



GAUTENG PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2020

MARKING GUIDELINES

ACCOUNTING PAPER 1 (10711)

MARKING PRINCIPLES

1. 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 is 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 working for that figure (not the method mark for the answer).
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. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark.
9. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect, at least in part.
10. Be aware of candidates who provide valid alternatives beyond the marking guideline.
11. Codes: F = foreign item; P = placement / presentation.
12. 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 pages

QUESTION 1: CONCEPTS AND FINANCIAL STATEMENTS

(50 marks; 40 minutes)

1.1

CONCEPTS		
1.1.1	B	✓
1.1.2	A	✓
1.1.3	D	✓
1.1.4	C	✓

4

1.2.1 Calculate the correct net profit.

Net profit as per profit and loss		1 810 404	
Interest on fixed deposit	(504 000 x 10%)	50 400	✓
Provision for bad debts adjustments	64 800 x 5% (3 420 - 3 240)	180	✓
Rent income	(94 608 x 230/1460)	(14 904)	✓✓
Loss of stock	(25 200 x 30%)	(7 560)	✓
Insurance	(15 120 x 5/12)	6 300	✓✓
Directors' fees		(9 000)	✓
Interest expense	(709 200 + 223 200 - 846 000)	(86 400)	✓✓
Taxation		(483 120)	✓
Correct net profit after tax	*(operation one part correct)	1 266 300	✓*

12

1.2.2 TRADE AND OTHER RECEIVABLES

Debtors' Control		64 800	
Less provision for bad debts (64 800 x 5%)		(3 240)	✓
Net trade debtors	(operation)	61 560	✓
Income receivable	(see interest on FD above)	50 400	✓
Prepaid expenses	(see insurance above)	6 300	✓
Insurance claim (25 200 x 70%)	(may be shown as part of income receivable)	17 640	✓
SARS Income tax (524 520✓ - 483 120✓)	(operation one part correct)	41 400	✓*
	(operation one part correct)	177 300	✓

9

1.2.3 TWO-WAY LTD

BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON
29 FEBRUARY 2020

ASSETS			
NON-CURRENT ASSETS	(operation one part correct)	5 483 052	✓
Fixed Assets		5 180 652	✓
Financial Assets			
Fixed deposit (504 000 – 201 600)		302 400	✓✓ 4
CURRENT ASSETS	(7 548 522 – 5 483 052) (Non-current assets – Total assets)	2 065 500	✓
Inventory (757 800 ✓ – 25 200 ✓)	(one part correct)	732 600	✓
Trade and other receivables	(see 1.2.2)	177 300	✓
Cash and cash equivalents (954 000 + 201 600 ✓)	(missing figure)	1 155 600	✓
TOTAL ASSETS	(see total equity and liabilities)	7 548 552	✓ 8
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	(700 000 ✓ x 8,80 ✓) ([1 000 000 x 60%] 600 000 + 200 000 – 100 000 = 700 000)	6 160 000	✓
Share capital	(operation)	5 354 860	✓
Retained income		805 140	✓ 5
NON-CURRENT LIABILITIES		572 400	
Loan : Canara Bank	(709 200 ✓ – 136 800 ✓) (one part correct)	572 400	✓ 3
CURRENT LIABILITIES	(operation)	816 152	✓
Trade and other payables		112 352	
Shareholders for dividends	(700 000 x 0,81)	567 000	✓✓
Current portion of loan	(see long-term loan above)	136 800	✓
TOTAL EQUITY AND LIABILITIES	(operation one part correct)	7 548 552	✓ 5

Foreign entries -1 (max -2)

Placement / Presentation / Incomplete details -1 (max -2)

Marks
50

25

QUESTION 2

2.1	2.1.1	False ✓		3
	2.1.2	True ✓		
	2.1.3	False ✓		

2.2.1	Ordinary Share Capital Note			
Authorised				
1 200 000 ordinary shares				
Issued				
480 000 ✓	Shares in issue on 1 May 2019		1 500 000 ✓	
120 000 ✓	Ordinary shares issued 30 July 2019		480 000 ✓	
(50 000) ✓	Shares repurchased at R3,30 ✓ AVP must never be R4,40		(165 000) ✓	
550 000 ✓✓✓ one part correct	Shares in issue on 30 April 2020		1 815 000 ✓	
2 739 000 (Shareholders equity)				
4.98 (NAV)				
= 550 000				
				11

Retained Income Note				
Balance at beginning of financial year			606 000 ✓	
Net profit after tax (360 000 70/30) OR (1 200 000 – 360 000)			840 000 ✓✓	
Repurchase of shares (220 000 – 165 000) OR (50 000 x 1,10) See OSC above one part correct			(55 000) ✓✓	
Dividends			(467 000) ✓	
Paid	(600 000 ✓ x 21/100 ✓) one part correct		126 000 ✓	
Recommended	(550 000 ✓ x 62/100 ✓) one part correct		341 000 ✓	
Balance at end of financial year			924 000 ✓	
				13

2.2.2

Calculate the income tax paid.

22 600 ✓ + 360 000 ✓ – 12 800 ✓ = 369 800 ✓ **one part correct**

OR

– 22 600 ✓ – 360 000 ✓ + 12 800 ✓ = – 369 800 ✓ **one part correct**

Mark one line only – choose line to benefit candidate
Accept alternative methods such as ledger account.

4

Calculate the dividends paid.

126 000 ✓ + 220 500 ✓ = 346 500 ✓ **one part correct**

See RI

Accept alternative methods such as ledger account.

3

Calculate the loan repayment amount.

135 000 – 246 000 = (111 000) ✓✓

Accept reversed signs.

2

Calculate the net change in cash and cash equivalents.

Net change in cash and cash equivalents	105 000 ✓ One part correct
Opening bank balance (35 600 ✓ – 22 000 ✓)	(13 600) ✓ One part correct
Closing bank balance	91 400 ✓

5

2.2.3

Cash effects on investing activities

Fixed assets purchased 5 890 000 ✓ + 26 900 ✓ + 22 000 ✓ – 5 328 000 ✓ OR 5 328 000 - 26 900 – 22 000 – 5 890 000 Mark one line only – choose line to benefit candidate Accept alternative methods such as ledger account	(610 900) ✓ One part correct
Proceeds from asset sold	22 000
Fixed assets matured (210 000 ✓ x 1/2 ✓) OR (315 000 x 1/3) OR (315 000 – 210 000)	105 000 ✓ One part correct
	(483 900) ✓ One part correct

9

Marks
50

QUESTION 3

3.1.1

Calculate the acid-test ratio.

$$2\,273\,400\checkmark - 942\,200\checkmark : 1\,024\,000\checkmark$$

$$= 1\,331\,200 : 1\,024\,000$$

$$= 1,3 : 1 \quad \checkmark \quad \text{One part correct} \quad \text{Shown as ratio (x : 1)}$$

4

Calculate the debt-equity ratio.

$$3\,000\,000\checkmark : 13\,686\,600\checkmark$$

$$= 0,21 : 1 \quad \checkmark \quad \text{One part correct} \quad \text{Shown as ratio (x : 1) accept 0,22}$$

3

Calculate the return on average shareholders' equity.

$$\frac{1\,335\,600\checkmark}{\frac{1}{2}\checkmark (13\,686\,600\checkmark + 11\,653\,000\checkmark)} \times 100 = 10,54\% \quad \checkmark \quad \text{one part correct}$$

must be shown as a %

25 339 600 Two marks
12 669 800 Three marks

5

3.1.2

Comment on the dividend policy for 2020. Provide a calculation to support your answer.

$$\frac{40\checkmark}{77\checkmark} \times 100 = 51,95\% \quad \text{OR} \quad 52\% \quad \checkmark \quad (\text{one part correct ; must be shown as a \%})$$

Comment ✓ Figures ✓

The directors distributed 52% of earnings for dividend and retained 48%.

The directors distributed 40% less and retained 40% more as compared to 2019.

5

3.1.3

The directors decided to change the dividend policy in 2020. Give TWO reasons for this change.

The directors decided to retain more in 2020 because they have plans for growth and expansion. ✓✓

For equalisation of dividends ✓✓

4

3.1.4

Comment on the gearing and degree of risk for 2020. Quote TWO relevant indicators in your comment.

Financial indicators ✓✓ Figures ✓✓ Explanation ✓✓

The debt-equity ratio is 0,21:1. (see 3.1.1) The company is lowly geared and low risk.

The ROTCE of 16,4% is higher than the interest rate of 11%. The company is positively geared.

6

3.1.5

The shareholders are dissatisfied with the repurchase price of shares. Using the relevant indicators and figures, explain why they are dissatisfied.

Explanation ✓ figures and / or financial indicators ✓✓
Relevant ratios: NAV and market price of shares

The repurchase price of 800 cents per share is more than the NAV of R7,78 and more than the JSE price of R7,80.

3

3.2

AUDIT REPORT

3.2.1

Briefly explain the role of an independent auditor.

Valid explanation ✓✓

- Protects the interests of the shareholders
- Appointed by the shareholders to express an independent opinion on whether the financial statements are a true and fair reflection of the company's financial position

2

3.2.2

What type of report did Ivory Limited receive? Explain your answer.

Disclaimer of opinion ✓

Valid explanation ✓✓

- There is insufficient evidence to express an opinion as the donation of R350 000 could not be verified.
- Inventory overstated/operating expenses understated

3

3.2.3 **To whom is this audit report addressed?**
 Shareholders ✓

1

3.2.4 **State TWO possible consequences for the independent auditor if he had NOT mentioned the donation in his report.**
 Valid explanation ✓ ✓

- He could face a disciplinary hearing by the professional body.
- He may not be reappointed as an external auditor.
- He may be charged/fined/lose his licence to practise.

2

3.2.5 **State ONE consequence that this report would have on the company.**
 Valid explanation ✓✓

- It can create negative publicity, which can lead to a poor image.
- It can result in the loss of investor confidence/potential investors.
- Existing shareholders may want to sell their shares which can result in the decrease in the demand of shares.
- The directors will be held accountable.
- Directors can get a vote of no confidence.

2

3.2.6 **How will this report affect the price of shares?**
 Valid explanation ✓✓

Shareholders might want to sell their shares which can lead to a drop in share price/drop in demand can result in drop in share price.

2

3.2.7

Explain why the independent auditors mentioned IFRS in the audit report.

Valid explanation ✓✓

- The financial statements must be comparable to those prepared by companies internationally.
- To comply with the requirements of the company's act

2

3.2.8

(a)

Explain the need for corporate social investment.

Valid explanation ✓✓

- It is a recommendation of the King Code that will ensure the goodwill, loyalty and support of the community.
- It shows good corporate social responsibility.
- Compliance with the triple bottom line

2

(b)

What do you understand by the *triple bottom line*?

Valid explanation ✓✓

It is a recommendation of the King Code which encourages companies to focus on profit, people and planet so that aims and objectives are realised in a desirable manner.

2

(c)

Which component of the annually published financial statements should contain details of the donation to the Covid-19 Food Parcel Relief?

The directors' report ✓✓

2

Marks
50