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**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**SEPTEMBER 2021**

**ACCOUNTING P1  
MARKING GUIDELINE**

**MARKS: 150**

**MARKING PRINCIPLES:**

1. Unless otherwise indicated 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. Full marks for correct answer. If the 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 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.
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.
9. 'Operation' means 'Check operation'. 'One part correct' means 'Operation and one part correct'.  
*Note:* Check operation must be +, –, x or ÷ or as per marking guidelines.
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. Note that one comment could contain different aspects.
13. Codes: f = foreign item; p = placement/presentation.

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This marking guideline consists of 9 pages.

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## QUESTION 1

1.1

|       |                           |
|-------|---------------------------|
| 1.1.1 | Remuneration committee ✓  |
| 1.1.2 | Non-executive directors ✓ |
| 1.1.3 | Executive directors ✓     |

3

## 1.2 AUDIT REPORT

1.2.1 **Identify the type of report and explain why this type of report was issued by the auditor.**

ONE valid comment ✓✓

part marks for incomplete / unclear answers  
complete answer must mention Qualified Report

The company received a Qualified report because

- The financial statements were fairly presented except for one issue regarding the donation of R1,2 m OR
- A specific item (donation) could not be verified OR
- There was no evidence / documents to verify the donations of R1,2 m OR
- Proper procedures were not followed with regards to the donation

2

1.2.2 **Explain TWO points why shareholders will be concerned about the company receiving such a report.**

TWO valid points ✓✓ ✓✓ part marks for partial / incomplete / unclear responses

- There is a weakness in internal controls – possible mismanagement / fraud
- This will impact on the image of the business, and on share price (demand) / on share price / returns earned / dividends earned by shareholders
- Potential investors would not be interested to buy shares / existing shareholders may want to sell their shares
- Directors appointed by them are not reliable – lose confidence in them
- Significant information is not being openly discussed (transparency)
- No proof that the donations reached the intended schools / fraud

4

1.2.3 **The CEO requested that the auditor classifies this donation as a “sundry expense” and adjust the audit opinion accordingly. Provide TWO reasons why the auditor would not agree with this suggestion.**

TWO reasons ✓✓ ✓✓ part marks for partial / incomplete / unclear responses

- He belongs to a professional body and is bound by a code of conduct
- This request is unethical / fraudulent behaviour / misleading shareholders
- He does not have an interest in the company, should be unbiased
- He is concerned about his own reputation and prospects for future assignments;
- The auditor has to be independent to issue a reliable opinion / not be influenced by directors (who are responsible to drawing up statements)
- There should be an investigation into possible criminal activity / should not be any cover-up / culprits must face legal consequences.

4

**1.2.4 Apart from the issues mentioned above, explain why the company would be accused of poor corporate governance.**

ONE valid point ✓✓ part marks for partial / incomplete / unclear responses

- The CEO should place the interest of the company and the shareholders' first
- He must exercise ethical behaviour in dealing with company matters;
- He should take responsibility for duties assigned to him and account for his actions; not be devious and try to cover up (transparency)
- He should encourage the participation of all role players in decision-making

|   |
|---|
| 2 |
|---|

|       |    |  |
|-------|----|--|
| TOTAL | 15 |  |
|-------|----|--|

## QUESTION 2

## 2.1 Statement of Comprehensive Income on 28 February 2021

|  |                  |   |           |
|--|------------------|---|-----------|
| <b>Sales</b> 5 808 000 ✓ – 28 800 ✓              |                  | 5 779 200 <input checked="" type="checkbox"/> *                                     |           |
| <b>Cost of sales</b>                             | Sales x 100/160  | (3 612 000) <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> |           |
| <b>Gross profit</b>                              | S – COS          | 2 167 200 <input checked="" type="checkbox"/>                                       | 6         |
| <b>Other income</b>                              | operation        | 132 800 <input checked="" type="checkbox"/>   |           |
| <b>Discount received</b>                         |                  | <b>14 000</b>   |           |
| Rent income 139 500 ✓ – 20 700 ✓✓                |                  | 118 800 <input checked="" type="checkbox"/> *                                       |           |
|  |                  |   |           |
| <b>Gross income</b>                              | GP + OI          | 2 300 000 <input checked="" type="checkbox"/>                                       | 6         |
| <b>Operating expenses</b>                        | GI – OP          | (1 197 000) <input checked="" type="checkbox"/>                                     |           |
| <b>Depreciation</b>                              |                  | <b>86 010</b>   |           |
| Insurance 37 200 ✓ – 1 200 ✓                     |                  | 36 000 ✓  |           |
| Loss due to theft 30 x 175                       |                  | 5 250 ✓✓  |           |
| Directors fees 450 400 ✓ + 11 600 ✓✓             |                  | 462 000 <input checked="" type="checkbox"/> *                                       |           |
| Salaries and wages 492 000✓ + 12 400✓✓ + 1 240 ✓ |                  | 506 240 <input checked="" type="checkbox"/> *                                       |           |
| Audit fees                                       |                  | 80 500 ✓  |           |
|  |                  |   |           |
| <b>Sundry expenses</b>                           | balancing figure | 21 000 <input checked="" type="checkbox"/>  |           |
| <b>Operating profit</b>                          | PbIE – IIInc     | 1 103 000 <input checked="" type="checkbox"/>                                       | 18        |
| <b>Interest income</b>                           |                  | <b>23 400</b>   |           |
| <b>Profit before interest expense</b>            | NPbT + IE        | 1 126 400 <input checked="" type="checkbox"/>                                       |           |
| Interest expense 1 082 400 – 955 000             |                  | (127 400) ✓ <input checked="" type="checkbox"/> *                                   |           |
| <b>Net profit before income tax</b>              | NPaT + IT        | 999 000 <input checked="" type="checkbox"/>   |           |
| <b>Income tax</b>                                | 689 310 x 31/69  | (309 690) ✓✓  |           |
| <b>Net profit after tax</b> <b>6</b>             |                  | <b>689 310</b>  | <b>36</b> |

– 1 foreign items (max -2)

\* one part correct

## 2.2 RETAINED INCOME

|                                    |                      |                |     |
|------------------------------------|----------------------|----------------|-----|
| <b>Balance on 1 March 2020</b>     | 204 040 + 105 000    | 309 040        | ✓✓* |
| <b>Net profit after tax</b>        |                      | <b>689 310</b> |     |
| Shares repurchased 75 000 x 1,40   |                      | (105 000)      | ✓✓  |
| <b>Ordinary share dividends</b>    |                      | (297 350)      |     |
| <b>Interim dividends</b>           |                      | <b>126 000</b> |     |
| Final dividends 745 000 x 23 cents |                      | 171 350        | ✓✓  |
| <b>Balance on 28 February 2021</b> | subtract SBB and OSD | 596 000        | ✓   |

7

\* one part correct

## 2.3 EQUITIES AND LIABILITIES SECTION

|    |  |                  |           |     |
|----|--|------------------|-----------|-----|
|    | <b>SHAREHOLDERS EQUITY</b>                         | 8,60 x 745 000   | 6 407 000 | ✓✓  |
|    | <b>Ordinary share capital</b>                      | balancing figure | 5 811 000 | ✓   |
| 4  | <b>Retained income</b>                             | see 2.2          | 596 000   | ✓   |
|    | <b>Non-current liabilities</b>                     |                  | 974 160   |     |
| 2  | Loan: Luther Bank 1 082 400 – 108 240              |                  | 974 160   | ✓✓* |
|    | <b>Current liabilities</b>                         | operation        | 697 840   | ✓   |
|    | <b>Trade and other payables</b>                    |                  | 404 060   | ✓*  |
|    | 368 470 + 10 350 ✓ + 11 600 ✓ + 12 400 ✓ + 1 240 ✓ |                  |           |     |
|    | Shareholders for dividends                         | see 2.2          | 171 350   | ✓   |
|    | SARS: Income tax 309 690 – 295 500                 |                  | 14 190    | ✓✓* |
|    | Current portion of loan                            | see NCL          | 108 240   | ✓   |
| 11 | <b>TOTAL EQUITY AND LIABILITIES</b>                |                  | 8 079 000 | ✓   |

17

\* one part correct

|       |    |  |
|-------|----|--|
| TOTAL | 60 |  |
|-------|----|--|

**QUESTION 3****3.1 Calculate the following for the Cash Flow Statement on 31 August 2021:****3.1.1 Change in payables (indicate inflow or outflow of cash)**

| WORKINGS   | ANSWER   |
|--|--|
| $(390\,800 + 6\,200)$<br>$397\,000 \checkmark - 215\,600 \checkmark$ | $181\,400 \checkmark$<br><br>Inflow $\checkmark$ |

4

**3.1.2 Income tax paid**

| WORKINGS   | ANSWER                                    |
|--|---|
| $- 29\,300 + 428\,800 - 33\,100$<br>$\checkmark \quad \checkmark \quad \checkmark$<br><br>Accept alternative presentation for calculations | $366\,400 \checkmark$<br>one part correct |

4

**3.1.3 Dividends paid**

| WORKINGS   | ANSWER                                    |
|--|---|
| $2\,000\,000 \times 12 \text{ cents}$<br>$(528\,000 - 240\,000)$<br>$208\,000 \checkmark + 288\,000 \checkmark \checkmark$<br><br>Accept alternative presentation for calculations | $496\,000 \checkmark$<br>one part correct |

4

**3.1.4 Proceeds from shares issued**

| WORKINGS  | ANSWER                                       |
|---|--|
| $6\,840\,000 / 1\,900\,000$<br>$(100\,000 \times 3,60)$<br>$6\,840\,000 \checkmark + 360\,000 \checkmark \checkmark - 5\,440\,000 \checkmark$<br><br>Accept alternative presentation for calculations | $1\,760\,000 \checkmark$<br>one part correct |

5

**3.1.5 Funds used to repurchase shares**

| WORKINGS  | ANSWER                                    |
|---|---|
| $140\,000 \checkmark + 360\,000 \checkmark$<br><br>OR $100\,000 \times R5$<br>$(1,40 + 3,60)$ | $500\,000 \checkmark$<br>one part correct |

3

**3.1.6 Increase in loan**

| WORKINGS  | ANSWER                                    |
|---|---|
| $99\,360 \times 100/12$<br>$828\,000 \checkmark \checkmark - 600\,000 \checkmark$ | $228\,000 \checkmark$<br>one part correct |

4

3.2

|  |             |
|--|-------------|
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                           | 267 800 ✓   |
| <b>Cash and cash equivalents (opening balance)</b><br>– 109 800 + 10 000 | (99 800) ✓✓ |
| <b>Cash and cash equivalents (closing balance)</b>                       | 168 000 ✓   |

4

3.3

3.3.1

| <b>Calculate: Acid-test ratio</b>            |  |
|--|--|
| <b>WORKINGS</b>                              | <b>ANSWER</b>  |
| (278 000 + 168 000)<br>446 000 ✓ : 670 100 ✓ | 0,7 : 1 ✓<br>one part correct<br><br>Accept 0,67 : 1 |

3

3.3.2

| <b>Calculate: % return on average shareholders' equity</b>  |                             |
|---|-----------------------------|
| <b>WORKINGS</b>   | <b>ANSWER</b>               |
| $\frac{911\,200\,✓}{\frac{1}{2}\,✓\,(5\,650\,000\,✓ + 7\,293\,200\,✓)} \times 100$ <p>6 471 600 two marks</p> | 14,1% ✓<br>one part correct |

5

3.3.3

| <b>Calculate: Dividend pay-out rate (%)</b>   |                             |
|---|-----------------------------|
| <b>WORKINGS</b>   | <b>ANSWER</b>               |
| $\frac{12c + 18c}{30\,cents\,✓✓} \times 100$ <p>53 cents ✓      Or      528 000 / 911 200 x 100 = 57,9%</p> | 56,7% ✓<br>one part correct |

4

TOTAL

40



## QUESTION 4

4.1

|       |                |
|-------|----------------|
| 4.1.1 | Limited ✓      |
| 4.1.2 | Materiality ✓  |
| 4.1.3 | Market price ✓ |

3

4.2.1

**Identify the company that has the most efficient liquidity position. Quote and explain THREE financial indicators to support your choice.**

**COMPANY:** BCM Ltd ✓

Financial indicators (with figures) ✓ ✓ ✓ Explanation ✓✓

Current ratio is 1,8 : 1

Acid test ratio is 1,1 : 1

Average debtors' collection period is 27 days

The business has enough liquid assets to meet current debt obligations

Collection from debtor is also efficient (within the credit terms)

Do not appear to carry a lot of stock; no idle stock; stock is being sold regularly

6

4.2.2

**A director of Green Ltd feels that the company should pay back the loan as soon as possible. Explain what you would say to him. Quote TWO financial indicators (with figures) to motivate your opinion.**

Financial indicators (with figures) ✓ ✓

Explanation ✓✓ comparison with interest rate ✓✓

Debt/equity ratio is 0,6: 1 – business tends towards high gearing / making extensive use of loans (borrowed capital)

ROTC is 14,7% - indication that CE is use productively to generate a good profit/ business is positively geared – interest on loan is 13%

There is no urgency to repay the loan.

6

4.2.3

**Comment on the dividend pay-out rates of Green Ltd and Plaza Ltd, and provide a reason for the directors of each company deciding on those pay-out rates. Quote figures.**

Financial indicators (with figures) ✓ ✓

Explanation for Green Ltd ✓✓ Explanation for Plaza Ltd ✓✓

Green Ltd paid out 51,6% of the EPS to shareholders and retained 48,4% This business is focusing on growth and long term sustainability.

Plaza Ltd.'s dividend pay-out rate is 103% which means they used part of retained income to pay dividends (above the EPS). This may be considered to be a poor decision as the company is not doing well (looking at the returns) and they do not have plans for growth; they appear to be appeasing the shareholders by giving them high dividends.

6

**4.2.4 Shareholding of Sandi Charley:**

Sandi Charley is a shareholder in two of these companies. She has R800 000 and intends to invest in new shares.

All three companies have decided to issue additional shares on 1 March 2021, at the existing market price on 28 February 2021.

**Calculate Sandi's % shareholding in Green Ltd and comment on your findings.**

$$900\,000 / 1\,700\,000 = 52,9\% \checkmark\checkmark$$

**COMMENT:**  $\checkmark\checkmark$

Sandi owns more than 50% of the shares; has a controlling interest; is the majority shareholder / decision maker

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**Calculate the minimum number of shares she should buy in Green Ltd and the amount she would have to spend.**

$$(1\,700\,000 + 250\,000)$$

$$1\,950\,000 / 2$$

$$975\,000 \checkmark\checkmark - 900\,000 \checkmark = 75\,000 + 1 \text{ (or } + 100) \checkmark \text{ one part correct}$$

$$75\,001 \times 5,20 \checkmark = R390\,005,20 \checkmark \text{ or } 75\,100 \times 5,20 = R390\,520$$

one part correct

|   |
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| 6 |

**What advice would you offer Sandi regarding her intentions to purchase shares in Plaza Ltd? Provide TWO points. Quote figures (financial indicators) to support your advice.**

TWO valid points  $\checkmark\checkmark \checkmark\checkmark$

- A lower market price (532) than the NAV (566) suggest that there is a drop in demand for shares in this company
- The dividends may be high (dividend pay-out rate of 103% / 66 cents) but this is at the expense of the company concentrating on future profitability
- The business is also very highly geared (debt equity 0,7 : 1), which is not being effectively used (negatively geared)
- The ROSHE at 5,3% is lower than safer investments such as fixed deposits
- The business do not have enough liquid assets to meet the current debt obligation (acid test ratio 0.4 : 1)

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|-------|----|--|
| TOTAL | 35 |  |
|-------|----|--|