

CHAPTER 2

ACCOUNTING

The following report should be read in conjunction with the Accounting question paper of the November 2017 examination.

2.1 PERFORMANCE TRENDS (2014–2017)

The number of candidates who wrote the Accounting examination in 2017 decreased by 25 426 candidates in comparison to that of 2016. This year there was a decline in the performance of candidates as indicated by 66,1% of candidates achieving at the 30% level, with 42,6% achieving at the 40% level.

Table 2.1.1 Overall achievement rates in Accounting

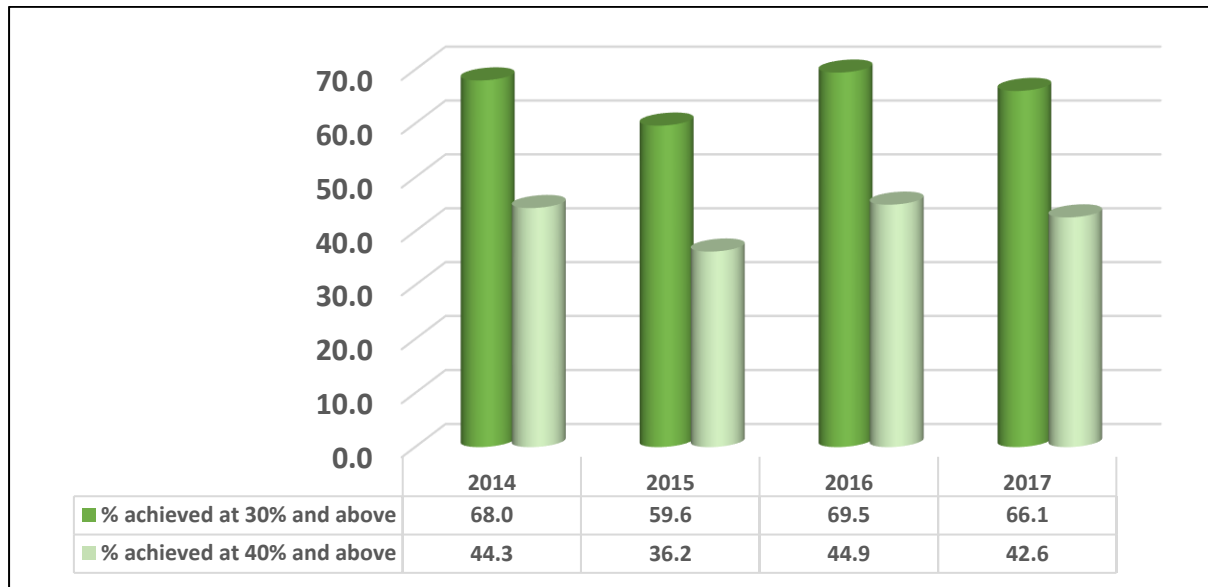
Year	No. wrote	No. achieved at 30% and above	% achieved at 30% and above	No. achieved at 40% and above	% achieved at 40% and above
2014	125 987	85 681	68,0	55 837	44,3
2015	140 474	83 746	59,6	50 906	36,2
2016	128 853	89 507	69,5	57 914	44,9
2017	103 427	68 318	66,1	44 041	42,6

Over the past four years there has been a noticeable improvement in the performance of candidates in certain aspects of the curriculum that were previously regarded as challenging, particularly the calculation and interpretation of financial indicators.

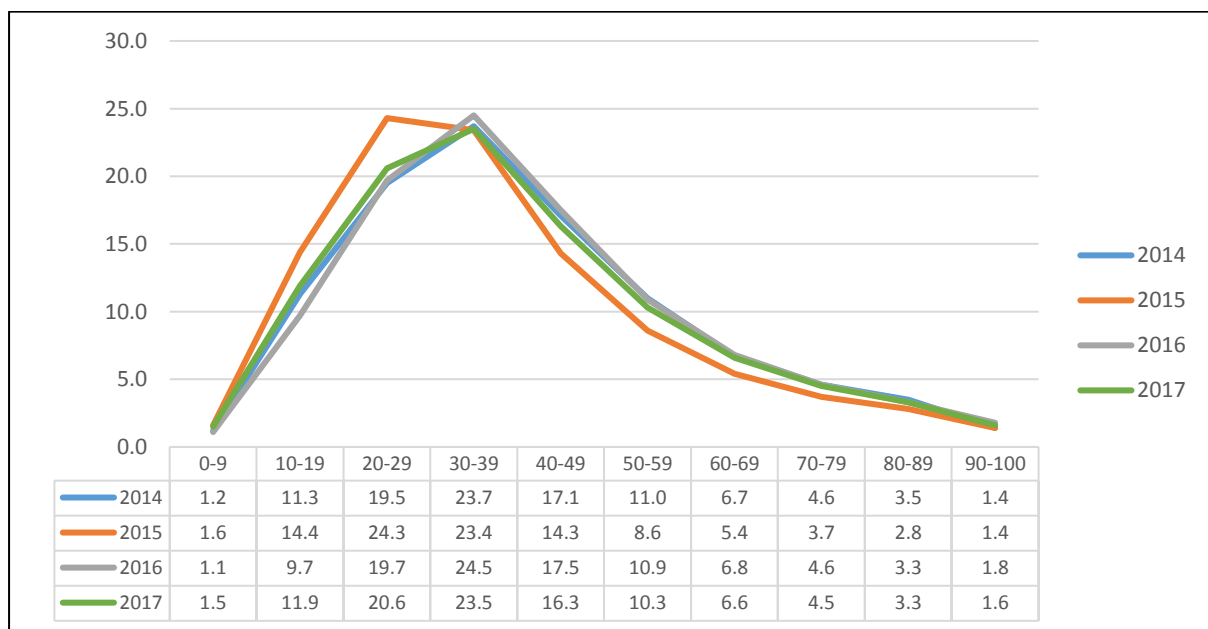
Candidates also appear to be confident in Grade 12 content that is not heavily dependent on prior knowledge from previous grades, particularly Manufacturing and Inventory Valuation. However, there are topics in Grade 12 that demand insight into content and procedures covered in previous grades, e.g. Reconciliations and Budgeting. In topics such as these, it is important that teachers devote sufficient time to consolidating the application procedures to enable them to analyse and interpret financial information, as is required in the Grade 12 curriculum.

It has also been observed that specific aspects introduced into the CAPS in recent years have been answered well by candidates. This could be due to the detailed attention that teachers devote to new content that has been incorporated into the curriculum. The repurchase of shares and inventory valuation methods are prime examples of this.

Graph 2.1.1 Overall achievement rates in Accounting (percentage)



Graph 2.1.2 Performance distribution curves in Accounting (percentage)



2.2 OVERVIEW OF LEARNER PERFORMANCE

General Comments

- (a) The performance of the 2017 cohort was generally disappointing. This year there seemed to be a significant increase in the number of weaker candidates.

- (b) Since 2008 both the year-end and supplementary examination papers covered all topics outlined in the CAPS. Previous years' Diagnostic Reports also highlighted weaknesses and proposed strategies that teachers and learners could have used in their preparation for the 2017 NSC Accounting examination. Therefore candidates had access to extensive resource material which they could have utilised to assist them with the preparation for the November 2017 paper.
- (c) The good performance of learners at a number of centres serves as evidence that some teachers have implemented the recommendations made in past Diagnostic Reports for Accounting.
- (d) Candidates who attained good grades mastered the ability to address the specific requirements of each subquestion, focused on relevant information and used the allocated time effectively. However, there were many centres where candidates did not attempt certain subquestions.
- (e) The poor quality of responses in some centres indicates that challenges in teaching and learning still prevail. It remains a concern that candidates from these centres offer inappropriate responses to questions that involve basic arithmetical calculations, explanations based on relevant information provided in the questions and/or the preparation of certain statements.
- (f) Less challenging questions demanded that candidates have a basic understanding of concepts, which are to engage with more complex aspects of the content. The inability of weaker candidates to master more complex questions could be an indication that basic concepts were not properly addressed.
- (g) Factors that contributed to poor performances by weaker candidates include:
- **Inability to master certain calculations:** Accounting examination papers contain a number of arithmetical calculations, e.g. positive/negative signs, rands/cents, percentages and ratios. Understanding the logic of these calculations is essential.
 - **Inability to address the requirements of questions adequately:** In several subquestions, learners' responses were not in line with the requirements of the questions. Weaker candidates often provided incomplete or unclear responses, e.g. if an explanation is required, a one-word answer is insufficient.
 - **Inability to identify relevant information:** Weaker candidates were unable to strategically identify relevant information. They tended to provide less important or immaterial information in supporting their explanations, while ignoring significantly more relevant and pertinent information.

General Suggestions for Improvement

Teachers are advised to build the following practices into their work plans for the year:

- (a) **Use past NSC papers:** Firstly, it must be noted that past question papers serve as one of many teaching and learning resources. It must be used for revision purposes only. Past papers cannot replace the CAPS document and Examination Guideline. Every learner must have access to past examination papers. Papers from November 2014 onwards would be

appropriate for revision purposes as these are based on the current CAPS content including shares of no par value and the repurchase (buy-back) of shares. In addition, teachers should ensure that learners revise questions on Cash Budgets and Projected Income Statements in the context of companies (i.e. not simply in the context of sole traders) as this is stipulated for Grade 12 in the CAPS, and serves as further consolidation of these topics.

- (b) **Basic Concepts and the Accounting Equation:** Learners need to understand and explain basic concepts and terminology before engaging in Accounting applications in each topic.
- i. The most vital concepts are those contained in the expanded Accounting equation: **Assets + Expenses + Drawings = Capital + Income + Liabilities**. The process of conceptualizing and understanding these concepts is more than merely rote-learning definitions.
 - ii. It is necessary that learners understand:
 - Current and non-current assets
 - Current and non-current liabilities
 - Operating, financing and investing activities

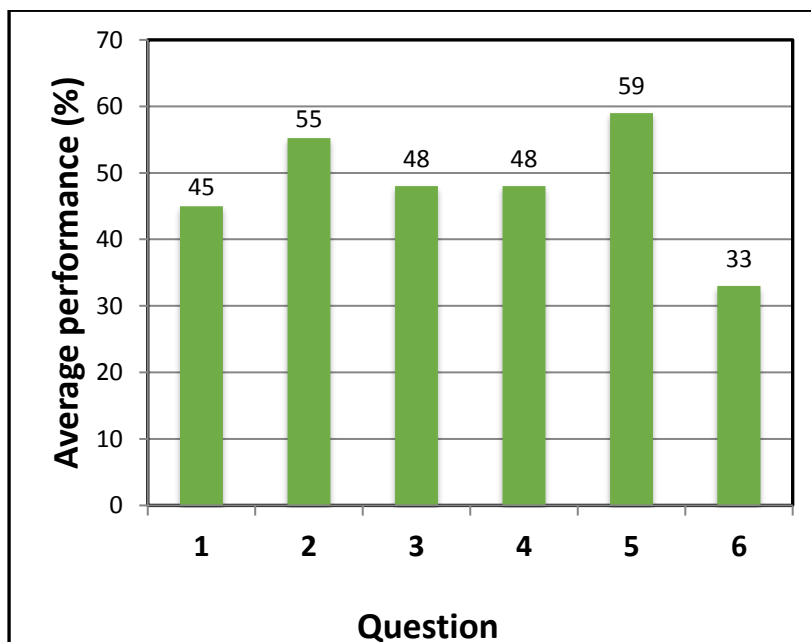
This will enable them to prepare and interpret the different financial statements more effectively.
- (c) **Revision of Relevant Grades 10 and 11 Content:** 20% of an examination paper may contain content from previous grades that is pertinent to Grade 12. Vital aspects from the previous grades that must be constantly reinforced in Grade 12 teaching include disposal of fixed assets, Cash Budgets, Projected Income Statements, cost accounting and reconciliation statements (i.e. bank, debtors and creditors). The tight time frames in Grade 12 do not allow for complete re-teaching of these topics. It is advised that weaker learners practice consolidation tasks at the end of Grade 11.
- (d) **Understanding Basic Formats:** Basic formats of financial statements must be fully understood by learners.
- (e) **Internal Control and Ethical Issues:** In addition to the logic and application of each Accounting process in the curriculum, teachers should focus on the internal control measures and ethical considerations that are relevant to each process. These could be integrated at strategic and relevant points of each topic.
- (f) **Enhancing Learners' Skills in Accurately Interpreting Specific Subquestions and Using Information that is Relevant:** Teachers are advised to read through and interpret the requirements of each question with learners. Learners should also be guided on how to utilise prior knowledge of a topic to identify the information that is relevant to each subquestion. Tables are often used to reduce written text.
- (g) **Time Management:** Learners must be trained in the art of managing their time and to adhere to the suggested time allocations provided in the paper. The mark allocation and the spaces provided in the answer book are good indicators of the amount of information needed.

- (h) **Comments, Evidence and Explanations:** Learners must be taught to express themselves clearly and succinctly where comments or explanations are required. Using bullet points and clear, concise sentences is acceptable. However, learners must not assume that a partial, simple or single-word response will be sufficient if an explanation is required. Language proficiency and learners' ability to express themselves clearly and precisely should not be seen as an obstacle to presenting correct responses. They should be made aware that they will often be required to quote figures or other evidence from the information provided, and that this cannot be omitted if full marks are to be awarded for an answer to a specific subquestion.
- (i) **The Importance of Formative Testing:** Short, informal formative tests must be used to build the confidence of learners in all topics. Self-marking or peer-marking allows learners to benefit from immediate feedback by gaining an understanding of the mark allocation, and by enabling them to promptly identify errors or valid alternative responses. The less challenging sections in each of the questions in the NSC Accounting papers can be used as 'confidence-boosters'. Formative tests can be used effectively to introduce new subtopics in the CAPS, e.g. inventory valuations, repurchase (buy-back) of shares and reconciliation with creditors' statements.
- (j) **Recommendations:** Consult past Diagnostic Reports.

DIAGNOSTIC QUESTION ANALYSIS

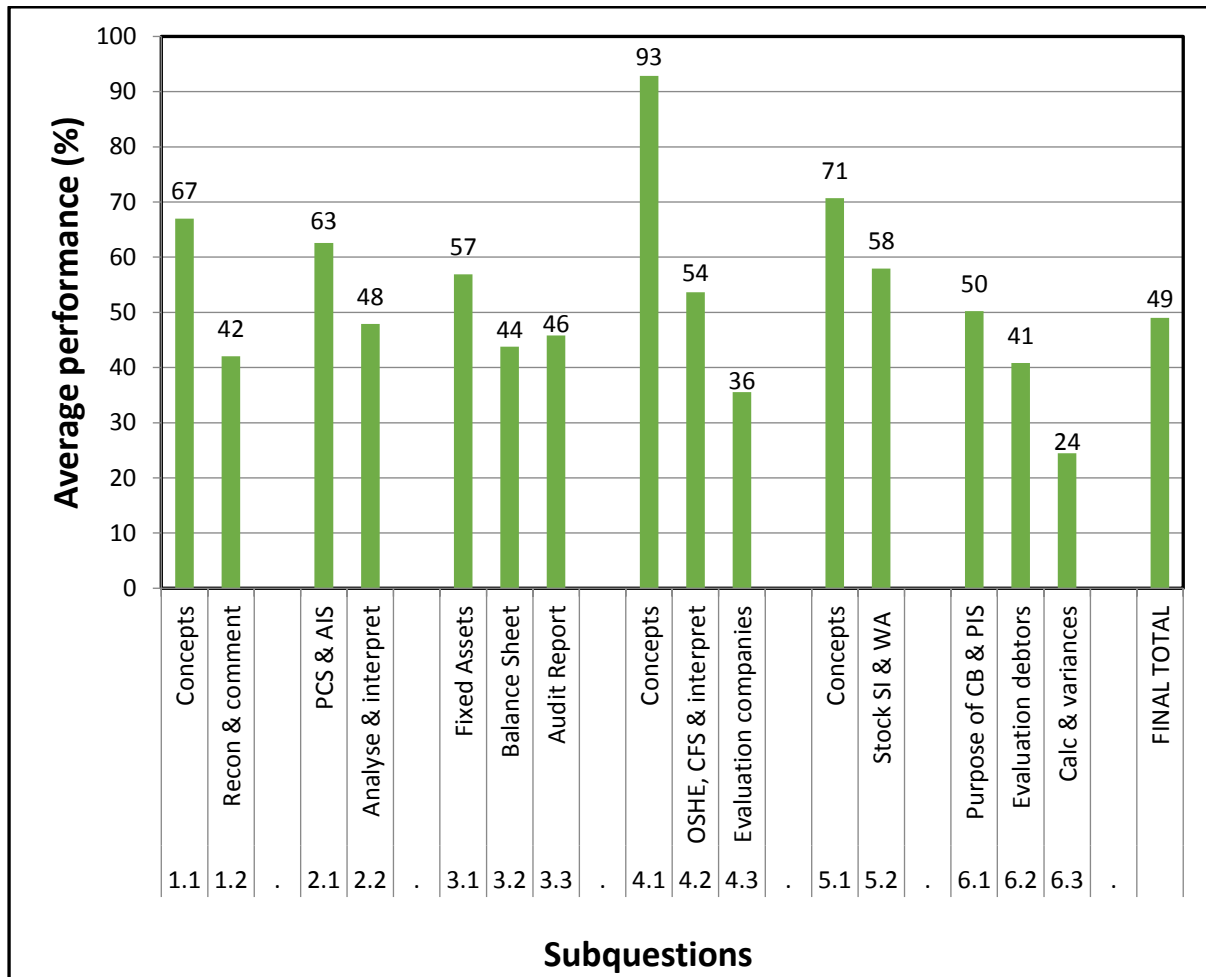
The following graph is based on data from a random sample of candidates. While this graph might not accurately reflect national averages, it is useful in assessing the relative degrees of challenge of each question as experienced by candidates.

Graph 2.3.1 Average marks per question expressed as a percentage



Q1	Bank Reconciliation and Internal Control
Q2	Manufacturing
Q3	Fixed Assets, Balance Sheet and Audit Report
Q4	Cash Flow Statement and Interpretation
Q5	Inventory Valuation
Q6	Budgets

Graph 2.3.2 Average performance per subquestion expressed as a percentage



ANALYSIS OF LEARNER PERFORMANCE IN INDIVIDUAL QUESTIONS

QUESTION 1: BANK RECONCILIATION AND INTERNAL CONTROL

Despite the bank reconciliation question appearing in many previous NSC papers, it was poorly answered. Aspects of this question were regarded as relatively easy. The focus of Q1.1 and Q1.2 covered Grade 11 content in processing entries in the cash journals and preparing the Bank Reconciliation Statement. Q1.2.3 covered identification of the problem of rolling of cash which related to internal control; this subquestion was either not well answered or it was unanswered.

Common Errors and Misconceptions

(a) Weaker learners were unable to:

- cancel the stale cheque no. 605 in the CRJ

- correct the error on cheque no. 823
 - correctly treat the correction on EFT 19 which was entered in the incorrect journal (many candidates did not appreciate that the figure had to be doubled to correct this error)
 - process the correct service fees either by way of two separate entries in the CRJ and CPJ or one entry for the net amount in the CPJ.
- (b) It would appear that many candidates were not aware of the acronym, EFT (i.e. electronic funds transfer).
- (c) Many candidates were unable to calculate the bank account balance appropriately. Method marks were allocated to this calculation. However, some candidates did not take the opening totals of the journals into account. Many candidates did not treat the opening balance, which was a bank overdraft, correctly.
- (d) Many candidates did not reflect the outstanding EFT in the Bank Reconciliation Statement. Although an EFT would normally appear immediately in a bank statement, in this case it is possible that the bank statement had been printed before the EFT was done.
- (e) Few candidates earned full marks on Q1.2.3 relating to the internal control over deposits because they did not state the obvious evidence reflected in the question or did not offer two valid strategies.

Suggestions for Improvement

- (a) Teachers are advised to inform their learners that the use of cheques is declining in practice. Although CAPS refers to 'direct transfers', learners should be taught that the terminology 'Electronic Funds Transfer' (EFT) is currently common practice.
- (b) When teaching reconciliations, teachers should consistently refer to the internal control benefits. Learners must understand that documents received from or issued to another organisation play an important part in internal control and internal audit procedures. A reconciliation becomes necessary if information on those documents does not agree with the books of a business. The differences must be identified and addressed. This point was noted in previous Diagnostic Reports. This also applies to Creditors' Reconciliation and to reconciliations with control accounts.
- (c) Even though the Bank Reconciliation process is taught in Grade 11, it needs to be thoroughly revised in Grade 12. It is important that Grade 12 learners practice the skill of completing the reconciliation at appropriate times.
- (d) The CAPS stipulates basic bookkeeping in Grade 10, preparation of reconciliations in Grade 11, with the analysis and interpretation thereof in Grade 12. Learners cannot be expected to apply higher-order thinking skills relating to reconciliations if they have not acquired the necessary confidence in the lower- or middle-order application processes. The CAPS stipulates that examinations may comprise content from previous grades that has an impact on assessment in subsequent grades, to an extent of 20% of an examination. Teachers of Grade 12 learners must therefore ensure that there is adequate in-depth revision in all forms of reconciliations that

are covered in Grade 10 and 11, i.e. Bank Reconciliations, Creditors' Reconciliations, and Reconciliations of Debtors'/Creditors' Lists to the Control Account.

QUESTION 2: MANUFACTURING

Candidates find this topic relatively easy as the Manufacturing section of work comprises content that is usually found to be predictable, understandable and manageable.

Some easily obtainable marks are available if candidates understand the formats of the Production Cost Statement (Q2.1.1; 14 marks) and the Abridged Income Statement (Q2.1.2; 14 marks).

The calculation of the break-even point (BEP), which was traditionally regarded as challenging (Q2.2.1; 4 marks), was correctly calculated by many candidates.

Many candidates were able to identify direct labour as the problem relating to the shirts and to offer reasons for the increase in this variable cost. Candidates were generally also able to provide explanations on the direct material and selling and distribution costs.

Many candidates were able to comment appropriately on the control of costs for the two products. The calculation of the % increase in the selling price of shoes (Q2.2.2; 3 marks) was regarded as an easy question; however, many candidates could not earn full marks in this sub-question. It is surprising that candidates could not do this basic, arithmetical calculation, yet most candidates were able to calculate the break-even point, which is a much more advanced calculation.

Common Errors and Misconceptions

- (a) Weaker candidates did not treat the adjustments appropriately. They did not realise that the delivering of wood to the factory needed to be added to the Direct Material Cost. They were also unable to allocate the cost of the cleaning contract correctly to the factory and administration department.
- (b) The calculation of cost of sales was a distinct problem for weaker candidates (Q2.1.2; 5 marks). This could have been calculated either by using the normal formula for calculating cost of sales or by using the unit cost of production and the number of units produced.
- (c) The integration of FIFO appeared to confuse candidates, even though it was a simple, logical calculation.
- (d) Many candidates were not able to provide the correct reason for the increase in the unit cost of production where fixed costs did not increase. They appeared to be unfamiliar with the 'economies of scale' concept.
- (e) Many candidates were of the opinion that an increase in price would necessarily have a negative impact on the business (Q2.2.4; 4 marks). However, in this case the benefit to the business was noticeable through the increase in sales or net profit or the decrease in the break-even point.

Suggestions for Improvement

- (a) Although this question did contain higher-order cognitive aspects, as in previous papers, it is acknowledged that it posed fewer challenges than most of the other questions in this paper. Teachers are advised to revise Cost Accounting questions to ensure that learners understand a variety of questioning techniques on this topic.
- (b) Learners need to understand the different components of a manufacturing entity, i.e. storerooms, factory, administration and sales departments. The use of diagrams, video presentations or classroom demonstrations can be gainfully used to develop their understanding of the above processes. This should contribute to a better understanding of basic calculations relating to manufacturing concerns.
- (c) Although no comment was required on the break-even point in this paper, learners must be reminded to consider the three essential aspects when commenting on the break-even point, depending on the requirements of a question. They should be taught to:
- Compare units produced to the break-even point to assess if a profit is made
 - Compare the break-even point of the current year to that of the previous year
 - Compare the units produced in the current year to that of the previous year
- This will enable learners to assess whether the business has the ability to earn a profit, and whether or not this ability is improving.
- (d) Short formative tests on various calculations are advised, e.g. material costs, labour costs and the splitting of costs across the different cost components (using fractions, ratios or percentages) are essential, particularly for weaker candidates. In addition, revise Grade 10 and 11 content on year-end adjustments and reversals.
- (e) When teaching the Production Cost Statement, teachers are advised to refer to the unit cost of production and to unit costs for materials, labour and factory overheads. This can be done without requiring learners to calculate the unit costs at that stage, but it will serve to enhance understanding of the purpose and structure of this statement.
- (f) Teachers should spend time on the analysis and interpretation of unit costs. Decreases in costs might not be beneficial to a business e.g. in cases where cheaper raw material might be inferior or could lead to a decline in potential sales.
- (g) Teachers should expose learners to the concept of 'economies of scale', i.e. in cases where the fixed cost per unit will decline as production increases.
- (h) The Manufacturing content lends itself to deep problem-solving questions whereby a variety of information is provided and candidates will be expected to engage with the figures to identify problems and offer valid explanations and solutions. Identifying the relevant and useful information from the question, forms part of the problem-solving skills that must be developed in learners.

QUESTION 3: FIXED ASSETS, BALANCE SHEET & AUDIT REPORT

The overall performance in this question was consistent with that of previous years. Although weaker candidates found the calculations in the Fixed Asset Note challenging, they were able to earn method marks in carrying their errors through to subsequent parts of the question.

Aspects of this question were well done by many candidates, particularly in processing the adjustments and using the financial indicators to calculate current assets and shareholders' equity.

Common errors and misconceptions

- (a) Although candidates were generally able to calculate the depreciation on the new vehicle for part of the year (Q3.1b; 2 marks), many were not able to recognise that the old vehicle was about to be fully depreciated and could not be depreciated by more than its cost price (Q3.1b; 3 marks).
- (b) Weaker candidates were not able to calculate the carrying value of the vehicles and equipment correctly (Q3.1c; 4 marks and Q3.1d; 6 marks). Weaker candidates appeared incapable of interpreting the extract from the fixed asset register.
- (c) Despite the fact that the details of certain items in the Balance Sheet were provided in the answer book, weaker learners continued to misallocate items to the wrong categories.
- (d) Many candidates were unable to process the increase in the provision for bad debts correctly. They did not appreciate that an increase in the provision for bad debts would need to be subtracted from the net debtors (Q3.2; 2 marks).
- (e) It was disappointing that weaker candidates were not able to calculate the insurance prepaid correctly (Q3.2; 2 marks), particularly as this is an adjustment which has been covered since Grade 10.
- (f) Most candidates could not calculate the rent received in advance correctly. This involved the identification of the monthly rent factoring in an increase of 15%.
- (g) Many candidates were unable to calculate income tax for the year using the net profit after tax and the tax rate (Q3.2; 2 marks).
- (h) Although many candidates were able to use the net asset value to calculate the shareholders' equity correctly, several candidates placed this in the incorrect position in the Balance Sheet as ordinary share capital instead of shareholders' equity.
- (i) The questions on the Audit Report were poorly done (Q3.3; 6 marks). Although many candidates were able to explain concerns; not everybody could explain three distinct and different points.

Suggestions for improvement

- (a) The recommendations noted below serve to re-emphasize similar comments noted in previous Diagnostic Reports.

- (b) Refer also to the General Comments above for points on *Basic Concepts and the Accounting Equation*. It is essential that the expanded Accounting Equation ($A+E+D=L+C+I$) be fully understood from an early stage of studies in Accounting, i.e. from the GET phase, and particularly from Grade 10 in the FET phase. Learners should be provided with a comprehensive list of items in random order. They should then be required to identify whether an item would have a debit or credit balance, the applicable category from the accounting equation, and the category under which the item will be reflected in the financial statements.
- (c) The Fixed Asset Note and the Fixed Asset Register should be thoroughly taught in Grade 10 and 11 and revised in Grade 12. The formats of financial statements are rooted in the basics of financial reporting, covered in Grade 10, which must be revised and reinforced in Grades 11 and 12. Learners must be familiarised with the basic formats and relevant notes of all financial statements from Grade 10. This can be achieved by formative testing of formats, with and without figures.
- (d) The concept of a fully depreciated asset needs to be emphasized with learners. Learners need to be made aware of the process of recording such an asset at the nominal value of R1. Each fully depreciated asset should be recorded at R1 in the Fixed Asset Register and in the financial statements.
- (e) Short, regular formative testing on calculations and/or complex adjustments, such as those mentioned above in the context of Q3, can be conducted without the need to prepare the financial statements. A collaborate learning approach can be conducted on a piecemeal basis, with a focus on one or two complex adjustments.
- (f) With reference to the Audit Report, learners should first be required to engage meaningfully with each paragraph in a standard unqualified audit report, to understand the need for each paragraph, and to appreciate the differences that could exist if an independent auditor is not able to issue an unqualified opinion. In this way, learners will be exposed to the three different types of audit reports i.e. unqualified, qualified and a disclaimer of opinion.

QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION OF FINANCIAL INFORMATION

This question comprised basic concepts, notes to the financial statements, the Cash Flow Statement (CFS) and analysis and interpretation of financial indicators of two companies. Candidates generally find these topics challenging. Candidates generally performed well on certain aspects of this question. However, it is disappointing that the CFS was poorly answered since most of the figures were clearly evident from the question.

Most candidates understood the basic concepts (Q4.1; 4 marks) and many were able to satisfactorily complete the notes for Issued Share Capital (Q4.2.1; 7 marks) and Retained Income (Q4.2.1; 9 marks) and the calculation of financial indicators (Q4.2.3; 7 marks).

Candidates appeared to be well prepared to answer questions on the repurchase of shares.

With regards to the comments and calculations on the two companies, certain aspects were well answered, particularly the financial gearing (Q4.3.2; 6 marks) and liquidity (Q4.3.4; 6 marks).

Common Errors and Misconceptions

- (a) With regard to the repurchase of shares, weaker candidates incorrectly entered the repurchase price of the shares (R437 500) in the Ordinary Share Capital Account instead of calculating the amount based on the average share price of R5,40 (Q4.2.1; 3 marks). These candidates consequently also lost marks in the Retained Income Note for the shares repurchased (Q4.2.1; 3 marks).
- (b) Candidates once again performed poorly on the net change in cash and the cash equivalents section of the CFS (Q4.2.2; 4 marks). Most candidates earned only one or two marks on this part of the question. Many candidates were again not able to calculate the figure at the beginning of the year by offsetting the cash asset against the bank overdraft. Weaker candidates could not correctly calculate the income tax paid (Q4.2.2; 4 marks) or the purchase of fixed assets (Q4.2.2; 5 marks). Weaker candidates still do not know how to use brackets appropriately to indicate outflow of cash. These sections of the CFS clearly need greater revision.
- (c) Weaker candidates did not follow the instruction of the question regarding the Cash Flow Statement (Q4.2.2; 19 marks). They were clearly told to insert only the missing figures indicated by a '?'; however, many attempted to fill in figures in the remaining shaded blocks, and as a result wasted valuable time.
- (d) The calculation of dividends per share was extremely poorly done (Q4.2.4; 4 marks). Candidates were told that the repurchased shares qualified for dividends, yet many candidates deducted these shares in attempting the calculation. An interim dividend of 12 cents per share was given. Few candidates appreciated that the interim and final dividends had to be calculated separately due to the change in the number of shares during the year.
- (e) In answering Q4.3 regarding the two companies, many weaker candidates attempted to compare one company with the other despite not being asked to do so. Such candidates were obviously not reading the questions carefully and might have been influenced by questions from previous papers.
- (f) The scenarios relating to the two companies were quite different, i.e. Castro Ltd had issued more shares (by way of a rights issue to existing shareholders), while Ronki Ltd had repurchased shares from an existing shareholder. Weaker candidates were not able to comment effectively on the issue price of the shares issued by Castro (Q4.3.1; 3 marks) and the repurchase price paid by Ronki Ltd (Q4.3.5; 3 marks).
- (g) Most candidates were unable to clearly express why the shareholder had made a mistake in not taking up the offer of purchasing shares under the rights issue (Q4.3.3; 6 marks). Many candidates were also unable to explain how the repurchase of shares benefited the shareholder (Q4.3.6; 6 marks).

Suggestions for Improvement

- (a) Teachers are advised to conduct regular class discussions on the figures calculated by learners when undertaking tasks on preparation of CFS. This will serve to develop an understanding of the logic of this statement, which will further enhance learners' ability to understand and to

evaluate figures therein. For example, movement of bank balances from overdraft to positive would reflect an inflow of cash; and increases in loans and share capital would be used as sources of funding for expansion of the company.

- (b) Most examination papers will include sections of a CFS or they may include calculations to assess learners' knowledge of the topic. Teachers are advised to focus on specific aspects in isolation in order to develop learners' confidence in identifying appropriate figures and in practicing the correct use of brackets to indicate outflows (i.e. when parts of a CFS are required).
- (c) Candidates were required to calculate the final dividends per share using 1 050 000 shares which included the repurchased shares. The interim dividend per share and final dividend per share had to be added to arrive at the correct answer of 28 cents. Candidates would have earned two part marks on this calculation if they had used the correct number of shares of 1 050 000 shares. Teachers should expose learners to this kind of scenario where the number of shares changes during the financial year. In such cases, learners should be aware that the interim and final dividends should be calculated separately based on the number of shares applicable.
- (d) Teachers must inform learners that questions covering interpretation of financial information could comprise:
- Evaluation of one company over time, in which case answers should involve comparing and quoting of trends from one year to the next; or
 - Evaluation of a company's performance against set targets, e.g. gross profit %; or
 - Evaluation of more than one company, in which case, answers could involve specific comparisons and quoting of indicators of each company, depending on the phrasing of the questions.
- (e) Regarding the issue price and the repurchase price of the shares by the two companies, learners should be exposed to comparisons with the net asset value, market price on the JSE and the average share price.
- (f) Learners need to understand the logic underlying each financial indicator. For example, solvency is the ability of a company to settle all debts, which means that all liabilities and all assets must be considered. It is a retrogressive step to expect learners to memorize formulae as the main priority, because these can easily be forgotten if the underlying logic is not understood. Inserting figures into a rote-remembered formula serves no positive educational purpose, as learners will not be able to offer meaningful interpretations of the results. It is therefore important that formative class tests should cover both the calculation and the purpose of the financial indicator.
- (g) The different scenarios presented in respect of the two companies provide opportunities to consider a range of possible responses based on the information provided in the question. Class discussions on assessing and interpreting financial indicators of different companies will broaden learners' understanding to enable them to respond more effectively to questions of this nature.

QUESTION 5: INVENTORIES

Candidates generally performed well in this question, which comprised two products and two valuation methods. Many learners performed well in the calculation of stock according to the specific identification method (Q5.2.1; 7 marks) and the weighted average method (Q5.2.3; 9 marks). Most candidates were confident in calculating the number of products stolen and in providing valid advice to improve the control of stock (Q5.2.5; 8 marks).

Common Errors and Misconceptions

- (a) Weaker candidates were unable to provide relevant advice regarding the three different models of motorbikes (Q5.2.2; 4 marks). Only two points were required. This could have included assessment of the unsold stock and the cost prices, selling prices or mark-up.
- (b) The explanation on whether the weighted average method was appropriate in valuing the helmets was not well answered (Q5.2.4; 3 marks). Candidates could have offered a positive or negative stance to this method of stock valuation.

Suggestions for Improvement

- (a) Teachers should expose learners to a variety of questions on all three valuation methods and should encourage discussion on which methods suit specific contexts or products.
- (b) Questions on the topic of stock valuation and internal control lend themselves to problem-solving questions. Past papers from 2008 have regularly incorporated problem-solving scenarios relating to the valuation and control of inventories.

QUESTION 6: BUDGETING

It was disappointing that a question on budgeting was yet again poorly answered. The focus of this question was on analysis and interpretation of the information rather than application aspects. For example, the Debtors' Collection Schedule was provided in this question paper and candidates were required to analyse and interpret the information.

Common errors and Misconceptions

- (a) Candidates could not explain the main purpose of a Cash Budget and that of a Projected Income Statement (Q6.1; 2 marks). This indicates poor conceptual understanding of this topic.
- (b) Many candidates were unable to use figures from the Debtors' Collection Schedule to calculate the % of debtors complying with the credit terms, and the % of bad debts (Q6.2.1; 9 marks).
- (c) The appropriate place to locate information on the actual collections from debtors is the Debtors' Age Analysis (Q6.2.2; 4 marks). Many candidates appeared to be unaware of this; instead they inappropriately referred to information in the Debtors' Collection Schedule, which indicates projected collections.
- (d) Many candidates were also unable to calculate the loan repaid using the interest rate and the interest expense before and after the repayment (Q6.3.1; 4 marks).

- (e) In Q6.3.2 most candidates were able to provide simple comments on the variances i.e. as to whether they were under or over budget. However, this question required further insight as candidates were required to explain the problems for this business. In the context of this question, all three of the expenses provided are related to sales in one way or another.

Suggestions for Improvement

- (a) Content in the Grade 11 CAPS relates to the preparation and presentation of the Cash Budget and the Projected Income Statement. However, in Grade 12 the emphasis is on the analysis and interpretation of that information. Whilst it is essential that the Grade 11 content be consolidated in Grade 12 in order to develop learners' proficiency in identifying and calculating relevant figures, teachers are encouraged to improve learners' confidence in interpreting the figures, as stipulated in the Grade 12 content.
- (b) Teachers must reinforce the difference between a Debtors' Collection Schedule (i.e. expected collections) and a Debtors' Age Analysis (i.e. actual amounts still owing, classified according to the periods outstanding). The age analysis would therefore have been the appropriate source to assess the performance of the debtors control clerk.
- (c) Basic calculations must be practised to ensure that learners master the application of arithmetical logic. With regard to the topic of budgeting, the calculation and interpretation of percentages is particularly vital.
- (d) Quite often weaker candidates cannot interpret a question or given information. Teachers are advised to read a specific question and the relevant information with their classes. Learners can then answer the question and corrections should be done in class. It is recommended that questions such as Q6 be used for discussions in class so that learners are exposed to the logic and variety of possible responses.
- (e) Teachers are advised to impress upon learners that in the assessment of variances, they should not simply restrict themselves to comments on whether or not an item is over or under budget. Instead, they should also assess the impact of the item on business operations.