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GRADE 12

2021 PRE-TRIAL EXAMINATION

ACCOUNTING P1 MARKING GUIDELINE

MARKS: 150

MARKING PRINCIPLES:

1. 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).
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. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
10. Be aware of candidates who provide valid alternatives beyond the marking guideline.
11. Codes: f = foreign item; p = placement/presentation.

This marking guideline consists of 8 pages.

QUESTION 1:

1.1

1.1.1	E ✓
1.1.2	A ✓
1.1.3	B ✓
1.1.4	C ✓
1.1.5	D ✓

5

1.2.1 Statement of Comprehensive Income on 28 February 2021

	Sales 8 711 700 + 19 800	8 731 500 ✓✓
	Cost of sales sales amount x 100/150	(5 821 000) ✓✓
5	Gross profit operation S – COS	2 910 500 ✓
	Other income operation	214 500 ✓
	Commission income	165 700
	Rent income 55 200 ✓ – 6 400 ✓✓	48 800 ✓*
6	Gross income operation GP + OI	3 125 000 ✓
	Operating expenses GI – OP	(1 885 000) ✓
	Salaries and wages	621 500
	Depreciation	329 000
	Audit fees 48 750 x 100/75 or 48 750 + 16 250	65 000 ✓✓*
	Directors fees $\frac{(213\,600 \times 2)}{427\,200} \checkmark\checkmark + \frac{(160\,200 - 16\,020)}{144\,180} \checkmark\checkmark$	571 380 ✓*
	Sundry expenses balancing figure	298 120 ✓
9	Operating profit	1 240 000
	Interest income PbIE – OP	16 800 ✓
	Profit before interest expense	1 223 200 ✓
	Interest expense	(63 200) ✓
	Net profit before income tax	1 160 000 ✓✓
	Income tax	(348 000)
6	Net profit after tax 348 000 x 70/30 or NPbT – Inc Tax	812 000 ✓

26

-1 for foreign items (max -2)

* one part correct

1.2.2 RETAINED INCOME

Balance on 1 March 2021		209 000
Net profit after tax	see 1.2.1	812 000 <input checked="" type="checkbox"/>
Shares repurchased 50 000 x 1,10		(55 000) <input checked="" type="checkbox"/>
Ordinary share dividends	operation	(381 000) <input checked="" type="checkbox"/>
Interim dividends		228 000 <input checked="" type="checkbox"/>
Final dividends 900 000 x 0,17	one part correct	153 000 <input checked="" type="checkbox"/>
Balance on 28 February 2021	must subtract SBB and OSD	585 000 <input checked="" type="checkbox"/>

8

1.2.3 EQUITIES AND LIABILITIES SECTION

	SHAREHOLDERS EQUITY	8,90 x 900 000	8 010 000 <input checked="" type="checkbox"/>
	Ordinary share capital	balancing figure	7 425 000 <input checked="" type="checkbox"/>
4	Retained income	see 1.2.2	585 000 <input checked="" type="checkbox"/>
	Non-current liabilities		532 100
5	Loan: ORT Bank 562 800 <input checked="" type="checkbox"/> + 63 200 <input checked="" type="checkbox"/> – 93 900 <input checked="" type="checkbox"/>		532 100 <input checked="" type="checkbox"/> *
	Current liabilities	1 260 000 /1,8	700 000 <input checked="" type="checkbox"/>
	Trade and other payables 333 350 <input checked="" type="checkbox"/> + 6 400 <input checked="" type="checkbox"/> + 16 250 <input checked="" type="checkbox"/> see Rent Inc see Audit Fees		356 000 <input checked="" type="checkbox"/> *
	Shareholders for dividends	see RI note above	153 000 <input checked="" type="checkbox"/>
	SARS: Income tax 348 000 – 280 000		68 000 <input checked="" type="checkbox"/>
	Current portion of loan	see NCL above	93 900 <input checked="" type="checkbox"/>
	Bank overdraft	balancing figure	29 100 <input checked="" type="checkbox"/>
12			9 242 100 <input checked="" type="checkbox"/>

21

* one part correct

TOTAL
MARKS

60

QUESTION 2:**2.1 Calculate:**

Income tax paid		
WORKINGS	ANSWER	
$1\,375\,500 - 962\,850$ $412\,650 \checkmark\checkmark - 4\,200 \checkmark - 18\,450 \checkmark$ Accept alternative arrangements such as signs reversed, use of brackets or ledger account format	$390\,000 \checkmark$ one part correct	5
Dividends paid		
WORKINGS	ANSWER	
$1\,070\,000 \times 0,6$ $166\,000 \checkmark + 642\,000 \checkmark\checkmark$ Accept alternative arrangements such as signs reversed, use of brackets or ledger account format	$808\,000 \checkmark$ one part correct	4
Fixed assets purchased		
WORKINGS	ANSWER	
$9\,363\,600 + 464\,000 + 76\,250 - 8\,928\,850$ $\checkmark \quad \quad \checkmark \quad \quad \checkmark \quad \quad \checkmark$ Accept alternative arrangements such as signs reversed, use of brackets or ledger account format	$975\,000 \checkmark$ one part correct	5

2.2

CASH EFFECTS OF FINANCING ACTIVITIES	153 750 <input checked="" type="checkbox"/> one part correct	
Proceeds from shares issued		
$7\,711\,250 \checkmark + 581\,250 \checkmark\checkmark\checkmark - 6\,252\,500 \checkmark$ (75 000 one mark x 7,75 two marks)	$2\,040\,000 \checkmark$ one part correct	
Funds used to re-purchase shares (75 000 x 9,15)	(686 250) <input checked="" type="checkbox"/>	
Decrease in loan (3 000 000 – 1 800 000)	(1 200 000) <input checked="" type="checkbox"/>	11
NET CHANGE IN CASH AND CASH EQUIVALENTS	(188 500) <input checked="" type="checkbox"/>	
Cash and cash equivalents (opening balance)	112 000 <input checked="" type="checkbox"/>	
Cash and cash equivalents (closing balance)	(76 500) <input checked="" type="checkbox"/>	4
– 78 500 + 2 000		

2.3

2.3.1 Calculate: Debt/equity ratio

WORKINGS	ANSWER
1 800 000 ✓ : 8 164 850 ✓	0,2 : 1 <input checked="" type="checkbox"/> one part correct

3

2.3.2 Calculate: Dividend pay-out rate

WORKINGS	ANSWER
60c + 24c one mark each $\frac{84}{99} \times 100$ <div style="text-align: right;">✓✓ ✓</div>	84,8% <input checked="" type="checkbox"/> one part correct Or 85%

4

2.3.3 Calculate: % return on average shareholders' equity

WORKINGS	ANSWER
$\frac{962\,850}{\frac{1}{2}(6\,729\,050 + 8\,164\,850)} \times 100$ <div style="text-align: right;">✓ ✓ two marks</div>	12,9% <input checked="" type="checkbox"/> one part correct Or 13%

4

TOTAL MARKS	40	
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QUESTION 3:**3.1**

Comment on the liquidity position of the business. Quote and explain THREE financial indicators (with figures) in your explanation.

Financial indicators ✓ ✓ ✓ comparative figures ✓ ✓ ✓ Valid comment ✓✓
part marks for incomplete / partial / unclear responses

Current ratio increased from 1,8 : 1 to 2,9 : 1
Acid test ratio decreased from 0,9 : 1 to 0,7 : 1
Stock turnover rate dropped from 8 times to 5,2 times

Liquidity shows a declining trend / the business is holding too much stock (stock piling) / stock is not moving as desired / slow sales / cash tied up in stock / may experience cash flow problems in the future

8

3.2

Shareholders are concerned about the % returns and dividends for the year. Provide TWO possible reasons for their concern. Quote figures.

TWO reasons (with figures) ✓✓ ✓✓ * financial indicators are given in the Question

- % of shareholders' equity (7,4%) dropped to below the interest rate on alternative investments (8%)
- Decreasing trend in % return from 9,2% to 7,4%
- A reflection on the profitability. EPS dropped from 123 cents to 86 cents
- DPS drop is marginal (not significant) from 74c to 70c – not in proportion to the drop in EPS – directors prefer to give more dividends instead of retaining profits to improve profitability

4

3.3

The directors decided to change the dividend pay-out policy for the current financial year. Provide TWO possible reasons for this decision. Quote figures.

Comparative figures ✓✓ TWO valid points ✓✓ ✓✓
part marks for incomplete / partial / unclear responses

Dividend pay-out rate improved from 60,1% to 81,4%

- Directors retained 40% of the earnings last year, but did not apply that effectively to improve profitability; or to use that for expansion
- They decided to give shareholders a greater portion of the earnings to possibly keep them satisfied; not to draw attention to the poor profitability.
- They do not have plans for growth, exposing poor management

6

3.4

The debt/equity ratio shows that the company has maintained a gearing ratio of 0,4 : 1 over the two financial years. Was this a good strategy? Explain. Quote a financial indicator (with figures) to motivate your answer.

Financial indicator and figures ✓✓ Reference to negative gearing ✓✓ Valid comment ✓✓
part marks for incomplete / partial / unclear responses

The business is low geared – not making expensive use of loans

The ROTCE dropped from 14,3% to 12,8%

This is below the rate of interest on loans, 13%

Indicating that the company is negatively geared

The business is not making effective use of the loan and should have made efforts to reduce the loan balance

6

3.5

Terro Kota, owns 360 000 shares which represents 45% of the total issued share capital. He wants to be the majority shareholder in the next financial year, and plans to buy the shares on the stock exchange on 1 March 2021.

Calculate the number of shares he would have to buy, and the total amount he would have to spend. Note that the company's shares are only available in batches of 100 shares.

CALCULATION:

Number of shares in issue: $360\,000 \times 100/45 = 800\,000$ shares ✓✓

50% of share capital is 400 000 shares ☒ or 50% of shares calculated above

$400\,000 - 360\,000 + 100 = 40\,100$ more ☒ one part correct

AMOUNT HE MUST SPEND:

See above

$40\,100 \times R4,85 = R194\,485$ ☒ one part correct

7

Provide TWO different reasons why he wants to be the majority shareholder.

TWO valid reasons ✓✓ ✓✓

- He wants to gain control of the Board of Directors
- He would be the sole decision-maker
- He would decide on the appointment of directors / people on key management positions
- He probably sees potential in the company and feels that he can make an impact if he is in control
- He does not have confidence in certain directors and want to get rid of them
- He has inside information about incompetent managers and feels he can expose them
- He will be able to use his contacts in the business environment to the benefit of the company.

4

**TOTAL
MARKS**

35

QUESTION 4:**4.1**

Identify the type of audit report that the company received, and provide a reason for your choice.

Type: Disclaimer of opinion ✓ accept Disclaimer

Reason: ✓✓ mark independently from type above
part marks for incomplete / partial / unclear responses

The auditors did not express an opinion of the reliability of the financial statements
They could not get sufficient evidence to support certain significant items

3

4.2.1

Explain the difference between an internal auditor and an external auditor.

Explanation ✓✓ part marks for incomplete / partial / unclear responses

The internal auditor is employed by the business to set up reliable internal controls in line with externally acceptable standards; he/she has the best interest of the business and will engage management in complying with best practices. The external auditor has no interest in the business and will be unbiased in the manner in which he/she conducts the audit (no vested interest / impartial)

2

4.2.2

Provide THREE reasons for the concern expressed by shareholders.

THREE reasons ✓✓ ✓✓ ✓✓ part marks for incomplete / partial / unclear responses

- Impact on the image of the business
- Share price will be negatively affected
- Potential shareholders would not be interested to buy shares
- Existing shareholders would want to sell their shares
- Customers would buy elsewhere
- Creditors would doubt the creditworthiness of the business
- They would not be able to recoup their investment (limited liability)

6

4.3

Provide TWO suggestions on how good corporate governance can be achieved.

TWO suggestions ✓✓ ✓✓ part marks for incomplete / partial / unclear responses

- Engage all stakeholders in decision-making at different levels (transparency)
- Regular report-back on business matters (accountability)
- Consider the needs of the community (social responsibilities)
- Show an interest in current economic trends / environmental issues
- Invest in training employees – create opportunities for growth

4

TOTAL MARKS	15	
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TOTAL: 150