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  COMPANY CONCEPTS AND FINANCIALS

Refer to the Information Booklet for information relating to Ziyaduma Ltd.

This question consists of 3 parts, and each part must be seen independently of the others.

PART A:

1.1

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Qualified</td>
</tr>
<tr>
<td>2</td>
<td>Risk</td>
</tr>
<tr>
<td>3</td>
<td>SAICA</td>
</tr>
<tr>
<td>4</td>
<td>Fair presentation</td>
</tr>
<tr>
<td>5</td>
<td>Solvency</td>
</tr>
</tbody>
</table>

(5)

PART B: ACCOUNTING EQUATION

1.2 Analyse the transactions given in your Information Booklet under the following Accounting Equation.

Example: Rent for the year was paid, R120 000

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Account Debit</th>
<th>Account Credit</th>
<th>Assets</th>
<th>Owners' Equity</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example</td>
<td>Rent Expense</td>
<td>Bank</td>
<td>–</td>
<td>–</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>Expenses</td>
<td>Directors' fees</td>
<td>+</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prepaid</td>
<td>Bank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Directors fees</td>
<td>Prepaid expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Directors fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Income Tax</td>
<td>SARS – Income Tax</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Shareholders for dividends</td>
<td>Bank/Bank overdraft</td>
<td>0</td>
<td>0</td>
<td>+/- or 0</td>
</tr>
</tbody>
</table>

Mark their analysis according to their Account debit and credit. (12)
PART C: NOTES TO THE FINANCIAL STATEMENTS

1.3 Complete the following notes to the financial statements of Ziyaduma Ltd.

Ziyaduma Ltd

Notes to the financial statements as at 31 October 2014

Note 3: Tangible Assets

<table>
<thead>
<tr>
<th></th>
<th>Plant</th>
<th>Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying value at the beginning of the year</td>
<td>3 500 000</td>
<td>120 000</td>
</tr>
<tr>
<td>Cost price at the beginning of the year</td>
<td>3 500 000</td>
<td>400 000</td>
</tr>
<tr>
<td>Accumulated depreciation at the beginning of the year</td>
<td>–</td>
<td>(280 000)</td>
</tr>
</tbody>
</table>

**MOVEMENTS**

| Additions at cost price                      | 750 000    | 520 000    |
| Disposals at carrying value                  | (105 000)  |            |
| Depreciation for year (**15 000 + **13 000)** if the figure is not in brackets check by inspection that it has been deducted. -1 if no brackets. | (28 000)   |            |

* 400 000 – 280 000 x 15% x 10/12 = 15 000
** 520 000 x 15% x 2/12 = 13000

| Carrying value at the end of the year        | 4 250 000  | 507 000    |
| Cost at the end of the year                  | 4 250 000  | 520 000    |
| Accumulated depreciation at the end of the year | –          | (13 000)   |

(14)

Note 7: Issued Share Capital

<table>
<thead>
<tr>
<th>Shares</th>
<th>Ordinary shares at 60 cents per share at the beginning of the year</th>
<th>1 800 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 000 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>600 000</td>
<td>Ordinary shares at 120 cents per share during the year</td>
<td>720 000</td>
</tr>
<tr>
<td>(50 000)</td>
<td>Ordinary shares repurchased during the year at 70 cents per share</td>
<td>(35 000)</td>
</tr>
<tr>
<td>3 550 000</td>
<td>Ordinary shares in issue at the end of the year</td>
<td>2 485 000</td>
</tr>
</tbody>
</table>

(7)
Note 9: Trade and other payables

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade creditors (153 000 - 3 420)</td>
<td>149 580</td>
</tr>
<tr>
<td>Expenses accrued</td>
<td>35 000</td>
</tr>
<tr>
<td>SARS – VAT (17 920 + 420)</td>
<td>18 340</td>
</tr>
<tr>
<td>SARS – PAYE (14 208 – 648) sign does not matter</td>
<td>13 560</td>
</tr>
<tr>
<td>Medical aid fund (5 471 – 225) both must be correct</td>
<td>5 246</td>
</tr>
<tr>
<td>UIF (1 156 – 36 – 36) sign does not matter</td>
<td>1 084</td>
</tr>
<tr>
<td>SARS – Income Tax (1 832 500 – 1 790 000 =870000+ 920 000 )</td>
<td>42 500</td>
</tr>
<tr>
<td>Shareholders for dividends (994 000 – 639 000 for subtracting the 639 000)</td>
<td>355 000</td>
</tr>
<tr>
<td>Current portion of loan</td>
<td>11 000</td>
</tr>
<tr>
<td></td>
<td>631 310</td>
</tr>
</tbody>
</table>

Could accept the current portion of loan under trade creditors/expenses accrued
Could accept Income Tax under trade creditors/expenses accrued
35 000 for accrued expenses accepted anywhere if number is shown.

(23) 61 marks
QUESTION 2  CASH FLOW STATEMENTS

Refer to the Information Booklet for information and the Cash Flow Statement relating to Promet Limited.

2.1 Calculate the interim dividend paid during the year ended 31 October 2014.

\[
374 \, 000 - 60 \, 000 = 314 \, 000 \quad \text{or} \quad 434 \, 000 \, (374 \, 000 + 60 \, 000) \quad \text{or} \\
374 \, 000 - 60 \, 000 + 45 \, 050 = 359 \, 050 \quad \text{or} \quad 374 \, 000 - 60 \, 000 - 45 \, 050 = 268 \, 950
\]

(3)

2.2 Explain why there is such a big difference between the interim and final dividend.

They declared a large interim dividend because they thought they were making a bigger profit than they did – and so had to compensate by giving a smaller final dividend. OR

It might be the dividend policy that they have followed in previous years.

Keep shareholders happy/ They spent a large amount of money on tangible assets therefore didn’t want to have a large liability for dividends.

(2)

2.3 Calculate the Net Income before Tax figure for the year ended 31 October 2014.

\[
R235 \, 950 + [R314 \, 000 + R45 \, 050] + R239 \, 050 - R120 \, 000 \\
\text{(look at 2.1)} \quad (119050) \\
\text{(374000 – 60 000 + 45040 = 314000)} \\
= R714 \, 050
\]

Candidates may use an appropriation account – mark accordingly.

\[
235950x100/28 = 842678.57 \\
120 \, 000 + x - 359050 = 239050 = 478100 + 239050
\]

(6)

2.4

A

\[
R29 \, 350 + R235 \, 950 + R7 \, 200 = R272 \, 500 \quad \text{accuracy mark on the 7 200 is linked to the addition sign.} \\
29 \, 350 + 235 \, 950 - 7 \, 200 = 25 \, 8100
\]

B

\[
R798 \, 800 – R110 \, 000 – R374 \, 000 – R272 \, 500 = R42 \, 300 314 \, 800 - A
\]

C

R770 \, 000
### D

\[
\begin{align*}
D &= R3 \ 700 \ 000 - R135 \ 000 - x + R770 \ 000 = R4 \ 300 \ 000 \\
X &= R35 \ 000 170 \ 000 \ 600 \ 000 \ 000 \ 735 \ 000 \ watch \ candidates \ working \ backwards -C + D = - E \\
E - C &= D
\end{align*}
\]

### E

\[
R770 \ 000 - R35 \ 000 \ (must \ follow \ from \ D) = R735 \ 000 \ B + I - E = 185 \ 500 \ C - D
\]

### F

\[
R3 \ 200 \ 000 - R2 \ 400 \ 000 = R800 \ 000
\]

### G

\[
\begin{align*}
G &= R1 \ 200 \ 000 + R110 \ 000 - R181 \ 800 + x = R1 \ 278 \ 200 \\
X &= R150 \ 000 71 \ 800 \ 260 \ 000 \ 78 \ 200 \ 31 \ 800 \ watch \ for \ candidates \ working \ backwards \ to \ find \ this \ as \ a \ balancing \ figure. \\
G &= I + H - F \ Then \ no \ method \ mark \ allocated \ at \ [I] \ below.
\end{align*}
\]

### H

\[
R181 \ 800 \ provided \ it \ is \ link \ to \ their \ answer \ in \ G - R110 \ 000 = R71 \ 800 \ I = F + G - H \ or \ H = F + G - I \ watch \ that \ this \ may \ be \ a \ balancing \ figure \\
15 \ 150 \ if \ applied \ in \ [G]
\]

### I

\[
\begin{align*}
I &= R800 \ 000 + R150 \ 000 - R71 \ 800 \ must \ be \ subtracted \ in \ order \ to \ get \ the \ method \ mark = R878 \ 200 \\
Working \ backwards \ F + G - H &= I \ or \\
I &= 185500 + E - B
\end{align*}
\]

### J

\[
R5 \ 000 + R2 \ 000 = R7 \ 000
\]

### K

\[
R183 \ 500 - R12 \ 000 = R171 \ 500 \ 178 \ 500 - 7 \ 000 \ (J) \\
(L) - R12 \ 000 = ....
\]

### L

\[
R185 \ 500 - R2 \ 000 = R183 \ 500 \ 171 \ 500 + 12 \ 000 = 183 \ 500 / 12 \ 000 \ K + 12 \ 000
\]

### 2.5

2.5.1 Calculate the Average Return on Shareholders' Equity for 2014.

\[
\frac{R714 \ 050 - R235 \ 950}{[R2 \ 520 \ 000 + R3 \ 439 \ 050]/2} = \frac{478 \ 100 \times 100}{2 \ 979 \ 525} = 16,05\%
\]
2.5.2 Comment on the return calculated above. The Average Return on Shareholders' Equity for 2013 was 17,25%.

Although the return is marginally lower than 2013 by 1,20% it is still better than Marc Jacobs would receive if he invested in an alternative investment like a fixed deposit that yields about 5,4% although the risk is higher if he invests in Promet Limited.

2.6

<table>
<thead>
<tr>
<th>Section affected</th>
<th>Operating Activities</th>
<th>Investing Activities</th>
<th>Financing Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflow or Outflow of cash</td>
<td>Inflow</td>
<td>Outflow X</td>
<td>No effect</td>
</tr>
<tr>
<td>Amount</td>
<td>R770 000</td>
<td>R875 000 X</td>
<td>R105 000</td>
</tr>
</tbody>
</table>

(3) 48 marks
QUESTION 3 ASSET MANAGEMENT

Refer to the Information Booklet for information relating to Spectrum Bottles.

3.1 Answer the following multiple choice questions by placing an X over the letter that corresponds to your answer.

3.1.1 How many plastic water bottles were available to sell during the year?

A 35 000 If A
B 23 500
C 37 000

(2)

3.1.2 How many plastic bottles were unsold at the end of the year?

A 11 500 If A
B 23 500
C 13 500

(2)

3.1.3 What was the value of the closing stock of plastic bottles at the end of the year?

A R313 000 If A
B R312 250
C R313 250

(2)

3.2 Grant Smith, the owner, is very concerned about the sales of glass water bottles, and is considering discontinuing supplying them.

3.2.1 Calculate the value of the closing stock of the glass bottles on 31st October 2014.

\[
3 800 - 1 950 = 1 850 \\
1 850 \times R39 = R72 150 \\
\text{or } 350 \times R39, 70 = R13 895 \\
1 500 \times R42 = R63 000
\]

(3)

3.2.2 Calculate the cost of sales of the glass bottles for the year ended 31st October 2014.

\[
(28 000 + 120 200) \div 3 800 = R39 \\
(\text{mark in 3.2.1, transfer to } 2) \\
28 000 + 120 200 - 72 150 = R76 050 \\
(1 850 \times R39)
\]

(6)
3.2.3 Calculate the stock turnover rate for glass bottles for the year.

\[
\text{See 3.2.2 see 3.2.1}
\]
\[
\frac{76\,050}{\left[(28\,000 + 72\,150)/2\right]} = 76\,050/50\,075 = 1.52 \text{ times}
\]
\text{Not averaged or inverted, not method mark for final (only 3)}

3.2.4 Calculate the mark-up achieved for the sale of glass bottles.

\[
\frac{(146\,250 - 76\,050)}{76\,050} \times 100 = 92.30\%
\]
\text{OR units } \frac{(75 - 39)}{39}

3.2.5 Give three reasons why Grant should consider discontinuing the sale of glass water bottles and one reason in support of continuing to sell them.

Yes it would be a good idea to discontinue selling the glass water bottles. The stock is only turning over 1.52 times per year which means it sits on the shelf for approximately 240 days. (see 3.2.3)

Very high mark-up on the glass bottles (R70 200/R76 050 = 92%) makes them an expensive purchase. The selling price of R75 per bottle is very high considering he is supplying school gear shops. (see 3.2.4)

Sportsmen prefer to carry lighter bottles so prefer plastic.

Selling far less 1 950 compared to 23 500.

(2 marks each. Even if no continuing can still get 6)

Good idea to keep them as they are more environmentally friendly and can be recycled.

OR

There is some speculation that plastic bottles could harm one's health.

OR

Good to give customers choices.

OR

By reducing the mark-up percentage and sourcing cheaper products, the business could start earning a good profit on this.

3.3

The internal auditor would check the sales record, invoices and cash receipts. Observe (Any Journal; document can be evidence)

He would be interested in these to see if the bottles were being sold at the correct price and to assess whether excessive and/or unnecessary discounts were being given to customers. Because periodic stock system is in use, difficult to tell if stock was stolen or sold at discount.
### 3.4

<table>
<thead>
<tr>
<th>Source document</th>
<th>VAT exclusive</th>
<th>VAT inclusive</th>
<th>VAT Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invoices issued to customers</td>
<td>R952 000</td>
<td>R1 085 280</td>
<td>+ cr</td>
</tr>
<tr>
<td>Invoices received from suppliers</td>
<td>R173 880</td>
<td>R1 415 880</td>
<td>– dr ( )</td>
</tr>
<tr>
<td>Credit notes received from suppliers</td>
<td>R66 000</td>
<td>R75 240</td>
<td>+ cr</td>
</tr>
<tr>
<td>Journal voucher – bad debts recovered</td>
<td>R15 600</td>
<td>R17 784</td>
<td>– dr ( )</td>
</tr>
<tr>
<td>Journal voucher – plastic bottles taken as drawings</td>
<td>R1 800</td>
<td>R2 052</td>
<td>+ cr</td>
</tr>
</tbody>
</table>

3.5

Not ethical. The invoices and the VAT must be recorded and paid – matching concept. The business uses the invoice basis to record their VAT, the owner now wants to use the receipt basis to record these purchases. He is not being unethical as he will still pay the VAT, but may be liable for a fine should SARS uncover this misrepresentation.

**OR (could be both, for ethical/unethical – for explanation)**

The business is getting the benefit of input VAT amounts before creditors are paid, so it cannot expect not to pay output VAT as this has already been invoiced, but not yet received from debtors.

(3)  

46 marks
QUESTION 4   MANUFACTURING

Refer to the information in the Information Booklet relating to Health Nut Manufacturers.

4.1 Complete the following notes to the Production Cost Statement for the year ended 31 August 2014.

Health Nut Manufacturers
Notes to the Production Cost Statement for the year ended 31 August 2014

Note 1: Raw materials

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock of raw materials</td>
<td>96 000</td>
</tr>
<tr>
<td>Net purchases of raw materials</td>
<td>1 241 600</td>
</tr>
<tr>
<td>Carriage on raw materials</td>
<td>23 400</td>
</tr>
<tr>
<td>Closing stock of raw materials</td>
<td>17 500</td>
</tr>
<tr>
<td></td>
<td>1 280 500</td>
</tr>
</tbody>
</table>

Note 3: Factory overheads

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factory foreman's salary</td>
<td>222 000</td>
</tr>
<tr>
<td>Variations – 666 000 / 648 000 if calculation is shown</td>
<td>Combined 240 000</td>
</tr>
<tr>
<td>Medical aid contributions</td>
<td>18 000</td>
</tr>
<tr>
<td>Indirect materials (3 800 + 76 800 – 1 400) × 65%</td>
<td>25 600</td>
</tr>
<tr>
<td>Medicine + 49920 - 1400</td>
<td>52 320</td>
</tr>
<tr>
<td>Factory depreciation</td>
<td>5 600</td>
</tr>
<tr>
<td>Insurance (78 600 – 17 100) –22 800 + 5 700</td>
<td>61 500</td>
</tr>
<tr>
<td>Factory rent (35 090 × 493/29 or 17%)</td>
<td>596 530</td>
</tr>
<tr>
<td>Variations (70 1800 x 0.85 ) 493/580</td>
<td>975 110</td>
</tr>
</tbody>
</table>

Note 4: Selling and distribution
<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone</td>
<td>23 440</td>
</tr>
<tr>
<td>Salesman's salary</td>
<td>180 000</td>
</tr>
<tr>
<td>Rent expense (34 800 + 290)</td>
<td>35 090</td>
</tr>
<tr>
<td>Indirect materials (79 200 × 17.5%) OR 27 720/2</td>
<td>13 860</td>
</tr>
<tr>
<td>Depreciation on delivery vehicle</td>
<td>86 400</td>
</tr>
<tr>
<td>Bad debts</td>
<td>16 210</td>
</tr>
<tr>
<td>(25c × 1 420 000)</td>
<td>355 000</td>
</tr>
</tbody>
</table>
4.2 Calculate the direct labour cost per unit for the year.

\[
\frac{426\,000}{1\,420\,000} = 30 \text{ cents per unit} \approx R0.30 \quad R0.3
\]

(2)

4.3

Need to institute regular monthly calibration checks on the clock card machine so that if it has been tampered with it will be detected early. Train 2 factory foremen and rotate their duties on a monthly basis to ensure that irregularities can be detected and reported.

**OR**

Check calculation of clock card hours and check the accuracy of wages journal entries.

**OR**

Keep overtime hours under control by ensuring proper authorisation of overtime.

- Training of labourers to increase efficiency
- Implement daily quota of production
- Maintain machinery to improve efficiency
- Company wellness programme to reduce strikes / sick leave
- Stock maintenance

(4)

4.4

\[
\frac{[R460\,080 \times (426\,000 \times 8\%) + 975\,110 + (1\,280\,500 \times 15\% = 1\,472\,575)]}{1\,420\,000}
\]

\[
975\,110 \text{ from note 3}
\]

\[
= \frac{2\,907\,765}{1\,420\,000}
\]

\[
= R2,05 \text{ must be divided by 1420000 inspect}
\]

(4)
4.5

Yes/No? No
Why?
- Risk of getting caught or a customer becoming ill from his product and the fine or cost of a law suit will cost the business a large sum of money.
- His unit cost at present is R1.89 and if he changes supplier that will increase to R2.05 which is a marginal 16 cents per bar increase. He is selling his health bars at R7 which gives him a large profit margin anyway. It would be better to take a cut in profit and obtain a reputation as an ethical business that in turn will attract more customers.

2 valid substantiations of yes answer.

IFRS transparency
Future legal claims
Lose customers
Go to jail (punitive consequence)
Destroy business / loss of profits
Reputation lose customer base
Unethical – why?
Unethical as it is illegal

45 marks

Total: 200 marks