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GRADE 12

ACCOUNTING P1

JUNE 2024

MARKING GUIDELINES

MARKS: 150

MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guideline, 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). 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. 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. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
10. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
11. 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 ☒.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f = foreign item; p = placement/presentation.

This marking guideline consists of 12 pages.

QUESTION 1**1.1 Correct net profit after tax**

Incorrect Net profit before tax	1 023 780	
Provision for bad debts adjusted	+ 1 500 ✓	
Interest expenses	- 48 000 ✓	
Rent income	-8 280 ✓✓	
Loss on stock due to damage	-2 800 ✓✓	
Insurance	+ 6 800 ✓✓	
Income tax (155 000 + 56 000)	-211 000 ✓✓*	
Net profit after tax	726 000 ✓*	11

*One part correct

1.2 TRADE AND OTHER RECEIVABLES

Trade debtors (1 080 000 - 10 600)	1 090 600 ✓✓	
Provision for bad debts (18 000 – 1 500)	(16 500) ✓✓*	
	Must subtract 1 500m.m.	
Net trade debtor operation	1 074 100 ✓*	
Accrued income (14 000 X 80%) or (14 000 – 2 800) See 1.1 Loss on stock due to damage	11 200 ✓✓	
Prepaid expenses see 1.1 Insurance	6 800 ✓	
Trade debtors	1 092 100 ✓*	9

*one part correct

Ordinary share capital**2 000 000 Authorised shares****ISSUED**

1 500 000	Ordinary shares at R6,20 (1 March 2023)	9 300 000 ✓	
(300 000) ✓	Repurchase of shares (ASP:R6,20)	(1 860 000) ✓✓	
		Do not accept 300 000 x 0.70	
40 000 ✓	Ordinary shares Always treat this as the balancing figure. Ignore workings on this aspects	284 000 ✓	
		Balancing figure	
1 240 000	Ordinary share at end of the year	7 724 000	
			6

Retained income

Balance at the beginning of the year		875 300 ✓	
Net profit after tax	see 1.1	726 000 ✓	
Repurchase of shares (300 000 X 70 cents)	ignore brackets	(210 000) ✓✓	
Dividends for the year	operation	(792 000) ✓*	
Interim (1 200 000 ✓ X 35 cents ✓)	One part correct	420 000 ✓*	
Final (1 240 000 X 30 cents)	One part correct	372 000 ✓✓*	
Balance at the end of the year	Operation	599 300 ✓*	
Balance at the beginning of the year		875 300 ✓	
			11

1.3 STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 29 FEBRUARY 2024

ASSETS		
Non-current assets		
Fixed assets		7 351 880
Fixed deposit (560 000 – 140 000 ✓✓)	3	420 000 ✓ Must subtract FD matured
Current assets		
Inventory		
Trade and other receivables	see 1.2 T&OR	1 092 100 ✓
Cash and cash equivalent (3 530 000 ✓ + 140 000 ✓ – 2 070 000 ✓ ✓) See FD (ASP + above ASP)		1 600 000 ✓
TOTAL ASSETS	6	
Equity & Liabilities		
ORDINARY SHAREHOLDERS EQUITY		8 323 300 ✓
Ordinary share capital		7 724 000
Retained income	2	599 300 ✓
Non-current liabilities		282 000
(284 000 + 48 000)		
Loan (332 000 ✓✓ – 50 000 ✓)	4	282 000 ✓
Current liabilities		2 421 280 ✓
Trade and other payables transfer see rent inc (1 924 400 ✓ + 10 600 ✓ + 8 280 ✓)		1 943 280 ✓*
Short term loan	see loan above	50 000 ✓
Shareholders for dividends	see 1.2 RI	372 000 ✓
SARS: Income tax		56 000 ✓
TOTAL EQUITY AND LIABILITIES	8	23

Inspect : SARS IT and SFD may be included in T&OP

-1 foreign item (max -2); presentation -1 (max -1); misplaced items, award marks for workings only

TOTAL MARKS**60**

QUESTION 2

2.1 Choose a term to complete each of the following statements. Write only the term next to the question number (2.1.1 – 2.1.3) in the ANSWER BOOK.

2.1.1	Debt- Equity✓
2.1.2	Market Value✓
2.1.3	Liquidity✓

3

2.2 RECONCILIATION BETWEEN THE PROFIT BEFORE CHANGES IN WORKING CAPITAL.

Net profit before tax	820 400
Depreciation	190 000
Interest expense	364 400
Profit before changes in working capital	1 374 800
Change in working capital	119 600☑
Decrease in inventory (484 000 – 350 700)	133 300✓
Increase in receivables(356 300 – 492 100)	(135 800)✓✓
Increase in payables (501 100 – 623 200)	122 100✓✓
Cash flows from operating activities	

6

2.2 CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2024.

	Notes	R
Cash flows from operating activities		
Cash generated from operations		
Interest paid (1 822 000 x 20%)		(364 400)✓✓
Dividends paid (450 000✓ + 1 041 000✓ – 778 500✓)		(712 500)☑
Taxation paid (229 712✓ – 20 600✓ – 46 400✓)	10	(162 712)☑
Cash flows from investing activities		(224 700)☑
Purchase of non-current assets (1 664 700✓ + 190 000✓ + 25 300✓ – 1 230 000✓)		(650 000)☑
Proceeds from sale of non-current assets		25 300✓
Decrease in financial asset (900 000 – 500 000)	9	400 000✓✓
Cash flows from financing activities		1 650 000 ☑
Proceeds of issuing of shares (250 000 x 7)		1 750 000✓
Payment of buy back of shares (20 000 x 7,5)	4	(150 000)✓✓
Payment of loan		50 000
Net change in cash and cash equivalents		1 705 188☑
Cash and cash equivalents at beginning of year		(258 600)✓
Cash and cash equivalents at end of year	3	1 446 588✓

26

2.3 Calculate the following financial indicators:

<p>Current ratio</p> <p>2 289 388 ✓ : 1 448 100 ✓ 1,58 : 1 ☑ (1,6:1)</p>	<div style="border: 1px solid black; width: 20px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 20px; height: 20px; margin: 0 auto; text-align: center;">3</div>
<p>Earnings per share</p> $\frac{\text{Net profit after tax}}{\text{Number of shares issued}} \times \frac{100}{1}$ $\frac{590\,688 \checkmark \times 100}{1\,730\,000 \checkmark \cdot 1}$ <p>= 34,1% ☑</p>	<div style="border: 1px solid black; width: 20px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 20px; height: 20px; margin: 0 auto; text-align: center;">3</div>
<p>Return on Shareholders Equity</p> $\frac{590\,688 \checkmark}{\frac{1}{2}(7\,166\,850 \checkmark + 6\,142\,800 \checkmark)} \times 100$ <p style="text-align: center; color: yellow;">13 309 650 two marks</p> <p>= 8,9% ☑</p>	<div style="border: 1px solid black; width: 20px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 20px; height: 20px; margin: 0 auto; text-align: center;">4</div>

TOTAL MARKS**45**

QUESTION 3**3.1 Briefly explain the difference between solvency and liquidity.**

Solvency: ability to pay off all of the business debts / ability to meet all debts in the long-term / TA:TL / TA more than TL / positive equity ✓

Liquidity: ability to pay off current / short-term debts / CA:CL / CA more than CL ✓

2

3.2 Which company is most liquid?

SPICE LTD ✓

Explain what the main problem is in respect to liquidity for the OTHER company, quoting TWO financial indicators.

Explanation ✓✓ No part marks

There is an over-investment in their inventories / stock piling / too much cash tied up in stock

TWO financial indicators ✓ ✓ Figures ✓ ✓

- Current ratio: SUGAR Ltd (3,4 : 1) and Acid-Test ratio (0,98 : 1)
compared to SPICE Ltd (1,7 : 1) and (1,1 : 1)

Difference between current ratio and acid test ratio
SUGAR Ltd (2,42 : 1) and SPICE Ltd (0,6 : 1)

- Stock holding period: SUGAR Ltd (115 days) and SPICE Ltd (42 days)

Acid test on its own is not valid

Not necessary to compare companies. Can award marks for indicators and figures if company and explanation above is incorrect.

7

3.3 Which company is most solvent?

SUGAR LTD ✓

Explain your answer, quoting ONE financial indicator and compare it the other company to support your answer.

Both business are solvent ✓

Financial indicator with figures
✓ ✓

Total Assets : Total Liabilities
Sugar Ltd 2,9 : 1 more than Spice Ltd 2,1 : 1

4

3.4 Compare the two companies' degree of risk and financial gearing. Which company is better geared?

	SUGAR LTD Financial indicator with figures ✓ ✓	SPICE LTD Financial indicator with figures ✓ ✓
DEGREE OF RISK	Debt equity 0,84 : 1	Debt equity 0,1 : 1
FINANCIAL GEARING	ROTCE 26%	ROTCE 5%
COMMENT Compare D/E for each company ✓ Compare ROTCE to interest rate ✓✓	Although SUGAR Ltd has a higher risk than SPICE Ltd, SUGAR Ltd is positively geared since the ROTCE of (26%) exceeds the interest rate on loans of (18%). OR SPICE Ltd has low risk but is negatively geared since the ROTCE of (5%) is much lower than the interest rate on loans of (18%).	

7

3.5 The dividend policy used by each company has been maintained for the last past years. Explain the policy used by EACH company. Provide figures to support your explanation in EACH case.

EXPLANATION (with figures)	
Explanation ✓	Award part marks for incomplete explanations
Figure ✓	Figure ✓✓
SUGAR LTD	SUGAR Ltd has a very high dividend pay-out policy (98% or 528 out of 540 cents) as they would want to keep the shareholders satisfied. Encourages them to remain as shareholders of the company.
SPICE LTD	SPICE Ltd has a lower dividend pay-out policy (40% or 292 out of 730 cents) so that they can use retained income for expansion purposes/equalisation of dividends. The shareholders should benefit in the future.

6

3.6 Explain whether the directors should be satisfied or not with the market price of the companies on the JSE at the end of the financial year. Quote TWO financial indicators in EACH case.

Indicator ✓	Figure ✓
The market price of the shares of SPICE Ltd (363 cents) is lesser than the NAV (425 cents).	
The market price of the shares of SUGAR Ltd (400 cents) is more than the NAV (337 cents).	

4

TOTAL MARKS
30

QUESTION 4: CORPORATE GOVERNANCE

4.1.1 Did Cool Bank Group Ltd received a qualified / unqualified / disclaimer of opinion. Explain your choice.

Choice of report: ✓

Unqualified

Explanation:

Any valid explanation ✓✓

The financial statement was fairly presented in all material respects

Auditors didn't mention any wrong doing or irregularities.

3

4.1.2. Newspaper reports have indicated that Kagiso and Associates have been found guilty of misconduct in terms of audit work done at several large firms. Explain how this may influence shareholders of Cool Bank Group Ltd. State TWO points.

Any valid explanation ✓✓ ✓✓

- Their professional conduct will never be trusted
- They will not be re-appointed to do audit work
- Create bad image of the company not to trust the report
- Investors might withdraw their shares

4

4.2.1 Mention TWO examples of services, other than banking, that can be offered by financial institutions such as Cool Bank Group Ltd to communities.

Any valid explanation ✓ ✓

- Granting of loan (long and short term loan)
- Offer investments (long and short term investments)
- Provide financial advice
- Insurance (housing, car etc.)
- Drafting of will

2

4.2.2 Explain THREE points that the CEO can use to support the company's decision.

Any valid explanation ✓✓ ✓✓ ✓✓

- In accordance with Corporate governance/ King Code/ Company act/giving back to the community.
- Promote good image of the company/publicity/ goodwill
- Tax deductible

6

TOTAL MARKS
15

TOTAL: 150