NATIONAL SENIOR CERTIFICATE EXAMINATION
MAY 2023

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

This question consists of two parts, Part A and Part B. The two parts must be seen independently of each other.

Part A

Refer to the information relating to Tshwane Traders.

1.1 Complete the Debtors Collection Schedule below.

	Credit sales	March 2023	April 2023
February 2023	1 080 000	594 000	-
March 2023	1 260 000	483 840 ☑ LOOK × 0,4 × 0,96	693 000 ☑ LOOK × 0,55
April 2023	1 650 000	-	633 600

Calculations:

1.2 Calculate the amount of bad debts to be written off on **30 April 2023**.

1 080 000 × 5% = 54 000

1.3 Complete the extract of the Cash Budget below.
Use the space provided to show appropriate calculations.

Extract from the Cash Budget of Tshwane Traders		
	March 2023	**April 2023**
Receipts		
Cash Sales	2 940 000	3 850 000
Cash receipts from debtors		
Rent	55 000	0
Payments		
Cash purchases of stock	1 918 800	2 719 800 SEE BELOW
Payments to creditors	541 500	533 000 SEE BELOW
Drawings	40 000	40 000
Rates and taxes	70 000	105 000

Calculations of cash purchases: 3 437 500 + 300 000 + 40 000 × 0,8 × 0,9 = 2 719 800
Calculation of payment to creditors: 2 625 000 + 40 000 = 2 665 000 × 0,2 = 533 000 OR 1 918 800 × 100/90 x 100/80 = 2 665 000 × 0,2 = 533 000
Other calculations: Rent for March was already received in Feb. April rent was received in March. Thus no payment in April Rates for Feb is outstanding and will be paid in March, together with March.

1.4 Provide the following amounts as they would appear on the Projected Statement of Comprehensive Income:

1.4.1 Discount allowed for March 2023.

1 260 000 × 0,4 = 504 000 × 4% = 20 160 ☑ See 1.1

1.4.2 Rent income for March 2023.

50 000

Part B

Refer to the information relating to Sawubona Stores.

Study the Cash Budget of Sawubona Stores for April and May 2023, together with the actual results achieved for April and May 2023 to answer the questions that follow.

Note: All goods are sold for cash and all goods are purchased on credit.

1.5 Explain the importance of comparing the budgeted figures with the actual figures achieved for the same period.

To identify variances and tighten controls

1.6 The owner is of the opinion that the accountant of Sawubona Stores did a good job controlling the budget for **May 2023**. By comparing the actual to the budgeted figures for May 2023, comment on how efficiently the budget was controlled.

Quote TWO figures from the given information to substantiate this viewpoint.

• Office stationery down R6 000 (20 000 vs 14 000)
• Other expenses down R18 000 (100 000 vs 82 000)

1.7 By what percentage did the actual cash sales for April 2023 exceed the amount budgeted for the same period?

(960 000 – 600 000 = 360 000) / 600 000 × 100 = 60%

1.8 Sawubona Stores operate with a fixed base level of stock and they add a 50% profit mark-up on cost price to all goods sold. All stock is purchased on credit and paid in full at the end of the month in which it was purchased. No stock was donated or taken by the owner.

1.8.1 Did they maintain the fixed-base level of stock? Supply an appropriate calculation to support your choice.

☐ Yes, they maintained it ☒ No, they did not maintain it

Calculation: Apr: 960 000 × 100/150 = 640 000 yet only R500 000 paid OR May: 480 000 × 100/150 = 320 000 yet only R300 000 paid

1.8.2 Supply TWO consequences of **not** maintaining a fixed base of stock and indicate the effect this could have on the profit earnings of the business.

•	Could result in too little stock with stockouts occurring
	This will result in loss of sales (which reduces profits)
•	Could result in additional costs (storage, insurance) if levels are too high
	These additional charges increase operating expenses (which reduces profits)

1.9 Would the **shop assistants** be satisfied with their April **and** May 2023 salary payments?

☒ Yes ☐ No

Quote appropriate figures to substantiate your choice above

April:
Paid 1 ½ times their salary
Probably paid a bonus as it is the end of the financial year
May:
Received a 10% increase
Probable increase due to start of new financial year

OR

☐ Yes ☒ No

Quote appropriate figures to substantiate your choice above

April:
Managers received a 100% bonus and assistants only 40%
May:
Managers received 30% increase and assistants only 10%

QUESTION 2 COMPANY ANALYSIS

Refer to the information relating to Aspen Pharmacare Holdings Ltd.

2.1 Calculate the mark-up percentage achieved in **2021**.

17 789 / 19 977 × 100 = 89,05%

2.2 Even though the gross profit increased by 3,8% year on year, the trading statement shows that there is cause for concern in the future.

Show, by explaining TWO different figures/ratios or percentages that the above statement is true.

• Even though revenue increased by 12,2%, cost of sales increased by 20,9%. The cost is increasing faster than the revenue is. explanation figures
• Mark-up decreased from 103,7% to 89,0%. If suppliers remained constant, this is reason for concern. Must be investigated. explanation figures

2.3 Identify and quote the TWO most significant reasons why the **profit before tax** increased by 9,4%.

• Operating income increased by 107,2%
• Financing cost and interest paid decreased by 27,5%

2.4 Refer to the additional bullets underneath the Statement of Financial Position in Information B and the financial indicators in Information C.

2.4.1 A friend of yours is of the opinion that Aspen depreciates their assets using the cost method because when they then sell any of their assets for a good price, they will show larger profits on sale of assets.

Provide sound reasoning why the cost method of depreciation could assist to show larger profits on sale of assets (as opposed to other depreciation methods).

Cost method reduces the value of an asset faster than on carrying value, reducing the book value quicker.
If value of assets are decreased faster, the profit on sale of assets would be more

2.4.2 Which GAAP principle allows for depreciation of assets?

Prudence / Matching

2.4.3 The external auditors are bound to investigate the sale of assets as part of their annual audit process. What piece of audit evidence would they look at to verify that the property has been recorded at the historical cost?

Title deeds Original sales contract Bond contract/statement Rates and taxes statement

2.4.4 Classify the following scenario as either a preventative, corrective or detective internal control measure:

No asset may be removed from the asset register without the appropriate signature of a director.

Preventative

2.4.5 The external auditors were paid R57 million for the 2021 audit.

Critics feel that because they are paid such a high fee, auditors might be less objective and be inclined to ignore issues of concern present in the Financial Statements.

Provide ONE reason why you do **not** agree with this statement.

• Their code demands that they are objective and professional, and should they look the other way, they may be charged criminally and debarred
• The audit company is paid the R57 million, not the employees doing the audit (they get paid a salary)
• Only amounts to 1,5% of revenue thus acceptable

2.5 Provide TWO reasons why Aspen would use the first-in-first out method to cost inventory rather than the weighted average method.

• Medicines have expiry dates.
• Selling the oldest ones first will reduce stock losses for obsolete or expired stocks.

2.6 How long will Aspen's **closing stock** last?

Closing inventories / Cost of sales x 365	
13 409 / 19 977 × 365	OR × 12
244,99 or 245 days	= 8,05 months

2.7 Calculate the Net Asset Value as at 30 June 2021.

Total equity / No of shares in issue		
65 627 000 000 / 597 000 000	OR	65 627 / 597
= R109,93		= R109,93

2.8 A friend offers to buy your Aspen shares from you on 30 June 2021 for R140 per share. Would you accept his offer? Substantiate your answer with reasons.

☐ Yes ☐ No (SEE OPTIONS BELOW)

If YES (max 1):
• Offer of R140 is R30,07 higher than the book value (NAV) of the shares
If NO (max 3):
• Even though the offer of R140 is higher than the NAV of R109,93 it only indicates a book value. Compare to book value
• Shares are trading for R162,09 on the JSE (where shares are traded). Compare to trade value
• You would be losing R22,09 per share conclusion

2.9 Calculate the return on shareholders' equity of Aspen for **2021** and comment on the result.

Calculation: (3 marks) Net profit after tax / Average shareholders' equity 4 806 / 0,5 (65 627 + 69 217) × 100 / 1 4 806 / 67 422 × 100 / 1 7,13%
Comment: (2 marks)
Return decreased by 2,3%
Still a reasonable rate compared to alternate investments

2.10 On 30 June 2021 Aspen was lowly geared.

Calculate the risk associated with Aspen at this date.

Debt : Equity 7 306 : 65 627 0,11 : 1

2.11 2.11.1 Calculate earnings per share for **2021**.

Net profit after tax / number of shares in issue	
4 806 000 000 / 597 000 000 OR	4 806 / 597
= 805,03 cents	= 805,03 cents

2.11.2 As a shareholder, would you be satisfied with the dividend you received in 2021? Explain your reasoning.

☐ Yes ☐ No (SEE OPTIONS BELOW)

IF NO:
Of the 805,03 cents available for distribution, only 262,80 cents (32,6%) were paid out in dividends (Comparing EPS to DPS)
542,23 cents (67,4%) were retained by the business
In 2020 no dividends were paid out of the 777,3 cents earned
IF YES:
Of the 805,03 cents available for distribution, 542,35 cents were retained
By the business due to uncertain economic times
In 2020 no dividends were paid out of the 777,3 cents earned
Instead of withholding all the profit, some dividends were paid out to keep shareholders happy

2.12 Study the following extract (adapted) from the Director's Report for 2021.

After concluding the 2021 financial year above, the company renegotiated with credit suppliers that R21 000 million of the loans that would have been repayable in the 2022 financial year, would now only be repaid in the 2023 financial year.

2.12.1 If the negotiations were concluded before the end of the 2021 financial year, how would it have affected the Statement of Financial Position on 30 June 2021?

R21 000 million would be deducted from current liabilities and added to non-current liabilities
(Accept move from current to non-current)

2.12.2 Calculate what the average return on total capital employed would have been on 30 June 2021 **if the negotiations above were concluded in time**.

Calculation of Average Capital Employed:
= 0,5 [(65 627 + 69 217) + (7 306 + 45 873) + 21 000)]
= 0,5 [134 844 + 53 179 + 21 000]
= 0,5 [209 023]
= 104 511,50

Net profit before tax + interest expense / Average capital employed

= 5 997 + 1 223 / 104 511,50 × 100 / 1
= 7 220/ 104 511,50 × 100 / 1
= 6,91%

QUESTION 3 RECONCILIATIONS [19 marks; 23 minutes]

Refer to the information relating to GP Tool Distributors.

This question consists of two parts, Part A and Part B.

Part A [5 marks; 6 minutes]

3.1 Complete the Creditor's Reconciliation for February 2023 using the table below.

Details and calculations	Creditor's Ledger	Creditor's Reconciliation
Balance	1 547 600	1 391 000
(a) 161 000 – 116 000	(45 000)	
(b) Discount omitted	(24 000)	
(c) 88 400 – 84 000		(4 400)
(d) 2 × 256 000		512 000
(e) Payment omitted		(420 000)
	DO NOT TOTAL	

Part B [14 marks; 17 minutes]

3.2 Complete the Debtors Age Analysis for Builder's Warehouse for February 2023.
Do not total the age analysis columns.

60+ days	30+ days	Current
1 215 000 (824 500) (390 500)	243 600 679 850 (14 230) (30 250) (8 415) (2 525) (243 750)	187 240

3.3 The owner has studied the information in Part A and Part B, together with an email he received from SARS and approached you for advice on the following issues:

3.3.1 Despite the lucrative contract to supply Builder's Warehouse **after** a 100% mark-up has been applied on the stock purchased from Adendorff Machinery Mart, GP Tool Distributors **still** experiences cash flow problems from time to time when they purchase stock.

Analyse and comment on the liquidity cycle of GP Tool Distributors in relation to the debtors and creditors. Use figures/percentages/facts provided to substantiate your findings.

Creditors are paid within 30 days after purchase
Debtors are given 60 days to settle debts
Negative cash flow as money from debtors are coming in slower than money paid to creditors.

3.3.2 Based on your findings in Question 3.3.1, what advice do you have for the owner of GP Tool Distributors to improve their cash flow? Provide TWO suggestions.

Any 2 suggestions × each
Delay payment of creditors to 60 days
Take on more contracts/customers
Promote cash sales
Shorten the debtor's collection to 30 days
Accept other viable suggestions based on their answer in 3.3.1

3.3.3 The email the owner received from SARS stated that GP Tool Distributors should have registered for VAT months ago. The owner does not want to, claiming it is going to reduce his profit because he must now pay money to SARS.

Provide the reason why SARS insists he should have registered for VAT already.

Turnover exceeds R1 000 000 in period December to February alone

Explain why the owner's reasoning is incorrect and why registering as a VAT vendor will not reduce his profits.

VAT is added onto the price after mark-up, thus does not affect it

Total: 100 marks