GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

JUNE EXAMINATION
GRADE 12

2024

MARKING GUIDELINES

ACCOUNTING

(PAPER 1)

11 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 answers. If answer is incorrect, mark workings.
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 the 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 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. 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, marker must inspect 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 guidelines. Note that one comment could contain different aspects.
14. Codes: f = foreign item; p = placement/presentation.

QUESTION 1: STATEMENT OF COMPREHENSIVE INCOME, NOTES AND STATEMENT OF FINANCIAL POSITION

1.1 COMPANY CONCEPTS

1.1.1	C ✓
1.1.2	D ✓
1.1.3	A ✓
1.1.4	B ✓

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1.2 JONTY LIMITED

1.2.1

No.	Workings	Answer
(i)	7 890 720 – 1 500 000	6 390 720 ✓
(ii)	[200 000 – 118 000 – 10 000] 200 000 ✓ – 72 000 ✓☑ one component correct **OR** [452 000 – 247 200] 416 000 ✓ – 83 200 ✓ – 204 800✓ **OR** [118 000 + 10 000] signs must be correct. No part marks. R128 000 Four marks.	128 000 ☑ one part correct If workings given as final answer, give the marks for the workings
(iii)	452 000 – 247 200	204 800 ✓
(iv)	790 000 x 15/100 = 118 500 (no marks) 80 000 -1 150 000 X (15/100 X 4/12) 79 999 ✓ + 7 500 ✓☑ one component correct	87 499 ☑ one part correct

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1.2.2 Statement of Comprehensive Income for the year ended 29 February 2024

Sales (3 345 000 – 14 400 ✓)		3 330 600 ☑
Cost of sales (2 787 500 – 12 000 ✓) Ignore brackets		(2 775 500) ☑
Gross profit Operation, Sales – Cost of sales	**5**	555 100 ☑
Other income		
Commission income		**82 600**
Bad debt recovered		**3 260**
Rent income (208 250 – 17 000 ✓✓)		191 250 ☑
Provision for bad debt adjustment	**4**	780 ✓
Gross operating income		
Operating expenses		
Salaries and wages		**921 268**
Audit fees		**76 000**
Loss on sale of asset		**10 000**
Sundry expenses		**292 330**
Bad debts (14 100 + 540 ✓)		14 640 ☑
Depreciation (83 200 + 87 499 ☑ see 1.2.1 (iv)		170 699 ☑
Directors' fees (1 540 000 + 55 000 ✓ + 55 000 ✓) 110 000 two marks		1 650 000 ☑
Trading stock deficit (1 230 000 ✓ +12 000 ☑– 1 239 000 ✓) see cos If shown as surplus under income max 3 marks		3 000 ☑*
Packing Material (3 700 – 980)	**13**	2 720 ✓✓
Operating profit		
Interest income		**27 000**
Profit before interest expense		
Interest expense (2 509 000 one mark –1 984 000 one mark) 900 000 ✓ – 5 25 000 ✓✓) 75 000 x 12		(375 000) ☑#
Net profit before tax		
Income tax (150 000 + 17 000)		(167 000) ✓☑#
Net profit after tax	**6**	

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#must be in brackets *one part correct. Method marks for final answer, check learner operations.

1.2.3 Ordinary Share Capital Note

Authorised share capital: 3 000 000 ordinary shares

1 000 000	**Ordinary shares at the beginning**	6 000 000 ☑ * Balancing figure
(120 000)	**Shares repurchased** @ average price of R6,00 ✓✓ if (720 000) award full marks	(720 000) ☑ # Do not accept R864 000
200 000 ✓	Shares issued at R6,60 (must be x 6.60)	1 320 000 ☑
1 080 000 ☑	**Shares at the end of the year**	**6 600 000**

7

#must be in brackets
*one part correct

1.2.4 Equity and Liabilities section of the Statement of Financial Position on 29 February 2024

EQUITY AND LIABILITIES	
See 1.2.3 **ORDINARY SHAREHOLDERS' EQUITY** (1 080 000 ☑ x 620c ✓)	Two marks 6 696 000
Ordinary share capital	**6 600 000**
Retained income balancing figure OSE - OSC	96 000☑
NON-CURRENT LIABILITIES	1 459 000
[1 609 000 + 375 000] [2 509 000 - 1 984 000] **Mortgage loan** (1 984 000✓ – 525 000 ✓)	1 459 000☑
CURRENT LIABILITIES operation	1 691 790☑
Trade and other payables rent income transfer directors' fees **(774 290** + 17 000 ☑+ 10 900 ✓+ 110 000 ☑)	912 190☑*
#Shareholders for dividends (1 080 000 (see 1.2.3) x 0,22)	237 600✓☑
#Current portion of the loan see loan above	525 000☑
#SARS (Income tax)	17 000✓
TOTAL EQUITY AND LIABILITIES operation	9 846 790☑

16

***** one part correct
# Can be part of trade and other payables

65

QUESTION 2: CASH FLOW STATEMENT AND INTERPRETATION

DRUA LTD

2.1

(a) Operating profit before changes in working capital.

WORKINGS	ANSWER	
(2 884 000 – 2 314 000) one mark 1 995 000✓ + 570 000✓ + 185 000✓	2 750 000☑ one part correct	4

(b) Changes in working capital. You must also indicate whether there is an increase/decrease in the item. Circle or underline the correct option.

Increase in Inventory	**(135 850)**	
Increase/Decrease☑check learner answer in debtors 154 400 one mark 152 800 one mark (139 400 + 15 000)✓ – (122 800 + 30 000)✓	1 600☑# one part correct	
Increase/Decrease☑ check learner answer in creditors 101 700 one mark 119 080 one mark (89 200 + 12 500)✓ – (104 300 + 14 780)✓	(17 380)☑# one part correct	
Changes in working capital must include inventory	(151 630)☑	9
Accept the reversal of signs #signs must be correct.		

(c) Income tax paid

WORKINGS	ANSWER	
(1 995 000 – 1 396 500) one mark -27 000✓ + 598 500✓ – 48 000✓ 27 000 | 598 500 48 000 | **523 500** | Accept the reversal of signs or T-account	523 500☑	4

(d) Dividends paid

WORKINGS	ANSWER	
(372 250 – 157 500) 107 250✓ + 214 750 ✓ **322 000** | 107 250 157 500 | 372 250 Accept the reversal of signs or T-account	322 000☑	3

(e) Cash Flow from Operating Activities

WORKINGS	ANSWER	
See (a) See CIW See (c) See (d) 2 750 000☑ – 151 630☑ – 185 000✓ – 523 500☑ – 322 000☑ (1 600 – 135 850 – 17 380) one method mark, must see all	1 567 870☑ one part correct	6

2.2 (a) Retained income note

signs must be correct

Balance at the beginning of the year	**1 875 000**
Net profit after tax	1 396 500✓
Repurchase of shares (50 000✓✓ x (17,50 – 12,75) 4,75	(237 500) ☑ one part correct
Ordinary share dividends	**(372 250)**
Interim dividend (372 250 – 157 500)	214 750✓
Final dividend	**157 500**
Balance at year end	**2 661 750**

5

signs must be correct

(b) Cash Flows from Financing Activities	362 500☑ Operation
Proceeds from issue of shares (7 800 000 - 637 500 – 8 925 000)	1 762 500✓☑ one part correct
Repurchase of shares (50 000 x 17,50)	(875 000) ☑#
Decrease in loans (185 000 – 710 000)	(525 000) ✓

5

Method mark only if repurchase shares as calculated in retained income note x 17,50

2.3

The Cash Flow Statement reflects some important decisions made by the directors over the past year. Explain ONE good decision and ONE bad decision made by the directors. Support your answer with figures.	
Good decision with figures ✓	**Explanation ✓**
Be aware of other valid options	
Decreased loan with R525 000	The reducing of the loan will improve the companies' debt/equity ratio and the company will be improve its' creditworthiness.
Repurchased shares R875 000 / Issue of shares R1 762 500 or 100 000 shares (If answer issue of shares, explanation - funds available to repurchase shares and investments)	Shares were repurchased from unhappy shareholders. There were enough funds left for this transaction from the new issue of shares or the cash flows from operating activities/or issue shares to have funds available.
Bad decision with figures ✓	**Explanation ✓**
Increase in fixed deposit R60 000 # If answer fixed deposit (with figures) as good decision award only one mark. No mark for explanation if given as good decision.	The directors should have invested more funds into the Fixed deposit. The end of year cash on hand is R1 456 700. This should be invested in income generating assets.
No investment in fixed assets R0	The directors should have invested in purchasing fixed assets to grow income-generating assets. The end of year cash on hand is R1 456 700 and should be invested.

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QUESTION 3: ANALYSIS AND INTERPRETATION OF FINANCIAL INDICATORS

3.1

3.1.1	A ✓	Profitability
3.1.2	D ✓	Return
3.1.3	B ✓	Liquidity

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3.2 JACKSON LTD

3.2.1

Net profit after tax on sales	
WORKINGS	**ANSWER**
(945 000 – 283 500) one mark $\frac{661\ 500✓}{6\ 750\ 000\ ✓} \times \frac{100}{1}$	9,80%☑ Do not accept 0.98

3

Return on shareholders' equity	
WORKINGS	**ANSWER**
(945 000 – 283 500) one mark $\frac{661\ 500✓}{½\ (\ 4\ 320\ 000\ ✓ + 3\ 980\ 000\ ✓\ )} \times \frac{100}{1}$ (3 900 000 + 420 000) + (3 600 000 + 380 000) 4 150 000 two marks	15,9%☑ One part correct Accept 15.94% or 16% Do not accept 0.159, 0.154 or 0.16

4

(x100 is not one part correct)

3.2.2

Comment on Jackson Ltd's ability to control expenses. Quote financial indicators and figures to support your answer.
Financial indicator ✓ Quote figures with trend ✓ Comment, can compare to inflation rate ✓ Operating expenses on sales, improved/decreased (from 18,9%) to 17,5%/ by 1,4 basis points/ by 7,4% Net profit after tax on sales increased/ improved (from 8.7%) to 9.8% see 3.2.1/ by 1.1% points / by 12.6% Any ONE of the following comments: • The company is controlling expenses well as compared to the previous year. • Efficient cost control which led to increased profits. • Less sales are being used to cover expenses. The company should be more profitable this year.

3

3.2.3

The directors of the company feel that working capital has improved over the financial period. Quote TWO financial indicators and figures that support the directors. Comment on the figures provided.

Financial indicator ✓ ✓ Quote figures and trend ✓ ✓ Comment ✓✓
Do not accept average debtors' collection period or average creditors' payment period due to credit policy of 60 days Award part-marks for incomplete answers

Current ratio decreased from 2,8:1 to 1,9:1/by 0.7:1 (2,8 – 1,9)
Acid test ratio improved from 0,6:1 to 1,2:1/by 0.6:1 (1.2 – 0,6)

- The decrease in the current ratio is good for the business as the company has more liquid current assets than last year / Company is using its current assets more efficiently./ Trading stock on hand decreased.

- The increase in acid-test ratio is good for the business as the company is now able to cover short-term debt without having to sell stock.

6

3.2.4

The directors decided to take out an additional loan at the start of the current period. In hindsight some of the directors think this was a poor decision. Discuss the impact the additional loan has on the business. Quote financial indicators and figures to support your answer.

Debt/equity ratio ✓ Quote figures and trend ✓ Comment on risk or creditworthiness ✓
ROTCE ratio ✓ Quote figures and trend ✓ Comment on gearing ✓

Debt/equity ratio has increased from 0,4:1 to 1:1 / by 0,6 :1

Return on total capital employed decreased from 18% to 16% / by 2 basis points / by 11%.

Explanation could be combined with figures or separate; both risk and gearing must be mentioned (implied).

- The additional loan has caused the company to move from low risk last year to high risk this year, (therefore in future the company will not be able to borrow money).
- This also means that the business is negatively geared (no longer positively geared), as the interest rate on loans currently is 18% whereas the ROTCE is 16%. / The company will likely struggle to pay the finance or interest costs on the loan.

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3.2.5

Jenny Gusto is a shareholder of the company. She currently owns 12 500 shares and is considering selling her shares as she views the company as underperforming.

Provide ONE reason with financial indicators and figures to support Jenny's view to sell her shares.

Financial indicator ✓ Quote figures and trend ✓ Reason ✓

The market price decreased from 791 cents (R7.91) to 702 cents (R7.02) / by 89 cents/ by 11.25%.

Reason:

- Jenny should be concerned because the market price indicates that the public has lost confidence in the shares and are not demanding them as much as the previous year.
- Although the NAV increased to 805 cents, it is more than the market price that decreased to 702 cents. / Public not willing to pay what shares are worth.

3

Provide ONE reason with financial indicators and figures to convince Jenny to reconsider her decision and keep her shares.

Financial indicator ✓ Quote figures and trend ✓ Reason ✓

Net asset value improved / increased from 776 cents to 805 cents / by 29 cents.

Reason:

- The company has experienced some growth.
- The directors have not made decisions that reflect the growth in the NAV by 29c as seen by the decrease in the market price.
- With good decisions by directors to improve the image of the business, the market price could improve and in the long-term the market price of R7,02 (702c) can improve.
- Shares are a long-term investment. / NAV has increased by 29c./ Market price can increase if the directors make decisions that win the trust of the public/ improve the image of the business.

Or

Return on shareholders' equity improved / increased from 12% to 15.9%(see 3.2.1) which is better than alternative investments interest rate of 7.5%

3

3.2.6

If Jenny sells her shares now, calculate whether she will make a profit or loss on the shares. Jenny purchased all the shares at an issue price of R5,80 per share, two years ago.

WORKINGS	ANSWER
87 750 one mark 72 500 one mark (12 500 x R7,02)✓ – (12 500 x R5,80)✓ Or (R7,02 – R5,80) 12 500 ✓ x R1.22 ✓	15 250☑ one part correct Profit ✓

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QUESTION 4: AUDIT REPORTS AND CORPORATE GOVERNANCE

4.1 What kind of audit report did Broderick Ltd. receive from the independent auditors Vilakazi and Son?

Disclaimer ✓

1

4.2 As a shareholder, explain why you would be concerned about this audit report? State TWO points.

Any two points ✓✓ ✓✓ Award part-marks for incomplete answers

- This is a disclaimer/withheld/very bad report
- This does not reflect well on the company/not good for image of company.
- Proper corporate governance procedures have not been carried out.
- Proper internal control procedures have not been carried out.
- Potential investors (shareholders and lenders) will not want to invest in the company.
- The share price will be negatively affected (demand for the shares will decline).
- The company could be delisted on the JSE.
- The auditors will be more vigilant in future/could increase audit fees if they spend more time on the audits in future.
- Shareholders/Investors will lose faith in the directors/company.

4

4.3 Give TWO examples of audit evidence that auditors will require when fulfilling their duties.

Any two points ✓ ✓

- Asset registers,
- Source documents e.g. quotations, invoice, journals, ledgers, creditors' statements, bank statements, EFT voucher (proof of payments)
- Physical inspections,
- Contracts (signed)
- Minutes of meetings

2

4.4 Explain the role/responsibility of this committee and give a reason why this committee is necessary.

EXPLANATION: ✓ Note: Mark for explanation could be embedded in the reason

Review all salaries, bonuses and other earnings.
To prevent directors from paying themselves too much.
They must approve, and give advice on the proposals regarding fees, bonuses etc.

REASON: ✓✓ part-marks for incomplete, partial or unclear answers

- To ensure fairness/transparency in the payment of fees/salaries.
- To prevent fraud/corruption/wastage.
- Detect mismanagement or fraudulent activities.
- They can compare the remuneration/earnings against financial information of other companies in the industry/fairness to workers.

3

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TOTAL: 150