NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2013

ACCOUNTING: PAPER I

MARKING GUIDELINES

Time: 2 hours 200 marks

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

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

QUESTION 1 ASSET MANAGEMENT

Refer to the Information Booklet for information relating to Netlogic.

Refer to information A to answer Questions 1.1 – 1.6.

1.1

537 300 /270
= 1 990 method allocated provided the candidate has either figure present in the calculation.

(3)

1.2

General Ledger of Netlogic

Final Accounts Section

Trading Account (inverted account -2 marks)

2012 Dec 31	Opening stock	228 000	2012 Dec 31	Sales (354 996 × 100/114)	311 400
	Purchases	309 300		Closing stock (140 × 1 990)from 1.1	278 600
	Profit and loss	52 700		50 600 on cr side only (OS – CS)	
		590 000			590 000

COS 258 700 / 537 300/ 30 700

(9)

1.3

The business purchased 60 laptops in November at a discounted rate for bulk purchases, therefore they were able to reduce the selling price charged in December and still maintain their profit mark-up.
OR
They only sold 130 units (120 bought last year and only 10 bought this year) and so need to reduce their prices to increase sales. End of year clearance sale / compete with competitors.

(2)

1.4

General Ledger of Netlogic

VAT Control Account (inverted account – 2 marks)

2012 Dec 31	Input VAT (162 300 × 14/100) = 22 722) (51 300 × 14/114) = 6 300)	29 022	Dec 31	Output VAT (163 134 × 14/114) 43 469 / 23 562	20 034
				Balance	8 988
		29 022			29 022
2012 Jan 1	Balance	8 988		Look for balancing action	

(10)

1.5

The business already has 140 laptops in stock which still need to be sold, OR Computers run the risk of becoming obsolete/out dated rapidly therefore holding too much stock places the business at risk of having to mark down stock/obsolete stock. Excess of stock. Cash flow OR It is unethical, it is not in the best interests of the business and it is a decision that benefits the manager's friend. Unethical Reason

(2)

1.6.

Reason 1	Donations expense reduces the net profit made by the business therefore less taxation needs to be paid to the Receiver. A form of advertising for the business Not stock
Reason 2	Giving to the underprivileged schools highlights the business's commitment to Corporate Social Responsibility / which can be used as publicity and thereby attracting new customers and potentially increasing sales. Goodwill increases.

(4)

Refer to information B to answer Questions 1.7 – 1.11.

1.7

Method	On cost /Fixed instalment/Straight line Diminishing balance not accepted
Justification	2009, 2010 and 2011 financial years all registered the same depreciation expense of R30 000 implying that the figure used to work out depreciate remained constant and did not diminish. OR The vehicle will do 65 000 km each year so the value should be depreciated equally over each year of its life. High usage.

(3)

1.8

30 000/150 000 = 20% p.a. 5 years

(2)

1.9

17 500 /30 000 × 12/1 = 7 months Date traded-in 31 July 2012 or 1 August 2012(year ignored, provided month correct)

(4)

1.10

(150 000 – 117 500) + 4 375 = 36 875 OR 32 500 + 4 375 = 36 875

(3)

1.11

Yes
The running costs on the delivery vehicle have increased by R63 000 over the past 2 years. If one calculates the monthly amount it equates to R6 250, which would be about an instalment on a new delivery vehicle.
Yes
Ensuring the safety of stock in event that old vehicle breaks down.
Yes
Trade in at a profit before it's carrying value reduces further
Yes
Image, theft
OR
They were able to ma'ke a profit on the vehicle and reduce running costs by purchasing the new vehicle.

No, interest on borrowed money used to finance the vehicle may be greater than depreciation and running costs.

Or No insurance and depreciation greater than running costs

(3)

45 marks

QUESTION 2 MANUFACTURING

Refer to the Information Booklet for information relating to Ingivela iAfrika.

2.1

1 800 × R84	= R151 200	(1 800 + 1 600) x 84 = 285 600
1 600 × R86, 50 =	R138 400	
	R289 600	for adding 2 batches

(3)

2.2 Prepare the following notes to the Production Cost Statement for the year ended 30 September 2013.

2.2.1 Raw materials cost

Opening stock	97 200
Purchases	1 283 200
Closing stock from 2.1. and must be shown in brackets	(289 600)
	1 090 800

(4)

2.2.2 Direct labour cost

Direct labour (2 080 × 2 × R125)	520 000
Overtime (280 × R250)	70 000
Portion of general assistant's (40 000 × 25%)	10 000
UIF contribution (600 000 × 1%) check for 1% of wages	5 300/6 000
	606 000/ 605 300

Watch if it occurs: R143, 78 x 2 x 12 = R3 450, 72 or R3 451 (6)

2.3 Complete the production cost statement for the year ended 30 September 2013.

Prime costs	1 696 100		1 696 800
Direct materials cost from 2.2.1.		1	1 090 800
Direct labour cost from 2.2.2	605 300	2	606 000
Factory overheads cost (R115 × 8 080)		3	929 200
Total manufacturing costs	2 625 300		2 626 000
Work in progress at the beginning of the year			0
Work in progress at the end of the year			0
Cost of production of finished goods	2 625 300	6	2 626 000

(8)

2.4 Calculate the unit cost of production per tablecloth.

2 626 000 / 8 080 2 625 300/8 080 = R324, 90 from 2.3
= R325

(3)

2.5 The business uses 1,25 metres of material to make one table cloth. The accountant has a suspicion that material is going missing from the factory.
Prove that he is correct by calculating the amount of material missing.

13 100 – [8 080 × 1, 25 m] = 3 000
or 13 100/1,25 = 10 480 – 8080 = 2 400 units or 2 875m

(4)

2.6 Upon further investigation, it was discovered that the factory supervisor, Mrs Cope, who has been employed by the business for the past 20 years, was responsible for the material that had gone missing. When questioned she admitted that she had taken the material in order to sew tablecloths for the local children's orphanage to sell at their annual craft market.

What disciplinary action () do you think should metred out to Mrs Cope? Motivate () this action with a reason.

Issue her with a verbal/written warning. dismissal / payback
Mrs Cope has been employed for 20 years and she did not take the material for personal gain, but rather used it for a charitable cause.
OR
She should have a hearing and she could face dismissal as it is theft, she did not ask permission.
OR
The cost of her theft is at least R240 000 (R80 × 3 000). The business should attempt to recover as much as possible over a period of time from her salary. Obviously ethical consideration of leaving her a liveable wage.

(4)

2.7 Complete the Income Statement of Ingivela iAfika for the year ended 30 September 2013. **Show any necessary calculations in brackets.**

Sales	3 364 820
Cost of Sales (260 000 + 2 626 000from 2.3 – [420 × 325 = 136 500] from 2.4) don't worry about brackets provided action is correct.	(2 749 500)
Gross Profit for the year	615 320
Other operating costs	(315 120)
Administration costs (11 × 8 080) check individual numbers	88 880
Selling and distribution costs (28 × 8 080)	226 240
Net profit for the year	300 200

(10)

2.8 Calculate the **total variable** cost per unit. Watch for dmc and dlc

R135 + R75 + R28 = R238 OR
[R1 696 800 + R226 240] ÷ 8080 = R238
From 2.3
1 696 100 + 226 240/ 8 080 = R237, 91

(4)

2.9 Although production increased, the owner Carmen Pillay, is concerned about the control of certain costs. Identify and analyse **one cost** that you think may be a problem, and provide a possible explanation as to why the problem arose.

Identification: Direct materials raw materials/ purchases/ factory overheads wages/fixed costs movement selling and distribution

Analysis:
The direct materials cost should have increased by an inflationary amount of 5,7% to R102,53. However it has increased to R135, a 39,18% increase. This is due to the theft of material. If no theft had arisen the direct material cost would be R102,88 thereby in-line with inflation.
OR
Factory overheads increased by R12 per unit represents an 11,6% increase this is double the inflation rate. Possibly due to increases in electricity tariffs increase in factory supervisor's salary. analysis and possible cause

(4)

50 marks

QUESTION 3 CASH FLOW STATEMENTS

Refer to the Information Booklet for information relating to Investicon LTD.

NOTE:

- **Some figures have been filled in for you, these are correct.**
- **Any workings must be shown in the brackets provided.**

3.1 Complete the note showing the reconciliation of profit before taxation and cash generated from operations.

Net income before taxation (294 000 + 126 000)	420 000
Adjustment in respect of:	199 000
Depreciation [(1 840 000 – 2 350 000) + 720 000 – 60 000] check calc.	150 000
Interest expense	49 000
Operating profit before changes in working capital	619 000
Changes in working capital must be in brackets	(17 200)
Increase/Decrease in inventory (230 000 – 170 000)	(60 000) must be in brackets if accurate
Increase/Decrease in debtors must be balancing figure	7 800
Increase/Decrease in creditors	35 000
Cash generated from operations	601 800

(21)

3.2 Complete the cash flow statement for the year ended 28 February 2013.

Cash flows from operating activities	271 800
Cash generated from operations from 3.1.	601 800
Interest paid	(49 000)
Taxations paid	(121 000)
Dividends paid	(160 000)
Cash flows from investing activities	(660 000)
Purchase of tangible assets	720 000
Proceeds of the disposal of tangible assets	(60 000)
Cash flows from financing activities check by inspection	645 000
Proceeds from the issue of shares (3 000 000 – 2 250 000) 75000 x10	750 000 Except 56 250
Proceeds from long term loans (312 000 + 720 000 – 825 000)	207 000 Except 75 600
Repayment of long term loans must be in brackets	(312 000)
Net change in cash and cash equivalents	256 800
Cash and cash equivalents at the beginning of the year	(56 800)
Cash and cash equivalents at the end of the year check by inspection	200 000

(16)

3.3 Calculate the interim dividend paid to shareholders by Investicon LTD on the 1 June 2012, all shares qualified for this dividend.

195 000 – 75 000 = 120 000 OR   OR $\frac{120\ 000 ✓}{300\ 000 ✓} = 40$ cents ✓ 160 000 – 40 000 = 120 000 method mark allocated provided there is subtraction.

(3)

3.4 The purchase of the new building was financed mainly by the issue of new shares rather than extending the loan. With reference to risk, return and gearing (good reason)do you think that this was a good business decision?

No this was not a wise decision, they should have rather funded through extending the loan. • There is positive gearing as the business is borrowing money at 10,5% to earn return of [11,6%]typing error 12,26%. • Debt to equity ratio is low, therefore not high risk. Yes, • More interest payable on the loan, concern would be if the lending rate increases. • Would increase the debt to equity ratio. • Marginal difference between ROTCE at 12,26% and the interest rate of 10,5% (1,76%) • Loan repayments together interest would have to be paid.

(3)

43 marks

QUESTION 4 COMPANY FINANCIALS

Refer to the Information Booklet for information relating to Westek Limited.

4.1 Complete the retained income note as it would appear in the financial statements of Westek Limited as at 30 June 2013.

Westek Limited
Notes to financial statement as at 30 June 2013

Retained income

Balance as at 1 July 2012		211 796
Net income after tax (820 000 – 311 600)		508 400
Dividends must be in brackets		(198 000)
Paid		72 000
Declared (900 000 x 0.14)		126 000
Balance as at 30 June 2013 check action		522 196

(8)

4.2 Complete the Balance Sheet of Westek Limited as at 30 June 2013.
It is essential to show all calculations in brackets.

Westek Limited
Balance Sheet as at 30 June 2013

ASSETS		
Non-current assets		2 718 100
Fixed assets (2 450 000 + 350 000 – 50 000 – 180 000 + 1 500 + 21 600) (- 60 000 + 10 000) and 178 500 and (2 400 x 9) 350 000 – 180 000 = 170 000 2 800 000 351 500 2 620 000 (2 450 000 + 350 000 – 180 000) 350 000 – 180 000 + 1500 = 171 500	3	2 593 100
Financial assets: Shares in Sibiya Limited		125 000
current assets		170 196
Inventories (66 400 + 300 (3 450 – 3 150) – 16 000 + 850 – 4 550)	4	47 000
Trade and other receivables (70 610 – 1 960 (+840 – 2 800) + 1 600 – 1 530 – [2780 + 656 = 3 436] 3 531 + 12 000 + 18 000 + 27 912)(339 512 – 311 600) (-2 800 + 840) + 30 000 3 600 x 5	5	123 196
Cash and cash equivalents (if calculations for bank overdraft shown here, signs must be opposite)	6	0
TOTAL ASSETS		2 888 296
EQUITY AND LIABILITIES		
Shareholders' equity		2 459 196
Share capital	7	1 937 000
Retained income check from 4.1.	8	522 196
Non-current liabilities		155 000
Loan: Stanric Bank (185 000 – 30 000)		155 000
Current liabilities		274 100
Trade and other payables (43 250 + [1 600 + 1 850 = 3 450] + 30 000 + 2 000 + 1 600 + 126 000 + 10 000) 1 850 x 2 = 3 700 or 1 600 x 2 = 3 200 3 200 + 250 (27 912) must be negative	9	216 300
Bank overdraft (127 000 – 7 200 (3 x 2 400) – 2 000 – 60 000) (-127 000 + 2 000 + 7 200 + 60 000)		57 800

(127 000 + 2 000 + 7 200 + 60 000) (127 000 - 2 000 - 7 200 - 60 000)		
TOTAL EQUITY AND LIABILITIES		2 888 296

If calculations shown for bank overdraft under trade and other payables allocate marks and give their total 2 method marks. (54)

62 marks

Total: 200 marks