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GRADE 12

JUNE 2021

ACCOUNTING P1 MARKING GUIDELINE (EXEMPLAR)

MARKS: 150

MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guideline, 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 the answer is 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. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark.
9. 'Operation' means 'Check operation'. 'One part correct' means 'Operation and one part correct'.
Note: check operation must be +, -, x, ÷, or as per memo.
10. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. In such cases, do not award the method mark. Indicate by way of ☒
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f = foreign item; p = placement/presentation.

This marking guideline consists of 10 pages.

QUESTION 1: CONCEPTS, ANALYSIS OF TRANSACTIONS AND AUDIT REPORT**1.1 CONCEPTS**

| | | |
|-----|-------|------------------|
| 1.1 | 1.1.1 | Directors ✓ |
| | 1.1.2 | Internal ✓ |
| | 1.1.3 | Inside trading ✓ |

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1.2 ANALYSIS OF TRANSACTIONS

| | ACCOUNT TO BE DEBITED | ACCOUNT TO BE CREDITED | AMOUNT | A | O | L |
|-------|--------------------------|------------------------|----------|----|----|----|
| 1.2.1 | Income tax ✓ | SARS (Income tax) ✓ | 330 000 | 0 | -✓ | +✓ |
| 1.2.2 | Ordinary share capital ✓ | Bank | ✓105 000 | -✓ | -✓ | 0 |
| | Retained income ✓ | Bank | 15 000 | -✓ | -✓ | 0 |

11

Effect on accounting equation: If blank, assume 0; -1 per line for foreign entry; Mark sign + or – independent from the details

1.3 AUDIT REPORT

| | |
|-------|---|
| 1.3.1 | Explain why the auditors found it necessary to stipulate the page numbers in the report. |
| | <p>Any ONE valid explanation ✓✓ Part-mark for unclear / incomplete answer</p> <ul style="list-style-type: none"> • They are only responsible for the pages that they have stipulated in the report / only financial statements on pages 25–52 were subjected to audit / examination. • They are not accountable for the other information in the annual report. |

2

1.3.2

What type of report did Zenko Ltd receive from the independent auditors? Explain your answer.

Type of report:

Qualified ✓

Explanation: ✓✓ Mark independent of the decision above

- The audit opinion expressed an exception whereby it qualified the report regarding the shortcoming/exception in the case of donations
- Expenses for donations of R250 000 could not be verified.

| |
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1.3.3

State TWO possible consequences for the independent auditor if he had NOT mentioned the donation in his report.

Any TWEE valid points ✓ ✓

- He could face a disciplinary hearing by the professional body.
- He may be charged/fined/lose his license to practise.
- He may not be reappointed as an external auditor.

| |
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1.3.4

Explain why the company would make contributions towards outreach programmes in the local community. Mention TWO points.

One valid point ✓✓ Part-marks for unclear / incomplete answer

- Companies are expected to contribute to the communities that support them (corporate social responsibilities) / They are expected to put back into the community as well as the environment.
- The King code prescribes that companies concentrate on the triple-bottom line and not just profits.
- Positive publicity will improve their image and their support.

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|--------------------|
| TOTAL MARKS |
| |
| 25 |

QUESTION 2: BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AND NOTES

MAKIZOLE LIMITED

2.1 Complete the following notes for the financial year ended 29 February 2020.

(a) **ORDINARY SHARE CAPITAL**

AUTHORISED: 1 400 000 shares

ISSUED

| | | |
|-----------------------|---|----------------------------------|
| 650 000 | Shares in issue on 1 March 2019 (4 500 000 - 1 300 000) | 3 200 000 ✓✓ |
| 250 000 | Shares issued during the year | 1 300 000 |
| (100 000)✓ | Shares repurchased at R5✓✓ (ASP) | (500 000) ✓* one part correct |
| 800 000✓ operation | Shares in issue at 29 February 2020 | 4 000 000 ✓ operation |

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(b) **RETAINED INCOME**

| | |
|--|--------------------|
| Balance at the beginning of the year | 745 000 |
| Net profit after tax $(405\,500✓ + 35\,500✓) \times \frac{70}{30}✓$ 441 000 2 marks | 1 029 000 ✓* |
| Shares repurchased (100 000 x 30c) | (30 000) ✓✓ |
| Dividends on ordinary shares operation | (710 000) ✓ |
| Interim dividends paid | 390 000 ✓ |
| see (a) above Final dividends declared (800 000✓ x 40c✓) | 320 000 ✓* |
| Balance at the end of the year operation | 1 034 000 ✓ |

12

*one part correct

2.2

| BALANCE SHEET ON 29 FEBRUARY 2020 | | | |
|--|---------------------------|-----------|---|
| ASSETS | | | |
| NON-CURRENT ASSETS | TA - CA | 5 362 500 | <input checked="" type="checkbox"/> |
| Fixed assets | Balancing figure (NCA-FA) | 5 183 750 | <input checked="" type="checkbox"/> |
| Financial assets: Fixed deposit (715 000x75%) (715 000 - 536 250✓✓) | | 178 750 | <input checked="" type="checkbox"/> * |
| CURRENT ASSETS | operation | 1 505 340 | <input checked="" type="checkbox"/> |
| Inventories (460 000✓✓ + 35 000✓✓ + 9 800✓) | | 504 800 | <input checked="" type="checkbox"/> * |
| Trade and other receivables (473 000✓ - 18 500✓ + 7 150✓) | | 461 650 | <input checked="" type="checkbox"/> * |
| Cash and cash equivalents (536 250 + 2 640) <small>see fixed dep. above</small> | | 538 890 | <input checked="" type="checkbox"/> ✓ |
| TOTAL ASSETS | TE+L | 6 867 840 | <input checked="" type="checkbox"/> |
| EQUITY AND LIABILITIES | | | |
| ORDINARY SHAREHOLDERS' EQUITY | operation | 5 034 000 | <input checked="" type="checkbox"/> |
| Ordinary share capital | see 2.1 (a) | 4 000 000 | <input checked="" type="checkbox"/> |
| Retained income | see 2.1 (b) | 1 034 000 | <input checked="" type="checkbox"/> |
| NON-CURRENT LIABILITIES | | | |
| Loan: Capital Bank | OSE x 0,1 | 503 400 | <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> |
| CURRENT LIABILITIES | operation | 1 330 440 | <input checked="" type="checkbox"/> |
| Trade and other payables (727 760✓ + 46 000✓✓) | | 773 760 | <input checked="" type="checkbox"/> * |
| Current portion of loan | | 100 680 | |
| Shareholders for dividends | See RI note | 320 000 | <input checked="" type="checkbox"/> |
| SARS (Income tax) <small>see 2.1 (500 000+30 000)</small> | | 35 500 | ✓ |
| Bank overdraft (530 000 <input checked="" type="checkbox"/> - 429 500✓) | | 100 500 | <input checked="" type="checkbox"/> * |
| TOTAL EQUITY AND LIABILITIES | operation | 6 867 840 | <input checked="" type="checkbox"/> |

Note: Depending on calculation for re-purchase of shares, the bank overdraft figure can also appear under cash and cash equivalents

*one part correct

| |
|--------------------|
| TOTAL MARKS |
| |
| 55 |

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|-----------|
| 35 |
|-----------|

QUESTION 3: CASH FLOW STATEMENT, FINANCIAL INDICATORS AND INTERPRETATION

3.1

| | |
|-------|-----------------------|
| 3.1.1 | C (Depreciation) ✓ |
| 3.1.2 | B (Inflow of cash) ✓ |
| 3.1.3 | A (Working capital) ✓ |

3

3.2 CACADU LTD

3.2.1

| Calculate the following amounts for the Cash Flow Statement: | |
|---|---|
| Operating profit before changes in working capital | |
| Workings | Answer |
| $1\,650\,000 \checkmark + 578\,050 \checkmark + (231\,670 \checkmark + 670\,890 \checkmark - 789\,140 \checkmark)$ 113 420 3 marks | 2 341 470 <input checked="" type="checkbox"/> one part correct |
| Income tax paid | |
| Workings | Answer |
| $-11\,500 \checkmark + (1\,650\,000 - 1\,188\,000) \checkmark \checkmark + 16\,400 \checkmark$ 462 000 2 marks Accept alternative arrangements for calculations such as signs reversed, brackets and/or ledger accounts | 466 900 <input checked="" type="checkbox"/> one part correct |
| Dividends paid | |
| Workings | Answer |
| $77\,000 \checkmark + 1\,255\,000 \checkmark - 810\,000 \checkmark$ Accept alternative arrangements for calculations such as signs reversed, brackets and/or ledger accounts | 522 000 <input checked="" type="checkbox"/> one part correct |

6

5

4

3.2.2 Complete the following sections of the Cash Flow Statement:

| | |
|--|---|
| CASH EFFECTS FROM INVESTING ACTIVITIES operation | (2 890 250) <input checked="" type="checkbox"/> |
| Purchase of fixed assets (4 895 000✓ + 578 050✓ + 900 250✓ – 2 582 800✓) | (3 790 500) <input checked="" type="checkbox"/> * |
| Proceeds from sale of fixed assets | 900 250 ✓ |
| | * one part correct |

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Note: The figure and the brackets (or no brackets) must be correct to earn the mark in the money column.

| | |
|--|---|
| CASH EFFECTS FROM FINANCING ACTIVITIES operation | 2 749 550 <input checked="" type="checkbox"/> |
| Proceeds from the issue of shares | 2 984 800 |
| Repurchase of shares | (117 000) ✓ |
| Repayment of non-current liabilities (789 140 - 670 890) or (231 670 – 113 420) | (118 250) <input checked="" type="checkbox"/> ✓ |

| |
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Note: The figure and the brackets (or no brackets) must be correct to earn the mark in the money column.

| | |
|---|----------------|
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (88 200) |
| Cash and cash equivalents (beginning of year) (241 250 + 88 200) | 329 450 ✓✓ |
| Cash and cash equivalents (end of year) | 241 250 |

| |
|---|
| |
| 2 |

Note: The figure and the brackets (or no brackets) must be correct to earn the mark in the money column.

3.2.3 Calculate the following financial indicators on 30 June 2019:

| | |
|---|---|
| % Operating expenses on sales | |
| Workings | Answer |
| $\frac{3\,070\,220^{\text{1 316 800 2 marks}} - 1\,753\,420^{\text{✓}}}{7\,920\,000^{\text{✓}}} \times \frac{100}{1}$ | 40% <input checked="" type="checkbox"/> one part correct |

| |
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| 4 |

| % Return on average shareholders' equity (ROSHE) | |
|--|--|
| Workings | Answer |
| $\frac{1\,188\,000 \checkmark}{\frac{1}{2} \checkmark (6\,708\,900 \checkmark + 3\,945\,700 \checkmark)} \times \frac{100}{1}$ <p>10 654 600 2 marks 5 327 300 3 marks</p> | <p>22,3% <input checked="" type="checkbox"/></p> <p>one part correct, % sign not essential, cannot be rands, cents, units etc.</p> |
| 5 | |

3.2.4 Quote TWO financial indicators with figures and trends which should be a concern to the company's liquidity.

financial indicators ✓ ✓ figures and trend ✓ ✓

Only these TWO are acceptable:

- Stock turnover rate declined from 7 to 4 times (or by 3 times)
- Debtors' collection period increased from 30 to 40 days (by 10 days)

4

3.2.5 Comment on the degree of financial risk and gearing of the company. Quote TWO financial indicators with figures and trends to support your answer.

financial indicators ✓✓ figures and trend ✓✓ comment ✓✓

- Debt/equity improved from 0,2:1 to 0,1:1, (by 0,1).
- Return on capital employed decrease from 29,4% to 29,1%, (by 0,3)

Comment:

The company is lowly geared/the risk has decreased.

Although the ROTCE decreased slightly, the company is positively geared as the return is still higher than the interest rate on loan of 13%.

6

TOTAL MARKS

55

QUESTION 4: ANALYSIS AND INTERPRETATION OF TWO COMPANIES

4.1

| Calculate the number of shares that Alton can buy in Lion Ltd. | |
|---|----------------|
| Workings | Answer |
| 130 000 ÷ R6,50 | 20 000 ✓✓ * |

2

4.2

| Alton is more interested in purchasing the additional shares in Lion Ltd. Provide TWO reasons why he feels this way. Make reference to a comparison between both companies in your answer. | |
|---|---|
| REASON ✓✓ ✓✓ | FIGURES (with comparison) ✓ ✓ |
| Although the market price is higher, it is better than the NAV, indicating that shares in this company are in demand. It has a better image in the eye of the public. | Lion: MP 650 cents; NAV 622 cents Bull: MP 340 cents; NAV 412 cents |
| He will become the majority shareholder in this company. He is already the majority shareholder in the other company. | Lion: 260 000/500 000 = 52% It was 48% before Bull: 460 000 / 900 000 = 51,1% |

6

4.3

| Alton is happy with the DPS at Lion Ltd. Provide ONE reason why. | |
|--|-------------------------|
| REASON ✓✓ | FIGURE ✓ |
| Although the company paid only 45,3% of the EPS to shareholders, they have taken a decision to retain 54,7% of this to concentrate on the future growth of the company. This would hopefully lead to better returns (DPS) in the future. | 45,3% 54,7% retained |

3

| Provide ONE reason for the dividend policy at Bull Ltd. | |
|---|--|
| REASON ✓✓ | FIGURE ✓ |
| Bull is paying 80,7% of EPS as DPS They want to satisfy the shareholders because of the poor standing of the company. They probably have no plans for growth. To cover up for the poor performance of the company. | 80,7% or retained only 19,3% of the EPS. |

3

4.4

**Comment on the return on investment of both companies.
Provide ONE separate point for each company.**

| COMMENT ✓✓ ✓✓ for each company | FIGURES (with comparisons) ✓✓ |
|--|---|
| Lion Ltd Lion Ltd has a better return on investment than Bull Ltd. Lion Ltd's return is still better than return on alternative investments, although it dropped from 2019. | Lion: 12,2% 4,2% above interest rate. . |
| Bull Ltd Bull Ltd is not doing well. Although they were above alternative investments last year, they declined to below the interest rates this year. | Bull: 6,7% 1,3% below interest rate |

6

| |
|--------------------|
| TOTAL MARKS |
| |
| 20 |

TOTAL: 150