

basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

TRIAL EXAMINATION 2021

MARKS: 150

TIME: 2 hours

**This question paper consists of 11 pages,
a formula sheet and an 11-page answer book.**

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KWAZULU-NATAL

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	Statement of Comprehensive Income and Retained Income Note	60	45
2	Financial Indicators and Cash Flow Statement	40	30
3	Interpretation of Financial Statements	35	30
4	Corporate governance	15	15
TOTAL		**150**	**120**

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QUESTION 1: STATEMENT OF COMPREHENSIVE INCOME AND RETAINED INCOME NOTE (60 marks; 45 minutes)

You are provided with information from the records of Victoria Limited for the year ended 30 June 2020. The company sells and repairs two types of fridges: the Icekool and the Freezo models.

REQUIRED:

1.1 **Refer to Information B(a):**

Calculate:

- Total depreciation for the year (7)
- Profit/Loss on sale of fixed asset (2)



1.2 **Refer to information B(d):**

Calculate the loss on the Icekool fridges destroyed in the fire. (5)

NOTE: The relevant figures from QUESTIONS 1.1 and 1.2 must also be entered in the financial statement or note.

1.3 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 30 June 2020. (35)

1.4 Prepare the Retained Income Note to the Statement of Financial Position (Balance Sheet). (11)

QUESTION 2: FINANCIAL INDICATORS AND CASH FLOW STATEMENT
(40 marks; 30 minutes)

2.1 Four statements/reports are provided as options in which each of the following items would appear. Choose the financial statement/report and write only the letter (A–D) next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

A	Cash Flow Statement
B	Statement of Comprehensive Income (Income Statement)
C	Statement of Financial Position (Balance Sheet)
D	Directors' Report

2.1.1 Verbal explanation of the activities of a company for the past year

2.1.2 Bad debts recovered

2.1.3 Net book value of fixed assets (3 x 1) (3)

2.2 **ORANGE LTD**

The information relates to the financial year ended 29 February 2020.

REQUIRED:

2.2.1 Calculate the following financial indicators on 29 February 2020:

- Debt-equity ratio (3)
- Earnings per share (EPS) (4)
- Dividend pay-out rate (3)
- % return on average equity (ROSHE) (4)

2.2.2 Complete the Cash Flow Statement on 29 February 2020.
All cash outflows must be shown in brackets to earn full marks. (23)

INFORMATION:

A. Extract from the Income Statement on 29 February 2020:

Depreciation	R 234 000
Interest expense	126 000
Income tax	415 200
Net income after tax	968 800

B. Extract from the Balance Sheet:

	29 February 2020	28 February 2019
Fixed assets (carrying value)	R 9 528 300	R 8 320 300
Fixed deposits	100 000	500 000
Current assets	1 002 000	755 000
Cash and cash equivalents	56 500	5 000
Bank overdraft	0	220 000
Shareholders' equity	8 980 300	7 411 500
Ordinary share capital	8 281 000	7 200 000
Retained income	699 300	211 500
Loan: BB Bank	900 000	1 200 000
Current liabilities	750 000	963 800
SARS: Income tax	4 500 Dr	23 800 Cr
Shareholders for dividends	120 000	160 000

C. Fixed assets:

- Old equipment was sold at carrying value, R48 000.
- Extensions to the buildings were completed during the financial year.

D. Share capital:

On 1 March 2019, the ordinary share capital comprised 800 000 ordinary shares. A further 200 000 shares were issued on this date.

On 29 February 2020, the company repurchased 90 000 shares at R81 000 above the value of the shares based on the average share price of R9,10 per share. These shareholders qualified for final dividends.

E. Dividends and earnings:

	29 February 2020	28 February 2019
Interim dividends	28 cents	60 cents
Final dividends	12 cents	20 cents
Earnings per share	?	94 cents

40

QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS

(35 marks; 30 minutes)

You are provided with information of Solar-Style Ltd for the financial year ended 29 February 2020. The business provides solar panels to households to supplement their electricity supply.

REQUIRED:

NOTE: Provide figures, financial indicators or calculations in EACH case to support your comments and explanations.

3.1 **Solvency and liquidity:**

3.1.1 Comment on the solvency of the company. Quote ONE financial indicator with figures. (2)

3.1.2 Explain why the directors are satisfied with the change in the liquidity of the company. Quote TWO financial indicators with figures. (4)

3.2 **Earnings, return and share price on the JSE:**

3.2.1 Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures. (4)

3.2.2 Comment on the share price on the JSE and how the % return and earnings per share have affected the share price. Quote figures. (4)

3.3 **Gearing:**

Explain how the loan affected the risk and gearing and whether or not it was a good idea to increase the loan. Quote TWO financial indicators with figures. (7)

3.4 **Shareholding:**

Refer to Information D.

The directors decided to offer the existing shareholders one share for every five shares they own on 1 September 2019, at a price of R6,50 each. Allen Mbatha currently owns 45% of the shares of Solar-Style Ltd. Allen was one of the few shareholders who decided to accept this offer.

3.4.1 Explain how Allen's decision affected his % shareholding. Provide a calculation to support your explanation. (4)

3.4.2 Give TWO reasons why Allen might have made this decision. (4)

3.5 **Dividends:**

3.5.1 One of the directors feels that the dividend pay-out rate (%) should have remained constant. Give ONE possible reason (with figures) for her opinion. (3)

3.5.2 **Refer to Information E.**

Explain (with figures) why one of the shareholders, Erna Naidoo, feels that the dividends she earns in Solar-Style Ltd is not as good as those that she earns in Netgen Ltd. (3)

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INFORMATION:

A. Extract from the Financial Statements:

	29 February 2020	28 February 2019
Net profit after tax	R 203 000	R 636 300
Non-current liability: Loan from Credbank	3 500 000	2 000 000

B. Financial indicators calculated:

	29 February 2020	28 February 2019
Debt-equity ratio	0,4 : 1	0,3 : 1
Acid-test ratio	0,8 : 1	2,6 : 1
Total assets to total liabilities	2,0 : 1	5,0 : 1
Stock turnover rate	6 times	3 times
Earnings per share (EPS)	72 cents	96 cents
Dividends per share (DPS)	48 cents	48 cents
Dividend pay-out rate	67%	50%
% return on average equity (ROSHE)	5,3%	8,7%
% return on total capital employed (ROTCE)	6,2%	11,6%
Net asset value per share (NAV)	877 cents	912 cents

C. Additional information:

	29 February 2020	28 February 2019
Market price of shares on JSE	840 cents	920 cents
Interest rate on investments	6,5%	6,5%
Interest rate on loans	10,5%	12,0%

D. Shareholding of Allen Mbatha in Solar-Style Ltd:

	Number of shares	Price per share
Total Solar-Style Ltd shares in issue:		
On 28 February 2019	800 000 shares	
On 29 February 2020	900 000 shares	
Shares purchased by Allen		
On 1 March 2015	360 000 shares	650 cents
On 1 September 2019	?	650 cents

E. Shareholding of Erna Naidoo in two companies:

	Solar-Style Ltd	Netgen Ltd
Dividends per share for 2020	36 cents	28 cents
Price she paid for her shares	820 cents	400 cents
Number of shares owned	30 000 shares	30 000 shares

35

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

4.1 Give ONE word/term for each of the following descriptions by choosing a word/term from the list below. Write only the word/term next to the question numbers (4.1.1 to 4.1.3) in the ANSWER BOOK.

external auditors; internal auditors; shareholders; directors

4.1.1 Their role is to manage and control all aspects of the company's activities.



4.1.2 Their role is to express an unbiased opinion on the reliability of the information in the financial statements.

4.1.3 Their role is to assess the internal control measures in a company on an on-going basis. (3 x 1) (3)

4.2 **ELECTRONIC LTD**

The information relates to Electronic Ltd. In recent months, Electronic Ltd has been receiving negative publicity in the national newspapers. A shareholder, Quinton Miller, is concerned about possible corruption in this company.

REQUIRED:

4.2.1 Explain, in your own words, why you agree or disagree with the extract below that appeared in a local newspaper. State TWO different points.

Sustained (On-going) corruption, fraud and mismanagement will not take place at a listed company unless there is illegal or criminal collusion (dishonest collaboration) on the part of the board of directors and the auditors. [Paraphrased from @TheJaundicedEye, *Independent*, Saturday 7 March 2020]

(4)

4.2.2 **Refer to the information on the next page.**

Explain TWO points to prove possible corruption for EACH of the following problems. Quote figures or calculations.

Problem 1: Payment of directors' fees (4)

Problem 2: Control and productivity of other employees (4)

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INFORMATION:

Information identified from the books of the company

NOTE: Rand amounts are expressed in millions.

		% change	29 February 2020	28 February 2019
Directors' fees:				
Chief executive officer (CEO)	1	72%	R11,2 m	R6,5 m
Chief financial officer (CFO)	1	72%	R9,9 m	R5,8 m
Other full-time directors	12	8,3%	R39,0 m	R36,0 m
Other employees:				
Number of employees		19%	570 employees	480 employees
Salaries and wages		22%	R91,0 m	R74,4 m
General information:				
Gross profit		11%	R289,0 m	R260,0 m
Operating profit		(20%)	R61,0 m	R76,2 m
Operating profit per employee		(50%)	R0,1 m	R0,2 m
Net profit		(21%)	R41 m	R52 m

15

TOTAL: 150

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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	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*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.	

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STICKER

CENTRE NUMBER

EXAMINATION NUMBER

NATIONAL SENIOR CERTIFICATE

ACCOUNTING P1

GRADE 12

NOVEMBER 2020

SPECIAL ANSWER BOOK

QUESTION	MARKS	INITIAL	MOD.
1			
2			
3			
4			
TOTAL			

This answer book consists of 11 pages.

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QUESTION 1

1.1

Calculate: Total depreciation for the year	
Workings	**Answer**

7

Calculate: Profit/Loss on sale of fixed asset	
Workings	**Answer**

2

1.2

Calculate: Loss on the Icekool fridges destroyed in the fire	
Workings	**Answer**

5

NOTE: The relevant figures from QUESTIONS 1.1 and 1.2 must also be entered in the financial statement or note.

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1.3 Statement of Comprehensive Income (Income Statement) for the year ended 30 June 2020.

Sales	**12 945 000**
Cost of sales	
Gross profit	
Operating income	
Service fee income	**3 400 000**
Gross operating income	
Operating expenses	
Salaries and wages	**2 740 000**
Audit fees	**356 000**
Sundry operating expenses	**252 500**
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	
Net profit before tax	
Net profit after tax	

35

1.4 Retained Income Note

Balance at beginning	**3 200 000**
Dividends	
Balance at end	

11

TOTAL MARKS
60

QUESTION 2

2.1

2.1.1	
2.1.2	
2.1.3	

3

2.2 ORANGE LTD

2.2.1 Calculate on 29 February 2020:

Debt-equity ratio	
Workings	**Answer**
	

3

Earnings per share (EPS)	
Workings	**Answer**

4

Dividend pay-out rate	
Workings	**Answer**

3

% return on average equity (ROSHE)	
Workings	**Answer**

4

2.2.2 CASH FLOW STATEMENT ON 29 FEBRUARY 2020

CASH EFFECTS OF OPERATING ACTIVITIES		
Cash generated from operations		
Interest paid	**(126 000)**	
Dividends paid	**(440 000)**	
Income tax paid		
CASH EFFECTS OF INVESTING ACTIVITIES		
Fixed assets purchased		
Proceeds of sale of fixed assets	**48 000**	
Decrease in fixed deposits	**400 000**	
CASH EFFECTS OF FINANCING ACTIVITIES		
Proceeds of shares issued		
Funds used to repurchase shares		
Net change in cash and cash equivalents		
Cash (closing balance)		**23**

TOTAL MARKS
40

QUESTION 3

3.1.1	**Comment on the solvency of the company. Quote ONE financial indicator with figures.**	2
3.1.2	**Explain why the directors are satisfied with the change in the liquidity of the company. Quote TWO financial indicators with figures.**	4
3.2.1	**Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.**	4
3.2.2	**Comment on the share price on the JSE and how the % return and earnings per share have affected the share price. Quote figures.**	4

3.3 **Explain how the loan affected the risk and gearing and whether or not it was a good idea to increase the loan. Quote TWO financial indicators with figures.**

7

3.4.1 **Refer to Information D. Explain how Allen's decision affected his % shareholding. Provide a calculation to support your explanation.**

4

3.4.2 **Give TWO reasons why Allen might have made this decision.**

4

3.5.1	**One of the directors feels that the dividend pay-out rate (%) should have remained constant. Give ONE possible reason (with figures) for her opinion.**	3
3.5.2	**Refer to Information E. Explain (with figures) why one of the shareholders, Erna Naidoo, feels that the dividends she earns in Solar-Style Ltd is not as good as those that she earns in Netgen Ltd.**	3

TOTAL MARKS
35

QUESTION 4

4.1

4.1.1	
4.1.2	
4.1.3	



3

4.2 ELECTRONIC LTD

4.2.1 **Explain, in your own words, why you agree or disagree with the extract that appeared in a local newspaper. State TWO different points.**

4

4.2.2 **Explain TWO points to prove possible corruption for EACH of the following problems. Quote figures or calculations.**

Problem 1: Payment of directors' fees	
	4
Problem 2: Control and productivity of other employees	
	4

TOTAL MARKS
15

TOTAL: 150

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GRADE 12

ACCOUNTING P1

2021 TRIAL EXAMINATION

MARKING GUIDELINES

MARKS: 150

MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guidelines, 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 answer 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 memo 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 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 certain questions.
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.
10. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
11. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
12. 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 ☒.
13. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
14. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 11 pages.

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QUESTION 1

20% and 15% do not constitute 'one part correct'

1.1

Calculate: Total depreciation for the year

Workings	Answer
Vehicles: (4 220 000 – 1 325 000) x 20% = 579 000 ✓✓ 2 895 000 Equipment: 40 000 x 15% x 7/12 = 3 500 ✓☑ one part correct (968 000 – 40 000) x 15% = 139 200 ✓✓ 928 000 142 700 four marks	721 700 ☑ one part correct

7

Calculate: Profit/Loss on sale of fixed asset

Workings	Answer
(40 000 – 21 500) 22 500 – 18 500 one mark one mark	4 000 ✓☑ one part correct

2

1.2

Calculate: Loss on the Icekool fridges destroyed in the fire

Workings	Answer
(200 + 1 400 – 1300 – 275) (25 x 3 500) x 20% ✓☑ ✓ ✓ one part correct 87 500 – 70 000 three marks one mark	R17 500 ☑ one part correct

5

NOTE: The relevant figures from QUESTIONS 1.1 and 1.2 must also be entered in the financial statement or note.

1.3 Statement of Comprehensive Income (Income Statement) for the year ended 30 June 2020.

	Sales	**12 945 000**	
	Cost of sales (12 945 000 + 275 000 ✓) x 100/160 ✓ **OR** (3 500 x 1 300) (6 750 x 550) 4 550 000 + 3 712 500 **OR** (700 000 + 4 900 000 – 1 050 000) + (4 320 000 – 607 500)	(8 262 500)	✓☑*
5	**Gross profit** sales – cost of sales	4 682 500	☑
	Operating income operation	3 495 000	☑
	Service fee income	**3 400 000**	
	Profit on sale of asset see 1.1 can be a loss (see under expenses)	4 000	☑
3	Rent income 7 x 13 000 see directors' fees	91 000	☑
	* two marks if no calculation in director's fees		
	Gross operating income	8 177 500	
	Operating expenses operation	(6 576 500)	☑
	Salaries and wages	**2 740 000**	
	Audit fees	**356 000**	
	Sundry operating expenses	**252 500**	
	Depreciation see 1.1	721 700	☑
	Directors fees (1 279 000✓ + 91 000✓✓)	1 370 000	☑
	Consumable stores (28 800 – 21 600) one mark (815 800 ✓+ 7 200 ✓– 18 000✓)	805 000	☑
	Loss due to fire see 1.2	17 500	☑
	Bad debts (196 000 ✓ + 10 800 ✓✓)	206 800	☑
19	Advertising (123 200 ✓– 16 200 ✓✓)	107 000	☑
	8 100 x 2		
	Operating profit GOI – OE	1 601 000	☑
	Interest income	165 000	✓
	Profit before interest expense	1 766 000	
	Interest expense 1 984 000 – 1 718 000 / (1 984 000 + 582 000 – 2 300 000)	(266 000)	✓☑*
	Net profit before tax PbIE – IE	1 500 000	☑
	Income tax 28% of NPBT	(420 000)	☑☑
8	**Net profit after tax** NPbT – IT	1 080 000	☑

35

– 1 foreign items (max -2); mark workings only of misplaced items *one part correct

1.4 Retained Income Note

Balance at beginning		**3 200 000**
Net profit after tax	see 1.2	1 080 000 ☑
Shares repurchased 50 000 x R2,60✓✓☑	(9,60 – 7,00) three marks; one part correct; Ignore brackets	(130 000) ☑* Not 480 000
Dividends	operation; ignore brackets	(1 487 000) ☑
Interim / Paid		675 000 ✓
Final / Recommended 1 450 000 ✓ x 56 cents ✓ x 0,56 x 56%		812 000 ☑*
Balance at end	Inspect: must subtract SBB and OSD	2 663 000 ☑*

*one part correct

-1 Presentation (no / incorrect details)

11

TOTAL MARKS
60



QUESTION 2

2.1

2.1.1	D ✓	Directors Report
2.1.2	B ✓	Statement of Comprehensive Income
2.1.3	C ✓	Statement of Financial Position

3

2.2 ORANGE LTD

2.2.1 Calculate on 29 February 2020:

Debt-equity ratio

Workings	Answer
900 000 ✓ : 8 980 300 ✓	0,1 : 1 ☑ one part correct; in the form x : 1

3

Earnings per share (EPS)

Workings	Answer
968 800 ✓ / 1 000 000 ✓✓ x 100* (800 000 + 200 000) Do not accept 910 000	one part correct 96,9 cents ☑ OR 97 cents Accept R0,97

4

Dividend pay-out rate

Workings	Answer
(28 + 12) / 40 cents ✓ x 100* OR (280 000 + 120 000) / 400 000 x 100 96,9 cents ☑see EPS above / 968 800 Or 97 cents	41,3% ☑ *one part correct Must indicate %

3

% return on average equity (ROSHE)

Workings	Answer
968 800 ✓ / ½ (8 980 300 ✓ + 7 411 500 ✓) x 100* 16 391 800 two marks 8 195 900 two marks * ensure that a candidate does not get full marks if ½ is omitted	11,8% ☑ *one part correct % sign not necessary Accept 12%

4

* x 100 is not regarded as 'one part correct'

2.2.2 CASH FLOW STATEMENT ON 29 FEBRUARY 2020

CASH EFFECTS OF OPERATING ACTIVITIES			
Cash generated from operations			
Interest paid	**(126 000)**		
Dividends paid	**(440 000)**		
Income tax paid 23 800 ✓ + 415 200 ✓ + 4 500 ✓ or – 23 800 – 415 200 – 4 500 Be aware of alternative calculation methods, e.g. ledger account; brackets	(443 500)	☑*	4
CASH EFFECTS OF INVESTING ACTIVITIES			
Fixed assets purchased 9 528 300 ✓+ 234 000 ✓+ 48 000 ✓– 8 320 300 ✓ OR – 9 528 300 – 234 000 – 48 000 + 8 320 300 Be aware of alternative calculation methods, e.g. ledger or note format, brackets	(1 490 000)	☑*	5
Proceeds of sale of fixed assets	**48 000**		
Decrease in fixed deposits	**400 000**		
CASH EFFECTS OF FINANCING ACTIVITIES			
Proceeds of shares issued 8 281 000 ✓ + 819 000 ✓✓ – 7 200 000 ✓ 90 000 x 9,10	1 900 000	☑*	5
Funds used to repurchase shares 819 000 ☑ + 81 000 ✓ OR 90 000 x 10 see above (9,10 + 0,90)	(900 000)	☑*	
Change in loans / Decrease in loans 1 200 000 – 900 000	(300 000)	✓✓	10
Net change in cash and cash equivalents inspect, operation	271 500	☑	
Cash (Opening balance) – 220 000 + 5 000	(215 000)	✓✓	
Cash (closing balance) 4	56 500	✓	**23**

*one part correct; with the correct use of brackets / no brackets
If part of workings is reflected as a final answer, award the working marks allocated for that part
If the correct final answer is presented without the correct use of brackets, award all working marks, even if workings are not provided e.g. 3 / 4 for 443 500 iro income tax paid.
Misplaced items: mark workings only

TOTAL MARKS
40

QUESTION 3

3.1.1 **Comment on the solvency of the company. Quote ONE financial indicator with figures.**

Comment ✓ figure ✓

The degree of solvency has declined from 5,0 : 1 to 2,0 : 1 (by 3,0 : 1)
Although the solvency declined (trend not good), the business is still solvent. **2**

3.1.2 **Explain why the directors are satisfied with the change in the liquidity of the company. Quote TWO financial indicators with figures.**

Financial indicator ✓ ✓ figures with explanation ✓ ✓

- Acid test ratio is now more efficient at 0,8 : 1 whereas it was too high at 2,6 : 1 in 2019 / more productive use of liquid assets (working capital)
- Stock turnover rate has improved from 3 times to 6 times indicating that stock is being sold more quickly. **4**

3.2.1 **Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.**

Financial indicator (with trend) ✓ ✓ figures with explanation ✓ ✓

- ROSHE declined from 8,7% to 5,3% (by 3,4% percentage points / 39%) / compare to alternative investments
- EPS declined from 96 cents to 72 cents (by 24 cents; by 25%) / representing a drop in profitability (assuming no change to share capital)
  OR Earnings yield: 96/912 (10,5%) to 72/877 (8,2%) – using NAV
  96/920 (10,4%) to 72/840 (8,6%) – using MP **4**

3.2.2 **Comment on the share price on the JSE and how the % return and earnings per share have affected the share price. Quote figures.**

Comment on the **market price** ✓ (with figures) ✓

- The decline in earnings has led to a decline in the share price on the JSE from 920 cents to 840 cents (by 80 cents / 8,7%) / a drop in demand for shares / investor confidence

Comparison of **MP with NAV** ✓ (with figures) ✓



- The MP (840c) is lower than the Net Asset value (877c) by 37 cents / was 8c higher than NAV in 2019 / indicating declining demand **4**

3.3 **Explain how the loan affected the risk and gearing and whether or not it was a good idea to increase the loan. Quote TWO financial indicators, with figures.**

TWO financial indicators ✓ ✓ Figures ✓ ✓

Debt equity ratio increased from 0,3 : 1 to 0,4 : 1 (by 0,1 : 1)
The ROTCE decreased from 11,6% to 6,2% (by 5,4% points / 46,6%)

Explanation ✓✓ mention / compare with interest rate ✓

It was not a good idea to increase the loan:

- Although the debt equity suggests low financial risk, the ROTCE is very low; below the current interest rate of 10,5%
- The business experienced negative gearing in 2019 (interest rate:12%) and has not taken steps to improve the situation in the 2020 financial year.
- Financial risk has increased and profits have dropped.

7

3.4.1 **Refer to Information D. Explain how Allen's decision affected his % shareholding. Provide a calculation to support your explanation.**

Calculation:

360 000/5 ✓✓

360 000 + 72 000 = 432 000 shares of 900 000 shares → 48%

His % shareholding increased (from 45%) to 48% (by 3% / 6,7%) ✓✓

4

3.4.2 **Give TWO reasons why Allen might have made this decision.**

TWO possible reasons ✓✓ ✓✓ part-marks for partial / incomplete / unclear explanations
Figures are not necessary – can enhance the quality of the response

- He was able to buy the shares at the same price (650c) that he paid five years ago (March 2015)
- This is significantly lower than the current price on the JSE (920c; 840c)
- R6,50 is a lot lower than NAV (912c; 877c)

- Although earnings have declined, solar panels might become very popular in future because of the current Eskom problems. Future prospects.
- He wants to support (or be part of) a recovery plan / he sees potential in the recovery of the business.

- He needs to purchase only a few more shares on the JSE to become the majority shareholder (18 000 + 1 or 100 or 51%) / closer to becoming the majority shareholder / closer to being the main decision-maker.

4

3.5.1 **One of the directors feels that the dividend pay-out rate (%) should have remained constant. Give ONE possible reason (with figures) for her opinion.**

ONE valid reason ✓✓ part-marks for partial explanations Figure/s ✓

- A drop in EPS (from 96 cents) to 72 cents (by 24 cents / 25%) and an unchanged DPS at 48 cents as effectively increased the dividend pay-out rate from 50% to 67% (by 17% / 34%)
- A constant dividend pay-out rate at 50% would have resulted in a lower DPS of 36 cents (by 12 cents / 25%) in line with the drop in EPS.
- If the DPR remained constant, the company would have been able to retain 50% of EPS (instead of 33%); to focus on long-term effect / growth of the business.

3

3.5.2 **Refer to Information E. Explain (with figures) why one of the shareholders, Erna Naidoo, feels that the dividends she earns in Solar-Style Ltd is not as good as those that she earns in Netgen Ltd.**

ONE valid reason ✓✓ part-marks for partial explanations Figure/s ✓

- The price per share at Solar-Style Ltd is more than double the price at Netgen Ltd (820 cents against 400 cents)
  Erna only received 36 cents per share at Solar-Style Ltd and 28 cents at Netgen Ltd. She expects the DPS at Solar to be more than double the amount she received at Netgen Ltd (i.e. over 56 cents)
- Received DPS of 36c on an investment of 820c (4,4%) in Solar-Style Ltd
  Received DPS of 28c on an investment of 400c (7%) in Netgen Ltd

OR The dividend yield on Solar-Style Ltd is 4,4% (36/820) while the dividend yield on Netgen Ltd is 7% (28/400).

3

TOTAL MARKS
35

QUESTION 4

4.1

4.1.1	Directors ✓
4.1.2	External auditors ✓
4.1.3	Internal auditors ✓



3

4.2 ELECTRONIC LTD

4.2.1 **Explain, in your own words, why you agree or disagree with the extract that appeared in a local newspaper. State TWO different points.**

Any TWO valid and separate points ✓✓ ✓✓ part-marks for partial responses

- The Board of Directors is accountable for managing the company (they have control over all employees) and if they are doing their job properly they should be aware of potential fraud.
- The Auditors are accountable for expressing an opinion on the financial statements, and they will be guilty of negligence if they do not do their duties properly and alert shareholders to problems that should be obvious.
- The Directors are accountable for establishing internal control processes to prevent fraud (using the staff they employ) and the Auditors are accountable for inspecting the internal control processes and must alert the Directors to possible breeches.
- If any employee commits fraud this should be identified quickly by the appointed managers and directors because internal control procedures exist for this reason.

4

Article refers to sustained corruption due to collusion between directors and auditors

Respective roles/responsibilities:
Directors; management and control / strategic planning / ensure the success of the business
Report to the Board / Shareholders
Auditors: External / unbiased / no vested interest / conflict of interest
To protect the investment / interest of the shareholders (members of the general public)

True: Corruption would require willing participation of role players / stakeholders
Focus on self-interest / self-enrichment – at the expense of the business (shareholders)
They are in positions of authority / power – are in control (influence decisions)

4.2.2 **Explain TWO points to prove possible corruption for EACH of the following problems. Quote figures or calculations.**

Problem 1: Payment of directors' fees

TWO valid points ✓ ✓ Figures ✓ ✓

- The CEO & CFO do not deserve the 72% increase in their fees as the operating profit and net profit decrease significantly by 20% / 21% respectively.
- The other directors do not deserve an increase of 8,3% either because they would have known that proper procedures were not being followed in setting directors' fees and the profits have decreased by 20%.
- Negligence of the Remuneration committee in performing its duties / lack of transparency – possible collusion

4

Problem 2: Control and productivity of other employees.

TWO valid points ✓ ✓ Figures ✓ ✓

- The number of employees increased significantly by 110 (19%) while the operating and net profits decreased by 20% / 21% respectively
- Operating profit earned per employee has dropped by 50% (from R0,2 m to R0,1 m), although the number of employees increased by 19%. Drop in the productivity per employee – including the existing employees.
- Increase in salaries (22%) not justified – R16,6 million more than last year; way above the inflation rate; drop in productivity levels as revealed by the drop in profits.
- Operating profit decreased by 20% despite the fact that gross profit increased by 11% which indicates that control of operating expenses was a big problem; not sales.

4

TOTAL MARKS
15



TOTAL: 150

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