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Basic Education
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SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING P1

MARKING GUIDELINES

2023

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. Unless otherwise stated, give full marks for the correct answer. If answer is 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 marking guidelines for component parts within workings that earn no part marks, these will 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. If candidates provide more than the required number of responses, inspect all responses to give benefit to the candidate. Penalties may be applied for foreign entries if candidates earn full marks on a question (max -2 per question)
8. This marking guideline is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
9. Where penalties are applied, the marks for that section of the question cannot be a final negative.
10. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer.
11. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷ as per candidate's calculation (if valid) or per marking guidelines.
12. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios. If only one line is presented, assume it is the numerator.
13. 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 ☒.
14. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
15. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 10 pages.

QUESTION 1

1.1

1.1.1	E ✓
1.1.2	D ✓
1.1.3	B ✓
1.1.4	A ✓

4

1.2 **STARLIGHT LTD**1.2.1 **Calculate: Value of the closing stock of light bulbs on 28 February 2023, using the weighted-average method**

WORKINGS	ANSWER
$ \begin{array}{r} 3\,921\,500 \text{ two marks} \\ (416\,000 + 3\,478\,000) \text{ one mark} \\ \hline 3\,894\,000 \checkmark + 27\,500 \checkmark \quad \times 1\,700 \\ \hline 55\,000 \checkmark \\ (8\,000 + 47\,000) \text{ one mark} \\ \hline \text{Weighted average: } 71,30 \text{ three marks} \end{array} $	$121\,210 \checkmark$ operation one part correct if $\times 1\,700$

4

1.2.2 **Calculate: Profit or loss on disposal of vehicle**

WORKINGS	ANSWER
$ \begin{array}{r} 104\,000 \times [20\% \times 9/12] \\ 91\,500 \checkmark - (104\,000 \checkmark - 15\,600 \checkmark \checkmark) \\ \text{for 1 of the 2 components within workings} \\ 88\,400 \text{ three marks} \\ \hline \text{Accept alternative arrangements for calculations such as:} \\ 104\,000 - 15\,600 - 91\,500 \end{array} $	$3\,100 \checkmark$ operation one part correct ignore sign If $SP > CV$ = Profit or $SP < CV$ = Loss

5

Calculate: Total depreciation for the year

WORKINGS	ANSWER
Vehicles $15\,600 \checkmark + 145\,200 \checkmark = 160\,800 \text{ two marks}$ (see above)	$281\,100 \checkmark$ operation one part correct for vehicles + equipment
Equipment $ \begin{array}{r} 774\,000 \times 15\% \quad 48\,000 \times [15\% \times 7/12] \\ 116\,100 \checkmark \checkmark + 4\,200 \checkmark \checkmark = 120\,300 \text{ four marks} \\ \text{for 1 of the 2 components within workings} \end{array} $	

7

1.2.3 Statement of Comprehensive Income for the year ended 28 February 2023

Sales		17 850 000
Cost of sales		(10 200 000)
Gross profit		7 650 000
Other income	operation	170 900 ✓
Commission income		85 900
Rent income	89 700 ✓ – 7 800 ✓✓	81 900 ✓*
Profit on sale of asset*	* could be a loss see 1.2.2 check if SP > NCV	3 100 ✓
Gross operating income	6	7 820 900
Operating expenses		(4 894 900)
Salaries and wages	balancing figure could be a negative	2 218 100 ✓
Audit fees	155 200 + 38 800	194 000 ✓ ✓*
Directors' fees	2 015 000 ✓ – 130 000 ✓✓ 2015 000 x 29/31 OR 65 000 x 29 OR 1 560 000 + 325 000	1 885 000 ✓*
Sundry expenses		219 760
Bad debts	16 200 ✓ + 2 250 ✓✓ [9 000 x 20/80] two marks in total	18 450 ✓*
Depreciation	see 1.2.2	281 100 ✓
Trading stock deficit	2 969 800 ✓ – (2 774 800 ✓ + 121 210 ✓) 2 896 010 two marks see 1.2.1 Do not accept 2 969 800 or 2 774 800 as final answers	73 790 ✓*
Provision for bad debts adjustment	must be an expense	4 700 ✓✓
18		
Operating profit	GOI - OE	2 926 000 ✓
Interest income	balancing figure; accept if negative	34 000 ✓
Profit before interest expense		2 960 000
Interest expense	Note: one mark on 165 600 165 600 ✓ x 60% OR 165 600 – 66 240 (690 000 – 524 400) one mark OR (13 800 x 12) x 60% If x 60% OR –40%	(99 360) ✓
Net profit before tax	NPAT + Inc Tax	2 860 640 ✓
Income tax		(858 140)
Net profit after tax	5	2 002 500

29

* operation, one part correct

– 1 for foreign items (max -2)

For misplaced items mark the workings, but penalise on the final answer

Ignore brackets

QUESTION 2

2.1 RETAINED INCOME NOTE

Balance at beginning of year	237 400
Net profit after tax	1 526 000
Shares repurchased 180 000 ✓ x 1,20 ✓✓ (11,05 – 9,85) two marks OR 1 989 000 one mark – 1 773 000 two marks	(216 000) Ignore brackets ✓* Not 1 989 000 Not 1 773 000
Ordinary share dividends operation (int + final)	(917 800) ✓* Ignore brackets
Interim dividends 1 070 000 x 32c	342 400 ✓✓* one part correct
Final dividends	575 400 ✓
Balance at end of year Inspect operation; must subtract shares repurchased & OSD	629 600 ✓*

9

* operation, one part correct

2.2 Calculate: Change in loan

WORKINGS	ANSWER
7 200 000 – 6 348 000	852 000 ✓✓ Ignore brackets no part mark

2

Calculate: Proceeds from shares issued

WORKINGS	ANSWER
no part marks (1 370 000 + 180 000 – 1 250 000) 300 000 ✓✓ x 11,40	3 420 000 ✓ If x 11,40
OR (13 959 500 – 12 312 500) + 1 773 000 1 647 000 one mark one method mark - see 2.1	3 420 000 one method mark

3

2.3

CASH EFFECTS OF OPERATING ACTIVITIES	155 200 operation; one part correct in totals or in workings ✓
Cash generated from operations	2 340 300
Interest paid	(648 000) ✓ Must be in brackets
Income tax paid 1 526 000 x 30/70 42 100 ✓ + 654 000 ✓✓ + 23 600 ✓ OR – 42 100 – 654 000 – 23 600 Be alert to other alternative presentations such as brackets or T-account.	(719 700) ✓* Must be in brackets
Dividends paid see 2.1 475 000 ✓ + 342 400 ✓ OR – 475 000 – 342 400 OR 475 000 one mark + (917 800 – 575 400) one m.mark	(817 400) ✓* Must be in brackets

10

* operation, one part correct

2.4

Calculate: Current ratio	
WORKINGS	ANSWER
$1\,479\,600 : 822\,000$ Allocate ONE mark for both amounts (if no final answer / incorrect final answer)	$1,8: 1 \checkmark \checkmark$ operation one part correct in form x : 1
2	
Calculate: Net asset value (NAV) * 100 does not constitute 'one part correct'	
WORKINGS	ANSWER
$\begin{array}{r} 14\,589\,100 \text{ two marks} \quad \text{see 2.1} \\ 13\,959\,500 \checkmark + 629\,600 \checkmark \quad \times 100^* \\ \hline 1\,370\,000 \checkmark \end{array}$	$1\,064,9 \text{ cents}$ $\checkmark$ operation one part correct accept R10,65 or 1065 cents Answer must be reflected in R or c
4	
Calculate: % return on total capital employed (ROTCE) NOTE: The average capital employed is R20 343 500. * 100 does not constitute 'one part correct'	
WORKINGS	ANSWER
$\begin{array}{r} 2\,828\,000 \text{ three marks} \\ 2\,180\,000 \text{ or } 1\,526\,000 \times 100/70 \\ \text{see 2.3} \\ 1\,526\,000 \checkmark + 654\,000 \checkmark + 648\,000 \checkmark \quad \times 100^* \\ \hline 20\,343\,500 \checkmark \end{array}$	$13,9\% \checkmark$ operation one part correct % sign not necessary
5	

TOTAL MARKS

35

QUESTION 3**3.1****Explain whether or not the company is managing their working capital efficiently. Quote TWO financial indicators, with figures and trends.**

Financial indicator ✓ ✓ figure and trend ✓ ✓ any ONE explanation ✓

Any two indicators:

- Current ratio has decreased (from 1,3:1) to 0,9:1 / by 0,4 : 1
- Acid test ratio has decreased (from 0,6:1) to 0,3:1 / by 0,3 : 1
- Debtors average collection period increased (from 30,8 days) to 42,4 days / by 11,6 days.

Possible explanations for ONE mark:

The business will experience difficulty in meeting short term debts / does not have enough liquid assets (cash) to cover current liabilities / debtors take too long to settle accounts / too much stock on hand.

5

3.2**Calculate the total number of additional shares that Denise purchased.**

CALCULATION	ANSWER
(51% x 1 500 000) two marks 765 000 ✓✓ – 540 000 ✓	225 000 ✓ operation one part correct
Do not accept 50% + 1 share or 50% + 100 shares	

4

Give ONE possible reason why Denise was determined to become the majority shareholder.

Any ONE valid reason ✓✓ must relate to influence over control

Part mark for incomplete/unclear responses

Expected responses e.g.

- She wants to have full control of the company.
- She wants to influence all decisions of the company in the future.
- She wants to address the issue of incompetent directors/influence new appointments who can contribute to the growth of the company
- She feels she can kick-start a turn-around of the current situation.

Possible responses for one mark e.g.

To gain more dividends / make a capital gain on the shares

2

3.3.1**The Cash Flow Statement revealed decisions taken by the directors. Identify TWO major decisions taken by the directors in 2023 that were different to those from the previous year. Quote figures.**

TWO decisions ✓ ✓ Figures ✓ ✓

- In 2023 the company issued more shares for R3 750 000 (in 2022 the company bought back shares for R250 000).
- In 2023 they repaid R1 800 000 of the loan (in 2022 the company borrowed R3 500 000). Do not accept R1 700 000 as a valid figure.

Give ONE reason for these decisions.

ONE valid reason ✓✓ part marks for incomplete/unclear responses

- Place less reliance on loans / pay less interest / improve or reduce financial risk
- There is an attempt to sustain the company by using equity (own capital)

6

3.3.2 Explain the impact of these decisions on the degree of financial risk over the two years. Quote ONE financial indicator, with figures and trends.

Financial indicator ✓ with figure(s) and trend ✓

Debt/equity ratio decreased (from 0,4 : 1) to 0,1 : 1 / by 0,3 : 1)

Explanation ✓

Reduced or lower financial risk / less reliance on loans / use of own (share) capital

3

3.3.3 Explain how these decisions affected the gearing of the company. Quote ONE financial indicator, with figures and trends.

Financial indicator ✓ with figure(s) and trend ✓

ROTCE dropped (from 11,4%) to 9% / by 21,1% / by 2,4% points

Explanation of gearing (compared to interest rate) ✓✓ **part marks for incomplete/unclear responses**

Expected responses:

- ROTCE is below the interest rate of 13%; was negatively geared in 2022 and dropped further in 2023.
- Company was not making effective use of loans in 2022 and this trend has continued in 2023 in spite of effects of attempts to reduce the loan.

4

3.4.1 Certain shareholders expressed concern about the change in the dividend payout policy. Explain TWO points to support their opinion.Any TWO valid points ✓✓ ✓✓ **part marks for incomplete/unclear responses****N.B. Figures are not compulsory here:**

- The increase in the dividend pay-out rate (from 67,6%) to 106,7% means that funds must be used from retained income / depleting company funds / paid higher dividends whilst earnings were low.
- The directors want to distract shareholders by trying to appease them in order to distract them from the poor performances of the company / misleading.
- Directors are acting irresponsibly by showing no intentions for the growth of the company / Company is not retaining funds for future growth.
- Directors should have focused on improving the cash resources because they are actually depleting cash resources.

Responses for one mark e.g.

Dividend pay-out rate increased significantly / directors want to be re-elected

4

3.4.2 Explain whether shareholders would be satisfied with the trend in the % return and earnings of the company, as well as the dividends they earned. Quote TWO financial indicators, with figures and trends.

Financial indicator ✓ ✓ figures and trend ✓ ✓

Any TWO of:

- ROSHE decreased (from 7,2%) to 5,7% / by 1,5% points / 20,8%
- EPS decreased (from 74c) to 60c / by 14c / drop in profitability by 18,9%
- DPS increased (from 50c) to 64c / by 14c / by 28%

Explanation (figures not compulsory here) ✓✓ **part marks for incomplete/unclear responses**

- Returns are below interest rate on fixed deposits [alternative investment of 7%]
- Some shareholders may be satisfied with a [14 cent] increase in DPS / others concerned that company pays high dividends when profits dropped
- Due to high dividends, dividend yield improved (from 4,9%) to 7,5% / by 2,6% points / 53,1%

6

3.5

In EACH case, provide evidence for the shareholders' concerns over these trends, and explain why they would be concerned about the future prospects for the company. Quote figures and trends.

Award relevant mark allocation if correct evidence, figures or reasons are placed in the incorrect columns.

Issues	Evidence of concern Figure ✓ ✓ Comparison ✓ ✓	Reason for concern ✓ ✓ Be alert to other valid reasons
Cash and cash equivalents	C&CE decreased by R836 000 OR C&CE decreased (from R1,914m) to R1,078m over the two years OR Net outflow in 2023 of R836 000 compared to net inflow of R2,2m in 2022	Operating activities reflects deficit / ineffective use of available funds / generating funds with no intention to increase profitability / liquidity issues in the future if trend continues
Market price of shares on JSE	The market price on the JSE has decreased (from 1 020 cents) to 850 cents / The market price of 850 cents is less than the NAV of 1 007 cents.	The shares are not in demand by the public (due to general decline in company's performance) / Future prospects for the company are not good as new shareholders might not want to buy shares if the shares are not performing well

6

TOTAL MARKS**40**

QUESTION 4

4.1

4.1.1	Shareholders ✓
4.1.2	Unqualified ✓
4.1.3	Disclaimer of opinion ✓

3

4.2

Explain THREE questions that the shareholders would want to raise with the board of directors at the meeting.

THREE valid reasons ✓✓ ✓✓ ✓✓ Part marks for unclear/incomplete answers

Accept points that might not be phrased as questions.

Be alert to other valid interpretations of information given in Q.

- Why was there poor control by the Board or Remunerations committee over Donald's appointment / were correct procedures not followed when deciding on his salary package / did they not check references from previous employers regarding his qualifications & experience?
- Why did the Board match the competitor's offer without verifying it properly?
- Given Donald's dishonesty (over his qualifications and job offer), has the Board conducted further investigations into his conduct (e.g. embezzlement)?
- Is there any evidence good performance by Donald in terms of influencing productivity and profitability in the company?
- Why is there no transparency regarding the significant increase in Donald's remuneration? / Were external auditors negligent in any way regarding this?
- What internal disciplinary consequences will be taken against Donald or others who appointed him (e.g. CEO, directors or remunerations committee)?
- What external or legal steps will be followed to recover the salary overpaid (due to his fraudulent CV) / to ensure Donald's dismissal?

6

4.3

Provide ONE point of possible mismanagement or corruption under EACH of the following subheadings. Quote relevant figures to support your answer in EACH case. Be alert to other valid interpretations of information given in Q.

Payment of directors' fees

Any valid point (must refer to productivity) ✓✓ Part marks for unclear/incomplete answers

Fee increases for directors were not justified or / they did not make any difference to improving the company / they do not deserve the high increases due to the decrease in the profitability (productivity) of the company.

Possible figure/s ✓

- Operating profit dropped by 4,7% and net profit decreased by 3%
- Directors fees (in total) increased by / 37,6% (R66m to R90,8m)
- The CEO received a 44,4% increase (R18m to R26m)
- Other directors fees increased by 45% (R36m to R52,2m) + extra 3 directors

Salaries of other employees Part marks for unclear/incomplete answers

Valid point (must mention possible mismanagement) ✓✓

Employing additional employees did not contribute to better profits (productivity) / more workers should have had a positive effect on profits / possible ghost workers / under-qualified or incompetent workers employed / nepotism / poor HR decisions to increase workforce

Possible figure/s ✓

- Operating profit dropped by 4,7% (despite +8% in GP / -3% in net profit)
- The workforce increased by 25% (55 more workers)
- Salaries increased (from R70,4m) to R91,3m / by R20,9m / by 29,7%

6

TOTAL MARKS

15

TOTAL: 150