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GRADE 12

**ACCOUNTING P 1
SEPTEMBER 2022
MARKING GUIDELINES**

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 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 and at least one part must be correct before awarding the mark.
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.
14.	Codes: f = foreign item; p = placement/presentation.

This marking guideline consists of 10 pages

QUESTION 1**KELLY LTD****1.1 Retained income note on 28 February 2022.**

Balance on 1 March 2021	57 480 ✓
Net profit after tax (306 280 ✓ x 69/31 ✓)	681 720 ✓*
Shares repurchased (40 000 x 1,25)	(50 000) ✓✓
Ordinary share <small>Ignore brackets</small>	(389 200) ✓*
Interim dividends (640 000 x 0,28 cents)	179 200 ✓✓
Final dividends	210 000 ✓
Balance on 28 February 2022 <small>must subtract BBS & OSD</small>	300 000 ✓

11

1.2 STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2022.

ASSETS	
NON-CURRENT ASSETS	4 190 900 ✓
Fixed assets	3 940 900
Fixed deposit (415 000 – 165 000)	250 000 ✓ ✓
CURRENT ASSETS <small>(CLx1,5)</small>	1 332 300 ✓ ✓
Inventories	222 600 ✓
Trade and other receivables <small>balancing figure</small>	1 022 300 ✓
Cash and cash equivalents <small>See FD</small> (212 400 ✓ + 165 000 ✓ - 290 000 ✓✓) <small>see RI 50 000 one mark: 240 000 AVE one mark</small>	87 400 ✓*
TOTAL ASSETS <small>See total E & L</small>	5 523 200 ✓
EQUITY AND LIABILITIES	
Shareholders' equity	
(640 000 – 40 000) ✓ x 650 cents✓ <small>must x NAV*</small>	3 900 000 ✓*
Ordinary share capital <small>balancing figure</small> <small>Or (600 000 x 6 Average price)</small>	3 600 000 ✓
Retained income <small>see R I</small>	300 000 ✓
NON-CURRENT LIABILITIES	735 000
Loan (1 155 000 – 420 000✓✓)	735 000 ✓*
CURRENT LIABILITIES	888 200
Trade and other payables	231 920
Shareholders for dividends <small>See R I</small>	210 000 ✓
SARS: Income tax (306 280✓ – 280 000✓)	26 280 ✓*

Current portion of loan	See Non-C L	420 000 <input checked="" type="checkbox"/>	27
TOTAL EQUITY AND LIABILITIES		5 523 200 <input checked="" type="checkbox"/> *	

*one part correct

-1 foreign item (-2 max) misplaced items must be marked wrong. Current liability items maybe combined.

1.3.1 Calculate the number of shares that Paul must buy to gain control of the company.

400 000 ✓ – 252 000 ✓✓ = 148 000 + 1 or + 100 ✓ one part correct

Or

408 000 one mark – 252 000 two marks = 156 000 one mark

Accept: 800 000 x 51% = 408 000 (in this case Paul must buy 156 000 shares)

4

1.3.2 Paul wants to buy shares at the current Net asset value without advertising them to the public. As an existing shareholder, why would you not be satisfied with this arrangement? Explain. Provide TWO points.

TWO valid points ✓✓ ✓✓

- The issue of these shares must be transparent and legal (i.e., in terms of a decision taken by the Board of Directors; it must not contravene the MOI, the Prospectus or the Companies Act.
- It would be unethical for Paul to pay a price for the share that is below the Market price as this would dilute the average share price (which could lead to a decline in market price).
- It would be unfair and unethical for Paul to benefit in this way as he would be abusing his position in the company (and other directors or shareholders would be disadvantaged).

4

1.4 Kelly Ltd is planning to spend R500 000 on staff development and training over the next two years. Explain where this amount should be shown in the published annual report, and provide a reason for your answer.

EXPLANATION ✓✓	REASON ✓✓
In the Directors Report	<p>It has not yet been paid so it cannot be shown in the Statement of Comprehensive Income.</p> <p>It is important for the directors to create a good impression to the readers of the financial report.</p> <p>It will highlight the company's compliance with the King Code / Emphasis on the triple bottom line</p>

4

TOTAL MARKS

50

QUESTION 2

- 2.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2022:**

Net profit before tax	
Adjustment in respect of:	
Depreciation	16 645 ✓✓
Interest on loan	120 000 ✓✓
Operating profit before changes in working capital	

4

- 2.2.1 Calculate: Taxation paid**

WORKINGS	ANSWER
197 600✓ – 4 000✓ – 10 375✓	183 225 ✓*

4

- 2.2.2 Calculate: Fixed assets purchased**

WORKINGS	ANSWER
16 645✓ + 19 430✓✓ + 1 541 940✓ – 944 800✓	633 215 ✓*

6

- 2.2.3 Calculate: Shares issued**

WORKINGS	ANSWER
100 000 x R15	R1 500 000 ✓✓

2

- 2.2.4 Calculate: Funds used for the repurchase of shares**

WORKINGS	ANSWER
(10 000 x R16.00) (10 000 x R12,50 + 10 000 x R3,50)	R160 000 ✓✓

2

- 2.2.5 Calculate: Net change in cash and cash equivalents**

WORKINGS	ANSWER
Net change in cash and cash equivalents	239 400 ✓
Cash and cash equivalents at the beginning (153 000 – 2 500)	(150 500) ✓✓
Cash and cash equivalents at the end	88 900 ✓

4

2.3.1	Calculate: Earning per share	
	WORKINGS	ANSWER
	$\frac{322\,400 \checkmark \quad \times \quad 100^*}{190\,000 \checkmark\checkmark \quad \quad \quad 1}$	169,68 cents <input checked="" type="checkbox"/> or 170 one part correct must be cents

4

2.3.2	Calculate: Debt-equity ratio	
	WORKINGS	ANSWER
	$350\,000 \checkmark : 2\,499\,900 \checkmark$	0,14 : 1 <input checked="" type="checkbox"/> or 0,1 : 1 one part correct must be in ratio: 1

3

2.3.3	Calculate: Return on average capital employed	
	WORKINGS	ANSWER
	$\frac{640\,000 \quad \text{Two marks}}{520\,000 \checkmark + 120\,000 \checkmark} \times \frac{100^*}{\frac{1}{2}\checkmark (2\,849\,900 \checkmark + 2\,187\,500 \checkmark)}$ $\frac{5\,037\,400}{2\,518\,700} \quad \text{two marks}$	25,4% <input checked="" type="checkbox"/> or 25,40% one part correct must be in %

6

TOTAL MARKS
35

QUESTION 3**3.1.**

3.1.1	Solvency	✓
3.1.2	Risk/gearing	✓
3.1.3	Profitable	✓
3.1.4	Return	✓
3.1.5	Liquidity	✓

5

3.2.1

Jack is of the opinion that KAT Ltd is handling its working capital more effectively and is in a better liquidity situation than KIT Ltd. Explain and quote THREE financial indicators to support his opinion.

Financial indicator ✓ ✓ ✓

Quoting of figures ✓ ✓ ✓

Explanation ✓ ✓ ✓

A combined explanation may be provided. Figures must be provided but not necessarily for both companies; candidates cannot get full marks if superfluous indicators are used; if candidates provide additional irrelevant indicators, search for the correct ones in the answer provided by the candidates and award marks accordingly. For those who provide more than three options, penalty of -1 for an irrelevant indicator (max -2)

- Current ratio of KAT Ltd is 1,5 : 1 and KIT Ltd is 6,0 : 1 (KIT Ltd.'s ratio is 4 times bigger). KAT has enough current assets to cover his current liabilities whereas KIT Ltd is holding too much of his funds in the form of current assets which may not results in a return for the business.
- Acid test ratio of KAT Ltd is 0,9 : 1 and of KIT Ltd is 2,8 : 1 (KIT Ltd.'s ratio is 3 times bigger) . Even if KAT is not able to sell all of his trading stock he should still be able to cover his short term debt. KIT Ltd is holding much of his current assets in the form of trading stock (stock piling).
- Period of which enough stock is on hand for KAT Ltd is 88 days and for KIT Ltd is 150 days (almost 6 months). KAT Ltd has enough stock for 3 months which is appropriate for a company selling running shoes as styles of shoes normally change seasonally. KIT Ltd is holding stock for too long, styles will change and clients will not be interested in buying outdated styles resulting in absolute stock.
- Debtor's average collection period of KAT Ltd is 25 days which is within the normal/acceptable credit terms and is much lower than the 53 days of KIT Ltd.

9

3.2.2 The operating efficiency of KIT Ltd are better than that of KAT Ltd. Quote and explain ONE financial indicator to support your opinion.

Good answer = 2 marks each; partial = 1 mark; incorrect = 0

✓✓

Operating expenses on sales of KIT 37,9% lower than that of KAT Ltd 44,5%, which indicates that KIT Ltd has better control of expenses.

Operating profit on sales of KIT Ltd 10,1% higher than that of KAT Ltd 7,3%, which indicates that apart from the better control over his expenses (KIT) there has been a slightly higher mark-up% applied as well.

2

3.2.3 Which company uses more loans? Quote a financial indicator to support your answer.

KAT Ltd. ✓

Debt/equity ratio 2 : 1 ✓ for KAT and 0,3 : 1 ✓ for KIT Ltd.

Explain whether this is a good idea or not. In each case, quote a financial indicator to support your answer.

It is not a good idea. ✓

ROTCE for KAT Ltd is 13,6% ✓ which means that the return they are earning is lower than the interest (15%) he is paying on the loan (negatively gearing) ✓

6

3.2.4 Compare and comment on the dividends pay-out policies of the both companies.

	Financial indicator or explanation thereof with figures.	Comparison and comment ✓✓ ✓✓ Do not accept comparison of the DPS only. Must mention both companies. Can get 1 mark.
KIT Ltd	DPS 240 cents. ✓ EPS 410 cents. ✓ Or 2 Marks Distributes 58.5% of earnings	KAT Ltd is distributing a higher percentage of income earned, 5% comes from retained income.
KAT Ltd	DPS 185 cents. ✓ EPS 176 cents. ✓ Or 2 marks Distributes 105% of earnings	KIT Ltd pays 58.5% and retained 41.5% for future growth.

8

3.2.5 KIT Ltd has a better percentage return, earnings and dividends than KAT Ltd. Explain by quoting THREE financial indicators to support this opinion.

Financial indicator ✓ ✓ ✓

Figures ✓ ✓ ✓

Explanation ✓ ✓ ✓

- % ROSHE for KIT Ltd is much higher (21,3%) than that of KAT Ltd (11.2%).
- EPS for KIT Ltd is 410 cents whereas KAT Ltd is only earning 176 cents per share.
- DPS for KIT Ltd is 240 cents whereas for KAT Ltd it is only 185 cents per share.

9

3.2.6 Explain why the existing shareholders of KIT Ltd are happy with this. Quote a financial indicator/figure to support your answer.

Comparing market price and NAV of KIT Ltd ✓✓ Figures ✓

Market price of KIT Ltd is 750 cents which is higher than the NAV of 609 cents OR market price is 141 cents higher than the NAV. KIT Ltd is thus able to show a price higher than the value of the shares in the books of the company.

3

Explain why the existing shareholders of KAT Ltd are very disappointed with this. Quote a financial indicator/figure to support your answer.

Comparing market price and NAV of KAT Ltd ✓✓ Figures ✓

Market price of KAT Ltd is 885 cents which is lower than the NAV of 939 cents OR market price is 54 cents lower than the NAV.

3

TOTAL MARKS
45

QUESTION 4**4.1. Explain what is meant by Corporate Governance.**

Any TWO valid explanation ✓✓

- It is essentially the set of rules that govern the way companies control and manage the business.

2

4.2 Provide TWO examples of corporate governance that would occur in a company.

Any TWO valid examples ✓✓ ✓✓

- Respect of human rights
- Transparency of executive salaries
- Implementation of code of conduct for employees

4

4.3 Give TWO examples of audit evidence

Any TWO valid examples ✓✓ ✓✓

Part-mark for partial answers

- Source documents (provided by external organisations, provide verification).
- Records such as asset registers, stock records etc.
- Policies and procedures of the company.
- Check the internal controls and the efficiency of the internal audit.
- Report of an audit committee which assess the internal and external audit processes / internal auditors report on ensuring internal controls.
- Any valid proof of entries in the books or financial statements concerning cash.

4

4.4 Explain why an independent auditor would want to see that the following GAAP principles that are applied: ✓✓ ✓✓

- **Matching** - To see if incomes and expenses are recorded in the correct financial period.
- **Going concern**- For both the Income Statement and Balance Sheet are prepared as if there is no intention to stop or limit the operation of the business,

4

4.5 Refer to paragraph 3. Explain why you would be satisfied with this audit report opinion. ✓✓✓

Good = 3; Satisfactory = 2; Poor = 1; Incorrect = 0)

- The auditors have stated that they are satisfied with all aspects of the financial reporting by the directors.
- This is a standard reporting – (fairly presented).
- No negative comment reported.
- The auditors have not stated that the report is qualified or withheld.

3

- The auditor's report is unqualified.

4.6 **To whom is an audit report addressed? Give reason for your answer.**

Shareholders ✓

Reason: ✓✓

Accept short explanations; may be phrased differently

Part-marks for unclear/incomplete explanation

Independent auditors are appointed by the shareholders/the shareholders are the owners of the company.

3

TOTAL MARKS
20