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## SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING

## GRADE 12

MAY/JUNE 2017

## MARKING GUIDELINES

## 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 foreign item 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 the answer is 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).
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 before awarding the mark.
10. 'Operation' means 'Check operation'. 'One part correct' means 'Operation \& one part correct'.

Note: Check operation means must be,,$+- x$ or $\div$ as per memo, but some items can be + or - such as provision for bad debts adjustment / sale of asset.
Note: Where appropriate, use of numerator and denominator must be correctly applied to earn marks.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. In such cases, do not award the method mark. Indicate by way of $x$
12. Be aware that some candidates provide valid alternatives beyond the memorandum.

13 Codes: $f=$ foreign item; $p=$ placement/presentation.

## These marking guidelines consist of 18 pages.

## QUESTION 1

### 1.1 TRUE OR FALSE

| 1.1.1 | True $\checkmark$ |
| :--- | :--- |
| 1.1 .2 | False $\checkmark$ |
| 1.1 .3 | False $\checkmark$ |
|  |  |

### 1.2 MIZZY BOUTIQUE

Use the table provided to indicate corrections that must be made to the
Debtors' Control Account and the debtors' list.

Provide figures and a plus (+) or minus (-) sign for each correction.

|  | Debtors' Control Account | Debtors' List |
| :---: | :---: | :---: |
| Balance/Total on 28 February 2017 | R37 710 | R39 490 |
| (a) | + $7440 \checkmark$ | + $7440 \checkmark$ |
| (b) |  | $-4500 \checkmark \checkmark$ |
| (c) |  | $\begin{array}{cc} +1360 & +1360 \\ \text { one mark one mark } \\ +2720 \checkmark \checkmark \end{array}$ |
| (d) | +1350 | + $1350 \checkmark$ |
| (e) | -450 | -450 |
| (f) | + $1950 \checkmark$ | +1950 |
| Balance/Total on 28 February 2017 | R48 000 V <br> for both totals; need not be equal | R48 000 |

-1 superfluous items (max -2) refer (b) and (c) only
No sign: assume positive; Brackets: assume negative; Tick is for figure \& sign

### 1.3 GLENDALE TRADERS

1.3.1 Explain how a debtors' age analysis can assist with internal control over debtors.

Any ONE valid point. $\checkmark \checkmark$ One mark for incomplete / unclear answer

- Gives an indication of debtors whose accounts are overdue.
- The analysis will give a clear idea of reliable debtor.
- Assist the business to review credit limits allowed to debtors.
- Assist the business when to refuse additional credit sales until accounts are paid.


### 1.3.2 Calculate the percentage of total debts exceeding the credit terms.

16640 two marks
$\frac{14560 \checkmark+2080}{41600 \checkmark} \checkmark \times 100=40 \%$ one part correct; must be calculated as a $\%$
OR $\quad \begin{gathered}2 \text { marks } 1 \text { mark } 1 \text { method mark } \\ 35 \%+5 \%=40 \%\end{gathered}$

### 1.3.3 Explain ONE problem (with figures) relating to EACH of the following

 debtors:| DEBTOR | PROBLEM $\checkmark \checkmark$ FIGURES $\checkmark \checkmark$ |
| :--- | :--- |
| D Pillay | Exceeded the credit limit of R10 000 / by R1 800 <br> / owes R11 800 which is more than the credit limit |
| W Patel | Exceeded credit terms of 30 days / <br> The R11 192 exceeds the credit terms / <br> His balance has been outstanding for 60 days / 90 days |
| $\mathbf{4}$ |  |

### 1.3.4 Explain TWO problems (with figures) relating to debtor D Gouws.

TWO valid points (with figures). Problems $\checkmark \checkmark$ Figures $\checkmark \checkmark$

- Exceeding credit terms / slow payer (5 448/13 450) 40,5\% of his account is more than 30 days
- The business allowed him to buy R4 100 more goods even though he does not pay on time.

| TOTAL MARKS |
| :---: |
|  |
| 30 |

## QUESTION 2

## $2.1 \quad$ VAT

2.1.1

| (a) | Input VAT $\checkmark$ |
| :--- | :--- |
| (b) | Credit $\checkmark$ |
| (c) | Increase $\checkmark$ |
| (d) | Salaries $\checkmark$ |

2.1.2

| No. | VAT <br> AMOUNT | INCREASES THE <br> AMOUNT DUE TO SARS | DECREASES THE <br> AMOUNT DUE TO SARS |
| :--- | :---: | :---: | :---: |
| (a) | $224 \checkmark \checkmark$ |  | X $\checkmark$ |
| (b) | $1218 \checkmark \checkmark$ | $X \checkmark$ |  |
| (c) | $1274 \checkmark \checkmark \checkmark$ | Accept any figure in place of X | $\mathrm{X} \checkmark$ |

X in both columns (mark wrong); If figure placed in other columns, award marks for figures If workings are shown for VAT amount without answer, award 1 mark only

### 2.2 INVENTORY VALUATION

2.2.1 Give a reason why the business uses the weighted average method to value the stock of tyres.

Any valid explanation $\checkmark \checkmark$ One mark for incomplete / unclear answer
The products are very similar
The quantities are high
There is not a great variation of the nature of the product There is not a great variation of the price of the product It is an easy system to use and is appropriate for tyres
2.2.2 Calculate: Value of closing stock on 28 February 2017


### 2.2.3 Calculate: Cost of sales

| $\begin{gathered} (27650+820150-23700+107400) \\ 931500 \checkmark \\ 96600 \\ \text { see 2.2.2 } \end{gathered}$ |  |
| :---: | :---: |
| $=834900$ one part correct | 3 |
| Calculate: Gross profit |  |
| $968000 \checkmark-\underset{\text { see above }}{834900} \nabla=133100 \nabla \text { one part correct }$ | 3 |
| Calculate: Average stock-holding period (in days) <br> 62125 three marks <br> see 2.2.2 |  |
| $\begin{aligned} & \frac{11 / 2 \checkmark(27650 \checkmark+96600 \vee)}{834900 \vee \text { see above }} \times 365=\underset{\text { accept } 27 \text { days }}{27,2 \boxtimes \text { days one part correct }} \\ & \text { Use of numerator \& denominator must be correct } \end{aligned}$ | 5 |

2.2.4 Should the owner be satisfied with the stock-holding period calculated above? Explain. Quote figures. NOTE: The stock-holding period for 2016 was 70 days.

Yes / No $\checkmark$ depends on calculation above; if no calculation no mark; also must not contradict explanation below e.g. 800 days definitely No ; 27 days Yes or No

Trend/Explanation $\checkmark$ and figure $\checkmark$

- The stock holding period decreased to 27 days / by 43 days see 2.2.3

Responses for one mark:

- Improve sales - cash flow
- Prevents stock piling
- Stocking the latest products

| TOTAL MARKS |
| :---: |
|  |
| 40 |

## QUESTION 3

3.1

| 3.1.1 | factory overhead cost $\checkmark$ Accept factory or overhead |
| :--- | :--- |
| 3.1.2 | fixed cost $\checkmark$ |
| 3.1.3 | selling and distribution cost $\checkmark$ Accept selling or distribution |
| 3.1.4 | minimum $\checkmark$ |

3.2

### 3.2.1 Factory Overhead Cost Note

| Indirect factory materials (5950 + 36000-8750) | $33200 \checkmark \checkmark$ |
| :---: | :---: |
| Salaries and wages (2900 $000 \times 10 \%$ ) | $290000 \checkmark \checkmark$ |
| Rent expense (291000 $\times 240 / 300$ ) | $232800 \checkmark \checkmark$ |
| Insurance (49 $\underset{(49200-9}{200} \times 12 / 15 \checkmark \times 4 / 10 \checkmark$ or 39360 two marks $)$ | 15744 『* |
| Telephone (28 $800 \times 20 / 40$ ) / $57600 \times 20 / 80$ | $14400 \checkmark \checkmark$ |
| Sundry factory expenses | 189856 |
| If some figures above are in brackets, penalise on this method mark only If all figures in brackets award the marks | 776000 『* |

*One part correct

### 3.2.2 Production Cost Statement for the year ended 28 February 2017



Incorrect placement: award marks but -1 for each item misplaced ( -2 max)

### 3.2.3 Infinity Hats are considering importing raw materials at a lower price than they are currently paying.

Provide TWO points they should consider before deciding.
TWO valid points $\checkmark \checkmark \checkmark \checkmark$

- Exchange rate fluctuations
- Import duties changing in future
- Time lags for imports \& returns
- The quality of raw material
- Possibility of job losses
- Support for local businesses / effect on the economy
- Transport costs


### 3.3 SANYATI BAKERY

Mark as per Memo i.e. mark problem \& solution independently
3.3.1

|  | PROBLEM WITH FIGURES <br> $\checkmark$ | SOLUTION |
| :--- | :--- | :--- |
| Doughnut <br> factory | Direct labour cost <br> Increased from R2,00 to <br> R3,20 (60\%) or by R1,20 | Train the workers <br> Skills development / training <br> Increase supervision <br> Control overtime/supervise <br> normal time/set targets |
| Cake <br> factory | Direct material cost <br> Increased from R15,00 to <br> R22,50 (50\%) or by R7,50 | Look for cheaper materials <br> Buy in bulk <br> Use local suppliers (closer) <br> Control wastage |

### 3.3.2 Provide workings to show that the break-even point of 158298 units for the

 doughnuts in 2016 was correctly calculated.$$
\begin{aligned}
& \frac{372000 \checkmark}{12,00 \checkmark-9,65} \checkmark \\
& 2,35 \text { two marks } \\
& \text { Must be denominator; not answer }
\end{aligned}
$$

### 3.3.3 Explain why Damon should be concerned over the break-even point of doughnuts. Quote figures.

Explanation
Figure
Must refer to BEP \& production; One mark for incomplete / unclear explanation

- BEP increased from 78316 to 158298 (by 79 982) while production decreased.
- BEP increased considerably, while producing 40000 units fewer which led to a lower profit.
- In 2015 made a profit on 201684 units: in 2016 only on 81702 units

Response for 1 mark:
Decrease in net profit R836 000 / Increase in BEP / Decrease in production


| TOTAL MARKS |
| :---: |
|  |
| 50 |

## KEEP THIS PAGE BLANK.

## QUESTION 4

4.1

| 4.1.1 | D $\checkmark$ |
| :--- | :--- |
| 4.1.2 | C $\checkmark$ |
| 4.1.3 | A $\checkmark$ |
| 4.1.4 | B $\checkmark$ |

### 4.2 MTOMBENI LTD

4.2.1 Calculate: Carrying value of the vehicle sold on 30 November 2016
$190000 \checkmark-(72000 \checkmark+28500 \checkmark \checkmark)=89500 \boxtimes$ one part correct
Calculate: Total depreciation on equipment on 28 February 2017
New:
$32000 \checkmark \times 6 / 12 \checkmark \times 10 \%=1600 \nabla$ one part correct but not for $10 \%$

Old:
133000 two marks
$=\underset{(250000-32000) \text { one mark }}{(218000 \checkmark-85000 \checkmark) \times 10 \%=13300 \boxtimes \text { one part correct but not for } 10 \% ~}$
Total $=14900 \nabla$ one part correct

### 4.2.2 MTOMBENI LTD

Income Statement (Statement of Comprehensive Income) for the year ended 28 February 2017:
*one part correct

| Sales (5500 000-32 $500 \checkmark+15000 \checkmark$ ) | 5482500 | $\checkmark$ * |
| :---: | :---: | :---: |
| Cost of sales ( $\mathbf{1 5 0 0 0 0 + 9 3 7 5 \checkmark \text { ) }}$ | (3 159 375) | $\checkmark$ |
| Gross profit 6 | 2323125 | $\begin{aligned} & \nabla \text { Sales } \\ & \text {-cos } \end{aligned}$ |
| Other operating income | 198950 | $\checkmark$ * |
| Rent income (169500 $\downarrow$ + $16500 \checkmark \checkmark$ ) | 186000 | $\checkmark$ * |
| Bad debt recovered | 4750 | $\checkmark$ |
| ** Profit on sale of asset (97 $700 \checkmark$ - 89 500 $\downarrow$ see 4.2.1) | 8200 | $\checkmark$ * |
| Gross operating income 10 | 2522075 | V* |
| Operating expenses | (1356 075) | $\checkmark$ * |
| Directors' fees | 380000 |  |
| Audit fees | 54000 |  |
| Bad debts (13600 $\checkmark+1900 \checkmark$ ) | 15500 | $\checkmark$ |
| Salaries and wages488500 two marks <br> $(475000 \checkmark+13500 \checkmark+1620 \checkmark+135$ two marks | 490255 | V* |
| Consumable stores | 61700 | $\checkmark \checkmark$ |
| Insurance (19 $220 \checkmark+1780 \checkmark$ ) | 21000 | $\checkmark$ |
| Bank charges (7760 $7+870 \checkmark$ ) | 8630 | $\checkmark$ |
| Sundry expenses | 140085 | $\checkmark$ |
| ** Trading stock deficit (386500 $\checkmark-9375 \boxtimes-374000 \vee$ ) <br> R12 500 two marks only see cost of sales | 3125 | च* |
| ** Provision for bad debts adjustment (4030 $-3650 \checkmark$ ) | 380 | $\checkmark$ |
| Depreciation $\underset{\text { see 4.2.1 }}{500} \boldsymbol{V}+138000 \checkmark+14 \underset{\text { see 4.2.1 }}{900 \vee})$ | 181400 | $\checkmark$ * |
| Operating profit 30 | 1166000 | VGOIOExp |
| Interest income Missing figure NP after Interest income - Operating profit Cannot work out to be a negative figure | 178000 | V『 |
| Net profit after interest income NPBT + Interest expense | 1344000 | $\square$ |
| Interest expense | (144000) | $\checkmark \checkmark$ |
| Net profit before tax NPAT + Income tax | 1200000 | $\nabla$ |
| Income tax | (336000) | $\checkmark \checkmark$ |
| Net profit after tax 8 | 864000 |  |

Foreign items -1 max -2 ** Award marks to workings if item misplaced; -1 for placement; max -2 All other misplaced items marked as incorrect

| TOTAL MARKS |
| :---: |
| 70 |

## QUESTION 5

5.1

| 5.1.1 | Liquidity $\checkmark$ |
| :---: | :--- |
| 5.1.2 | Gearing $\checkmark$ |
| 5.1.3 | Net working capital $\checkmark$ |
| 5.1.4 | Limited liability $\checkmark$ |

### 5.2 MIHKA LTD

### 5.2.1 ORDINARY SHARE CAPITAL

Authorised Share Capital

## 800000 ordinary shares

Issued Share Capital

| $\mathbf{6 0 0} \mathbf{0 0 0}$ | Ordinary shares on 1 January 2016 | $\mathbf{4 2 0 0 0 0 0}$ |  |  |
| :---: | :--- | ---: | :--- | :--- |
| $\mathbf{1 0 0 0 0 0}$ | Issued on 31 August 2016 balancing figure <br> repurchase must be a subtraction from top | 840000 | $\nabla^{*}$ |  |
| $(40000) \checkmark$ | Re-purchased (ASP: R7,20) | $(288000)$ | $\checkmark \checkmark$ |  |
| $660000 \checkmark$ | Ordinary shares on 31 December 2016 | 4752000 | $\checkmark$ | $\mathbf{6}$ |

Ignore brackets *Check balancing figure (ClosBal + BuyBack - OpBal) for method mark
RETAINED INCOME

| Balance on 1 January 2016 | 276000 |
| :---: | :---: |
| Net profit after income tax (1 150 000-322 000) | $828000 \checkmark \checkmark$ |
| Shares repurchased (40000 ${ }^{\text {a }} \times \mathrm{R} 1,30 \checkmark$ ) must be in brackets | $(52000) \quad \checkmark$ |
| Ordinary share dividends balancing figure; must be in brackets | (415000) $\nabla$ |
| - Interim dividends total dividends - final dividends <br> or $(65 c-25 c) \times 600$ | 240000 V |
| - Final dividends | $175000 \checkmark$ |
| Balance on 31 December 2016 | $637000 \checkmark$ |


| 5.2.2 | CASH EFFECTS OF OPERATING ACTIVITIES | $292600 \quad \nabla^{*}$ |
| :--- | :--- | :---: | :--- |
| Cash generated from operations | $\mathbf{1 2 3 7 4 0 0}$ |  |
| Interest paid | $(100000)$ | $\checkmark$ |
| Income tax paid $(9200 \checkmark+322000 \checkmark+3600 \checkmark)$ | $(334800)$ | $\nabla^{*}$ |
| Dividends paid $(270000 \checkmark+240000 \nabla) \quad$ see 5.2.1 | $(510000)$ | $\nabla^{*}$ |

### 5.2.3 Amounts in the Cash Flow Statement:

| Calculate: Change in fixed deposit |
| :--- |
| $300000 \checkmark \checkmark \quad$ Inflow $\checkmark$ |
| Calculate: Proceeds on disposal of equipment |
| $5828000 \checkmark+360400 \checkmark-1495000 \checkmark-4905800 \checkmark=\underset{\text { one part correct }}{ }$ |
| OR: |
| $-5828000-360400+1495000+4905800=-212400$ |
| Inflow $\checkmark$ |

### 5.2.4 Calculate: Mark-up percentage on cost

| $1890000 \checkmark \times 100=45 \% \square$ one part correct; |  |
| :---: | :---: |
| $6090000 \checkmark-1890000$ <br> 4200000 two marks$\quad$ correct use of numerator \& denominator |  |
| Calculate: Debt-equity ratio $1000000 \checkmark:(4752000 \checkmark+637000 \checkmark)$ <br> 5389000 two marks <br> $0,2: 1 \boxed{\square}$ one part correct; must be $\mathrm{x}: 1$ accept $0,19: 1$ |  |
| Calculate: Net asset value (in cents) $\frac{5389000 \nabla_{\text {see above }}^{660000} \nabla_{\text {see }}^{\text {s.1 }}}{50} \times 100=817 \text { or } \begin{gathered} 816,5 \text { cents } \nabla \text { one part correct; accept } 816 \\ \text { correct use of numerato \& denominator } \\ \text { Do not accept Rand sign } \end{gathered}$ | 3 |

5.2.5 The financial director was questioned about the decision to increase the loan. Explain what he should say to justify this decision. Quote TWO financial indicators (with figures).

Financial indicators: $\checkmark \quad \checkmark$ trend with figures $\checkmark \quad \checkmark$
Debt-equity ratio increased (from 0,1:1) to 0,2:1/by 0,1:1 see 5.2.4
Return on average capital employed (ROTCE) increased from 21,3\% to 21,8\%.
Explanation

- Although the debt-equity ratio increased, the company is low risk / low gearing.
- The ROTCE has also increased - earning far above the interest rate of 12,5\% (positive gearing).

Do not accept increase in risk as an explanation (counts against the decision)
5.2.6 Ashraf, a new shareholder, bought 70000 shares on 31 August 2016. He expected the company to distribute at least $80 \%$ of its earnings as it did in 2015.

Ashraf is unhappy with the dividend pay-out policy for 2016. Provide a calculation to support his opinion.
$65 \checkmark / 131 \checkmark \times 100=49,6 \%$ accept $49,61 \%$ or $50 \%$ one part correct
Response for two marks:
DPS was 65c while EPS was 131c
Explain TWO points to support the company's decision regarding dividends for 2016.

Explanation $\checkmark \checkmark \checkmark \checkmark \quad$ One mark for incomplete / unclear answer

- The company decided to retain more of the EPS this year
- The NAV would increase thereby positively affecting the market price of the shares
- The company retained funds to expand the company in future (extensions to the building)
- Improve the cash situation/eliminated the bank overdraft from 2015
- Improvements could lead to greater profitability in the future
- The ROSHE has also increased - possibly better dividends in the long run.
- Shareholders would benefit from a capital gain on shares
- Cheaper than borrowing money (avoid interest)
5.2.7 Comment on the re-purchase price paid for the 40000 shares on 30 December 2016. Provide TWO financial indicators (with figures) in your comment.

Two indicators with figures
$\checkmark$ NAV is 817 cents see 5.2.4
$\checkmark$ Market price is 848 cents

Comment $\checkmark \checkmark$ One mark for incomplete / unclear answer

- The shareholder has benefitted as he may have received less had he sold his shares on the stock exchange.
- The directors may have to be investigated to determine why they disadvantaged the company.
- The price is fair because in line with the current market price.
- The price was set at a level to encourage the disgruntled shareholder to sell his shares.

| TOTAL MARKS |
| :---: |
|  |
| 65 |

## QUESTION 6

6.1 Comment on the control of EACH item and give ONE point of advice in each case.

|  | COMMENT $\checkmark \checkmark$ | ADVICE $\checkmark \checkmark$ |
| :--- | :--- | :--- |
| Telephone | Over-spent / budget figure <br> too low | Private calls should be <br> controlled / keep record of <br> all calls / charge the staff for <br> private calls / possibly <br> increase budget |
| Staff training | Under-spent | This is an essential <br> expense / staff training <br> improves the interaction <br> with customers / this leads <br> to efficiency and goodwill. |

6.2 Identify TWO items incorrectly entered in the Cash Budget.

Any TWO items $\checkmark \quad \checkmark$ Ignore superfluous items
Possible responses:

- Office furniture bought on credit
- Depreciation
- Credit sales
- Deliveries free of charge
- Delivery expenses on credit
6.3 CREDITORS' PAYMENT SCHEDULE

| MONTH | $\begin{gathered} \text { CREDIT } \\ \text { PURCHASES } \end{gathered}$ | MAY | JUNE |
| :---: | :---: | :---: | :---: |
| March | R64 000 | 6400 |  |
| April | R72 000 | 10800 | R7 $200 \checkmark \checkmark$ |
| May | R80 $000 \checkmark \checkmark$ | 57000 | $\begin{gathered} \text { R12 } 000 \\ \begin{array}{c} \text { R } 25 \% \text { ofredit } \\ \text { purchases } \end{array} \\ \hline \end{gathered}$ |
| June | R96 000 |  | R68 $400 \checkmark \checkmark$ |
|  |  | 74200 | R87 600 『* |
| *one part correct; ignore foreign entries |  |  |  |


6.4

|  | CALCULATION | AMOUNT |
| :---: | :---: | :---: |
| (i) | Cash sales $\text { R180 } 000 \times 40 \%$ <br> If correct workings are shown without answer, award 1 mark only | R72 $000 \checkmark \checkmark$ |
| (ii) | Cash purchases of stock $\begin{aligned} & \text { R100 } 000 \text { two marks } \\ & \text { R150 } 000 \checkmark \times 100 / 150 \checkmark \times 20 \% \checkmark \end{aligned}$ | R20 000 च one part correct |
| (iii) | Delivery expenses $900 \% \text { two marks }$ | $\begin{aligned} & 10800 \boxtimes \\ & \text { one part correct } \end{aligned}$ |
| (iv) | Salaries and wages $38700 \checkmark \times 100 \checkmark / 107,5 \checkmark$ | $\begin{aligned} & 36000 \text { v } \\ & \text { one part correct } \end{aligned}$ |
| (v) | ```Repayment of loan two marks one mark 168 000-120 000 OR \(600 \checkmark \times 100 / 15 \checkmark \times 12 \checkmark\) OR two marks one mark \(7200 \times 100 / 15\)``` | $\begin{gathered} 48000 \boxtimes \\ \text { one part correct } \end{gathered}$ |
| (vi) | Cash at end of month | $35500 \checkmark$ |
| (vii) | Cash deficit for the month $35500+7300$ <br> If correct workings are shown without answer, award 1 mark only | $\underset{\text { ignore brackets }}{(42800) \checkmark \checkmark}$ |

6.5

## Piet wants to save on costs by not offering a free delivery service. Is this a good idea? Explain.

Yes/No $\checkmark$ mark independently
Any one possible response $\checkmark \checkmark$ One mark for incomplete / unclear answer

- Whether his competitors are offering the service or not
- What the reaction from his customers will be should he withdraw the service (i.e. will they go to other suppliers?)
- The possibility of charging customers for the delivery service
- The possibility of finding a cheaper delivery service
- The possibility of using his own vehicles instead of subcontracting / extra costs of providing his own service (e.g. depreciation of vehicle, petrol)
- Could have been the reason for the increase in sales
6.6 Explain ONE advantage and ONE disadvantage of each option.

Note that figures are not required; Alternative valid answers possible

| OPTION | ADVANTAGE $\checkmark \checkmark \checkmark$ | DISADVANTAGE $\checkmark \checkmark \checkmark$ |
| :--- | :--- | :--- |
| Raise a new <br> loan | He will own the assets / <br> they could last longer than <br> five years if he takes good <br> care of them. | He has to pay interest / <br> pay a monthly instalment <br> (which must include <br> interest). |
| Hire (lease) the <br> assets from <br> Computer <br> Solutions | He does not have to raise <br> a loan / does not have to <br> pay interest on the loan / <br> will not have to pay repair <br> costs. | The lease charges are <br> expensive / lease is over <br> five years / never owns the <br> assets but continues to <br> pay. |
| Ask a friend to |  |  |
| become equal |  |  |
| partner |  |  | | He will have the necessary <br> funds to purchase the <br> assets (which will then <br> belong to the business) / <br> share workload and skills / <br> partner will share losses. |
| :--- |
| He will have to share half <br> his profits with his new <br> partner. |


| TOTAL MARKS |
| :---: |
|  |
| 45 |

TOTAL: 300

