NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2009

ACCOUNTING: PAPER I

MARKING GUIDELINES

Time: 2 hours 200 marks

These marking guidelines were used as the basis for the official IEB marking session. They were prepared for use by examiners and sub-examiners, all of whom were required to attend a rigorous standardisation meeting to ensure that the guidelines were consistently and fairly interpreted and applied in the marking of candidates' scripts.

At standardisation meetings, decisions are taken regarding the allocation of marks in the interests of fairness to all candidates in the context of an entirely summative assessment.

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, and different interpretations of the application thereof. Hence, the specific mark allocations have been omitted.

Please note that learners who provided alternate correct responses to those given in the marking guidelines will have been given full credit.

QUESTION 1

1.1 Income Tax
VAT
PAYE (2)

1.2 Input VAT is deducted from Output VAT and the difference is paid over to SARS. (3)

1.3 Input VAT: 24 528 – 987 – 175 = 23 366

Output VAT: 31 500 – 1 652 – 91 – 441 = 29 316

Payable to SARS: –3 002 + 29 316 – 23 366 = R2 948

OR

VAT

3 002	31 500
24 528	987
1 652	175
91	
441	
Balance 2 948	

(11)

Note: Follow logic of learners if they have regarded bad debts and discounts allowed as part of Input VAT and discounts received as part of Output VAT.

1.4 Items purchased for the personal use of the members
Refreshments
Depreciation, interest on loan, zero rated items (2)

1.5

Account debit	Account credit
Equipment	Members contribution
SARS (Income Tax)	Bank
Distribution to members	Bank
Income tax	SARS (Income tax)

(8)

1.6 (210 000 + 70 000) × 60% = R168 000

or 126 000 + 42 000 = 168 000 (4)

30 marks

QUESTION 2

2.1 Fixed cost: Rent expense, Insurance, indirect labour
Variable costs: Raw materials, consumable goods, direct labour (2)

2.2
- Ensure that finished stock is kept in a secure storeroom where there is limited access.
- Only allow certain people access to storeroom and have recorded information on who gained access.
- All finished stock entering and leaving storeroom must be accompanied by relevant documentation.
- Physical counts of finished goods at regular intervals to identify problems timeously. (4)

2.3

72 000 + 768 000 – 40 000 + 77 400 ÷ 10 000 + 70 000 – 4 000 + 6 000

$$= \frac{877\ 400}{82\ 000}$$

= R10,70

(9)

2.4 FIFO

Possible reasons:
- Consistency – this policy was used in the past. As long as policies are not changed, repeating of financial information will be reliable.
- Raw material used to produce the water bottles has a low value.
- Due to the nature of the raw material it is difficult to actually determine what has been used and to accurately determine what is left over.
- Because the price changes constantly and so it is easier to calculate using the weighted average method. (5)

2.5 Original cost

Reason: Goods are usually insured for at the price that you paid for the item, or at replacement value, but not weighted average.

OR: Weighed average – in this case it might be possible to determine the actual price of each packet. Insurance company will rely on stock provided. (2)

2.6 Unethical
- Customers are unaware that the bottles are defective and are paying the same price as the real product – they are therefore being misled and the reputation of the business could be tarnished if the defective products leaked or broke.
- It amounts to stealing unless the production manager has the permission of the owner of the business.

Ethical
- If customers are informed of the defect, they put their conscious decision to put their funds towards a charity. (4)

2.7 Mawer Manufacturers

Production cost statement for the year ended 31 October 2009

Direct/Prime costs	923 290
Raw materials	809 990
Direct labour (103 000 + 10 300)	113 300
Factory overheads	331 480
Total manufacturing costs	1 254 770
Work in progress on 1 November 2008	24 000
	1 278 770
Work in progress on 31 October 2009	(38 770)
Cost of production of finished goods	1 240 000

Notes to the Production cost statement for the year ended 31 October 2009

Raw materials	
On hand on 1 November 2008	72 000
Purchased (768 000 + 77 400 – 40 000)	805 400
Raw material available	877 400
On hand on 31 October 2009	(67 410)
Raw material consumed	809 990

Factory overhead costs		
Consumable goods (1 100 + 9 800 – 1 420)	9 480	
Indirect wages (87 000 + 7 500)	94 500	
Insurance (19 500 – 4 800)	14 700	
Rent expense (110 000 + 10 000)	120 000	
Other overhead costs	32 800	
Depreciation	60 000	
	331 480	(31)

2.8 1 239 990 ÷ 150 000 × 100 = 8,27 cents (3)

60 marks

QUESTION 3

3.1 **Income statement for the year ended 31 October 2009**

Sales	**1 980 000**
Cost of sales	(1 200 000)
Gross profit	780 000
Other operating incomes	136 400
Other operating expenses	(356 400)
Operating profit	**560 000**
Interest income	**30 000**
Profit before interest expense	**590 000**
Interest expense	(210 000)
Net profit before tax	380 000
Income tax	(106 400)
Net profit after tax	273 600

Balance sheet on 31 October 2009

ASSETS	
Non current assets	6 620 000
Fixed assets	6 120 000
Financial assets (30 000 × 100 ÷ 6)	500 000
Current assets (600 000 × 2,3)	1 380 000
Trading inventories	540 000
Trade and other receivables	**700 000**
Cash and cash equivalents [(600 000 × 1,4) – 700 000] [(1 380 000 × 1,4 ÷ 2,3) – 700 000]	140 000
TOTAL ASSETS	8 000 000
EQUITY AND LIABILITIES	
Capital and reserves	5 000 000
Ordinary share capital	3 600 000
Ordinary share premium (360 000 + 700 000)	1 060 000
Accumulated profit/Retained income Note 1	340 000
Non-Current Liabilities (all long term)	**2 400 000**
Current liabilities	**600 000**
Trade and other payables Note 2	**600 000**
TOTAL EQUITY AND LIABILITIES	8 000 000

Notes to the financial statements for the year ended 31 October 2009

Note 1: Accumulated profit	
Balance on 1 November 2008	306 400
Net profit after tax ✓	273 600
Dividends	(240 000)
Paid	**80 000**
Recommended	160 000
Balance on 31 October 2009	340 000

Note 2: Trade and other payables	
Trade creditors	**402 400**
Income received in advance	**18 000**
Accrued expenses	**12 000**
SARS (Income Tax) (1 800 + 106 400 – 100 600)	7 600
Shareholders for dividends	160 000
	600 000

(48)

3.2

3.2.1

(a)

- So that shareholders are assured that their opinions are not biased.
- Separation of ownership (shareholders) from control (directors). (2)

(b)

- So that the shareholders know that the procedures carried out by the auditors are reasonable.
- To indicate that the auditors know what they are doing.
- To prevent misunderstanding and avoid being sued if the information is not totally accurate. (2)

(c) The financial statements comply with the requirements of the Companies Act and the financial statements fairly represent the financial position of the business. (4)

3.2.2 (a) They have to record them separately from sales as sales is linked to cost of sales and no cost of sales occurs on the issue of the gift voucher. / Income has been received in advance or no stock has been issued. (3)

(b)

- Debit: Banks
  Credit: Sale of Gift voucher account
- Debit: Sale of Gift voucher/cost of sales
  Credit: Trading stocks

NB: Look at the logic in which learner explains the answer. (4)

(c) End of financial year: record in balance sheet as income received in advance. (2)

65 marks

QUESTION 4

4.1 Cost price

90 000 ÷ 450 000 × 100% = 20% (4)

4.2

Reconciliation of profit before tax and cash generated from operations	
Changes in working capital	164 000
Decrease in inventories (1 325 000 – 1 150 000)	175 000
Increase in trade and other receivables (765 000 – 842 000)	(77 000)
Increase in trade and other payables (688 000 – 754 000)	66 000

(9)

4.3 Cash flow statement for the year ended 31 October 2009

Cash flows from operating activities	456 835
Cash generated from operations	**1 448 335**
Income tax paid	**(340 000)**
Dividends paid (300 000 + 198 000)	(498 000)
Interest paid (-7 000 + 175 500 – 15 000)	(153 500)

(8)

4.4 Cash flow statement for the year ended 31 October 2009

Cash flows from investing activities	(526 100)
Fixed asset purchased	(845 000)
Disposals of fixed assets at carrying value	318 900

Calculation for fixed assets purchased	Calculation for disposals at carrying price
800 000 + 45 000 = 845 000	(25 000 – 4 750) × 10% × 9/12 = 1 350 25 000 – 4 750 – 1 350 = 18 900

(10)

4.5

Appropriation Account F3

Oct	31	Income tax	GJ	300 000	Oct	31	Profit and Loss	GJ	1 000 000
		Dividends	GJ	689 000			Retained Income	GJ	700 000
		Retained Income	GJ	751 000					
				170 000					1 700 000

(6)

4.6

Net asset value per share
3 500 000 ÷ 55 000 × 100 = R63,63 per share or R63,64

(3)

4.7 Yes or No

2 marks per good reason that is substantial with figures.

Yes

- Interim dividend paid and final dividend declared – total dividends R13 per share.
- Return on investment is 11,80 ÷ 76,50 × 100 = 15,42% and ROSE is 20,1%. This is the way above the interest rate offered by financial institutions.
- NAV is R20 higher than the par value of the share, R50. This shows that there is steady growth in the business.
- Shares are trading at R76,50. This is R12,86 above the NAV. This shows that there is a positive attitude towards the business. (5)

No

- As the shares are overpriced. They are worth 63,64 but are selling for R76,50.
- Not a good time to invest in shares as the recession has caused most share prices to drop.

45 marks

Total: 200 marks