INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
NOVEMBER 2022

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 (26 minutes)

Refer to the information relating to Terra Printing.

1.1 Complete the following notes to the Production Cost Statement as it would appear on 30 June 2022:

1.1.1 **Direct material costs.**

Opening stock (2 tons × R5 544.50)	11 089
Purchases	140 320
Closing stock *	(32 915)
Raw materials issued to the factory	118 494

Direct material (Raw material) closing stock calculation.

Opening stock	2 tons	R11 089
Purchases	21 tons	R140 320
	23 tons	R151 409

R151 409/23 tons = R6 583
:. 5 tons × R6 563 = R32 915

1.1.2 **Cost of finished goods sold/Finished goods.**

Opening stock of finished goods	**83 160**
Cost of production of finished goods (balancing figure)	1 075 104
Closing stock of finished goods	(33 264)
Cost of sales (1 500 000 × 100/133⅓%)	1 125 000

1.2 Refer to the information provided in the Information bullet (no.8) and calculate the correct total factory overhead costs after considering the errors and omissions. (**Indicate a negative effect with the use of a bracket).**

Incorrect total	**1 662 011**
Indirect raw material – opening balance	3 220
Indirect material – closing balance	(6 200)
Rent expenses (78 000 × 3/6)	39 000
Water and electricity (42 720/75% × 65%) = 37 024 – 42 720	(5 696)
Updated/Correct total	1 692 335

1.3 Complete the Production Cost Statement for the year ended 30 June 2022.

	Note	Amount
Direct/Prime costs		998 334
Direct material costs	1.1.1	118 494
Direct labour costs (203 040 × 4) + (203 040/12 × 4) (812 160 + 67 680)		879 840
Factory overhead costs		1 692 335
Total manufacturing costs		2 690 669
Work-in-progress at the beginning of the year		**38 808**
Work-in-progress at the end of the year (balancing figure)		(1 654 373)
Cost of production of finished goods	1.1.2	1 075 104

1.4 1.4.1 Calculate the number of boxes (units) that Terra Printing needs to make and sell to break-even. Show your supporting calculation.

$$\frac{610\ 000}{(1\ 500\ 000 / 7\ 000) - (250\ 041 + 118\ 494 + 879\ 840) / 7\ 000}$$

$$\frac{610\ 000}{214.29 \ - 178{,}34}$$

$$\frac{610\ 000}{35.95} = 16\ 968 \text{ boxes}$$

≈ 16 968

1.4.2 Will Tiffany be satisfied with the level of production and sales? Motivate your answer with a valid explanation.

No.
The number of boxes of printing papers produced (7 000) is lower than the break-even point of 16 968 boxes that need to be made and sold to cover all costs. They are 9 968 boxes short to break even Most likely the sales income will not be enough to cover all business expenses and to generate a profit and the business will run at a loss. Reference must be made 1.4.1

1.5 Considering the current economic climate, identify **TWO** challenges that Terra Printing will overcome.

- Production delays due to power failure/load shedding.
- Workers testing positive for covid-19 and unable to report to work.
- Less advertising of their products.
- Continues increase in costs.
- They only have 4 workers.
- Increase in petrol/diesel costs.
- Ukraine/Russian war.
- Strikes.
- Any other valid answer.

1.6 Calculate the direct material cost per unit for 2022. The direct material cost per unit for the 2021 financial year was R23,30. Provide **TWO** possible reasons for the change in direct material cost.

R118 494/7 000 units = R16,93 per unit. Reference must be made to 1.1.1

- Workers are using raw materials sparingly/minimising the wastage of raw materials.
- Purchases of raw materials from cheaper/local suppliers.
- Collecting raw materials purchased from the supply to cut down transport costs.

1.7 Tiffany is concerned about the change (variance) in the direct material cost per unit. What could Tiffany do to address the direct materials cost per unit issue? Provide her with **ONE** possible solution.

- Analysing past available data to correctly and realistically set the standard price and quantity.
- Negotiate a fixed raw material price.
- Make sure to control wastage more efficiently.

1.8 Selling and distribution costs have decreased from R375 045, in 2021 to R250 041, in 2022. Provide **TWO** possible reasons for the decline in cost.

- Fewer boxes of papers were sold, therefore, few deliveries.
- Not marketing the company effectively.
- Expenses are well-controlled (good internal control).
- Sell more locally.
- Covid-19
- Less bad debts.
- Any valid answer.

1.9 Tiffany would like to improve the profitability of Terra Printing. She is considering decreasing the standard ream of paper from 500 sheets per ream to 400 sheets. The packaging will still display 500 sheets per ream. Tiffany does not intend to decrease the selling price per box. Predict **TWO** reasons why Tiffany should not implement this strategy. Explain to Tiffany why this strategy **should not** be implemented.

- No, it is unethical behaviour – Tiffany must inform the customers about the reduction of the sheets in the ream.
- Dishonest/bad business practise.
- Illegal
- Should the customers find out about the reduction of sheets in the reams, the business will lose customers, the name of the business will be damaged and the possibility of generating income will decrease.

QUESTION 2 CASH FLOW STATEMENTS (33 minutes)

Refer to the information relating to Jawara Ltd.

2.1 Complete the Cash Flow Statement for the year ended 30 June 2022.
Show supporting calculations in brackets.

Cash flows from operating activities	**Note**	**Do not calculate**
Cash generation from operations		777 090
Interest paid		(46 920)
Dividends paid		(298 170)
Tax paid		(116 080)
Cash flows from investing activities		**Do not calculate**
Investment matured [106 000 – 101 000]		5 000
Proceed from sales of an asset		206 220
Additional asset bought		(673 300)
Cash flows from financing activities		**Do not calculate**
Proceeds from the issue of shares		576 080
Repurchases of shares (56 144 × 7.50)		(421 080)
Additional loan obtained		328 600
Repayment of loan [278 520 – 46 920]		(231 600)
Net change in cash equivalents		**Do not calculate**
Cash and cash equivalents – beginning of the year [668 160 – 660 000]		8 160
Cash and cash equivalents – end of year [289 000 –175 000]		**114 000**

2.2 Complete the following notes to the cash flow statement for the year ended 30 June 2022:

2.2.1 **Reconciliation between profit before taxation and cash generated from operations.**

Net profit before taxation [331 920 × 100/72]	461 000
Adjustments in respect of:	**259 840**
Loss on disposal of asset	**920**
Depreciation	**212 000**
Interest expense on loan	**46 920**
Operating profit before changes in working capital	720 840
Changes in working capital:	56 250
Increase in inventories [971 000 – 1 007 000]	(36 000)
Increase in receivables 1 197 000 – 1 338 000) [1 172 000 + 5 000 + 20 000] – [1 322 000 + 8 000 + 8 000]	(141 000)
1 240 500 – 1 007 250 Increase in payables [1 200 500 + 40 000] – [973 250 + 34 000]	233 250
Cash generated from operations	777 090

***Circle the correct definition of the movement**

2.2.2 **Dividends paid**

Amount owing at the end of the previous year	99 750	(99 750)
Dividends paid and recommended [198 420 + 112 500]	310 920	(310 920)
Amount owing at end of the current year	(112 500)	112 500
Amount paid	**298 170**	**(298 170)**

Calculation of the interim dividends:

Use the retained earnings/income note to calculate the interim dividend for the year:	
Retained income at the beginning of the year	**470 000**
Net profit after tax	331 920
Repurchases	0
Dividends:	(310 920)
Interim dividend	**198 420**
Final dividend	112 500
Retained income at the end of the year	**491 000**

2.2.3 **Taxation paid**

Amount owing at the end of the previous year	79 000	(79 000)
Statement of Comprehensive Income amount [331 920 × 28/72]	129 080	(129 080)
Amount owing at the end of the current year	(92 000)	92 000
Amount paid	**116 080**	**(116 080)**

QUESTION 2
CASH FLOW STATEMENTS
CALCULATION PAGE

Use the space provided to show the calculations. All final amounts must be transferred to the relevant preceding question.

Fixed (tangible) assets bought during the year.		
Carrying value at the beginning of the year	R5 959 000	
Additions **	**673 300**	
Depreciation	(212 000)	
Disposal at carrying value (206 220 - 920 loss)	(205 300)	
Carrying value at the end of the year	R6 215 000	
Additional loan obtained during the year:		**(4)**
Loan at the beginning of the year	2 590 000	
Interest capitalised	46 920	
Repayment of loan (23 210 × 12 months)	(278 520)	
Additional loan obtained	**328 600**	
Loan at the end of the year	2 687 000	
Loan repaid to be disclosed in the Cash Flow Statements.		
Repayment Interest	278 520 (46 920) = 231 600	
Proceeds from the issue of new shares:		
Ordinary share capital at the beginning of the year	3 990 000	
Proceeds from the issue of shares	**576 080**	
Repurchases of shares (56 144 × 7,50✓)	(421 080)	
Ordinary share capital at the end of the year	4 145 000	

QUESTION 3 COMPANY FINANCIAL STATEMENTS (45 minutes)

Refer to the information relating to Chidinma Ltd.
Show supporting calculations in brackets.

3.1 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 30 June 2022. Ensure that you include any additional information and adjustments. **Round off all calculations to the nearest Rand.**

Sales [55 300 200 × 133⅓/100✓]	73 733 600
Cost of sales	**(55 300 200)**
Gross profit	**Do not calculate**
Other operating income	**Do not calculate**
Rent income [2 648 580 – 361 170	2 287 410
Commission income [73 733 600 × 1%]	737 336
Bad debts recovered	75 000
Gross operating income	**Do not calculate**
Operating expenses	**Do not calculate**
Insurance	**777 484**
Directors fees	**1 525 000**
Sundry expenses	**422 800**
Depreciation	**966 352**
Telephone [1 955 000 + 5 000]	1 960 000
Packing materials [23 400 – 3 100]	20 300
Salaries and wages [5 811 500 – 79 200]	5 732 300
UIF Contribution (58 115 – 177)	57 938
Pension Fund Contribution [551 300 – 11 880]	539 420
Medical Aid Contribution [453 750 – 2 376]	451 374
Bank charges	14 365
Advertising and marketing expenses (812 700 – 8 500)	804 200
Loss due to load shedding [179 370 × 20%] or (179 370 – 143 496)	35 874
Trading stock deficit	9 757
Operating profit	**Do not calculate**
Interest income [356 250 + 152 500]	508 750
Profit before interest expense	**Do not calculate**
Interest expense / financing cost [217 430 + 16 238]	(233 668)
Net profit before tax	**Do not calculate**
Income tax [6 133 566 / 72] × 28	(2 377 498)
Net profit after tax	**6 113 566**

3.2 Complete the following notes to the Financial Statements for the year ended 30 June 2022.

3.2.1 **Inventory**

Trading inventory [1 879 730 – 179 370 – 9 757] Adju 12	1 690 603
Consumable stores on hand [23 400 – 20 300] Adju 12	3 100
	Do not calculate

3.2.2 **Trade and other receivables**

Trade debtors [5 079 195 +75 000] Adju 5	5 154 195
Debtors for salaries [79 200 – 12 672 – 5 940 – 2 376 – 177] Adju 4	58 035
Accrued income/Income receivables [152 500 + 737 336 + 143 496] Adju 12	1 033 332
Prepaid expenses [12 750 × 8/12] Adju 9	8 500
	Do not calculate

3.2.3 **Trade and other payables**

Trade creditors [6 156 600 – 18 995] Adju 3	6 137 605
SARS: PAYE [233 400 – 12 672] Adju 4	220 728
Pension fund [826 950 – 5 940 – 11 880] Adju 4	809 130
Medical Aid Fund [907 500 – 2 376 – 2 376] Adju 4	902 748
UIF [116 230 – 1 77 – 177] Adju 4	115 876
Deferred income/Income received in advance Adju 6	361 170
Expenses payable/Accrued expenses Adju 10	5 000
SARS: Income tax [1 711 640 – 2 377 498] Adju 11	665 858
	Do not calculate

3.2.4 Calculate the final bank account amount as would appear in the cash and cash equivalent note as a bank.

–147 620 + 2 325 000 – 14 365 – 18 995 – 19 560 – 16 238	2 108 222

QUESTION 3
COMPANY FINANCIAL STATEMENTS
CALCULATION PAGE

Use the space provided to show the calculations. All final amounts must be transferred to the relevant preceding question.

Deferred income/ Income received in advance.	
6M + 8M (0.9) = 2 648 580 6M + 7,2M = 2 648 580 13,2M = 2 648 580 M = 200 650 monthly rent before a decrease. :. 200 650 × 90% × 2 months = 361 170 Income received in advance	
Interest outstanding on investment.	
3 800 000 × 12,5% × 9/12 = 356 250 4 880 000 × 12,5% × 3/12 = <u>152 500</u> →Accrued income <u>508 750</u>	
OR 3 800 000 × 12,5% = 475 000 1 080 000 × 12,5% × 3/12 = <u>33 750</u> <u>508 750</u> :. 508 750 – 356 250 = 152 500	

QUESTION 4 INVENTORY (16 minutes)

Refer to the information relating to Rodriguês Adventures.
Show supporting calculations in brackets.

4.1 Calculate the closing stock value at year end of warm hiking boots using the **FIFO** method.

June: 5 000 × (£23,80 × R21,40 × 1,1)	2 801 260,00
April: 2 550 × (£23,662 × R21,40 × R21,40 × 1,1)	1 417 837,74
February: 4 675 × (£23,60 × R21,40 × 1,1)	2 597 168,20
	6 816 265,94
OR	
June: 5 000 × (R509,32 + R50,93)	2 801 250,00
April: 2 550 × (R505,47 + R50,55)	1 417 851,00
February: 4 675 × (R505,04 + R50,50)	2 597 149,50
	6 816 250,50

4.2 Calculate the cost of sales value of warm hiking boots for the current financial year.

Opening stock	6 752 700,00
Purchases (£648 265 × R21,40)	13 872 871
Custom duties (R13 872 871 × 10%)	1 387 287,10
Returns (225 × £23,80 × R21,40)	(114 597,00)
Donation (5 × R492,20)	(2 461,00)
Closing stock (4.1)	(6 816 265,94)
Cost of sales	**15 079 534,16**
OR	
Opening stock	6 752 700,00
Purchases (£648 265 × R21,40)	13 872 871
Custom duties (R13 872 871 × 10%)	1 387 287,10
Returns (225 × £23,80 × R21,40)	(114 597,00)
Donation (5 × R492,20)	(2 461,00)
Closing stock (4.1)	(6 816 250,50)
Cost of sales	**15 079 549,60**

4.3 Calculate the gross profit value of warm hiking boots for the current financial year.

Sales (29 800 × R656) – (15 × R656) 19 548 800 + 9 840	19 538 960,00
Cost of sales (4.2)	(15 079 534,16)
Gross profit	4 459 425,84
OR	
Sales (29 800 × R656) – (15 × R656)	19 538 960,00
Cost of sales (4.2)	(15 079 549,60)
Gross profit	4 459 410,40

4.4 Rodriguês, the owner of Rodriguês Adventures suspects that the warm hiking boots are not selling well. Give a relevant calculation to substantiate (explain) the low sales.

The number of units available for sales was (13 725 + 28 538 – 255 – 5) = 42 033, but only 29 800 were sold. 12 225 unsold units were noted. OR (12 225/42 033) × 100 = 29% of hiking boots unsold.

4.5 Rodriguês is concerned about the control of stock in the business. Provide an appropriate calculation to confirm that warm hiking boots were stolen.

Expected stock on hand = 42 033 – 29 800 + 15 = 12 248 Actual stock on hand = 12 225 Number of stock unaccounted for = 12 248 – 12 225 = 23
OR 13 725 + 28 538 – 225 – 5 – 29 800 +15 = 12 248 12 248 – 12 225 = 23

4.6 Rodriguês asks you to suggest strategies to improve stock control and sales. Explain **ONE** strategy for each concept. Consider the information provided.

Stock control	Sales
• Consider pricing of Warm Hiking Boots– compare with that of competitors. • Pricing of Warm Hiking Boots is increasing by 10% through import charges. If purchased locally, this will fall away. • 23 Warm Hiking Boots were stolen. Improve security, access, and storage within the business. • Install security cameras, and employ additional security guards. • Perform regular physical inventory counts and compare them with stock sheets so that deficits could be identified and investigated immediately. • Decrease carriage on purchases.	• Better marketing advertising. • Offer an incentive to customers. • Check the fluctuation of the currency and buy when favourable. • Decrease the mark-up to attract more customers, which will increase sales.

Total: 200 marks