NATIONAL SENIOR CERTIFICATE EXAMINATION
MAY 2021

ACCOUNTING: PAPER II

MARKING GUIDELINES

Time: 2 hours | 100 marks

These marking guidelines are prepared for use by examiners and sub-examiners, all of whom are required to attend a standardisation meeting to ensure that the guidelines are consistently interpreted and applied in the marking of candidates' scripts.

The IEB will not enter into any discussions or correspondence about any marking guidelines. It is acknowledged that there may be different views about some matters of emphasis or detail in the guidelines. It is also recognised that, without the benefit of attendance at a standardisation meeting, there may be different interpretations of the application of the marking guidelines.

QUESTION 1 BUDGETS (36 minutes)

1.1 Explain the main reason for drawing up a Projected Income Statement.

- To plan for the income and expenses to see whether the business will be profitable.

1.2 Discuss what measure Edwin should have put in place when his Projected Income Statement showed a loss.

- He should have brainstormed how to increase his sales and decrease his expenses so that he would not have a loss.

1.3 Complete the missing amounts in the Cash Budget for Bon Appetit (Pty) Ltd for June 2021. (Show the calculations next to the account names.) Use May's budgeted amounts in your calculations, not the actual amounts.

Cash Budget for June 2021

Receipts	**Do not calculate**
Cash sales 398 400 × $\frac{3}{4}$ × $\frac{90}{100}$	268 920
Cash from debtors 398 400 ÷ 4 × 60% = 59 760 398 400 × 90% ÷ 4 × 40% = 35 856 ☑	95 616
Fixed deposit 1 900 × 12 × $\frac{100}{6}$	380 000
Interest on fixed deposit 1 900 × 24	45 600
Payments	**Do not calculate**
Payments to creditors (264 000 + 53 760) × 95%	301 872
Salaries	**50 000**
Waiters' wages 21 917 × $\frac{30}{31}$	21 210
Marketing	**32 000**
Rent expense 63 500 × $\frac{107}{100}$	67 945
Administration 7 900 + 1 450	9 350
Loan payment	**14 000**
Donations	5 000
Interest on overdraft	3 110
Cash surplus (deficit)	285 649
Bank balance on 1 June 2021	(81 305)
Bank balance on 30 June 2021	204 344

1.4 Edwin wants to get out of the restaurant business and is happy that the Cash Budget for June shows a surplus as he is sure that Bon Appetit (Pty) Ltd will be easier to sell if it has good cash flow.

1.4.1 Explain two of the main reasons why Bon Appetit (Pty) Ltd has a surplus, yet is trading at a loss.

- The fixed deposit will mature in June. It is not an income and does not affect the profit.
- Depreciation is an expense but is not cash so is not in the Cash Budget.
- (Cannot write food wastage as the food needs to be paid for.)

1.4.2 You are considering buying Bon Appetit (Pty) Ltd as an investment. Write down two areas that you will need to change so that Bon Appetit (Pty) Ltd can trade at a profit. Explain two solutions that you could implement in each area that will help Bon Appetit (Pty) Ltd to reach their goal of trading at a profit.

Area 1: Food wastage

- Make sure the cold chain for the food is not broken.
- Ensure the oldest food is cooked first.
- Research how much of each item sells so that unnecessary quantities of items are not bought.
- Ensure the fixed inventory level applies mainly to beverages and only the minimum of fresh foods.
- Do not allow the staff to take food home as they might order extra food on purpose or cook the fresh food or cook extra.

Area 2: Increase sales

- Increase marketing to increase sales.
- Open for lunches and advertise specials for lunches.
- Advertise as a venue for parties.
- Put in a TV and turn part of the restaurant into a pub for watching sport.

1.4.3 If you were to offer to purchase Bon Appetit (Pty) Ltd, write down the price that you would be prepared to offer Edwin for the business. Discuss two factors that you took into consideration to arrive at your purchase price.

R? – marks will go with the reasons

R2 510 000 is the book value of Bon Appetit.

- Could offer more than the book value since Bon Appetit has built up regular customers (goodwill)
- However, since Bon Appetit is trading at a loss the book value is going to decrease every month so Edwin is going to be losing value and will soon be in a cash deficit again. So could offer the book value without any higher amount for goodwill – or just below the book value.
- Since Edwin wants to get out of the restaurant business he is more likely to accept a lower price.

QUESTION 2 COMPANY ANALYSIS (54 minutes)

2.1 Study the Statement of Comprehensive Income and Note 1: Revenue, and then answer the following questions.

2.1.1 (a) Calculate the percentage increase in the registration and tuition fees for 2019.

- 31,84%

(b) Discuss a likely reason for this increase.

- More students due to having more institutions.

2.1.2 The operating expenses increased by 25,35% in total, with advertising and marketing increasing the most at 35,36% and then the staff costs at 32,88%.

(a) Discuss whether STADIO's management should be concerned with the operating expenses increasing by 25,35%. Give two reasons for your opinion.

No

- It is lower than the increase in the fees.
- It probably increased because of STADIO getting more institutions.

Yes

- Some of the expenses increased far more than the income.
  Max of 1 out of 2 for "Yes" as the correct answer is "No".

(b) Not only did the staff costs increase by 32,88%, but they are 63% of the total operating expenses, and by far the largest expense. Discuss whether it is reasonable, considering the nature of STADIO's business, for their staff costs to be their biggest expense. Explain the reason for your answer. Discuss one thing that STADIO could do to decrease the percentage staff costs **on operating costs**.

Is it reasonable?

- An educational institution exists because of the lecturers so the nature of the business is people based – it is reasonable.

How to decrease the staff costs:

- They could develop online education – this would make education available to more students but need less staff to run it.
- Make lecture venues fuller.

2.2 2.2.1 The external auditor wants to audit the staff costs. Explain why they would want to audit these.

- Staff costs are a material amount in the Statement of Comprehensive Income.

2.2.2 List two pieces of evidence that the auditor could use to audit the staff costs.

- Bank statement to see the amounts paid in salaries.
- Copies of the salary advices.
- Salaries Journal
- Verification of ID documents against payroll
- Random checks of staff in person to ID documents
- Proof of PAYE payment to SARS
- Proof of the UIF payment

2.2.3 Explain how the internal auditor could make the external auditor's job easier.

- The internal auditor is responsible for control systems and if these are in place then there is less chance of misappropriations, errors, etc.
- If the systems and processes are working well then there is less checking that the external auditors need to do.

2.3 Some investors do not look at depreciation when analysing whether a business will be a good investment, due to the non-cash nature of depreciation.

Discuss what depreciation represents, and why **it is important** to take this into consideration when analysing a business.

- Depreciation represents the useful life of an asset that was used up during the financial year.
- Depreciation is a portion of a huge cash outlay that will be needed when the asset is replaced.

2.4 After the Fees Must Fall protests there was pressure on universities not to increase the student fees and provide free education to those students who fall into the poor and middle economic classes.

2.4.1 A few shareholders expressed concern about STADIO's profitability and their returns should STADIO be forced to offer free education to qualifying students.

By drawing on the concepts of the triple bottom line, provide a solid counter argument as to why STADIO should offer free education to some students.

- It is best for the community and for South Africa if more people have an education and can contribute to the economy.

2.4.2 Discuss one possible **non-financial** consequence of offering free education to some students.

- The selection process could be challenged by disgruntled students who were not selected.
- They would not be able to adequately educate as many students, affecting the overall employability of the community.

2.4.3 Suggest how STADIO could raise funds if they were to offer free education to more students.

- Get companies to offer bursaries to individual students.
- Cannot accept capital and loan.

2.5 Study point B of the Extracts from the directors' report.

2.5.1 Write down the name of the Accounting principle that this sentence describes.

- Going concern

2.5.2 Name the ratio that is used to test this principle.

- Solvency ratio

2.5.3 Calculate the ratio referred to in Question 2.5.2 for 2019 and comment on whether you agree with the directors' statement that they can continue for the foreseeable future.

- 2 066 659 : (291 863 + 191 498)
- 2 066 659 : 483 361
- 4,28 : 1
  - Yes, they have no risk of going insolvent / they can continue.

2.6 2.6.1 Show how the acid-test ratio is calculated to be 1,15 : 1 at year-end 2019.

222 115 – 2 132 : 191 498

2.6.2 Explain why there is only a 0,01% difference between the acid-test ratio and the current ratio. Discuss why this is so, and whether this would be a problem.

- STADIO is not a trading enterprise, therefore they do not have large amounts of stock.
- This is not a problem.

2.6.3 The current ratio has dropped by 1,5 since 2018. Provide a reason for the decrease in the ratio and explain whether STADIO will experience liquidity problems.

- The cash and cash equivalents have dropped leading to a drop in the current assets, while the current liabilities have increased.
- The current assets are still higher than the current liabilities so STADIO should be able to pay off their current liabilities.

2.7 2.7.1 Calculate STADIO's debt-to-equity ratio if they were to draw on the whole of Standard Bank's revolving credit facility. (See point C in the Extracts from the directors' report.)

- 291 863 + (200 000 – 65 000) : 1 583 298
  426 863 : 1 583 298
  0,27 : 1

2.7.2 Would it be good business practice on STADIO's part to make use of the full R200 million loan? Clearly state the reason for your answer.

- STADIO is negatively geared (4,46% ROCE compared to 9% interest on loan) so they should not make use of the full loan of R2 million.

2.7.3 Explain under what circumstance STADIO could make use of the full loan.

- STADIO could make use of the loan if their expansion led to an increase in profit and return.

2.8 Refer to the graph in the Information Booklet.

2.8.1 Discuss why the share price may have peaked when STADIO first listed on the JSE.

- People were optimistic about STADIO's performance.

2.8.2 By March 2020 STADIO Holdings' share price dropped 72% on the JSE and was trading at 163 cents per share. Explain why current shareholders might want to sell their shares.

- They may feel that the share price will keep dropping.
- The shareholders might be concerned with the Fees Must Fall protests.

2.8.3 A resolution was passed for the company to repurchase its shares (see point A from the Extract from the directors' report).

(a) Calculate the NAV.

- 1 583 298 / 818 095 = 193,53 cents (or 194 cents)

(b) Write down two advantages of a share buy-back.

- Increases the EPS, DPS, ROCE, ROSE
- The business will not need to pay as many dividends even if the DPS remains the same.
- Can increase the market value of the share price.

(c) Buying back shares is seen as a company investing in itself. With reference to the financial indicators, explain whether it would be a good investment decision for STADIO to buy back their own shares.

- The NAV is 198 cents and the market value is under 163 cents. By buying back their shares they limit the number in circulation thereby increasing demand and limiting supply. It may drive the share price up in the market and entice shareholders. The market value indicates that the shares may be under-valued on the JSE or over-valued by the company.

QUESTION 3 RECONCILIATIONS (30 minutes)

Study the information given in the Information Booklet and then answer the following questions.

3.1 On 28 February 2021 Ndeme noticed that the balance in the Debtors Control account was different to the total of the Debtors List.

3.1.1 Explain why the balance of the Debtors Control account and the total of the Debtors List should balance.

- The Debtors Control account is a summary of all the debtors transactions.
- All the individual transactions are posted to the Debtors Ledger and added up in the list. So every transaction is in both places.

3.1.2 Show the journal entry to correct the first mistake. (The narration may be omitted.)

Details	F	Debit	Credit	Debtors Control	
				Debit	Credit
Pete Parker		4 270		4 270	
Pete Powel			4 270		4 270

1 Mark for knowing which account must be debited and credited
1 Mark for filling in the columns correctly

3.1.3 Make the corrections of adjustment numbers 2 to 6 by entering them into the appropriate columns.

	Debtors Control	Debtors List
Incorrect balance on 28 February	42 640	48 490
2)	(3 000)	
3)	(360)	(360)
4)	270	270
5)		(550)
6)	8 300	
	Do not calculate	**Do not calculate**

3.2 3.2.1 Complete the Debtors Age Analysis as it should be shown at the bottom of the statement, using all the figures shown on the statement.

90 Days	60 Days	30 Days	Current
15 700 + 16 680 – 9 291 – 489 = 22 600	12 560 – 1 230	9 780 + 118	15 620 + 452

3.2.2 There is an error on the statement. Identify the mistake and explain this error.

- Discount should not have been granted as there was still debt outstanding from 2 months previously.

3.2.3 The Tool Shed has come to the realisation that interest is not an effective way of getting their debtors to pay.

- Discuss a reason why you agree or disagree with this.
- Explain a **new**, alternative method The Tool Shed can use to ensure that Plaster Master pays within 60 days of the statement date.

Reason:

- They still have outstanding debt at 90 days. The amount of interest is not enough of a deterrent.
- Plaster Master owes more at the end of every month than they did in the month before.

Alternative method:

- Any method that is not discount or interest, e.g. give free products if they pay within the allotted time, or freeze their account after 60 days.

3.3 Plaster Master complained that they paid another R10 000 by cheque towards their debt so they should not have been charged interest. This cheque did not appear on their statement. Ndeme found the cheque. It was dated 15 March 2021.

3.3.1 Explain to Plaster Master when this cheque will appear on their statement and where this cheque should be at the moment.

- This cheque will appear on their statement on 15 March 2021.
- It should be in a safe at the moment.

3.3.2 Write down in which column on the bank statement (debit/credit) the R10 000 will appear once it has been deposited.

- The credit column.

Total: 100 marks