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**SA EXAM
PAPERS**

QUESTION 1

1.1	Calculate: Total depreciation for the year	
	Workings	Answer
		7
	Calculate: Profit/Loss on sale of fixed asset	
	Workings	Answer
		2
1.2	Calculate: Loss on the Icekool fridges destroyed in the fire	
	Workings	Answer
		5

NOTE: The relevant figures from QUESTIONS 1.1 and 1.2 must also be entered in the financial statement or note.

1.3 Statement of Comprehensive Income (Income Statement) for the year ended 30 June 2020.

Sales	12 945 000
Cost of sales	
Gross profit	
Operating income	
Service fee income	3 400 000
Gross operating income	
Operating expenses	
Salaries and wages	2 740 000
Audit fees	356 000
Sundry operating expenses	252 500
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	
Net profit before tax	
Net profit after tax	

1.4 Retained Income Note

Balance at beginning	3 200 000
Dividends	
Balance at end	

11

TOTAL MARKS
60

2.2.2 CASH FLOW STATEMENT ON 29 FEBRUARY 2020

CASH EFFECTS OF OPERATING ACTIVITIES	
Cash generated from operations	
Interest paid	(126 000)
Dividends paid	(440 000)
Income tax paid	
CASH EFFECTS OF INVESTING ACTIVITIES	
Fixed assets purchased	
Proceeds of sale of fixed assets	48 000
Decrease in fixed deposits	400 000
CASH EFFECTS OF FINANCING ACTIVITIES	
Proceeds of shares issued	
Funds used to repurchase shares	
Net change in cash and cash equivalents	
Cash (closing balance)	

23

TOTAL MARKS
40

QUESTION 3

3.1.1 Comment on the solvency of the company. Quote ONE financial indicator with figures.

2

3.1.2 Explain why the directors are satisfied with the change in the liquidity of the company. Quote TWO financial indicators with figures.

4

3.2.1 Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.

4

3.2.2 Comment on the share price on the JSE and how the % return and earnings per share have affected the share price. Quote figures.

4

- 3.3 Explain how the loan affected the risk and gearing and whether or not it was a good idea to increase the loan. Quote TWO financial indicators with figures.**

7

- 3.4.1 Refer to Information D. Explain how Allen's decision affected his % shareholding. Provide a calculation to support your explanation.**

4

- 3.4.2 Give TWO reasons why Allen might have made this decision.**

4

- 3.5.1 One of the directors feels that the dividend pay-out rate (%) should have remained constant. Give ONE possible reason (with figures) for her opinion.**

3

- 3.5.2 Refer to Information E. Explain (with figures) why one of the shareholders, Erna Naidoo, feels that the dividends she earns in Solar-Style Ltd is not as good as those that she earns in Netgen Ltd.**

3

TOTAL MARKS
35

QUESTION 4**4.1**

4.1.1	
4.1.2	
4.1.3	

3

4.2 ELECTRONIC LTD**4.2.1**

Explain, in your own words, why you agree or disagree with the extract that appeared in a local newspaper. State TWO different points.

4

4.2.2 Explain TWO points to prove possible corruption for EACH of the following problems. Quote figures or calculations.

Problem 1: Payment of directors' fees

4

Problem 2: Control and productivity of other employees

4

TOTAL MARKS

15

TOTAL: 150





basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

2021 TRIAL EXAMINATION

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 11 pages.

QUESTION 1

20% and 15% do not constitute 'one part correct'

1.1

Calculate: Total depreciation for the year	
Workings	Answer
<p>Vehicles: $(4\,220\,000 - 1\,325\,000) \times 20\% = 579\,000 \checkmark\checkmark$ 2 895 000</p> <p>Equipment: $40\,000 \times 15\% \times 7/12 = 3\,500 \checkmark\checkmark$ one part correct $(968\,000 - 40\,000) \times 15\% = 139\,200 \checkmark\checkmark$ 928 000 142 700 four marks</p>	<p>721 700 <input checked="" type="checkbox"/> one part correct</p>
Calculate: Profit/Loss on sale of fixed asset	
Workings	Answer
<p>$(40\,000 - 21\,500)$ 22 500 – 18 500 one mark one mark</p>	<p>4 000 <input checked="" type="checkbox"/><input checked="" type="checkbox"/> one part correct</p>

7

2

1.2

Calculate: Loss on the Icekool fridges destroyed in the fire	
Workings	Answer
<p>$(200 + 1\,400 - 1300 - 275)$ (25 x 3 500) x 20% <input checked="" type="checkbox"/><input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> one part correct</p> <p>87 500 – 70 000 three marks one mark</p>	<p>R17 500 <input checked="" type="checkbox"/> one part correct</p>

5

NOTE: The relevant figures from QUESTIONS 1.1 and 1.2 must also be entered in the financial statement or note.

1.3 Statement of Comprehensive Income (Income Statement) for the year ended 30 June 2020.

5	Sales	12 945 000
	Cost of sales $(12\,945\,000 + 275\,000 \checkmark) \times 100/160 \checkmark$ OR $(3\,500 \times 1\,300) \quad (6\,750 \times 550)$ 4 550 000 + 3 712 500 OR $(700\,000 + 4\,900\,000 - 1\,050\,000) + (4\,320\,000 - 607\,500)$	(8 262 500) $\checkmark \checkmark^*$
	Gross profit sales – cost of sales	4 682 500 <input checked="" type="checkbox"/>
	Operating income operation	3 495 000 <input checked="" type="checkbox"/>
	Service fee income	3 400 000
3	Profit on sale of asset see 1.1 can be a loss (see under expenses)	4 000 <input checked="" type="checkbox"/>
	Rent income $7 \times 13\,000$ see directors' fees	91 000 <input checked="" type="checkbox"/>
	* two marks if no calculation in director's fees	
19	Gross operating income	8 177 500
	Operating expenses operation	(6 576 500) <input checked="" type="checkbox"/>
	Salaries and wages	2 740 000
	Audit fees	356 000
	Sundry operating expenses	252 500
	Depreciation see 1.1	721 700 <input checked="" type="checkbox"/>
	Directors fees $(1\,279\,000 \checkmark + 91\,000 \checkmark \checkmark)$	1 370 000 <input checked="" type="checkbox"/>
	Consumable stores $(28\,800 - 21\,600)$ one mark $(815\,800 \checkmark + 7\,200 \checkmark - 18\,000 \checkmark)$	805 000 <input checked="" type="checkbox"/>
	Loss due to fire see 1.2	17 500 <input checked="" type="checkbox"/>
	Bad debts $(196\,000 \checkmark + 10\,800 \checkmark \checkmark)$	206 800 <input checked="" type="checkbox"/>
	Advertising $(123\,200 \checkmark - 16\,200 \checkmark \checkmark)$	107 000 <input checked="" type="checkbox"/>
	8 100 x 2	
	Operating profit GOI – OE	1 601 000 <input checked="" type="checkbox"/>
	Interest income	165 000 <input checked="" type="checkbox"/>
	Profit before interest expense	1 766 000
	Interest expense $1\,984\,000 - 1\,718\,000 /$ $(1\,984\,000 + 582\,000 - 2\,300\,000)$	(266 000) $\checkmark \checkmark^*$
	Net profit before tax PbIE – IE	1 500 000 <input checked="" type="checkbox"/>
	Income tax 28% of NPBT	(420 000) <input checked="" type="checkbox"/>
8	Net profit after tax NPbT – IT	1 080 000 <input checked="" type="checkbox"/>

– 1 foreign items (max -2); mark workings only of misplaced items

*one part correct

1.4 Retained Income Note

Balance at beginning	3 200 000
Net profit after tax see 1.2	1 080 000 <input checked="" type="checkbox"/>
Shares repurchased 50 000 x R2,60 ✓ ✓ (9,60 – 7,00) three marks one part correct Ignore brackets	(130 000) <input checked="" type="checkbox"/> * Not 480 000
Dividends operation; ignore brackets	(1 487 000) <input checked="" type="checkbox"/>
Interim / Paid	675 000 ✓
Final / Recommended 1 450 000 ✓ x 56 cents ✓ x 0,56 x 56%	812 000 <input checked="" type="checkbox"/> *
Balance at end Inspect: must subtract SBB and OSD	2 663 000 <input checked="" type="checkbox"/> *

11

-1 Presentation (no / incorrect details)

*one part correct

TOTAL MARKS**60**

QUESTION 2**2.1**

2.1.1	D ✓	Directors Report
2.1.2	B ✓	Statement of Comprehensive Income
2.1.3	C ✓	Statement of Financial Position

3

2.2 ORANGE LTD**2.2.1 Calculate on 29 February 2020:**

Debt-equity ratio	
Workings	Answer
$\frac{900\ 000}{\checkmark} : \frac{8\ 980\ 300}{\checkmark}$	0,1 : 1 <input checked="" type="checkbox"/> one part correct; in the form x : 1
Earnings per share (EPS)	
Workings	Answer
$\frac{968\ 800}{1\ 000\ 000} \times 100^*$ <p>(800 000 + 200 000) Do not accept 910 000</p>	one part correct 96,9 cents <input checked="" type="checkbox"/> OR 97 cents Accept R0,97
Dividend pay-out rate	
Workings	Answer
$\frac{40\ \text{cents}}{96,9\ \text{cents}} \times 100^*$ <p>(28 + 12) OR (280 000 + 120 000)</p> <p>96,9 cents <input checked="" type="checkbox"/> see EPS above 400 000 / 968 800 x 100</p> <p>Or 97 cents</p>	41,3% <input checked="" type="checkbox"/> *one part correct Must indicate %
% return on average equity (ROSHE)	
Workings	Answer
$\frac{968\ 800}{\frac{1}{2}(8\ 980\ 300 + 7\ 411\ 500)} \times 100^*$ <p>16 391 800 two marks 8 195 900 two marks</p>	11,8% <input checked="" type="checkbox"/> *one part correct % sign not necessary Accept 12%

* ensure that a candidate does not get full marks if ½ is omitted

* x 100 is not regarded as 'one part correct'

4

2.2.2 CASH FLOW STATEMENT ON 29 FEBRUARY 2020

CASH EFFECTS OF OPERATING ACTIVITIES		
Cash generated from operations		
Interest paid	(126 000)	
Dividends paid	(440 000)	
Income tax paid 23 800 ✓ + 415 200 ✓ + 4 500 ✓ or – 23 800 – 415 200 – 4 500	(443 500) ✓*	4
Be aware of alternative calculation methods, e.g. ledger account; brackets		
CASH EFFECTS OF INVESTING ACTIVITIES		
Fixed assets purchased 9 528 300 ✓ + 234 000 ✓ + 48 000 ✓ – 8 320 300 ✓ OR – 9 528 300 – 234 000 – 48 000 + 8 320 300	(1 490 000) ✓*	5
Be aware of alternative calculation methods, e.g. ledger or note format, brackets		
Proceeds of sale of fixed assets	48 000	
Decrease in fixed deposits	400 000	
CASH EFFECTS OF FINANCING ACTIVITIES		
Proceeds of shares issued 8 281 000 ✓ + 819 000 ✓✓ – 7 200 000 ✓ 90 000 x 9,10	1 900 000 ✓*	5
Funds used to repurchase shares 819 000 ✓ + 81 000 ✓ OR 90 000 x 10 see above (9,10 + 0,90)	(900 000) ✓*	
Change in loans / Decrease in loans 1 200 000 – 900 000	(300 000) ✓✓	10
Net change in cash and cash equivalents inspect, operation	271 500 ✓	
Cash (Opening balance) – 220 000 + 5 000	(215 000) ✓✓	
Cash (closing balance) 4	56 500 ✓	23

one part correct; with the correct use of brackets / no brackets
 If part of workings is reflected as a final answer, award the working marks allocated for that part
 If the correct final answer is presented without the correct use of brackets, award all working marks, even if workings are not provided e.g. 3 / 4 for 443 500 iro income tax paid.
 Misplaced items: mark workings only

TOTAL MARKS**40**

QUESTION 3**3.1.1 Comment on the solvency of the company. Quote ONE financial indicator with figures.**

Comment ✓ figure ✓

The degree of solvency has declined from 5,0 : 1 to 2,0 : 1 (by 3,0 : 1)
Although the solvency declined (trend not good), the business is still solvent.

2

3.1.2 Explain why the directors are satisfied with the change in the liquidity of the company. Quote TWO financial indicators with figures.

Financial indicator ✓ ✓ figures with explanation ✓ ✓

- Acid test ratio is now more efficient at 0,8 : 1 whereas it was too high at 2,6 : 1 in 2019 / more productive use of liquid assets (working capital)
- Stock turnover rate has improved from 3 times to 6 times indicating that stock is being sold more quickly.

4

3.2.1 Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.

Financial indicator (with trend) ✓ ✓ figures with explanation ✓ ✓

- ROSHE declined from 8,7% to 5,3% (by 3,4% percentage points / 39%) / compare to alternative investments
- EPS declined from 96 cents to 72 cents (by 24 cents; by 25%) / representing a drop in profitability (assuming no change to share capital)
OR Earnings yield: 96/912 (10,5%) to 72/877 (8,2%) – using NAV
96/920 (10,4%) to 72/840 (8,6%) – using MP

4

3.2.2 Comment on the share price on the JSE and how the % return and earnings per share have affected the share price. Quote figures.

Comment on the **market price** ✓ (with figures) ✓

- The decline in earnings has led to a decline in the share price on the JSE from 920 cents to 840 cents (by 80 cents / 8,7%) / a drop in demand for shares / investor confidence

Comparison of **MP with NAV** ✓ (with figures) ✓

- The MP (840c) is lower than the Net Asset value (877c) by 37 cents / was 8c higher than NAV in 2019 / indicating declining demand

4

3.3 Explain how the loan affected the risk and gearing and whether or not it was a good idea to increase the loan. Quote TWO financial indicators, with figures.

TWO financial indicators ✓ ✓ Figures ✓ ✓

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

The ROTCE decreased from 11,6% to 6,2% (by 5,4% points / 46,6%)

Explanation ✓✓ mention / compare with interest rate ✓

It was not a good idea to increase the loan:

- Although the debt equity suggests low financial risk, the ROTCE is very low; below the current interest rate of 10,5%
- The business experienced negative gearing in 2019 (interest rate:12%) and has not taken steps to improve the situation in the 2020 financial year.
- Financial risk has increased and profits have dropped.

7

3.4.1 Refer to Information D. Explain how Allen's decision affected his % shareholding. Provide a calculation to support your explanation.

Calculation:

360 000/5 ✓✓

360 000 + 72 000 = 432 000 shares of 900 000 shares → 48%

His % shareholding increased (from 45%) to 48% (by 3% / 6,7%) ✓✓

4

3.4.2 Give TWO reasons why Allen might have made this decision.

TWO possible reasons ✓✓ ✓✓ part-marks for partial / incomplete / unclear explanations

Figures are not necessary – can enhance the quality of the response

- He was able to buy the shares at the same price (650c) that he paid five years ago (March 2015)
- This is significantly lower than the current price on the JSE (920c; 840c)
- R6,50 is a lot lower than NAV (912c; 877c)
- Although earnings have declined, solar panels might become very popular in future because of the current Eskom problems. Future prospects.
- He wants to support (or be part of) a recovery plan / he sees potential in the recovery of the business.
- He needs to purchase only a few more shares on the JSE to become the majority shareholder (18 000 + 1 or 100 or 51%) / closer to becoming the majority shareholder / closer to being the main decision-maker.

4

3.5.1 One of the directors feels that the dividend pay-out rate (%) should have remained constant. Give ONE possible reason (with figures) for her opinion.

ONE valid reason ✓✓ **part-marks for partial explanations** Figure/s ✓

- A drop in EPS (from 96 cents) to 72 cents (by 24 cents / 25%) and an unchanged DPS at 48 cents as effectively increased the dividend pay-out rate from 50% to 67% (by 17% / 34%)
- A constant dividend pay-out rate at 50% would have resulted in a lower DPS of 36 cents (by 12 cents / 25%) in line with the drop in EPS.
- If the DPR remained constant, the company would have been able to retain 50% of EPS (instead of 33%); to focus on long-term effect / growth of the business.

3

3.5.2 Refer to Information E. Explain (with figures) why one of the shareholders, Erna Naidoo, feels that the dividends she earns in Solar-Style Ltd is not as good as those that she earns in Netgen Ltd.

ONE valid reason ✓✓ **part-marks for partial explanations** Figure/s ✓

- The price per share at Solar-Style Ltd is more than double the price at Netgen Ltd (820 cents against 400 cents)
Erna only received 36 cents per share at Solar-Style Ltd and 28 cents at Netgen Ltd. She expects the DPS at Solar to be more than double the amount she received at Netgen Ltd (i.e. over 56 cents)
- Received DPS of 36c on an investment of 820c (4,4%) in Solar-Style Ltd
Received DPS of 28c on an investment of 400c (7%) in Netgen Ltd

OR The dividend yield on Solar-Style Ltd is 4,4% (36/820) while the dividend yield on Netgen Ltd is 7% (28/400).

3

TOTAL MARKS
35

QUESTION 4**4.1**

4.1.1	Directors ✓
4.1.2	External auditors ✓
4.1.3	Internal auditors ✓

3

4.2 ELECTRONIC LTD

4.2.1 Explain, in your own words, why you agree or disagree with the extract that appeared in a local newspaper. State TWO different points.

Any TWO valid and separate points ✓✓ ✓✓ **part-marks for partial responses**

- The Board of Directors is accountable for managing the company (they have control over all employees) and if they are doing their job properly they should be aware of potential fraud.
- The Auditors are accountable for expressing an opinion on the financial statements, and they will be guilty of negligence if they do not do their duties properly and alert shareholders to problems that should be obvious.
- The Directors are accountable for establishing internal control processes to prevent fraud (using the staff they employ) and the Auditors are accountable for inspecting the internal control processes and must alert the Directors to possible breaches.
- If any employee commits fraud this should be identified quickly by the appointed managers and directors because internal control procedures exist for this reason.

4

Article refers to sustained corruption due to collusion between directors and auditors

Respective roles/responsibilities:

Directors; management and control / strategic planning / ensure the success of the business
Report to the Board / Shareholders

Auditors: External / unbiased / no vested interest / conflict of interest
To protect the investment / interest of the shareholders (members of the general public)

True: Corruption would require willing participation of role players / stakeholders
Focus on self-interest / self-enrichment – at the expense of the business (shareholders)
They are in positions of authority / power – are in control (influence decisions)

4.2.2 Explain TWO points to prove possible corruption for EACH of the following problems. Quote figures or calculations.**Problem 1: Payment of directors' fees**

TWO valid points ✓ ✓ Figures ✓ ✓

- The CEO & CFO do not deserve the 72% increase in their fees as the operating profit and net profit decrease significantly by 20% / 21% respectively.
- The other directors do not deserve an increase of 8,3% either because they would have known that proper procedures were not being followed in setting directors' fees and the profits have decreased by 20%.
- Negligence of the Remuneration committee in performing its duties / lack of transparency – possible collusion

4

Problem 2: Control and productivity of other employees.

TWO valid points ✓ ✓ Figures ✓ ✓

- The number of employees increased significantly by 110 (19%) while the operating and net profits decreased by 20% / 21% respectively
- Operating profit earned per employee has dropped by 50% (from R0,2 m to R0,1 m), although the number of employees increased by 19%. Drop in the productivity per employee – including the existing employees.
- Increase in salaries (22%) not justified – R16,6 million more than last year; way above the inflation rate; drop in productivity levels as revealed by the drop in profits.
- Operating profit decreased by 20% despite the fact that gross profit increased by 11% which indicates that control of operating expenses was a big problem; not sales.

4

TOTAL MARKS**15****TOTAL: 150**