



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING P1

MARKING GUIDELINES

2021

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. 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. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer.
10. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
11. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
12. 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 ☒.
13. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
14. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 9 pages.

QUESTION 1

1.1

1.1.1	Limited	✓
1.1.2	Payables	✓
1.1.3	Materiality	✓

3

1.2

NO.	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT	A	O	L
1.2.1	Shareholders for dividends / <u>Sh</u> ✓	Bank ✓	136 000	–	0	– ✓*
1.2.2	Bank ✓	Ordinary share capital / <u>OSC</u> ✓	450 000	+	+	0 ✓*
1.2.3	Income <u>tax</u> ✓	<u>SARS</u> : Income tax ✓	338 200	0	–	+ ✓*

9

1.3.1

Identify the type of audit report that the company received. Give a reason for your answer.

TYPE OF REPORT

accept "clean" or "good" report; mark *type* and *reason* independently

Unqualified ✓

REASON

Any valid reason ✓ accept short, incomplete statements if message is clear

- The audit report indicates 'fairly present'.
- The auditors did not identify any problems.

2

1.3.2

Explain why the auditor referred to pages 8 to 23

Any suitable explanation ✓✓ part mark for unclear/incomplete/partial answers

- The auditors are responsible only for reports presented on these pages
- The audited financial reports are found on these pages of the full report given to the shareholders.

2

Explain why the auditor referred to International Financial Reporting Standards and the Companies Act of South Africa

Any suitable explanation ✓✓ part mark for unclear/incomplete/partial answers

The audit and the financial records of the company are in compliance with both local and international requirements / it affects presentation of financial statements.

2

1.3.3

Name any TWO items of audit evidence that the auditors may have used.

Any TWO examples of evidence ✓✓ individual examples of documents is one point

Stock sheets / fixed assets register / source documents including EFT records / bank; debtors; creditors statements / signed contracts / employee profiles / physical inspection of assets / journals

2

TOTAL MARKS

20

QUESTION 2

2.1	Calculate the value of the closing stock on 28 February 2021 using the weighted-average method.
WORKINGS	ANSWER
$\frac{11\,005\,000 + 8\,572\,000}{4\,000 + 11\,500} \times 2\,400$ <p>11 005 000 two marks 2 433 000 ✓ + 8 572 000 ✓ 4 000 ✓ + 11 500 ✓ 15 500 two marks 11 005 000 / 15 500 = 710 four marks Mark numerator and denominator, as such</p>	<p>1 704 000 ✓ one part correct and x 2 400</p>

5

2.2 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2021

# inspect: the amount calculated is awarded two marks, the balancing amount is awarded two method marks	
Sales GP x 260/160 OR	24 182 600 ✓✓#
Cost of sales GP x 100/160 # If (f) used: 2 433 000 + 8 572 000 – 1 704 000 see 2.1	(9 301 000) ✓✓
Gross profit 4	14 881 600
Other income operation, one part correct	203 400 ✓
Bad debts recovered	5 800
Rent income (208 250 – 17 000 ✓✓) adjustment amt subtracted	191 250 ✓
Provision for bad debt adjustment (9 800 – 9 350)*	450 ✓✓
Profit on sale of asset (88 400 – 82 500) CV subtracted	5 900 ✓✓
Gross operating income 9 GP + OI	15 085 000 ✓
Operating expenses operation; inspect	(13 065 600) ✓
Directors' fees	4 836 000
Audit fees	497 200
Advertising	342 400
Sundry expenses	88 000
Trading stock deficit 2 000 000 ✓ - 1 704 000 ✓ see 2.1 # could be surplus 34 000 two marks 28 300 two marks	296 000 ✓*
Salaries and wages (6 425 000 + 23 800 ✓ + 10 200 ✓ + 4 500 ✓)	6 463 500 ✓*
Depreciation (41 250 + 337 000 ✓✓ + 90 500 ✓)	468 750 ✓*
Packing material	39 700 ✓✓
Bad debts 28 800 one mark + 5 250 one mark	34 050 ✓✓
Operating profit 17 GOI – OE	2 019 400 ✓
Interest income balancing figure; could be a negative	57 000 ✓
Profit before interest expense NPbT + IE	2 076 400 ✓
Interest expense 2 150 000 – 710 400 – 1 652 000 OR 1 652 000 – 1 439 600	(212 400) ✓✓*
Net profit before tax NPAT + IT	1 864 000 ✓
Income tax NPAT x 28/72	(521 920) ✓✓
Net profit after tax 7	1 342 080

37

-1 foreign items (-1 max); misplaced items, mark workings only; ignore brackets but check operation when awarding method mark

* one part correct

2.3 RETAINED INCOME NOTE

Balance at beginning of financial year	2 978 000
Net profit after tax	1 342 080 ✓
Buy back of shares Ignore brackets	(62 500) ✓✓
Dividends operation Ignore brackets	(1 900 500) ✓
Interim	672 000 ✓
Final (3 412 500 x R0,36) one part correct	1 228 500 ✓✓
Balance at end of financial year one part correct; share buy-back and dividends must be subtracted	2 357 080 ✓

8

TOTAL MARKS

50

QUESTION 3

* x 100/1 does not constitute 'one part correct'

3.1.1	Calculate: Debt-equity ratio				
	<table border="1"> <thead> <tr> <th>WORKINGS</th><th>ANSWER</th></tr> </thead> <tbody> <tr> <td data-bbox="223 324 1069 492"> $2\,450\,000 \checkmark : 10\,387\,600 \checkmark$ $(7\,280\,000 + 3\,107\,600)$ one mark </td><td data-bbox="1069 324 1361 492"> $0,2 : 1 \checkmark$ one part correct; must be shown as x : 1 </td></tr> </tbody> </table>	WORKINGS	ANSWER	$2\,450\,000 \checkmark : 10\,387\,600 \checkmark$ $(7\,280\,000 + 3\,107\,600)$ one mark	$0,2 : 1 \checkmark$ one part correct; must be shown as x : 1
WORKINGS	ANSWER				
$2\,450\,000 \checkmark : 10\,387\,600 \checkmark$ $(7\,280\,000 + 3\,107\,600)$ one mark	$0,2 : 1 \checkmark$ one part correct; must be shown as x : 1				

3

3.1.2	Calculate: Net asset value per share				
	<table border="1"> <thead> <tr> <th>WORKINGS</th><th>ANSWER</th></tr> </thead> <tbody> <tr> <td data-bbox="223 602 1069 828"> $\frac{10\,387\,600 \checkmark}{800\,000 \checkmark} \times 100 \text{ cents}^*$ $(700\,000 + 120\,000 - 20\,000)$ one mark </td><td data-bbox="1069 602 1361 828"> $1\,298,5 \text{ cents} \checkmark$ one part correct accept 1298c / 1299c / $R12,98 / R12,99$ </td></tr> </tbody> </table>	WORKINGS	ANSWER	$\frac{10\,387\,600 \checkmark}{800\,000 \checkmark} \times 100 \text{ cents}^*$ $(700\,000 + 120\,000 - 20\,000)$ one mark	$1\,298,5 \text{ cents} \checkmark$ one part correct accept 1298c / 1299c / $R12,98 / R12,99$
WORKINGS	ANSWER				
$\frac{10\,387\,600 \checkmark}{800\,000 \checkmark} \times 100 \text{ cents}^*$ $(700\,000 + 120\,000 - 20\,000)$ one mark	$1\,298,5 \text{ cents} \checkmark$ one part correct accept 1298c / 1299c / $R12,98 / R12,99$				

3

3.1.3	Calculate: Dividend pay-out rate				
	<table border="1"> <thead> <tr> <th>WORKINGS</th><th>ANSWER</th></tr> </thead> <tbody> <tr> <td data-bbox="223 947 1069 1158"> $\frac{45 \checkmark + 32 \checkmark}{350 \checkmark} \times \frac{100^*}{1}$ OR $\frac{631\,400}{2\,870\,000} \times 100$ (369 000 + 262 400) one mark two marks one mark </td><td data-bbox="1069 947 1361 1158"> $22\% \checkmark$ one part correct shown as a % </td></tr> </tbody> </table>	WORKINGS	ANSWER	$\frac{45 \checkmark + 32 \checkmark}{350 \checkmark} \times \frac{100^*}{1}$ OR $\frac{631\,400}{2\,870\,000} \times 100$ (369 000 + 262 400) one mark two marks one mark	$22\% \checkmark$ one part correct shown as a %
WORKINGS	ANSWER				
$\frac{45 \checkmark + 32 \checkmark}{350 \checkmark} \times \frac{100^*}{1}$ OR $\frac{631\,400}{2\,870\,000} \times 100$ (369 000 + 262 400) one mark two marks one mark	$22\% \checkmark$ one part correct shown as a %				

4

3.1.4	Calculate: Return on average shareholders' equity (ROSHE)				
	<table border="1"> <thead> <tr> <th>WORKINGS</th><th>ANSWER</th></tr> </thead> <tbody> <tr> <td data-bbox="223 1267 1069 1476"> $\frac{2\,870\,000 \checkmark}{\frac{1}{2} \checkmark (10\,387\,600 + 6\,910\,000) \checkmark} \times \frac{100^*}{1}$ $17\,297\,600$ one mark $8\,648\,800$ two marks </td><td data-bbox="1069 1267 1361 1476"> $33,2\% \checkmark$ one part correct Accept 33% % sign not necessary </td></tr> </tbody> </table>	WORKINGS	ANSWER	$\frac{2\,870\,000 \checkmark}{\frac{1}{2} \checkmark (10\,387\,600 + 6\,910\,000) \checkmark} \times \frac{100^*}{1}$ $17\,297\,600$ one mark $8\,648\,800$ two marks	$33,2\% \checkmark$ one part correct Accept 33% % sign not necessary
WORKINGS	ANSWER				
$\frac{2\,870\,000 \checkmark}{\frac{1}{2} \checkmark (10\,387\,600 + 6\,910\,000) \checkmark} \times \frac{100^*}{1}$ $17\,297\,600$ one mark $8\,648\,800$ two marks	$33,2\% \checkmark$ one part correct Accept 33% % sign not necessary				

4

3.2.1	For the Cash Flow Statement calculate: Change in receivables		
	WORKINGS	ANSWER	Inflow/Outflow
	418 000 – 390 000 <div>ignore workings and brackets:</div>	28 000 ✓✓	Outflow ✓

3

3.2.2

For the Cash Flow Statement calculate: Change in payables		
WORKINGS	ANSWER	Inflow/Outflow
520 000 + 16 000 536 000 – 359 200 ignore workings and brackets	176 800 ✓✓	Inflow ✓

3

3.3.1 Calculate: Taxation paid	
WORKINGS	ANSWER
$1\,085\,000 \checkmark - 124\,000 \checkmark - 354\,000 \checkmark$ OR $-1\,085\,000 + 124\,000 + 354\,000$ <small>Accept ledger format or brackets as workings</small>	$607\,000 \checkmark$ <small>one part correct</small>

4

3.3.2 Calculate: Dividends paid	
WORKINGS	ANSWER
$210\,000 \checkmark + (820\,000 \times 0,45) \checkmark \checkmark + 369\,000 \checkmark \checkmark$ <small>one mark one mark one mark</small> OR $210\,000 + 631\,400 - 262\,400$ <small>see 3.1.3 Accept ledger format or brackets as workings</small>	$579\,000 \checkmark$ <small>one part correct</small>

4

3.3.3 Calculate: Proceeds from sale of fixed assets	
WORKINGS	ANSWER
$8\,865\,000 \checkmark - 1\,360\,000 \checkmark + 785\,000 \checkmark - 8\,878\,000 \checkmark$ <small>one mark one mark one mark one mark</small> OR $8\,878\,000 + 1\,360\,000 - 785\,000 - 8\,865\,000$ <small>Accept ledger format, brackets as workings or fixed asset note format</small>	$588\,000 \checkmark$ <small>one part correct</small>

5

3.3.4 Calculate: Funds used for the repurchase of shares	
WORKINGS	ANSWER
$20\,000 \times R13,65$ <small>one mark</small> OR $182\,000$ <small>one mark</small> $+ 91\,000$ <small>one mark</small> <small>$20\,000 \times 9,10$ $20\,000 \times 4,55$</small>	$273\,000 \checkmark \checkmark$ <small>one part correct</small>

2

TOTAL MARKS	35
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QUESTION 4

4.1

4.1.1	B ✓
4.1.2	C ✓
4.1.3	A ✓

3

4.2 LIBRA LIMITED

4.2.1

Identify TWO other liquidity indicators which also show that the company is likely to have serious liquidity concerns in future. Explain ONE point in EACH case (with figures).


TWO financial indicators (with figures) ✓ ✓	Explanation ✓ ✓
Stockholding period	<ul style="list-style-type: none"> Increased (from 43 days) to 78 days / by 35 days / 81,4% Danger of stock becoming obsolete Cash tied up in stock / stock piling
Average debtors' collection period	<ul style="list-style-type: none"> Increased (from 32,6 days) to 58,9 days / by 26,3 days / 80,1 % Slower collections will negatively affect the cash flow Poor control over collection from debtors

Do not accept creditors payment period

4

4.2.2

Comment on how the increase in the loan affected the risk and gearing in 2021. Quote TWO financial indicators. State ONE point in EACH case (with figures).

Financial indicator ✓ ✓	figures showing trend ✓ ✓	Explanation ✓ ✓
POINT 1	<ul style="list-style-type: none"> Debt/equity ratio increased (from 0,2:1) to 0,7:1 / by 0,5 : 1 Higher financial risk taken by the company. The business is now making use more use of loans 	
POINT 2	<ul style="list-style-type: none"> ROTCE decreased (from 9,1%) to 6,4% / by 2,7% Negatively geared; return is lower than interest on loans (12%) Not making effective use of loans. 	

6

Explain whether the decision to purchase additional property had the desired effect on demand for this product (with figures).

Explanation (not Yes or No) ✓	Figures (showing / implying comparison) ✓ ✓
<ul style="list-style-type: none"> Sales has decreased by R2 574 000 / (from R11 550 000) to R8 976 000 / by 22,3% Decrease in the mark-up% from 75% to 60% did not result in more sales / 15% reduction 	

3

4.2.3

Explain why the public was not interested in buying the new shares issued at R6,00 per share. Quote THREE financial indicators (excluding indicators stated in QUESTION 4.2.2). State ONE point in EACH case (with figures).

Any THREE of: Financial indicator ✓ ✓ ✓ (with figures) ✓ ✓ ✓ Explanation ✓ ✓ ✓

They do not have confidence in the company, as indicated by:

- EPS decreased from 102c (to 54c) by 48c – indicating that the company is experiencing problems to maintain profit levels
- DPS dropped from 90c (to 25c) – shareholders not receiving a reasonable return.
- Drop in the dividend pay-out rate from 88,2% (to 46,3%) is an indication that directors were not concerned about growth, but is making some attempt to rebuilding.
- ROSHE was 5,3% and dropped to 4,9%; still below the interest on fixed deposits (8%)
- R6,00 is not a good deal when compared to the market price of R6,10 (R5,80), especially if they were then prepared to sell the shares at R4,80 (desperate attempt to raise capital)
- NAV (711c), higher than the MP of 610c is an indication of low demand for shares.
- Liquidity issues: current ratio is low (1,1 : 1) and acid test ratio indicated cash flow problems (0,8 : 1); debtors not paying within limits (32 days)
- High mark-up % (75%) and poor control over expenses (32% of sales) will cause customers to go elsewhere; decreasing trend in profits.

9

4.2.4

State TWO different points to justify their opinion. Quote figures or financial indicators.

TWO valid points ✓ ✓ figure ✓ ✓

POINT 1

Compulsory point: comment on directors' fees

- Buys has given himself a 45% increase /
- R900 000 increase is 50% more than fee of other directors /
- Other directors did not receive an increase (maintained at R600 000 each)

POINT 2

Any ONE of: Mention a decrease in profitability as indicated by:

- EPS dropped (from 102c) to 54c (by 48 c);
- ROSHE dropped (from 5,3%) to 4,9%
- ROTCE dropped (from 9,1%) to 6,4%;
- Poor control over expenses, (from 32,6%) to 44% of sales

4

4.2.5

Explain why the other directors were unhappy with the price paid for the shares repurchased from Anton Buys. State TWO points. Quote financial indicators or figures to support EACH point.

Figures ✓ ✓ Explanation ✓ ✓

POINT 1

The shares were repurchased for R4,89 above the Net asset value per share (1200c – 711c) / 69% above NAV / received an inflated price / compromised the cash flow of the business.

POINT 2

The shares repurchase price is R5,90 more than the market price of the shares (1200c – 610c) / this is an unreasonable price as there is no demand for shares.

4

Give a calculation to show whether the repurchase of these shares affected Anton Buys' status as majority shareholder, or not.

WORKINGS

ANSWER

$$\frac{1\,240\,000}{2\,370\,000} \times \frac{100}{1} \text{ OR } \frac{1\,240\,000}{2\,450\,000} \times \frac{100}{1}$$

Mark numerator and denominator, as such; x 100 is not one part correct

52,3%
one part correct:
as a %

accept 50,6%

3

4.2.6

Explain what is meant by *good corporate governance* and explain why it is important to the shareholders.

Explanation ✓✓ **part mark for unclear/incomplete/partial answers**

- Managing the business on sound business and ethical principles;
- Looking after the interest of all role players / **stakeholders** (including the community) by being fair, equitable, transparent.
- **Ensure that the company has proper rules, policies and practices to create long term shareholder value, and are implementing them**

Importance to shareholders ✓ **accept short, incomplete statements if message is clear**

- Impact on the image of the business / goodwill
- Improvement in share price
- potential investors will be attracted
- **confidence in management**

3

Explain a possible reason why Anton Buys says he will vote against the proposal by Excellence Ltd.

ONE point ✓✓ **part mark for unclear/incomplete/partial answers**

- He will lose his majority control on the Board
- He may also lose his CEO status
- He may be investigated for negligence
- He will not be able to manipulate his remuneration in future

2

Explain why you agree with the directors.

ONE valid point ✓✓ **part mark for unclear/incomplete/partial answers**

- He has taken irresponsible decisions
- Enriched himself / selfish gain / act of enriching (45%)

2

Give the directors advice on how they should handle this.

ONE valid point ✓✓ **part mark for unclear/incomplete/partial answers**



- Call up a special meeting of shareholders;
- Issue a grievance report
- Start disciplinary proceedings (investigations/enquiry on mismanagement)
- **Ask him to step aside.**

2

TOTAL MARKS

45

TOTAL: 150