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**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

MARKING GUIDELINE

**ACCOUNTING
CONTROLLED TEST 1
TERM 1 SBA TASK 2**

This question paper consists of 7 pages including the cover page

QUESTION 1**MALEKA LTD****1.1 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2022**

Sales (8 800 000-19 200✓ -99 200✓)	8 681 600 ✓*
Cost of sales (8 681 600✓ + 360 000✓) x 100/160 OR (5 426 000✓ + 225 000✓)	(5 651 000) ✓*
Gross profit	3 030 600 ✓*
Other operating income	71 500 ✓*
Rent income	70 500✓
Provision for bad adjustment (3 240✓ -2 240✓)	1 000✓*
Gross income operation	3 102 100✓
Operating expenses	(1 799 860) ✓*
Salaries and wages (681 600 -20 000✓ - 4000✓)	657 600 ✓*
Advertising (60 000 – 2 880✓✓)	57 120✓
Bad debts (6 730 + 42 000)	48 730✓
Packing material (15 000+ 820 – 6 020)	9 800✓ ✓*
Directors fees	550 000✓
Audit fees	188 410✓
Insurance	14 700✓
Trading stock deficit (1 050 300 + 62 000✓ – 1 002 000)	110 300✓
Depreciation (119 999✓ + 14 800✓✓) 4500+10 300	134 799 ✓*
Sundry expenses Balancing figure	28 401 ✓
Operating profit Candidate must use 15% on sales	1 302 240 ✓
Interest income	80 000✓
Operating profit before interest expenses Operation	1 382 240 ✓
Interest expense	(182 240) ✓
Net profit before taxation	1 200 000✓
Taxation	(360 000) ✓
Net profit after tax	840 000✓
*operation one part correct	

1.2**Audit report**

1.2.1

Explain why the auditors did specifically address the report to shareholders?

They are the owners of the business. ✓✓

2

1.2.2

Explain why the independent auditors referred to pages 25-51 in the report.

Any valid explanation ✓✓

Part-marks for unclear / incomplete answers

- Auditors are responsible for only parts / certain pages of the annual report.
- They are not accountable for the other information in the annual reports.
- Financial statements on pages 25–51 were subjected to audit / examination.
- Additional information, such as corporate social investment matters, is not audited.

Do not accept statistical sampling as a reason.

2

1.2.3

The directors claimed that the value of the buildings increased over the years and that the value must be increased and shown as additions in the fixed asset note.**As the independent auditor, what advice would you give? Provide ONE point.**

ONE valid point ✓✓

Part-marks for unclear / incomplete answers

- It is fraudulent to indicate revaluation as an addition
- No audit evidence exists, so there is no proof of the actual value of the buildings
- GAAP prescribes the historical (original) cost principle when recording assets
- Only physical acquisitions/expansions can be shown as additions

2

1.2.4

The company received a/an (unqualified/qualified/disclaimer) audit report.

Qualified ✓

Give a reason for your answer.

- The auditors queried the increase of the assets in the Balance sheet. ✓
- The financial statement fairly present the financial position except for the increase in the value of the fixed asset in the Balance sheet

2

QUESTION 2

2.1 What is the main purpose of a Cash Flow Statement?

It provides users of financial statements with information on the inflow and outflow of the cash resources of the company✓✓

To see w monies were generated or spent and what the cash flow position is.

To acc it for the difference in opening and closing bank balances

To show management of cash

2

2.2

CASH FLOW FROM OPERATING ACTIVITIES		625 000☑
one part correct		
Cash generated from operations		1 985 500
Interest paid		(175 500)
Taxation paid (27 500 ✓+ 375 000✓ + 22 500✓)		(425 000)☑
SARS (Income Tax)		one part correct
425 000	27 500	
	375 000	
	22 500	
Dividends paid (385 000 +✓ 825 000 –✓ 450 000) ✓		(760 000) ☑
OR 385 000✓ +375 000✓✓		correct one part
9		
CASH FLOW FROM INVESTING ACTIVITIES		534 000 ☑
one part correct		
Fixed assets purchased		(48 000) ✓
Proceeds from sale of fixed assets		582 000☑
(500 000✓ + 82 000✓		one part correct
5		
CASH FLOW FROM FINANCING ACTIVITIES		925 000☑
one part correct		
Proceeds from the sale of shares		300 000✓
Change in loan (2 000 000 - 1 375 000)		625 000✓✓
4		
NET CHANGE IN CASH AND CASH EQUIVALENTS		2 084 000✓
CASH AND CASH EQUIVALENTS AT BEGINNING		207 500 ✓
CASH AND CASH EQUIVALENTS AT END		2 291 500✓
3		

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2.3 Calculate the following financial indicators on 31 October 2022:

<ul style="list-style-type: none"> Gross Profit on sales $\frac{950\,000}{1750\,000} \times \frac{100}{1}$ <p>= 54,3% ✓ ✓</p>	<div style="border: 1px solid black; width: 40px; height: 40px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> <div style="border-bottom: 1px solid black; width: 100%; height: 100%;"></div> </div>
<ul style="list-style-type: none"> Acid-test ratio $\frac{(1\,075\,000 + 2\,291\,500)}{3\,366\,500} \checkmark : 1\,450\,000 \checkmark$ <p>= 2,3: 1 ✓ or 2,32: 1 one part correct</p> <p style="text-align: center;">OR</p> $\frac{(4\,804\,000 - 1\,437\,500)}{3\,366\,500} \checkmark : 1\,450\,000 \checkmark$ <p>= 2,3: 1 ✓</p>	<div style="border: 1px solid black; width: 40px; height: 40px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> <div style="border-bottom: 1px solid black; width: 100%; height: 100%;"></div> </div>
<ul style="list-style-type: none"> Debt/Equity ratio <p>2 000 000: 4 450 000</p> <p>= 0,4: 1 ✓ ✓ (or 0,5:1)</p>	<div style="border: 1px solid black; width: 40px; height: 40px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> <div style="border-bottom: 1px solid black; width: 100%; height: 100%;"></div> </div>

QUESTION 3

- 3.1 The CEO, Nick Petje, currently owns 40% of the issued shares. The directors of the company decided to issue 50% of the unissued shares in July 2022.

3.1.1 Calculate the minimum number of shares that Nick must purchase in July 2022 to become the majority shareholder

40% of 1200 000 = 480 000 ✓

50% of 1600 000 = 800 000 ✓

Nick needs 800 000 - 480 000 = 320 000 + 1 = 320 001 ✓
= 320 000 + 100 = 320 100

Or

51% of 1600 000 = 816 000 - 480 000 = 336 000

3

3.1.2 Nick wants to purchase the additional shares at R6 per share without advertising the shares to the public. Give TWO reasons why you would not approve this arrangement.

Any TWO reasons ✓✓ ✓✓

It is unethical as these shares were not advertised/ He wants to buy these shares at a price lower than the market price/ Not allowed by law (Companies Act)/ Not allowed by law as the shares should be advertised through prospectus/ Insider trading/ Law should be applied to safeguard the integrity of the business

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- 3.2 The directors are proposing that the business operations be expanded in the New financial year. One of the directors suggested that they finance the expansions by taking a loan of R1 000 000, instead of issuing new shares to the public. Quote and explain TWO financial indicators to support his opinion.

Financial indicator ✓ ✓ Trend ✓ ✓ Explanation ✓ ✓

Debt/Equity ratio

- It has increased from 0,34: 1 to 0,44:1.
- Company still has a low financial risk.

Return on average capital employed

- It has increased from 18% to 26%
- Company is positively geared as it exceeds the rate of borrowing which currently is 13%.

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- 3.3 Bongani is a shareholder in Machete Limited. He owns 32 000 shares which he purchased two years ago at R4,75 each.

3.3.1 Calculate the amount of dividends Bongani would earn for the financial year ending 31 October 2022.

$$32\,000 \times 110 \text{ cents} = \text{R}35\,200 \checkmark \checkmark \text{ one part correct} \\ (\text{R}1,10)$$

2

3.3.2 Should Bongani be satisfied with the dividend policy of Machete Limited? Quote and explain relevant financial indicators to support your answer.

Yes/No

Indicator \checkmark Figures \checkmark Explanation \checkmark

Explanation for yes:

EPS was 130 cents and DPS was 110 cents.
 $(110/130 \times 100)$ 84,6%(85%) of earnings given to shareholders, compared to $(75/94 \times 100)$ 79,8%(80%) given in the previous financial year. The dividends have increased from 75 cents to 110 cents

Explanation for no:

EPS was 130 cents and DPS was 110 cents.
 $(110/130 \times 100)$ 84,6%(85%) of earnings given to shareholders, compared to $(75/94 \times 100)$ 79,8%(80%) given in the previous financial year.

More is being paid out on dividends and less is being retained for future expansion.

3

3.3.3 Bongani wants to sell his shares in Machete Limited and invest his funds in an alternative investment. You disagree with him. Quote and explain ONE relevant financial indicator, other than dividends, to discourage him from selling his shares.

Financial indicator \checkmark trend \checkmark comparison with interest on fixed deposit $\checkmark \checkmark$

ROSHE improved from 15% in 2021 to 24,1% in 2022
 Greater than the return on alternative investment 6,5%.
 Strong performance of the company may continue in the future to offer greater returns to Bongani.

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