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GRADE 12

SEPTEMBER 2020

**ACCOUNTING P1
FINANCIAL REPORTING AND EVALUATION**

MARKS: 150

TIME: 2 hours

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

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 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 the questions.
6. Where applicable, show ALL calculations to ONE decimal point.
7. A FORMULA SHEET for Financial Indicators is attached to this question paper. You may use it if necessary.
8. Write neatly and legibly.
9. A breakdown of the questions is provided. You must attempt to comply with the suggested time allocation for each question.

QUESTION	TOPIC	MARKS	TIME (MINUTES)
1	Corporate governance and audit report	15	10
2	Statement of comprehensive income	30	25
3	Statement of Financial Position and share capital note	30	25
4	Cash Flow Statement and Financial Indicators	40	35
5	Interpretation of Company Information	35	25
TOTAL:		150	120

QUESTION 1: CORPORATE GOVERNANCE AND AUDIT REPORT**(15 marks; 10 minutes)**

- 1.1 Choose an explanation in COLUMN B that matches a term in COLUMN A. Write only the letter (A–D) next to the question numbers (1.1.1–1.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.1.1 King Code	A Impact of business activities on the profit, as well as the effect on the environment and social issues
1.1.2 Triple-Bottom Line	B Explains the performance of the company and the major decisions that were taken
1.1.3 Directors' Report	C Review and monitor the fee policies to ensure that they are fair
1.1.4 Remunerations Committee	D This sets out the ethical and effective leadership expected of companies

(4 x 1) (4)

1.2 **AUDIT REPORT**

An extract of the Audit Report of More Limited is provided.

REQUIRED:

- 1.2.1 Where, why and when is this audit report expected to be presented? (3)
- 1.2.2 Provide TWO points why the independent auditors make reference to pages 12–30 of the Annual Report. (4)
- 1.2.3 Explain TWO points on the impact of this report on the company. (4)

INFORMATION:**Extracts from the Audit Report:****To shareholders:**

We have audited the financial statements set out on pages 12–30.

Opinion:

We have not been able to obtain sufficient audit evidence on significant matters identified and described in the paragraph "basis for opinion"; as such we are unable to express an opinion on the reliability of the financial statements.

QUESTION 2: STATEMENT OF COMPREHENSIVE INCOME**(30 marks; 25 minutes)**

The following information relates to City Traders Ltd for the financial year ended on 30 June 2020.

REQUIRED:

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

(30)**INFORMATION:****A Extract from the Pre-adjustment trial balance on 30 June 2020.**

Sales	6 720 000
Rent income	153 120
Directors fees	?
Salaries and Wages	812 000
Employer's contribution	22 080
Advertising	11 650
Audit fees	120 000
Depreciation	340 000
Sundry expenses	432 110

- B The Rent income for July 2020 has already been received. Note that the monthly rent was decreased by 8% p.a. effective from 1 May 2020.
- C The company has three directors. Two of the directors receive an annual fee of R192 000 each. The third director receives 10% less than the other directors. All three directors received the full amount for the year and the bookkeeper recorded this amount in the salaries and wages account, in error. The third director however, decided to resign and this was approved on 30 May 2020. He promised to return the fees that he received for the period that he would not be serving the company.
- D One employee was omitted from the Salaries journal for June 2020 while she was on maternity leave. Her salary is as follows:

Deductions		Employer's Contribution	Net Salary
PAYE	Medical Aid	Medical Aid	
2 050	970	1 920	6 700

- E Advertising excludes an amount of R7 500 paid for the period 1 May to 30 September 2020. A fixed rate is applied monthly.
- F Interest on investment was received and recorded. This is the balancing figure.
- G Loan Statement received, shows interest of R36 000, capitalised.
- H Income Tax amounted to R272 700. This is 30% of the net profit.

KEEP THIS PAGE BLANK.

QUESTION 3: STATEMENT OF FINANCIAL POSITION AND SHARE CAPITAL NOTE
(30 marks; 25 minutes)

BABI LTD

The information provided is for the year ended on 31 August 2020.

REQUIRED:

- 3.1 Complete the Ordinary Share Capital Note. (9)
- 3.2 Complete the Statement of Financial Position (Balance Sheet) on 31 August 2020. (21)

INFORMATION:

A. The following were extracted from the records on 31 August 2020.

Fixed Asset (carrying value)	R8 121 090
Fixed Deposit: Zako Bank	830 200
Inventory (refer Information C)	?
Trade and other receivables (balancing figure)	?
Bank (favourable)	864 800
Cash float	3 000
SARS Income tax (Provisional tax)	560 000
Ordinary Share Capital	?
Retained Income	14 960
Loan: Tambo Bank	?
Trade and other payables	463 840

B. Share capital and dividends:

- Authorised shares consist of 3 000 000 shares.
- On 1 September 2019, there were 1 800 000 shares in issue.
- On 1 July 2020, the company repurchased 120 000 shares at R7,20 each, which was 20% above the average share price. These shares do not qualify for final dividends.
- 20% of unissued shares on 1 September 2019 were issued at R6,60 per share on 25 August 2020.
- A final dividend of 22 cents per share was declared on 31 August 2020.

C. Inventory:

The business sells satellite decoders.

Closing stock of 1 260 units must be valued using the first-in-first-out method. Two batches of stock were purchased during the year. There were no missing items.

	NUMBER OF UNITS	COST PRICE PER UNIT	TOTAL COSTS R
Opening stock	1 500	R1 600	2 400 000
Purchases:			
Batch 1 (Nov. 2019)	1 800	R1 750	3 150 000
Batch 2 (June 2020)	1 200	R1 950	2 340 000

D. Loan Statement from Tambo Bank

Balance 1 September 2019	1 840 000
Capitalised interest for the year	130 800
Annual Repayment (including interest)	307 200

The capital portion for the repayment of the loan in the next financial year remains the same as the current financial year.

E. Amount owed to SARS on 31 August 2020 is a balancing figure.**30**

QUESTION 4: CASH FLOW STATEMENT, FINANCIAL INDICATORS**(40 marks, 35 minutes)****4.1 CONCEPTS**

Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next the question numbers (4.1.1–4.1.3) in the ANSWER BOOK.

- 4.1.1 % operating expenses on sales is a financial indicator for control over sales.
- 4.1.2 Operating activities refer to all activities in a business that relates to running and administering the business in earning a profit.
- 4.1.3 Shareholders for dividends refers to dividends paid to shareholders of the company at the end of a financial year. (3)

4.2 WILD COST LTD

The information provided is for the year ended on 29 February 2020.

REQUIRED:

- 4.2.1 Complete the note for CASH GENERATED FROM OPERATIONS. (9)
- 4.2.2 Prepare the CASH EFFECTS OF FINANCING ACTIVITIES section of the Cash Flow Statement. (7)
- 4.2.3 Calculate the following amounts for the Cash Flow Statement:
- Income tax paid (4)
 - Dividends paid (7)
 - Proceeds on fixed assets sold (4)
- 4.2.4 Calculate the following financial indicators on 29 February 2020:
- % Return on average Shareholders' Equity (4)
 - Net asset value per share (2)

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

Cost of sales	R5 468 750
Depreciation	390 000
Interest expense	452 000
Income tax	420 000
Net profit after tax	980 000

B. Extract from Balance Sheet on 29 February 2020.

	2020	2019
Fixed assets	12 750 000	13 995 000
Trade and other receivables (Note 1)	305 800	401 500
Shareholders' equity	11 161 200	13 168 000
Retained income	1 700 700	1 239 200
Ordinary share capital	9 460 500	11 925 000
Loan: J.J. Bank	3 850 000	3 080 000
Trade and other payables (Note 2)	640 800	1 173 000

Note 1:

Trade and other receivables	2020	2019
Debtors control	292 400	332 200
SARS (Income tax)	-	69 300
Accrued income	13 400	-
	305 800	401 500

Note 2:

Trade and other payables	2020	2019
Creditors control	621 000	963 000
SARS (Income tax)	19 800	
Shareholders for dividends	?	210 000
	640 800	1 173 000

D. Fixed assets:

Fixed assets were sold at carrying value.

There were no additional fixed assets purchased.

E. Share capital and dividends:

- Authorised share capital: 2 500 000 ordinary shares.
- 1 March 2019: 60% of the shares were in issue.
- 1 June 2019: R397 500 were received for 50 000 additional shares issued.
- 30 August 2019: 360 000 shares were repurchased at R162 000 above the average share price of R7,95.
- Interim dividends were paid during the year.
- On 29 February 2020 a final dividend of R130 900 was declared on 1 190 000 shares.

QUESTION 5: INTERPRETATION OF COMPANY INFORMATION**(35 marks; 25 minutes)**

You are presented with financial information of two companies operating in the same industry and of similar size, for the year ended 29 February 2020.

REQUIRED:

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

- 5.1 Compare the liquidity position of both companies and comment on the company that is managing the short term assets more effectively. (6)
- 5.2 Compare the dividend pay-out policy of each company. (4)
Provide TWO possible reasons why one company decided to change their policy. (4)
- 5.3 Lock Ltd decided to increase their loans during the current financial year, whilst Down Ltd decided to maintain their existing loans. Comment on the decisions of both companies. Make reference to the degree of risk and gearing. (8)
- 5.4 A shareholder of Down Ltd is concerned about the drop in the market price of the shares. Explain why he feels this way. Provide TWO points. (4)
- 5.5 M. Mtolo owns 576 000 shares in Down Ltd, which represents 48% of the total issued shares. He wants to purchase another 25 000 shares.
- 5.5.1 Do a calculation to show how this would change his % shareholding in the company. (5)
- 5.5.2 Provide TWO reasons why you think he is specifically interested in increasing his shareholding in Down Ltd. (4)

INFORMATION:

	LOCK LTD		DOWN LTD	
	2020	2019	2020	2019
Current ratio	1,9 : 1	2,1 : 1	3,6 : 1	2,8 : 1
Asset test ratio	1,3 : 1	1,4 : 1	1,5 : 1	1,5 : 1
Dividends per share	45 cents	65 cents	60 cents	62 cents
Earnings per share	86 cents	80 cents	70 cents	72 cents
% return on average equity	13%	11%	11,6%	12%
% return on average capital employed	15%	12%	11,7%	13%
Debt/equity ratio	0,6 : 1	0,3 : 1	0,4 : 1	0,4 : 1
Net asset value per share	642 cents	630 cents	610 cents	618 cents
Market price per share	645 cents	622 cents	582 cents	615 cents
Interest rate on loans	13%		13%	

35**TOTAL: 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	Non-current liabilities : Shareholders' equity
(Trade and other receivables + Cash and 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)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
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.	