



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

EXAMINATION GUIDELINES

GRADE 12

2021

These guidelines consist of 27 pages.

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1. INTRODUCTION

The Curriculum and Assessment Policy Statement (CAPS) for Accounting outlines the nature and purpose of the subject Accounting. This guides the philosophy underlying the teaching and assessment of the subject in Grade 12. The points outlined in the CAPS consequently have a significant effect on the setting of Accounting examinations.

The purpose of these Examination Guidelines is to:

- Provide clarity on the depth and scope of the content to be assessed in the Grade 12 National Senior Certificate (NSC) Examination in Accounting.
- Assist teachers to adequately prepare learners for the NSC examinations.

This document deals with the final Grade 12 external examinations. It does not deal in any depth with the School-Based Assessment (SBA).

These Examination Guidelines should be read in conjunction with:

- *The National Curriculum Statement (NCS) Curriculum and Assessment Policy Statement (CAPS): Accounting*
- *The National Protocol of Assessment: An addendum to the policy document, the National Senior Certificate: A qualification at Level 4 on the National Qualifications Framework (NQF), regarding the National Protocol for Assessment (Grades R–12)*
- The national policy pertaining to the programme and promotion requirements of the National Curriculum Statement, Grades R–12

2. FORMAT OF MID- AND YEAR-END EXAMINATION PAPERS

The mid-year and year-end Accounting examination consists of TWO 2-hour papers of 150 marks each. The number of questions may vary from 3 to 5 questions in each paper. There is no stipulation on the marks allocated to each question.

All questions are COMPULSORY and are to be answered in specially prepared answer books, which are designed to assist learners in time-management. However, learners must understand that the answer books are not designed to replicate the full context of questions or subquestions. They must refer to the question paper to ensure that their responses meet the requirements of each question or subquestion.

The Accounting topics (previously in three fields) have been consolidated into two broad disciplines. Discipline 1 covers topics of reporting to external stakeholders, while Discipline 2 covers topics related to internal accounting processes.

The weighting of each broad discipline across the two papers is amended to:

AMENDED WEIGHTING TO CATER FOR TWO EXAMINATION PAPERS		
Discipline 1	Financial Reporting & Evaluation	Paper 1 150 marks; 2 hours
Discipline 2	Managerial Accounting, Internal Auditing & Control	Paper 2 150 marks; 2 hours
	TOTAL MARKS FOR PAPERS 1 AND 2	300

NOTE:

- Refer to the table below and to APPENDIX 1 for specific examinable content across the two examination papers.
- The principle of integration of topics of Ethics and Internal Control in the teaching of other topics, where appropriate, is retained.
- The topic of Corporate Governance is particularly relevant to companies and published financial statements and is therefore included in Discipline 1 and will be examined in Paper 1.
- The topic of Ethics applies to both disciplines and may be examined in both papers, while the topic of Internal Control is included in Discipline 2 and will be examined in Paper 2.
- Certain financial indicators apply to both broad disciplines and both examination papers. These are listed below and in APPENDIX 1.
- Although a formula sheet will be provided, candidates will be required to identify the relevant financial indicators to be calculated and used in supporting comments to interpret and evaluate financial information. Teachers are advised to guide learners in understanding the logic of each financial indicator to enhance their comments on the indicators and to avoid reliance on the formula sheet.
- Because the current Grade 12 annual teaching plan (ATP) for the first two terms is focused more on Discipline 1 content and in order to facilitate the setting of a credible and well-balanced mid-year Grade 12 examination paper with correct weightings, the ATP is revised such that Cost Accounting (manufacturing) will be taught in Term 2 and Value-added Tax is moved to Term 3. The revised summary of the annual teaching plan for Grade 12 is included in APPENDIX 3.

3. EXAMINABLE AND NON-EXAMINABLE CONTENT

NOTE: This is a summary only. Teachers must refer to the Accounting CAPS for specific requirements. Refer to Section 4 below for further details including relevant content from previous grades.

GRADE 12: PAPER 1		
<i>Financial Reporting & Evaluation</i>		
12.1.1	Concepts relating to companies	
12.1.2	Concepts relating to GAAP & IFRS	
12.1.3	Unique Ledger Accounts of companies & interpretation thereof	
12.1.4	Accounting equation of companies	
12.1.5	Adjustments, final accounts & trial balances of companies	
12.1.6	Income Statement (Statement of Comprehensive Income) of companies	
12.1.7	Balance Sheet (Statement of Financial Position) & Notes of companies	
12.1.8	Cash Flow Statement of companies	
12.1.9	Analysis & interpretation of financial statements of companies*	
12.1.10	Analysis & interpretation of published financial statements & audit report of companies*	
12.1.11	Valuation of fixed assets for reporting in financial statements	
12.1.12	Inventory valuation for reporting in financial statements	
12.1.13	Professional bodies & Code of conduct	
12.1.14	Ethical behaviour & corporate governance in financial environments	
12.1.15	Legislation governing companies (overview only)	
12.1.16	Close corporations (not examinable)	
GRADE 12: PAPER 2		
<i>Managerial Accounting, Internal Auditing & Control</i>		
12.2.1	Analysis & interpretation of reconciliations: bank, debtors, creditors, age analysis	
12.2.2	Value-added Tax – input, output and calculations	
12.2.3	Manufacturing – concepts	
12.2.4	Manufacturing: Production Cost Statement & Notes; Abridged/Short-form Income Statement & Notes	
12.2.5	Analysis & interpretation of cost information, unit costs & break-even point #	
12.2.6	Analysis & interpretation of Cash Budget for sole traders and companies	
12.2.7	Analysis & interpretation of Projected Income Statement for sole traders and companies	
12.2.8	Application of internal control & audit processes: cash, fixed assets, inventories, debtors, creditors, income & expenses including salaries/ wages & including financial indicators #	
12.2.9	Recording & control of fixed assets including additions, depreciation & asset disposal	
12.2.10	Perpetual and periodic stock systems and control of inventories	
12.2.11	Valuation of inventories: FIFO, Weighted average & Specific identification #	
12.2.12	Ethical behaviour in financial environments	

* Refer to financial indicators for Paper 1 below.

Refer to financial indicators for Paper 2 below.

*

FINANCIAL INDICATORS FOR FINANCIAL REPORTING (GRADE 12 PAPER 1)	
Gross profit on sales	Gross profit on cost of sales
Net profit on sales	Operating profit on sales
Operating expenses on sales	Stock turnover rate
Solvency ratio	Stockholding period
Current ratio	Average debtors' collection period
Acid-test ratio	Average creditors' payment period
Return on shareholders' equity	Earnings per share
Return on total capital employed	Dividends per share
Debt-equity ratio (gearing)	Dividend pay-out rate
Net asset value per share	

#

FINANCIAL INDICATORS FOR INTERNAL CONTROL AND MANUFACTURING (GRADE 12 PAPER 2)	
Gross profit on cost of sales	Stock turnover rate
Operating expenses on sales	Stockholding period
Operating profit on sales	Average debtors' collection period
Net profit on sales	Average creditors' payment period
Break-even point	

4. RELEVANT SECTIONS OF THE CAPS FOR ACCOUNTING WHICH HAVE A DIRECT EFFECT ON THE SETTING OF EXAMINATION PAPERS

The Accounting CAPS contains several requirements which, apart from influencing the general teaching and assessment of the subject, have a direct bearing on the structure of and content addressed in formal examinations, including the Accounting NSC examination. The relevant sections are as follows: (Refer to the CAPS for further details.):

CAPS PAGE	DETAILS
Page 8–9	The nature and purpose of Accounting , i.e. the subject is not limited to recording and preparation of financial information; the subject also addresses skills of recording, analysing, interpreting, communicating, presenting and problem-solving.
Page 8	Weighting of content to be addressed in the Grades 10–12 curriculum 50%: Recording, Reporting and Evaluation of Financial Information & Corporate Governance 50%: Manufacturing, Forecasting & Internal Auditing and Control
Page 42	Formal assessment tasks , i.e. these should prepare learners for the demands of the Accounting NSC examinations.
Page 44	Content relating to previous grades , i.e. Grade 12 examinations may contain a 20% weighting of content stipulated in previous grades which has an impact on Grade 12 content.
Page 44	Cognitive levels to be addressed (weighting) Lower order: 30% Middle order: 40% Higher order: 30%
Page 44	Problem-solving , i.e. 10%–15% of all examinations may address problem-solving questions (in new and unfamiliar contexts) using critical and creative thinking.

5. DEGREES OF CHALLENGE

All examinations, and most assessment tasks in Accounting, must reflect subquestions of differing degrees of challenge. The following weighting of degrees of challenge is generally accepted as appropriate for Grades 10–12 examinations:

Easy	Moderate	Difficult
30%	40%	30%

Note that degrees of challenge are not necessarily tied to specific cognitive levels. A higher-order cognitive level question might not necessarily be Difficult, while a lower-order level question might not necessarily be Easy.

For example:

- In preparing financial statements, year-end adjustments will be regarded as being of the middle-order cognitive level (i.e. Applying), yet they could be Easy, Moderate or Difficult in challenge depending on the adjustment required.
- In comparing the % returns of two companies, the appropriate cognitive level would be higher order (i.e. Evaluating), yet the degree of challenge might well be Easy, depending on the context of the question and information provided.
- In a problem-solving question, the identifying of a problem from given financial information will be regarded to be of the higher-order level (i.e. Creating), but could be Easy, Moderate or Difficult in challenge, depending on the context of the question and information provided.
- Assessment of whether a subquestion is Easy, Moderate or Difficult is obviously a subjective exercise which depends on the opinion and perception of the reviewer. Nevertheless, the exercise must be carried out by examiners and moderators to ensure that question papers cater for the full range of abilities of learners who are adequately prepared for the Accounting NSC examinations.

NOTE: REFER TO THE APPENDICES ATTACHED.

6. CONCLUSION

This Examination Guidelines document is meant to articulate the assessment aspirations espoused in the CAPS document. It is therefore not a substitute for the CAPS document which teachers should teach to.

Qualitative curriculum coverage as enunciated in the CAPS cannot be over-emphasised.

7. APPENDICES

APPENDIX 1

CHECKLIST OF ACCOUNTING TOPICS ACROSS TWO EXAMINATION PAPERS, GRADES 10–12 (amended with renumbered topics)

GRADE 12 IMPLEMENTATION DATE: 2020		GRADE 11 IMPLEMENTATION DATE: 2019		GRADE 10 IMPLEMENTATION DATE: 2018	
GRADE 12: PAPER 1		GRADE 11: PAPER 1		GRADE 10: PAPER 1	
<i>Financial Reporting & Evaluation</i>		<i>Financial Reporting & Evaluation</i>		<i>Financial Reporting & Evaluation</i>	
12.1.1	Concepts relating to companies	11.1.1	Concepts relating to partnerships & clubs	10.1.1	Concepts relating to sole traders
12.1.2	Concepts relating to GAAP & IFRS	11.1.2	Concepts relating to GAAP	10.1.2	Concepts relating to GAAP
12.1.3	Unique Ledger Accounts of companies & interpretation thereof	11.1.3	Ledger Accounts of partnerships incl. interpretation	10.1.3	Bookkeeping: documents & journals of sole traders
12.1.4	Accounting equation of companies	11.1.4	Ledger Accounts of clubs incl. interpretation	10.1.4	Ledgers and trial balances of sole traders
12.1.5	Adjustments, final accounts & trial balances of companies (incl. valuation of fixed assets & stock; see 12.1.11 & 12.1.12)	11.1.5	Accounting equation of partnerships	10.1.5	Accounting equation of sole traders
12.1.6	Income Statement (Statement of Comprehensive Income) of companies	11.1.6	Adjustments, final accounts & trial balances of partnerships	10.1.6	Adjustments, final accounts & trial balances of sole traders
12.1.7	Balance Sheet (Statement of Financial Position) & Notes of companies	11.1.7	Income Statement (Statement of Comprehensive Income) of partnerships	10.1.7	Income Statement (Statement of Comprehensive Income) of sole traders
12.1.8	Cash Flow Statement of companies	11.1.8	Balance Sheet (Statement of Financial Position) & Notes of partnerships	10.1.8	Balance Sheet (Statement of Financial Position) & Notes of sole traders
12.1.9	Analysis & interpretation of financial statements of companies listed in 12.1.6, 12.1.7, 12.1.8 and 12.1.10 *	11.1.9	Statement of Receipts & Payments of clubs	10.1.9	Analysis & interpretation of financial statements of sole traders *
12.1.10	Analysis & interpretation of published financial statements & audit reports of companies *	11.1.10	Analysis & interpretation of financial statements of partnerships *	10.1.10	Salaries & wages – recording & interpretation
12.1.11	Valuation of fixed assets for reporting in financial statements incl. additions, depreciation & disposal	11.1.11	Valuation of fixed assets including additions, depreciation & disposal	10.1.11	Calculation & reporting of additions to fixed assets and depreciation
12.1.12	Inventory valuation for reporting in financial statements (FIFO, Weighted Average & Specific Identification)	11.1.12	Periodic & perpetual stock systems – concepts & reporting		
12.1.13	Professional bodies & Code of conduct				
12.1.14	Ethical behaviour & corporate governance in financial environments	11.1.13	Ethical behaviour in financial environments	10.1.12	Ethical behaviour in financial environments
12.1.15	Legislation governing companies (overview only)				
12.1.16	Close corporations (background only; not examinable)				
* Financial indicators for Grade 12 Paper 1		* Financial indicators for Grade 11 Paper 1		* Financial indicators for Grade 10 Paper 1	
Gross profit on sales; Gross profit on cost of sales; Net profit on sales; Operating expenses on sales; Operating profit on sales; Current ratio; Acid-test ratio; Stock turnover rate; Stockholding period; Average debtors' collection period; Average creditors' payment period; Solvency ratio; Debt-equity ratio (gearing); Return on shareholders' equity; Return on total capital employed; Net asset value per share; Dividends per share; Earnings per share; Dividend pay-out rate		Gross profit on sales; Gross profit on cost of sales; Net profit on sales; Operating expenses on sales; Operating profit on sales; Current ratio; Acid-test ratio; Stock turnover rate; Stockholding period; Average debtors' collection period; Average creditors' payment period; Solvency ratio; Debt-equity ratio (gearing); Return on partners' equity		Gross profit on sales; Gross profit on cost of sales; Net profit on sales; Operating expenses on sales; Operating profit on sales; Current ratio; Acid-test ratio; Solvency ratio; Return on owner's equity	

NOTE: REFER TO NEXT PAGE FOR PAPER 2 TOPICS.

APPENDIX 1 CONTINUED

CHECKLIST OF ACCOUNTING TOPICS ACROSS TWO EXAMINATION PAPERS, GRADES 10–12 (amended with renumbered topics)

GRADE 12 IMPLEMENTATION DATE: 2020		GRADE 11 IMPLEMENTATION DATE: 2019		GRADE 10 IMPLEMENTATION DATE: 2018	
GRADE 12: PAPER 2		GRADE 11: PAPER 2		GRADE 10: PAPER 2	
<i>Managerial Accounting, Internal Auditing & Control</i>		<i>Managerial Accounting, Internal Auditing & Control</i>		<i>Managerial Accounting & Internal Control</i>	
12.2.1	Analysis & interpretation of reconciliations: bank, debtors, creditors, age analysis (See APPENDIX 5.3: bank reconciliations not examinable in 2021.)	11.2.1	Preparation of bank & creditors' reconciliations. See APPENDIX 5.3: bank reconciliations not examinable in 2021.)	10.2.1	Preparation of debtors' & creditors' lists to agree to Control accounts
12.2.2	Value-added Tax: Input, Output & calculations	11.2.2	Value-added Tax: calculations	10.2.2	Value-added Tax: concepts & basic calculations
12.2.3	Manufacturing: concepts	11.2.3	Manufacturing: concepts & calculations	10.2.3	Manufacturing: concepts & basic calculations
12.2.4	Manufacturing: Production Cost Statement & Notes; Abridged/ Short-form Income Statement & Notes	11.2.4	Cost Accounting – Ledger Accounts	10.2.4	Indigenous bookkeeping (not examinable)
12.2.5	Analysis & interpretation of cost information, unit costs & break-even point #	11.2.5	Calculation of unit costs & break-even point		
12.2.6	Analysis & interpretation of Cash Budgets for sole traders and companies	11.2.6	Preparation of Cash Budget for sole traders	10.2.5	Budgeting: concepts & basic calculations
12.2.7	Analysis & interpretation of Projected Income Statement for sole traders and companies	11.2.7	Preparation of Projected Income Statement for sole traders		
12.2.8	Application of internal control & audit processes: cash, fixed assets, inventories, debtors, creditors, income & expenses (including salaries/wages) & including financial indicators #	11.2.8	Application of internal control & audit processes: cash, fixed assets, inventories, debtors, creditors, income & expenses (including salaries/wages) & including financial indicators #	10.2.6	Application of internal control & audit processes: cash, fixed assets, inventories, debtors, creditors, income & expenses (including salaries/wages) & including financial indicators #
12.2.9	Recording & control of fixed assets including additions, depreciation & asset disposal	11.2.9	Valuation of fixed assets including additions, depreciation & asset disposal	10.2.7	Calculation and recording of fixed assets & depreciation
12.2.10	Perpetual & periodic stock systems and control of inventories	11.2.10	Periodic & perpetual inventory systems – concepts, recording & control	10.2.8	Perpetual inventory system; recording & control of inventories
12.2.11	Valuation of inventories (FIFO, Weighted average & Specific identification)				
12.2.12	Ethical behaviour in financial environments	11.2.11	Ethical behaviour in financial environments	10.2.9	Code of ethics in businesses, principles and values
# Financial indicators for Grade 12 Paper 2		# Financial indicators Grade 11 Paper 2		# Financial indicators Grade 10 Paper 2	
Gross profit on cost of sales; Net profit on sales; Operating expenses on sales; Operating profit on sales; Stock turnover rate; Stockholding period; Average debtors' collection period; Average creditors' payment period; Break-even point		Gross profit on cost of sales; Net profit on sales; Operating expenses on sales; Operating profit on sales; Stock turnover rate; Stockholding period; Average debtors' collection period; Average creditors' payment period		Gross profit on cost of sales; Net profit on sales; Operating expenses on sales; Operating profit on sales	

APPENDIX 2**CONTINUATION OF SPECIFIC POLICIES RELATING TO CERTAIN GRADE 12 TOPICS**

Under previous curricula certain limitations were placed on the depth of certain topics stipulated in the Grade 12 curriculum relating to Companies. This is a vast topic which is a core focus area in further studies in financial, commercial and management fields at tertiary level. It is confirmed that these limitations continue to apply under the Accounting CAPS.

1.1 Share capital of companies

For the purposes of preparing company financial statements, share capital is restricted to ordinary shares only.

Reason:

It is not the intention of the Grade 12 curriculum to cover preference shares or other types of shares in the preparation of financial statements. However, when interpreting published annual reports, teachers are advised to alert learners to different types of shares that may appear in the published financial statements (for background information).

1.2 Investments of companies

For the purposes of preparing financial statements, investments are restricted to fixed deposits.

Reason:

It is not the intention of the curriculum to cover associate or holding/subsidiary company relationships. Therefore, the investment in shares of other companies is excluded.

1.3 Asset disposal in Cash Flow Statements

For the purposes of preparing Cash Flow Statements, disposal of fixed assets will be at carrying value (book value) only.

Reason:

The profit or loss on the disposal of fixed assets would add another complication in respect of cash and non-cash items, which is not intended.

APPENDIX 3

SUMMARY OF THE ANNUAL TEACHING PLAN

TERM 1											
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	
Topic	Companies: unique transactions Close Corporations		Companies: final accounts, financial statements: Income Statement (Statement of Comprehensive Income) Balance Sheet (Statement of Financial Position) Cash Flow Statement Company Audit Report					Companies: analysis & interpretation of financial statements (internal & published)		Revision & Test	
	Integrate Internal Control, Corporate Governance and Ethics with all the topics										
Assessment	Written report				Informal			Control Test			
TERM 2											
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	
Topic	Inventory Valuations		Fixed assets	Cost Accounting: PCS with notes, Trading and Profit & Loss Statement, Unit costs, Break-even point			Reconciliations Creditors, Debtors and Age Analysis		Examinations		
	Integrate Internal Control, Corporate Governance and Ethics with all the topics										
Assessment	Project (published financial statements)				Informal			Mid-year Examinations			
TERM 3											
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	
Topic	Value-added Tax		Budgeting			Revision			Trial Examinations		
	Integrate Internal Control, Corporate Governance and Ethics with all the topics										
Assessment	Case Study				Control Test			Trial Examinations			
TERM 4											
	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9		
Topic	Revision and examination preparation					Final Examination					Planning for next year
Assessment	Informal										

APPENDIX 4

GRADE 12 ACCOUNTING: FORMULA SHEET

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET	
$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Total assets : Total liabilities	Current assets : Current liabilities
(Current assets – Inventories) : Current liabilities	Non-current liabilities : Shareholders' equity
(Trade & other receivables + Cash & cash equivalents) : Current liabilities	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales or credit purchases}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax + Interest on loans}}{\text{Average shareholders' equity + Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit – Variable costs per unit}}$	
NOTE:	
* In this case, if there is a change in the number of issued shares during a financial year, the weighted average number of shares is used in practice.	

APPENDIX 5**CLARIFICATION OF CERTAIN ASPECTS OF THE CAPS CONTENT****5.1 Shares of no par value**

The concept of par value no longer applies. Section 35(2) of the new Companies Act states that a share does not have a nominal or par value.

Reason:

Par value bears no resemblance to the true value of a share, except on the first day of a company's life. Par value was also confusing to many shareholders.

Application:

Shares are now issued at *issue* price.

- New shares may be issued at any price, i.e. higher/lower/the same as the average price or any previous issue price. The full proceeds of the share issue are credited to the Share Capital Account. The double entry in the Ledger is:

Debit:	Bank
Credit:	Ordinary share capital

- Consequently, the Share Premium Account no longer applies.
- Effect on the Accounting Equation: **Assets +; Owners' equity +**

See Example 6.1 below.

5.2 Buying back (repurchase) of shares by a company

In terms of Section 48 of the new Companies Act, the directors of a company may decide to repurchase shares from a shareholder, subject to certain conditions.

Reasons:

The reasons are numerous, e.g. reduction in the number of shareholders could result in bigger returns for the remaining shareholders; directors might wish to adjust the debt-equity ratio through the buy-back of shares; heirs of a deceased estate might not wish to become shareholders of a company; a dissatisfied shareholder might wish to withdraw for personal reasons; family members in a private company might wish to retain control of the company by reducing the number of issued shares.

Application policy for examination purposes regarding Accounting Equation and preparing financial statements:

- Repurchase of shares will be restricted to values higher than the average issue price of the ordinary shares. The effect on the Accounting Equation will be:

Assets – Owners' equity –

- In preparing the financial statements:

Bank is reduced by the repurchase value paid for the shares
Ordinary share capital is reduced by the number of shares multiplied by the average issue price
Retained income is reduced by the difference (this represents the income that had previously been retained in respect of the shares repurchased)

Reasons:

- It is not the intention of the curriculum to complicate entries through the introduction of new accounts.
- As many shareholders will have bought shares from existing shareholders (third parties) on the JSE at market prices, it is normally not possible for a company to determine the original purchase price paid by a specific shareholder. The average issue price will therefore be used in determining the entries to be made in the buying back of shares. Note that this is effectively the weighted-average price as the balance on the Share Capital Account takes price and quantity into account already.
- The effect of the repurchase of shares on the Accounting Equation and on the financial statements will be identical, whichever bookkeeping entries are applied.

Bookkeeping entries:

Universities and different textbooks may choose to treat the repurchase of shares differently through the introduction of new accounts.

- For examination purposes, examiners and markers will have to be sensitive and vigilant to differing bookkeeping treatment in the Ledger, particularly in the Retained Income and Appropriation Accounts. Valid alternative methods will be accepted. However, the following approach reflects the simplest method without introducing new accounts.
- In buying back shares, the accounts affected are **Bank**, **Share Capital** and **Retained Income**. Under this method, the double entries in the Ledger will be:

Debit:	Ordinary share capital (with average issue price x number of shares repurchased)
Debit:	Retained income (with the difference)
Credit:	Bank (with the amount paid for the shares repurchased)

- The difference between the repurchase price and the average issue price of the shares is debited to Retained Income because this represents the amount of income that had previously been retained by the business in respect of those shares.
- Regarding the Appropriation Account, since the buy-back of shares affects the Retained Income Account, there is no need to transfer the beginning Retained Income balance to the Appropriation Account; however, different valid methods will be accepted.

See Example 6.2 and Example 6.3 below.

5.3 Reconciliations

Creditors' reconciliation

Grade 11 content under the CAPS includes the reconciliation of a Creditors' Ledger Account (in the Creditors' Subsidiary Ledger) to the statement of account received from a creditor. Grade 12 content stipulates analysis and interpretation of Creditors' Reconciliations. As 20% of any examination paper may include relevant content from a previous grade, preparation applications in respect of Creditors' Reconciliations are examinable in Grade 12. Similar reasoning applies to Debtors' Reconciliations.

Bank Reconciliation

Accounting is a consistently evolving profession. Accounting NSC adheres to the principle that accounting procedures that do not exist in practice will not be examined. The withdrawal of cheques as a means of payment is a case in point.

In light of the very recent developments in the banking sector, it is strongly felt that the appropriate roll-out of relevant resource material and the training of teachers may not be adequately and uniformly achieved. It is therefore prudent to exclude Bank Reconciliation (Paper 2 topic) from the examinable content for 2021.

However, the internal control of cash resources, as applicable to other topics on the syllabus, such receipts and payments to creditors and budgeting, is still relevant and can be tested.

Accounting teachers should be aware of new developments affecting the subject. These are reported in the press, curriculum updates and the annual NSC Diagnostic Reports.

5.4 Projected Income Statements and Cash Budgets of companies

The CAPS content includes companies, in addition to sole traders, under this topic. Consequently, specific items which may be reflected in Projected Income Statements and Cash Budgets include: directors' fees, audit fees, provisional tax, interim and final dividends paid, issue and repurchase of shares.

5.5 Inventory valuation: Specific identification

In addition to the FIFO and weighted-average methods of valuing stock, the CAPS document stipulates the specific identification method. This should not create any problems for learners as it is a method that would have been utilised at Grade 8–10 levels where the specific cost price of an article is provided either in rand terms or in code form.

See Example 6.4 below.

5.6 Break-even point and Contribution per unit

The concept of Contribution per unit is important in calculating the Break-even point and in projecting future production and sales targets. The example below provides further background and calculations on this topic.

See Example 6.5 below.

5.7 Ethics, Internal Control, Company Legislation, Corporate Governance and Professional Bodies

- The ATP states that the topics of Ethics, Corporate Governance and Internal Control must be integrated, where appropriate, in all other relevant topics. They cover topics that do not always require prescriptive responses and may be open-ended in nature and offer opportunities to learners to exercise their skills in innovation and creativity. These topics are best taught through the medium of short scenarios or case studies. Questions on these topics may focus on practical problem-solving recommendations and are generally open-ended with a variety of acceptable valid responses. Internal control issues should be practically related to the accounting and recording procedures covered in the curriculum. Topical news articles on current issues should be used to develop skills and confidence in learners in responding to such questions.
- Corporate Governance in the Grade 12 context covers:
 - Effective, responsible and ethical management of a company. This is an extension of the concept of management and control (by directors and shareholders). The concepts of board of directors and CEO are often used in examination papers. It is necessary that the mission and work of the board be explained, as well as its composition, including the need for two types of directors with the emphasis on the word 'executive' as used in CEO.
 - Work of specific committees to ensure accountability and transparency. This may include an audit committee, a remunerations committee, an ethics committee and any other committee that might address any particular circumstance or problem that might be relevant to a company, e.g. pollution/environmental awareness, skills development, wealth/job creation or support of community projects (corporate social investment).
 - Ethical behaviour relating to specific scenarios that must be analysed and interpreted. The expected responses should be based on common sense and logical courses of action and not on any specific policies, studied as fact.
- These issues are often highlighted in the published financial statements (annual reports) that would form the basis the assignment or project covered in Term 1 or 2 of Grade 12. This SBA task should focus not only on the analysis of the audited figures, but should be designed to expose learners to the other aspects of a public company, including the Director's Report and the Audit Report.
- The CAPS document states that Company Legislation should be covered by way of an overview only. It is not necessary for learners to recall contents of specific sections of the Companies Act. Emphasis needs to be placed on why the Act is necessary, the concept of limited liability, the roles and duties of the relevant stakeholders and the need for procedures, such as audits.
- The above would address the understanding of the need for legislation, which may suggest a lower cognitive level of questioning. Teachers must be made aware that all cognitive levels would still involve 'easy', 'medium' and 'difficult' in terms of the degree of challenge.
- Professional Bodies and their need for a code of conduct, their professional development and disciplinary roles, and the possibility of dismissal from a professional body in the event of misconduct have featured in past examination papers. This remains one of the core issues that must be covered, along with professional development. Learners should be aware of the major accounting bodies, which include SAICA and SAIPA, and more recently formed bodies, such as the Institute of Internal Auditors. An in-depth study of Professional Bodies is not expected, but is useful for the overall development of learners in the form of enrichment.
- Topical issues that arise from recent trends and newsworthy items that may be unfamiliar but within the scope of the syllabus may be examined as part of the 10–15% problem-solving component, recommended by the CAPS.
- Diagnostic reports and past papers must be used for guidance and assistance.

APPENDIX 6

EXAMPLES OF SPECIFIC ITEMS OF THE CAPS CONTENT

NOTE: These examples are intended to assist teachers in their explanations of basic principles and procedures. **They are not designed as exemplars for examination questions.**

Example 6.1: Shares of no par value

You are provided with information relating to ABC Ltd for the year ended 30 June 20.3. The company has an authorised share capital of 500 000 shares. 60% of these shares were already issued by 1 July 20.2.

Required:

- For the issue of new shares on 31 December 20.2, complete the table for Account Debited, Account Credited and effect on the Accounting Equation.
- Prepare the Note to the Balance Sheet for Ordinary share capital on 30 June 20.3.
- Prepare Owners' Equity section of the Balance Sheet on 30 June 20.3.

Information:

(a) The following balances appeared in the Ledger:

	1 June 20.2	30 June 20.3
Ordinary share capital	R1 500 000	?
Retained income	R 620 000	R970 000

(b) On 31 December 20.2, all the unissued shares were issued at the JSE market price of R7,00 per share.

Solution:

1.	Account debited	Account credited	Effect on Accounting Equation		
			Assets	Owners' equity	Liabilities
	Bank	Ordinary share capital	+R1 400 000	+R1 400 000	0

2.	Note 7	Ordinary share capital	
		Authorised	
		Number of authorised ordinary shares: 500 000 shares	
		Issued	R
		300 000 shares in issue at beginning of year	1 500 000
		200 000 shares issued during the year at R7,00 per share	1 400 000
		500 000 shares in issue at end of year	<u>2 900 000</u>

3. **ABC LIMITED**
Extract from the Balance Sheet on 30 June 20.3

	Note	R
SHAREHOLDERS' EQUITY		3 870 000
Ordinary share capital	7	2 900 000
Retained income	8	970 000

Example 6.2: Repurchase (buy-back) of shares

You are provided with information relating to XYZ Ltd for the year ended 30 June 20.3. The company has an authorised share capital of 500 000 shares. 60% of these shares had already been issued by 1 July 20.2.

Required:

- For the issue of new shares on 31 December 20.2 and the repurchase of the shares on 31 March 20.3, complete the table for Account Debited, Account Credited and effect on the Accounting Equation.
- Prepare the following Notes to the Balance Sheet on 30 June 20.3:
Ordinary share capital
Retained income
- Prepare Owners' Equity section of the Balance Sheet on 30 June 20.3.
- Show how the new issue of shares and the repurchase (buy-back) of shares will appear in the Cash Flow Statement for the year ended 30 June 20.3.

Information:

- (a) The following balances appeared in the Ledger:

	30 June 20.3	1 June 20.2
Ordinary share capital	?	R1 500 000
Retained income	?	R 620 000
Loan from Ace Bank	R 900 000	R 400 000

- (b) On 31 December 20.2, all the unissued shares were issued at the JSE market price of R7,00 per share. These new shares do not qualify for interim dividends.
- (c) On 31 March 20.3, the directors decided to repurchase 80 000 shares at R7,80 per share from the estate of a shareholder who had died. This shareholder had originally purchased his shares on the JSE at various times and at different prices over the past five years.
- (d) The company made a pre-tax profit of R1 200 000 (after-tax profit R840 000) for the 20.3 financial year. Interim dividends of 40 cents per share were paid on 31 December 20.2. Final dividends declared on 30 June 20.3 were 55 cents per share.

Solution:

1.

Account debited	Account credited	Effect on Accounting Equation		
		Assets	Owners' equity	Liabilities
31 December 20.2:				
Bank	Ordinary share capital	+R1 400 000	+R1 400 000	0
31 March 20.3:				
Ordinary share capital	Bank	−R464 000*	−R464 000*	0
Retained income	Bank	−R160 000**	−R160 000**	0
Workings:				
Average issue price of shares on 31 March 20.3: R2 900 000 ÷ 500 000 shares = R5,80				
Value of 80 000 shares at average issue price of R5,80 = 80 000 x R5,80 = R464 000*				
80 000 shares were repurchased at R7,80 per share = 80 000 x R7,80 = R624 000				
Difference = Retained income portion of shares repurchased = 80 000 x R2 = R160 000**				

Example 6.2: Solution (continued)

2.	Note 7	Ordinary share capital	
		Authorised	
		Number of authorised ordinary shares: 500 000 shares	
		Issued	R
		300 000 shares in issue at beginning of year	1 500 000
		200 000 shares issued during year at R7,00 per share	1 400 000
		80 000 shares repurchased during year (average issue price R5,80 per share)	(464 000)
		420 000 shares in issue at end of year ***	<u>2 436 000</u>

*****NOTE:**

After the repurchase of 80 000 shares, the average issue price of 420 000 shares remains R5,80.

	Note 8	Retained income	
			R
		Retained income at beginning of year	620 000
		Net profit after tax for the year	840 000
		Retained income on 80 000 shares repurchased	(160 000)
		Dividends	(351 000)
		Interim (300 000 shares x R0,40)	<u>(120 000)</u>
		Final (420 000 shares x R0,55)	<u>(231 000)</u>
		Retained income at end of year	<u>949 000</u>

3. **XYZ LIMITED**
Extract from the Balance Sheet on 30 June 20.3

	Note	R
SHAREHOLDERS' EQUITY		3 385 000
Ordinary share capital	7	<u>2 436 000</u>
Retained income	8	<u>949 000</u>

4. **XYZ LIMITED**
Extract from the Cash Flow Statement for the year ended 30 June 20.3

	R
Cash effects of financing activities	1 276 000
Proceeds of shares issued	<u>1 400 000</u>
Repurchase of shares (160 000 + 464 000)	<u>(624 000)</u>
Proceeds of loan received	<u>500 000</u>

Example 6.3: Appropriation and Retained Income Accounts: Repurchase of shares

Refer to the information in Example 6.2.

Required:

Prepare the Retained Income and Appropriation Accounts in the Ledger on 30 June 20.3.

Solutions: Note that all three methods below are acceptable.

Solution Method (i):

NOTE: Under this method, retained income at the beginning of the year is not transferred to the Appropriation Account. Instead, the retained income for the year is transferred from the Appropriation Account to the Retained Income Account. The transfers are not complicated by the share buy-back adjustment.

LEDGER OF XYZ LIMITED
Balance Sheet accounts section

RETAINED INCOME **B2**

20.3 Mar 31	Bank #		160 000	20.2 Jul 1	Balance	b/d	620 000
Jun 30	Balance	c/d	949 000	20.3 Jun 30	Appropriation		489 000
			1 109 000				1 109 000
				20.3 Jul 1	Balance	b/d	949 000

Final accounts section

APPROPRIATION **F3**

20.3 Jun 30	Income tax		360 000	20.3 Jun 30	Profit & loss		1 200 000
	Dividends on ordinary shares		351 000				
	Retained income		489 000				
			1 200 000				1 200 000

Alternative contra details possible if alternative valid intermediary accounts are used./May be processed through the Appropriation Account if retained income figures are adjusted accordingly.

Solution Method (ii):

NOTE: Under this method, retained income at the beginning of the year is transferred to the Appropriation Account. Consequently, the retained income (before the share buy-back adjustment) at the end of the year has to be transferred from the Appropriation Account to the Retained Income Account.

LEDGER OF XYZ LIMITED
Balance Sheet accounts section
RETAINED INCOME

B2

20.3 Mar 31	Bank #		160 000	20.2 Jul 1	Balance	b/d	620 000
	Appropriation		620 000	20.3 Jun 30	Appropriation		1 109 000
Jun 30	Balance	c/d	949 000				
			1 729 000				1 729 000
				20.3 Jul 1	Balance	b/d	949 000

Final accounts section
APPROPRIATION

F3

20.3 Jun 30	Income tax		360 000	20.3 Jun 30	Profit & loss		1 200 000
	Dividends on ordinary shares		351 000		Retained income		620 000
	Retained income		1 109 000				
			1 820 000				1 820 000

Alternative contra details possible if alternative valid intermediary accounts are used./May be processed through the Appropriation Account if retained income figures are adjusted accordingly.

Solution Method (iii):

NOTE: Under this method, retained income at the beginning of the year (less the share buy-back adjustment) is transferred to the Appropriation Account. Consequently, the retained income (after the share buy-back adjustment) at the end of the year has to be transferred from the Appropriation Account to the Retained Income Account.

LEDGER OF XYZ LIMITED
Balance Sheet accounts section

RETAINED INCOME

B2

20.3 Mar 31	Bank #		160 000	20.2 Jul 1	Balance	b/d	620 000
	Appropriation		460 000	20.3 Jun 30	Appropriation		949 000
Jun 30	Balance	c/d	949 000				
			1 569 000				1 569 000
				20.3 Jul 1	Balance	b/d	949 000

Final accounts section

APPROPRIATION

F3

20.3 Jun 30	Income tax		360 000	20.3 Jun 30	Profit & loss		1 200 000
	Dividends on ordinary shares		351 000		Retained income		460 000
	Retained income		949 000				
			1 660 000				1 660 000

Alternative contra details possible if alternative valid intermediary accounts are used./May be processed through the Appropriation Account if retained income figures are adjusted accordingly.

Example 6.4: Specific identification method of inventory valuation

You are provided with information relating to AA Car Dealers. The business uses the specific identification method of valuing stock.

The following items are in stock at the beginning of May 20.3:

	Description	Cost price	Published selling price
Item 1	Audi A1 (1.2 litre engine)	R170 000	R215 000
Item 2	Audi A3 (2.0 litre engine)	R270 000	R324 000
Item 3	Audi A6 (1.8 litre engine)	R330 000	R380 000
Item 4	Audi A8 (3.0 litre engine)	R580 000	R650 000

Items 1 and 3 were sold for cash during May 20.3 at their published selling prices.

Required:

- Calculate the value of trading stock on 31 May 20.3 and gross profit earned during May 20.3.
- Explain why it would be unreasonable for this business to value its stock items on the basis of FIFO or weighted average.
- Explain why it would be unreasonable for certain other businesses to use the specific identification method, e.g. a fruit shop that sells apples.
- AA Car Dealers do not want the cost prices of stock items to be public knowledge. What strategies could they use to keep the cost prices confidential?

Solution:

- Value of trading stock on 31 May 20.3 = R270 000 + R580 000 = R850 000**

NOTE: Stock is valued under any of the three methods using number of units on hand and appropriate unit costs. This is a relatively simple process. A calculation using cost of sales should arrive at the same answer, but this process could be unnecessarily lengthy and complicated, and is not advised for stock valuation.

Gross profit earned during May 20.3

= Sales – Cost of sales = (215 000 + 380 000) – (170 000 + 330 000) = **R95 000**

- Explain why it would be unreasonable for this business to value its stock items on the basis of FIFO or weighted average.**

They sell discrete (separate) items (i.e. cars) that are very different from each other in terms of price and character. It would be inappropriate to value the cars based on the last two items bought or the weighted average as cost prices vary considerably. Also, low volumes of such large articles make it easier to identify the specific cost on each car.

- Explain why it would be unreasonable for certain other businesses to use the specific identification method, e.g. a fruit shop that sells apples.**

Apples comprise numerous similar articles sold at similar prices. Cost prices might change from day to day or from supplier to supplier, the articles would all be placed in containers for customers to select. It is difficult to apply a specific price to any one apple.

- AA Car Dealers do not want the cost prices of stock items to be public knowledge. What strategies could they use to keep the cost prices confidential?**

- Keep the cost prices in a catalogue which can be secured in the manager's office.
- Secret cost code, e.g. a 10-letter word such as BLACKHORSE, where B=1, L=2, etc.
- Allocate separate product numbers to each item and record them on the computer system together with the specific cost prices.

Example 6.5: Break-even point (BEP) and Contribution per unit**Background information:**

The calculation of the BEP includes a simple yet very significant calculation for the denominator, i.e. **Selling price** less **Variable cost per unit**. The answer to this calculation is referred to as the **Contribution per unit**.

For example, if the Selling price is R500 per unit and the Variable costs are R300 per unit, the Contribution per unit is R200. The sales value will make the profit go up, but the Variable costs will decrease profit, so the Contribution is the net effect. Learners are expected to understand that the Contribution is the net rand amount that each unit produced contributes towards covering the Fixed costs.

For the purposes of the CAPS content, all costs are either **Fixed** (i.e. Factory overheads & Administration costs) or **Variable** (i.e. Direct materials, Direct labour and Selling/Distribution costs). It must be assumed that Fixed costs will remain constant for at least one financial year, and that Variable costs are in direct proportion to the number of units produced. In other words, the CAPS do not include semi-Variable costs (this will be studied at university level).

It is important that learners also understand the logic underlying the BEP. Assume that Fixed costs are R9 000 and the Contribution per unit is R200.

Then:

- If only 1 unit is produced, the loss made will be R8 800 (i.e. Fixed costs less R200).
- If 2 units are produced, the loss will be R8 600 (i.e. Fixed costs less R400).
- If 3 units are produced, the loss will be R8 400 (i.e. Fixed costs less R600), etc.
- The business will have to produce 40 units for the total Contribution to be equal to the total Fixed costs, i.e. $R8\ 000 \div R200 = 40$ units. This is the BEP at which the business will make no profit and no loss, i.e. it breaks even.

If this logic is properly understood, Contribution per unit can easily be used to calculate other figures. For the calculation of expected profit on additional units produced, fixed costs are irrelevant as they remain constant (i.e. there is no increase in Fixed costs due to increased production). The only relevant items are the Selling price (R500) and the Variable costs per unit (R300), which are represented by the net effect for Contribution per unit of R200. It is not necessary to calculate or use total rand amounts in this case.

For example:

- If production is 10 units **more** than BEP (i.e. if total production is $40 + 10 = 50$ units), the expected profit will be $10 \times R200 = R2\ 000$.
- If production is 50 units **more** than BEP (i.e. if total production is $40 + 50 = 90$ units), the expected profit will be $50 \times R200 = R10\ 000$.

Contribution per unit can also be easily used to calculate production targets. In a calculation such as this, Fixed costs are irrelevant as they remain constant (i.e. there is no increase in Fixed costs due to increased production).

For example:

- To make a profit of R2 000, **extra** units of production will be $R2\ 000 \div R200 = 10$ units (i.e. if total production is $40 + 10 = 50$ units).
- To make a profit of R30 000, **extra** units of production will be $R30\ 000 \div R200 = 150$ units (i.e. if total production is $40 + 150 = 190$ units).

Refer to the worked example on the next page.

WORKED EXAMPLE OF BREAK-EVEN POINT & CONTRIBUTION PER UNIT:**BB BUCKETS**

The business produces plastic buckets.

You are provided with information for the financial year ended 29 February 20.9.

INFORMATION:**A. Production, sales and profit:**

- 10 000 buckets were produced during the 20.9 financial year.
- The selling price per bucket is R93,00.
- Net profit for the 20.9 financial year per the Income Statement is R280 000.

B. Cost categories	TOTAL	PER UNIT
VARIABLE COSTS	R430 000	R43,00
Direct materials	R240 000	R24,00
Direct labour	R130 000	R13,00
Selling & distribution	R60 000	R6,00
FIXED COSTS	R220 000	R22,00
Factory overheads	R180 000	R18,00
Administration	R40 000	R4,00
	R650 000	R65,00

REQUIRED:

- Calculate the break-even point.
- Provide a calculation to show that the net profit of R280 000 is correct.
- Calculate:
 - The increase in profit if an extra 600 buckets are produced.
 - The total profit that will be earned if an additional 600 buckets are produced.
- Calculate:
 - The number of additional units that need to be produced to increase the net profit by R75 000.
 - The total number of units that need to be produced to increase the net profit by R75 000.

Refer to the solution on the next page.

SOLUTION:

- (a)
- Calculate the break-even point:**

$$\frac{R220\,000}{R93,00 - R43,00} = \frac{R220\,000}{R50,00} = 4\,400 \text{ units}$$

- (b)
- Provide a calculation to show that the net profit of R280 000 is correct:**

$$(10\,000 \times R93,00) - R650\,000 = R280\,000$$

$$\text{OR } (10\,000 - 4\,400) \times R50 = R280\,000$$

See (a) above

- (c)
- Calculate the increase in profit if an additional 600 buckets are produced:**

$$600 \text{ units} \times R50 = R30\,000$$

See (a) above

Calculate the total profit that will be earned if an additional 600 buckets are produced:

$$R280\,000 + R30\,000 = R310\,000$$

See above

- (d)
- Calculate the number of additional units that need to be produced to increase the net profit by R75 000:**

$$\frac{R75\,000}{R50} = 1\,500 \text{ units}$$

See (a) above

Calculate the total number of units that need to be produced to increase the net profit by R75 000:

$$10\,000 + 1\,500 = 11\,500 \text{ units}$$