
basic education

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

# NATIONAL SENIOR CERTIFICATE

## GRADE 12


## ACCOUNTING P1

## NOVEMBER 2021



**MARKS: 150**

**TIME: 2 hours**

**This question paper consists of 10 pages, a formula sheet and a 10-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.

| QUESTION | TOPIC | MARKS | MINUTES |
|---|---|---|---|
| **1** | Statement of Financial Position | 55 | 45 |
| **2** | Share Capital, Financial Indicators and Cash Flow Statement | 35 | 25 |
| **3** | Interpretation of Company Financial Information | 40 | 30 |
| **4** | Corporate Governance | 20 | 20 |
| **TOTAL** | | **150** | **120** |

## QUESTION 1: STATEMENT OF FINANCIAL POSITION (55 marks; 45 minutes)

**JIMO LIMITED**

The information relates to the financial year ended 30 June 2021. The business sells formal clothing for men and women.

**REQUIRED:**

1.1 **Refer to Information B.**

Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021. (5)

1.2 **Refer to Information C.**

Use the table provided to calculate the correct **net profit after tax** for the year ended 30 June 2021. Indicate '+' for increase and '-' for decrease. (12)

1.3 **Refer to Information A–H.**

Complete the following on 30 June 2021:

- Retained Income Note (5)
- Statement of Financial Position (Balance Sheet) (33)

**NOTE:**

- Adjustments from Information C also affect the Statement of Financial Position (Balance Sheet).
- Show workings. Certain figures are provided in the ANSWER BOOK.
- Figures are NOT required in the shaded areas.


**INFORMATION:**

**A. List of balances, before taking into account all adjustments below:**

| | 30 June 2021 (R) | 30 June 2020 (R) |
|---|---|---|
| Ordinary share capital | ? | ? |
| Retained income | 3 240 000 | |
| Mortgage loan: Best Bank | 3 755 000 | 4 175 000 |
| Trading stock | 4 198 500 | |
| SARS: Income tax (provisional tax) | 1 200 000 | |
| Net trade debtors | 3 668 810 | |
| Bank overdraft | ? | |
| Petty cash and cash float | ? | |
| Creditors' control | 1 253 000 | |
| Accrued income/Income receivable | 8 000 | |
| Shareholders for dividends | 1 170 000 | 821 700 |

**B.** The accountant omitted the closing stock figure of formal suits in the trading stock balance provided in Information A.

**NOTE:**

- The first-in-first-out (FIFO) method is used to value the stock of the formal suits.
- All other relevant entries have been recorded correctly.

The information relating to the stock of formal suits is as follows:

| **Balances:** | **QUANTITY** | **UNIT PRICE** | **TOTAL VALUE** |
|---|---|---|---|
| 1 July 2020 | 110 | R1 900 | R209 000 |
| 30 June 2021 | 240 | ? | ? |
| **Purchases:** | **760** | | **R1 943 500** |
| 14 Nov. 2020 | 360 | R2 350 | R846 000 |
| 10 Feb. 2021 | 170 | R2 600 | R442 000 |
| 18 May 2021 | 230 | R2 850 | R655 500 |
| **Returns:** | | | |
| 25 May 2021 | 24 | R2 850 | R68 400 |

**C.** The net profit before tax, R4 918 950, was calculated before taking into account/ correcting the following:

(i) Audit fees include R123 600 which was paid in advance for the next financial year.

(ii) The repayments on the loan are fixed at R35 000 per month (including capitalised interest).

The balances as per loan statement were:

- 1 July 2020, R4 175 000
- 30 June 2021, R4 028 000

Provide for interest on loan.

(iii) Rent income:

Rent of R74 000 was received from a tenant for the period 1 July 2020 to 31 August 2021. This has been recorded. This amount takes into account a reduction of R750 per month from 1 May 2021. The year-end adjustment has not yet been made.

(iv) After taking into account the corrections above, it was determined that an additional R85 250 is still owed to SARS in respect of income tax for the year.

**D.** Shares and dividends:

- 26 000 shares were repurchased on 1 July 2020 at R3,00 above the average share price.
- The business did not pay interim dividends during the 2021 financial year.
- A final dividend of 65 cents per share was declared on 30 June 2021.
- 1 800 000 shares were in issue on 30 June 2021.

**E.** Debtors with credit balances totaling R11 000 must be transferred to the Creditors' Ledger.

**F.** On 30 June 2021, Jimo Ltd returned 10 ladies' coats to the supplier, Bargain Wholesalers. The selling price was R1 750 each. The mark-up was 25% on cost. No entry has been made.

**G.** A fixed monthly instalment of R35 000 (to cover loan repayments and interest) has to be paid over the full period of the loan. Interest will decline over the life of the loan. The interest on the loan budgeted for the next financial year is R234 000.

**H.** The following financial indicators were calculated on 30 June 2021:

| | |
|---|---|
| Acid-test ratio | 1,2 : 1 |
| Net asset value per share (NAV) | 540 cents |

**55**

**QUESTION 2: SHARE CAPITAL, FINANCIAL INDICATORS AND CASH FLOW STATEMENT (35 marks; 25 minutes)**

The information relates to Brewer Ltd for the financial year ended 28 February 2021.

**REQUIRED:**

2.1 Prepare the Ordinary Share Capital Note on 28 February 2021. (6)

2.2 Calculate the following financial indicators on 28 February 2021:

- % operating expenses on sales (2)
- Dividend per share (4)
- % return on average shareholders' equity (5)

2.3 Complete the Cash Flow Statement for the year ended 28 February 2021. Certain figures are provided in the ANSWER BOOK. (18)

**INFORMATION:**

**A. Shares and dividends:**

| DATE | DETAILS OF SHARES |
|---|---|
| 1 March 2020 | 800 000 in issue |
| 30 June 2020 | 100 000 new shares issued |
| 1 January 2021 | 30 000 shares repurchased at R1,20 more than the average share price |
| 28 February 2021 | **?** shares in issue |

- Interim dividend of R162 000 was paid on 30 September 2020.
- A final dividend of 22 cents per share was declared on 28 February 2021.

**B. Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2021:**

| | |
|---|---|
| Sales | R7 293 000 |
| Cost of sales | 4 862 000 |
| Operating expenses | 1 458 600 |
| Net profit before tax | 1 350 000 |
| Net profit after tax | 985 500 |

**C. Extract from the Statement of Financial Position (Balance Sheet) on:**

| | **28 Feb. 2021 R** | **29 Feb. 2020 R** |
|---|---|---|
| Petty cash and cash float | **?** | 20 000 |
| **Ordinary shareholders' equity** | **8 038 100** | **6 450 000** |
| Ordinary share capital | 7 395 000 | 6 400 000 |
| Retained income | 643 100 | 50 000 |
| Loan: Sharks Bank | 1 650 000 | 2 200 000 |
| SARS: Income tax | 29 100 **Dr** | 35 900 **Cr** |
| Shareholders for dividends | 191 400 | 115 300 |
| Bank overdraft | 0 | 95 200 |

**35**

## QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION

**(40 marks; 30 minutes)**

3.1 Choose a category of indicators from COLUMN B that matches the description in COLUMN A. Write only the letter (A–D) next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

| COLUMN A | | COLUMN B | |
|---|---|---|---|
| 3.1.1 | The benefit that shareholders receive for investing in a company | A | liquidity |
| 3.1.2 | The ability of a business to pay off its short-term debts | B | gearing |
| 3.1.3 | The extent to which a company is financed on borrowed capital (loans) | C | solvency |
| 3.1.4 | The ability of a business to settle all its debts using existing assets | D | return on equity |

(4 x 1) (4)

3.2 **FLEXI LTD AND BROOM LTD**

The information relates to two companies.

**BACKGROUND INFORMATION:**

- Both companies operate in the fashion clothing industry. The financial year ends on the last day of February each year.
- Bob Yates owns shares in both companies. On 1 November 2020, he convinced the board of directors of Flexi Ltd to repurchase 150 000 of his shares. He used the money received to purchase additional shares in Broom Ltd.

**NOTE:** Where comments or explanations are required, quote financial indicators, figures and trends to support your answer.

**REQUIRED:**

3.2.1 **Profitability:**

Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently, and is thereby more profitable. (4)

3.2.2 **Dividends, earnings and returns:**

- Comment on the dividend pay-out policy of **Flexi Ltd**. Explain why this is an irresponsible change in policy. Provide TWO points. (4)
- Comment on the % return on shareholders' equity of EACH company. (4)
- A shareholder feels that earnings per share (EPS) in **Broom Ltd** are better than that in **Flexi Ltd**. Explain why you agree with him. (4)

3.2.3 **Shareholding of Bob Yates in both companies:**

- Comment on the price paid for the shares repurchased by **Flexi Ltd**. Provide TWO points. (4)
- Calculate the number of shares that Bob purchased in **Broom Ltd** with the money he received from the share buyback at **Flexi Ltd**. (2)
- Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. (4)

3.2.4 **Financing strategies and gearing:**

The directors of each company have taken deliberate decisions that are reflected in their Cash Flow Statements.

- Explain the decisions taken by the directors of **Broom Ltd** and how these will benefit the company. (4)
- Explain how the decisions taken by **Flexi Ltd** affected the risk and gearing of the business. Quote TWO financial indicators. (6)

**INFORMATION:**

**A. Extracts from the accounting records at the end of each year:**

| | FLEXI LTD | | BROOM LTD | |
|---|---|---|---|---|
| | **Feb. 2021** | **Feb. 2020** | **Feb. 2021** | **Feb. 2020** |
| Number of shares in issue | 700 000 | 850 000 | 1 500 000 | 1 100 000 |
| Funds used to repurchase shares | R1 980 000 | | | |
| Repurchase price | R13,20 | | | |
| Increase in share capital | 0 | | R2 640 000 | |
| Issue price of additional shares | | | R6,60 | |
| Fixed assets purchased | R1 000 000 | | R2 200 000 | |
| Increase (decrease) in loan | R4 500 000 | | (R400 000) | |

**B. Financial indicators, interest rate and market price of shares:**

| | FLEXI LTD | | BROOM LTD | |
|---|---|---|---|---|
| | **Feb. 2021** | **Feb. 2020** | **Feb. 2021** | **Feb. 2020** |
| % operating expenses on sales | 17,5% | 14,6% | 13,6% | 17,0% |
| % operating profit on sales | 18,2% | 21,9% | 24,2% | 20,5% |
| % net profit on sales | 13,8% | 18,0% | 19,6% | 16,0% |
| Debt-equity ratio | 1,1 : 1 | 0,4 : 1 | 0,2 : 1 | 0,4 : 1 |
| % return on capital employed | 10,2% | 16,1% | 17,2% | 14,7% |
| % return on shareholders' equity | 7,6% | 12,2% | 14,1% | 10,7% |
| Net asset value per share | 1 081 cents | 1 128 cents | 632 cents | 609 cents |
| Market price of shares | 990 cents | 1 130 cents | 660 cents | 615 cents |
| Interest rate on loans | 13% | 13% | 13% | 13% |
| Earnings per share | 80 cents | 138 cents | 72 cents | 65 cents |
| Dividends per share | 92 cents | 82 cents | 48 cents | 70 cents |
| Dividend pay-out rate | 115% | 59% | 67% | 108% |

**C. Shareholding of Bob Yates in both companies**

| | FLEXI LTD | | BROOM LTD | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Shares in each company | 283 500 | 433 500 | **?** | 460 000 |
| % shareholding in each company | **?** | 51,0% | **?** | 41,8% |

**40**

**QUESTION 4: CORPORATE GOVERNANCE (20 marks; 20 minutes)**

4.1 Explain why a disclaimer audit report would be bad for a company's reputation. Provide TWO points. (4)

4.2 One of the most important decisions that shareholders have to make at the annual general meeting (AGM) is to appoint directors to serve on the board.


- Explain why the shareholders have been given this responsibility. (2)
- If you were a shareholder, what factors or characteristics would you want to find out about the directors who would get your vote? Explain TWO points and give a reason for EACH. (6)

4.3 A recent news report stated that a major company, Baxco Ltd, had been awarded a tender to supply equipment worth R20 m to a chain of private hospitals. The report accuses the CFO (chief financial officer) of that company of paying R2 m in cash to the CEO of the hospital group.

As a shareholder, explain what you would say at the AGM. Provide TWO points. (4)

4.4 A major South African company has stated the following on its website and in its Directors' Report.

| |
|---|
| *We have set up ways for employees and external stakeholders to report unethical conduct and incidents of individuals not complying with the company's ethical policies.*<br><br>*We have set up a tip-off phone line (call centre) controlled by an independent service provider.*<br><br>*All information will be treated confidentially. Whistle-blowers (informants) who submit genuine information will be protected and will remain anonymous.* |

In your opinion, explain why this major company found it necessary to implement this policy. Provide TWO points. (4)

**20**

**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 & 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.

STICKER

CENTRE NUMBER

EXAMINATION NUMBER

# NATIONAL SENIOR CERTIFICATE

# ACCOUNTING P1

# GRADE 12

# NOVEMBER 2021

## *SPECIAL ANSWER BOOK*

| QUESTION | MARKS | INITIAL | MOD. |
|---|---|---|---|
| 1 | | | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| TOTAL | | | |

**This answer book consists of 10 pages.**

## QUESTION 1

1.1

| Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021. | |
|---|---|
| **WORKINGS** | **ANSWER** |
| | |

| |
|---|
| |
| 5 |

1.2 **Calculate the correct net profit after tax for the year ended 30 June 2021. Indicate '+' for increase and '–' for decrease.**

| NO. | WORKINGS | AMOUNT |
|---|---|---|
| Incorrect net profit before tax | | 4 918 950 |
| (i) | Audit fees | |
| (ii) | Interest on loan | |
| (iii) | Rent income | |
| (vi) | Income tax | |
| Net profit after tax | | |

| |
|---|
| |
| 12 |

1.3 **Retained Income Note on 30 June 2021**

| | |
|---|---|
| Balance at beginning | |
| | |
| | |
| | |
| | |
| Balance at end | 3 240 000 |

| |
|---|
| |
| 5 |

**JIMO LTD**

**STATEMENT OF FINANCIAL POSITION ON 30 JUNE 2021**

Figures are NOT required in shaded areas.

| | |
|---|---|
| **ASSETS** | |
| **NON-CURRENT ASSETS** | |
| **Fixed assets** | |
| **Financial assets** | |
| **CURRENT ASSETS** | **8 700 000** |
| | |
| | |
| | |
| **TOTAL ASSETS** | |
| | |
| **EQUITY AND LIABILITIES** | |
| **SHAREHOLDERS' EQUITY** | |
| | |
| **Retained income** | **3 240 000** |
| **NON-CURRENT LIABILITIES** | |
| | |
| **CURRENT LIABILITIES** | |
| | |
| | |
| | |
| | |
| **Bank overdraft** | |
| **TOTAL EQUITY AND LIABILITIES** | |

| |
|---|
| |
| **33** |

| **TOTAL MARKS** |
|---|
| |
| **55** |

## QUESTION 2

### 2.1 Ordinary Share Capital Note on 28 February 2021

| | | |
|---|---|---|
| 800 000 | Ordinary shares at the beginning | |
| 100 000 | New shares issued | |
| | | |
| | Shares at the end of the year | 7 395 000 |

6

### 2.2 Calculate the following financial indicators on 28 February 2021:

| % operating expenses on sales | |
|---|---|
| WORKINGS | ANSWER |
| | |

2

| Dividend per share | |
|---|---|
| WORKINGS | ANSWER |
| | |

4

| % return on average shareholders' equity | |
|---|---|
| WORKINGS | ANSWER |
| | |

5

## 2.3 CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2021

Figures are NOT required in shaded areas.

| | |
|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | **1 180 000** |
| **Cash generated from operations** | |
| **Interest paid** | |
| | |
| | |
| | |
| **CASH FLOW FROM INVESTING ACTIVITIES** | **(1 320 000)** |
| | |
| **CASH FLOW FROM FINANCING ACTIVITIES** | |
| | |
| | |
| | |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | |
| **CASH AND CASH EQUIVALENTS AT BEGINNING** | |
| **CASH AND CASH EQUIVALENTS AT END** | |

| |
|---|
| |
| **18** |

| **TOTAL MARKS** |
|---|
| |
| **35** |

## QUESTION 3

**3.1**

| | |
|---|---|
| **3.1.1** | |
| **3.1.2** | |
| **3.1.3** | |
| **3.1.4** | |


| |
|---|
| **4** |

**3.2 FLEXI LTD AND BROOM LTD**

**3.2.1 Profitability:**

**Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently, and is thereby more profitable. Quote figures and trends.**

| |
|---|
| **4** |

**3.2.2 Dividends, earnings and returns:**

**Comment on the dividend pay-out policy of Flexi Ltd. Explain why this is an irresponsible change in policy. Provide TWO points. Quote figures and trends.**

| |
|---|
| **4** |

**Comment on the % return on shareholders' equity of EACH company. Quote figures and trends.**

| |
|---|
| **4** |

 

**A shareholder feels that earnings per share (EPS) in Broom Ltd are better than that in Flexi Ltd. Explain why you agree with him. Quote figures or calculations.**

| | |
|---|---|
| | 4 |

**3.2.3 Shareholding of Bob Yates in both companies:**

**Comment on the price paid for the shares repurchased by Flexi Ltd. Provide TWO points. Quote figures.**

| | |
|---|---|
| | 4 |

**Calculate the number of shares that Bob purchased in Broom Ltd with the money he received from the share buyback at Flexi Ltd.**

| WORKINGS | ANSWER |
|---|---|
| | |

| | |
|---|---|
| | 2 |

| **Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. Quote figures and trends.** | |
|---|---|
| | **4** |

**3.2.4 Financing strategies and gearing:**

| **Explain the decisions taken by the directors of Broom Ltd and how these will benefit the company. Quote figures.** | |
|---|---|
| | **4** |
| **Explain how the decisions taken by Flexi Ltd affected the risk and gearing of the business. Quote TWO financial indicators.** | |
| | **6** |

| **TOTAL MARKS** |
|---|
| |
| **40** |

## QUESTION 4

**4.1**

| Explain why a disclaimer audit report would be bad for a company's reputation. Provide TWO points. | |
|---|---|
| **POINT 1** | |
| **POINT 2** | |

4

**4.2** **One of the most important decisions that shareholders have to make at the annual general meeting (AGM) is to appoint directors to serve on the board.**

| **Explain why the shareholders have been given this responsibility.** |
|---|
|  |



2

| If you were a shareholder, what factors or characteristics would you want to find out about the directors who would get your vote? Explain TWO points and give a reason for EACH. | | |
|---|---|---|
| | **EXPLANATION** | **REASON** |
| **POINT 1** | | |
| **POINT 2** | | |

6

4.3 **A recent news report stated that a major company, Baxco Ltd, had been awarded a tender to supply equipment worth R20 m to a chain of private hospitals. The report accuses the CFO (chief financial officer) of that company of paying R2 m in cash to the CEO of the hospital group.**

**As a shareholder, explain what you would say at the AGM. Provide TWO points.**

| |
|---|
| |
| **4** |

4.4 **Refer to the question paper for an extract from the website and Directors' Report of a major South African company.**

**In your opinion, explain why this major company found it necessary to implement this policy. Provide TWO points.**

| |
|---|
| |
| **4** |

| **TOTAL MARKS** |
|---|
| |
| **20** |

**TOTAL: 150**

basic education

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

# NATIONAL SENIOR CERTIFICATE

## GRADE 12

## ACCOUNTING P1

## NOVEMBER 2021

## 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. Unless otherwise stated, give full marks for correct answer. If answer is incorrect, mark workings.
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. If candidates provide more that the required number of responses, inspect all responses to give benefit to the candidate. Penalties may be applied for foreign entries if candidates earn full marks on a question (max -2 per Q).
8. This memorandum is not for public distribution; as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
9. Where penalties are applied, the marks for that section of the question cannot be a final negative.
10. Where method marks are awarded for operation, marker must inspect reasonableness of answer.
11. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
12. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
13. 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 ☒.
14. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
15. Codes: f = foreign item; p = placement/presentation.

**These marking guidelines consist of 10 pages.**

 

## QUESTION 1

**1.1** **Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021.**

| WORKINGS | ANSWER |
|---|---|
| 230 – 24    240 – 206 / if both unit totals add up to 240<br>(206 x R2 850) ✓ ✓ + (34 x R2 600) ☑ ✓ | R675 500☑<br>one part correct |

**5**

**1.2** **Calculate: Correct net profit after tax for the year ended 30 June 2021. Indicate '+' for increase and '–' for decrease.**

| NO. | WORKINGS | AMOUNT |
|---|---|---|
| **Incorrect net profit before tax** | | **4 918 950** |
| (i) | **Audit fees** | + 123 600 ✓✓<br>No part marks |
| (ii) | **Interest on loan**<br>4 028 000 ✓ – 3 755 000 ✓ or<br>4 028 000 one mark + (420 000 – 4 175 000) one mark | – 273 000 ☑# |
| (iii) | **Rent income** (two marks; no part marks)<br>(5 500 – 750)<br>4 750 ✓✓ x 2✓<br>Be aware of different methods<br>(77 000 x 4/14) 22 000 – 3000 = 19 000 (one mark) x 2 (one mark) ÷ 4 (one mark) | – 9 500 ☑# |
| (iv) | **Income tax**<br>(1 200 000 + 85 250) must add prov tax + amount owed | ✓☑#<br>– 1 285 250 |
| **Net profit after tax** | | 3 474 800 ☑<br>one part correct |

**12**

# operation and – sign or accept use of brackets
total must include the NP figure

**1.3** **Retained Income Note on 30 June 2021**

-1 P (if no details)    -*brackets to earn full marks

| | |
|---|---|
| **Balance at beginning** | |
| Net profit after tax   see 1.2 | 3 474 800☑ |
| Shares repurchased   ignore workings | (78 000)✓☑* |
| Dividends for the year   ignore workings | (1 170 000)✓☑* |
| **Balance at end** | **3 240 000** |

**5**

**JIMO LTD**

**STATEMENT OF FINANCIAL POSITION ON 30 JUNE 2021**

Figures are NOT required in shaded areas.

| | | |
|---|---|---|
| **ASSETS** | | |
| **NON-CURRENT ASSETS** | | |
| **Fixed assets** | | |
| **Financial assets** | | |
| **CURRENT ASSETS** | | **8 700 000** |
| Inventories | 4 198 500✓+ 675 500 ☑ – 14 000✓✓<br>see 1.1 | 4 860 000 ☑* |
| Trade and other receivables | (3 668 810✓ + 8 000✓ + 123 600✓ + 11 000✓ )<br>audit fees transfer | 3 811 410 ☑* |
| Cash and cash equivalents | balancing figure<br>accept negative amount | 28 590 ☑ |
| **TOTAL ASSETS** | see total E+L **12** | 16 762 000 ☑ |
| | | |
| **EQUITY AND LIABILITIES** | | |
| **SHAREHOLDERS' EQUITY** | (1 800 000 ✓ x 540/100 ✓ or R5,40) | 9 720 000 ☑*<br>Must use NAV |
| Ordinary share capital | Must be the balancing figure< | 6 480 000 ☑< |
| **Retained income** | **4** | **3 240 000** |
| **NON-CURRENT LIABILITIES** | | 3 842 000 |
| Mortgage loan | (3 755 000 ✓ + 273 000 ☑) – 186 000 ✓✓<br>see 1.2 (ii) **5** | 3 842 000 ☑* |
| **CURRENT LIABILITIES** | (8 700 000 – Inventories) / 1,2<br>Or T&OR + CCE / 1,2 | 3 200 000 ☑☑ |
| Trade and other payables | 1 253 000 ✓ + 9 500 ☑ + 11 000 ✓– 14 000☑ see Inventories<br>rent income 1 400 x 10 | 1 259 500 ☑* |
| Shareholders for dividends | see 1.3 / given | 1 170 000 ☑# |
| Current portion of loan | see NCL | 186 000 ☑# |
| SARS: Income tax | | 85 250 ✓# |
| **Bank overdraft** | balancing figure | 499 250 ☑ |
| **TOTAL EQUITY AND LIABILITIES** | **12** | 16 762 000 ☑* |

# inspect if included with T&OP

*one part correct

-1 foreign items max -2 presentation -1 max -2

**33**

| **TOTAL MARKS** | **55** |
|---|---|

## QUESTION 2

### 2.1 Ordinary Share Capital Note on 28 February 2021

| | | |
|---|---|---|
| **800 000** | **Ordinary shares at the beginning** | 6 400 000 ✓ |
| **100 000** | **New shares issued** balancing figure<br>Must subtract repurchased | 1 250 000 ☑ |
| (30 000) ✓ | Repurchased 30 000 shares at R8,50 ☑ | (255 000) ☑#<br>If one part correct<br>do not accept 36 000 |
| 870 000 ✓ | **Shares at the end of the year** | **7 395 000** |

# if answer of 255 000 is correct, award two marks if R8,50 is not shown

**6**

### 2.2 Calculate the following financial indicators on 28 February 2021:

**% operating expenses on sales**

| WORKINGS | ANSWER |
|---|---|
| $\frac{1\ 458\ 600}{7\ 293\ 000}$ x 100*<br>Check numerator / denominator | 20% ✓☑<br>one part correct;<br>calculated as a %<br>% sign not necessary |


**2**

**Dividend per share**

| WORKINGS | ANSWER |
|---|---|
| ( no part marks )<br>(162 000/900 000)<br>18 cents ✓✓ + 22 cents ✓ OR 0,18 + 0,22<br>18c (two marks) $\frac{162\ 000}{900\ 000}$ + 22c (one mark) $\frac{191\ 400}{870\ 000}$ See below '&'.<br>No marks for denominator if the same figure is used for interim & final dividends.<br><br>If weighted average used:<br>one mark<br>$\frac{162\ 000 + 191\ 400}{861\ 666,7}$ = $\frac{353\ 400}{861\ 667}$<br>two marks<br><br>*( one mark ) do not accept no method mark&*<br>*(162 000 + 191 400) / 870 000 = 40,6 cents X*<br>*(162 000 + 191 400) / 900 000 = 39,3 cents X*<br>*(162 000 + 191 400) / 885 000 = 39,9 cents X* | Assume cents if not specified.<br><br>40 cents ☑&<br><br>&Workings must be inspected in this case to earn the mark. Only award method mark if correct method is used i.e. different denominators for interim DPS & final DPS (e.g. 900 000 & 870 000). |

**4**

**% return on average shareholders' equity**

| WORKINGS | ANSWER |
|---|---|
| $\frac{985\ 500 ✓}{½✓ (6\ 450\ 000✓ + 8\ 038\ 100✓)}$ x 100*<br>14 488 100 two marks<br>7 244 050 three marks<br><br>Check numerator / denominator | 13,6% ☑*<br>one part correct<br>calculated as a %<br>Do not accept 0,136 or 0,14 |

* x 100 does not constitute 'one part correct'

**5**

## 2.3 CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2021

Figures are NOT required in shaded areas.

For use of reversed signs, ensure that only one option is consistently used

| | |
|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | **1 180 000** |
| **Cash generated from operations** | |
| **Interest paid** | |
| Taxation paid (1 350 000 – 985 500) one mark<br>35 900✓ + 364 500✓ + 29 100✓<br>Be aware of signs reversed, use of brackets or ledger account formats | (429 500) ☑* |
| Dividends paid 115 300 + 162 000<br>OR: 115 300 + 353 400 – 191 400<br>Be aware of signs reversed & use of brackets or ledger account formats | (277 300) ✓☑* |
| 6 | |
| **CASH FLOW FROM INVESTING ACTIVITIES** | **(1 320 000)** |
| | |
| **CASH FLOW FROM FINANCING ACTIVITIES** | 409 000☑* |
| Shares issued see 2.1 | 1 250 000☑* |
| Shares repurchased 36 000 one mark two m.marks<br>255 000 ☑ + (30 000✓ x 1,20✓) **OR** 30 000 x R9,70<br>see 2.1 (if R1,20 above ASP) | (291 000)☑* |
| Loan repaid 8 | (550 000) ✓☑* |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | 269 000☑*<br>from top (OA + IA + FA) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING** | (75 200)✓☑*<br>One mark if figure correct but no brackets |
| **CASH AND CASH EQUIVALENTS AT END** 4 | 193 800☑* |

**18**

*one part correct and must indicate correct operation & correct use of brackets;
If no brackets, assume answer is an inflow of cash – award marks for workings only;

| **TOTAL MARKS** | **35** |
|---|---|

## QUESTION 3

**3.1**

| | | |
|---|---|---|
| **3.1.1** | D ✓ | Return on equity |
| **3.1.2** | A ✓ | Liquidity |
| **3.1.3** | B ✓ | Gearing |
| **3.1.4** | C ✓ | Solvency |

Accept abbreviations if understandable

**4**

**3.2 FLEXI LTD AND BROOM LTD**

**3.2.1 Profitability:**

**Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently, and is thereby more profitable. Quote figures and trends.**

part marks for incomplete / partial / unclear responses

Any TWO financial indicators (explaining trend) from Broom Ltd with figures ✓✓ ✓✓
If figures are shown for Flexi Ltd, award marks to names of indicators (max 2 marks)

**Quote figures and trends for any two indicators below**

% OExp on sales improved / decreased (from 17%) to 13,6% / by 20% / by 3,4% points (accept 3,4%)
% OP on sales increased (from 20,5%) to 24,2% / by 18% / by 3,7% points (accept 3,7%)
% NP on sales increased (from 16%) to 19,6% / by 22,5% / by 3,6% points (accept 3,6%)
All indicators show an improvement in profits / expenses well managed.

**4**

**3.2.2 Dividends, earnings & returns:**

**Comment on the dividend pay-out policy of Flexi Ltd. Explain why this is an irresponsible change in policy. Provide TWO points. Quote figures and trends.**

**Trend (with figures)** ✓✓
part marks for incomplete / partial / unclear responses (e.g. mentioning only DPS or only EPS)

Responses for 2 marks for figures & trends:

- The pay-out rate increased (from 59%) to 115% / by 94,9% / 56% points (accept 56%)
- In 2021 they paid DPS of 92c compared EPS of 80c (i.e. 12c from retained income).
- Although the EPS dropped from 138 cents to 80 cents (by 58 cents) / DPS was 10 cents more than last year (82c to 92c) and DPS now exceeds EPS (by 12c / 92c to 80c).

**Explanation / comment on decision** ✓✓
part marks for incomplete / partial / unclear responses; figures may be included in the explanation

Expected comments – any one valid comment for two marks e.g.

- Company is depleting Retained Income reserve (which can be more effectively used to rebuild profitability)
- The company is trying to keep shareholders happy / trying to influence market price of shares by increasing dividends / equalizing dividends over several years.

**4**

**Comment on the % return on shareholders' equity of EACH company. Quote figures and trends.**

Financial indicator with figures & trend ✓ ✓

**Flexi Ltd:**
ROSHE dropped from 12,2% to 7,6% / by 37,7% / 4,6 % points (accept 4,6%)

**Broom Ltd**:
ROSHE improved from 10,7% to 14,1% / by 31,8% / 3,4% points (accept 3,4%)

**Additional comment in each case** ✓ ✓
Figures may be included in the explanation; candidates are NOT required to mention a specific figure for the alternative rate; do not penalise for incorrect rates on investments (as these could vary from 4% to 14%)

- **Flexi Ltd**: Refer to / compare alternative investments e.g. fixed deposit
- **Broom Ltd**: Refer to / compare alternative investments e.g. fixed deposit

**Comment for 1 mark only (to cover both companies):**

- If candidates only mention increased / decreased / good / bad without alternative investments.

**4**

**A shareholder feels that the earnings per share (EPS) in Broom Ltd are better than that in Flexi Ltd. Explain why you agree with him. Quote figures or calculations.**

To get full marks, must compare EPS to Value of share (MP / NAV) for Flexi Ltd with figures ✓✓ part marks for incomplete / partial / unclear responses

To get full marks, must compare EPS to Value of share (MP / NAV) for Broom Ltd with figures ✓✓ part marks for incomplete / partial / unclear responses

Expected responses for four marks (two marks per company):

- EPS to NAV is 7,4% in Flexi Ltd and 11,4% in Broom Ltd
- EPS to MP for 2021 is 8,1% in Flexi Ltd (80/990) and 10,9% (72/660) in Broom Ltd
- EPS on MP for 2020 is 7,1% in Flexi Ltd (80/1130) and 11,7% (72/615) in Broom Ltd
- Flexi Ltd earned 80c on a share valued at 990c/1 081c while Broom Ltd earned 72c on a share valued at 660c/632c.

**OR**: Other comparisons for each company for only one mark in each company:

- Flexi Ltd EPS decreased from 138c to 80c whilst Broom increased from 65c to 72c
- Flexi EPS is calculated on a smaller number of share (700 000) so it looks good; Broom's EPS is calculated on a larger number of shares (1 500 000)

**4**

**3.2.3 Shareholding of Bob Yates in both companies:**

**Comment on the price paid for the shares repurchased by Flexi Ltd. Provide TWO points. Quote figures.**

Figures may be included in the explanation

Any TWO valid points (2 marks each), at least one of which must be related to a financial indicator with figures:

- Compare with figures R13,20 to MP of R9,90 or R11,30
- Compare with figures R13,20 to NAV of R 10,81 or R11,28
- Compare with figures R13,20 to any other value (e.g. average issue price)
- Any other general comment without figures e.g. compromised the funds (liquidity) / Bob abused his status to enrich himself / MP also shows a decreasing trend / no demand for shares / could drop the price further (apply part marks for simple or incomplete or partial answers).

**4**

**Calculate the number of shares that Bob purchased in Broom Ltd with the money he received from the share buyback at Flexi Ltd.**

| WORKINGS | ANSWER |
|---|---|
| 150 000 x 13,20<br>$\frac{1\ 980\ 000}{R6,60}$ | 300 000 shares<br>✓☑<br>one part correct |

**2**

**Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. Quote figures and trends.**

Explanation on % shareholding ✓ Comparison in Flexi Ltd with figures ✓
Explanation on % shareholding ✓ Comparison in Broom Ltd with figures ✓
Be aware of combined explanation with figures

**Flexi Ltd:**
Bob was the majority shareholder (51%)
He now has only 40,5% of the shares (283 500 / 700 000) so he has lost majority status.

**Broom Ltd**:
Bob had 41,8% of the shares 460 000 + 300 000
He now has 50,7% of the shares (760 000 / 1 500 000) see 3.2.3
He is now the majority shareholder (or based on calculation in 3.2.3)
**OR**: There was no share repurchase in Broom Ltd, so that would not affect his % shareholding which was 41,8% (two marks)
**OR**: As he bought 300 000 shares in Broom Ltd, he is now the majority shareholder (50,7%).

**4**

**3.2.4 Financing strategies and gearing:**

**Explanation of decisions taken by the directors of Broom Ltd (two marks):**

Any ONE decision ✓ Figure ✓

Increased the share capital by R2 640 000 or (400 000 shares) **OR**
Decreased the loan by R400 000 **OR**
Net increase of R2 240 000 to total capital employed

**Explain ONE benefit (two marks):**
Explanation of benefit ✓✓ Award part marks for partial / unclear / incomplete responses

- All the money generated is spent on lasting items (fixed assets) which could generate further profits in future
- Improved debt/equity ratio / reduced debt/equity (low risk) / improved creditworthiness in future
- Improved % return on average capital employed.

**4**

**Explain how the decisions taken by Flexi Ltd on its capital employed has affected the risk and gearing of the business. Quote TWO financial indicators (with figures and trends).**

TWO financial indicators (with figures)

- **Debt/equity** ✓ is now / increased (from 0,4 : 1) to 1,1 : 1 / by 0,7 : 1 ✓
- **ROTCE** ✓ is now / decreased (from 16,1%) to 10,2% / by 36,6% / by 5.9% points (accept 5,9%) ✓

Explanation could be combined with figures or separate; both risk & gearing must be mentioned. Ignore reference to % ROSHE (i.e. do not penalise)

Award part marks for partial / unclear / incomplete responses

- High risk due to increase in loan✓
- The business in experiencing negative gearing✓ (ROTCE is lower than interest rate of 13%)

**6**

| **TOTAL MARKS** | **40** |
|---|---|

## QUESTION 4

**4.1**

| **Explain why a disclaimer audit report would be bad for a company's reputation. Provide TWO points.** part marks for incomplete / partial / unclear answers | |
|---|---|
| **POINT 1** ✓✓ | Be aware of alternative valid responses e.g. Any TWO<br>• This indicates that there is something seriously wrong with the financial statements.<br>• The company and its results cannot be trusted / creates a bad impression or bad publicity |
| **POINT 2** ✓✓ | • This can negatively affect the share price on the JSE.<br>• Decreased demand for shares / losing potential investors / existing shareholders would want to sell their shares.<br>• Poor management and control of internal processes / incompetent management / question the integrity of directors.<br>• Suppliers and customers will look elsewhere / creditors might not give credit<br>• Banks / financial institutions might not approve loans |

**4**

**4.2** **One of the most important decisions that shareholders have to make at the annual general meeting (AGM) is to appoint directors to serve on the board.**

**Explain why the shareholders have been given this responsibility.**

Expected responses: ✓✓ part marks for incomplete / partial / unclear answers
Be aware of alternative valid responses

Any ONE valid response e.g.

- Separation of ownership (shareholders) from control (directors)
- The shareholders are the major investors but they cannot all work at the company.
- They will have to appoint directors to run the company for them.
- They have entrusted their investment to the directors.

**2**

**If you were a shareholder, what factors or characteristics would you want to find out about the directors who would get your vote? Explain TWO points and give a reason for EACH.**

Reason could be included with Explanation / Some Explanations could be Reasons

| **EXPLANATION** Any TWO ✓✓ ✓✓<br>Two separate and different points<br>Single word responses acceptable | **REASONS** Any TWO ✓ ✓<br>Any TWO different reasons (not necessarily linked to the explanation) |
|---|---|
| • Integrity / honesty / ethical / moral / person / set good example / work ethic / responsible / no conflicts of interest / no accusations of nepotism<br>• Clear crime record<br>• Good qualifications / member of professional body / management skills / competence / good judgement / communication skills<br>• Innovative / creative<br>• Experience in field / good track record / references / aware of policies.<br>• Up to date with current trends / continues professional development<br>• Collaborative / a good team player<br>• Transparency & accountability (generally assessed after appointment, unless stated as part of track record) | • The shareholders have entrusted their investment to the directors.<br>• They need expertise to run a company well.<br>• Company would not fall behind on the global market.<br>• Employees / shareholders would respect director / have confidence in their ability.<br>• Be a confident ambassador for the company / deal with all stakeholders. |

**6**

**4.3** **A recent news report stated that a major company, Baxco Ltd, had been awarded a tender to supply equipment worth R20 m to a chain of private hospitals. The report accuses the CFO (chief financial officer) of that company of paying R2 m in cash to the CEO of the hospital group.**

**As a shareholder, explain what you would say at the AGM. Provide TWO points.**

TWO valid and different points ✓✓ ✓✓ part marks for incomplete / partial answers
Be aware of alternative valid responses

- This appears to be a clear case of corruption / under-handed agreement that did not follow the normal tender processes / kick-backs or bribes involved / unethical & illegal.
- The CFO's actions must be investigated and appropriate disciplinary measures should follow (abusing his influence / authority) / institute criminal proceedings / legal process / sued (dismissed / fired /replaced: only 1 mark).
- Investigate further to ensure that criminal activity has not filtered through to other parts of the company.
- If the directors' integrity is compromised, this will affect the reaction of the public and the customers.
- This would affect the share price and the profits (image of the business)
- Concern over access to large cash amount / lack of internal controls.

**4**

**4.4** **Refer to the question paper for an extract from the website and Directors' Report of a major South African company.**

**In your opinion, explain why this major company found it necessary to implement this policy. Provide TWO points.**

TWO valid and different points ✓✓ ✓✓ part marks for incomplete / partial answers
Be aware of alternative valid responses

- Crime is a major problem in this country and people are scared to come forward to report crimes as they fear that their lives might be at risk; protection policy may encourage them to report cases.
- The company states this in their policies to make people realise that they are serious about combatting crime.
- The company would want to find out about wrong-doing before it is exposed in the press / impact negatively on the business.
- This could also prevent or minimize wrong-doing as people are aware of this policy / being watched / reported / culprits must be reported.
- This is part of good governance or according to King Code / improve reputation of company / compliance with policies / total quality management.

**4**

| **TOTAL MARKS** | **20** |
|---|---|

**TOTAL: 150**