INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
NOVEMBER 2024

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 regarding Outdoor Adventures.

1.1 Calculate which percentage of total sales are cash sales.

$$\frac{527\ 040}{878\ 400} \times 100 = 60\%$$

OR

$$\frac{305\ 964}{509\ 950} \times 100 = 60\%$$

1.2 Calculate the missing figures A to F.

A	$452\ 750 \times 2 = 905\ 500 \times \frac{180}{100} = 1\ 629\ 900 \times 60\%$ **= 977 940** **OR** $452\ 750 \times \frac{180}{100} = 814\ 950 \times 60\% = 488\ 970 \times 2 = 977\ 940$
B	$\frac{10\ 199}{509\ 950} \times 100 = 2\%$ January November 878 400 × 6% = **52 704**
C	1 000
D	$6\ 300 \times \frac{105}{100} = 6\ 615$ **OR** 6 300 × 5% = 315 + 6 300 = 6 615
E	50 000 – 28 000 = 22 000
F	865 054 – 102 579 = 762 475

1.3 Calculate the interest rate per annum on the loan.

$$\frac{500}{50\ 000} \times 100 = 1\% \times 12 = \ 12\% \text{ p.a.}$$

1.4 Explain a possible reason why salaries and wages were more during December.

- More casuals were taken in to help with holiday/Christmas rush.
- More overtime was paid due to longer shopping hours.
- Bonusses were paid.

1.5 The financial manager has to decide on an option to manage the cash flow implications of a possible overdraft balance.

1.5.1 If the financial manager chooses option 2 and credit purchases are paid in 30 days, show the effect of option 2 on the closing bank balances for November and December.

	November	December
Surplus/Deficit		**865 054**
Opening balance	**(102 579)**	385 421
Effect of goods bought on account	488 000	226 375
Effect of payments to creditor		(488 000)
Closing balance	385 421	988 850

1.5.2 Give **ONE** reason why the financial manager may choose option 1.

- Business most probably will already have an overdraft facility.
- Background check was already done by bank on previous occation.
- Bank has a financial record of business and will easily grant an overdraft.
- Bankinterest on an overdraft is less that on a account if payments are not done on time.

QUESTION 2 COMPANY ANALYSIS

Refer to the information regarding Vivo Energy.

2.1 Answer the following questions regarding the gross profit of the business.

2.1.1 Calculate the gross profit earned on 1 liter of commercial fuel in 2023.

$$\frac{3\ 990}{4\ 258} = 0{,}94 \ / \ 94 \text{ cents}$$

2.1.2 Vivo Energy does not determine the gross profit percentage charged on fuel. Explain why this statement is true.

Fuel prices are controlled by the government and all service stations use a standard rate.

2.2 2.2.1 Based on the significant increase in operating expenses use a relevant indicator calculation to determine if the directors would have been concerned.

2023	2022
$\frac{9\ 088}{208\ 411} \times 100 = 4{,}36\%$	$\frac{7\ 752}{160\ 702} \times 100 = 4{,}82\%$
Comment: No, it will not be a concern because although the expenses increased the ratio improved. The ratio decreased from 4,82% to 4,36% which indicate that expenses were effectively controlled.	

2.2.2 What is the main reason for the increase in operating expenses from 2022 to 2023?

The 60 expanded service stations all became operational during the year which increased the expenses.

2.3 Gross profit is calculated from selling lubricants, retail and commercial fuel.

2.3.1 There are shops and restaurants on the Vivo premises. Why does the income from these shops not form part of Vivo Energy's gross profit?

No shops or restaurants are operated by Vivo Energy itself, everything is leased to other companies who are running the shops and restaurants.

2.3.2 Calculate the amount that Vivo Energy has earned from the shops and restaurants at the expanded facilities during the current financial year.

785 – 513 = R272 m

2.4 Answer the following questions regarding the stock turnover of Vivo Energy.

2.4.1 Calculate the stock turnover period for 2023.

Note: 13 908 = 8 265 + 3 990 + 1 653

$$\frac{(10\ 716 + 13\ 054)\ /\ 2}{(208\ 411 - 13\ 908)} \times \frac{365}{1} = \frac{11\ 885}{194\ 503} \times \frac{365}{1}$$

= 22,30 days **OR** 0,73 months

2.4.2 Some of the board members feel that the turnover period should be longer. Give **TWO** reasons why a longer turnover rate will not benefit the business.

- If they buy oil and the exchange rate improve they will lose money on stock bought while exchange rate was lower.
- If they have longer period it means more stock must be stored which will lead to extra expenses for storage.
- Fuel is a high risk product to store, therefore storing more fuel will increse the business's risks.

2.5 A loan was obtained to pay for the expansions of the premises.

2.5.1 Determine the current financial year gearing indicator for Vivo Energy. Use **TWO** financial indicators to support your answer.

Gearing indicator 1

$$\frac{5\ 605}{(3\ 781 + 16\ 777 + 17\ 094 + 15\ 808)\ /\ 2} = \frac{5\ 605}{26\ 730} \times 100 = 20{,}97\%$$

Gearing indicator 2

17 094 : 3 781
4,51 : 1

2.5.2 Comment on the impact of the additional loan on the gearing of Vivo Energy company.

Return on capital employed was 17,64% in 2022 now it is 20,97% (increased with 3,33%). The business is still positive geared. (will be able to pay the interest on loan)

The debt/equity was 0,94:1 in 2022 now it is 4,51:1 (increased with 3,57). The business is now high geared. (borrowed capital exceeds own capital)

2.5.3 Will the impact of the loan be acceptable from the shareholders' point of view?

Although the gearing changed from low to high geared it will be acceptable as the loan was used for expanding the business. The expanded service stations are operating, therefore the business will be able to repay the loan.

OR

Because the interest on loan will have a negative effect on income it will also cause the ESP to decrease which will concern the shareholders.

2.6 Answer the following questions regarding the earnings and dividends of Vivo Energy.

2.6.1 Calculate the earnings per share for 2023.

$$= \frac{1\,995}{2\,407} \times 100 = 82{,}88 \text{ cent}$$

2.6.2 Calculate the dividends per share for 2023.

Interim dividend: 2 407 × 30% = 722,1 × R2 = R1 444,2 m

Final dividend: 2 407 × R4,50 = R 10 831,5 m

$$\frac{(1\,444{,}2 + 10\,831{,}5)}{2\,407} \times 100 = 510 \text{ cents per share}$$

2.6.3 The business could not afford to declare such a high dividend in 2023.

(i) Prove that this statement is true.

Earnings per share are 82,88 cents but dividends 510 cents. Did not earn enough to cover dividends.
Retained profits were used for dividends as earnings was not enough to cover dividends.

(ii) Why did the directors recommend such a high final dividend for all shareholders?

- Shares value will drop if dividends are not good.
- Keep the shareholders trust in board of directors.
- Dividend 2022 was 802 cent, shareholders will not be satisfied with just 82 cent in 2023.

2.7 Explain why lease liabilities appear in the statement as part of non-current liabilities and as current liabilities.

The non-current liabilty is the lease contracts not payable in the next 12 months while the current liability is the lease contracts payable within the next 12 months.

QUESTION 3 RECONCILIATIONS

Refer to the information regarding Spot On.

PART A

3.1 Complete the age analysis of the account of K Kavari after all errors and omissions were taken into account.

Age analysis of the account of K Kavari in the books of Spot On

120 days +	90 days	60 days	30 days	Current
11 500 (10 015) (1 485)	2 400 (2 000) (400)	1 400 3 100 (1 115) (2 400)	115 8 440 (3 400)	if no interest of R154 was entered.
0	0	985	5 155	0

3.2 Calculate the updated closing balance for K Kavari on 31 October 2024.

985 + 5 155 = 6 140

3.3 Do you think the notice sent to K Kavari on 1 November is still valid or should it be withdrawn? Motivate.

Yes, it is valid because he is still exceeding the credit limit of R5 500.

OR

Yes, because debts outstanding for 60 days in October will be 90 days outstanding in November.

3.4 The accountant, Mr Samata, is dissatisfied with appointment of Rita Rittman as debtors' clerk. Give a valid reason for his dissatisfaction.

- Rita Rittman is not qualified to do the job.
- She was appointed because she is family **and** not because she has the qualifications to do the job.
- She has no known experience and the many mistakes on statements are a concern.
- Not fair and objective appointment.

PART B

3.5 Determine which business made the mistake.

Spot On

3.6 Complete the General Journal entry needed to correct the error.

General Journal

Details	**Debit**	**Credit**
Stationery	10 000	
PNA/Creditors' control		10 000

Total: 100 marks