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# 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

\* one mark per line; accept blank as '0'  
Accept the underlined part for Dr and Cr; or recognisable abbreviations, such as SH (for shareholders) or OSC.

1.2

NO.	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT	A	O	L
1.2.1	<u>Shareholders</u> for dividends ✓	Bank ✓	136 000	–	0	– ✓*
1.2.2	Bank ✓	Ordinary share capital ✓	450 000	+	+	0 ✓*
1.2.3	Income <u>tax</u> / taxation ✓	<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 of the Annual Report.
- The audited financial reports / statements are found on these pages of the full report presented to the shareholders at the AGM

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/statements of the company are in compliance with both local and international requirements.
- It affects uniform 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
$\begin{array}{r} 11\,005\,000 \text{ two marks} \\ 2\,433\,000 \checkmark + 8\,572\,000 \checkmark \quad \times 2\,400 \\ 4\,000 \checkmark + 11\,500 \checkmark \\ 15\,500 \text{ two marks} \\ 11\,005\,000 / 15\,500 = 710 \text{ four marks} \end{array}$	$1\,704\,000 \checkmark$ <p>one part correct and <math>\times 2\,400</math></p>
Mark numerator and denominator, as such	

**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

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

**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**

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

8

**TOTAL MARKS****50**

## QUESTION 3

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

3.1.1	<b>Calculate: Debt-equity ratio</b>				
	<table border="1"> <thead> <tr> <th data-bbox="223 302 1069 347">WORKINGS</th><th data-bbox="1069 302 1369 347">ANSWER</th></tr> </thead> <tbody> <tr> <td data-bbox="223 347 1069 499"> <math display="block">\frac{2\,450\,000 \checkmark}{(7\,280\,000 + 3\,107\,600) \text{ one mark}} : \frac{10\,387\,600 \checkmark}{1}</math> </td><td data-bbox="1069 347 1369 499"> <math display="block">0,2 : 1 \checkmark</math> <p>one part correct; must be shown as x : 1</p> </td></tr> </tbody> </table>	WORKINGS	ANSWER	$\frac{2\,450\,000 \checkmark}{(7\,280\,000 + 3\,107\,600) \text{ one mark}} : \frac{10\,387\,600 \checkmark}{1}$	$0,2 : 1 \checkmark$ <p>one part correct; must be shown as x : 1</p>
WORKINGS	ANSWER				
$\frac{2\,450\,000 \checkmark}{(7\,280\,000 + 3\,107\,600) \text{ one mark}} : \frac{10\,387\,600 \checkmark}{1}$	$0,2 : 1 \checkmark$ <p>one part correct; must be shown as x : 1</p>				

3

3.1.2	<b>Calculate: Net asset value per share</b>				
	<table border="1"> <thead> <tr> <th data-bbox="223 582 1069 627">WORKINGS</th><th data-bbox="1069 582 1369 627">ANSWER</th></tr> </thead> <tbody> <tr> <td data-bbox="223 627 1069 860"> <math display="block">\frac{10\,387\,600 \checkmark}{800\,000 \checkmark} \times 100 \text{ cents}^*</math> <p>(700 000 + 120 000 – 20 000) one mark</p> </td><td data-bbox="1069 627 1369 860"> <math display="block">1\,298,5 \text{ cents} \checkmark</math> <p>one part correct R/c not necessary</p> <p>accept 1298c / 1299c / R12,98 / R12,99</p> </td></tr> </tbody> </table>	WORKINGS	ANSWER	$\frac{10\,387\,600 \checkmark}{800\,000 \checkmark} \times 100 \text{ cents}^*$ <p>(700 000 + 120 000 – 20 000) one mark</p>	$1\,298,5 \text{ cents} \checkmark$ <p>one part correct R/c not necessary</p> <p>accept 1298c / 1299c / R12,98 / R12,99</p>
WORKINGS	ANSWER				
$\frac{10\,387\,600 \checkmark}{800\,000 \checkmark} \times 100 \text{ cents}^*$ <p>(700 000 + 120 000 – 20 000) one mark</p>	$1\,298,5 \text{ cents} \checkmark$ <p>one part correct R/c not necessary</p> <p>accept 1298c / 1299c / R12,98 / R12,99</p>				

3

3.1.3	<b>Calculate: Dividend pay-out rate</b>				
	<table border="1"> <thead> <tr> <th data-bbox="223 947 1069 992">WORKINGS</th><th data-bbox="1069 947 1369 992">ANSWER</th></tr> </thead> <tbody> <tr> <td data-bbox="223 992 1069 1184"> <p>77 two marks</p> <math display="block">\frac{45 \checkmark + 32 \checkmark}{350 \checkmark} \times \frac{100^*}{1}</math> <p>OR: <math>\frac{0,45 + 0,32}{3,50} \times 100</math></p> <p>OR</p> <math display="block">\frac{631\,400}{2\,870\,000} \times 100</math> <p>one mark one mark (369 000 + 262 400) two marks one mark</p> </td><td data-bbox="1069 992 1369 1184"> <math display="block">22\% \checkmark</math> <p>one part correct shown as a %</p> </td></tr> </tbody> </table>	WORKINGS	ANSWER	<p>77 two marks</p> $\frac{45 \checkmark + 32 \checkmark}{350 \checkmark} \times \frac{100^*}{1}$ <p>OR: <math>\frac{0,45 + 0,32}{3,50} \times 100</math></p> <p>OR</p> $\frac{631\,400}{2\,870\,000} \times 100$ <p>one mark one mark (369 000 + 262 400) two marks one mark</p>	$22\% \checkmark$ <p>one part correct shown as a %</p>
WORKINGS	ANSWER				
<p>77 two marks</p> $\frac{45 \checkmark + 32 \checkmark}{350 \checkmark} \times \frac{100^*}{1}$ <p>OR: <math>\frac{0,45 + 0,32}{3,50} \times 100</math></p> <p>OR</p> $\frac{631\,400}{2\,870\,000} \times 100$ <p>one mark one mark (369 000 + 262 400) two marks one mark</p>	$22\% \checkmark$ <p>one part correct shown as a %</p>				

4

3.1.4	<b>Calculate: Return on average shareholders' equity (ROSHE)</b>				
	<table border="1"> <thead> <tr> <th data-bbox="223 1270 1069 1314">WORKINGS</th><th data-bbox="1069 1270 1369 1314">ANSWER</th></tr> </thead> <tbody> <tr> <td data-bbox="223 1314 1069 1505"> <math display="block">\frac{2\,870\,000 \checkmark}{\frac{1}{2} \checkmark (10\,387\,600 + 6\,910\,000) \checkmark} \times \frac{100^*}{1}</math> <p>17 297 600 one mark 8 648 800 two marks</p> </td><td data-bbox="1069 1314 1369 1505"> <math display="block">33,2\% \checkmark</math> <p>one part correct Accept 33% % sign not necessary</p> </td></tr> </tbody> </table>	WORKINGS	ANSWER	$\frac{2\,870\,000 \checkmark}{\frac{1}{2} \checkmark (10\,387\,600 + 6\,910\,000) \checkmark} \times \frac{100^*}{1}$ <p>17 297 600 one mark 8 648 800 two marks</p>	$33,2\% \checkmark$ <p>one part correct Accept 33% % sign not necessary</p>
WORKINGS	ANSWER				
$\frac{2\,870\,000 \checkmark}{\frac{1}{2} \checkmark (10\,387\,600 + 6\,910\,000) \checkmark} \times \frac{100^*}{1}$ <p>17 297 600 one mark 8 648 800 two marks</p>	$33,2\% \checkmark$ <p>one part correct Accept 33% % sign not necessary</p>				

4

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

3

Award marks for answer / detail if not in the relevant columns

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 – 3.3.3) Mark only ONE option consistently (do not mix alternative options)  
Ignore brackets on final answer

<b>3.3.1 Calculate: Taxation paid</b>	
WORKINGS	ANSWER
$1\,085\,000 \checkmark - 124\,000 \checkmark - 354\,000 \checkmark$ <p style="text-align: center;"><b>OR</b></p> <div style="display: flex; justify-content: space-around;"> <span>one mark</span> <span>one mark</span> <span>one mark</span> </div> $-1\,085\,000 + 124\,000 + 354\,000$ Accept ledger format or brackets as workings	$607\,000 \checkmark$ one part correct
	4

<b>3.3.2 Calculate: Dividends paid</b>	
WORKINGS	ANSWER
<div style="text-align: center;">(820 000 x 0,45) two marks</div> $210\,000 \checkmark + 369\,000 \checkmark \checkmark$ <div style="display: flex; justify-content: space-around;"> <span>one mark</span> <span>one mark</span> <span>one mark</span> </div> <p style="text-align: center;"><b>OR</b></p> $210\,000 + 631\,400 - 262\,400$ see 3.1.3 Accept ledger format or brackets as workings	$579\,000 \checkmark$ one part correct
	4

<b>3.3.3 Calculate: Proceeds from sale of fixed assets</b>	
WORKINGS	ANSWER
<div style="text-align: center;"> <math>\checkmark \quad \checkmark \quad \checkmark \quad \checkmark</math> </div> $8\,865\,000 - 1\,360\,000 + 785\,000 - 8\,878\,000$ <div style="display: flex; justify-content: space-around;"> <span>one mark</span> <span>one mark</span> <span>one mark</span> <span>one mark</span> </div> <p style="text-align: center;"><b>OR</b></p> $8\,878\,000 + 1\,360\,000 - 785\,000 - 8\,865\,000$ Accept ledger format, brackets as workings or fixed asset note format	$588\,000 \checkmark$ one part correct
	5

<b>3.3.4 Calculate: Funds used for the repurchase of shares</b>	
WORKINGS	ANSWER
<div style="display: flex; justify-content: space-around;"> <span>one mark</span> <span>one mark</span> <span>one mark</span> <span>one mark</span> </div> $20\,000 \times R13,65$ <b>OR</b> $182\,000 + 91\,000$ <div style="display: flex; justify-content: space-around;"> <span>20 000 x 9,10</span> <span>20 000 x 4,55</span> </div>	$273\,000 \checkmark \checkmark$ one part correct
	2

<b>TOTAL MARKS</b>	<b>35</b>
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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 ✓ ✓ Explanation or trend (with figure) ✓ ✓

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

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 ✓ ✓

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

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) ✓ ✓

- Sales has decreased by R2 574 000 / (from R11 550 000) to R8 976 000 / by 22,3%
- Decrease in the mark-up % achieved 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**

**Possible additional response. Any ONE of:**

- EPS dropped (from 102c) to 54c (by 48c);
- 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.**

Both points may be included in the same statement; 2020 figures must be quoted.

Explanation (including financial indicator) ✓ ✓ Figures ✓ ✓

**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**

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

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

**ANSWER**

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 and importance to shareholders may be expressed in the same response.

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 and control

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

<b>TOTAL MARKS</b>	<b>45</b>
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TOTAL: 150