INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
NOVEMBER 2022

# ACCOUNTING: PAPER I

Time: 2 hours | 200 marks

## INFORMATION BOOKLET

## QUESTION 1 MANUFACTURING (44 marks, 26 minutes)

**Information relating to Terra Printing.**

Tiffany Xaviera is the owner of Terra Printing. The company uses pine trees to manufacture this quality printing paper.

They buy their raw materials from Yafit Lumber Products in bulk in tons and this is then used in the manufacturing of printing paper. They make use of the **weighted-average** method in valuing their raw materials.

The following information was extracted from the accounting records of Terra Printing for the financial year ended 30 June 2022.

**INFORMATION:**

1. All purchases of raw materials and opening stock are **inclusive** of transportation costs.

2. The following balances were found in the stock accounts:

| | **1 July 2021** |
|---|---|
| Raw materials (2 tons at R5 544.50 per ton) | R? |
| Finished goods | R83 160 |
| Work-in-progress | R38 808 |
| Indirect materials stock | R3 220 |

3. Purchases for the current financial year were as follows:

| **Date of purchases** | **Number of tons** | **Price per ton** | **Total cost** |
|---|---|---|---|
| October 2021 | 5 | R6 090 | R30 450 |
| January 2022 | 9 | R7 310 | R65 790 |
| April 2022 | 4 | R6 580 | R26 320 |
| June 2022 | 3 | R5 920 | R17 760 |
| **TOTAL** | **21** | | **R140 320** |

4. A **physical stock count** as of 30 June 2022 reveals that there were 5 tons of raw (direct) materials on hand. Finished goods of R33 264 and indirect materials stock of R6 200.

5. **Direct labour cost:**
There are only four factory labourers. They each earn R203 040 (excluding bonus) per **annum**. In December 2021 they were given a bonus equal to one month's salary, before deductions.

6. **Sales** for the year amounted to R1 500 000. The mark-up percentage on cost is 33⅓%.

7. **The following information was taken from the financial records of Terra Printing**:

| | |
|---|---|
| Fixed total cost (includes administration costs) | R610 000 |
| Variable costs: | ? |
| Direct materials costs | ? |
| Direct Labour costs | ? |
| Selling and distribution costs | R250 041 |
| Number of printing paper produced (boxes consisting of 5 reams in each box) | 7 000 |

8. It was established that the factory overhead costs figure was not correct. The figure before the corrections was R1 662 011.

**The following errors and omissions still need to be taken into account:**

- All indirect materials are used in the factory. The opening and closing balances of the indirect materials were not taken into account when calculating the factory overhead costs figure.
- The total rent expense paid for the year amounted to R78 000. Rent expenses need to be allocated in the ratio of 3:2:1 between the factory, sales and administration departments. This has not been recorded.
- Water and electricity costs of R42 720 was recorded in the factory overhead costs. This amount represents 75% of the total water and electricity cost. It was discovered that the bookkeeper made a mistake. It should only be 65%.

## QUESTION 2 CASH FLOW STATEMENTS (55 marks; 33 minutes)

**Information relating to Jawara Ltd.**

Jawara Ltd is a company selling office stationery in Africa. They have an authorised share capital of 12 000 000 shares. Their financial year ends on 30 June each year.

1. **Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 30 June revealed the following:**

| | 30 June 2022 | 30 June 2021 |
|---|---|---|
| Depreciation | R212 000 | R214 000 |
| Loss on disposal of an asset | 920 | 0 |
| Interest expense on loan | 46 920 | 54 000 |
| Net profit after taxation **(after all adjustments were taken into account)** | 331 920 | 335 520 |

2. **Extract from the Statement of Financial Position (Balance Sheet) on 30 June:**

| STATEMENT OF FINANCIAL POSITION | 30 June 2022 R | 30 June 2021 R |
|---|---|---|
| Carrying value of fixed (tangible) assets | 6 215 000 | 5 959 000 |
| Investment in shares at Babu Bank | 101 000 | 106 000 |
| Inventories (Trading stock only) | 1 007 000 | 971 000 |
| Trade debtors | 1 322 000 | 1 172 000 |
| Prepaid expenses (Telephone) | 8 000 | 5 000 |
| Accrued income (Rent income) | 8 000 | 20 000 |
| Cash and cash equivalents | 289 000 | 668 160 |
| Bank overdraft | 175 000 | 660 000 |
| Ordinary share capital | ? | 3 990 000 |
| Retained earnings/ income | 491 000 | 470 000 |
| Loan from Mandla Bank | 2 687 000 | 2 590 000 |
| Trade creditors | 1 200 500 | 973 250 |
| SARS: Income tax | Cr 92 000 | Cr 79 000 |
| Accrued expenses (Water and electricity) | 40 000 | 34 000 |
| Shareholders for dividends | 112 500 | 99 750 |

3. **Additional information:**

3.1 **Income tax** for the year is calculated at 28% of the net profit before taxation.

3.2 **Fixed (tangible) assets:**

- The only fixed (tangible) asset sold for cash was a vehicle. The vehicle was sold at a loss. On the date of sales (30 June 2022), the vehicle was sold for R206 220 cash.

- An additional fixed (tangible) asset (building), was bought for cash during the year. The bookkeeper debited Repairs and credited Bank. The error was taken into account when calculating Net profit after taxation.

3.3 **Loan from Mandla Bank:**

- Fixed **monthly** repayment of the loan including interest amounts to R23 210.

- Interest is capitalised.

- There was an increase recorded in the loan account in the current financial year.

3.4 **Ordinary share capital and dividends:**

- On 1 July 2021, additional shares were issued at R5 each.

- On 31 December 2021, the interim dividend was declared and paid.

- On 30 June 2022, 56 144 ordinary shares were repurchased from a disgruntled shareholder **at a price equal to the average share price of R7,50**.

## QUESTION 3 COMPANY FINANCIAL STATEMENTS (75 marks, 45 minutes)

**Information relating to Chidinma Ltd.**

Chidinma Ltd is a well-known African company, located in South Africa. They supply tertiary institutions, all schools with boarding houses, and restaurants across Africa with different types of meat (beef, pork, mutton, chicken, and lamb). The company has an authorised share capital of 1 500 000 shares.

**Extract from the pre-adjustment trial balance for the year ended 30 June 2022.**

| **Balance Sheet Section** | **R** |
|---|---|
| Ordinary share capital | 6 300 000 |
| Retained income/ earnings | 700 265 |
| Pension Fund | 826 950 |
| Medical Aid Fund | 907 500 |
| UIF | 116 230 |
| Trading inventory/ stock | 1 879 730 |
| Debtors control | 5 079 195 |
| Loan Abiola Bank (10% p.a.) | 2 174 300 |
| SARS: PAYE | 233 400 |
| Bank overdraft | 147 620 |
| Investment Kamari Bank (12,5% p.a.) | 4 880 000 |
| Creditors control | 6 156 600 |
| Fixed (tangible) assets at carrying value | 9 663 520 |
| SARS: Income Tax | 1 711 640 |
| **Nominal Account Section** | |
| Commission income | ? |
| Insurance | 777 848 |
| Telephone | 1 955 000 |
| Advertising and marketing expenses | 8 127 000 |
| Interest on investment | 356 250 |
| UIF Contribution | 58 115 |
| Interest on loan | 217 430 |
| Sales | ? |
| Cost of sales | 55 300 200 |
| Salaries and wages | 5 811 500 |
| Pension Fund Contribution | 551 300 |
| Directors fees | 1 525 000 |
| Sundry expenses | 422 800 |
| Rent income | 2 648 580 |
| Packing material | 23 400 |
| Medical Aid Contribution | 453 750 |
| Depreciation | 966 352 |

**Adjustments and additional information that still needs to be taken into account:**

1. An additional 150 000 ordinary shares were issued at R15,50 per share on 25 June 2022, however, the transaction **has not been** recorded yet.

2. A mark-up percentage of 33⅓% on cost was maintained on all sales transactions throughout the financial year.

3. The following bank statement transactions have not yet been recorded:

   - An EFT of R18 995 was made to Tangeni Suppliers in payment of the account.
   - Hard-cash to restore the petty cash imprest amount of R19 560.
   - Bank charges, R14 365, and interest on bank overdraft account of R16 238.

4. The following information relating to an employee getting married in July 2022 has been recorded. She has asked for her July salary in advance (equal to one month's salary). This was approved and paid to her via EFT at the end of June 2022. The salary advance and payment transactions **has been recorded**. Her employment contract shows a **monthly gross** salary of R79 200.

   The details of the salary advance are as follows:

   - PAYE R12 672.
   - Medical Aid R2 376.
   - UIF 1% (limit to R177 per month).
   - Pension fund R5 940.

   The company contributes to Medical Aid and UIF on a rand to rand basis. The company contributes R2 towards the Pension Fund for every R1 deducted.

5. An amount of R75 000 was transferred directly into the bank account of the company. This amount was transferred by Mr. I. M. Confident, who had disappeared and his account was written off. The bookkeeper has debited Bank and credited the Debtors Control account. Correct the error.

6. The tenant paid rent for July and August 2022 in advance. Due to a decrease in demand for rental space, the owner of the building decided to give the company a 10% reduction in rent with effect from 1 January 2022.

7. The investment with Kamari Bank was increased on 1 April 2022 by R1 080 000. The increase has been recorded. Interest on the investment is **not** capitalised. Calculate the interest outstanding.

8. Commission income for the year amounts to 1% of the total sales. The full amount is still outstanding.

9. Marketing expenses to the value of R12 750 were paid to Tjaart advertising media for the period 1 March 2022 to 28 February 2023. The transaction has been recorded.

10. A telephone account of R5 000 was received for June 2022 but has not been paid yet.

11. Taxation on net profit before tax is 28%.

12. Due to load shedding, trading inventories (stock) to the value of R179 370 were damaged and the company had to record these stock items as a loss. This has not yet been recorded. The insurance company will pay 80% of the damaged trading inventories in August 2022.

    - The physical stock take on 30 June 2022 revealed trading inventories (stock) to the value of R1 690 603 on hand.

    - The packing material used amounts to R20 300.

13. No dividends were paid or recommended for the current financial year.

## QUESTION 4 INVENTORY (26 marks; 16 minutes)

**Information relating to Rodriguês Adventures.**

Rodriguês Adventures imports a range of hiking gear (stock) from the United Kingdom. Amongst the hiking gear (stock) imported are warm hiking boots. Rodriguês Adventures is a business located in South Africa with the head office in Johannesburg.

Warm hiking boots are bought at different prices, however, the exchange rate remained constant at R21.40 = £1.

**The following costs were incurred by Rodriguês Adventures when importing gear (stock) from the United Kingdom:**

- Customs duties are levied at 10% of the rand value of the purchase price of the stock bought from the supplier in the United Kingdom.
- The carriage costs on purchases from Belfast (United Kingdom) to OR Tambo International Airport (South Africa) is included in the purchase prices.

**INFORMATION**

The following information relates to the financial year of Rodriguês Adventures. The year end is 30 June.

1. The business uses the periodic inventory system to record stock (hiking gear) and stock is valued on the first-in-first-out method (FIFO).

2. **Stock on hand:**

| | **30 June 2022** | | | **30 June 2021** | | |
|---|---|---|---|---|---|---|
| | **Units** | **Price R** | **Total R** | **Units** | **Price R** | **Total R** |
| Warm hiking boots | 12 225 | ? | ? | 13 725 | 492 | 6 752 700 |

3. **Purchases, custom duties, transport costs and donations for the year ended 30 June 2022:**

3.1 **Hiking boots purchases:**

Prices are quoted in UK Pounds (£). The exchange rate was R21.40 = £1.

| **Date** | **Units** | **Unit cost £** | **The total cost of warm hiking boots £** |
|---|---|---|---|
| August 2021 | 7 223 | 20,00 | 144 460 |
| November 2021 | 3 250 | 23,50 | 76 375 |
| February 2022 | 10 290 | 23,60 | 242 844 |
| April 2022 | 2 550 | 23,62 | 60 231 |
| June 2022 | 5 225 | 23,80 | 124 355 |
| | **28 538** | | **648 265** |

3.2 The following debit note was issued to a creditor (supplier). The goods being returned were originally purchased in June 2022. There were no other returns during the financial year.

| Quantity | Item | Total cost |
|---|---|---|
| 225 | Warm hiking boots | ? |

**Note**: Customs duties and transport costs cannot be recovered on items returned to suppliers.

3.3 **Donations:**

The owner took 5 pairs of hiking boots from the opening stock and donated them to less privileged students. The cost of each pair of hiking boots amounts to R492,20.

4. **Sales and allowances:**

4.1 A pair of warm hiking boots are sold at a fixed selling price of R656.

| | Units (pairs of hiking boots) |
|---|---|
| Sales | 29 800 |
| Returns | 15 |

**Note:** Warm Hiking boots returned by customers are usually not kept in stock but sent back to the supplier. The reason for customer returns is usually due to a manufacturing fault.