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Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

NOVEMBER 2023

MARKING GUIDELINES

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 a correct answer. If answer is incorrect, mark workings.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark as a working mark for that figure (not the method mark for the answer). Note: figures stipulated in the marking guidelines as components of workings are marked together; these do not carry the method mark for parts thereof.
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. These marking guidelines are 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, markers must inspect reasonableness of the answer.
11. 'Operation' means check operation. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷ as per candidate's calculation (if valid) or per marking guidelines.
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 guidelines. Note that one comment could contain different aspects.
15. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 10 pages.

QUESTION 1

1.1	Calculate the value of closing stock of bicycles using FIFO method.		
	WORKINGS	ANSWER	
	<div>740 – 40</div> <div>(700*✓✓ x R2 100 ✓) + 309 ☑ x R2 020 ✓</div> <div>1 470 000 three marks 624 180 two marks</div> <div>1 009 – 700* / if both adds up to 1009</div>	<div>R2 094 180☑</div> <div>one part correct</div>	<div></div> <div>6</div>

1.2 Statement of Comprehensive Income for the year ended 28 February 2023

Sales	21 017 200
Cost of sales <small>21 353 200 two marks</small> $(21\ 017\ 200 \checkmark + 336\ 000 \checkmark) \times 100/220 \checkmark$ Be alert to other alternative arrangements for calculations	(9 706 000) \boxtimes*
Gross profit <small>Sales – COS</small> 5	11 311 200 \boxtimes
Other income	942 900
Bad debts recovered	
Commission income $277\ 000 + 41\ 000$ <small>one mark one mark</small>	318 000 $\checkmark \checkmark$
Fee income $(47\ 150 - 23\ 000)$ two marks $(47\ 150 \times 105/205)$ two marks $303\ 000 \checkmark - 24\ 150 \checkmark \checkmark$	278 850 \boxtimes*
Sundry income	
Gross operating income 6	12 254 100
Operating expenses $12\ 254\ 100 - 4\ 150\ 300$ Accept without brackets as operation would be correct	(8 103 800) \checkmark
Salaries and wages	
Depreciation	
Sundry expenses	
Do not accept 2 125 380 or 2 094 180 as a final answer Trading stock deficit $2\ 125\ 380 - 2\ 094\ 180$ <small>see 1.1</small> Loss due to theft / stock loss	31 200 $\boxtimes \boxtimes$ If subtracted from 2 125 380
Rent expense $(1950 \times 330) - (350 \times 330)$ $643\ 500 \checkmark \checkmark - 115\ 500 \checkmark \checkmark$ $(900 \times 330) + (700 \times 330) - (1500 \times 330) + (100 \times 330)$ OR $297\ 000 + 231\ 000$ OR $495\ 000 + 33\ 000$ <small>two marks two marks two marks two marks</small>	528 000 \boxtimes*
Directors' fees $1\ 610\ 000 \checkmark + 75\ 000 \checkmark \checkmark + 10\ 000 \checkmark$ <small>85 000 three marks</small>	1 695 000 \boxtimes*
Operating profit 13	4 150 300
Interest income	
Profit before interest expense	
Interest expense	
Net profit before tax	3 737 250
Income tax	(1 152 000)
Net profit after tax	2 585 250

– 1 foreign items (max – 2); misplaced items, award marks for workings only
Note Principle 11 when awarding method marks: Operation as per candidate's operation

* 1 part correct

1.3 Statement of Financial Position on 28 February 2023

ASSETS	
NON-CURRENT ASSETS	
Fixed assets	
Investment: Fixed deposit 2 <small>Award ONE mark for 1 500 000 as a final answer</small>	1 000 000 ✓✓
CURRENT ASSETS <small>accept any order of items under CA</small>	3 860 090 ✓*
Inventories <small>see 1.1</small>	2 094 180 ✓
Trade and other receivables <small>see comm inc transfer see rent exp [one mark only]</small> 483 110 ✓ + 41 000 ✓ – 2 700 ✓ + 115 500 ✓ or [350 x 330]	636 910 ✓*
Cash and cash equivalents 629 000 ✓ + 500 000 ✓	1 129 000 ✓*
TOTAL ASSETS 10	
EQUITY AND LIABILITIES	
ORDINARY SHAREHOLDERS' EQUITY	22 562 750 ✓✓
Ordinary share capital	20 000 000
Retained income <small>SHE – OSC</small> 3	2 562 750 ✓ <small>Do not accept 0 as an answer</small>
NON-CURRENT LIABILITIES	4 512 550
Loan	4 512 550
CURRENT LIABILITIES <small>operation</small>	3 793 340 ✓*
Trade and other payables <small>see fee inc see dir.fees transfer</small> 523 890 ✓ + 24 150 ✓ + 85 000 ✓ – 2 700 ✓	630 340 ✓*
Current portion of loan	420 000
SARS: Income tax 1 152 000 ✓ – 1 049 000 ✓ <small>must be positive for m.m. must be negative for m.m.</small>	103 000 ✓* <small>Must subtract prov tax</small>
Shareholders for dividends	2 640 000 ✓
TOTAL EQUITY AND LIABILITIES 10	

25

Inspect: SARS:IT and SFD may be included in T&OP

* 1 part correct

- 1 foreign item (max -2); presentation -1 (max -1); misplaced items, award marks for workings only

Note Principle 11 when awarding method marks: Operation as per candidate's operation, unless specified.

TOTAL MARKS**55**

QUESTION 2**SHERBIZ LTD****2.1 ORDINARY SHARE CAPITAL NOTE****-1 poor presentation (max -1)**

1 200 000	Shares in issue on 1 March 2022	7 200 000	
300 000 ✓	Shares issued on 30 June 2022 Always treat this as the balancing figure. Ignore workings on this aspect.	2 700 000 ✓ Balancing figure	
(90 000)* ✓	Shares repurchased (ASP: R6,60 ✓) 9 306 000/1 410 000	(594 000)* ✓ Do not accept 90 000 x 0,8	
1 410 000 ✓ one part correct must include 1 200 000	Shares in issue on 28 February 2023	9 306 000 ✓	7

*Ignore brackets, check correct operation for balancing figures.

2.2**-1 poor presentation (max -1)**

CASH FLOW OF OPERATING ACTIVITIES		
Cash generated from operations		
Interest paid		(117 600)
Dividends paid [1 200 000 x 0,24] [1 500 000 x 0,30] 288 000 ✓✓ + 450 000 ✓✓ if x by correct DPS if x by correct DPS OR – 288 000 – 450 000 (450 000 + 282 000) OR (using total dividends) + 288 000 + 732 000 282 000 two marks one mark one mark		(738 000) ✓ must be in brackets for the m.mark, at least one mark in one of components must be earned
Income tax paid 337 500 ✓✓ – 42 500 ✓ – 27 800 ✓ OR – 337 500 + 42 500 + 27 800		(267 200) ✓ must be in brackets for the m.mark, at least one part must be correct

Be alert to alternative workings such as ledger account or use of brackets or signs reversed.

Ensure that only one option is marked consistently.

If final answers are not in brackets, assume an inflow of cash – award marks for workings only.

If a workings amount is shown as a final figure, award the mark/s allocated, ignore the brackets;

If the correct amount is provided without workings or the brackets, award all working marks only (not final mark).

CASH FLOW OF FINANCING ACTIVITIES	1 878 600 ✓ One part correct	
Proceeds from shares issued	2 700 000 ✓ See 2.1 No brackets	
Funds used to repurchase shares (90 000 x 6,60) see 2.1 + (90 000 0,80) 594 000 see 2.1 + 72 000 one m.mark one mark	(666 000)* ✓✓	
Change on loan 273 000 – 117 600 OR 1 834 000 – 1 678 600 OR –273 000 + 117 600 OR –1 834 000 + 1 678 600 Method mark only if figures above are part of a calculation; not as a final answer. Be alert to different permutations of calculations – check calculation to for validity.	(155 400)* ✓✓ for the m.mark, at least one part of the workings must be correct	6

* If final answers are not in brackets, do not award m.mark; one mark only.

2.3 Calculate the following financial indicators:

Net asset value per share	
WORKINGS	ANSWER
$\frac{10\,200\,000 \checkmark}{1\,410\,000 \boxtimes \text{see 2.1}} \times \frac{100}{1}$	723,4 cents <input checked="" type="checkbox"/> one part correct must be in cents; assume cents if not specified; accept R7,23 or 723c
Dividend payout rate	
WORKINGS	ANSWER
Choose ONE option only, mark consistently OPTION 1: Must use correct method of calculating interim DPS & final DPS $\frac{20 \checkmark\checkmark + 30 \checkmark}{66,2 \checkmark} \times \frac{100}{1}$ Accept $\frac{0,2 + 0,3}{0,662} \times 100$ OR OPTION 2: If total dividends and NPAT are used $\frac{732\,000 \text{ three marks} + 450\,000 \text{ one mark} + 282\,000 \text{ two marks}}{912\,500 \text{ one mark}} \times \frac{100}{1}$	75,5% <input checked="" type="checkbox"/> OR 80,2% one part correct must be %; assume % if not specified; accept 75% 76% 80%
% return on average shareholders' equity	
WORKINGS	ANSWER
$\frac{912\,500 \checkmark}{\frac{1}{2}(10\,200\,000 \checkmark + 7\,985\,500 \checkmark)} \times \frac{100}{1}$ <p>18 185 500 two marks 9 092 750 two marks plus m.mark on answer</p>	10,0% <input checked="" type="checkbox"/> one part correct. it average SE (X½) is used % sign not necessary

- For EACH calculation, the 'x 100' is not 'one part correct'
- Numerators and denominators must be marked as such.
- Do not award marks for any operations done to stand-alone figures e.g. no tick if anything else added to 912 500.
- Superfluous entries: award marks for correct figures, apply \boxtimes to final answer.

TOTAL MARKS**35**

QUESTION 3**3.1**

3.1.1	C ✓
3.1.2	D ✓
3.1.3	B ✓

3

3.2 Liquidity:

Identify the company that is managing its working capital well. Quote TWO financial indicators with figures and trends.

Guardian Ltd ✓

If incorrect company is identified, award marks for the correct financial indicators (max 2)

Further explanations (beyond figures and trends) are not required.

Trends may be implied in an explanation.

Candidates might motivate by showing the negatives of Navarra Ltd.

Financial indicators ✓ ✓ figures (showing trend) ✓ ✓

- Current ratio: Increased (from 1,5:1) to 1,7:1 / by 0,2 : 1.
- Acid test ratio: Increased (from 1,0:1) to 1,2:1 / by 0,2 : 1
- Debtors collection period: Decreased (from 22 days) to 19 days / by 3 days
- Creditors payment period: Increased (from 48 days) to 50 days / by 2 days

5

3.3 Financing strategies and gearing: Guardian Ltd

What were the causes of the change in the debt-equity ratio? Provide TWO causes with figures.

✓ Increase in loan from ✓ R3 600 000 to R5 000 000 / by R1 400 000 / by 38,8%✓ Increase in OSC from ✓ R12 000 000 to R20 960 000 / by R8 960 000 / by 74,6% / by issuing an additional 800 000 shares

4

Explain why it was wise for the company to make more use of loans. Quote and explain ONE other financial indicator (with figures and trends) to support this opinion. Do not accept Debt/Equity ratio here

Financial indicator ✓ figures (accept final % figures) ✓

% Return on average capital employed (ROTCE): Increased (from 13,5%) to 16,6% / by 23% / by 3,1% points.

Comment on gearing must cover positive gearing with interest rate which can be implied ✓✓ part marks for unclear / partial answer

- Company is positively geared as return (16,6%) is greater than rate of borrowing (14%).
- The loan (which increased) was productively used (at a rate of 14%) to generate more profits (at 16,6% ROTCE).
- The company was positively geared (at 13,5% when interest rate was 13%); positive gearing improved in spite of the increase in interest rate (to 14%).

4

See Principle 7: -1 for foreign entries (per Q), if full marks earned and more than the required number of financial indicators quoted.

3.4 Dividends, earnings and returns: Navarra Ltd

Explain ONE financial indicator which indicates that a concerned shareholder should not be satisfied with the change in the dividend policy of the company. Quote figures and trends.

Financial indicator ✓ Figures and trend ✓

- Dividend pay-out rate increased (from 34,8%) to 103,8% / by 198% / by 69% points.
- [DPS at 83c is 43c more than last year and EPS dropped from 115c to 80c / by 35c] (must cover both EPS & DPS together)

Comment ✓ Do not accept 'shareholders are / are not satisfied' as a comment for one mark; must mention that they are not retaining funds (for future growth).

Expected responses: Funds of retained income were used for current year's dividends / directors are depleting reserves which could be used for future expansion / directors not concerned about future growth or sustainability of the company / directors simply concerned about being re-elected or keeping shareholders happy.

3

Explain whether the shareholders should be satisfied with the earnings and returns of the company. Quote TWO financial indicators with figures and trends.

NB: Do not accept DPS as a response. **Please contact the DBE IM if candidates use Earnings Yield or Dividend Yield (i.e. EPS/MP or DPS/MP) in this question.**

Financial indicators ✓ ✓ Figures & trend ✓ ✓

- Earnings per share (EPS): Decreased (from 115 cents) to 80 cents / by 35 cents / by 30,4%.
- Return on average shareholders' equity (ROSHE): Decreased (from 11%) to 6,4% / by 41,8% / by 4,6% points.

Comment ✓ ✓ part marks for unclear / partial answer

Shareholders should be concerned as the return is now lower than the return on outside investments (9%) / the decrease in profitability has contributed to the lower returns. **ONE MARK:** Shareholders should not be satisfied.

6

3.5 Shareholding of Nathan Crewe in Navarra Ltd:

Identify the effect that the repurchase of Nathan's shares had on his % shareholding. Quote figures and trends. Figures with trend ✓ ✓

Figures with trend ✓ ✓

% shareholding dropped (from 55,2%) to 40,2% / by 15% points / by 27,2%.

ONE MARK: He is no longer the majority shareholder / his shareholding is 40,2%.

2

Explain how the company was able to raise approximately R4,4 million to finance the repurchase of shares and dividends earned by shareholders. Provide TWO points. Quote figures.

Trend can be implied in answer.

- Loan increased ✓ by R3 500 000 ✓ (from R3m to R6,5m)
- Bank balance ✓ moved to an overdraft of R3 200 000 / from a debit balance of R380 000 to a credit balance of R3 200 000 / by R 3 580 000 ✓

4

Give TWO reasons why the decision to repurchase Nathan's shares should be considered as irresponsible. Figures not necessary. Do not accept loss of majority shareholding here. Any TWO **different** reasons e.g. ethics / affordability ✓ ✓ ✓ ✓ part marks for unclear / partial answer

- Repurchase price (1150c) is high while market price dropped over the year (to 400c).
- Does not comply with law on funding of repurchased shares / contravention of Co.Act.
- Company did not comply with solvency and liquidity testing / compromises liquidity / creates large overdraft or cash flow problem / places company in risky financial position.
- Company performance (profitability) has declined / buy-back unaffordable.
- Misused his majority status to gain from share repurchase / promoted his own (selfish) interest at the expense of co. / element of corruption – may have used privileged info.
- Contributed to decline in some key financial indicators (candidate could specify).

4

3.6 Directorship:

'The CFO (chief financial officer) has a significant influence on the success of a company.' Explain why you would agree with this statement.

ONE point ✓✓

part marks for unclear / partial answer

Expected responses:

- He must be an expert in Accounting and financial management tasked to safeguard the investment by stakeholders.
- As head of finance, he is responsible for good financial management / expected to advise the Board / lead by example / display good corporate governance (ethics & professionalism).
- Should be aware of the performance / financial position / available financial resources and create structure for sound checks and balances (controls)
- He should not place the business at risk / focus on the growth and sustainability of the company / he must report regularly / transparent.

2

Explain whether the directors should be satisfied or not with the share prices of the companies at the end of the financial year. Quote TWO financial indicators in EACH case with figures and trends.

GUARDIAN LTD	<p>Financial indicators (with figures) Trends not compulsory. ✓ NAV is 1 230c ✓ MP is 1 350c OR MP increased to 1 350c and NAV to 1 230c</p> <p>Comment: ✓ <i>Must cover demand for shares or investor confidence or success of the company. Do not accept 'satisfied' as an explanation.</i></p> <p><i>Expected responses:</i> Shares are in demand or potential investors willing to purchase shares or good image or investor confidence / company has performed well (or shows adequate internal growth or upward trend) which has had a beneficial effect on MP.</p>
NAVARRA LTD	<p>Financial indicators (with figures) Trends not compulsory. ✓ NAV is 992c ✓ MP is 400c OR MP dropped to 400c whilst NAV dropped to 992c</p> <p>Comment: ✓ <i>Must cover lack of demand for shares or investor pessimism or lack of success of the company. Do not accept 'not satisfied' as an explanation.</i></p> <p><i>Expected responses:</i> Shares not in demand as they have a poor image or lack of potential investors / drastic drop in MP indicates serious issues in management which negatively affects MP.</p>

6

The CEO (chief executive officer) of Guardian Ltd intends to offer the vacant position of CFO to Nathan Crewe in March 2023. Explain ONE point of advice to the CEO.

ONE valid point ✓✓

part mark for unclear / partial answer

Do not accept 'qualifications' as a response.

- Nathan takes selfish decisions at the expense of the company.
- No good track record / he placed the company at financial risk / high debt/equity
- The company borrowed excessively; negatively geared / money not used to increase productivity / profitability.
- There is limited demand for shares in the company he managed.
- Guardian is a profitable company which must be maintained.
- He does not appear to be a loyal person and may destroy that progress / conflict of interest as he is still involved in the other company.
- Nepotism should not be allowed as it leads to corruption.
- Retain the services of Sheryl as she is a reliable and capable employee whereas Nathan has destroyed Navarro Ltd.

2

TOTAL MARKS

45

QUESTION 4: CORPORATE GOVERNANCE**4.1 Auditing:****Explain ONE duty of an internal auditor.**Any valid explanation ✓✓ part marks for unclear / partial answer

- Set up / implement / advise on internal control processes in line with external auditing requirement.
- Oversee the preparation / internal audit of financial statements before and external audit.
- Chairperson of the internal auditing committee.

2

Give ONE reason why the accounting records of a listed company must be audited by an external auditor.Any valid explanation ✓✓ part marks for unclear / partial answer

- It is a requirement of the Companies Act / it confirms that the company complies for standards / accounting principles / international reporting.
- Protect public investment / interest of shareholders for possible mismanagement and /or fraud / an unbiased opinion is expected.
- Comply with corporate governance / King Code requirements relating to ethical conduct / transparency.
- Shareholders will be confident that the financial results are reliable and credible / enhance confidence in financial statements.

2

4.2 Whistle-blowers (Informants):**What would you say to Sally regarding her statement in the first paragraph about whistle-blowers not being willing to take a stand against corruption? Explain ONE point.**Any valid explanation ✓✓ part marks for unclear / partial answerExpected responses: *Responses must support whistle-blowing.*

- It is understandable that she feels victimised (lost her job) / citizens should be grateful to whistle-blowers / if whistle-blowers do not come forward with information, crime will not be brought under control.
- Whistle-blowers help to expose / minimise corruptive actions of managers / employees.
- She had no choice but to report on this behaviour as she was the appointed internal auditor at the time / could have been accused over negligence of not doing her job.
- She could take the company to court or the CCMA.
- Criminals will think twice if they realise that people are watching their actions / behaviour / Promote ethical conduct in the corporate world.
- SA government has stated that whistle-blowers must be protected and remain anonymous.

2

4.3 Shareholders' opinions and concerns:

As a shareholder, explain THREE points that would concern you about the actions of the board of directors of Monaco Ltd. In EACH case, give a suitable reason for your concern.

THREE **valid & different** concerns with reasons

NOTE TO MARKERS:

- Be aware of alternative opinions from candidates.
- Concerns and reasons could be marked independently.
- Do not accept the same responses or points for concerns or reasons that are simply reworded in a different way.
- A concern could be viewed as a reason; but the reason must not be a simple repetition or rewording of the concern.

CONCERN part marks for unclear / partial answer ✓✓ ✓✓ ✓✓	REASON ✓ ✓ ✓
<ul style="list-style-type: none"> • No protection of whistle-blowers • Their anonymity may not be respected. • Investigation of whistle-blowers 	<ul style="list-style-type: none"> • They may not speak out on further wrong doings • The law is expected to ensure that their identity is not revealed.
<ul style="list-style-type: none"> • Collusion with service providers / management • Nepotism / Conflict of interest 	<ul style="list-style-type: none"> • Self-enrichment at the expense of the company / Results in financial losses for the company / financial losses not a result of performance • Competence of appointees is questioned.
<ul style="list-style-type: none"> • Honesty / Loyalty to the company is not recognised / Sally lost her job unfairly / treated unfairly • Public investment is not being considered / protected / advanced 	<ul style="list-style-type: none"> • Growth in company profits may be compromised. • Shareholder interest in shares may be negatively affected.
<ul style="list-style-type: none"> • Corruption not detected over a long period • Apathy of (honest) employees • Lack of transparency • Honest workers look the other way 	<ul style="list-style-type: none"> • Company policies can be easily manipulated / no accountability / no checks and balances in place • Corruption will continue / No consequences of crime • Fear of victimisation/lose their jobs
<ul style="list-style-type: none"> • Credibility & integrity of management • Labour law requirements & company policy (e.g. procurement, recruitment & performance bonus policies) • Consequences of this for the future of the company – image, share price 	<ul style="list-style-type: none"> • Unfair dismissal may place the company in a legal battle. • Share prices will take a tumble / investors will not be interested / shareholders may want to sell their shares.

9

TOTAL MARKS**15****TOTAL: 150**