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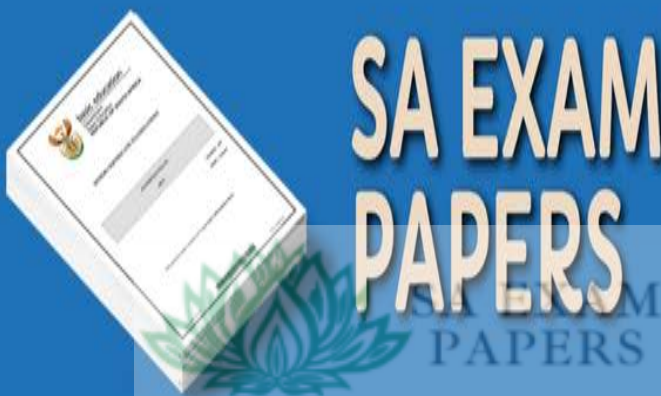


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**NATIONAL
SENIOR CERTIFICATE**

**ACCOUNTING P1
GRADE 12
PRE-TRIAL
AUGUST 2023
MARKING GUIDELINE**

MARKS: 150

MARKING PRINCIPLES:

1. 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).
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 and at least one part must be correct before awarding the mark.
9. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
10. Be aware of candidates who provide valid alternatives beyond the marking guideline.
11. Codes: f = foreign item; p = placement/presentation.

This marking guideline consists of 10 pages.

QUESTION 1:**1.1 Calculate:**

Carrying value of Buildings on 1 March 2022		
WORKINGS	ANSWER	
$7\,690\,200 - 864\,200$	$6\,826\,000 \checkmark\checkmark$	<div>2</div>
Carrying value of vehicles on 28 February 2023		
WORKINGS	ANSWER	
$ \begin{array}{r} 1\,120\,000 - 884\,000 \\ 419\,900 \checkmark + 236\,000 \checkmark\checkmark - 144\,400 \checkmark \\ \text{OR:} \\ 1\,120\,000 \text{ (one mark)} - 464\,100 + 144\,400 \text{ (three marks)} \\ - 608\,500 \end{array} $	$511\,500 \checkmark$ one part correct	<div>5</div>
Carrying value of equipment sold		
WORKINGS	ANSWER	
$ \begin{array}{r} (90\,000 - 38\,160) \quad 51\,840 \times 20\% \times 10/12 \\ 51\,840 \checkmark\checkmark - 8\,640 \checkmark\checkmark \end{array} $	$43\,200 \checkmark$ one part correct	<div>5</div>
Total depreciation on equipment.		
WORKINGS	ANSWER	
$ \begin{array}{r} 317\,440 - 51\,840 \text{ see above} \quad \text{see above} \\ (265\,600 \checkmark\checkmark \times 20\% \checkmark) + 8\,640 \checkmark \\ 53\,120 \text{ three marks} \\ \text{OR} \\ 620\,000 - 90\,000 \quad 302\,560 - 38\,160 \\ (530\,000 - 264\,400) \times 20\% \\ 53\,120 \quad + 8\,640 \end{array} $	$61\,760 \checkmark$ one part correct	<div>5</div>

1.2 Calculate the correct Net Profit after Income Tax:

NET PROFIT BEFORE TAX before errors & omissions		1 243 000	
(i)	Consumable stores	+ 12 440 ✓	
(ii)	Donation 15 050 x 100/175	– 8 600 ✓✓	
(iii)	Audit fees 88 740 x 10/90	– 9 860 ✓✓	
(iv)	Rent income 109 600 x 2/8	+ 27 400 ✓✓	
(v)	Insurance 45 050 x 105/1325	+ 3 570 ✓✓	
NET PROFIT BEFORE TAX		1 267 950	
Income tax		– 380 350 ✓	
6	NET PROFIT AFTER TAX	887 600 ☑	11

-1 for foreign items (max -2)

If signs are incorrect, allocate ONE mark if figure is correct.

* one part correct

1.3 RETAINED INCOME

	Balance on 1 March 2022	246 900	
	Net profit after tax see 1.2	887 600 ☑	
	Shares repurchased 70 000 x 1,20 ✓✓ or 679 000 – 595 000 two marks	(84 000) ☑	
	Ordinary share dividends	(535 500)	
	Interim dividends	241 500	
	Final dividends 980 000 x 0,3 one part correct	294 000 ✓☑	
	Balance on 28 February 2023 must subtract SBB and OSD	515 000 ☑	7

1.4 STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2023

ASSETS		
NON-CURRENT ASSETS		TA - CA
		8 937 500 <input checked="" type="checkbox"/>
Fixed / Tangible Assets		8 414 180
2	Fixed deposit	balancing figure
		523 320 <input checked="" type="checkbox"/>
CURRENT ASSETS		872 500 x 1,8
		1 570 500 ✓✓
Inventories 726 040 – 8 600 <input checked="" type="checkbox"/> + 12 440 ✓		729 880 <input checked="" type="checkbox"/>
Trade and other receivables 546 330 + 27 400 ✓ + 3 570 ✓		577 300 <input checked="" type="checkbox"/>
Cash and cash equivalents		balancing figure
		263 320 <input checked="" type="checkbox"/>
10	TOTAL ASSETS	see E + L
		10 508 000 <input checked="" type="checkbox"/>
EQUITIES AND LIABILITIES		
SHAREHOLDERS EQUITY		8 845 000 <input checked="" type="checkbox"/>
Ordinary share capital		8 330 000
2	Retained income	see 1.3
		515 500 <input checked="" type="checkbox"/>
NON-CURRENT LIABILITIES		790 500
4	Loan: ORT Bank	current portion below
		1 075 200 – 268 800 ✓ + 123 600 ✓ - 139 500 <input checked="" type="checkbox"/>
		790 500 <input checked="" type="checkbox"/>
CURRENT LIABILITIES		872 500
Trade and other payables 388 790 + 9 860 <input checked="" type="checkbox"/>		398 650 ✓
Shareholders for dividends		see RI note above
		294 000 <input checked="" type="checkbox"/>
SARS: Income tax 380 350 – 340 000		40 350 ✓✓
Current portion of loan		balancing figure
		139 500 <input checked="" type="checkbox"/>
7		10 508 000 <input checked="" type="checkbox"/>

25

* one part correct

TOTAL MARKS	60	
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QUESTION 2:**2.1 Calculate:**

Income tax paid		
WORKINGS	ANSWER	
$857\,500 \times 30/70$ $367\,500 \checkmark\checkmark + 15\,800 \checkmark - 25\,600 \checkmark$ Accept alternative arrangements such as signs reversed, use of brackets or ledger account format	$357\,700 \checkmark$ one part correct	5
Dividends paid		
WORKINGS	ANSWER	
$330\,000 \checkmark + 350\,000 \checkmark$ Accept alternative arrangements such as signs reversed, use of brackets or ledger account format	$680\,000 \checkmark$ one part correct	3
Proceeds from the sale of fixed assets		
WORKINGS	ANSWER	
$11\,721\,200 \checkmark + 4\,909\,900 \checkmark - 476\,000 \checkmark - 16\,032\,100 \checkmark$ Accept alternative arrangements such as signs reversed, use of brackets or ledger account format	$123\,000 \checkmark$ one part correct	5

2.2

CASH EFFECTS OF FINANCING ACTIVITIES	ANSWER	
	$3\,875\,000 \checkmark$ one part correct	
Proceeds from shares issued $10\,235\,000 \checkmark + 2\,225\,000 \checkmark\checkmark - 9\,460\,000 \checkmark$ $(250\,000 \times 8,90)$	$3\,000\,000 \checkmark$ one part correct	
Funds used to re-purchase shares $(250\,000 \times 10,50)$	$(2\,625\,000) \checkmark\checkmark^*$	
Increase / or change in loan $(6\,000\,000 - 2\,500\,000)$	$3\,500\,000 \checkmark\checkmark^*$	10

* award ONE mark if incorrect use of brackets

2.3**2.3.1 Calculate: % operating expenses on sales**

WORKINGS	ANSWER
$\frac{2\,080\,000}{10\,400\,000} \times 100$	20% ✓✓ % sign not necessary

2

2.3.2 Calculate: Total dividends per share (DPS)

WORKINGS	ANSWER
$\frac{350\,000}{1\,400\,000} = 25 \text{ cent } \checkmark\checkmark$ $+ \frac{437\,000}{1\,150\,000} = 38 \text{ cents } \checkmark\checkmark$	63 cents ✓ Accept R0,63

5

2.3.3 Calculate: % return on average shareholders' equity

WORKINGS	ANSWER
$\frac{857\,500 \checkmark}{\frac{1}{2}(10\,447\,000 \checkmark + 10\,892\,500 \checkmark)} \times 100$ <p style="text-align: center;">10 669 750 two marks</p>	8 % ✓ one part correct

5

TOTAL MARKS	35	
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QUESTION 3:**3.1**

Comment on whether the company is able to meet its short term debts in the next financial year. Quote and explain TWO financial indicators, with figures and trends.

Financial indicators ✓ ✓ comparative figures ✓ ✓ Valid comment ✓✓
part marks for incomplete / partial / unclear responses

Current ratio decreased from 2,0 : 1 to 1,4 : 1

Acid test ratio decreased from 1,2 : 1 to 0,6 : 1

Stock turnover rate dropped from 8,4 times to 6,4 times

Liquidity shows a declining trend / the business is holding too much stock (stock piling) / stock is not moving as desired / slow sales / cash tied up in stock / may experience cash flow problems in the future.

6

3.2

Comment on the effect of the increase in loan on the financial risk of the company. Quote ONE financial indicator, with figures and trends.

Financial indicator ✓ figures with trend ✓ comment on risk ✓

- Debt/equity ratio increased from 0,2 : 1 to 0,6 : 1
- Company moved from a position of low risk to a more financially risky position/
- An indication that the company makes use of more borrowed capital this year / a large % of capital employed is made up of loans.

3

Explain whether the directors concern is justified or not. Quote ONE other financial indicator (apart from the one mentioned above), with figures and trends.

Financial indicator ✓ figures and trend ✓ comment of gearing & comparison with interest rate ✓✓

- ROTCE decreased from 14,3% to 12,2%
- The business is now negatively geared because the return is less than the interest rate of 14%.

4

3.3

If you were a shareholder, explain whether you would be concerned about the return on your investment or not. Quote ONE financial indicator, with figures and trends.

Financial indicator ✓ figures and trend ✓
comment on alternative investment and interest rate ✓✓

- ROSHE dropped from 10,3% to 8,0%
- Although this is still better than interest on safer alternative investment (fixed deposit is offering 6,5%), the downward trend is concerning.

4

Gloria, a shareholder, is happy with the dividends she received. Quote TWO financial indicators, with figures, to indicate that she should be concerned.

Comment ✓ on dividends per share ✓
 Comment ✓ on dividend pay-out policy / or EPS ✓

- In time of poor performance, the directors increased the DPS from 45c to 63c per share.
- The decision to pay high dividends may be considered irresponsible because EPS dropped from 98c to 67c per share.
- The directors retained 54% of the earnings in 2022, but only retain 6% of the EPS in 2023 which is a clear indication that they do not place the company's interest first.

4

Provide TWO possible reasons why the directors decided on the dividend pay-out policy they adopted for the current financial year.

TWO possible reasons ✓✓ ✓✓ part marks for incomplete / partial / unclear responses

- Directors retained 54% of the earnings last year, but did not apply that effectively to improve profitability / or achieve the objectives they may have communicated to shareholders / or to use that for expansion
- They decided to give shareholders a greater portion of the earnings to possibly keep them satisfied; not to draw attention to the poor profitability.
- They do not have plans for growth, exposing poor management /
- Higher dividends may be an attempt to deceive shareholders into believing that all is well at the company.

4

3.4

Explain why the market price per share is an important indicator to shareholders.

ONE valid point ✓✓ part marks for incomplete / partial / unclear responses

It is an indication of the performance of their shares on the stock exchange / higher MP means that shares are popular, there is a demand for shares / the company has a positive image. Lower or dropping MP indicates that something is wrong / could be low profitability or bad publicity about the company.

2

Quote and explain TWO financial indicators (with figures and trends) that will indicate why shareholders may be concerned about the share price on the stock exchange.

Financial indicators and figures ✓ ✓ Valid comment ✓✓
 part marks for incomplete / partial / unclear responses

In 2022, MP of 962 cents was better than the NAV of 950 cents – business was doing well / shares were in demand / prospective investors were interested.
 In 2023, MP dropped to 938c, below that of the NAV of 947 – demand for shares dropped, causing a drop in share price.
 Both NAV and MP dropped from 2022 to 2023 – a clear indication that directors are not managing the company effectively – issue with corporate governance.

4

- 3.5 Jingleheimer Smit owns 540 500 shares in Winter Ltd. The company plans to issue 300 000 additional shares in the next financial year. Jingleheimer is interested in becoming the majority shareholder.**

Calculate the number of shares he would have to buy to achieve his objective. Note that the company's shares are only available in batches of 100 shares.

$$1\ 150\ 000 + 300\ 000$$

$$1\ 450\ 000 \checkmark \div 2 = 725\ 000 \checkmark$$

Jingleheimer must have 725 100 to be the majority shareholder.

$$725\ 100 \checkmark - 540\ 500 \checkmark = 184\ 600 \checkmark$$

5

Provide TWO different reasons why he may want to be the majority shareholder.

TWO valid reasons ✓✓ ✓✓

- He wants to gain control of the Board of Directors
- He would be the sole decision-maker
- He would decide on the appointment of directors / people on key management positions
- He probably sees potential in the company and feels that he can make an impact if he is in control
- He does not have confidence in certain directors and want to get rid of them
- He has inside information about incompetent managers and feels he can expose them
- He will be able to use his contacts in the business environment to the benefit of the company.

4

TOTAL
MARKS

40

QUESTION 4:**4.1****Explain why its members must be qualified Chartered Accountants.**

Valid explanation ✓✓ part marks for incomplete / partial / unclear responses

It is a professional body that is in control of the financial report sector of a country. They make the rules, training and develop prospective candidates and maintain very high standards. / they must also be current with modern trends and be fully aware of world trends, and other developments that will affect the body.

2

4.2**Provide ONE reason why SAICA would treat this matter with such seriousness.**

Explanation ✓✓ part marks for incomplete / partial / unclear responses

They uphold high moral and ethical standards / they interact with professionals / they would always want to maintain their reputation / portray behaviour of high standards / impartial in dealing with all matters / transparent so that all members are aware of consequences.

2

4.3**State TWO reasons why directors are expected to have the qualities that Mango is accused of not possessing (having).**

TWO reasons ✓ ✓

Hold positions of authority / employees and colleagues must trust them / their decisions affect a chain of people or stakeholders / they must uphold the law / the king code prescribes that they engage in ethical behaviour and always keep all role-players informed / they manage public investments

2

4.4**If you were a shareholder of Orange Ltd, provide THREE different questions that you would raise at a meeting of shareholders concerning this matter. In EACH case, state a reason for your question.****Questions to be raised at meeting**

Any THREE valid questions ✓✓ ✓✓ ✓✓

- Why do the board and other directors appear to be negligent or careless in not detecting this corruption earlier?
- What measures will the board put in place to prevent corruption in future?
- How has the financial stability or profitability of the company been affected by this incident?
- What disciplinary action will the board take against the CFO?
- Was there any collusion between the Board and external auditors?

Reason for raising the question

Same reason may relate to different questions ✓ ✓ ✓

- The board and other directors could lay themselves open to legal claims for negligence / failure to monitor and keep the CFO accountable.
- Transparency / accountability / improving controls.
- Corrupt activities could negatively affect the company's sustainability
- Auditors should be impartial and trustworthy, breach of code of ethics
- CFO must be charged and there must be ways to recover the lost funds.

9

**TOTAL
MARKS****15****TOTAL: 150**