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NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1 NOVEMBER 2021 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. Unless otherwise stated, give full marks for correct answer. If answer is incorrect, mark workings.
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. If candidates provide more than the required number of responses, inspect all responses to give benefit to the candidate. Penalties may be applied for foreign entries if candidates earn full marks on a question (max -2 per Q).
8. This memorandum is not for public distribution; as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
9. Where penalties are applied, the marks for that section of the question cannot be a final negative.
10. Where method marks are awarded for operation, marker must inspect reasonableness of answer.
11. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
12. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
13. 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 ☒.
14. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
15. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 10 pages.

QUESTION 1

1.1

Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021.

WORKINGS	ANSWER
$\begin{array}{l} 230 - 24 \qquad \qquad \qquad 240 - 206 / \text{if both unit totals add up to 240} \\ (206 \times R2\ 850) + (34 \times R2\ 600) \\ \checkmark \qquad \qquad \checkmark \qquad \qquad \checkmark \qquad \checkmark \end{array}$	R675 500 <input checked="" type="checkbox"/> one part correct

5

1.2

Calculate: Correct net profit after tax for the year ended 30 June 2021. Indicate '+' for increase and '-' for decrease.

NO.	WORKINGS	AMOUNT
	Incorrect net profit before tax	4 918 950
(i)	Audit fees	+ 123 600 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> No part marks
(ii)	Interest on loan 4 028 000 <input checked="" type="checkbox"/> – 3 755 000 <input checked="" type="checkbox"/> or 4 028 000 one mark + (420 000 – 4 175 000) one mark	– 273 000 <input checked="" type="checkbox"/> #
(iii)	Rent income (two marks; no part marks) (5 500 – 750) 4 750 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> x 2 <input checked="" type="checkbox"/> Be aware of different methods (77 000 x 4/14) one mark one mark one mark 22 000 – 3000 = 19 000 x 2 ÷ 4	– 9 500 <input checked="" type="checkbox"/> #
(iv)	Income tax (1 200 000 + 85 250) must add prov tax + amount owed	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> # – 1 285 250
	Net profit after tax	3 474 800 <input checked="" type="checkbox"/> one part correct

12

operation and – sign or accept use of brackets
total must include the NP figure

1.3

Retained Income Note on 30 June 2021

-1 P (if no details)

-brackets to earn full marks

Balance at beginning	
Net profit after tax see 1.2	3 474 800 <input checked="" type="checkbox"/>
Shares repurchased ignore workings	(78 000) <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
Dividends for the year ignore workings	(1 170 000) <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
Balance at end	3 240 000

5

JIMO LTD**STATEMENT OF FINANCIAL POSITION ON 30 JUNE 2021**

Figures are NOT required in shaded areas.

ASSETS	
NON-CURRENT ASSETS	
Fixed assets	
Financial assets	
CURRENT ASSETS	8 700 000
Inventories 4 198 500 ✓ + 675 500 <input checked="" type="checkbox"/> – 14 000 ✓ ✓ see 1.1	4 860 000 <input checked="" type="checkbox"/> *
Trade and other receivables (3 668 810 ✓ + 8 000 ✓ + 123 600 ✓ + 11 000 ✓) audit fees transfer	3 811 410 <input checked="" type="checkbox"/> *
Cash and cash equivalents balancing figure accept negative amount	28 590 <input checked="" type="checkbox"/>
TOTAL ASSETS see total E+L 12	16 762 000 <input checked="" type="checkbox"/>
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY (1 800 000 ✓ x 540/100 ✓ or R5,40)	9 720 000 <input checked="" type="checkbox"/> * Must use NAV
Ordinary share capital Must be the balancing figure <	6 480 000 <input checked="" type="checkbox"/> <
Retained income 4	3 240 000
NON-CURRENT LIABILITIES	3 842 000
Mortgage loan (3 755 000 ✓ + 273 000 <input checked="" type="checkbox"/>) – 186 000 ✓ ✓ see 1.2 (ii) 5	3 842 000 <input checked="" type="checkbox"/> *
CURRENT LIABILITIES (8 700 000 – Inventories) / 1,2 Or T&OR + CCE / 1,2	3 200 000 <input checked="" type="checkbox"/><input checked="" type="checkbox"/>
Trade and other payables 1 253 000 ✓ + 9 500 <input checked="" type="checkbox"/> + 11 000 ✓ – 14 000 <input checked="" type="checkbox"/> see Inventories rent income 1 400 x 10	1 259 500 <input checked="" type="checkbox"/> *
Shareholders for dividends see 1.3 / given	1 170 000 <input checked="" type="checkbox"/> #
Current portion of loan see NCL	186 000 <input checked="" type="checkbox"/> #
SARS: Income tax	85 250 ✓ #
Bank overdraft balancing figure	499 250 <input checked="" type="checkbox"/>
TOTAL EQUITY AND LIABILITIES 12	16 762 000 <input checked="" type="checkbox"/>*

inspect if included with T&OP

*one part correct

-1 foreign items max -2

presentation -1 max -2

33

TOTAL MARKS**55**

QUESTION 2**2.1 Ordinary Share Capital Note on 28 February 2021**

800 000	Ordinary shares at the beginning	6 400 000 ✓
100 000	New shares issued balancing figure Must subtract repurchased	1 250 000 ✓
(30 000) ✓	Repurchased 30 000 shares at R8,50 ✓	(255 000) ✓# If one part correct do not accept 36 000
870 000 ✓	Shares at the end of the year	7 395 000

if answer of 255 000 is correct, award two marks if R8,50 is not shown

6

2.2 Calculate the following financial indicators on 28 February 2021:

% operating expenses on sales	
WORKINGS	ANSWER
$\frac{1\,458\,600}{7\,293\,000} \times 100^*$ <p>Check numerator / denominator</p>	20% ✓ one part correct; calculated as a % % sign not necessary
Dividend per share	
WORKINGS	ANSWER
<p>(no part marks) (162 000/900 000)</p> <p>18 cents ✓✓ + 22 cents ✓ OR 0,18 + 0,22</p> <p>18c 22c two marks one mark</p> $\frac{162\,000}{900\,000} + \frac{191\,400}{870\,000}$ <p>See below '&'. No marks for denominator if the same figure is used for interim & final dividends.</p> <p>If weighted average used: one mark</p> $\frac{162\,000 + 191\,400}{861\,666,7} = \frac{353\,400}{861\,667}$ <p>two marks</p> <p>(one mark) do not accept no method mark& $(162\,000 + 191\,400) / 870\,000 = 40,6 \text{ cents } X$ $(162\,000 + 191\,400) / 900\,000 = 39,3 \text{ cents } X$ $(162\,000 + 191\,400) / 885\,000 = 39,9 \text{ cents } X$</p>	<p>Assume cents if not specified.</p> <p>40 cents ✓&</p> <p>&Workings must be inspected in this case to earn the mark. Only award method mark if correct method is used i.e. different denominators for interim DPS & final DPS (e.g. 900 000 & 870 000).</p>
% return on average shareholders' equity	
WORKINGS	ANSWER
$\frac{985\,500 \checkmark}{\frac{1}{2} \checkmark (6\,450\,000 \checkmark + 8\,038\,100 \checkmark)} \times 100^*$ <p>14 488 100 two marks 7 244 050 three marks</p> <p>Check numerator / denominator</p>	13,6% ✓* one part correct calculated as a % Do not accept 0,136 or 0,14

* x 100 does not constitute 'one part correct'

2

4

5

2.3 CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2021

Figures are NOT required in shaded areas.

For use of reversed signs, ensure that only one option is consistently used

CASH FLOW FROM OPERATING ACTIVITIES	1 180 000
Cash generated from operations	
Interest paid	
Taxation paid (1 350 000 – 985 500) one mark 35 900✓ + 364 500✓ + 29 100✓ Be aware of signs reversed, use of brackets or ledger account formats	(429 500) ✓*
Dividends paid 115 300 + 162 000 OR: 115 300 + 353 400 – 191 400 Be aware of signs reversed & use of brackets or ledger account formats	(277 300) ✓✓*
6	
CASH FLOW FROM INVESTING ACTIVITIES	(1 320 000)
CASH FLOW FROM FINANCING ACTIVITIES	409 000✓*
Shares issued see 2.1	1 250 000✓*
Shares repurchased 36 000 one mark two m. marks 255 000 ✓ + (30 000✓ x 1,20✓) OR 30 000 x R9,70 see 2.1 (if R1,20 above ASP)	(291 000)✓*
Loan repaid 8	(550 000) ✓✓*
NET CHANGE IN CASH AND CASH EQUIVALENTS	269 000✓* from top (OA + IA + FA)
CASH AND CASH EQUIVALENTS AT BEGINNING	(75 200)✓✓* One mark if figure correct but no brackets
CASH AND CASH EQUIVALENTS AT END 4	193 800✓*

*one part correct and must indicate correct operation & correct use of brackets;
 If no brackets, assume answer is an inflow of cash – award marks for workings only;

TOTAL MARKS**35****18**

QUESTION 3

3.1

3.1.1	D ✓	Return on equity
3.1.2	A ✓	Liquidity
3.1.3	B ✓	Gearing
3.1.4	C ✓	Solvency

Accept abbreviations if understandable

4

3.2 **FLEXI LTD AND BROOM LTD**3.2.1 **Profitability:**

Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently, and is thereby more profitable. Quote figures and trends.

part marks for incomplete / partial / unclear responses

Any TWO financial indicators (explaining trend) from Broom Ltd with figures ✓✓ ✓✓
If figures are shown for Flexi Ltd, award marks to names of indicators (max 2 marks)

Quote figures and trends for any two indicators below

% OExp on sales improved / decreased (from 17%) to 13,6% / by 20% / by 3,4% points (accept 3,4%)

% OP on sales increased (from 20,5%) to 24,2% / by 18% / by 3,7% points (accept 3,7%)

% NP on sales increased (from 16%) to 19,6% / by 22,5% / by 3,6% points (accept 3,6%)

All indicators show an improvement in profits / expenses well managed.

4

3.2.2 **Dividends, earnings & returns:**

Comment on the dividend pay-out policy of Flexi Ltd. Explain why this is an irresponsible change in policy. Provide TWO points. Quote figures and trends.

Trend (with figures) ✓✓

part marks for incomplete / partial / unclear responses (e.g. mentioning only DPS or only EPS)

Responses for 2 marks for figures & trends:

- The pay-out rate increased (from 59%) to 115% / by 94,9% / 56% points (accept 56%)
- In 2021 they paid DPS of 92c compared EPS of 80c (i.e. 12c from retained income).
- Although the EPS dropped from 138 cents to 80 cents (by 58 cents) / DPS was 10 cents more than last year (82c to 92c) and DPS now exceeds EPS (by 12c / 92c to 80c).

Explanation / comment on decision ✓✓

part marks for incomplete / partial / unclear responses; figures may be included in the explanation

Expected comments – any one valid comment for two marks e.g.

- Company is depleting Retained Income reserve (which can be more effectively used to rebuild profitability)
- The company is trying to keep shareholders happy / trying to influence market price of shares by increasing dividends / equalizing dividends over several years.

4

Comment on the % return on shareholders' equity of EACH company. Quote figures and trends.

Financial indicator with figures & trend ✓ ✓

Flexi Ltd:

ROSHE dropped from 12,2% to 7,6% / by 37,7% / 4,6 % points (accept 4,6%)

Broom Ltd:

ROSHE improved from 10,7% to 14,1% / by 31,8% / 3,4% points (accept 3,4%)

Additional comment in each case ✓ ✓

Figures may be included in the explanation; candidates are NOT required to mention a specific figure for the alternative rate; do not penalise for incorrect rates on investments (as these could vary from 4% to 14%)

- **Flexi Ltd:** Refer to / compare alternative investments e.g. fixed deposit
- **Broom Ltd:** Refer to / compare alternative investments e.g. fixed deposit

Comment for 1 mark only (to cover both companies):

- If candidates only mention increased / decreased / good / bad without alternative investments.

4

A shareholder feels that the earnings per share (EPS) in Broom Ltd are better than that in Flexi Ltd. Explain why you agree with him. Quote figures or calculations.

To get full marks, must compare EPS to Value of share (MP / NAV) for Flexi Ltd with figures

✓✓ part marks for incomplete / partial / unclear responses

To get full marks, must compare EPS to Value of share (MP / NAV) for Broom Ltd with figures

✓✓ part marks for incomplete / partial / unclear responses

Expected responses for four marks (two marks per company):

- EPS to NAV is 7,4% in Flexi Ltd and 11,4% in Broom Ltd
- EPS to MP for 2021 is 8,1% in Flexi Ltd (80/990) and 10,9% (72/660) in Broom Ltd
- EPS on MP for 2020 is 7,1% in Flexi Ltd (80/1130) and 11,7% (72/615) in Broom Ltd
- Flexi Ltd earned 80c on a share valued at 990c/1 081c while Broom Ltd earned 72c on a share valued at 660c/632c.

OR: Other comparisons for each company for only one mark in each company:

- Flexi Ltd EPS decreased from 138c to 80c whilst Broom increased from 65c to 72c
- Flexi EPS is calculated on a smaller number of share (700 000) so it looks good; Broom's EPS is calculated on a larger number of shares (1 500 000)

4

3.2.3 Shareholding of Bob Yates in both companies:

Comment on the price paid for the shares repurchased by Flexi Ltd. Provide TWO points. Quote figures.

Figures may be included in the explanation

Any TWO valid points (2 marks each), at least one of which must be related to a financial indicator with figures:

- Compare with figures R13,20 to MP of R9,90 or R11,30
- Compare with figures R13,20 to NAV of R 10,81 or R11,28
- Compare with figures R13,20 to any other value (e.g. average issue price)
- Any other general comment without figures e.g. compromised the funds (liquidity) / Bob abused his status to enrich himself / MP also shows a decreasing trend / no demand for shares / could drop the price further (apply part marks for simple or incomplete or partial answers).

4

Calculate the number of shares that Bob purchased in Broom Ltd with the money he received from the share buyback at Flexi Ltd.

WORKINGS	ANSWER
$ \begin{array}{r} 150\,000 \times 13,20 \\ \hline 1\,980\,000 \\ \hline R6,60 \end{array} $	300 000 shares ✓✓ one part correct

2

Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. Quote figures and trends.

Explanation on % shareholding ✓ Comparison in Flexi Ltd with figures ✓
 Explanation on % shareholding ✓ Comparison in Broom Ltd with figures ✓
 Be aware of combined explanation with figures

Flexi Ltd:

Bob was the majority shareholder (51%)
 He now has only 40,5% of the shares (283 500 / 700 000) so he has lost majority status.

Broom Ltd:

Bob had 41,8% of the shares $\frac{460\,000 + 300\,000}{1\,500\,000}$
 He now has 50,7% of the shares (760 000 / 1 500 000) see 3.2.3
 He is now the majority shareholder (or based on calculation in 3.2.3)
OR: There was no share repurchase in Broom Ltd, so that would not affect his % shareholding which was 41,8% (two marks)
OR: As he bought 300 000 shares in Broom Ltd, he is now the majority shareholder (50,7%).

4

3.2.4 Financing strategies and gearing:

Explanation of decisions taken by the directors of Broom Ltd (two marks):

Any ONE decision ✓ Figure ✓
 Increased the share capital by R2 640 000 or (400 000 shares) **OR**
 Decreased the loan by R400 000 **OR**
 Net increase of R2 240 000 to total capital employed

Explain ONE benefit (two marks):

Explanation of benefit ✓✓ Award part marks for partial / unclear / incomplete responses

- All the money generated is spent on lasting items (fixed assets) which could generate further profits in future
- Improved debt/equity ratio / reduced debt/equity (low risk) / improved creditworthiness in future
- Improved % return on average capital employed.

4

Explain how the decisions taken by Flexi Ltd on its capital employed has affected the risk and gearing of the business. Quote TWO financial indicators (with figures and trends).

TWO financial indicators (with figures)

- **Debt/equity** ✓ is now / increased (from 0,4 : 1) to 1,1 : 1 / by 0,7 : 1 ✓
- **ROTCE** ✓ is now / decreased (from 16,1%) to 10,2% / by 36,6% / by 5.9% points (accept 5,9%) ✓

Explanation could be combined with figures or separate; both risk & gearing must be mentioned. Ignore reference to % ROSHE (i.e. do not penalise)

Award part marks for partial / unclear / incomplete responses

- High risk due to increase in loan ✓
- The business is experiencing negative gearing ✓ (ROTCE is lower than interest rate of 13%)

6

TOTAL MARKS

40

QUESTION 4

4.1

Explain why a disclaimer audit report would be bad for a company's reputation. Provide TWO points. part marks for incomplete / partial / unclear answers

POINT 1 ✓✓	Be aware of alternative valid responses e.g. Any TWO <ul style="list-style-type: none"> This indicates that there is something seriously wrong with the financial statements.
POINT 2 ✓✓	<ul style="list-style-type: none"> The company and its results cannot be trusted / creates a bad impression or bad publicity This can negatively affect the share price on the JSE. Decreased demand for shares / losing potential investors / existing shareholders would want to sell their shares. Poor management and control of internal processes / incompetent management / question the integrity of directors. Suppliers and customers will look elsewhere / creditors might not give credit Banks / financial institutions might not approve loans

4

4.2

One of the most important decisions that shareholders have to make at the annual general meeting (AGM) is to appoint directors to serve on the board.

Explain why the shareholders have been given this responsibility.

Expected responses: ✓✓ part marks for incomplete / partial / unclear answers

Be aware of alternative valid responses

Any ONE valid response e.g.

- Separation of ownership (shareholders) from control (directors)
- The shareholders are the major investors but they cannot all work at the company.
- They will have to appoint directors to run the company for them.
- They have entrusted their investment to the directors.

2

If you were a shareholder, what factors or characteristics would you want to find out about the directors who would get your vote? Explain TWO points and give a reason for EACH.

Reason could be included with Explanation / Some Explanations could be Reasons

EXPLANATION Any TWO ✓✓ ✓✓ Two separate and different points Single word responses acceptable	REASONS Any TWO ✓ ✓ Any TWO different reasons (not necessarily linked to the explanation)
<ul style="list-style-type: none"> Integrity / honesty / ethical / moral / person / set good example / work ethic / responsible / no conflicts of interest / no accusations of nepotism Clear crime record Good qualifications / member of professional body / management skills / competence / good judgement / communication skills Innovative / creative Experience in field / good track record / references / aware of policies. Up to date with current trends / continues professional development Collaborative / a good team player Transparency & accountability (generally assessed after appointment, unless stated as part of track record) 	<ul style="list-style-type: none"> The shareholders have entrusted their investment to the directors. They need expertise to run a company well. Company would not fall behind on the global market. Employees / shareholders would respect director / have confidence in their ability. Be a confident ambassador for the company / deal with all stakeholders.

6

4.3

A recent news report stated that a major company, Baxco Ltd, had been awarded a tender to supply equipment worth R20 m to a chain of private hospitals. The report accuses the CFO (chief financial officer) of that company of paying R2 m in cash to the CEO of the hospital group.

As a shareholder, explain what you would say at the AGM. Provide TWO points.

TWO valid and different points ✓✓ ✓✓

part marks for incomplete / partial answers

Be aware of alternative valid responses

- This appears to be a clear case of corruption / under-handed agreement that did not follow the normal tender processes / kick-backs or bribes involved / unethical & illegal.
- The CFO's actions must be investigated and appropriate disciplinary measures should follow (abusing his influence / authority) / institute criminal proceedings / legal process / sued (dismissed / fired / replaced: only 1 mark).
- Investigate further to ensure that criminal activity has not filtered through to other parts of the company.
- If the directors' integrity is compromised, this will affect the reaction of the public and the customers.
- This would affect the share price and the profits (image of the business)
- Concern over access to large cash amount / lack of internal controls.

4

4.4

Refer to the question paper for an extract from the website and Directors' Report of a major South African company.

In your opinion, explain why this major company found it necessary to implement this policy. Provide TWO points.

TWO valid and different points ✓✓ ✓✓

part marks for incomplete / partial answers

Be aware of alternative valid responses

- Crime is a major problem in this country and people are scared to come forward to report crimes as they fear that their lives might be at risk; protection policy may encourage them to report cases.
- The company states this in their policies to make people realise that they are serious about combatting crime.
- The company would want to find out about wrong-doing before it is exposed in the press / impact negatively on the business.
- This could also prevent or minimize wrong-doing as people are aware of this policy / being watched / reported / culprits must be reported.
- This is part of good governance or according to King Code / improve reputation of company / compliance with policies / total quality management.

4

TOTAL MARKS	20
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TOTAL: 150