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INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
NOVEMBER 2024

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 Mwarira Tracksuits Manufacturers.

- 1.1 Complete the following notes to the Production Cost Statement as it would appear on 31 August 2024:

1.1.1 Direct material costs.

Opening stock	6 792
	(¥2 890 × R2,60)
Net Purchases (58 500 + 75 060 – 4 356 + 7 514)	136 718
Carriage on purchases (2 688 + 325) → ¥125 × R2,60)	3 013
Import duties (¥280 × R2,60)	728
	147 251
Closing stock	(4 080)
Raw materials issued to the factory	143 171

1.1.2 Direct labour costs.

Salaries and wages	44 160
Pension contribution	3 840
	48 000

- 1.2 Calculate the factory overhead costs.

Maintenance of factory equipment	3 120
Depreciation	3 816
Factory indirect materials (780 + 3 936 – 516)	4 200
Indirect labour (9 600 × 75%)	7 200
Water and electricity (21 960 × 3/5)	13 176
Rent expenses (29 568 × 50%)	14 784
	46 296

- 1.3 Calculate Direct Material Cost per unit (tracksuit) for the year ended 31 August 2024.

$$143\,171 \text{ (ref to 1.1.1)} / 3\,084 = R46,42$$

- 1.4 Give **ONE** possible reason for the change in the direct material cost per unit (tracksuit).

- Located cheaper suppliers.
- Bulk purchases to receive trade and cash discounts.
- Using local suppliers to purchase some of the raw materials.
- Making use of substitute materials.
- When buying from China, the exchange rate fluctuates.
- More units produced will decrease the direct material cost.

- 1.5 Calculate the total fixed cost for the year ended 31 August 2024.

Fixed cost: $(28\,560 + 34\,722 \rightarrow (46\,296 \text{ (ref to 1.2)} \times 75\%)) = 63\,282$

- 1.6 Calculate the variable cost per unit for the year ended 31 August 2024.

Variable cost per unit:

Ref 1.1.1 Ref 1.1.2

$(30\,564 + 143\,171 + 48\,000 + 11\,574 \rightarrow (46\,296 \times 25\%))$

3 084

$= 233\,309 / 3\,084 = R75,65$

- 1.7 Calculate the selling price per unit for the year ended 31 August 2024.

Selling price per unit: $\frac{378\,600}{(3\,084 - 560) \times 2\,524} = R150$

- 1.8 Calculate the number of units that Mwarira Tracksuits Manufacturers need to produce and sell to break-even. Show your calculation and round off to the nearest unit.

$\frac{63\,282 \text{ (ref to 1.5)}}{150 \text{ (ref to 1.7)} - 75,75 \text{ (ref to 1.6)}}$

$\frac{63\,282}{74,25}$

$= 852,28 \text{ Units}$

$\approx 853 \text{ units}$

- 1.9 Should the business be satisfied with the level of production achieved? Substantiate your answer.

Yes/No – The business has produced 3 084 units, which is more than the break-even point (853 units). This will have a positive impact on the net profit achieved.

When marking, consider the answer to 1.8 and mark accordingly (award continuous accuracy marks)

- 1.10 Provide **ONE** suggestion on how the business can improve its profitability.

- Need to re-check the mark-up percentage on cost to be competitive.
- Need to look at decreasing Administration Costs and spend more on advertising.
- Need to increase production.
- Train employees to use the machinery and to avoid wastage of raw materials.

Any other valid suggestion

- 1.11 The selling price of a similar product produced by competitors is R130 each. What impact could the competitor's selling price have on the selling price of Mwarira Tracksuits Manufacturers? Provide **TWO** points to support your answer.

- Competitive price pressure on Mwarira Tracksuits Manufacturer. Possibility of reducing the selling price.
- Customers could perceive the price charged by Mwarira Tracksuits Manufacturer to be overpriced – losing customers to their competitors.
- Profitability of the business might be affected – should they reduce the price while maintaining good quality of Tracksuits. The cost structure might be high.
- Challenge the business to reconsider their marketing positioning to differentiate themselves from competitors.

QUESTION 2 INVENTORY

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

2.1 Calculations/Workings:

2.1.1 The total cost of waterproof sports duffel bags donated.
$(R1\ 873,75 \times 100/125) = R1\ 499 \text{ each} \times 3 \text{ bags} = R4\ 497$
2.1.2 The total cost of waterproof sports duffel bags returns:
December: $(215 \times 1\ 349) = R290\ 035$ August: $(99 \times 1\ 390) = R137\ 610$ <u>R427 645</u>

2.2 Calculate the closing stock value on 31 October 2024 using the Weighted Average method.

$\frac{2\ 181\ 200 + 5\ 022\ 450 + 1\ 255\ 612 - 4\ 497 \text{ (ref to 2.1.1)} - 427\ 645 \text{ (ref to 2.1.2)}}{1\ 520 + 3\ 100 - 3 - 314 \text{ (215 + 99)}}$ $\frac{8\ 027\ 120}{4\ 303}$ $R1\ 865,47 \times 300 \text{ bags} = R559\ 641$
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2.3 Calculate the Cost of Sales of the waterproof sports duffel bags for the current financial year. The business makes use of the periodic inventory system.

Opening stock	2 181 200
Purchases + carriage	5 022 450
Custom duties	1 255 612
Returns (ref to 2.1)	(427 645)
Donations (ref to 2.1)	(4 497)
Closing stock (ref to 2.2)	(559 641)
Cost of sales	<u>7 467 479</u>

OR Ref 2.1.1 ref 2.1.2

Net purchases $(4\ 377\ 650 - 4\ 497 - 427\ 645)$	3 945 508
Carriage	644 800
Custom duties	1 255 612
Closing stock	<u>(559 641)</u>
Cost of sales	<u>7 467 479</u>

2.4 Calculate the Gross Profit value of the waterproof sports duffel bags for 2024 financial year.

Sales (4 000 × R2 333,50) / 2.3 answer × 125/100	9 334 000
Cost of sales (ref to 2.3) must be in brackets	(7 467 479)
Gross profit	1 866 521

2.5 Provide **TWO** possible benefits for Lahja Traders to donate waterproof sports duffel bags to a local school.

Part of corporate social responsibility – giving back to the community and supporting vulnerable people.
Tax benefit.
Enhance the brand image of the business - Portraying it as a socially conscious and caring organisation.
Enhance loyalty and customer perception about the business.
Strengthen the business's relationship with the community, fostering goodwill and positive public relations.
Boost the morale of employees, as they see their business making a meaningful impact in the community.

2.6 Provide **ONE** advantage for Lahja Traders to buy stock in bulk from the supplier.

Supplier may offer discounts for bulk purchases.
Reduces the risk of running out of stock.
Minimise the time between placing orders and receiving goods.
Reduces the frequency of ordering and restocking, optimise storage space and potentially lower administrative costs associated with multiple orders.

QUESTION 3 CASH FLOW STATEMENTS

Refer to the information relating to Temba Ltd.

- 3.1 Use the percentage return on shareholders' equity to calculate the shareholders' equity for 2024.

$$\text{Net profit after tax} = 2\,556\,000 \times 70/30 = 5\,964\,000$$

Let U = Shareholders equity for 2024

$$\frac{5\,964\,000}{\frac{1}{2}(21\,204\,000 + U)} = 0,25$$

$$5\,964\,000 = 2\,650\,500 + 0,125U$$

$$U = 26\,508\,000 \rightarrow \text{Shareholders equity}$$

- 3.2 Complete the following notes to the Statement of Financial Position for the year ended 31 October 2024:

3.2.1 Ordinary share capital

AUTHORISED	
2 000 000 ordinary shares	
ISSUED	
601 000 ordinary shares in issue at the beginning of the financial year	15 025 000
375 000 ordinary shares issued during the year at R20 each	7 500 000
(54 650) shares repurchased (average price R23.08) check the calculation below for the method marks. It must be in brackets	(1 261 322)
Average share price calculation:	
$\frac{(15\,025\,000 + 7\,500\,000)}{(601\,000 + 375\,000)} = \frac{22\,525\,000}{976\,000} = 23,08$	
921 350 ordinary shares in issue at the end of the financial year	21 263 678

3.2.2 Retained income

Retained income at the beginning of the year	6 179 000
Net profit after tax for the year (2 556 000 × 70/30)	5 964 000
54 650 ordinary shares were repurchased at R15,92 each. Method mark will be awarded only if the average share price calculated above was subtracted from R39.	(870 028)
Dividends on ordinary shares (Balancing amount)	(6 028 650)
Interim/paid	2 863 650
Final/recommended	3 165 000
Retained income at the end of the year (26 508 000 (ref to 3.1–21 432 000) (refer to 3.2.1))	5 244 322

3.3 Use the Current ratio for the year 2024 to calculate the value of inventories.

Let Current assets = CA, and Current liabilities = CL

$$\frac{CA}{CL} = 1,22$$

$$\frac{CA}{32\,488\,000} = 1,22$$

$$CA = 39\,635\,360$$

$$\text{Inventories} = 39\,635\,360 - 7\,009\,000 - 10\,785\,000$$

$$\text{Inventories} = 21\,841\,360$$

3.4 Complete the following notes to the Cash Flow Statement for the year ended 31 October 2024:

3.4.1 Reconciliation between profit before tax and cash generated from operations. Highlight/circle the correct term under changes in working capital.

Profit before tax (2 556 000 × 100/30) or (5 964 000 refer to 3.2.2 + 2 556 000)	8 520 000
Adjustments in respect of:	
Depreciation	5 406 000
Interest expense	2 999 000
Operating profit before changes in working capital	Do not calculate
Changes in working capital:	Do not calculate
Increase/decrease in inventories (21 841 360 – 18 396 000)	(3 445 360)
Increase/decrease in trade and other receivables 7 009 000 – 4 663 000 → (5 179 000 – 516 000) OR (5 988 000 + 800 000 + 221 000) – (3 921 000 + 358 000 + 384 000)	(2 346 000)
Increase/decrease in trade and other payables (27 490 000 – 3 165 000 – 661 000) – (27 064 000 – 2 757 000) 23 664 000 – 24 307 000 OR (22 489 000 + 991 000 + 184 000) – (23 356 000 + 873 000 + 78 000)	(643 000)
Cash generated from operations	10 490 640

Increase/decrease must be linked to the answer in the working capital to earn method marks.

3.4.2 Dividends paid

Amount owing at the end of the previous year	2 757 000	(2 757 000)
Interim + final	6 028 650	(6 028 650)
Amount owing at the end of the year	(3 165 000)	3 165 000
Amount paid	5 620 650	(5 620 650)

3.4.3 Taxation paid

Amount owing at the end of the previous year	(516 000)	516 000
Income tax	2 556 000	(2 556 000)
Amount owing at the end of the year	(661 000)	661 000
Amount paid	1 379 000	(1 379 000)

3.5 Calculate the following:

3.5.1 Non-Current liabilities

Total assets = 51 782 000 + 39 635 360 = 91 417 360

∴ 91 417 360 - 32 488 000 – 26 508 000 = 32 421 360

Ref 3.1

3.5.2 Additional loan obtained during the year.

Loan at the beginning of the year	27 577 000
Interest on loan capitalised	2 999 000
Repayment of loan (3 154 640 + 2 999 000) = 6 153 640 OR	(3 154 640)
Additional loan obtained	7 999 000 OR <u>5 000 000</u>
Loan at the end of the year (refer to 3.5.1 for method mark)	<u>32 421 360</u>

3.6 Calculate disposal of Equipment at carrying value.

Carrying value at the beginning of the year	34 894 000
Addition at cost (10 340 600 + 1 500 000)	11 840 600
Depreciation	(5 406 000)
Disposal at carrying value	<u>(987 600)</u>
Carrying value at the end of the year	<u>40 341 000</u>

3.7 Complete only the Operating and Investing activities of the Cash Flow Statement for the year ended 31 October 2024.

	Note	
Cash flows from operating activities		Do not calculate
Cash generation from operations		10 490 640
Interest paid		(2 999 000)
Dividends paid (refer to 3.4.2)		(5 620 650)
Tax paid (refer to 3.4.3)		(1 379 000)
Cash flows from investing activities		Do not calculate
Tangible assets purchased		(11 840 600)
Proceeds from disposal of assets (refer to 3.6)		987 600
Increase in investment (11 441 000 – 10 115 000)		(1 326 000)

QUESTION 4 COMPANY FINANCIAL STATEMENTS

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

- 4.1 Complete the extract of the Statement of Comprehensive Income (Income Statement) for the year ended 31 October 2024.

	Note	
$\frac{60\,000 \times 80\%}{\text{Sales } (5\,460\,000 - 30\,000 + 48\,000 - 97\,500)}$		5 380 500
OR - 127 500		
$\frac{60\,000 \times 100/150}{\text{Cost of sales } (4\,095\,000 + 40\,000 - 78\,000)}$		Must be in brackets (4 057 000)
Gross profit		DO NOT CALCULATE
Other operating income		DO NOT CALCULATE
Rent income (252 000 – 18 000)		234 000
Bad debts recovered (5 100 + 2 700)		7 800
Provision for bad debts adjustments (32 978 – 31 148)		1 830
Gross operating income		DO NOT CALCULATE
Operating expenses		DO NOT CALCULATE
Insurance (80 700 + 6 900)		87 600
Salaries and wages (390 000 – 27 000)		363 000
Packaging materials (78 000 + 4 500 – 22 500)		60 000
(18 000 – 12 600)		
Bad debts (21 000 + 5 400 – 2 700)		23 700
Employers' contributions (54 300 – 177 – 3 420)		50 703
Trading stock deficit		72 250
Depreciation (75 000 + 1 725 + 150 000)		226 725
76 725		
Operating profit		DO NOT CALCULATE
Interest income		162 000
Profit before interest expense		DO NOT CALCULATE
Interest expense (135 000 + 216 000) OR (405 000 – 54 000)		(351 000)
Net profit before tax		DO NOT CALCULATE
Income tax must be in brackets		(145 846)
Net profit after tax		DO NOT CALCULATE

Working/calculations space (Award marks here in the calculation or directly in the Statement of Comprehensive Income.)	
Insurance – Accrued expenses	Rent income – Deferred income
$80\,700 = 8T + 3T(0.92)$ $80\,700 = 8T + 2,76T$ $80\,700 = 10,76T$ $7\,500 = T$ Insurance monthly premium before a decrease $7\,500 \times 92\% = 6\,900$	$72\,000 \times 3/12 = 18\,000$
Interest on mortgage bond	Depreciation on equipment
$2\,250\,000 \times 18\% \times 4/12 = 135\,000$ $1\,800\,000 \times 18\% \times 8/12 = 216\,000$ $= 351\,000$ OR $2\,250\,000 \times 18\% = 405\,000$ $450\,000 \times 18\% \times 8/12 = 54\,000$ $405\,000 - 54\,000 = 351\,000$	$(1\,425\,000 - 675\,000)$ $= 750\,000 \times 10\% = 75\,000$ $23\,000 \times 10\% \times 9/12 = 1\,725$

4.2 Complete Trade and other receivables as a note to the Statement of Financial position.

Net trade debtors	DO NOT CALCULATE
(12 600 + 5 400)	
Trade debtors (687 750 + 48 000 – 97 500 – 18 000 + 2 700)	622 950
Provision for bad debts (32 978 – 1 830)	Must be in bracket (31 148)

4.3 Calculate the value of trading stock on hand as per physical stock count at the end of the financial year 31 October 2024.

$$1\,111\,350 - 40\,000 + 78\,000 - 4\,500 - 72\,750 = 1\,072\,100$$

4.4 Provide **ONE** possible reason for a company to insure their vehicles.

- | |
|---|
| • Insurance provides financial protection against unforeseen events such as accidents, theft, vandalism, or damage to the vehicle. |
| • It helps the company avoid significant financial losses and ensures the smooth operation of its business activities. |
| • In the event of an accident, insurance coverage can support medical expenses and other related costs, thereby safeguarding the well-being of employees. |

4.5 Provide **ONE** possible reason for a company to give trade discounts to customers.

- | |
|--|
| • Help foster strong and lasting relationships with customers, potentially leading to repeat business and referrals. |
| • Increases sales volume of the company. |
| • The company can generate immediate cash flow and improve liquidity, especially if customers pay promptly. |

Total: 200 marks