INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
MAY 2025

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 [31 minutes]

Refer to the information of Solar Sun (Pty) Ltd.

1.1 Calculate the figures marked A to D.

A	**360 000**
B	**360 000 × 2 = 720 000**
C	**1 440 000**
D	**600 × R450 = 270 000**

1.2 The number of products produced will be doubled, however it is expected that the direct labour cost will not increase in the same proportion. Give **ONE** reason why this is possible.

- **Workers are not used to full capacity before, so no new workers were necessary.**
- **Workers went for training and are now more skilled and are more productive.**

1.3 Even though direct material cost will increase in proportion to the production, the directors managed to negotiate a bulk discount with the suppliers.

Calculate the percentage of discount they agreed to.

$$\mathbf{(330\,000 \times 2) - 594\,000 = \frac{66\,000}{660\,000} \times 100 = 10\%}$$

1.4 The production cost per unit is currently R1 445 per unit. Calculate what the change in production cost per unit will be when the business produces double the quantity of units.

850 000 + 594 000 + 188 400 = 1 632 400 / 1200 = R 1 360,33 per unit

Production cost will decrease with R 84,67 (from R 1445 to R 1 360,33)

1.5 The directors would prefer to take out a loan instead of issuing more shares.

1.5.1 Give **TWO** advantages of not issuing additional shares.

- **If more shares are issued the EPS will be less.**
- **If more shares the DPS will decrease.**
- **Less shareholders will have votes that can oppose the directors/ current shareholders.**

1.5.2 The monthly instalment on the new loan includes a capital portion of R100 000. Calculate the interest expense part of the instalment.

220 000 – 78 000 = 142 000 – 100 000 = 42 000 interest

1.5.3 A prospective investor suggested that the directors sell some of the unissued shares to him at the current net asset value instead of taking a loan for the expansions.

Calculate the percentage of the total shares they must sell to replace the value of the loan.

350 000 × R54 × X% = 2 800 000

= 14,815% (cannot round to 14,8% as that will not give 2 800 000)

= 14,9%

1.6 The budgeted amount for advertising will not increase. Explain why the directors choose not to budget for an increase in advertising.

- **Products are high in demand therefore they do not have to advertise much as people already know the product.**

QUESTION 2 COMPANY ANALYSIS [58 minutes]

Refer to the information on Nampak Ltd.

2.1 The business uses the same mark-up on all their products. Calculate the mark-up percentage used.

$$\frac{9\ 520}{11\ 900} \times 100 = 80\% \qquad \text{OR} \qquad \frac{9\ 680}{12\ 100} \times 100 = 80\%$$

2.2 The operating expenses for 2023 is considerably more than in 2022.

2.2.1 Calculate the operating expenses to turnover percentage for 2023.

$$\frac{8\ 462\ 000}{21\ 420\ 000} \times 100 = 39{,}51\%$$

2.2.2 A decrease in percentage of operating expenses to turnover is expected in 2024. Explain the likely decrease in 2024. Use a calculation as part of your answer.

$$409\ 000 + 4\ 889\ 000 = \frac{5\ 298}{21\ 420} \times 100 = 24{,}73\%$$

Losses made this year will not be made again in 2024 therefore expenses will decrease. If turnover stays the same, the percentage will most probably go down to 24% if expenses is still controlled. Directors aim to cut future losses by selling some of the company's interests.

2.3 Shareholders received a dividend in 2022, but no dividends were distributed in 2023.

2.3.1 Calculate the dividend per share paid in 2022.

$$\frac{419\ 662\ 500}{27\ 977\ 500} = R15$$

2.3.2 Even though the shareholders did not receive dividends in 2023 give **ONE** reason why this could be acceptable to them.

- **Business is expanding which promise higher profits and dividends in future.**
- **People trust the business therefore the prediction of higher share prices indicate that people expect more income from their shares.**

2.4 The employees received shares in the business instead of a cash bonus. No other shares were issued in 2023.

2.4.1 Calculate at what price these shares were issued?

$$\frac{\mathbf{2\ 890\ 000}}{\mathbf{22\ 500}} = \mathbf{R\ 128{,}44}$$

(4 500 × 5)

2.4.2 Calculate the net asset value of a share on 30 September 2023.

$$\frac{\mathbf{4\ 569m}}{\mathbf{28\ m}} = \mathbf{R\ 163{,}18\ per\ share}$$

2.4.3 Should Walletinvestor's predictions be accurate what could the expected market value of an employee's shares be in 5 years' time?

5 × R 439,40 = R 2 197

2.4.4 Some employees were dissatisfied that they would receive shares instead of a R1 000 bonus. A complaint was filed at the union.

Give **ONE** reason substantiated with figures as to why they will be dissatisfied.

- **They feel they can use the money but can get nothing for the share.**
- **The value of the shares currently is R163,8 × 5 = R817,50 therefore not equal to the R1000 bonus they are entitled to.**
- **Will wait a long time before they can sell the shares to get R1 000.**
- **Dividends are also not equal to R1000 per year.**

2.4.5 Give **ONE** benefit for employees having shares in a business.

- **For each share you have a vote so you can vote at the AGM.**
- **Can get dividends every year from shares.**
- **If share prices increase shares can be sold for higher prices.**

2.5 Nampak sold all their properties and equipment in Nigeria at the current market value.

2.5.1 Calculate the market value of these properties and equipment at the time they were sold.

8 288 000 + 1 088 000 – 6421 000 = **2 955 000 sold – 2 841 000 loss** **= R 114 000 000 market value at time of sale** if 2 parts are correct

2.5.2 Give **ONE** reason why the directors decided it is best to sell these properties and equipment.

Economy in Nigeria still deteriorating therefore property can still loose more value. **If economy deteriorate the business will sell less, make less profit and the maintenance on property will become more than the income.**

2.6 Liquidity is important to the business for their day-to-day operations.

2.6.1 Calculate the current ratio for 2023.

2023	2022
7 744 : 4 391 **1,76 : 1**	2,01:1

2.6.2 Calculate the acid test ratio for 2023.

2023	2022
(7 744 – 5 413) : 4 391 **0,53 : 1**	1,10:1

2.6.3 Comment on the liquidity of the business with reference to the ratios in Question 2.6.1 and 2.6.2.

- **Both ratios have decreased in 2023.**
- **Current ratio decreased from 2,01 : 1 to 1,76 : 1 which indicate that the business will still be able to cover liabilities from assets.**
- **The acid test ratio decreased from 1,10 : 1 to 0,53 : 1 which indicate that the business will not be able to cover liabilities without selling stock.**
- **The big difference between the two ratios indicate that the business is currently carrying too much stock.**

2.7 The shareholders are concerned that the loan obtained for the new plants will influence the favourable gearing of the company.

2.7.1 Use **TWO** financial indicators to determine the business' gearing at the end of 2023.

Indicator 1: $\frac{2\ 215}{(4\ 569 + 7\ 704 + 7\ 809 + 6\ 721)/2} =$ $\frac{2\ 215}{13\ 401{,}5} = 16\%$
Indicator 2: 7 809 : 4 569 1,71 : 1

2.7.2 The shareholders are concerned that the additional loan has put the business at risk. Explain why you agree with the shareholders' concern.

Gearing became negative high which indicate that the business will currently not cover the interest on the loan and that equity is less than borrowed capital which can be a high risk. **Negative gearing and high risk indicate that funds are not utilised efficiently.**

2.8 The King code requires businesses to have a positive impact on the environment. Did Nampak meet the requirement? Motivate your answer.

Yes, because the cans they produce can be recycled repeatedly which will have a positive impact on the environment.

QUESTION 3 RECONCILIATION [31 minutes]

Refer to the information regarding Hilltop Dental Practice.

PART A

3.1 Update Namdental's Creditors Ledger account closing balance in the books of Hilltop Dental Practice.

	Debit	Credit	Balance
Account rendered.			**2 310**
Discount	**430**		Do not calculate
Invoice 219 (3 010 × 2) + 100		**6 120**	Do not calculate
Discount cancelled		**140**	Do not calculate
Invoice 250	**7 240**		**900**

3.2 Complete the Creditors Reconciliation for the three-month period ending 30 June 2024.

Balance on 30 June	**21 530**
Balance error (7 450 – 7 130)	**320**
Invoice 219	**10**
Payment made	**(19 000)**
Discount received	**(1 960)**
	DO NOT CALCULATE

PART B

3.3 Mr Kavari was very upset that the dentist refused to treat him when he had an emergency.

3.3.1 Would you consider the dentists' action as ethical? Motivate.

No, doctors may not refuse to help a patient it is part of their professional code of conduct. He was unethical.
Unethical to refuse a patient help in an emergency because of outstanding money.

3.3.2 Mr Kavari stated that he was not aware of any overdue amounts. Give **TWO** reasons why he would be under the impression that all his debt was settled.

- **He did pay his 10% patient portion after each visit.**
- **He has a medical aid that must pay the rest of the amount within 60 days.**
- **He never received a statement from Hilltop Dental Practice to inform him of the outstanding amounts.**

3.3.3 Explain **TWO** actions Hilltop Dental Practice can take to prevent similar incidents in future.

- **Make sure claims are handed in on time at medical aid.**
- **Send reminders to medical aid every month on outstanding claims.**
- **Inform patient if payment is / is not made by the medical aid.**
- **Ensure they have correct contact details and sent statements regularly.**

3.3.4 What is the overdue amount payable by the medical aid on 30 June?

R4 383

Total: 100 marks