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WEST COAST EDUCATION DISTRICT

PREPARATORY EXAMINATION

ACCOUNTING PAPER 1

GRADE 12

26 AUGUST 2024

MEMO

MARKS: 150

TIME: 2 HOURS

This marking guideline consist of 11 papers.

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 as a working mark for that figure (not the method mark for the answer). Note: figures stipulated in the marking guidelines as components of workings are marked together; these do not carry the method mark for parts thereof.
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. These marking guidelines are 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 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 guideline.
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.

1.1.1

Calculate the final value of the multi-purpose cleaning material.	
Workings	Answer
$\frac{101\,000\checkmark + 6\,400\checkmark}{160\checkmark + 1\,750\checkmark} = \frac{107\,400}{1\,910} = R56\checkmark$ $370\checkmark \times 56 = R20\,720$	R20 720☑

7

1.1.2

Calculate the Trading stock deficit for the period.	
Workings	Answer
Trading stock: $120\,580\checkmark + 1\,050\checkmark = 121\,630$	R11 350☑
Stock count: $89\,560\checkmark + 20\,720\checkmark(1.1.1) = 110\,280$	
$121\,630 - 110\,280 = 11\,350$	

5

1.2

FEBRUARY 2024

Sales (3 889 960 – 1 260 ✓)	<input checked="" type="checkbox"/> 3 888 700	6
Cost of sales (2 549 950 – 1 050 ✓✓) operation	<input checked="" type="checkbox"/> (2 548 900)	
Gross Profit	<input checked="" type="checkbox"/> 1 339 800	
Other Operating Income operation	<input checked="" type="checkbox"/> 1 351 249	
Cleaning income (1 215 000 + 3 550) 14 200✓-10 650✓	<input checked="" type="checkbox"/> 1 218 550	14
Provision for bad debt adjustment (60 449 – 1 449✓ + 4 600✓) x 6% (4 815✓ - 3 816)	<input checked="" type="checkbox"/> 999	
Rent income (115 600 + 10 600 ✓✓) operation	<input checked="" type="checkbox"/> 126 200	
Profit on the sale of an asset (170 000 – 25 500✓ - 150 000✓)	<input checked="" type="checkbox"/> 5 500	
Gross Operating Income		8
Operating Expenses	1 949 490	
Cleaning expenses balancing amount	<input checked="" type="checkbox"/> 414 390	
Audit fees	20 000	
Salaries and wages	318 200	2
Director's fees (990 000 + 45 000 ✓) operation	<input checked="" type="checkbox"/> 1 035 000	
Telephone (46 200 + 4 400) operation	✓ 50 600	
Bank charges (21 400 + 450) operation	✓ 21 850	
Depreciation	32 500	30
Trading stock deficit from 1.1.2	<input checked="" type="checkbox"/> 11 350	
Donations see amount subtracted from Director's fees	<input checked="" type="checkbox"/> 45 000	
Gross Operating profit		
Interest Income	17 800	2
Profit before Interest Expense		
Interest Expense	✓ (110 000)	
Net profit before tax		
Income Tax	(197 100)	30
Net profit after Tax 197 100 x 70/30 or NPBT – Tax	✓✓ 459 900	

– F for foreign entries (max 2)

– P for incorrect placements (max 2)

SA EXAM
PAPERS

1.3

Balance at beginning		240 000
Net profit after tax	see 1.2	<input checked="" type="checkbox"/> 459 900
Repurchase of shares (15 000 x R4,00)	one part correct ignore brackets	<input checked="" type="checkbox"/> (60 000)
Ordinary share dividends	ignore brackets	<input checked="" type="checkbox"/> (206 000)
Interim		86 000
Final (200 000 x 0,60)	one part correct	<input checked="" type="checkbox"/> 120 000
Balance at end	Ignore brackets and check operation Shares repurchased and share dividends must be subtracted	<input checked="" type="checkbox"/> * 433 900

7

1.4

EQUITY AND LIABILITIES	
Non-current liabilities	
Loan: ABSA (248 000) – 72 000 ✓✓	<input checked="" type="checkbox"/> 164 800
Current liabilities	
Trade creditors (45 800 + 4 400 ✓ + 10 650 <input checked="" type="checkbox"/> + 4 600 ✓ + (16 859 ✓ - 189 ✓)) transfer VAT telephone	<input checked="" type="checkbox"/> 82 120
SARS: Income tax (197 100 – 180 100)	<input checked="" type="checkbox"/> 17 000
Shareholders for dividends	<input checked="" type="checkbox"/> 120 000
Current portion of long-term loan	<input checked="" type="checkbox"/> 72 000
Bank overdraft 35 260 -14200 ✓ +450 ✓ +90 000 ✓	<input checked="" type="checkbox"/> 111 510
TOTAL EQUITY AND LIABILITY	

2

14

16

TOTAL
MARKS

65

2.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2024:

Net profit before tax	
Adjustment in respect of:	
Depreciation	16 645
Interest on loan	120 000
Operating profit before changes in working capital	
Decrease in Debtors (1139 000-1 115 000)	24 000 ✓✓
Decrease in Inventory (1145 000-1 125 000)	20 000 ✓✓
Decrease in Creditors (1 056 800 - 880 565)	(176 235) ✓✓

6

2.2.1

Calculate: Taxation paid	ANSWER
WORKINGS	
197 600 ✓ – 4 000 ✓ – 10 375 ✓	183 225 <input checked="" type="checkbox"/> *
OR:	one part correct ignore brackets
- 197 600 + 4 000 + 10 375	
Be alert to alternative methods of calculations e.g. ledger format, use of brackets.	

4

2.2.2

Calculate: Fixed assets purchased	ANSWER
WORKINGS	
944 800 ✓ - 1 541 940 ✓ - 16 645 ✓ - 19 430 ✓✓	633 215 <input checked="" type="checkbox"/> *
OF:	one part correct ignore brackets
- 944 800 + 1 541 940 + 16 645 + 19 430	
Be alert to alternative methods of calculations e.g. ledger format, use of brackets.	

6

2.2.3

Calculate: Shares issued	ANSWER
WORKINGS	
100 000 x R15	R1 500 000 ✓✓

2

2.2.4

Calculate: Funds used for the repurchase of shares	ANSWER
WORKINGS	
(10 000 x R16,00)	R160 000 ✓✓
(10 000 x R12,50 + 10 000 x R3,50)	

2

2.2.5

Calculate: Net change in cash and cash equivalents	
WORKINGS	ANSWER
Net change in cash and cash equivalents	239 400 <input checked="" type="checkbox"/>
Cash and cash equivalents at the beginning (153 000 – 2 500)	(150 500) <input checked="" type="checkbox"/>
Cash and cash equivalents at the end	88 900 <input checked="" type="checkbox"/>

4

2.3.1

Calculate: Earnings per share as on 20 June 2024	
WORKINGS	ANSWER
$\frac{322\,400 \checkmark}{190\,000 \checkmark} \times \frac{100^*}{1}$	169,68 cents <input checked="" type="checkbox"/> or 170 one part correct

3

2.3.2

Calculate: Debt-equity ratio	
WORKINGS	ANSWER
350 000 <input checked="" type="checkbox"/> : 2 499 900 <input checked="" type="checkbox"/>	0,14 : 1 <input checked="" type="checkbox"/> or 0,1 : 1

3

2.3.3

Calculate: Return on average capital employed	
WORKINGS	ANSWER
$\frac{\frac{640\,000 \text{ Two marks}}{520\,000 \checkmark + 120\,000 \checkmark}}{\frac{1}{2} (2\,849\,900 \checkmark + 2\,187\,500 \checkmark)} \times \frac{100^*}{1}$ $\frac{5\,037\,400}{2\,518\,700 \text{ Two marks}}$	25,4% <input checked="" type="checkbox"/> or 25,40% one part correct must be in %

5

TOTAL
MARKS

35



3.1 Comment on the liquidity of the two companies and explain which company manages the working capital more efficiently.

Current ratio and figure for both companies ✓ ✓
 Acid test ratio and figure for both companies ✓ ✓
 Decision ✓ and reason ✓

- Erasmus Ltd's current ratio is 1,5 : 1 and Van Zyl Ltd's current ratio is 2,1 : 1
- Erasmus Ltd's acid test ratio is 0,6 : 1 and Van Zyl Ltd's current ratio is 1,1 : 1

Van Zyl Ltd uses the working capital the more efficiently because they will be able to cover their current debts with the current assets available.

6

3.2 Comment on the degree of risk and gearing of both companies. Explain how this will influence your choice of company.

Debt/Equity ratio for both companies ✓ ✓
 ROTCE for both companies ✓ ✓
 Choice ✓ and reason ✓

Erasmus Ltd.'s Debt/Equity ratio is 0,3 : 1 and Van Zyl Ltd.'s Debt/Equity ratio is 0,8 : 1

Erasmus Ltd.'s ROTCE is 15,5% (or ROTCE of 15,5% is greater than interest on loan of 14%) and Van Zyl Ltd.'s ROTCE is 11,8% (or ROTCE of 11,8% is lower than interest on loan of 14%).

Erasmus Ltd.'s risk is lower, and the gearing is positive (ROTCE exceeds interest).

6

3.3 Consider the Return, Earnings and Dividends of the two companies.

(a) Explain whether Felicia should be satisfied with the return on her investment in both companies. Provide financial indicators/figures to support your answer.

ROSHE figures for both companies ✓
 Compared to alternative investments ✓
 Explanation ✓ ✓

Part marks incomplete and unclear question

ROSHE of Erasmus Ltd is 16% (was 14%) and Van Zyl Ltd is 28% (was 24%).

Both ratios exceed alternative investments of approximately 10%.

Both ratios have improved from the previous year.

4

Indicate

which company has adopted the better rate and the possible reason for that choice.

Erasmus Ltd:

Pay-out rate is 81% ✓✓ ($\frac{100}{124} \times 100\%$) (accept 80,6%) (or compare 100 vs. 124)

Van Zyl Ltd:

Pay-out rate is 52% ✓✓ ($\frac{75}{143} \times 100\%$) (accept 52,4%) (or compare 75 vs. 143)

Do not accept 124 vs 143 or 100 vs 75,
No split marks

Choice ✓ with reason ✓:

Erasmus Ltd: They pay out more than Van Zyl Ltd, they want to keep their shareholders satisfied.

OR

Van Zyl Ltd: They retain funds for future growth and improvement.

6

3.4 (a) Refer to Information B and C.

Indicate how many shares Felicia must purchase in Erasmus Ltd to maintain the percentage shareholding she had at the start of the year.

Erasmus Ltd:

She had 214 200 shares = 51% ✓

Total shares end of the year: 420 000 + 117 000 = 537 000 shares ✓

To maintain his % he needs: 537 000 x 51% = 273 870 shares ✓

She currently has 214 200 shares, so she needs to purchase an **additional 59 670 shares.** ✓

4

(b) Calculate the amount Felicia will have to pay to purchase these shares.

Erasmus Ltd:

59 670 shares ☒ x R 8,00 ✓ = R477 360 ☒

See (a)

3

What is the minimum number of shares which she would have to purchase to be successful in her aim. Also provide a reason why Felicia would want to be the majority shareholder of a company.

Total shares at end of year = $140\,000 + 70\,000 - 35\,000$
 = 175 000 shares ✓

Majority shareholding = $(175\,000 \div 2) + 1 = 87\,501$ ✓

To maintain a majority shareholding, she requires: $87\,501 - 84\,000 = 3\,501$ shares ✓

OR

175 000 SHARES X 51% = 89 250

89 250 - 84 000 = 5 250

REASON

She wants to be the majority shareholder to have the most voting rights at a general meeting. ✓

Accept any acceptable reason.

7

(d) Comment on the value of the shares in each company and provide figures to support your answer.

Must compare Market price to NAV: exceeds/lower than ✓ ✓

Both figures for each company ✓ ✓

Erasmus Ltd:

Market price of R8,00 exceeds NAV of R7,20 (or by 80c)

Van Zyl Ltd:

Market price of R16,00 is lower than NAV of R17,50 (or by 150c)

4

**TOTAL
MARKS**

40

4.1

The three board members implicated in this case each own 150 000 shares. Calculate the loss that Sanet and the two directors each were able to avoid by selling their shares on 13 April 2023.	
WORKINGS	ANSWER
$150\,000 \times R97 \checkmark$ <p style="text-align: right;">(R105 – R8)</p>	R14 550 000 ✓

2

4.2

Explain why the text message is so important to the investigators

Any valid point ✓✓

Part marks for incomplete or unclear response

It provided evidence that a crime had been committed / they would know which directors to charge / the person who leaked the information can be easily traced / It will provide evidence of parties involved / Investigators will establish the intent knowledge / It provides consistency between different sources of evidence which strengthens the case against individuals implicated.

2

Explain why you think this crime is referred to as 'insider trading'.

Any valid point ✓✓

Part marks for incomplete or unclear response

Because it is fraud based on private information regarding the trading (buying / selling) of shares which is not yet known to others who affected / The directors (insiders) did have access to this privileged information / Using of sensitive information to one's benefit – abuse of power.

2

4.3

Explain how the rapid decline in the share price and the fraudulent financial statements are likely to affect the existing shareholders and its workers	
Existing shareholders	They will lose their investment in the company / loss of life savings (Financial loss) / loss of dividends / will be likely to sell their shares / there may not be a demand for shares. ✓✓
Workers	Employees would be retrenched / lose their jobs / no job security (job insecurity) / increase in unemployment in the country / Employee's morale and productivity / Change on compensation and benefits (reduced salary/benefits/ bonus) / Cost cutting measures (layoffs). ✓✓

4

TOTAL MARKS

10

