



JENN

Training and Consultancy
The path to enlightened education

ACCOUNTING
LEARNER ACTIVITY MANUAL
GRADE 12:
MEMORANDUM



A Division of Marematlou Group Holdings

SPRING CLASS MEMORANDUM

ACTIVITY 1 (BALANCE SHEET AND NOTES)

1.1 Xinwa LTD Retained income note on 28 February 2023.

Balance on 1 March 2021	57 480	✓
Net profit after tax (306 280 ✓ x 69/31 ✓)	681 720	✓*
Shares repurchased (40 000 x 1,25)	(50 000)	✓✓
Ordinary share ignore brackets	(389 200)	✓*
Interim dividends (640 000 x 0,28 cents)	179 200	✓✓
Final dividends	210 000	✓
Balance on 28 February 2022 must subtract BBS & OSD	300 000	✓

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1.2 STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2023.

ASSETS	
NON-CURRENT ASSETS	4 190 900 ✓
Fixed assets	3 940 900
Fixed deposit (415 000 – 165 000)	250 000 ✓✓
CURRENT ASSETS (CLx1,5)	1 332 300 ✓✓
Inventories	222 600 ✓
Trade and other receivables balancing figure	1 022 300 ✓
Cash and cash equivalents See FD (212 400 ✓ + 165 000 ✓ - 290 000 ✓✓) see RI 50 000 one mark: 240 000 AVE one mark	87 400 ✓*
TOTAL ASSETS See total E & L	5 523 200 ✓
EQUITY AND LIABILITIES	
Shareholders' equity	
(640 000 – 40 000) ✓ x 650 cents ✓ must x NAV*	3 900 000 ✓*
Ordinary share capital balancing figure Or (600 000 x 6 Average price)	3 600 000 ✓
Retained income see R I	300 000 ✓
NON-CURRENT LIABILITIES	735 000
Loan (1 155 000 – 420 000 ✓✓)	735 000 ✓*
CURRENT LIABILITIES	888 200
Trade and other payables	231 920
Shareholders for dividends See R I	210 000 ✓
SARS: Income tax (306 280 ✓ – 280 000 ✓)	26 280 ✓*
Current portion of loan See Non-C L	420 000 ✓
TOTAL EQUITY AND LIABILITIES	5 523 200 ✓*

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*one part correct

-1 foreign item (-2 max) misplaced items must be marked wrong. Current liability items maybe combined.

1.3

1.3.1 Calculate the number of shares that John must buy to gain control of the company.

$$400\ 000 - 252\ 000 = 148\ 000 + 1 \text{ or } + 100$$

Or

$$408\ 000 - 252\ 000 = 156\ 000$$

1.3.2

John wants to buy shares at the current Net Asset Value without advertising them to the public. As an existing shareholder, why would you not be satisfied with this arrangement? Explain. Provide TWO POINTS.

TWO VALID POINT ✓✓✓✓

The issue of these shares must be transparent and legal (i.e., in terms of a decision taken by the Board of Directors; it must not contravene the MOI, the Prospectus or the Companies Act.

It would be unethical for John to pay a price for the share that is below the Market price as this would dilute the average share price (which could lead to a decline in market price.

It would be unethical and unfair for John to benefit in this way as he would be abusing his position in the company (and other directors or shareholders would be disadvantaged).

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XINWA Ltd is planning to spend R500 000 on staff development and training over the next two years. Explain where this amount should be shown in the published annual report, and provide a reason for your answer.

EXPLANATION ✓✓	REASON ✓✓
In the directors report	<p>It has not yet been paid so it cannot be shown in the statement of comprehensive income.</p> <p>It is important for the directors to create a good impression to the readers of the financial report.</p> <p>It will highlight the company's compliance with the King Code / Emphasis on the triple bottom line</p>



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ACTIVITY 2

2.1

Choose a GAAP principle in COLUMN B that matches the description in COLUMN A.		
4.1.1	E	✓ historical cost
2.1.2	D	✓ materiality
2.1.3	B	✓ matching
2.1.4	F	✓ going concern
2.1.5	C	✓ business entity

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2.2.1 (a) ORDINARY SHARE CAPITAL

Authorised shares: 1 000 000 ordinary shares		
Issued share capital:		
700 000 ✓	Ordinary shares on 1 July 2022	2 100 000 ✓
(30 000) ✓	Shares re-purchased R3 ✓ ✓	(90 000) ☑*
100 000 ✓	Shares issued at R7 each	700 000 ✓
770 000 ✓	Ordinary shares on 30 June 2023	2 710 000 ☑

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*one part correct

*one part correct

(b) RETAINED INCOME

Balance on 1 July 2022 (Balancing figure)	483 160	✓*
Net profit after income tax 1 250 000 ✓ – 350 000 ✓ (1 250 000 one mark x 72/100 one mark)	900 000	✓*
30 000 shares re-purchased at R6 each	(180 000)	✓✓*
Ordinary share dividends	(403 500)	✓*
Interim dividends 670 000 x 0,20 ✓	134 000	✓
Final dividends 770 000 ✓* x 0,35 ✓	269 500	✓*
Balance on 30 June 2023	799 660	✓

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**2.2.2 VELAPHI LTD
BALANCE SHEET ON 30 JUNE 2023**

ASSETS		
NON-CURRENT ASSETS	3 168 660	✓*
Fixed Assets 1 275 000 ✓ + 300 000 ✓✓ + 720 000 ✓ + 600 000 ✓ - 315 000 ✓✓	2 580 000	✓*
Financial assets: Fixed Deposit ✓	588 660	✓*
CURRENT ASSETS (1 090 000 x 1,5)	1 635 000	✓✓*
Inventory	790 000	✓*
Trade and other receivables (530 000 ✓ + 24 000 ✓ + 50 000 ✓✓)	604 000	✓*
Cash and cash equivalents (66 000 ✓ + 175 000 ✓✓)	241 000	✓*
TOTAL ASSETS **(Must be the same figure as Total Equity and Liabilities)	4 803 660	✓**
EQUITY AND LIABILITIES		
SHAREHOLDERS EQUITY	3 509 660	✓*
Ordinary share capital ✓ (see 4.2.1 (a))	2 710 000	✓*
Retained income ✓	799 660	✓
NON-CURRENT LIABILITIES	204 000	
Loan: Quality Bank (300 000 ✓ + 8 000 ✓✓ - 56 000 ✓ - 48 000 ✓✓)	204 000	✓*

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CURRENT LIABILITIES (***SEE ALTERNATIVE)	1 090 000 ☑*	
Trade and other payables (720 000 ✓ + 35 500 ✓ +17 000 ✓✓)	772 500 ☑*	
Shareholders for dividends (see 4.2.1 (b))	269 500 ☑*	
Current portion of loan ✓	48 000 ☑*	10
TOTAL EQUITY AND LIABILITIES (SHE + NCL + CL)	4 803 660 ☑*	46

*****ALTERNATIVE FOR CURRENT LIABILITIES:**

CURRENT LIABILITIES	1 090 000 ☑*	
Trade and other payables (720 000 ✓ + 35 500 ✓ + 269 500 ☑* (see 4.2.1 (b)) +17 000 ✓✓)	772 500 ☑*	
Current portion of loan ✓	48 000 ☑*	10
TOTAL EQUITY AND LIABILITIES	4 803 660 ☑*	



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ACTIVITY 3**(MEMO); BALANCE SHEET FOR LISAKHANYA LTD AS AT 30 JUNE 2023**

	ASSETS	
	NON-CURRENT ASSETS (5 670 000 – 2025 000)	3 645 000
	Fixed/Tangible assets (3 645 000- 750 000)	2 895 000
	Financial assets: fixed deposit	750 000
	CURRENT ASSETS (1 620 000 x 1.25)	2 025 000
	Inventory (1 620 000 x 0.65) or (2025 000 - 972 000)	1 053 000
	Trade and other receivables (972 000 - 375 000)	597 000
	Or (2 025 000-1 053 000-375 000)	
	Cash and cash equivalent	375 000
	TOTAL ASSETS (A=O+L)	5 670 000
	EQUITY AND LIABILITIES	
	SHAREHOLDERS' EQUITY (5 x 648 000)	3 240 000
	Ordinary share capital	3 000 000
	Retained income (3 240 000- 3 000 000)	240 000
	NON-CURRENT LIABILITIES	810 000
	Loan from: SE Bank (3 240 000 x 0.25)	810 000
	CURRENT LIABILITIES	1 620 000
	Trade and other payables	1 620 000
	TOTAL EQUITY AND LIABILITIES (SE+NCL+CL)	5 670 000

CASH FLOW STATEMENT

1.1.1 Calculate the Cash effects of changes in working capital. Show all calculations.
(4)

CASH EFFECTS OF CHANGES IN WORKING CAPITAL	(10 000) ✓
Change in Inventory (2 250 000 - 1 720 000)	530 000 ✓
Change in receivables (1 140 000 - 940 000)	(200 000) ✓
Change in payables (1 260 000 - 920 000)	(340 000) ✓

1.2.

1.2.1 Income tax paid

$$780\,000\checkmark + 72\,000\checkmark + 65\,000\checkmark = 917\,000\checkmark \quad (4)$$

1.2.2 Dividends paid

$$620\,000\checkmark + 770\,000\checkmark = 1\,390\,000\checkmark \quad (3)$$

1.2.3 Proceeds of sale of fixed assets

$$12\,357\,000\checkmark + 880\,000\checkmark - 1\,010\,000\checkmark - 12\,138\,000\checkmark = 89\,000\checkmark \quad (5)$$

1.2.4 Repurchase of share capital

$$840\,000 + 312\,000 \text{ OR } 120\,000 \times 9,60 = (1\,152\,000)\checkmark\checkmark \quad (2)$$

1.2.5 Net change in cash and cash equivalents (3)

Net change in cash & cash equivalents	Check operation	740 000✓
Cash & cash equivalents at beginning of year		(200 000) ✓✓
Cash & cash equivalents at end of year		540 000

1.3

1.3.1 Net asset value per share

$$\frac{\text{R } 11\,011\,000 \checkmark}{1\,280\,000 \checkmark\checkmark} \times 100 = 860.3 \text{ cents} \checkmark \quad (4)$$

1.3.2 % Return on average shareholders' equity (4)

$$\frac{\text{R } 1\,820\,000 \checkmark}{\frac{1}{2} (11\,011\,400 \checkmark + 8\,595\,000 \checkmark)} \times 100 = 18.6\% \checkmark$$

QUESTION 2

2.1 Calculate the missing amounts: Fixed/Tangible Asset Note

NO.	WORKINGS	AMOUNT
a	6 740 000 – 2 689 000	4 051 000 ✓✓
b	140 000 – 33 600	106 400 ✓✓
c	$5\,600 + 11\,000 + 20\% \times (3\,110\,000 - 1\,342\,000)$ <p style="text-align: center;">353 600 (3 marks)</p> <p>OR:</p> $5\,600 + 20\% \times \left[\frac{1\,768\,000 \times 10}{12} + \frac{2\,098\,000 \times 2}{12} \right]$ <p style="text-align: center;">294 667 + 69 933</p>	370 200 ✓

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2.2 METEOR SUPERMARKETS LTD

CASH FLOW STATEMENT FOR YEAR ENDED 28 FEBRUARY 2017	
Cash flow from operating activities	(1 039 900) ✓
Cash generated from operations	969 600
Interest paid	(88 500)
✓ Taxation (441 000) ✓ + (122 000) ✓ + (128 000) ✓ 563 000 (2 marks) OR -441 000 - 122 000 - 128 000	(691 000) ✓
✓ Dividends 480 000 ✓ + 750 000 ✓ ✓ 480 000 + 1 620 000 - 870 000 OR - 480 000 - 1620 000 + 870 000 1 mark 1 mark 1 mark	(1 230 000) ✓
Cash flow from investing activities	(4 274 600) ✓
✓ Purchase of fixed <u>assets</u> 4 051 000 ✓ + 330 000 ✓	(4 381 000) ✓
✓ Proceeds from disposal of fixed <u>assets</u>	106 400 ✓
Cash flow from financing activities	2 325 000 ✓
✓ Proceeds from the sale of shares	2 400 000 ✓ ✓
✓ Share buy-back	(475 000 ✓) ✓
✓ Change in loan	400 000 ✓ ✓
Net change in cash and cash equivalents	(2 989 500) ✓
Cash and cash equivalents at beginning of year	2 488 000
Cash and cash equivalents at end of year	(501 500) ✓ ✓*

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2.3 At the AGM, a shareholder stated that the Cash Flow Statement reflects poor decisions by the directors. Explain TWO points, with relevant figures, to support his opinion.

Any TWO valid answers: Explanation ✓ ✓ Figures ✓ ✓

- Dividends of R1 230 000 (see 2.2) cause a negative figure for cash retained from operating activities.
- Fixed assets bought are very high (R4 381 000) (see 2.2) which leads to a bank overdraft.
- The directors allowed a large bank overdraft of R515 000 or R501 500 to result from high payments for dividends/fixed assets.
- The buy-back of shares (R475 000) (see 2.2) reduced cash resources / reduced capital base of the company.
- The vehicle was sold at book value (R106 400) (see 2.2) and was only 1½ years old.

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ACTIVITY 1 INTERPRETATION OF FINANCIAL INFORMATION

Comment on the liquidity of the two companies and explain which company manages the working capital more efficiently.

Current ratio and figures for both companies ✓ ✓

Acid test ratio and figures for both companies ✓ ✓

Decision ✓ and reason ✓

- Florida's current ratio is 1,5 : 1 and Texas' current ratio is 2,1 : 1
- Florida's acid test ratio is 0,6 : 1 and Texas' acid test ratio is 1,1 : 1

Texas ✓ uses the working capital the more efficiently because they will be able to cover their current debts with the current assets available. ✓

Comment on the degree of risk and gearing of both companies. Explain how this will influence your choice of company.

Debt/Equity ratio for both companies ✓ ✓

ROTCE for both companies ✓ ✓

Choice ✓ and reason ✓

Florida's Debt/Equity ratio is 0,3 : 1 and Texas' Debt/Equity ratio is 0,8 : 1
Florida's ROTCE is 15,5% (or ROTCE of 15,5% is greater than interest on loan of 14%) and Texas' ROTCE is 11,8% (or ROTCE of 11,8% is lower than interest on loan of 14%).

Florida's risk is lower and the gearing is positive (ROTCE exceeds interest rate).

Consider the Return, Earnings and Dividends of the two companies.

- (a) Explain whether or not Gilbert should be satisfied with the return on his investment in both companies. Provide financial indicators/figures to support your answer.**

ROSHE figures for both companies ✓

Compared to alternative investments ✓

Explanation ✓✓

Part marks incomplete and unclear answer

ROSHE of Florida is 16% (was 14%) and Texas is 28% (was 24%).

Both ratios exceed alternative investments of approximately 7%

Both ratios have improved from the previous year

- (b) Calculate the dividend pay-out policy of both companies. Indicate which company has adopted the better policy and the possible reason for that choice. Provide figures and calculations to support your answer.**

Florida:

Pay-out rate is 81% ✓✓ ($100/124 \times 100\%$)(accept 80,6%)(or compare 100 vs. 124)

Texas:

Pay-out rate is 52% ✓✓ ($75/143 \times 100\%$)(accept 52,4%)(or compare 75 vs. 143)

Do not accept 124 vs 143 or 100 vs 75

No split marks

Choice ✓ with reason ✓ :

Florida: They pay out more than Texas, they want to keep their shareholder's satisfied

OR

Texas: They retain funds for future growth and improvement

- (b) Calculate the amount Gilbert will spend in order to maintain his percentage shareholder in each company. Provide a reason why Gilbert would pay this amount.

Florida:

59 670 shares ☒ x R 8,00 ✓ = R477 360

See (a))

Texas:

21 000 shares ☒ x R16,00 ✓ = R336 000

See (a)

R813 360 ☒ one part correct

Reason:

In order to remain the majority shareholder. ✓

- (c) Comment on the price per share that Gilbert paid for these shares in each company and provide figures to support your answer.

Must compare Market price to NAV: exceeds/lower than ✓ ✓
Both figures for each company ✓ ✓

Florida:

Market price of R8,00 exceeds NAV of R7,20 (or by 80c)

Texas:

Market price of R16,00 is lower than NAV of R17,50

ACTIVITY 2

2.1 Concepts (4)

2.1.1 Solvency ✓

2.1.2 Gearing✓

2.1.3 Liquidity✓

2.1.4 Profitability✓

2.2.1

% Operating profit on sales

$$\frac{910\,000}{2\,800\,000} \times 100$$

2 800 000

32,5%

(4)

2.2.2

Calculate the net asset value per share.

$$\frac{5\,950\,800}{15\,000\,000} \times 100 = 396,7 \text{ cents} \quad \checkmark \text{ One part correct}$$

1 500 000

OR

$$\frac{5\,950\,800}{14\,600\,000} \times 100 = 407,6 \text{ cents}$$

1 460 000

(3)

2.2.3

Calculate the return on average shareholders' equity.

$$\frac{892\,800}{\frac{1}{2}(5\,950\,800 + 4\,345\,000)} \times 100 = 17,3\% \quad \checkmark \quad \text{One part correct}$$

$$\frac{1}{2}(5\,950\,800 + 4\,345\,000)$$

(5 147 900 – 3 marks)

(5)

2.2.4

Calculate the debt-equity ratio.

$$1\,950\,000 \checkmark : 5\,950\,800 \checkmark$$

$$0,3: 1 \quad \checkmark \quad \text{One part correct}$$

(3)

2.3

The directors are not satisfied with the liquidity position. Quote and explain THREE relevant financial indicators (with figures) to support this statement.

Ratio ✓✓✓
Trend and figures ✓✓✓

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- Current ratio increased from 1,8 : 1 in 2022 to 3,3 : 1 in 2023

- Acid test ratio increased from 1,2 : 1 in 2022 to 1,6 : 1 in 2023

- The stock turnover rate declined from 5 times in 2022 to

3 times in 2023

Do not accept Debtors' Collection and Creditors' Payment Period **(6)**

2.4

The directors decided to increase the loan during the current financial year. Explain why this was a good decision. Quote and explain TWO financial indicators (with figures) in your answer.

Ratio ✓✓

Figures and trend ✓✓

Comment beyond trend ✓✓✓✓

ROTCE

- This has increased from 21,2% to 24,2%
- Positively geared as ROTCE is higher than interest rate (10, 5%)

DEBT-EQUITY RATIO

- This has increased from 0,09 : 1 to 0,33 : 1 see 2.2.3
- Low financial risk/not making much use of loans. Relies more on own funds (8)

The directors were pleased with the price that the company paid to buy back the 40 000 shares. Give a suitable reason why the directors felt that way. Quote relevant financial indicators (with figures) to support your answer.

Reason ✓✓ Relevant figure ✓

Paid R4, 30 per share to buy back shares. This is lower than the market value per share (2015 – 480 cents; 2016 – 505 cents).

(not a big difference to the NAV – 362 cents and 408 cents)

Average issue price was R3, 70.

Purchased at a lower price than the issue price of the additional shares. (R4,50) (3)

ACTIVITY 1**(CASH BUDGET)****1.1**

Thando is not concerned about the overspending in advertisement. Explain why this is so. Quote figures.

Candidate must indicate the positive effect of advertising on sales✓✓

Provide appropriate figures✓

Expected response for 3 marks:

Advertising increased by R4 500 but Sales increased by R24 500.

OR

Advertising increased by 37, 5% while Sales increased by 20% on bigger base.

3

1.2 CREDITORS PAYMENT SCHEDULE

MONTH	CREDIT PURCHASES	OCTOBER	NOVEMBER
August	R60 000	6 000	
September	R67 500	10 125	R6 750 ✓✓
October	R75 000	53 438	R11 250 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
November	R90 000		R64 125 ✓✓
		69 653	R82 125 <input checked="" type="checkbox"/>

1.3

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	CALCULATION	AMOUNT
(i)	Cash sales R150 000 × 40%	R60 000 ✓✓
(ii)	Cash purchases of stock R120 000 two marks R180 000✓ × 100/150✓ × 25%✓	R30 000 <input checked="" type="checkbox"/>
(iii)	Delivery expenses 6% two marks 9 000 ✓ /150 000 × R180 000 ✓	R10 800 <input checked="" type="checkbox"/>
(iv)	Salaries and wages 38 700✓ × 100/107.5 ✓✓	R36 000 <input checked="" type="checkbox"/>
(v)	Repayment of loan 168 000- 120 000 OR 600✓ × 100/15✓ × 12✓ OR 7 200 × 100/15	R48 000 <input checked="" type="checkbox"/>
(vi)	Cash at end of month	R53 250✓
(vii)	Cash surplus or deficit for the month 10 950 + 53 250	(64 200)✓✓

1.4

State ONE consequences that the business might face should they not pay the amount due to creditors in September 2022.

Any one possible response ✓✓

- Legal action can be taken by the creditor.
- Business will be charged interest for slow payment.
- The credit ratings of the business will decrease/ could be blacklisted
- Credit to the business will be stopped by the creditor.

2

1.5 Briefly explain ONE advantage and ONE disadvantage of each option.

OPTION	ADVANTAGE ✓✓✓	DISADVANTAGE ✓✓✓
Request a friend to become a partner	She will have the necessary funds to purchase the assets (which will then belong to the business) / share workload and skills / partner will share losses.	She will have to share half his profits with her new partner.
Lease the equipment from Rifo	She does not have to raise a loan / does not have to pay interest on loan / will not have to pay repair costs.	The lease charges are expensive/ lease is over five years / never owns the assets but continues to pay.
Acquire a new loan	She will own the assets / they could last longer than 5 years if she takes good care of them.	She has to pay interest / pay monthly instalment (which must include interest).

ACTIVITY 2

2.1 Explain why:

2.1.1

Bad debts will not appear in a cash budget.

It is a non-cash item. ✓

(1)

2.1.2

A cash budget is an effective internal control mechanism.

Effective control over cash resources / monitoring of cash receipts and payments / reconciling cash (bank) balance for planning / ensuring good liquidity / identifying cash flow problems and taking steps to rectify them. ✓✓

(2)

2.2.1 DEBTORS COLLECTION SCHEDULE

Month	Credit sales	AUGUST	SEPTEMBER
JUNE	360 000	64 800	
JULY	364 000	109 200	65 520✓✓
AUGUST	382 200	183 456	114 660✓✓
SEPTEMBER	354 900		170 352✓✓
RECEIPTS FROM DEBTORS		357 456	350 532☑

(7)

2.2.2 Calculate:

WORKINGS	ANSWER
(i) Rent income: August $13\,878 \times 100/108$	12 850✓✓
(ii) Payment to creditors: September $320\,000 \times 75\%$	240 000✓✓
(iii) Repayment of loan: September 550 two marks $(3\,300 - 2\,750) \times 12 \times 0,11$	60 000✓
(iv) Ordinary share dividends: September $(480\,000 + 75\,000) \times 0,15$	83 250✓

(13)

2.2.3 Calculate: % increase in salaries and wages.

WORKINGS	ANSWER
$8\,058 \div 134\,300 \times 100$	6%✓

(3)

2.2.4

Provide TWO reasons why the company decides to invest in staff training.

✓✓ The path to enlightened education

Improve the image of the business / more efficient labour force

Giving back to the community that supports the business.

CSR – corporate social responsibility (as outlined in the King code)

Good corporate governance.

Good publicity – better profits (more customers)

(2)

2.2.5

Comment on the new approach regarding cash and credit sales.

Due to drop in sales, decided to sell more on credit✓✓

(2)

Explain TWO disadvantages of the approach adopted.

✓✓ ✓✓

Could lead to cash flow problems – debtors pay later

Controlling debtors – additional administrative duties – sending statements etc.

Possibility of bad debts / debt collectors / legal action

(4)

Comment on actual and budgeted figures for the following items:

ADVERTISING Comment✓✓ Figure (related to sales) ✓	Budgeted for 3% of sales; actual is 4% of sales / Sales is less than budgeted by 40% but advertising only 20% less than budgeted. Advertising was not effective – did not achieve the desired sales.
PACKING MATERIAL Comment✓✓ Figure (related to sales) ✓	Budgeted for 6% of sales; actual is 5,5% of sales / Sales is less than budgeted by 40% but packing material is 44,9% less than budgeted. Packing material is well controlled – effective use is made. No wastage or mismanagement noted.

6)

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ACTIVITY 1

(INVENTORIES)

1.1.1

Explain the FIFO valuation method.

Any valid explanation, e.g.

Part-marks for incomplete explanation

It is assumed that the first items bought are the first items sold. ✓✓

OR

Stock on hand is valued at the latest cost prices.

Explain the specific identification valuation method.

Any valid explanation, e.g.

Part-marks for incomplete explanation

Each item of stock is valued at its original cost to the business. ✓✓

[4]

1.1.2

Calculate the cost price per laptop on hand on 1 October 2019.

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$R413\,000/118 = R3\,500$ ✓✓

No part marks

[2]

1.1.3

Calculate the value of the closing stock on 30 September 2020.

PREFERRED METHOD

202 500 three marks

502 200 four marks

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ☒ One part correct

$$[3\,750 \times (410 - 356)] + [4\,650 \times (630 - 20 - 502)] = R704\,700$$

54 two marks

108 three marks

610 two marks

128 two marks

ALTERNATIVE METHOD WITH TOTALS

one mark two marks one mark one mark two marks one mark & one method mark

$$(1\,537\,500 - 1\,335\,000) + (2\,929\,500 - 93\,000 - 2\,334\,300) = 704\,700$$

202 500

502 200

three mark

four marks

ALTERNATIVE METHOD USING COST OF SALES.

Candidates must know that opening stock has all been sold to get 3 marks on net purchases:

Net purchases – Cost of Sales = Closing stock

1 335 000 two marks 2 334 300 two marks

$$+ 4\,374\,000 - [(356 \times R3\,750) + (502 \times R4\,650)] = R704\,700$$

one or three marks one mark one mark one mark one mark one mark & one method mark

$$403\,000 \text{ \& } +403\,000 = 0$$

[9]

1.2 MANAGEMENT OF INVENTORIES

1.2.1

What decision did Kyle take regarding the selling price of the desks?

Provide figures.

Decision ✓ Figures ✓

- He increased the mark-up from 60% to 80%.
- He increased the selling price from R1 920 to R2 520 / by R600 / by 31%.

(2)

How has this decision affected the business? State TWO points.

Provide figures.

Any two valid points ✓ ✓ Figure ✓ ✓

- Gross profit increased from R259 200 to R336 000 / by R76 800 / by 29,6%.
- Stock turnover rate decreased from 7,2 to 6,0 times.
- Orders of desks decreased to 300 units / by 70 units / by 19%.
- Sales of desks decreased to 300 units / by 65 units / by 18%.

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1.2.2

Was it a good idea for Kyle to change to a cheaper supplier of chairs?

YES/NO: No ✓

Explain TWO points. Provide figures.

Any two valid points ✓✓ Figure ✓✓

- The gross profit decreased from R148 920 to R95 200 / by R53 720 / by 36%.
- The returns increased from 0 to 90 units / the customers are not satisfied with the quality of the product / Resulted in lower net sales 680 compared to 730.
- The cheaper price of R490 did not affect the stock turnover rate which remained constant at 4,0 / chairs did not appear to be popular with customers.

(5)

1.2.3

Based on the information given, provide TWO separate suggestions to Kyle to improve the profit on printers in 2021.

One valid point for pricing ✓ Figure ✓ One valid point for orders ✓ Figure ✓

Suggestion 1 (with figures):

- Kyle should increase the price; Any figure between R975 and R1 200 **OR**
- Kyle should increase MU%; Figures: Any % between 25% and 70%.

Suggestion 2 (with figures):

- Kyle must plan purchase of printers / must follow up on orders to meet the demand of 925 units (i.e. 200 more than current sales) **OR**
- Kyle must maintain / improve stock turnover rate of 11,8 times

Responses for one mark only:

Find a cheaper supplier / Request deposits from customers / Payment in advance / Follow up on orders from customers / Negotiate a trade discount on purchases.

(4)

TOTAL MARK: 30

ACTIVITY 2

(INVENTORIES)

2.1.1

Calculate the value of closing stock on 31 August 2021 using the weighted average method.

$$\frac{140\,000 \checkmark + 461\,000 \checkmark + 12\,600 \checkmark \checkmark - 40\,000 \checkmark}{400 \checkmark + 1\,200 \checkmark - 100 \checkmark}$$

$$\frac{573\,600}{1\,500}$$

$$= R382.40 \times 200 \checkmark$$

$$= R76\,480 \checkmark$$

operation one part must be correct

$$= R76\,480 \checkmark$$

operation

=R76 480 ✓ closing stock using weighted average method.

2.1.2

[10]

Nompumelelo is concerned about the control of the stock of shoes. She suspects that shoes have been stolen by her workers. Provide a calculation to confirm her suspicions.

A Division of Marematlou Group Holdings

$$1\,500 \checkmark - 1\,240 \checkmark \checkmark - 200 \checkmark = 60 \checkmark$$

2.1.3

[5]

Calculate the average stock holding period (in days) for the financial year ended 31 August 2021.

$$\frac{1}{2} \checkmark (140\,000 \checkmark + 76\,480 \square \text{ see 2.1.1}) \times 365 \checkmark$$

$$497\,120 [573\,600 - 76\,480 \text{ refer to 2.1.1}] \checkmark \checkmark$$

$$=79.5 \text{ Days } \square \text{ or } 80 \text{ days } \text{Operation one part must be correct}$$

2.1.4

[7]

Nompumelelo is considering a change in the method of valuing stock. NB: the value of closing stock using the FIFO method amounted to R81 600

Give one reason in favour of changing to the FIFO method.

Any one reason $\checkmark \checkmark$

Part-marks for unclear/incomplete reason

- Gross profit will be higher because closing stock would be higher
- Easy to count or identify pair of shoes
- Value of shoes is continuously changing and valued at more recent/realistic prices.

Give ONE reason against changing to the FIFO method.

- No need to change as profit will be the same in the long-term
- Unethical to manipulate the profit by changing the method of stock valuation
- Tax would increase in first year as a result of increased profit
- The change would affect comparisons across financial years

[4]

2.2

	Problem identified with figures.	Advice
Problem ✓ Figure ✓ advice ✓ PINETOWN PEARL	All stock sold, Zero stock on hand. He could have sold more stock if he re-ordered additional stock.	Ensure stock levels are sufficient at all times. Demand that managers request additional stock if needed. Increase the profit mark-up.
Problem ✓ Figure ✓ advice ✓ DUNDEE ARTHUR	<p>The bicycles are not selling well, only 6 sold per month.</p> <p>The stock on hand is high.</p> <p>Highest mark-up used (65%) contribute to low sales</p>	<p>Move stock to branches where sales are quicker.</p> <p>Try reducing mark-up % to improve sales.</p> <p>Increase the budget for Advertising.</p>
Problem ✓ Figure ✓ advice ✓ JOZINI GEORGE	There is cash missing. the actual sales should be R750 000 instead of R710 000 (R40 000 is missing)	Institute investigation. Administer disciplinary procedures and sanction the guilty parties' e.g. legal actions, suspension etc.

[9]

TOTAL MARK: 35