



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2009

ACCOUNTING: PAPER II
MARKING GUIDELINES

Time: 2 hours

100 marks

These marking guidelines were used as the basis for the official IEB marking session. They were prepared for use by examiners and sub-examiners, all of whom were required to attend a rigorous standardisation meeting to ensure that the guidelines were consistently and fairly interpreted and applied in the marking of candidates' scripts.

At standardisation meetings, decisions are taken regarding the allocation of marks in the interests of fairness to all candidates in the context of an entirely summative assessment.

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, and different interpretations of the application thereof. Hence, the specific mark allocations have been omitted.

Please note that learners who provided alternate correct responses to those given in the marking guidelines will have been given full credit.

QUESTION 1 RECONCILIATIONS (30 marks; 35 minutes)

1.1 (LO 1 AS 4 Level 1)

Give TWO reasons why preparing a Debtors Age Analysis is a useful tool in managing debtors

- Helps to identify individual debtors who may be problematic
- To identify who is not adhering to the credit terms
- Allows businesses to review how collections are being made
- Computer software available to generate the objective information on each debtor.

1 mark per point

Accept other valid alternative answers. (2)

1.2 (LO 1 AS 4 Level 1)

1216

Dr Bank, Cr Creditors or expenses accrued/payable

(3)

1.3 (LO 1 AS 4 Level 2)

- The cash has gone from a positive balance to an overdraft, petty cash has decreased. OR
- The bank reconciliation shows a missing deposit. (outstanding deposit for a long time)
- It appears that rolling of cash is occurring. New receipts used to provide cash for previous deposits.

Accept other valid alternative answers. (2)

1.4 (LO 3 AS 4 Level 3)

- Look for cash payments that have not been properly authorised.
- Compare the receipts to the deposit slips (should agree).
- Check the bank statements and bank reconciliations to see whether all transactions are accurately recorded.
- Reconcile the petty cash and check that petty cash payments have been authorised.
- Large amount of money paid via the Internet due to Internet shopping, therefore make sure that the money has been received and stock issued.
- Check authenticity of source documents.

Accept other valid alternative answers. 1 x 3 = (3)

1.5.1 (LO 1 AS 4 Level 3)

$$\frac{9060}{113240} \times 100 = 8\%$$

113240

(3)

(LO 1 AS 4, Level 3)
 REPORT TO FRESHLY GROUND LTD

Calculate Debtors Collection Period – 2009

$$\frac{\text{Average Debtors}}{\text{Credit Sales}} \times 365 =$$

$$\frac{\frac{1}{2}(74\,500 + 113\,250) \times 365}{448\,320} \text{ OR}$$

$$\frac{93\,875 \times 365}{448\,320} = 76 \text{ Days}$$

OR $\times \frac{12}{1}$
 = 2,5 months

(4)

1.5.3 (LO 1 AS 4, Level 4)

Yes, Debt collections have increased from 45 days to 76 days, this supports information in the article where debtors have extended credit terms to 60 – 90 days, credit retailers are experiencing tough times.

- Revise credit terms of 30 days as we are not achieving this.
- Provisions are too low and therefore debtors are inflated in Woolies, etc. have had an 80% increase in problem debtors, Freshly Ground could also have problems.
- Debtors have increased therefore more risk of debtors not paying.
- R35 965 is in 90 days column, therefore is doubtful for collection. (31% could be bad)
- Specific debtors, Smith, Purdon and Rau having problems – 90 days outstanding.
- 90 days = 32% of total debt or only 39% in line with credit terms.
- Many new accounts, which might prove to be poor performing in the future.
- Smith and Rau still allowed to purchase when they have 90 day+ balances.
- Amongst old debtors 88% exceed 30 days terms and 72% exceed 60 days.

Accept other valid acceptable answers.

(10)

1.5.4 (LO 1 AS 4, Level 5)

Discuss 3 Strategies/ Control measures

- Increase credit terms for customers but charge interest.
- Contact debtors who appear to be having difficulties in paying accounts to renegotiate credit terms.
- Stricter applications – not allowing new accounts in current climate – *consumer slow down*.
- *To decide whether or not to give credit or extend credit terms, businesses need accurate information on the financial status of their customer.*
- Are credit limits being enforced, i.e. don't let people buy on credit if they have defaulted on a payment.
- If the big businesses are experiencing huge bad debts then it is likely we are going to experience similar consumer patterns.

Accept other valid acceptable answers.

(1 × 3 = 3)

[30]

QUESTION 2 PROJECTIONS AND BUDGETS (40 marks; 40 minutes)

2.1 (LO 2 AS 2 Level 2)

Learners can choose any expense or income item. They then need to explain why it could be shown as a different amount in the two statements. Cash budget predicting inflow/ our flow of cash whereas projected income statement shows the predicted cost/ income earned for this period. They need to give example, e.g. rent expense might be R48 000 (R4 000 a month) in the projected income statement but because R4 000 might still be owing, it would only be R44 000 in the cash Budget. (2)

2.2 (LO 2 AS 2 Level 3)

The number of vehicles sold has decreased significantly. Possible reasons: interest rates – therefore people not wanting to spend, petrol price increases, current economic conditions, credit crunch. **one per reason.** Pre-owned cars cutting into sales of new cars (15% mark-up versus 25%). (3)

2.3.1 (LO 2 AS 2 Level 3)

$68\ 000 / 272\ 000 \times 100 = 25\%$ (1)

2.3.2 (LO 3 AS 1 Level 6)

Learners could argue either yes or no. Yes as R132 000 is not bad for a 5 year old car that seems to be well maintained, in comparison to a 2 year old which costs R38 000 more, used cars are flooding the market and therefore still good value. No, need to negotiate a better deal depending on whether buying the new or the used vehicle. Need to check prices that other cars are being sold for in this range. The article suggests that trade-in values have decreased, therefore, not many people are able to afford new cars. $\frac{132\ 000}{272\ 000} \times \frac{100}{1} = 48,5\%$ of final price → depreciation of 10% p.a. which is reasonable. (2)

2.3.3 (LO 3 AS 1 Level 5)

Option you have recommended for Mrs Benz	
a b c d	Reason for your choice
	(a) R25 000 is still better than getting into debt for large amounts of money, could try and extend the maintenance plan for an additional fee.
	(b) New car comes with maintenance plan and therefore not so costly to maintain, status of owning a new car, there are good deals such as free petrol or reduced interest rates on offer.
	(c) Cars have the highest depreciation in their first year; cheaper in the long run than the new car.
	(d) Only need to finance 38 000 – cheaper than other options assuming that the condition of this car is reliable.
Explanations	
Reason for not choosing this option	
(a) R25 000 is a huge cost to pay on a depreciating asset, car could start to give maintenance problems which could cost more in the future. Other suitable answers acceptable.	
Reason for not choosing this option	
(b) Significant amount of money to finance – the most expensive option, with current conditions as they are it might not be a good time to get into more debt, manufacturers are also increasing the prices of new cars as a result of them feeling the pinch of the economic decline so therefore new cars are more expensive. Other suitable answers acceptable.	

Reason for not choosing this option (c) Second-hand cars can come with reliability problems, still has balance of motor-plan but this could be adding to the cost of the vehicle, have no choice in terms of the colour and extras. Other suitable answers acceptable.
Reason for not choosing this option (d) Repossessed cars are cheaper but are sold voetstoets. Therefore you may not have the full history of the car. Has a maintenance plan but has to sell the car privately which may not be easy to do when car manufacturers are offering such good deals and options. Other suitable answers acceptable.
(6)

2.4 (LO 3 AS 1 Level 4)

Dr Vehicles Cr trading stock as the stock consists of vehicles which needs to be allocated to a tangible asset.
(4)

2.5.1 (LO 2 AS 2 Level 3, 4)

Mark-up on cost (new and pre-owned)	
<p>Calculations actual mark-up achieved in October</p> <p>Actual</p> <p>New = $\frac{(777\ 600 - 648\ 000)}{648\ 000} \times \frac{100}{1}$ = 20%</p> <p>Pre-owned = $\frac{(999\ 000 - 900\ 000)}{900\ 000} \times \frac{100}{1}$ = 11%</p>	<p>Discuss whether their predictions for November are realistic</p> <p>In October they did not achieve mark-up. One would expect mark-ups to decrease but we have unrealistically increased mark-up on new cars to 27% and realistically decreased pre-owned to 10%. They are predicting an increase in pre-owned car sales. The media indicate that this is so. Realistic to expect an increase in new car sales in the current economic climate.</p>
(4)	

2.5.2 (LO 2 AS 2, Level 3, 5)

Actual vs predicted number of cars sold

<p>Calculations</p> <p>The business has shown a decrease in number of cars sold from 32 – 15 cars.</p>	<p>Discuss whether their predictions for November are realistic</p> <p>Sales has rapidly declined not just for our business but globally. Yet in November we are predicting 27 cars to be sold. Unrealistic due to current trends/ Realistic as economy and petrol prices have improved.</p> <p>Also average selling price per car: Projected for October = R124 375 Actual for October = R118 440 (were more discounts given!) Projected for November = R121 065</p> <p>In the current climate, how do they foresee that the average selling price will increase yet still sell more units?</p>
(3)	

2.5.3 (LO 2 AS 2, Level 3, 5)

Actual vs Predicted Operating expenses	
<p>Calculations</p> $\frac{412\,540 - 393\,980}{393\,980} \times \frac{100}{1} = 4,7\%$ $\frac{487\,930 - 412\,540}{412\,540} \times \frac{100}{1} = 18\%$ <p>An actual increase of 4,7% on Budget and further 18% planned for in November OR 24% increase in November compared to October projection.</p>	<p>Discuss whether their predictions for November are realistic</p> <p>Yes realistic because of the general increase which is due to inflation, huge increase in the advertising costs probably due to the decrease in sales. Commission was a lot less due to fewer cars being sold, other costs also increased slightly. Rapid increase in operating costs.</p> <p>Most expenses are well projected – seem to be realistic in terms of inflation. However, advertising and customer incentives have been increased dramatically maybe too much.</p>
	(3)

2.5.4 (LO 2 AS 2, Level 3, 4)

Net Profit for the year

<p>Calculations</p> $317\,620 - (161\,740)$ $= 479\,360 \text{ decline in profit}$	<p>Discuss whether their predictions for November are realistic</p> <p>Business trying to be optimistic for November by predicting a profit, however, a lot less than what was planned for in October. A lot of factors influencing loss beyond control of the dealership.</p>
	(2)

2.5.5 (LO 2 AS 2, Level 5, 6)

<p>Five points to improve financial results in November.</p> <ul style="list-style-type: none"> □ Revise mark-up policy, during November we tried to increase mark-up on new cars, this will detract potential customers even more so. □ Boost new car sales as these are more profitable. □ Need to boost volume of cars sold especially to meet November budget → attempt is being made to do this with Advertising and incentive plans (such as those discussed in article). □ Most expenses well projected. Advertising and customer sales incentives are costing the business hugely. Need to investigate sales staff to see if being implemented correctly. (Other costs in line with inflation) □ Could consider retrenching employees to reverse losses. □ Profitability was further impacted with additional loans being taken out, therefore, interest costs increased. □ Could investigate offers being made by car manufacturers. 	(10)
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[40]

QUESTION 3 ANALYSIS OF FINANCIAL STATEMENTS (30 marks; 45 minutes)

3.1 (LO 1 AS 5 Level 4)

Famous Brands predominantly deals with the fast food industry whereas Spur deals with family dining.

(1)

3.2.1 (LO 1 AS 5 Level 3)

129 194 – 6 624 : 62 396

1.96 : 1 or 2 : 1

(2)

3.2.2 (LO 1 AS 5 Level 4)

Spur's current ratio appears to be better than Famous Brands, however, the acid test ratio appears to be high which could suggest they have too much money tied up in stocks or cash which is not good for a food business.

Famous Brands – Current ratio has improved, acid test ratio is within acceptable norms. Debtors and cash have probably increased as stock has decreased from last year.

Spur could have too much stock but Famous Brands might not have enough liquid cash.

(4)

3.3.1 (LO 1 AS 5 Level 5)

Spur appears to have been affected most as they had an unsuccessful venture and their profitability declined significantly by 4,5%. Whereas Famous Brands had a very successful first half of the year which managed to balance out the poor performance in the second half of the year.

(2)

3.3.2 (LO 3 AS 3 Level 5)

The learner should not agree with this as it is unethical business to hide such information. Corporate Governance – transparency.

(2)

3.4 (LO 1 AS 5 Level 2)

So that the shareholders still have faith in the business, despite the negative trends – profits, not to cause a huge decrease in the value of the shares as shareholders start feeling nervous about their investment, still getting a return.

(1)

3.5.1 (LO 1 AS 4 Level 3)

230 654 : 405 872

0,6 : 1 or 0,57 : 1

(2)

3.5.2 (LO 1 AS 5 Level 4)

No – low risk 0,6 : 1, positively geared 40% as opposed to current interest rates about 7 – 10%.

Money is being invested in logistics and expansion and refurbishment programmes which will boost future earnings.

(3)

3.6.1 (LO 3 AS 3 Level 2)

To ensure that the business has adhered to a code of ethics and good business practices especially as there is separation of ownership from management.

(2)

3.6.2 (LO 3 AS 3 Level 3)

<ul style="list-style-type: none"> □ Accountability – ensure that the directors can account for where and what they have spent the shareholders' money on, and that they are accountable for their actions and for the results of the company. Auditors will check that what is being reported in the financial statements is a true account of the transactions for that business.
<ul style="list-style-type: none"> □ Transparency – the auditors will perform audit checks to ensure that the company has been open about the contracts and business deals by correctly reporting on them in the financial statements of the business.
<ul style="list-style-type: none"> □ Fairness – the auditors express an opinion on whether the financial statements are a true and fair reflection of the business by collecting audit evidence in their audit.

(3)

3.7.1 (LO 1 AS 5 Level 3)

SPUR CORPORATION	FAMOUS BRANDS LTD
NAV improved slightly 457,87 to 495,83 by 8.1. Market price declined by 48% from 1180 to 620. People might not have money to invest in shares.	NAV improved 99,5 to 136,7 by 37.1. Market price improved by 2.1 from 1590 to 1624.

(4)

3.7.2 (LO 1 AS 5 Level 5)

SPUR CORPORATION	FAMOUS BRANDS LTD
Decrease in market price	Increase in market price
1. Operating activities on the cash flow have decreased by 35% – not good could impact on the cash flow.	1. Operating activities increased which will have a positive effect on the cash position of the business. Which is good considering the loans that have been taken out.
2. Return on Shareholder's equity – this has decreased by 4,1% – shareholders won't be happy as their investment is not as profitable as last year – could lose faith in the company if things don't improve in the next interim.	2. Return on equity (2% increase) and NAV have improved as a result of the good performance of the company in terms of profitability. Even the issue of new shares did not dilute the earnings as they have increased.
OR EPS/DPS – could also mention these in terms of shareholders' confidence.	OR EPS/DPS – earnings increased and DPS increased.

(4)

[30]

Total: 100 marks