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INTERNATIONAL SECONDARY CERTIFICATE EXAMINATION
MAY 2025

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**(24 minutes)**

Refer to the information relating to JJ Cycle which buys and sells power inverters and answer the questions that follow:

- 1.1 Calculate the closing stock value as at 30 April 2025 using the Weighted Average Method.

Average price:

$$\frac{2\,225\,000 + 10\,361\,110 - 112\,375 - 52\,585}{500 + 2\,513 - 25 - 13}$$

$$\frac{12\,421\,150}{2\,975}$$

$$4\,175,18 \times 400 = 1\,670\,072$$

- 1.2 Calculate the gross profit for the year as at 30 April 2025.

Sales (2 483 x 5 540)	13 755 820
Cost of sales (12 421 150 – 1 670 072)	(10 751 078)
Gross profit	<u>3 004 742</u>

- 1.3 JJ Cycle suspects theft of trading stock in the business and has installed CCTV cameras. Despite this internal control, JJ Cycle is sure that power inverters were stolen.

- 1.3.1 Calculate to confirm that JJ Cycle is correct about the theft of trading stock.

$$2\,975 - 2\,483 - 400 = 92 \text{ power inverters}$$

1.3.2 Provide **TWO (2)** additional internal controls that JJ Cycle could implement to prevent business theft.

- Install a keycard/biometric access control system to limit access to only authorised personnel.
- Regular reconciliation of physical inventories with the records as per the system and detect discrepancies promptly.
- Division of duties – this is to ensure that no single employee has complete control over the inventory process.
- Have security checkpoints at the exit door.
- Install a security chip on each power inverter to be cleared at the till point.

1.4 Calculate the average stock holding period in days.

$$\frac{\frac{1}{2} (2\,225\,000 + 1\,670\,072) \text{ refer to 1.1} \times \frac{365}{1}}{10\,751\,078 \text{ refer to 1.2}}$$

$$\frac{1\,947\,536 \times 365}{10\,751\,078 \times 1}$$

66,12 days

1.5 Provide **TWO (2)** advantages of holding stock (power inverters) for more than two months.

- Help business to meet higher demand without experiencing stock out. This ensures consistency supply to customers during peak periods.
- Help the business mitigate disruption from supplier delays or unforeseen events that could affect inventory replenishment.
- It protects the business from sudden price hikes.
- Reduces the frequency of ordering and replenishment cycle. This will reduce costs related to ordering the stock.
- Provide the business with an opportunity to respond to a sudden demand and grow its business.
- Fulfilling orders promptly and consistently instills confidence in the brand.

- 1.6 Provide **TWO (2)** possible reasons for JJ Cycle to donate power converters (inventories) to a local school.

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| • Enhance the learning environment, enabling learners to access technology and practical applications in their education in times of load shedding. |
| • Strengthening ties with local communities leading to increased brand loyalty and support as well as goodwill. |
| • Tax benefits or deductions. |
| • Opening doors for future collaboration such as internship programs, educational workshops, or career developments. |
| • Supporting underprivileged learners. |

- 1.7 'A stock turnover rate of 4 to 8 times a year for electronics and similar products is considered to be healthy.' JJ Cycle has a stock turnover rate of 5,52 times a year. Provide **TWO (2)** points indicating the implication of this ratio on the business.

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| It indicates faster inventory turnover and better liquidity. |
| It shows that JJ Cycle manages its stock efficiently; it refers to the number of times inventory is sold within a period and replaced. |
| The higher the rate of turnover is, the better the cash flow, in that the inventory is turned over quicker, hence reducing holding costs and freeing up capital. |
| This would tend to mean that the performance is good in terms of sales, assuming the inventories are held constant. |
| Products are in good demand and are moving well. |

- 1.8 Provide **ONE (1)** possible reason for a business to sell its inventory at a fixed price for the year.

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| • Providing price stability to customers. |
| • Better estimation of sale volume and financial performance for the year. |
| • Simplify inventory management and pricing decisions. |
| • Reduces the need for frequent price adjustments. |
| • Streamlining sales process, and minimising the administration burden associated with pricing changes throughout the year. |

QUESTION 2 Company Financial Statements**(29 minutes)**

Refer to the information relating to Dimpho Ltd and answer the questions that follow:

- 2.1 Complete the Statement of Comprehensive Income for the year ended 30 April 2025.
Show workings in brackets to earn part marks.

	Note	
Sales		8 505 000
(8 505 000 - 67 500) 8 437 500 x 100/125 + (67 500 x 100/90 x 100/125))		(6 810 000)
Cost of sales (6 750 000 + 60 000)		
Gross profit		Do not calculate
Other operating income		Do not calculate
Rental income (197 046 + 19 046)		216 092
Commission income (150 703 – 13 943)		136 760
Provision for bad debt adjustments		5 031
Profit on sales of equipment		750
Gross operating income		Do not calculate
Operating expenses		Do not calculate
Audit fees		68 758
Sundry expenses		70 300
Municipal fees		39 500
Salaries and wages		283 275
Directors fees (790 250 + 27 250)		817 500
Packing materials (61 925 – 4 925)		57 000
Discount allowed (15 825 – 450)		15 375
Trading stock deficit		6 350
Depreciation (20 625 + 337 575)		358 200
Operating profit		Do not calculate
Interest income (23 375 + 13 750)		37 125
Profit before interest expense (352 350 + 22 150)		374 500
Interest expense (266 000 – 243 850)		(22 150)
Net profit before tax (246 645 × 100/70) OR (105 705 × 100/30) OR (105 705 + 246 645)		352 350
Income tax (246 645 × 30/70)		(105 705)
Net profit after tax		246 645

Workings/Calculations:	
Rental income	Interest on fixed deposit
$197\,046 = 10J + 1.07J$ $197\,046 = 11.07J$ $J = 17\,800$ – Rental before an increase Rental after an increase = $17\,800 \times 1.07 = 19\,046$	$550\,000 \times 9\% \times 9/12 = 37\,125$
Directors' fees	
$327\,000 \times 2 = 654\,000$ $327\,000 \times 6/12 = 163\,500$ $654\,000 + 163\,500 = 817\,500$ OR $327\,000 / 12 = 27\,250$ $27\,250 \times 30 \text{ months} = 817\,500$ Accrued expenses = $817\,500 - 790\,250 = 27\,250$	

- 2.2 Complete Trade and other Receivables as a note to the Statement of Financial Position. Show working in brackets to earn part marks.

Net trade debtors	683 748
$(8\,550 - 5\,880) + (8\,550 \times 5/95)$	701 280
Trade debtors $(700\,500 - 2\,670 + 450 + 3\,000)$	
Provision for bad debts $(22\,563 - 5\,031)$ $(701\,280 \times 2.5\%)$	(17 532)
Accrued income $(19\,046 + 13\,750)$ Refer to the calculation above	32 796
SARS: Income tax $(125\,850 - 105\,705)$	20 145
	736 689

- 2.3 Complete the Current Assets section of the Statement of Financial Position for the year ended 30 April 2025. Show working in brackets to earn part marks.

ASSETS	
Current assets	1 861 864
Inventory $(1\,038\,500 - 6\,350 + 4\,925)$	1 037 075
Trade and other receivables Refer to 2.2	736 689
Cash and cash equivalents $(85\,430 + 2\,670)$	88 100

QUESTION 3 Manufacturing**(26 minutes)**

Refer to the information relating to Keyona Traders and answer the questions that follow:

3.1 Complete the following notes:

3.1.1 Direct Material Costs

Opening stock	1 192 950
(67 500 × 100/4)	
Net purchases (1 687 500 – 67 500 + 225 000)	1 845 000
Carriage on purchases	46 500
	3 084 450
Closing stock	(930 450)
Direct material cost	2 154 000

3.1.2 Direct Labour Costs

20 × 37,50 × 140	
Salaries and wages (3 165 750 – 594 000 – 105 000) × 80%	1 973 400
Direct labour cost	1 973 400

3.1.3 Factory Overhead Costs

Indirect materials (84 600 + 555 000 – 225 000 – 274 650)	139 950
Water and electricity (618 600 – 32 100 – 55 200) × 70%	371 910
Insurance (117 000 + 24 000) × 3/6	70 500
Rent expense (877 500 + 67 500) × 5/8	590 625
Indirect salaries (594 000 + 54 000 + 105 000)	753 000
–1 should advertising be recorded (foreign entry)	
Factory overhead costs	1 925 985

3.1.4 Cost of Finished Goods sold

Opening stock of finished goods	1 908 960
Cost of finished goods produced during the year (Refer to 3.2)	5 893 275
	7 802 235
Closing stock of finished goods (balancing amount)	(1 226 835)
Cost of finished goods sold/Cost of sales (9 205 560 × 100/140)	6 575 400

3.2 Prepare the Production Cost Statement for the year ended 30 September 2024.

	Note	
Direct/Prime costs (check the addition)		4 127 400
Direct material costs Refer to 3.1.1		2 154 000
Direct labour costs Refer to 3.1.2		1 973 400
Factory overheads costs		1 925 985
Total manufacturing costs		6 053 385
Work-in-process at the beginning of the year		471 690
		6 525 075
Work-in-process at the end of the year		(631 800)
Cost of production of finished goods		5 893 275

3.3 Provide **TWO (2)** possible reasons for a manufacturing company to appoint casual workers to assist with maintenance and cleaning instead of permanently appointing staff.

Offers company flexibility in adjusting staffing levels based on fluctuating workload demands.
Cost-effective compared to hiring permanent employees with benefits.
Helps the company to assess their performance and suitability for a permanent position.
Avoid overstaffing during lower productivity periods.
Less administrative work –payroll, no benefits, and legal obligations.

3.4 Provide **TWO (2)** possible reasons for a manufacturing company to return direct materials to suppliers.

Poor quality of direct materials.
Direct materials arrive damaged or in poor condition.
A company has an excess inventory of direct materials.
More direct materials delivered by the supplier/error in quantity received.
Direct materials become obsolete due to design changes, technological advancement, or discontinued products.
Direct materials can be purchased from another supplier at a lower cost.

QUESTION 4 Cash Flow Statements**(41 minutes)**

Refer to the information relating to Dakalo Ltd.

- 4.1 Calculate the current financial year's net profit after tax. Use the 40% Net profit margin given (refer to additional information no.1).

$$\text{Turnover: } 7\,287\,010 \times 125/100 = 9\,108\,762,50$$

$$\frac{\text{NPAT}}{\text{Turnover}} = 0.40$$

$$\frac{\text{NPAT}}{9\,108\,762,50} = 0.40$$

$$\text{NPAT} = 3\,643\,505$$

- 4.2 Calculate the current financial year depreciation expenses.

Equipment:	Vehicles:
Sold: $135\,000 \times 15\% \times 6/12 = 10\,125$	Old: $(3\,466\,250 - 810\,000) = 2\,656\,250$
Old: $(1\,325\,900 - 135\,000) \times 15\% = 178\,635$	$(2\,656\,250 - 1\,593\,750) \text{ OR}$
New: $360\,000 \times 15\% \times 6/12 = 27\,000$	$10\,719\,589 - 8\,900\,500 - 756\,589 = 1\,062\,500$
<u>215 760</u>	$1\,062\,500 \times 20\% = 212\,500$
	New: $810\,000 \times 20\% \times 4/12 = 54\,000$
	<u>266 500</u>

- 4.3 Complete the following notes to the Statement of Financial Position for the year ended 28 February 2025.

4.3.1 Ordinary Share Capital	
Authorised	
1 545 000 ordinary shares	
Issued	
1 030 000 ordinary shares in issue at the beginning of the financial year	10 300 000
206 000 additional shares issued during the year at R13	2 678 000
(214 924) shares repurchased (average price R 10.50)	(2 256 702)
1 021 076 ordinary shares in issue at the end of the financial year	Do not calculate

Calculation: additional shares issued during the year.

$$(1\,545\,000 - 1\,030\,000) = 515\,000 \times 40\% = 206\,000$$

4.3.2 Retained Income	
Retained income at the beginning of the year	1 089 332
Net profit after tax for the year (Refer to 4.1)	3 643 505
(Refer to the calculation of the average share price)	
214 924 ordinary shares repurchased at (15–10.50) R4.50	(967 158)
Dividends on ordinary shares	(2 765 674)
Interim/paid	802 637
Final/recommended	1 963 037
Retained income at end of year	Do not calculate

Calculation: Buy-back of shares (Average price)

$$\frac{(10\,300\,000 + 2\,678\,000)}{(1\,030\,000 + 206\,000)} = \frac{12\,978\,000}{1\,236\,000} = R10.50 \text{ average price}$$

- 4.4 Use the taxation paid from the Cash Flow Statement (see question 4.6) to calculate Income Tax for the current year to be disclosed in the Statement of Comprehensive Income.

$$(313\,427 + 100\,896 + 1\,147\,177) = 1\,561\,500$$

OR

$$(-313\,427 - 100\,896 - 1\,147\,177) = (1\,561\,500)$$

4.5 Complete the following notes to the cash flow statement for the year ended 28 February 2025:

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

(Refer to 4.1 & 4.4)	
Profit before tax (3 643 505 + 1 561 500)	5 205 005
Adjustments in respect of:	
(Refer to 4.2)	
Depreciation (266 500 + 215 760)	482 260
Interest expense	124 836
Operating profit before changes in working capital	5 812 101
Changes in working capital:	(3 673 323)
Increase in inventories (3 722 105 – 3 147 177)	(574 928)
10 075 473 – (7 388 135 – 1 147 177) → 6 240 958	
Increase in debtors (10 060 712 + 14 761) – (6 221 961 + 18 997)	(3 834 515)
Increase in creditors (8 751 603 – 8 015 483)	736 120
Cash generated from operations	138 778

4.5.2 **Dividends paid**

Amount owing at the end of the previous year	1 111 475	(1 111 475)
Dividends paid and recommended	2 765 674	(2 765 674)
Amount owing at the end of the current year	(1 963 037)	1 963 037
Amount paid	1 914 112	(1 914 112)

- 4.6 Complete the Cash Flow Statement for the year ended 28 February 2025.
Show supporting calculations in brackets.

	Note	
Cash flows from operating activities		Do not calculate
Cash generation from operations (Refer to 4.5.1)		2 138 778
Interest paid (4 778 + 124 836 – 5 881)		(123 733)
Dividends paid (Refer to 4.5.2)		(1 914 112)
Tax paid		(313 427)
Cash flows from investing activities		Do not calculate
Tangible assets bought (810 000 + 360 000)		(1 170 000)
Proceeds from disposal of assets (1 197 117 + (135 000 – 50 625))		1 281 492
Increase in investment (1 153 573 – 1 130 126)		(23 447)
Cash flows from financing activities		Do not calculate
Proceeds from the issue of shares (Refer to 4.3.1)		2 678 000
Repurchases of shares (214 924 × R15)		(3 223 860)
Repayment of loan obtained (3 429 767 – 1 893 641)		(1 536 126)
Net change in cash equivalents		(2 206 435)
(1 590 267 – 24 459)		1 565 808
Cash and cash equivalents – beginning of the year		(224 373 – 865 000)
Cash and cash equivalents – end of year		(640 627)

Total: 200 marks