basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

EXAMINATION GUIDELINES

SENIOR CERTIFICATE (SC)

GRADE 12

2015

These guidelines consist of 18 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 purpose of these Examination Guidelines is to provide clarity on the depth and scope of the content to be assessed in the Grade 12 Senior Certificate (SC) Examination in Accounting.

These Examination Guidelines should be read in conjunction with:

- A resumé of subjects for the Senior Certificate
- Curriculum and Assessment Policy Statements for all Approved Subjects

2. FORMAT OF AN ACCOUNTING YEAR-END EXAMINATION PAPER

The Accounting examination consists of one 3-hour paper of 300 marks.

The number of questions may vary from 5 to 8 questions. There is no stipulation on the marks allocated to each question.

Subtopics from the three different Accounting fields of Financial Accounting, Managerial Accounting and Managing Resources (Auditing) may be integrated into each question. The weighting of each Accounting field is stipulated in the CAPS.

All questions are COMPULSORY and are to be answered in a specially prepared answer book, which is designed to address the requirements of each question and assist candidates with time-management.

3. RELEVANT SECTIONS OF 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):

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 Grade 10-12 curriculum** i.e. Financial Accounting (50%–60%); Managerial Accounting (20%–25%); Managing resources (20%–25%).
Page 42	**Formal assessment tasks** i.e. these should prepare candidates for the demands of the Accounting NSC examination.
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** i.e. in the weighting of lower-order (30%); middle order (40%) and higher order (30%).
Page 44	**Problem-solving** i.e. 10% of all examinations may address problem-solving questions (in new and unfamiliar contexts) using critical and creative thinking.

4. DEGREES OF CHALLENGE

All examinations, and most assessment tasks in Accounting, must reflect subquestions of differing degrees of challenge, i.e. Easy, Moderate and Difficult.

The following weighting of degrees of challenge is generally accepted as appropriate for Grade 10–12 examinations:

Easy	Moderate	Difficult
30%	40%	30%

It must be noted 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 dealing with financial indicators, the calculation of a mark-up % will generally be regarded as being of the middle–order cognitive level (i.e. Analysing), yet the degree of challenge might well be Easy, depending on the context of the question and information provided.
- When 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 sub-question 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 candidates who are adequately prepared for Accounting NSC examinations.

5. EXAMINABLE AND NON–EXAMINABLE CONTENT

Refer to the table on the next page for examinable and non-examinable content.

Refer also to the Appendices for specific notes on:
Appendix 1: Continuation of specific policies relating to certain Grade 12 topics
Appendix 2: Overview of new CAPS content
Appendix 3: Examples of new CAPS content.

EXAMINABLE AND NON–EXAMINABLE CONTENT FOR GRADE 12 ACCOUNTING

NOTE: • This is a summary only: Teachers must refer to the Accounting CAPS for specific requirements. • All topics require integration of ethical issues and internal control.		Examinable YES/NO	Notes on specific content (Also refer to 3 above regarding relevant content from previous grades)
Field 1.	**FINANCIAL ACCOUNTING**		
12.1.1	Concepts relating to companies	YES	New content includes: • Issuing of shares at issue price (no par value, no share premium); • Buying back of shares See Examples 3.1 to 3.3 below.
12.1.2	Concepts relating to GAAP & IFRS	YES	
12.1.3	Unique Ledger Accounts of companies	YES	
12.1.4	Accounting equation of companies	YES	
12.1.5	Final accounts of companies: Trading; Profit & loss; Appropriation Accounts	YES	
12.1.6	Income Statement of companies	YES	
12.1.7	Balance Sheet of companies	YES	
12.1.8	Cash Flow Statement of companies	YES	
12.1.9	Analysis and interpretation of financial statements of companies	YES	
12.1.10	Analysis and interpretation of company published financial statements	YES	Directors' Report, Independent Auditors' Report, Abridged Income Statement, Balance Sheet, Cash Flow Statement, additional information relating to governance and the company's activities.
12.1.11	Close corporations (**background information only**)	NO	Concepts: Differences in financial statements of companies and close corporations.
12.1.12	Analysis and interpretation of bank, debtors' and creditors' reconciliations and age analysis	YES	Includes Grade 11 content on preparation of reconciliations
12.1.13	Value-added tax	YES	Calculation of amount payable/receivable; Completion of VAT Control account

Field 2.	**MANAGERIAL ACCOUNTING**		
12.2.1	Manufacturing concepts	YES	
12.2.2	Production Cost Statement with notes; and short-form Income Statement with notes	YES	Includes Grade 11 content on Ledger Accounts
12.2.3	Analysis and interpretation of cost information, unit costs, contribution per unit and break-even point	YES	
12.2.4	Analysis, interpretation and comparison of Projected Income Statement for sole traders or companies	YES	Includes Grade 11 content on preparation of Projected Income Statements.
12.2.5	Analysis, interpretation and comparison of Cash Budgets for sole traders or companies	YES	Includes Grade 11 content on preparation of Cash Budgets.

Field 3.	**MANAGING RESOURCES**		
12.3.1	Interpretation and reporting on movements of fixed assets	YES	Integration into Financial Accounting of companies
12.3.2	Perpetual and periodic stock systems; validation, valuation and calculation of inventories	YES	Different valuation methods: specific identification, FIFO; weighted average
12.3.3	Professional bodies and code of conduct	YES	
12.3.4	Application of internal control and internal audit processes	YES	Includes difference in roles of internal and external auditors
12.3.5	Ethical behaviour in financial environment	YES	
12.3.6	Legislation governing companies	YES	General overview of Companies Act only

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 educators should teach to.

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

APPENDIX 1

CONTINUATION OF SPECIFIC POLICIES RELATING TO GRADE 12 TOPICS

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 candidates 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 2

OVERVIEW OF NEW CAPS CONTENT

2.1 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.
- The effect on the Accounting Equation is: **Assets +**; **Owners' equity +**.

See Example 3.1 below.

2.2 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 already takes price and quantity into account.
- 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**. According to 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 3.2 and Example 3.3 below.

2.3 Creditors' reconciliations

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 Bank and Debtors' Reconciliations.

2.4 Projected Income Statements and Cash Budgets of companies

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.

2.5 Inventory valuation: Specific identification

In addition to the FIFO and weighted-average methods of valuing stock, the CAPS stipulates the specific identification method. This should not create any problems for candidates 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 3.4 below.

APPENDIX 3

EXAMPLES OF NEW CAPS CONTENT

Example 3.1 Shares of no par value

You are provided with information relating to ABC Ltd for the year ended 30 June 2013. The company has an authorised share capital of 500 000 shares. 60% of these shares had already been issued by 1 July 2012.

Required:

1. For the issue of new shares on 31 December 2012, complete the table for Account Debited, Account Credited and effect on the Accounting Equation.
2. Prepare the Note to the Balance Sheet for Ordinary share capital on 30 June 2013.
3. Prepare Owners' Equity section of the Balance Sheet on 30 June 2013.

Information:

(a) The following balances appeared in the Ledger:

	1 June 2012	**30 June 2013**
Ordinary share capital	R1 500 000	?
Retained income	R 620 000	R970 000

(b) On 31 December 2012, 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	2 900 000

3. **ABC LIMITED**
Extract from the Balance Sheet on 30 June 2013

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

Example 3.2 Repurchase (buy-back) of shares

You are provided with information relating to XYZ Ltd for the year ended 30 June 2013. The company has an authorised share capital of 500 000 shares. 60% of these shares had already been issued by 1 July 2012.

Required:

1. For the issue of new shares on 31 December 2012 and the repurchase of the shares on 31 March 2013, complete the table for Account Debited, Account Credited and effect on the Accounting Equation.
2. Prepare the following Notes to the Balance Sheet on 30 June 2013:
   Ordinary share capital
   Retained income.
3. Prepare Owners' Equity section of the Balance Sheet on 30 June 2013.
4. 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 2013.

Information:

(a) The following balances appeared in the Ledger:

	30 June 2013	1 June 2012
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 2012, 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 2013, 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 2013 financial year. Interim dividends of 40 cents per share were paid on 31 December 2012. Final dividends declared on 30 June 2013 were 55 cents per share.

Solution:

1.

Account debited	Account credited	Effect on Accounting Equation: Assets	Owners' equity	Liabilities
31 December 2012:				
Bank	Ordinary share capital	+R1 400 000	+R1 400 000	0
31 March 2013:				
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 2013: 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 3.2 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 ***	2 436 000

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

Note 8	Retained income	
		R
	Retained income at beginning of the 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)	(120 000)
	Final (420 000 shares x R0,55)	(231 000)
	Retained income at end of the year	949 000

3. **XYZ LIMITED**
Extract from the Balance Sheet on 30 June 2013

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

4. **XYZ LIMITED**
Extract from the Cash Flow Statement for the year ended 30 June 2013

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

Example 3.3 Appropriation & Retained-Income Accounts: Repurchase of shares

Refer to the information in Example 3.2.

Required:

Prepare the Retained Income and Appropriation Accounts in the Ledger on 30 June 2013.

Solutions: Note that all three methods below are acceptable.

Solution Method (i):

NOTE: *According to 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

2013 Mar 31	Bank #		160 000	2012 Jul 1	Balance	b/d	620 000
Jun 30	Balance	c/d	949 000	2013 Jun 30	Appropriation		489 000
			1 109 000				1 109 000
				2013 Jul 1	Balance	b/d	949 000

Final accounts section
APPROPRIATION F3

2013 Jun 30	Income tax		360 000	2013 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: *According to 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

2013 Mar 31	Bank #		160 000	2012 Jul 1	Balance	b/d	620 000
	Appropriation		620 000	2013 Jun 30	Appropriation		1 109 000
Jun 30	Balance	c/d	949 000				
			1 729 000				1 729 000
				2013 Jul 1	Balance	b/d	949 000

Final accounts section
APPROPRIATION F3

2013 Jun 30	Income tax		360 000	2013 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: *According to 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

2013 Mar 31	Bank #		160 000	2012 Jul 1	Balance	b/d	620 000
	Appropriation		460 000	2013 Jun 30	Appropriation		949 000
Jun 30	Balance	c/d	949 000				
			1 569 000				1 569 000
				2013 Jul 1	Balance	b/d	949 000

Final accounts section
APPROPRIATION F3

2013 Jun 30	Income tax		360 000	2013 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 3.4 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 2013:

	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 are sold for cash during May 2013 at their published selling prices..

Required:

(a) Calculate the following:
- Value of trading stock on 31 May 2013
- Gross profit earned during May 2013

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

(c) Explain why it would be unreasonable for certain other businesses to use the specific identification method, e.g. a fruit shop which sells apples.

(d) AA Car Dealers does not want the cost prices of stock items to be public knowledge. What strategies could they use to keep the cost prices confidential?

Solution:

(a) **Value of trading stock on 31 May 2013** = R270 000 + R580 000 **= R850 000**

Gross profit earned during May 2013
= Sales – Cost of sales = (215 000 + 380 000) – (170 000 + 330 000) **= R95 000**

(b) **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 because the cost prices vary considerably. Also they sell low volumes of these large articles. This makes it easier to identify the specific cost on each car.

(c) **Explain why it would be unreasonable for certain other businesses to use the specific identification method, e.g. a fruit shop which 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. Difficult to apply a specific price to any one apple.

(d) **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.