NATIONAL SENIOR CERTIFICATE EXAMINATION
MAY 2022

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 (34 marks; 41 minutes)

1.1 *Discuss how drawing up a Cash Budget might help with controlling a bank overdraft.*

- It is a plan, ✓ so a person can see if it is a good plan, or whether the plan is going to lead to an overdraft.
- Can then change the plan ✓ – solve problems before they occur.

(2)

1.2 *Write down two items that are erroneously listed in the budget.*

- Loss on fresh produce ✓
- Bad debts ✓

(2)

1.3 *Calculate the missing amounts denoted by the letters A–H. Show your calculations on the appropriate line.*

A	211 200 × 20/80 = 52 800 ✓
B	45 760 × 100/20 ✓ × 100/220 ✓ × 100/80 ✓ × 70% ✓ = 91 000
C	105 000 × 30/70 × 92/100 = 41 400 ✓✓
D	105 000 × 100/70 × 20/100 = 30 000 ✓✓
E	23 100 × 100/105 = 22 000 ✓
F	5 500 + 500 = 6 000 ✓
G	0 ✓
H	20 000 ✓

(13)

1.4 *Complete the Debtors Collection Schedule.*

Debtors Collection Schedule for the months July and August 2022.

	Credit sales	July	August
May	**147 840**	**66 528**	–
June	✓ 172 580	**51 774**	45% ☑ 77 661
July	**211 200**	**21 120**	✓ 63 360
August	✓ 183 040	–	10% ☑ 18 304

(5)

1.5 *Calculate the bad debts for August 2022.*

147 840 ✓ × 15/100 ✓ = 22 176
OR
147 840 – 14 784 – 44 352 – 66 528 = 22 176

(2)

1.6 *Write down three main contributing factors to Blinkmiss General Dealers' liquidity problems.*

- Only 20% of the sales are cash sales. ✓
- 70% of the trading stock is bought with cash. ✓
- 33⅓% of stock is not sold, but written off monthly. ✓
- 15% of debtors are written off as bad debts.
- Sizwe's drawings of R20 000 p.m.

(3)

1.7 *Discuss two controls Sizwe can implement to minimise the loss on the fresh produce. (Write enough for 2 marks each.)*

- Sizwe should buy from producers that refrigerate ✓ the fresh produce immediately after picking and maintain the cold chain. He should only accept items of good quality. ✓
- The fresh produce should be bought regularly, i.e. small amounts ✓ on a regular basis and not one big batch for the month, so that it does not overripen on their shelves. ✓
- Sizwe should see what is not being sold and cut down on these products, or see if one particular item is going off quickly.
- He could make jam or alternative products from the fruit that is overripe.

(4)

1.8 *Sizwe does not have a proper recording system for his fresh produce. Would you recommend the perpetual or periodic stock system to Sizwe? Discuss two reasons for your recommendation.*

- Periodic ✓
- The fresh produce is bought from local residents, markets and farmers. It will not come out with bar codes. ✓
- Since the fresh produce is bought from many different suppliers, the price will probably fluctuate making it time consuming to record the new cost price every time. ✓
- May sell large quantities of small items. Much easier to calculate the cost of sales at the end of the period than to try and record the cost of every item sold.

Must be periodic. So if they say perpetual then they can only get marks for the reasons – so 2/3.

(3)

34 marks

QUESTION 2 COMPANY ANALYSIS (41 marks; 49 minutes)

Read the information on Tongaat Hulett Ltd on pages iii–v of the Information Booklet and answer the following questions:

2.1 2.1.1 *Write down which accounting principles the directors of Tongaat violated when they did the following:*

- They recognised revenue in earlier accounting periods.
  - Matching/accrual principle ✓
- They capitalised expenses to the assets.
  - Prudence ✓

(2)

2.1.2 *Tongaat has now outsourced its internal audit to KPMG. Write down how this differs from the normal internal auditors. Explain two advantages for Tongaat in outsourcing their internal audit to an auditing firm.*

Difference:

- Internal auditors are normally employees of the company. ✓

Advantages:

- KPMG are (hopefully) trustworthy as they were not part of the fraud. ✓
- They will bring a fresh (and experienced) perspective to looking at the processes and systems. ✓
- They are impartial.

(3)

2.1.3 *The King Code gives guidelines for corporate governance. Explain what corporate governance is and how the former CEO, Peter Staude, did not conduct himself according to the King Code.*

- Corporate governance is about managing in an ethical way. ✓
- Peter Staude did not act in the best interest of the company or the shareholders, but did what was best for himself. Not ethical. ✓

(2)

2.1.4 *Read the last extract on page iii of the Information Booklet that begins with 'In section 29(6) of the new Companies Act 2008'. Discuss* ***in detail*** *whether you think Peter Staude should be criminally charged.*

- The directors are responsible for the financial statements.
- Plus he was responsible for the fraud.
- He therefore knew that the financial statements were not a fair reflection of the assets, expenses or income of Tongaat.
- He should be criminally charged since he committed fraud.
- The fraud he and the other directors committed is material since it inflated the assets by R4,5 billion – about 25%.

Marked according to their understanding that Peter Staude was responsible ✓ for the fraud because he was the CEO, ✓ and that the fraud was material. ✓

(3)

2.2 *Discuss whether Tongaat's profitability has improved. In your discussion, you need to mention at least five different points and provide at least one calculation explaining one of your points. (The calculation must not be one that was given to you in the Information Booklet.)*

- The cost of sales decreased ✓ (possibly sold less).
- But sales improved by 16,8% due to the mark-up nearly doubling. ✓
- The operating expenses were controlled well ✓ (8,27% increase vs sales increase of 16,8%), or 8,27% increase above inflation.
- This led to the operating profit increasing by 284%. ✓
- There was an increase of 27,2% in finance costs. ✓
- Even though there was a loss from the Zimbabwe operations of R1,296 billion, Tongaat still increased their net profit to R530 million from a loss of R792 million in 2019. ✓
- Overall the profitability has improved.
- Calculation ✓

To get all 6 marks they must have mentioned the main areas of the increase in mark-up and sales, plus net profit. They must have one calculation.

(6)

2.3 2.3.1 *Calculate the current assets for **2019.*** ***R'million***

15 550 ✓ × 0,52 ✓ = 8 086

(2)

2.3.2 *Write down the **main** reason that Tongaat has a low current ratio, and then explain in detail whether you think that Tongaat will be able to pay off their current debts or not.*

Very large current borrowings. ✓

- Probably not: Even if they sell all their inventory it will not even cover half of their borrowings. ✓✓
- The inventory will probably take a while to sell as some of it is still in the form of plants that must first be harvested before the sugar can be produced and sold.
- Their debtors are less than half their creditors so even if all their debtors pay, it will not cover their creditors.

(3)

2.3.3 *Study Tongaat's turnover rate. Write down one stock item that contributes to a low stock turnover rate, and one item that contributes to a high stock turnover rate. Then explain whether or not this is a suitable rate for them.*

- Low rate: sugar cane ✓
- High rate: the processed sugar/sugar items ✓
- Is it suitable? Yes, the sugar cane is on hand from the time it starts growing, until it has been harvested and processed into sugar products. This takes a long time before it can be sold. ✓

(3)

2.4 2.4.1 *Calculate the solvency ratio for **2020** and comment on Tongaat's solvency.*

18 148 : 19 743
0.92 : 1 ✓

They are not solvent. ✓ Their liabilities are bigger than their assets.

(2)

2.4.2 *Discuss why their creditors and the banks would want Tongaat to carry on trading in these circumstances. In your discussion, mention two consequences of Tongaat closing down.*

- Closing down would increase South Africa's unemployment. ✓
- Lose their investment in Tongaat/lose the interest they are earning on borrowings. ✓
- Creditors would like to continue doing business so they do not lose a big customer.

(2)

2.5 2.5.1 *Show, by doing a calculation, how the Return on Capital Employed for **2019** could be 97,57% while Tongaat made a loss for 2019.*

$$\frac{(333)\checkmark + 1\,478\checkmark}{[(2\,972) + 2\,463\checkmark + 62 + 2\,794\checkmark] \times \frac{1}{2}} \times 100$$

(4)

2.5.2 *Tongaat has a return on capital employed for 2020 of 43%. This means that they are positively geared. Explain, by providing a reason, whether Tongaat should be taking out loans.*

- They should not. ✓
- They have negative equity, are not solvent, and are an extremely high risk. ✓

(2)

2.5.3 *On 21 February 2020, Tongaat announced that they had concluded an agreement to sell 64 hectares of their property in Umhlanga Rocks. Comment on the effect that this announcement had on the share price, and explain why this announcement had this effect.*

- The share price increased rapidly, ✓ to about five times what it had been.
- It changed from decreasing to rapidly increasing.
- More people wanted to buy shares so the demand increased. ✓ They might have felt that it was a good decision as it would have a positive impact on the liquidity and solvency ratios, making Tongaat a better investment.

(2)

2.5.4 *Tongaat did not declare dividends for 2020. Discuss, by providing two points, whether this was the correct decision or not.*

Correct decision: Yes / No

- They had bad liquidity/cash flow problems. ✓
- They had solvency issues. ✓
- They needed to retain earnings to recover.
- They had negative equity.

(2)

2.5.5 *Over the past three years the share price lost 94% of its value. There are investment companies who own large numbers of Tongaat shares. Would you advise them to sell their shares or retain them? Discuss three reasons for your opinion.*

Retain:
- Share price grew 55% over one year ✓
- Outside help in the form of KPMG ✓
- Made a profit in 2020, so improving their profitability ✓

(3)

41 marks

QUESTION 3 RECONCILIATIONS (25 marks; 30 minutes)

3.1 *Use the amounts given on the statement from Furniture Co. to show how the 90 days block was calculated in the Debtors Age Analysis. Do not take the adjustments into account. Show the complete calculation.*

90 days
36 800 ✓ – 20 000 ✓ – 2 944 ✓ – 8 800 ✓ – 5 056 = 0 ☑

(5)

3.2 *Taking into consideration the differences, prepare the Creditors Reconciliation and calculate the correct amount owed by/to Elegance on 30 April 2022.*

Creditors Reconciliation on 30 April 2022

Incorrect balance	✓ 12 006
Incorrect discount given	✓ 1 344
Invoice 43	✓ (36 200)
Trade discount omitted	✓ (950)
Credit note 6	✓ (450)
EFT	✓ (20 000)
Discount	✓ (1 600)
Correct amount owed **to** Elegance	☑ (45 850)

(8)

3.3 *Study the terms that Furniture Co. grants Elegance. Explain, by providing a reason, whether you think these terms are satisfactory or not. Now examine the manner in which Elegance is paying their creditors. Write down one piece of advice to Elegance regarding these payments and explain why you have given this advice.*

Satisfactory

- They can obviously pay within three months since they are paying even sooner than this. ✓
- It gives them more time to collect money from their debtors.
- Could negotiate for a longer period as their debtors take eight months to pay.

Advice: They are paying too soon – only pay at the end of 90 days. ✓

Reason:

- They get discount before 90 days so there is no reason to pay quickly. ✓
- It is better for liquidity to delay the payments.
- They do not earn interest on the extra money that they pay, so if they have extra cash available, it would be better to invest it.
- Delaying the payments will mean that they can collect more money from the debtors.

(3)

3.4 3.4.1 *Sally, a customer, bought a couch for R12 000 on Elegance's credit facility. Calculate the amount of her monthly debit order should she accept the credit facility.*

R1 800 ✓

(1)

3.4.2 *Discuss **three** benefits that Elegance might gain by offering this credit facility.*

- They make an extra 20% profit on the selling price. ✓
- A debit order is more secure than relying on a customer's goodwill to pay via EFT. ✓
- Elegance is paid equal amounts every month – the customer is not waiting for the last minute to pay the whole amount. ✓
- Elegance collects set amounts so they can budget on this.

(3)

3.5 *Jayshree is under the impression that if a debtor signs a debit order there is no reason to do a credit check on that potential debtor.*

3.5.1 *Discuss why Jayshree should always do a credit check on every debtor even though they sign a debit order.*

- If they have a bad payment history, ✓ then there is a good chance that they will not have enough money in their bank account and the debit order will bounce. ✓

(2)

3.5.2 *Part of a credit check is to examine three months' bank statements from the debtor. Explain how examining a bank statement would be helpful in a credit check.*

- The bank statement will show how the potential debtor works with his money. Whether they spend it all in the first week, whether they go into overdraft, and what they spend their money on. ✓

(1)

3.6 *A deposit of R800 from debtor S Sonny was erroneously recorded in the account of K Sonny. Show how this error should be corrected in the General Journal.*

General Journal of Elegance – April 2022

Doc No	Day	Details	Fol	Debit	Credit	Debtors control	
						Debit	Credit
JV1	30	K Sonny	✓	800		800	
		S Sonny	✓		800		800

The marks are for knowing the K Sonny must be debited, and S Sonny credited.

(2)

25 marks

Total: 100 marks