NATIONAL SENIOR CERTIFICATE EXAMINATION
SUPPLEMENTARY 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 MANUFACTURING (48 marks; 28 minutes)

Refer to the information sheet for information relating to the accounting records of Heavenly Smooth.

1.1

Heavenly Smooth
Production Cost Statement for the year ending 31st October 2013

Prime costs		362 400
Direct materials	1.	270 000
Direct labour (84 000 + 8 400)	2.	92 400
Factory overheads	3.	126 800
Total cost of goods manufactured		489 200
Work in progress at the beginning of the year		29 800
		519 000
Work in progress at the end of the year		(24 000)
Cost of finished goods manufactured		495 000

Notes to the Production Cost Statement for the year ending 31st October 2013.

1. Raw materials

Opening balance as at 1 November 2011	7 500
Net purchases (250 000 – 25 000)	225 000
Railage inwards	44 500
Closing balance as at 31 October 2012	(7 000)
	270 000

2. Factory overheads

Consumable stores (600 + 6 750 – 900)	6 450
Factory foreman salary (51 000 + 5 100)	56 100
Rental of factory	29 400
Maintenance of factory equipment	7 500
Water and electricity (27 000 x 80%)	21 600
Depreciation on factory equipment	5 750
	126 800

(25)

1.2

$$\frac{\text{R183 600}}{\text{R35} - \text{R19}} = \frac{\text{R183 600}}{\text{R16}}$$

Error! Bookmark not defined.
= 11 475 units

(4)

1.3

She would be happy with the production as the factory only needs to manufacture 11 200 units to break-even and they have manufactured 20 000 – 8 800 more. This is more profit for the business.

(3)

1.4

The monthly water and electricity account could have a percentage of it apportioned to the general running of the offices and administration of the factory. This would remain relatively constant from month to month and would not be effected by the number of units produced. This portion used would be classified as fixed. However, if the same factory manufactures a product that requires water as a direct material, e.g. cement bricks or block manufacturers, then water consumption would vary according to quantities produced, this would then be classified as a variable cost. Hence water and electricity can have a part fixed and a part variable.

Any well explained example of factory overheads or administration costs.

(2)

1.5

As the only supplier of the raw materials is in Port Elizabeth, unless she can find alternate ingredients found locally, Jennifer needs to budget and plan the purchase of raw materials carefully so that she does not have to pay for the transportation of extra materials if she is short. She may also think about buying in bulk if the raw materials don't have an expiration date so that she orders fewer times during the year. She may want to investigate alternative transportation methods. Sourcing a cheaper supplier is not an option as the only supplier is in Port Elizabeth.

(2)

1.6

No she should not implement this decision. It is not ethical to charge the customers the same amount for the product, but supply a small quantity. This is customer exploitation and should customers find out, she will lose business. It could be ethical if she changed the marking on the bottle to say 45 ml instead of 50 ml.

(3)

1.7

Production Staff's arguments:
• Factory foreman received a 13% salary increase, and the administration clerk similarly received a 12,5% increase. The production staff who are essential to the manufacturing process only received a 6,3% increase.
Owner's counter argument:
• Production staff received an above-inflation increase as CPIX is currently at approximately 5,9%. OR • Heavenly Smooth contributes at 10% to a Pension Fund for the production earners, which is not mandatory.

(6)

1.8

Going forward into the next financial year, the factory foreman should not be given such a large salary increase. His salary accounts for 44% of the factory overheads. This would also assist with the labour negotiations of production staff. The increases should be equitable. OR The factory rental has increased by 40% from last year, although it does not equate to a very high monthly rental. It needs to be re-assessed. Perhaps a new contract for rental increases needs to be negotiated or new premises found. Perhaps the owner could explore the possibility of reducing the factory space used. OR Maintenance on factory equipment has increased by 30% from last year. This together with the depreciation of 5 750 is R13 250. Perhaps the owner needs to replace the old equipment or have a look at the possibility of leasing factory equipment, staff need to be better trained on the use and care of equipment to reduce breakages and wastage of resources.

(3)

48 marks

QUESTION 2 COMPANY FINANCIALS (65 marks; 40 minutes)

2.1

EXARRO LIMITED

Income Statement for the year ended 28th February 2014

Turnover	1 700 000
Cost of Sales	(1 000 000)
Gross profit	700 000
Other operating income	21 350
Rent income (17 500 + 3 850)	21 350
Gross income	721 350
Operating expenses	(337 450)
Directors' fees	77 350
Salaries	128 450
Depreciation	78 350
Consumable stores	2 750
Loss due to theft (16 000 – 12 000 – 1 500)	2 500
Audit fees	14 305
Advertising	33 745
Operating profit for the year	383 900
Interest income	0
Net profit before interest expense and financing costs	383 900
Interest expense (4 050 + 6 000)	(10 050)
Net profit before taxation	373 850
Taxation (19 500 + 64 715 + 27 850)	(112 065)
Net profit after taxation	261 785

(25)

2.2

EXARRO LIMITED

Balance sheet as at 28th February 2014

	R
Tangible Assets	1 438 100
Fixed assets (800 000 + 406 750 – 78 350 + 340 000 – 30 300)	1 438 100
Current assets	511 610
Inventories (13 500	53 300
Trade and other receivables (12 000 + 1 500 + 98 750 + 1 000)	113 250
Cash and cash equivalents (157 250 + 1 000 + 186 810)	345 060
TOTAL ASSETS	1 949 710
EQUITY AND LIABILITIES	
Capital and reserves	1 630 685
Share capital	1 500 000
Retained income (28 900 + 261 785 – 160 000)	130 685
Non-current liabilities	100 000
Loan: First Financing Bank (67 500 + 32 500)	100 000
Current liabilities	219 025
Trade and other payables (1 925 + 87 250 + 2 000 + 100 000 + 27 850)	219 025
TOTAL EQUITY AND LIABILITIES	1 949 710

(40)

65 marks

QUESTION 3 VAT AND RATIO ANALYSIS (42 marks; 33 minutes)

3.1

5 900 + 32 788 + 27 636 – 630 – 210 – 7 966 – 27 930 + 882 + 1 120 = 31 590

(13)

3.2

It saves time as it is quick and easy to file the VAT return online and SARS can process the information immediately. SARS uses a secure website that requires a username and password that only the person filing the return would have access to. *A valid reason*

(2)

3.3

3.3.1

$$\frac{\text{R}500\ 000 + \text{R}51\ 750}{½[2\ 230\ 000 + 420\ 000 + 3\ 500\ 000 + 575\ 000]}$$

$$\frac{551\ 750}{3\ 362\ 500} \times \frac{100}{1}$$

= 16, 41% or 16,4

(4)

3.3.2

The company is utilising funds from the bank at an interest rate of 9% p.a. to earn a return of 16,41%. This indicates positive gearing, and would make it favourable to source finance from Western Bank.

The debt to equity ratio is very low at 0,16 : 1 indicating that the business is heavily funded by own capital. So the current risk position of the business would also support the taking out of the loan.

(6)

3.3.3

Does the company have substantial tangible assets that can be used as collateral for the loan?

Liquidity – does the company have sufficient short term assets to pay the interest on the loan and to make the annual loan repayments necessary?

(3)

3.3.4

$$\frac{3\ 500\ 000}{300\ 000}$$

= 1 166, 67c or R11, 67

(3)

3.3.5

No, because it is only slightly higher than what it is worth NAV (R11,67) according to the books of the business and the share price has fallen from R12 last year to R11,85 this year, showing that there is less public confidence. The return on shareholder's equity is fairly low at 6,6% – much the same as that of a fixed deposit.

Yes, because although the market value is slightly higher than the NAV (R11,67), this could be because the assets are recorded at historic cost and they may be worth more. It also indicates that the public sees its NAV as under-valued. Although there has been a recession they have still managed to earn 6,6% return. World-wide recession could have caused a drop in share price – worth buying while shares are low.

(7)

3.4

The principles of good corporate governance. Businesses have an obligation to give back to society and underprivileged communities and to be aware or assist with environmental regeneration or environmental projects.
Their involvement in projects like these is likely to place the business in good standing with the public and this in-turn creates a positive image. This can attract new customers/suppliers or encourage existing customers/suppliers to continue dealing with the company.

(4)

42 marks

QUESTION 4 INVENTORY AND ASSET MANAGEMENT (45 marks; 24 minutes)

4.1

$$\frac{R106\ 875 + R326\ 900}{1\ 425 + 4\ 000} = \frac{433\ 775}{5\ 425} = R79,96$$

750 × R79, 96 = R59 968, 89 or R59 970 or R59 969

(6)

4.2

Number of bags missing

[1 425 + 4 000] – 4 600 = 825

825 – 750 = 75

Weighted average amount

75 × R79, 96 = R5 997

(7)

4.3

R1 035 000
(R373 806)

R106 875 + R326 900 (R59 969)	= R661 194

OR R1 035 000
(367 816) 4 600 units × R79,96
667 184

(5)

4.4

The owner could implement a system of control over staff whereby a random selection of staff members could be made at the end of the working day, and that staff member is then searched. This system would have to have been entered into staff employment contracts so that staff would be aware of the control measure. *Any other effective control measure over staff, but it must be well explained to get 3 marks.*

OR

Division of duties – one does stock sheets, one physical counts and another the reconciliation of these.

OR

Limit access to stock room and document movements of stock throughout business.

(3)

4.5

Premier Sports
Notes to the financial statements as at 28 February 2014

Note 3. Tangible assets

	Embroidery Machines
Carrying value at the beginning of the year	234 800
Cost at the beginning of the year	348 000
Accumulated depreciation at the beginning of the year	(113 200)
Movements	
Additions at cost price	156 000
Disposals at carrying value (48 000 – [18 000 + 5 000 = 23 000]	(25 000)
Depreciation for the year (5 000 + 13 000 + 51 200)	(69 200)
Carrying value at the end of the year	296 600
Cost at the end of the year (348 000 – 48 000 + 156 000)	456 000
Accumulated depreciation at the end of the year (113 200 + 69 200 – 23 000)	(159 400)

Workings: Depreciation of Machine 1 and 3

CP 300 000
Acc Dep <u>95 200</u>
204 800 × 25% = 51 200 (24)

45 marks

Total: 200 marks