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Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING P1 MARKING GUIDELINES 2022

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 / one part correct, 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 10 pages.

QUESTION 1

1.1

1.1.1	Internal auditor	✓
1.1.2	External auditor	✓
1.1.3	Directors	✓

3

1.2 PRUDENCE LTD**1.2.1 ORDINARY SHARE CAPITAL**

900 000 ✓ 1 200 000 x 75%	Balance on 1 March 2021 900 000 x 8,50* see below	7 650 000 ✓✓* No. of shares x ASP*
(80 000)	Shares repurchased 80 000 x R8,50* any one part correct	(680 000) ✓✓ # do not accept 136 000 as a final answer
150 000	Shares issued on 1 December 2021 Inspect correct operation	984 000 ✓ balancing figure
970 000 ✓ operation & one part correct	Balance on 28 February 2022	7 954 000

7

RETAINED INCOME

Balance on 1 March 2021 Check operation from bottom up; [+ OSD + SRepur – NPAT]	753 000 ✓ balancing figure
Net profit after tax 438 000 x 70/30	1 022 000 ✓✓
Shares repurchased	(136 000) ✓
Ordinary share dividends	(443 000) ✓ Interim + Final Div
Interim dividends 820 000 x 28 cents OR 28% / 0,28	229 600 ✓✓ one part correct
Final dividends	213 400
Balance on 28 February 2022	1 196 000

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1.2.2 STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ON 28 FEBRUARY 2022

ASSETS		
NON-CURRENT ASSETS	TA – CA	12 030 000 ✓
Fixed assets	NCA – FD	11 781 000 ✓
Fixed deposit 489 000 – 240 000	4	249 000 ✓✓
CURRENT ASSETS		2 080 000
Inventory		966 600 ✓ balancing figure
Trade and other receivables 875 000 ✓ – 26 250 ✓✓ + 25 600 ✓✓ – 17 950 ✓ + 12 000*✓ 12 800 one mark Prov for BD (23 640 + 2 610) Rent inc (12 800 + 12 800) Trf debtor (450 000 – 438 000) SARS (102 400 x 2/8) *SARS: Income tax may be shown separately; must be CA (wrong if CL)		868 400 ✓ Operation; one part correct See principle 4
Cash and cash equivalents (240 000 ✓ + 5 000 ✓)		245 000 two marks
TOTAL ASSETS	see total SHE+NCL+CL	14 110 000 ✓
EQUITY AND LIABILITIES		12
SHAREHOLDERS' EQUITY		9 150 000
Ordinary share capital		7 954 000
Retained income		1 196 000
NON-CURRENT LIABILITIES	9 150 000 x 0,4	3 660 000 ✓✓*
Loan: XY Bank	2 *Award TWO marks if calculation shown on this line	3 660 000
CURRENT LIABILITIES	2 080 000 / 1,6	1 300 000 ✓✓
Trade and other payables 617 450 ✓ + 48 000 ✓ – 17 950 ✓ Audit fees Trf Debtor		647 500 ✓ Operation one part correct See principle 4
Shareholders for dividends**		213 400 ✓
Current portion of loan** **May be part of workings of T&OP		228 000 ✓
Bank overdraft		211 100 ✓ operation; balancing figure
TOTAL EQUITY AND LIABILITIES	SE + NCL + CL 10	14 110 000 ✓

28

TOTAL MARKS

45

QUESTION 2**2.1**

2.1.1	current asset ✓
2.1.2	financing activity ✓ or operating activity (due to technicality / display reason)
2.1.3	directors' report ✓

3

2.2 JANTJES LIMITED**2.2.1**

WORKINGS Accept T- accounts	ANSWER
(i) Carrying value of vehicles on 1 March 2021 2 350 000 – 840 000	1 510 000 ✓
(ii) Total depreciation on equipment 640 000 x 10% = 64 000 (CV is 28 000) 28 000 one mark Old: 28 000 – 1 = 27 999 ✓✓ New: 195 000 x 10 % x [5/12] = 8 125 ✓✓ any one part correct	36 124 ✓ any one part correct
(iii) Carrying value of the vehicle sold Current Depreciation: 80 000 x 20% x [9/12] = 12 000 one mark one method mark OR 298 000 – 286 000 = 12 000 252 000 ✓ – 172 000 ✓ – 12 000 ✓✓ one part correct 80 000 OR: 252 000 – (172 000 + 12 000) 184 000 two marks + one m.mark	68 000 ✓ one part correct

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2.2.2 Calculate the following amounts for the 2022 Cash Flow Statement:

WORKINGS	ANSWER
Fixed assets purchased 334 124 two marks (Depreciation) ✓ ✓ 2.2.1 (iii) ✓ ✓ 2.2.1 (ii) ✓ 7 988 000 – 68 000 – 298 000 – 36 124 – 8 746 500 Accept alternative arrangement for calculations e.g. signs reversed, ledger / note format. Calculating CV(CB) from Note: one mark one mark one mark one mark one mark 1 144 000 + 186 876 – 8 746 500 + 6 450 000 – 195 000 OR: –1 144 000 – 186 876 + 8 746 500 – 6 450 000 + 195 000	1 160 624 ✓ one part correct
Dividends paid 288 000 two marks 180 000 ✓ + 552 500 ✓ – 264 500 ✓ OR: signs reversed or ledger –288 000 two marks one mark one mark one mark –180 000 – 552 500 + 264 500	468 000 ✓ one part correct
Decrease in loan Payments – interest = 456 000 – 216 000 OR: Beginning – end = 2 057 600 – 1 817 600 OR: signs reversed or ledger format –456 000 + 216 000 OR –2 057 600 + 1 817 600	240 000 ✓✓✓ one part correct

6

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2.2.3	NET CHANGE IN CASH AND CASH EQUIVALENTS *One mark if no bracket	(254 000) ✓✓*
	Opening balance 129 000 + 5 000	134 000 ✓ Or 129 000
	Closing balance – 125 000 + 5 000 must have brackets	(120 000) ✓ Or (125 000)

4

2.2.4 Calculate the following financial indicators on 28 February 2022:

WORKINGS	ANSWER
% mark-up achieved $\frac{5\,400\,000 \checkmark}{7\,200\,000 \checkmark} \times \frac{100^*}{1}$ (12 600 000 – 5 400 000)	75% ✓ operation; one part correct & as a %;
Acid-test ratio (1 323 000 – 514 500) two marks; no part marks 808 500 ✓✓ : 735 000 ✓	1,1 : 1 ✓ operation; one part correct & if in form x : 1
Net asset value per share (NAV) $\frac{8\,840\,700 \checkmark}{1\,150\,000 \checkmark} \times 100^* \text{ (for cents)}$ (1 000 000 + 200 000 – 50 000) one mark	768,8 cents ✓ operation; one part correct cannot be % accept 769 cents or R7,69
% return on average shareholders' equity (ROSHE) $\frac{609\,200 \checkmark}{\frac{1}{2} \checkmark (7\,600\,000 + 8\,840\,700) \checkmark} \times 100^*$ 16 440 700 one mark 8 220 350 two marks	7,4% ✓ operation; one part correct as a % sign not necessary

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* x 100 is not considered as one part correct

TOTAL MARKS	45
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QUESTION 3**3.1 Profitability / Operating efficiency:**

Identify and explain which company has been more efficient in controlling its operating activities. Quote TWO financial indicators.

Nigel Ltd ✓

TWO indicators: name of indicators ✓ ✓ figures ✓ ✓ (comparison or implied)

-1 for additional incorrect financial indicators provided (max -1)

% Operating expenses on sales 23,0% is lower than that of Vrede 23,9% / diff: 0,9% points

% Operating profit on sales 19,9% is better than Vrede 13,6% / diff: 6,3 % points

% Net profit on sales 9,2% is better than Vrede Ltd 7,0% / diff: 2,2% points

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3.2 Liquidity:

Identify and explain which company has better liquidity financial indicators. Quote TWO financial indicators.

Vrede Ltd or Nigel Ltd ✓ Names of indicators with figures ✓ ✓

- current ratio; 1,8 : 1 (Vrede) or 1,2 : 1 (Nigel) / diff: 0,6 : 1
- acid test ratio; 0,7 : 1 (Vrede) or 0,5 : 1 (Nigel) / diff: 0,2 : 1
- stock turnover rate 11 times (Vrede) 23 or times (Nigel) / diff: 12 times

3

Explain ONE concern you have over the liquidity of the other company. Quote ONE financial indicator.

Explanation company **not mentioned above** (with financial indicator and figures) ✓✓

- **Nigel Ltd:** Acid test ratio 0,5 : 1 or current ratio 1,2 : 1 might indicate poor management of working capital or cash flow / difficult to meet short term debts / stock turnover rate of 23 times might indicate stock is too low to meet demand
- **Vrede Ltd:** Stock turnover rate 11 times (decreased from 12) / or acid-test ratio of 0,7 : 1 could indicate higher stock levels / lower demand for product

2

3.3 Dividends:

Comment on the difference between the dividend pay-out policies implemented by the directors of the two companies and explain ONE possible reason for EACH of their decisions in their respective companies. Quote figures or indicators.

	COMMENT ON POLICIES (with figures)	POSSIBLE REASON FOR DECISION
VREDE LTD Comment ✓ Figure/s ✓ + Reason ✓	<ul style="list-style-type: none"> • Dividend pay-out rate is 74,8% / company gives 74,8% of EPS to shareholders • They only retain 25,2% as a reserve for the company • Paid 190c DPS of 254c EPS (75%) / retained 64c for future growth 	<ul style="list-style-type: none"> • Trying to keep shareholders satisfied with their investment • To allow for expansion / growth • Decided to hold funds in reserve for contingencies (conservative approach) • Strike a balance between appeasing shareholders and ensuring continuity / sustainability
NIGEL LTD Comment ✓ Figure/s ✓ + Reason ✓	<ul style="list-style-type: none"> • Dividend pay-out rate is 107,4% / used retained income to pay dividends • Dividends of 440c exceeds the EPS of 410c / negative effect of 30c 	<ul style="list-style-type: none"> • Trying to keep shareholders satisfied with their investment • Directors want to create positive image of company or its directors (for re-election) • Aggressive decision / attempt to convince shareholders about strategies

6

3.4 Gearing, risk, financing and investing activities:

Explain the specific decisions taken by the directors of EACH company that have affected gearing and risk. Quote rand amounts. -1 for superfluous items if more than 2 decisions provided in either company (max -1)	
VREDE LTD	<p>Award one mark in each case to decision & amount:</p> <p>Issued shares R9 900 000 ✓</p> <p>Repaid loan R2 500 000 ✓</p> <p>Do not accept: Fixed assets or Investments</p>
NIGEL LTD	<p>Award one mark in each case to decision & amount:</p> <p>Shares repurchased R7 540 000 ✓</p> <p>Increased loan R3 000 000 ✓</p> <p>Do not accept: Fixed assets or Investments</p>
<p>Comment on the gearing and risk of Nigel Ltd. Quote TWO financial indicators.</p> <p>() Comments could be combined or separate</p> <p>Indicators (with amounts) ✓ ✓ mention high risk ✓ mention positive gearing ✓</p> <ul style="list-style-type: none"> • Debt/equity ratio of 1,3 : 1; high financial risk / an over-reliance on borrowed capital / bordering on insolvency • ROTC of 16,2% indicates positively gearing (better than interest rate of 12%); making effective use of capital employed to generate profits. 	
<p>At the Nigel Ltd AGM, an angry shareholder said that the directors' aggressive strategies would probably lead to the failure of the company in future. Explain TWO points why the shareholder might feel this way.</p> <p>TWO valid items identified (figures not required) ✓✓ ✓✓ Accept other valid alternatives</p> <p>Part-marks for unclear answers</p> <p>Overall comment could be embedded in comments on strategies: candidates must mention why these decisions could create problems for the company e.g. increase risk, poor cash flow, could lead to big losses, poor image, unsettle shareholders ✓</p> <ul style="list-style-type: none"> • <u>Shares repurchased</u> (R7 540 000) – big cash flow problems / creating false impression of the share value (downsizing) / did not check to solvency ratio • <u>Increase in loan</u> (R3 000 000) – placing the company at high financial risk / at risk of increase in interest rates • <u>Disposal of assets</u> (R730 000) – reducing productive capacity • <u>Redeeming fixed deposit</u> (R150 000) – investment opportunity lost / more should have been invested / should there be any unforeseen setbacks in the future, the business could will find it difficult to meet all financial obligations (solvency issue) • The company <u>focuses on making profits</u> rather than long-term sustainability / placing the company at risk (solvency issues) • Also accept: high dividends (107,4% or R2,64m) affects cash flow or solvency 	

3.5 Shareholders' assessment of market prices of shares:

Explain by quoting figures or indicators and, for each company, identify a factor that would have affected the market price of the shares. Comparison of MP to NAV is essential in each case. Part-marks for partial or incomplete answers.	
VREDE LTD	<p>Market price of R24 is below NAV of R32,95 / by R8,95 ✓</p> <p>Identify factor (figures not required): ✓✓ Accept other valid alternatives</p> <p>Low demand or reluctance to buy shares in this company / ROSHE dropped / retained income less than previous year / conservative decision making by directors / scared to take bold decisions / poor image of company or directors / lack of confidence in management</p>
NIGEL LTD	<p>Market price of R32 is better than the NAV of R23,08 / by R8,92 ✓</p> <p>Identify factor (figures not required): ✓✓ Accept other valid alternatives</p> <p>Shares are in demand / investors have confidence in company / improved returns (ROSHE) / high dividends or pay-out rate / risk takers / confident / dynamic management (aggressive) / Good or positive image</p>

3.6 Shareholding of Jay Sonto in Vrede Ltd and Nigel Ltd:

Provide calculations to show the change in Jay's % shareholding in Nigel Ltd over the financial year. $320\,000 / 600\,000 \times 100 = 53,3\%$ ✓✓ <i>Implied comparison</i> Also accept: Changed (from 37,2%) to 53,3% / by 16,1% points / by 43,3%.	
Comment on his % shareholding in EACH company.	
VREDE LTD Any ONE point ✓	<ul style="list-style-type: none"> • He is still a minority shareholder (little influence on decisions) • His % shareholding dropped further (from 33,3% to 22,2%) • Did not buy additional shares when shares were issued
NIGEL LTD Any ONE point ✓	If calculation is more than 50%: He is now a <u>majority shareholder</u> as a result of the repurchase of the shares / shareholding increased Decrease in share capital resulted in increased % shareholding which has made him the <u>majority decision-maker</u> If calculation is less than 50%: He is still a minority shareholder (little influence on decisions) His % shareholding increased / dropped
Calculate the total profit or loss he is currently making on his shares in EACH company.	
VREDE LTD Invested: $200\,000 \times 27 = R5\,400\,000$ Now worth: $200\,000 \times 24$ R4 800 000 Loss of investment: R600 000 ✓✓ OR: $3 \times 200\,000 = R600\,000$ Also accept 11,1% two marks	NIGEL LTD Invested: $320\,000 \times 15 = R4\,800\,000$ Now worth: $R320\,000 \times 32$ R10 240 000 Growth in investment: R5 440 000 ✓✓ OR: $17 \times 320\,000 = R5\,440\,000$ Also accept 113,3% two marks
Advise if it is wise to sell 19 000 shares in Nigel Ltd, or not. ONE valid point (with figures) ✓✓ could be influenced by on profit / loss above Part-marks cold be awarded for unclear or partial answers Expected responses: <ul style="list-style-type: none"> • It is wise to sell because the share price is currently high (R32,00) • It might not be wise to sell if the share price increases above R32 in future. • He will raise R608 000 in total ($19\,000 \times R32$) • He will gain a profit of R323 000 on this sale • He will still be a majority shareholder ($301\,000/600\,000 = 50,2\%$) 	

4

6

TOTAL MARKS**45**

QUESTION 4**4.1 Explain how you would respond to the CEO's statement. State TWO points.**TWO points ✓✓ ✓✓ part marks for incomplete/unclear/partial answers

Any valid explanations, e.g.

- The company depends on the community for its success / it is part of a community that supports it.
- The wellbeing of its employees will have an effect on the profits of the company through which the CEO is remunerated.
- The company should focus on its responsibility and growth rather than relying on government or other institutions.
- They should work with government to achieve common goals of uplifting the community / not independently.
- The government should set a good example by eliminating crime and corruption.
- The King Code has established the guidelines for CSR which companies should comply with.
- According to labour law, companies are responsible for skills development.

Examples of 1-mark responses:

Community is important / employees must be happy / rules are in place

4

4.2 State whether Franco Ltd is a public or private company.

Public ✓

1

Explain why employees and investors (shareholders) were distressed by this incident.**Comment on employees:**Any valid point ✓✓ part marks for incomplete/unclear answers

- Future employment / retrenchment
- No wage increases / bonuses / overtime
- Losing benefits in the future e.g. pension, medical aid
- Company may close down / lead to further unemployment
- Uncertain economy / jobs are scarce / high unemployment rate

Comment on investors (shareholders):Any valid point ✓✓ part marks for incomplete/unclear answers

- Their investments / savings are now depleted or lost due to a decrease in the share price
- Loss of earnings (dividends) / Unable to cope with daily living costs
- Low investor confidence in directors / auditors (due to their negligence or deliberate fraudulent activities) / disciplinary processes that need to be followed
- Would make it difficult / impossible to sell their shares because of the reputation of the company

4

Explain what went wrong in the company to allow for this fraud to occur. State THREE different/separate points.

Any THREE valid responses

Explanations must indicate factors that affect points in the scenario i.e. not verbatim repetition from of the scenario.

✓✓ ✓✓ ✓✓

part marks for incomplete/unclear answers

- Unreliable audit reports / external or internal auditors were biased or negligent
- Directors have been acting out of character / in an unethical or fraudulent way (criminal activity)
- Personnel expected / influenced to follow irregular practices which are being sanctioned or overlooked by senior managers
- Bribery / collusion / kickback payments / producing or overlooking material transactions
- Lack of regular / effective internal control measures (e.g. internal audits, division of duties) in place
- No proper application of GAAP / IFRS in compiling financial statements

6

TOTAL MARKS	15
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TOTAL: 150