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Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

NOVEMBER 2020(2)

MARKING GUIDELINES

MARKS: 150

MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guidelines, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer.
10. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
11. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
12. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a ☒.
13. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
14. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 9 pages.

QUESTION 1

1.1.1	(i) Calculate: Carrying value of the vehicle on hand on 1 March 2020				
	<table border="1"> <thead> <tr> <th data-bbox="231 324 1109 369">Workings</th><th data-bbox="1109 324 1362 369">Answer</th></tr> </thead> <tbody> <tr> <td data-bbox="231 369 1109 510">460 000 – 396 750</td><td data-bbox="1109 369 1362 510">63 250 ✓✓</td></tr> </tbody> </table>	Workings	Answer	460 000 – 396 750	63 250 ✓✓
Workings	Answer				
460 000 – 396 750	63 250 ✓✓				
	2				
	(ii) Calculate: Depreciation on vehicles for the year				
	<table border="1"> <thead> <tr> <th data-bbox="231 555 1109 600">Workings</th><th data-bbox="1109 555 1362 600">Answer</th></tr> </thead> <tbody> <tr> <td data-bbox="231 600 1109 768"> 25 500 two marks $(510\,000 \times 15\% \times 4/12)$ ✓✓ one part correct $460\,000 \times 15\% = 69\,000$; CV is 63 250. Depreciation is therefore $63\,250 - R1,00 = 63\,249$ ✓✓ </td><td data-bbox="1109 600 1362 768"> $25\,500 + 63\,249$ two marks two marks $88\,749$ ✓ one part correct </td></tr> </tbody> </table>	Workings	Answer	25 500 two marks $(510\,000 \times 15\% \times 4/12)$ ✓✓ one part correct $460\,000 \times 15\% = 69\,000$; CV is 63 250. Depreciation is therefore $63\,250 - R1,00 = 63\,249$ ✓✓	$25\,500 + 63\,249$ two marks two marks $88\,749$ ✓ one part correct
Workings	Answer				
25 500 two marks $(510\,000 \times 15\% \times 4/12)$ ✓✓ one part correct $460\,000 \times 15\% = 69\,000$; CV is 63 250. Depreciation is therefore $63\,250 - R1,00 = 63\,249$ ✓✓	$25\,500 + 63\,249$ two marks two marks $88\,749$ ✓ one part correct				
	5				
	(iii) Calculate: Carrying value of equipment sold				
	<table border="1"> <thead> <tr> <th data-bbox="231 813 1109 857">Workings</th><th data-bbox="1109 813 1362 857">Answer</th></tr> </thead> <tbody> <tr> <td data-bbox="231 857 1109 1126"> Choose one line $360\,000 - 285\,000$ -41 080 2 marks $75\,000$ ✓ – $36\,600$ ✓ – $4\,480$ ✓ OR: $75\,000$ ✓ – ($36\,600$ ✓ + $4\,480$ ✓) OR: $360\,000 - 285\,000 - 41\,080$ [one mark] two marks $-360\,000 + 285\,000 + 41\,080$ </td><td data-bbox="1109 857 1362 1126"> $33\,920$ ✓ one part correct </td></tr> </tbody> </table>	Workings	Answer	Choose one line $360\,000 - 285\,000$ -41 080 2 marks $75\,000$ ✓ – $36\,600$ ✓ – $4\,480$ ✓ OR: $75\,000$ ✓ – ($36\,600$ ✓ + $4\,480$ ✓) OR: $360\,000 - 285\,000 - 41\,080$ [one mark] two marks $-360\,000 + 285\,000 + 41\,080$	$33\,920$ ✓ one part correct
Workings	Answer				
Choose one line $360\,000 - 285\,000$ -41 080 2 marks $75\,000$ ✓ – $36\,600$ ✓ – $4\,480$ ✓ OR: $75\,000$ ✓ – ($36\,600$ ✓ + $4\,480$ ✓) OR: $360\,000 - 285\,000 - 41\,080$ [one mark] two marks $-360\,000 + 285\,000 + 41\,080$	$33\,920$ ✓ one part correct				
	4				
1.1.2	Calculate: Profit/Loss on the sale of equipment				
	<table border="1"> <thead> <tr> <th data-bbox="231 1216 1109 1261">Workings</th><th data-bbox="1109 1216 1362 1261">Answer</th></tr> </thead> <tbody> <tr> <td data-bbox="231 1261 1109 1384"> See (iii) above $40\,000 - 33\,920$ OR $-40\,000 + 75\,000 - 41\,080$ </td><td data-bbox="1109 1261 1362 1384"> If $40\,000 - (iii)$ No part marks $6\,080$ ✓✓ </td></tr> </tbody> </table>	Workings	Answer	See (iii) above $40\,000 - 33\,920$ OR $-40\,000 + 75\,000 - 41\,080$	If $40\,000 - (iii)$ No part marks $6\,080$ ✓✓
Workings	Answer				
See (iii) above $40\,000 - 33\,920$ OR $-40\,000 + 75\,000 - 41\,080$	If $40\,000 - (iii)$ No part marks $6\,080$ ✓✓				
	2				
1.2	Calculate: Trading stock deficit				
	<table border="1"> <thead> <tr> <th data-bbox="231 1473 1109 1518">Workings</th><th data-bbox="1109 1473 1362 1518">Answer</th></tr> </thead> <tbody> <tr> <td data-bbox="231 1518 1109 1731"> 18 two marks ✓ ✓ $(280 - 262) \times 4\,050$ 280 one mark 262 one mark 4 050 one mark $(280 \times 4\,050) - (262 \times 4\,050)$ $1\,134\,000 - 1\,061\,100$ </td><td data-bbox="1109 1518 1362 1731"> $R72\,900$ ✓# # if $\times 4\,050$ </td></tr> </tbody> </table>	Workings	Answer	18 two marks ✓ ✓ $(280 - 262) \times 4\,050$ 280 one mark 262 one mark 4 050 one mark $(280 \times 4\,050) - (262 \times 4\,050)$ $1\,134\,000 - 1\,061\,100$	$R72\,900$ ✓# # if $\times 4\,050$
Workings	Answer				
18 two marks ✓ ✓ $(280 - 262) \times 4\,050$ 280 one mark 262 one mark 4 050 one mark $(280 \times 4\,050) - (262 \times 4\,050)$ $1\,134\,000 - 1\,061\,100$	$R72\,900$ ✓# # if $\times 4\,050$				
	4				

NOTE: The relevant figures calculated above must be transferred to the Income Statement.

1.3 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2021

ignore brackets – check if operation is correct

also award from bottom up if COS calc is done *one part correct

Sales 15 325 200 ✓✓ – 648 000 ✓ OR (6 966 000 X 1,2) + 6 966 000 – 648 000 6 966 000 x 2,2	14 677 200	✓*#
Cost of sales	(6 966 000)	
Gross profit 6 966 000 x 1,2 8 359 200 – 648 000 three marks if not awarded for sales 5	S – COS 7 711 200	✓
Other income Operation	175 000	✓*
Profit on sale of asset* see 1.1.2 (loss will be in operating expenses)	6 080	✓
Rent income 173 000 ✓ + 9 000 ✓ – 14 000 ✓✓ OR 182 000 – 14 000 OR 173 000 – 5 000 OR 182 000 X 12/13 two marks two marks one mark three marks two marks two marks	168 000	✓*
Provision for bad debts adjustment 7 030 – 6 110	920	✓✓*
Gross operating profit Operation 10	GP + OI 7 886 200	✓
Operating expenses Operation	(6 286 200)	✓*
Salaries and wages	1 468 120	
Depreciation 31 281 ✓ + 88 749 ✓ see 1.1.1 (ii)	120 030	✓*
Trading stock deficit see 1.2	72 900	✓
Directors' fees 3 330 000 ✓ + 180 000 ✓✓ or x 39/37 3 330 000 x 2/37 or 90 000 x 39 Alternative: 3 330 000 + 135 918 (OR x 51/49) = 3 465 918	3 510 000	✓*
Audit fees 91 000 ✓ + 39 000 ✓✓ OR 91 000 / 0,7 OR x100/70 91 000 + (91 000 x 30/70)	130 000	✓*
Repairs 476 000 + 9 000 if final figure is 476 000 OR 9 000 one mark	485 000	✓✓*
Bad debts 19 200 + 800 if final figure is 19 200 OR 800 one mark	20 000	✓✓*
Advertising 25 680 ✓ + 2 400 ✓ – 240 ✓ (2 400 x8) + (2 160 x4) OR: (2 400 X 12) – (240 X 4)	27 840	✓*
Sundry expenses	452 310	
Operating profit accept negative depending on figures in this column 22	GOI – OE 1 600 000	✓
Interest income	25 000	✓
Profit before interest expense Operation	OP + INT 1 625 000	✓
Interest expense Profit before interest expense – NPbT Accept a positive balancing figure	(75 000)	✓
Net profit before tax 1 054 000 + Income tax 1 054 000 x 100 / 68 two marks	NP + IT 1 550 000	✓
Income tax for the year 1 054 000 x 32/68 If balancing figure, award one mark	(496 000)	✓✓
Net profit after tax 6	1 054 000	

-1 foreign items i.e. B/S items (max -2); for misplaced items, award marks for workings only (not the final answer)

TOTAL MARKS

60

43

QUESTION 2

2.1

2.1.1	Directors' report ✓
2.1.2	Internal ✓
2.1.3	Limited ✓

3

2.2 **USANDA LIMITED**

2.2.1

Calculate: Income tax paid					
Workings	Answer				
$ \begin{array}{r} (1\,777\,000 - 1\,243\,900) \text{ one mark} \\ 69\,300 \checkmark + 533\,100 \checkmark - 19\,800 \checkmark \\ \text{Alternative presentations: Mark ONE alternative only} \\ \begin{array}{r} - 69\,300 - 533\,100 + 19\,800 \\ (69\,300) + (533\,100) + 19\,800 \end{array} \end{array} $ <table border="1"> <tr> <td>19 800</td><td>69 300</td></tr> <tr> <td>582 600</td><td>533 100</td></tr> </table>	19 800	69 300	582 600	533 100	R582 600 ✓ one part correct
19 800	69 300				
582 600	533 100				
Calculate: Dividends paid					
Workings	Answer				
$ \begin{array}{r} 495\,000 \text{ two marks} \\ 247\,500 \checkmark + (835\,000 \checkmark - 340\,000 \checkmark) \\ \text{Alternative presentations: Mark ONE alternative only} \\ \begin{array}{r} - 247\,500 - 835\,000 + 340\,000 \\ (247\,500) + (835\,000) + 340\,000 \end{array} \end{array} $ <table border="1"> <tr> <td>340 000</td><td>247 500</td></tr> <tr> <td>742 500</td><td>835 000</td></tr> </table>	340 000	247 500	742 500	835 000	R742 500 ✓ one part correct
340 000	247 500				
742 500	835 000				

4

4

*one part correct # correct use of bracket or not to earn the method mark on answer

2.2.2

CASH EFFECTS OF FINANCING ACTIVITIES	
	(2 652 500) ✓*
Proceeds from shares issued $ \begin{array}{r} 335\,000 \text{ one mark} \times R7,00 \text{ one mark} \\ 9\,555\,000 \checkmark + 2\,345\,000 \checkmark \checkmark - 11\,220\,000 \checkmark \\ \text{OR Be aware of different methods e.g. T-acc or reversed signs} \\ -9\,555\,000 - 2\,345\,000 + 11\,220\,000 \end{array} $ Note: The 50 000 is not used in this calculation because the R680 000 is the balancing figure in the OSC note	680 000 ✓✓*#
Funds used to repurchase shares $ \begin{array}{r} 3\,182\,500 \text{ one mark if no bracket} \\ 335\,000 \times R9,50 \end{array} $	(3 182 500) ✓✓
Change in loan $ \begin{array}{r} 2\,080\,000 - 1\,930\,000 \quad \text{or } 270\,000 - 420\,000 \\ (2\,080\,000 - 420\,000 + 270\,000) \quad \quad \quad 35\,000 \times 12 \end{array} $	(150 000) ✓✓*#
NET CHANGE IN CASH AND CASH EQUIVALENTS	
Cash (opening balance) 154 700 – 90 000 must not be bracketed	64 700 ✓✓
Cash (closing balance)	120 700 ✓

11

4

2.2.3 Calculate financial indicators for the year ended 28 February 2021:

Note: 100 does not count as 'one part correct' for the method mark

% operating profit on sales	
Workings	Answer
$\frac{2\,262\,100}{17\,800\,000} \times \frac{100}{1}$ <p>Expressed as a % (sign not necessary)</p>	<p>one part correct</p> <p>12,7%✓☑#</p> <p>accept 12,7 two marks</p> <p>accept 13 two marks</p>
Acid-test ratio	
Workings	Answer
<p>(659 500 – 276 500) two marks</p> <p>or (262 300 + 120 700) two marks</p> <p>383 000✓✓ : 611 900✓</p>	<p>one part correct</p> <p>0,6 : 1☑</p> <p>Do not accept 1 : 1</p> <p>as x : 1; not 0,6 on its own</p> <p>Accept 0,63 : 1</p>
% return on average shareholders' equity (ROSHE)	
Workings	Answer
$\frac{1\,243\,900 \checkmark}{\frac{1}{2} \checkmark (11\,985\,000 + 9\,891\,400) \checkmark} \times 100$ <p>21 876 400 one mark</p> <p>10 938 200 two marks</p> <p>Expressed as a % (sign not necessary) Not 0,114</p>	<p>one part correct</p> <p>11,4%☑#</p> <p>Accept 11,37% or 11%</p>
Dividend payout rate (%)	
Workings	Answer
<p>30 cents or R0,3 + 20 cents or R0,2; one mark each (assume R or c if no signs)</p> <p>Must be consistent with calculation</p> $\frac{50 \text{ cents} \checkmark \checkmark}{74 \text{ cents} \checkmark} \times \frac{100}{1}$ <p>one mark</p> <p>OR $\frac{R835\,000}{R1\,243\,900} \times \frac{100}{1}$ (2021 Total dividend) (2021 NPATax)</p> <p>two marks</p> <p>Expressed as a % (sign not necessary) Not 0,676</p>	<p>67,6% ☑#</p> <p>one part correct</p> <p>or</p> <p>67,1%</p> <p>Accept 67% / 68%</p>

TOTAL MARKS**40**

QUESTION 3

3.1

3.1.1	C ✓
3.1.2	E ✓
3.1.3	B ✓
3.1.4	A ✓

4

3.2

SCI-FI GEEKS LTD If candidates give more required number of indicators, -1 for any *inappropriate* one (max -1) in Q3.2

3.2.1

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.

Financial indicators ✓ ✓ Figures ✓ ✓ Explanation ✓✓

part marks for incomplete, partial or unclear answer

- The stock holding period increased (from 32 days) to 102 days (or 70 days)
- Average debtors' collection period increased (from 31 days) to 46 days (15 days)
- Current ratio increased (from 1,1 : 1) to 2,4 : 1 / by 1,3 : 1
- Acid-test ratio increased (from 0,4 : 1) to 1 : 1 / by 0,6 : 1

Any ONE valid explanation; part marks for incomplete / unclear explanation

- Too much liquid assets (cash) tied up in stock reflects that there is an over-investment in stock / the difference in current & acid-test ratios reflects stock piling.
- High stock volumes create security problems
- Stock can easily become obsolete due to advancements in technology (can't be sold)
- The business has relaxed / neglected its collection policies / lockdown during Covid-19 and this impacts on the debtors / stock / cash flow of the business.

6

3.2.2

Comment on the dividend per share over the two years. Quote figures.

ONE valid comment ✓ Figures ✓

The DPS dropped from 90 cents to 72 cents / by 18 cents / by 20%

2

Explain the change in the dividend payout rate. Quote figures.

Explanation ✓ Figures ✓

The dividend pay-out rate increased from 69% (90/130) to 136,5% or 72/58 (accept 124,1%) / or a 97,8% increase from the previous year

Give a reason for this change.

ONE valid point ✓✓ part marks for incomplete, partial or unclear answer

- Directors attempted to please the shareholders for the low profitability
- Compensation for using funds retained in previous financial years.
- No plans for growth / expansions (no need to retain additional funds)

4

A shareholder felt that they should be satisfied with the dividends they received as it is better than last year. Explain why you agree with him. Quote figures.

Explanation with a comparison to another factor apart from the payout rate ✓✓

Any valid figure ✓

Responses for 3 marks:

- The drop in the market price from 540 cents to 410 cents (reflects a dividend yield DPS/MP of 17,7% this year compared to 16,7% last year) / If the policy was maintained at 69% of EPS, they would have received 40 cents.

Example of responses for two marks:

- EPS dropped from 130c to 58c (by 72 cents / 55%) but DPS dropped from 90c to 72c (by 18 cents / 20%)
- The dividend pay-out rate increased from 69% (90/130) to 136,5% or 72/58 (accept 124,1%) / or a 97,8% increase from the previous year.

Example of responses for one mark:

- The dividend pay-out rate increased.

3

3.2.3

Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures).

✓ Debt/equity ratio increased (from 0,3 : 1) to 0,4: 1 (or by 0,1 : 1) ✓

✓ ROTCE decreased (from 39%) to 23,2% (or 15,8%) ✓

Any valid comment on the above ✓✓ **part marks for incomplete, partial or unclear answers**

- Increased borrowing not effectively used to increase / improve profitability.
- Although still positively geared (ROTCE exceeds interest rate), the drop in profitability / downward trend is a concern.
- Although there is low financial risk, the company is more reliant on own capital.

6

3.2.4

Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures.

Candidates must provide two reasons, which may be embedded in one explanation.

Any two different reasons: ✓✓ ✓✓ **part marks for incomplete, partial or unclear answers**

- Ethical reasons e.g. This is a very low price and the CEO is exercising undue influence over the issue price / receiving preferential treatment / against the Companies Act or King Code / lack of transparency
- Market-related reasons e.g. the company is losing out on additional funding as shares could have been sold at a price in that range, or on the stock exchange

Relevant figures (any two): ✓ ✓

The selling price of these shares (250 000) is 150 cents each (R375 000 in total) / market price of 410c exceeds NAV of 332c.

6

3.2.5

The Cash Flow Statement reflected a positive change in R980 000. Provide TWO points why this should still be a concern to directors. Quote figures.

TWO points ✓ ✓ Figures ✓ ✓

Expected responses for one mark each, figures one mark each:

- Cash flow from operating activities is negative R148 080
- Additional shares issued, R375 000
- Financing activities increased by R1 026 500
- Large increase in loan, R651 500 / high interest payment R232 000
- Very high payment for dividends, R925 000
- Cash from investing activities, R101 580

4

TOTAL MARKS

35

QUESTION 4**4.1 Explain why a qualified audit report is not a good reflection of a company. Provide TWO points.**

TWO points ✓✓ ✓✓ part marks for incomplete, partial or unclear answers

- Certain information on financial statements are not clear / missing.
- There is insufficient audit evidence for significant items; Auditors cannot verify certain information.
- Lack of internal controls; possible negligence or colluding.
- Negative impact in the future; consequences on the image / share price due to decreased demand for shares (from potential shareholders)
- Existing shareholders might decide to sell their shares

4

4.2 Explain why it is important for a company to include non-executive as well as executive directors on the Board of Directors.

TWO points ✓✓ ✓✓ part marks for incomplete, partial or unclear answers

- Executive directors are involved with internal functioning (operations) of the company / hands-on / decisions may be based on a narrow view.
- Non-executive directors have a wider perspective of the business environment; and act in the best interest of the company.
- The non-executive directors would exercise a watch-dog role; keep executive directors in check.
- More regular inputs than an internal auditor or other directors.
- Their inputs would be unbiased and independent.
- They share accountability with the other directors / more people have the interests of the company in mind.
- Executive directors would be more vigilant and professional in their duties / not tempted to engage in unethical activities.
- The more directors there are, the more opinions will be generated, which could benefit the company.
- The non-executive directors can be paid less than the other directors (because they do not work permanently in the company).

4

4.3 According to the Companies Act, 2008 (Act 11 of 2008), a company must have a Remunerations Committee.**Explain the role/responsibility of this committee and give a reason why this committee is necessary.****EXPLANATION:** ✓ Note: Mark for explanation could be embedded in the reason

Review all salaries, bonuses and other earnings

To prevent directors from paying themselves too much

They must approve, and give advice on the proposals re fees, bonuses etc.

REASON: ✓✓ part marks for incomplete, partial or unclear answers

- To ensure fairness / transparency in the payment of fees/salaries
- To prevent fraud / corruption / wastage
- Detect mismanagement or fraudulent activities
- They can compare the remuneration / earnings against financial information of other companies in the industry / fairness to workers

3

4.4 Directors engage with clients on a regular basis in an effort to negotiate contracts and to increase sales and services.

Explain why there should be a company policy for all gifts, donations or favours received by the directors from clients to be declared to the board by the directors concerned. Provide TWO points.

TWO points ✓✓ ✓✓ **part marks for incomplete, partial or unclear answers**

- Transparency in awarding contracts, tenders or appointing service providers;
- Could result in not appointing the best suited client for the job / not adhering to or flouting company policy.
- Policy would prevent colluding with service providers.
- Directors / service providers would know the consequences of not abiding by policy and therefore not be tempted to engage in fraudulent activities / corruption.
- This could be viewed as bribery for contracts.
- This could be viewed as nepotism (if family and friends involved).
- To protect the image of the business.
- Conflict of interest (which could be corrupt / fraudulent).

4

TOTAL MARKS
15

TOTAL: 150