



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

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	Why it is important for the independent auditors to be members of a professional accounting body, in this case SAICA? Give TWO reasons.										
	Point 1	To ensure that that they are well qualified/ensure confidence in their ability ✓									
	Point 2	To ensure that disciplinary action will be taken if they are negligent ✓	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.										
	Point 1	An independent person would be unbiased ✓									
	Point 2	Shareholders and other readers will feel they can rely on the information ✓	2								
1.3	What type of audit report did the company receive?										
	Disclaimer ✓		1								
	Explain why the auditors decided to present this type of report.										
	The readers of the financial statements would not be able to rely on the financial statements. ✓✓ one mark for unclear/incomplete explanation		2								
1.4	Give TWO examples of audit evidence that the auditors would have required regarding this problem.										
	✓ ✓ 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)	2
Asset registers	Source documents, e.g. invoices										
Debtors' statements	Creditors' statements										
Physical inspections	Bank statements										
Contracts (signed)	EFT voucher (proof of payment)										
1.5	Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion.										
	Acid test ratio ✓										
	$(2\,600\,000 - 1\,700\,000) \checkmark : 7\,800\,000 \checkmark = 0,2 : 1 \checkmark$ one part correct; must be x:1 OR: $750\,000 + 150\,000$ OR $900\,000$		4								
	Explain what the directors could have done to prevent this opinion by the auditors. Provide TWO points.										
	✓ ✓ 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	2	
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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 ✓

5

2.2 VISIV LTD

2.2.1

(i) Calculate: Depreciation for the current year							
Workings	Answer						
$\checkmark \quad (\quad \checkmark \quad)$ $225\,000 \times 25\% \times 8/12$	<p>one part correct</p> <p>R37 500 ✓</p>						
2							
(ii) Calculate: Carrying value of vehicle sold							
Workings	Answer						
$\checkmark \quad \checkmark$ $225\,000 - 37\,500 \text{ see (i) above}$ $100\,000 + 75\,000 + 37\,500$ <p>OR: $400\,000 - 212\,500$</p>	<p>Two marks</p> <p>R187 500</p> <p>If wrong, mark workings Cannot get full marks if superfluous workings</p>						
3							
Calculate: Profit/Loss on sale of asset							
Workings	Answer						
$\checkmark \quad \checkmark$ $195\,000 - 187\,500 \text{ see (ii) above}$	<p>Two marks</p> <p>R7 500</p> <p>If wrong, mark workings Cannot get full marks if superfluous workings</p>						
2							
Calculate: Fixed assets carrying value on 28 February 2019							
Workings	Answer						
$\checkmark \quad \checkmark \text{ see (i) above} \quad \checkmark \text{ see (ii) above}$ $10\,190\,000 - 37\,500 - 187\,500$ <p style="text-align: center;">225 000 two method marks</p> <p>OR: $10\,190\,000 - (400\,000 - 212\,500 + 37\,500)$</p> <p style="text-align: center;">one mark one method mark one method mark</p> <p>Also accept ledger account format</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="width: 50px;">10 190 000</td> <td style="width: 50px;">37 500</td> </tr> <tr> <td></td> <td>187 500</td> </tr> <tr> <td></td> <td>9 965 000</td> </tr> </table>	10 190 000	37 500		187 500		9 965 000	<p>one part correct</p> <p>R9 965 000 ✓</p>
10 190 000	37 500						
	187 500						
	9 965 000						
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
Provision for bad debts adjustment	(65 000) ✓
Advertising	9 800 ✓
Rent income $[(334\ 000 - 9\ 000)/13] + 3\ 000$	(28 000) ✓✓✓*
Additional depreciation see 2.2.1 (i)	(37 500) ✓
Profit on sale of asset see 2.2.1	7 500 ✓
Income tax (155 000 + 43 000)	(198 000) ✓✓*
Correct net profit after tax	511 500 ✓✓* *One part correct

10

2.2.3 **RETAINED INCOME NOTE:**

Balance at beginning	865 300
Net profit after tax see 2.2.2	511 500 ✓
Shares repurchased $360\ 000 \times R0,30$ <small>4,10 – 3,80</small> ignore brackets	(108 000) ✓
Ordinary share dividends ignore brackets	(783 200) ✓*
Interim	295 200 ✓
Final $2\ 440\ 000 \times R0,20$	488 000 ✓✓*
Balance at end Check operation; shares repurchased and share dividends must be subtracted	485 600 ✓✓*

9

*one part correct

VISIV LTD: STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ON 28 FEBRUARY 2019		
ASSETS		
Non-current assets	(TA – CA)	10 624 000 ✓
Fixed assets	see 4.2.1	9 965 000 ✓
Fixed deposit	Balancing figure 3	659 000 ✓
Current assets	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 ✓*
Cash and cash equivalents	Balancing figure	176 800 ✓
TOTAL ASSETS	see total equity and liabilities 12	12 944 000 ✓
EQUITY AND LIABILITIES		
Ordinary shareholders' equity	Operation	8 637 600 ✓
Ordinary share capital		8 152 000
Retained income	See 4.2.3 2	485 600 ✓
Non-current liabilities		1 406 400
Mortgage loan (1 758 000 ✓ – 351 600 ✓) See CL below	3	1 406 400 ✓*
Current liabilities		2 900 000
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 ✓
Current portion of loan	Balancing figure	351 600 ✓
TOTAL EQUITY AND LIABILITIES	10	12 944 000 ✓*

30

-1 for presentation in each case (i.e. max -2)
Foreign items -1 max -1

* One part correct

TOTAL MARKS
65

QUESTION 3

3.1	3.1.1	B ✓
	3.1.2	A ✓
	3.1.3	C ✓

3

3.2.1	Calculate: Income tax paid							
	Workings	Answer						
	$ \begin{array}{r} 477\,900 \quad - \quad 63\,000 \quad - \quad 18\,000 \\ \checkmark \qquad \qquad \checkmark \qquad \qquad \checkmark \\ - \quad 477\,900 \quad + \quad 63\,000 \quad + \quad 18\,000 \\ \text{one mark} \quad \text{one mark} \quad \text{one mark} \end{array} $ mark one line/accept brackets	<input checked="" type="checkbox"/> one part correct R396 900						
		4						
	Calculate: Dividends paid							
	Workings	Answer						
	$ \begin{array}{r} 195\,000 \quad + \quad 420\,000 \quad 1\,200\,000 \times 0,35 \\ \checkmark \qquad \qquad \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} $ mark one line/accept brackets	<input checked="" type="checkbox"/> one part correct R615 000						
		4						
	Calculate: Proceeds of shares issued							
	Workings	Answer						
	$ \begin{array}{r} 9\,300\,000 \quad - \quad 300\,000 \times R6,20 \quad - \quad 7\,724\,000 \\ \checkmark \qquad \qquad \checkmark \quad \checkmark \quad \checkmark \\ \checkmark \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						
	Calculate: Fixed assets purchased							
	Workings	Answer						
	$ \begin{array}{r} 10\,658\,000 \quad - \quad 490\,000 \quad - \quad 408\,000 \quad - \quad 11\,835\,100 \\ \checkmark \qquad \qquad \checkmark \qquad \qquad \checkmark \qquad \qquad \checkmark \\ \text{OR } 11\,835\,100 + 490\,000 + 408\,000 - 10\,658\,000 \end{array} $ Choose one line only	<input checked="" type="checkbox"/> one part correct R2 075 100 ✓						
	<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	
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	
$\frac{2\,033\,900}{8\,725\,000} \times 100$	23,3% Accept 23%	3
✓ x 100	all correct incl. 100 or %	
8 725 000 ✓		
Net asset value per share		
Workings	Answer	
$\frac{8\,625\,000}{1\,240\,000} \times 100$	695,6 cents Accept 696 cents or R6,96	3
8 625 000 ✓ x 100	all correct incl. R or c	
1 240 000 ✓		
Debt-equity ratio		
Workings	Answer	
$3\,500\,000 : 8\,625\,000$	0,4 : 1	3
✓ ✓	all correct incl. x: 1	

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"/> one part correct 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

TOTAL MARKS
40

TOTAL: 150