



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2017

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

1.1 Complete the debtors' collection schedule.

Debtors' collection schedule for November 2017 to January 2018

	Credit sales	November	December	January
September	334 800	133 920		
October	329 400	197 640	131 760	
November	345 600		207 360	138 240
December	397 440			238 464
		331 560	339 120	376 704

1.2 Considering that The Running Foot may have a drop in sales in January, what else can they do to earn more income once they move into the house? Come up with two ideas.

- Rent out the pool.
- Rent out the tennis courts.
- Rent out the extra rooms in the house to running related people, e.g. Physios, biokinetics.

1.3 Calculate the mark-up that The Running Foot uses.

$$\frac{\left(334\,800 \times \frac{10}{8}\right) - 310\,000}{310\,000} \times 100 = \frac{108\,500}{310\,000} \times 100 = 35\%$$

1.4 Complete the first two lines from the Projected Income Statement for January 2018. Also calculate the wages amount that would appear in the Projected Income Statement.

Extract from the Projected Income Statement of The Running Foot for January 2018

	January 2018
Sales 397 440 x 100/80 x 65/100	322 920
Cost of sales	(239 200)
Wages	57 600

1.5 The interest on loan for January will come to R12 000. Calculate the cost price of the house.

- $X \times \frac{10}{100} \times \frac{1}{12} = 12\,000$
- Therefore $X = 1\,440\,000$
- $1\,440\,000 \times \frac{100}{90} = 1\,600\,000$

- 1.6 *Give an advantage of moving into the house.*
- Much cheaper: R65 000 rent vs R12 000 interest on loan.
 - Can rent out the tennis courts/swimming pool/rooms and make more money.
 - Will not have to pay fines for not opening on Sundays.
- 1.7 *Give a disadvantage of moving into the house.*
People are attracted to other shops in the shopping centre and will walk past The Running Foot so there is exposure to more people.
- 1.8 *Discuss two things that Robbie can do to encourage customers to come to his new location and buy his shoes in January.*
- Robbie can go to the running clubs and give vouchers to his shop in January as prizes.
 - Robbie can have a huge sale/discounts in January.
 - Have a competition running at his shop in January.
- 1.9 *Robbie is not sure about the best way to move from the shopping centre to the house, and is concerned about boxes of shoes going missing in the move. Discuss two things that Robbie can do when moving to ensure that the shoes do not go missing.*
- Put the small shoe boxes into bigger boxes and seal them.
 - Number the big boxes so he can keep track of them.
 - Get a professional moving company to move him in a truck so there is only one load.
 - Do a stock take before and after moving.
 - Put certain people in charge of certain shoes so they are responsible for them.
- 1.10 *Robbie has decided, since a pair of running shoes is in the region of R1 800 per pair, he is going to start selling gift vouchers, so even if a person can't afford to buy their friend a pair of shoes, they can give them a gift voucher towards a pair of shoes.*

He knows that if someone buys a gift voucher "Bank, an asset" will be debited, but is clueless about what should be credited. Think about what account you would credit, and write down what type of account it is, with an explanation as to why it is this type of account (A/OE/L/income or expense).

Type of account: Liability

Explanation for type of account: It's like income received in advance. The income will only be earned once a person uses the voucher to buy something.

QUESTION 2 RECONCILIATIONS

2.1 Calculate the correct amount that Rose Boutique owes Judy.

Incorrect balance	R12 250
Pink evening gown	– 1 800
Courier costs	– 900
Black & White gown (2 700 + 2 700)	– 5 400
Cheque	– 1200
Correct balance	2 950

2.2 On which source document will Rosalie record the discount for the handbags?
Debit note

2.3 Use the Debtors' Ledger account to draw up an age analysis for L Pike that would be shown on his statement of account on 31 October 2017.

Current	30 + days	60 + days	90 + days
860	3 420 – 1 020 = 2 400	990 – 75 = 915	2 450 – 1 225 – 1 225 = 0

2.4 Fill in the correct letter next to the number for the multiple choice question.

2.4.1	B
2.4.2	A
2.4.3	D
2.4.4	C

2.5 Analyse the transactions for Rose Boutique under the column headings by writing down the amount under the correct column.

Example:

Bank charges of R234 appeared on the Bank Statement of Rose Boutique.

No.	Entry in the Cash Receipts Journal	Entry in the Cash Payments Journal	Entry in the Bank Reconciliation Statement		No entry
			Debit entry	Credit entry	
E.g.		R234			
2.5.1	R3 280				
2.5.2			R1 550		
2.5.3		R47			
2.5.4					R1 786
2.5.5			R607		
2.5.6		R900			

If there are two entries for one item then no mark is granted.

QUESTION 3 VAT

3.1 *Calculate the amount of VAT that Coffee Country needs to pay over to SARS on 25 November 2017 for the two months ending 31 October 2017. Show all amounts that you add or subtract to get your answer.*

R12 500 + 112 000 + 35 700 – 63 700 – 4 480 – 1 680
 + 1 120 – 1 575 + 112 = 89 997

 –1 for calculating VAT on salary and wages

3.2 *Coffee Country is experiencing cash flow problems and has an overdraft of R30 000. Peter, the owner, has asked his bookkeeper not to record the sale of coffee bean packets for September and October and instead record them as sales for November. If you were the bookkeeper explain whether you would agree to this request and why.*

No, as it is unethical / fraud and once I start agreeing to do things that are not ethical, I will find it difficult to refuse to do this if asked again.
 It goes against the matching principle of GAAP.
 Fraud is misrepresenting the sales for September and October.
 No, SARS will fine the business for not paying VAT every second month and it will make the overdraft worse.

 Yes, as I will still be paying the VAT at a later stage and it is not really going to make much difference to SARS in the long run and it will keep my employer happy.

3.3 *Coffee Country had received and recorded an invoice for R8 208 including VAT, from a supplier of coffee beans during September 2017. They were later informed by SARS that this business was not a registered VAT vendor. Explain, showing the amount, how this will affect the amount they owe SARS.*

Increase amount owing SARS by R1 008

3.4 *What should Coffee Country be doing to stop this situation from happening again?*

They need to check that all invoices have the VAT registration number of the business they are buying from.
 Any other acceptable answer.

QUESTION 4 COMPANY ANALYSIS

- 4.1 4.1.1 *Warren Buffett said that it is important to invest in companies with high profit margins.*

Calculate the operating profit on sales for 2016.

1,51%

- 4.1.2 *Explain the danger of investing in a company with a low profit margin.*

If a company has low profit margins and something goes wrong, e.g. Recession, bad decisions, etc. it can wipe out the profit that they made.

- 4.2 *Discuss the **profitability** of RCL during the year ended 30 June 2016, giving three different points.*

- Sales increased by 6,82%.
- However, operating profit decreased by 73,96%.
- Or, the operating profit on revenue decreased by 4,69%.
- The net profit decreased by R635 362 (73,71%).
- Or, the net profit on revenue decreased by 2,77%.
- Although the sales increased by 6,82%, the net profit on sales decreased by 2,77%. This means that the operating expenses grew much more than the sales, leading to the decreased net profit.
- Must mention the operating expenses to get full marks.

- 4.3 *Read the article from Fin24. Name two issues that will impact the profitability of RCL in the 2017 Financial Year and explain the effect they will have on the profit.*

- Drought – pushes up the price of maize.
- Wheat import duty – price of rusks and dog food increases. (Epol and Ouma Biscuits cost increases.)
- Cheaper imports – can't sell chicken for more than they cost = less sales.
- Retrenchments – cut cost of labour – operating expenses decrease.
- OR Retrenchments – pay out retrenchment packages – increase operating expenses.

1 mark per issue, 1 mark per effect.

- 4.4 *Discuss one other brand name, besides Rainbow and Farmer Brown Chicken, belonging to RCL Foods that will be impacted negatively by the increase in the wheat import duties.*

Ouma Rusks/Epol/Sunbake/Supreme Flours – any products that are made from wheat.

4.5 4.5.1 Calculate the **average** shareholders' equity for 2016.

$\frac{226\,595\,000}{X} \times 100 = 2,25$ $22\,659\,500\,000 \div 2,25 = 10\,070\,888\,890$

4.5.2 If the shareholders' equity for 2015 was R10 113 499 000 calculate the shareholders' equity for 2016.

<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding-right: 20px;">10 070 888 890 x 2 =</td> <td>20 141 777 780</td> </tr> <tr> <td style="padding-right: 20px;">-</td> <td style="border-bottom: 1px solid black;">10 113 499 000</td> </tr> <tr> <td></td> <td>10 028 278 780</td> </tr> </table>	10 070 888 890 x 2 =	20 141 777 780	-	10 113 499 000		10 028 278 780
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-	10 113 499 000					
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4.5.3 Give two reasons that could cause the equity to decrease from the previous year.

- Hand out more dividends than profit. → Would reduce Retained Income.
- Could make a loss for the year.
- Share buy backs.

4.6 Explain why the trading share price is far more volatile than the NAV. (What makes the share price shoot up and down far more than the NAV.)
 The public's opinion. The NAV is based on the book-value of the assets which is set; whereas the share price is based on changes to the supply and demand of the share.

4.7 4.7.1 Why would the Board want to continue paying dividends even if their profitability is poor?

Don't want to scare the investors away by stopping the dividends.

4.7.2 How was the company able to declare a final dividend, even though their profitability was poor?

By making use of the retained income.

4.8 4.8.1 *Calculate the current liabilities on 30 June 2016.*
 $R8\ 302\ 728 / 1,64 = R5\ 062\ 639\ 024$

4.8.2 *Discuss how three of the current assets have affected the liquidity ratios in 2016, and then explain what would have led to the **drop in the current ratio** from 2015 to 2016.*

Impact on liquidity

- The inventories and biological assets have grown by R242 421 000. This would cause an increase in the current ratio. The biological assets have grown by R63 235 000. This increase would also increase the current ratio.
- The trade and other payables have increased by R769 734 000. This is partly from the debtors' collection period increasing from 49 days to 58 days. This would cause both the current ratio and the acid test ratio to increase.
- The cash and cash equivalents have shrunk by R171 689 000. This would cause the acid test ratio as well as the current ratio to decrease.
- The increase in tax receivable would have resulted in an increase in the current ratio and acid-test ratio.

The cause of the drop in the current ratio

- The cash and cash equivalents did not decrease enough to cause the decrease in the current ratio, since there was an overall increase in the current assets. This means that the current liabilities increased even more than the current assets, causing the ratio to decrease.

4.9 4.9.1 *Study the extract from the sustainability report then answer the following questions. What is the reason for RCL Foods to be concerned with the community?*

- King Code
- Corporate Governance
- Responsible citizenship

4.9.2 *If you had to suggest one CSR program for RCL Foods to implement that would line up to their core values, what would it be?*

- Any program that feeds hungry people.
- A program that teaches people to grow/farm their own food.

Total: 100 marks