



**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**SEPTEMBER 2020**

**ACCOUNTING P1  
FINANCIAL REPORTING AND EVALUATION  
MARKING GUIDELINE**

**MARKS: 150**

**MARKING PRINCIPLES:**

1. Unless otherwise indicated in the marking guideline, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If the answer is incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: If figures are stipulated in marking guideline for components of workings, these do not carry the method mark for final answer as well.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers.
7. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer.
9. 'Operation' means 'check operation'. 'One part correct' means 'operation and one part correct'. Note: Check operation must be +, -, x, ÷, or as per marking guideline.
10. In calculations, do not award marks for workings if numerator and denominator are swapped – this also applies to ratios.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a ☒.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
13. Codes: f = foreign item; p = placement/presentation.

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This marking guideline consists of 10 pages.

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**QUESTION 1: CORPORATE GOVERNANCE AND AUDIT REPORT**

1.1

1.1.1	D ✓
1.1.2	A ✓
1.1.3	B ✓
1.1.4	C ✓

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1.2 **AUDIT REPORT**

1.2.1

<b>Where, why and when is this audit report expected to be presented?</b>	
<b>Where</b>	Any one valid answer ✓ At the Annual General Meeting (AGM) On the Annual Report to shareholders On financial publications and newspapers On the internet
<b>Why</b>	Any one valid answer ✓ Inform shareholders / potential investors about the performance / progress of the company. If there is any compliance with the IFRS. Transparency Public company financial statement needs to be published. Auditors, appointed by shareholders, are answerable to them.
<b>When</b>	Any one valid answer ✓ At the end of the financial period Upon completion of the independent audit process On the date of the AGM and thereafter

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1.2.2

<b>Provide TWO points why the independent auditors make reference to pages 12–30 of the Annual Report.</b>
Any two valid points ✓✓ ✓✓
<ul style="list-style-type: none"> <li>• The financial statements are contained in those pages of the Annual Report; other reports are also included in the Annual Report, which were not prepared or inspected by them.</li> <li>• The auditors are responsible for a certain part of the report.</li> <li>• Directors are responsible for parts of the report as prepared by them.</li> </ul>

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1.2.3

<b>Explain TWO points on the impact of this report on the company.</b>
Any two valid points ✓✓ ✓✓
<ul style="list-style-type: none"><li>• Prospective investors might no longer be interested to this company.</li><li>• Existing shareholders may want to sell their shares.</li><li>• It will ruin the reputation/image of the company.</li><li>• Will reduce the value of shares from the JSE.</li></ul>

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<b>TOTAL MARKS</b>
15

**QUESTION 2: STATEMENT OF COMPREHENSIVE INCOME****STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020.**

<b>Sales</b>		<b>6 720 000</b>	
<b>Cost of sales</b>	Sales – GP	(4 200 000)	<input checked="" type="checkbox"/>
<b>Gross profit</b>	GOI – RI or OOI	2 520 000	<input checked="" type="checkbox"/>
<b>Other operating Income</b>		142 080	
Rent income	153 120 ✓ - 11 040 ✓✓	142 080	<input checked="" type="checkbox"/> *
<b>Gross operating Income</b>		<b>2 662 080</b>	
<b>Operating expenses</b>		(1 738 080)	
Directors fees	384 000 ✓ + 158 400 ✓ <input checked="" type="checkbox"/> 172 800 – 14 400 2 marks 384 000 + 172 800 – 14 400	542 400	<input checked="" type="checkbox"/> *
Salaries and Wages	812 000 ✓ – 556 800 ✓ <input checked="" type="checkbox"/> + 9 720 ✓✓ 384 000 + 172 800	264 920	<input checked="" type="checkbox"/> *
Employers contribution	22 080 ✓ + 1 920 ✓	24 000	✓
Advertising	11 650 ✓ + 3 000 ✓✓	14 650	<input checked="" type="checkbox"/> *
<b>Audit fees</b>		<b>120 000</b>	
<b>Depreciation</b>		<b>340 000</b>	
<b>Sundry expenses</b>		<b>432 110</b>	
<b>Operating profit</b>	GOI – OE	924 000	<input checked="" type="checkbox"/>
<b>Interest income</b>	Balancing Figure OPBIE – OP	21 000	<input checked="" type="checkbox"/>
<b>Operating profit before interest expense</b>	NPBT + IE	945 000	<input checked="" type="checkbox"/>
<b>Interest expense</b>		(36 000)	✓
<b>Net profit before tax</b>	*(272 700 × $\frac{100}{30}$ )	909 000	<input checked="" type="checkbox"/>
<b>Income tax</b>		<b>(272 700)</b>	
<b>Net profit after tax</b>	*NPBT – income tax	636 300	<input checked="" type="checkbox"/>

\*OR Net profit before tax: (NPAT – 272 700) 1 mark

Net profit after tax:  $272\,700 \times \frac{70}{30} = 636\,300$  2 marks

<b>TOTAL MARKS</b>
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<b>30</b>
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**QUESTION 3: STATEMENT OF FINANCIAL POSITION, SHARE CAPITAL NOTE**

**3.1 Share Capital**

<b>Authorised Share Capital: 3 000 000 ordinary shares</b>		
<b>Issued Share capital:</b>		
<b>1 800 000</b>	<b>Shares in issue at beginning of year</b> <i>x R6,00 ** (as to be ASP)</i>	10 800 000 <input checked="" type="checkbox"/>
<b>(120 000)</b>	Shares repurchased at ASP of R6 ✓✓ per share 7,20 / 1,2	(720 000) <input checked="" type="checkbox"/> *
240 000 ✓✓	Additional shares issued during the year at R6,60 per share	1 584 000 <input checked="" type="checkbox"/> *
<b>1 920 000</b> <input checked="" type="checkbox"/>	<b>Shares in issue at the end of the</b> <b>year</b> <span style="float: right;">Operation</span>	<b>11 664 000</b> <input checked="" type="checkbox"/>

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\*\*Must not accept if R7,20 or more

\*One part correct

## 3.2 STATEMENT OF FINANCIAL POSITION ON 31 AUGUST 2020.

<b>NON-CURRENT ASSETS</b>		8 951 200	✓	
<b>Fixed assets</b>		<b>8 121 000</b>		
<b>Financial assets</b>		<b>830 200</b>		
<b>CURRENT ASSETS</b>	TA – NCA	5 312 800	✓	
Inventories	60 x 1 750 (2 340 000 ✓ + 105 000 ✓✓)	2 445 000	*✓	
Trade and other receivables	Balancing figure	2 000 000	✓	
Cash and cash equivalents	864 800 + 3 000	867 800	✓	
<b>TOTAL ASSETS</b>	See TE+L	<b>14 264 000</b>	✓	10
<b>EQUITY AND LIABILITIES</b>				
<b>SHAREHOLDER EQUITY</b>	Operation	11 678 960	✓	
<b>Ordinary share capital</b>	See 3.1	11 664 000	✓	
<b>Retained income</b>		<b>14 960</b>		
<b>NON-CURRENT LIABILITIES</b>		1 487 200		
Loan: Tambo Bank	(1 840 000+130 800-307 200) two marks 1 663 600 ✓✓ – 176 400 ✓	1 487 200	*✓	6
<b>CURRENT LIABILITIES</b>		<b>1 097 840</b>		
<b>Trade and other payables</b>		<b>463 840</b>		
Current Portion of Loan	See loan above	176 400	✓	
SARS (Income tax)	Balancing figure	35 200	✓	
Shareholders for Dividends	See 3.1 1 920 000 x 22c	422 400	✓	21
<b>TOTAL EQUITY AND LIABILITIES</b>	Operation	<b>14 264 000</b>	✓	

\*One part correct

5

TOTAL MARKS

30

**QUESTION 4: CASH FLOW STATEMENT, FINANCIAL INDICATORS**

4.1	4.1.1	False ✓	<b>3</b>
	4.1.2	True ✓	
	4.1.3	False ✓	

4.2.1	<b>CASH GENERATED FROM OPERATIONS</b>		
	Profit before tax	980 000 + 420 000	1 400 000 <input checked="" type="checkbox"/> ✓*
	<b>Depreciation</b>		<b>390 000</b>
	<b>Interest expense</b>		<b>452 000</b>
	Net profit before changes in working capital	Operation	2 242 000 <input checked="" type="checkbox"/>
	Net change in working capital	Operation	(1 230 700) <input checked="" type="checkbox"/>
	<b>Change in inventory</b>		<b>(915 100)</b>
	<b>Change in receivables</b>	332 200 – 305 800	26 400 <input checked="" type="checkbox"/> ✓*
	<b>Change in payables</b>	963 000 – 621 000	(342 000) <input checked="" type="checkbox"/> ✓*
	<b>Cash generated from operations</b>	Operation	1 011 300 <input checked="" type="checkbox"/>

**NOTE:** The figure and the bracket (or no bracket) must be correct to earn the mark in the money column.

\*One part correct

4.2.2	<b>CASH EFFECT FROM FINANCING ACTIVITIES</b>		
	Proceeds from shares issued		397 500 ✓
	Repurchase of shares	$360\,000 \times 7,95$ 2 862 000 ✓✓ + 162 000 ✓	(3 024 000) * <input checked="" type="checkbox"/>
	Long-term loans received	3 850 000 – 3 080 000	770 000 ✓
		Operation	(1 856 500) <input checked="" type="checkbox"/>

**NOTE:** The figure and the bracket (or no bracket) must be correct to earn the mark in the money column

\*One part correct

## 4.2.3 Calculate the following amounts for the Cash Flow Statement.

Income tax paid	
Workings	Answer
- 69 300 ✓ + 420 000 ✓ - 19 800 ✓	330 900 ✓
Accept alternative arrangements for calculations such as signs reversed, brackets and/or ledger accounts	One part correct

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Dividends paid	
Workings	Answer
Total dividend for the year: 1 700 700 ✓ + 162 000 ✓ - 980 000 ✓ - 1 239 200 ✓ = 356 500	435 600 ✓ One part correct
<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">✓ 210 000</div> <div style="text-align: center;">four marks + 356 500</div> <div style="text-align: center;">✓ - 130 900</div> </div>	
<b>OR</b> one mark                      five marks 210 000                      + 225 600 356 500 - 130 900 Interim dividend	
Accept alternative arrangements for calculations such as signs reversed, brackets and/or ledger accounts	

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Proceeds on fixed assets sold	
Workings	Answer
12 750 000 ✓ + 390 000 ✓ - 13 995 000 ✓	855 000 ✓
Accept alternative arrangements for calculations such as signs reversed, brackets and/or ledger accounts	One part correct

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## 4.2.4 Calculate the following financial indicators on 29 February 2020.

Return on average Shareholders' Equity	
Workings	Answer
$\frac{980\,000 \checkmark}{\checkmark \frac{1}{2} (11\,161\,200 + 13\,168\,000) \checkmark} \times \frac{100}{1}$ <div style="display: flex; justify-content: space-between; margin-top: 5px;"> <span>12 164 600 2 marks</span> </div>	8,1% ✓ One part correct

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Net asset value per share	
Workings	Answer
$\frac{11\,161\,200}{1\,190\,000} \times \frac{100}{1}$	937,9c * ✓ ✓ One part correct Accept 938 cents

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<b>TOTAL MARKS</b>
<b>40</b>



**QUESTION 5: INTERPRETATION OF COMPANY INFORMATION**

5.1 **Compare the liquidity position of both companies and comment on the company that is managing the short term assets more effectively.**

Financial indicators (with figures and trend) ✓✓ ✓✓ Comment on one company ✓✓

<b>LOCK LTD</b>	Although current ratio decreased from 2,1 : 1 to 1,9 : 1, the acid test ratio remains fairly consistent at 1,3 : 1 compared to 1,4 : 1 the previous year.
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<b>DOWN LTD</b>	The acid test ratio is consistent at 1,5 : 1 whilst the current ratio increased from 2,8 : 1 to 3,6 : 1.
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<b>COMMENT</b>	<p>Lock Ltd appears to control working capital more efficiently by ensuring that stock is moving. They also have enough current assets (cash) to meet short term liabilities.</p> <p style="text-align: center;"><b>OR</b></p> <p>Down Ltd is not managing stock effectively. Whilst they would not experience cash flow problems, they are holding too much stock which may contribute to low profitability.</p>
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5.2 **Compare the dividend pay-out policy of each company.**

<b>LOCK LTD</b>	Dividend pay-out rate is 52% (45/86) compared to 81% (65/80) in 2019. ✓✓
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<b>DOWN LTD</b>	Dividend pay-out rate is 86% (60/70) in 2020 and 86% (62/72) in 2019. Down Ltd has maintained the dividend pay-out rate at 86% ✓✓
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**Provide TWO possible reasons why one company decided to change their policy.**

Any TWO reasons ✓✓ ✓✓

They are retaining earnings to concentrate on growth.  
 They want to ease cash-flow problems and continue managing expenses to improve profitability.  
 They want to sustain the trend of increasing profitability and return on equity so shareholders can see the long-term prospects of the company.

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5.3 **Lock Ltd decided to increase their loans during the current financial year, whilst Down Ltd decided to maintain their existing loans. Comment on the decisions of both companies. Make reference to the degree of risk and gearing.**

<b>LOCK LTD</b>	Debt/ equity ratio increased from 0,3 : 1 to 0,6 : 1 ✓ ROTCE increased from 12% to 15% ✓ Although the business is now highly geared ✓ the loan is being effectively used to improve profitability. Business is positively geared so the decision was appropriate. ✓
<b>DOWN LTD</b>	Debt/ equity ratio remained constant at 0,4 : 1 ✓ ROTCE decreased from 13% to 11,7% ✓ Although the business is low geared ✓ the loan is not being effectively used as the business is negatively geared so it would be wise to start paying back the loan, or improve strategies to improve profitability. ✓

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5.4 **A shareholder of Down Ltd is concerned about the drop in the market price of the shares. Explain why they feel this way. Provide TWO points.**

Any 2 valid points ✓✓ ✓✓  
This reflects the public demand for shares is low / public confidence in company has decreased.  
Shareholders want capital growth on their investment.  
Directors will be judged on the performance of the shares.  
The market price dropped below the net asset value.

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5.5 M. Mtolo owns 576 000 shares in Down Ltd, which represents 48% of the total issued shares. He wants to purchase another 25 000 shares.

5.5.1 **Do a calculation to show how this would change his % shareholding in the company.**

$$\frac{576\,000 + 25\,000}{601\,000} \div \frac{576\,000}{1\,200\,000} \times 100 = 50,1\% \quad \checkmark$$

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**Provide TWO reasons why you think he is specifically interested in increasing his shareholding in Down Ltd.**

5.5.2 TWO points ✓✓ ✓✓  
He wants to be the majority shareholder.  
He wants to influence strategic decisions.  
He is aware of the poor performance of the business and thinks that he can make a difference.  
He sees potential in the company and wants to be part of the future growth.  
He wants to implement corrective measures to address the downward trends in many of the financial indicators.

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<b>TOTAL MARKS</b>
<b>35</b>

**TOTAL: 150**