



# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ACCOUNTING P1  
FINANCIAL REPORTING AND EVALUATION  
EXEMPLAR 2020**

**MARKS: 150**

**TIME: 2 hours**

**This question paper consists of 11 pages,  
1 formula sheet and a 9-page answer book.**

**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.

<b>QUESTION</b>	<b>TOPIC</b>	<b>MARKS</b>	<b>TIME (minutes)</b>
1	Audit Report and Professional Bodies	15	10
2	Statement of Financial Position, Net Profit and Asset Disposal	65	50
3	Cash Flow Statement and Financial Indicators	30	20
4	Interpretation of Company Information	40	40
<b>TOTAL</b>		<b>150</b>	<b>120</b>

**NOTE:** Questions in this question paper are based on questions from the NSC November 2019 Accounting question paper.

**QUESTION 1: AUDIT REPORT AND PROFESSIONAL BODIES (15 marks; 10 minutes)**

Swinton & Partners are the independent auditors of Shivaz Limited. You are provided with extracts from the published financial statements and independent audit report for the year ended 30 June 2019.

**INFORMATION:****A. Extract from the financial statements for the year ended 30 June 2019:**

	R
Current assets	2 600 000
Current liabilities	7 800 000
Trade and other receivables	750 000
Trade and other payables	5 800 000
Inventories	1 700 000
Cash and cash equivalents	150 000
Bank overdraft	2 000 000

**B. Extracts from the independent audit report:****Basis for audit report**

**Point 1** We were unable to obtain sufficient audit evidence to support the amounts provided for certain income and expense items ...

**Point 2** Furthermore, the repurchase of shares on 31 May 2019 is not in accordance with provisions of the Companies Act, as the liquidity of the company has been compromised ...

**Opinion**

**Point 3** Because of the significance of the matters described above, we do not express an opinion ...

**REQUIRED:**

- 1.1 Why it is important for the independent auditors to be members of a professional accounting body, in this case SAICA? Give TWO reasons. (2)
- 1.2 Why is it necessary for the published financial statements of Shivas Ltd to be audited by an 'independent' auditor? Give TWO reasons. (2)
- 1.3 **Refer to Point 3 in the audit report.**
- What type of audit report did the company receive? (1)
  - Explain why the auditors decided to present this type of report. (2)
- 1.4 **Refer to Point 1 in the audit report.**  
Give TWO examples of audit evidence that the auditors would have required regarding this problem. (2)
- 1.5 **Refer to Point 2 in the audit report.**
- Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion. (4)
  - Explain what the directors could have done to prevent this opinion by the auditors. Provide TWO points. (2)

**KEEP THIS PAGE BLANK.**

**QUESTION 2: STATEMENT OF FINANCIAL POSITION, NET PROFIT AND ASSET DISPOSAL** (65 marks; 50 minutes)

- 2.1 Choose an explanation in COLUMN B that matches the term in COLUMN A. Write only the letters (A–E) next to the question numbers (2.1.1 to 2.1.5) in the ANSWER BOOK.

COLUMN A		COLUMN B	
2.1.1	Internal auditor	A	appointed by shareholders to manage a company
2.1.2	Memorandum of incorporation (MOI)	B	the body responsible for registration of all companies
2.1.3	Limited liability	C	employed by a company to ensure good internal control procedures
2.1.4	Director	D	indicates that a company has a legal personality of its own
2.1.5	Companies and Intellectual Property Commission (CIPC)	E	the document that establishes the rules and procedures of a company

(5 x 1) (5)

2.2 **VISIV LTD**

The financial year ended on 28 February 2019.

**REQUIRED:**

2.2.1 Calculate:

- Amounts for **(i)** and **(ii)** in the Fixed Assets Register (5)
- Profit/Loss on sale of asset (2)
- Fixed assets carrying value on 28 February 2019 (4)

2.2.2 Calculate the correct net profit **after tax** for the year ended 28 February 2019. Indicate (+) for increase and (–) for decrease. (10)

2.2.3 Refer to Information A–I. Prepare the following on 28 February 2019:

- Retained Income Note (9)
- Statement of Financial Position (Balance Sheet). (30)

**NOTE:** Show workings. Certain figures are provided in the ANSWER BOOK.

**INFORMATION:****A. Fixed assets:**

A delivery vehicle was sold on 31 October 2018 but no entries were made to record this transaction.

Details of vehicle sold:

<b>Delivery Vehicle X43</b>			
<b>Date purchased:</b> 1 March 2016			
<b>Date sold:</b> 31 October 2018		<b>Sold for:</b> R195 000 (cash)	
<b>Depreciation rate:</b> 25% p.a. (diminishing-balance method)			
	<b>COST</b>	<b>DEPRECIATION</b>	<b>CARRYING VALUE</b>
28 February 2017	R400 000	R100 000	R300 000
28 February 2018		75 000	225 000
31 October 2018		(i)	(ii)

**B. List of balances/totals on 28 February 2019 (before taking into account all adjustments below):**

Ordinary share capital	R8 152 000
Retained income (1 March 2018)	865 300
Mortgage loan: Prati Bank	1 758 000
Fixed assets (carrying value)	10 190 000
Fixed deposit: Prati Bank (balancing figure)	?
Trading stock	?
Net trade debtors	1 090 000
Bank (favourable)	?
SARS: Income tax (provisional tax payments)	155 000
Creditors' control	1 906 800

**C. Net profit before tax, R822 700, was calculated **before** correcting the following:**

- Provision for bad debts must be increased by R65 000.
- R9 800 of an advertising contract applies to the next financial year.
- A tenant paid rent of R334 000 for the period 1 March 2018 to 31 March 2019. Rent was increased by R3 000 per month from 1 January 2019.
- Depreciation and profit/loss on the vehicle sold must be recorded.
- A further R43 000 is owed for income tax.

**D. Ordinary shares:**

DATE	DETAILS
1 March 2018	2 000 000 shares in issue; total book value R7 600 000
31 May 2018	360 000 shares repurchased at R4,10 each
1 October 2018	800 000 new shares issued
28 February 2019	2 440 000 shares in issue

**E. Dividends:**

- Interim dividends were paid in September 2018, R295 200.
- Final dividends of 20c per share were declared on 28 February 2019.

**F. The business sells portable generators.**

Closing stock of 128 units must be valued using the weighted average method. The business bought two batches of stock during the year.

	NUMBER OF UNITS	COST PER UNIT (INCLUDING CARRIAGE)	TOTAL COSTS PER BATCH
Opening stock	0		
Purchases:			
Batch 1 (March 2018)	300	R9 000	R2 700 000
Batch 2 (August 2018)	200	R8 000	R1 600 000

**G. A creditor with a debit balance of R7 600 must be transferred to the Debtors' Ledger.****H. A cheque for R75 000, dated 30 April 2019, was issued to a supplier in February 2019.****I. After processing all adjustments:**

- The current ratio is 0,8 : 1.
- The current liabilities totalled R2 900 000.
- The current portion of the loan is the balancing figure.

**QUESTION 3: CASH FLOW STATEMENT AND FINANCIAL INDICATORS**  
(30 marks; 20 minutes)

- 3.1 Three financial statements are provided as options in which each of the following items would appear. Choose the financial statement and write only the letter (A–C) next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK, e.g. 3.1.4 D.

A	Statement of Financial Position (Balance Sheet)
B	Statement of Comprehensive Income (Income Statement)
C	Cash Flow Statement

- 3.1.1 Profit on sale of a fixed asset
- 3.1.2 Amount due to shareholders for final dividends payable
- 3.1.3 Total amount spent on the repurchase of shares (3 x 1) (3)

3.2 **SUNSET LTD**

The financial year ended on 28 February 2019.

**REQUIRED:**

- 3.2.1 Calculate the following figures for the 2019 Cash Flow Statement:
- Income tax paid (4)
  - Dividends paid (4)
  - Proceeds of shares issued (5)
  - Fixed assets purchased (5)
- 3.2.2 Calculate financial indicators for the year ended 28 February 2019:
- % operating profit on sales (3)
  - Net asset value per share (3)
  - Debt-equity ratio (3)



**INFORMATION FOR SUNSET LTD:****A. Information from Income Statement on 28 February 2019:**

Sales	R8 725 000
Gross profit	3 525 000
Depreciation	408 000
Operating profit	2 033 900
Interest expense	441 000
Income tax	477 900
Net profit after tax	1 138 000

**B. Information from Balance Sheet on 28 February:**

	2019	2018
Fixed assets (carrying value)*	R11 835 100	R10 658 000
SARS: Income tax	18 000 Cr	63 000 Dr
Shareholders' equity	8 625 000	10 065 000
Ordinary share capital	7 724 000	9 300 000
Loan: Funza Bank	3 500 000	2 800 000
Shareholders for dividends	372 000	195 000

**\*NOTE:** Fixed assets were sold at carrying value, R490 000.

**C. Share capital and dividends:**

SHARE CAPITAL		NUMBER OF SHARES	DETAILS OF SHARES
<b>2018</b>	1 March	1 500 000	In issue at R6,20 per share
	30 April	300 000	Repurchased at R6,90 per share
<b>2019</b>	1 January	40 000	New shares issued
	28 February	1 240 000	In issue

DIVIDENDS			DIVIDENDS PER SHARE
<b>Final</b>	2 March 2018	Paid	13 cents
<b>Interim</b>	31 August 2018	Paid	35 cents
<b>Final</b>	28 February 2019	Declared	30 cents

**QUESTION 4: INTERPRETATION OF COMPANY INFORMATION****(40 marks; 40 minutes)**

You are provided with information relating to Horizon Ltd and Optima Ltd.

Mike Mbele owns shares and is a director in both these companies.

He has recently invested another R420 000 in each company by buying shares on the JSE at market value as follows:

HORIZON LTD	OPTIMA LTD
R8,40	R4,00

**REQUIRED:**

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

**4.1 Purchase of shares:**

- Explain why directors should be interested in the price of their companies' shares on the JSE. (2)
- Calculate the number of additional shares in Horizon Ltd that Mike was able to buy on the JSE in 2019. (3)
- Comment on the price that Mike paid for these additional shares in Horizon Ltd and give TWO reasons why he might have been satisfied to pay this price. (6)

**4.2 Dividends and earnings:**

- Explain your opinion on which company has the better dividend pay-out policy. (6)
- Compare and comment on the % return on equity earned by EACH company. (4)
- Mike feels that the earnings per share (EPS) of Optima Ltd is much better than that of Horizon Ltd. Explain why he feels this way. (5)

**4.3 Refer to the Cash Flow Statements.**

The poor economy has negatively affected Horizon Ltd more than Optima Ltd.

- Explain TWO decisions taken by the directors of **Horizon Ltd** in response to the state of the economy, and how these decisions will affect the company in future. (6)
- Explain TWO decisions taken by the directors of **Optima Ltd** that affect risk and gearing. Quote and comment on TWO financial indicators. (8)

**INFORMATION:****A. Shareholding of Mike Mbele in two companies:**

	<b>HORIZON LTD</b>	<b>OPTIMA LTD</b>
Number of shares bought in 2017	580 000 shares	1 430 000 shares
Total shares issued by each company	1 240 000 shares	2 600 000 shares
Additional shares bought by Mike	?	105 000 shares
Mike's % shareholding before buying additional shares	46,8%	55,0%

**B. Financial indicators and additional information on 28 February 2019:**

	<b>HORIZON LTD</b>	<b>OPTIMA LTD</b>
<b>Financial indicators:</b>		
Earnings per share (EPS)	97 cents	83 cents
Dividends per share (DPS)	65 cents	80 cents
Debt-equity ratio	0,1 : 1	0,7 : 1
% return on average equity	6,2%	18,2%
% return on average capital employed	9,4%	15,1%
Net asset value (NAV)	750 cents	445 cents
<b>Additional information:</b>		
Interest rate on loans	12,0%	12,0%
Interest on investments	6,5%	6,5%

**C. Extracts from Cash Flow Statements for the year ended 28 February 2019:**

	<b>HORIZON LTD</b>	<b>OPTIMA LTD</b>
Cash flows from <b>investing</b> activities	R2 700 000	(R2 730 000)
Purchase of fixed assets	0	(1 580 000)
Sale of fixed assets	1 800 000	0
Change in investments	900 000	(1 150 000)
Cash flows from <b>financing</b> activities	(2 670 000)	4 000 000
Proceeds of new shares issued	0	200 000
Shares repurchased	(1 070 000)	0
Cash effects of long-term loan	(1 600 000)	3 800 000

<b>GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET</b>	
$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
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)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
<b>Note:</b>	
* 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.	

STICKER

CENTRE NUMBER

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EXAMINATION NUMBER

--	--	--	--	--	--	--	--	--	--	--	--

**NATIONAL SENIOR CERTIFICATE**

**ACCOUNTING P1**

**FINANCIAL REPORTING AND EVALUATION**

**EXEMPLAR 2020**

**GRADE 12**

***SPECIAL ANSWER BOOK***

QUESTION	MARKS	INITIAL	MOD.
1			
2			
3			
4			
TOTAL			

This answer book consists of 9 pages.

**QUESTION 1**

1.1	<b>Why it is important for the independent auditors to be members of a professional accounting body, in this case SAICA? Give TWO reasons.</b>		
	Reason 1		
	Reason 2		2
1.2	<b>Why is it necessary for the published financial statements of Shivas Ltd to be audited by an 'independent' auditor? Give TWO reasons.</b>		
	Reason 1		
	Reason 2		2
1.3	<b>What type of audit report did the company receive?</b>		
	<b>Explain why the auditors decided to present this type of report.</b>		
			2
1.4	<b>Give TWO examples of audit evidence that the auditors would have required regarding this problem.</b>		
	Example 1		
	Example 2		2
1.5	<b>Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion.</b>		
	<b>Identify ONE other financial indicator:</b>		
	<b>Calculate the financial indicator:</b>		
	<b>Explain what the directors could have done to prevent this opinion by the auditors. Provide TWO points.</b>		
	Point 1		
Point 2		2	

<b>TOTAL MARKS</b>
15

**QUESTION 2**

2.1

2.1.1	
2.1.2	
2.1.3	
2.1.4	
2.1.5	

5

2.2

**VISIV LTD**

2.2.1

<b>(i) Calculate: Depreciation for the current year</b>	
<b>Workings</b>	<b>Answer</b>
<b>(ii) Calculate: Carrying value of vehicle sold</b>	
<b>Workings</b>	<b>Answer</b>
<b>Calculate: Profit/Loss on sale of asset</b>	
<b>Workings</b>	<b>Answer</b>
<b>Calculate: Fixed assets carrying value on 28 February 2019</b>	
<b>Workings</b>	<b>Answer</b>

2

3

2

4

2.2.2 Calculate the correct net profit after tax for the year ended 28 February 2019. Indicate (+) for increase and (-) for decrease.

Workings	Answer
Incorrect net profit before tax	822 700
Correct net profit after tax	

10

2.2.3 RETAINED INCOME NOTE:

Balance at beginning	865 300
Ordinary share dividends	
Balance at end	

9



<b>VISIV LTD: STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ON 28 FEBRUARY 2019</b>	
<b>ASSETS</b>	
<b>Non-current assets</b>	
<b>Fixed assets</b>	
<b>Fixed deposit</b>	
<b>Current assets</b>	
<b>Inventories</b>	
<b>Cash and cash equivalents</b>	
<b>TOTAL ASSETS</b>	
<b>EQUITY AND LIABILITIES</b>	
<b>Ordinary shareholders' equity</b>	
<b>Ordinary share capital</b>	<b>8 152 000</b>
<b>Non-current liabilities</b>	
<b>Current liabilities</b>	<b>2 900 000</b>
<b>Current portion of loan</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>	

<b>30</b>
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<b>TOTAL MARKS</b>
<b>65</b>

**QUESTION 3**

3.1

<b>3.1.1</b>	
<b>3.1.2</b>	
<b>3.1.3</b>	

<b>3</b>

3.2.1

<b>Calculate: Income tax paid</b>	
<b>Workings</b>	<b>Answer</b>
<b>Calculate: Dividends paid</b>	
<b>Workings</b>	<b>Answer</b>
<b>Calculate: Proceeds of shares issued</b>	
<b>Workings</b>	<b>Answer</b>
<b>Calculate: Fixed assets purchased</b>	
<b>Workings</b>	<b>Answer</b>

<b>4</b>

<b>4</b>

<b>5</b>

<b>5</b>

**3.2.2 Calculate financial indicators for the year ended 28 February 2019:**

<b>% operating profit on sales</b>	
<b>Workings</b>	<b>Answer</b>
	<b>3</b>
<b>Net asset value per share</b>	
<b>Workings</b>	<b>Answer</b>
	<b>3</b>
<b>Debt-equity ratio</b>	
<b>Workings</b>	<b>Answer</b>
	<b>3</b>

<b>TOTAL MARKS</b>
<b>30</b>

**QUESTION 4**

4.1

<b>Explain why directors should be interested in the price of their companies' shares on the JSE.</b>		
		2
<b>Calculate the number of additional shares in Horizon Ltd that Mike was able to buy on the JSE in 2019.</b>		
<b>Workings</b>	<b>Answer</b>	
		3
<b>Comment on the price that Mike paid for these additional shares in Horizon Ltd and give TWO reasons why he might have been satisfied to pay this price.</b>		
<b>Comment (with figures):</b>		
Reason 1:		
Reason 2:		6

4.2

<b>Explain your opinion on which company has the better dividend pay-out policy. Quote figures.</b>		
		6
<b>Compare and comment on the % return on equity earned by EACH company. Quote figures.</b>		
		4

Mike feels that the earnings per share (EPS) of Optima Ltd is much better than that of Horizon Ltd. Explain why he feels this way. Quote figures or calculations.

5

4.3

Explain TWO decisions taken by the directors of Horizon Ltd in response to the state of the economy, and how these decisions will affect the company in future.

Decision 1 (with figures):

Decision 2 (with figures):

Effect on Horizon Ltd in future:

6

Explain TWO decisions taken by the directors of Optima Ltd that affect risk and gearing. Quote and comment on TWO financial indicators.

Decision 1 (with figures):

Decision 2 (with figures):

Quote and comment on TWO financial indicators that affect risk and gearing.

8

TOTAL MARKS
40

TOTAL: 150



# basic education

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## NATIONAL SENIOR CERTIFICATE

GRADE 12

### ACCOUNTING P1 FINANCIAL REPORTING AND EVALUATION EXEMPLAR 2020 MARKING GUIDELINES

**MARKS: 150**

#### MARKING PRINCIPLES:

1. Unless otherwise indicated 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 marking guidelines 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. These marking guidelines are 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 marking guidelines.
11. In calculations, do not award marks for workings if numerator and 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 guidelines. Note that one comment could contain different aspects.
14. Codes: f = foreign item; p = placement/presentation.

**These marking guidelines consist of 9 pages.**

**QUESTION 1**

1.1	<b>Why it is important for the independent auditors to be members of a professional accounting body, in this case SAICA? Give TWO reasons.</b>										
<b>Point 1</b>	To ensure that that they are well qualified/ensure confidence in their ability ✓										
<b>Point 2</b>	To ensure that disciplinary action will be taken if they are negligent ✓		<b>2</b>								
1.2	<b>Why is it necessary for the published financial statements of Shivas Ltd to be audited by an 'independent' auditor? Give TWO reasons.</b>										
<b>Point 1</b>	An independent person would be unbiased ✓										
<b>Point 2</b>	Shareholders and other readers will feel they can rely on the information ✓		<b>2</b>								
1.3	<b>What type of audit report did the company receive?</b>										
	Disclaimer ✓		<b>1</b>								
	<b>Explain why the auditors decided to present this type of report.</b>										
	The readers of the financial statements would not be able to rely on the financial statements. ✓✓ <b>one mark for unclear/incomplete explanation</b>		<b>2</b>								
1.4	<b>Give TWO examples of audit evidence that the auditors would have required regarding this problem.</b>										
	✓ ✓ TWO valid & different examples	<table border="0"> <tr> <td>Asset registers</td> <td>Source documents, e.g. invoices</td> </tr> <tr> <td>Debtors' statements</td> <td>Creditors' statements</td> </tr> <tr> <td>Physical inspections</td> <td>Bank statements</td> </tr> <tr> <td>Contracts (signed)</td> <td>EFT voucher (proof of payment)</td> </tr> </table>	Asset registers	Source documents, e.g. invoices	Debtors' statements	Creditors' statements	Physical inspections	Bank statements	Contracts (signed)	EFT voucher (proof of payment)	<b>2</b>
Asset registers	Source documents, e.g. invoices										
Debtors' statements	Creditors' statements										
Physical inspections	Bank statements										
Contracts (signed)	EFT voucher (proof of payment)										
1.5	<b>Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion.</b>										
	Acid test ratio ✓										
	$(2\,600\,000 - 1\,700\,000) \checkmark : 7\,800\,000 \checkmark = 0,2 : 1 \checkmark$ <b>one part correct; must be x:1</b> OR: $750\,000 + 150\,000$ OR $900\,000$		<b>4</b>								
	<b>Explain what the directors could have done to prevent this opinion by the auditors. Provide TWO points.</b>										
	✓ ✓ TWO valid & different explanations	<table border="0"> <tr> <td>Renegotiate loan repayments or credit terms</td> </tr> <tr> <td>Postpone repurchase of shares (to a time when liquidity improves)</td> </tr> <tr> <td>Issue more shares to the public or existing shareholders</td> </tr> <tr> <td>Offer rights issue to shareholders (rather than pay more dividends)</td> </tr> <tr> <td>Offer higher dividends to shareholders rather than repurchasing of shares</td> </tr> <tr> <td>Reduce the dividends paid to improve liquidity</td> </tr> <tr> <td>Promote more cash sales/off-load stock</td> </tr> </table>	Renegotiate loan repayments or credit terms	Postpone repurchase of shares (to a time when liquidity improves)	Issue more shares to the public or existing shareholders	Offer rights issue to shareholders (rather than pay more dividends)	Offer higher dividends to shareholders rather than repurchasing of shares	Reduce the dividends paid to improve liquidity	Promote more cash sales/off-load stock	<b>2</b>	
Renegotiate loan repayments or credit terms											
Postpone repurchase of shares (to a time when liquidity improves)											
Issue more shares to the public or existing shareholders											
Offer rights issue to shareholders (rather than pay more dividends)											
Offer higher dividends to shareholders rather than repurchasing of shares											
Reduce the dividends paid to improve liquidity											
Promote more cash sales/off-load stock											

**TOTAL MARKS****15**

**QUESTION 2**

2.1

2.1.1	C ✓
2.1.2	E ✓
2.1.3	D ✓
2.1.4	A ✓
2.1.5	B ✓

<b>5</b>

2.2

**VISIV LTD**

2.2.1

<b>(i) Calculate: Depreciation for the current year</b>							
<b>Workings</b>	<b>Answer</b>						
$225\ 000 \times 25\% \times \frac{8}{12}$	one part correct R37 500 ✓						
<b>(ii) Calculate: Carrying value of vehicle sold</b>							
<b>Workings</b>	<b>Answer</b>						
$225\ 000 - 37\ 500$ see (i) above OR: $400\ 000 - 212\ 500$	Two marks R187 500 If wrong, mark workings Cannot get full marks if superfluous workings						
<b>Calculate: Profit/Loss on sale of asset</b>							
<b>Workings</b>	<b>Answer</b>						
$195\ 000 - 187\ 500$ see (ii) above	Two marks R7 500 If wrong, mark workings Cannot get full marks if superfluous workings						
<b>Calculate: Fixed assets carrying value on 28 February 2019</b>							
<b>Workings</b>	<b>Answer</b>						
$10\ 190\ 000 - 37\ 500 - 187\ 500$ see (i) above    see (ii) above OR: $10\ 190\ 000 - (400\ 000 - 212\ 500 + 37\ 500)$ one mark                      one method mark                      one method mark Also accept ledger account format	one part correct R9 965 000 ✓						
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: right;">10 190 000</td> <td style="width: 50%; text-align: right;">37 500</td> </tr> <tr> <td> </td> <td style="text-align: right;">187 500</td> </tr> <tr> <td> </td> <td style="text-align: right;">9 965 000</td> </tr> </table>	10 190 000	37 500		187 500		9 965 000	
10 190 000	37 500						
	187 500						
	9 965 000						

<b>2</b>

<b>3</b>

<b>2</b>

<b>4</b>



2.2.2 Calculate the correct net profit after tax for the year ended 28 February 2019. Indicate (+) for increase and (-) for decrease.

Workings	Answer
<b>Incorrect net profit before tax</b>	<b>822 700</b>
Provision for bad debts adjustment	(65 000) ✓
Advertising	9 800 ✓
Rent income [(334 000 – 9000)/13] + 3 000	(28 000) ✓✓✓*
Additional depreciation <span style="background-color: yellow;">see 2.2.1 (i)</span>	(37 500) ✓
Profit on sale of asset <span style="background-color: yellow;">see 2.2.1</span>	7 500 ✓
Income tax (155 000 + 43 000)	(198 000) ✓✓*
<b>Correct net profit after tax</b>	<b>511 500 ✓✓*</b> <span style="background-color: yellow;">*One part correct</span>

<b>10</b>
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2.2.3 **RETAINED INCOME NOTE:**

<b>Balance at beginning</b>	<b>865 300</b>
Net profit after tax <span style="background-color: yellow;">see 2.2.2</span>	511 500 ✓
Shares repurchased 360 000 ✓ x R0,30 ✓ 4,10 – 3,80 <span style="background-color: yellow;">ignore brackets</span>	(108 000) ✓
<b>Ordinary share dividends</b> <span style="background-color: yellow;">ignore brackets</span>	<b>(783 200) ✓*</b>
Interim	295 200 ✓
Final 2 440 000 x R0,20	488 000 ✓✓*
<b>Balance at end</b> <span style="background-color: yellow;">Check operation; shares repurchased and share dividends must be subtracted</span>	<b>485 600 ✓✓*</b>

<b>9</b>
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\*one part correct

<b>VISIV LTD: STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ON 28 FEBRUARY 2019</b>		
<b>ASSETS</b>		
<b>Non-current assets</b>	(TA – CA)	10 624 000 ✓
<b>Fixed assets</b>	see 4.2.1	9 965 000 ✓
<b>Fixed deposit</b>	Balancing figure 3	659 000 ✓
<b>Current assets</b>	CL x 0,8 accuracy marks	2 320 000 ✓✓
Inventories (4 300 000 ÷ 500 x 128)		1 100 800 ✓✓✓*
Trade and other receivables (1 090 000 ✓ – 65 000 ✓ + 9 800 ✓ + 7 600 ✓) Advertising		1 042 400 ✓*
<b>Cash and cash equivalents</b>	Balancing figure	176 800 ✓
<b>TOTAL ASSETS</b>	see total equity and liabilities 12	12 944 000 ✓
<b>EQUITY AND LIABILITIES</b>		
<b>Ordinary shareholders' equity</b>	Operation	8 637 600 ✓
<b>Ordinary share capital</b>		<b>8 152 000</b>
Retained income	See 4.2.3 2	485 600 ✓
<b>Non-current liabilities</b>		1 406 400
Mortgage loan (1 758 000 ✓ – 351 600 ✓) See CL below	3	1 406 400 ✓*
<b>Current liabilities</b>		<b>2 900 000</b>
Trade and other payables (1 906 800 ✓ + 28 000 ✓ + 7 600 ✓ + 75 000 ✓) Rent income see 4.2.2		2 017 400 ✓*
SARS: Income tax	may be part of T&OP	43 000 ✓✓
Shareholders for dividends	may be part of T&OP see 4.2.3	488 000 ✓
<b>Current portion of loan</b>	Balancing figure	351 600 ✓
<b>TOTAL EQUITY AND LIABILITIES</b>	10	12 944 000 ✓*

<b>30</b>
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-1 for presentation in each case (i.e. max -2)  
Foreign items -1 max -1

\* One part correct

<b>TOTAL MARKS</b>
<b>65</b>

**QUESTION 3**

3.1

3.1.1	B ✓
3.1.2	A ✓
3.1.3	C ✓

3

3.2.1

<b>Calculate: Income tax paid</b>								
<b>Workings</b>		<b>Answer</b>						
$  \begin{array}{r}  477\ 900 - 63\ 000 - 18\ 000 \\  \checkmark \quad \quad \checkmark \quad \quad \checkmark \\  - 477\ 900 + 63\ 000 + 18\ 000 \\  \text{one mark} \quad \text{one mark} \quad \text{one mark}  \end{array}  $		<input checked="" type="checkbox"/> one part correct R396 900						
		4						
<b>Calculate: Dividends paid</b>								
<b>Workings</b>		<b>Answer</b>						
$  \begin{array}{r}  195\ 000 + 420\ 000 \quad 1\ 200\ 000 \times 0,35 \\  \checkmark \quad \quad \checkmark \quad \checkmark \\  \text{OR: } 195\ 000 + 792\ 000 - 372\ 000 \\  - 195\ 000 - 792\ 000 + 372\ 000 \\  \text{one mark} \quad \text{one mark} \quad \text{one mark}  \end{array}  $		<input checked="" type="checkbox"/> one part correct R615 000						
		4						
<b>Calculate: Proceeds of shares issued</b>								
<b>Workings</b>		<b>Answer</b>						
$  \begin{array}{r}  9\ 300\ 000 - 300\ 000 \times R6,20 - 7\ 724\ 000 \\  \checkmark \quad \quad \checkmark \quad \checkmark \quad \checkmark \\  \quad \quad \quad \checkmark \quad \checkmark \quad 2 \text{ marks or } 0  \end{array}  $ <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>1 860 000</td> <td>9 300 000</td> </tr> <tr> <td>7 724 000</td> <td>284 000</td> </tr> </table>		1 860 000	9 300 000	7 724 000	284 000	<input checked="" type="checkbox"/> one part correct R284 000		
1 860 000	9 300 000							
7 724 000	284 000							
		5						
<b>Calculate: Fixed assets purchased</b>								
<b>Workings</b>		<b>Answer</b>						
$  \begin{array}{r}  10\ 658\ 000 - 490\ 000 - 408\ 000 - 11\ 835\ 100 \\  \checkmark \quad \quad \checkmark \quad \quad \checkmark \quad \quad \checkmark \\  \text{OR } 11\ 835\ 100 + 490\ 000 + 408\ 000 - 10\ 658\ 000  \end{array}  $ <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>10 658 000</td> <td>408 000</td> </tr> <tr> <td>2 075 100</td> <td>490 000</td> </tr> <tr> <td></td> <td>11 835 100</td> </tr> </table>		10 658 000	408 000	2 075 100	490 000		11 835 100	<input checked="" type="checkbox"/> one part correct R2 075 100 <input checked="" type="checkbox"/>
10 658 000	408 000							
2 075 100	490 000							
	11 835 100							
		5						

## 3.2.2 Calculate financial indicators for the year ended 28 February 2019:

% operating profit on sales		
Workings	Answer	
$\frac{2\,033\,900}{8\,725\,000} \times 100$	all correct incl. 100 or % 23,3% Accept 23%	3
Net asset value per share		
Workings	Answer	
$\frac{8\,625\,000}{1\,240\,000}$	all correct incl. R or c 695,6 cents Accept 696 cents or R6,96	3
Debt-equity ratio		
Workings	Answer	
$3\,500\,000 : 8\,625\,000$	all correct incl. x: 1 0,4 : 1	3

TOTAL MARKS
30

## QUESTION 4

4.1

**Explain why directors should be interested in the price of their companies' shares on the JSE.**

Any ONE valid comment ✓✓ **one mark for partial or incomplete answer**

Responses for 2 marks:

- It shows public confidence in the company.
- It can be compared to other companies/an external indicator.
- Shareholders will want to have capital growth on their investment.
- Directors will be judged on the performance of the shares as this reflects the performance of the company.

2

**Calculate the number of additional shares in Horizon Ltd that Mike was able to buy on the JSE in 2019.**

Workings	Answer
$R420\,000 \div R8,40$	<input checked="" type="checkbox"/> <b>one part correct</b> 50 000 shares

3

**Comment on the price that Mike paid for these additional shares in Horizon Ltd and give TWO reasons why he might have been satisfied to pay this price.**

Compare price paid to NAV ✓ Figures ✓ Reasons ✓✓ ✓✓

**HORIZON Ltd:** JSE Price exceeds NAV by 90 cents (R8,40 – R7,50)

Valid reasons for HORIZON:

- He wants to be the majority shareholder
- More influence over decisions by board of directors
- JSE price reflects public demand for the shares
- Potential for high returns in future

6

4.2

**Explain your opinion on which company has the better dividend pay-out policy. Quote figures.**

Choice of company: EITHER Horizon Ltd OR Optima Ltd ✓

Reason: EITHER retaining funds OR rewarding shareholders ✓

Figures: Horizon Ltd pays out 67% (65c of 97c earned) ✓✓ **quote two figures or %**

While Optima Ltd pays out 96% (80c of 83c earned) ✓✓ **quote two figures or %**

**Be aware of alternative ways of explanation and calculation, e.g. amount or % retained**

6

**Compare and comment on the % return on equity earned by EACH company. Quote figures.**

Horizon Ltd earns 6,2% ✓ Award two marks for the difference 12%

Optima Ltd earns 18,2% ✓

Comparison (may be implied) ✓

Compare to interest rate (6,5%) ✓

4

**Mike feels that the earnings per share (EPS) of Optima Ltd is much better than that of Horizon Ltd. Explain why he feels this way. Quote figures or calculations.**

Quote EPS of Horizon Ltd 97 cents ✓  
 Quote EPS of Optima Ltd 83 cents ✓

Compare EPS of both companies to:  
 Share value **OR** number of shares owned **OR** % ROSHE **OR** Net profit ✓

Identify figures for any ONE comparison below ✓✓

	Horizon Ltd	Optima Ltd
•	Cost of shares is high 750c or 840c (Earnings yield is 12,9% or 11,5%)	Cost of shares is low 445c or 400c (Earnings yield is 18,7% or 20,8%)
•	EPS is earned on 580 000 shares	EPS is earned on 1 430 000 shares
•	% ROSHE is 6,2%	% ROSHE is 18,2%
•	NP after tax is R1 202 800 (97c x 1 240 000 shares)	NP after tax is R2 158 000 (83c x 2 600 000 shares)

5

4.3

**Explain TWO decisions taken by the directors of Horizon Ltd in response to the state of the economy, and how these decisions will affect the company in future.**

**Decisions:** TWO valid decisions ✓ ✓ Figures ✓ ✓

- Sold fixed assets R1 800 000/No new fixed assets bought (R0)
- Investments reduced R900 000
- Loan repaid R1 600 000

**Effect on Horizon Ltd in future:**  
 Any ONE valid comment: ✓✓ one mark for partial or incomplete answer

- The infrastructure/size of the company is decreasing which will affect future profit
- The reduced infrastructure/size of the company could lead to cost savings (or increased profit)

Response for 1 mark:

- Saving on interest/less risk

6

**Explain TWO decisions taken by the directors of Optima Ltd that affect risk and gearing. Quote and comment on TWO financial indicators.**

**Decisions:** Two valid decisions ✓ ✓ Figures ✓ ✓

- Loan increased R3 800 000
- Shares issued R200 000

**Quote and comment on TWO financial indicators that affect risk and gearing.**

Quote indicators with figures: Debt-equity ratio: 0,7 : 1; ROTCE 15,1%;

Comments on: increased risk/positive gearing (ROTCE exceeds interest rate)

8

<b>TOTAL MARKS</b>
40

**TOTAL: 150**