KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

MEMO

PREPARATORY EXAMINATION

SEPTEMBER 2024

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).
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 incorrect, mark the workings.
4. If a pre-adjustment figure is shown as the final figure, award 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 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 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. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in a certain question.
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, the marker must inspect the reasonableness of the answer.
11. Operation' means 'Check operation'. 'One part correct' means 'Operation & one part correct'. Note: check operation must be +,-,x,÷, or 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, 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.

This marking guideline consists of 9 pages.

Copyright Reserved

QUESTION 1

1.1.1

	WORKINGS	ANSWER
a.	**Calculation of additions to land and buildings:** 1 900 000 – 1 100 000	800 000 ✓
b.	**Calculation of depreciation on vehicles:** **Vehicle 1:** 500 000 – 450 000 50 000 -1 49 999 ✓✓ **Vehicle 2:** 437 500 x 20/100 X 6/12 43 750 ✓✓ **Vehicle 3:** 350 000 x 20/100 x 3/12 17 500 ✓✓	111 249 ☑ Operation one part correct
c.	**Calculation of carrying value on vehicle sold:** 437 500 ✓. – 87 500 ✓ – 43 750 ☑ see the answer for vehicle 2 in (b) 437 500 – 131 250 One Mark Two marks	306 250 ☑ Operation one part correct
d.	**Calculation of cost price of equipment on 1 March 2023:** 300 000 – 120 000	180 000 ✓

13

1.1.2

Calculation of profit/loss on sale of vehicle:		
WORKINGS		**ANSWER**
320 000✓ – 306 250☑ See the answer in (c)	profit on sale of an asset accept loss only if (c) is greater than 320 000	13 750 ☑ Operation one part correct

3

NOTE: The amounts calculated in 1.1.1 (b) and 1.1.2 above must be transferred to QUESTION 1.2.1, the Statement of Comprehensive Income.

Copyright Reserved

1.2.1 Statement of Comprehensive Income for the year ended 29 February 2024:

	Sales (10 200 000 ✓ + 36 720 ✓)	one part correct	10 236 720 ☑
	Cost of sales (6 000 000 ✓ + 24 000 ✓)	one part correct	(6 024 000) ☑
7	**Gross profit**	one part correct	4 212 720 ☑
	Other income	one part correct	112 850 ☑
	Rent income (116 000 ✓ – 17 600 ✓)	one part correct	98 400 ☑
	Provision for bad debts adjustment (6 136 – 5 436)		700 ✓✓
7	Profit on sale of an asset	see 1.1.1	13 750 ☑
	Gross operating income		no mark 4 325 570
	Operating expenses	one part correct	(2 473 620) ☑
	Audit fees		**61 000**
	Salaries and wages		**1 120 000**
	Insurance		**29 000**
	Directors fees		**950 000**
	Bad debts (81 000 ✓ + 8 000 ✓)	one part correct	89 000 ☑
	Stationery (35 000 – 7 000)		28 000 ✓✓
	Depreciation (111 249 + 19 350)	see 1.1.1 (b) one part correct	130 599 ✓☑
9	Sundry expenses	Balancing/missing figure	66 021 ☑
	Operating profit		**1 851 950**
	Interest income (11 150 ✓ + 900 ✓)	one part correct	12 050 ☑
	Operating profit before interest expense		1 864 000 ☑
	Interest expense		(64 000) ✓
	Net profit before tax		1 800 000 ☑
	Income tax (480 000 ✓+ 60 000 ✓)	one part correct	(540 000) ☑
10	**Net profit after tax**		1 260 000 ☑

Foreign entry -1 max -2

33

1.2.2	**EQUITY AND LIABILITIES**		
	Ordinary shareholders' equity (total equity and liabilities – (NCL + CL))	2 216 000 ☑	
2	Ordinary share capital (shareholders' equity – retained income)	1 431 000 ☑	
	Retained income	**785 000**	
	Non-current liabilities	no mark 1 984 000	
3	Loan (2 356 000 ✓ – 372 000 ✓) one part correct	1 984 000 ☑	
	Current liabilities (1 890 000 ÷ 2.1)	900 000 ✓✓	
	Trade and other payables (70 000 CC ✓ + 17 600 DEF INC (see rent income) ☑)	87 600 ☑	
	*Current portion of loan see NCL	372 000 ☑	
	*SARS – income tax	60 000 ✓	
	*Shareholders for dividends (560 000 – 250 000)	310 000 ✓✓	
	Bank overdraft Balancing/missing figure	70 400 ☑	
11	**Total equity and liabilities**	5 100 000 ✓	**16**

* maybe shown in TOP

TOTAL MARKS
65

Copyright Reserved

QUESTION 2

2.1

RETAINED INCOME		
Balance at beginning		**386 040**
Net profit after tax (846 540 – 253 290)		593 250 ✓✓
Shares repurchased (3 500 x R0.75) OR (22400- 19775)		(2 625) ✓✓
Dividends	Operation	(301 424) ☑
Interim (420 200 ✓ x R0.40 ✓)	One Part correct	168 080 ☑
Final		**133 344**
Balance at end	Operation one part correct	675 241☑

9

2.2.1

Dividends paid	
WORKINGS	**ANSWER**
52 525 ✓ + 168 080 ☑ see 2.1	(220 605) ☑ Operation One part correct

3

2.2.2

Taxation paid	
WORKINGS	**ANSWER**
7 750✓ + 253 290✓ + 7 500✓ OR –7 750 – 253 290 – 7 500	(268 540) ☑ Operation One part correct

4

2.3.1

Cash flow from investing activities	(486 885) ☑
Fixed assets purchased (3440 885 ✓ + 33 500 ✓ + 100 000 ✓ – 2 967 500 ✓)	(606 885) ☑
Sale of fixed assets	100 000 ✓
Change in financial assets	**20 000**

7

2.3.2

Net change in cash and cash equivalents	(91 250) ☑
Cash and cash equivalents at beginning	45 000 ✓
Cash and cash equivalents at end (1 250 – 47 500)	(46 250) ✓✓

4

Copyright Reserved

2.4.1 **Dividends per share**

WORKINGS	ANSWER
40 c ✓ + 32 c ✓ (133 344 ÷ 416 700) **OR** **301 424 ÷ 416700** **(Two marks)**	72 cents ☑ operation

3

2.4.2 **Debt/Equity ratio**

WORKINGS	ANSWER
300 000 ✓ : 3 029 596☑ see 2.1 (2 354 355 + 675 241)	0,1 : 1 ☑ one part correct

3

2.4.3 **% return on average capital employed**

WORKINGS	ANSWER
$\frac{846\,540 \checkmark + 164\,450 \checkmark}{\frac{1}{2}(3\,029\,596 \checkmark + 1\,443\,000 \checkmark) + \frac{1}{2}(300\,000 \checkmark + 1\,525\,000 \checkmark)} \times \frac{100}{1}$	32,1 % ☑ one part correct

7

TOTAL MARKS
40

QUESTION 3

3.1 **Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently and is thereby more profitable.**

Any TWO financial indicators (explaining trend) from Ilembe Ltd with figures ✓✓ ✓✓
NO marks for mentioning Umzinyathi figures and indicators

The % operating expenses decreased from 18.2% to 14.2% by 3.3% points

The % operating profit on sales increased from 22% to 24% by 2% points

The % net profit on sales increased from 19.6% to 21% by 1.4% points

4

3.2.1 **Comment on the % return on shareholders' equity of each company**

Financial indicator compared to interest on fixed deposit ✓✓ ✓✓

% return on shareholders' equity of Umzinyathi of 9.4% is below the interest on alternative investment of 10% by 0.6%

% return on shareholders' equity of Ilembe of 15% is above the interest on alternative investment of 10% by 5%

4

3.2.2 **A shareholder feels that earnings per share (EPS) in Umzinyathi Ltd are better than that in Ilembe Ltd. Explain by quoting one financial indicator or calculation why you agree with him.**

Expressing a change for EPS to a % ✓✓

The earnings per share of Umzinyathi Ltd increased by 72.5%

2

3.3 **Comment on the degree of risk and gearing of both companies.**
TWO financial indicators (with figures) and explanation
Explanation could be combined with figures or separate; both risk & gearing must be mentioned. Ignore reference to % ROSHE (i.e. do not penalise)

Umzinyathi Ltd:
Debt/equity ratio of Umzinyathi ltd increased from 0.3 : 1 to 1.2 : 1 by 0.9% (300%). This indicates a high financial risk ✓✓
ROTCE decreased from 15% to 11.1% by 3.9%. ROTCE of 11.1% is below the interest on loan of 15% by 3.9%. This indicate a negative gearing. ✓✓

Ilembe Ltd
Debt/equity ratio of Ilembe ltd increased from 0.2 : 1 to 0.4 : 1 by 0.2 (100%). This indicates a low financial risk. ✓✓

8

Copyright Reserved

ROTCE of Ilembe ltd increased from 17.8% to 22% by 4.2%.ROTCE of 22% is above the interest on loan of 15% by 7%. This indicate a positive gearing. ✓✓

3.4.1 **Comment on the price paid for the shares repurchased by Umzinyathi Ltd. Provide TWO points.**

Any two valid points with figures ✓✓ ✓✓ part marks for incomplete/unclear answers

Compare with figures R17.50 to MP of R12.00 or R15.00
Compare with figures R17.50 to NAV of R10.81 or R11.28

4

3.4.2 **Calculate the number of shares that Happiness purchased in Ilembe Ltd with the money he received from Umzinyathi Ltd.**
NOTE: She used R51 800 to pay for her son's school fees.

WORKINGS	ANSWER
2 625 000 ✓– 51 800✓ = 2 573 200 / 14✓	183 800 shares☑ One part correct

4

3.4.3 **Explain the effect of the shares repurchased and the new shares purchased on the % shareholding of Happiness in each company. Provide relevant calculations to substantiate.**
Explanation on % shareholding✓ Comparison in Umzinyathi Ltd with figures ✓
Explanation on % shareholding ✓ Comparison in Ilembe Ltd with figures ✓
Combined explanation with figures may be presented

Umzinyathi Ltd:

Happiness was the majority shareholder (51%)
She now has only 41.2% of the shares (309 000 / 750 000) so he has lost majority status.

Ilembe Ltd:

Happiness had 42% of the share
She now has 52 % of the shares (540 800 / 1 040 000) She is now the majority shareholder (or based on calculation in 3.4.2)

4

TOTAL MARKS

Copyright Reserved

30

Copyright Reserved

QUESTION 4

4.1

4.1.1	B ✓
4.1.2	A ✓
4.1.3	D ✓
4.1.4	C ✓

4

4.2.1 **What is meant by *good corporate governance.***

Explanation One valid point ✓✓✓ part mark for unclear/incomplete/partial answer

- Managing the business on sound business and ethical principles.
- Looking after the interest of all role players /stakeholders by being fair.
- Ensuring that the business has proper rules, policies and practices to create long term shareholder value, and are implementing them.

3

Why it is important to the shareholders. Provide ONE point.

Explanation One valid point ✓✓ part mark for unclear/incomplete/partial answer

- Impact on the image of the business / goodwill
- Improvement in share price
- Potential investors will be attracted
- Confidence in management and control

2

4.2.2 **Explain a possible reason why Msizi Khumalo says he will vote against the proposal by White Ltd.**

One valid point ✓✓ part mark for unclear/incomplete/partial answer

- 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

Copyright Reserved

4.2.3 **Explain why you agree with them. Provide ONE point.**

ONE valid point ✓ ✓ part mark for unclear/incomplete/partial answer

- He has taken irresponsible decisions
- Enriching himself at the expense of the business. (selfish gain)

Any relevant answer

2

Give the directors advice on how they should handle this. Provide ONE point.

ONE valid point ✓ ✓ part mark for unclear/incomplete/partial answer

- Call up a special meeting of shareholders
- Issue a grievance report
- Start disciplinary proceedings
- Ask him to step down

Any relevant answer

2

TOTAL MARKS
15

Copyright Reserved