INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
NOVEMBER 2022

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

Refer to the information relating to Tank's Sportswear.

1.1 Complete the debtors' collection schedule for the period 1 January to 31 March 2023.

	January 2023 R	February 2023 R	March 2023 R
Collection of debts outstanding on 31 December 2022	45 000	42 300	
January 2023	41 040*	38 880	
February 2023	–	43 092	40 824*
March 2023	–	–	44 460
	Do not calculate		

Calculations:

Jan: 38 880 × 100 / 45 = 86 400
86 400 × 50% = 43 200 × 0,95 = 41 040 if 5% discount considered

Feb: 90 720 × 45% = 40 824

1.2 Calculate A–C on the cash budget. Show all calculations to obtain part-marks.

A:

90 720 + (5 760 / 2) = 93 600

OR

(2 × 90 720) + 5 760 = 187 200 / 2 = 93 600

OR

44 460 ÷ 95% = 46 800 ÷ 50% = 93 600

B:

90 720 × 2 = 181 440 total sales
181 440 × 100 / 150 = 120 960 total purchases
120 960 × 20% = 24 192 cash purchases

C:

90 720 × 2 = 181 440 total sales
181 440 × 100 / 150 = 120 960 total purchases
120 960 × 80% = 96 768

1.3 Tankiso is considering additional drawings by withdrawing stock of R1 000 in March 2023. What financial implication will this have on the budget?

> Physical stock is reduced by R1 000
> Due to fixed stock base, an additional R1 000 stock must be purchased when replenishing stock

1.4 You have established that Tank's Sportswear will encounter **liquidity problems** during the budget period.

1.4.1 Identify the **THREE** main reasons for this by referring to the cash budget and the information provided.

- Relocation cost of R45 000 in Jan
- Loan repayment of R90 000 in March
- Early payment to creditors
- Late receipts from debtors

1.4.2 What advice can you give Tankiso to improve the liquidity of the business?

- Enforce debtors' term – get them to pay on time
- Creditors allow 60 for payment but we pay in 30 – delay payment
- Reduce monthly drawings until cash flow stabilises
- Other acceptable options

1.5 Calculate the percentage increase that Tankiso applied to the average monthly sales of the previous year to determine the January 2023 budgeted sales figure.

1 728 000 / 12 = 144 000 × 50% = 72 000

$$\frac{86\,400\ (\text{see } 1.2\ (\text{a})) - 72\,000}{72\,000} \times 100$$

= 20%

1.6 Tank's Sportswear had a Debtors Control balance of R90 000 on 31 December 2022.

Refer to 1.1 and determine what the percentage debtor's collection expectations (trends) are for this amount.

45 000 / 90 000 × 100 = 50% in month following sale

42 300 / 90 000 × 100 = 47% in second month after sale

Remaining 3% assume bad debts

1.7 Calculate the original loan amount due **before** the loan repayment.

? × 15/100 × 1/12 = 2 375 **OR** 2 375 × 12 = 28 500 × 100 / 15

R190 000

1.8 At the end of February 2023 Tankiso compared certain budgeted figures for January and February 2023 to the actual figures achieved. As planned, 50% of these sales were on credit.

	January 2023		**February 2023**	
	Budgeted	Actual	Budgeted	Actual
Cash sales	86 400	103 680	90 720	108 864
Cash from debtors	86 040	82 740	124 272	122 625

Critically analyse the figures and trends above.

Cash sales were higher than planned

Cash from debtors were below budgeted figure

Concern as cash from debtors should be considerably higher if in line with higher sales

Other valid comparisons

1 mark for trend of budgeted cash sales v actual cash sales
1 mark for trend of budgeted cash from debtors vs actual cash from debtors
1 mark for identifying either of the above trends in second month
1 marks for comparing cash from sales and cash from debtors and that it did not increase in the same proportions

QUESTION 2 COMPANY ANALYSIS

Refer to the information relating to Shoprite Holdings Limited.

2.1 Sales of merchandise in South Africa increased by 8,5% while the sales of merchandise in the rest of Africa decreased by 7,5%.

Provide **TWO** possible reasons for the decrease in the rest of Africa.

Closure of operations in Uganda and Madagascar
Devaluation of currencies in African countries
Less disposable income due to economic decline / Covid-related answer
Hyperinflation in African countries
Stronger competition by local supermarkets in their country
Less stores compared to SA / SA has more stores

Any 2 × 1 mark each (accept other viable reasons)

2.2 Due to the challenges brought about by Covid-19 lockdowns and closing of borders, Shoprite adapted their supply chain in non-RSA countries to use more local suppliers versus 'importing' from their warehouses in South Africa. In South Africa they also increased their local supply basis. In most cases this had a favourable effect on gross profit.

Provide a year-on-year calculation to prove how adapting where they buy their stock from, benefited their profitability. Also comment on your finding.

Mark-up 2021: 41 213 / 126 817 × 100 = 32,50%

Mark-up 2020: 37 264 / 118 145 × 100 = 31,54%

Mark-up increased year-on year.

OR

GP on sales 2021: 24,53%

GP on sales 2020: 23,98%

GP margin increased year-on-year

OR

GP 2021: 168 030 – 126 817 = 41 213

GP 2020: 155 409 – 118 145 = 37 264

GP amount increased year-on-year

2.3 Identify if Shoprite might experience disruptions in their supply chain, i.e. having **goods** from their **suppliers** available on the shelves for their **customers**.

- Identify and compare the **results** of the **THREE** relevant supply chain financial indicator results.
- Then come to an overall conclusion.
- Also make **ONE** suggestion based on your conclusion.

Identify **THREE** relevant financial indicators:
• Stock on hand (shelves) for 107 days
• Debtors pay Shoprite every 73 days
• Creditors are paid every 115 days

Compare the financial indicators:
• Debtors pay before stock is depleted thus positive cash flow to purchase new stock (comparing debtors to stock)
• Money from debtors can be used to pay creditors as money comes in faster than going out (comparing debtors to creditors)
• Creditors are paid later than what stock is needed (comparing creditors to stock)

Overall conclusion:
If suppliers are strict, there could be a stock shortage of 7 days
Overall supply chain is in balance and no major problems should be experienced

Suggestion:
Pay creditors faster
Other viable solutions

2.4 You were one of the shareholders that decided to sell back your shares to Shoprite on 31 December 2020.

Explain, using calculations, why you were happy to sell your 50 000 shares at the time.

Shoprite bought back shares at R153,60 (R515 000 000 / 3 352 973) JSE trading price R140 R13,60 more than JSE trading price at the time OR I received R680 000 more than I would have if I sold it on the JSE

2.5 If Shoprite decide to buy back more shares in July 2021, name and calculate the most important ratio they would have to consider before the buy-back of shares.

Solvency ratio 77 066 : (27 577 + 28 285 = 55 862) 1,38 : 1

2.6 Calculate the net asset value (NAV) per share on 30 June 2021.

R21 204 000 000 / 548 173 895 R38,68 OR × 100 = 3 868,12 cents

2.7 Suggest **TWO** possible reasons why there would be such a variance between the net asset value per share and the trading price on the JSE for Shoprite.

Company has been in existence a long time – instils investor confidence Shares are sought after – supply and demand increase value They are market leaders and innovators Goodwill/intangible assets (SHE does not include it – conservative calculation) Any two viable reasons × 1 mark each

2.8 2.8.1 Calculate the earnings per share (EPS) for 2021.

4 859 000 000 / 548 173 895 × 100
= 886,4 cents (or R8,86)

2.8.2 Analyse the dividend policy applied in 2021.

Substantiate your arguments with appropriate calculation/percentages/ratios.

EPS = R8,86 or 886,4 cents Look 2.8.1
DPS = R5,44 or 543,99 cents
Retained R3,42 OR for expansion or growth **OR** Fair dividend (61%) issued whilst balancing profit retention

2.9 If the company did not buy back shares during the year, what effect would it have had on the shareholders come dividend time?

Same NPAT but more shares, thus each shareholder gets less (EPS lower)

2.10 Calculate and comment on the return on shareholders' equity for 2021.

Calculation (Max 3): 4 859 / 0,5 (21 204 + 19 994 = 41 198) × 100 / 1 23,59%
Comment (Max 2): Higher than 16% of 2020 3 to 4 times higher than average fixed deposit/alternate investments

2.11 Calculate the return on capital employed as at 30 June 2021.

(6 957 + 3 095 = 10 052) / (21 204 + 27 577) **OR**

(77 066 – 28 285) × 100/1

= 20,61% (If R6 957 used but interest omitted OR if average used)

2.12 Shortly after the end of the 2021 financial year, protest action broke out and 47 stores owned by Shoprite were burnt. In order to rebuild these stores, they would need R950 million of additional funding.

Calculate the effect on the debt-equity ratio should they decide to make use of loan facilities to raise the R950 million.

Before:
27 577 : 21 204
1,30 : 1

After:
27 577 + 950 : 21 204
28 527 : 21 204
1,35 : 1

2.13 Based on your findings in Questions 2.10–2.12, would you recommend Shoprite issue additional shares or raise loans to cover the R950 million? Substantiate your reasoning by providing at least **THREE** detailed points.

Raise the loan (max 6 marks)
Due to the size of the company the additional loan only marginally increases the debt-equity ratio by 0,05 : 1.
The ROCE of 20,61% is over 3 times the average interest rate on the loans of 6,5%.
Issuing more shares will dilute the ROSHE and shareholders will proportionally receive less dividend.

OR

Issue more shares (max 3 marks because not the most viable option)
The company has 0,3 : 1 more debts than equity. Issuing more shares will improve that.
Return for shareholders is very high compared to alternate investments – they won't mind.
They bought back shares not knowing that protest action will happen. Should issue shares again.

QUESTION 3 RECONCILIATIONS

Refer to the information relating to Jack's Shisa Nyama.

3.1 It is clear that the age analysis on the statement received from AAA Meats is incorrect.

3.1.1 Draw up the correct age analysis as at 31 July 2022.

DO NOT take transactions listed under additional information into account.

SHOW ALL CALCULATIONS.

60+ days	30+ days	Current
6 840 (3 000) (240) (3 600) = 0	1 810 (900) = 910	1 160 (320) 13 410 2 560 1 850 (840) = 17 820
Do not total	Do not total	Do not total

3.1.2 When confronting AAA Meats, they claim that they record client payments against the current (newest) debt.

Provide TWO reasons why this is not standard accounting practise.

It creates climate where interest on interest can be charged (not allowed)

Accounts will never truly be paid off

Customers could receive discount on early payment when in fact they still owe historical debts

Should be the oldest, not the newest debts.

It is unethical

Any 2 × 1 mark each

3.2 Reconcile the statement received from AAA Meats to the records of Jack's Shisa Nyama by making the appropriate entries in the table below.

Indicate a negative by using brackets () and a dash – for no entry.

		Creditors Ledger	Creditors Reconciliation Statement
1.	Incorrect balances	R5 800	R18 730
2.	1 610 – 1 160	(450)	
3.	430 – 320	110	
4.			240
5.			(13 410)
6.		-1 if any entry	
7.	940 – 840		(100)
8.		(5 000)	(5 000)
		Do not calculate	

3.3 Refer to additional information number 8 (the online banking payment).

3.3.1 Why should Jack be concerned that this was only discovered when the bookkeeper mentioned this?

Shows lack of internal control.
Payment should only be loaded after paperwork authorises the payment.
Payments pre-loaded should be checked and recorded when they go through.
Payments were not recorded at the end of the month.

Any well explained concept

Fraud/taking money: Max 1 mark

3.3.2 What **corrective** measure should be actioned for this transaction?

Payment must be entered in the CPJ and posted to the Creditors Ledger

3.3.3 Suggest **TWO preventative** control measures the internal auditor should implement so this does not happen again in future.

No pre-payments may be loaded if not duly authorised
Person authorising the payment may not be person loading payment
Separation of duties

Total: 100 marks