

# CHAPTER 2

## ACCOUNTING

The 2021 NSC Accounting examination marked the second year of the move to two 2-hour papers of 150 marks each, reflecting two Accounting disciplines as follows:

- Paper 1: Financial Reporting and Evaluation
- Paper 2: Managerial Accounting, Internal Auditing and Control

**The following report should be read in conjunction with the Accounting Paper 1 and Paper 2 question papers for the NSC November 2021 examinations.**

### 2.1 PERFORMANCE TRENDS (2017–2021)

The number of candidates who sat for the Accounting examination in 2021 increased by 13 127 compared to that of 2020, i.e. a 14,2% increase of the cohort.

There was an increase in the number of candidates who passed at 30% (Level 2) from 70 014 in 2020 to 79 093 in 2021, and in the number of candidates who passed at 40% (Level 3) from 49 103 to 54 518.

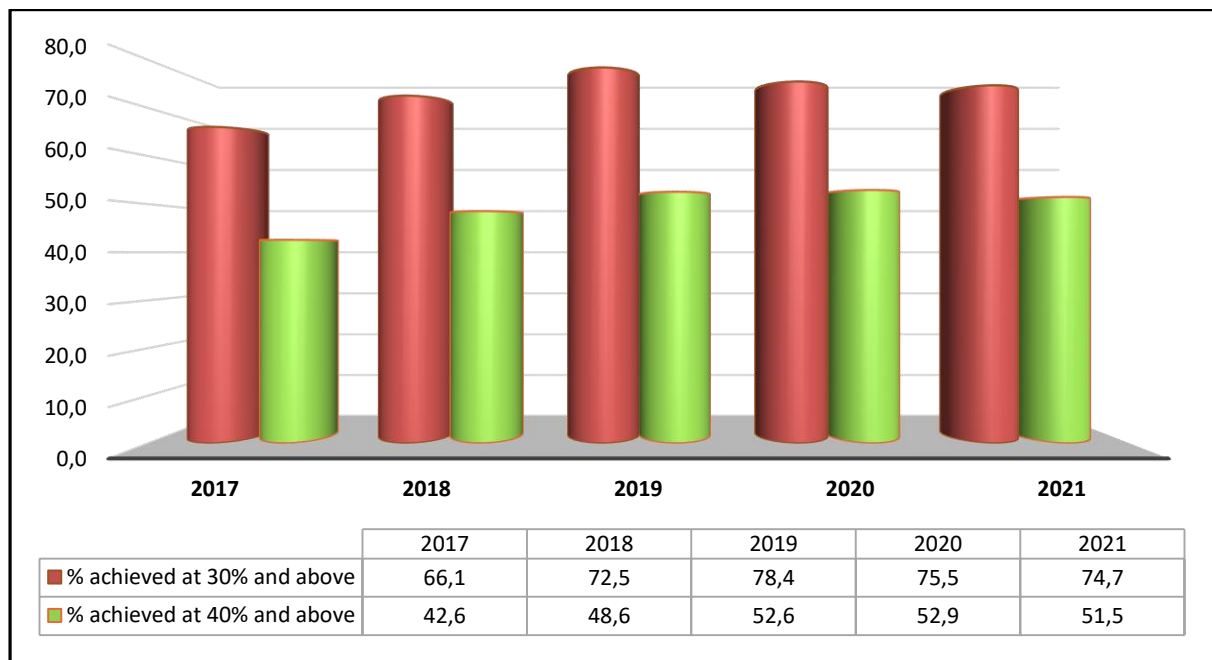
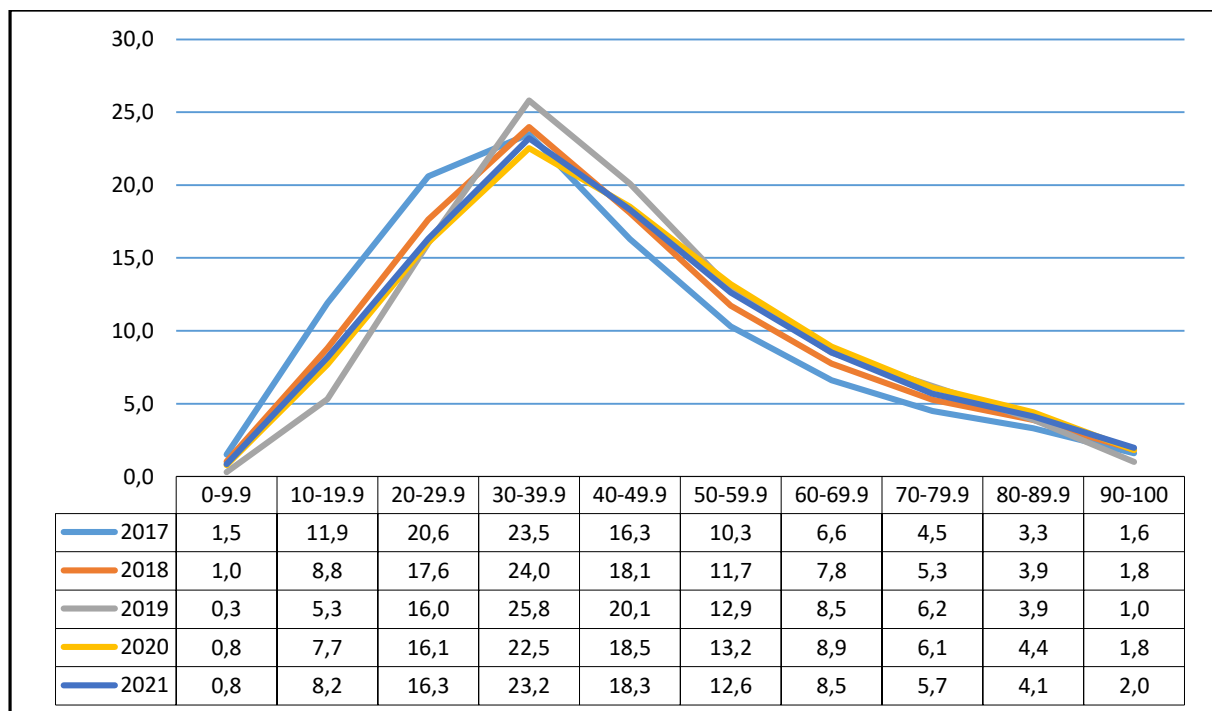
There was a marginal decline in the pass rate at 30% (Level 2) from 75,5% in 2020 to 74,7% in 2021, with a corresponding decrease at 40% (Level 3) from 52,9% to 51,5%. This follows a steady upward trend in pass rates over the past five years.

The percentage of distinctions (over 80%; Level 7) remained constant at approximately 6%. Given the increase in the size of the 2021 cohort, this converts into an increase in the total number of distinctions from 5 752 candidates in 2020 to 6 460 in 2021.

The results reflected above were despite the challenging circumstances brought about by the Covid-19 pandemic over the past two years which affected teaching and learning activities of the 2021 cohort. This appears to have been the result of creative intervention strategies by teachers and subject advisors as well as schools and provincial education departments. The resourcefulness and diligence of the above-average candidates also contributed to the overall performance in the subject.

**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
2017	103 427	68 318	66,1	44 041	42,6
2018	90 278	65 481	72,5	43 831	48,6
2019	80 110	62 796	78,4	42 113	52,6
2020	92 767	70 014	75,5	49 103	52,9
2021	105 894	79 093	74,7	54 518	51,5

**Graph 2.1.1 Overall achievement rates in Accounting (percentage)****Graph 2.1.2 Performance distribution curves in Accounting (percentage)**

## 2.2 OVERVIEW OF CANDIDATES' PERFORMANCE: PAPERS 1 AND 2

Accounting is a subject that requires insight and regular practice. The 2021 cohort undeniably experienced two years of disruption due to a variety of contextual factors arising from the Covid-19 pandemic. The writing of high-stakes NSC examinations under these circumstances would not have been easy for most candidates and their teachers.

The general comments below include points that arose from the 2021 Accounting NSC papers, and reiterate relevant advice given in previous diagnostic reports. Particularly in times of change and disruption, it is imperative that teachers refresh and adjust strategies by incorporating their own creative ideas with suggestions contained in this report and in previous editions.

The two-papers model was again well received, as it offers different benefits, which includes:

- **More effective management of time:** Candidates have 2 hours to complete each paper; a total of 4 hours to complete a 300-mark examination.
- **Specific disciplines per paper:** Each paper is written on different days, affording candidates the opportunity to focus their preparations on specific content relevant for each paper.

These benefits were unfortunately not fully exploited by the 2021 Accounting cohort.

## General comments

### (a) Quality of candidates' performance

- Although extensive intervention initiatives were implemented by provinces throughout the year, the plight of the current cohort must be recognised. Continuous content delivery was compromised by disruptions, unavoidable curriculum adjustments and a reduced assessment programme. Despite these challenges, a fair percentage of candidates was proficient in addressing the requirements of all subquestions. The pleasing performance of candidates at certain centres is evidence that teachers have planned well and implemented appropriate strategies proposed in previous diagnostic reports.
- However, widening of the achievement gap between capable and weaker groups of candidates was extremely noticeable this year. This should not be surprising in the context the two abnormal years this cohort experienced in Grades 11 and 12. Capable or motivated candidates with appropriate resources might have appreciated the opportunity to study independently; while less proficient candidates or those lacking resources, might have preferred greater access to teachers.
- The inability of weaker candidates to deal effectively with even the less challenging parts of questions is a clear indication of the impact of the disruptions on teaching and learning processes within the educational environment. All questions are designed to be accessible to all candidates, at least in part. Basic concepts, formats and procedures must be addressed at an early stage and, for many candidates, this had to be supported by an effective assessment strategy and regular interaction with teachers.

### (b) Policy documents and LTSM:

- The revised CAPS documents, recovery annual teaching plans (ATPs), the latest *Examination Guidelines* and diagnostic reports are essential planning documents that form the basis of the planning process.
- Prescribed textbooks, study guides and other departmental publications such as *Mind the Gap* continue to be the primary resources available to teachers. However, teachers are expected to adapt the information to ensure that it remains current and incorporate new developments or scenarios that prevails in the dynamic business environment.

- Online resources play a more significant role in the teaching and learning process under the present circumstances. Education websites, video presentations, shared resources from different provinces and publishers contribute to the continuity necessary in the teaching and learning of Accounting.

(c) **Use of past NSC papers:**

- Past NSC papers are an essential teaching and learning resource. It is evident that teachers make extensive use of these in lessons and revision. NSC Accounting papers serve as a reliable source on questioning patterns and style. Innovative and creative questions are always included as part of the higher-order component. This ensures that the subject remains relevant and reflects modern trends.
- The migration to two papers in 2020 did not necessitate any changes to the content. It is therefore essential that every learner has access to past papers from 2015 onwards, as these are based on the current CAPS content. Teachers and candidates must familiarise themselves with the specific content of each paper and extract the relevant questions from these past examination question papers when preparing for examinations.

(d) **Pertinent factors from previous diagnostic reports**

Poor results in many centres have exposed challenges in teaching and learning. The impact of the Covid-19 pandemic is recognised as a major crisis which affected the lives and academic performance of many candidates. However, underlying reasons for poor performance identified in several previous reports still persist. These include:

- **Poor mathematical and arithmetical ability:** Arithmetical calculations filter across all topics. This includes the correct use of rands or cents, positive or negative signs and the appropriate operations. An Accounting learner is expected to have a good understanding of the logic of these calculations. This skill is developed over time with regular practice.
- **Language barriers linked with poor comprehension skills:** Despite the subject-specific language being used in all Accounting tasks and examination papers from Grade 10, many candidates continue to experience difficulty in understanding requirements of questions. Weaker candidates tend to provide incomplete or unclear responses to questions requiring explanations or comments. They often rely on the commonly used responses offered in marking guidelines, and use them inappropriately in different contexts.
- **Inability to identify relevant information to answer specific subquestions:** Accounting questions follow a structure whereby the *requirements* are listed before the *information* necessary to answer the questions. Candidates are expected to engage with the information and extract what is needed to answer the questions. The more capable candidates are able to zoom in on the relevant information with ease. Weaker candidates find this process challenging, often using inappropriate figures and irrelevant information to support their explanations, while overlooking significantly more relevant and pertinent information.
- **Lack of meaningful revision of relevant Grade 10 and 11 content:** The application aspects of most topics are covered in Grade 10 and 11 whilst analysis and interpretation are addressed in Grade 12. In addition, vital concepts, procedures and formats introduced in Grade 10 represent the foundation of more complex analysis in subsequent grades. These must be constantly reinforced at

regular intervals. Tight timeframes may not allow for re-teaching. Teachers must factor revision topics into their teaching plans, intervention initiatives and assessment programmes. It can be very frustrating for candidates when new material is introduced whilst the basics are not clearly understood.

- **Lack of formative testing:** Informal assessment activities are necessary to support the formal assessment programme. Regular formative tasks or tests must be skilfully used to build confidence in all topics. To be effective, these must be practical and designed to achieve specific outcomes. Teachers must analyse these to assess strengths and weaknesses and plan accordingly. Such tests must give learners confidence to attempt more advanced activities with the realisation that their marks can improve.

### General suggestions for improvement

The curriculum planning and delivery process is interactive and centralised. National policy on curriculum delivery is communicated to teachers in the form of detailed annual teaching plans and formal school-based assessment programmes. These policy statements are CAPS-aligned and strive to achieve consistency and continuity across provinces and districts. They also assist subject specialists to effectively monitor and support schools on a more personalised level. In an effort to maintain standards, subject advisors would often engage lead teachers to develop common assessment tasks for their respective districts or clusters.

Teachers are advised to interrogate the common tasks available and adapt them to meet the unique needs and challenges of their learners. They should be made aware that they have a vital duty to adapt and amend teaching and learning activities accordingly, and in collaboration with subject advisors.

Subject advisors are cognisant of the fact that teachers would lose the skill of planning or setting balanced assessment tasks if they become overly dependent on the common tasks that are set for them. Opportunities are available for teachers to participate in item-development activities to hone their skills.

Examples of recommended techniques to improve examination performance are:

- (a) **Comments, explanations and evidence:** The following points will assist to address issues relating to language barriers. They will also satisfy the objectives of the language across the curriculum (LAC) initiatives.

- Initiatives to develop examination-writing skills should be discussed regularly in class. These must include the practice of interpreting and analysing a structured examination question. At strategic times during the academic year, this can be achieved as follows:
  1. Read each word of the instruction (or 'Required') and underline the words.
  2. Identify the relevant evidence in the source information provided.
  3. Require learners to specifically explain what they must do to answer the question.

This process can be time-consuming, but the benefits are very rewarding.

- Although questions will often require figures or other evidence to be quoted from the information provided, language proficiency should not be viewed as an obstacle in presenting appropriate responses. Learners must primarily focus on identifying the points required to answer the question. Compiling a shortlist of these relevant points is often helpful in constructing a valid response, particularly in dealing with interpretive or open-ended questions. Allowing learners to verbalise

their suggested responses in class could improve confidence and expose them to the opinions of others.

- Encourage learners to offer explanations that are concise and to the point. Often poor or incorrect answers result from learners unnecessarily repeating the specific requirements of the questions in their responses.
- On the other hand, partial, simple or single-word responses may not always be sufficient if an explanation is required. Learners must also realise that unnecessary lengthy explanations are time-consuming and will not earn additional marks. If more than one point is required, explanations in Accounting may be presented in bullet-point form; however, learners should understand that the various points explained will have to be different in nature and not a mere repetition of previous points stated differently.

- (b) **Time management:** Examination questions provide time guides, and learners need to practise the skill of adhering to the suggested time allocations. Training on time management must be an ongoing process and must apply to all summative activities, controlled tests and examinations. Effective use of the answer book is also a time-management strategy. The mark allocation is a good indicator of the amount of information needed.

Although the replacement of mid-year and year-end examinations with control tests were necessary steps to compensate for the loss of teaching time, a consequence of this was that learners did not gain sufficient experience on examination technique for 2-hour papers until the preliminary trials papers scheduled at the end of their Grade 12 year. It was, however, pleasing to note that some centres attempted to address this setback by administering informal activities to achieve this purpose, under trying conditions.

A strategy that teachers could employ in such circumstances is to divide past NSC papers into separate parts that could be completed at regular intervals in single teaching periods in Grades 10, 11 or 12. Learners should be trained to answer each question under time constraints appropriate to each subquestion. Self-marking or peer marking should ideally be done in the same teaching period to reinforce this exercise. If this is done regularly, they should acquire the skill of focusing on the specific demands of each subquestion and formulating an efficient way of expressing responses without wasting time on unnecessary or irrelevant comments.

- (c) **Appropriate use of the printed answer book:** Learners must be reminded that the answer book should not be relied upon to replicate the question paper, as it only provides a basis for their responses and guides the placement of their answers. It also suggests the expected length of responses so that lengthy explanations can be avoided. It is therefore imperative that learners comply with the requirements of each question as stated in the question paper.
- (d) **Ethical, governance and internal control issues:** Given the general public intolerance of crime, particularly in recent years, incidents around these issues have been extensively exposed and debated on various media platforms and in public forums. There is currently no shortage of topical source material that teachers and learners could easily access for productive use in classroom discussions or assignments.

Learners will benefit from verbalising their opinions in class and listening to the opinions of others. This should enable them to develop confidence in stating opinions,

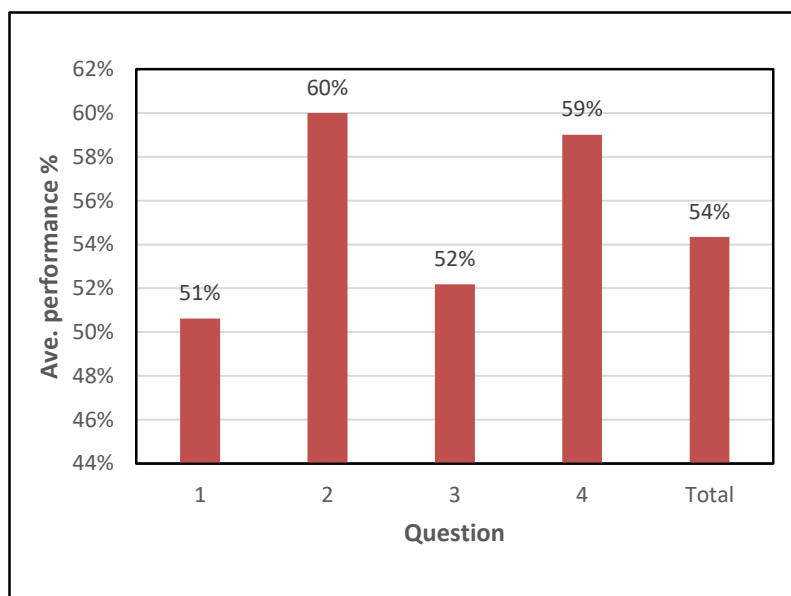
and in being receptive to ideas on appropriate ethical conduct. Awareness and understanding of these issues, why they arose and how they should be solved, are vital to the success they could achieve in any future career.

Internal control processes and ethical considerations are expected to be continuously integrated across all topics at strategic points in the ATP. There are no specific limits on the scope of content that must be covered. Questions on these factors often comprise open-ended, real-life scenarios of problems affecting businesses, such as weak internal controls, lack of accountability, bribery, corruption, tender fraud, auditing irregularities, cybercrime and poor corporate governance.

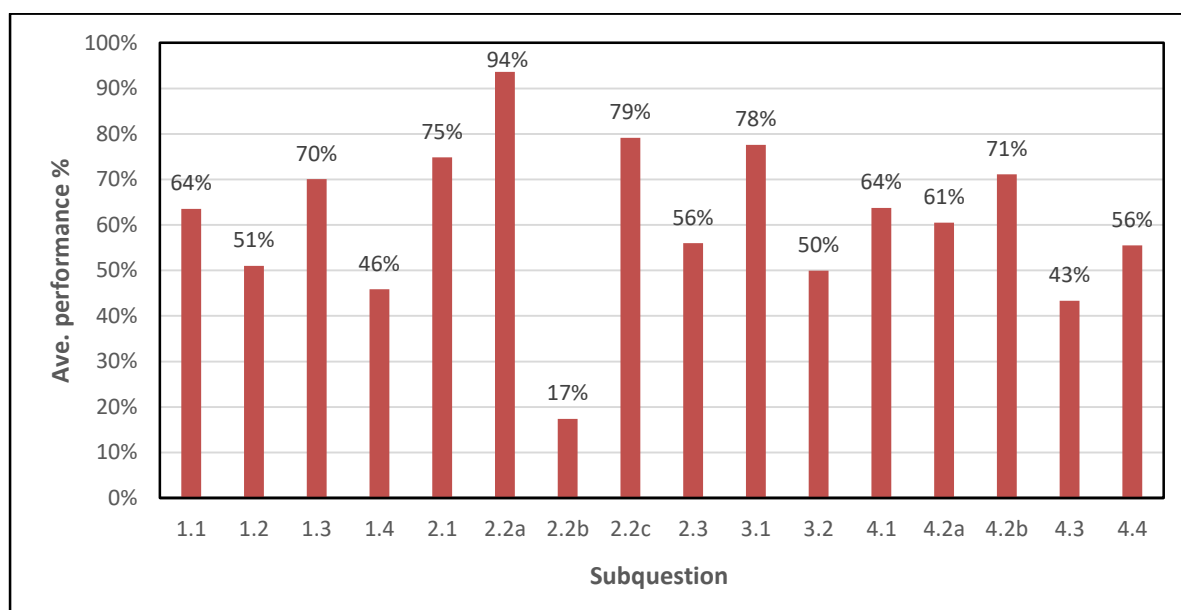
### 2.3 DIAGNOSTIC QUESTION ANALYSIS OF PAPER 1

The graphs presented below are based on data from a random sample of candidates in the different provinces. They provide a clear picture of the general performance in each topic (Graph 2.3.1). This is useful in assessing the relative degrees of challenge of each question as experienced by candidates (Graph 2.3.2).

**Graph 2.3.1 Average performance per question in Paper 1**



Q	Topics
1	Statement of Financial Position
2	Share Capital, Financial Indicators & Cash Flow
3	Interpretation of Financial Information
4	Corporate Governance

**Graph 2.3.2 Average performance per subquestion in Paper 1**

Subq.	Topic	Subq.	Topic
1.1	Calculate: FIFO Value of Closing Stock	2.3	Complete Cash Flow Statement
1.2	Calculate: Net Profit after Tax	3.1	Concepts: Financial Indicators
1.3	Retained Income Note	3.2	Interpret: Company Financial Info
1.4	Statement of Financial Position	4.1	Disclaimer Audit Report
2.1	Ordinary Share Capital Note	4.2a	Shareholders Appointing Directors
2.2a	Calculate: % Operating Expenses on Sales	4.2b	Directors' Characteristics & Reasons
2.2b	Calculate: Dividends per Share	4.3	Ethics: Tender Corruption
2.2c	Calculate: Return on Average Equity	4.4	Policy on Whistleblowing

The performance in Paper 1 was variable, although the paper was relatively predictable, with all questions being tested over the last five years. Well-prepared candidates coped admirably across all questions. However, weaker candidates struggled to take advantage of marks pitched at the lower- and middle-order ranges.

The minimal variations in this paper in the contexts of certain subquestions appeared to increase the challenge for candidates in some centres, possibly due to their revision being focused on simplistic application questions as they appeared in previous papers. These include the following:

**PAPER 1:** Calculation of the closing stock using FIFO (Q1.1; 5 marks)  
 Calculation of dividends per share (Q2.2(b); 4 marks)  
 Calculating and commenting on % shareholding (Q3.2.3; 10 marks)  
 Subquestions on corporate governance (Q4.3; 4 marks)

**PAPER 2:** Calculations and explanations on the control of raw material (Q2.2; 9 marks)  
 Interpreting actual and budgeted information (Q3.3; 11 marks)



## 2.4 ANALYSIS OF LEARNER PERFORMANCE IN EACH QUESTION IN PAPER 1

### QUESTION 1: STATEMENT OF FINANCIAL POSITION (SOFP)

The question integrated a stock valuation calculation, correcting the net profit and preparing the SOFP. These subquestions have been tested extensively in the past. It remains a concern that weaker candidates traditionally find the format of a Statement of Comprehensive Income (SOCl) much easier than that of a SOFP which was asked in this paper.

Many candidates continue to show weaknesses in addressing the adjustments, especially complex calculations and applying the correct treatment (increase or decrease) to adjustment amounts. They did, however, earn method marks for transferring and using relevant figures appropriately.

#### Common errors and misconceptions

- (a) In Q1.1 (5 marks), poorly prepared candidates provided unfamiliar and convoluted workings to arrive at a closing-stock figure that required an application of the FIFO method. This is a topic that relates to both Paper 1 and Paper 2. A fair percentage of candidates showed an understanding of the FIFO method, but neglected to account for the units returned in their calculations.
- (b) Q1.2 required candidates to clearly show the effect of adjustments to the incorrect net profit provided. The inappropriate use of signs (+ or -) or use of brackets by weaker candidates was evident in their responses. Adjustment (ii), interest on loan and (iii) rent income, were poorly answered despite these examples being included in tests throughout the year and in past NSC examinations.
- (c) The income tax calculation was presented differently, requiring candidates to refer to the basic components of provisional tax and an amount still due to SARS. This inexplicably challenged many candidates.
- (d) The Retained Income Note (Q1.3) was generally well done. The simplistic presentation and the fact that there were no interim dividends simplified this subquestion, yet might have confused some candidates.
- (e) The preparation of the SOFP (33 marks) reflected variable performance. It was evident that this is not a popular financial statement, and that insufficient time had been devoted to revision of the format of the SOFP. The following items continue to expose weaknesses:
  - The order of items in a SOFP, particularly the liquidity items comprising Current Assets, i.e. Inventories, followed by Trade and Other Receivables, and finally Cash and Cash Equivalents
  - Transfer of relevant amounts from workings
  - Non-current liabilities and current portion of loan
  - Financial indicators to calculate specific amounts, including balancing figures
- (f) Many candidates did not show workings for Trade and Other Receivables and Trade and Other Payables. These included the adjustment figures from Q1.2, which carried method marks, and a transfer from the Debtors' Ledger to the Creditors' Ledger.
- (g) A large percentage of candidates was able to adjust the trading inventories with the cost price of the goods returned but neglected to address a corresponding contra-

account. As an exchange of cash was not mentioned in the adjustment, the logical relevant contra-account would be Trade creditors.

- (h) Few candidates recognised that the projected interest on loan, R234 000, had to be excluded from the total annual repayment, in calculating the current portion of loan. Many simply used the total repayment of R420 000 and earned a method mark.

### **Suggestions for improvement**

- (a) It must be expected that preparing financial statements will always form a major part of Paper 1. Preparation must include a variety of examples from different resources, especially past NSC examination papers, and focus must be equally devoted to the different financial statements.
- (b) Due to the predictable nature of these questions, teachers must explore the different ways in which they can be tested. For example, the SOCI could be a straight-forward question involving a Pre-Adjustment Trial Balance and a list of adjustments; or completing a partially completed statement, use of financial indicators; or correcting the net profit taking into account errors and omissions. Each form would present different degrees of challenge, basically using similar information.
- (c) Basic format and structure of financial statements and notes are introduced in Grade 10 where learners are expected to develop a good foundation. It is important that teachers focus on concepts, formats, the Accounting Equation, the double-entry principle and steps in the accounting cycle on an on-going basis. This can be achieved through short informal testing that can be self- or peer marked. It is essential that learners identify that the SOFP actually mirrors the basic Accounting Equation  $A = O + L$ , with A at the top of the SOFP, and O and L at the bottom.
- (d) Specific notes are applicable to all financial statements, including the SOCI and the Cash Flow Statement (CFS). Ensuring that the components of every note are clearly understood must form the basis of the planning process and should be assessed regularly through formative, aspect testing.
- (e) Dealing with specific aspects or notes with the related section of a financial statement will improve learners' understanding of their usefulness and relevance. For example, the Ordinary Share Capital and Retained Income Notes would be relevant to the Shareholders' Equity section of the SOFP, the Fixed Asset Note would provide valuable information on depreciation and asset disposal for the SOCI as well as the Non-current Assets section of the SOFP. All the adjustments are used to complete the SOCI as well as the Current Assets and Current Liabilities sections of the SOFP.
- (f) Learners must be taught the skill of inserting all known or previously calculated figures into the SOFP. Thereafter they must proceed to determine other missing figures. Examples of such figures include:
- Final dividends from the Retained Income Note would also appear as Shareholders for dividends.
  - The balance on the SARS: Income tax balance will represent the difference between the provisional tax payment and total income tax for the year.
  - The current portion of loan is always subtracted from the loan balance.
  - Shareholders' Equity consists of Ordinary Share Capital and Retained Income.
- (g) Note that the current portion of loan can either be a percentage of the closing balance or an amount equal to the expected monthly capital repayments for the next financial

year. The question would have to clarify if the repayments are identical for the current and future financial years or not. Learners must understand that it is only the borrowed (capital) portion of a loan that has to be split between current and non-current liabilities. As interest is the cost of borrowing these funds (expense), this must be excluded from the current portion.

- (h) Once the basics are mastered, opportunities for analysis and insight must be explored, whereby financial indicators are used and balancing figures are calculated. This skill of working from any point to complete financial statements is often the style used in Grade 12 examination papers.
- (i) As mentioned in previous reports, teachers should remind learners of the skills learnt in Mathematics or Mathematical Literacy, particularly skills in using fractions, ratios and/or percentages.
- (j) Comprehension and interpretation play a vital role in understanding questions and adjustments. It is important that this be addressed in the language of assessment. Teachers are advised to devote time in class to read and identify specific requirements of questions, as well as certain complex adjustments and their components with learners. In this way the skill of interpreting all aspects of a question is imparted to learners.

## **QUESTION 2: SHARE CAPITAL, FINANCIAL INDICATORS AND CASH FLOW STATEMENT (CFS)**

The two-paper model makes it possible to separate the calculations relating to the CFS and financial indicators from the interpretation and evaluation of financial information. Weaker candidates find the calculations more manageable, especially if they are able to make effective use of the formula sheet provided.

The majority of candidates performed well in this question, as is evident by Graph 2.3.1 above, due to the predictable presentation of the content and recent trends. This questioning style tends to suit candidates who prefer to study in rote fashion.

### **Common errors and misconceptions**

- (a) The 'confidence-boosting' subquestion (Q2.1; 6 marks) was the preparation of the Ordinary Share Capital Note. This did not meet expectations as several centres did not place emphasis on the different approaches to complete this note.
- (b) Three financial indicators were asked in Q2.2. Calculating the % operating expenses on sales and the % return on average equity are frequently asked subquestions and were handled well. Calculating the dividends per share (DPS) proved to be the most problematic. The majority of candidates were not aware that the interim dividends and final dividends have to be treated separately when there is a change in share capital during the financial year. They appeared to be confused about the number of shares to be used as the denominator. This is a clear indication that this was not adequately taught and that the formula sheet was not effectively used as the different formulae are provided therein.
- (c) In Q2.3 (18 marks) candidates were required to complete the CFS. Although this was consistent with questions asked in many previous papers, basic errors were still noted across a number of centres. These included the inappropriate use of brackets/no brackets to indicate an outflow or inflow of cash and poor presentation of workings to

indicate positive or negative amounts. A few candidates also did not realise that the amounts calculated in Q2.1 had to be used in the Financing Activities section.

- (d) Calculating the opening cash balance, which included an overdraft, was well done but calculating the net change in cash and cash equivalent from the top of the CFS unexpectedly presented a challenge to many candidates. This did not follow the trend set in past examination papers.

### **Suggestions for improvement**

- (a) The Share Capital Note is relevant to all financial statements and is expected to feature in most Accounting papers. In past NSC papers this question has been posed in many different ways. Teachers must provide a variety of examples from many sources to ensure that learners acquire a clear understanding of the amounts and the calculations. They must be taught to always take into account the information that is given and work from different directions in arriving at any missing (balancing) figures. Different approaches to calculate the average share price must also be emphasised. This may involve using either the share balances before the share buyback or the closing balances, depending on when the share repurchase takes place.
- (b) With regard to the calculation of financial indicators, skills involving percentages and ratios are essential. These are developed over time through constant practice. Teachers are advised to use the formula sheet as a teaching tool to explain the different formulae and to stress the importance of reflecting final answers as percentages, rands/cents or ratios. It is also advisable to encourage learners to insert names of financial indicators in this list and to gain some understanding about the usefulness of the different indicators. However, learners must also understand the inherent logic of every financial indicator to enable them to identify and interpret the indicators appropriate to each question. Reliance solely on the formula sheet encourages rote-learning which compromises the understanding required in interpretive questions in Question 3.

Financial indicators that require the number of shares in their calculation will require closer attention due to the fact that the share capital changes over the financial year when shares are either issued or repurchased. It is important to note that dividends per share are paid on a definite number of shares, hence the interim dividends per share plus the final dividends per share will be equal to the dividends per share at the end of the year. The closing number of shares should only be used to calculate DPS if the share capital did not change over the financial year. This concept was assessed in November 2017 and in 2020 in the context of the dividend pay-out rate.

- (c) The CFS is based on calculating specific amounts for the three main sections, namely Operating Activities, Investing Activities and Financing Activities. NSC papers would generally pose this question either to focus on specific calculations or to complete the CFS, as per the 2021 paper. A piecemeal approach in addressing each section will enhance calculation skills relevant to specific amounts such as income tax paid and dividends paid to calculate cash effects of operating activities. It is, however, necessary to revise many past examination papers and additional activities from other resources. Such activities should illustrate the way in which the CFS serves as an important link between the SOCI and the SOFP.

### QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION

This question covered basic concepts (Q3.1; 4 marks) and interpretation of financial information of two companies. Candidates had to compare and comment on profitability (Q3.2.1; 4 marks), dividends, earnings and returns (Q3.2.2; 12 marks), % shareholding of a specific shareholder (Q3.2.3; 10 marks) and financing strategies and gearing (Q3.2.4; 10 marks).

It was evident that comments and explanations were well handled by above-average candidates. However, many of these candidates often wrote far more than was required in answering the interpretive questions. This might well be due to a lack of practice in writing 2-hour examination papers, as mentioned in the 'General Comments'.

The average candidates and some below-average candidates were able to score part-marks for quoting relevant financial indicators or appropriate figures. However, it was evident that candidates from many centres continued to struggle to correctly interpret requirements of subquestions, to identify and quote relevant information and to express responses clearly.

The language of assessment is an issue that is raised in every report. Teachers need to recognise that at least 25% of the paper will involve some form of interpretation and commenting and take the necessary steps to ensure that their learners are not disadvantaged.

#### Common errors and misconceptions

- (a) A few candidates found it challenging to correctly match descriptions in Q1.1 (4 marks) to the correct category of financial indicators. It appears that a general lack of understanding of the logic of financial indicators is a concern especially among the weaker candidates. This was intended as a confidence-boosting easy question.
- (b) Candidates generally performed well in Q3.2.1 (4 marks) with relevant comparisons on profitability. Many candidates, however, misunderstood the requirements and provided detailed explanations for both companies instead of simply identifying a single company. Valuable time was wasted.
- (c) While most candidates were able to adequately comment on the dividend pay-out rate of Flexi Ltd (Q3.2.2; 4 marks), a large percentage of candidates did not provide a valid reason or comment about the decision and lost 2 marks.
- (d) With regards to the % return on shareholders' equity (Q3.2.2; 4 marks), the majority of candidates were able to quote the trend, but very few were able to make a comparison with an alternative investment, such as a fixed deposit.
- (e) The majority of candidates were not able to explain why the earnings per share in Broom Ltd was better than that of Flexi Ltd (Q3.2.2; 4 marks). This required a comparison of the EPS against the value of the share (either NAV or market price). This appeared to be beyond the scope of many learners. They simply commented on the actual EPS of each company and earned part-marks.
- (f) It was disappointing to note that the subquestions on % shareholding (Q3.2.3; 10 marks) were generally poorly answered by a large percentage of candidates. They failed to notice that the price paid to repurchase shares was too high and had compromised the company's cash resources. Many candidates did not understand the concept of majority shareholding despite such scenarios featuring in all recent past examination papers. The poor performance in this subquestion could be a result of the cascading questioning style, whereby subsequent responses were dependent on an understanding of the previous subquestions.

### Suggestions for improvement

- (a) Class discussions and short questions on basic concepts and the different categories of financial indicators should be the logical step following the preparation of financial statements. In fact, some teachers may decide to integrate the discussion on financial indicators at various stages during the preparation of financial statements. This will also depend of the strength of each current cohort.
- (b) Short informal tasks, sometimes referred to as aspect-testing, such as the financial indicators in Q3.1, can be effectively used to sharpen foundational knowledge. This must be followed by meaningful discussions on the logic, usefulness and relevance of the indicators to a factor in a business such as liquidity, solvency, profitability, operating efficiency or financial returns, e.g. 'Can the company settle its current debts within the next financial year?' or 'Should the shareholders be satisfied with their investment in the business?'
- (c) Teachers are encouraged to recognise opportunities to extend their learners on aspects of questioning that could go beyond the analysis of financial indicators. Examples of this will include scenarios on % shareholding, manipulation of the share capital, financing strategies or comparing EPS or DPS against share prices. Insightful responses were noticed from certain centres; this is encouraging as they tend to indicate that teachers are taking the initiative to extend capable learners by providing enrichment activities on these factors.
- (d) The points mentioned above also serve as opportunities to integrate ethical and corporate governance issues throughout the curriculum where applicable. Being mindful of the time pressures to complete the syllabus, teachers should use other avenues, such as virtual meetings and social media platforms, to skilfully facilitate short discussions and presentations, creating an alternative dimension to excite, motivate and benefit learners.
- (e) The correct interpretation or understanding of questions and the information presented is a vital skill that learners need if they wish to achieve their potential. Teachers are expected to be more creative and forward-thinking, essentially looking for the most relevant information instead of relying solely on the traditional textbook.

### QUESTION 4: CORPORATE GOVERNANCE

The CAPS requires that corporate governance issues be integrated across all topics related to companies. While the trend is to provide scenarios and questions pitched at the middle to higher order, the questions in 2021 appeared to be more general and open-ended, thus accessible to every candidate.

Candidates from many centres managed to score good marks. Part-marks were also earned for partially valid responses. This indicates that teachers have addressed different aspects of the topic to some extent. However, it was evident that many candidates from certain centres were not exposed to such content and either performed poorly or did not attempt the questions, which could also be a consequence of poor time management in attempting to complete the paper.

### Common errors and misconceptions

- (a) Q4.1 (4 marks) required the *consequences* of a disclaimer audit report. Although the topic of Audit Reports has been covered regularly in past NSC papers, many candidates continue to provide definitions rather than the effect of such a report to the

reputation of a company. This is a language challenge, as mentioned in other parts of this report.

- (b) Q4.2 (4 marks) required candidates to explain the responsibility of shareholders in appointing directors, and to provide general characteristics they would expect a director to possess. Whilst many candidates were not clear about shareholders' need to protect their investment, they were proficient in listing a variety of characteristics of a good director, but fell short in expressing valid reasons.

The question specifically required an explanation of two types of characteristics. However, less insightful candidates were not able to think of two different characteristics and simply reworded the first characteristic mentioned, e.g. being honest, trustworthy or possessing integrity.

The types of directors (i.e. executive/non-executive) or the composition of the board were not issues in this question, allowing for a wide variety of simple explanations to be recognised. Some candidates simply quoted random corporate governance concepts such as transparency, accountability and ethics. These are factors that are normally assessed during the operation of their duties rather than characteristics that are observable before being appointed.

- (c) A fair percentage of candidates did not recognise the unethical behaviour of the CFO (Q4.3; 4 marks) and focused their responses only on the equipment supplied, clearly misunderstanding the requirements of the subquestion. The issue of bribes and corruption has been covered in recent examination papers, in the context of stock control. It was therefore disappointing that many candidates were not able to provide two different and valid points.
- (d) The whistleblowing scenario in Q4.4 (4 marks) appeared to be an unfamiliar concept to many learners. This is despite the alternative wording (informants) that was provided in the extract and the fact candidates are likely to have experienced informants in their schools and private lives. Many candidates simply quoted from the extract and were awarded part-marks.

### **Suggestions for improvement**

- (a) Classroom discussions, at strategic points throughout the topic on companies, as explained in the context of interpretation of financial information, are equally applicable to issues of corporate governance and ethics. This will also achieve the integration of these topics as outlined in the ATP.
- (b) Although these topics do not always require prescriptive responses and may be open-ended in nature, a fair degree of factual information may be necessary, such as certain rules and policies related to company formation, provisions in the Companies Act and specifics about audit reports. Teachers must ensure that they incorporate such factors into their planning. Extracts from newspapers, scenarios and case studies can be effectively used to achieve this objective. Modern trends and newsworthy items are good sources of relevant material that can be used in short formative class activities.
- (c) The school-based assessment stipulates a project on annual reports of companies. This is an opportunity to include practical problem-solving scenarios that emphasise the role of management, principles for responsibility and accountability and ethical considerations applicable to good values and preventative measures to curb corruption. An all-encompassing annual report would go beyond the analysis and interpretation of the financial statements; the directors' report will cover aspects of the

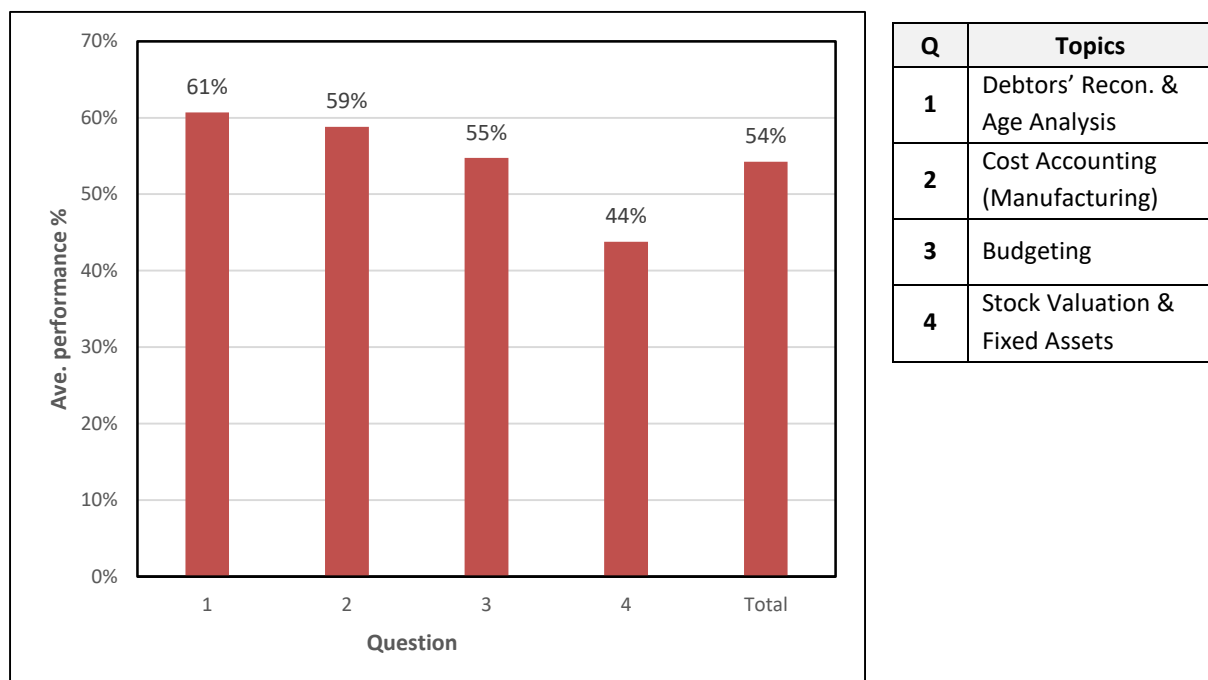
various committees and the long-term goals of the company. Teachers must use these opportunities to further develop learners' appreciation of the dynamic operations within a complex business environment.

- (d) At this point, it is necessary to alert teachers to the suggestions made in recent diagnostic reports concerning this topic, and stress the importance of using these reports as useful resources for planning and teaching.

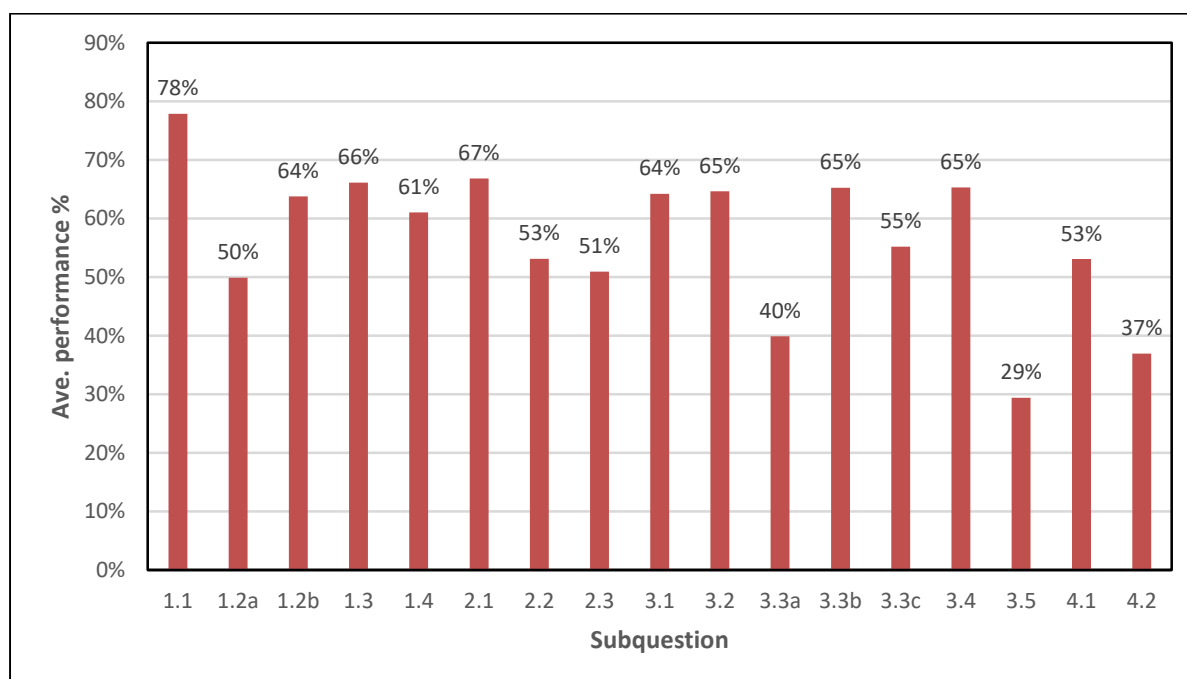
## 2.5 DIAGNOSTIC QUESTION ANALYSIS OF PAPER 2

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 degree of challenge of each question as experienced by candidates.

**Graph 2.5.1 Average performance per question in Paper 2**





**Graph 2.5.2 Average performance per subquestion in Paper 2**

Subq.	Topic	Subq.	Topic
1.1	Documents for allowing credit	3.1	Debtors' Collection Schedule
1.2a	Calculate: Debtors' Control Balance	3.2	Calculate: Amounts in Cash Budget
1.2b	Calculate: Balances on Debtors' List	3.3a	Explanation: Workload of Sales Staff
1.3	Problems & Evidence in Age Analysis	3.3b	Explanation: Workload of Repair Staff
1.4	Job Description and Potential Fraud	3.3c	Suggestions on Workload of Staff
2.1	Production Cost Stmt. & Abr. Income Stmt.	3.4	Comment on Sales Trends
2.2	Control of Raw Material	3.5	Comment on Control over Expenses
2.3	Break-even Point & Unit Costs	4.1	Inventory Value (Weighted Average)
		4.2	Fixed Assets: Calculations & Control

Well-prepared candidates coped well across all questions while weaker candidates were also able to take advantage of the lower- and middle-order subquestions. This is testament to the initiatives of teachers to adequately address the specific topics and the extensive revision programmes at all levels.

Poor performances were noticed in certain areas particularly the explanatory aspects in various topics. Candidates continued to show weaknesses in reading and understanding, and often provided inappropriate and irrelevant clichés from previous marking guidelines to these interpretative subquestions. Candidates clearly preferred predictable questions expressed exactly as they appear in previous papers because this is how they had been trained for examinations.

## 2.6 ANALYSIS OF LEARNER PERFORMANCE IN EACH QUESTION IN PAPER 2

### QUESTION 1: DEBTORS' RECONCILIATION AND AGE ANALYSIS

This topic is generally pitched as an easy to medium question, but the process of completing the reconciliation (Q1.2; 18 marks) remains a challenge to many weaker candidates. This is a concern, as the basic applications relevant to answer this question should be covered in

Grades 10 and 11. This type of question should also have been anticipated, due to bank reconciliation not being examinable this year.

Most of the candidates were able to provide a list of appropriate documents required by business before granting credit (Q1.1; 2 marks).

The debtors' age analysis (Q1.3; 6 marks) produced variable results and the majority of candidates were able to offer valid comments to support the concern of the internal auditor regarding Susan's job description (Q1.4; 4 marks).

### **Common errors and misconceptions**

- (a) In Q1.2, a small percentage of candidates was not able to place the correct signs (+ or –) to relevant figures. This exposed their lack of understanding of the logic and purpose of reconciliations and their inability to interpret the errors and omissions identified. Weaker candidates often provided figures in all the columns and lost marks for foreign entries.
- (b) The below-average candidates struggled with item (iii), an amount incorrectly posted from the Debtors' Journal, item (iv), a credit sales treated as a return and item (vi), an amount incorrectly recorded in the journal and posted accordingly.
- (c) Some candidates also experienced difficulty in determining whether an error or omission affected the control account, the debtors' list, or both the account and the list. This once again reveals their inability to correctly interpret the information.
- (d) With regard to the debtors' age analysis, the majority of candidates were able to mention credit terms and credit limits as possible problems. They failed to notice that these problems are a result of poor internal control processes. Some candidates provided the evidence in the same column as the problem. They were not penalised for this oversight.

### **Suggestions for improvement**

- (a) Reconciliations are relevant monthly internal control processes that follow logical procedures to achieve specific outcomes, and attention must be devoted to cash (bank), debtors and creditors. Bookkeeping aspects (basic application and recording) are covered extensively in Grades 10 and 11. The Grade 12 syllabus addresses analysis and interpretation. It is therefore necessary to constantly reinforce prior knowledge through regular activities. Teachers must use questions from past examination papers and various other sources to ensure that learners become familiar with the different ways in which this topic can be tested.
- (b) Class discussions are an effective way of developing language and interpretative skills. Learners must be encouraged to participate actively. This will give them confidence to respond with understanding, rather than reproduce commonly-used statements extracted from past examinations.
- (c) Although bank reconciliations did not appear in the 2021 paper, teachers must be aware that learners often find these much more challenging than debtors' or creditors' reconciliations. Teachers must ensure that learners can deal competently with the reconciliation processes in respect of debtors and creditors, as these form the basis of the prior knowledge necessary for understanding bank reconciliations and the different types of bank entries.

- (d) The different approaches to the reconciliation processes must be clearly illustrated. Some processes, such as bank and creditors' reconciliations, may depend on external documents (statements received) being compared with internal records. Other processes involve comparing and correcting internal records, such as the control accounts against lists of debtors or creditors.
- (e) Once learners understand the logic behind the process of comparing and correcting entries, they should be exposed to issues of mismanagement or possible fraudulent behaviour and the type of control measures needed to curb such activities.
- (f) Formal and informal assessment programmes must include short, formative tests in class that can be self- or peer marked. Assessment can also include real-life scenarios in the form of case studies or reports, whereby learners are alerted to current trends. These include the use of technology, its effect on changes in the banking sector and its effect on the recording and reporting processes within a business.
- (g) Teachers are therefore encouraged to explore different sources for relevant material instead of relying solely on textbooks. They can use their own real-life experiences as a basis to plan lessons. This would include the use of banking applications and online transactions with service providers.
- (h) Subject advisors can make effective use of cluster groups and lead teachers to develop material so that a common understanding is achieved. Many districts make use of common formal assessment tasks. This teamwork must extend into other areas of curriculum delivery to achieve a more widespread benefit to teachers and learners.

## **QUESTION 2: COST ACCOUNTING (MANUFACTURING)**

Subquestions on this topic comprise content that is generally predictable and manageable and is found to be relatively easy, as reflected on Graph 2.5.1. A change in context and presentation of information in especially the interpretative subquestions has lifted the level of challenge of this topic. This further exposes the fact that candidates prefer basic application and neglect to address the analysis sections of various topics. They tend to rely on stereotypical responses and often use them inappropriately.

### **Common errors and misconceptions**

- (a) In completing the Production Cost Statement (Q2.1.1; 10 marks), weaker candidates did not manage the adjustments for direct labour cost and the factory overhead costs, possibly due to poor interpretation and calculation skills. They provided lengthy, irrelevant calculations, making it difficult for markers to search for valid part-marks.
- (b) Q2.1.2 (11 marks) tested the Abridged Statement of Comprehensive Income. A fair percentage of candidates did not realise that the Finished Goods Stock balances had to be used to calculate the cost of sales. This is a basic Grade 11 principle. It was also necessary to link the calculations of certain expenses affecting the factory overhead cost to the selling and distribution cost and the administration cost. This was poorly handled by many candidates. They performed poorly in using percentages and ratios to apportion expenses to the appropriate cost line item.
- (c) Q2.2 (9 marks) focused on the control over raw material. The scenario required candidates to calculate fabric missing from the storeroom and wasted in the factory. Although these calculations are similar to those used in stock valuation questions, they were generally poorly answered. Fortunately, the impact of the marks lost was not felt, as more marks were allocated to the internal control factors and to the analysis of the

impact of this loss to the profit. Part-marks were earned by many candidates for incomplete responses provided.

- (d) Confirming that the break-even point (BEP) was correct (Q2.3.1; 3 marks) and commenting on the level of production achieved against the BEP (Q2.3.2; 4 marks) were generally well managed. A complete answer should include the difference between the break-even point and the number of units produced, as this creates a profit or loss. Comparisons between the BEP for each year or comparisons of the units of production for each year earned only part-marks, as they serve a different purpose which does not capture the relevance of the break-even point.
- (e) Q2.3.3 (2 marks) explicitly required an explanation of economies of scale. A majority of candidates answered this literally by quoting the decrease in the factory overhead cost per unit and the administration cost per unit. It was obvious that these candidates did not notice that the total overhead and administration costs remained constant. They were also not aware of the concept of scale whereby fixed costs per unit will naturally decrease if total fixed costs are constant and the total units produced increase.
- (f) An analysis of deliberate decisions taken to improve profitability required candidates to quote the increase or decrease in the unit cost of certain variable costs (Q2.3.4; 6 marks). Figures were quoted from the table of information provided and the commonly used comments provided.

Many candidates, however, did not realise that the change in unit costs was indicative of the specific decisions taken by Rosemary regarding direct materials, direct labour and distribution costs. Instead, they quoted the total amounts of the respective variable costs. This does not answer the question because variable costs being directly affected by the levels of production would logically increase if there is an increase in production, whilst the cost per unit might remain unchanged.

### **Suggestions for improvement**

- (a) Examiners will always attempt to introduce more creative and innovative ways to extend the challenge of this topic so that all questions achieve a balance between lower- and higher-order subquestions. It is recommended that teachers provide a variety of examples so that learners are exposed to the different questioning styles. Past examination papers are extremely useful. Teachers should use these examples as a basic to create other scenarios and practical case studies. This will require much planning and creativity, but the rewards will be satisfying and beneficial.
- (b) Poor interpretation of adjustments as observed in the calculations relevant for the Production Cost Statement revealed that emphasis must also be placed on improving mathematical skills, particularly for weaker learners. Using fractions, ratios and/or percentages to apportion specific expenses to the different cost components must be mastered before moving on to more complex calculations that may include year-end adjustments, errors and omissions. Formative tests on specific aspects must be used to assess prior knowledge. This will assist to address any backlogs and weaknesses from previous grades.
- (c) Average and below-average learners may benefit more from practical or visual stimuli, especially since they are familiar with manufacturing concepts and calculations introduced in Grade 10 and reinforced in Grade 11. Teachers could make use of the variety of resources available on educational websites for presentations and real life video clips. Such resources can also assist with time management if used effectively in lessons.

- (d) Interpretation of unit costs will always be asked with the information related to the break-even point. The information is almost always presented in a tabular form, either involving a single product with comparative annual figures or a comparison of two products. Learners must be exposed to a variety of formats or presentation of data. Short class tests can be used to develop their skills on how to use unit costs to identify problems or decisions, to comment on economies of scale and to make projections about future prospects. Learners must be encouraged to participate in class discussions and to share their concerns and ideas.
- (e) Learners' interpretation of unit costs and understanding of economies of scale should improve if teachers highlight the behaviour of the five different cost categories. For simplification of the Grade 12 curriculum, it is assumed that direct material, direct labour and selling and distribution costs are all variable in nature and that factory overheads and administration costs are fixed in nature. The following table illustrates the assumed behaviour of these costs for Grade 12 and provides a hypothetical example of unit calculations.

	<b>VARIABLE COSTS</b>	<b>FIXED COSTS</b>
Assumed behaviour:	Variable, i.e. changes with production	Fixed, i.e. do not change during a year; not affected by units produced
Components:	Direct material Direct labour Selling & distribution	Factory overheads Administration
<b>IF 5 000 UNITS ARE PRODUCED</b>		
Total variable costs might be:	R360 000	R240 000
Variable costs per unit will be:	R72,00	R48,00
<b>IF 6 000 UNITS ARE PRODUCED</b>		
Total variable costs might be:	R432 000	R240 000
Variable costs per unit will be:	R72,00	R40,00
<b>CONCLUSIONS BASED ON THE FIGURES ABOVE</b>		
This indicates:	Unit costs remain unchanged. Efficiency in using material, labour & distribution costs remained the same.	Unit costs decreased. Economies of scale have been achieved, due to the increase in units produced.
	The overall unit cost of the product will be R8,00 cheaper. Profit increases by R8 000 if an extra 1 000 units are produced.	

- (f) The deep problem-solving potential of the topic must also be recognised. This would involve an interaction with the data presented, performing calculations and using the results to motivate responses. Examples such as calculating loss due to wastage and the impact on profits and projecting additional profit or additional units required to meet certain targets are normally considered as higher-order questions that should be accessible to all learners. Teachers are reminded about the concept of 'contribution per unit', i.e. the difference between selling price and variable cost per unit. This is often used in predicting future profits or losses. This concept is fully explained in the 2020 Diagnostic Report and in the annexures to the current *Examination Guidelines*.

### QUESTION 3: BUDGETING

The performance in this question was satisfactory. Candidates have become more proficient in the basic calculations subquestions, but struggle with interpretation of budget information.

The Debtors' Collection Schedule (Q3.1; 6 marks) and Cash Budget calculations (Q3.2; 9 marks) were well answered. These subquestions comprise Grade 11 easy application processes and the majority of candidates have taken full advantage of the marks on offer.

Q3.3 (11 marks), Q3.4 (3 marks) and Q3.5 (6 marks) covered the interpretation of budget information. Candidates had to analyse the data provided and quote relevant figures to support their explanations. The mediocre responses of candidates are an indication that this aspect of the topic is not given enough attention during class time or revision.

### **Common errors and misconceptions**

- (a) Of the calculations asked in Q3.2, only (c) covering payment for cleaning services appeared to be challenging. Many candidates completed only part of the workings for part-marks. This was a complex calculation that required candidates to find the original cost before applying the 5% increase. A lack of reading with understanding could have contributed to the incomplete answers offered.
- (b) The below-average candidates continued to show weaknesses in basic Grade 10 calculations involving percentages; either increases or decreases or in working backwards for amounts before the increase/decrease.
- (c) The scenario presented in Q3.3 focused on the workload of employees. This required an analysis of the number of employees in each section relative to their expected and actual workload. Candidates found it difficult to provide two valid points or to quote relevant figures to support their arguments. Creative or innovative responses were expected as possible solutions. However, many candidates provided clichéd responses which, at times, were out of context with requirements of this subquestion.
- (d) Q3.4 (3 marks) expected candidates to simply identify the switch from cash sales to credit sales and quote the figures for both cash and credit sales given in the question paper. It was surprising that a large percentage of candidates only provided one set of figures; possibly an indication that they misunderstood the requirements.
- (e) Many candidates failed to see the relationship between items in a Cash Budget, such as fuel for delivery relative to sales, and consumable stores for repairs relative to fee income (Q3.5; 6 marks). They compared only the actual expenditure amount against the budgeted amount and concluded that the expense was either well controlled or not. Only the more capable candidates were able to identify the connections to sales and fee income, convert to percentages and provide valid and insightful explanations.

### **Suggestions for improvement**

- (a) The preparation of the Cash Budget and the Projected Income Statement is covered in Grade 11, while the Grade 12 *CAPS* emphasises analysis and interpretation. Teachers are expected to thoroughly assess prior knowledge and make provisions to address any backlogs emanating from previous grades before addressing the more complex calculations and interpretation of the Grade 12 syllabus. Short formative and summative activities and informal class tests can be used to assess prior knowledge. These activities must include key concepts, basic calculations and mathematical skills, as well as the difference between a Cash Budget and the Projected Income Statement. These activities must also assist in identifying weaker learners who require further assistance and supporting material.
- (b) In an effort to improve interpretative skills, it is recommended that various examples and different scenarios be extracted from past NSC examination papers for use in lessons. Teachers can use these tasks as part of the informal assessment programme, or adapt them for assignments or case studies.

- (c) With regard to analysing budgeted vs actual figures, the terms *over-budgeted*, *under-budgeted*, *overspent*, *underspent*, *over the budget* and *under the budget* have subtle differences in meanings depending on how they are used. When analysing the control of an expense item in relation to another, it would make no sense to quote actual figures or the difference, due to the changes in both figures being analysed. It is for this reason that marking guidelines would insist that percentages be used to demonstrate whether an expense item is well controlled or not. For example, in Q3.5, total sales were less than the budgeted sales by R91 000, whereas the fuel expense for deliveries was less than the budgeted amount by R900. Absolute figures such as these do not provide conclusive evidence of good control or not. Learners must be specifically taught how to use % differentials on budgeted and actual figures to enhance their opinions and explanations.
- (d) Effective and appropriate use of subject-specific language is paramount in generating meaningful responses. Establishing a glossary of terms, concepts and general vocabulary together with learners, and refreshing the list daily, will go a long way in developing learner confidence. This exercise will also be addressing the issue of language across the curriculum, which forms part of the DBE's long-term goals.

#### QUESTION 4: INVENTORIES AND FIXED ASSETS

Inventory valuation questions were confined to only 11 marks for calculations and 6 marks for the problem-solving component. This is possibly due to integration of FIFO stock valuation in Paper 1 or in other topics, such as the missing fabric in Q2 (cost accounting). The weighted-average method was tested. The emphasis was on closing stock and the stock turnover rate. The majority of candidates took advantage of these routine calculations which have appeared regularly in past NSC papers.

Q4.2 tested fixed assets in the context of Paper 2, which comprises basic calculations and limited internal control processes. This was regarded as essentially basic Grade 11 content, so it was disappointing that the general performance of candidates did not meet expectations.

#### Common errors and misconceptions

- (a) The weighted average is calculated by dividing the total value of goods available for sale by the number of units. This must then be multiplied by the number of units on hand to determine the value of the closing stock (Q4.1.1; 7 marks). This was generally well understood, except for some candidates who did not take into account the returns and others who omitted to multiply by the closing units on hand.
- (b) Q4.1.2 (4 marks) required the stock turnover rate. This was a deviation from the stock holding period that was usually asked in many past papers, causing many candidates to use the incorrect formula.
- (c) In Q4.1.3, easy marks were obtained for quoting figures, as the question directed candidates to focus on problems relating to the stock turnover rate. Some candidates confused the column for comments with the column for major problem. This was, however, accommodated in the marking guidelines.
- (d) Q4.2.1 (3 marks) was well managed by the majority of candidates. They were able to list relevant internal control measures. Vague general statements and clichés were not accepted, as each item earned only one mark.

- (e) It was surprising that a large percentage of candidates was not familiar with the R1,00 rule applicable to a fully depreciated fixed asset (Q4.2.3; 2 marks). This concept forms part of the Grade 11 syllabus.
- (f) The poor attempts by many candidates to calculate loss on disposal of asset (Q4.2.4; 6 marks) and the depreciation on the remaining equipment (Q4.2.4; 5 marks) were clear indications of the lack of practice or effective revision of questions from past examination papers. Markers had to spend time searching for relevant figures among the workings for part-marks to be awarded.

### **Suggestions for improvement**

- (a) Questions on stock valuation are generally predictable. Teachers are encouraged to use examples from past examination papers to address the sequence of calculations commencing with the value of closing stock. Standard, commonly-used procedures must be adopted for the calculation of the closing stock under each valuation method. This will prevent learners from engaging in lengthy processes, assuming that they are on the right track. Learners should understand that it is seldom necessary to waste time by calculating cost of sales to value stock. The normal and efficient calculation methods will contribute to overall time management. A similar approach can be employed for all other calculations.
- (b) An introduction to stock systems starts in Grade 10 where learners are introduced to the perpetual system of recording stock. The periodic inventory system is introduced in Grade 11. In assessing prior knowledge, it is important that learners have a clear understanding of the differences as well as advantages and disadvantages of the two systems. This represents the logic underlying the three stock valuation methods.
- (c) A clear distinction of the three stock valuation methods is best illustrated by referring to the relative value of products and the rate at which they are sold. Consequently, the weighted-average method is more appropriate for low-value goods with a high turnover rate whilst the specific identification method will be more relevant for high value, expensive items that appeal to an exclusive clientele. Questions from past NSC papers are reliable and efficient resources that will expose learners and teachers to the different ways in which this topic can be tested. Learners must be made aware of the relevance of stock valuation in both Paper 1 and Paper 2. It can either be set as a complete question or integrated with other topics such as Financial Statements and Cost Accounting.
- (d) A question on stock valuation can range anywhere between 20 to 45 marks. It is therefore important that teachers consult diagnostic reports from 2016 and make them an essential part of their planning documents. The reports would obviously highlight trends and offer suggestions that are not readily available in textbooks or study guides.
- (e) Learners are familiar with concepts and calculations relating to fixed assets from Grade 10. It was therefore disappointing to note the poor performance in this subquestion. A mastery of the calculations can only be achieved through regular practice using a variety of examples. Teachers must not assume that this topic was effectively covered in previous grades. This is the most integrated aspect of the syllabus and its impact is felt in almost every topic across both papers. Short class tests that can easily be self- or peer assessed and must be administered at regular intervals. Although a specific period is allocated for fixed assets on the ATP, it would be wise to address this topic at strategic points of the syllabus, rather than cover all aspects within the allocated two weeks.