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INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
NOVEMBER 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 MANUFACTURING

Refer to the information relating to Tanatswa Tyres Manufacturers.

- 1.1 Complete the following notes to the Production Cost Statement as it would appear on 30 September 2023:

- 1.1.1 Direct material costs.

Opening stock	28 776
Purchases $(212\,000 + 95\,370 \rightarrow 289\,000 \times R0.33)$	307 370
Carriage on purchases $(21\,200 + 9\,537) \rightarrow R95\,370 \times 10\%$	30 737
Import duties	9 537
	376 420
Closing stock $(25\,179 - 10\,395) \rightarrow (R85,47 - R74,9) \times 990$ $(84\,615,30 - 74\,220,30)$	(14 784)
Raw materials issued to the factory	361 636

- 1.1.2 Direct labour costs.

Production wages $(423\,400 + 12\,600) \rightarrow 10\,206 / 81\%$	436 000
UIF contribution $(4\,234 + 126)$	4 360
Must add to get a method mark	440 360

- 1.1.3 Cost of finished goods sold/ Finished goods.

Opening stock of finished goods	110 550
Cost of production of finished goods (balancing figure)	999 944
	1 110 494
Closing stock of finished goods	(10 494)
Cost of sales $(1\,760\,000 \times 100/160\%)$	1 100 000

- 1.2 Calculate the factory overhead costs.

Consumable stores $(1\,749 + 25\,230 - 2\,514)$	24 465
Salary: foreman	184 900
Water and electricity $(138\,840 - 3\,240) \times 75\%$ of 135 600	101 700
Factory sundry expenses	89 910
	400 975

- 1.3 Complete the Production Cost Statement for the year ended 30 September 2023.

	Note	Amount
Direct/Prime costs		☒ 801 996
Direct material costs	1.1.1	361 636
Direct labour costs	1.1.2	440 360
Factory overhead costs		400 975
Total manufacturing costs		☒ 1 202 971
Work-in-progress at the beginning of the year		30 000
Work-in-progress at the end of the year (balancing figure)		(233 027)
Cost of production of finished goods	1.1.3	999 944

- 1.4 1.4.1 Calculate the number of units that Tanatswa Tyres Manufacturers need to produce and sell in order to break-even. (Assume that all factory overheads and administration costs are fixed costs, and other costs are variable). Show your calculation and round off to the nearest unit.

$\frac{400\,975 \text{ (Ref to 1.2)} + 300\,130}{1\,100 - 1\,020}$ $\frac{701\,105}{80}$ $= 8\,763,81 \text{ Units}$ $\approx 8\,764$

- 1.4.2 Give a possible reason for the change in the unit cost of direct material and labour.

Direct material	Direct labour
• The business is making use of cheaper suppliers.	• Good wage increases negotiated by trade unions.
• Buying local to cut down on transport costs and import levy/duties.	• More overtime worked.
• Taking advantage of bulk purchases to get a discount.	

- 1.4.3 How many units were sold during the 2023 financial year?

$1\,760\,000 / 1\,100 = 1\,600 \text{ units}$

QUESTION 2 CASH FLOW STATEMENTS**(64 marks, 38 minutes)**

Refer to the information relating to Siyabonga Ltd.

2.1 Complete the following notes to the Statement of Financial Position for the year ended 31 October 2023.

2.1.1 ORDINARY SHARE CAPITAL	
AUTHORISED	
1 000 000 ordinary shares	
ISSUED	
480 000 ordinary shares in issue at the beginning of the financial year	600 000
(65 000) shares repurchased (average price R 1,25)	(81 250)
122 500 additional shares issued during the year at R6,50	796 250
537 500 ordinary shares in issue at the end of the financial year	1 315 000

2.1.2 RETAINED INCOME	
Retained income at the beginning of the year	2 786 200
Net profit after tax for the year	366 480
65 000 ordinary shares repurchased at (6,50 – 1,25 check calculation below) R5,25	(341 250)
Dividends on ordinary shares	(410 730)
Interim/paid	25 630
Final/recommended	385 100
Retained income at end of year	2 400 700

Calculation: Buy-back of shares (Average price)
$\frac{600\,000}{480\,000} = R1,25 \text{ average price}$ $R6,50 - R1,25 = R5,25 \text{ Excess amount (Retained Income)/ Above average}$

- 2.2 Complete the Cash Flow Statement for the year ended 31 October 2023.
Show supporting calculations in brackets.

	Note	Do not calculate
Cash flows from operating activities		
Cash generated from operations		2 360 800
Interest paid Ref to 2.3.1 for method mark		(1 078 800)
Dividends paid		(378 930)
Tax paid		(1 414 320)
Cash flows from investing activities		Do not calculate
Increase in investment [106 000 – 69 700]		(36 300)
Proceed from sales of an asset [350 000 – 247 900]		102 100
Purchases of fixed/tangible assets		** (206 000)
Calculation of fixed/tangible assets bought during the year:		
Carrying value at the beginning of the year	21 098 300	
Additions **	206 000	
Depreciation (115 500 + 99 000)	(214 500)	
Disposal at carrying value	(102 100)	
[350 000 – 247 900]		
Carrying value at the end of the year	20 987 700	
Cash flows from financing activities		Do not calculate
Proceeds from the issue of shares		796 250
OR		
Repurchases of shares [65 000 × 6,50]/ (81 250 + 341 250)		(422 500)
Additional loan obtained		64 000
Repayment of mortgage bond [1 809 000 – 1 078 800]		(730 200)

2.3 Complete the following notes to the cash flow statement for the year ended 31 October 2023:

2.3.1 Reconciliation between profit before taxation and cash generated from operations.

Net profit before taxation	544 000
Adjustments in respect of:	Do not calculate
Depreciation [115 500 + 99 000]	214 500
Interest expense (Interest on mortgage bond)	** 1 078 800
Calculation of interest on mortgage bond:	
Mortgage bond at the beginning of the year	14 322 700
Interest capitalised **	1 078 800
Repayment of mortgage bond (150 750 × 12 months)	(1 809 000)
Additional bond obtained	64 000
Mortgage bond at the end of the year	13 656 500
OR	
1 4322 700 + 64 000 – 13 656 500 = 730 200	
1 809 000 – 730 200 = 1 078 800	
Operating profit before changes in working capital	1 837 300
Changes in working capital:	523 500
Increase in inventories [8 277 300 – 7 193 300]	(1 084 000)
Decrease in receivables 3 664 900 – 3 743 700 [3 218 800 + 324 200 + 121 900] – [3 430 200 + 209 500 + 104 000] OR [3 743 700 – 4 207 600 + 542 700]	78 800
Increase in payables 12 680 100 – 11 151 400 [10 248 700 + 2 431 400] – [9 104 600 + 2 046 800]	1 528 700
Cash generated from operations	2 360 800

2.3.2 Dividends paid

Amount owing at the end of the previous year	353 300	(353 300)
Dividends paid and recommended [25 630 + 385 100]	410 730	(410 730)
Amount owing at the end of the current year	(385 100)	385 100
Amount paid	378 930	(378 930)

2.3.3 Taxation paid

Amount owing at the end of the previous year	694 100	(694 100)
Statement of Comprehensive Income amount [544 000 – 366 480]	177 520	(177 520)
Amount owing at the end of the current year	542 700	(542 700)
Amount paid	1 414 320	(1 414 320)

2.3.4 Cash and cash equivalents

	2023	2022
Cash and cash equivalent	6 765 900	5 711 500
Bank overdraft	(9 907 100)	(7 908 800)
	Do not calculate	Do not calculate

2.4 Your audit firm, Njabulo and Associates, has recently been appointed as the auditors of Siyabonga Ltd. You are the external audit manager for the financial year ending 31 October 2023.

2.4.1 Provide TWO audit procedures you would perform to verify the existence of vehicles in Siyabonga Ltd.

- Obtain a list of vehicles owned by Siyabonga Ltd from the assets register and do a random selection. - Physically verify the vehicles selected from the assets register. - For the vehicles that could not be verified physically, confirm their existence by inspecting license discs. - Inspect the insurance contract for those selected vehicles. - Phone the third party for confirmation.

QUESTION 3 COMPANY FINANCIAL STATEMENTS

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

- 3.1 Complete the extract of the Statement of Comprehensive Income (Income Statement) for the year ended 31 October 2023. Ensure that you include any additional information and adjustments. (46)

	Note	
Sales (6 020 558 – 20 558 Minus 1 mark for foreign entry)		6 000 000
Cost of sales No bracket no mark		(4 800 000)
Gross profit		1 200 000
Other operating income		875 600
Trading stock surplus (405 900 - 404 400) Ref to 3.2.1 Learners recorded trading stock deficit, and award method mark.		1 500
Bad debts recovered		1 100
Rent income (714 000 + 69 000) Check the calculation block		783 000
Commission income		90 000
Gross operating income		2 075 600
Operating expenses		(4 011 007)
Stationery (56 990 – 5 810)		51 180
Bad debts (6 535 + 49 200)		55 735
Provision for bad debts adjustments (2 942 - 2 520) Refer to 3.2.2. (if pupils recorded it as a decrease, this will be recorded together with other income)		422
Telephone (203 620 + 2 300)		205 920
Directors fees (1 200 000 + 120 000)		1 320 000
Audit fees (653 500 + 80 000)		733 500
Depreciation * method mark is for the total depreciation expense		535 025
Salaries and wages		988 800
Repairs (69 125 + 9 000)		
Donation (23 500 + 10 800)		34 300
Loss due to accident (500 000 – 212 000 – 280 000) Refer to calculation block		8 000
Operating profit/ (loss)		(1 935 407)

Calculations of rent income:

$714\,000 = 5T + 6T(1,15)$ If marks allocated in the Statement of Comprehensive
 $714\,000 = 11,9T$ Income, no marks to be allocated here.
 $T = 60\,000$
 $\therefore 60\,000 \times 1,15 = 69\,000 \rightarrow \text{Income receivables/accrued}$

Calculation of depreciation:

Depreciation on vehicles:
(8)

Sold (Accident):

$1 \text{ May } 2021 - 31 \text{ Oct } 2021 \rightarrow 500\,000 \times 20\% \times 6/12 = 50\,000$
 $1 \text{ Nov } 2021 - 31 \text{ Oct } 2022 \rightarrow (500\,000 - 50\,000) \times 20\% = 90\,000$
 $1 \text{ Nov } 2022 - 31 \text{ Oct } 2023 \rightarrow (500\,000 - 140\,000) \times 20\% = \underline{72\,000}$
212\,000

Old:

$(3\,000\,000 - 500\,000) = 2\,500\,000 \rightarrow \text{Cost price}$
 $612\,500 - 140\,000 = 472\,500 \rightarrow \text{Accumulated depreciation}$
 $(2\,500\,000 - 472\,500) \times 20\% = 405\,500$

Depreciation on equipment:

Old:

$(389\,000 - 9\,000) = 380\,000 \times 15\% = 57\,000$

New: $14\,000 \times 15\% \times 3/12 = 525$

Total depreciation:

$(72\,000 + 405\,500 + 57\,000 + 525 = 535\,025)$

Calculation of profit/loss on disposal of asset: You may use the Ledger account to show the workings.

2023 Oct	30	Vehicle	GJ	500 000	2023 Oct	30	Accumulated depreciation on vehicle	GJ	212 000
							Debtors control/ Accrued income	GJ	280 000
							Loss		8 000
				<u>500 000</u>					<u>500 000</u>

If the marks were allocated in the Statement of Comprehensive Income, no marks should be allocated in this calculation.

3.2 Complete the following notes to the Financial Statements for the year ended 31 October 2023.

3.2.1 Inventory

Trading stock ($335\,200 + 81\,500 - 10\,800 - 1\,500 + 1\,500$ Surplus) Learners recorded trading stock deficit, and award method mark.	405 900
Consumable stores on hand	5 810
	Do not calculate

3.2.2 Trade and other receivables

Net trade debtors	Do not calculate
Trade debtors ($122\,750 - 49\,200 \rightarrow 82\,000 * 0,60$) OR – $82\,000 + 32\,800$ Learners may add 280 000 to trade debtors, award a mark for that	73 550
Provision for bad debts ($2\,520 + 422$)	(2 942)
Income receivables/accrued ($69\,000 + 280\,000$)	349 000
SARS: Income Tax	Do not calculate
	Do not calculate

3.2.3 Trade and other payables

Trade creditors ($1\,266\,700 + 81\,500 - 1\,500 + 14\,000$)	1 360 700
Accrued expenses ($2\,300 + 120\,000 + 80\,000$)	202 300
	Do not calculate

QUESTION 4 INVENTORY

Refer to the information relating to Makanza Traders.
Show supporting calculations in brackets.

- 4.1 Calculate the carriage amount charged per item imported and then convert the value into SA Rand.

$$\text{GH¢ } 84/60 = \text{GH¢ } 1,40 \times \text{R1,50} = \text{R2,10}$$

OR

$$\text{GH¢ } 126/90 = \text{GH¢ } 1,40 \times \text{R1,50} = \text{R2,10}$$

- 4.2 Calculate the value of closing inventories as of 31 October 2023 according to the **FIFO** method.

October: $20 \times [(1\,790 + 1,40) = 2\,506 \times \text{R1,5} = 2\,687,10]$ OR $20 \times [(1\,790 \times 1,50) = 2\,685 + 2,10 = 2\,687,10]$ OR $35\,828 \times 1,50$	53 742,00
July: $6 \times [(1\,620 + 1,40) \times \text{R1,50}]$ OR $6 \times [(1\,620 \times 1,50) = 2\,430 + 2,10 = 2\,432,10]$ OR $6 \times 1\,620 \times 1,50 = 14\,580 + 12,60 \rightarrow (6 \times 2,10)$	14 592,60
	68 334,60

- 4.3 Calculate the Cost of Sales of the foldable drying racks according to the FIFO method for the financial year. The business makes use of the period inventory system.

Opening stock	135 297,00
Purchases (373 420 × R1,50)	560 130,00
Carriage on purchases (308 × R1,50))	462,00
Returns (10 × 1 522 × R1,50)	(22 830,00)
Closing stock (4.2)	☒ (68 334,60)
Cost of sales	604 724,40

Check, some learners might use $R373\,728 \times 1,50 = 560\,592$, which is the combination of purchases and carriage on purchases. 2 marks need to be allocated for this.

Alternatively, since the marks are not awarded for the description, some pupils might calculate the cost of sales as follows:

$$135\,297 + 560\,130 + 462 - 22\,830 - 68\,334,60 \quad \checkmark \\ = 604\,724,40$$

- 4.4 4.4.1 Calculate the Gross Profit value of the foldable drying racks for the current financial year.

Sales	818 789,00)
Cost of sales (4.3)	☒ (604 724,60)
Gross profit	☒ 214 064,60

- 4.4.2 Calculated the mark-up % on the cost price achieved by Makanza Traders for the 2023 financial year.

$$\frac{214\,064,60 \quad \checkmark}{604\,724,40 \quad \checkmark} \times \frac{100}{1}$$

35,40%

OR

$$(818\,789/604\,724,60) \times 100 = 135,40\%$$

$$135,40 - 100 = 35,40\%$$

4.4.3 Makanza Traders in 2022 with a total Sales value of R700 000 achieved a mark-up of 40%. Comment on the mark-up % that Makanza Traders achieved in the 2023 financial year.

- The mark-up % decreased from 40% to 34,40% ☒
- A decrease in the mark-up % benefited Makanza Traders as sales went up from R700 000 to R818 789, which led to an increase in gross profit from R200 000 to R214 064,60.
- Even though Sales increased, the Cost of Sales may also have increased which led to a lower Gross Profit.

4.5 Makanza Traders is suspecting that some of the trading stock might have been stolen. Provide a calculation to either confirm or dispute the allegations.

Expected stock on hand = $(45 + 220) - 10 - 227 = 28$
 Actual stock on hand = 26
 Number of stock unaccounted for = $28 - 26 = 2$ ☒

4.6 Recommend **TWO** internal controls that Makanza Traders should put in place to minimise the possibility of theft of trading stock in the business. Controls should not include CCTV cameras as the business already has cameras installed.

- Appointment of security personnel to check the till slip and compare that to the actual goods carried by the customers.
- Installation of the magnetic detector at the exit door to detect the stock which was not paid but was in the hand of the customers.
- Perform stock count regularly.
- Division of duties – a person responsible to dispatch the inventory from the store room to the shelves must not be the same person doing an inventory count.

Total: 200 marks