



NATIONAL SENIOR CERTIFICATE EXAMINATION  
NOVEMBER 2016

**ACCOUNTING: PAPER I**  
**MARKING GUIDELINES**

Time: 2 hours

200 marks

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**These marking guidelines are prepared for use by examiners and sub-examiners, all of whom are required to attend a standardisation meeting to ensure that the guidelines are consistently interpreted and applied in the marking of candidates' scripts.**

**The IEB will not enter into any discussions or correspondence about any marking guidelines. It is acknowledged that there may be different views about some matters of emphasis or detail in the guidelines. It is also recognised that, without the benefit of attendance at a standardisation meeting, there may be different interpretations of the application of the marking guidelines.**

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**QUESTION 1 INVENTORY SYSTEMS**

**(32 marks, 19 minutes)**

**Refer to the information relating to Weighcomm Scales.**

1.1 Calculate the value of the closing stock using the FIFO method on 31 July 2016.

510 units: $478 \times R2\ 200 = R1\ 051\ 600$
$32 \times R2\ 160 = R69\ 120$
Closing stock = R1 120 720

**OR**

$490 \times R2\ 200 = R1\ 078\ 000$
$20 \times R2\ 160 = R43\ 200$
Closing stock = R1 121 200

(5)

1.2 Calculate the cost of sales for the year ended 31 July.

Opening Stock	R420 000	} Mark on the purchases figure not including the return.
Purchases	R2 942 000	
Returns	(R26 400)	
Closing Stock	<u>(R1 120 720)</u>	
Cost of Sales	R2 214 880	

**OR**

Opening stock R	420 000
Purchases	R2 942 000
C/stock	(R1 121 200) based on 1.1
COS	R2 240 800 lose the method mark if foreign entries have been included.

(4)

1.3 Calculate the gross profit made by Weighcomm Scales for the year ended 31 July 2016.

Sales: $R3\ 838\ 000 (4\ 375\ 320 \times 100/114) - R19\ 000 = R3\ 819\ 000$ only if debtors allowances has been subtracted.
Gross profit $R3\ 819\ 000 - R2\ 214\ 880() = R1\ 604\ 120()$

**OR**

$R3\ 838\ 000 - (19\ 000 + 45\ 600 [12 \times R3\ 800]) = R3\ 773\ 400$
$R3\ 773\ 400 - R2\ 240\ 800 = R1\ 532\ 600$

(6)

- 1.4 When doing an internal audit the auditor suspected that stock had been stolen, as all scales sold by Weighcomm Scales during the year ending 31 July 2016 had been sold at R3 800 (excluding VAT) each. Calculate whether or not stock has been stolen.

Looking at Sales R3 819 000/R3 800 = 1 005 scales were sold leaving 533 left  
(200 + 1 350 – 12) – 1 005)

But 510 were left so 23 were lost/stolen

**OR**

$$2\ 773\ 400/3\ 800 = 993$$

$$(200 + 1\ 350) - 993 = 557 - 510 = 47 \text{ stolen}$$

**OR**

$$(200 + 1\ 350 - 12) = 1\ 538 - 510 = 1\ 028 \times R3\ 800 = R3\ 906\ 400 - R3\ 819\ 000 = 87\ 400$$

**OR**

$$1\ 550 - 510 = 1\ 040 \times R3\ 800 = R3\ 952\ 000 - R3\ 773\ 400 = R178\ 600$$

(4)

- 1.5 Mark Epstein, the owner, is very concerned that sales have slowed down tremendously this year and that stock appears to be sitting in the warehouse for longer periods of time. The 2015 rate of stock turnover was 5,6 times.

- 1.5.1 Calculate the rate of stock turnover for the year for 2016.

$$\frac{2\ 214\ 880}{[420\ 000 + 1\ 120\ 720]/2}$$

$$= \frac{2\ 241\ 880}{770\ 360}$$

$$= 2,88 \text{ times}$$

**OR**

$$\frac{2\ 240\ 800}{[420\ 000 + 1\ 121\ 200]/2}$$

$$= 2.9 \text{ times}$$

(4)

- 1.5.2 Comment on the rate of stock turnover calculated in Question 1.5.1 above explaining why it may pose a problem for the business.

The stock turnover rate has halved from last year to this year. It has decreased from 5,6 times to 2,88/2.9 times. Stock is not moving and it is sitting in the warehouse for longer periods. This may not be a problem as stock does not have a perishable nature. The problem is that electronic goods may become outdated as upgrades happen continually.

(2)

1.6 Calculate the Output VAT that the business would have been required to account for during the year.

Sales – Debtors allowances = R3 819 000 × 14% = R534 660 ✓  
 R3 773 400 × 14% = R528 276

**OR**

R4 375 320 – R21 660 = R4 353 660 × 14/114 = R534 660  
 R4 375 320 – [64 600 × 14% = R73 664] = R4 301 656 × 14/114 = R528 276

**OR**

R537 320 – R2 660 = R534 660  
 R537 320 – R9 044 = R528 276

(3)

1.7 Analyse the transaction reflected in the credit note on 31 July 2016 in the table below. Under the accounting equation use +/- and amount.

Account debit	Account credit	Assets	Owners' Equity	Liabilities
Creditors	Purchases/ Purchases returns/ Creditors allowances/ Trading stock	-26 400	+26 400	-26 400
Creditors	Input VAT/Vat control	-3 696		-3 696
Debtors Allowances	Debtors Control	-45 600	-45 600	
Output VAT/VAT control	Debtors Control	-6 384		-6 384

(4)

One account and corresponding sign correct one mark (ignore amounts)

**32 marks**

**QUESTION 2      COMPANY FINANCIAL STATEMENTS      (70 marks; 42 minutes)****Refer to the information relating to Impumelelo Limited.**

- 2.1 Complete the Statement of Comprehensive Income (Income Statement) for the year ending 31 October 2016.

**Impumelelo Limited**  
**Statement of Comprehensive Income (Income Statement)**  
**for the year ending 31 October 2016**

**Do not mark brackets**

Sales (2 435 000 – 3 725 – 2 256 )	2 429 019
Cost of Sales (1 521 875 – 1 410 must be less than R2 256)	(1 520 465)
Gross Profit	<b>Do not fill in this amount</b>
Add: Other income	137 212
Rent income (144 313 – 11 101 )144 313/13	133 212
Profit on sale of asset 10 000 – 6 000 or 24 000 – 20 000	4 000
Gross income for the year	<b>Do not fill in this amount</b>
Less: Operating expenses	<b>Do not fill in this amount</b>
Audit fees (25 000 + 37 500 [25 000 × 6/4])	62 500 only if added
Directors fees (159 600 + 18 500 )	178 100 only if added
Sundry expenses	116 649
Salaries (240 000 – 28 000 – 148 ) check if R148 is subtracted	211 852
Bad debts	11 594
Loss on sale of asset (6 000 – 6 000)	–
Provision for bad debts adjustment	270
Trading stock deficit	2 630
Depreciation 1 850 000 – 1 729 000 = 121 000 – 15 000	106 000
Operating profit for the year	<b>Do not fill in this amount</b>
Interest income (9 050 + 3 375 ) not accepting R25 000	12 425 if added
Operating profit before interest expense	<b>Do not fill in this amount</b>
Interest expense	(46 200)
Net income before taxation	<b>Do not fill in this amount</b>
Taxation for the year (289 000 + 11 450 )	(300 450)
Net income after taxation	<b>Do not fill in this amount</b>

(33)

2.2 Complete the notes to the financial statements as at 31 October 2016. **NB: Impumelelo Limited show all their current liabilities under Trade and other payables and not separately in the Balance Sheet**

2.2.1 Trade and other receivables

Net trade debtors	151 513 must be subtracted
Debtors Control (161 969 – 2 256 )	159 713
Less: Provision for bad debts (7 930 +270)	(8 200)
Accrued Income – refer back to IS	3 375
	<b>Do not fill in this amount</b>

(5)

2.2.2 Ordinary share capital

375 000	Ordinary shares at R6,90 per share	<b>2 587 500</b>
125 000	Ordinary shares at R7,30 per share	912 500
(37 500)	Ordinary shares at R7 per share	(262 500)
2 500	Ordinary shares at R7,40 per share	18 500
465 000		<b>3 256 000</b>

Must have the brackets correct

(12)

2.2.3 Trade and other payables

Creditors control (229 120 – 1 410 see COS)	227 710
Creditors for salaries (25 100 – 20 000 )	5 100 based on subtracting a salary related figure
SARS: PAYE (12 050 – 7 852 ) can add R11 450	4 198 /R15 648
Unemployment insurance fund (979 – 148 – 148 )	683
Bank Overdraft (32 740 – 10 000 ) can add R318 750 repurchase	22 740
Deferred Income	11 101
Accrued expenses	37 500
Current portion of loan	120 000
SARS (Income tax)	11 450
Shareholders for dividends (462 500 × 0,80)	370 000
	<b>Do not fill in this amount</b>

(20)

**70 marks**

**QUESTION 3 CASH FLOW STATEMENTS**

**(50 marks, 30 minutes)**

**Refer to the information relating to Claxton LTD.**

3.1 Calculate the **dividends paid** as they would have appeared in the cash flow statement on 31 July 2016.

Amount owing at the beginning of year	(162 000) 162 000
Total dividends for the year	338 000 (338 000)
Amount owing at the end of year	(113 000) 113 000
Dividends paid	387 000 <u>(387 000)</u>

(4)

3.2 Calculate the opening balance of the SARS income tax account on 1 August 2015. State whether this amount would reflect a tax asset or tax liability.

557 050 – 518 000 – 22 700 = 16 350 **Liability** can be a ledger account indicating a liability by a credit balance.  
R61 750 if no indication of liability

(5)

3.3 Calculate the book value of the obsolete equipment.

180 000 – [87 500 + 9 250 = 96 750] = 83 250  
[92 500 × 15% = 13 875] × 8/12

(6)

3.4 How much did Claxton LTD pay for the new equipment?

950 000 – 164 400 – 83 250 from 3.3 + X = 1 232 850  
X = 530 500  
Could do a ledger account showing the BV for equipment which would be correct

(5)

3.5 Complete the cash flow from **financing activities** as it would have appeared in the cash flow statement on 31 July 2016.

<b>Cash flow from FINANCING ACTIVITIES</b>	<b>145 250</b>
Repurchase of shares 50 000 × R5,50	(275 000)
Proceeds of new shares	333 000 balance by inspection
Proceeds of new loans	218 000
Repayment of existing loans 900 000 + 218 000 – 987 250 (use of anyone of these figures in brackets ) 87 250	(130 750)

(9)

Use of brackets important.

$$240\ 750 - 110\ 000 = (130\ 750)$$

240 750 on its own in the CFS

3.6 Complete the cash and cash equivalent note as it would have appeared in the cash flow statement on 31 July 2016.

	<b>Net change</b>	<b>31 July 2016</b>	<b>31 July 2015</b>
Bank	118 500	12 500	(106 000)
Petty Cash	500	2 000	1 500
	119 000	14 500	(104 500)

(5)

Must have brackets.

3.7 Calculate the balance on the retained income account on 31 July 2016.

$R1\ 035\ 000 + [1\ 223\ 000 - 518\ 000] - [50\ 000 \times 50c]$ $705\ 000 \qquad \qquad \qquad 25\ 000$ $- R338\ 000$ $= R1\ 377\ 000$ <p>Could do the Appropriation [R367 000] and Retained Income [R25 000] accounts</p>
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**OR**

$R4\ 655\ 000 + R333\ 000 - R250\ 000 - R5\ 865\ 750 = R1\ 127\ 750$
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(6)

3.8 Claxton LTD is very interested in buying a small but profitable business in Australia for R3 000 000. The directors are concerned about the economic situation in South Africa, in particular the increasing cost of finance and instability of the exchange rate. The bank has approved the finance for the purchase at an interest rate of 13,25% p.a.

3.8.1 Calculate the Return on Total Capital Employed (ROTCE) on 31 July 2016. Use average capital employed in your calculation.

$$\frac{1\,223\,000 + 110\,000}{\{[5\,690\,000 + 900\,000] + [5\,865\,750 + 987\,250]\} / 2} \times \frac{100}{1}$$

= 19.83%

Average equity R5777 875  
Average loans R943625

(5)

3.8.2 If Claxton LTD decided to go ahead and take the R3 million finance, its debt to equity ratio will increase from 0,21 : 1 (present value) to 0,9 : 1. With reference to risk and gearing and any other concerns you think are important, advise whether or not Claxton LTD should proceed with the purchase of the business.

**RISK** – By taking out the loan, Claxton LTD's debt to equity, and therefore risk, increases significantly as their debt to equity goes from 0,2:1 to 0,9:1. However, this is still manageable, and debt is still less than equity

**GEARING** – The gearing is favourable considering that Claxton will borrow the funds at 13,25% and will be earning a ROTCE of 19. 83% ✓

Based on the above it would be good to borrow, but uncertainty of overseas markets and weak rand also need to be considered

(5)

**50 marks**

**QUESTION 4 MANUFACTURING**

**(48 marks, 29 minutes)**

**This question consists of 2 parts.**

**PART A**

**Refer to the information relating to Thorndon Manufacturers.**

4.1 Calculate the direct materials issued into the production process.

$55\ 000 + 1\ 135\ 000 + 2\ 500 + 3\ 500 - 6\ 000 - 70\ 000$ $= R1\ 120\ 000$
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Mark combinations if the signs are swapped around. Best combination. (7)

4.2 Calculate the cost of production of finished goods.

$- 101\ 450 + 80\ 500 + 2\ 512\ 950 = 2\ 492\ 000$ no method if foreign entries have been included.
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(4)

4.3 Complete the factory overheads note below in the production cost statement for the year ending 30 September 2016.

**Thorndon Manufacturers**  
**Notes to the production cost statement for the year ending 30 September 2016**

**Note 3: Factory overheads cost**

Rent 490 000 × 60%	294 000
Insurance (121 520 – 17 360) 104 160 – 66 960	37 200
Indirect Material (4 500 + 260 000 – 2 730) × 1/5 – 1 750 <b>OR</b> (52 354 – 1 750 )	50 604 only if the R1 750 is subtracted
Indirect labour 312 850 + 7 002 + 2 428	322 280
Loss due to theft 1 750 – 1 130	620
	<b>704 704</b>

Also various combinations:  
 R260 000 × 1/5 = R52 000  
 R4 500 + R260 000 × 1/5 = R52 900  
 R260 000 – R2 730 × 1/5 = R51 454  
  
 R260 000 – R1 750 = R258 250  
 R52 000 – R1 750 = R50 250  
 R52 900 – R1 750 = R51 150  
 R51 454 – R1 750 = R49 704

(18)

**Note 5: Selling and distribution costs**

Rent	171 000
Insurance	59 520
Telephone	12 500
Indirect labour – by inspection	570 018
Indirect material R156 000 /R158 700 /R154 362	157 062
Delivery/Transport costs	35 080
	<b>1 005 180</b>

(6)

4.4 With the downturn in the South African economy Thorndon Manufacturers are concerned that they will struggle to make profits in 2017 and so are considering stopping their selling of alarms online as this is not their core/main business. Briefly explain one advantage and one disadvantage that this decision will have on their profitability in 2017 and explain what decision you think they should make.

Advantage: It will cut costs associated with this call centre. 90% of selling and distribution costs are R904 662, so it would increase profits. These costs are R199 958 more than factory overhead.

Disadvantage: Their sales will drop  
They would lose R1 884 712,50 in sales.

Decision: Stop call centre as it only brought in 30% of sales but cost double factory costs.

(3)

**PART B**

**Refer to the information relating to Bags of Fun.**

4.5 Calculate the break-even point for Bags of Fun on 31 October 2016.

$$\frac{548\,410 + 247\,500}{18,85 - [5,50 + 4,60 + 1,65]}$$

$$= \frac{795\,910}{7,10}$$

$$= 112\,100 \text{ units}$$

(6)

- 4.6 Explain whether you think Maria would or would not be concerned about the profitability and sustainability of her business. Provide two reasons and justify your answer by providing supporting figures.

Maria should be concerned with the profitability of her business as she is not breaking even. Her BEP has been calculated at 112 100 units and she is only producing and selling 110 500 units therefore she is 1 600 units short. Last year her BEP was 78 000 units and she managed to produce and sell 98 000 units thereby registering a profit on 20 000 units. Her business is not sustainable. Only one mark per reason if not supported by figures.

(4)

**48 marks**

**Total: 200 marks**