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GRADE 12

ACCOUNTING

NOVEMBER 2014

MEMORANDUM

MARKS: 300

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer).
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
10. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
11. Be aware of candidates who provide valid alternatives beyond the marking guideline.
12. Codes: f = foreign item; p = placement/presentation.

This memorandum consists of 19 pages.

QUESTION 1**1.1**

| | | |
|--------------|----------------------|---|
| 1.1.1 | Value-added tax | ✓ |
| 1.1.2 | 0% Zero-rated | ✓ |
| 1.1.3 | First In First Out | ✓ |
| 1.1.4 | Perpetual/Continuous | ✓ |

4

1.2**Calculate the final amount payable to SARS on 31 July 2014.**

Mark one line only – choose method to benefit candidate

any one part correct

 $- 11\,200 \checkmark + 126\,000 \checkmark - 77\,000 \checkmark + 273 \checkmark - 6\,692 \checkmark \checkmark - 1\,330 \checkmark \checkmark = 30\,051 \checkmark$
OR
 $11\,200 \checkmark - 126\,000 \checkmark + 77\,000 \checkmark - 273 \checkmark + 6\,692 \checkmark \checkmark + 1\,330 \checkmark \checkmark = -30\,051 \checkmark$

Mark one account only – choose account to benefit candidate

| VAT Control (could be Input & Output) | |
|---|----------------------|
| ✓ 11 200 | ✓ 126 000 |
| *✓ 77 000 | ✓ 273 |
| ✓✓ 6 692 | |
| *✓✓ 1 330 | |
| ☑ 30 051 | any one part correct |

Accept negative figures or brackets on opposite sides

77 000 + 1330 = 78 330 3 marks

77 000 – 273 = 76 727 2 marks

77 000 + 1 330 – 273 = 78 057 4 marks

126 000 – 6 692 = 119 308 3 marks

9

1.3**1.3.1****Calculate the total amount paid for carriage on the purchases on 11 June 2014.**

(1 600 x 215) 2 marks

 $R352\,600 \checkmark - 344\,000 \checkmark \checkmark = 8\,600 \checkmark$ operation any one part correct

4

1.3.2**Calculate the value of the closing stock on 30 June 2014 using the weighted-average method.**

769 650 (2 marks)

(352 600 + 290 400 + 127 850) 1 mark

 $77\,900 \checkmark + 770\,850 \checkmark - 1\,200 \checkmark \times 580 \checkmark$
 $410 \checkmark + 3\,280 \checkmark - 5 \checkmark$

3 690 or 3 275 (2 marks)

(1 600 + 1 210 + 470) 1 mark

 $\frac{847\,550}{3\,685} \times 580$ 3 marks X 580 1 mark

3 685 3 marks

 $= R133\,400 \checkmark$ operation any one part correct

8

1.3.3 Explain the effect that this will have on the gross profit.

Gross profit will increase ✓✓ (by R20 850)

ONE valid reason for changing the stock valuation method:

✓✓ Award part-marks for partial answers

- FIFO is a more suitable or accurate or realistic method of valuing stock of blazers.
- Blazers are discrete units where cost is easily identified.
- FIFO is more suitable or accurate or realistic because stock is valued at the most current / changing prices.

ONE valid reason against changing the stock valuation method:

✓✓ Award part-marks for partial answers

- It is unethical / fraudulent / wrong / to manipulate financial records.
- Will lead to an increase in tax.
- Inconsistency / It is important that financial records are consistent from one year to the next (comparability).
- Over a period of time there is no difference in the total gross profit earned.

| |
|---|
| |
| 6 |

1.3.4 Harry is concerned about the control of his stock of blazers. He has sold 2 900 blazers during the year. Give a calculation to support his concern.

Be alert to other methods e.g. solve for x

Mark one line only – choose method to benefit candidate

✓

✓

✓

☒

operation any one part correct

$$(410 + 3\,280 - 5) - 580 - 2\,900 = 205$$

3 685 1 mark 3 105 2 marks

OR

$$(-410 - 3\,280 + 5) + 580 + 2\,900 = -205$$

| |
|---|
| |
| 4 |

| |
|------------------------|
| TOTAL MARKS |
| |
| 35 |

QUESTION 2

- 2.1 The bookkeeper, Litzie, says it is not necessary for her to prepare a **Creditors' Reconciliation Statement** because the creditors send monthly statements to the business anyway. What would you say to her? State **TWO** points.

Any TWO valid points ✓✓ ✓✓ Must be 2 separate points;
Award part-marks for incomplete answers

Expected responses:

- The statement could contain errors.
- This is an internal control measure.
- This will lead to detection of errors/omissions/fraud.
- To compare/check/reconcile the account to the statement.
- To ensure VAT return is correct / to assist in doing the VAT return.

4

- 2.2

| No. | Creditors' Ledger of KZ Stores | Statement of account received from Valley Ltd |
|---------|--|--|
| Balance | 112 820 | 182 150 |
| A | – 9 000 | – 9 000 |
| B | ✓✓ + 87 500 | |
| C | | ✓✓ + 7 200 |
| D | | ✓✓ - 1 400 |
| E | | ✓✓ - 630 |
| F | ✓✓ + 2 100 | |
| G | ✓ - 5 250 ✓ - 5 250 - 10 500 (2 marks) | |
| H | | ✓✓ + 4 600 |
| | 182 920 ✓* | 182 920 ✓* |

16

* Any ONE part correct; check reasonableness & including opening figures;
Totals do not have to agree

Sign and amount must be correct to award marks;

If no sign, assume positive

Accept brackets as a negative figure

Foreign / superfluous entries -1 each line; cannot be less than 0 per line

2.3 2.3.1 Explain what action should be taken against J van Wyk. State TWO points.

Any two valid points ✓✓ ✓✓ Must be 2 separate points; Cannot conflict with each other
Award part-marks for incomplete answers

- Must be subjected to a disciplinary hearing
- Open a criminal case at SAPS
- Redeploy pending decision / suspend pending decision (on outcome of the hearing/case)
- Require employee to refund/repay employer for the costs/deduct from salary/take legal action for repayment
- Dismiss him as this is gross misconduct

Do not accept warning as a valid point for 2 marks unless candidate also mentions repayment as a point – in context of R37 500 fraud, warning alone is not sufficient

| |
|---|
| |
| 4 |

2.3.2 What must the business do to prevent a similar incident in future? Explain THREE points.

Any THREE valid points ✓✓ ✓✓ ✓✓ Must be 3 separate points;

For 2 marks:

- Division of duties so that each person serves as a check on another / get someone else to authorise these transactions.
- Rotate duties so that employees do not have permanent control over an aspect of the business.
- Conduct internal audits / check documents to detect the fraud and errors.
- Physical stock control (to records) / check stock on hand to stock records.
- When goods are received, the receiving officer must check the stock received to the invoice and order form.
- Inform suppliers of the procedure for delivering goods to the business and do not deviate from this.

| |
|---|
| |
| 6 |

| |
|------------------------|
| TOTAL MARKS |
| |
| 30 |

QUESTION 3**3.1 3.1.1 SHARE CAPITAL****AUTHORISED SHARE CAPITAL**

750 000 ordinary shares

ISSUED SHARE CAPITAL

| | | | |
|---|--|--|---|
| 450 000 ✓ | Ordinary shares in issue on 1 March 2013 | 3 215 000 ✓ | |
| 80 000 | Ordinary shares issued during the year | 760 000 ✓✓ | |
| (75 000) | Ordinary shares re-purchased (average price of R7,50✓) | operation (562 500) ✓✓ | |
| 5 000 more than opening figure 455 000 ✓ | Ordinary shares in issue on 28 February 2014 | Operation; one part correct OR shares x avg price used 3 412 500 ✓ | 9 |

3.1.2 RETAINED INCOME

| | | |
|---|---|----|
| Balance on 1 March 2013 | 322 500 | |
| Net profit after tax | 812 700 ✓✓ | |
| Shares repurchased operation one part correct and in brackets 75 000✓ x 2,90✓ if R10,40-avg price above; must be at ≥R0,01 per share | (217 500) 217 500 2 marks Zero 0 marks ✓ | |
| Ordinary share dividends operation one part correct and in brackets | (482 000) ✓ | |
| Interim dividends / Paid | 270 000 ✓ | |
| Final dividends / Declared 530 000✓ see 3.1.1 x 40 cents ✓ | one part correct 212 000 ✓ | |
| Balance on 28 February 2014 operation | 435 700 ✓ | 11 |

Foreign entries -1 (-2 max)

3.2 VIJAY LIMITED**BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON
28 FEBRUARY 2014**

| | | | | |
|--|--|------------------------|----|----|
| ASSETS | | | | |
| Non-current assets | operation (total assets – current assets) | 3 884 000 | ✓ | 2 |
| Fixed assets | operation | 3 234 000 | ✓ | |
| Financial asset: Fixed deposit | | 650 000 | | |
| | | | | |
| Current assets | operation | 863 100 | ✓ | 5 |
| Inventories | | 275 400 | | |
| Trade and other receivables (243 500 ✓ + 7 600 ✓) | | 251 100 | ✓ | |
| Cash and cash equivalents | | 336 600 | | |
| | | | | |
| TOTAL ASSETS | transfer total equities and liabilities | 4 747 100 | ✓ | |
| | | | | |
| EQUITY AND LIABILITIES | | | | |
| | | | | |
| Shareholders' equity | operation | 3 848 200 | ✓ | 3 |
| Ordinary share capital | see 3.1.1 | 3 412 500 | ✓ | |
| Retained income | see 3.1.2 | 435 700 | ✓ | |
| | | | | |
| Non-current liabilities | | 451 200 | | 4 |
| Loan : William Bank (482 600 ✓ + 81 400 ✓ – 112 800 ✓) OR (482 600 + 81 400) x 80% | one part correct | 451 200 | ✓ | |
| | | | | |
| Current liabilities | operation | 447 700 | ✓ | 12 |
| Trade and other payables (62 460 ✓ + 12 120 ✓) | one part correct | 74 580 | ✓ | |
| Shareholders for dividends | OR 482 000 # | Refer 3.1.2 212 000 | ✓✓ | |
| SARS : Income Tax (348 300 ✓ – 299 980 ✓ must be deducted under CL) | | 48 320 | ✓ | |
| Current portion of loan | check that loan has been reduced by this | 112 800 | ✓✓ | |
| | | | | |
| TOTAL EQUITY AND LIABILITIES | operation | 4 747 100 | ✓ | |
| | | | | |

26

26

Foreign entries -1 (max -2)

Presentation / Placement / Incorrect or incomplete details -1 (max -2)

3.3 Calculate the return on average shareholders' equity for 2014.

$$\frac{812\,700 \checkmark \text{ see 3.1.2}}{\frac{1}{2} \checkmark (3\,537\,500 \checkmark + 3\,848\,200 \checkmark) \text{ see 3.2}} \times 100 = 22,0\% \checkmark \text{ operation, \%, one part correct}$$

3 692 850 3 marks

5

3.4 From 2013 to 2014 the directors made a deliberate decision to change the policy on the distribution of profits in the form of dividends. Comment on this change. Quote financial indicators or figures to support your answer.

They paid out 100% (all) ✓ of their earnings in 2013 compared to 59% ✓✓ of their earnings (100÷170 cents) in 2014. The business is retaining funds for future expansions / development / support equalising dividends in future / to improve NAV. ✓

OR

They did not retain any earnings in 2013 (1 mark). In 2014 they retained 70 cents (41%) of EPS (2 marks). The business is retaining funds for future expansions / development / support equalising dividends in future / to improve NAV. (1 mark).

4

3.5 Comment on whether the shareholders should be satisfied with the percentage return and the market price of their shares. Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trends. Give an additional comment in each case.

Indicators ✓ ✓ Trends & figures ☒ ✓ Extra comment ✓ ✓

ROSHE (1 mark):

Increased from 18,3% to 22% (1 method mark) / by 3,7% points. (see 3.3)

This exceeds the return on alternative investments (of 9%). (1 mark)

Must mention NAV as the indicator; Allocate 1 mark for trend of either the NAV or market price

NAV (1 mark) is 846 cents

NAV increased by 60 cents (from 786c to 846c)

Market price decreased by 28 cents (from 1060c to 1032c)

The market price exceeds the NAV (1 mark) / investors are prepared to pay extra for the shares.

6

3.6

The external auditors, Hassan and Jacob, have employed Janet to work on the audit of Vijay Ltd. Janet owns 10 000 shares in Vijay Ltd.

Explain why this is a problem. ✓✓ Any one valid reason; part-marks for partial answers

- It is a conflict of interest/unethical.
- She could influence the results in a positive or negative way.
- Overlooking issues/insider information.
- She could be biased / not independent.
- Could put the validity / credibility of the audit at risk.

Give a valid solution. ✓✓ Any one valid reason; part-marks for partial answers

- She should sell the shares if she wants to continue working on the audit.
- She must be removed from this audit / she recuses herself from the audit / she takes on other projects within this audit firm.
- She must disclose her vested interest and ensure that her employers / review committee make a decision on her participation in the audit.

4

| |
|------------------------|
| TOTAL MARKS |
| |
| 65 |

QUESTION 4

4.1 Calculate the missing amounts (indicated by a, b and c) in the Fixed/Tangible Asset Note for the year ended 28 February 2014.

| NO. | WORKINGS | AMOUNT |
|-----|--|---|
| a | 6 740 000 – 2 689 000 no part marks | 4 051 000 ✓✓ |
| b | 140 000 – 33 600 no part marks | 106 400 ✓✓ |
| c | $5\ 600 + 11\ 000 + 20\% \times (3\ 110\ 000 - 1\ 342\ 000)$ $353\ 600 \text{ (3 marks)}$ <p>OR:</p> $5\ 600 + 20\% \times [(1\ 768\ 000 \times 10/12) + (2\ 098\ 000 \times 4/12)]$ $294\ 667 + 69\ 933$ | one part correct 370 200 ✓ |

12

| | |
|--|---|
| 4.2 | METEOR SUPERMARKETS LTD |
| | CASH FLOW STATEMENT FOR YEAR ENDED 28 FEBRUARY 2014 |
| Cash flow from operating activities | (1 039 900) ✓ Operation# |
| Cash generated from operations | 969 600 |
| Interest paid | (88 500) |
| ✓ Taxation 441 000 ✓ + 122 000 ✓ + 128 000 ✓ Details & correctly placed 563 000 (2 marks) OR -441 000 – 122 000 – 128 000 | (691 000) ✓ 691 000: 3 marks Operation; one part correct & brackets |
| ✓ Dividends 480 000 ✓ + 750 000 ✓✓ Details & correctly placed 480 000 + 1 620 000 – 870 000 OR -480 000 – 1 620 000 + 870 000 1 mark 1 mark 1 mark | (1 230 000) ✓ 1 230 000: 3marks Operation one part correct & brackets |
| Cash flow from investing activities | (4 274 600) ✓ Operation# |
| ✓ Purchase of fixed assets 4 051 000 ✓ + 330 000 ✓ Details & correctly placed see 4.1 a | (4 381 000) ✓ 4 381 000: 2 marks Operation one part correct & brackets |
| ✓ Proceeds from disposal of fixed assets Details & correctly placed | 106 400 ✓ See 4.1b & no brackets |
| Cash flow from financing activities | 2 325 000 ✓ Operation# |
| ✓ Proceeds from the sale of shares Details & correctly placed | 2 400 000 ✓ 2 400 000: 1 mark correct & no brackets |
| ✓ Share buy-back 50 000 x R9,50 Details & correctly placed | (475 000) ✓ 475 000: 1 mark correct & brackets |
| ✓ Change in loan Details & correctly placed | 400 000 ✓ 400 000: 1 mark correct & no brackets |
| Net change in cash and cash equivalents | (2 989 500) ✓ Operation |
| Cash and cash equivalents at beginning of year | 2 488 000 |
| Cash and cash equivalents at end of year | (501 500) ✓✓* |

31

* Operation from top OR R13 500 OR (R515 000)

Valid alternative details acceptable # Operation one part correct in the sub-section (figures/details)

4.3 At the AGM, a shareholder stated that the Cash Flow Statement reflects poor decisions by the directors. Explain TWO points, with relevant figures, to support his opinion.

Any TWO valid answers: Explanation ✓ ✓ Figures ✓ ✓

- Dividends of R1 230 000 (see 4.2) cause a negative figure for cash retained from operating activities.
- Fixed assets bought are very high (R4 381 000) (see 4.2) which leads to a bank overdraft.
- The directors allowed a large bank overdraft of R515 000 or R501 500 to result from high payments for dividends/fixed assets.
- The buy-back of shares (R475 000) (see 4.2) reduced cash resources / reduced capital base of the company.
- The vehicle was sold at book value (R106 400) (see 4.2) and was only 1½ years old.

| |
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| |
| 4 |

4.4 4.4.1 Calculate the net asset value per share for 2014.

$$\frac{8\,839\,000 \checkmark}{1\,450\,000 \checkmark} \times \frac{100}{1}$$

= 610 cents ☒ one part correct; R or c or 609,6 cents or R6,10

| |
|---|
| |
| 3 |

4.4.2 Calculate the debt-equity ratio for 2014.

$$908\,000 \checkmark : 8\,839\,000 \checkmark$$

= 0,1 : 1 ☒ one part correct; must be x:1

| |
|---|
| |
| 3 |

4.5 Comment on the liquidity position of the company. Quote THREE relevant financial indicators (actual figures/ratios/percentages) and their trends.

Any THREE valid financial indicators:

Name of financial indicator ✓ ✓ ✓

Figure and trend ✓ ✓ ✓

- Current ratio: 3,6 : 1 → 1,6 : 1 / decreased to 1,6 : 1
- Acid test ratio: 3,1 : 1 → 1,2 : 1 / decreased to 1,2 : 1
- Stock turnover rate: 5,1 → 6,8 times p.a./ increased to 6,8 times
- Debtors' collection period: 35 → 40 days / increased to 40 days

General comment: For 3 marks (need only mention 3 indicators):

The liquidity has generally improved. The current ratio and acid-test ratio were too high in 2013. They are now much more efficient in 2014. The stock is now being sold more quickly which will generate greater profit. However the debtors are paying slightly more slowly – this trend must be rectified next year.

One valid point per indicator **OR** 3 marks for overall comment:
Excellent answer = 3 marks; Good = 2; Poor = 1; Incorrect = 0
Increases/decreases are not a comment – these are trends
Comment would be on improvement or not / efficiency

Expected responses for 1 mark each:

- The current ratio improved / was possibly too high in 2013 / cash was too high / current assets do not earn any return / they may be more efficient in 2014.
- The acid test ratio improved / is more efficient in 2014 / cash is lower
- The stock turnover rate has improved / stock increased but is being sold more quickly / assists liquidity and is appropriate for a supermarket.
- The debtors are paying more slowly / this trend must be rectified / normal credit terms 30 days.

| |
|---|
| 9 |
|---|

4.6 The directors decided to increase the loan during the current financial year. Quote TWO financial indicators (actual figures/ratios/percentages) that are relevant to their decision. Explain why this was a good decision, or not.

ROTCE ✓

- This is 18,8% ✓

DEBT/EQUITY RATIO ✓

- This is 0,1 : 1 (see 4.4.2) ✓

Explanation: Depends on calculation above

- Positively geared as ROTCE is higher than interest rate ✓✓
- Low financial risk / Not making much use of loans (it relies more on funds from internal sources) ✓✓

| |
|---|
| 8 |
|---|

- 4.7 The Bakker family owns 740 000 shares in this company. Explain the effect that the repurchase of shares on 31 December 2013 had on their control of the company. Give a calculation(s) to support your answer.**

Before the repurchase the family's shareholding was:

$$\overset{\checkmark}{\frac{740\,000}{1\,500\,000}} \times \overset{\checkmark}{\frac{100}{1}} = 49,3\%$$

Both figures

After the repurchase the family's shareholding is:

$$\overset{\checkmark}{\frac{740\,000}{1\,450\,000}} \times \overset{\checkmark}{\frac{100}{1}} = 51,0\%$$

Both figures

(Note: Shareholding increased by 1,7%; this is correct for 4 marks)

The family is now the majority shareholder. ✓

For 3 marks:

They owned less than half the shares in issue before the repurchase (1 mark) but now own more than half the shares in issue (1 mark). The family is now the majority shareholder (1 mark).

For 3 marks:

They owned 740 000 of 1,5m shares before the repurchase (1 mark), and they owned 740 000 of 1,45m shares after the repurchase (1 mark). The family is now the majority shareholder (1 mark).

| |
|---|
| |
| 5 |

| |
|----------------|
| TOTAL MARKS |
| |
| 75 |

QUESTION 5

5.1 List **FOUR** items that should not have been placed in this Cash Budget.

Discount received ✓
Bad debts ✓
Cost of sales ✓
Depreciation ✓

-1 for each superfluous additional item if four marks are earned

4

5.2 CREDITORS' PAYMENT SCHEDULE

| MONTH | CREDIT PURCHASES | OCTOBER | NOVEMBER | DECEMBER |
|-----------|----------------------------|---------|----------------|-----------|
| August | 64 000 | 9 600 | | |
| September | 67 200 | 50 400 | 10 080 | |
| October | 74 000 | 7 030 | 55 500 | ✓✓ 11 100 |
| November | 68 000 | | 6 460 | ✓✓ 51 000 |
| December | 70 000✓✓ | | If x 10% x 95% | ✓☑ 6 650 |
| | operation one part correct | 67 030 | 72 040 | ☑ 68 750 |

9

5.3 5.3.1 Calculate the total sales for September 2014.

$$\frac{40\,500 \checkmark \times 100}{15 \checkmark} = 270\,000 \checkmark \quad \text{operation one part correct}$$

3

5.3.2 Calculate the percentage increase in rent income in December 2014.

$$\frac{1\,000 \checkmark \times 100}{8\,000 \checkmark \times 1} = 12,5\% \checkmark \quad \text{operation one part correct; accept 12,5}$$

3

5.3.3 Calculate the salaries and wages amount for December 2014.

$$46\,000 \checkmark \times 108,5\% \checkmark = 49\,910 \checkmark \quad \text{operation one part correct}$$

OR

$$\begin{array}{rcl} 46\,000 & + & 3\,910 \\ 1 \text{ mark} & & 1 \text{ mark} \end{array} = 49\,910 \quad 1 \text{ method mark}$$

3

5.3.4 Calculate the rate of interest on the loan.

$$\frac{1\,125 \checkmark \times 100 \times 12 \checkmark}{150\,000 \checkmark} = 9\% \checkmark \quad \text{operation one part correct; accept 9}$$

$$\frac{150\,000}{1} \times \frac{\text{Rate}}{100} \times \frac{1}{12} = 1\,125 \quad \text{Rate} = 9\%$$

4

5.4 5.4.1 Calculate the period for which enough stock is on hand (in days) on 30 September 2014.

$$\frac{250\,000 \checkmark}{1\,228\,000 \checkmark} \times 365 \checkmark = 74,3 \text{ or } 74 \text{ days } \checkmark \quad \begin{array}{l} \text{operation one part correct;} \\ \text{accept 74,3 or 74} \end{array}$$

Explain whether this is appropriate for the business. ✓✓

Responses will depend on answer above

Must compare period above to shelf life (unless his answer above is less than 2 months)

Any valid comment, e.g.

- (Not appropriate) – period of stock on hand exceeds the shelf life.
- (Not appropriate) – it exceeds shelf life, the business will be left with stock that cannot be sold / will have to destroyed the stock.
- (Not appropriate) – loss of profits as stock has exceeded its shelf life.

6

5.4.2 Calculate the mark-up percentage achieved for the year ended 30 September 2014.

$$\frac{552\,600 \text{ two marks} \times 100}{\frac{1\,780\,600 \checkmark - 1\,228\,000 \checkmark}{1\,228\,000 \checkmark}} = 45\% \checkmark \quad \text{operation one part correct, accept 45}$$

4

5.4.3 Comment on whether or not the change in the mark-up percentage has benefited the business. Give a calculation(s) to support your opinion.

Answer for FOUR marks:

This resulted in a decrease in gross profit ✓.

GP for 2013 = R1 680 000 x 60/160 = R630 000 ✓✓

GP for 2014 = R1 780 600 – R1 228 000 = R552 600 ✓

OR

GP decreased (1 mark) by R77 400 (3 marks)

OR

GP decreased (1 mark) by 12,29% (3 marks) Accept 12,3%

| |
|---|
| |
| 4 |

| |
|------------------------|
| TOTAL MARKS |
| |
| 40 |

QUESTION 6

6.1 BRIAN'S BRELLIES

6.1.1 Calculate the direct labour cost.

| | | | |
|--------------|--------------------------------------|---------|---|
| Normal time: | 1 920✓ x R95✓ = 182 400 x 3✓ | 547 200 | |
| Bonus: | 547 200 x 12% if 12% of figure above | 65 664 | ✓ |
| | one part correct | 612 864 | ✓ |
| | 3 x (182 400 + 21 888) = 612 864 | | |
| | 1 mark 2 marks 1 mark 1 mark | | |

5

6.1.2 FACTORY OVERHEAD COST

| | |
|--|-------------------|
| Sundry factory expenses | 30 975 |
| Indirect material (52 200 ✓ + 4 400 ✓ – 3 600 ✓) | 53 000 ✓ |
| Rent expense (117 000 x $\frac{5}{8}$) | 73 125 ✓✓ |
| Insurance (16 640 ✓ – 1 280 ✓) x 75% ✓ | 11 520 ✓* |
| Salary of factory foreman (97 150 ✓ + 8 750 ✓ + 900 ✓) 9 650: 2 marks | 106 800 ✓* |
| Water and electricity (20 010 ✓ ÷ 60 ✓ x 80 ✓) 33 350 x 80/100 | 26 680 ✓* |
| *Cannot get full marks per line if answer is incorrect | |
| TOTAL | 302 100 ✓* |

19

-1 for foreign items (advertising)

6.1.3 PRODUCTION COST STATEMENT FOR THE YEAR ENDED
31 JULY 2014

| | |
|--|----------------|
| Direct material cost | 623 700 |
| #✓ Direct labour cost see 6.1.1 | 612 864 ✓ |
| Prime cost operation | 1 236 564 ✓ |
| #✓ Factory overhead cost see 6.1.2 | 302 100 ✓ |
| Total production cost operation | 1 538 664 ✓ |
| Work in process (1 August 2013) | 37 600 ✓ |
| | 1 576 264 |
| Work in process (31 July 2014) | (42 600) ✓ |
| Cost of production of finished goods operation (must be subtracted) | 1 533 664 ✓✓ |

10

Mark awarded for placement & description

6.2 BEN'S CATERING

6.2.1 Identify ONE unit cost for doughnuts and TWO unit costs for pies that were major problems in 2014, considering that the inflation rate was 5%.

Identify cost ✓ ✓ ✓ Figures ✓ ✓ ✓
Trends not necessary

Problem ✓ ✓ ✓ Valid advice ✓ ✓ ✓

| ONE unit cost for doughnuts (Quote figures.) | Problem and advice Both must be specific, not general FC & VC & general expenses |
|--|---|
| Variable costs now R5,00 / R4,30 → R5,00 (16,3%) | Must mention either DLC or S&DC Possible cause of the problem: Workers are not operating efficiently/Wages increased/More overtime |
| OR | Advice: Assess the efficiency of workers/Offer incentives/Time and motion studies/Restrict overtime/Train workers to be more efficient/Improve supervision |
| Direct labour cost now R1,90 / R1,55 → R1,90 (+ 23%) | OR |
| OR | Possible cause of the problem: Salespersons not efficient/Transport costs increased/Bad debts/Theft of fuel/Increase in fuel prices |
| Selling & distribution cost now R1,15 R0,70 → R1,15 (+ 64%) | Advice: Offer commission on sales/Look for cheaper forms of transport/Training/ Plan trips better |
| Do not accept Administration cost | |
| TWO unit costs for pies (Quote figures.) | Problem and advice Both must be specific, not general FC & VC |
| Direct material cost now R5.05 / R2,20 → R5,05 (+ 130%) | Must cover DMC Possible cause of the problem: Lack of expertise of workers/Poor quality raw materials/Increased raw materials cost/Theft of raw materials/Wastage |
| | Advice: Investigate causes of wastage/Look for a cheaper supplier/Better quality of raw material/Better training/Improve security |
| Factory overhead cost now R3,38 R2,50 → R3,38 (+ 35%) | Must cover FOHC Possible cause of the problem: Low production increased fixed cost per unit/Increase in certain costs, e.g. rent |
| Do not accept Administration cost | Advice: Increase units produced to reduce unit cost/Advertise the product better/Diversify the range/Economise on expenses, e.g. rent/water/ electricity |

6.2.2 Calculate the number of extra doughnuts he must produce and sell to make an additional profit of R15 000. Assume that the unit costs and selling price for 2014 remain unchanged.

If candidates use alternative methods, search for key figures to earn marks

$$15\,000 \checkmark / 3,00 \checkmark \checkmark \\ = 5\,000 \text{ extra units } \checkmark \\ \text{one part correct}$$

OR

$$\begin{aligned} \text{FC} &= 55\,000 \times \text{R}1,18 \\ &= \text{R}64\,900 \quad 1 \text{ mark} \\ \text{To cover} &= \text{R}64\,900 + \textbf{15\,000} \\ &= \text{R}79\,900 \quad 2 \text{ marks} \\ \text{Units needed} &= \text{R}79\,900 / \textbf{R}3 \\ &= 26\,633 \\ \text{BEP} &= 21\,667 \\ \text{Extra needed} &= \textbf{4\,966} \quad 1 \text{ mark} \\ &(\text{difference due to rounding off}) \end{aligned}$$

OR

| FC | Exis NP | Extra NP |
|---------------------------|-----------------------------|----------|
| 64 900 + 100 100 + 15 000 | | |
| (R8 – R5) | R3,00 | Contrib |
| | (2 marks) | |
| = 60 000 | to be made (1 mark) | |
| – 55 000 | currently made | |
| = 5 000 | units extra (1 method mark) | |

OR

$$\begin{aligned} \text{Sales } 55\,000 \times \text{R}8 &= \text{R}440\,000 \\ \text{COS } 55\,000 \times \text{R}5 &= \text{R}275\,000 \\ \text{GP} &= \text{R}165\,000 \\ \text{Target} &= \textbf{R180\,000} \quad (1 \text{ mark}) \\ \div \text{Contribution } \textbf{R3,00} & \quad (2 \text{ marks}) \\ &= 60\,000 \text{ units} \\ \text{Making } 55\,000 \\ \text{Additional} &= \textbf{5\,000 units} \quad (1 \text{ method mark}) \end{aligned}$$

4

6.2.3 Name the product which has been negatively affected by the new competitor.

Pies ✓

Comment on how this would have affected the net profit on this product.

- ✓✓ Sales & production decreased (44 000 → 35 000 units) / Ben has had to limit his price (to R12,50) / Reduction in price led to decrease in contribution (R6,15 → R4,20)
- ✓ Production is less than BEP
- ✓ This means that a loss will be made on the pies.

5

**TOTAL
MARKS**

55

TOTAL: 300