NATIONAL SENIOR CERTIFICATE EXAMINATION
MAY 2024

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

Refer to the information relating to La Meme (Pty) Ltd.

1.1 Determine the debtor's collection policy by calculating all **relevant percentages**. Show your workings.

Same month as the sale:
$\frac{551\,250 + 11\,250}{1\,125\,000} \times \frac{100}{1} = 50\%$ Discount: $\frac{11\,250}{1\,125\,000 \times 50\% = 562\,500} \times \frac{100}{1} = 2\%$
One month after the sale:
$\frac{337\,500}{1\,125\,000} \times \frac{100}{1} = 30\%$
Two months after the sale:
Not required to be calculated.
Bad debts:
$\frac{56\,250}{1\,125\,000} \times \frac{100}{1} = 5\%$ OR $100 - 50 - 30 - 15$

1.2 Provide TWO suggestions how La Meme (Pty) Ltd can reduce their bad debts.

• Screen their debtors better
• Send reminder to debtors falling behind
• Extend period after 60 days before writing them off
Other viable suggestions

1.3 Use the additional information supplied to complete the extract of the Cash Budget and the extract of the Projected Statement of Comprehensive Income for the period 1 September 2024 to 30 November 2024.

Note: Transactions that indicate a payment or expense must be bracketed.
Salaries have been entered for you.

	Cash Budget			Projected Statement of Comprehensive Income		
	Sep 2024 R	**Oct 2024 R**	**Nov 2024 R**	**Sep 2024 R**	**Oct 2024 R**	**Nov 2024 R**
Salaries	(300 000)	(300 000)	(327 000)	(300 000)	(300 000)	(327 000)
Delivery vehicle		(10 000)	(10 000)		Max –1 if entry made	
Depreciation		Max –1 if entry made			(5 000)	(5 000)
Rent income			150 000		75 000	75 000

1.4 Refer to the salaries line provided in Question 1.3 above. Workers received a 9% salary increase which is higher than inflation. Yet, on a survey sent out to staff, they indicated that staff morale (how your employees feel about their work environment and their role in it) is very low and they feel there should be more benefits. From extract C it is clear that increasing medical aid and pension fund contributions are not a feasible option at this stage.

Suggest TWO other ways staff morale could be improved whilst not having a major financial impact on La Meme (Pty) Ltd.

- Have an employee of the month that receives a token of appreciation
- Have a bring and share on peoples birthdays
- Do a workshop on self-care and meditation
- Upskilling/diverse training for employees

Other …

1.5 Based on information C, the chief operating officer has expressed her concern about the present cash situation and has suggested that the company applies for a long-term loan of R200 000 in December 2024.

According to her research, the company will qualify for a loan from ABSA at 15% p.a. if the interest is not capitalised or a loan from FNB at 14% p.a. if the interest is capitalised.

1.5.1 Which GAAP principle dictates that interest on loan be shown as a separate line item in the Statement of Comprehensive Income, even if it is capitalised?

Materiality principle

1.5.2 Explain the importance of showing it as a separate line item.

It may influence readers of AFS differently had it been seen or not.
Interest on loan can have a material value dependent on the size of the loan and could have a material impact on the profits of the company.

1.5.3 Which of the two loans would you advise the company to take?
Provide TWO well-explained reasons for your choice.

☐ Absa (15%, non-capitalised) ☐ FNB (14%, capitalised)

Absa:	Not capitalised means paying less interest
	Being short-term, the 1% should not make much difference
FNB:	Interest rate is lower
	Over short term, capitalised should not have a major impact
Other acceptable reasons	

1.5.4 Based on the information provided, supply TWO reasons why taking out a long-term loan in December 2024 would not be a sound financial decision.

Financially the business is going backwards in the months September to November (budget months). There is a large fixed deposit maturing in December. This will change their short-term economic outcome. Unless the online store is successful and produces the sales they are estimating, the business will not survive. Thus to take out a long-term loan in December is not sound financially as it places more strain on the economic decline of the business. The fixed deposit gives them 'breathing space' so to speak, to get the online store going to try and turn the business around.	
2 marks	Very good explanation showing overall understanding
1 mark	Average answer covering some of the content

1.6 The company plans to issue 120 000 additional shares in January 2025 in order to expand the business by adding an online store to their offering.

1.6.1 Suggest to the directors a well thought through price they should issue these shares at. Support your answer with a suitable calculation and explanation.

Calculation: $\frac{1\,840\,000 + 1\,280\,000 = 3\,120\,000}{(0{,}6 \times 2\,000\,000 = 1\,200\,000)} \times \frac{100}{1} = 260$ cents per share
Your suggested issue price:
Above 260 cents per share
Reasoning for your suggested issue price:
Issue price is above current average
Protects the investment and loyalty of current shareholders
2 marks = calculating average price
2 marks = explaining new price being higher than average price

1.6.2 Based on their research, running the online store would add at least R17 000 per month to their expenses.

Based on the same research they expect their online sales to be as follows:

January 2025	February 2025	March 2025
R160 000	R214 000	R280 000

Provide ONE advantage and TWO disadvantages of expanding online based on the information provided.

Advantage:
• Increases sales/opens new market stream that can be explored further/ other …
Disadvantages:
• Adds additional expenses to an already struggling business
• The income from online sales will take quite a few months before turning the cash flow situation around
Other …

QUESTION 2 COMPANY ANALYSIS

This question consists of two parts, namely Part A and Part B that are related.

PART A

Refer to the information of Northam Platinum Holdings Limited for this part of the question.

Use information A to answer Questions 2.1–2.4.

2.1 Calculate the mark-up percentage achieved in **2022**.

14 885 / 19 179 × 100 = 77,61%

2.2 Calculate the gross profit on sales (profit margin) percentage achieved in **2022**.

14 885 / 34 064 × 100 = 43,70%

2.3 **Refer to Questions 2.1 and 2.2.**

Explain what each ratio calculates.

• Mark-up: The profit achieved between obtaining goods and selling them.
• Gross profit on sales: Calculates the percentage profit earned by each
unit of revenue generated.

2.4 Using the information from the '% Change' column, analyse the changes and then explain why management should be concerned with these results.

Cost of sales is increasing 4 times more than sales leading to a decrease in profits
OR Cost of sales is increasing 4 times more than sales leading to a decrease in profits
OR Sales increased by 4,4%, Cost of sales increased by 16,1% and gross profit decreased by 7,6%

3 marks	Compares **rate of increase of sales** (analyse change in sales) to rate of **increase in cost of sales** (analyse change in COS) and links the increase in COS to **decrease in gross profit** (why management should be concerned)
2 marks	Compares rate of increase of sales to rate of increase in cost of sales (no link to GP i.e. why management should be concerned)
1 mark	Quotes given information only

Refer to information B to answer Question 2.5.

2.5 Why is it important for a listed company like Northam Platinum Holdings Limited to include information like extract B ('Our environmental impact') as part of their financial reports?

King IV states that companies are corporate citizens.
Environmental impact is as important as financial impact (people, profit, plant).

Use information C to answer Questions 2.6–2.7.

2.6 Assuming cash and cash equivalents at the <u>end</u> of the 2022 financial year was R1 175 million, calculate the cash and cash equivalent figure at the <u>beginning</u> of the 2022 financial year.

1 175 + 1 648 + 12 457 – 11 392 = 3 888

2.7 Give ONE possible item that could be listed under **changes in working capital** in cash flow from operating activities as an **inflow** of cash.

Decrease in debtors OR Decrease in inventory OR Increase in creditors	1 mark for effect, 1 mark for component

Use information D to answer Questions 2.8–2.12.

2.8 Calculate the Return on Average Shareholder's Equity for **2022**.

$$\frac{9\,846}{0{,}5\,(35\,967 + 19\,015 = 54\,982)} \times \frac{100}{1}$$

$$= 35{,}82\%$$

2.9 Critically analyse, quoting figures/ratios/percentages to support your answer, the **returns** and **distributions** and **retained profits** for 2022.

Returns to shareholders:
ROSHE of 35,82% (Look 2.8) is higher than alternate investments of 6,5%
ROSHE improved by 9,58% (from 26,24% to 35,82%)
Distributions and retained profits:
In 2021: 158 of 24 495 was distributed to shareholders (0,6% of EPS)
and 99,4% retained
In 2022: Of the 26 149 cents available for distribution (EPS)
None was distributed to shareholders/no dividends paid (DPS)
Company is focused on growth/expansion

2.10 Explain why your analysis in Question 2.9 would upset you as a **shareholder**.

Returns are extremely high compared to alternate investments, yet
no dividends were paid out.
OR Returns and earnings increased but dividends decreased to zero.

2.11 Analyse the **risk** and **gearing** for 2022.

DE increased from 0,55:1 to 0,67:1 OR DE increased by 0,17 : 1
which is moderate/acceptable risk/gearing (not high).
ROCE increased from 27,2% to 28,5% OR ROCE increased by 1,3%
ROCE is almost three times the average interest rate of 10% OR
Making it positively geared

2.12 Should the company need additional funding for expansion, discuss TWO reasons why taking out an additional loan is the better choice and TWO options why issuing further shares would not be the better choice.

Why taking out an additional loan is the better choice:
• Debt:Equity has 0,37 : 1 available before it becomes high risk.
• ROCE is positively geared/three times higher than interest rate.
• Funds readily available from the bank and could be an unlimited source related to debt:equity.
• Loan and interest are finite (stops when paid off), and the interest rate could be fixed so can budget for loan repayments and interest.
Why issuing further shares is <u>not</u> the better choice
• Dilutes current shareholders' interest.
• No dividends declared – might not appeal to new investors/irate current shareholders.
• Dividends will need to eventually be paid out and as long as there are shareholders there will be dividends which is infinite (go on forever).
• Group of shareholders could obtain majority shares and thus control of the company passed to them.

PART B

Use information E to answer Question 2.13.

2.13 Using the comparative information provided, choose the company you would rather invest in and discuss FIVE reasons for your choice. Use figures to substantiate your reasoning.

☐ Northam Platinum Holdings Ltd ☐ Royal Bafokeng Platinum Ltd

NORTHAM:
• ROSHE of 35,82% is exceptional
• High earning (EPS) of 26 149 cents
• Trading on JSE 75% above book value (JSE)
• Medium risk as 67 cents owed for every R1 own capital
• Positively geared as ROCE is 18,5% higher than interest rate
ANY 5

OR

ROYAL BAFOKENG:
• Established in 2008- been around and stable
• ROSHE low, but higher than alternate investments
• They pay out dividends
• Trading on JSE 81% above book value (JSE)
• Low risk as 10 cents owed for every R1 own capital
• Positively geared as ROCE is 1,3% higher than interest rate
ANY 5

QUESTION 3 RECONCILIATIONS

Refer to the information relating to Gas Monkey Garage.

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

Part A – Debtors

3.1 It is clear the age analysis on the statement received from Harley Davidson SA is incorrect.

Prepare the correct age analysis on 31 May 2024. Show all your workings so part-marks may be awarded.

60+ days	30+ days	Current
410 400 (180 000) (14 400) (216 000)	(519 000 – 410 400) 108 600 (108 600)	669 600 1 069 200 (19 200) (50 400) (1 400) (326 000 – 216 000 – 108 600)
Do not total		

Part B – Creditors

3.2 Complete the Creditor's Reconciliation for May 2024 using the table below.

Details and calculations	Creditor's Ledger	Creditor's Reconciliation
Balance	320 600	873 800
(a) Invoice 3 228 omitted		180 000
(b) 67 200 × 30/70	(28 800)	
(c) 50 000 × 2		(100 000)
(d) Invoice 3788 duplicated		(80 400)
(e) Payment not reflecting		(320 000)
(f) Invoice for May (matching)	261 600	
(g) Payment not recorded	(88 000)	(88 000)
	Do not total	

3.3 Refer to the discrepancy marked (g) – the online banking payment.

3.3.1 Why should management be concerned that this was only discovered when the bookkeeper mentioned it?

Shows lack of internal control. Bookkeeper may have too much control over payments and recordings. Bookkeeper is not doing the job he was hired to do correctly. Payment should only be loaded after paperwork authorises the payment. Payments pre-loaded should be checked and recorded when they go through. Payments were not recorded at the end of the month. Any well explained concept

3.3.2 What first accounting entry should be recorded for this transaction?

Payment must be entered in the CPJ and posted to the Creditors Ledger.

3.3.3 Suggest TWO control measures the internal auditor should implement so this does not happen again in future?

• Person authorising the payment may not be person loading payment.
• No pre-payments may be loaded if not duly authorised.

3.3.4 In order to prevent this from occurring again, the auditor advised the business to check their bank statements carefully each month.

List ONE reason why it is important to consult the bank statement received each month.

To identify errors and omissions and record them. To calculate bank charges and enter them. Other

Total: 100 marks