GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2024

MARKING GUIDELINES

ACCOUNTING PAPER 1 (10711)

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 items). 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. Award full marks for a correct answer. If an 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 the marking guidelines 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. 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 marking guideline.
9. One part correct means ‘operation and one part correct’. 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 the 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 guidelines. Note that one comment could contain different aspects.
13. Codes: f = foreign item; p = placement/presentation.

QUESTION 1

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

Sales		**20 035 000**	
Cost of sales		**(11 409 700)**	
Gross profit		**8 625 300**	
Other operating income		**2 086 500**	
Bad debts recovered			
Sundry income			
Commission income (20 035 000 × 4/100) OR – 19 233 600		801 400	✓☑
Trading stock surplus see donations (982 400 ✓ – 64 000 ☑ 923 200 ✓)		4 800	☑$*
Rent income [18 000 + 2 700] two marks (258 300 ✓ – 20 700 ✓✓)		237 600	☑*
Gross operating income		**10 711 800**	
Operating expenses GOI – OP	**11**	(4 394 300)	✓#
Insurance			
Depreciation			
Sundry expenses			
Audit fees (69 720 ✓ + 34 860 ✓) OR + [69 720 x ½]		104 580	☑*
Donations		64 000	✓✓
Stationery		58 520	✓
Provision for bad debts adjusted		6 500	✓
Directors' fees (1 307 840 ✓ – 131 760 ✓✓)		1 176 080	☑*
	11		
Operating profit		**6 317 500**	
Interest income		**94 500**	
Profit before interest expense		**6 412 000**	
Interest expense		**162 000**	
Profit before income tax		**6 250 000**	
Income tax		**(1 750 000)**	
Net profit after tax		**4 500 000**	

22

# Ignore brackets *one part correct
$ if shown as deficit mark the workings and penalise on the answer

1.2 Statement of financial position for the year ended 29 February 2024

ASSETS		
NON-CURRENT ASSETS		
Fixed assets		
Fixed deposit 94 500 ✓ × [100/9 × 12/10] ✓	**3**	1 260 000 ☑*
CURRENT ASSETS		**3 429 700**
Inventories (923 200 ✓+ 9 780 ✓) [68 300 – 58 520]		932 980 ☑*
Trade and other receivables pro.bd dir. Fee transfer SARS:IT (480 390 ✓– 30 500 ✓✓+ 131 760 ☑ + 3 200 ✓+ 62 730 ✓✓) [24 000 + 6 500] [1 812 730 –1 750 000]		647 580 ☑*
Cash and cash equivalents balancing figure		1 849 140 ☑
TOTAL ASSETS	**12**	
EQUITY AND LIABILITIES		
ORDINARY SHAREHOLDERS' EQUITY TCE – NCL (16 176 000 – 1 396 000)		14 780 000 ☑☑
Ordinary share capital SHE – RI		13 741 520 ☑
Retained income	**4**	1 038 480 ✓
NON-CURRENT LIABILITIES		1 396 000
Loan 228 000 three marks 1 624 000 ✓ – (240 000 ✓✓ × 95% ✓) [402 000 – 162 000] – 12 000 two marks one mark	**5**	1 396 000 ☑*
CURRENT LIABILITIES		1 796 325 ☑*
Trade and other payables aud. Fee rent inc. transfer (1 024 565 ✓ + 34 860 ☑ + 20 700 ☑ + 3 200 ✓)		1 083 325 ☑*
Current portion of loan see NCL		228 000 ☑#
Shareholders for dividends		485 000 ✓✓#
TOTAL EQUITY AND LIABILITIES	**9**	

*one part correct #may be added to the T&OP

33

TOTAL MARKS
55

QUESTION 2

JELLICOE LIMITED

2.1 Ordinary share capital note on 29 February 2024

1 900 000	**Ordinary shares at the beginning**	**5 320 000**
470 000 ✓	New shares issued balancing figure Must subtract repurchased	2 027 000 ☑
(270 000) ☑	Repurchased shares at R3,10	(837 000)✓☑# one part correct do not accept 243 000
2 100 000 ✓✓	Shares at the end of the year	6 510 000 ☑ If × R3,10 (ASP)

8

2.2

Calculate: Income tax paid	
WORKINGS	**ANSWER**
(1 625 000 – 1 170 000) 93 600 ✓ + 455 000 ✓ + 46 000 ✓ OR – 93 600 – 455 000 – 46 000 one mark one mark one mark Be alert to alternative workings such as ledger account or use of brackets or signs reversed.	594 600 ☑ one part correct ignore brackets

4

Calculate: Dividends paid	
WORKINGS	**ANSWER**
1 900 000 × 12/100 OR 417 000 – 189 000	228 000 ✓✓

2

2.3

CASH FLOW OF FINANCING ACTIVITIES	533 000 ☑ one part correct
Proceeds from shares issued See 2.1 no brackets	2 027 000 ☑
Funds used to repurchase shares see 2.1 270 000 x 0,90 270 000 x R4 OR (837 000 + 243 000)	(1 080 000) ✓☑*
Change on loan [56 900 × 12] (682 800 ✓ – 268 800 ✓) OR 2 620 800 one mark – 2 206 800 one mark	(414 000) ☑*

7

NET CHANGE IN CASH AND CASH EQUIVALENTS	437 800 ☑*
Cash and cash equivalents at the beginning	(57 800) ✓✓
Cash and cash equivalents at the end	380 000 ✓

4

*one part correct

2.4 **The CEO is concerned about an increased amount of change in working capital. Identify TWO areas that affected the change and provide ONE solution to address each of the concerns. Quote figures and trends.**

CONCERN ✓ ✓	SOLUTION ✓ ✓
Debtors increased by R510 000	Offer early settlement discount / Send friendly reminders / Set clear payment terms / implement penalty and late payment fees for slow payers
Creditors decreased by R375 000	Renegotiate settlement terms / Change to supplier with more favourable terms

4

2.5 **Calculate: Net Asset value per share**

WORKINGS	ANSWER
7 425 000 two marks 10 371 600 ✓ – 2 946 600 ✓ x 100 2 100 000 ☑ see 2.1 1	353,6 cents ☑ one part correct ignore cents

4

Calculate: Dividends per share

WORKINGS	ANSWER
[189 000/2 100 000 see 2.1] 12c ✓ + 9c ☑☑	21c ☑ one part correct

4

Calculate: % return on average shareholders' equity

WORKINGS	ANSWER
1 170 000 ✓ x 100 6 500 000 ✓ 1	18% ☑ one part correct ignore sign

3

TOTAL MARKS
40

QUESTION 3

BUHLE LIMITED

3.1

3.1.1	C (Solvency) ✓
3.1.2	A (Return on equity) ✓
3.1.3	D (Gearing) ✓

3

3.2 **Shareholders are complaining about the irresponsible price decrease during the 2024 financial year. The directors maintain that pricing is of significant importance when compared to competitors. Justify the directors' decision. Quote TWO financial indicators with figures.**

Financial indicator ✓ ✓ figures & trend ✓ ✓

- % Gross profit on sales increased (from 20,1%) to 28,2 % / by 40,3% / by 8,1% base points.
- % Net profit on sales increased (from 16,3%) to 22,0% / by 35,0% / by 5,7% base points.

4

3.3 **Comment on the net working capital of the company. Quote TWO financial indicators with figures.**

Financial indicator ✓ ✓ figures & trend ✓ ✓

Any TWO of the following

- Current ratio increased/deteriorated (from 1,8 :1) to 3,6 :1 / by 1,8 :1
- Acid-test ratio increased/deteriorated (from 0,9 :1) to 2,9 :1 / by 2 :1
- Debtors' collection period increased/deteriorated (from 31 days) to 58 days / by 27 days.
- Stock holding period increased/deteriorated (from 54,6 days) to 78,9 days / by 24,3 days.

Comment (could be included in the above) ✓✓

- The company may have challenges in converting its receivables into cash an in managing inventory effectively.

FOR ONE MARK:

- Buhle Ltd will struggle to pay their short-term debt
- Buhle Ltd will experience liquidity problems
- Buhle Ltd has too much stock on hand
- Buhle Ltd is not managing their working capital effectively

6

3.4 **Explain how the issue of new shares has affected the financial risk and gearing of Buhle Ltd. Quote TWO financial indicators and figures.**

Financial indicator ✓ ✓ figures & trend ✓ ✓ Comment ✓ ✓

Debt equity ratio decreased/improved (from 0,9 **:**1) to 0,4 **:**1 / by 0,5 **: 1**

Comment: There is a reduction of risk/low risk.

ROTCE improved (from 7,5%) to 16,9% / by 125,3 % / by 9,4% base points.

Comment: The company is positively geared/lowly geared as ROTCE is higher than the interest rate on loans of (7,2%).

6

3.5 **Explain why directors should be interested in the price of their company's shares on the JSE.**

Any ONE valid comment ✓✓

- It shows public confidence in the company.
- It can be compared to other companies/an external indicator.
- Shareholders will want to have capital growth on their investment.
- Directors will be judged on the performance of the shares as this reflects the performance of the company.
- Directors need to monitor MP to gauge how their decisions are being received by the market.
- A higher market value can enhance the company's ability to attract investors, secure financing
- The share price influences the company's public image and reputation
- Share price trends can inform directors' strategic decisions (when to issue new shares, buy back existing shares, or pursue expansion opportunities).

2

Comment on the price of the new shares issued in February 2024. Give a reason why shareholders should not be satisfied with this price. Quote TWO financial indicators and figures to support your opinion.

Compare price received to NAV and MP ✓ ✓ with figures ✓ ✓

- The issue price of the new shares is 1 750 cents compared to the MP of 1 920 cents per share/difference of 170 cents.
- The issue price of the new shares is also lower than the NAV of 1 841 cents per share/difference of 91 cents.

Reason ✓ (could be included above)

- The price of the new shares is lower/less than the market price/NAV.
- Market-related reasons e.g., the company is losing out on additional funding as shares could have been sold at a price in the range of 1 841 per share, or on the stock exchange for R578 000 more.

5

Calculate the maximum number of shares that F.Nxumalo will be able to sell without losing his majority status (assume that all other shares stay unchanged).

WORKINGS	ANSWER
2 400 000 x 50% = 1 200 000 1 200 000 + 100 = 1 200 100 1 272 000 ✓ – 1 200 100 ✓ OR 2 400 000 x 51% = 1 224 000 1 272 000 – 1 224 000 one mark one mark OR 1 272 000 x 2/53 one mark one mark	71 900 ☑shares one part correct **OR** 48 000 shares one m. mark

3

3.6 **Explain how the company managed to fund the high dividends without using the borrowed money to make the shareholders happy. Provide ONE point with figures.**

part mark for unclear/partial answer

- The profits of 240 000 shares repurchased will be redistributed to existing shareholders. ✓✓

Accept the answer if not mentioned above

- 340 000 shares issued at the average price of 1 750 cents higher than the market price of 1 540.

2

Explain the change in the dividend payout rate and give a reason for this change. Quote figures.

figures and trend ✓

- The dividend payout rate decreased (from 96%) to 80% / by 16,6% / by 16% base points.

Reason ✓✓ (could be included above)

- The company has retained funds for future expansion plans / improve cash flow / equalisation of dividends for the future .

3

Explain whether the shareholders should be satisfied with the earnings and returns of the company. Quote TWO financial indicators.

Financial Indicator ✓ ✓ figures and trend ✓ ✓

- The EPS increased (from 125%) to 200% / by 62,5% / by 75% base points.
- Return on average shareholder's equity (ROSHE), increased (from 10,3%) to 12,7% / by 23,3% / by 2,4% base points.

Any valid comment ✓✓ (could be included above)

- Shareholders should be satisfied as the return is higher than the return on alternative investments (5,5%)
- shareholders might be satisfied because it indicates that the company is generating more profit per share, thus increasing the value of their investment.

6

TOTAL MARKS
40

QUESTION 4

4.1 **The shareholders of Ekurhuleni Ltd will not be happy with the audit reports of the past 5 years after the recent findings.**

Explain what an unqualified audit report is. ✓✓ part mark for unclear/partial answer

An unqualified audit report indicates that the financial statements of a company are free of significant errors and fairly represent the company's financial position / A review that concludes that the documents are transparent and compliant with Generally Accepted Accounting Principles (GAAP).

Why the shareholders will not be happy. ✓

The reports have been misleading and it will affect the share price of the company.

3

4.2 **Watchdog (Gatekeeper)**

An auditor serves as a watchdog regarding several important functions to ensure transparency, accountability and compliance within the company. Explain TWO key functions of an auditor in the company.

Any valid explanation ✓✓ ✓✓ part mark for unclear/partial answer

- Detect and prevent fraud within the company by examining financial transactions and assessing internal controls.
- Verify compliance with applicable regulations and laws/Ensures that accounting records are conducted in accordance with relevant accounting standards.
- They recommend improvement of internal controls and operational efficiency to strengthen governance practices.
- They provide assurance to the public, regulators and stakeholders that the financial statements are reliable and accurate.
- They promote transparency and accountability within the company.
- They reduce the risk of errors or fraud and improve overall financial management.
- They identify potential weaknesses or areas where controls may be lacking and recommend improvements to mitigate risks.
- They provide an audit opinion on whether the financial statements are free from material misstatements and whether they present a true and fair view of the company's financial performance and condition.

4

4.3 **Shareholders concern and company reputation:**

As a shareholder, explain TWO effects that will be of concern based on these findings.

Any valid explanation ✓✓ ✓✓ part mark for unclear/partial answer

- They will lose confidence in the company's management and their financial reporting.
- The impact on the financial losses/having to face law suits from other parties who have suffered financial harm due to the scandal/Having to pay fines or penalties imposed by regulatory authorities.
- The reputation/image of the company will be tarnished and make it difficult to attract customers and potential investors in the future.
- Senior management might resign which will disrupt the company's leadership continuity and further erode investor confidence.

4

4.4	**The CFO of Ekurhuleni LTD has emphasised that maintaining financial data integrity is crucial for the company to ensure accurate reporting and compliance with regulations. State TWO practices that can help to maintain the integrity of accounting records within the company.**	
	Any valid explanation ✓✓ ✓✓ part mark for unclear/partial answer • Establishing clear policies and procedures. • Monitoring and reviewing financial data regularly. • Implementing effective internal controls and safeguards to prevent any data errors or fraud. (division of duties/authorisation levels/reconciliation processes/recovery systems). • Using reliable and integrated software tools. • Training and educating employees regularly.	4

TOTAL MARKS
15

TOTAL: 150