

NATIONAL SENIOR CERTIFICATE EXAMINATION NOVEMBER 2014

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 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

1.	Qualified
2.	Risk
3.	SAICA
4.	Fair presentation
5.	Solvency

(5)

PART B: ACCOUNTING EQUATION

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

Example: Rent for the year was paid, R120)00
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Transaction	Account Debit	Account Credit	Assets	Owners' Equity	Liabilities
Example	Rent Expense	Bank	_	_	0
1	Expenses Prepaid Directors fees Directors fees	Directors' fees Bank Prepaid expenses	+	+	
2	Income Tax	SARS – Income Tax	_	_	
3	Shareholders for dividends	Bank/Bank overdraft	0	0	+/- or 0
Mark t	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		
	Plant	Equipment
Carrying value at the beginning of the year	3 500 000	120 000
Cost price at the beginning of the year	3 500 000	400 000
Accumulated depreciation at the beginning of the year	_	(280 000)
MOVEMENTS		
Additions at cost price	750 000	520 000
Disposals at carrying value 107 000 – 2 000 or 107 000 + 2 0001 if no brackets.		(105 000)
Depreciation for year (*15 000 + **13 000) if the figure is not in brackets check by inspection that it has been deducted1 if no brackets. * 400 000 - 280 000 x 15% x 10/12 = 15 000		
** 520 000 x 15% x 2/12 = 13000		(28 000)
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

3 000 000	Ordinary shares at 60 cents per share at the beginning of the year	1 800 000
600 000	Ordinary shares at 120 cents per share during the year	720 000
(50 000)	Ordinary shares repurchased during the year at 70 cents per share	(35 000)
3 550 000	Ordinary shares in issue at the end of the year	2 485 000

(7)

Note 9: Trade and other payables

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

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 or 434 000 (374 000 + 60 000) or 374 000 - 60 000 + 45 050 = 359 050 or 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.

 $359\ 050$ R235 950 + [R314 000 + R45 050] + R239 050 - R120 000 (look at 2.1 (119050) (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

А	R29 350 + R235 950 + R7 200 = R272 500 accuracy mark on the 7 200 is linked to the addition sign. 29 350 + 235 950 -7 200 = 25 8100
В	R798 800 - R110 000 - R374 000 - R272 500 = R42 300 314 800 - A
С	R770 000

D	R3 700 000 - R135 000 - x + R770 000 = R4 300 000 X = R35 000 170 000 600 000 735 000 watch candidates working backwards -C + D = - E 0 E - C = D
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	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.
Н	 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]
Ι	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
J	$R5\ 000 + R2\ 000 = R7\ 000$
К	$R183\ 500 - R12\ 000 = R171\ 500\ 178\ 500 - 7\ 000\ (J)$ $(L) - R12\ 000 = \dots$
L	$R185\ 500 - R2\ 000 = R183\ 500\ 171\ 500 + 12\ 000 = 183\ 500\ /\ 12\ 000\ K + 12\ 000$
	(26)

2.5

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

 $\frac{R714\ 050 - R235\ 950}{\left[R2\ 520\ 000 + R3\ 439\ 050\right]/2}$ $= \frac{478\ 100}{2\ 979\ 525} \times \frac{100}{1}$ = 16,05%

(5)

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.

(3)

2.6

Section affected	Operating Activities	Investing Activities	Financing Activities X
Inflow or Outflow of cash	Inflow	Outflow X	No effect
Amount	R770 000	R875 000 X	R105 000

(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?
 - $\begin{array}{ccc}
 A & 35\ 000 & \text{If } A \\
 B & 23\ 500 \\
 C & 37\ 000 \end{array}$ (2)
 - 3.1.2 How many plastic bottles were unsold at the end of the year?

А	11 500 If A	
В	23 500	
С	13 500	(2)

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

А	R313 000 If A	
В	R312 250	
С	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 $850 \times R39 = R72 150$ or 350 x R39, 70 = R13 895 1 500 x R42 = R63 000

(3)

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

$(28\ 000 + 120\ 200) \div 3\ 800 = R39$	28 000 + 120 200 -	- 72 150
(mark in 3.2.1, transfer to 2)		$(1\ 850 \times R39)$
	OR = $R76\ 050$	
$1\ 950 \times R39 = R76\ 050$		

(6)

(4)

(4)

3.2.3 Calculate the stock turnover rate for glass bottles for the year.

See 3.2.2 see 3.2.1 76 050/[(28 000 + 72 150)/2] = 76 050/50 075 = 1,52 times 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.

 $(146\ 250 - 76\ 050)/76\ 050\ 100 = 70\ 200/76\ 050 \times 100$ = 92,30% OR units (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.

(6)

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.

Source document	VAT exclusive	VAT	VAT inclusive	VAT Control
Invoices issued to customers	R952 000	R133 280	R1 085 280	+ cr
Invoices received from suppliers		R173 880	R1 415 880	- dr ()
Credit notes received from suppliers	R66 000	R9 240	R75 240	+ cr
Journal voucher – bad debts recovered	R15 600	R2 184	R17 784	- dr ()
Journal voucher – plastic bottles taken as drawings	R1 800	R252	R2 052	+ cr

(12)

3.5

3.4

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

Opening stock of raw materials	96 000
Net purchases of raw materials (1 280 000 – 38 400)	1 241 600
Carriage on raw materials	23 400
Closing stock of raw materials (84 250 – 3 750)	(80 500)
17500-13750	
	1 280 500

(8)

Note 3: Factory overheads

Factory foreman's salary	222 000
Variations – 666000 / 648000 if calculation is shown	Combined 240000
Medical aid contributions	18 000
	51 480
Indirect materials $(3\ 800 + 76\ 800 - 1\ 400) \times 65\%$	52320
2470 + 49920 - 1400	(3800+49920-1400)
Factory depreciation	25 600
	61 500
	Given only if lower than 78600 – must
Insurance (78 600 – 17 100) –22 800 + 5700	subtract
Factory rent (35 090 × 493/29 or 17%)	596 530
Variations (701800 x 0.85) 493/580	
34800 x 100/5 / 580/29 = 696000 + (696000 x 0.1 = 5800 85% / 5%	
76560 = 696000 + 10%	
1200 = 696000 / 580	
591600 (696000 x 493/580) / 12 = 49300	
	975 110 🗹

(15)

Note 4: Selling and distribution

Telephone	23 440
Salesman's salary	180 000
	35 090
Rent expense (34 800 + 290	Must be adding
Indirect materials (79 200 × 17,5%) OR 27 720/2	13 860
See note 3	Inspect if ¹ / ₄ of 51480
Depreciation on delivery vehicle	86 400
	16 210
Bad debts	Balancing figure + or - accepted
$(25c \times 1\ 420\ 000)$	355 000

(8)

(2)

4.2 Calculate the direct labour cost per unit for the year.

426 000/1 420 000

= 30 cents per unit R0.30 R0.3

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 od production
- Maintain machinery to improve efficiency
- Company wellness programme to reduce strikes / sickleave
- Stock maintenance

4.4

$$\frac{\left[\text{R460 080 (426 000 \times 8\%) + 975 110 + (1 280 500 \times 15\% = 1 472 575)\right]}{1 420 000}$$
975 110 from note 3
$$= \frac{2 907 765}{1 420 000}$$
= R2,05 must be divided by 1420000 inspect

(4)

(4)

Yes	s/No? No
Wh	ny?
• • 2 v	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. alid substantiations of yes answer.
IFR	S transparency
Futi	ure legal claims
Los	e customers
Go	to jail (punitive consequence)
Des	troy business / loss of profits
Rep	utation lose customer base
Une	ethical – why?
Une	thical as it is illegal

45 marks

(4)

Total: 200 marks