basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

NOVEMBER 2020(2)

MARKS: 150

TIME: 2 hours

This question paper consists of 10 pages, a formula sheet and an 9-page answer book.

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INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL questions.

2. A special ANSWER BOOK is provided in which to answer ALL questions.

3. Show ALL workings to earn part-marks.

4. You may use a non-programmable calculator.

5. You may use a dark pencil or blue/black ink to answer questions.

6. Where applicable, show ALL calculations to ONE decimal point.

7. If you choose to do so, you may use the Financial Indicator Formula Sheet attached at the end of this question paper. The use of this formula sheet is NOT compulsory.

8. Write neatly and legibly.

9. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION	TOPIC	MARKS	MINUTES
1	Fixed Assets and Statement of Comprehensive Income	60	45
2	Financial Indicators and Cash Flow Statement	40	35
3	Interpretation of Financial Statements	35	30
4	Corporate Governance	15	10
TOTAL		**150**	**120**

QUESTION 1: FIXED ASSETS AND STATEMENT OF COMPREHENSIVE INCOME

(60 marks; 45 minutes)

The information relates to Robbie Ltd for the financial year ended 28 February 2021.

REQUIRED:

1.1 **Refer to INFORMATION B(a) for fixed assets.**

Calculate the following:

1.1.1 The missing amounts denoted by (i) to (iii) on the Fixed Asset Note (11)

1.1.2 Profit/Loss on the sale of equipment on 1 October 2020 (2)

1.2 **Refer to INFORMATION B(e) for trading stock.**

Calculate the trading stock deficit. (4)

1.3 Prepare the Statement of Comprehensive Income for the financial year ended 28 February 2021. (43)

INFORMATION:

A. Extract from the Pre-adjustment Trial Balance on 28 February 2021:

	R
Mortgage loan: Sufi Bank	1 005 500
Debtors' control	123 000
Trading stock	**?**
Provision for bad debts (1 March 2020)	7 030
Sales	**?**
Cost of sales	6 966 000
Salaries and wages	1 468 120
Directors' fees	3 330 000
Audit fees	91 000
Repairs	476 000
Rent income	173 000
Interest income	25 000
Interest on loan	**?**
Bad debts	19 200
Advertising	25 680
Sundry expenses	452 310
Ordinary share dividends	86 400

B. Adjustments and additional information:

(a) **Fixed assets:**

Vehicles:

- The business owns two vehicles on 28 February 2021. The second vehicle was purchased on 1 November 2020.
- Vehicles are depreciated at 15% p.a. on cost.

Equipment:

- Depreciation is 20% p.a. on the diminishing-balance method.
- Unused equipment was sold for R40 000 on 1 October 2020. Accumulated depreciation on the equipment sold was R36 600 on 1 March 2020.

Extract of the Fixed Asset Note:

	VEHICLES	EQUIPMENT
Cost (1 Mar. 2020)	460 000	360 000
Accumulated depreciation (1 Mar. 2020)	(396 750)	(187 595)
CARRYING VALUE (1 March 2020)	**(i)**	**172 405**
Additions (at cost)	510 000	0
Disposals (at carrying value)	0	**(iii)**
Depreciation	**(ii)**	(31 281)
CARRYING VALUE (28 February 2021)		
Cost (28 Feb. 2021)	970 000	285 000
Accumulated depreciation (28 Feb. 2021)		

(b) The business maintains a mark-up of 120% on cost. Note that trade discounts of R648 000 were granted to special customers.

(c) The account of debtor B Melta, R800, must be written off.

(d) Provision for bad debts must be adjusted to 5% of outstanding debtors.

(e) Trading stock is valued on the weighted-average method. The Ledger Account and records reflect that 280 units should be on hand. However, the physical stock count reflects only 262 units on hand. The stock records are as follows:

	UNITS	UNIT PRICE	TOTAL
Stock at beginning of year	200	R3 600	R720 000
Purchased during the year	1 840	R4 100	R7 544 000
Returns: damaged units	40	R4 100	R164 000
Available for sale	2 000		R8 100 000
Stock units per records	280	**?**	**?**

(f) 30% of the audit fees is still outstanding.

(g) The monthly rent income did not change during the year. During February 2021 the tenant paid R9 000 for repairs to the premises, and deducted this from his rent for February 2021. Repairs are the responsibility of the company, and this was not recorded. The rent for March 2021 was received in advance.

(h) The company has four directors earning the same fee. One director resigned on 31 May 2020 and received his fees up to this date. Another director is still owed fees for January and February 2021.

(i) Advertising consists of a contract with a newspaper for the entire financial year. Payments are monthly, however instalments were paid for 11 months only. **NOTE:** The monthly rate decreased by R240 from 1 November 2020.

(j) The net profit after tax was accurately calculated at R1 054 000. The income tax rate is 32%.

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QUESTION 2: FINANCIAL INDICATORS AND CASH FLOW STATEMENT

(40 marks; 35 minutes)

2.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

2.1.1 The (directors' report/audit report) gives an explanation of the operations of the company during a financial year.

2.1.2 The (independent/internal) auditors are responsible for monitoring the financial control measures of a company on a regular basis.

2.1.3 In the event of bankruptcy, the shareholders are normally not responsible for the debts of the business. This is because of (limited/unlimited) liability. (3 x 1) (3)

2.2 **USANDA LIMITED**

The financial year ended on 28 February 2021.

REQUIRED:

2.2.1 Calculate the following figures for the 2021 Cash Flow Statement:

- Income tax paid (4)
- Dividends paid (4)

2.2.2 Prepare the following sections of the Cash Flow Statement:

- Cash effects for financing activities (11)
- Net change in cash and cash equivalents (4)

2.2.3 Calculate the following financial indicators for the year ended 28 February 2021:

- % operating profit on sales (2)
- Acid-test ratio (4)
- % return on average shareholders' equity (ROSHE) (4)
- Dividend payout rate (%) (4)

INFORMATION:

A. Extract: Statement of Comprehensive Income for the year ended 28 February 2021:

Sales	R17 800 000
Operating profit	2 262 100
Interest on loan (capitalised)	270 000
Net profit before tax	1 777 000
Net profit after tax	1 243 900

B. Extract: Statement of Financial Position:

	28 February 2021	**29 February 2020**
Fixed assets (carrying value)	R13 650 600	R13 590 000
Current assets	659 500	1 067 500
Inventories	276 500	373 200
Trade and other receivables	262 300	539 600
Cash and cash equivalents	120 700	154 700
Shareholders' equity	9 891 400	11 985 000
Ordinary share capital	9 555 000	11 220 000
Retained income	336 400	765 000
Loan: VBC Bank (see E)	**?**	2 080 000
Current liabilities	611 900	592 500
Trade and other payables	252 100	185 700
Bank overdraft	0	90 000
SARS: Income tax	19 800	69 300
Shareholders for dividends	340 000	247 500

C. Share capital:

DATES	**NUMBER OF SHARES**	**DETAILS OF SHARES**
1 March 2020	1 650 000	In issue
30 October 2020	50 000	Additional shares issued
27 February 2021	335 000	Shares repurchased at R9,50 each
28 February 2021	1 365 000	In issue

D. Dividends and earnings:

- An interim dividend was paid on 31 August 2020.
- A final dividend of 20 cents per share was declared on 28 February 2021.
- Total dividends for the year amounted to R835 000.
- Earnings per share (EPS) on 28 February 2021 was 74 cents.

E. Loan: VBC Bank

- The balance on 1 March 2020 was R2 080 000.
- Monthly instalments of R35 000, including interest, were paid.
- Interest capitalised amounted to R270 000.

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QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS

(35 marks; 30 minutes)

3.1 Choose the question from COLUMN B that matches a category of financial indicators in COLUMN A. Write only the letter (A–E) next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
3.1.1 Liquidity	A Is the business managing expenses effectively to increase profitability?
3.1.2 Risk and gearing	B Is the investment in the company better than investing in a fixed deposit?
3.1.3 Return to shareholders	C Will the company be able to pay off its current debts?
3.1.4 Operating efficiency	D Will the company be able to pay off all its debts using existing assets?
	E How is the company managing loans or borrowed capital?

(4 x 1) (4)

3.2 **SCI-FI GEEKS LTD**

The business trades in electronic equipment purchased from China. The information relates to the past two financial years, ended 31 March. The COVID-19 lockdown has negatively affected sales over the current financial year.

REQUIRED:

3.2.1 **Liquidity:**

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response. (6)

3.2.2 **Dividends:**

The directors changed the dividend policy for the current financial year.

- Comment on the dividend per share over the two years. Quote figures. (2)
- Explain the change in the dividend payout rate and give a reason for this change. Quote figures. (4)
- A shareholder felt that they should be satisfied with the dividends they received, as it is better than last year. Explain why you agree with him. Quote figures. (3)

3.2.3 Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures). (6)

3.2.4 Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures. (6)

3.2.5 The Cash Flow Statement reflected a positive change of R980 000. Provide TWO points why this should still be a concern to directors. Quote figures. (4)

INFORMATION:

A. Financial indicators and additional information:

	2021	**2020**
Mark-up % achieved	60%	60%
% net profit before tax on sales	13,9%	20,3%
Current ratio	2,4 : 1	1,1 : 1
Acid-test ratio	1,0 : 1	0,4 : 1
Stockholding period	102 days	32 days
Average debtors' collection period	46 days	31 days
Average creditors' payment period	60 days	60 days
Earnings per share	58 cents	130 cents
Dividends per share	72 cents	90 cents
Dividend payout rate	136,5%	69%
Debt-equity ratio	0,4 : 1	0,3 : 1
Return on average shareholders' equity	17,7%	31,6%
Return on total capital employed	23,2%	39%
Net asset value per share	332 cents	409 cents
Market price of shares on stock exchange	410 cents	540 cents
Interest rate on loans	13,5%	13,5%
Interest rate on fixed deposits	6,8%	7,8%

B. Share capital:

- On 1 April 2020 the company issued an additional 250 000 shares.
- On 31 March 2021 there were 1 250 000 shares in issue.

C. Extract from the Cash Flow Statement on 31 March:

		2021	**2020**
Cash flows from operating activities		(148 080)	910 000
Cash generated from operations		1 281 620	
Interest paid		(232 000)	
Taxation paid		(272 700)	
Dividends paid		(925 000)	
Cash flows from investing activities		101 580	(300 000)
Cash flows from financing activities		1 026 500	(100 000)
Sale of shares		375 000	0
Change in loan		651 500	(100 000)
Cash and cash equivalents:	Net change	980 000	510 000
	Opening	(330 000)	(840 000)
	Closing	650 000	(330 000)

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QUESTION 4: CORPORATE GOVERNANCE **(15 marks; 10 minutes)**

Shareholders and employees associated with a company will be particularly interested in whether the company is well governed and managed by the directors.

At the AGM, the shareholders will elect two types of directors:

- **Executive directors:** They attend board meetings and work at the company on a full-time basis.
- **Non-executive directors:** They attend board meetings and do NOT work at the company.

You are provided with four aspects of corporate governance that will be of concern to the stakeholders.

REQUIRED:

4.1 Audit Report:

Explain why a qualified audit report is not a good reflection of a company. Provide TWO points. (4)

4.2 The Board of Directors:

Explain why it is important for a company to include non-executive as well as executive directors on the Board of Directors. (4)

4.3 The Remunerations Committee:

According to the Companies Act, 2008 (Act 11 of 2008), a company must have a Remunerations Committee.

Explain the role/responsibility of this committee and give a reason why this committee is necessary. (3)

4.4 Directors engage with clients on a regular basis in an effort to negotiate contracts and to increase sales and services.

Explain why there should be a company policy that directors must declare to the Board all gifts, donations or favours received by them from clients. Provide TWO points. (4)

15

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TOTAL: 150

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET	
$\dfrac{\text{Gross profit}}{\text{Sales}} \times \dfrac{100}{1}$	$\dfrac{\text{Gross profit}}{\text{Cost of sales}} \times \dfrac{100}{1}$
$\dfrac{\text{Net profit before tax}}{\text{Sales}} \times \dfrac{100}{1}$	$\dfrac{\text{Net profit after tax}}{\text{Sales}} \times \dfrac{100}{1}$
$\dfrac{\text{Operating expenses}}{\text{Sales}} \times \dfrac{100}{1}$	$\dfrac{\text{Operating profit}}{\text{Sales}} \times \dfrac{100}{1}$
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	
$\dfrac{\text{Average trading stock}}{\text{Cost of sales}} \times \dfrac{365}{1}$	$\dfrac{\text{Cost of sales}}{\text{Average trading stock}}$
$\dfrac{\text{Average debtors}}{\text{Credit sales}} \times \dfrac{365}{1}$	$\dfrac{\text{Average creditors}}{\text{Cost of sales}} \times \dfrac{365}{1}$
$\dfrac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \dfrac{100}{1}$	$\dfrac{\text{Net income after tax}}{\text{Number of issued shares}} \times \dfrac{100}{1}$ (*See note below)
$\dfrac{\text{Net income before tax + Interest on loans}}{\text{Average shareholders' equity + Average non-current liabilities}} \times \dfrac{100}{1}$	
$\dfrac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \dfrac{100}{1}$	$\dfrac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \dfrac{100}{1}$
$\dfrac{\text{Interim dividends}}{\text{Number of issued shares}} \times \dfrac{100}{1}$	$\dfrac{\text{Final dividends}}{\text{Number of issued shares}} \times \dfrac{100}{1}$
$\dfrac{\text{Dividends per share}}{\text{Earnings per share}} \times \dfrac{100}{1}$	$\dfrac{\text{Dividends for the year}}{\text{Net income after tax}} \times \dfrac{100}{1}$
$\dfrac{\text{Total fixed costs}}{\text{Selling price per unit – Variable costs per unit}}$	

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.