education

Department of Education
FREE STATE PROVINCE

PREPARATORY EXAMINATION

ACCOUNTING P1

SEPTEMBER 2024

MEMO

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 a 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 the correct answer. If the answer is 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 marking guidelines for component parts within workings that earn no part marks, these will 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 different 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 question)
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, the marker must inspect the reasonableness of the answer before awarding the mark.
11. 'Operation' means 'Check operation'. 'One part correct' means 'Operation & 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. If only one line is presented, assume it is the numerator.
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 alternatives beyond the marking guideline. Note that one comment could contain different aspects.
15. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 9 pages.

Copyright reserved

QUESTION 1

1.1 ORDINARY SHARE CAPITAL

1 300 000	**Shares in issue on 01/03/2023**	**4 850 000**
✓ 200 000	Shares issued @ R5,75	✓ 1 150 000
✓ (90 000)	Shares repurchased @ R4,00 ✓	☑* (360 000)
☑* 1 410 000	**Shares in issue on 29/02/2024**	☑* 5 640 000

*operation, one part correct

7

1.2

Calculate the total dividends for the year.	ANSWER
Retained income beginning 255 000 NP after tax 567 000 Shares repurchased (180 000) Dividends ? Retained income end 360 000	282 000☑* *operation, one part correct
360 000✓ + 180 000✓☑ – 567 000✓ – 255 000✓ (540 000 – 360 000) see 1.1 repurchase	

6

1.3

Calculate the value of the closing stock using the weighted-average method.	ANSWER
Closing stock: 300 + 4 939 – 4 044 = 1 195 ✓ 1 047 800 two marks $\frac{54\,000 \checkmark + 993\,800 \checkmark}{5\,239 \checkmark}$ x 1 195 (300 + 4 939) = 200 three marks x 1 195	239 000☑ *operation, one part correct

5

1.4 STATEMENT OF FINANCIAL POSITION OF GARLAND LTD ON 29 FEBRUARY 2024

ASSETS		
NON-CURRENT ASSETS		*☑ 7 253 500
Fixed assets		✓ 6 963 500
Fixed deposit (340 000✓– 50 000✓)	**(5)**	*☑ 290 000
CURRENT ASSETS		*☑ 467 975
see 1.3 **Inventory** (239 000☑ + 2 940✓✓)		*☑ 241 940
Trade and other receivables transfer PBD insurance Interest (152 400✓+3 600✓– 6 240 ✓ + 18 550✓✓+ 1 725✓✓) (- 7 800 + 1 560)		*☑ 170 035
Cash and cash equivalents (6 000 + 50 000)		✓✓ 56 000
TOTAL ASSETS	**(16)**	*☑ 7 721 475
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		*☑ 6 000 000
Share Capital		see 1.1 ☑ 5 640 000
Retained income	**(2)**	**360 000**
NON-CURRENT LIABILITIES		552 000
Mortgage loan (800 000✓+ 156 000✓ – 204 000✓ – 200 000✓)	**(5)**	*☑ 552 000
CURRENT LIABILITIES		*☑ 1 169 475
Trade and other liabilities transfer rent audit (196 500 ✓+ 3 600✓ + 41 440✓✓ + 30 000✓✓)		*☑ 271 540
SARS: Income tax (243 000 – 220 000)		#✓✓ 23 000
Short term loan		#☑ 200 000
Shareholders' dividends # can be included in Trade and other payables		#✓ 150 000
Bank overdraft balancing figure; accept if negative		☑ 524 935
TOTAL EQUITY AND LIABILITIES	**(14)**	*☑ 7 721 475

42

– 1 for foreign items (max -2) ***operation, one part correct**
For misplaced items mark the workings, but penalise on the final answer

TOTAL MARKS
60

Copyright reserved

QUESTION 2

2.1

(i) Calculate: Acid-test ratio	ANSWER
534 330✓ + 125 000✓ + 427 685✓ : 324 000✓ 1 087 015 : 324 000	3,4 : 1☑ *operation, one part correct in form *x* : 1

5

(ii) Calculate: Debt-equity ratio	ANSWER
2 194 750✓ : 4 969 750✓	0,4 : 1☑ *operation, one part correct in form *x* : 1

3

(iii) The % return on average shareholders' equity	ANSWER
1 340 000 x 70% 938 000 ✓✓ ½✓ (4 969 750 + 3 661 750) ✓ (both figures) 4 315 750 two marks x 100	☑ 21,7% *operation, one part correct % sign not necessary

5

(iv) Net asset value per share	ANSWER
4 969 750 ✓ 1 700 000 ✓ x 100	292,3 cents☑ Accept R2,92 *operation, one part correct answer must be reflected in R or c

3

2.2

(i) Calculate the land and buildings purchased	ANSWER
2 049 700 – 1 820 000	(229 700)✓ ✓ Accept if not in brackets

2

(ii) Calculate the proceeds from fixed assets sold	ANSWER
Cost: 421 100 + 125 000 – 405 500 = 140 600 ✓☑* Carrying value: 140 600 – 66 650✓	73 950☑* *operation, one part correct

4

(iii) Calculate the depreciation on vehicles					ANSWER
918 500 ✓	x	(20% x 12/12) ✓	=	183 700	204 700☑ operation, one part correct
140 000 ✓	x	(20% x 9/12) ✓	=	21 000	
OR					
918 500	x	(20% x 3/12)	=	45 925	
1 058 500	x	(20% x 9/12)	=	158 775	

5

2.3

(i) Calculate: Income tax paid	ANSWER
110 000✓ + 402 000✓✓ + 125 000✓ – 110 000 – 402 000 – 125 000 (110 000)(402 000)(125 000)	☑ (637 000) operation, one part correct Must be in brackets

5

(ii) The amount invested during the year	ANSWER
1 450 000 – 1 610 000	✓✓ (160 000) Must be in brackets

2

(iii) Repayment of the loan	ANSWER
2 450 000 – 2 194 750	✓✓ (255 250) Must be in brackets

2

(iv) The net change in cash and cash equivalents	
	☑
Net change	527 185
	Must be in brackets ✓✓
Cash beginning (25 000 – 124 500)	(99 500)
	✓
Cash end	427 685

4

TOTAL MARKS
40

QUESTION 3

3.1

3.1.1	D ✓
3.1.2	C ✓
3.1.3	A ✓
3.1.4	E ✓
3.1.5	B ✓

5

3.2.1 **The directors of both companies tried to cut back on their expenses. Were they successful in their efforts? Quote TWO financial indicators for each company.**

Financial indicator ✓ ✓ figures Stormers Ltd ✓ ✓ explanation Stormers Ltd ✓
Any two indicators figures Cheetahs Ltd ✓ ✓ explanation Cheetahs Ltd ✓

INDICATOR	CHEETAHS LTD		STORMERS LTD	
	2024	2023	2024	2023
% Operating expenses on sales	18,7%	14,9%	12,6%	17,5%
% Operating profit on sales	16,8%	21,9%	24,7%	21,6%
% Net profit on sales	8,9%	11,8%	15,9%	13,3%

Cheetahs Ltd:
The directors were unsuccessful because % operating expenses on sales increased/% operating profit on sales decreased/% net profit on sales decreased.

Stormers Ltd:
The directors were successful because % operating expenses on sales dropped/% operating profit on sales increased/% net profit on sales increased.

8

3.2.2 **Compare the liquidity of the two companies to state which company is managing its liquidity better. Quote TWO ratios/indicators.**

Financial indicator ✓ ✓ figures Cheetahs Ltd ✓ ✓ any ONE explanation ✓
Any two indicators figures Stormers Ltd ✓ ✓

INDICATOR	CHEETAHS LTD		STORMERS LTD	
	2024	2023	2024	2023
Current ratio	2,2 : 1	2,4 : 1	4,5 : 1	5,0 : 1
Acid-test ratio	1,4 : 1	1,2 : 1	1,5 : 1	1,8 : 1
Debtors' collection period	29 days	32 days	41 days	38 days
Creditors' payment period	61 days	55 days	28 days	32 days

Copyright reserved

GENERAL COMMENT
The liquidity of Cheetah Ltd is better because they do not have too much stock tied up in cash/their debtors pay within 30 days/creditors are paid after 60 days, not before debtors pay their debt.

7

3.2.3 **Comment on the dividend pay-out policy of Stormers Ltd. Why do you think the directors changed the pay-out policy?**

Figure and trend ✓ Reason ✓

The dividend payout rate changed from 100% to 65%/by 35% points/53,9%.
The company is retaining some of their profit for further expansion.

2

3.2.4 **Comment on the gearing of Cheetahs Ltd.**

Financial indicator ✓ with figure(s) and trend ✓ comment ✓

The ROTCE changed from 12,5% to 9,7%/by 2,8% points/by 28,9%
It is less than the interest rates on loans (14%), the company has a negative gearing.

3

3.2.5 **Explain the decision taken by the directors of Cheetahs Ltd that affected the risk of the business. Quote ONE financial indicator.**

Decision with figure ✓ Financial indicator ✓ figures and trend ✓ comment ✓

They increased the loan with R3 800 000.
The debt/equity ratio increased from 0,3 : 1 to 1,2 : 1. They now have a high risk.

4

3.2.6 **Calculate the price per share paid for the shares repurchased by Stormers Ltd.**

$\frac{4\ 060\ 000✓}{280\ 000✓}$ = R14,50☑
One part correct

3

Explain the effect of the share repurchase on the % shareholding of Sophie Mona in Stormers Ltd.

$\frac{540\ 000}{1\ 020\ 000}$ x 100 = 52,9%✓☑

Sophie is now the majority shareholder. ☑ (Depending on learner 's answer)

3

TOTAL MARKS
35

Copyright reserved

QUESTION 4

4.1

4.1.1	Qualified	✓
4.1.2	Unqualified	✓
4.1.3	Disclaimer of opinion	✓

3

4.2 **Explain what is meant by *good corporate governance* and explain why it is important to shareholders.**

Explanation ✓✓ Part mark for unclear/incomplete/partial answers

- Managing the business on sound business and ethical principles.
- Looking after the interests of all role players/stakeholders by being fair.
- Ensure the company has proper rules, policies and practices to create long-term shareholder value.

Importance to shareholders ✓ Accept short, incomplete statements

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

3

4.3 **Consider the following scenarios which could arise in a business. In your opinion:**

- **For each scenario, state whether it is illegal or unethical.**
- **As a shareholder, how would you react in each scenario?**
- **What do you think will be the consequences for the guilty person?**

Illegal/unethical ✓ Reaction ✓ Consequence ✓ (Mark reaction and consequence separately)

4.3.1 **SCENARIO 1**

Illegal/ unethical	Reaction	Consequence
Illegal	It must be made public and he should face charges in court/ Alert the board of directors who should hold the CEO accountable for his actions/ Recommend the demotion/dismissal of the CEO in the meeting as a motion of no confidence.	He could be imprisoned, fined or could be prohibited from operating as a director.

3

4.3.2 Illegal/unethical ✓ Reaction ✓ Consequence ✓(Mark reaction and consequence separately)

SCENARIO 2

Illegal/ unethical	Reaction	Consequence
Illegal/ Unethical	If the internal auditor also agreed to do it, they both must be charged/ Advise the internal auditor not to get involved in illegal issues/ Recommend investigation on the action and the CEO be charged. Question the roll of the remuneration committee?	If found guilty, they could be imprisoned or fined/ Disciplinary action/ CEO must pay back the money. The remuneration committee must also be kept liable.

3

4.3.3 Illegal/unethical ✓ Reaction ✓ Consequence ✓ (Mark reaction and consequence separately)

SCENARIO 3

Illegal/ unethical	Reaction	Consequence
Unethical/ Illegal	Shareholders might have sympathy with the workers but may also be glad that the profit of the company is better. If stipulated per contract, it can be regarded as illegal. Not according to the King Code principle referring to well-being of the workers	The CFO might lose his job/ The workers/trade unions might revert to industrial actions/ A strike may affect the company's profits negatively. Withholding bonusses according to contracts could end-up in CCMA.

3

TOTAL MARKS
15

TOTAL: 150

Copyright reserved