INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
MAY 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 [35 marks; 42 minutes]

Refer to the information relating to Inter Escolas Publishers Ltd.

1.1 Debtors' Collection

1.1.1 Determine the debtors' collection policy by calculating all **relevant percentages**. Show your workings.

Same month as the sale:
$\frac{1\,102\,500 + 22\,500}{2\,250\,000} \times \frac{100}{1} = 50\%$ Discount: $\frac{22\,500}{2\,250\,000 \times 50\% = 1\,125\,000} \times \frac{100}{1} = 2\%$
One month after the sale:
$\frac{675\,000}{2\,250\,000} \times \frac{100}{1} = 30\%$
Two months after the sale:
Not required to be calculated.
Bad debts:
$\frac{112\,500}{2\,250\,000} \times \frac{100}{1} = 5\%$ **OR**   100 – 50 – 30 – 15

1.1.2 What ledger account will Inter Escolas Publishers Ltd have to open to soften the **impact** of the debtors who have not paid?

Adjust/create provision for bad debts

1.2 Use the additional information supplied to complete the extract of the Cash Budget <u>and</u> the extract of the Projected Statement of Comprehensive Income for the period 1 September 2024 to 30 November 2024.

Note: Transactions that indicate a payment or expense must be bracketed. Salaries have been entered for you.

	Cash Budget			**Projected Statement of Comprehensive Income**		
	Sep 2024 R	**Oct 2024 R**	**Nov 2024 R**	**Sep 2024 R**	**Oct 2024 R**	**Nov 2024 R**
Salaries	(300 000)	(300 000)	(331 500)	(300 000)	(300 000)	(331 500)
Delivery vehicle		Placement (14 000)	(14 000)			
Depreciation		Max -1 if entry made			Amount (8 400)	Placement (8 400)
Rent income		Bank	Both 70 000		35 000	35 000
Advertising	(90 000)			(30 000)	Spread (30 000)	(30 000)
Interest on loan		(120 000)		(40 000)	Spread (40 000)	(40 000)
Share capital		1 260 000			Max -1 if entry made	
Dividends paid			All (156 800)			

1.3 1.3.1 Which GAAP principle was applied for most of the entries under the Projected Statement of Comprehensive Income in Question 1.2?

Matching principle

1.3.2 The Materiality principle dictates that interest on loans be shown as a separate line item, even if it is capitalised. Explain the reasoning behind this.

It may influence readers of AFS differently had it been seen or not.
Loan should only reflect on Financials outstanding borrowed capital amount and will be understated if finance cost was also subtracted with capitalised.

1.4 Refer to the Salaries line provided in Question 1.2 on page 3.

1.4.1 Calculate the percentage increase on 1 November 2024.

$$\frac{27\ 000}{300\ 000} \times \frac{100}{1} = 9\%$$

1.4.2 Explain why the employees should be satisfied with this increase.

It is higher than inflation.

1.5 Provide TWO suggestions how Inter Escolas Publishers Ltd can reduce their bad debts.

• Screen their debtors better.
• Send reminder to debtors falling behind.
Other viable suggestions.

1.6 The company plans to issue 120 000 additional shares in October 2024.

1.6.1 Explain the difference between Authorised Share Capital and Issued Share Capital.

Authorised Share Capital: Maximum amount of shares available to be issued as registered with CIPC.
Issued Share Capital: Actual amount of shares in issue on the JSE.

1.6.2 As a current shareholder, you are dissatisfied with the issue price of 1 050 cents per share as proposed by the directors.

Explain to the directors why this price is too low. Use a calculation to support your answer.

Calculation:

$$\frac{20\ 976\ 000}{(0{,}4 \times 4\ 600\ 000 = 1\ 840\ 000)} \times \frac{100}{1}$$

= 1 140 cents per share

Explanation:
Issue price is lower than the NAV.
This devalues the shareholding capital of the business.

QUESTION 2 COMPANY ANALYSIS [40 marks; 48 minutes]

This question consists of two parts, Part A and Part B, that are related.

PART A

Refer to the information of Royal Bafokeng Platinum Limited for this part of the question.

Use information A to answer Questions 2.1–2.4.

2.1 Calculate the mark-up percentage achieved in **2022**.

4 241/11 670 × 100 = 36,34%

2.2 Calculate the gross profit on sales (profit margin) percentage achieved in **2022**.

4 241/15 911 × 100 = 26,65%

2.3 **Refer to Questions 2.1 and 2.2.**

Explain what each ratio calculates.

• Mark-up: The profit achieved between obtaining goods and selling them.
• Gross profit on sales: Calculates the percentage profit earned by each unit of revenue generated.

2.4 Using the information from the "% Change" column, analyse the changes and then explain why management should be concerned about these results.

Cost of sales is increasing 7 times more than sales leading to a serious decrease in profits.
OR Cost of sales is increasing 7 times more than sales.
OR Sales decreased by 3,15%, cost of sales increased by 21,36% and gross profit decreased by 37,75%.

3 marks	Compares **rate of increase of sales** (analyse change in sales) to rate of **increase in cost of sales** (analyse change in COS) and links the increase in COS to **decrease in gross profit** (why management should be concerned)
2 marks	Compares rate of increase of sales to rate of increase in cost of sales (no link to GP, i.e. why management should be concerned)
1 mark	Quotes given information only

Refer to information B to answer Question 2.5.

2.5 Why is it important for a listed company like Royal Bafokeng Platinum Holdings Limited to include information like extract B ("Our approach to environmental management") as part of their financial reports?

King IV states that companies are corporate citizens.
Environmental management is as important as financial impact (people, profit, plant).

Use information C to answer Questions 2.6–2.7.

2.6 Assuming cash and cash equivalents at the end of the 2022 financial year was R1 175 million, calculate the cash and cash equivalents figure at the beginning of the 2022 financial year.

1 175 + 346 + 1 841 – 1 642 = 1 720

2.7 Give ONE possible item that could be listed under **changes in working capital** in cash flow from operating activities as an **outflow** of cash.

Increase in debtors 1 mark for effect, 1 mark for component
OR
Increase in inventory
OR
Decrease in creditors

Use information D to answer Questions 2.8–2.12.

2.8 Calculate the Return on Average Shareholder's Equity for **2022**.

$$\frac{3\ 321}{0{,}5\ (24\ 685 + 24\ 267 = 48\ 952)} \times \frac{100}{1}$$

= 13,57%

2.9 Critically analyse, quoting figures/ratios/percentages to support your answer, the **returns** and **distributions** and **retained profits** for 2022.

Returns to shareholders:
ROSHE of 13,57% (Look 2.8) is higher than alternate investments of 6,5%
ROSHE deteriorated by 10,63% (from 24,2% to 13,57%)
Distributions and retained profits:
In 2021: 1 070 of 2 332 was distributed to shareholders (45,88% of EPS) and 54,12% retained
In 2022: Of the 1 146 cents available for distribution (EPS) 780 was distributed to shareholders (68,06% of EPS)
Company is distributing more than retaining

2.10 Explain why your analysis in Question 2.9 would impress a **shareholder**.

Returns are almost half from previous year, yet dividend payout
Increased from 45,88% to 68,06%

2.11 Analyse the **risk** and **gearing** for 2022.

DE increased from 0,3 : 1 to 0,4 : 1 **OR** DE increased by 0,1 : 1 which is still low/moderate/acceptable risk/gearing (not high)
ROCE increased from 13,7% to 14,3% **OR** ROCE increased by 0,6% ROCE is higher than the average interest rate of 8,5% **OR** Making it positively geared

2.12 Should the company need additional funding for expansion, discuss TWO reasons why taking out an additional loan is the better choice and TWO reasons why issuing further shares would not be the better choice.

Why taking out an additional loan is the better choice:
• Debt : equity has 0,6 : 1 available before it becomes high risk
• ROCE is positively geared/5,8% higher than interest rate
• Funds readily available from the bank and could be an unlimited source related to debt : equity
• Loan and interest are finite (stops when paid off), and the interest rate could be fixed so can budget for loan repayments and interest
Why issuing further shares is <u>not</u> the better choice
• Dilutes current shareholders interest
• Dividends per shareholder will decrease/irate current shareholders
• As long as dividends are paid out and as long as there are shareholders there will be dividends which is infinite (go on forever)

PART B

Use information E to answer Question 2.13.

2.13 Using the comparative information provided, choose the company you would rather invest in and discuss FIVE reasons for your choice. Use figures to substantiate your reasoning.

☐ Northam Platinum Holdings Ltd ☐ Royal Bafokeng Platinum Ltd

NORTHAM:
• Established in 2020 – still growing
• ROSHE of 35,82% is exceptional
• High earning (EPS) of 26 149 cents
• Trading on JSE 75% above book value (JSE)
• Medium risk as 67 cents owed for every R1 own capital
• Positively geared as ROCE is 18,5% higher than interest rate
ANY 5

OR

ROYAL BAFOKENG:
• Established in 2008 – been around and stable
• ROSHE lower, but higher than alternate investments
• They pay out dividends
• Trading on JSE 81% above book value (JSE)
• Low risk as 40 cents owed for every R1 own capital
• Positively geared as ROCE is 5,8% higher than interest rate
ANY 5

QUESTION 3 RECONCILIATIONS [25 marks; 30 minutes]

Refer to the information relating to Swakopmund Stores.

3.1 Use the statement from Windhoek Wholesalers to prepare the Age Analysis of Debtors as it should have appeared on the statement.

- Do not take the additional information into account.
- Show all workings so part-marks may be awarded.

90+ days	60+ days	30+ days	Current
56 250 (15 750) (40 500)	62 250 (12 700) (37 500)	Blank	42 000 (10 500) 84 330
Do not total			

3.2 Use the additional information provided to prepare the Creditors' Reconciliation Statement on 31 May 2023 by making the appropriate entries in the table below.

- Indicate a negative by using brackets ().
- Place an 'X' in the no entry column where no entry is required in either sets of books.

	Creditors Ledger	Creditors Reconciliation Statement	No Entry
Incorrect balances	R107 330	R127 880	
A. 42 000 – 24 000		(18 000)	
B.		(84 330)	
C.		(20 000)	
D. 17 570 – 15 750	1 820		
E1.			X
E2. 53 200 × 2	(106 400)		
F. 53 200 × 5/95		(2 800)	
	Do not calculate		

3.3 The General Manager of Swakopmund Stores is very concerned about the payment of R20 000 (refer to additional information C) that did not reflect on the statement and wants to appoint an auditor to investigate it. He comes to you for advice on the matter.

3.3.1 Explain the difference in the scope of work of an internal auditor and external auditor.

Internal auditor: Evaluates and improves the internal controls, compliance, governance, etc.
External auditor: Evaluates and express an opinion on the fairness and reliability of the financial statements.

3.3.2 The internal auditor reports directly to management of the business made up of executive directors whereas the external auditor reports to the auditing committee made up of independent directors.

Evaluate the effectiveness of these reporting lines.

Internal auditor: Reporting problems with compliance and governance to management will allow them to improve or correct it.
External auditor: If AFS are unfair or unreliable, it needs to be investigated. If reporting to management, they could cover it up.

3.3.3 Explain to the manager why there is no need for concern about the payment not reflecting on the statement and why this is normal.

Statement was printed on 28 May before the payment was made.
It is called timing difference between supplier and customer statements.

3.3.4 List ONE type of audit evidence the internal auditor could collect to check the accuracy and validity of a card transaction, as well as what the internal auditor would check it against.

Audit evidence: Transaction summary from card machine or bank statement
Verify against: Entry in the CRJ or CPJ

Total: 100 marks