NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2020

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.

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QUESTION 1 CASH BUDGETS (26 Marks; 31 Minutes)

1.1 *Complete the debtors' collection schedule for January to February 2021.*

	Credit sales	January	February
November	131 040 × 100/104 126 000 ✓	Nov × 15% 18 900 ☑	
December	**131 040**	**32 760**	**19 656**
January	**122 700**	**69 939**	122 700 × 25% 30 675 ✓
February	108 100 ✓		**61 617**
		Do not calculate	Do not calculate

(4)

1.2 *Calculate the percentage discount given to the debtors who pay in the month of sale.*

100 – 25 – 15 = 60%
122 700 × 60% ✓= 73 620 ☑
73 620 – 69 939 ✓= 3 681
3 681 ÷ 73 620 × 100 = 5% ☑

(4)

1.3 *Timeless Read uses the perpetual stock method. Discuss two reasons why this is the best method* ***for a bookshop to use.***

- Books are printed with bar codes on them so it is very easy to scan them and keep a perpetual record. ✓
- Keeping track of what is sold is good to be able to know the popular items and order more of those. Do not order items that do not sell. ✓
- Keeping track means with stock takes one can see how much and what is missing – so what has been stolen – and put controls in place. (2)

1.4 *One of the biggest expenses is the trading stock deficit due to 80% of the self-help books being stolen. Discuss one detailed solution that Lwandi can implement to stop this theft. Remember that Timeless Read's cash is tight, so the cheaper the solution, the better.*

1 Mark	2 Marks	3 Marks
Very partial solution that will not solve the theft problem.	Fairly inexpensive solution that partly solves the problem. OR An expensive solution that mainly solves the theft problem.	Fairly inexpensive solution that will (mainly) solve the theft problem.

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Examples for 3 marks:

- Lwandi can keep the books in a secure store room and display an example of each book behind glass on shelves. When a customer wants one of the books she can give them one from the store room.
- She can display the self-help books behind the cashier, so if a customer wants one they have to ask the cashier for one.
- Have IPads attached to the counter with no books on the shelves. The customer can browse the books on the IPad and if they choose to buy one, they will be given it from the store room.

Examples for 2 marks:

- Install a sensomatic machine (beeps when the tag goes through the sensors). Extremely expensive and ways of getting around it.
- Hire a security firm / person to watch cameras that will need to be installed. Paying salaries or hiring security is expensive and they will not necessarily catch the person. (3)

1.5 Complete the given part of the cash budget for **January 2021**.
(Show your calculations next to each item!)

	January
Receipts	Do not calculate
Cash sales 122 700 ✓ × 60/40 ✓	184 050
Cash from debtors	Do not calculate
Payments	(438 930)
Payments to creditors (252 000 + 63 000✓) × 0,98 ✓	308 700
Salaries 46 350 ✓ – 5 000 ✓	41 350
Marketing (3 600 – 1 450) ✓ × 3 ✓ = 6 450 6450 + 1 450✓	7 900
Rent	Do not calculate
Water and electricity	Do not calculate
Other	Do not calculate
Cash surplus / deficit	(133 280)

(9)

1.6 *Study the research that Lwandi did on the book industry and answer the following questions.*

1.6.1 *Lwandi really would like to make Timeless Read a success and a going concern, and knows that she must increase her sales to do so. Remembering that she already utilises all the space in her shop, discuss two solutions for her to improve her sales.*

- Concentrate on children's books and develop a reputation for providing these. ✓✓
- Start sourcing textbooks for schools – so being the middle man between the publishers and the schools.
- Use social media to market the shop.
- Could buy a house – cut down on the rent quite substantially, then there will be space to start stocking and selling textbooks. (2)

1.6.2 *Lwandi would like to reach out to the community and impact them in a positive way while promoting Timeless Read. Suggest one project she could implement to achieve this.*

- Run literacy classes from the shop and provide easy story books they can start reading. ✓✓
- Run competitions for the best original written stories in African languages. Offer prizes and compile a book of the best entries. ✓✓ (2)

26 marks

QUESTION 2 COMPANY ANALYSIS (40 Marks; 48 Minutes)

2.1 2.1.1 *Study the operating expenses. Discuss whether Stor-Age controlled their operating expenses well. Supply a suitable calculation and a reason for your opinion.*

Yes

- Operating expenses increased by 58,13% while the property revenue increased by 69,04%. ✓
- The operating expenses increased less than the property revenue. ✓✓ OR
- Operating expenses on property revenue for 2019 is 36,98%
- The operating expenses on revenue decreased by 2,55%
- (Can look at individual expenses. But must link to the expansion of Stor-Age to get all 3 marks.)

OR No, operating expenses increased by 58,13%

1 Mark for the calculation. 1 Mark for the comment. 2 Marks if they have linked it to the increase in property revenue. (3)

2.1.2 *Stor-Age has tenant bad debts on its statement of profit or loss. Explain how Stor-Age could recover some of the money owed to them, should the tenant become a bad debt.*

- Stor-Age could sell whatever they stored in the storage to cover their debts. ✓ (1)

2.1.3 *Although the property revenue increased by 69%, the net profit for 2019 decreased by 55,4%. Identify the two **most material** reasons for this.*

- The other revenue in 2018 (fair value adjustment to investment properties) ✓ was much larger than in 2019.
- In 2018 there was a gain in investment instruments while in 2019 there was a loss. ✓ (2)

2.1.4 (a) *Stor-Age revalues their investment properties annually. Write down the name of the GAAP principle that seems to contradict this revaluation.*

- The historical price principle. ✓ (1)

(b) *Write down one advantage and one disadvantage for Stor-Age to adjust the fair value of their investment properties every year.*

Advantage:

- Records a higher value for the tangible assets. Easier to get financing. ✓

Disadvantage:

- Pay income tax on the increased profits. ✓
- Pay a valuator to revalue the properties every year – an extra expense. (2)

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(c) *During an external audit the investment properties would be audited. Write down the reason this would be audited, and give two pieces of audit evidence the auditor could use.*

The reason this is audited:

- It is a material amount in the financial statement. ✓
- So the auditors can verify this amount for the shareholders.
- That the property actually exists.

Two pieces of audit evidence:

- Go to the properties and make sure they really exist. (Look on Google Maps.) ✓
- Contact the valuators to get copies of the valuation certificates. ✓
- Compare the valuation certificates to the recorded values of the properties.
- Title deeds.
- Look at the mortgage bond. (3)

2.2 2.2.1 (a) *Show how the return on total capital employed was calculated to be 6,44%*

$$\frac{260\ 293\checkmark + \ 81\ 786\checkmark}{(4\ 624\ 751 + 3\,494\,259\checkmark + \ 1\ 706\ 902 + \ 801598\checkmark) \ \times \ ½\checkmark} \times 100$$

$$= \frac{342\ 079}{5\ 313\ 755} \times 100$$

(5)

(b) *Besides the drop in profit, write down two other factors that caused the percentage return to decrease from 13,46% in 2018.*

- Increase in capital ✓
- Increase in non-current liabilities ✓ (2)

2.2.2 *In article A, Stor-Age said that its low gearing left it with headroom to pursue more development and acquisition opportunities. Explain what Stor-Age means by this.*

- This means that Stor-Age has low levels of debt ✓ and can finance further acquisitions with more loans. ✓ (2)

2.2.3 *With reference to positive or negative gearing, discuss whether Stor-Age should acquire further properties using loans. Quote figures or calculations.*

- They are negatively geared. ✓ The 6,44% return is less than the 9% average interest rate. ✓ They should not take out another loan unless they can improve their return. (2)

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2.3 *All tenants need to pay one month's rental as a deposit, which they get back once their rental term is finished. Write down under which item in the Financial Statements the deposits would be recorded at year-end.*

- Trade and other payables ✓
- (Will also accept current / non-current liabilities). (1)

2.4 *In article B, Stor-Age states that they always have sufficient liquidity to meet their liabilities when due.*

2.4.1 *Calculate the current ratio for 2019.*

- 384 085 ✓ : 697 213 ✓
  0,55 : 1 (2)

2.4.2 ***By analysing the individual current assets and current liabilities**, discuss three reasons they **may be able** to pay their debts timeously.*

- Most investors will probably choose to receive more shares rather than dividends, freeing up the liquidity for paying the creditors. ✓
- Paying off the dividends should not use a lot of cash due to this. ✓
- They should receive their debts before having to pay their creditors, although it is not enough. ✓
- However, there is enough cash in the bank to pay back their creditors. ✓
- They should be receiving monthly cash payments into their bank from the monthly rental income. ✓
- This would not be enough if the debts needed to be settled immediately, but spread throughout the year, Stor-Age should be able to settle their debts.
- Cannot use inventories to pay off debt as they will not be sold. (3)

2.5 2.5.1 *Study Stor-Age's dividend history for the past two years. Explain two reasons as to whether you agree with their dividend policy. Quote figures.*

- The EPS decreased by 170 cents ✓ (68%) but dividends increased by 9 cents. ✓
- This grew their accumulated loss ✓ as their dividends were larger than the earnings.
- (Must link to accumulated loss for the 3rd mark.)
- The dividends declared at year-end 2019 were the largest although by then the directors would have been aware of their reduced net profit. (3)

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2.5.2 *Explain what a zero percent growth in the market share price means and give a possible reason for this happening.*

0% means:

- The price on the JSE at the beginning of the year and end of the year was the same price. ✓

Possible reason:

- The demand for the share did not increase during the year. ✓ (This was probably due to Stor-Age issuing more shares during the year.) (2)

2.5.3 *Altogether, seven different investment companies own 42% of Stor-Age. Explain why they may consider Stor-Age to be a good investment. Give two points.*

- It previously had a return of 16,55% which beats the average return. ✓
- Stor-Age pays extremely high dividends. ✓
- Stor-Age pays interim dividends as well as final dividends.
- Different type of investment to a trading enterprise.
- Hedged – in the UK. (2)

2.5.4 *Discuss two reasons why the investment companies may consider selling their shares in Stor-Age for the 2020 financial year.*

- Drop in profit / Drop in EPS. ✓
- Drop in ROCE / ROSE. ✓
- The return is lower than a fixed deposit.
- Liquidity issues.
- Shareholding diluted with the dividends being paid out in shares.
- The share price on the JSE stayed the same. (2)

2.6 *Explain why it is good for Stor-Age's reputation to follow the principles laid out in the King Code.*

- The King Code lays out how to run a company ethically (corporate governance), so they are accountable and can be trusted. ✓✓
- If they are transparent in their reporting, then shareholders will have more confidence in their investment. (2)

40 marks

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QUESTION 3 RECONCILIATIONS (34 Marks; 41 Minutes)

3.1 *Pablo has drawn up his age analysis for **all his debtors** together on 30 November 2020. Some errors and omissions were discovered and the age analysis must still be adjusted. Correct the debtors age analysis given below with the errors found in the Information Booklet.*

150 + days	120 days	90 days	60 days	30 days	Current
345 000	86 300 – 15 300✓	74 650 – 7 700 ✓	82 170 – 2 300 ✓	79 330 + 27 000 ✓ – 2000 ✓	88 490 + 6 900☑
345 000	71 000	66 950	79 870	104 330	95 390

(6)

Calculation box for interest:

345 000 × 5% = 17 250 ✓– 10 350 ✓ = R6 900

(2)

3.2 *Calculate the total debtors owing on 30 November 2020.*

R762 540 ☑

(1)

3.3 *Calculate the average number of days the debtors are taking to pay back The Polka Dot Chair.*

686 500
(762 540 + 610 460)½ ☑ × 365
1 332 810 ✓

= 188 days ☑

(3)

3.4 *Pablo has come to the conclusion that his customers are not managing to pay off their debt within the 4 months that he has given them. He is thinking of changing to a hire-purchase method where he will add 20% interest onto the total credit amount, and then make them sign a debit order so that they pay it off in equal instalments over 12 months. He will advertise the furniture as a monthly amount rather than the full amount.*

Explain in detail two advantages of the hire-purchase method.

- Cheaper payments – more affordable for more people, ✓ so hopefully more customers and sales. ✓
- 20% interest on each sale is guaranteed, ✓ whereas it was only interest on overdue accounts previously. ✓ More profit.
- Debit order is more secure. Much better chance of receiving the payment.
- Receiving cash at a consistent rate every month – much easier to budget.

(4)

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3.5 *Should Pablo decide to go ahead with the hire-purchase method, suggest what payment terms Pablo would now need to negotiate with his creditors. Explain why you have suggested these payment terms.*

Payment terms:
- 6 months or the longest time possible that the creditors will agree to.

Reason:
- The debtors pay off the cost price after 5½ months. ✓✓ They pay the selling price after 10 months and the remaining 2 months is interest they are paying. (2)

3.6 *Complete the Creditors Reconciliation Statement on 30 November 2020.*

Creditors Reconciliation Statement on 30 November 2020

Incorrect balance on 30 November	164 353 ✓
Credit note 9	1 800 ✓
Invoice 40	3 600 ✓
Invoice 45	(101 340) ✓
Discount omitted 54 537 × 2/98	(1 113) ✓
	Do not calculate

(5)

3.7 *There is a cause for concern in the Bank Reconciliation Statement as well as a mistake. Study the Bank Reconciliation Statement and then answer the following questions.*

3.7.1 *Describe what item Pablo should be concerned about. Give a reason.*
Item: The outstanding deposit dated 5 November
Reason: The deposits should be deposited daily for safekeeping. ✓
- A deposit that has not been deposited for 3 weeks could have been stolen or lost. ✓ (2)

3.7.2 *Explain the error made in the Bank Reconciliation Statement and describe what should have been done instead.*
Error: Cheque 54 should not be in the Reconciliation Statement ✓ (stale cheque)
It should have been cancelled in the CRJ instead. ✓ (2)

3.7.3 *Calculate the amount of cheque 92.*
- R36 700 ✓ (1)

3.7.4 *Explain the entry that would be made in the December Bank Reconciliation statement in the following instances:*

(a) *If cheque 92 appears in the Bank Statement in December.*
- Do nothing ✓ (1)

(b) *If cheque 92 does not appear in December's Bank Statement.*
- Put it into December's Bank Reconciliation Statement ✓ (1)

3.7.5 (a) *Explain why, although cheque 99 was given to Leather Worx on 20 November along with cheque 98, it does not show in the Creditor's Statement from Leather Worx.*
- It is a post-dated cheque. ✓
- Leather Worx should have put it in their safe. It can only be recorded on or after the date on the cheque. (1)

(b) *Explain how cheque 99 will be treated in the financial statements at the year-end.*
- It will be added back to bank ✓ and added to creditors (trade and other payables) ✓ (2)

3.7.6 *Explain why the bank statement shows a positive balance, yet The Polka Dot Chair's bank balance is in overdraft.*
- The outstanding cheques have been entered into the CPJ and subtracted off the bank. ✓ The value of these cheques is bigger than the value of the outstanding deposits. (1)

34 marks

Total: 100 marks

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