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## basic education

Department:
Basic Education REPUBLIC OF SOUTH AFRICA

## NATIONAL SENIOR CERTIFICATE

## GRADE 12

## ACCOUNTING

NOVEMBER 2013
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 penalties are applied, the marks for that section of the question cannot be a final negative.
7. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
8. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
9. Codes: $f=$ foreign item; $p=$ placement/presentation.

This memorandum consists of 18 pages.

## QUESTION 1

### 1.1 CONCEPTS

Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (1.1.1-1.1.3).

| 1.1 .1 | Business entity concept | $\checkmark \checkmark$ |
| :--- | :--- | :--- |
| 1.1 .2 | Limited | $\checkmark \checkmark$ |
| 1.1 .3 | Receivables | $\checkmark \checkmark$ |

### 1.2 COMPANY TRANSACTIONS

Use the table provided to indicate the following for each transaction:

- Account debited and account credited in the General Ledger
- Effect on the accounting equation

The bank balance is favourable at all times.

| NO. | $\begin{aligned} & \hline \text { ACCOUNT } \\ & \text { DEBITED } \end{aligned}$ | ACCOUNT CREDITED | AMOUNT | A | 0 | L |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| e.g. | Directors' Fees | Bank | 145000 | - | - | 0 |
| 1.2.1 | SARS (Income Tax) $\checkmark$ <br> Tax) | Bank $\checkmark$ | 37400 | - $\checkmark$ | 0 | - $\checkmark$ |
| 1.2.2 | Bank $\checkmark$ | Ordinary <br> Share Capital $\checkmark$ | 180000 | $+\checkmark$ | $+\checkmark$ | 0 |
| 1.2.3 | Dividends on <br> Ordinary <br> Shares/Ordinary <br> Share Dividends_ | Shareholders for Dividends $\checkmark$ | 55000 | 0 | - $\checkmark$ | $+\checkmark$ |

### 1.3 DEBTORS' RECONCILIATION

### 1.3.1 CORRECTIONS TO THE DEBTORS' CONTROL ACCOUNT

| Current Debtors' Control Account balance | $\mathbf{2 0 1 0 0}$ |  |  |
| :--- | ---: | :--- | :--- |
| A. | -1800 | $\checkmark$ |  |
| B. | +200 | $\checkmark$ |  |
| C. | -900 | $\checkmark \checkmark$ |  |
| D. | No change | $\checkmark$ |  |
| E. | +1400 | $\checkmark$ |  |
| Correct Debtors' Control Account balance | 19000 | $\checkmark$ | $\square$ |

Must include R20 100, Inspection, reasonable or see 1.3.2

### 1.3.2 DEBTORS' LIST ON 30 SEPTEMBER 2013

| $\begin{array}{\|cc} \hline & -3200+2300(1 \text { mark }) \\ \hline \end{array}$ | $\checkmark 2900$ |  |  |
| :---: | :---: | :---: | :---: |
| E Khune (7400 + 200 $\checkmark$ ) | $\checkmark 7600$ |  |  |
| S Mashele (-1900 + 1 400 $\checkmark$ ) | $\checkmark$ (500) |  |  |
|  | $\checkmark 9000$ |  |  |
| Correct total of Debtors' List | 19000 | $\checkmark$ | 1 |


| TOTAL |
| :---: |
| MARKS |
|  |
| 35 |

## QUESTION 2

2.1 Choose a cost category from COLUMN B that matches a description in COLUMN A. Write only the letter (A-E) next to the question number (2.1.1-2.1.4).

| 2.1.1 | E | $\checkmark \checkmark$ | (Direct material) |
| :--- | :--- | :--- | :--- |
| 2.1.2 | C | $\checkmark \checkmark$ | (Selling and distribution) |
| 2.1.3 | D | $\checkmark \checkmark$ | (Administration) |
| 2.1.4 | B | $\checkmark \checkmark$ | (Factory Overhead) |

### 2.2 2.2.1 PRODUCTION COST STATEMENT FOR THE YEAR ENDED

 31 AUGUST 2013| OR $450000(1$ mark $)-135000(1$ mark $)$ <br> OR $2800 \times(450000 \div 40000)$ <br> Direct material cost $\quad(28000 \checkmark \times 11,25 \checkmark)$ | 315000 | $\checkmark$ |
| :---: | :---: | :---: |
| Direct labour cost | 985600 |  |
| PRIME COST Operation DMC+DLC, more than 985600 | 1300600 | $\nabla$ |
| Factory overhead cost | 94980 |  |
| TOTAL MANUFACTURING COST <br> Operation $\mathrm{PC}+\mathrm{FOHC}$ | 1395580 | $\checkmark$ |
| Work-in-process (1 September 2012) | 12420 |  |
|  | 1408000 | $\nabla$ |
| Work-in-process (31 August 2013) Operation; Accept positive figure depending on above | (17 000) |  |
| COST OF PRODUCTION OF FINISHED GOODS (R65 $\times 21400$ ) | 1391000 | $\checkmark \checkmark$ |

FACTORY OVERHEAD COST

| Indirect material | $\mathbf{7 3 6 0}$ |
| :--- | ---: |
| Indirect labour | $\mathbf{2 2 ~ 2 3 0}$ |
| Depreciation of factory plant | $\mathbf{8 6 3 0}$ |
| Rent Expense $6600 \times 5$ | $\checkmark \checkmark 33000$ |
| Water and Electricity $\quad 6840 \times{ }^{75} / 25$ | $\checkmark \checkmark 20520$ |
| Sundry factory expenses $\quad$ Operation | $\checkmark 3240$ |
|  | $\mathbf{9 4 9 8 0}$ |

### 2.2.2 The internal auditor is not satisfied with the direct labour cost for the year. Explain the problem relating to the direct labour cost and quote figures to support your explanation.

Any valid response Good answer with figures = 3 marks; good answer without figures = 2 marks; part answer = 1 mark; incorrect $=0$

Expected responses: $\checkmark \checkmark \checkmark$

- The workers are earning more through overtime (R563 200) than they are from normal time (R384 000).
- The workers worked 1200 hours normal time compared to 880 hours overtime / DLC is $71 \%$ of total costs.
- Overtime accounts for $57 \%$ of the total direct labour cost.
- Normal time is too low possible due to disruption, absenteeism or poor supervision (relevant figures required e.g. 49 weeks $\times 40$ hours $=1960$ ).


## Give TWO possible solutions to this problem.

## Any TWO valid and separate solutions

Good answer = 2 marks; part answer $=1$ mark; incorrect $=0$
Expected responses for 2 marks: $\checkmark \checkmark \quad \checkmark \checkmark$

- Set production targets that must be completed (time and motion studies).
- Better supervision to ensure workers are on duty during normal working hours / rotate supervisors if necessary to prevent abuse.
- Set limits on overtime hours and ensure foreman controls this.
- Reconsider conditions of service e.g. minimum normal hours, overtime rate.
- Employ more workers at normal rate for a full working day throughout the year, then discontinue overtime (cheaper to pay for normal time).
- Anticipate disruption to normal time production (e.g. power cuts, strikes) have contingency plans in place.
Expected responses for 1 mark:
- More normal time to be worked /Less overtime to be worked (same point)
- Train workers
2.3 2.3.1 Calculate the number of units that Sally needed to produce in order to break even in 2013. Could be answered in equation form

$$
\begin{array}{r}
\text { R96 450 } \\
\text { R30 } \checkmark-\text { R22 } \\
\checkmark \text { R8,00 (2 marks) }
\end{array} \quad 12056,2 \text { or } 12056,3 \text { or } 12056 \text { or } 12057 \boxtimes
$$



2.3.2 \begin{tabular}{ll|}
\hline \(\begin{array}{l}Comment on the number of bags she is producing. Quote figures or <br>
financial indicators to support your answer. Refer to the break-even <br>
calculation in your answer. <br>
Comparison to BE calculation = 1 mark; Favourable/Unfavourable=1 mark; Figures = 1 mark. <br>
This is good \checkmark as she will make a profit as production is (803 / <br>
804) \checkmark more than the break-even number of units. \checkmark <br>

(12860 produced; BEP 12056 / 12057) See 2.3 .1 for figures - use consistently\end{array}\) \& | 2 |
| :--- | <br>

\hline
\end{tabular}



## QUESTION 3

3.1 Give ONE word/term for each of the descriptions by choosing a word/term from the list. Write only the word/term next to the question number (3.1.1-3.1.4).

| 3.1.1 | Income $\checkmark \checkmark$ |
| :--- | :--- |
| 3.1.2 | Current liability $\checkmark \checkmark$ |
| 3.1.3 | Current asset $\checkmark \checkmark$ |
| 3.1.4 | Expense $\checkmark \checkmark$ |

### 3.2 SELATI LIMITED

3.2.1 INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2013


### 3.2.2

| NOTE FOR RETAINED INCOME |  |  |  |
| :---: | :---: | :---: | :---: |
| Balance at the beginning of the year |  |  | 735000 |
| Net profit after tax |  |  | $\checkmark 588000$ |
| Dividends | Operation; | part correct | $\checkmark$ (505 000) |
| Interim $2000000 \times 14$ | Operation; | part correct | $\nabla \checkmark 280000$ |
| Final $2250000 \times 10 \mathrm{c}$ | Operation; | part correct | $\nabla \checkmark 225000$ |
| Balance at the end of the year |  | Operation | $\checkmark 818000$ |



### 3.3 AUDIT REPORT

## As a shareholder, why would you be concerned about this audit report? Explain. State THREE points.

Any THREE separate valid responses $\quad \checkmark \checkmark \checkmark \checkmark \checkmark \checkmark$
Good answer with insight into the points mentioned in the audit report $=2$ marks;
Part answer which could repeat information from audit report = 1 mark; incorrect = 0
Expected responses for 2 marks:

- This is a disclaimer/withheld/very bad report
- This does not reflect well on the company
- Proper corporate governance procedures have not been carried out
- Proper internal control procedures have not been carried out
- Potential investors (shareholders \& lenders) will be deterred from investing in the company
- The share price will be negatively affected (demand for the shares will decline)

Expected responses for 1 mark:

- The auditor has mentioned his concerns ('qualified' his opinion)
- No approval for bonuses to directors
- Insufficient documentation for sundry expenses



## QUESTION 4

4.1 Refer to Information 8 regarding the special programmes that are published with the financial statements in the annual report.
4.1.1

Any valid response $\checkmark \checkmark$
Good answer with insight = 2 marks;
Part answer which could include repetition from the question = 1 mark; incorrect = 0
Main benefit of crime prevention programme for the company:
Expected responses for 2 marks:

- This forms part of their corporate social investment/responsibility which is necessary as the company relies on the goodwill of the community (support/positive image/good publicity) in which they operate.
- Creates a safer environment which encourages customers to visit the business / creates better working environment.
- In accordance with the King Code.

Expected responses for 1 mark (could be combined for 2 marks):

- Corporate social investment/responsibility
- Good image / publicity / increases confidence / goodwill in the company
- Reduces theft or crime / Creates safer environment / Safeguard assets
- Increases the profits of the company / Indirectly reduces insurance costs

Main benefit of training programme for the company:
Expected response for 2 marks:

- Creates more competent employees who are better able to serve customers
- Creates further goodwill (support/positive image/good publicity) for the company / lead to increased profits in future.

Expected responses for 1 mark (could be combined for 2 marks):

- Makes employees more efficient / Develop skills of staff (same point)
- Serves customers better / Increases the profits of the company
- Good image / publicity / increases confidence / goodwill in the company
- Tax deductible
4.1.2 Apart from the points mentioned above, why would the directors want to mention these programmes in the annual report? Explain.
Any valid response $\checkmark \checkmark$ Good answer $=2$ marks; part answer $=1$ mark; incorrect $=0$
Any valid points not mentioned above e.g. King Code / goodwill / create a good impression of the company / directors will want the stakeholders to know about these issues / attract investment in the company (shareholders/lenders).

4.2 CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2013

If no workings but figure correct, award full working marks to the figure if correct Method mark on answer is awarded for correct use of brackets/no brackets

| CASH EFFECTS OF OPERATING ACTIVITIES |  |  |  |
| :---: | :---: | :---: | :---: |
| Income tax paid $360000 \checkmark-9000 \checkmark-28000 \checkmark$ <br> $1200000-840000 \quad$ OR $-360000+9000+28000$ | A | $\checkmark$ | (323 000) |
| Dividends paid $\begin{aligned} 210000 \checkmark+280000 \checkmark \\ (455000-175000)\end{aligned} \quad$ or-210000-280 000 | B | $\checkmark$ | (490 000) |
| CASH EFFECTS OF FINANCING ACTIVITIES |  |  |  |
| Proceeds of shares issued $500000 \checkmark+400000 \checkmark$ <br> OR $4700000-3800000$ | C | $\checkmark$ | 900000 |
| Increase/Decrease in loans $2800000-2100000$ | D | $\checkmark \checkmark$ | (700 000) |
| Net change in cash and cash equivalents Operation | E | $\checkmark$ | 258000 |
| Cash and cash equivalents (1 March 2012) | F | $\checkmark \checkmark$ | (180 000) |
| Cash and cash equivalents (28 February 2013) |  |  | 78000 |



### 4.3 Calculate the following financial indicators for the financial year ending 28 February 2013:


4.3.2 Earnings per share

$$
\frac{840000}{700000} \checkmark \times 100
$$

$=120$ cents or R1,20 $\nabla$ Any one part correct \& shown as cents or Rands

4.4 The directors are of the opinion that the operating efficiency of the company has improved. Quote and explain TWO financial indicators (with figures) to support their opinion.

Financial indicators $\checkmark \quad \checkmark \quad$ Valid explanations (with figures)
Operating expenses on sales - decreased from 32\% to $25 \%$ (improvement in control of expenses)

Operating profit on sales - increased from $15,8 \%$ to $22 \%$ (improvement in efficiency / profit)

Net profit after tax on sales - increased (see 4.3.1) from 11,3\% to 13,5\% (improvement in efficiency / profit)

### 4.5 The shareholders are happy with their return, earnings and dividends. Quote and explain THREE financial indicators (with figures) to support their opinion.

Trends in financial indicators (with figures)
Valid explanations which go further than trends $\checkmark \checkmark \checkmark$
Comment on shareholders' return:
This has increased from $15,2 \%$ to $18,1 \% \quad \square \quad$ (see 4.3.4)
Good return/Greater than return on alternative investment opportunities $\downarrow$
Comment on earnings:
These have increased from 90 cents to 120 cents. $\mathbb{V}$
(see 4.3.2)
This indicates a significant increase in the earnings (33\%) / Will have a good
influence on share price.
Comment on dividends:
These have decreased from 82 cents to 65 cents.
The company is now retaining more of its earnings. $\square$ (see 4.3.2)
2012: (8/90 $\times 100$ ) 9\% retained 2013: ( $55 / 120 \times 100$ ) $46 \%$ retained
4.6 New shares were issued at the beginning of the financial year at R9,00 each. As an existing shareholder, would you be satisfied with this issue price?

Yes/No: Yes $\checkmark$
Quote TWO financial indicators (with figures) to explain your opinion:
Shares were sold for more $\checkmark$ than the NAV (900/755 or 900/667) $\checkmark$
Shares were sold for more $\checkmark$ than the market value (900/840 or 900/820) $\checkmark$
4.7 A large loan repayment was made. Comment on whether this was a good idea or not. Quote TWO financial indicators (with figures) to support your comment.

Note that the comment and the explanation of financial indicators could be combined into one statement.

Expected response for comment:
Not a good idea. There is positive gearing / lower financial risk.
Expected response for financial indicators (with figures):
ROTCE is $19,3 \% \checkmark$ (interest rate is $8 \%$ )
Debt-equity ratio is now $0,4: 1 \checkmark$ (from $0,7: 1$ )

### 4.8 Apart from the dividends and the loan, what other major decisions by the directors are reflected in the Cash Flow Statement? State TWO major decisions and quote the relevant figures. Also explain how EACH of these decisions would benefit the company in the future.

| Decision 1 (with figures) | Explanation of benefit to company |
| :---: | :--- |
| Issue of additional shares $\checkmark$ <br> (R900 000 $)$ <br> This must be mentioned as it is the most <br> significant | Improves the cash flow in the <br> company / Eliminated the bank <br> overdraft / Reduced the loan / To buy <br> additional assets to improve <br> efficiency $\checkmark$ |
| Decision 2 (with figures) | Explanation of benefit to company |
| Fixed assets purchased $\checkmark$ <br> (R400 000 or R314 000 $\checkmark$ ) <br> OR <br> Fixed assets sold (R86 000) | Improves the operating efficiency / <br> leads to future gains $\checkmark$ <br> OR <br> Improves cash flow or could improve <br> efficiency |


| TOTAL |
| :---: |
| MARKS |
|  |
| 60 |

## QUESTION 5

5.1 Complete the following sentences by filling in the missing word(s). Write only the word(s) next to the question number (5.1.1-5.1.3).

### 5.1.1 The main purpose of preparing the Cash Budget is ...

Expected responses: Any valid answer with future implications $\checkmark \checkmark$
To plan
To predict cash flows/determine receipts \& payments for the future To control cash
Note: Do not accept reference to Income and Expenditure

5.1.2 ONE item in the Cash Budget that will not be reflected in a Projected Income Statement is ..
Any valid answer $\checkmark \checkmark$
Loan / Assets / Payments to creditors / Drawings
Receipts from debtors / Fixed deposits / Capital / Dividends


### 5.1.3 ONE item that will appear in a Projected Income Statement but not in a Cash Budget is

Any valid answer $\checkmark \checkmark$
Depreciation / Bad debts / Discount received and allowed
Profit/loss on sale of asset

5.2 Calculate the missing figures in the Debtors' Collection Schedule and the Cash Budget indicated by A to H :

|  | CALCULATION | ANSWER |
| :---: | :---: | :---: |
| A | 40\% x 300000 | All or nothing $\checkmark \checkmark 120000$ |
| B | $36000-1800$ $(20 \% \times 180000) \checkmark \times 95 \%$ OR ( $57000 / 300000 \times 180000): 2$ marks | Any one part correct $\checkmark 34200$ |
| C | If R63 000 more than $A+B$ | Operation $\checkmark 217200$ |
| D | $350000 \checkmark \times 40 \% \checkmark$ <br> OR 210000 (1 mark) / $60 \times 40$ ( 1 mark) OR 350000 (1 mark) - 210000 (1 mark) | Any one part correct $\checkmark 140000$ |
| E | $\begin{aligned} & (500000 \times 100 / 200) \\ & 250000 \checkmark \times 80 \% \checkmark \end{aligned}$ | Any one part correct $\checkmark 200000$ |
| F | $\begin{array}{\|cc\|} \hline(400000-40000) \times(12 \% \div 12) \\ 360000 \checkmark \times 1 \% \checkmark \\ \text { OR } 43200(1 \text { mark }) \div 12(1 \text { mark }) \\ \hline \end{array}$ | Any one part correct $\checkmark 3600$ |
| G | (R1 $300 \times 1,06: 2$ marks) (6 x R5 512: 3 marks) $6 \checkmark \times$ R1 $378 \checkmark \times 4$ weeks $\checkmark$ <br> OR R22 $048 \times 6 \div 4$ <br> 1 mark 1 mark 1 mark <br> OR R22 048 + 11024 <br> 1 mark 2 marks | Any one part correct $\checkmark$ R33 072 |
| H | $6758 \checkmark \times 100 \div 109$ OR $6758 \quad \div 1,09$ OR $6758-558$ $(6758 \times 9 \div 109)$ | Any one part correct $\checkmark 6200$ |

5.3 Explain what you would say to Peter about each of the following items at the end of November, and give ONE point of advice in EACH case:

|  | EXPLANATION | ADVICE |  |  |  |
| :--- | :--- | :--- | :---: | :---: | :---: |
| Telephone |  |  |  | Overspent/ <br> Under-budgeted/ <br> Not well controlled <br> Negative variance | Check private calls/ <br> Budget more realistically for <br> business calls |
| Sundry <br> expenses | Well budgeted/ <br> Well controlled <br> Nil variance / Same | Stick to the budget/ <br> Maintain this in future/Keep it up <br> Try to reduce in future |  |  |  |
| Rent income | Received less than budgeted// <br> Not well controlled <br> Negative variance | Investigate payment by tenant/ <br> Keep property occupied <br> Employ debt collector <br> Budget more realistically |  |  |  |

In order to increase sales and the number of customers, Peter intends to advertise that credit limits for all credit customers will be increased to R35 000 and that new customers are welcome to open accounts during April.

Give THREE points of advice to Peter in this regard.
Any THREE separate valid points $\checkmark \checkmark$
Good answer = 2 marks; part answer = 1 mark
Expected responses for 2 marks:

- Do not sell more on credit as this will worsen the overdraft ( $60 \%$ of his existing sales are already on credit, and 50\% settle after 30 days).
- He must screen debtors properly (e.g. pay slip / credit reference), not simply allow them to open accounts without checking ability to pay (contravention of consumer legislation).
- Only increase credit limits of customers who settle their debts promptly (preferably within 30 days).
- He must improve the rate of collections from debtors by offering discount $(50 \%$ of debtors settle after 30 days).
- He must improve the rate of collections from debtors by charging interest (50\% of debtors settle after 30 days).
- He must provide for additional administration costs (e.g. salaries of clerk, bad debts) to control the debtors.
- He must introduce more working capital into the business to finance the stock sold on credit (as the debtors will pay later).

Expected responses for 1 mark:

- Improve debtors collections
- Take precautions to prevent slow payers
- Provide for bad debts

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

## QUESTION 6

### 6.1 FIXED ASSETS

6.1.1 Calculate the missing figures indicated by $A, B$ and $C$ in the Fixed Asset Note:

|  | CALCULATION | ANSWER |
| :---: | :---: | :---: |
| A | R3 000000 - R2 100000 | $\begin{array}{lc} \hline & \text { All or nothing } \\ \checkmark \checkmark & \text { R900 } 000 \end{array}$ |
| B | $\begin{array}{ll} \hline \text { R112 } 000 \checkmark \checkmark \checkmark+\text { R54 } 000 \checkmark \checkmark \checkmark \\ 20 \% \times(780000-220000) & 360000 \times 20 \% \times 9 / 12 \end{array}$ | Any one part correct <br> マ R166 000 |
| C | If $B+220000$ | $\begin{array}{\|r\|} \hline \text { Operation } \\ \nabla \mathrm{R} 386000 \end{array}$ |

6.1.2

LEDGER OF ULWAZI LTD
ASSET DISPOSAL ACCOUNT

| $\begin{aligned} & 2013 \\ & \text { Jan } \end{aligned}$ | 31 | Equipment $\checkmark$ | $\checkmark 18000$ | $\begin{aligned} & 2013 \\ & \text { Jan } \end{aligned}$ | 31 | $\checkmark$ Accu depr on equipment <br> $6750 \checkmark+3750 v$ | One part of workings correct『10 500 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  |  |  | Bank $\checkmark$ | $\checkmark 800$ |
|  |  |  |  |  |  | Loss on disposal of asset $\checkmark$ | $\begin{aligned} & \text { Operation } \\ & \nabla \quad 6700 \end{aligned}$ |
|  |  |  | 18000 |  | May be a profit, depending on figures |  | 18000 |
|  |  |  |  |  |  |  |  |

6.1.3 You are the internal auditor. State TWO concerns that you would voice in respect of the fixed assets with the board of directors. Explain in EACH case why you are concerned.
Reason must correspond to the concern

| CONCERN Any TWO $\checkmark \checkmark$ | REASON Any TWO $\checkmark ~ \checkmark$ |
| :--- | :--- |
| Land and buildings were sold at <br> cost price | Should have been sold at its current <br> market value |
| Unreasonable purchase price for a <br> computer (R800) taken by CEO | A loss of R6 700 has been incurred $/$ <br> he should be charged the fair market <br> value / unethical |
| Nepotism shown by the CEO | Land and buildings were not sold at <br> its current market value / was not <br> advertised to public / Deal has been <br> finalised with his wife / Corruption |
| Land and buildings being used to <br> solve a cash flow problem | Land and building normally <br> appreciate in value (loss of possible <br> profits) |
| Vehicles were bought (R360 000) | These might not be necessary |

## $6.2 \quad 6.2 .1$


6.2.2 Calculation of mark-up percentage (\%) achieved on cost


Calculation of stock holding period (use average stock in your calculation)
See 6.2.1 must be added to 48000 to get the method mark
Award 2 marks for average stock if correct (see 6.2.1) even if as denominator.
79800
$\frac{1 / 2 \checkmark(\text { R48 } 000+R 111600 \vee)}{R 415500 \checkmark} \times \frac{365}{1}$
$=69,35$ days or 70 days or 2,3 months $\nabla$
Operation, one part correct, shown in days or months
6.2.3 The business aims at a mark-up of $30 \%$ on cost. As the internal auditor, what would you investigate? Explain. State TWO points.
See 6.2.2 above. Points below will depend on MU\% calculated.
Any TWO $\checkmark \checkmark \quad \checkmark \checkmark$ Good answer $=2$ marks; part answer = 1 mark

- Excessive trade discounts offered to customers
- Incorrect mark-up calculations
- Too many items sold at seasonal sales (discounts)
- Excessive stock on hand leading to clearance sales
- Theft of cash / stock
- Counter competitors' prices

OR:

- Will have to increase selling (marked) prices in future
- Buy in bulk
- Cheaper supplier
6.2.4 The stock holding period for 2012 was 30 days. Should Mohammed be satisfied with the stock holding period for 2013? Explain.
See 6.2.2 above. Points below will depend on stock period calculated.
Yes/No: $\checkmark$ Explanation: $\checkmark \checkmark$ Good answer $=2$ marks; part answer $=1$ mark
Explanation for NO:
- The stock holding period has increased (from 30 days to 70 days).
- This is not good as money is tied up in stock
- Stock might not be sold if it deteriorates
- More chance of stock theft

Explanation for YES:

- Stock levels too low in 2012 and now less likely to run out of stock
- Better prices through bulk purchases.


### 6.3 Identify ONE problem with regard to each shop, quoting figures in identifying each problem. In EACH case, advise Sizwe on how to solve

 the problem.
## SHOP 1: THANDEKA

Problem identified $\quad$ Printer being overused (70 000 copies). (with figures)

Problem $\checkmark$
Figure $\checkmark$
Maintenance becomes expensive (R4000).
R18 000 is missing from fees collected.

| Advice $\checkmark$ | $\begin{array}{l}\text { Printer needs to be replaced. } \\ \text { Needs to investigate reason for R18 } 000 \text { shortage in }\end{array}$ |
| :--- | :--- | fee income (disciplinary action might be necessary). Division of duties to prevent fraud.

SHOP 2: DLUDLU
Problem identified $\quad$ Ink and consumable items used (R19 500) is high. (with figures)
Problem $\checkmark$
Figure $\checkmark$
Advice $\checkmark$
Dludlu needs training in the use of the printer to minimise spoilt copies and reduce cost of ink and consumables.
Return printer to supplier if warranty still in operation. Repair the printer.
SHOP 3: SIPHO
Problem identified $\quad$ Low number of copies made. Not meeting capacity. (with figures)
Problem $\checkmark$
Figure $\checkmark$ New printer underutilised (20 000/50 000). Business is making very small profit (R2 400 or R1 234).
Advice $\checkmark$ Consider closing down this shop (after investigating why there is a low number of copies made, e.g. manager might be lazy, shop might be situated in poor location)
Advertise to increase sales.
Move the printer to Shop 1 / Swop printers.


