

**ACCOUNTING GRADE 12 TEST 1 SELF-STUDY (LOCKDOWN PERIOD)**

**NOTE**

* Accounting is a principle-based subject and therefore it is method marked.
* It is important that learners familiarise themselves with the MARKING PRINCIPLES given below as they have been used in these Marking Guidelines.
* Concepts relating to the Marking Principles will be understood easily as they have applied in these Marking Guidelines.
* Learners should read the fine print in these Marking Guidelines as it is an implementation of Marking Principles.

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| **MARKING PRINCIPLES:** |
| 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 item). No double penalty applied. |
| Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item. |
| Full marks for correct answer. If the answer is incorrect, mark the workings provided. |
| 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). Note: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.  |
| 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. |
| Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates. |
| This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions. |
| Where penalties are applied, the marks for that section of the question cannot be a final negative. |
| 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. |
| 'Operation' means 'Check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, ×, ÷, or per memo.  |
| In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios. |
| In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with ⌧. |
| Be aware that some candidates provide valid alternatives beyond the marking guideline. |
| Codes: f = foreign item; p = placement/presentation. |

**QUESTION 1 INCOME STATEMENT AND NOTES**

**1.1 GAAP**

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| 1.1.1 | Prudence  |  |  |  |
| 1.1.2 | Materiality  |  |  |  |
| 1.1.3 | Business entity  |  |  | **4** |
| 1.1.4 | Historical cost  |  |  |  |

**1.2 AUDITING**

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| **1.2.1** | **Explain the role of the independent auditor. Provide ONE point.** **Award part marks for partial answers**The independent auditor ensures that internal control measures are tested and assessed effectively. They play an important role in discouraging fraud and errors. | **2** |
| **1.2.2** | **Name TWO persons/parties other than the shareholders, who would be interested in the audit report. Give a reason for each.**Person/Party  Reason **Any appropriate explanation*** Potential shareholders/investors – to determine if this company would make a sound investment
* Board of directors – to determine if the company has met the goals set out by the board
* Financial institutions/Creditors – to see if the company is financially sound and able to repay the loan/account
* Workers – they can see that the company is financially sound and that they will still be employed
* Unions – to determine if the workers are paid what they are due in accordance with the labour laws of the country
* Competitors – to compare the company’s achievements against their own company’s
* SARS – to calculate the tax implication at the end of the financial year.
* Auditors – in order to write the audit report
 | **4** |
| **1.2.3** | **Explain why it is important for an independent auditor to belong to a professional body like SAICA. Provide ONE reason.** **Award part marks for partial answers*** + Provides in-service training, or practical experience, advise members
	+ Determines the qualification standards
	+ Issue guidelines that must be applied
	+ Provides the code of conduct and disciplinary processes
	+ Disciplinary action if member has disobeyed the code of conduct
	+ Removes name of member from the professional body if found guilty
 | **2** |

**1.3**

**1.3.1 INCOME STATEMENT AS ON 29 FEBRUARY 2020**

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| Sales (6 200 500  ‒ (17 200  + 2 400  ) **one part correct** | ☑6 180 900 |
| Cost of sales  |  **(3 468 400 )** |
| Gross profit **operation** | 🗹 2 712 500 |
| Other operating income **one part correct** | ☑ 127 480 |
|  Rent income  |  126 800 |
|  Bad debts recovered |  680 |
|  |  |
| Gross operating income **operation** | ☑ 2 839 980 |
| Operating expenses **one part correct** | ☑ (2 374 140) |
|  **Advertisements** | **24 600** |
|  **Audit fees**  |  **188 410** |
|  Salaries and wages  |  1 081 600 |
|  Directors fees (950 900  – 25 700  ) **one part correct** | ☑ 925 200 |
|  Telephone (36 700 + 1 400 ) |  38 100 |
|  Stationery (14 700 ‒ 1 200 ) |  13 500 |
|  Bad debts (6 730  + 680  ) **one part correct** | ☑ 7 410 |
|  Packing material (4 400  + 820  ‒ 650  ) **one part correct** | ☑ 4 570 |
|  Provision for bad debts adjustment (4 250 ‒ 3 600) |  650 |
|  Depreciation  |  74 200 |
|  Trading stock deficit (1 050 300  + 1 600  ‒ 1 036 000 )  | ☑ 15 900 |
|  |  |
| Operating profit **operation** | ☑ 465 840  |
| Interest income (9 030 + 3 010) or (9 030 x 4/3) |  12 040 |
| Profit before interest expense **operation** | ☑ 477 880  |
| Interest expense |  (63 000) |
| Profit before tax **operation** | ☑414 880  |
| Income tax (414 880 x 30%) check NPBT x 30% | ☑ 124 464) |
| Profit after tax **operation** | 🗹290 416 |

 | 54249**42** |  |

 –F for foreign entries (max 2)

 –P for incorrect placements (max 2)

**1.3.2 NOTES TO THE FINANCIAL STATEMENT ON 29 FEBRUARY 2020**

* **Ordinary share capital note**

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|  765 000 | Shares issued beginning of the year |  4 069 500 |
|  15 000 | Shares issued at R9,50  per share |  142 500 |
|  (20 000) | Shares bought back at R5,40  at average priceIgnore brackets in this line  | ☑ (108 000) |
| ☑ 760 000 | Shares issued at the end of the yearShares issued must be added and repurchased must be subtracted | ☑ 4 104 000Operation, one part correct |

* **Retained earnings**

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| Opening balance |  872 000 |
| Net profit after tax check income statement NPAT | ☑ 290 416 |
| Buy back of 20 000  shares at R1,80 ☑ above average price (R7,20 ‒ average price in note above) | ☑ (36 000) |
| Ordinary share dividend one part correct | ☑ (796 000) |
|  Paid |  340 000 |
|  Declared/final (760 000 ☑ x R0,60 ) Check end shares in note above | ☑ 456 000**11** |
|  |  |
| Closing balance operation, one part correct | ☑ 330 416 |

 | **10** |

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| **TOTAL****MARKS** |
|  |
| **75** |