higher education & training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA

MARKING GUIDELINE

NATIONAL CERTIFICATE

FINANCIAL ACCOUNTING N6

10 September 2020

This marking guideline consists of 8 pages.

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QUESTION 1

1.1
1.1.1 C
1.1.2 A
1.1.3 C
1.1.4 B
1.1.5 B
1.1.6 B
1.1.7 A
1.1.8 A
1.1.9 B
1.1.10 A

(10 × 2) (20)

1.2
1.2.1 Statement of comprehensive income
1.2.2 Director/Board of directors
1.2.3 External auditor/Independent auditor
1.2.4 Shareholder
1.2.5 VAT vendor

(5 × 2) (10)
[30]

QUESTION 2

2.1 2.1.1 Authorised share capital – refers to the maximum number of shares that a company is registered to sell/issue.✓✓
Issued share capital – refers to the actual number of shares sold/issued and represents the share capital of the company.✓✓

2.1.2 Distributable reserves – refer to reserves that can be distributed by way of dividends.✓✓
Nondistributable reserves – refer to reserves that cannot be distributed by way of dividends but can be used to pay creditors.✓✓

2.1.3 Preference shares – are shares which give the holder preferential claim or first right on the profits of the company.✓✓
Ordinary shares – holders of these shares are the owners of the company having voting rights during annual general meetings and are considered to be the real/true owners of a company.✓✓

2.1.4 Current assets – are assets which are in the form of cash or can be converted into cash within one financial year.✓✓
Noncurrent assets – are assets which are bought in order to generate income for the business beyond one financial year and have a long life span.✓✓

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2.1.5 Net profit – refers to the profit earned in the current financial year as a positive residual when the expenses are deducted from the income.✓✓
Retained earnings – represent the accumulated profits of the previous financial year plus the current financial year.✓✓

(5 × 4) (20)

2.2 The financial statements must be:

- Comparable ✓ – comparable with those of previous years of the same entity and those of a similar business.✓
- Understandable✓ – understood by an average user who has reasonable knowledge of business or basic financial knowledge.✓
- Timeless✓ – current for decision making or must be drawn up as soon as the financial year ends so that they are useful when making decisions or planning for the future. ✓
- Verifiable✓ – must be possible to double-check them usually by an external auditor to ensure that all information is correct and relevant.✓

OR

– must enable users to confirm that the information does in fact faithfully present the events or transactions they purport to present. (4 × 2) (8)

2.3

- Output VAT ✓ – VAT charged by the business to its customers when selling taxable supplies.✓
- VAT input✓ – VAT charged to the business when buying taxable supplies.✓

OR

VAT the business pays to suppliers when buying taxable supplies. (2 × 2) (4)

2.4 **Where items needed calculations, they should be shown in brackets.**

2.4.1 **NONCURRENT ASSETS**

Land and building and Vehicle (120 000 + 20 000 – 4 000 – 2 000)	134 000	✓✓✓✓
Goodwill	30 000	✓
	164 000	✓

(6)

2.4.2 **CURRENT ASSETS**

Inventories	23 000	✓
Debtors control (10 000 – 3 200 + 1 930)	8 730	✓✓✓
Cash and cash equivalents	30 000	✓
	6170	✓

(6)

2.4.3 **RESERVES**

Revaluation surplus	20 000	✓
Retained earnings		✓✓
[47 000 + (22 500 – 13 000) – 2 000]	54 500	✓✓
	74 500	✓

(6)

2.4.4 **CURRENT LIABILITIES**

Creditors control	17 200	✓
Current portion of long-term loan	5 000	✓
Taxation payable (13 000 – 6 000)	7 000	✓✓
	29 200	✓

(5)

2.5

	VAT CHARGED		VAT EXEMPT
	0%	15%	
Interest on loan			**X** ✓✓
School fees			**X** ✓✓
Brown bread	**X** ✓✓		
Stationery		**X** ✓✓	
Bank charges		**X** ✓✓	
White bread		**X** ✓✓	
Petrol	**X** ✓✓		
Passenger road transport			**X** ✓✓
Courier services		**X** ✓✓	
Tax levy			**X** ✓✓

(10 × 2) (20)

[75]

QUESTION 3

3.1

LIMPOPO TRADERS CC
STATEMENT OF PROFIT/LOSS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED 28 FEBRUARY 2018

Sales (577 780 – 6 120)			571 660	✓✓
Less: Cost of sales			(202 750)	✓
Gross profit			368 910	✓
Plus: Other income			101 075	✓
Discount received	1 075	✓		
Commission income	100 000	✓		
Gross operating income			469 985	☑
Less: Expenses			(275 428)	☑
Bad debts (1 675 + 720)	2 395	✓✓		
Discount allowed	4 270	✓		
Stationery	1 388	✓		
Telephone	4 450	✓		
Water and electricity (22 957 + 2 087)	25 044	✓✓		
Salaries (152 043 + 30 409)	182 452	✓✓		
Interest on loan (12 000 + 7 000)	19 000	✓✓		
Provision for bad debts adjustment	1 910	✓✓		
Depreciation (22 600 + 6 419)	29 019	✓✓		
Repairs	5 500	✓		
Profit before tax			194 557	
Income tax			(54 476)	☑
Profit for the period			140 081	
Other comprehensive income			10 000	
Revaluation surplus	10 000	✓		
Total comprehensive income for the year			150 081	☑

(28)

3.2 **STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 2018**

	MEMBER'S CONTRIBUTIONS		RETAINED EARNINGS		TOTAL EQUITY
Balance at the beginning of the year	45 000	✓	10 000	✓	55 000
Net profit for the year			160 000	✓	160 000
Withdrawal of contribution	(5 000)	✓			(5 000)
Distribution to member			(4 000)	✓	(4 000)
Balance at the end of the year	40 000	✓	166 000	✓	206 000

(7)
[35]

QUESTION 4

4.1 **MALAPANE LTD**
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated from operations	2 162 250 ✓	
Interest paid	(76 500) ✓✓	
Dividends paid	(648 750) ✓	
Taxation paid	(892 800) ✓	
net cash flow from operating activities		544 200
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from the sale of a vehicle	27 000 ✓✓	
Increase in fixed deposit	(105 000) ✓	
Replacement vehicle	(267 000) ✓✓	
Additions to land and buildings	(26 700) ✓	
Net cash flow from investing activities		(371 700)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from the issue of additional shares	420 000 ✓	
Payment of mortgage bond	(60 000) ✓✓	
Net cash flow from financing activities		360 000
Net increase in cash		532 500
Cash at the beginning of the year		(157 500) ✓
Cash at the end of the year		375 000 ✓

(16)

4.2 **RECONCILIATION STATEMENT OF NET PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS**

Net profit before tax (870 000 + 780 000)		1 650 000 ✓✓
Adjusted for:		
Depreciation		120 000 ✓
Interest expense		76 500 ✓
Operating profit before working capital		
Working capital changes		315 750 ✓
Decrease in inventory	142 500 ✓	
Increase in trade and other payables	225 750 ✓	
Increase in trade and other receivables	(52 500) ✓	
Cash generated		2 162 250

(8)

4.3 **TAXATION AND DIVIDENDS PAID**

	TAXATION	DIVIDENDS
Amounts payable at the beginning of the year	(135 600) ✓	(288 750) ✓
Amounts according to statement of profit or loss	(780 000) ✓	(630 000) ✓
Amounts payable at the end of the year	22 800 ✓	270 000 ✓
	(892 800)	(648 750)

(6)
[30]

QUESTION 5

5.1 Three types of reports

- Unqualified report – A report is issued when the auditor is satisfied as the financial statements fairly represent the material financial information of the business and they comply with the relevant standards.
- Qualified report – An unfavourable report is issued when the auditor is not pleased as there was noncompliance with certain criteria.
- Report withheld – The auditor does not issue a report because he could not do his duties due to insufficient documents or denial of access to information. (3 × 2) (6)

5.2

INTERNAL AUDIT	EXTERNAL AUDIT
Auditing is done on a continuous basis.	Auditing is done periodically.
Performed by an employee of the business.	Performed by an independent contractor.
The aim is to meet the needs of management.	The aim is to meet the needs of third parties.
The auditor is directly involved in tracing and preventing fraud.	The auditor traces and prevents fraud which has a material effect on the financial statements.
The auditor develops internal control.	The auditor tests the reliability of the internal control.
The auditor must act independently of the chief accountant but is the subordinate.	The auditor must be independent of management in deed and attitude.
Procedures are not limited to financial affairs.	Procedures are limited to financial affairs.

(Any 3 × 2) (6)

5.3 The internal audit process

- Plan the audit and determine what has to be investigated.
- Examine and evaluate the information that was collected regarding matters related to audit objectives.
- Communicate the results of the audit through a report.
- Follow up on the findings of the audit report to determine whether the necessary steps have been taken. (4 × 2) (8)

5.4 5.4.1 Compliance procedure

Tests should be designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed, are in effect.

OR

Tests that are used should check that internal control systems are functioning effectively. (2)

5.4.2 Substantive procedure

Tests should be designed to obtain evidence to ensure completeness, accuracy and validity of the data produced by the accounting system.

OR

Tests used by the auditor should check that balances, totals and individual transactions are correctly stated. (2)

5.4.3 Internal control

- The system of controls,
- financial or otherwise that are introduced by management
- should manage the business in an orderly manner
- and secure the assets of the business.

(Accept alternate relevant answer) (4)

5.4.4 Audit evidence

This should consist of source documents and accounting records underlying the financial information as well as all other information which is relevant to the auditor's examination. (2)

[30]

TOTAL: 200

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