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## basic education

Department: Basic Education REPUBLIC OF SOUTH AFRICA

## NATIONAL SENIOR CERTIFICATE

## GRADE 12



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,+- , $x, \div$, 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 $\begin{aligned} & \text {. }\end{aligned}$
13. Be aware of candidates who provide valid alternatives beyond the marking guideline.
14. Codes: $f=$ foreign item; $p=$ placement/presentation.

These marking guidelines consist of 17 pages.

## QUESTION 1

1.2.1

| Calculation of CRJ total |  | Calculation of C | J total |
| :---: | :---: | :---: | :---: |
| 90500 |  | 85920 |  |
| $9750 \checkmark$ |  |  |  |
|  | 2900 in CRJ and 9200 in CPJ Both for two marks <br> ( 5500 ) in CRJ one mark 5500 in CPJ one mark | $\begin{array}{r} 6300 \\ \text { OR } 9200 \\ (2900) \end{array}$ | $\checkmark \checkmark$ |
|  |  | $\begin{array}{r} 11000 \\ \text { or } 5500 \& 5500 \\ \text { one mark each } \end{array}$ | $\checkmark \checkmark$ |
| $16500 \checkmark$ |  | 2290 | $\checkmark$ |
|  |  | 750 | $\checkmark$ |
| $900 \checkmark$ | May be combined as R320 OR R1 220-R900 in CPJ for two marks | 1220 | $\checkmark$ |
| 117650 |  | 107480 |  |

Foreign entries -1 e.g. 8 550; 13 590; $16 \overline{200 ; 30000}$
Be aware of other foreign entries that are incorrectly duplicated in journals and/or reconciliation.
Bank account balance:
May prepare a ledger account

$$
-5210 \checkmark+\underset{\text { see CRJ +ve }}{117650 \boxtimes}-\underset{\text { see CPJ -ve }}{107} 480 \underset{\text { if one mark allocated in workings }}{\text { 4 }}
$$

1.2.2

Bank Reconciliation Statement on 30 June 2017

| May start with ledger balance | DEBIT | CREDIT | Onecolumn method |
| :---: | :---: | :---: | :---: |
| Balance per Bank Statement check balancing figure | 9740 V | $\begin{aligned} & \hline \text { Do not accept } \\ & \text { R1 } 450 \\ & \hline \end{aligned}$ | 9740 |
| Outstanding deposits |  | $40500 \checkmark \checkmark$ | 40500 |
| Outstanding cheques |  |  |  |
| - 819 | $7650 \checkmark$ |  | (7650) |
| - 870 | $16800 \checkmark$ |  | (16 800) |
| Outstanding EFT | $2250 \checkmark$ |  | (2250) |
| Credit incorrect bank charges |  | $900 \checkmark \checkmark$ | 900 |
| Balance per bank account see 1.2.1 | 4 960V |  | 4960 |
|  | 41400 | 41400 |  |

Foreign entries -1 e.g. 8 550; 13 590; 16 200; 30000
-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 $\checkmark$ Evidence $\checkmark$

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 / $\underline{31 \text { May / approx. } 16 \text { days only reflected on statement }}$ on 16 June
- Deposit of Slip 451 R40 500 / $\underline{25 \text { June outstanding at month-end }}$


## Explain TWO strategies to prevent this in future.

TWO valid points $\checkmark \quad \checkmark$ 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 |  |
| :---: | :---: |
| Direct material cost (1050 000 $+102000 \checkmark$ ) | $\checkmark 1152000$ |
| Direct labour cost Prime cost - DMC | $\square 648000$ |
| Prime cost | $\checkmark 1800000$ |
| $\text { (-84 } 000 \text { one mark }+100800 \text { one mark) }$ <br> Factory overhead cost (487 200 $\downarrow+16800 \checkmark \checkmark$ ) | $\square$ 504000 <br> operation; one part correct  |
| operation Prime + FOHC | $\checkmark 2304000$ |
| Work-in process (beginning) | $\checkmark \quad 160000$ |
|  | 2464000 |
| Work-in process (end)operation TCP - subtotal above <br> Check that is deducted; ignore brackets <br> do not accept 160000 or 0 | $\checkmark \quad(88000)$ |
| Total cost of production $7200 \times \mathrm{R} 330$ No part marks | $\checkmark \checkmark 2376000$ |

### 2.1.2

ABRIDGED INCOME STATEMENT
FOR YEAR ENDED 28 FEBRUARY 2017

| Sales | $\checkmark 4080000$ |
| :---: | :---: |
|  | (2 580 000) <br> Ignore brackets |
| Gross profit Sales - cos | $\checkmark \quad 1500000$ |
| $20 \% \times 126000$ <br> $126000-100800$ <br>  <br> Administration cost $(-42000+25200$ one method mark $)$ <br> (148 400 $\checkmark-16800 \nabla$ see 2.1.1) $)$ | (131 600) <br> one part correct Ignore brackets |
| Selling and distribution cost (422000 $-102000 \checkmark$ ) <br> One part correct | $\checkmark \quad \underset{\text { Ignore brackets }}{(320000)}$ |
| Net profit operation (subtract AC \& SDC) one part correct | $\checkmark 1048400$ |

### 2.2 GYMWEAR MANUFACTURERS

### 2.2.1 Shirts:

| Calculate the break-even point for shirts.$530000 \div(302-238)=8281,25 / 8282 / 8281 / 8281,3$ |  |
| :---: | :---: |
| Identify ONE variable cost (with figures) that has not been wel controlled. Give TWO possible reasons for this problem. |  |
| ONE VARIABLE COST WITH FIGURES <br> Variable cost Figures | REASONS <br> Any two different reasons |
| Direct labour cost Increased by R31 (31\%) (from R100 to R131) | Expected responses: <br> - Negotiated wage increase / applied minimum wage / inflation / increased salary scales (for qualifications) <br> - Paid bonuses to some workers <br> - Excessive overtime <br> - Lack of productivity (inefficiency) of workers <br> - Inexperienced / poorly trained workers <br> - High staff turnover rate <br> - Old equipment affects productivity <br> - Work hours lost due to training time (workers paid for training) / due to load-shedding (power-cuts) / due to paid sick leave <br> - Errors in calculation of wages (over-paid) <br> Do not accept: More workers; Absent workers; Poor budgeting |


| ONE VA COST WITH <br> Variable Figures | IABLE FIGURES cost $\qquad$ | REASONS <br> two different reasons |  |
| :---: | :---: | :---: | :---: |
| Direct labour cost Increased by R31 (31\%) (from R100 to R131) |  | Expected responses: <br> - Negotiated wage increase / applied minimum wage / inflation / increased salary scales (for qualifications) <br> - Paid bonuses to some workers <br> - Excessive overtime <br> - Lack of productivity (inefficiency) of workers <br> - Inexperienced / poorly trained workers <br> - High staff turnover rate <br> - Old equipment affects productivity <br> - Work hours lost due to training time (workers paid for training) / due to load-shedding (power-cuts) / due to paid sick leave <br> - Errors in calculation of wages (over-paid) <br> 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. |  |  |  |
| $\underset{\checkmark}{\text { Explanations on the two VC's }}$ |  |  | State or imply what the concern is |
| Comment $\begin{aligned} & \text { Using cheaper material }\end{aligned}$ |  |  | Inferior quality. |
| on DMC | Economising on material |  | May affect the quality of the product |
| Comment on S\&DC | Reduced advertising or reduced commission / reduced remuneration of salespersons |  | May cause sales to drop / may demotivate salespersons |
|  | Reduced distances for deliveries / discontinuing the service in certain areas |  | Leads to loss of customers |
|  | Out-sourcing / using cheaper service providers |  | Might be inferior and negatively affect business in future |

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 unclearlincomplete explanation

- No economies of scale / decrease in production by 8900 units (25 000 to 16 100)
- Lower production increased FC per unit by R11,72 or 55,2\% (R21,20 to R32,92)

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


### 2.2.2 Shoes:

| Calculate the \% increase in the selling price of shoes. $1640-1260$ $\frac{380}{1260} \checkmark \times \frac{100}{1}$ <br> OR 130,2\% -100\%=30,2\% |  |
| :---: | :---: |
| $=3$ | 3 |
| 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. <br> - DMC increased $\checkmark$ from R330 to R456 (by R126/by 38\%/38,2\%) $\checkmark$ <br> - S\&DC increased $\checkmark$ from R28 to R194 (by R166/by 593\%/592,8\%) $\checkmark$ | 4 |
| 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. <br> Figures are not needed, but may be used to make a point about the concern. <br> Reasons (any two) $\checkmark \checkmark$ State NO concern OR imply NO concern in explanation or by using figures <br> - Sales increased (by 1250 units) / customers still supported the business (despite increase in price) <br> - Net profit increased (by R1 196 750) / price did not negatively affect sales) <br> - BEP decreased (due to increased contribution per unit) by 475 units / The business now exceeds BEP by bigger margin (3 908 units). | 4 |


| TOTAL MARKS |
| :---: |
|  |
| 55 |

## QUESTION 3

## 3.1

(a)

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

$$
2550000-325000=2225000 \checkmark \checkmark \text { no part marks }
$$

(b) Calculate the total depreciation on vehicles on 28 February 2017. Allocate the marks to correct workings even if subtotals not shown.

New:
$422550 \times 20 / 100 \times 6 / 12=42255 \checkmark \checkmark$

Old:
one mark
$350000 \times 20 / 100=70000$ but can only write off R34 $999 \checkmark \checkmark \checkmark$
$(350000-315000)=35000-1=34999$
$42255+34999=77254 \nabla$ one part correct
(c) Calculate the carrying value of Vehicles on 28 February 2017.

Note: Apply Marking Principle10
Mark one line only - choose line to benefit candidate
$35000 \checkmark+422550 \checkmark-77254 \square=380296 \boxtimes$
OR
one mark one mark one method mark one method mark $772550-(315000+77254$ see (b) above $=380296$

$$
392254 \text { two marks }
$$

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

Note: Apply Marking Principle10
Mark one line only - choose line to benefit candidate
30900 four marks 18900 three marks
22800 two marks
$120000 \checkmark-(12000 \checkmark+10800 \checkmark+8100 \checkmark \checkmark)=89100 \checkmark$ one part correct 108000 two marks

OR
one mark one mark one mark two marks one method mark
$120000-12000-10800-8100=89100$
(e) Calculate the total carrying value of fixed assets on 28 February 2017. Note: Apply Marking Principle10
see (c) above one part correct
$2550000 \checkmark+380296 \nabla+50994 \checkmark=2981290$

## 3．2 BALANCE SHEET OF ODETTE LTD ON 28 FEBRUARY 2017 <br> Placement presentation－ 1 if marks earned in each case

|  | ASSETS |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | NON CURRENT ASSETS（TA－CA） | 4010940 | $\nabla$ |  |
|  | Fixed assets See（3．1e） | 2981290 | $\nabla$ |  |
| 3 | Financial assets（Fixed Deposit） | 1029650 | $\nabla$ |  |
|  | CURRENT ASSETS CL×2，1 | 870660 | VV |  |
|  | Inventory | 408880 |  |  |
|  | Trade and other receivables $67200 \checkmark-270 \checkmark \checkmark+6800 \checkmark \checkmark+10350$ | 84080 | 『＊ |  |
|  | Cash and cash equivalents $C A-\operatorname{lnv}-T \& O R$ | 377700 | V |  |
| 12 | TOTAL ASSETS SHE＋L | 4881600 | V |  |
|  | EQUITY AND LIABILITIES |  |  |  |
|  | SHAREHOLDERS EQUITY $\underset{\substack{675000 \vee \times 620 c \checkmark \\ 900000 \times 75 \%}}{\substack{600}}$ | 4185000 | $\nabla$ |  |
|  | Ordinary share capital SE－520 000 | 3665000 | $\nabla$ |  |
| 4 | Retained income | 520000 |  |  |
|  | NON－CURRENT LIABILITIES | 282000 |  |  |
| 4 | Loan：Beque Bank $\begin{aligned} & 376000-92000 \\ & 284000+48000-5000 \\ & 332000 \text { two marks } \end{aligned}$ | 282000 | 『＊ |  |
|  | CURRENT LIABILITIES | 414600 | 『＊ |  |
|  | \＃Trade and other payables $184000 \checkmark+5600 \checkmark$ | 189600 | $\nabla^{*}$ |  |
|  | \＃\＃SARS：Income tax $\begin{gathered}222000 \checkmark \checkmark-209000 \checkmark ~ \\ 518000 \times 30 / 70\end{gathered}$ | 13000 | V＊ |  |
|  | See no．of shares in SHE Shareholders for dividends（ $675000 \boxtimes \times 0,24 \checkmark$ ） | 162000 | V＊ |  |
|  | Current portion of loan | 50000 | $\checkmark \checkmark$ |  |
| 14 | TOTAL EQUITY AND LIABILITIES | 4881600 | 『＊ | 37 |
|  | \＃Trade and other payables can combine the other elements under current liabilities．Allocate the part－marks acc 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 unclearlincomplete 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

| 4.1.1 | Directors | $\checkmark$ |
| :--- | :--- | :--- |
| 4.1.2 | Internal auditor | $\checkmark$ |
| 4.1.3 | Shareholder | $\checkmark$ |
| 4.1.4 | External auditors | $\checkmark$ |



### 4.2 SO-FINE LTD

### 4.2.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

## 1200000 ordinary shares

ISSUED SHARE CAPITAL

| 900000 | Ordinary shares on 1 September 2016 <br> Balancing figure; <br> check that repurchase added back and issue deducted back | 4725000 V |
| :---: | :---: | :---: |
| 150000 | Issued on 1 May 2016 at R6,30 each | $945000 \stackrel{\checkmark}{\checkmark}$ |
| (70 000) | Re-purchased 30 August 2017 <br> (ASP: R5,40 $4 \checkmark$ ) 52920001980000 no part marks |  |
| $980000 \checkmark$ | Ordinary shares on 31 August 2017 | 5292000 |

RETAINED INCOME

| Balance on 1 September 2016 | 147370 |
| :---: | :---: |
| Net profit after income tax | 438130 |
| Shares repurchased (437500 $\checkmark-378000 \nabla$ ) $70000 \times 0,85$ Or $70000 \times(6,25$-ASP) $\quad$ OSC above 437 500/70 000 | (59 500) ${ }^{\text {V* }}$ |
| Ordinary share dividends one part correct | (276 000) $\nabla^{*}$ |
| - Interim dividends (900 $000 \checkmark \times 0,12$ ) one part correct | 108000 V |
| - Final dividends | $168000 \stackrel{\checkmark}{\checkmark}$ |
| Balance on 31 August $2017 \quad \begin{array}{r}\text { one part correct; } \\ \text { *both figures must be subtracted }\end{array}$ | 250000 汭 |

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

| CASH FLOWS FROM OPERATING ACTIVITIES | Correct use of brackets to earn the mark on the final answer for each item in this column |
| :---: | :---: |
| Cash generated from operations | *one part correct and correct use of brackets |
| Interest paid |  |
| Dividends paid |  |
| $\begin{array}{cc}\text { Income tax paid } & \begin{array}{c}\#-2400 \checkmark+187770 \checkmark-11800 \checkmark \\ \\ \text { OR } 2400-187770+11800\end{array}\end{array}$ | ? \# (173 570) $\nabla^{*}$ |
| CASH FLOWS FROM INVESTING ACTIVITIES |  |
| $\begin{aligned} & \text { Purchases of fixed assets } \\ & \begin{array}{l} \# 6177000 \checkmark+320000 \checkmark+324000 \checkmark-4975000 \\ -6177000-320000-324000+4975000 \\ \hline \end{array} \end{aligned}$ | ? \#\# (1846 000) $\nabla^{*}$ |
| ? $\checkmark$ Proceeds from sale of fixed assets | ? $324000 \quad$ |
| Change in investments |  |
| CASH FLOWS FROM FINANCING ACTIVITIES |  |
| ? $\checkmark$ Proceeds from issue of share capital see 4.2.1 | ? $945000 \quad$ V |
| ? $\checkmark$ Repurchase of shares | ? (437500) $\quad$ ) |
| Change in non-current liabilities |  |
| Net change in cash and cash equivalents | ? $86000 \nabla^{*}$ |
| Cash and cash equivalents - opening balance $(2500-65100)$ | ? $\quad(62600) \quad \checkmark \checkmark$ |
| Cash and cash equivalents - closing balance | ? $23400 \quad \checkmark$ |

4.2.3 Calculate the percentage operating profit on sales.

```
697000\checkmark x 100 = 8,1% \checkmark one part correct % sign not necessary
852000\checkmark
```

Calculate the debt-equity ratio.
5542000 two marks See 4.2.1

$$
985000 \checkmark:\left(5292000 \checkmark+250000(\checkmark)=0,2: 1 \boxtimes \text { one part correct } \begin{array}{c}
\text { if superfluous items added in workings, but answer is still the same, penalise on answer }
\end{array}\right.
$$

4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period.
$900000+150000$
(168 $000 \checkmark / 1050000 \checkmark \times 100)+12$ cents $\checkmark=28$ cents $\downarrow$ one part correct 16 cents two marks


### 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 $\checkmark \checkmark$ Part-marks for partial or incomplete explanation
Figures R12,00 or R10,73 $\checkmark$ 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 $\checkmark \quad \checkmark \quad$ Financial indicators $\checkmark \checkmark$ Figures
Superfluous indicators (i.e. more than two indicators) - 1 max
Expected responses:
one mark
- Gearing has improved - less risk (as there was an issue of new shares) one mark one mark
debt-equity ratio decreased from $0,8: 1$ to $0,5: 1$ (by $0,3: 1$ )
one mark one mark
- 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?



## RONKI LTD

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

Explanation:
Superfluous indicators (i.e. more than two indicators) -1
The liquidity situation has improved / is able to meet current debts / liquidity ratios have decreased / liquidity ratios are more efficient

Financial indicators any two $\checkmark \checkmark$ Figures $\checkmark \checkmark$

- 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: $\quad \checkmark \checkmark$ Part-marks for partial or incomplete explanation 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 $(R 15,00)$ to Any one figure $\checkmark$

- 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 300000 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 |
| :---: |
|  |
| 85 |

## QUESTION 5

### 5.1 CONCEPTS

| 5.1.1 | Weighted average / WA | $\checkmark$ |
| :--- | :--- | :--- |
| 5.1 .2 | Perpetual | $\checkmark$ |
| 5.1.3 | First-in-first-out / FIFO | $\checkmark$ |
| 5.1 .4 | Expense | $\checkmark$ |



### 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.

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 $\checkmark \checkmark \quad \checkmark \checkmark$
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
51675 four marks
54300 two marks $(5 \times 525)$ two marks
$\frac{15000 \checkmark+39300 \checkmark-2625}{30 \checkmark+75 \checkmark-5 \checkmark} \times 12 \checkmark=6201 \nabla$ one part correct; must x12
(517 x 12)
OR $516,75 \times 12=6201$ or 6204 (weighted-average rounded off)
seven marks

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

Yes/No $\checkmark$ Explanation $\checkmark \checkmark$ 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.

| $(30+75-5)$ |  |
| :---: | :---: |
| $\begin{gathered} 100 \checkmark \nabla \\ \text { One part } \end{gathered}$ | $-12 \checkmark-85 \checkmark=3$ helmets missing $\boxtimes$ one part correct |

What can Mike do to improve the internal control of stock? State THREE points.
Three valid points $\checkmark \quad \checkmark \quad \checkmark$
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 $\checkmark$
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 $\checkmark$
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


Use the November figures to calculate the \% of bad debts expected.
8960 three marks


OR \(\quad \begin{aligned} \& one mark one mark one mark <br>

\& one mark\end{aligned} \quad\)| one method mark |
| :--- |

### 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 $\checkmark$ Figure $\checkmark$ $58 \%$ of the amounts owed are still within the credit terms OR

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.
$4 \% \quad \checkmark \checkmark \%$ 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


|  |
| :---: |

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

|  | COMMENT ON VARIANCES |
| :--- | :--- |
| Sales | Cash sales are under budget $\checkmark$, while credit sales are <br> over budget $\checkmark$. This will contribute to cash flow problem of <br> the business. $\checkmark$ |
| Advertising | The full advertising budget was not used (under-spent) <br> $\checkmark$ which could have led to the decline in sales. $\checkmark$ |
| Packing <br> materials | There was no saving in packing materials (misuse of <br> packing materials) $\checkmark$ despite the decline in sales. $\checkmark$ |
| Delivery <br> expenses | There should have been a bigger saving in delivery <br> expenses as sales decreased by $9,4 \% \checkmark$, while delivery <br> expenses decreased by only $2,3 \% . \checkmark / 4,3 \%$ of total sales <br> while budget was 4\%. |



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

