WORKED EXAMPLE OF A

YEAR-END GRADE 12 ACCOUNTING EXAMINATION

PREPARED BY NEW ERA ACCOUNTING

MARKING GUIDELINE

PAPER 1

Question	Maximum Marks
1	60
2	40
3	50
TOTAL:	150

This marking guideline consists of 7 pages.

QUESTION 1

1.1 **XOLA Ltd**
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 29 FEBRUARY 2020

Sales		**9 180 000**		
Cost of sales	9 180 000 x 100/170	(5 400 000)	✓✓	
Gross profit	operation, subtracted	3 780 000	☑	
Other operating income		292 200	☑	
Rent income	343 400✓ – 51 200✓✓	292 200	✓	
Gross income		4 072 200	☑	9
Operating expenses	GI – OP	(2 695 200)	☑	
Directors' fees		**1 400 000**		
Audit fees		**250 000**		
Sundry expenses	balancing figure	821 400	☑	
Depreciation	160 500✓ + 7 500✓	168 000	✓	
Trading stock deficit	186 000✓– (R465✓ x 280✓)	55 800	✓	
				9
Operating profit	9 180 000 x 15%	1 377 000	✓	
Interest income	balancing figure	52 000	☑	
Profit before interest expense	operation, added	1 429 000	☑	8
Interest expense	1 800 000 – 360 000 – 1 638 000	(198 000)	✓✓	
Net profit before tax	NPAT - TAX	1 231 000	☑	
Income tax	861 700 x 30/70	(369 300)	✓✓	
Net profit after tax		**861 700**		**26**

1.2 **ORDINARY SHARE CAPITAL**

900 000 ✓	**Shares on 1 March 2019**	**8 550 000**		
(120 000)	Shares repurchased (ASP: 9,50)	(1 140 000)	✓✓	
250 000	Shares issued at R10,25 each	2 562 500	✓✓	
1 030 000 ☑	**Shares on 29 February 2020**	9 972 500	☑	**7**

1.2 RETAINED INCOME

Balance on 1 March 2019		**99 300**	
Shares repurchased	1 236 000 – 1 140 000	(96 000)	✓☑
Net profit after tax		861 700	✓
Ordinary share dividends		421 000	☑
Interim dividends		132 600	✓
Final dividends	1 030 000 x 0,28	288 400	✓☑
Balance on 29 February 2020		444 000	☑

8

1.3 XOLA Ltd
BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

EQUITIES AND LIABILITIES

Shareholders' equity		10 416 500	☑
Ordinary share capital		9 972 500	☑
Retained income	**3**	444 000	☑
Non-current liabilities		1 476 000	
Loan: Sage Bank (1 440 000 + 198 000)✓ – 162 000✓✓		1 476 000	☑
	4		
Current liabilities	1 710 360 / 1.8	950 200	✓✓
Trade & other payables 281 000✓ + 51 200☑– 4 000✓		328 200	☑
SARS: Income tax	369 300 – 340 000	29 300	✓
Shareholders for dividends		288 400	☑
Current portion of loan		162 000	✓✓
Bank overdraft	balancing figure	142 300	☑
TOTAL EQUITY AND LIABILITIES	**12**	12 842 700	☑

19

TOTAL MARKS: 60

QUESTION 2

2.1

2.1.1	B ✓
2.1.2	C ✓
2.1.3	A ✓

3

2.2.1

Calculate the change in investments.	
Workings	**Answer**
500 000 – 100 000	R400 000 ✓✓
	Indicate inflow or outflow Inflow ✓

3

Calculate the income tax paid.	
Workings	**Answer**
6 700 ✓ + 353 400 ✓ – 12 800 ✓	R347 300 ☑

4

Calculate the proceeds from the sale of fixed assets.	
Workings	**Answer**
11 027 000 ✓ + 1 331 000 ✓ – 430 000 ✓ – 11 840 000 ✓	R88 000 ☑

4

2.2.2

Calculate total dividends for the 2020 financial year.	
Workings	**Answer**
705 000 ✓ – 450 000 ✓ + 126 000 ✓	R381 000 ☑

4

Calculate the bank overdraft on 29 February 2020.	
Workings	**Answer**
(149 000) ✓ + 95 000 ✓ – 2 000 ✓	R56 000 ☑

4

2.2.3

Calculate the % operating expenses for the 2020 financial year.		
Workings	**Answer**	
$\frac{1\ 280\ 000✓}{6\ 450\ 000✓} \times \frac{100}{1}$	19,8%✓	3
Calculate the debt/equity ratio on 29 February 2020.		
Workings	**Answer**	
3 300 000 ✓ : 8 798 600 ✓	0,4 : 1 ✓	3
Calculate the % return on average capital employed (ROCE) for the 2020 financial year.		
Workings	**Answer**	
1 584 000 $\frac{1\ 178\ 000 ✓+ 406\ 000 ✓}{11\ 672\ 000 ✓✓☑ \text{ one part correct}} \times 100$ ½ (12 100 000 + 11 244 000)	13,6% ☑	6
Interim, final & total dividends per share (see information B & D) for the 2020 financial year.		
Workings	**Answer**	
Interim dividends per share: $\frac{255\ 000}{850\ 000} \times \frac{100}{1}$	30 cents ✓☑	
Final dividends per share: $\frac{126\ 000}{1\ 050\ 000} \times \frac{100}{1}$	12 cents ✓☑	
Total dividends per share: 30 cents + 12 cents	42 cents ✓	5

TOTAL MARKS: 40

QUESTION 3

3.1

Explain two ways in which you would assess the solvency of any company.	
• Calculate the ratio Total assets : Total liabilities ✓ • Shareholders' equity would be a positive figure / total assets would exceed total liabilities ✓	**2**
Compare the current and acid-test ratios of the two companies and explain which company has the more preferable ratios. Quote figures.	
• Current ratio of Rock Ltd is 1,4 : 1 and Stone Ltd is 3,0:1 ✓ ✓ • Acid-test ratio of Rock Ltd is 0,7: 1 and Stone Ltd is 2,2:1✓ ✓ • Rock Ltd has the more efficient ratios as there is relatively less invested in working capital ✓✓	**6**
Explain one possible problem for each company with regard to their control of the working capital items. Quote figures.	
Part-marks for unclear or partial answers. • Rock Ltd has only 20 days' stock which means they might not be able to satisfy the demand of their customers. ✓✓ • Stone Ltd is not collecting funds from debtors quickly enough, the collection period is 48 days whereas normal credit terms are 30 days. ✓✓	**4**

3.2

Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange (JSE) for 2020. Quote figures.	
• Rock Ltd: Market price is R23,00 while NAV is R18,90 ✓✓ • Stone Ltd: Market price is R11,40 while NAV is R8,60 ✓✓ • Both companies experience good demand for their shares / there have been good improvements for both companies ✓	**5**
You are concerned about the price at which the new shares were issued by Rock Ltd. Explain why you would be concerned and provide evidence.	
This is a concern because it has diluted the book value of the shares and existing shareholders would be disadvantaged / It may be due to nepotism, no authorisation or corruption and the directors should be accountable. ✓✓ *Part-marks for unclear or partial answers.* The new shares were issued at R11,00 ✓ (i.e. R990 000 ÷ 90 000). This is lower than the NAV of R18,90 / lower the average issue price of R13,00. ✓	
Explain what action the directors should take.	
There should be an investigation into why the directors allowed this to happen and an explanation should be given to the shareholders about appropriate legal action / how the company can be compensated to indirectly recompense the shareholders) e.g. repayment of the difference by the culprit/s. ✓✓ *Part-marks for unclear or partial answers.*	**6**

3.3	**Comment on the degree of risk and gearing in each company. Quote two financial indicators.**	
	• Rock Ltd: Debt/equity ratio is 01,1 : 1 ✓ which indicates low risk ✓ • Rock Ltd: ROTCE is 13,2% ✓ which indicates negative gearing as it is lower than the interest rate of 14% ✓ • Stone Ltd: Debt/equity ratio is 0,5 : 1 ✓ which indicates higher risk ✓ • Stone Ltd: ROTCE is 21,0% ✓which indicates positive gearing as it is higher than the interest rate of 14% ✓	**8**
3.4	**Explain whether or not Mabel should be satisfied with the trend in the % return on equity (ROSHE) for each company.**	
	• Rock Ltd: ROSHE has improved from 10,6% to 11,1% ✓ • Stone Ltd: ROSHE of 23,9% is approximately the same as the previous year (24,1%) ✓ • Both of these exceed the return on alternative investments ✓ of 7,5% ✓	**4**
	Compare the earnings per share (EPS) of each company and provide evidence to Mabel on which company has the better EPS.	
	• EPS of Rock Ltd is 222 cents ✓ while EPS of Stone Ltd is 207 cents ✓ • EPS of Stone Ltd is better because Mabel paid R12,00 ✓ for shares in Rock Ltd compared to R4,00 ✓ for shares in Stone Ltd therefore EPS of Rock Ltd should have been 3 times higher ✓✓✓ *Part-marks for unclear or partial answers.* OR: compare to NAV (R18,90 & R8,60) or JSE prices (R13,00 and R11,50).	**7**
3.5	**Comment on the dividend pay-out policies of the two companies for 2020 and explain which company has the better policy and why that company adopted this policy.**	
	• Rock Ltd: Pay-out rate is 117,1% ✓ • Stone Ltd: Pay-out rate is 60% ✓ • Stone Ltd has the better policy because they are also retaining funds for future growth OR Rock Ltd might have done this to satisfy shareholders who might be disappointed with their returns (paid out more than was earned in 2020) ✓✓ *Part-marks for unclear or partial answers.*	**4**
3.6	**Mabel is prepared to buy additional shares on the JSE at the current market price to become a majority shareholder in Stone Ltd. Calculate the amount that she will have to spend on buying the shares to make this happen.**	
	50% x 420 000 = 210 000 shares Currently has = 162 000 shares Needs more than = 48 000 shares i.e. 48 0001 or 48 100 or 49 200 shares ✓✓ This will cost her R11,40 per share = R547 200 or R548 340 or R565 880 Number of shares x R11,40 ☑☑	**4**

TOTAL MARKS: 50