NATIONAL SENIOR CERTIFICATE EXAMINATION
MAY 2025

ACCOUNTING: PAPER II

MARKING GUIDELINES

Time: 2 hours | 100 marks

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QUESTION 1 RECONCILIATIONS

Refer to the information relating to The Karaoke Club.

This question consists of three parts, namely Part A, Part B and Part C.

PART A

Use the information relating to the debtors of The Karaoke Club to answer the questions below.

1.1 Prepare the age analysis for debtor **Beefcakes** on 30 April 2025. Show all your workings so part-marks may be awarded.

Note: All transactions should be indicated as part of your workings, regardless of the net effect.

90+ days	60+ days	30+ days	Current
(2 700) 25 700 (15 300) (7 700)	46 260 27 900 (29 200) (8 820) (3 600) 3 600	35 640 (11 700)	55 800
Do not calculate			

1.2 Refer to the payment made by debtor **Ed's Diner** on 30 March 2025, and the additional information provided, to calculate the percentage discount granted.

40 320 – 39 312 = 1 008

$$\frac{1\,008}{40\,320} \times \frac{100}{1} = 2{,}5\%$$

OR

$$\frac{39\,312}{40\,320} \times \frac{100}{1} = 97{,}5\%$$

100% – 97,5% = 2,5% discount

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PART B

Use the information relating to the **only creditor** of The Karaoke Club to answer the questions below.

1.3 Reconcile the Creditors Ledger to the Creditors Reconciliation using the table below. Negative figures should be placed in brackets '()'. Where no change is needed in neither the Creditors Ledger nor the Creditors Reconciliation Statement, place an 'X' in the 'No effect/No entry' column.

Calculations (where needed)	Creditors Ledger R	Creditors Reconciliation Statement R	No effect/ No entry (X)
1. & 2. Incorrect opening balances	163 170	203 670	
3.	45 000	45 000	
4. CC is in the G/L			X
5. 75 240 ÷ 0,95		(79 200)	
6.		63 000	
7.	61 200		
8. 18 450 × 2 = 36 900	(36 900)		
9. Corrected balances →	232 470	232 470	

PART C

1.4 Critically analyse the ratios provided and make appropriate suggestions where concerns are uncovered.

Debtors ↑ by 7,6 days (from 59,7 days to 67,3 days) – deteriorated/shortened
Debtors need to be controlled as to not slow down any further and to get below 30 days
Creditors ↓ by 0,8 days (from 93,6 days to 92,8 days) – shortened or improved
Creditors should be paid earlier to avoid unnecessary interest (earlier than 90 days)
Debtors pay 25,5 days before creditors are paid
Money comes in from debtors before creditors are paid

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QUESTION 2 COMPANY ANALYSIS

Refer to the information relating to KAP Industrial Holdings Limited.

2.1 2.1.1 Calculate gross profit as a percentage of sales for **2023**.

4 926 / 29 628 × 100 = 16,63%

2.1.2 Calculate operating expenses as a percentage of sales for **2022**.

2 578/ 27 979 × 100 = 9,21%

2.1.3 In the Director's Report it states that '*Group revenue (sales) increased by 6% with price increases adequately offsetting raw material cost escalations and rising operating expenses*'.

Critically evaluate this statement referring to:

- Revenue (sales) versus cost of sales year-on-year.
- The change in operating expenses year-on-year.

Quote financial results (figures/ratios) to support your discussion.

Revenue (sales) vs cost of sales year-on-year
Gross profit on sales ↓ 19,71% to 16,63% (by 3,08%) **OR** Sales ↑ by 5,89%
Gross profit on cost of sales ↓ 24,54% to 19,94% (by 4,60%) **OR** Cost of sales ↑ by 9,96%
Proving increase in cost (COS) (and shrinking profit margin) **OR** Greater increase in COS than sales resulting in ↓ of 10,66% in GP
Operating expenses year-on-year
Operating expenses on sales ↓ 9,21% to 8,64% (by 0,57%) **OR** Operating expenses ↓ by 0,7%
Better control over expenses than in 2022 (inflation)
Means operating expenses decreased also proves that the increase has been offset in sales

2.2 At the **2023** Annual General Meeting (AGM) a majority shareholder suggested the company take out a loan of R350 million to increase cash flow since it will only increase the risk by 0,03:1.

2.2.1 Prove, by means of a calculation, how the risk will increase by 0,03:1 (assuming no change in equity).

9 735 + 350 : 11 705 10 085 : 11 705 0,86 : 1 0,86 : 1 (– 0,83 : 1) = 0,03 : 1

2.2.2 By referring to the **return on average capital employed and gearing**, evaluate why taking out this loan will **not** be in the best financial interest of the company, despite the risk only increasing marginally.

ROCE ↓ from 10,67% to 7,58% (by 3,09%)
Interest on long-term loan of 9,25% is higher than this
Company is negatively geared
Loan will cost the company profit/interest will decrease profits further

2.3 Shareholders are concerned about (a) the return on their investment in KAP, (b) earnings and dividends and (c) the value of shares.

Discuss, quoting financial indicators/ratios, why they have reason to be concerned.

(a)	The return on their investment
	ROSHE ↓ 15,03% to 4,14% (by 10,89%)
	In 2022 return was higher than alternate investments, but are now less than alternate investments **OR** Net profit shrunk but equity remained
	Constant (not number of shares)
(b)	Earnings and dividends
	EPS ↓ 76% (from 70,3 cents to 16,7 cents)
	DPS ↓ from 29 cents to no dividend in 2023
	Earnings in 2023 extremely low (less than the dividends in 2022) **OR** Net profit reduced
	Not declaring dividends/retaining all earnings in 2023 was a sound financial decision **OR** dilution of shares (5 million shares issued)
(c)	The value of shares
	NAV ↓ only 2 cents (from R4,75 to R4,73)
	OR NAV ↓ only 2,47 cents (from 475 cents to 472,53 cents)
	JSE price ↓ from R4,45 to R2,70 (by R1,75)
	Huge drop in demand for shares **OR** Poor investor confidence

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2.4 Additional shares were issued, and other shares were repurchased during 2023.

2.4.1 Who authorises the transaction to buy back shares?

Directors/shareholders

2.4.2 What external audit evidence can be supplied to the independent auditor that this transaction was concluded?

Bank statement (EFT) / JSE statements

2.5 KAP Ltd runs extensive CSR programmes and adheres to King IV.

Explain TWO financial advantages and TWO **different** financial disadvantages for KAP Ltd as a direct/indirect result of their CSR programmes.

Advantages
• Enhanced company reputation may lead to increased customer loyalty and sales
• Enhanced company reputation may lead to new business opportunities / joint venture / partnerships
• Enhanced company profile may lead to increase in share price
• Attract investors who are interested in sustainable and ethical businesses
Disadvantages
• Expenses relating to CSR programmes reduce profits of the company
• Not having CSR programmes could impose fines (King Code and Companies Act)
• Failed programmes may impede on the image of the company and lead to a loss in sales
An advantage cannot be inversely repeated as a disadvantage

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2.6 Refer to Article D.

2.6.1 Why is 'price-fixing' considered unethical business practice?

It restricts the market measure of supply and demand OR
It interferes with customers' ability to have lower prices **OR** Against the Competition Act 89 of 1998

2.6.2 Evaluate why it would be within the power of KAP Holdings to dismiss the individuals responsible.

• The contravened KAP Holding's Code of Ethics
• Brought the name/reputation of the company in disrepute OR caused damage to the image of the company

2.6.3 This article caused a significant drop in the trading price of shares on the JSE before it started to climb again.

What measures/actions did they introduce to limit damage and create this turnaround in share price?

• Issued the statement/publish the article (transparency)
• Established an ethics hotline
• Appointed an outside provided to investigate (unbiased, objective)

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QUESTION 3 BUDGETS

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

PART A

Refer to the information relating to The Flying Spanner Workshop.

3.1 Calculate the missing figures marked A–D in the Cash Budget and Creditors Payment Schedule.

A.	124 500 × 1,13 = 140 685
B.	48 792 ÷ 0,95 = 51 360 **OR** 48 792 × 100 / 95 = 51 360
C.	78 000 × 45% = 35 100
D.	D1 31 500 × 60% = 18 900 **OR** 32 040 – 19 440 = 12 600 31 500 – 12 600 = 18 900
	D2 35 100 (see C) × 40% = 14 040
	D3 18 900 + 14 040 = 32 940

3.2 Calculate the trade discount for the month of **June 2025** and explain why this figure would not be shown in the Projected Statement of Comprehensive Income.

18 360 ÷ 60% = 30 600 (June credit purchases) 30 600 ÷ 45% = 68 000 (June total purchases) 68 000 x 55% = 37 400 (June cash purchases) 37 400 × 10% × 5% = 187
It is trade discount/trade discount entry is not shown/deducted before entering

PART B

Refer to the information relating to Mzansi Amanzi.

Refer to Information A.

3.3 Critically evaluate sales for **April 2025** and the impact this may have had on Mzansi Amanzi. Substantiate your reasoning with figures.

• Total sales of R1 198 800 were only 74% of budgeted sales of R1 620 000
• Cash sales of R599 400 is only 52,86% of budgeted cash sales
• Credit sales of R599 400 is 23,3% higher than budgeted for
• Budgeted for cash sales to be 70% of total sales, but instead only 50% was sold for cash **OR**
Budgeted for credit sales to be 30% of total sales, but instead 50% was sold for credit
• Having a higher percentage credit sales will negatively influence the cash flow of the business

Refer to Information A and Information B.

3.4 In April 2025 the actual commission paid on sales was lower than budgeted. In May 2025 the actual increased substantially more than the increase in sales. Provide TWO reasons for this.

• Sales increased so commission will increase
• In April commission was 15% on sales but in May it increased to 18%

3.5 Sipho reduced the mark-up percentage in May 2025. Analyse the positive effect this had on the number of kilolitres sold in May 2025. How did this contribute to cash flow? Provide figures to substantiate your answers.

Effect on kilolitres sold
• Kilolitres sold is 1 350 higher than budget (9,09%)
• **OR** 62% more than April 2025 actuals
Contribution to cash flow
• Credit sales is 70% of actual sales OR Cash sales is 30% of actual sales
• Even though sales look good, negative cash flow keeps being compounded by high credit sales
OR compared to 50% in April, cash flow in May has decreased by 20%
• Needs to reduce credit sales and increase cash sales to correct cash flow
OR even with lower mark-up, total sales is still 1,82% less than budgeted (R32 400)

3.6 Explain why the morale of the salespeople would have increased substantially from April to May 2025. Provide figures as proof.

Also explain why the morale of the manager would have decreased substantially for the same timeframe. Provide figures as proof.

Why morale of salespeople increased
Each salesperson earned R52 488 (314 928/6) compared to R22 477,50 in April (133,51%) (commission increased from 15% to 18%)
Why morale of manager decreased
Even though he received a 10% increase, the salespeople are earning R19 488 more than him

3.7 Do you believe it was the correct decision to close two of the containers at the end of April 2025? Justify your answer and substantiate with figures.

☐ Yes, it was the correct decision ☐ No, it was the incorrect decision

NO:
With 2 containers less, they nearly made their targeted total sales due to the reduced mark-up percentage. If the other 2 containers were still there, they would have exceeded budgeted sales
Each salesperson would still earn a reasonable amount, but not more than the manager. The increase in commission percentage incentivises them to work harder
YES:
Reduces rent of containers and saved R150 000
Fewer salespeople to oversee and pay commission
With fewer containers, they still had higher sales

Refer to Information C.

3.8 Calculate the total value of the **capital portion** of the proposed loan.

185 750 / 8% = 2 321 875

3.9 Why would taking out the loan be a better financial decision for the business?

The deposit of R185 750 and monthly capital portion repayment of R17 801 is still far less than the rental cost of hiring the containers

3.10 From the information available, identify a possible way Sipho can purchase the containers at a later stage without making use of the loan.

He should be stricter with allowing credit. If he sticks to 70% cash sales, he will build up cash deposits that can be used to purchase the containers

Total: 100 marks

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