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GRADE 12 - EXAMINATION

ACCOUNTING - JUNE 2024

PAPER 1

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 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.

This marking guideline consists of 9 pages.

1.1 RUDO SPORT STORES LTD

1.1.1 Calculate the value of the closing stock of golf balls on 29 February 2024, using the first-in-first-out method.

WORKINGS	ANSWER
1 900✓ x 28✓	53 200 ✓* operation one part correct

3

1.2.2 Calculate: Profit or loss on disposal of the vehicle

WORKINGS	ANSWER
$144\ 000 - 90\ 000 = 54\ 000 \times [20\% \times 8/12]$ $144\ 000 \checkmark - (90\ 000 \checkmark + 7\ 200 \checkmark \checkmark) - 35\ 000 \checkmark$ $97\ 200 \text{ three marks}$ $144\ 000 - 90\ 000 - 7\ 200 - 35\ 000$	11 800 ✓ operation one part correct

6

Calculate: Total depreciation for the year

WORKINGS	ANSWER
Vehicles Asset disposal see above 7 200 ✓ Old $(420\ 000 + 7\ 200 - 97\ 200) \text{ OR } 420\ 000 - 90\ 000$ $1\ 420\ 000 \checkmark - 330\ 000 \checkmark \checkmark \times 20/100 = 218\ 000 \checkmark$ $1\ 090\ 000 \text{ two marks}$ 225 200 five marks	275 900 ✓ operation one part correct for vehicles + equipment
Equipment New 62 000 x 10/100 x 6/12 3 100 ✓ ✓ Old 476 000 x 10/100 47 600 ✓ 50 700 three marks	

9

1.2.3 Statement of Comprehensive Income for the year ended 29 February 2024

Sales (9 600 000 – 200 000 x 1,5 + 200 000 x 0,75) 14 100 000 ✓✓ + 150 000 ✓✓	14 250 000 ✓*
Cost of sales	(9 600 000)
Gross profit operation 6	4 650 000 ✓
Other income operation	519 780 ✓
Commission income	265 500
Rent income (259 500 ✓ + 13 500 ✓ – 21 000 ✓✓) OR 259 500 + 13 500 x 12/13	252 000 ✓*
Provision for bad debts adjustment (19 888 – 17 608)	2 280 ✓✓*
Gross operating income 9	5 169 780 ✓
Operating expenses operation	(3 554 780) ✓
Salaries and wages	1 551 100
Employers' contribution	73 900
Audit fees (166 600 ✓ + 29 400 ✓) OR (166 600 / 85 * 100)	196 000 ✓*
Consumable stores	77 400 ✓
Repairs (53 100 + 13 500)	66 600 ✓✓*
Directors' fees (1 056 000 ✓ – 33 000 ✓✓) 1 056 000 x 31/32	1 023 000 ✓*
Bad debts (22 800 ✓ + 1 340 ✓✓)	24 140 ✓*
Sundry expenses	247 740 ✓
Depreciation see 1.2.2	275 900 ✓
Trading stock deficit [1 253 000 ✓ – (1 192 600 ✓ + 53 200 ✓)] 1 245 800 two marks 1.2.1	7 200 ✓*
Loss on sale of asset * could be a profit see 1.2.2	11 800 ✓
Operating profit GOI – OE 23	1 615 000 ✓
Interest income balancing figure	36 500 ✓
Profit before interest expense	1 651 500 ✓
Interest expense	(135 900)
Net profit before tax NPAT + Inc Tax	1 515 600
Income tax (450 000 + 4 800)	(454 800) ✓✓
Net profit after tax * operation, one part correct 4	1 060 800

42

– 1 for foreign items (max -2) for misplaced items mark the workings

TOTAL MARKS

60

QUESTION 2**2.1 Note for Ordinary Share Capital on 29 February 2024**

600 000	Ordinary shares at the beginning	6 000 000 ✓
200 000	New shares issued balancing figure	2 400 000 ✓
(50 000) ✓	Repurchased 50 000 shares at R10,50 ✓	(525 000) ✓ one part correct
750 000 ✓	Shares at the end of the year	7 875 000

6

2.2 Cash generated from Operations

Net profit before tax	
Depreciation	
Interest expense	
Profit before changes in working capital	
Net change in working capital	
Increase in inventories	(83 300)
Decrease in receivables $\frac{195\ 300 + 14\ 700}{(372\ 000)✓ - 210\ 000}✓✓$	162 000 ✓*
Decrease in payables $(455\ 000 - 352\ 100)$	(102 900) ✓✓
Cash generated from operations	

6

2.3.1 CASH FLOW FROM OPERATING ACTIVITIES

Cash generated from operations	
Interest paid	
Income tax paid 29 500✓ + 442 500✓✓ + 31 500✓ Be aware of signs reversed, use of brackets or ledger account formats Final must be a negative	(503 500)* ✓ one part correct
Dividends paid 191 500✓ + 162 000✓ Be aware of signs reversed, use of brackets or ledger account formats Final must be a negative	(353 500)* ✓ one part correct

8

2.3.2	CASH FLOW FROM FINANCING ACTIVITIES	6 119 840 <input checked="" type="checkbox"/> * one part correct	<table border="1" style="width: 100px; height: 100px;"> <tr><td style="text-align: center;">8</td></tr> </table>	8
	8			
	Shares issues see 2.1	2 400 000 <input checked="" type="checkbox"/> *		
	Buy back of shares one mark two marks (525 000 ✓ + 85 000 ✓✓) OR (50 000 x R12,20)	(610 000) <input checked="" type="checkbox"/> *		
Increase in loan (6 785 840 – 2 456 000)	4 329 840 ✓✓			

2.3.3	NET CHANGE IN CASH AND CASH EQUIVALENT	113 000 <input checked="" type="checkbox"/> * one part correct	<table border="1" style="width: 100px; height: 100px;"> <tr><td style="text-align: center;">4</td></tr> </table>	4
	4			
	Cash (opening balance) (-113 200 + 35 000)	(78 200) ✓✓		
Cash (closing balance)	34 800 ✓			

2.4.1	Calculate the following financial indicators on 29 February 2024: Debt: Equity ratio		<table border="1" style="width: 100px; height: 100px;"> <tr><td style="text-align: center;">3</td></tr> </table>	3
	3			
	WORKINGS	ANSWER		
6 785 840 ✓ : 8 482 300 ✓	0,8:1 <input checked="" type="checkbox"/> * one part correct;			

2.4.2	% Return on average Shareholders' Equity		<table border="1" style="width: 100px; height: 100px;"> <tr><td style="text-align: center;">5</td></tr> </table>	5
	5			
	WORKINGS	ANSWER		
$\frac{1\ 032\ 500\ \checkmark}{\frac{1}{2}\checkmark (6\ 140\ 000\checkmark + 8\ 482\ 300\checkmark)} \times \frac{100^*}{1}$ <div style="display: flex; justify-content: space-around; font-size: small;"> 14 622 300 two marks 7 311 150 three marks </div>	14,1% <input checked="" type="checkbox"/> * one part correct			

TOTAL MARKS
40

QUESTION 3

3.1

The company's total sales increased from 2023 to 2024 and the operating activities have been better controlled in 2024. Quote TWO financial indicators, which indicate better control over operating activities.

TWO financial Indicators ✓ ✓ figures ✓ ✓

- % operating expenses on sales decreased/improved from 22,2% to 18,3% / by 3.9 percentage points / 17,6%
- % operating profit on sales increased/improved from 15,5% to 21,1% / 5.6 percentage points / 36,1%
- % net profit on sales increased/improved from 13,9% to 17,7% / 3.8 percentage points / 27,3%

4

Quote and explain ONE relevant indicator with a figure, which directly contributed to the increase in sales.

Financial indicator ✓ comparative figure ✓

- Mark-up % achieved decreased from 75% to 55% by 20%. Reducing the markup resulted in goods being cheaper; attracted more customers and the sales increase

2

3.2

Identify TWO financial indicators, which indicate a decline in the liquidity of the company.

TWO financial indicators ✓ ✓ figures ✓ ✓

Current ratio – increased from 2,3: 1 to 4,6: 1 / by 2,3: 1/ double
Stock holding period – increased from 62 days to 96 days / by 34 days

4

3.3

The directors decided to increase the loan at the beginning of 2023. Explain why you agree with their decision. Quote TWO financial indicators with trends.

Financial indicators ✓ ✓ Figures with trends ✓ ✓

Explanation for risk ✓✓ Explanation for gearing (compared to interest rate) ✓✓

- Debt-equity ratio increased from 0,2:1 to 0,4:1 / by 0,2:1
- % return on total capital employed increased / improved from 10,5% to 12% / by 1,5%

Explanation for risk:

- Although the debt-equity ratio increased, the company is still at low risk / do not rely too much on borrowed capital.

Explanation for gearing:

- The company is positively geared / ROTCE of 12% is higher than the interest rate of 10% / making effective use of loans to generate profits.

8

3.4 Some shareholders buy shares in companies as a short-term investment while others do it as a long-term investment.

Explain how the change in the dividend pay-out policy affected the investment choices of each type of shareholder. Provide comparative figures.	
Short-term shareholders	<p>A drop in the DPR from 80% to 40% will not be welcomed by short-term investors, retaining 60% of EPS. ✓</p> <p>Explanation ✓✓ part marks for incomplete / partial / responses</p> <ul style="list-style-type: none"> • Short-term investors will view this as an opportunity lost to receive higher dividends as directors decided to retain 60% of EPS. • They invest in the short term to receive high returns, as achieved in 2023 when the pay-out rate was 80%. • They have no interest in the long-term goals of the business or future expansions, as they buy and sell shares based on market trends, to get higher returns. • They are likely to sell their shares, and invest in other companies that offer higher dividends.
Long-term shareholders	<p>Long-term investors will be satisfied with a change in the DPR from 80% to 40% if directors explain their intentions ✓</p> <p>Explanation ✓✓ part marks for incomplete / partial / responses</p> <ul style="list-style-type: none"> • Retaining 60% of EPS may be acceptable to long-term investors (compared to 20% in 2023), as it indicates that directors are as being responsible for ensuring the sustainability of the company. • They may be happy with the explanations of future expansion / addressing cash flow problems / improved marketing / purchasing assets, as this will contribute to better profits in the future. • They are considered loyal investors who would expect their investment in the company to grow over time.

3.5 Shareholders are divided on the price paid for the re-purchase of shares.

<p>Provide ONE point in support of and ONE point against the price paid for shares. Quote ONE financial indicator with figures for each point.</p>	
<p>In support of the price paid</p> <p>Reason ✓</p> <p>making reference to the relevant figures ✓</p>	<p>Compare repurchase price to the market value</p> <ul style="list-style-type: none"> • Directors based their price of 1420c on the upward trend of the market price which increased (from 1050 cents) to 1320 cents / by 270 cents • Although they paid 100c (R1) more than the market price, the upward trend in market price (by 270c) may be considered fair as this shareholder may get more in the future, if the trend is maintained./ Urgently needed to get rid of a disgruntled shareholder.
<p>Against the price paid</p> <p>Reason ✓</p> <p>making reference to the relevant figures ✓</p>	<p>Compare repurchase price to the market value</p> <ul style="list-style-type: none"> • Directors may have been irresponsible to pay 1 420 cents or 100 cents more than the market price of 1 320 cents. • The company has spent more, which could have consequences on the cash resources of the business.

4

3.6 The directors of the company decided to issue an additional 50 000 shares in the new financial year.

<p>Calculate the minimum number of shares K. Jardim must buy to become a majority shareholder.</p>	
<p>Accept 50% + 1 or 50% + 100 or 51%</p>	
$\begin{matrix} 700\,000 \times 50\% \\ 350\,000 + 1 \end{matrix}$	$\begin{matrix} 650\,000 \times 48\% \\ 312\,000 \end{matrix}$
$350\,001 \checkmark\checkmark$	$- 312\,000 \checkmark\checkmark = 38\,001 \text{ shares } \checkmark^*$
<p>OR</p> $350\,000 + 100$	$350\,100 - 312\,000 = 38\,100 \text{ shares}$ <p style="text-align: center;">two marks two marks one part mark</p>
<p>OR</p> $700\,000 \times 51\%$	$357\,000 - 312\,000 = 45\,000 \text{ shares}$ <p style="text-align: center;">two marks two marks one part mark</p>
<p>Mention ONE point why K. Jardim wants to become a majority shareholder.</p>	
<p>Any ONE valid points ✓✓ part marks for incomplete / partial / unclear responses</p>	
<ul style="list-style-type: none"> • To influence strategic decisions / appointment of directors. • To influence business operations. • Sees potential in the company and wants to be part of the future growth. 	

5

2

TOTAL MARKS
35

QUESTION 4**4.1 Give TWO examples of audit evidence**

Any TWO separate valid examples ✓✓ ✓✓ T Part-mark for partial answers

- Source documents (provided by external organisations, verify e.g. statement of account).
- Records such as asset registers, stock records, bank statements, etc.
- Policies and procedures of the company.
- Check the internal controls and the efficiency of the internal audit.
- Report of an audit committee that assesses the internal and external audit processes / internal auditors report on ensuring internal controls.
- Any valid proof of entries in the books or financial statements concerning cash.

4

4.2 Explain why an independent auditor would want to see evidence that the following GAAP principles were applied:

Matching ✓✓

To see if incomes and expenses are recorded in the correct financial period. E.g. prepaid or deferred amounts must be considered for accurate figures.
Calculation of nett profit (only one mark)

Going concern ✓✓

Both the Income Statement and Balance Sheet are prepared as if there is no intention to stop or limit the operation of the business. E.g. declare significant amounts of stock or fixed assets purchased towards the end of the year.

4

4.3 Refer to paragraph 3. Explain why you would be satisfied with this audit report opinion. Provide TWO reasons

TWO reasons ✓✓ ✓✓

- The auditors have stated that they are satisfied with all aspects of the financial reporting by the directors.
- This is a standard reporting – (fairly presented).
- No negative comment was reported. / No qualifications mentioned.
- The auditors have not stated that the report is qualified or withheld.
- The auditor's report is unqualified.

4

4.4 To whom is an audit report addressed? Give a reason for your answer.

Shareholders ✓

Reason: ✓✓

Independent auditors are appointed by the shareholders/the shareholders are the owners of the company.

3

TOTAL MARKS

15