



NATIONAL SENIOR CERTIFICATE EXAMINATION  
NOVEMBER 2019

**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 CONTROL**

**[35 marks; 21 minutes]**

**Refer to the Information Booklet for information relating to ACTV LTD.**

1.1 Calculate the rand value of the closing stock of silicone rings for the year ended 28 February 2019.

<b>Closing stock of silicone rings (rand)</b>	<b>OR VARIATION</b>
$19\ 200 - 120 - 185 - 12\ 785$ = 6 110 look for this number split  $4\ 515 \times 9,15 = 4\ 1312,25$ $1\ 595 \times 8,50 = 13\ 557,50$ = 54 869,75	$60\ 000 + 100\ 405$ $- 1\ 020_{(120 \times 8,5)} - 1692,75_{(185 \times 9,15)}$ = 157 692  $- 60\ 000 - 33\ 600 - 9\ 222,50$  = 54 869,75

1.2 Calculate the number units in closing stock for board games.

<b>Closing stock of board games (units)</b>
$73 + 685 - 8 - 606 = 144$ if rand value calculated here can mark 1.2 in 1.3

1.3 Calculate the cost of sales of the board games for the financial year.

Opening stock	27 375
Purchases	258 000
+ Carriage (1 850 × 3)	5 550 If in brackets, lose the bottom method.
Returns (8 × 375)	(3 000) No brackets: lose the bottom method.
Cost of board games available to sell	287 925
Less closing stock $287\ 925 / (73 + 685 - 8) = 383,90$ $383,90 \times 144$	(55 281,60) Must be in brackets
Cost of sales	232 643,40 Method correct throughout calculation

1.4 ACTV LTD aims to achieve a mark-up of 270% but only achieved an actual mark-up of 267%. Give two reasons why their mark-up was not achieved.

• Theft/Accounting errors/included transport/stock cannot be resold
• Discounts of selling price (trade discount)
Don't accept giveaways/competitions/promotions this would affect purchases. Also no drawings or discount allowed.

1.5 Chris is concerned that stock has been stolen from him and spends the last weekend of the financial year counting his stock. He finds no board games have been stolen, but counts only 6 005 rings. Calculate how many rings have been stolen.

6 110 – 6 005 = 105 rings
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1.6 Both stock items are kept in the same room. Why do you think so many rings were stolen? Give one internal control measure which could be implemented to reduce the theft of rings. This measure should support your reason.

The rings are small and easy to put in pockets or hide away. There are so many that supplier may have issued incorrect amount.
• Ensure stock count done on delivery
• Keep rings in locked safe
Do not accept search of people, rings are too small.

1.7 Due to the theft of stock, Chris is considering changing over to the perpetual inventory system. Would you support his decision? Give one reason to support your answer.

No, the items are not barcoded. To implement this would be costly especially considering the original price of each unit.
OR yes, as it could be a way to detect/deter the stock being stolen

1.8 Chris sells the majority of his rings through a retailer for R49 per ring. He has subsequently seen his rings selling for R147 in the shops. He owns a website and is considering selling older rings which had been returned to him, directly from this website. He plans to sell rings for R100 each. Is this a good idea? Discuss the ethical implications this may have between Chris, the retailer and customers.

He would make more profit, but retailer has access to a smaller market than his website and this would take business away from the retailer who has been selling the majority of his rings. Retailer would not be happy with this. Need to inform the retailer of his intentions. Customer should be informed that these are older rings, Possibly defective. Customers who bought more expensive rings may feel cheated.
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0	1	2	3
No logical reasoning	Only 1 relationship discussed	Both relationships discussed but weak reasoning	Both relationships discussed strong reasons.

**QUESTION 2 FINANCIAL STATEMENTS****[67 marks; 40 minutes]****Refer to the Information Booklet for information relating to BARR SURF LTD.****All workings need to be shown as part marks will be allocated to them.** The number of lines does not represent the number of entries required.

2.1 Complete the Statement of Comprehensive Income (Income Statement) for the year ending 28 February 2019.

**BARR SURF LTD**  
**Statement of Comprehensive Income for the year ending 28 February 2019**

Net sales (800 000 + 10%)	880 000
Cost of sales (880 000 × 100 / 125)	(704 000)
<b>Gross profit</b>	176 000
Other operating incomes	121 350
• Rent income (2 550 + 850)	3 400
• Fee income (108 200 + 8 550 – 1 800) or 108 200 + 6 750	114 950
• Trading stock surplus (75 000 – 11 000 – 67 000)	3 000
•	
<b>Gross operating income</b>	297 350
<b>Operating expenses</b>	<b>(123 262)</b>
• Salaries (58 000 + 14 500)	72 500
• UIF contributions (580 + 145)	725
• Audit fees (4 200 + 1 500)	5 700
• Sundry expenses	5 829
• Insurance (15 000 – 2 367)	12 633
• Depreciation (172 500 × 20% × 9 / 12)	25 875
•	
<b>Operating profit before interest</b>	174 088
Interest income	0
<b>Profit before interest expense</b>	174 088
Interest expense (20 000 + 4 088)	(24 088)
<b>Profit before taxation</b>	150 000
• Taxation for the year	(42 000)
<b>Net profit after taxation</b>	108 000

Calculations must be done in the boxes below.  
Only look here if the answer is wrong.

<b>Interest expense</b>	<b>Insurance</b>
235 000 – 35 838 + 24 088 = 223 250  So R4 088	(15 000 – 2 367) [9 468 × 3 / 12] =12 633
<b>Trading stock deficit/surplus</b>	<b>Fee Income</b>
75 000 – 11 000 – 67 000 = 3 000	19 × 450 = 8 550 -4 × 450 = 1 800 = 6 750

2.2 Complete the following notes to the financial statements as it would have appeared on 28 February 2019. All workings must be shown to be awarded part marks.

<b>ORDINARY SHARE CAPITAL</b>	<b>AMOUNT</b>
<b>AUTHORISED:</b> 1 000 000 ordinary shares	
<b>ISSUED:</b>	
<b>625 000 Ordinary shares in issue at the start of year</b>	2 000 000
25 000 ordinary shares repurchased at R3,20 c	(80 000)
600 000 ordinary shares at R3,20 in issue at end of year	1 920 000 Horizontal or vertical for method

<b>RETAINED INCOME</b>	<b>AMOUNT</b>
Retained income at the start of the year	32 000
Net profit/loss after tax for the year	108 000
Repurchase of 25 000 as above shares at R1,30	(32 500)
Dividends on ordinary shares	(73 750)
Paid (625 000 × 7c)	43 750
Recommended (600 000 as above × 5c)	30 000 dependant on taking 4%
Retained income at the end of the year	33 750

<b>TRADE AND OTHER PAYABLES</b>	<b>AMOUNT</b>
Trade creditors (53 000 – 11 000)	42 000
UIF (1 160 + 145 + 145)	1 450
SARS – PAYE (10 600 + 2 610)	13 210
Income received in advance (1 800)	1 800
Accrued expense (1 500)	1 500
Creditors for salaries (14 500 – 2 610 – 145)	11 745
SARS – income tax (40 000 – 42 000)	2 000
Current portion of loan	11 500
Shareholders for dividends (must be from recommended)	30 000
	<b>DO NOT CALCULATE</b>

2.3 What financial indicators do the directors need to consider before buying shares back?

Must ensure the company has enough cash available for the buyback of shares without negatively affecting the solvency/TA:TL and liquidity/CA:CL/ acid test ratio of the company.

2.4 Inflation in South Africa is targeted between 3 and 6%. Yet insurance premiums for BARR SURF LTD have risen by 170%. Why do you think this is the case?

- A new vehicle has been purchased and so a new premium was taken out. This is not an annual escalation.
- May have only had insurance for part of 2018. They may have opted for better insurance coverage in 2019.
- Increased risk.

**QUESTION 3 CASH FLOW STATEMENT**

**[46 marks; 28 minutes]**

**Refer to the Information Booklet for information relating to Bradley Bros Ltd.**

3.1 Complete the reconciliation note between profit before taxation and cash generated from operations for the year ended 30 June 2019.

<b>1. Reconciliation between profit before taxation and cash generated from operations</b>	
• Profit before tax	21 001
Adjustments in respect of:	
• <b>Depreciation</b> (17 152 + 13 300)	30 452
• Interest expense	23 200
Operating profit before changes in working capital	<b>74 653</b>
Changes in working capital:	(9 816)
• <b>Increase</b> in inventory	(2 276)
• <b>Decrease</b> in trade and other receivables	620
• <b>Decrease</b> in trade and other payables	(8 160)
Cash generated from operations	64 837

Method is for calculation and accuracy mark for linking decrease to bracket.

Calculations must be done in the boxes below.

<b>Profit before tax</b>	<b>Calculate trade and other payables</b>
ROSE x ave SE = net profit after tax  8% x 1/2 ([161 000 + 52 500] + [126 000 + 55 000]) = 15 780 + 5 221 =21 001	2018: 36 202 – 4 222 – 8 240 – 1 200 = 22 540  2019: 20 488 – 1 690 – 4 418 = 14 380  22 540 – 14 380 = (8 160)
<b>Depreciation</b>	<b>Inventory</b>
(335 000 – 163 480 x 6 / 12 x 20%) = 17 152 + 13 300 = 30 452	Current ratio 12:1  (20 488 x 12) – 1 580 – 22 000 = 222 276 – 220 000 = (2 276)

3.2 Calculate the following amounts.

3.2.1 Tax paid

<b>Workings</b>
– 4 222 – 5 221 + 4 418
<b>Amount paid: 5 025</b>

3.2.2 Interest paid

<b>Workings</b>
1 200 + 23 200 – 1 690
<b>Amount paid: 22 710</b>

3.3 Calculate the cost price of the new vehicle bought on 1 July 2019.

Book value at beginning (335 000 – 163 480)	171 520
Additions:	180 800
Disposals (335 00 – 163 480 – 17 152) from dep block in 3.1	(154 368)
Depreciation (from recon statement)	(30 452)
<b>Book value at end</b>	<b>167 500</b>

3.4 Complete the cash flows from Investing Activities section of the cash flow statement for the year ended 30 June 2019.

<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(876 432)</b>
Purchase of non-current assets (850 000 + 180 800 from 3.3)	(1 030 800)
Proceeds from disposal of non-current assets	154 368 from 3.3

**QUESTION 4      MANUFACTURING AND VAT**

**[52 marks; 31 minutes]**

**PART A**

4.1 Complete the raw materials note as it would have appeared on 28 February 2019:

Opening stock (30 000 × 100 / 15)	200 000 Exclusive VAT method only
Purchases (27 500 × 100 / 55) may have split cash and credit R27 500 + R22 500	50 000
Carriage on purchases (1 900 – 4%)	1 824
Closing stock (178 825 × 100 / 115)	(155 500)
	<b>96 324</b>

4.2 Complete the direct labour note as it would have appeared on 28 February 2019:

Salary (7 200 × 12 × 5)	432 000 Method for knowing this: gross salary
UIF contribution (432 000 × 1%)	4 320
Pension fund contribution (86 400 × 3 × 5%)	12 960
	<b>449 280</b>

4.3 Calculate the cleaner's weekly wage if she works 48 weeks of the year.

$360\,000 - 324\,000 [13\,500 \times 2 \times 12] = 36\,000$  $36\,000 / 48 = R750$
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4.4 Complete the selling and distribution note as it would have appeared on 28 February 2019 and then calculate the **net profit** made by Couch Worx Ltd.

Selling and distribution costs	436 000
Salaries & wages (13 500 × 12 × 2)	324 000
Wages (36 000 × 2 / 5)	14 400
Rent expense (627 000 × 150 / 990) Method only if apportioned	95 000
Electricity (16 000 – 3 000) × 20%	2 600
Carriage on raw materials	–
Calculation of net profit: R1 172 000 – 436 000 = 736 000	

4.5 The directors of Couch Worx Ltd are concerned about their break-even analysis as well as their profitability, using two reasons, explain whether they have reason to be worried by using supporting figures.

<ul style="list-style-type: none"> <li>The break-even point has dropped suggesting that the business is managing their costs more effectively.</li> </ul>
<ul style="list-style-type: none"> <li>They have sold less couches but their profitability is better because break-even has been reduced.</li> </ul>
<p>2018 – BE point 170 sold 520 that means profit was made on 350 units</p> <p>2019 – BE point dropped to 140 and sold 500 so profit was made on 360 units</p> <p>They are in a better situation this year compared to 2018.</p>

**PART B VAT is calculated at 15%.**

4.6 Show how the VAT control account will be affected by the transactions relating to Dusi Boets Ltd. You are required to only fill in amounts under either the debit or credit columns. Calculate how much is due/owing to SARS and show your selection by circling the correct block.

VAT CONTROL			
Debit	Credit		
1 950	23 250		
1 758	61 200		
	900		
	15		
Amount: 81 657	<table border="1"> <tr> <td>Owed to SARS</td> <td>Owed by SARS</td> </tr> </table>	Owed to SARS	Owed by SARS
Owed to SARS	Owed by SARS		

**Total: 200 marks**