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PREPARATORY EXAMINATION

GRADE 12

ACCOUNTING P1

SEPTEMBER 2023

MARKS: 150

MARKING GUIDELINES

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 correct answer. If answer is incorrect, mark workings.
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. 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 Q).
8. This memorandum 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, marker must inspect reasonableness of answer.
11. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
12. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
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 9 pages.

QUESTION 1

1.1

1.1.1	trade and other payables	✓
1.1.2	financial asset	✓
1.1.3	ordinary share capital	✓
1.1.4	trade and other payables	✓

4

1.2.1 THUTHUKANI LTD
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED
28 FEBRUARY 2023

<small>3 321 000 two marks</small> Sales (1 845 000✓ x 180%✓) – 14 600✓	*☑	3 306 400
Cost of sales		(1 845 000)
Gross profit <small>operation 5</small>	*☑	1 461 400
Other income	*☑	84 604
Rent income (92 736 – 14 112✓✓☑) <small>any figure</small>	#☑	78 624
Bad debts recovered (3 850 + 1 670)	✓✓	5 520
Provision for bad debts adjustment (9 820 – 9 360)	✓✓	460
Gross operating income <small>operation 10</small>	*☑	1 546 004
Operating expenses	*☑	(832 840)
Salaries and wages (360 500 + 14 500✓ + 3 800✓ + 5 600✓) or + (23 900 three marks) or + (20 100 two marks + 3 800 one mark)	*☑	384 400
Stationery (24 684 – 2 084)	✓✓	22 600
Insurance (46 500 – 4 140✓✓)	#☑	42 360
<small>+ 12 000 four marks</small> Directors' fees (276 000 + 18 000✓✓ – 6 000✓✓)	*☑	288 000
Audit fees (24 600 + 8 200) OR (24 600/75x100)	✓✓	32 800
Bad debts		16 680
Depreciation		46 000
Operating profit <small>operation OI – OE 18</small>	☑	713 164
Interest income (12 400 + 1 200✓✓)	#☑	13 600
Profit before interest expense <small>operation</small>	*☑	726 764
Interest expense <small>balancing figure accept positive</small>	*☑	(123 264)
Profit before income tax <small>operation NP + IT</small>	*☑	603 500
Income tax <small>422 450 / 70x 30</small>	✓✓	(181 050)
Net profit for the year 8		422 450

#☑ working according to learner

*one part correct

41

1.2.2 **CALCULATE**

Net trade debtors	*one part correct	<input checked="" type="checkbox"/> * 450 960
Trade debtors (458 650 + 1 670)		✓✓ 460 320
Provision for bad debts		✓ (9 360)

4

1.2.3 **RETAINED INCOME**

Balance at the beginning of the year		1 682 458
Net profit after tax		422 450
12 000 shares repurchased as R2,50✓✓	*one part correct	<input checked="" type="checkbox"/> (30 000)
Dividends	*one part correct	<input checked="" type="checkbox"/> (61 360)
Interim		21 600
Final (0,02✓ x 1 988 000✓)	*one part correct	<input checked="" type="checkbox"/> * 39 760
Balance at the end of the year	*one part correct	<input checked="" type="checkbox"/> 2 013 548

8

1.2.4 **Calculate the amount for Non-current Liabilities in the Statement of Financial Position on 30 September 2023.**

Mortgage loan: Westside Bank		
$\begin{array}{r} 760\,000 \times 12/76 \\ (10\,000 \times 12) \\ (760\,000 - 120\,000 \checkmark \checkmark) = 640\,000 \end{array}$		
#	<input checked="" type="checkbox"/> *	one part correct must subtracted
# <input checked="" type="checkbox"/> working according to learner		

3

60

QUESTION 2**2.1****(i) The acid-test ratio**

$$\begin{aligned} & 3\,098\,000 - 1\,350\,000 \\ & 1\,748\,000 \text{ two marks} \\ & 168\,000 \checkmark + 1\,580\,000 \checkmark : 1\,598\,000 \checkmark \\ & = 1,1 : 1 \quad \checkmark \quad \text{*one part correct must be x: 1} \end{aligned}$$

4**(ii) The debt/equity ratio**

$$\begin{aligned} & 1\,420\,000 \checkmark : 4\,478\,300 \checkmark \\ & = 0,3 : 1 \quad \checkmark \quad \text{*one part correct must be x: 1} \end{aligned}$$

3**(iii) The return on average shareholders' equity**

$$\begin{aligned} & \frac{2\,400\,000 \checkmark - 672\,000 \checkmark}{\frac{1}{2} \checkmark (4\,478\,300 \checkmark + 3\,409\,000) \checkmark} \times \frac{100}{1} = 43,8\% \quad \checkmark \\ & \text{1 728 000 two marks} \quad \text{7 887 300 two marks} \quad \text{3 943 650 three marks} \quad \text{*one part correct x 100} \end{aligned}$$

6**2.2****Use the given information in D (i) to confirm the value of the closing stock on 28 February 2023 as R1 350 000.**

$$\begin{aligned} & \text{Closing stock: } 33\,000 - 24\,000 = 9\,000 \\ & \frac{(1\,281\,500 + 3\,668\,500) \text{ one mark}}{33\,000 \checkmark} \times 9\,000 \checkmark \checkmark = 1\,350\,000 \quad \checkmark^* \\ & \text{4 950 000 } \checkmark \quad \text{one part correct} \\ & \text{1 500 + 31 500 one mark} \\ & \text{150 two marks} \end{aligned}$$

5

2.3 Reconciliation between profit before taxation and cash generated from operations

Profit before tax	2 400 000✓
Adjustments in respect of:	
Depreciation	185 700✓
Interest expense	175 000✓
Operating profit before changes in working capital	✓* 2 760 700
Changes in working capital operation and one part correct	✓* (432 500)
Increase in Inventory (1 281 500 – 1 350 000)	✓✓ #(68 500)
Increase in Debtors (1 420 000 + 35 000) ✓ – (1 554 000 + 26 000) ✓ OR 1 455 000 – 1 580 000	✓* #(125 000)
Decrease in Creditors (1 586 000 – 1 347 000)	✓✓ #(239 000)
Cash generated from operations	✓ 2 328 200

Final answer must be in brackets to get full marks

*✓ one part correct

13**2.4****Calculate the amount for the purchase of fixed assets.**

4 178 300✓ + 185 700✓ + 368 000✓ – 3 532 000✓ = 1 200 000 ✓* one part correct

Choose a line

–4 178 300 – 185 700 – 368 000 + 3 532 000 = 1 200 000

3 532 000	185 700
1 200 000	368 000
	4 178 300

5**2.5****Cash flows from financing activities**

one part correct

1 220 000✓*

Proceeds from shares issued

(3 600 000 – 2 500 000)

✓✓

1 100 000

Increase in loan (1 420 000 – 1 300 000)

✓✓

120 000

5**2.6****Complete the net change in Cash and Cash equivalents as it would appear in the Cash Flow Statement.**

Net change

one part correct
196 000✓*

Cash beginning (28 000 – 56 000)

✓✓*

(28 000)

Cash end

✓

168 000

4

QUESTION 3**3.1**

3.1.1	False ✓
3.1.2	True ✓
3.1.3	False ✓
3.1.4	False ✓
3.1.5	True ✓

5**3.2****Explain why the market value is so important in this regard.**

Any ONE explanation ✓✓

- If the market price of the share is more than the NAV of the share, it means investors are willing to pay more for the share than it is actually worth ✓✓
- MP increase with 30 cents show that shares is in demand
- MP is higher than NAV → demand for shares
- It shows that the shareholders have confidence in directors/ company

If the company issued all its unissued shares the following year, how much capital could it expect to raise for the company?

Unissued: 1 000 000 – 762 500 = 237 500 ✓✓
 Price: 2,40 x 110% = **OR** 2,40 + 0,24 = 2,64 ✓✓
 Receive: 237 500 x 2,64 = 627 000 ☑ ***one part correct**

7**3.3****Rather than issue more shares, the directors are considering taking out additional loans. Quote TWO relevant financial indicators (actual ratios or percentages) to support their opinion.**

Indicator ✓✓ Figure ✓✓ Comment ✓✓

Debt/Equity ratio is 0,1 : 1. The risk is very low.

ROTCE is 44,3%, which is more than the interest on the loan of 13%. It is positively geared.

6

3.4

John Davids, one of the shareholders, is currently the owner of 400 000 shares. What will happen to his shareholding if all the unissued shares are issued? Show calculations to support your answer.

Current: $\frac{400\,000}{762\,500} \times \frac{100}{1} = 52,5\% \checkmark \checkmark^*$ one part correct

After: $\frac{400\,000}{1\,000\,000} \times \frac{100}{1} = 40,0\% \checkmark \checkmark^*$ one part correct

John will no longer be the majority shareholder $\checkmark \checkmark$

6

3.5

On 1 March 2022 additional shares were issued at R3,00 each. Quote and explain relevant financial indicators with figures to show why the existing shareholders will be satisfied with this price.

Indicator $\checkmark \checkmark$ Figure and trend $\checkmark \checkmark$ Comment $\checkmark \checkmark$

The market price increased from 210c to 240c /by 30c/ 14,3%

The NAV increased from 213,6c to 217,3c / by 3,7c / 1,7%

The NAV is higher than the market price – investors are willing to pay extra for the shares. / R3 higher than R2,10

6

30

QUESTION 4**4.1**

The board of directors wants to buy computers and IT systems from a certain computer company for R25 million. You find out the CEO's wife is a majority shareholder in the computer company.

Express your opinion on the scenario mentioned above. Provide ONE point.

✓✓ **part marks for incomplete/unclear answers**

This amounts to a conflict of interest./ The CEO must have declared his indirect personal interest in this transaction. /He would be guilty of an offence as he will have known of his wife's involvement./ Unethical business practise

How should this scenario be handled by a board of directors or by shareholders? Provide ONE point.

✓✓ **part marks for incomplete/unclear answers**

The transaction should be cancelled by the board/shareholders / CEO must be held accountable/disciplinary hearing/ face a criminal charge.

4**4.2**

How should this scenario be handled by you as a non-executive director?

Any one ✓✓ **part marks for incomplete/unclear answers**

- It would be my duty to make the board aware of the shortcomings in the internal control measures.
- It could be a reflection on the effectivity of the internal auditor.
- The internal auditor must be addressed by the board on the matter.
- It is the internal auditor's responsibility to detect these problems in advance.

2**4.3**

External independent auditors may charge high audit fees for their specialized work. What do you think will be the consequences for the auditor if it is proven that the auditor was negligent in the performance of his responsibilities? Name TWO consequences.

Any two ✓✓ ✓✓ **part marks for incomplete/unclear answers**

- Complaints against them may lead to disciplinary hearings.
- They can be prevented from auditing companies in the future.
- Civil charges can be laid against them by investors who lost money due to reliance on an erroneous audit opinion.
- They may face criminal charges
- They may be removed from the membership role of SAICA.

4

4.4

Refer to the information regarding Carpets Galore Ltd.**Do you think the share price of the company increased or dropped?**

The price dropped. ✓

How will shareholders react to this? Provide TWO points.

Any two

✓✓

✓✓

part marks for incomplete/unclear answers

- The shareholders might sell their shares.
- The shareholders might want to appoint new directors at the AGM.

5

15

TOTAL: 150