GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2022

MARKING GUIDELINES

ACCOUNTING PAPER 1 (10711)

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 workings 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. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: Check operation must be +, -, x, ÷, or per memo.
9. One part correct means ‘operation and one part correct’. Where method marks are awarded for one part correct, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark. If a figure has earned a method-mark, this will be regarded as ‘one part correct’.
10. In calculations, do not award marks for workings if numerator and 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. Indicate with a ☒.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f = foreign item; p = placement/presentation.

12 pages

QUESTION 1

1.1 CONCEPTS:

1.1.1	Balance sheet ✓
1.1.2	Current Asset ✓
1.1.3	Non - Current Asset ✓
1.1.4	Net working Capital ✓
1.1.5	Income statement ✓

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1.2 FEINT PPE LIMITED

1.2.1 INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2022

Sales (6 500 000 x 120/100) OR (6 500 000 + 1 300 000)	7 800 000	✓✓	
Cost of sales (7 800 000 x 100/160) If Sales x 100/160	(4 875 000)	☑☑*#	
Gross Profit If Sales x 60/160 S – CofS	2 925 000	☑#	5
Other Operating Income	141 530	☑*	
Rent Income (130 200 ✓ + 11 100 ✓✓)	141 300	☑*	
Provision for bad debts adjustment	230	✓✓	
Gross Operating Income operation	3 066 530	☑	8
Operating Expenses GOI – OP	(1 896 530)	☑	
Salaries	**601 450**		
Directors' fees	**470 850**		
Depreciation	**281 000**		
Sundry Expenses balancing figure	387 600	☑	
Audit fees (25 000 ✓ + 37 500 ✓✓) OR (25 000 x 100/40)	62 500	☑*	
Insurance (103 500 ✓– 23 000 ✓) OR (11 500 X 7) OR 103 500 X 7/9	80 500	☑*	
Trading stock deficit (370 870 – 358 240)	12 630	✓✓	11
Operating Profit Check = sales x 15%	1 170 000	☑☑	
Interest Income NPBIE – OP	265 100	☑	
Net Profit before interest expense NPBT + IE	1 435 100	☑	
Interest expense	(220 500)	✓	
Net Profit before tax NPAT + IT	1 214 600	☑#	
Income tax	**(340 088)**		8
Net Profit after tax 340 088 X 72/28	874 512	✓✓#	

Foreign items e.g. balance sheet items/dividends -1 Max *one part correct
#Check if the learner calc. Sales or CofS using the mark-up given

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1.2.2 BALANCE SHEET ON 28 FEBRUARY 2021

EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY 480 000 ✓ x 720c ✓ (800 000 x 60%)	3 456 000	☑*	
Ordinary share capital SE – RI	2 988 000	☑	
Retained income	**468 000**		4
NON-CURRENT LIABILITIES	535 700		
Loan: Best Bank (45 200 x 12) one mark; (542 400 – 150 000) one mark; (1 250 000 ✓– 542 400 ✓ + 220 500 ✓) – 392 400 ✓; 928 100 three marks	535 700	☑*	5
CURRENT LIABILITIES	770 200	☑*	
Trade and other payables (203 100 ✓ + 3 400 ✓ +12 000 ✓✓+ 37 500 ☑) 206 500 two marks; deposit; audit fees	256 000	☑*	
SARS Income tax (340 088 – 323 888)	16 200	✓✓#	
Shareholders for dividends (445 600 ✓ – 340 000 ✓)	105 600	☑*#	
Current portion of loan see NCL above	392 400	☑#	14
TOTAL EQUITY AND LIABILITY	4 761 900	☑	

Foreign entries -1 (max-2)
Presentation/incorrect details -1(max-2)
*one part correct
#Can be part of T&OP

23

60

QUESTION 2

2.1.1 ORDINARY SHAREHOLDERS' EQUITY NOTE

6 000 000 ☑#	Ordinary shares at the beginning of the year	22 500 000 ☑#
2 000 000 ✓	Ordinary Shares issued at R2,75 each	5 500 000 ✓
(500 000) ✓	Shares repurchase at (ASP: R3,50 ✓)	(1 750 000) ☑
7 500 000	**Ordinary shares in issue at the end of the year**	**26 250 000**

check operation

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2.1.2 RETAINED INCOME NOTE

Balance at the beginning of the year	**7 000 000**	
Net profit after taxation (2 072 000 x 72/28)	5 328 000	✓✓
Repurchase of shares (500 000 x 25/100)	(125 000)	✓*
Ordinary share dividends operation	(2 660 000)	☑*
Interim (8 000 000 x 22/100) one part correct	1 760 000	✓☑
Final (7 500 000 x 12/100)	900 000	✓✓
Balance at the end of the year operation	9 543 000	☑#

* ignore brackets
# Operation, repurchase of shares and dividends should be subtracted

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2.2 SEVERANCE LTD

*one part correct #answer must indicate inflow/outflow to earn part-mark

CASH FLOW STATEMENT FOR YEAR ENDED 28 FEBRUARY 2022		
CASH EFFECTS OF OPERATING ACTIVITIES		
Cash generated from operations		**7 015 170**
Interest paid		**(219 700)**
Income tax paid (2 072 000 ✓ + 160 000 ✓ + 30 000 ✓) OR (– 2 072 000 – 160 000 – 30 000) Accept other alternative methods e.g. Ledger		(2 262 000) ☑#* **one part correct**
Dividends paid See 2.1.2 1 760 000 ☑ + 212 000 ✓ **OR** See 2.1.2 (2 660 000 – 900 000) + 212 000 one mark one mark Accept other alternative methods e.g. Ledger	**7**	(1 972 000) ☑#* **one part correct**
CASH EFFECTS OF INVESTING ACTIVITIES		
Fixed assets purchased		**(6 956 560)**
Proceeds from sale of fixed assets		67 590 ✓
Change in fixed deposit	**3**	1 000 000 ✓✓
CASH EFFECTS OF FINANCING ACTIVITIES		
Proceeds of shares issued		5 500 000 ☑ See OSC
Repurchase of shares (ASP + 0,25) (1 750 000 + 125 000) OR (500 000 X R3,75) See OSC See RI		(1 875 000) ☑☑
Change in loan (2 080 000 – 1 960 000)	**4**	(120 000) ✓
NET CHANGE IN CASH AND CASH EQUIVALENTS		177 500 ☑*
Cash and cash equivalents (opening balance) (72 000 – 147 500)		(75 500) ✓✓
Cash and cash equivalents (closing balance)	**4**	102 000 ✓

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2.3 CALCULATE THE FOLLOWING FINANCIAL INDICATORS

* Expressed as a percentage. % sign not necessary. 100 does not count as one part correct for method mark

2.3.1

% operating expenses on sales	
Workings	**Answer**
$\frac{1\ 250\ 000 \checkmark}{10\ 650\ 000 \checkmark} \times \frac{100}{1}$	11,7% ☑* Accept 11,73% Accept 12%

3

2.3.2

Current ratio	
Workings	**Answer**
(770 000 + 9 000 + 5 400) See 2.1.2 2 021 280 ✓ : (784 400 ✓ + 900 000 ☑) 1 684 400 two marks	1, 2 : 1 ☑

4

2.3.3

Return on shareholders' equity	
Workings	**Answer**
See RI 5 328 000☑ ───────────────── x 100/1 ½ (26 250 000+ 9 543 000) + (22 500 000 + 7 000 000) ☑ See OSC ☑ See RI 35 793 000 one mark 29 500 000 one mark 32 646 500 two marks	16,3% ☑*

4

45

QUESTION 3

3.1 **Debt Equity Ratio**

480 000✓ : (2 200 000 + 750 000) ✓

480 000 : 2 950 000

0,2 : 1 ☑ must be x : 1

Accept 0,16 : 1

3

3.2 **Do you think it is a wise decision to borrow R1 000 000? Comment and quote TWO financial indicators with figures to support your answer.**

Financial Indicators ✓ ✓ Trend and Figures ✓ ✓ Comment ✓✓

YES

Debt/equity ratio decreased from 0,5 : 1 (2021) to 0,2 : 1 (2022) see 3.1 / by 0,3: 1

ROTCE decreased from 19% (2021) to 17% (2022) by 10,5% / 2% base points

Any valid comment on the above

- The company is lowly geared and borrowing has decreased.
- Positive gearing ROTCE exceeds interest on loans of 9%.
- ZUSA Limited has low risk and is positively geared.

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3.3 Comment on the dividend policy of Zusa Limited. Quote figures.

Calculation for dividend pay - out. One mark each

Comment: dividends compared to earnings for each year one mark

<u>2021</u>

$\frac{65}{105} x \frac{100}{1} = 61{,}9 \text{ or } 62\%$ ✓

<u>2022</u>

$\frac{24}{93} x \frac{100}{1} = 25{,}8 \text{ or } 26\%$ ✓

In 2021, 62% of the company's earnings were distributed and dividends of the current year <u>dropped</u> to 26%. ✓

OR

The company retained 38% of its earnings in 2021 and in 2022 it <u>increased</u> this to 74% / The company decided to retain profits.

3

3.4 Name TWO issues that will impact on the profitability of Zusa Limited and explain the effect they will have on the profit.

Problem ✓ ✓	**Effect** ✓ ✓
Drought	It pushes up the price of ginger and sales might drop / Profits of the company will decrease due to a reduced supply to customers.
Retrenchments	Operating expenses will decrease due to the cutting of labour costs / Operating expenses will increase due to paying retrenchments packages.

4

3.5.1 **Percentage of shares that the managing director would own after new shares are issued.**

Number of shares before share issue

750 000 x 51% = 382 500

Percentage after share issue

$$\frac{382\ 500 \checkmark}{950\ 000 \checkmark} \times \frac{100}{1}$$

= 40% ☑ 100 is not regarded as one part correct (ignore % sign)

Accept 40,3%

3

3.5.2 **Why would the managing director be concerned about the issue of new shares?**

He would no longer be the majority shareholder / lost controlling powers ✓

Figures need not be quoted

1

20

QUESTION 4: CORPORATE GOVERNANCE

4.1

4.1.1	D ✓
4.1.2	A ✓
4.1.3	B ✓
4.1.4	E ✓

4

4.2 AUDIT REPORT

4.2.1 Why did the independent auditors refer to pages 12 – 30 of the annual report?

part-mark for incomplete/partial answer ✓✓

- The financial statements are contained in those pages of the Annual Report; other reports are also included in the Annual Report, which were not prepared or inspected by them.
- The auditors are responsible for a certain part of the report.
- Directors are responsible for parts of the report as prepared by them

2

4.2.2 Complete the sentence "These financial statements are the responsibility of …" in paragraph 1.
Write only the missing word to complete the sentence.

- directors ✓

1

4.2.3 What kind of audit report did Lexi Ltd receive from BB Auditors?

- A disclaimer/withheld ✓

1

4.2.4 **As a shareholder, what concerns would you have regarding this audit report? Explain THREE points.**

Any three valid points ✓✓ ✓✓ ✓✓
Award part-marks for partially correct answers

- This is a disclaimer report which will have a negative effect on the company e.g. reputation/share price / Unethical conduct that will drive away investors.
- The corporate governance /king codes of the company is compromised.
- The correct procedures of approving directors' fees have not been followed.
- The directors have abused their positions / Fraud committed by the directors / Directors failed to honour their fiduciary duties.
- The huge amount paid to directors could negatively / mismanagement of funds affect the financial results/liquidity and solvency/profitability of the company.
- Insufficient audit evidence / Source documents can't be verified

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4.2.5 **Refer to paragraph 2. Explain the role/responsibility of the Remunerations 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/They must approve, and give advice on the proposals of fees and bonuses.
- To prevent directors from paying themselves too much.

Reason ✓

- 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.

2

4.3 PROBLEM SOLVING: FIXED ASSETS

PROBLEM IDENTIFIED WITH FIGURES Problem ✓ Figure(s) ✓	ADVICE TO RESOLVE PROBLEM Advice ✓
VEHICLE A: • More kilometres travelled but fewer deliveries made than other vehicles. • Unauthorised use of vehicle. 23 400 km compared to 18 360 and 17 880 km or 520 deliveries made compared to 1 050 and 1 100 deliveries or 23 400 km vs only 520 deliveries.	• Improve internal control over the use of vehicles. • Disciplinary action against the driver. • Implement a logbook system/vehicle tracking. • Compare logbook with google maps to avoid unauthorised private traveling.
VEHICLE B: • Fewer days worked, but driver received the same salary as the other drivers. 239 days worked compared to 291 and 283 days/or received salary of R252 000 for only working 239 days.	• Investigate the reasons for absence. • Only pay workers for the days worked. Do not pay a fixed salary but pay commission for days worked.
VEHICLE C: • High petrol consumption because vehicle is old. • High maintenance cost because vehicle is old. • The vehicle with the lowest carry value including R1 residual value is normally expensive to maintain. R39 595 for 17 880 km travelled vs R40 300 for 23 400 km travelled. R9 500 maintenance vs R3 500 and R0 for other vehicles. R2,21 fuel consumption compared to R1,70 of other vehicles.	• Consider replacing this vehicle as it is expensive to maintain. • Consider using vehicle A for the deliveries since it is a new vehicle that is cost effective and it is being misused. • Replace the driver of vehicle A with the driver of vehicle C, since the latter made the most deliveries and of the three drivers, worked the most days.

9

25

TOTAL: 150