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INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
MAY 2023

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**[36 MINUTES]**

Refer to the information relating to Royal Swazi Sun Hotel and Spa in the Information Booklet.

This question consists of two parts, Part A and Part B. They must be answered independently from each other.

Part A

1.1 Explain **TWO** ways in which a cash budget can be used as a management tool.

• Management can use it for planning their cash purchases to see what they can afford and in what month to make purchases.
• It also alerts them to the need to cut down expenditure or to either take out a loan, invest more capital or apply for an overdraft facility.
• Indicate irregularities/fraud by comparing the actual to the budgeted amounts.
• It is used as a form of control to see if their spending and receipts are going according to plan and to make necessary changes in the business.

1.2 Based on the information given, explain why you think they budgeted for so few hotel guests during April 2023, which includes the Easter holiday period, but their budgeted food and beverage sales increased during the same month.

Reason for so few guests:
Main guests are businesspeople. They don't usually work over Easter
Reason for increased food and beverage sales:
The guests that are there are relaxing on holiday and are more likely to visit the hotel bar and restaurant

1.3 Complete the creditors payment schedule for April 2023 and May 2023.

Month	Credit purchases R	April 2023 R	May 2023 R
February 2023	60 400*	12 080	–
March 2023	66 000	50 688*	13 200*
April 2023	92 500*	–	71 040*

Calculations for February 2023
$12\,080 \times 100/20$ $= R60\,400$
Calculations for March 2023
$66\,000 \times 80\%$ $= 52\,800 \times 0,96$ $= 50\,688$ $66\,000 \times 20\%$ $= 13\,200$
Calculations for April 2023
$231\,250 \times 100/250$ $= 92\,500$ $92\,500 \times 80\%$ $= 74\,000 \times 0,96$ $= 71\,040 \text{ IF } \times 80\% \times 0,96$

1.4 Calculate the amounts for A–F in the cash budget on page iv of the Information Booklet. Show calculations so that part-marks can be awarded.

Answer	Calculation
A. 95 450	$1\,207\,500 - 1\,112\,050$
B. 128 850	$A + 33\,400$
C. 465 000	$930\,000 / 20 \times 10$ OR $697\,500/15 \times 10$
D. 161 875	$231\,250 \times 0,7$
E. 423 000	$592\,200 \times 100 / 140$
F. 456 840	$E \times 1,08$

- 1.5 Provide **ONE** practical **preventative** control measure they can implement to make their gym equipment last longer.

Any viable measure

- Regularly service the equipment, regular maintenance.
- Have instructions so people do not misuse the equipment.
- Have a staff member around to supervise during busy periods or to pop in at regular intervals.
- Put in cameras to see how guests are using equipment. If equipment is broken, one can view footage to see who it was and charge them for breakages.
- Have an age restriction on who may use the equipment.

- 1.6 When Lindokuhle, the manager, walked into the gym, she discovered three people who were not paying guests at the hotel using the gym.

Provide a solution to this problem.

Any viable measure

- When you register at the hotel, you get a card that opens the gym door.
- Make sure access to the gym is not possible from outside the hotel but only through the area where guests are staying.

- 1.7 1.7.1 Identify the **main** reason for the deficit in April 2023.

The low number of bookings (one third only)

Refer 1.4 C. If candidate's answer is less than R320 000, accept increase in cash purchases of food and beverages here

- 1.7.2 Suggest **TWO** different ways in which the hotel can generate an income in April.

Any 2 viable suggestions x each

- Run promotions
- Pair with businesses like game farms in the area for combo deals
- Give outside gym memberships
- Allow day visitors to use the pool (entrance fee)
- Use the restaurant to attract customers

Part B

1.8 Lindokuhle is adamant about implementing power-saving alternatives over the next five years.

1.8.1 Calculate the impact the three cost-saving initiatives would have on the electricity expense over the next year should they be implemented.

Saving from LED lights $780\,000 \times 20\% = 156\,000 \times 75\% = 117\,000$
Saving from air-conditioning thermostats with motion sensors $780\,000 \times 15\% = 47\,000 \times 30\% = 35\,100$
Saving from solar geysers $780\,000 \times 35\% = 273\,000$

1.8.2 Based on your findings above, would you advise Lindokuhle to implement these measures or not? Substantiate your choice with reasoning and calculations.

☒ Yes, implement the measures ☐ No, do not implement the measures

Reasoning (with figures/calculations):
Total savings from 1.8.1: R425 100 1.8.1 (117 000 + 35 100 + 273 000)
Total cost to implement: 977 500 (235 000 + 102 500 + 640 000)
Initiative will pay itself off in 2,3 years (977 500 / 425 100)

QUESTION 2 COMPANY ANALYSIS**[60 MINUTES]****Refer to the information relating to RFG Ltd in the Information Booklet.**

- 2.1 RFG Ltd does not display cost of sales as part of its statement of comprehensive income. Provide the reason for this and support your answer by quoting from the statement of comprehensive income.

It is a manufacturing enterprise
Displays direct manufacturing costs, manufacturing operating expenses, selling and distribution costs

- 2.2 2.2.1 Calculate the current ratio for 2021.

2 511 : 1 400
1,79 : 1

- 2.2.2 Calculate the acid-test ratio for 2021.

2 511 – 1 356	: 1 400	OR	1 109 + 46	: 1 400
1 155	: 1 400		1 155	: 1
0,83	: 1 L2E		0,83	: 1

- 2.2.3 Comment on the acceptability of the ratios calculated in Questions 2.2.1 and 2.2.2 without referring to the outdated norms of 2:1 and 1:1 respectively.

- Acceptable as will have sufficient CA to pay off short-term obligations, even with excluding stock there should be sufficient cash available.
- Stock makes up roughly half of current assets which is acceptable
- Acceptable as foodstuff company should not be too high

- 2.3 Using the financial indicators supplied on page ix of the Information Booklet, critically analyse the **liquidity cycle** of the company by quoting, comparing and commenting on **THREE** relevant financial indicators.

Quote three relevant financial indicators:
• Stock on hand increased from 99 days to 101 days
• Debtors' collection decreased from 42 to 44 days
• Creditors' payment decreased from 59 to 63 days

Comparison and analysis of financial indicators:
Money came in from debtors 17 days before creditors needed to be paid creating positive cash flow
Stock on hand exceeded creditors' payment by 40 days preventing stockouts from occurring

General comment:
Overall, the liquidity cycle is conservative and in balance.

- 2.4 As a shareholder you chose to invest in RFG Ltd rather than in alternative investments.

Calculate whether RFG Ltd offers a satisfactory return and provide reasons why you are satisfied with this return or not.

Calculate return: ROSHE
$\frac{216}{0,5 (2\,752 + 2\,610 = 5\,362)} \times \frac{100}{1}$ $= \frac{216}{2\,681} \times \frac{100}{1}$ $= 8,06\%$
Reasons why return is satisfactory or not:
Marginal decrease from 8,49% in 2020
Higher return comparison to alternative investments e.g. fixed deposit

- 2.5 RFG Ltd is considering expanding its Namibian operations. For this to materialise, it needs R200 million in additional funding.

2.5.1 Calculate the debt–equity ratio for 2021.

$$\begin{array}{l} 966 : 2\,752 \\ 0,35 : 1 \end{array}$$

2.5.2 Calculate the return on average capital employed (roce) for 2021.

$\frac{299 + 73 = 372}{0,5 [(5\,118 + 4\,897 = 10\,015) - (1\,400 + 1\,315 = 2\,715)]} \times \frac{100}{1}$ $\frac{372}{0,5 (7\,300)} \times 100 = \frac{372}{3\,650} \times 100 = 10,19\%$
OR
$\frac{299 + 73 = 372}{0,5 [(2\,752 + 2\,610 = 5\,362) + (966 + 972 = 1\,938)]} \times \frac{100}{1}$ $\frac{372}{0,5 (7\,300)} \times 100 = \frac{372}{3\,650} \times 100 = 10,19\%$

- 2.5.3 If ABSA offers to lend the R200 million to RFG Ltd at 12% p.a., should it accept the offer or rather issue additional shares? Give a valid explanation to support your answer.

☐

Accept the loan

☐

Issue additional shares

Supporting explanation:

Issue shares

Negative (unfavourable) gearing. Return of 10% (see 2.5.2) is lower than the interest rate of 12%

Funds available were not utilised to full potential.

OR

Accept loan

Issuing more shares will dilute shareholding

Interest rate is reasonable

- 2.6 Calculate the dividends per share (DPS) for 2021.

Calculate the total dividends on ordinary shares for 2021:

NPBT	299	OR	<u>Appropriation</u>		
I/Tax	<u>(83)</u>		I/tax	83	Profit and loss 299
NPAT	216		OSD	∴ 74	
Ret Inc	<u>(142)</u> #		Ret Inc	142	
OSD	∴ 74	If NPBT and Income tax is correct			

OR Retained income note reconstruction

RI Balance (beg) 1 038

NPAT 216

∴ OSD (74)

RI Balance (end) 1 180

Dividends per share calculation:

$$\frac{74\,000\,000}{247\,422\,680} \times 100$$

= 29,91 cents per share

- 2.7 At the AGM the CFO stated that RFG would be able to **fund expansion and maintain shareholder confidence**.

Quote and discuss figures to prove this statement.

EPS = 87,30 cents
DPS = 29,91 cents See 2.6
Company retains 57,39 cents per share (65,7%) OR Only 34,3% of earnings distributed to shareholders
Even though the dividends are small, they did not retain all profits, making the shareholders feel that their investment was worthwhile as they received returns on it

- 2.8 Calculate the net asset value (NAV) per share for 2021.

$\frac{2\,753\,000\,000}{247\,422\,680}$ $= R11,13 \times 100 = 1\,113 \text{ cents}$

- 2.9 Disgruntled shareholders that wanted to 'get rid of their shares' confronted RFG Ltd. The board of directors decided this was in the best interest of both parties and authorised the negotiations for the company to buy back the shares from these shareholders at 94 cents more than book value on 30 September 2021.

Explain why this is a fair offer. Use figures to support your answer.

NAV = 1113 cents see 2.8
Share offer = 1113 cents + 94 cents = 1207 cents
Award method for adding 94 cents to answer in 2.8
JSE price = 1301 cents
Price offered is average between book value (NAV) and market value (JSE) of shares
$1\ 113 + 1\ 301 = 2\ 414 / 2 = 1\ 207$

2.10 A family member has given you R20 000 for your 18th birthday on condition that you invest this money in shares until your 25th birthday.

Would you buy shares in RFG Ltd?

☐

Yes

☐

No

Explain your choice by highlighting **FOUR** aspects you identified whilst analysing this company.

Yes (Max 4 × each)

- Company is stable with very little fluctuation in financials year on year.
- Solid solvency
- Positive cash flow from working capital liquidity cycle
- Debtors pay before creditors are paid
- Stable ROSHE
- Safe option – company does not take risks
- Pays dividends every year

OR

No (Max 4 × each)

- ROSHE too low – there are other companies with much higher returns
- They don't pay enough dividends – should retain less and pay more
- They should take out loans to expand and make more money
- ROCE too low – they should utilise their funds better

QUESTION 3 RECONCILIATIONS**[24 MINUTES]**

Refer to the information relating to Tsumeb Packaging in the Information Booklet.

This question consists of two parts, Part A and Part B. They must be answered independently from each other.

Part A: Creditors reconciliation

- 3.1 Reconcile the statement of account to the creditors ledger on 28 February 2023 by completing the table below.

Creditors reconciliation statement		Creditors ledger	
Debit	Credit	Debit	Credit
79 720			74 640
1 800			
	13 280		
		(3600+2800) 6 400	
	40 000	40 000	
	2 000	2 000	
DO NOT BALANCE / TOTAL			

- 3.2 The owner wants to know how soon creditors are paid. Assist Stephanie by calculating Tsumeb Packaging's creditors payment period (in days).

$$\begin{aligned}
 &= 456\,000 \\
 &\frac{0,5 (200\,000 + 256\,000)}{1\,664\,400} \times 365 = \frac{228\,000}{1\,664\,400} \times 365 \\
 &50 \text{ days}
 \end{aligned}$$

3.3 Provide the audit evidence the external auditor will collect to verify each of the following transactions.

3.3.1 The payment of R40 000 made on 28 February 2023.

Proof of statement / Bank statement L1E

3.3.2 The granting of the discount on the payment made on 28 February 2023.

Statement of account (for March 2023) L1E

Part B: Age analysis of debtors

3.4 Use the debtors ledger of O. Delta to prepare the age analysis of debtors on 31 March 2023.

90 days	60 days	30 days	Current
	17 500 (2 500) (15 000)	60 000 (15 000) (15 000)	52 500
DO NOT TOTAL			

Total: 100 marks