education

Department:
Education
PROVINCE OF KWAZULU-NATAL

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

COMMON TEST

JUNE 2020

PAPER ONE

MARKS: 150

TIME: 2 HOURS

This question paper consists of 14 pages and an answer booklet of 7 pages.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show workings in order to achieve part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.
8. Use the information and table below as a guide when answering the question. Try NOT to deviate from it.

QUESTION 1: 40 Marks; 32 Minutes	
Topic of the question	**This question integrates:**
Concepts and Financial Statement	Concepts Statement of Comprehensive Income (Income Statement)

QUESTION 2: 45 Marks; 36 Minutes	
Topic of the question	**This question integrates:**
Note, Cash Flow Statement and Ratio Analysis	Ordinary share capital Analysis and interpretation of financials Cash Flow Statement

QUESTION 3: 35 Marks; 28 Minutes	
Topic of the question	**This question integrates:**
Audit Report, Note and Financial Statement	Audit report Retained income Statement of Financial Position (Balance sheet)

QUESTION 4: 30 Marks; 24 Minutes	
Topic of the question	**This question integrates:**
Ratio Analysis	Analysis and interpretation of financials

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QUESTION 1
CONCEPTS AND STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT)

(40 Marks; 32 Minutes)

1.1 **CONCEPTS**

Choose an explanation from COLUMN B that matches a concept in COLUMN A. Write only the letter (A-E) next to the question number (1.1.1-1.1.4) in the ANSWER BOOK.

COLUMN A (CONCEPT)		COLUMN B (EXPLANATION)	
1.1.1	Materiality	A	Financial statements are prepared with the understanding that the company will continue operating in the future.
1.1.2	Matching	B	All assets are recorded at their original cost price.
1.1.3	Going concern	C	Income and expenses must be recorded in the correct financial year.
1.1.4	Historical cost	D	All important items should be shown separately in financial statement
		E	Figures used in financial statement should be realistic.

(4x1) (4)

1.2 **WINTERTON LIMITED**

REQUIRED:

Complete the Statement of Comprehensive Income (Income Statement) for the year ended 31 May 2020. (36)

A. **INFROMATION:**

Figures extracted from the Pre-adjustment Trail Balance on 31 May 2020.

	R
Balance Sheet Accounts Section	
Mortgage loan: Super Bank	1 700 000
Fixed deposit: New Bank	800 000
Trading stock	1 200 000
Bank (favourable)	626 000
Petty cash	7 800
Debtors control	792 200
Creditors control	750 000
Provision for bad debts	45 000
SARS: Income tax (Dr)	600 000
SARS: PAYE	48 000
Pension fund	18 000
Packing material on hand (1 June 2019)	3 000
Nominal Accounts Section	
Sales	?
Cost of sales	9 700 000
Salaries and wages	541 000
Employers contributions	21 000
Directors fees	480 000
Audit fees	38 000
Rent income	202 500
Sundry expenses	?
Bad debts	45 000
Packing material	78 000
Insurance	55 000
Interest on fixed deposit	72 000
Interest on loan	?
Bad debts recovered	15 700
Ordinary share dividends	24 000
Depreciation	65 000

B. Goods with a cost price of R62 500 sold on credit was not recorded. A 10% trade discount was allowed on this sale.

All selling prices are determined by using a mark-up of 60% on cost.

C. An amount of R2 000 received from Ngubane had been credited to the debtors control account in May 2020. The account of Ngubane was written off as a bad debt during December 2019.

D. Provision for bad debts must be adjusted to 5% of debtors.

E. The physical stocktaking on 31 May 2020 reflect the following stock on hand :

- Trading stock R1 130 000
- Packing material R78 500

F. There were two directors at the start of the accounting period. Directors fee have been paid for the first half of the accounting period.

Due to COVID 19 shareholders decided to reduce the director's fees by 5 % p.a for all directors as from 1 March 2020.

On 1 May 2020, one director was retrenched from work. All directors earn the same monthly fee. Provide for the outstanding fees owed to the directors.

G. Rent income for June 2020 has already been received. The monthly rent was increased by 10% on 1 February 2020.

H. The business received R36 000 from the insurance company for the claim of trading stock that was damaged in a fire which broke out in the storeroom. This amount was received on 31 May 2020, but was not recorded in the books of the business. Write off 20% balance.

Note: the damaged stock was recorded in trading stock account of a business.

I. Sifiso, a retired employee was inadvertently included in the salaries journal for May 2020. The details from his pay-slip were:

Net salary	R18 375
PAYE deduction	R4 500
Pension deduction	R1 875
UIF deduction	R250

The business contribution were:

- Pension fund : 10% of gross salary
- UIF: rand-for-rand basis

J. Use the following to calculate certain figures:

- Operating profit on sales is 28%

K. Income tax for the financial year was calculated as R1 320 000. This is 30% of the net profit before tax.

40

QUESTION 2
NOTE, CASH FLOW STATEMENT AND RATIO ANALYSIS (45 Marks; 36 Minutes)

The information below was extracted from the books of Dududu Ltd. Study the information and answer the questions that follow.

REQUIRED:

2.1 Ordinary share capital note of the Balance Sheet on 31 May 2020. (8)

2.2 Prepare the reconciliation between net profit before tax and cash generated from operations. (Show workings in brackets) (10)

2.3 Complete the Cash Flow Statement for the year ended 31 May 2020. (20)

2.4 Besides paying back the loan, the directors have taken other major decisions that have affected the cash balance. State **TWO** other major decisions (exceeding R200 000) and quote the figures from the Cash Flow Statement.

In EACH case, state how the decision will affect the future of the company. (4)

2.5 Calculate the following for the year ended 31 May 2020.

2.5.1 Debt/equity ratio (3)

INFORMATION

A.

EXTRACT FROM THE BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON 31 MAY 2020		
	2020	**2019**
ASSETS		
NON-CURRENT ASSETS		
Fixed assets	979 440	814 800
Financial assets	130 000	190 000
CURRENT ASSETS		
Inventory	1 125 000	1 145 000
Trade and other receivables	1 115 000	1 143 000
CAPITAL AND RESERVES		
ORDINARY SHAREHOLDERS EQUITY	**2 499 900**	**?**
Ordinary share capital	2 375 000	?
Retained Income	124 900	85 100
CURRENT LIABILITIES		
Trade and other payables	1 150 940	1 070 800

B. **Notes to the Balance Sheet (Statement of Financial Position)**

	2020	**2019**
1. **TRADE AND OTHER RECEIVABLES**	**1 115 000**	**1 143 000**
Debtors Control	1 102 000	1 130 000
Accrued Income	9 000	6 000
Prepaid Expenses	4 000	3 000
SARS: Income Tax	0	4 000

	2020	**2019**
2. **TRADE AND OTHER PAYABLES**	**1 150 940**	**1 070 800**
Creditors Control	1 043 565	1 047 300
Accrued expenses	7 000	9 500
SARS: Income Tax	10 375	0
Shareholders for Dividends	260 000	14 000

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C. ADDITIONAL INFORMATION

1 Ordinary share capital:
- The authorised share capital comprises 300 000 shares.
- 1 June 2019: 100 000 shares issued @ R10 each
- 1 January 2020:100 000 new shares were issued
- 31 May 2020: repurchased 10 000 shares at R2.50 above average price

2 Depreciation
- Total depreciation for the year amounted to R16 645.

3 Sale of equipment

Details of Equipment sold at carrying value:

Cost price	R40 000
Accumulated depreciation to date sold	R20 570
Date sold	1 April 2019
Selling price	?

4 Income tax
- Income tax at 28% of the net profit for the year amounted to R165 200.

5 Dividends
- The interim dividend of 100 cents per share was declared and paid on 31 December 2019. The final dividend was declared on 31 May 2020.

6 Loan

The loan statement from Alan Bank on 31 May 2020 reflected:

Balance at the beginning of financial year	R1 070 000
Repayments during the year (including interest)	840 000
Interest capitalised (interest rate 15% p.a.)	?
Balance at end of financial year	350 000

45

QUESTION 3
AUDIT REPORTS AND STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)
(35 Marks; 28 Minutes)

3.1 AUDIT REPORTS

Choose the audit opinion from COLUMN B that describes the audit report in COLUMN A. Write only the letter (A – C) next to the numbers (3.1.1 – 3.1.3) in ANWER BOOK.

COLUMN A		COLUMN B	
3.1.1	Qualified audit report	A	We were not able to obtain sufficient evidence to provide for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Dumbe Ltd for the year then ended.
3.1.2	Unqualified audit report	B	Except for the effect of the unauthorised bonus to the Chief Executive Officer, the annual financial statements present fairly, in all material respects, the financial position of Harding Ltd.
3.1.3	Disclaimer report	C	The annual financial statements fairly present, in all material respects, the financial position of Molweni Ltd.

(3)

3.2 NDALENI LTD

Ndaleni Ltd is a listed company with an authorised share capital of 900 000 ordinary shares. The information provided is for the financial year ended 30 April 2020.

REQUIRED:

3.2.1 Prepare the Retained Income note to the Balance Sheet. (7)

3.2.2 Complete the Statement of Financial Position (Balance Sheet) on 30 April 2020. Show all workings in brackets. Some amounts are provided in your ANSWER BOOK. (25)

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INFORMATION:

A. The following balances/totals were extracted from the company records on 30 April 2020:

	R
Ordinary share capital	?
Retained income (1 May 2019)	7 480
Fixed assets at carrying value	4 079 800
Fixed Deposit: Londa Bank	415 000
Loan: Dube Bank	1 035 000
Inventory (all Trading Stock)	222 600
Creditors	231 920
SARS: Income tax (provisional tax payments)	280 000
Cash in bank	212 400

B. **Share Capital and Dividends:**

- The company is authorised to issue 900 000 shares.
- On 1 May 2019, 80% of the authorised share capital was in issue.
- On 20 November 2019, the company repurchased 40 000 shares at R1,25 above the average share price of R6,00. This transaction was recorded.
- An interim dividend of R179 200 was paid on 31 October 2019.
- A final dividend of R210 000 was declared on 30 April 2020.
- No new shares were issued during the year.

C. **Fixed Deposit:**

R215 000 of the fixed deposit matures on 30 June 2020. The balance matures in 2025.

D. **Loan: Dube Bank**

The loan statement received reflected the following:

Balance on 1 May 2019	R 1 500 000
Total of monthly repayments (including interest)	465 000
Interest capitalised	165 000
Balance on 30 April 2020	**?**

A portion of the loan will be settled during the next financial period.

E. **Profit and tax:**

The net profit after tax amounted to R681 720.
Income tax is calculated at 31% of the net profit.

F. Financial indicators on 30 April 2020:

Current ratio	2 : 1
Net asset value (NAV)	610 cents

35

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QUESTION 4 ANALYSIS AND INTERPRETATION (30 Marks; 24 Minutes)

4.1 **WEMBEZI LTD**

Veli is a shareholder in Wembezi Ltd.

- He purchased 23 000 shares two years ago at R3,80 each.
- On 1 March 2019 he purchased a further 2 000
- On 1 February 2020 the company repurchased 3 000 of his shares.

REQUIRED:

4.1.1 Calculate the amount of dividends Veli earned for the financial year ended 29 February 2020. Shares repurchased do not qualify for final dividends. (3)

4.1.2 Veli is not satisfied with the dividend policy of Wembezi Ltd. Explain why. Quote and compare relevant financial indicators to support his feelings. (4)

4.1.3 Veli wants to sell his shares in Wembezi Ltd and invest his funds in an alternative investment. Quote and explain TWO relevant indicators, other than dividends and earnings, to support his intention. (4)

4.1.4 Why would the company spend money on skills development? Explain ONE point. (2)

4.1.5 **Refer to Information A.**
How did the company benefit from this (4.1.4)? Name ONE example and quote figures. (2)

INFORMATION

A. Extract from the Income Statement for the year ended:

	29 Feb 2020	**28 Feb 2019**
Sales	18 500 000	13 700 000
Cost of Sales	13 200 000	9 500 000
Directors fees	2 530 000	1 800 000
Audit fees	620 000	570 000
Skills development	140 000	80 000
Salaries and wages	480 000	375 000
Workplace accident cost	8 000	23 000
Electricity	121 000	118 000
Loss of production	2 000	7 000
Interest expense	175 500	270 000
Net profit before tax	1 875 000	
Net profit after tax	1 592 500	

B. Dividends

- The company paid an interim dividend of 30c per share on 1 December 2019.
- A final dividend of 50c per share was declared at the end of the financial year. The shares repurchased do not qualify for final dividends.

C. The following ratios were calculated on:

	29 Feb 2020	**28 Feb 2019**
Return on shareholders' equity	20%	23%
Closing price on JSE	640 cents	750 cents
Dividends per share	85 cents	120 cents
Earnings per share	170 cents	160 cents
Return on total capital employed	27%	28%
Net asset value	655 cents	760 cents
Debt/Equity ratio	0.11:1	0.14:1

4.2 ZINKWAZI LTD

You are provided with information relating to Zinkwazi Ltd for the financial year ended 30 June 2020.

REQUIRED:

4.2.1 Comment on the liquidity position of the company. Quote THREE financial indicators (with figures) in your answer. (6)

4.2.2 One of the directors feel that the loan should be paid as soon as possible. Do you agree? Explain. Quote TWO financial indicators with figures to support your answer. (5)

4.2.3 The shareholders should be satisfied with the return on their investment and the companies' earnings. Explain TWO financial indicators with figures to support this opinion. (4)

INFORMATION

The following financial indicators were calculated:

INDICATORS	30 June 2020	30 June 2019
Return on shareholders' equity	18%	10.6%
Return on capital employed	24%	14%
Debt/equity ratio	0.06 : 1	0.28 : 1
Earnings per share	49 cents	45 cents
Dividends per share	30 cents	45 cents
Net Asset Value per share	695 cents	572 cents
Current ratio	0.9 : 1	1.7 : 1
Acid-test ratio	0.4 : 1	0.6 : 1
Rate of stock turnover	3 times	5 times
Interest rate on loan	16%	12%
Interest rate on investment	6%	5%
Market value per share on JSE	810 cents	720 cents

30

TOTAL MARKS: 150

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		$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$
(Trade and other receivables + Cash and cash equivalents) : Current liabilities		
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$		$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
Long-term liabilities : Shareholders' equity	$\frac{\text{Net profit after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$	
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$		
$\frac{\text{Net income after tax + Interest on loans}}{\text{Average Shareholders' equity + Average Long-term liabilities}} \times \frac{100}{1}$		
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$

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ACCOUNTING

ANSWER BOOK

JUNE 2020

PAPER ONE

NATIONAL SENIOR CERTIFICATE

GRADE 12

Name:_____ **Grade:**_____

QUESTION	MARKS	MOD BY THE SCHOOL	MOD BY THE CLUSTER	MOD BY THE PROVINCE
1				
2				
3				
4				
TOTAL				

N.B. This answer book consists of 7 pages.

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QUESTION 1

Choose the correct word from those given in brackets. Write only the word next to the Question number (1.1.1 – 1.1.4) in the ANSWER BOOK.

1.1.1		
1.1.2		
1.1.3		
1.1.4		**4**

1.2. Statement of Comprehensive Income for the year ended 31 May 2020.

Sales	
Cost of sales	
Gross profit	
Other operating income	
Gross income	
Operating expenses	
Audit fees	**38 000**
Insurance	**55 000**
Depreciation	**65 000**
Operating profit	
Interest income	**72 000**
Operating profit before interest expenses	
Net profit before taxation	
Net profit after tax	

36	

TOTAL MARKS
40

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QUESTION 2

2.1 Ordinary share capital note

AUTHORISED SHARES			
300 000 Shares			
ISSUED SHARES:			
			8

2.2 RECONCILIATION BETWEEN NET PROFIT BEFORE TAXATION AND CASH GENERATED FROM OPERATIONS

Net profit before tax (165 200 x 100/28)	**590 000**	
Adjustment in respect of :		
Depreciation	**16 645**	
		10

2.3 Cash Flow Statement for the year ended 31 May 2020

Cash flow from operating activities		
Cash flow from investing activity		
Changes in financial assets	**60 000**	
Cash flow from financing activities		
Changes in loan	**(720 000)**	
Net change in cash and cash equivalent	**888 300**	
Cash and cash equivalent at the beginning	**(421 000)**	
Cash and cash equivalent at the end	**467 300**	**20**

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2.4 **Besides paying back the loan, the directors have taken other major decisions that have affected the cash balance. State TWO other major decisions (exceeding R200 000) and quote the figures from the Cash Flow Statement.**

In EACH case, state how the decision will affect the future of the company.

DECISION	FUTURE EFFECT ON COMPANY

4

2.5 **Debt/equity ratio**

3

TOTAL MARKS
45

QUESTION 3

3.1.1		
3.1.2		
3.1.3		**3**

3.2.1 RETAINED INCOME

		7

3.2.2 Balance Sheet (Statement of Financial Position) on 30 April 2020.

Assets		
Non-current assets		
Tangible assets	**4 079 800**	
Current assets		
Inventory	**222 600**	
Equity and liabilities		
Shareholders' equity		
Non-current liabilities		
Current liabilities		
		25

TOTAL MARKS
35

QUESTION 4

4.1.1 **Calculate the amount of dividends Veli would earn for the financial year ended 29 February 2020. Shares repurchased do not qualify for final dividends.**

3

4.1.2 **Veli is not satisfied with the dividend policy of Wembezi Ltd. Explain why. Quote and compare relevant financial indicators to support his feelings.**

4

4.1.3 **Veli wants to sell his shares in Wembezi Ltd and invest his funds in an alternative investment. Quote and explain TWO relevant indicators, other than dividends and earnings, to support his intention.**

4

4.1.4 **Why would the company spend money on skills development? Explain ONE point.**

2

4.1.5 **Refer to Information A.**
How did the company benefit from this? Name ONE example and quote figures.

2

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4.2.1 **Comment on the liquidity position of the company. Quote THREE financial indicators (with figures) in your answer.**

6

4.2.2 **One of the directors feel that the loan should be paid as soon as possible. Do you agree? Explain. Quote TWO financial indicators with figures to support your answer.**

5

4.2.3 **The shareholders should be satisfied with the return on their investment and the companies' earnings. Explain TWO financial indicators with figures to support this opinion.**

4

TOTAL MARKS
30

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ACCOUNTING

MARKING GUIDELINE

JUNE 2020

PAPER ONE

NATIONAL SENIOR CERTIFICATE

GRADE 12

MARKS: 150

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that 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 answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as the final figure, award one mark. Not the method mark for the answer. Note: if figures are stipulated in memo for components of workings, these do not carry the method for final answer.
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 from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in a certain question.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
10. Operation' means 'Check operation'. 'One part correct' means 'Operation & one part correct'. Note: check operation must be +,-,x,÷, or per candidates operation.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect, indicate with a ☒. Note: do not award marks for workings if numerator and denominator are swapped-this also applies to ratios.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f=foreign item; p=placement.

This memorandum consists of 8 pages

QUESTION 1

Choose the correct word from those given in brackets. Write only the word next to the Question number (1.1.1 – 1.1.4) in the ANSWER BOOK.

1.1.1	E ✓	
1.1.2	C ✓	
1.1.3	A ✓	
1.1.4	B ✓	**4**

1.2 Statement of Comprehensive Income for the year ended 31 May 2020.

Sales (15 520 000✓ + 90 000✓)	Operation	15 610 000	☑
Cost of sales (9 700 000 ✓ + 62 500 ✓)		(9 762 500)	✓
Gross profit	Operation	5 847 500	☑
Other operating income	Operation one part correct	204 490	☑
Rent income (202 500 – 16 500)	Two or nothing	186 000	✓✓
Bad debts recovered (15 700 + 2 000)	Two or nothing	17 700	✓✓
Provision for bad debts adjustment (45 000 ✓ – 44 210 ✓)		790	✓
Gross income		6 051 990	
Operating expenses	Operation one part correct	(1 681 190)	☑
Salaries and wages (541 000 – 25 000)	Two or nothing	516 000	✓✓
Employers contributions (21 000 – 2 500 – 250)	Two or nothing	18 250	✓✓
Directors fees (480 000 + 430 000)	Two or nothing	910 000	✓✓
Audit fees		**38 000**	
Sundry expenses	Balancing figure	14 940	☑
Packing material (78 000 + 3 000 – 78 500)	Two or nothing	2 500	✓✓
Bad debts		45 000	✓
Insurance		**55 000**	
Depreciation		**65 000**	
Loss due to fire (36 000 x 20/80)	Two or nothing	9 000	✓✓
Trading stock deficit (1 200 000 – 62 500 – 1 130 000)	Two or nothing	7 500	✓✓
Operating profit	Candidate must use 28% on sales	4 370 800	☑
Interest income		**72 000**	
Operating profit before interest expenses	Operation	4 442 800	☑
Interest expense	Operation	(42 800)	☑
Net profit before taxation		4 400 000	✓
Taxation		(1 320 000)	✓
Net profit after tax		3 080 000	✓

Foreign entry -1 max -2

36

TOTAL MARKS
40

QUESTION 2

2.1 Ordinary share capital note

AUTHORISED SHARES 300 000 Shares **ISSUED SHARES:**			
100 000 ✓	Shares issued on 1 June 2019	1 000 000 ✓	
100 000 ✓	Shares issued on 1 January 2020 Balancing figure	1 500 000 ☑	
(10 000) ✓	Buy-back of shares @ 12.50 (2 375 000/190 000)	(125 000) ✓	
190 000 ✓	Shares issued at the end	2 375 000 ✓	**8**

2.2 RECONCILIATION BETWEEN NET PROFIT BEFORE TAXATION AND CASH GENERATED FROM OPERATIONS

Net profit before tax (165 200 x 100/28)	**590 000**	
Adjustment in respect of :		
Depreciation	**16 645**	
Interest on loan	120 000 ✓	
Operating profit before changes in working capital Operation one part correct	726 645 ☑	
Net change in working capital Operation one part correct	37 765 ☑	
Decrease in inventory (145 000 – 125 000) Two or nothing	20 000 ✓✓	
Decrease in trade and other receivables (139 000 – 115 000) Two or nothing	24 000 ✓✓	
Decrease in trade and other payables (56 800 – 50 565) Two or nothing	(6 235) ✓✓	
Cash generated from operations Operation one part correct	764 410 ☑	**10**

2.3 Cash Flow Statement for the year ended 31 May 2020

Cash flow from operating activities Operation one part correct	379 585 ☑	
Cash generated from operations See 2.1	764 410 ☑	
Interest paid See 2.1	(120 000) ☑	
Dividends paid (14 000✓ + 100 000✓) or (14 000 + 360 000 – 260 000) One mark One mark	(114 000) ✓	
Tax paid (165 200✓ – 10 375✓ – 4 000✓) or (4000 + 10 375 – 165 200)	(150 825) ✓	
Cash flow from investing activities operation one part correct	(121 285) ☑	
Purchases form Fixed assets (814 800 – 16 645 – 19 430 - 979 440) (979 440✓ + 16 645✓ + 19 430✓ – 814 800✓)	(200 715) ✓	
Proceeds from sale of fixed assets	19 430 ✓	
Changes in financial assets	**60 000**	
Cash flow from financing activities operation one part correct	630 000 ☑	
Proceeds from shares issued	1 500 000 ✓	
Buy-back of shares	(150 000) ✓	
Changes in loan	**(720 000)**	
Net change in cash and cash equivalent	**888 300**	
Cash and cash equivalent at the beginning	**(421 000)**	

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Cash and cash equivalent at the end	**467 300**	**20**

2.4 **Besides paying back the loan, the directors have taken other major decisions that have affected the cash balance. State TWO other major decisions (exceeding R200 000) and quote the figures from the Cash Flow Statement.**

In EACH case, state how the decision will affect the future of the company.

DECISION	FUTURE EFFECT ON COMPANY
Decision and amount	Valid explanation
Purchase of fixed assets R200 715 ✓	Capital growth – investment in fixed assets will lead to expanded business activities ✓ • Creation of employment • Cater for more customers to increase profits
Issue of shares R1 500 000 ✓	• Financing expansions/ extensions of fixed assets ✓ • Expanded shareholder base will affect dividends • Improve cash flow

4

2.5 **Debt/equity ratio**

350 000 ✓ : 2 499 900 ✓

0,14 :1 ☑ or 0,1 : 1 Operation one part correct

3

TOTAL MARKS
45

QUESTION 3

3.1.1	B✓	
3.1.2	C✓	
3.1.3	A✓	**3**

3.2.1 RETAINED INCOME

Balance at the beginning		7 480 ✓	
Buy back of shares (40 000 x 1.25)	Two or nothing	(50 000) ✓✓	
Net profit after tax		681 720 ✓	
Ordinary share dividends		(389 200)	
Interim dividends		179 200 ✓	
Final dividends		210 000 ✓	
Balance at the end	Operation one part correct	250 000 ☑	**7**

3.2.2 Balance Sheet (Statement of Financial Position) on 30 April 2020.

Assets			
Non-current assets	TA - CA	4 279 800☑	
Tangible assets		**4 079 800**	
Financial assets (415 000✓ – 215 000✓)		200 000✓	
Current assets	(CL x 2)	1 536 400☑	
Inventory		**222 600**	
Trade and other receivables	Balancing figure	886 400☑	
Cash and cash equivalent (212 400✓ + 215 000✓)		427 400✓	
Total assets	NCA + CA Or Total equity and liabilities = Total assets	5 816 200☑	
Equity and liabilities			
Shareholders' equity	(610 x 680 000) ÷ 100	4 148 000☑	
Ordinary share capital	SE-RI	3 898 000☑	
Retained income	See 3.2.1	250 000☑	
Non-current liabilities		900 000	
Loan(1 500 000✓ – 465 000✓ + 165 000✓ – 300 000✓)		900 000☑	
1035 000 two marks + 165 000 one mark – 300 000 one mark		Operation one part correct	
Current liabilities		768 200☑	
Trade and other payables (231 920✓ + 210 000✓ + 26 280✓)		468 200☑	
Current port of loan		300 000☑	
Total equity and liabilities	Operation one part correct CL + NCL + SE	5 816 200☑	**25**

Presentation / Incorrect or incomplete details -1 (max -2)
Foreign entries-1 (max -2) Misplacement -1 per line

TOTAL MARKS
35

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QUESTION 4

4.1.1 **Calculate the amount of dividends Veli would earn for the financial year ended 29 February 2020. Shares repurchased do not qualify for final dividends.**

Interim: 23 000 + 2 000 = 25 000 X 0,30 = R 7 500 ✓
Final: 25 000 – 3 000 = 22 000 X 0,50 = R11 000 ✓
R18 500 ☑ One part correct

3

4.1.2 **Veli is not satisfied with the dividend policy of Wembezi Ltd. Explain why. Quote and compare relevant financial indicators to support his feelings.**

For 2 marks each:
The pay-out policy for 2019 was 75% (120/160) ✓✓ and for 2020 it decreased to 50%
(85/170) ✓✓

For 1 mark each:
EPS increased from 160c to 170c and DPS decreased from 120c to 85c
One mark One mark

4

4.1.3 **Veli wants to sell his shares in Wembezi Ltd and invest his funds in an alternative investment. Quote and explain TWO relevant indicators, other than dividends and earnings, to support his intention.**

Ratio, explanation and figure ✓✓ ✓✓

- Return on shareholder's equity (ROSHE) decreased by 3% from 23% to 20%.
- Market price decreased by 110 cents from 750 cents to 640 cents.
- Net asset value per share decreased by 105 cents from 760 cents to 655 cents.

4

4.1.4 **Why would the company spend money on skills development? Explain ONE point.**

ANY RELEVANT ANSWER ✓✓

- It develops the workers and improves worker productivity
- Companies are expected to equip workers with the necessary skills and knowledge (King Code/Legislation).

2

4.1.5 **Refer to Information A.**
How did the company benefit from this? Name ONE example and quote figures.

Example ✓ figure ✓

- Sales increased by R4 800 000 from R13 700 000 to R18 500 000.
- Workplace accident cost decreased by R15 000 from R23 000 to R8 000.
- Loss on production decreased by R5 000 from R7 000 to R2 000.

2

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4.2.1 **Comment on the liquidity position of the company. Quote THREE financial indicators (with figures) in your answer.**

Current ratio ✓ decreased from 1,7 : 1 to 0,9 : 1 ✓
Acid test ratio ✓ decreased from 0,6 :1 to 0,4 : 1 ✓
Rate of stock turnover ✓ decreased from 5 times to 3 times by 2 times. ✓
If candidates provide additional irrelevant indicator, search for the correct ones in the answer provided by the candidate and award marks accordingly.
For those who provide more than three options, penalty of -2 for any irrelevant indicators (max -2).

6

4.2.2 **One of the directors feel that the loan should be paid as soon as possible. Do you agree? Explain. Quote TWO financial indicators with figures to support your answer.**

No ✓

Financial indicators and figures ✓ ✓
Explanation ✓ ✓

Debt equity ratio is 0,06 : 1 which means the business is in position to borrow more monies. This indicates low risk.

The return on total capital employed (ROTCE) for 2020 is 24% which is greater than the interest rate of 16%. This indicates positive gearing.

5

4.2.3 **The shareholders should be satisfied with the return on their investment and the companies' earnings. Explain TWO financial indicators with figures to support this opinion.**

Explanation with figures. ✓✓ ✓✓

Return on shareholders' equity improved from 10,6% to 18%. 18% is higher than return on alternative investment of 6% by 12%.

Earnings per share improved from 45 cents to 49 cents per share

4

TOTAL MARKS
30