



NATIONAL SENIOR CERTIFICATE EXAMINATION
SET A 2020

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 INVENTORY CONTROL AND VAT**[27 minutes]****Refer to the Information Booklet for information relating to WIN LTD.****PART A**

Study the information to do with Win Ltd then answer the following questions:

- 1.1 Calculate the weighted average of one box of medals on 30 June 2020.

$$\frac{2\,034 + 15\,190 - 470/395}{5 + 34 - 1}$$

Or $250 + 1\,700 - 50$ (if medals used)

$$= R440.89$$

- 1.2 Complete the trading statement for medals on 30 June 2020.

Sales (27 × 50 × 30)	40 500
Cost of Sales Or (5 + 34 – 1 – 7) × 440.89 (stock count method)	(13 667.77)
Opening stock	2 034
+ Purchases (15 190 – 470/395)	14 720
– Closing stock (440.89 see 1.1 × 7)	(3 086.23)
Carriage on purchases accepted if subtracted from purchases (2 550)	
Gross Profit	26 832.23

- 1.3 Calculate the rand value of the closing stock for trophies.

$$550 + 1\,420_{\text{purchases}} - 92_{\text{returns}} - 650 = 1\,228 \text{ units on hand}$$

$$(700 - 42) 658 \times R300 = 197\,400$$

$$100 \times R800 = 80\,000$$

$$470 \times R400 = \underline{188\,000}$$

$$465\,400$$

PART B VAT IS CALCULATED AT 15%

- 1.4 Refer to the VAT transactions 1–5 in the Information Booklet.
Transaction 1 has been done correctly. Complete transactions 2–5.

Calculate the applicable VAT amount per transaction and then clearly state if this will increase or decrease the opening balance given.

#	VAT amount	Increase or decrease
	Opening balance	33 050(dr)
1	9 900	decrease
2	$75\,900 \times 10 / 90 = 8433 \times 15 / 115 = 1\,100$	decrease
3a	270	increase
3b	54	decrease
4	180	increase
5	90	decrease

- 1.5 Jacorine has recently heard that Start to Finish Ltd is eligible to use the receipt based method for paying VAT over to SARS. Would you suggest that she make this change, what impact might this have on Start to Finish Ltd?

Yes, because of the nature of her business (90% of sales are on account and debtors take 60 days to pay) this will dramatically improve cash flow as VAT will only need to be paid to SARS once money has been received.
Simpler to record and easier to calculate.
Explain receipts and payments.
Or, No if it was time consuming going back to original invoice.

- 1.6 After 90 days Start to Finish Ltd charge 12% interest on any amounts still outstanding from debtors. Explain whether the VAT on the interest income would be accounted for by the business? Give a reason for your answer.

No, interest income is VAT exempt.
Interest does not add value
Financial costs

QUESTION 2 FINANCIAL STATEMENTS**[33 minutes]****Refer to the Information Booklet for information relating to HIKE CENTRAL LTD.****All workings need to be shown as part marks will be allocated to them.** The number of lines does not represent the number of entries required.

- 2.1 Complete the extract of the Statement of Comprehensive Income (Income Statement) for the year ending 30 June 2020.

HIKE CENTRAL LTD
Extract of Statement of Comprehensive Income for year ending 30 June 2020

Other operating incomes	116 310
Rent Income (133 200 – 18 400)	114 800
Provision for bad debts adjustment	1 510
Gross operating income	310 335
Operating expenses	(128 975)
Directors' fees (87 939 +15 222)	103 161
Advertising & Marketing expense (12 400 – 3 450)	8 950
Discount allowed (1 174 – 178)	996
Donations (4 500 × 100 / 60)	7 500
Trading stock deficit	1 078
Depreciation	7 290
Operating profit before interest	181 360

Calculations should be shown in the boxes below or in the statement of comprehensive income to be awarded part marks.

Rent Income	Depreciation on Equipment
$133\,200 + (550 \times 6) / 14 = 9\,750$ $9\,750 - 550 = 9\,200$ New rental from 1 March = 9 200 $2 \times 9\,200 = R18\,400$ $133\,200 - 18\,400 = 114\,800$	New: $18\,000 \times 10\% \times 9 / 12$ $= 1\,350$ Old: $111\,000 - 51\,600 = 59\,400 \times 10\%$ $= 5\,940$ Total depreciation = 7 290
Provision for bad debts adjustment	Trading Stock deficit/surplus
$169\,000 \times 3\% = 5\,070$ $6\,580 - 5\,070 = 1\,510$	$47\,500 - 7\,500 - 38\,922$ $= 1\,078$

- 2.2 Complete the following notes to the financial statements as it would have appeared on 30 June 2020. All workings must be shown.

TRADE AND OTHER RECEIVABLES	AMOUNT
Net trade debtors	163 930
Debtors Control (165 440 + 3 560 (178 + 3 382))	169 000
Provision for bad debts (6 580 – 1 510 (method from I/S))	(5 070)
Prepaid expense	3 450
SARS: Income Tax (41 000 – 35 000)	6 000
	173 380

CASH AND CASH EQUIVALENTS	AMOUNT
Bank (196 480 – 26 480 – 3 382)	166 618
Maturing fixed deposit (396 480 – 196 480)	200 000
	366 618

RETAINED INCOME	AMOUNT
Retained income at the start of the year	494 885
Net profit / loss after tax for the year $\left(35\,000 \times \frac{72}{28}\right)$	90 000
Repurchase of 13 650 shares at 3,50 above ave	(47 775)
Dividends	(337 110)
Paid	134 844
Recommended	202 266
Retained income at the end of the year	200 000

TRADE AND OTHER PAYABLES	AMOUNT
Trade creditors	312 400
Accrued expenses	15 222
Income received in advance	18 400
Shareholders for dividends	202 266
	548 288

QUESTION 3 CASH FLOW STATEMENT**[29 minutes]****Refer to the Information Booklet for information relating to SPEIRS LTD.**

- Some figures have been filled in for you, these are correct.
- Any workings must be shown in the brackets provided.

3.1 Complete the note showing the reconciliation of profit before taxation and cash generated from operations.

Profit before taxation (518 400 + 201 600)	720 000
Adjustment in respect of:	423 600
Depreciation	103 600
Interest expense (316 250 + 3 750) 100 000 × [3 / 12 × 15%]	320 000
Operating profit before changes in working capital	1 143 600
Changes in working capital	(78 400)
Increase / Decrease in Inventory (260 000 – 140 000)	(120 000)
Increase / Decrease in trade and other receivables <i>*balancing*</i>	134 600
Increase / Decrease in trade and other payables (426 420 + 580 – 520 000)	(93 000)
Cash generated from operations	1 065 200

Inventory	Trade and other payables
COS / Average stock = 11 (2 200 000 / 11 = 200 000 ½(260 000 + X) = 200 000 X = 140 000	426 420 + 580 – 520 000
Depreciation	
3 683 600 + 1 440 000 – 320 000 – 4 700 000	

3.2 Calculate the mortgage bond increase by on 1 February 2020.

5 500 000 × 0.6 = 3 300 000 3 300 000 – (60 000 × 12) – 2 880 000 = 300 000
--

Alternative answer if candidate drew up a T-Account

Mortgage Bond									
2020 Feb	29	Bank	CPJ	720 000 60 000 × 12	2019 Mar	1	Balance	b / d	3 300 000 <i>5 500 000 × 0.6</i>
	29	Balance	c / d	2 880 000	2020 Feb	1	Bank	CRJ	300 000
				3 600 000					3 600 000
					Mar	1	Balance	b / d	2 880 000

3.3 3.3.1 Interest on mortgage bond paid

Workings: $31\,625 + 316\,250 - 27\,600$
Amount paid: 320 275

3.3.2 Taxation paid

Workings: $7\,000 - 201\,600 - 9\,250$
Amount paid: 203 850

3.4 Calculate the total dividends paid and declared for the year.**Workings:** $450\,000 \times 20\text{ c} = 90\,000$ $75\,000 + 450\,000 = 525\,000 \times 25\text{ c} = 131\,250$ $= 221\,250$ Or: $720\,000 - 201\,600 - 297\,150 = 221\,250$ Or: $1\,000\,000 + 518\,400 - 1\,297\,150 = 221\,250$ **Amount paid and declared:** 221 250**3.5 Complete the Cash Flows From Financing Activities section of the Cash Flow Statement for the year ended 29 February 2020.**

CASH FLOWS FROM FINANCING ACTIVITIES	Do not calculate
Proceeds from shares issued (R5 850 000 – 4 500 000)	1 350 000
Proceeds from long term loans and mortgage (100 000 +300 000 see 3.2)	400 000
Repayment of loan	(720 000)

QUESTION 4 MANUFACTURING AND ASSET DISPOSAL**[31 minutes]****Refer to the information book for details relating to FOOTI FOOTGEAR LTD.**

All workings must be shown in the calculation blocks for part marks to be awarded.

- 4.1 Complete the Tangible Asset note as it would appear in the Statement of Financial Position as at 30 June 2020. Use information A from the information book.

NOTE 3: TANGIBLE ASSETS	VEHICLES
Carrying Value on 1 July 2019	262 700
Cost price	398 000
Accumulated depreciation	(135 300)
Movements	Do not calculate
Additions	-
Disposals at carrying value (141 000 – 63 450 – 17 625)	(59 925)
Depreciation (38 550 + 17 625)	(56 175)
Carrying value on 1 July 2020	146 600
Cost price	257 000
Accumulated depreciation	(110 400)

Disposals at carrying value	Depreciation
141 000 – 63 450 – 17 625	$[141\,000 \times 15\%] \times 10 / 12 = 17\,625$
= 59 925	$398\,000 - 141\,000 = 257\,000 \times 15\%$ = 38 550
	Total depreciation = 56 175

- 4.2 Complete the notes to the production cost statement.

Note: Raw Materials**Or**

Raw material stock @ beginning of the year	746 829	749 579
Purchases (588 550 – 4 000)	584 550	584 550
Carriage on purchases	11 000	8 250
Raw material stock @ end of year (698 171 – 3171)	(695 000)	(695 000)
	647 379	647 379

No method if recorded carriage on sales (R33 000)

Note: Factory Overhead Cost

Indirect labour (294 000 + (294 000 × 15%) 44 100	338 100
Rent	256 000
Consumable Stores (17 600 × 60 / 40)	26 400
Depreciation (from note 3)	56 175
Insurance	12 060
Water and electricity *balancing*	210 266
	899 001

Stock loss entry: debit closing stock. Credit trading stock. But ignore if candidates have included in factory overhead cost.

Rent expense	Insurance
(208 000 – 16 000) × 4 / 3 = 256 000	11 000 + 1 000 + 60

4.3 Complete the Production Cost Statement for 30 June 2020.

Footi Footgear Ltd:**Production Cost Statement for the year ended 30 June 2020**

Prime Costs	1 623 699
Direct Material Cost	647 379
Direct Labour Cost	976 320
Factory Overhead Cost	899 001
Total Manufacturing Cost	2 522 700
Work in process stock @ the beginning of the year	20 000
	2 542 700
Work in process @ the end of the year	(292 700)
Total production cost of Finished Goods	2 250 000

#	Calculation	Final answer
Direct Labour	$R108\,000 \times 8 = 864\,000 + 8\,640 + 103\,680$	R976 320
Prime costs	$647\,379 + \text{direct labour (976 320)}$	R1 623 699
Total manufacturing cost	Prime costs + R899 001	R2 522 700
Work in process -End	Total manufacturing cost + 20 000 – Cost of finished goods	R292 700
Cost of finished goods	$+ 2\,000\,000 \text{ COS} + 840\,000 \text{ CS} - \text{OS } 590\,000$ $4\,200\,000 \times 100 / 210 = 2\,000\,000$	R2 250 000

- 4.4 Footi Footgear Ltd outsources their delivery on sales to FastCar and pays for this service themselves. They are considering employing a driver and using their own vehicle instead. Discuss two factors that need to be considered before making their decision.

• In house driver vs outsourcing Labour problems (sick, cost of employment, leave)
• Wear and tear vs outsourcing/Vehicle costs/fuel/maintenance
• Driver training/accidents

should be comparing in house vs outsourcing

- 4.5 Due to a factory worker strike a large amount of work in process has been left on the production floor. Their current cash flow does not allow management to increase their wages. Provide one solution which may convince the factory workers to return to work.

Share incentives
Working conditions/hours
Offer staff discounts on stock they produce/stock giveaway
Monetary items/staff rewards were not accepted

Total: 200 marks