basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

NOVEMBER 2020

MARKS: 150

TIME: 2 hours

Accounting P1

10711E

X05

This question paper consists of 11 pages, a formula sheet and an 11-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	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**

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)

INFORMATION:

A. The following balances/totals, among others, appeared in the books on 30 June:

Balance sheet accounts section	**2020 R**	**2019 R**
Ordinary share capital	10 150 000	10 500 000
Retained income	**?**	3 200 000
Mortgage loan: Silver Bank	1 984 000	2 300 000
Vehicles	4 220 000	
Equipment	968 000	
Accumulated depreciation on vehicles	**?**	1 325 000
Accumulated depreciation on equipment	**?**	327 000
Fixed deposit: JM Bank	1 520 000	
Trading stock	1 657 500	
Debtors' control	2 740 000	
Shareholders for dividends	**?**	427 500
SARS: Income tax (provisional payments)	120 000	
Creditors' control	652 000	
Nominal accounts section		
Sales	12 945 000	
Cost of sales	**?**	
Salaries and wages	2 740 000	
Audit fees	356 000	
Sundry operating expenses	252 500	
Directors' fees	1 279 000	
Service fee income	3 400 000	
Consumable stores	815 800	
Bad debts	196 000	
Advertising (Protea TV only)	123 200	
Interest on investments	165 000	
Dividends on ordinary shares	675 000	

B. Adjustments and additional information:

(a) No entries have been made for depreciation and the disposal of the fixed asset.

- Vehicles are depreciated at 20% p.a. on the diminishing balance method.
- Equipment is depreciated at 15% p.a. on cost price. Note that equipment was sold on 31 January 2020. Details are as follows:

Cost price	R40 000
Accumulated depreciation on 1 July 2019	R18 000
Selling price	R22 500

(b) Two directors, Hlophe and Frey earn directors' fees.
- Frey has not been paid his full fees because of rent due by him to the company. No entry has been made for the rent yet.
- Since 1 December 2019, Frey had rented part of the company property for personal use. The monthly rent of R13 000 must be offset against the directors' fees owed to him.

(c) An entry of R28 800 was made for consumable stores returned to a creditor on 27 June 2020. The credit note from the creditor reflects an amount of only R21 600. The credit note is correct, but has not been recorded yet. Consumable stores on hand at the year-end were R18 000.

(d) Fridges are valued using the specific identification method. No entry has been made in respect of a fire that occurred in the storeroom. A number of Icekool fridges were destroyed and the insurance company will pay out 80% of the cost of the fridges destroyed. The stock record is as follows:

MODEL	OPENING STOCK	PURCHASES	COST PER UNIT	NUMBER OF UNITS SOLD	CLOSING STOCK
Icekool	200 units	1 400 units	R3 500	1 300 units	275 units
Freezo	0	640 units	R6 750	550 units	90 units

(e) The business uses a mark-up of 60% on the cost of the fridges. Trade discounts granted on the sale of Freezo fridges, totalling R275 000, have been recorded.

(f) R32 400 from the estate of an insolvent debtor was deposited into the bank account of the business. This represented 75 cents in the rand. The balance of his account must be written off.

(g) Protea TV has been contracted to produce an advertisement and to broadcast it at a fixed monthly rate for the period 1 September 2019 to 31 August 2020.

The amount paid to Protea TV includes a once-off fee of R26 000 paid in August 2019 for producing the video. The balance covers monthly advertising on TV for the 12 months commencing 1 September 2019.

(h) Provide for interest on the mortgage loan. The statement received from Silver Bank indicates monthly repayments of R48 500. This includes capitalised interest.

(i) The income tax rate is 28% of the net profit.

(j) Share capital and dividends:
- 50 000 shares were repurchased at R9,60 each on 31 March 2020. These shares do not qualify for final dividends.
- No new shares were issued in the current financial year.
- 1 450 000 shares were in issue on 30 June 2020.
- Interim dividends were paid on 31 December 2019.
- Final dividends of 56c per share were declared on 30 June 2020.

60

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

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)

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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