

MARKING GUIDELINES

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SOUTH AFRICAN COMPREHENSIVE ASSESSMENT INSTITUTE
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MARKING GUIDELINES

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no foreign item penalty for misplaced item). No double penalty applied.
2. Full marks for correct answer. If answer incorrect, mark the workings provided.
3. 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).
4. 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.
5. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
6. Where penalties are applied, the marks for that section of the question cannot be a final negative.
7. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
8. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
9. Codes: f=foreign item; p=placement/presentation.

QUESTION 1: ETHICS, CORPORATE GOVERNANCE AND AUDIT REPORT
(20 marks; 15 min)

1.1 Ethical Issues

Choose an explanation from Column B that matches an ethical issue in Column A. Write only the letter (A – E) next to the question number (1.1.1 – 1.1.5).

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

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1.2 Corporate Governance and Audit Report

1.2.1 Briefly explain your understanding of ‘good corporate governance’.

One valid point ✓✓

- Running the business in an ethical and transparent way;
- Looking after the interest of the employees, the community, the environment and all other stakeholders involved in the company;
- Ensuring proper rules and procedures are in place and being implemented;
- Engaging all role players in matters that affect them.

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1.2.2 Explain why a company must have their financial statements audited by an external auditor.

One valid point ✓✓ part marks for incomplete/partial answers

- This is a requirement of the company’s act – to protect shareholders.
- Shareholders are members of the public and this gives them confidence in the financial statements – that they are reliable and credible.
- The external auditors have no interest in the business and will provide an unbiased view of the situation.

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1.2.3 Identify the type of audit opinion that the company received and provide a reason for your answer.

TYPE:

Qualified ✓

REASON: ✓✓ part marks for incomplete/partial answers

- The marketing expenses could not be verified
- Did not mention “fairly represent” in all respects.
- They were satisfied, except for the marketing expense which had no documentation as evidence.

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1.2.4 The bookkeeper was instructed to reflect this as a marketing expense. The CEO tried to convince the independent auditor to ignore this as it had been recorded in the financial statements.

- **Explain why the independent auditor did not follow the request of the CEO. Provide TWO reasons.**

TWO REASONS ✓✓ ✓✓

- He would be going against the standards and ethics of his profession.
- It is unethical, amounts of fraudulent behaviour – aimed to deceive.
- He has a code of conduct to uphold/will face disciplinary action if discovered.
- He could lose his licence to operate as an auditor.
- He will tarnish the reputation of his company.

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- **Provide TWO possible consequences of this audit report, for the CEO and the company.**

Consequences for CEO ✓✓

- The commitment of the CEO will be questioned – enquiry/disciplinary action.

Consequences for the Company ✓✓

- The share price of the business will drop/poor image of the business.
- Shareholders would want to sell their shares.
- Demand for shares will drop.

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TOTAL MARKS
20



QUESTION 2: FINANCIAL STATEMENTS AND NOTES

(55 marks; 45 min)

- 2.1 Calculate the correct NET PROFIT AFTER TAX for the financial year ended 30 June 2024.

Incorrect profit before tax	R583 195
Directors' fees	(46 800) ✓
Loss on fire (10 080 – 8 640)	(1 440) ✓✓
Packing material (21 600 ✓ x 80/20 ✓)	(86 400) ✓
Interest on loan (67 680 – 36 000)	(31 680) ✓✓
Salaries (must be positive)	54 000 ✓✓
Correct net profit before tax	470 875 ✓
Income tax (194 400 – 62 555) ✓	(131 845) ✓
Net profit after tax	339 030 ✓

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- 2.2 Retained Income

Balance at beginning of year	369 180
Net profit after tax	339 030 ✓
Repurchase of shares (20 000 ✓ x 3,51 ✓)	(70 200) ✓
Dividends	(297 000) ✓
Interim	54 000 ✓
Final/ recommended (180 000 ✓ x 1,35 ✓)	243 000 ✓
Balance at end of year	341 010 ✓

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2.3 Teen Graph Limited

Balance sheet (Statement of Financial Position) on 30 June 2024.

ASSETS	
NON-CURRENT ASSETS	2 194 195 ✓
Fixed assets balancing figure	2 194 195 ✓
CURRENT ASSETS	318 695 ✓
Inventory (176400 ✓ + 21 600 ✓ - 10 080 ✓)	187 920 ✓
Trade and other receivables (61 200 ✓ - 3 420 ✓ + 8 640 ✓ + 1 260 ✓ + 62 555 ✓)	130 235 ✓ One part correct
Cash and cash equivalents	540
TOTAL ASSEST	2 512 890 ✓
EQUITY AND LIABILITIES	
ORDINARY SHAREHOLDERS' EQUITY	1 977 210 ✓
Ordinary share capital	1 636 200
Retained income	341 010 ✓
NON-CURRENT LIABILITIES	126 000
Loan: Fair Loan Bank (130 320 ✓ + 31 680 ✓ - 36 000 ✓)	126 000 ✓
CURRENT LIABILITIES	409 680 ✓
Trade and other payables (42 660 ✓ + 10 440 ✓ + 23 400 ✓ + 46 800 ✓ + 1 260 ✓)	124 560 ✓ One part correct
Shareholders for dividends	243 000 ✓
Short term portion of loan	36 000 ✓
Bank overdraft	6 120 ✓
TOTAL EQUITY AND LIABILITIES	2 512 890 ✓

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Total Marks

55

QUESTION 3: CASH FLOW STATEMENT, NOTE AND FINANCIAL INDICATORS

(45 marks; 35 min)

3.1 LEXOR Limited

NOTES TO THE STATEMENT OF FINANCIAL POSITION

ORDINARY SHARES CAPITAL

Authorised share capital

5 000 000 ordinary shares

Issued share capital		
2 880 000	Ordinary shares in issue at the beginning of the year	2 592 000 ✓
(144 000)	Ordinary shares repurchased @ R0,9 ✓ average price	(129 600) ✓
934 400 ✓	Ordinary shares issued	2 102 400 ✓
3 670 400 ✓	Ordinary shares in issue at the end of the year	4 564 800 ✓

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3.2 LEXOR LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2024.

CASH FLOW FROM OPERATING ACTIVITIES	
CASH FLOW FROM INVESTING ACTIVITIES	(2 695 200) ✓
Purchase of fixed assets (1 044 000✓ + (1 872 000✓ + 556 200✓ + 151 200✓ - 1 476 000✓)) Land and Buildings + equipment	(2 147 400) ✓
Proceeds from disposal of non-current assets (388 800✓ - 237 600✓)	151 200✓
Increase in financial assets (1 059 000 – 360 000)	(699 000) ✓✓
CASH FLOW FROM FINANCING ACTIVITIES	1 097 280✓
Proceeds from issue of share capital	2 102 400✓
Repurchase of shares (144 000✓ x 1,98✓) See 3.1	(285 120) ✓
Payment of capital portion of loan (1 350 000 – 630 000)	(720 000) ✓✓
Net change in cash and cash equivalents	105 680✓
Cash and cash equivalents beginning of year	(83 000) ✓
Cash and cash equivalents end of year (20 552 + 2 160)	22 680✓✓

3.3 Mention TWO major decisions (above R1 000 000) that are reflected in the Cash Flow statement and support the decision by quoting relevant figures. Indicate ONE possible point of impact that each decision would have on the company's future operations.

Decision and figures	Impact on company's future
✓✓ decision ✓✓ figure Fixed assets purchased R2 147 400	✓✓ impact Future expansion of the business, future increase in profits. More assets increase the security for a future loan.
More shares were issued to raise R2 104 400	Money needed to finance extended fixed assets or repayment on loan.

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3.4 Calculate the following financial indicators for the year ended 28 February 2024:

% Return on average equity

Workings	Answer
$\frac{1\,209\,600 \times 72/28}{\frac{1}{2}(4\,564\,800 + 2\,623\,600 + 2\,592\,000 + 1\,482\,600)} \times \frac{100}{1}$ $= \frac{3\,110\,400}{5\,631\,500} \times \frac{100}{1}$	= 55,2% one part correct

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Net asset value per Share (NAV)

Workings	Answer
$\frac{(4\,564\,800 + 2\,623\,600)}{3\,670\,400} \times \frac{100}{1}$	= 195,8 cents per share

3

Total Marks
45


QUESTION 4: INTERPRETATION OF FINANCIAL INFORMATION
(30 marks; 25 min)
4.1 CONCEPTS

Choose the correct financial indicator from those given below to match the definition.

4.1.1	Return on equity✓
4.1.2	Gearing✓
4.1.3	Liquidity✓
4.1.4	Solvency✓

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4.2 H&R Block Ltd.
4.2.1 Comment on the overall liquidity position of the company. Quote THREE relevant financial indicators (with figures).
✓✓✓ Financial indicators ✓✓✓ quoting figures
Any THREE indicators:

- Current ratio increased from 1,8 : 1 to 2,1 : 1.
- Acid-test ratio decreased from 1,3 : 1 to 0,9 : 1.
- Stock-holding decreased from 64 to 48 days
- Debtors collection period increased from 32 to 41 days.

✓✓ any valid comment

The business is liquid and should have no problem in paying off its short-term debts.

Although the liquidity is good, the debtors are taking too long to pay.

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4.2.2 The directors decided to change the dividend pay-out policy in 2024.

- **Provide calculations that indicate the policy change.**

In 2023, the company paid 80 cents (DPS) of 132 cents (EPS) – 60,6% pay out ✓✓
 In 2024, the company paid 125 cents (DPS) of 118 cents (EPS) – 105,9% pay out ✓✓

Pay out increases from 60,6% to 105,9%

✓ **One-mark option**

DPS increased from 80 cents to 125 cents (by 45 cents) per share.

EPS decreased from 132 cents to 118 cents (by 14 cents) per share.

4

- **Explain the effect of this change of policy on the company. State TWO points**

✓✓ ✓✓ **TWO valid points** (part marks of unclear/incomplete answers)

- Retained income decreased and this could affect future growth (expansion) of the business.
- It would influence the share price/ increase demand for the shares.
- It could motivate shareholders to vote for the directors at the AGM.

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4.2.3 One of the directors feels that the company should pay back the loan as soon as possible. What are your views about this? Quote and explain TWO relevant financial indicators with figures.

✓✓ **quoting financial indicators** ✓✓ **figures** ✓✓ **explanation**

The debt/equity ratio is 0,3 : 1 / decreased from 0,4 : 1 to 0,3 : 1.

The company is lowly geared. Low risk. They are not making much use of loans compared to own capital.

The ROTCE decreased from 16% to 13%.

The company is receiving a return of 13% that is less than the interest rate (14%) negatively geared. They are not using the loans effectively to generate a profit.

It is a good idea to pay back the loan as soon as possible.

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4.2.4 Explain why the shareholders are satisfied with:

- **The market price of the shares on the JSE**
 ✓ **explanation** ✓ **figures**
 - Increased from 780 cents to 850 cents / increased by 70 cents.
 - The market price is higher than the NAV of 795 cents.
 - There is a demand for shares in this company.
 - Investors are interested in buying shares.

- **The price at which the 135 000 shares were repurchased on 25 June 2024.**
 ✓ **explanation** ✓ **figures**
 The company paid 820 cents per share although the market value at the end of the year was 850 cents.
 The company paid 30 cents less than the market value.
Do not accept comparison to NAV

2

2

Total Marks
30