Western Cape Government

METRO NORTH EDUCATION DISTRICT

SCHOOL-BASED ASSESSMENT

SEPTEMBER EXAMINATION

MARKING GUIDELINE

ACCOUNTING P1

TASK No.: 6

15 SEPTEMBER 2025

MARKS: 150

TIME: 2 Hours

This marking guideline consists of 14 pages.

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 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*: 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. If candidates provide more that 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. This memorandum is 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, marker 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 memo.
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 guideline. Note that one comment could contain different aspects.
15. Codes: f = foreign item; p = placement/presentation.

1.1 **Refer to Information B.**

Calculate the correct net profit after tax for the year ended 30 June 2025. Indicate a + for increase and a – for decrease.

Calculation of the correct net profit after tax		
Incorrect net profit	**2 277 180**	
Trading stock deficit (185 490 – 167 670) with correct sign	– 17 820	☑✓
Rent income (110 160 – 101 250) One part correct with correct sign	– 8 910	☑✓
Provision for bad debts adjustment (12 060 – 9 630) One part correct with correct sign	+ 2 430	☑✓
Insurance (8 640 ÷ 12 x 8) One part correct with correct sign	+ 5 760	☑✓
Correction of error: Asset (- 6 570 – 6 570) One part correct with correct sign	– 13 140	☑✓
Correct net profit before tax Operation, one part correct	**2 245 500**	☑
Income tax Accept no brackets	**(673 650)**	✓
Net profit after tax Check operation, NP – tax	**1 571 850**	☑
If no sign, assume + Positive/negative effect must be correct Foreign entries - 1 (max -2) **Do not accept Trading stock or Provision for bad debts as Foreign items/entries**		

13

1.2 **Retained Income Note on 30 June 2025.**

Balance at beginning of year balancing figure	**1 302 030**	☑
Net profit after tax see 1.1	1 571 850	☑
Repurchase of shares (18 000 x R1,44)	(25 920)	✓✓
Dividends Operation.	**(873 360)**	☑
Interim	**360 000**	
Final (2 232 000 x 0,23) One part correct	513 360	✓☑
Balance at end of year	**1 974 600**	

7

1.3 RUBY LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2024

ASSETS			
NON-CURRENT ASSETS	TA - CA		☑11 378 160
Fixed assets at carrying value			☑10 946 160
Fixed deposit		**3**	✓ 432 000
CURRENT ASSETS	720 000 x 1,7)		✓✓1 224 000
Inventories (185 490 – 17 820)			✓✓167 670
Trade and other receivables (**356 400** – 9 630 ✓✓ + 5 760☑ + 3 240✓ + 11 880✓) Pfbd Insurance Debtor Accrued inc			☑367 650 Operation, one part correct
Cash and cash equivalents	Balancing figure		☑688 680
TOTAL ASSETS	Transfer OE + L	**12**	☑**12 602 160**
EQUITY AND LIABILITIES			
ORDINARY SHAREHOLDERS' EQUITY	Operation		☑11 527 560
Ordinary share capital (**7 200 000** + 2 430 000✓ – 77 040✓)	Operation		☑ 9 552 960
Retained income	see 1.2	**5**	✓ 1 974 600
NON-CURRENT LIABILITIES		**1**	✓ 354 600
Mortgage loan: Onyx Bank			**354 600**
CURRENT LIABILITIES			**720 000**
Trade and other payable (118 800✓ + 8 910 ☑ + 3 240✓) Rent Debtor	Operation, one part correct		☑130 950
Current portion of loan			☑42 840 Balancing figure
SARS: Income tax (673 650 – 640 800)	Operation, one part correct		32 850*✓☑
Shareholders for dividends	see 1.2		513 360*☑
TOTAL EQUITY AND LIABILITIES	Operation	**9**	☑**12 602 160**
*Items under CL may be combined	Foreign entries -1 (max -2)		

30

TOTAL MARKS
50

CALCULATIONS:
RENT INCOME

Monthly rent before increase	100%
Increase	10%
Monthly rent after increase	110%

J	A	S	O	N	D	J	F	M	A	M	J	J
100%	100%	100%	100%	100%	100%	100%	110%	110%	110%	110%	110%	110%
7 months							5 months					1 month is received in advance

7 months x 100 = 700
5 months x 110 = 550
1 month x 110 = 110
R110 160 = 1 360%
R110 160 x 110/ 1360 = R8 910

Or

7x + 6x (1.10) = 110 160
7x + 6.6x = 110 160
13.6x = 110 160
x = 110 160
13.6 = R8 100
R8 100 x 1.10 = R8 910

QUESTION 2 CASH FLOW STATEMENT AND FINANCIAL INDICATORS

2.1 **Choose the correct term to complete each of the following statements. Write only the term next to the question numbers (2.1.1 to 2.1.4) in the ANSWER BOOK.**

2.1.1	Gearing	✓
2.1.2	Net working Capital	✓
2.1.3	Solvency	✓
2.1.4	Cash Flow Statement	✓

4

2.2

CASH GENERATED FROM OPERATIONS	
Profit before tax (882 000 + 378 000)	1 260 000✓✓
Adjustments in respect of:	
Depreciation	50 400✓
Interest expense	135 000✓
Profit before changes in working capital	1 445 400☑ operation; one part correct
Changes in working capital	**3 500**☑ Operation
Increase in inventory (787 500 – 864 000)	(76 500)✓
Increase in amounts receivable (900 000 – 1 000 000)	(100 000) ✓
Increase in amounts payable	**180 000**
Cash generated from operations	**1 448 900**☑ **Operation**

9

2.3.1 **Calculate: Income tax paid**

WORKINGS	ANSWER
27 000 ✓ + 378 000 ✓ + 35 000 ✓ Or -27 000 – 378 000 – 35 000	**440 000** ☑

4

2.3.2 **Calculation: Dividends paid**

WORKINGS	ANSWER
693 000 225 000✓ + 249 480 (720 000 – 27 000) x 36c ✓☑ Or 225 000 ✓ + 539 190 ☑ – 289 710 ✓ Or -225 000 ✓ - 539 190 ☑ + 289 710✓ **(289 710 + 249 480)**	**(474 480)** ☑ operation; One part correct Ignore brackets

4

2.4.1

CASH FLOW FROM INVESTMENT ACTIVITIES operation; One part correct	(1 220 400) ☑
Purchase of fixed assets (4 500 000✓ + 50 400✓ + 1 800 000✓ – 5 310 000✓) **Or** (5 310 000 – 4 500 000 – 50 400 – 1 800 000)	(1 040 400) ☑ One part correct **With brackets**
Sale of fixed assets	**1 800 000**✓
Changes in financial assets (3 690 000 – 1 710 000)	(1 980 000)✓ With brackets

8

2.4.2

CASH FLOW FROM FINANCING ACTIVITIES Operation; one part correct	1 514 160 ☑
Proceeds from shares issued (90 000 x R11,80)	1 062 000 ✓✓
Shares repurchased (27 000 X R8,82)	(238 140) ✓
Increase in loan (2 294 955 – 1 604 655)	690 300 ✓

5

Be alert to alternative workings such as ledger account or use of brackets or signs reversed. Ensure that only one option is marked consistently.

2.5.1 **% Operating expenses on sales**

WORKINGS	ANSWER
$\frac{1\ 350\ 000✓}{5\ 400\ 000✓} \times \frac{100}{1}$	**25%**☑ One part correct. 100 is not considered as one part correct.

3

2.5.2 Acid test ratio

WORKINGS	ANSWER
4 050 090 – 2 294 955 (two marks) 2 646 000 ✓ : 1 755 135 ✓✓ **3 510 000 – 864 000**	1,5 : 1☑
ENGLISH ONLY: CURRENT RATIO 3 510 000 ✓ : 1 755 135 ✓✓	**19/1** **OR** **2:1** **one part correct** **Must be x:1**

4

2.5.3 Net asset value per share (NAV)

WORKINGS	ANSWER
$\frac{7\ 649\ 910}{783\ 000}$ ✓✓ x $\frac{100}{1}$	**977 cents per share** ☑
(720 000 – 27 000 + 90 000)	Must be in cents; Assume it's in cents if not specified. One part correct. **x 100 not seen as one part correct.** **Accepts R9,77 / 997c**

4

TOTAL MARKS
45

QUESTION 3

3.1 Liquidity:

3.1.1	**Comment on the change in the liquidity of Diamond Ltd. Quote TWO financial indicators with figures.**

TWO financial indicators ✓ ✓ **Figures (with trend) ✓ ✓** **Comment ✓ ✓**

- **Current ratio;** increased from 2,3 : 1 to 2,8 : 1 / by 0,5 : 1.

  Increasing trend indicating possible stock-piling/company is not using it's current assets efficiently/may lead to difficulty meeting short-term debts/poor management
  of working capital.

- **Debtor's collection period;** increased from 36 days to 41 days.

  Debtors are not adhering to credit terms, which could lead to cash flow problems.

6

3.1.2	**Provide TWO suggestions on how the company can improve their liquidity position. Make reference to specific financial indicators.**

TWO valid points ✓✓ ✓✓ **At least ONE financial indicator quoted**

Award part marks for incomplete / partial / unclear responses

Need to improve available cash (**current ratio**) by promoting sales; better advertising (sales promotion); reduce mark-up % (from 54% to be closer to competitors); mark-down stock to move older stock.

Need to improve **collection from debtors** to bring this within credit terms, by:

- Reminders (SMS's, e-mails, calls etc.) sent to debtors to make payments.
- Offer discount for early payment.
- Charge interest for late payments / overdue accounts / encourage EFT payments or debit orders (online payments)

4

3.2 Return, earnings and market price on the JSE:

3.2.1	Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.

Financial indicator (with trend) ✓✓ **figures with explanation ✓✓**

- **ROSHE** decreased from 7,8% to 4,8%. (by 3% percentage points / 38 %) / compare to alternative investments
- **EPS** decreased from 87 cents to 65 cents (by 22 cents; by 25%) / representing a drop in profitability.

4

3.2.2	The shareholders of Diamond Ltd are not satisfied with the current market price of their shares. Explain by quoting figures/indicators and identify a factor that would have affected the market price of the shares.

Comparison of MP to NAV is essential (with figures). Part-marks for partial or incomplete answers.

Comparison ✓ **Figures ✓**

Market price of 756c is below NAV of 789c

Identify factor (figures not required) (any ONE factor) ✓✓: Accept other valid alternatives

- The decline in earnings has led to a decline in the share price on the JSE (from 828 cents to 756 cents)
- Low demand or reluctance to buy shares in this company / ROSHE decreased/ poor image of company or directors / lack of confidence in management

4

3.3.1 Risk and gearing:

Comment on how Diamond Ltd is managing their risk and gearing. Quote TWO financial indicators in your explanation.

trend with figures ✓✓

Debt/equity ratio increased to 0,5 : 1 from 0,2 : 1 / by 0,3 : 1

ROTCE decreased to 8% from 12% / 4% points / by 33,3%

Comment:

6

- Reckless borrowing / taking no action to use the funds productively The business is now highly geared / high reliance on loans ✓
- Negatively geared / ROTCE (8%) is lower than the interest rate on loans (11%) ✓

3.4 Dividend pay-out policy:

3.4.1	Calculate the dividend pay-out policy for 2025.	
	43 / 65 x 100 /1 = 66,2% ☑*✓ *one part correct (Accept: compare DPS: 43c vs EPS: 65c) One mark ✓ **only**	2
3.4.2	**Provide ONE possible reason why Diamond Ltd has decided to change their dividend pay-out policy for 2025.**	
	Any ONE valid reason ✓✓ Award part marks for incomplete - The DPS was kept constant at 43c, although there was a decrease in the EPS (from 87c to 65c) to try and keep the shareholder satisfied - Divert attention from the poor performance of the company - Directors to be re-elected - To try and create favour in the market to increase demand on JSE and push up share prices.	2

3.4.3	**One of the directors feel that the dividend pay-out policy should have remained constant. Give TWO possible reasons (with figures) for his opinion.**	
	Any TWO valid reasons (with figures/financial indicators) ✓✓ ✓✓ Award part marks for incomplete / partial / unclear responses • A drop in the EPS (from 87 cents) to 65 cents (by 22 cents / 25%) and an unchanged DPS at 43 cents has effectively increased the dividend pay-out policy/rate from 50% to 60% (by 16% / 32%)	4

- A constant pay-out rate at 50% would have resulted in a lower DPS of 32 cents (by 11 cents / 25%) in line with the decrease in the EPS.
- If the pay-out policy remained constant, the company would have been able to retain 50% of the EPS (instead of only 32%); to focus on long-term growth of the business.

3.5 Percentage shareholding:

3.5.1	**Comment on the price paid for the repurchase by Diamond Ltd. Provide TWO points and quote figures.**	
	Any TWO valid points (with figures/financial indicators) ✓✓ ✓✓ **Comparison of buyback price with either NAV or Market price** Award part marks for incomplete Paid R10,00 which is unfair to the existing shareholders • It is higher than the market price of R7,56 / R8,28 • It is higher than the NAV of R7,89 / R8,21 • Depleting the company's financial resources / directors are exercising poor management of cash/ possible fraudulent transaction	4

3.5.2	**Calculate Gold's new % shareholding in Diamond Ltd.**	
	847 800 / 1 755 000 x 100 /1 = 48,3% ☑*✓ *one part correct (Accept 48%)	2
3.5.3	**Explain the effect of the repurchase on Gold's % shareholding in the company. Quote trends/ figures to support your explanation.**	

Explanation on % shareholding ✓ comparative figures ✓ Gold has lost his majority share status; his % shareholding decreased from 51% to 48,3% / by 2,7% points / by 5,3% (see 3.5.2)	2

TOTAL MARKS
40

QUESTION 4

4.1 **Which type of audit report will discourage shareholders to buy shares in a company?**

Disclaimer of opinion ✓

accept Qualified

1

Provide TWO reasons why shareholders will not be interested to buy shares in such a company.

Any TWO valid reasons ✓✓ ✓✓ part marks for partial / incomplete / unclear responses **Mark independent from answer in 4.1.**

- Auditors not prepared to offer an opinion of the reliability of the financial statements is a clear indication of ineffective management / recording and reporting procedures and/or internal control processes.
- Poor corporate governance. Directors are not trustworthy or competent / Good ethics are not maintained over company finances.
- It gives a bad image (reputation) to the company which will have long term negative consequences such as low demand for shares, drop in share price, low customer turnover.
- Possibilities of corruption, mismanagement, investors do not want to lose their money.

4

4.2.1 **Explain the need for corporate social investment.**

Valid explanation ✓✓ part marks for partial / incomplete / unclear responses

- It is a recommendation of the King Code that will ensure the goodwill, loyalty and support of the community.
- It shows good corporate social responsibility.
- Compliance with the triple bottom line

2

4.2.2 **What do you understand by the *triple bottom line*?**

Valid explanation ✓✓ part marks for partial / incomplete / unclear responses

It is a recommendation of the King Code which encourages companies to focus on profit, people and planet so that aims and objectives are realised in a desirable manner.

2

4.2.3 **Which component of the annually published financial statements should contain details of the donation to the school?**

The directors' report ✓✓

2

4.3 **Explain why the independent auditors mentioned IFRS in the audit report.**

Any valid explanation ✓✓ Award part marks for incomplete / partial / unclear responses

- The financial statements must be comparable to those prepared by companies internationally.
- To comply with the requirements of the company's act

2

Explain why the auditor mentioned the Companies Act (Act 71 of 2008) in the audit report.

Any valid explanation ✓✓ Award part marks for incomplete / partial / unclear responses

- This assures the shareholders that the company is abiding by the law.
- Standards are maintained.
- This satisfies the shareholders that their investment is safe.
- This creates investor confidence in the company.

2

TOTAL MARKS
15

TOTAL: 150