.

6

TOTAL MARKS
80

QUESTION 6

6.1.1	<p>Calculate the insurance figure for November 2010.</p> <p>$7\ 000 + (6\% \text{ of } R7\ 000) = R7\ 420$ ✓✓ If either 7 000 or 6% correct</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">2</div>
6.1.2	<p>Calculate the % increase in Steffi Smit's salary in October 2010.</p> <p>$(5\ 250 - 4\ 200)$ $1\ 050 / 4\ 200 \times 100 = 25\%$ ✓✓ If either 1 050 or 4 200 correct & answer must be % 4 200 must be the denominator</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">2</div>
6.1.3	<p>Calculate the mark-up % that is applied on the sale of refreshments.</p> <p>$9\ 600 / 12\ 000 \times 100 = 80\%$ ✓✓✓ If either 9 600 or 12 000 correct & answer must be % OR $12\ 160 / 15\ 200 \times 100 = 80\%$ ✓✓✓ If either 12 160 or 15 200 correct & answer must be % OR $33\ 920 / 42\ 400 \times 100 = 80\%$ ✓✓✓ If either 33 920 or 42 400 correct & answer must be % Cost of refreshments must be the denominator (12 000 or 15 200 or 42 400)</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">3</div>
6.1.4	<p>Calculate the amount invested in the fixed deposit on 1 September 2010.</p> <p>$\frac{640}{1} \times \frac{100}{8} \times \frac{12}{1}$</p> <p>= R96 000 ✓✓✓ If at least one aspect correct: 640 or 8 or 12</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">3</div>
6.1.5	<p>Calculate the interest on the fixed deposit for November 2010.</p> <p>6.1.4 – 30 000 $R66\ 000 \times 8\% / 12 = R440$ ✓✓ If 8% or 12 months used in calculation</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">3</div>
6.2.1	<p>How many new customers did Piet expect to gain from the marketing strategy in September 2010?</p> <p>$(285\ 000 \checkmark / 500 \checkmark) - 450 \checkmark = 120 \checkmark$</p> <p>OR:</p> <p>$18\ 000 \checkmark / 150 \checkmark \checkmark = 120 \checkmark$</p>	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">4</div>

6.2.2 What TWO aspects of the marketing strategy could be improved? Give figures to support your answer and make suggestions for EACH.

Any two valid aspects identified ✓ ✓
 Any two relevant figures ✓ ✓
 Any two valid suggestions ✓ ✓

Possible responses:

- The marketing employees must apply discretion in convincing people to buy contracts e.g. Dan sold 113 contracts yet 38 of them were cancelled (40 contracts were cancelled in total). Commission should not be paid until after all new contract holders are proved to be reliable customers. OR Contracts must be legally binding for a minimum period of time.
- The transport allowance of R9 000 paid exceeded the budget of R6 000. This allowance should be paid only in respect of the number of contracts issued e.g. they all received a travel allowance of R3 000 despite the fact that Chase issued 80 contracts as opposed to Jane's 35.

6

6.2.3 Has Steffi Smit been successful in the collection of fee income? Explain by quoting figures to support your opinion.

To earn full marks, candidates must consider collections for the actual number of members (see 6.2.1), not the budgeted number of members i.e. they must compare actual collections to the total fees they should have received from the actual number of members.

Opinion: No ✓
Explanation for No: ✓✓ one mark for partially correct answer

Despite the fact that she collected all the fees due in Sept, there was a significant shortage in Oct and Nov. **OR** Overall for the period Sept to Nov there was a shortfall in collection of fees.

Figures: Total fees for the period Sept to Nov should have been R997 000✓✓ (i.e. R339 000 + R339 000 + R319 000). She only collected fees of R935 000✓✓, i.e. shortfall of R62 000 (i.e. this is worth 4 marks).

OR

Total number of members in Oct was 678 (450 + 228). She only collected fees of R323 000 (646 members), i.e. shortfall of R16 000 (32) 2 marks
 Total number of members in Nov was 638 (678 - 40). She only collected fees of R273 000 (546 members), i.e. shortfall of R46 000 (92). 2 marks

If candidates compare actual collections to the budgeted fees, they are not taking into account the changed number of members. These candidates cannot earn more than 3 marks.

Opinion: Yes ✓
Explanation: ✓

Total collections exceed the total budget OR Monthly collections exceed the monthly budget (except in Nov).

Figures: ✓

Total: R855 000 was budgeted for the period yet she collected R935 000
 Sept: R285 000 → R339 000 (collections exceed budget)
 Oct: R285 000 → R323 000 (collections exceed budget)

If candidates focus on Sept only and compare to actual members:

Opinion: Yes ✓
Explanation: She collected fees of all members. ✓
Figures: Total number of members in Sept was 678 (450 + 228). She collected fees of R339 000 (678 members). ✓

7

TOTAL MARKS
30

TOTAL: 300