



EXAMINATIONS AND ASSESSMENT CHIEF DIRECTORATE

Home of Examinations and Assessment, Zone 6, Zwelitsha, 5600

REPUBLIC OF SOUTH AFRICA, Website: www.ecdoe.gov.za

2020 NSC CHIEF MARKER'S REPORT

SUBJECT:	ACCOUNTING
PAPER:	1
DURATION OF PAPER:	2 hours

SECTION 1: (General overview of Learner Performance in the question paper as a whole)

The paper was well balanced and covered the content of Discipline 1: Financial Reporting & Evaluation only.

The first sub-question of all questions was of a lower order. Question 1 started with a basic calculation (2 marks); Question 2 started with short questions requiring the choice of the correct word from those given in brackets (3 marks); Question 3.1 required the matching of items (4 marks) and Question 4 started off requiring an explanation (4 marks). It was only in question 4 that not all the marks were of lower order. Most learners attempted these questions and could achieve above average marks in these sub-questions except question 4. These questions were followed by questions requiring advanced application of knowledge and skills as well as problem solving skills in question 4. Most learners attempted these questions; however, question 3 and 4 indicated a drastic drop in the average mark obtained.

Although major changes were made to the structure of the papers, the layout followed the trend set by previous papers. According to the DBE Analysis Grid, the paper did not meet the required distribution of 30%, 40%, 30% for cognitive levels. The said grid indicated an achieved distribution of 39%, 40%, 19%. These expectations were not met by learner responses since learners were unable to gain sufficient marks of the lower order questions. Poor ability to comment on unfamiliar performance indicators indicates a lack of insight. Poor performance in question 4 is an indication of a knowledge gap of teachers and learners.

The marking guideline catered for numerous alternative calculation methods and various applicable comments. A sample of scripts indicated few learners attained very low or very high marks.

The use of assignments and past papers is recommended in preparation for the examination.

SECTION 2: Comment on candidates' performance in individual questions
(It is expected that a comment will be provided for each question on a separate sheet).

QUESTION 1				
(a) General comment on the performance of learners in the specific question. Was the question well answered or poorly answered?				
MEDIAN		MODE		RANGE
35 (58,3%)		30 (50%)		54
Sub-question	Topic	Maximum Marks	Average Mark	%
1.1	Calculate fixed assets, depreciation and profit on sale	13	6,49	50
1.2	Calculate trading stock deficit	4	2,14	53,5
1.3	Statement of Comprehensive Income	43	28,07	65,3
	Sample of 100 scripts	60	36,7	61%
<p>Being the first question in the paper, most learners attempted and completed the question. The marks awarded for pre-adjusting figures and the work-with marks for partially correct answers in 1.1 and 1.3 aided the learners in achieving moderately good and better than initially expected marks. A few learners still add foreign Statement of Financial Position items in the Statement of Comprehensive Income.</p>				
(b) Why was the question poorly answered? Also provide specific examples, indicate common errors committed by learners in this question, and any misconceptions.				
<p>Sections in the question which challenged learners and were poorly answered:</p> <ul style="list-style-type: none"> • Depreciation <ul style="list-style-type: none"> ○ Identifying the number of months to depreciate the new asset ○ Noting that the old vehicle has been fully depreciated and applying the R1 rule • Trading stock deficit <ul style="list-style-type: none"> ○ Applying the weighted-average method to calculate value of closing stock ○ Take note that this calculation applies to Paper 1 and Paper 2 • Statement of Comprehensive Income <ul style="list-style-type: none"> ○ Sales – working from the cost of sales to determine selling price and taking trade discount into account ○ Income tax – working backwards from the net profit after tax is challenging even though this method has appeared in many past papers 				
(c) Provide suggestions for improvement in relation to Teaching and Learning				
<ul style="list-style-type: none"> • Cover all content and make time for revision • Employ various resources • Use relevant (NSC) past papers for memory capturing and assessment preparation • Involve learners more in creating teaching and learning material • Learners should compile a vocabulary list to assist in mastering concepts • Learners should create a personalised cheat sheet with basic information on financial statements • Provide learners with quality and prompt feedback after assessment • Analyse the fixed asset note thoroughly in order to get learners used to calculating various components within the note 				

(d) Describe any other specific observations relating to responses of learners and comments that are useful to teachers, subject advisors, teacher development etc.				
<ul style="list-style-type: none"> Pay special attention to detail when drafting the Financial Statements. Some learners calculate workings accurately in the build-up to the statement but transfer information incorrectly and in some cases fail to do so. Some learners still struggle with adjustments (when to + or – although figures are correctly calculated). Concepts from grade 11 to be reinforced in grade 12 for example Asset Disposal and Provision for Bad Debts. Ensure learners study the layout of Financial Statements and the basic calculations required in these statements in both directions (from the top down and from the bottom up). 				
QUESTION 2				
(a) General comment on the performance of learners in the specific question. Was the question well answered or poorly answered?				
MEDIAN		MODE		RANGE
26 (65%)		37 (92,5%)		37
Sub-question	Topic	Maximum Marks	Average Mark	%
2.1	Concepts	3	2,21	74
2.2	Financial indicators and cash flow statement	37	22,94	62
	Sample of 100 scripts	40	25,05	63%
<p>Most learners completed this question and gained marks above the average mark for this paper. Few learners achieved below 40% but few were able to obtain marks above 70%. The median of 26 indicate that most learners obtained marks centred around 65% for this question. The range of 37 is an indication that weaker learners did score very low marks but all achieved to gain at least 3 marks and that the strong learners were able to obtain full marks.</p>				
(b) Why was the question poorly answered? Also provide specific examples, indicate common errors committed by learners in this question, and any misconceptions.				
<p>Sections in the question which challenged learners and were poorly answered:</p> <ul style="list-style-type: none"> In 2.2.1 (calculation of Income tax and dividends paid) learners still struggle to use the correct signs for the closing and opening balances and lose valuable marks. 2.2.2 was challenging to learners who do not know the layout of the Cash Flow Statement and they often included foreign items. The learners were also challenged by the method of working from the bottom up in the calculation of the net change in cash and cash equivalents. Most learners obtained low marks here. The dividend payout rate in 2.2.3 was challenging in the sense that learners were exposed to many available formulas provide in the formula sheet. Information provided by the question paper should be carefully studied in order to calculate amounts what are required. This question was drafted in an unfamiliar way and the method applied in past papers did not apply to this question. Learners were not disadvantaged since the marking guideline catered for part marks. 				

(c) Provide suggestions for improvement in relation to Teaching and Learning				
<ul style="list-style-type: none"> When teaching the Cash Flow Statement, teachers should focus on one section at a time. Create a cheat sheet that indicates the basic layout and include methods to be applied in calculations (samples of these cheat sheets are available on the DBE and EC DoE websites). At the beginning refer back to this sheet often until learners have familiarised themselves with the contents of this section. Thereafter select sections from past papers to assist with reinforcing. Daily (oral) revision of the layout of the different sections of the Cash Flow Statement could assist in reinforcing content and layout. Learners should be given a vast opportunity to ascertain different ways of how this topic may be phrased. It is against this background that educators should use past NSC papers during teaching and learning. 				
(d) Describe any other specific observations relating to responses of learners and comments that are useful to teachers, subject advisors, teacher development etc.				
<ul style="list-style-type: none"> The dividend payout rate has become problematic should there be a change in number of issued shares during the accounting period. The 2020 NSC ACCN Paper 1 has indicated a lack of understanding in the calculation thereof. It is advised that the various clusters discuss, with the aid of the 2020 NSC ACCN P1 and marking guideline, their understanding and that under the leadership of District Subject Advisors and NSC 2020 markers, this topic be addressed. Not all higher order questions need to be explained in full by the Examination Guidelines. 				
QUESTION 3				
(a) General comment on the performance of learners in the specific question. Was the question well answered or poorly answered?				
MEDIAN		MODE		RANGE
15 (42,9%)		13 (37,1%)		33
Sub-question	Topic	Maximum Marks	Average Mark	%
3.1	Concepts	4	2,74	69%
3.2	Interpretation of financial statements	31	13,4	43%
	Sample of 100 scripts	35	16,1	46%
Most learners attempted and completed these questions. There was a notable decline in achievement as learners moved forward in this paper. Learners scored high marks when quoting financial indicators but supporting comments were of poor quality and lacking insight and understanding to the scenario created in the question.				

(b) Why was the question poorly answered? Also provide specific examples, indicate common errors committed by learners in this question, and any misconceptions.

Sections in the question which challenged learners and were poorly answered:

- Learners neglected to read the introduction to the question. This paragraph describes the scenario in which the business operates and supplies valuable information to be used in answering the question.
- Liquidity
 - The fact that this company trades in electronic equipment that can easily become obsolete due to technological advancements was not noticed.
 - Most learners did not ascertain that a big difference between the current ratio and acid-test ratio is an indication of stock piling.
- Dividends
 - Reasons for and explanations in support of the change in payout rate was of poor quality or omitted.
 - Learners were unable to see the connection between the drop in the EPS (by 72c) and the drop in DPS (18c) and that this is an indication for shareholders to be satisfied in spite of the struggling/negative economic climate.
- Risk and gearing
 - Learners were unable to link the decrease in ROTCE to the downward trend in the effective use of additional loans. They have become too comfortable with the easy answer to indicate positive gearing since ROTCE is still above the interest rate on loans. This is an indication of a lack of insight.
- Issuing of shares to the CEO
 - Few learners noticed the ethical implication of this action. This is an indication that past papers were not utilised as expected.
 - Learners did not calculate the issue price and the implication of this low price for the company was not taken into consideration
 - Learners quoted the NAV and market price of both years as a comment but failed to compare the current NAV and market price as a valid answer.
- Cash Flow Statement
 - Learners failed to quote figures from the Cash Flow Statement in support of the concern about the net inflow of R980 000 even though it was higher than the previous year. This is an indication that past papers were not consulted.

(c) Provide suggestions for improvement in relation to Teaching and Learning

- Learners should rather quote financial indicators and indicate the change in figures as being higher or lower / increase or decrease since higher is not always better.
- There is no need to calculate the % change unless specifically required to do so. This calculation is time consuming and the wrong calculation method applied results in a wrong answer.
- The difference between ROTCE and ROSHE should be emphasised for learners to gain a better understanding.
- The explanation of positive and negative gearing needs attention in teaching and learning.
- Comment relating to financial indicators are still of poor quality or incomplete. The use of marking guidelines of NSC past papers is advised.

(d) Describe any other specific observations relating to responses of learners and comments that are useful to teachers, subject advisors, teacher development etc.				
<ul style="list-style-type: none"> Although learners scored high marks for quoting financial indicators, the figures are often omitted or even carelessly quoted wrongly. Much more emphasis should be placed on the quality of comments in support of these indicators. Read the question carefully and take note of the circumstances influencing these indicators since that dictates the required response. The use of NSC past papers is advised in order to build the confidence of learners. This will assist in the identification of required information and enhance overall performance. 				
QUESTION 4				
(a) General comment on the performance of learners in the specific question. Was the question well answered or poorly answered?				
MEDIAN		MODE		RANGE
5 (33,3%)		4 (26,7%)		15
Sub-question	Topic	Maximum Marks	Average Mark	%
4.1	Qualified audit report	4	1,91	48
4.2	Executive and non-executive directors	4	1,53	38
4.3	Remuneration committee	3	0,9	30
4.4	Declaration of gifts	4	1,19	30
	Sample of 100 scripts	15	5,5	37%
<p>This question required critical thinking about unfamiliar topics and was poorly answered. Most learners were able to complete the question paper and attempted question 4 but poor responses indicate a lack of knowledge about the internal management of companies. Consultation with markers indicate that, these topics, with the exception of 4.1, was unknown to them and not discussed in class.</p>				

(b) Why was the question poorly answered? Also provide specific examples, indicate common errors committed by learners in this question, and any misconceptions.

Sections in the question which challenged learners and were poorly answered:

- Qualified audit report
 - Although this is not an unfamiliar question, learners were unable to explain two different reasons why this is not a good reflection of a company.
- Board of directors
 - Learners quoted the definitions from the paper and gained no marks for this.
 - Learners (and educators) are not knowledgeable about the composition and duties of the Board of Directors of public companies.
- Remunerations Committee
 - A language barrier was detected since learners are not familiar with the term remuneration.
 - There is a clear lack of knowledge and insight since learners do not understand the difference between remuneration paid to employees and dividends paid to shareholders.
 - Responses included Human Resource topics relating to discrimination instead of remuneration.
 - The assessment project of the second term included this section but due to many difficult circumstances feedback and revision of this topic was neglected.
- Declaration of gifts
 - Learners did not recognise the ethical issues evolving around this question.
 - Learner responses indicated that they did not understand the question. Why should a director receive gifts from potential clients after successfully negotiating a contract to supply goods?

(c) Provide suggestions for improvement in relation to Teaching and Learning

- Teachers should read beyond the text book and other teaching material.
- Invite the director of a company to the school to explain the working of a Board of Directors.
- Teachers should encourage learners to take note of news of public interest and share it in class. It should then be discussed in class. The Zondo Commission of Enquiry and the unethical contracts awarded for the supply of PPEs have drawn the attention to many cases of misconduct relating to this topic. Many public managers received donations, gifts and favours after successfully negotiating contract(s) with corrupt clients.

(d) Describe any other specific observations relating to responses of learners and comments that are useful to teachers, subject advisors, teacher development etc.

- The boundaries for the following topics covered in Paper 1 must be indicated more clearly
 - Corporate Governance
 - Legislation governing companies



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING P1

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

NOVEMBER 2020(2)

MARKS: 150

TIME: 2 hours

**This question paper consists of 10 pages,
a formula sheet and an 9-page answer book.**



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INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL questions.
2. A special ANSWER BOOK is provided in which to answer ALL questions.
3. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer questions.
6. Where applicable, show ALL calculations to ONE decimal point.
7. If you choose to do so, you may use the Financial Indicator Formula Sheet attached at the end of this question paper. The use of this formula sheet is NOT compulsory.
8. Write neatly and legibly.
9. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION	TOPIC	MARKS	MINUTES
1	Fixed Assets and Statement of Comprehensive Income	60	45
2	Financial Indicators and Cash Flow Statement	40	35
3	Interpretation of Financial Statements	35	30
4	Corporate Governance	15	10
TOTAL		150	120



QUESTION 1: FIXED ASSETS AND STATEMENT OF COMPREHENSIVE INCOME (60 marks; 45 minutes)

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

REQUIRED:

1.1 Refer to INFORMATION B(a) for fixed assets.

Calculate the following:

1.1.1 The missing amounts denoted by (i) to (iii) on the Fixed Asset Note (11)

1.1.2 Profit/Loss on the sale of equipment on 1 October 2020 (2)

1.2 Refer to INFORMATION B(e) for trading stock.

Calculate the trading stock deficit. (4)

1.3 Prepare the Statement of Comprehensive Income for the financial year ended 28 February 2021. (43)

INFORMATION:

A. Extract from the Pre-adjustment Trial Balance on 28 February 2021:

	R
Mortgage loan: Sufi Bank	1 005 500
Debtors' control	123 000
Trading stock	?
Provision for bad debts (1 March 2020)	7 030
Sales	?
Cost of sales	6 966 000
Salaries and wages	1 468 120
Directors' fees	3 330 000
Audit fees	91 000
Repairs	476 000
Rent income	173 000
Interest income	25 000
Interest on loan	?
Bad debts	19 200
Advertising	25 680
Sundry expenses	452 310
Ordinary share dividends	86 400

B. Adjustments and additional information:

(a) Fixed assets:

Vehicles:

- The business owns two vehicles on 28 February 2021. The second vehicle was purchased on 1 November 2020.
- Vehicles are depreciated at 15% p.a. on cost.

Equipment:

- Depreciation is 20% p.a. on the diminishing-balance method.
- Unused equipment was sold for R40 000 on 1 October 2020. Accumulated depreciation on the equipment sold was R36 600 on 1 March 2020.

Extract of the Fixed Asset Note:

	VEHICLES	EQUIPMENT
Cost (1 Mar. 2020)	460 000	360 000
Accumulated depreciation (1 Mar. 2020)	(396 750)	(187 595)
CARRYING VALUE (1 March 2020)	(i)	172 405
Additions (at cost)	510 000	0
Disposals (at carrying value)	0	(iii)
Depreciation	(ii)	(31 281)
CARRYING VALUE (28 February 2021)		
Cost (28 Feb. 2021)	970 000	285 000
Accumulated depreciation (28 Feb. 2021)		

- (b) The business maintains a mark-up of 120% on cost. Note that trade discounts of R648 000 were granted to special customers.
- (c) The account of debtor B Melita, R800, must be written off.
- (d) Provision for bad debts must be adjusted to 5% of outstanding debtors.
- (e) Trading stock is valued on the weighted-average method. The Ledger Account and records reflect that 280 units should be on hand. However, the physical stock count reflects only 262 units on hand. The stock records are as follows:

	UNITS	UNIT PRICE	TOTAL
Stock at beginning of year	200	R3 600	R720 000
Purchased during the year	1 840	R4 100	R7 544 000
Returns: damaged units	40	R4 100	R164 000
Available for sale	2 000		R8 100 000
Stock units per records	280	?	?

- (f) 30% of the audit fees is still outstanding.
- (g) The monthly rent income did not change during the year. During February 2021 the tenant paid R9 000 for repairs to the premises, and deducted this from his rent for February 2021. Repairs are the responsibility of the company, and this was not recorded. The rent for March 2021 was received in advance.
- (h) The company has four directors earning the same fee. One director resigned on 31 May 2020 and received his fees up to this date. Another director is still owed fees for January and February 2021.
- (i) Advertising consists of a contract with a newspaper for the entire financial year. Payments are monthly, however instalments were paid for 11 months only. **NOTE:** The monthly rate decreased by R240 from 1 November 2020.
- (j) The net profit after tax was accurately calculated at R1 054 000. The income tax rate is 32%.



QUESTION 2: FINANCIAL INDICATORS AND CASH FLOW STATEMENT
(40 marks; 35 minutes)

- 2.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.
- 2.1.1 The (directors' report/audit report) gives an explanation of the operations of the company during a financial year.
- 2.1.2 The (independent/internal) auditors are responsible for monitoring the financial control measures of a company on a regular basis.
- 2.1.3 In the event of bankruptcy, the shareholders are normally not responsible for the debts of the business. This is because of (limited/unlimited) liability. (3 x 1) (3)
- 2.2 **USANDA LIMITED**
- The financial year ended on 28 February 2021.
- REQUIRED:**
- 2.2.1 Calculate the following figures for the 2021 Cash Flow Statement:
- Income tax paid (4)
 - Dividends paid (4)
- 2.2.2 Prepare the following sections of the Cash Flow Statement:
- Cash effects for financing activities (11)
 - Net change in cash and cash equivalents (4)
- 2.2.3 Calculate the following financial indicators for the year ended 28 February 2021:
- % operating profit on sales (2)
 - Acid-test ratio (4)
 - % return on average shareholders' equity (ROSHE) (4)
 - Dividend payout rate (%) (4)

INFORMATION:**A. Extract: Statement of Comprehensive Income for the year ended 28 February 2021:**

Sales	R17 800 000
Operating profit	2 262 100
Interest on loan (capitalised)	270 000
Net profit before tax	1 777 000
Net profit after tax	1 243 900

B. Extract: Statement of Financial Position:

	28 February 2021	29 February 2020
Fixed assets (carrying value)	R13 650 600	R13 590 000
Current assets	659 500	1 067 500
Inventories	276 500	373 200
Trade and other receivables	262 300	539 600
Cash and cash equivalents	120 700	154 700
Shareholders' equity	9 891 400	11 985 000
Ordinary share capital	9 555 000	11 220 000
Retained income	336 400	765 000
Loan: VBC Bank (see E)	?	2 080 000
Current liabilities	611 900	592 500
Trade and other payables	252 100	185 700
Bank overdraft	0	90 000
SARS: Income tax	19 800	69 300
Shareholders for dividends	340 000	247 500

C. Share capital:

DATES	NUMBER OF SHARES	DETAILS OF SHARES
1 March 2020	1 650 000	In issue
30 October 2020	50 000	Additional shares issued
27 February 2021	335 000	Shares repurchased at R9,50 each
28 February 2021	1 365 000	In issue

D. Dividends and earnings:

- An interim dividend was paid on 31 August 2020.
- A final dividend of 20 cents per share was declared on 28 February 2021.
- Total dividends for the year amounted to R835 000.
- Earnings per share (EPS) on 28 February 2021 was 74 cents.

E. Loan: VBC Bank

- The balance on 1 March 2020 was R2 080 000.
- Monthly instalments of R35 000, including interest, were paid.
- Interest capitalised amounted to R270 000.



QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS**(35 marks; 30 minutes)**

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

COLUMN A	COLUMN B
3.1.1 Liquidity	A Is the business managing expenses effectively to increase profitability?
3.1.2 Risk and gearing	B Is the investment in the company better than investing in a fixed deposit?
3.1.3 Return to shareholders	C Will the company be able to pay off its current debts?
3.1.4 Operating efficiency	D Will the company be able to pay off all its debts using existing assets?
	E How is the company managing loans or borrowed capital?

(4 x 1) (4)

3.2 **SCI-FI GEEKS LTD**

The business trades in electronic equipment purchased from China. The information relates to the past two financial years, ended 31 March. The COVID-19 lockdown has negatively affected sales over the current financial year.

REQUIRED:3.2.1 **Liquidity:**

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.

(6)

3.2.2 **Dividends:**

The directors changed the dividend policy for the current financial year.

- Comment on the dividend per share over the two years. Quote figures. (2)
- Explain the change in the dividend payout rate and give a reason for this change. Quote figures. (4)
- A shareholder felt that they should be satisfied with the dividends they received, as it is better than last year. Explain why you agree with him. Quote figures. (3)

- 3.2.3 Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures). (6)



- 3.2.4 Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures. (6)
- 3.2.5 The Cash Flow Statement reflected a positive change of R980 000. Provide TWO points why this should still be a concern to directors. Quote figures. (4)

INFORMATION:**A. Financial indicators and additional information:**

	2021	2020
Mark-up % achieved	60%	60%
% net profit before tax on sales	13,9%	20,3%
Current ratio	2,4 : 1	1,1 : 1
Acid-test ratio	1,0 : 1	0,4 : 1
Stockholding period	102 days	32 days
Average debtors' collection period	46 days	31 days
Average creditors' payment period	60 days	60 days
Earnings per share	58 cents	130 cents
Dividends per share	72 cents	90 cents
Dividend payout rate	136,5%	69%
Debt-equity ratio	0,4 : 1	0,3 : 1
Return on average shareholders' equity	17,7%	31,6%
Return on total capital employed	23,2%	39%
Net asset value per share	332 cents	409 cents
Market price of shares on stock exchange	410 cents	540 cents
Interest rate on loans	13,5%	13,5%
Interest rate on fixed deposits	6,8%	7,8%

B. Share capital:

- On 1 April 2020 the company issued an additional 250 000 shares.
- On 31 March 2021 there were 1 250 000 shares in issue.

C. Extract from the Cash Flow Statement on 31 March:

	2021	2020
Cash flows from operating activities	(148 080)	910 000
Cash generated from operations	1 281 620	
Interest paid	(232 000)	
Taxation paid	(272 700)	
Dividends paid	(925 000)	
Cash flows from investing activities	101 580	(300 000)
Cash flows from financing activities	1 026 500	(100 000)
Sale of shares	375 000	0
Change in loan	651 500	(100 000)
Cash and cash equivalents: Net change	980 000	510 000
Opening	(330 000)	(840 000)
Closing	650 000	(330 000)



QUESTION 4: CORPORATE GOVERNANCE**(15 marks; 10 minutes)**

Shareholders and employees associated with a company will be particularly interested in whether the company is well governed and managed by the directors.

At the AGM, the shareholders will elect two types of directors:

- **Executive directors:** They attend board meetings and work at the company on a full-time basis.
- **Non-executive directors:** They attend board meetings and do NOT work at the company.

You are provided with four aspects of corporate governance that will be of concern to the stakeholders.

REQUIRED:**4.1 Audit Report:**

Explain why a qualified audit report is not a good reflection of a company. Provide TWO points.

(4)**4.2 The Board of Directors:**

Explain why it is important for a company to include non-executive as well as executive directors on the Board of Directors.

(4)**4.3 The Remunerations Committee:**

According to the Companies Act, 2008 (Act 11 of 2008), a company must have a Remunerations Committee.

Explain the role/responsibility of this committee and give a reason why this committee is necessary.

(3)**4.4 Directors engage with clients on a regular basis in an effort to negotiate contracts and to increase sales and services.**

Explain why there should be a company policy that directors must declare to the Board all gifts, donations or favours received by them from clients. Provide TWO points.

(4)**15****TOTAL: 150**

a



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

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.



STICKER

CENTRE NUMBER

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EXAMINATION NUMBER

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NATIONAL SENIOR CERTIFICATE

ACCOUNTING P1

GRADE 12

NOVEMBER 2020(2)

SPECIAL ANSWER BOOK

QUESTION	MARKS	INITIAL	MOD.
1			
2			
3			
4			
TOTAL			

ACCOUNTING P1 SPECIAL ANSWER BOOK

This answer book consists of 9 pages.



QUESTION 1

1.1.1	(i) Calculate: Carrying value of the vehicle on hand on 1 March 2020		<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; text-align: center; margin: 0 auto;">2</div>
	Workings	Answer	
	(ii) Calculate: Depreciation on vehicles for the year		<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; text-align: center; margin: 0 auto;">5</div>
	Workings	Answer	
	(iii) Calculate: Carrying value of equipment sold		<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; text-align: center; margin: 0 auto;">4</div>
	Workings	Answer	

1.1.2	Calculate: Profit/Loss on the sale of equipment		<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; text-align: center; margin: 0 auto;">2</div>
	Workings	Answer	

1.2	Calculate: Trading stock deficit		<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; text-align: center; margin: 0 auto;">4</div>
	Workings	Answer	

NOTE: The relevant figures calculated above must be transferred to the Statement of Comprehensive Income.

**1.3 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED
28 FEBRUARY 2021**

Sales	
Cost of sales	(6 966 000)
Other income	
Gross operating profit	
Operating expenses	
Salaries and wages	1 468 120
Depreciation	
Sundry expenses	452 310
Operating profit	
Profit before interest expense	
Interest expense	
Net profit before tax	
Net profit after tax	1 054 000

43

TOTAL MARKS

60



QUESTION 2

2.1

2.1.1	
2.1.2	
2.1.3	

3

2.2 **USANDA LIMITED**

2.2.1

Calculate: Income tax paid	
Workings	Answer
Calculate: Dividends paid	
Workings	Answer

4

4

2.2.2

CASH EFFECTS OF FINANCING ACTIVITIES	

11

NET CHANGE IN CASH AND CASH EQUIVALENTS	
Cash (opening balance)	
Cash (closing balance)	

4



2.2.3 Calculate financial indicators for the year ended 28 February 2021:

% operating profit on sales		
Workings	Answer	
		<div><div></div><div>2</div></div>
Acid-test ratio		
Workings	Answer	
		<div><div></div><div>4</div></div>
% return on average shareholders' equity (ROSHE)		
Workings	Answer	
		<div><div></div><div>4</div></div>
Dividend payout rate (%)		
Workings	Answer	
		<div><div></div><div>4</div></div>

TOTAL MARKS
40

QUESTION 3**3.1**

3.1.1	
3.1.2	
3.1.3	
3.1.4	

4

3.2 SCI-FI GEEKS LTD**3.2.1**

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.

6

3.2.2

Comment on the dividend per share over the two years. Quote figures.

2

Explain the change in the dividend payout rate. Quote figures.

Give a reason for this change.

4

A shareholder felt that they should be satisfied with the dividends they received as it is better than last year. Explain why you agree with him. Quote figures.

3

3.2.3 Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures).

6

3.2.4 Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures.

6

3.2.5 The Cash Flow Statement reflected a positive change in R980 000. Provide TWO points why this should still be a concern to directors. Quote figures.

4

TOTAL MARKS
35



QUESTION 4

- 4.1** Explain why a qualified audit report is not a good reflection of a company. Provide TWO points.

4

- 4.2** Explain why it is important for a company to include non-executive as well as executive directors on the Board of Directors.

4

- 4.3** According to the Companies Act, 2008 (Act 11 of 2008), a company must have a Remunerations Committee.

Explain the role/responsibility of this committee and give a reason why this committee is necessary.

EXPLANATION:

REASON:

3

a

- 4.4 Directors engage with clients on a regular basis in an effort to negotiate contracts and to increase sales and services.**

Explain why there should be a company policy that directors must declare to the Board all gifts, donations or favours received by them from clients. Provide TWO points.

4

TOTAL MARKS
15

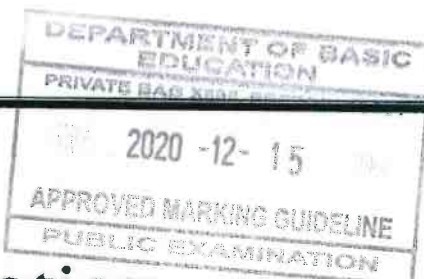
TOTAL: 150





basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA



NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

NOVEMBER 2020(2)

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. 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 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. This memorandum is 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 memo.
11. In calculations, do not award marks for workings if numerator & 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 guideline. Note that one comment could contain different aspects.
14. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 9 pages.

Internal
Moderator
Approved
h. Hall
15/12/2020

Approved
Thudhoffe
External
Moderator
15/12/2020

QUESTION 1

1.1.1

(i) Calculate: Carrying value of the vehicle on hand on 1 March 2020		
	Workings	Answer
	460 000 – 396 750	63 250 ✓✓
(ii) Calculate: Depreciation on vehicles for the year		
	Workings	Answer
	25 500 two marks $(510\,000 \times 15\% \times 4/12)$ ✓✓ one part correct $460\,000 \times 15\% = 69\,000$; CV is 63 250. Depreciation is therefore $63\,250 - R1,00 = 63\,249$ ✓✓	25 500 + 63 249 two marks two marks 88 749 ✓ one part correct
(iii) Calculate: Carrying value of equipment sold		
	Workings	Answer
	$360\,000 - 285\,000$ -41 080 2 marks $75\,000$ ✓ – $36\,600$ ✓ – $4\,480$ ✓ OR: $75\,000$ ✓ – $(36\,600 \text{ ✓} + 4\,480 \text{ ✓})$	33 920 ✓ one part correct

2

5

4

1.1.2

Calculate: Profit/Loss on the sale of equipment	
Workings	Answer
See (iii) above $40\,000 - 33\,920$ OR $-40\,000 + 75\,000 - 41\,080$	If $40\,000 - (iii)$ No part marks 6 080 ✓✓

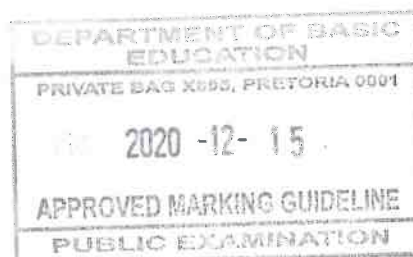
2

1.2

Calculate: Trading stock deficit	
Workings	Answer
18 two marks ✓ ✓ ✓ $(280 - 262) \times 4\,050$ 280 one mark 262 one mark 4 050 one mark $(280 \times 4\,050) - (262 \times 4\,050)$ 1 134 000 1 061 100	R72 900 ✓# # if $\times 4\,050$

4

NOTE: The relevant figures calculated above must be transferred to the Income Statement.



1.3 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2021

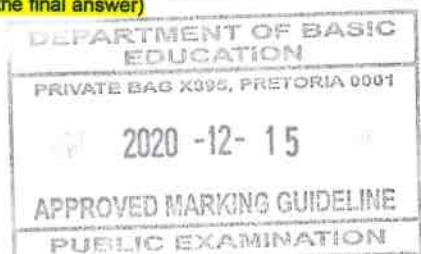
ignore brackets – check if operation is correct
also award from bottom up if COS calc is done *one part correct

Sales 15 325 200 ✓✓ – 648 000 ✓✓ OR (6 966 000 X 1,2) + 6 966 000 – 648 000 6 966 000 x 2,2	14 677 200	✓*#
Cost of sales	(6 966 000)	
Gross profit 6 966 000 x 1,2 8 359 200 – 648 000 three marks if not awarded for sales 5	S – COS 7 711 200	✓
Other income Operation	175 000	✓*
Profit on sale of asset* see 1.1.2 (loss will be in operating expenses)	6 080	✓
Rent income 173 000 ✓ + 9 000 ✓ – 14 000 ✓✓ OR 182 000 – 14 000 two marks OR 173 000 – 5 000 one mark OR 182 000 X 12/13 two marks two marks	168 000	✓*
Provision for bad debts adjustment 7 030 – 6 110	920	✓✓*
Gross operating profit Operation 10	GP + OI 7 886 200	✓
Operating expenses Operation	(6 286 200)	✓*
Salaries and wages	1 468 120	
Depreciation 31 281 ✓ + 88 749 ✓ see 1.1.1 (ii)	120 030	✓*
Trading stock deficit see 1.2	72 900	✓
Directors' fees 3 330 000 ✓ + 180 000 ✓✓ 3 330 000 x 2/37 or x 39/37 or 90 000 x 39 Alternative: 3 330 000 + 135 918 (OR x 51/49) = 3 465 918	3 510 000	✓*
Audit fees 91 000 ✓ + 39 000 ✓✓ OR 91 000 / 0,7 OR x100/70 91 000 + (91 000 x 30/70)	130 000	✓*
Repairs 476 000 + 9 000 if final figure is 476 000 OR 9 000 one mark	485 000	✓✓*
Bad debts 19 200 + 800 if final figure is 19 200 OR 800 one mark	20 000	✓✓*
Advertising 25 680 ✓ + 2 400 ✓ – 240 ✓ (2 400 x 8) + (2 160 x 4)	27 840	✓*
Sundry expenses	452 310	
Operating profit accept negative depending on figures in this column 22	GOI – OE 1 600 000	✓
Interest income	25 000	✓
Profit before interest expense Operation	OP + INT 1 625 000	✓
Interest expense Profit before interest expense – NPbT Accept a positive balancing figure	(75 000)	✓
Net profit before tax 1 054 000 + Income tax 1 054 000 x 100 / 68 two marks	NP + IT 1 550 000	✓
Income tax for the year 1 054 000 x 32/68 If balancing figure, award one mark	(496 000)	✓✓
Net profit after tax 6	1 054 000	

43

-1 foreign items i.e. B/S items (max -2); for misplaced items, award marks for workings only (not the final answer)

TOTAL MARKS
60



QUESTION 2

2.1

2.1.1	Directors' report ✓
2.1.2	Internal ✓
2.1.3	Limited ✓

3

2.2 **USANDA LIMITED**

2.2.1

Calculate: Income tax paid					
Workings	Answer				
$(1\,777\,000 - 1\,243\,900)$ one mark $69\,300 \checkmark + 533\,100 \checkmark - 19\,800 \checkmark$ Alternative presentations: Mark ONE alternative only $- 69\,300 - 533\,100 + 19\,800$ $(69\,300) + (533\,100) + 19\,800$ <table border="1"> <tr> <td>19 800</td><td>69 300</td></tr> <tr> <td>582 600</td><td>533 100</td></tr> </table>	19 800	69 300	582 600	533 100	R582 600 <input checked="" type="checkbox"/> one part correct
19 800	69 300				
582 600	533 100				
Calculate: Dividends paid					
Workings	Answer				
$495\,000$ two marks $247\,500 \checkmark + (835\,000 \checkmark - 340\,000 \checkmark)$ Alternative presentations: Mark ONE alternative only $- 247\,500 - 835\,000 + 340\,000$ $(247\,500) + (835\,000) + 340\,000$ <table border="1"> <tr> <td>340 000</td><td>247 500</td></tr> <tr> <td>742 500</td><td>835 000</td></tr> </table>	340 000	247 500	742 500	835 000	R742 500 <input checked="" type="checkbox"/> one part correct
340 000	247 500				
742 500	835 000				

4

4

*one part correct # correct use of bracket or not to earn the method mark on answer

2.2.2

CASH EFFECTS OF FINANCING ACTIVITIES	
	(2 652 500) <input checked="" type="checkbox"/> *
Proceeds from shares issued $335\,000$ one mark x R7,00 one mark $9\,555\,000 \checkmark + 2\,345\,000 \checkmark \checkmark - 11\,220\,000 \checkmark$ OR Be aware of different methods e.g. T-acc or reversed signs $-9\,555\,000 - 2\,345\,000 + 11\,220\,000$ Note: The 50 000 is not used in this calculation because the R680 000 is the balancing figure in the OSC note	680 000 <input checked="" type="checkbox"/> *#
Funds used to repurchase shares $3\,182\,500$ one mark if no bracket $335\,000 \times R9,50$	(3 182 500) <input checked="" type="checkbox"/> ✓
Change in loan $2\,080\,000 - 1\,930\,000$ or $270\,000 - 420\,000$ $(2\,080\,000 - 420\,000 + 270\,000)$ $35\,000 \times 12$	(150 000) <input checked="" type="checkbox"/> *#
NET CHANGE IN CASH AND CASH EQUIVALENTS	
Cash (opening balance) $154\,700 - 90\,000$ must not be bracketed	64 700 <input checked="" type="checkbox"/> ✓
Cash (closing balance)	120 700 <input checked="" type="checkbox"/> ✓

11

4

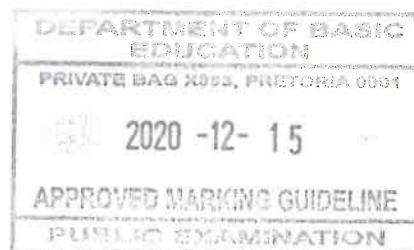
2.2.3 Calculate financial indicators for the year ended 28 February 2021:

Note: 100 does not count as 'one part correct' for the method mark

% operating profit on sales		
Workings	Answer	
$\frac{2\,262\,100}{17\,800\,000} \times \frac{100}{1}$ <p>Expressed as a % (sign not necessary)</p>	<p>one part correct</p> <p>12,7% ✓ <input checked="" type="checkbox"/> #</p> <p>accept 12,7 two marks</p> <p>accept 13 two marks</p>	2
Acid-test ratio		
Workings	Answer	
<p>(659 500 – 276 500) two marks</p> <p>or (262 300 + 120 700) two marks</p> <p>383 000 ✓ ✓ : 611 900 ✓</p>	<p>one part correct</p> <p>0,6 : 1 <input checked="" type="checkbox"/> #</p> <p>Do not accept 1 : 1</p> <p>as x : 1; not 0,6 on its own</p> <p>Accept 0,63 : 1</p>	4
% return on average shareholders' equity (ROSHE)		
Workings	Answer	
<p>1 243 900 ✓ x 100</p> <p>$\frac{1}{2}$ ✓ (11 985 000 + 9 891 400) ✓</p> <p>21 876 400 one mark</p> <p>10 938 200 two marks</p> <p>Expressed as a % (sign not necessary) Not 0,114</p>	<p>one part correct</p> <p>11,4% <input checked="" type="checkbox"/> #</p> <p>Accept 11,37% or 11%</p>	4
Dividend payout rate (%)		
Workings	Answer	
<p>30 cents or R0,3 + 20 cents or R0,2; one mark each (assume R or c if no signs)</p> <p>Must be consistent with calculation</p> <p>$\frac{50 \text{ cents} \checkmark \checkmark}{74 \text{ cents} \checkmark} \times \frac{100}{1}$</p> <p>OR $\frac{\text{one mark } R835\,000}{R1\,243\,900} \times \frac{100}{1}$ (2021 Total dividend) two marks (2021 NPATax)</p> <p>Expressed as a % (sign not necessary) Not 0,676</p>	<p>67,6% <input checked="" type="checkbox"/> #</p> <p>one part correct</p> <p>or</p> <p>67,1%</p> <p>Accept 67% / 68%</p>	4

TOTAL MARKS

40



QUESTION 3

3.1

3.1.1	C ✓
3.1.2	E ✓
3.1.3	B ✓
3.1.4	A ✓

4

3.2

SCI-FI GEEKS LTD If candidates give more required number of indicators, -1 for any *inappropriate* one (max -1) in Q3.2

3.2.1

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.

Financial indicators ✓ ✓ Figures ✓ ✓ Explanation ✓ ✓

part marks for incomplete, partial or unclear answer

- The stock holding period increased (from 32 days) to 102 days (or 70 days)
- Average debtors' collection period increased (from 31 days) to 46 days (15 days)
- Current ratio increased (from 1,1 : 1) to 2,4 : 1 / by 1,3 : 1
- Acid-test ratio increased (from 0,4 : 1) to 1 : 1 / by 0,6 : 1

Any ONE valid explanation; part marks for incomplete / unclear explanation

- Too much liquid assets (cash) tied up in stock reflects that there is an over-investment in stock / the difference in current & acid-test ratios reflects stock piling.
- High stock volumes create security problems
- Stock can easily become obsolete due to advancements in technology (can't be sold)
- The business has relaxed / neglected its collection policies / lockdown during Covid-19 and this impacts on the debtors / stock / cash flow of the business.

6

3.2.2

Comment on the dividend per share over the two years. Quote figures.

ONE valid comment ✓ Figures ✓

The DPS dropped from 90 cents to 72 cents / by 18 cents / by 20%

2

Explain the change in the dividend payout rate. Quote figures.

Explanation ✓ Figures ✓

The dividend pay-out rate increased from 69% (90/130) to 136,5% or 72/58 (accept 124,1%) / or a 97,8% increase from the previous year

Give a reason for this change.

ONE valid point ✓✓ part marks for incomplete, partial or unclear answer

- Directors attempted to please the shareholders for the low profitability
- Compensation for using funds retained in previous financial years.
- No plans for growth / expansions (no need to retain additional funds)

4

A shareholder felt that they should be satisfied with the dividends they received as it is better than last year. Explain why you agree with him. Quote figures.

Explanation with a comparison to another factor ✓✓ Figures ✓

Responses for 3 marks:

- EPS dropped from 130c to 58c (by 72 cents / 55%) but DPS dropped from 90c to 72c (by 18 cents / 20%)
- If the policy was maintained at 69% of EPS, they would have received 40 cents.
- The drop in the market price from 540 cents to 410 cents (reflects a dividend yield DPS/MP of 17,7% this year compared to 16,7% last year)

Example of responses for two marks:

- The dividend pay-out rate increased from 69% (90/130) to 136,5% or 72/58 (accept 124,1%) / or a 98,4% increase from the previous year.

Example of responses for one mark:

- The dividend pay-out rate increased.

3

3.2.3

Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures).

✓ Debt/equity ratio increased (from 0,3 : 1) to 0,4: 1 (or by 0,1 : 1) ✓

✓ ROTCE decreased (from 39%) to 23,2% (or 15,8%) ✓

Any valid comment on the above ✓✓ **part marks for incomplete, partial or unclear answers**

- Increased borrowing not effectively used to increase / improve profitability.
- Although still positively geared (ROTCE exceeds interest rate), the drop in profitability / downward trend is a concern.
- Although there is low financial risk, the company is more reliant on own capital.

6

3.2.4

Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures.

Candidates must provide two reasons, which may be embedded in one explanation.

Any two different reasons: ✓✓ ✓✓ **part marks for incomplete, partial or unclear answers**

- Ethical reasons e.g. This is a very low price and the CEO is exercising undue influence over the issue price / receiving preferential treatment / against the Companies Act or King Code / lack of transparency
- Market-related reasons e.g. the company is losing out on additional funding as shares could have been sold at a price in that range, or on the stock exchange

Relevant figures (any two): ✓ ✓

The selling price of these shares (250 000) is 150 cents each (R375 000 in total) / market price of 410c exceeds NAV of 332c.

6

3.2.5

The Cash Flow Statement reflected a positive change in R980 000. Provide TWO points why this should still be a concern to directors. Quote figures.

TWO points ✓ ✓ Figures ✓ ✓

Expected responses for one mark each, figures one mark each:

- Cash flow from operating activities is negative R148 080
- Additional shares issued, R375 000
- Financing activities increased by R1 026 500
- Large increase in loan, R651 500 / high interest payment R232 000
- Very high payment for dividends, R925 000
- Cash from investing activities, R101 580

4

TOTAL MARKS
35

DEPARTMENT OF BASIC
EDUCATION

PRIVATE BAG X895, PRETORIA 0001

2020 -12- 15

APPROVED MARKING GUIDELINE
PUBLIC EXAMINATION

QUESTION 4

4.1 Explain why a qualified audit report is not a good reflection of a company. Provide TWO points.

TWO points ✓✓ ✓✓ part marks for incomplete, partial or unclear answers

- Certain information on financial statements are not clear / missing.
- There is insufficient audit evidence for significant items; Auditors cannot verify certain information.
- Lack of internal controls; possible negligence or colluding.
- Negative impact in the future; consequences on the image / share price due to decreased demand for shares (from potential shareholders)
- Existing shareholders might decide to sell their shares

4

4.2 Explain why it is important for a company to include non-executive as well as executive directors on the Board of Directors.

TWO points ✓✓ ✓✓ part marks for incomplete, partial or unclear answers

- Executive directors are involved with internal functioning (operations) of the company / hands-on / decisions may be based on a narrow view.
- Non-executive directors have a wider perspective of the business environment; and act in the best interest of the company.
- The non-executive directors would exercise a watch-dog role; keep executive directors in check.
- More regular inputs than an internal auditor or other directors.
- Their inputs would be unbiased and independent.
- They share accountability with the other directors / more people have the interests of the company in mind.
- Executive directors would be more vigilant and professional in their duties / not tempted to engage in unethical activities.
- The more directors there are, the more opinions will be generated, which could benefit the company.
- The non-executive directors can be paid less than the other directors (because they do not work permanently in the company).

4

4.3 According to the Companies Act, 2008 (Act 11 of 2008), a company must have a Remunerations Committee.

Explain the role/responsibility of this committee and give a reason why this committee is necessary.

EXPLANATION: ✓ Note: Mark for explanation could be embedded in the reason

Review all salaries, bonuses and other earnings

To prevent directors from paying themselves too much

They must approve, and give advice on the proposals re fees, bonuses etc.

REASON: ✓✓ part marks for incomplete, partial or unclear answers

- To ensure fairness / transparency in the payment of fees/salaries
- To prevent fraud / corruption / wastage
- Detect mismanagement or fraudulent activities
- They can compare the remuneration / earnings against financial information of other companies in the industry / fairness to workers

3

4.4 Directors engage with clients on a regular basis in an effort to negotiate contracts and to increase sales and services.

Explain why there should be a company policy for all gifts, donations or favours received by the directors from clients to be declared to the board by the directors concerned. Provide TWO points.

TWO points ✓✓ ✓✓ **part marks for incomplete, partial or unclear answers**

- Transparency in awarding contracts, tenders or appointing service providers;
- Could result in not appointing the best suited client for the job / not adhering to or flouting company policy.
- Policy would prevent colluding with service providers.
- Directors / service providers would know the consequences of not abiding by policy and therefore not be tempted to engage in fraudulent activities / corruption.
- This could be viewed as bribery for contracts.
- This could be viewed as nepotism (if family and friends involved).
- To protect the image of the business.
- Conflict of interest (which could be corrupt / fraudulent).

4

TOTAL MARKS
15

TOTAL: 150

