GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2023

MARKING GUIDELINES

ACCOUNTING PAPER 1 (10711)

10 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. Full marks for 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 workings 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. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: Check operation must be +, -, x, ÷, or per memo.
9. Where method marks are awarded for one part correct, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark. If a figure has earned a method-mark, this will be regarded as 'one part correct'.
10. In calculations, do not award marks for workings if numerator and denominator are swapped – this also applies to ratios.
11. 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 ☒.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f = foreign item; p = placement/presentation.

QUESTION 1

1.1

Calculate: Value of closing stock	
WORKINGS	**ANSWER**
78 + 631 – 602 107 ✓✓ (two marks) OR 5 955 600 – 5 056 800 (two marks)	x 10 500 x 100/125 8 400 ✓✓ 898 800 ☑ one part correct

5

1.2

(i) Calculate: Accumulated depreciation on vehicles	# ignore brackets * one part correct
WORKINGS	**ANSWER**
814 000 – 519 200	294 800 ✓✓ #

2

(ii) Calculate: Depreciation on equipment for the year	
WORKINGS	**ANSWER**
Old 561 000 × 10% = 56 100 CV is only 50 000 50 000 – 1 49 999 ✓☑* (If R50 000 or R1 is shown) New 55 000 × [10% × 6/12] 2 750 ✓☑* one component must be correct	52 749 ☑* #

5

(iii) Calculate: Disposal at carrying value on vehicles	
WORKINGS	**ANSWER**
one component must be correct 99 000 x [20% x 9/12] 165 000 ✓ – (66 000 ✓ + 14 850 ✓☑*) 99 000 two marks	84 150 ☑*

5

1.3 RETAINED INCOME NOTE ON 30 JUNE 2023

*one part correct
$ bracket to earn full marks

Balance at beginning of the year	Balancing figure	794 000	☑
Net profit after tax		721 000	✓✓
Shares repurchased (1 500 000 – 1 300 000) 200 000 ✓☑ x 15/100 ✓	(2 025 000 – 1 755 000) OR R270 000 x 0,15/1,35 Do not accept R300 000	(30 000)	☑$
Ordinary share dividends		**(440 000)**	
Interim dividends	1 500 000 x 12/100	180 000	✓✓
Final dividends		260 000	✓
Balance at the end of the year		**1 045 000**	

10

1.4 Statement of Financial Position on 30 June 2023

* one part correct

ASSETS			
NON-CURRENT ASSETS	TA – CA	3 119 800	☑
Fixed assets	NCA – FD	2 537 800	☑
Fixed deposit	**2**	**582 000**	
CURRENT ASSETS	CL x 1,2	1 407 600	☑☑
Inventory	see 1,1	898 800	☑
Trade and other receivables (Dep. W & E) (transfer) (Dir. fees) (SARS I/T) 209 100✓ + 11 000 ✓– 1 500 ✓ + 96 000 ✓✓+ 50 000 ✓✓		364 600	☑*
Cash and cash equivalents	balancing figure	144 200	☑
TOTAL ASSETS	TA must be the same as TE&L **13**	4 527 400	☑
EQUITY AND LIABILITIES			
ORDINARY SHAREHOLDERS' EQUITY		**2 800 000**	
Ordinary share capital		**1 755 000**	
Retained income		**1 045 000**	
NON-CURRENT LIABILITIES		554 400	
Mortgage loan (609 840 + 83 160) (693 000 x 20%) 693 000 ✓☑ – 138 600 ✓☑ OR 487 872 + 66 528 **4**		554 400 four marks	
CURRENT LIABILITIES		1 173 000	☑*
Trade and other payables (transfer) (acc exp Rent) 763 860 ✓ – 1 500 ✓ + 12 040 ✓✓		774 400	☑*
Shareholder for dividends		260 000	✓&
Current portion of loan		138 600	☑&
TOTAL EQUITY AND LIABILITIES	**9**	4 527 400	☑*

28

& inspect if included with T&OP
-1 foreign items max -2 -1 presentation max -2

TOTAL MARKS	**55**

QUESTION 2

2.1

2.1.1	Non-current liability ✓
2.1.2	Outflow of cash ✓
2.1.3	Current asset ✓

3

*Accept alternative methods such as ledger/reversal of signs
#Ignore brackets

2.2.1

Calculate: Inventory amount at the end of the financial year.	
WORKINGS	**ANSWER**
1 450 000 + 390 000	1 840 000 ✓✓

2

Calculate: Income tax paid	
WORKINGS	**ANSWER**
102 000 ✓ + 358 440 ✓ – 72 000 ✓ OR –102 000 – 358 440 + 72 000 one mark one mark one mark OR **SARS (Income Tax)** 72 000 | 102 000 Paid 388 440 | 358 440	388 440 ☑*# one part correct

4

Calculate: Dividends paid	
WORKINGS	**ANSWER**
(3 500 000 x 5/100) one mark **OR** (490 000 – 315 000) one mark 175 000 ✓ + 65 000 ✓	240 000 ☑*# one part correct

3

Calculate: Total purchases of fixed assets	
WORKINGS	**ANSWER**
Vehicles three marks 44 175 ✓ x 100/15 ✓ x 12/6 ✓ 589 000 **Equipment** 62 000 ✓	651 000 ☑#

5

*one part correct #must be in brackets

2.2.2

CASH EFFECTS OF FINANCING ACTIVITIES	1 849 900 ☑*
Proceeds from shares issued (300 000 x 4,2) 13 440 000 ✓ + 1 260 000 ✓☑* – 9 700 000 ✓	5 000 000 ☑*
Repurchase of shares	(1 500 000) ✓#
Repayment of loans (4 500 500 – 2 850 400)	(1 650 100) ✓#

8

2.2.3

NET CHANGE IN CASH AND CASH EQUIVALENTS 862 700 ✓ – 3 132 600 ✓ + 1 849 900 ☑ see 2.2.2. –2 299 900 two marks	(420 000) ☑*#
Cash and cash equivalents at the beginning	382 000 ✓
Cash and cash equivalents at the end operation	(38 000) ☑

6

2.2.4

Calculate: % Net profit before tax on sales

WORKINGS	ANSWER
$\frac{1\ 194\ 800\ ✓}{8\ 240\ 000\ ✓} \times \frac{100}{1}$	14,5% ☑ one part correct
$\frac{937\ 880}{8\ 240\ 000} \times \frac{100}{1}$	11,4% one part correct

3

Calculate: Current ratio

WORKINGS	ANSWER
1 430 000 ✓ : 650 000 ✓	2,2 : 1 ☑ one part correct shown as x : 1

3

Calculate: Dividends per share

WORKINGS	ANSWER
(315 000/3 500 000) 5c ✓ + 9c ✓✓ OR 0,05 + 0,09	14c ☑ one part correct accept R0,14

4

Calculate: % Return on shareholders' equity

WORKINGS	ANSWER
$\frac{836\ 360\ ✓}{12\ 126\ 925\ ✓✓} \times \frac{100}{1}$ ½ (13 941 500 + 10 312 350)	6,9% ☑ one part correct

4

TOTAL MARKS	45

QUESTION 3

3.1.1 **Cruz has been concerned about the company's working capital over the years. He proposed a new approach to directors by converting assets into cash quickly. Quote TWO financial indicators and explain why his concern is justify.**

Financial indicator ✓ ✓ Explanation with figures ✓ ✓

- Acid test ratio decreased from (0,9 : 1) to 0,7 : 1/by 0,2:1
- Stock turnover rate dropped from (8 times) to 5,2 times/by 2,8 times

4

3.1.2 **A shareholder has proposed that Cruz, the CEO, to acquires a loan from his wife, who is a bank consultant. Cruz did not agree to this proposal. Explain why you agree with him. Provide TWO points.**

Financial indicators ✓ ✓ trend and figures ✓ ✓
Explanation ✓ ✓ (mention risk/ gearing/compare with interest rate)

Debt equity ratio	ROTCE
increased from (0,4: 1) to 0,5: 1 / by 0,1:1	decreased from 20% to 13% / by 7% base point
Increased (high) risk as compared to previous year.	Negative gearing / lower than the interest paid on the loan of 14% / the company is not making a good use of loans to generate profit.

6

3.1.3 **Provide a calculation which agrees with their decision**

- In 2022: 90/93 x 100 = 96,8% ✓✓ of EPS was distributed as dividends
OR: retained 3,2% two marks

- In 2023: 57/81 x 100 = 70,4% ✓✓ of EPS was distributed as dividends
OR: retained 29,6% two marks
OR: 96,8% – 70,4% = 26,4% four marks

4

Give ONE reason why they took this decision.

Valid explanation ✓✓

- They decided to retain funds for future developments in the business.
- They want to improve cash flow.
- Equalisation of dividends for the future

2

3.1.4 (a) **Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.**

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

- ROSHE declined from 9,2% to 5% (by 4,2%)/compared to alternative investments. (Fixed deposits offer 6% in 2021 and 7% in 2022).
- EPS declined from 93 cents to 81 cents (by 12 cents; or by 12,9%)/ representing a drop in profitability

OR Earnings yield: 93/820 (11,34%) to 81/785 (10,31%) – using NAV
93/840 (11,07%) to 81/760 (10,65%) – using MP

4

(b) **Comment on the share price on the JSE and how the % return and earnings per share have affected the share price. Quote figures.**

Comment on the market price (MP) ✓ (with figures) ✓

- The decline in earnings has led to a decline in the share price on the JSE from (840 cents) to 760 cents (by 80 cents/9,5%) / a drop in demand for shares/investor confidence

OR

Comparison of MP with net asset value (NAV) ✓ (with figures) ✓

- The MP (760c) is lower than the Net Asset value (785c) by 25 cents/which was 20c higher than NAV in 2022/indicating declining demand.

2

3.1.5 (a) **State TWO different points to justify their concern. Quote figures or financial indicators**

Any TWO valid points (with figures) ✓✓ ✓✓

POINT 1

- Cruz has given himself a 25% increase.
- R500 000 increase is more than the fees of the other directors as they did not receive an increase (maintained at R1 000 000 each).

POINT 2

- EPS dropped from 93c to 81c **or** (by 12c)
- ROSHE dropped from 9,2% to 5% or 4,2 base points

4

(b) **Explain why the other directors were unhappy with the price paid for the shares repurchased from C. Cruz. State TWO points. Quote financial indicators and figures to support EACH point.**

Figures ✓ ✓ Explanation ✓ ✓

POINT 1
The shares were repurchased for R4,80 above the net asset value per share (1 300c – 820c) / 59% above NAV / received an inflated price / compromised the cash flow of the business.

POINT 2

The shares repurchase price is R4,60 more than the market price of the shares (1 300c – 840c) / this is an unreasonable price as there is no demand for the shares.

4

(c) **Provide a calculation and comment on whether the repurchase of these shares affected C. Cruz's shareholding status or not.**

WORKINGS	ANSWER
$\frac{1\ 795\ 000}{3\ 240\ 000} \times \frac{100}{1}$	55,4% ✓☑ one part correct must be a %

Comment
He is still the majority shareholder/shareholding decreased from 57,2% to 55,4% ✓

3

(d) **Explain why the public was not interested in buying the new shares issued at R7,90 per share. Quote ONE financial indicator with a figure. (excluding EPS AND ROSHE).**

Financial indicator with figure ✓ Explanation ✓

- DPS dropped from (90c) to 57c – shareholders not receiving a reasonable return.
- R7,90 is not a good deal when compared to the market price of R7,60/ (R8,40), especially if they were then prepared to sell the shares at R6,70. It indicates the company's desperate attempt to raise capital

2

TOTAL MARKS	35

QUESTION 4

4.1

Provide TWO key functions for which the human resources division may be responsible.

Any TWO valid points ✓ ✓

- Recruiting, hiring and retaining talent.
- Development and training of employees.
- Compensation and benefit of employees.
- Compliance and workplace safety.
- Ensure fairness in the workplace.
- Investigate misconduct and unethical behaviour.
- Handling disciplinary measures.
- Induction of newly appointed workers.

2

List TWO qualities that they may consider in a prospective candidate for a management position.

Any TWO valid points ✓ ✓

- Leadership skills
- Professional experience / Track record of previous position held.
- Good communication skills
- Time management skills
- Good administration skills
- Good decision maker and resolve conflicts promptly

2

Explain the role of a CEO in a company.

Valid explanation ✓✓ part-mark for unclear/incomplete answer

CEO is responsible for making major corporate decisions and managing the overall operations and resources of the company.

2

What impact would the image of the company have on the market price of shares? Explain ONE point.

Valid explanation ✓✓ part-mark for unclear/incomplete answer

Good image	Bad image
• Increase the share price and invite potential investors to buy shares.	• Decrease the share price and existing shareholders will sell their shares/discourage potential investors from buying shares.

2

4.2 **Provide TWO possible questions that a concerned stakeholder may have raised at the meeting with human resources.**

Valid explanation ✓ ✓

- How has this headline affected the company?
- Why was a disciplinary hearing not conducted with the CEO?
- What action will be taken against the CEO if he continues to mistreat other stakeholders?
- Does the company have a policy guiding senior managers on how to treat other stakeholders?
- What measures can be implemented to prevent such behaviour in future?

2

Explain ONE strategy that Mangray Limited can use to involve its employees in collective decision-making. Provide a reason to motivate your answer.

Explanation ✓✓	Reason ✓
• Conduct employee opinion surveys to provide feedback on corporate decisions.	Yield better ideas and improved results/Employees inputs can be taken into account.
• Create employee councils that act as representatives on employee-related matters / Get staff representation on the board.	Employees will be represented in all structures/Promote open door policies/Promote common financial language.
• Focus on treating employees fairly without expecting any favours.	Enhance better teamwork/Promote transparency and honest suggestions/inputs.
• Send employees to workshops that promotes the future vision of the company.	Increase productivity/Increase confidence, skill and compete with current trends.

3

"Good corporate governance helps companies to thrive and compete." Provide TWO points to show why you agree with this statement.

Any TWO valid explanations ✓ ✓

- It creates a clear vision of the future and gives targets
- Facilitates the attraction of potential investors.
- It improves performance and achieves better financial results.
- Unleashes new ideas and respond to new opportunities.
- Conduct employee opionion surveys to provide feedback on corporate decisions.

2

TOTAL MARKS	**15**

TOTAL: 150