



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2015

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 AND VAT

(37 marks; 22 minutes)

Refer to the information relating to Glowcor.

- 1.1 Refer to Information A in order to calculate the amount of VAT either payable to or by SARS on 31 October 2015. Clearly state whether this amount is payable to or by SARS.

$(4\ 050 + 101\ 297 + 2\ 352) - (1\ 120 + 122\ 780 + 560 + 1\ 890)$ $725\ 000 \times 14\% = 101\ 500$ $999\ 780 \times 14/114$ $725\ 000 - 1\ 450 = 723\ 550 \times 14\%$ $235\ 390 - 220\ 000 = 15\ 390 \times 14/114$ $= 18\ 651$ <u>payable</u> to SARS or receivable Accept at the balance b/d or c/d in the SARS T-Account Best option of offsetting combination for the candidate
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(10)

- 1.2 Using Information B complete the production cost statement for the year ending 31 October 2015:

Glowcor
Production cost statement for the year ending 31 October 2015

Direct costs/Prime costs total TMC-FO	5 872 500
Direct materials cost (115 × 30 000)	3 450 000
Direct labour cost balancing figure	2 422 500
Factory overheads cost (6 750 000 × 13%) must be 13% of the Total Manufacturing costs	877 500
Total manufacturing costs	6 750 000
Work-in-progress	270 000
	7 020 000
Work-in-progress ignore brackets but must be subtracted	(420 000)
Cost of production of finished goods	6 600 000

(10)

- 1.3 Using Information C complete the trading statement of Glowcor Lamps for the year ending 31 October 2015.

Sales (360 × 30 100)	10 836 000
Cost of sales ignore brackets 60% of Sales or balancing figure	(6 501 600)
Gross profit 40% of Sales (by inspection)	4 334 400

Ignore formatting of the Trading statement – answers must not be stock

(3)

1.4 Calculate the closing balance as it would have appeared in the finished goods stock account on 31 October 2015.

<p>Balance on 31 October 2015</p>	<p>$650 \times 220 = 143\ 000$ (must be $650 \times$ a unit amount for the method mark on the total)</p> <p>$650 \times (6\ 600\ 000 / 30\ 000) = R143\ 000$ OR</p> <p>$44\ 600 + 6\ 600\ 000 - 6\ 501\ 600 = R143\ 000$</p> <p>R143 000 Figures must be relevant (OS + Purch – CS = CoS) for the method mark</p>
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(4)

1.5 Luca is convinced that due to the extended load shedding forecast and the high demand for his recyclable lamps he can be more profitable next financial year. Assuming that there are no changes to the costs and selling price per lamp, calculate how many more lamps need to be produced and sold in order to improve the businesses gross profit by R1 440 000.

<p>$4\ 334\ 400 / 30\ 100 = R144$ gross profit per unit $R1\ 440\ 000 / R144 = 10\ 000$</p> <p>$R1\ 440\ 000 \times 100 / 40 = 3\ 600\ 000 / R360 = 10\ 000$</p> <p>$R4\ 334\ 400$ (Gross profit) + $1\ 440\ 000 = 5\ 774\ 400 / 144 = 40\ 100 - 30\ 100 = 10\ 000$ R40 100</p> <p>$R1\ 440\ 000 / 4\ 334\ 400 \times 30\ 100 = 10\ 000$</p> <p>R10 000 Divide by must be a unit amount (e.g. 360, 144 or 140)</p>
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(3)

1.6 The main manufacturing machine has broken down and can only be fixed in 10 days' time as a specially trained installation technician will only be available then. With reference to the stock holding period explain why this could be a problem for Glowcor.

<p>Calculation: see 1.4 closing stock $\frac{143\,000}{6\,501\,600} \times \frac{365}{1} = 8,03 \text{ days}$ See 1.3 Cost of Sales</p> <p>see 1.4 closing stock $\frac{\frac{1}{2}(44\,600 + 143\,000)}{6\,501\,600} \times 365 = 5.29 \text{ days}$ See 1.3 Cost of Sales</p>	(3)
<p>Explanation: This is going to present a problem for Glowcor as their closing stock will only last 8 days and the production machine will only be repaired in 10 days' time. <u>No stock to sell for 2 days</u> and workers are will not be productive for a 10 day period. This will have an impact on sales and cash flow as overheads and wages will still need to be paid. Depth of answer must indicate that they will run out of stock – not just a decrease in sales and thus profit</p>	(2)

1.7 Give a reason why you think Glowcor emphasises the recyclable nature of their camping lamps in their advertising strategy.

<ul style="list-style-type: none"> • Initially appealed to the camping person who was concerned about the environment and the preservation thereof, but now can attract additional customers who need lamps for load shedding. Environmentally conscious • <u>Triple bottom line</u> principle of protection and sustaining of the environment increases the profile of the business encouraging sales. • This means the lamp is serving its purpose and the customer can rest assured that their purchase will not be harmful to the environment and will be recycled into another useful product – it attracts customers. • CSR • King Code <p>Depth of answer must in some way be linked to the reason for advertising</p>	(2)
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37 marks

QUESTION 2 COMPANY FINANCIAL STATEMENT (60 marks; 35 minutes)

Refer to the information relating to Akhari Limited.

2.1 Complete the following notes to the financial statements. Some figures have been filled in for you and these are correct. All working detail must be shown so part marks can be awarded.

Akhari Limited
Notes to the financial statements for the year ended 31 October 2015

Note 7: Issue share capital

1 350 000	Ordinary shares at R3,90 3,40	per share	5 265 000	4 590 000
150 000	Ordinary shares at R4,50	per share	675 000	
(50 000)	Ordinary shares at R3,96 3,51	per share	(198 000)	(175 500)
1 450 000	Ordinary shares at R3,96 3,51	per share	5 742 000	
			5 089 500	

(14)

Note 8: Retained income

Opening balance	1 350 000 x 4,20=5 670 000- 5 265 000	405 000
	4 590 000	1 080 000
Net income after taxation (1 160 000 – 348 000)		812 000
		1 160 000
		(348 000)
50 000 shares repurchased at 34c (4,30 – 3,96 see above)		
348 000 × 70/30 79c		(17 000)
50 000 × 4,30 = 215 000 – see above =		
Dividends on ordinary shares: 1 500 000 × 0,57		(855 000)
	Must show calculation for	
Paid: 760 500 – 310 500		450 000
Recommended (855 000 – 450 000)		405 000
Closing balance		345 000
		997 500

(18)

Note 9: Trade and other payables

Trade creditors	84 550
SARS – VAT	8 450
Shareholders for dividends	405 000
	498 000

Must be less than 7 070 000

(4)

2.2 Complete the assets section of the Statement of financial position as at 31 October 2015.

Akhari Limited
Statement of financial position (Balance sheet) as at 31 October 2015

ASSETS	2015
Non-current assets	5 750 000
Fixed/Tangible assets	5 500 500
Financial assets:	
Nedrand Bank: Fixed deposit (202 500 + 7 000)	209 500
Nedrand Bank: 32 day call account (90 000 – 50 000) or	40 000
Current assets	1 320 000
Inventory (220 000 + [72 × 5 250 = 378 000] + [18 × 5 500 = 99 000]) OR 477 000	697 000
Trade and other receivables (450 000 – 90 000 (-85 000-5 000) + 5 000 or 353 000	365 000 Do not mark 450 000
Cash and cash equivalents (335 000 – 215 000 (50 000 × 4.30) – 7 000 + 10 000 + 50 000 + 85 000) or 3 000 43 000 53 000	258 000 Do not mark 335 000
TOTAL ASSETS	7 070 000

(21)

2.3 Explain why you think Akhari Limited's decision, which resulted in adjustment 9, was a good business decision.

There was too much cash in petty cash which could pose a risk. This money has now been invested and will earn interest.

(1)

2.4 Akhari Limited sold 20% of their debtors to IRBS Financial Services (adjustment 11). Explain **2 reasons** why they might have decided to do this.

- They were high risk debtors, so Akhari Limited wanted to pass that risk onto an outside party.
- They needed the cash now and decides it was better to lose the R5 000 for the benefit of the cash now.

(2)

60 marks

QUESTION 3 CASH FLOW STATEMENT**(38 marks; 24 minutes)****Refer to the information relating to Ingwenya Limited.**

3.1 Complete the Tangible asset note.

Note 3: Tangible/Fixed assets

	Plant and Property	Vehicles	Equipment
Carrying/Book value at the beginning of the year	3 452 000	448 000	83 200
Cost	3 452 000	850 000	340 000
Accumulated depreciation	–	(402 000)	(256 800)
Movements			
Additions at cost	1 070 800		116 000 126 000
Disposals at carrying/book value		(112 000)	
Depreciation		(151 400)	(6 600)
Carrying/Book value at the end of the year	4 522 800	184 600	192 600
Cost	4 522 800	570 000	456 000
Accumulated depreciation		(385 400)	(263 400)

(9)

- 3.2 Complete the cash flow statement of Ingwenya Limited for the year ending 31 October 2015. **Some information has been entered for you.**

Ingwenya Limited
Cash flow statement for the year ending 31 October 2015

	R
Cash flow from operating activities	384 000
Cash generated from operations	1 295 760
Dividends paid (60 000 + 170 000 – 30 000)	
90 000	
110 000	
170 000	
140 000	(200 000)
260 000	
230 000	
30 000	
Taxation paid (3 000 + 635 600 – 13 600)	
10 600	
638 600	
619 000	(625 000)
622 000	
652 200	
646200	
Interest paid	(86 760)
Cash flow from investing activities	(1 070 000)
Tangible assets purchased	(1 186 800)
(1 070 800 + 116 000) check these in asset note	916 800
Proceeds from the sale of tangible assets	116 800
Cash flow from financing activities	(114 000)
Repurchase of shares (80 000 × 4,20)	
244 000	(336 000)
92 000	
Proceeds of new loans	
(920 000 +(86 760 – 164 760) – 1 142 000)	
3 144 000	
135 240	
842 000	
1 220 000	
222 000	300 000
386 760	
9 77 240	
57 240	
998 000	
1 064 000	
86760	
Repayment of loans (164 760 – 86 760)	(78 000)
Net change in cash and cash equivalents for the year	(800 000)
Cash and cash equivalents – 1 November 2014	(91 000)
Cash and cash equivalents – 31 October 2015	(891 000)

(25)

- 3.3 The following statement was taken from the minutes of the Annual General Meeting; 'We, the shareholders, would like to express our grave concern over the directors' decision to repurchase 80 000 shares during this financial year'. Provide a reason supported by information from the cash flow statement as to why the shareholders feel this way.

The company was in overdraft at the start of the financial year and this has now worsened to R891 000, so they did not have the available cash to repurchase the shares, and if they had not gone ahead with the repurchase, the bank account would be reflecting a favourable balance of R555 000.

Loan taken to pay for repurchases

It was bought above weighted average price

(2)

- 3.4 After an investigation it has come to light that Jason Steiner, the shareholder from whom the company repurchased the shares, is a close friend of the financial director, and they play squash together on a regular basis. Explain briefly why you as shareholder may find this a problem.

The financial director and Jason Steiner are guilty of insider trading and Jason has sold his shares above the weighted average price in order to not suffer financial loss should the company close. As an existing shareholder I would be extremely unhappy with this as this information has not been made public and therefore Jason has been unfairly advantaged.

Ethical implications

Might have an advantaged position

Conflict of interest

Nepotism

(2)

38 marks

QUESTION 4 CASH BUDGET AND FORECAST INCOME STATEMENT

(65 marks; 39 minutes)

Refer to the information relating to Frozo Yogi's.

4.1 Complete the **creditor's payment schedule** for the budgeted period September and October 2015. Some of the information has been entered for you and it is correct.

Credit purchases	September 2015	October 2015
July R58 350	35 010	
August R66 000	R25 080	39 600
September R67 500		27 000
		25 650
	60 090	65 250

If calculations were done below allocate all marks here (4)

4.2 Complete the **Cash budget** for the two months ending 31 October 2015.

	Budgeted September	Budgeted October	Actual September
CASH RECEIPTS	363 825	391 570	353 575
Cash sales	101 250	87 750	81 000
Cash receipts from debtors	262 575	297 000	262 575
Rent income		6 820 6200	
Insurance payout			10 000
CASH PAYMENTS	(299 490)	(328 935)	(321 250)
Cash purchases of trading stock	157 500	136 500	178 500
Payment to creditors	60 090	65 250	65 250
Wages	24 000	25 200	24 000
Bonuses	15 000	15 750	4 000
Drawing by owner	15 000	16 125	15 000
Sundry expenses including electricity	25 000	27 200	28 000
Fuel costs for running the generator	–	1 200	3 600
Loan repayments plus interest	1 900	25 710 24000 +	1 900
Advertising	0	15 000	–
Donations	1 000	1 000	1 000
Cash surplus/deficit	64 335	62 635	23 325
Opening bank balance	35 000	Amount can be worked back to using 161970 99 335	35 000
Closing bank balance	99 335	161 970	58 325

Method marks given on totals if operation was done correctly. (22)

4.3 Complete the **Forecast income statement** of Frozo Yogi's for the two months ending 31 October 2015.

	Forecast September	Forecast October	Actual September
Sales	405 000	351 000	324 000
Cost of sales	(225 000)	(195 000)	(180 000)
Gross profit	180 000	156 000	144 000
Add other income	7 520	8 170	7 520
Rent income	6 200	6 820 Depends on cash budget	6 200
Discount received	1 320	1 350	1 320
Other operating expenses	(81 200)	(89 440)	(90 800)
Wages	24 000	25 200	24 000
Bonuses	15 000	15 750	4 000
Sundry expenses including electricity	25 000	27 200	28 000
Fuel costs for running the generator	1 000	1 200	3 600
Bad debts	–	8 200 can be 0	–
Loss due to load shedding	5 000	–	20 000
Depreciation	5 200	5 200	5 200
Advertising	5 000	5 000	5 000
Donations	1 000	1 690 1000 690	1 000
Operating profit	106 320	74 730	60 720
Less: Interest expense	(1 900) Depends on cash budget	(1 710) Depends on cash budget	(1 900)
Net profit	104 420	73 020	58 820

(20)

4.4 Answer the following questions.

4.4.1 What are the credit terms given to debtors? (In how many days are they expected to settle their accounts?)

$350\ 100 \times 75\% = 262\ 575$ expected in September from July sales
 \therefore 60 days
 1 mark for a calculation that looks like average debtors collection

(2)

4.4.2 What percentage increase is expected to be given to employees in the financial year starting 1 October 2015?

$25\ 200 - 24\ 000 = \frac{1\ 200}{24\ 000} \times \frac{100}{1}$ $= 5\%$ <p>105% 1.05% 50%</p>

(3)

4.4.3 Do you think this increase (calculated in Question 4.4.2) is acceptable? Explain by quoting relevant ratios or amounts.

No/Yes
<ul style="list-style-type: none"> 5% is below CPI, therefore below inflation rate
<ul style="list-style-type: none"> Owner's drawings increase by 7,5% OR
<ul style="list-style-type: none"> Yes, it is acceptable as they will also receive a 5% increase in their bonuses, which the owner does not get.
Dependent on answer and whether an appropriate amount was used to support whether they say yes or no

(4)

4.4.4 The employees are unhappy with the remuneration they earned in September 2015 and have asked for their wage and bonus agreement to be changed.

In what way were the employees affected by the power outages, and why were they affected?

Their bonuses were R11 000 under budget, as the sales figure was R81 000 below budget. Due to the power outages they did not meet intended sales targets and bonuses are calculated on sales.
The first part of the question was ignored and focussed on the effect that the outages had on workers – learners could get 1,2 or 3 marks

(3)

4.4.5 What **two** changes do you think Joan could make to the employees' wages that they would find acceptable?

<ul style="list-style-type: none"> Delink the bonuses from sales targets and provide employees with fixed, but smaller bonuses which are assured.
<ul style="list-style-type: none"> Do away with bonuses altogether and increase the wages of the employees by 10% (any other solution)
Any suitable answer was accepted

(4)

4.4.6 Briefly explain **three other areas** in which the business, Frozo Yogi's, has been affected by the electricity shortage in South Africa. (Only write one sentence per area.)

<ul style="list-style-type: none"> • Increased fuel/running costs of the generator
<ul style="list-style-type: none"> • Loss of yoghurts due to the electricity outages. This amount is double what was budgeted for
<ul style="list-style-type: none"> • Sales are down significantly, business may be cautious and purchase less stock as they are concerned about wastage
<p>Any suitable answer such as bad debts , increase in bad debts etc</p>

(3)

65 marks

Total: 200 marks