INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
MAY 2023

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 INVENTORIES (28 minutes)

Refer to the information relating to the financial records of Simelane Traders.

1.1 List **TWO** reasons in support of Simelane Traders choosing the perpetual inventory system.

- Cost of sales is accounted for each time an item is sold. Trading inventory deficits can be identified easily/timeously.
- The value of the trading inventories according to the books can be checked/compared to the stock on the shelves.

High value item

1.2 Which other inventory system could Simelane Traders use to value their trading inventory?

Periodic inventory system.

1.3 Calculate the value of stolen items during looting including carriage.

R9 801,50
10 items x (R9 786 + R15,50) = R98 015
R9 335,50
8 items x (R9 320 + R15,50) = <u>R74 684</u>
<u>R172 699</u>
Or 205 381/22

1.4 Calculate the number of Bluetooth speakers sold during the year.

22 + 523 – 18 – 50 = 477

1.5 Calculate the value of closing inventory as of 30 June 2022, using the FIFO method.

R15 393,50
50 items x (R15 378 + R15.50) = R769 675.

1.6 Calculate the cost of sales for the year ended 30 June 2022.

14 items x R9 335,50		130 697,00
190 items x R9 801,50		1 862 285,00
193 items x R10 267,50	477 need to agree to 1.4	1 981 627,50
55 items x R12 830,50		705 677,50
25 items x R15 393,50		384 837,50
Carriage on purchases (Returned items) (7 x R15,50)		108,50
COST OF SALES		5 065 233

1.7 Calculate gross profit for the year ended 30 June 2022.

Sales [5 065 233 x 130/100]	6 584 802,90
Cost of sales (1.6)	(5 065 233)
GROSS PROFIT	1 519 569,90

1.8 If Simelane Traders had chosen to use the weighted average method of valuing stock, what effect would this have had on their gross profit? To support your answer, provide a calculation using relevant information and figures that were provided in the information book.

Stock on hand would be: $\dfrac{205\ 381 + 5\ 794\ 011 + 8\ 215 - 172\ 699\ (1.3)}{22 + 523 - 18}$ $\dfrac{5\ 834\ 908}{527}$ 11 071,93 :. 50 speakers x R11 071,93= R553 597 (1.5 & 1.6) Perpetual 1.4: sales 477 x 11 071 .93 (WAV) = R5 281 310.61 vs FIFO R5 065 233 Difference in stock valuation = R769 675 – R553 597 = R216 078 Gross profit would decrease by R216 078 under the Weighted Average method. COS(WAV) – COS(FIFO) = 216 077.61; COS higher WAV; so less Gross profit

1.9 Simelane Traders is considering changing from the perpetual inventory system to another inventory system. List **ONE** disadvantage of using this alternative inventory system.

Could be difficult to calculate the cost of sales, as Simelane Traders will need a computer with a bar code system.

1.10 Simelane Traders is undecided about the selling price and whether they should adjust up or maintain it. Give **TWO** points of advice to Simelane Traders to assist the business with decisions.

- The fact that they keep their prices constant could be a problem, they should consider increasing selling prices because:
  - The purchase price of inventory from suppliers keeps on increasing monthly, therefore, the company should consider increasing the selling price to be in line with the price that the suppliers are charging.
  - Inform the public about the reasons for the increase in selling prices, e.g. Increase in petrol and electricity price.
  - Minimise the possibility of a decline in profit with the possibility of running at loss. An additional profit to cover loss considers an increase in fuel(petrol/diesel) cost that could lead to an increase in carriage costs.

OR: Not changing

- An opposing viewpoint could be that; the company should maintain the same selling prices as an increase in price could turn customers away.
- Depends on the price sensitivity of the customers, especially if there is another viable competitor in the area.

1.11 In your opinion, does Simelane Traders keep sufficient stock on hand to satisfy its customers? Support your answer with the use of a financial indicator.

Financial indicator (3)
Various indicators possible – to compare to the 50 speakers on hand, e.g.: 477 speakers sold p.a. = 40 (s9.75) per month (50/40) – this will last 1,25 months Note: Markers will need to recalculate below! **OR** Turnover rate of stock $= \dfrac{5\,065\,233\ (1.6)}{½\ (205\,381 + 769\,675(1.5)}$ $\dfrac{5\,065\,233}{487\,528} =$ **<u>10,39 times</u>** **OR** Period of stock on hand $= \dfrac{(1.5)\ 769\,675}{(1.6)\ 5\,065\,233} \times \dfrac{365}{1} =$ **<u>55,46 days</u>**
Conclusion (2)
Yes, Simelane Traders does have enough inventory on hand as it could last for 55.46 days before they run out of stock. **OR** The company replaces its stock 10,39 times a year, therefore, it will have enough stock.

1.12 If you were appointed as the internal auditor, what internal control procedures would you recommend for Simelane Traders to implement to minimise errors in the inventory records? Provide **TWO** points.

- Inspect incoming inventory.
- Tag all inventory.
- Trace extra requisitions and returns.
- Sign for all inventory removed from the warehouse/storeroom.
- Count goods, value them and compare actual to balance on the Trading stock account (regular stocktaking).
- Segregate customer-owned inventory.
- Standardise record keeping for inventory picking.

(Any valid answer relating to stock record keeping)

1.13 Simelane Traders does not have insurance. Give them **ONE** benefit of insurance.

- Insurance provides financial protection against sudden loss.
- Owners would not be financially responsible for unexpected misfortunes such as weather-related catastrophes, fire or, theft. (other valid answers)

QUESTION 2 FINANCIAL STATEMENTS (34 minutes)

Information relating to Mulenga Ltd.

2.1 Calculate the depreciation expense for the financial year on the delivery vehicle sold. Show you supporting calculation.

136 320 (213 000 – 76 680) x 20% x 8/12	18 176

2.2 Show the calculation for the sale of the vehicle and indicate if it is a profit/loss.

Cost price	213 000
Accumulated depreciation (76 680 + 18 176 (2.1)	(94 856)
Bank	(120 714)
Profit on sales of vehicle	2 570

OR

20.6		Vehicle	213 000	20.6		Accumulated depreciation (76 680 + 18 176)	94 856
		Profit on sales of vehicles	2 570			Bank	120 714
			215 570				**215 570**

2.3 Refer to additional information no. 1 to 4. and calculate the adjusted net profit after tax for the year ended 30 June 2022. Indicate if the amount will be added or subtracted. Use brackets ( ) for negative values.
Note: Round off calculations to the nearest rand.

Net profit before tax (155 780/25%)	623 120
Depreciation on vehicle sold (2.1)	(18 176)
Profit on sales of vehicles (2.2)	2 570
Marketing expenses	3 390
Provision for bad debts adjustments	9 725
Net profit before tax (After adjustment)	620 629
Income tax (620 629 x 30%)	(186 189)
Net profit after tax	434 440

2.4 Calculate the average share price (round off to two decimal places).

(10 067 630 + 393 750) / (940 900 + 31 500)	R10,76

2.5 Complete the following notes to the financial statements as they would have appeared on 30 June 2022. All workings must be shown.

2.5.1 **Ordinary Share Capital**

AUTHORISED	
2 000 000 ordinary shares	
ISSUED	
940 900 ordinary shares in issue at beginning of the financial year	**10 067 630**
31 500 shares of R12,50 each issued during the year	393 750
13 400 shares repurchased (average price R10,76) (2.4)	(144 184)
959 000 ordinary shares in issue at end of the financial year	10 317 196

2.5.2 **Retained Income**

Retained income at beginning of the year	**1 929 817**
Net profit after tax for the year	434 440
Repurchase of 13 400 shares at R8.60 (2.3) 19.36 – 10.76	(115 240)
Dividends on ordinary shares	(337 660)
Paid/Interim (940 900 + 31 500) x 15 cents	145 860
Recommended/Final (959 000 x 20 cents)	191 800
Retained income at end of year	1 911 357

2.6 Complete the Statement of Financial Position on 30 June 2022.

Note: Where notes are not required, show working in brackets to earn part marks. Items that form part of trade and other receivables/payables, must be disclosed separately in the Statement of Financial Position.

ASSETS	**Workings:**	
Non-Current assets		**Do not calculate**
Fixed (Tangible) assets	(**6 485 323** -18 176 – 213 000 + 94 856 (2.2))	6 349 003
Investment in Farai Bank		2 877 000
Current Assets		**Do not calculate**
Trading stock		2 980 665
Trade debtors	(**5 965 279** + 9 725 adj4)	5 975 004
Loan receivables		109 000
Accrued income		47 399
Prepaid expenses		3 390
Cash and cash equivalent	(**4 230 041** + 120 714 adj2 – 259 424(13 400 x 19.36) repurchase of shares – 145 860 adj8)	3 859 346
TOTAL ASSETS		**Do not calculate**
EQUITY AND LIABILITIES		
ORDINARY SHAREHOLDERS EQUITY		**Do not calculate**
Ordinary share capital	Refer to note total (2.5)	10 317 196
Retained income	Refer to note total (2.5)	1 911 357
NON-CURRENT LIABILITIES		**Do not calculate**
Loan from Makete Bank	(2 477 189 – 243 036)	2 234 153
Current liabilities		**Do not calculate**
Trade creditors		7 173 415
Current portion of the loan		243 036
Deferred income		2 741
Shareholders for dividends		191 800
SARS: Income Tax	(186 189 (2.3) – 59 080 adj7)	127 109
TOTAL EQUITY AND LIABILITIES		**Do not calculate**

QUESTION 3 CASH FLOW STATEMENT (33 minutes)

Refer to the information relating to Cules Ltd.

3.1 Refer to the additional information and calculate the carrying value of the equipment sold.

Carrying value at the beginning of the year	24 524 000
Depreciation	(5 336 000)
Disposal @ carrying value	(4 135 000)
Additional assets bought	15 327 000
Carrying value at the end of the year	30 380 000

3.2 Complete the reconciliation between profit before taxation and cash generated from operations.

Note: show supporting calculations

Profit before taxation	□8 004 000
Adjustment in respect of:	
Depreciation	**5 336 000**
Interest on loan	**3 095 000**
Operating profit before changes in working capital	16 435 000
Changes in working capital:	4 816 000
Decrease in Inventory (18 845 000 – 18 396 000)	□449 000
Decrease in Debtors 4 726 000 6 775 000 [(3 921 000 + 522 000 + 283 000) – (4 106 000 + 2 440 000 + 229 000)]	□2 049 000
Increase in Creditors 24 124 000 26 442 000 [(20 157 000 + 3 103 000 + 864 000) – (22 648 000 + 2 921 000 + 873 000)]	□2 318 000
Cash generated from operations	21 251 000

3.3 Complete the Cash Flow Statement for the year ended 30 June 2022. Where notes are not required, show workings in brackets to earn part marks.

CASH FLOWS FROM OPERATING ACTIVITIES	**Do not calculate**
Cash generated from operations (3.2)	21 251 000
Interest paid	(3 095 000)
Dividends paid (–112 000 – 2 228 680 + 78 000)	(2 262 680)
Taxation paid (–1 148 000 – 2 241 120 + 416 000)	(2 973 120)
CASH FLOWS FROM INVESTING ACTIVITIES	**Do not calculate**
Purchase of fixed assets	(15 327 000)
Cash received from Investments matured	□5 055 000
Proceeds on disposal of fixed assets (3.1)	4 135 000
Proceeds on the disposal of discontinued operations	**54 000**
CASH FLOWS FROM FINANCING ACTIVITIES	**Do not calculate**
Repurchase of shares (6710 000 – 6061 000 = 649 000 + 1 659 200)	□(2 308 200)
Payment of mortgage loan (14 682 000 – 3 095 000)	(11 587 000)
Proceeds from mortgage loan (27 577 000 +14 682 000 – 3 095 000 – 35 396 000)	□□3 768 000
NET CHANGE IN CASH AND CASH EQUIVALENTS	□ (3 290 000)
Cash and cash equivalents: beginning of year (12 114 000 – 2 095 000)	10 019 000
Cash and cash equivalents: end of year (7 950 000 – 1 221 000)	6 729 000

3.4 Cules Ltd is selling savings stamps. Customers are buying these stamps as this will help them to save small amounts of money that they can exchange at a later stage for Christmas groceries.

3.4.1 In the General Ledger accounts, the sales of savings stamps will be treated differently from the sale of goods. Provide a reason to support why it would be treated differently.

- Proceeds from the sales of savings stamps are initially recognised as income received in advance (deferred revenue).
- Revenue is recognised as sales of merchandise when the savings stamps are redeemed.
- Proceeds from the sales of savings stamps give customers the right to receive goods or services in the future.

3.4.2 When the customers buy savings stamps from the company, how should this transaction be recorded in the books of the company? Indicate the two accounts which will be affected. Show which account will be debited and which one will be credited.

- Debit: Bank account
- Credit: Sales of savings stamps account. □**Or Cr Deferred Income**□

3.5 When the customers use the savings stamps to buy goods and services from the company, how should the transactions be recorded in the books of the company? Indicate the **FOUR** accounts that will be affected.

- Debit: Sales of savings stamps account
- Credit: Sales □□□□□□□□□□□□□□**Or Dr Deferred income Cr Sales**

- Debit: Cost of sales
- Credit: Trading stock/inventory

3.6 Identify the financial statement and item that the business will disclose the unused saving stamps value on 30 June 2022.

- The value of the unused savings stamps bought by the customers will be recorded in the statement of financial position, under trade, and other payables as income received in advance (deferred income). and if only say current liabilities also a mark.

3.7 The company has included under Trade and other payables note 'Employee benefit accruals'. List **TWO** items that would form part of employee benefit accruals.

- Creditors for wages and salaries
- UIF Contributions + deductions not paid to the labour department
- Pension/provident fund contributions + deductions not paid to the fund
- Medical aid contributions + deductions not paid to the medical aid company
- Group life contributions + deductions not paid to fund.
- Any two accounts/ items

QUESTION 4 MANUFACTURING (25 minutes)

Refer to the information relating to Boots for Africa.

4.1 Calculate the total direct labour cost for the year ended 30 June 2022.
Note: Show supporting calculations.

Provisional total (excluding last week of financial year)	**1 023 797**
Normal time: 20 x 24 x 24	□11 520
Normal time: 20 x 6 x 36	□4 320
Overtime: 5 x 16 x 48	□3 840
UIF contribution (11 520 + 4 320) x 1%	□158,40
Skills Development Levy (15 840 x 1%)	□158,40
Pension fund contributions (15 840 x 15%)	□2 376
Medical Aid Fund Contribution (15 840 x 10%)	□1 584
Final year-end total labour cost	1 047 753,80

4.2 Complete the direct materials cost note for the year ended 31 June 2022.

Note: Show supporting calculations

Opening stock	**80 100**
(RM 20,50 x 900 m^2 x R3,46) Purchases (967 680 – 50 850 + 63 837)	980 667
Carriage on purchases	6 030
Closing stock	**(72 900)**
Raw material issued to factory	993 897

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

Note: Show supporting calculations.

Prime cost	2 041 650,80
Direct labour (refer to 4.1)	1 047 753,80
Direct materials (refer to 4.2)	993 897
Factory overheads	**588 353**
Total cost of production	2 630 003,80
Work-in-progress at the beginning of the year	**1 233 000**
Work-in-progress at the end of the year	(908 603,80)
Cost of completed goods/ finished goods (4.4)	2 954 400

4.4 Complete the cost of production of finished goods sold note.

Opening inventory of finished goods	**216 000**
Cost of production of finished goods produced during the year(4.3)	2 954 400
Closing inventory of finished goods (balancing figure)	(167 400)
Cost of finished goods sold (4 004 000 x 100/133⅓)	3 003 000

4.5 Suggest **TWO** ways in which Boots for Africa could decrease direct material cost.

- Make sure that there is no wastage when cutting out the leather for the boots.
- Source a local supplier of leather where the quality can be guaranteed.

Any valid answer.

4.6 Calculate the variable costs per unit.

(2 041 650,80 (4.3) + 285 000) / (4 004 000/250,25)

2 326 650,80/ 16 000 = 145,42

4.7 Calculate the breakeven point for the year ended 30 June 2022.

$$\frac{(588\ 353 + 340\ 000)}{(250.25 - 145{,}42(4.6))}$$

$$\frac{928\ 353}{104{,}83}$$

= 8 856 pairs of boots

4.8 Should Boots for Africa be satisfied with the current level of production? Motivate your answer by including relevant figures to support your answer.

Yes.
The business produced 16 000(4 004 000/ 250.25) pairs of boots – 7 144 (16 000 – 8 856) above the breakeven required. Business is therefore making a profit

Total: 200 marks