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# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## NATIONAL SENIOR CERTIFICATE

**GRADE 12**

**ACCOUNTING**

**NOVEMBER 2016**

**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 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). Note: If figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well e.g. R715 500 in Q1.2.1 would be 2 marks in final answer, not 3.
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 ÷ per memo, but some items can be + or – such as Prov for bad debts adj.
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 ☒
12. Be aware that some candidates provide valid alternatives beyond the memorandum.
13. Codes: f = foreign item; p = placement/presentation.

**This memorandum consists of 15 pages.**

**QUESTION 1****1.1**

<b>1.1.1</b>	<u>Administration</u> cost	✓	Accept recognisable abbreviations
<b>1.1.2</b>	<u>Direct material</u> cost	✓	
<b>1.1.3</b>	<u>Selling and distribution</u> cost	✓	
<b>1.1.4</b>	Factory <u>overhead</u> cost	✓	

4

**1.2.1****Calculate direct labour cost.**

<sup>one part correct</sup> 384 000 ✓✓ <sup>one part correct</sup> 31 500 ✓✓✓ <sup>one part correct</sup> 44 160 ✓✓ <sup>one part correct; must be x 5</sup> ✓  
 $(1\,920 \times 5 \times R40) + (90 \times 5 \times 70) + (384\,000 \times 11,5\%) = R459\,660$

**OR**

<sup>one mark</sup> 5 x [<sup>one mark</sup> (1 920 x R40) + <sup>one mark</sup> (90 x 70)] + <sup>one mark</sup> (76 800 x 11,5%) = R459 660  
<sup>one m/mark</sup> <sup>one m/mark</sup> <sup>one m/mark</sup> <sup>one m/mark</sup> <sup>one m/mark</sup> <sup>one m/mark</sup> <sup>one part correct; must be x 5</sup> ✓  
<sup>one part correct</sup> <sup>one part correct</sup> <sup>one part correct</sup>

8

**Calculate direct material cost.**

<sup>R106,00 four marks</sup> 131 500 ✓ + <sup>715 500 two marks</sup> 584 000 ✓ x <sup>5 500 ✓</sup> 5 500 = <sup>583 000 ✓</sup> 583 000 <sup>One part correct</sup> ✓  
<sup>1 350 ✓ + 5 400 ✓</sup> 6 750 <sup>two marks</sup>

6

**OR** Total VC – DLC – S&DC

<sup>1 260 000 two marks</sup> [4 200 x 300] – <sup>see 1.2.1; one method mark</sup> 459 660 – <sup>two marks</sup> 217 340 = <sup>one method mark; one part correct</sup> 583 000

**OR** OS + P – (CS x R106) – (Theft x R106)

<sup>one mark</sup> 131 500 + <sup>one mark</sup> 584 000 – <sup>two marks</sup> 99 640 – <sup>one mark</sup> 32 860 = <sup>one method mark; one part correct</sup> 583 000

**1.2.2 Production Cost Statement for the year ended 29 February 2016:**No abbreviations accepted

*✓ <u>Direct material</u> cost (need not be first)	See 1.2.1	583 000	✓
*✓ <u>Direct labour</u> cost	See 1.2.1	459 660	✓
<b>Prime cost</b>	If = DMC + DLC	1 042 660	✓
*✓ <u>Factory overhead</u> cost		343 340	✓
<b>Cost of production of finished goods</b>	Operation one part correct	1 386 000	✓

8

\*Must be correctly placed to get the mark for details; method mark for figure marked independently

## 1.2.3

**Calculate the break-even point for 2016.**

$$\begin{array}{r}
 570\,000 \text{ two marks} \\
 343\,340 \checkmark + 226\,660 \checkmark \\
 \hline
 450 \checkmark - 300 \checkmark \\
 150 \text{ two marks}
 \end{array}$$

$$= 3\,800 \text{ units} \checkmark \text{ One part correct; cannot be negative; cannot be R or c}$$

5

**Explain whether the owner should be concerned or not. Provide figures.**

Yes / No is part of the explanation (No marks)

Comment comparing BEP to level of production ✓✓

Comparative figures ✓ (Refer to answer above; must compare BEP to production)

Possible answers:

- The owner should not be concerned as the business produced (4 200 – 3 800) 400 units more than the break-even point.
- The owner should be concerned as the business produced (4 200 – 3 800) only 400 units more than the break-even point.
- Owner should be concerned because they make a profit on 400 units only.

3

## 1.2.4

**The owner is not satisfied with the internal control of the raw material (fabric).**

	<b>STOREROOM: Raw material stolen</b>	<b>FACTORY: Raw material wasted</b>
<b>CALCULATION: metres of fabric</b>	$  \begin{array}{r}  6\,750 \text{ two marks} \\  1\,350 \checkmark + 5\,400 \checkmark \\  - 5\,500 \checkmark - 940 \checkmark \\  = 310 \text{ metres} \checkmark \text{ One part correct} \\  \text{Answer must be less than } 6\,750  \end{array}  $ <p><b>Total: 5 marks</b></p>	$  \begin{array}{r}  \text{two marks for both } 4\,200 \times 1,25 \\  5\,500 \checkmark - 5\,250 \checkmark \checkmark \\  = 250 \text{ metres} \checkmark \text{ One part correct} \\  \text{OR} \\  200 \text{ units two marks} \quad \text{one mark} \quad \text{one m/mark} \\  [(5\,500 / 1,25) - 4\,200] \times 1,25 = 250 \text{ m} \\  4\,400 \text{ metres one mark} \\  \text{Answer must be less than } 5\,500  \end{array}  $ <p><b>Total: 4 marks</b></p>
<b>STRATEGY</b> One point each ✓ Be alert to alternative valid responses.	<p>Improve physical security / Regular stock counts /</p> <p>Foreman to supervise / sign / account for all raw materials taken from the storeroom / division of duties.</p>	<p>Train workers to improve efficiency /</p> <p>Use new updated equipment (new technology) /</p> <p>Use templates in cutting fabric to reduce offcuts / recycle the offcuts.</p> <p>Improve supervision. Do not accept theft.</p>

11

**TOTAL MARKS**

45

**QUESTION 2****2.1.1**

Simply Traders have the telephone numbers of all their debtors. What other information should they obtain before allowing customers to open accounts? State TWO points with a reason in EACH case.

Do not accept Telephone number of debtor

Can award two marks if information & reason is in same sentence

	Information to be obtained ✓ ✓	Reason ✓ ✓
Point 1	Salary advice slip / Proof of income	To set credit limits for each possible debtor To determine affordability
Point 2	Proof of residence / Address	To be able to trace debtors not adhering to credit terms and conditions To avoid fictitious debtors To be able to do a proper background check on each new debtor Constant reminders of amount owed To ensure that statements are sent to correct addresses
OR	Contact details of family / friend	To track the debtor if other information is incorrect / changes
OR	Bank statement / balance	To check how the debtor is managing his finances
OR	Identity document	Ensure that correct personal details of customers are on record
OR	Credit references / Credit history	To check that they will not sell to bad debtors To check credit worthiness
OR	Email address	Prompt communication of statements of account

4

**2.1.2**

Calculate the correct closing balance of the Debtors' Control Account on 31 October 2016.

$$179\,500 \checkmark + 2\,500 \checkmark - 900 \checkmark \checkmark + 500 \checkmark = 181\,600 \checkmark$$

21 000 – 20 100      Signs cannot be reversed as this is Dr / Cr

OR: T-account with figures on correct sides

Debit (plus)	Credit (minus)
179 500	*900
2 500	Balance c/d 181 600
500	*OR 21 000 credit <u>with</u> 20 100 debit

6

Calculate the correct amounts owing by debtors.

	Calculations	Balance
J Ramsay (D2)	8 500 two marks $37\,500 - 4\,300 \checkmark + 8\,350 \checkmark + 150 \checkmark$	* <input checked="" type="checkbox"/> 41 700
W Smith (D3)	+ 3 600 – 6 300 <u>both</u> for two marks $19\,500 + 2\,500 \checkmark - 2\,700 \checkmark \checkmark$	* <input checked="" type="checkbox"/> 19 300
C Prince (D5)	10 200 two marks $3\,900 + 4\,300 \checkmark + 5\,100 \checkmark + 5\,100 \checkmark$	* <input checked="" type="checkbox"/> 18 400

\*One part correct for method mark

12



## 2.1.3

**Calculate the percentage of debtors complying with the credit terms.**

58 600 two marks  

$$\frac{35\,300\checkmark + 23\,300\checkmark}{201\,200\checkmark} = 29,1\% \quad \checkmark \text{ One part correct}$$
 Accept 29%

OR

ignore 142 600 – not applicable to compliance  

$$\frac{142\,600}{201\,200} = 70,9\% \text{ one mark}$$
 one mark  
 Complying = 29,1%  
 one method & one accuracy mark

OR  $17,5\% \text{ one mark} + 11,6\% \text{ one mark} = 29,1\% \text{ one method \& one accuracy mark}$

4

**Explain TWO measures to improve the collection from debtors.**

Any TWO relevant measures ✓✓ ✓✓

Part-marks for unclear / incomplete answers

Possible responses for two marks: Accept alternative valid responses

- Monthly statements must be sent out / emailed on time.
- Offer higher discounts for early payments.
- Add interest on overdue accounts.
- Do not sell to debtors exceeding the credit limit / not up to date with payments.
- Send SMS reminders to debtors.
- Employ services of an attorney or debt collector / sue the debtor.
- Encourage debtors to pay by debit order.

Possible responses for one mark: Interest / discount / SMS

No mark for: Get debtors over 60 days to pay quicker or reduce credit limit of such debtors

4

## 2.2

**Calculate the amount receivable from or payable to SARS for VAT on 31 August 2016.**

Mark one line only. Cannot mix signs. Inspect candidates' responses. Award highest mark.

✓ ✓ ✓ ✓ ✓✓ ✓✓ ☒ One part correct  

$$14\,250 - 27\,720 + 2\,940 - 1\,120 - 1\,330 + 40\,880 = 27\,900$$

$$40\,880 - 1\,120 = 39\,760 \text{ three marks}$$

OR

$$-14\,250 + 27\,720 - 2\,940 + 1\,120 + 1\,330 - 40\,880 = -27\,900$$

$$1\,120 - 40\,880 = -39\,760 \text{ three marks}$$

OR

Balance at beginning	= 14 250
Output	$40\,880 - 1\,120 - 1\,330 = 38\,430$
Input	$27\,720 - 2\,940 = \underline{(24\,780)}$
	<u>27 900</u>

OR

VAT CONTROL	
27 720	14 250
*1 120	*2 940
*1 330	40 880
<b>27 900</b>	
58 070	58 070

**Receivable/Payable:** Payable ✓ Do not accept Receivable (irrespective of workings)**TOTAL MARKS**

40

**QUESTION 3****3.1**

<b>3.1.1</b>	Expense ✓ <span style="background-color: yellow;">Accept recognisable abbreviations</span>
<b>3.1.2</b>	Current asset ✓
<b>3.1.3</b>	Current liabilities ✓
<b>3.1.4</b>	Net working capital ✓

<b>4</b>

**3.2 AUDIT REPORT****3.2.1****To whom is the audit report addressed?**

Shareholders ✓

<b>1</b>

**3.2.2****Who has to ensure that the financial statements are prepared and presented at the annual general meeting?**

Directors / Management / CEO / CFO ✓

<b>1</b>

**3.2.3****Fralezi Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.**

Unqualified ✓

Mark the two parts independently.**Explain your choice.** Any valid response ✓

Fair presentation / Clean audit / Did not state any shortcomings in the financial statements / In accordance with IFRS or Companies Act.

<b>2</b>

**3.2.4****Explain why the independent auditors referred to page numbers 11–29 in the report.**

Any valid explanation ✓✓

Part-marks for unclear / incomplete answers

- Auditors are responsible for only parts / certain pages of the annual report.
- They are not accountable for the other information in the annual reports.
- Financial statements on pages 11–29 were subjected to audit / examination.
- Additional information, such as corporate social investment matters, is not audited.

Do not accept statistical sampling as a reason.

<b>2</b>



**FRALEZI LTD**  
**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2016**

<b>Sales</b> (4 777 300 ✓ – 35 700 ✓)	One part correct	<input checked="" type="checkbox"/> 4 741 600	7
<b>Cost of sales</b>	Award 3 marks if = Sales + 297 200 ÷ 1,7	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> (2 964 000)	
<b>Gross profit</b>	One part correct, COS must be subtracted	<input checked="" type="checkbox"/> 1 777 600	
<b>Other income</b>	Operation one part correct	<input checked="" type="checkbox"/> 110 640	
Rent income (101 900 ✓ + 6 000 ✓✓ – 8 300 ✓✓) 107 900 three marks OR -2 300 four mark	One part correct	<input checked="" type="checkbox"/> 99 600	
Bad debts recovered		✓ 10 540	12
<b>** Provision for bad debts adj.</b> (3 732✓ – 3 232 ✓)	One part correct Could be an expense if error made	<input checked="" type="checkbox"/> 500	
<b>Gross operating profit</b>	Operation	<input checked="" type="checkbox"/> 1 888 240	
<b>Operating expenses</b>	Operation	<input checked="" type="checkbox"/> (1 177 000)	
<b>Directors' fees</b>		✓ 375 000	
<b>Salaries and wages</b>		✓ 365 540	
<b>Sundry expenses</b>	Any figure less than Op Exps total; ignore brackets Beware of inappropriate figures being inserted in this line e.g. discount, insurance	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 129 406	
Depreciation (124 260 ✓ – 6 300✓ + 5 040✓✓) –1 260 three marks –14 700 + 13 440 three marks	One part correct; –for old; + for new	<input checked="" type="checkbox"/> 123 000	
Audit fees (23 000 ✓ + 7 250 ✓)		✓ 30 250	
Repairs (100 000 ✓ + 6 000 ✓)		✓ 106 000	
Packing material (13 600 ✓ – 3 700 ✓) +1 900 two marks –152 one mark		✓ 9 900	32
Advertising (20 596 ✓ + 1 748 ✓✓✓)	One part correct	<input checked="" type="checkbox"/> 22 344	
Loss due to theft (9 300 ✓ + 1 260 <input checked="" type="checkbox"/> OR (28 560 one m/mark – 18 000 one mark)	See depr adj above; opposite sign One part correct	<input checked="" type="checkbox"/> 10 560	
<b>** Trading stock deficit</b> (209 500 ✓ + 21 000 ✓✓ – 225 500 ✓)	One part correct but not 225 500 Could be a surplus if error made	<input checked="" type="checkbox"/> 5 000	
<b>Operating profit</b>	Check = Sales x 0,15	<input checked="" type="checkbox"/> 711 240	
<b>Interest income</b>	Profit before interest expense – Operating profit	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 28 480	
<b>Profit before interest expense</b>	Operation from bottom up	<input checked="" type="checkbox"/> 739 720	
<b>Interest expense</b>	Must be correctly placed & subtracted; brackets not essential	✓✓ (39 720)	9
<b>Net profit before tax</b>	Operation; must be more than R504 000	<input checked="" type="checkbox"/> 700 000	
<b>Income tax for the year</b>	Ignore brackets	✓✓ (196 000)	
<b>Net profit after tax</b>		<b>504 000</b>	

Foreign items –1 (max –2)      \*\* Award marks to workings if item misplaced; -1 for placement; max -2

<b>TOTAL MARKS</b>
<b>70</b>

60

**QUESTION 4**

4.1

4.1.1	C	✓	Solvency
4.1.2	D	✓	Liquidity
4.1.3	B	✓	Return on equity
4.1.4	A	✓	Gearing

4

4.2.1 **ORDINARY SHARE CAPITAL:****AUTHORISED SHARE CAPITAL**

1 500 000 ordinary shares

**ISSUED SHARE CAPITAL** Presentation, incorrect or no details -1 (max -1)

900 000	Ordinary shares on 1 July 2015	9 180 000
✓(75 000)	Shares re-purchased (Average: R10,20)	✓✓ (765 000)
✓125 000	Shares issued (R10,80 per share)	✓1 350 000
✓950 000	Ordinary shares on 30 June 2016 Operation one part correct; Repurchase deducted & Issued added	9 765 000 ✓

7

**RETAINED INCOME:** Presentation, incorrect or no details -1 (max -2)

Balance on 1 July 2015	360 000
Net profit after tax	444 500
Funds used for repurchase of shares 75 000 ✓ x 0,50 ✓ (10,70–ASP used) OR (802 500–figure from OSC) One part correct	(37 500) ✓ Do not accept 0
Ordinary share dividends Must be in brackets or subtracted One part correct	(481 250) ✓
Interim (434 250 ✓ – 162 000 ✓) OR 481 250 one mark – 209 000 one mark One part correct	272 250 ✓ Do not accept 162 000
Final	209 000 ✓
Balance on 30 June 2016 Must subtract repurchased shares and OSD Operation, one part correct	285 750 ✓

9

4.2.2

**Calculate the change in loan for the Cash Flow Statement.**

$$8\,000\,000 - 4\,500\,000 = 3\,500\,000 \checkmark\checkmark \text{ No part marks}$$

**Calculate the income tax paid for the Cash Flow Statement.**

$$23\,400 \checkmark + 190\,500 \checkmark - 6\,200 \checkmark = 207\,700 \checkmark \text{ One part correct}$$

**OR**

$$-23\,400 - 190\,500 + 6\,200 = -207\,700$$

**OR** T-account with figures on correct sides

Debit	Credit
207 700	23 400
6 200	190 500

2

4

4.2.3

**Net change in cash and cash equivalents**

$$\checkmark \quad 808\,000$$

Cash and cash equivalents (beginning of year)

-610 500 one mark +7 500 one mark

$$\checkmark\checkmark \quad (603\,000)$$

Cash and cash equivalents (end of year)

$$\checkmark \quad 205\,000$$

4

4.2.4

**Calculate the acid-test ratio on 30 June 2016.**

1 015 000 one mark – 564 000 one mark  
451 000 two marks

$$(246\,000 \checkmark + 205\,000 \checkmark) : 635\,200 \checkmark = 0,7 : 1 \checkmark \text{ One part correct; must be y:1}$$

4

**Calculate the debt-equity ratio on 30 June 2016.**

$$8\,000\,000 \checkmark : 10\,050\,750 \checkmark = 0,8 : 1 \checkmark \text{ One part correct; must be y:1 Accept } 0,79 : 1$$

3

**Calculate the % return on average shareholders' equity (ROSHE) for the year ended 30 June 2016.**

$$\frac{444\,500 \checkmark}{\frac{1}{2} \checkmark (10\,050\,750 \checkmark + 9\,540\,000 \checkmark)} \times \frac{100}{1}$$

9 795 375 (3 marks)

$$= 4,5\% \checkmark \text{ One part correct; cannot be Rands, cents, units etc}$$

5

**Calculate the net asset value per share (NAV) on 30 June 2016.**

$$\frac{10\,050\,750 \checkmark}{950\,000 \checkmark} \times 100 = 1\,058 \text{ cents } \checkmark \text{ One part correct OR R10,58 OR 1057,9 cents}$$

See 4.2.1 Must be Rands or cents

3

**4.2.5 The liquidity of the company has improved. Quote THREE financial indicators to support this statement. Provide figures and trends.**

THREE valid indicators ✓ ✓ ✓ Figures and trends ✓ ✓ ✓

Current ratio – 0,3 : 1 to 1,6 : 1

Acid-test ratio – 0,1 : 1 to 0,7 : 1 **see 4.2.4**

Debtors' collection period – 43 days to 36 days

Do not accept creditors' payment period and stock turnover rate

If more than three indicators shown, -1 for superfluous / foreign indicator; max -2

6

**4.2.6 Provide calculations to show the change in the dividend pay-out policy.**

Comparison of DPS to EPS for 2015 ✓ Calculation / implied calculation ✓

Comparison of DPS to EPS for 2016 ✓ Calculation / implied calculation ✓

Possible calculations for two marks each:

- 2015:  $35/58 = 60,3\%$  **OR** 0,6:1 **OR** Paid out most of earnings/more than 50%
- 2016:  $55/51 = 107,8\%$  **OR** 1,1:1 **OR** Paid out more than earnings

Possible responses for one mark each:

- 2015: Paid out 35c of 58c earnings / retained 23c of 58c earnings
- 2016: Paid out 55c of 51c earnings / paid out 4c from previous earnings

4

**Explain why the directors decided to change the policy. State ONE point with figures.**

Any ONE valid explanation ✓ Relevant figures ✓

Responses for two marks:

To satisfy shareholders for:

- ROSHE decreased (from 6,2%) to 4,5%. **see 4.2.4**
- Market price decreased (from 1 030 cents) to 1 000 cents.
- EPS decreased (from 58 cents) to 51 cents.

Do not accept NAV going down; this is a result of the decision.

Responses for one mark:

- Satisfy shareholders / Encourage new shareholders
- To get directors re-elected at AGM

2

## 4.2.7

**(a) Calculate Mary's % shareholding on 1 October 2015 after repurchase of shares.**

Do not award this mark if another figure added

$$\frac{420\,000\checkmark}{(900\,000\checkmark - 75\,000\checkmark)} \times 100 = 50,9\% \quad \checkmark \text{ One part correct Accept 51\%}$$

825 000 two marks

Must be below 100%; % sign not essential

4

**(b) Explain how Mary has benefitted from the decision to repurchase the shares.**

Explanation ✓✓ Part-mark for unclear / incomplete answer

Mary became the majority shareholder

2

**(c) The independent auditor discovered that Mary had made the decision to repurchase the shares without informing the board of directors. Why should the independent auditor be concerned about this?**

Responses for two marks: ✓✓ Part-mark for unclear / incomplete answer

- Not good corporate governance / Not in accordance with King Code
- CEO cannot make these decisions without getting board approval
- Considered to be insider trading / Abuse of position for personal benefit
- Unethical / Not transparent

Responses for one mark:

Not good / not right / King Code / Corporate governance / Could have outvoted other shareholders or directors

2

## 4.2.8

**The Cash Flow Statement reflected fixed assets purchased to the amount of R4,5 million.**

Mark source first. If this correct, decision must match source. Explanation must be relevant to the source.

Major sources of funding with figures (over R1 000 000 each)	Good/Bad decision	Explanation with financial indicators/figure Explanation ✓ ✓ Figures ✓ ✓
<b>Source 1:</b> Increase in loan - R3 500 000 Source ✓ Figures ✓ Reference can be made to 2015 indicators.	Bad ✓	The company is negatively geared. ROTCE (8,2%) is lower than the interest rate on loans (12%). <b>Must compare interest rate to ROTCE.</b> <b>OR</b> Financial risk increased. The debt-equity ratio increased from 0,5 : 1 to 0,8 : 1 (See 4.2.4). <b>Must be regarded as bad as there is negative gearing.</b>
<b>Source 2:</b> Issue of shares - R1 350 000 Source ✓ Figures ✓	Good ✓	Shares were sold for R10,80 per share which is greater than the market price of R10,30 (2015) or R10,00 (2016) or NAV of R10,60. <b>OR</b> If this amount was borrowed, interest of 12% will be payable / Has reduced the risk as D/E ratio would have been higher than 0,8:1. <b>OR</b> Mary is no longer the majority shareholder; owns 44% of the shares.
	<b>OR</b> Bad	ROSHE decreased from 6,2% to 4,5% <b>See 4.2.4</b> EPS decreased from 58c to 51c NAV could have been higher than 1058c

10

**TOTAL MARKS**

75



**5.2 MANAGEMENT OF INVENTORIES****5.2.1 What decision did Kyle take regarding the selling price of the desks? Provide figures.**

Decision ✓ Figures ✓

- He increased the mark-up from 60% to 80%.
- He increased the selling price from R1 920 to R2 520 / by R600 / by 31%.

2

**How has this decision affected the business? State TWO points. Provide figures.**

Any two valid points ✓ ✓ Figure ✓ ✓

- Gross profit increased from R259 200 to R336 000 / by R76 800 / by 29,6%.
- Stock turnover rate decreased from 7,2 to 6,0 times.
- Orders of desks decreased to 300 units / by 70 units / by 19%.
- Sales of desks decreased to 300 units / by 65 units / by 18%.

4

**5.2.2 Was it a good idea for Kyle to change to a cheaper supplier of chairs?****YES/NO:** No✓**Explain TWO points. Provide figures.**

Any two valid points ✓ ✓ Figure ✓ ✓

- The gross profit decreased from R148 920 to R95 200 / by R53 720 / by 36%.
- The returns increased from 0 to 90 units / the customers are not satisfied with the quality of the product / Resulted in lower net sales 680 compared to 730.
- The cheaper price of R490 did not affect the stock turnover rate which remained constant at 4,0 / chairs did not appear to be popular with customers.

5

**5.2.3 Based on the information given, provide TWO separate suggestions to Kyle to improve the profit on printers in 2017.**

One valid point for pricing ✓ Figure ✓ One valid point for orders ✓ Figure ✓

**Suggestion 1 (with figures):**

- Kyle should increase the price; Any figure between R975 and R1 200 **OR**
- Kyle should increase MU%; Figures: Any % between 25% and 70%.

**Suggestion 2 (with figures):**

- Kyle must plan purchase of printers / must follow up on orders to meet the demand of 925 units (i.e. 200 more than current sales) **OR**
- Kyle must maintain / improve stock turnover rate of 11,8 times

**Responses for one mark only:**

Find a cheaper supplier / Request deposits from customers / Payment in advance / Follow up on orders from customers / Negotiate a trade discount on purchases.

4

**TOTAL MARKS****30**

**QUESTION 6**

6.1.1

**TWO items recorded incorrectly in the Cash Budget:**

Any TWO of: ✓ ✓

If more than two items given, -1 for invalid item; max -1

Discount received    Depreciation    Bad debts

2

6.1.2

**TWO items in the Cash Budget that would NOT appear in a Projected Income Statement:**

Any TWO of: ✓ ✓

If more than two items given, -1 for invalid item; max -1

Cash from debtors    Fixed deposit matures  
Payments to creditors    Repayment of loan

2

6.2

**DEBTORS' COLLECTION SCHEDULE**

MONTHS	CREDIT SALES	SEPTEMBER	OCTOBER
July	120 000	8 400	
August	151 200	60 480	✓✓ 10 584
September	172 800	86 400	✓✓ 69 120
October	✓✓ 198 720	50% of credit sales	☑☑ 99 360
		155 280	Operation one part correct ☑ 179 064

9

6.3

**AMOUNTS FOR THE CASH BUDGET**

	WORKINGS	AMOUNT
(a)	<b>Cash sales for September</b> 288 000 ✓ x 40% ✓ 172 800 one mark x 40/60 one mark <b>OR</b> 132 480 x 100/115 one mark    one mark	3 R115 200 ☑ One part correct
(b)	<b>Payments to creditors for October</b> 252 000 ✓ x $\frac{100}{180}$ ✓ x $\frac{96}{100}$ ✓ 140 000 two marks – 5 600 one mark 241 920 two marks	4 R134 400 ☑ One part correct
(c)	<b>Directors' fees for October</b> 216 000 ✓ x $\frac{2}{3}$ ✓✓ x $\frac{135}{100}$ ✓ 144 000 three marks +50 400 one mark  (72 000 + 25 200) x 2 one mark    two marks    one mark	5 R194 400 ☑ One part correct
(d)	<b>Interest on loan for October</b> Could use solve for x method ✓    ✓    ✓    ✓ 6 875 – (12,5% x 52 800 ÷ 12) 550 three marks 6 600 two marks 4 400 two marks one mark    one mark    one mark    one mark (660 000 – 52 800) x 12,5% ÷ 12 607 200 two marks	6 ✓☑ R6 325 One part correct

18



## 6.4.1

**The directors changed the method of payment to the salespersons.**

**Explain how this has benefitted the salespersons. Quote figures.**

Explanation ✓    Figures ✓

Although the salaries were reduced from R40 000 to R12 000, they received a commission of R66 150 (total: R78 150) / 95,4% or R38 150 more than their previous salaries.

**Explain how this has benefitted the business. Quote figures.**

Explanation ✓    Figures ✓

Actual sales are higher than the budgeted sales by R201 600 (489 600 – 288 000); sales are 70% higher than budget.

4

## 6.4.2

**The directors are not concerned about the overspending on packing material. Explain why this is so. Quote figures or calculations.**

Explanation ✓    Both items i.e. Sales & Packing materials must be mentioned

Figures ✓✓    ✓✓

Candidates must quote percentages – if totals are quoted, award only one mark for each item  
Candidates must compare percentages of these two items to earn full marks

Sales were 70% over budget, while packing materials were only 20% over budget.

**OR**

Packing materials were budgeted at 5% of sales, while actual packing materials were only 3,5% of sales.

**Response for one mark:**

Packing materials will increase if sales increase.

5

TOTAL MARKS
40

**TOTAL:    300**