GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

JUNE EXAMINATION
GRADE 12

2023

MARKING GUIDELINES

ACCOUNTING

(PAPER 1)

12 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 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 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. 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 guideline. Note that one comment could contain different aspects.
14. Codes: f = foreign item; p = placement/presentation.

QUESTION 1

1.1

1.1.1	Current Asset ✓
1.1.2	Net salary ✓
1.1.3	Risk and gearing✓

3

1.2.1

Calculate: Depreciation on vehicles

WORKINGS	ANSWER
Vehicle 1: 15 000 – 1 = 14 999 ✓	(14 999 + 26 000)
Vehicle 2: $\frac{312\,000}{1} \times \frac{25}{100} \times \frac{4}{12}$ = 26 000 ✓✓	40 999 ☑ One part correct and vehicle 1 + vehicle 2

4

1.2.2

Calculate: Profit/Loss with sale of vehicle 2

WORKINGS	ANSWER
249 600 ✓ – 26 000 ☑ see 1.2.1 = 223 600 – 210 000 ✓	13 600 ☑ one part correct and correct choice between profit or loss Profit OR Loss (Circle your choice)

4

NOTE: The amounts calculated above must be transferred to Question 1.2.3, the Statement of Comprehensive Income.

1.2.3 **Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2023**

Sales		
Cost of sales		
Gross profit		
Other income		
Discount received		**2 090**
Rent income (165 600 – 25 300 ✓✓)		140 300 *☑
Trading stock surplus (79 900 – 79 750)		150 ✓
Bad Debt recovered (550 + 150)		700 ✓✓
	6	
Gross operating income		
Operating expenses		
Salaries and wages		**164 430**
Audit fees		**131 470**
Stationary		**17 630**
Insurance (22 800 – 9 100 ✓)		13 700 *☑
Bank charges (5 770 + 140 ✓**)**		5 910 *☑
Directors' fees (768 000 + 24 000 ✓**)**		792 000 *☑
Loss with sale of asset		13 600 **☑
Depreciation (40 999 ☑ see 1.2.1 + 17 250 ✓)		58 249 *☑
Bad Debt		1 350 ✓
Provision for bad debt adjustment (3 500 – 3 100)	**13**	400 ✓
Operating profit		
Interest income		
Profit before interest expense	**NPBT + IE**	1 565 310 ☑
Interest expense (1 300 + 63 360 ✓✓)		(64 660) ☑
Net profit before tax	**NPAT + Tax**	1 500 650 ☑
Income tax		(450 195) ✓✓
Net profit after tax	**7**	**1 050 455**

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** If calculated as profit in 1.2.2 award method mark under op. income (only if it is any other figure than 13 600)
-1 Foreign items. Max -2

*one part correct

1.2.4 **Statement of financial position (balance sheet) on 28 February 2023**

ASSETS		
NON-CURRENT ASSETS		
115 000 – 17 250 **Fixed assets** (1 810 000 ✓ + 97 750 ✓+ 1✓)	1 907 751 ☑	**4**
Fixed Deposit		
CURRENT ASSETS		
Inventory	79 900 ✓	
Trade and other receivables see insurance **(71 829 +** 150 ✓ – 3 500 ✓+ 1 350 ✓+ 9 100☑ + 1 500 ✓**)**	80 429 ☑	
Cash and Cash equivalents		
TOTAL ASSETS same as Total equity and Liabilities	2 111 660 ☑	**8**
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY 120c x 1 200 000	1 440 000 ✓✓	
Ordinary share capital	**1 320 000**	
Retained income SHE - OSC	120 000 ☑	**3**
NON-CURRENT LIABILITIES	316 800	
116 160 one mark- 63 360 one mark, see interest expense Loan: Pride Bank (369 600 ✓– 52 800 ✓ ☑) 306 240 + 63 360 must see both for 1 mark	316 800 ☑	**4**
CURRENT LIABILITIES	354 860 ☑	
Trade and other payables	**67 330**	
Shareholders for dividends	44 500 ✓	
Current portion of loan see NCL	52 800 ☑	
SARS Income tax (450 195 ☑ see I/S – 350 145 ✓)	100 050 ☑	
Bank overdraft (90 040 + 140 ✓ **)**	90 180 ☑	
TOTAL EQUITY AND LIABILITIES	2 111 660 ☑	**9**

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QUESTION 2

2.1

2.1.1	False ✓
2.1.2	False ✓
2.1.3	True ✓

3

2.2 **BENFORCE LTD.**

2.2.1 **Ordinary Share Capital**

900 000	**Ordinary shares on 1 March 2022** Balancing figure; check that repurchase added back and issue deducted back (bottom to top)	4 725 000 ☑
150 000 ✓	Shares issued on 1 May 2022 @ R6,30 each	945 000 ✓
(70 000)	Shares repurchased @ R5,40 ✓ ✓ average price 5 292 000/980 000 no part marks	(378 000) Ignore brackets, one part correct i.e.70 000 or R5,40; do not accept 437 500 as final answer ☑
980 000 ✓	**Ordinary shares on 28 February 2023**	**5 292 000**

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2.2.2 **Calculate income tax paid**.

(1 900 000 - 1 330 000)
9 200 ✓– 570 000 ✓– 8 400 ✓= 569 200 ☑ One part correct
or
570 000 + 8 400 – 9 200= 569 200

Also accept alternative calculations like ledger account

4

Calculate net change in cash and cash equivalents.

Cash beginning of year	16 000 ✓
Cash end of the year (9 040 – 110 000)	(100 960) ✓✓
Net change in cash and cash equivalents	(116 960) ☑ One part correct Ignore brackets

Indicate whether this is a net inflow or net outflow ✓ of cash by circling your choice.

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2.2.3

Cash effects of investing activities **Correct use of brackets is important when awarding marks**	(909 400) ☑ one part correct
Purchase of Fixed asset (property)	(1 400 000) ✓
Fixed assets sold (2 690 000 ✓ + 1 400 000 ✓ – 4 010 500 ✓ – 420 100 ✓)	340 600 ☑ one part correct
Fixed deposit redeemed (700 000 – 550 000)	150 000 ✓

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2.2.4

Calculate the percentage operating profit on sales	
Workings	Answer
$\frac{450\ 000}{2\ 790\ 000}$ ✓ ✓ x $\frac{100}{1}$	16,1% ☑ One part correct. Must be calculated as a percentage, but sign not necessary also accept 16% and 16,13%

3

Calculate the current ratio	
Workings	Answer
584 440 ✓**:** 620 500 ✓	0,9**:**1 ☑ One part correct. Must be calculated as x**:**1 also accept 0,94:1

3

Calculate the stock turnover rate	
Workings	Answer
$\frac{1\ 860\ 000}{½\ (322\ 000 + 345\ 000)}$ ✓ ✓ 333 500 one mark	5,6 times ☑ one part correct, also accept 5,57

3

2.3 List the TWO most significant decisions that the directors made during the year. Quote figures from the Cash Flow Statement in each case.

Any two of the following decisions. Two marks each. Must include figures.

✓✓ ✓✓ no part marks

- Fixed assets purchased for R4 858 000
- Loans were raised for R2 600 000
- Shares were issued for R980 000

4

40

QUESTION 3

3.1.1 Explain why the liquidity of Lemi Ltd. are better than those of Dobi Ltd. Quote THREE financial indicators to support your answer.

Quoting of indicator ✓ ✓ ✓ Explanation for Lemi with figures ✓ ✓ ✓

Comparison with Dobi with figures ✓ ✓ ✓

- **Current ratio** of Lemi is 1,9 : 1 and of Dobi is 5,7:1. Lemi has enough current assets to cover its current liabilities whereas Dobi Ltd is holding too much of his funds in the form of current assets which may not result in a return for the business.
- **Acid-test ratio** of Lemi is 0,9 : 1 compared to Dobi's of 3,5 : 1. Even if Lemi is not able to sell all of its trading stock they should still be able to cover the short term debt. Dobi is holding much of its current assets in the form of trading stock (stock piling).
- **Period for which enough stock is on hand** for Lemi is 60 days and for Dobi it is double (120 days/4 months). Lemi has enough stock for 2 months which is sufficient. Dobi is holding stock for too long, stock can become obsolete, or even a risk of theft.
- **Debtors are paying** Lemi Ltd. much sooner than the debtors of Dobi is paying them. Debtors' collection period for Dobi is 59 days whereas Lemi is collecting from their debtors within 26 days.

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3.1.2 Which company uses more loans? In each case, quote a financial indicator to support your answer.

Lemi Ltd. ✓

Debt/equity ratio ✓ 2,1 : 1 for Lemi Ltd. and 0,3 : 1 for Dobi Ltd. ✓

Explain whether this is a good idea or not. Quote a financial indicator to support your answer.

It is not a good idea. ✓
Return on Capital Employed (ROTCE) for Lemi is 9,4% ✓
which means that the return he is earning is lower than the interest he is paying on the loan, 10,5%/(negative gearing) ✓

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3.1.3 The market price of the shares of Dobi Ltd. is doing much better than that of Lemi Ltd. Explain, quoting TWO financial indicators to support the opinion.

Comparing market price and NAV of Dobi ✓✓
Comparing market price and NAV of Lemi ✓✓

Market price of Dobi Ltd. is 905 cents which is higher than the Net Asset Value (NAV) of 755 cents OR market price is 150 cents higher than the Net Asset Value. Dobi Ltd. is thus able to fetch a price higher than the value of the shares in the books of the company.

Market price of Lemi Ltd. is 740 cents which is lower than the Net Asset Value (NAV) of 775 cents OR market price is 35 cents lower than the Net Asset Value (NAV).

Response for one mark only

The market price of Dobi is 905 cents compared to Lemi's market price of 740 cents/The market price of Dobi is 165 cents higher than that of Lemi.

4

3.1.4 Dobi Ltd has a better percentage return, earnings, and dividends than Lemi Ltd. Explain, by quoting THREE financial indicators to support this opinion

Financial indicator ✓ ✓ ✓ Figures ✓ ✓ ✓
Explanation ✓ ✓ ✓

- % returns on capital of Dobi is higher (9,5%) than that of Lemi (5,5%) and it is higher that the interest rate on fixed deposit of 6,8%
- EPS for Dobi is 720 cents whereas Lemi is only earning 179 cents per share./EPS of Dobi is 541 cents higher than that of Lemi.
- DPS for Dobi is 650 cents whereas for Lemi it is only 182 cents per share./DPS for Dobi is 468 cents higher than that of Lemi.

OR

For six marks (Two marks per yield per company, two marks for explanation)

- The dividend yield of Dobi is 90,2% compared to Lemi's of 101%. Although Lemi's is higher, it means that retained income is used to pay for dividends and this will have a negative impact on future growth of the company.
  OR
  Dobi's earnings per share = 720 and dividends per share 650. Retained 70 cent/share in business for capital growth. Lemi earnings per share = 179 and dividends per share 182. Retained income is used to pay for dividends and this will have a negative impact on future growth of company.
  (3 cent/share more dividends than earnings per share.)

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3.2 Comment on the audit reports of Dobi Ltd. and Lemi Ltd. In each case, explain how the report will affect Mary's decision concerning the shares she wishes to purchase in the company.

Dobi Ltd: Comment on ✓ Explanation ✓

Dobi Ltd. received an unqualified report which means that Mary can rely on the financial information in the financial statements in order to make a decision about purchasing the shares.

Lemi Ltd: Comment on ✓ Explanation ✓

This company received a disclaimer audit report. This means that Mary cannot rely fully on the financial statements in making a decision about investing in this company.

4

3.3 Calculate the number of shares that Mary must buy to become the majority shareholder of Dobi Ltd.

Workings	Answer
$\frac{1\ 250\ 000}{2}$ = 625 000 (50% of the shares) 625 000 ✓ – 605 000 ✓ = 20 000 shares + 1 = 20 001 shares	20 001 shares ☑ one part correct
OR	OR
$\frac{1\ 250\ 000}{1}$ x 51% = 637 500 shares 637 500 – 605 000 = 32 500 shares one mark one mark	32 500 shares One mark

3

35

QUESTION 4:

4.1 What is insider trading? Explain in your own words.

✓✓ part marks for unclear/partially correct answer

The illegal practice of trading on the stock exchange to one's own advantage through having access to confidential information

2

4.2 How does good corporate governance benefit the company?

✓✓ part marks for unclear/partially correct answer

Helps the company to regulate risk and reduce the opportunity for corruption.

2

4.3 What is the role and responsibilities of the remunerations committee? Explain briefly.

✓✓ part marks for unclear/partially correct answer. Any one of the following answers:

Review salaries, bonuses, and other earnings.
To prevent directors from paying themselves very high salaries.
They must approve and give advice on the proposed fees, bonuses etc.

2

4.4 There are seven primary characteristics of good governance. Name any TWO characteristics.

✓✓ Any two of the following answers:

- Social responsibility
- Transparency
- Accountability
- Responsible management
- Discipline
- Independence
- Fairness

2

4.5 Briefly explain why it is important for a company to include non-executive as well as executive directors on the board of directors.

✓ ✓ one mark each

- Executive directors are involved with internal functioning (operations) of the company/hands-on/decisions may be based on a narrow view.
- Non-executive directors have a wider perspective of the business environment, and act in the best interest of the company.
- The non-executive directors would exercise a watch-dog role; keep executive directors in check.
- More regular inputs than an internal auditor or other directors.
- Their inputs should be unbiased and independent.
- They share accountability with the other directors/more people have the interests of the company in mind.
- Executive directors would be more vigilant and professional in their duties/not tempted to engage in unethical activities.
- The more directors there are, the more opinions will be generated, which could benefit the company.
- The non-executive directors can be paid less than the other directors (because they do not work permanently in the company).

2

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