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CAPE WINELANDS / WEST COAST EDUCATION DISTRICTS

GRADE 12

ACCOUNTING P1 MARKING GUIDELINES SEPTEMBER 2022

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. 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.
9. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
10. In calculations, do not award marks for workings if numerator & 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. Note that one comment could contain different aspects.
13. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 9 pages.

QUESTION 1

1.1

1.1.1	limited	✓
1.1.2	payables	✓
1.1.3	materiality	✓

3

1.2

NO.	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT	A	O	L	
1.2.1	Shareholders for dividends ✓	Bank ✓	225 000	-	0	-	✓
1.2.2	Bank ✓	Ordinary share-holders capital ✓	550 000	+	+	0	✓
1.2.3	Income tax ✓	SARS:Income tax ✓	840 000	0	-	+	✓

9

1.3.1

Identify the type of audit report that the company received. Give a reason for your answer.

TYPE OF REPORT

Unqualified audit report ✓ accept "clean" or "good" report; mark *type* and *reason* independently

REASON Any valid reason ✓ accept short, incomplete statements if message is clear

- The audit report indicates 'fairly present'.
- The auditors did not identify any problems.

2

1.3.2

Explain why the auditor referred to pages 10 to 25

Any suitable explanation ✓✓ part mark for unclear/incomplete/partial answers

- The auditors are responsible only for reports presented on these pages of the Annual Report.
- The audited financial reports / statements are found on these pages of the full report presented to the shareholders at the AGM

Explain why the auditor referred to International Financial Reporting Standards and the Companies Act of South Africa

Any suitable explanation ✓✓ part mark for unclear/incomplete/partial answers

- The audit and the financial records/statements of the company are in compliance with both local and international requirements.
- It affects uniform presentation of financial statements

2

1.3.3

Name any TWO items of audit evidence that the auditors may have used.

Any TWO examples of evidence ✓ ✓ individual examples of documents is one point

Stock sheets / fixed assets register / source documents including EFT records / bank; debtors; creditors statements / signed contracts / employee profiles/ physical inspection of assets / journals

2

TOTAL MARKS

20

QUESTION 2

2.1 CONCEPTS

2.1.1	internal auditors	✓
2.1.2	external auditors	✓
2.1.3	directors	✓

3

2.2 RIZPAH LTD

- 2.2.1 Calculate the correct net profit after tax by accounting for the adjustments with information C and D.
Indicate (+) for increase and (–) for decrease.

Workings	Answer
Incorrect net profit before tax	2 226 840
Provision for bad debts	- 3 740 ✓
Audit fees	- 72 000 ✓✓
Rent income $(153\,600 / 8) \times 2$ ✓ ✓ ✓ <i>one part correct</i>	+ 38 400 ✓
Correct net profit before tax <i>operation one part correct</i>	2 189 500 ✓
Income tax <i>NP before tax X 0,30</i>	656 850 ✓✓
Correct net profit after tax <i>operation one part correct</i>	1 532 650 ✓

11

2.2.2 Ordinary Share Capital Note

Authorised: 1 200 000 ordinary shares

Issued

900 000 ✓	Shares in issue on 1 March 2021	11 475 000 ✓ <i>No. of shares x ASP or operation bottom-up</i>
(80 000) ✓ <i>ignore brackets</i>	Shares repurchased @ 12,75 ✓	(1 020 000) ✓ <i>ignore brackets one part correct</i>
150 000 ✓	Additional shares issued	1 476 000 ✓ <i>balancing figure</i>
970 000 ✓ <i>operation & one part correct</i>	Shares in issue on 28 February 2022	11 931 000

8

2.2.2

Retained Income Note	
Balance at beginning of financial year	1 129 850 <input checked="" type="checkbox"/> <i>balancing figure</i>
Net profit after tax	1 532 650 <input checked="" type="checkbox"/> <i>see 2.2.1</i>
Repurchase of 80 000 shares	(204 000) ✓
Dividends	(664 500) <input checked="" type="checkbox"/> <i>Interim + Final</i>
<div style="display: flex; justify-content: space-around; margin-bottom: 5px;"> ✓ ✓ </div> <ul style="list-style-type: none"> Interim (42/100 x 820 000) 	344 400 <input checked="" type="checkbox"/> <i>one part correct</i>
<ul style="list-style-type: none"> Final 	320 100 ✓
Balance at the end of financial year	1 794 000

8

2.2.3

Prepare the Statement of Financial Position on 28 February 2022		
ASSETS		
NON-CURRENT ASSETS	TA - CA	18 045 000 ✓
Fixed Assets	NCA – Fin.A	17 671 500 ✓
Financial Assets (733 500 – 360 000)	5	one part correct 373 500 ✓
CURRENT ASSETS		3 120 000
Inventory	balancing figure	1 422 650 ✓
Trade and other receivables	Net trade debtors ✓ income tax diff ✓ ✓ (1 312 500 – 39 200 + 38 400 + 18 150)	one part correct 1 329 850 ✓
Cash and cash equivalents (7 500 + 360 000)	✓ see fin. assets	one part correct 367 500 ✓
TOTAL ASSETS	See TOTAL EQUITY & LIABILITIES 11	21 165 000 ✓
EQUITY AND LIABILITIES		
ORDINARY SHAREHOLDERS' EQUITY		operation 13 725 000 ✓
Ordinary share capital		11 931 000
Retained income	2	1 794 000 ✓
NON-CURRENT LIABILITIES		5 490 000
Loan: CW-Loans	2	OSE x 0,4 5 490 000 ✓✓
CURRENT LIABILITIES		1 950 000 ✓✓
Trade and other payables (926 170 + 72 000 – 26 920)	✓ see 2.2.1 ✓	one part correct 971 250 ✓
Shareholders for dividends		320 100 ✓
Short term loan		342 000 ✓
Bank overdraft		balancing figure 316 650 ✓
TOTAL EQUITY AND LIABILITIES	operation, one part correct 10	21 165 000 ✓

30

TOTAL MARKS	
	60

QUESTION 3

3.1

3.1.1	B ✓
3.1.2	A ✓
3.1.3	C ✓

3

3.2.1

Calculate: Income tax paid	
Workings	Answer
$\begin{array}{r} \checkmark \quad \quad \checkmark \quad \quad \checkmark \\ -31\,500 + 238\,950 - 9\,000 \\ \text{or} \\ 31\,500 - 238\,950 + 9\,000 \end{array}$	<input checked="" type="checkbox"/> 198 450 <i>one part correct</i>

4

Calculate: Dividends paid	
Workings	Answer
$\begin{array}{r} \checkmark \checkmark \quad \quad \checkmark \\ 210\,000 + 186\,000 \end{array}$	<input checked="" type="checkbox"/> 396 000 <i>one part correct</i>

4

Calculate: Proceeds of shares issued	
Workings	Answer
$\begin{array}{r} \checkmark \quad \quad \checkmark \checkmark \quad \quad \checkmark \\ -4\,650\,000 + 930\,000 + 3\,812\,000 \\ \text{also accept ledger account format} \end{array}$	<input checked="" type="checkbox"/> 142 000 <i>one part correct</i>

5

Calculate: Fixed Assets purchased	
Workings	Answer
$\begin{array}{r} \checkmark \quad \quad \checkmark \quad \quad \checkmark \quad \quad \checkmark \\ 5\,329\,000 - 245\,000 - 204\,000 - 5\,917\,550 \\ \text{or} \\ -5\,329\,000 + 245\,000 + 204\,000 + 5\,917\,550 \end{array}$	<input checked="" type="checkbox"/> 1 037 550 <i>one part correct</i> <i>accept figure between brackets</i>

5

3.2.2 Calculate financial indicators for the year ended 28 February 2022:

% Operating profit on sales	
Workings	Answer
$\frac{1\,762\,500 \checkmark}{4\,362\,500 \checkmark} \times 100/1$	<input checked="" type="checkbox"/> 40,4% <i>one part correct, must be %</i>

3

Net Asset Value per share	
Workings	Answer
$\frac{4\,312\,500 \checkmark}{1\,240\,000 \checkmark} \times 100/1$	<input checked="" type="checkbox"/> 347,8 cents <i>accept R3,48 one part correct, must be value</i>

3

Debt-equity ratio	
Workings	Answer
$\overset{\checkmark}{1\,750\,000} : \overset{\checkmark}{4\,312\,500}$	<input checked="" type="checkbox"/> 0,4 : 1 <i>one part correct, must be ratio x:1</i>

3

TOTAL MARKS	
	30

QUESTION 4

4.1 KIM LTD AND CHEVY LTD

4.1.1

Explain why directors should be interested in the price of their companies' shares on the JSE.

Any ONE valid comment ✓✓ one mark for partial or incomplete answer

Responses for 2 marks:

- It shows public confidence in the company
- It can be compared to other companies / an external indicator
- Shareholders will want to have capital growth on their investment
- Directors will be judged on the performance of the shares as this reflects the performance of the company

2

Calculate the number of additional shares in Kim Ltd that Mike was able to buy on the JSE in 2022.

Workings

Answer

$$\begin{array}{cc} \checkmark & \checkmark \\ 840\,000 \div & 16,80 \end{array}$$

☒ one part correct
50 000 shares

3

Comment on the price that Mike paid for these shares and provide TWO reasons why he might have been satisfied to pay this price.

Accept two different comments for Kim Ltd OR Chevy Ltd

Compare price paid to Nav ✓ Figures ✓ Reasons ✓✓ ✓✓

KIM:

JSE Price exceeds NAV by 180 cents (R16,80 – R15)

Valid reasons for KIM:

- He wants to be the majority shareholder
- More influence over decisions by board of directors
- JSE price reflects public demand for the shares
- Potential for high returns in future

CHEVY:

JSE Price is lower than NAV by 90 cents (R8,90 – R8,00)

Valid reasons for CHEVY Ltd:

- The JSE price is a good deal compared to NAV
- Chevy is earning higher returns for him

6

4.1.2

Explain your opinion on which company has the better dividend pay-out policy. Quote figures.

Choice: Either Kim OR Chevy Ltd ✓

Reason: Either retaining funds OR rewarding shareholders ✓

Figures: Kim Ltd pays out 67% (130c of 194c earned) ✓✓ quote two figures or %

While Chevy Ltd pays out 96% (160c of 166c earned) ✓✓ quote two figures or %

be aware of alternative ways of explanation and calculation e.g. amount or % retained

6

Compare and comment on the % return on equity earned by EACH company. Quote figures.

Kim Ltd earns 6,2% ✓ Award two marks for the difference 12%

Chevy earns 18,2% ✓

Comparison (may be implied) ✓

Compare to interest rate (6,5%) ✓

4

Mike feels that the earnings per share (EPS) of Chevy Ltd is much better than that of Kim Ltd. Explain why he feels this way. Quote figures or calculations.

Quote EPS of Kim Ltd 194 cents ✓

Quote EPS of Chevy Ltd 166 cents ✓

Compare EPS of both companies to:

Share value **OR** to number of shares owned **OR** % ROSHE **OR** Net Profit ✓

Identify figures for any one comparison below ✓✓

	Kim Ltd	Chevy Ltd
•	Cost of shares is high 1500c or 1680c (earnings yield is 12,9% or 11,5%)	Cost of shares is low 890c or 800c (earnings yield is 18,7% or 20,8%)
•	EPS is earned on 580 000 shares	EPS is earned on 1 430 000 shares
•	% ROSHE is 6,2%	% ROSHE is 18,2%
•	NP after tax is R2 405 600 (194c x 1 240 000 shares)	NP after tax is R4 316 000 (166c x 2 600 000 shares)

5

4.1.3

Explain TWO decisions taken by the directors of Kim Ltd in response to the state of the economy, and how these decisions will affect the company in future.

Decision: TWO valid decisions ✓ ✓ Figures ✓ ✓

- Sold fixed assets R3 600 000 / No new fixed assets bought (R0)
- Did not issue new shares (R0)
- Investments (reduced) R1 800 000
- Loan (repaid R3 200 000)

Effect on Kim Ltd in future: Mark independently of the above decisions

Any one valid comment: ✓✓ one mark for partial or incomplete answer

- The infrastructure / size of the company is decreasing which will affect future profit
- The reduced infrastructure / size of the company could lead to cost savings (or increased profit)

Response for 1 mark:

- Saving on interest / less risk

6

Explain TWO decisions taken by the directors of Chevy Ltd that affect risk and gearing. Quote and comment on TWO financial indicators.

Decision: TWO valid decisions ✓ ✓ Figures ✓ ✓

- Loan (increased) R7 600 000
- Shares (issued) R400 000
- Shares repurchased R0

Quote and comment on TWO financial indicators that affect risk and gearing.

Quote indicators with figures: Debt-equity ratio: 0,7 : 1; ROTCE 15,1% ✓ ✓

Comments on: increased risk / positive gearing (ROTCE exceeds interest rate)

8

TOTAL MARKS

40