



education

Department:
Education
PROVINCE OF KWAZULU-NATAL

ACCOUNTING

PAPER ONE

MARKING GUIDELINE

COMMON TEST - JUNE 2020

NATIONAL SENIOR CERTIFICATE

GRADE 12

MARKS: 150

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 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 answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as the final figure, award one mark. Not the method mark for the answer. Note: if figures are stipulated in memo for components of workings, these do not carry the method for final 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. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in a certain question.
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, the marker must inspect the reasonableness of the answer before awarding the mark.
10. Operation' means 'Check operation'. 'One part correct' means 'Operation & one part correct'. Note: check operation must be +, -, x, ÷, or per candidates operation.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect, indicate with a ☒. Note: do not award marks for workings if numerator and denominator are swapped-this also applies to ratios.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f=foreign item; p=placement.

This memorandum consists of 8 pages

QUESTION 1

Choose the correct word from those given in brackets. Write only the word next to the Question number (1.1.1 – 1.1.4) in the ANSWER BOOK.

1.1.1	E ✓
1.1.2	C ✓
1.1.3	A ✓
1.1.4	B ✓

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1.2 Statement of Comprehensive Income for the year ended 31 May 2020.

Sales (15 520 000 ✓ + 90 000 ✓)	Operation	15 610 000	✓
Cost of sales (9 700 000 ✓ + 62 500 ✓)		(9 762 500)	✓
Gross profit	Operation	5 847 500	✓
Other operating income	Operation one part correct	204 490	✓
Rent income (202 500 – 16 500)	Two or nothing	186 000	✓✓
Bad debts recovered (15 700 + 2 000)	Two or nothing	17 700	✓✓
Provision for bad debts adjustment (45 000 ✓ – 44 210 ✓)		790	✓
Gross income		6 051 990	
Operating expenses	Operation one part correct	(1 681 190)	✓
Salaries and wages (541 000 – 25 000)	Two or nothing	516 000	✓✓
Employers contributions (21 000 – 2 500 – 250)	Two or nothing	18 250	✓✓
Directors fees (480 000 + 430 000)	Two or nothing	910 000	✓✓
Audit fees		38 000	
Sundry expenses	Balancing figure	14 940	✓
Packing material (78 000 + 3 000 – 78 500)	Two or nothing	2 500	✓✓
Bad debts		45 000	✓
Insurance		55 000	
Depreciation		65 000	
Loss due to fire (36 000 x 20/80)	Two or nothing	9 000	✓✓
Trading stock deficit (1 200 000 – 62 500 – 1 130 000)	Two or nothing	7 500	✓✓
Operating profit	Candidate must use 28% on sales	4 370 800	✓
Interest income		72 000	
Operating profit before interest expenses	Operation	4 442 800	✓
Interest expense	Operation	(42 800)	✓
Net profit before taxation		4 400 000	✓
Taxation		(1 320 000)	✓
Net profit after tax		3 080 000	✓

Foreign entry -1 max -2

36

TOTAL MARKS
40

QUESTION 2**2.1 Ordinary share capital note**

AUTHORISED SHARES		
300 000 Shares		
ISSUED SHARES:		
100 000 ✓	Shares issued on 1 June 2019	1 000 000 ✓
100 000 ✓	Shares issued on 1 January 2020 Balancing figure	1 500 000 ✓
(10 000) ✓	Buy-back of shares @ 12.50 (2 375 000/190 000)	(125 000) ✓
190 000 ✓	Shares issued at the end	2 375 000 ✓

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2.2 RECONCILIATION BETWEEN NET PROFIT BEFORE TAXATION AND CASH GENERATED FROM OPERATIONS

Net profit before tax (165 200 x 100/28)		590 000
Adjustment in respect of :		
Depreciation		16 645
Interest on loan		120 000 ✓
Operating profit before changes in working capital	Operation one part correct	726 645 ✓
Net change in working capital	Operation one part correct	37 765 ✓
Decrease in inventory (145 000 – 125 000)	Two or nothing	20 000 ✓✓
Decrease in trade and other receivables (139 000 – 115 000)	Two or nothing	24 000 ✓✓
Decrease in trade and other payables (56 800 – 50 565)	Two or nothing	(6 235) ✓✓
Cash generated from operations	Operation one part correct	764 410 ✓

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2.3 Cash Flow Statement for the year ended 31 May 2020

Cash flow from operating activities	Operation one part correct	379 585 ✓
Cash generated from operations	See 2.1	764 410 ✓
Interest paid	See 2.1	(120 000) ✓
Dividends paid (14 000 ✓ + 100 000 ✓) or (14 000 + 360 000 – 260 000)	One mark One mark	(114 000) ✓
Tax paid (165 200 ✓ – 10 375 ✓ – 4 000 ✓) or (4000 + 10 375 – 165 200)		(150 825) ✓
Cash flow from investing activities	operation one part correct	(121 285) ✓
Purchases form Fixed assets (814 800 – 16 645 – 19 430 - 979 440) (979 440 ✓ + 16 645 ✓ + 19 430 ✓ – 814 800 ✓)		(200 715) ✓
Proceeds from sale of fixed assets		19 430 ✓
Changes in financial assets		60 000
Cash flow from financing activities	operation one part correct	630 000 ✓
Proceeds from shares issued		1 500 000 ✓
Buy-back of shares		(150 000) ✓
Changes in loan		(720 000)
Net change in cash and cash equivalent		888 300
Cash and cash equivalent at the beginning		(421 000)
Cash and cash equivalent at the end		467 300

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2.4 Besides paying back the loan, the directors have taken other major decisions that have affected the cash balance. State TWO other major decisions (exceeding R200 000) and quote the figures from the Cash Flow Statement.

In EACH case, state how the decision will affect the future of the company.

DECISION	FUTURE EFFECT ON COMPANY
Decision and amount	Valid explanation
Purchase of fixed assets R200 715 ✓	Capital growth – investment in fixed assets will lead to expanded business activities ✓ • Creation of employment • Cater for more customers to increase profits
Issue of shares R1 500 000 ✓	• Financing expansions/ extensions of fixed assets ✓ • Expanded shareholder base will affect dividends • Improve cash flow

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2.5 Debt/equity ratio

350 000 ✓ : 2 499 900 ✓

0,14 :1 or 0,1 : 1 Operation one part correct

3

TOTAL MARKS
45

QUESTION 3

3.1.1	B✓
3.1.2	C✓
3.1.3	A✓

3

3.2.1 RETAINED INCOME

Balance at the beginning		7 480 ✓
Buy back of shares (40 000 x 1.25)	Two or nothing	(50 000) ✓✓
Net profit after tax		681 720 ✓
Ordinary share dividends		(389 200)
Interim dividends		179 200 ✓
Final dividends		210 000 ✓
Balance at the end	Operation one part correct	250 000 ✓

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3.2.2 Balance Sheet (Statement of Financial Position) on 30 April 2020.

Assets		
Non-current assets	TA - CA	4 279 800 ✓
Tangible assets		4 079 800
Financial assets (415 000 ✓ – 215 000 ✓)		200 000 ✓
Current assets	(CL x 2)	1 536 400 ✓
Inventory		222 600
Trade and other receivables	Balancing figure	886 400 ✓
Cash and cash equivalent (212 400 ✓ + 215 000 ✓)		427 400 ✓
Total assets	NCA + CA Or Total equity and liabilities = Total assets	5 816 200 ✓
Equity and liabilities		
Shareholders' equity	(610 x 680 000) ÷ 100	4 148 000 ✓
Ordinary share capital	SE-RI	3 898 000 ✓
Retained income	See 3.2.1	250 000 ✓
Non-current liabilities		900 000
Loan(1 500 000 ✓ – 465 000 ✓ + 165 000 ✓ – 300 000 ✓)		900 000 ✓
1035 000 two marks + 165 000 one mark – 300 000 one mark		Operation one part correct
Current liabilities		768 200 ✓
Trade and other payables (231 920 ✓ + 210 000 ✓ + 26 280 ✓)		468 200 ✓
Current port of loan		300 000 ✓
Total equity and liabilities	Operation one part correct CL + NCL + SE	5 816 200 ✓

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Presentation / Incorrect or incomplete details -1 (max -2)
Foreign entries-1 (max -2) Misplacement -1 per line

TOTAL MARKS**35**

QUESTION 4

4.1.1 Calculate the amount of dividends Veli would earn for the financial year ended 29 February 2020. Shares repurchased do not qualify for final dividends.

Interim: $23\ 000 + 2\ 000 = 25\ 000 \times 0,30 = R\ 7\ 500$ ✓
 Final: $25\ 000 - 3\ 000 = 22\ 000 \times 0,50 = R11\ 000$ ✓
 R18 500 ✓ One part correct

3

4.1.2 Veli is not satisfied with the dividend policy of Wembezi Ltd. Explain why. Quote and compare relevant financial indicators to support his feelings.

For 2 marks each:

The pay-out policy for 2019 was 75% (120/160) ✓✓ and for 2020 it decreased to 50% (85/170) ✓✓

For 1 mark each:

EPS increased from 160c to 170c and DPS decreased from 120c to 85c

One mark

One mark

4

4.1.3 Veli wants to sell his shares in Wembezi Ltd and invest his funds in an alternative investment. Quote and explain TWO relevant indicators, other than dividends and earnings, to support his intention.

Ratio, explanation and figure ✓✓ ✓✓

- Return on shareholder's equity (ROSHE) decreased by 3% from 23% to 20%.
- Market price decreased by 110 cents from 750 cents to 640 cents.
- Net asset value per share decreased by 105 cents from 760 cents to 655 cents.

4

4.1.4 Why would the company spend money on skills development? Explain ONE point.

ANY RELEVANT ANSWER ✓✓

- It develops the workers and improves worker productivity
- Companies are expected to equip workers with the necessary skills and knowledge (King Code/Legislation).

2

4.1.5 Refer to Information A. How did the company benefit from this? Name ONE example and quote figures.

Example ✓ **figure** ✓

- Sales increased by R4 800 000 from R13 700 000 to R18 500 000.
- Workplace accident cost decreased by R15 000 from R23 000 to R8 000.
- Loss on production decreased by R5 000 from R7 000 to R2 000.

2

4.2.1 Comment on the liquidity position of the company. Quote THREE financial indicators (with figures) in your answer.

Current ratio ✓ decreased from 1,7 : 1 to 0,9 : 1 ✓

Acid test ratio ✓ decreased from 0,6 : 1 to 0,4 : 1 ✓

Rate of stock turnover ✓ decreased from 5 times to 3 times by 2 times. ✓

If candidates provide additional irrelevant indicator, search for the correct ones in the answer provided by the candidate and award marks accordingly.

For those who provide more than three options, penalty of -2 for any irrelevant indicators (max -2).

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4.2.2 One of the directors feel that the loan should be paid as soon as possible. Do you agree? Explain. Quote TWO financial indicators with figures to support your answer.

No ✓

Financial indicators and figures ✓ ✓

Explanation ✓ ✓

Debt equity ratio is 0,06 : 1 which means the business is in position to borrow more monies. This indicates low risk.

The return on total capital employed (ROTCE) for 2020 is 24% which is greater than the interest rate of 16%. This indicates positive gearing.

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4.2.3 The shareholders should be satisfied with the return on their investment and the companies' earnings. Explain TWO financial indicators with figures to support this opinion.

Explanation with figures. ✓✓ ✓✓

Return on shareholders' equity improved from 10,6% to 18%. 18% is higher than return on alternative investment of 6% by 12%.

Earnings per share improved from 45 cents to 49 cents per share

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TOTAL MARKS
30