



education

Department:

Education

PROVINCE OF KWAZULU-NATAL

ENQUIRIES: MR D.A. SEWLALL

DATE: 19 JUNE 2017

NATIONAL SENIOR CERTIFICATE:

COMMON TEST JUNE 2017:

GRADE 12

TO: THE CHIEF INVIGILATOR OF ALL SCHOOLS OFFERING
ACCOUNTING

ERRATA

Please take note of the following changes:

PAGE	NUMBER	ERROR	CORRECTION
4	INFORMATION A	Outstanding deposit (1 January 2016)	Outstanding deposit (1 January 2017)
5	INFORMATION E	Cheque No. 215 (1 November 2017)	Cheque No. 215 (1 November 2016)
14	INFORMATION E	A payment NN Dealers on 27 May 2014	A payment NN Dealers on 27 May 2017

Kindly ensure that candidates are informed of the Errata.

MS N.V MCAMBI
DEPUTY MANAGER
PROVINCIAL EXAMINATIONS SERVICES

20/06/2017
DATE

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Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

COMMON TEST

JUNE 2017

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

MARKS: 300

TIME: 3 HOURS

N.B. This question paper consists of 18 pages.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show workings in order to achieve part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.

8. Use the information and table below as a guide when answering the question. Try NOT to deviate from it.

Question 1: 25 Marks; 15 Minutes	
Main topic of the question	This question integrates:
Reconciliations and Interpretation	Financial accounting Bank reconciliation Managing resources Internal control

QUESTION 2: 70 Marks; 42 Minutes	
Main topic of the question	This question integrates:
Financial Statement	Financial accounting Income Statement and notes

QUESTION 3: 45 Marks; 27 Minutes	
Main topic of the question	This question integrates:
Stock valuation and internal control	Managing resources Inventory valuation: FIFO, weighted average and Internal control problem-solving

QUESTION 4: 55 Marks; 33 Minutes	
Main topic of the question	This question integrates:
Financial Statement	Financial accounting Balance Sheet and audit report

QUESTION 5: 35 Marks; 21 Minutes	
Main topic of the question	This question integrates:
Reconciliation and interpretation	Financial accounting Creditors and Debtors reconciliation Managing resources Internal control

QUESTION 6: 70 Marks; 42 Minutes	
Main topic of the question	This question integrates:
Cash Flow and interpretation of information	Financial accounting Cash Flow Statement Calculations and financial indicators Analysis and interpretation

QUESTION 1**(25 Marks; 14 Minutes)****BANK RECONCILIATION AND INTERPRETATION**

You are provided with information related to Ekuvukeni Traders.

REQUIRED:

- 1.1 You are the internal auditor of Ekuvukeni Traders. A new bookkeeper, Xolani, has recently been appointed following the unexpected disappearance of the previous bookkeeper, Themba.
- 1.1.1 Briefly explain to Xolani what your job as internal auditor requires you to do. Provide ONE point. (2)
- 1.1.2 Briefly explain to Xolani why it is important that he prepare the Bank Reconciliation Statement at the end of each month. Provide ONE point. (2)
- 1.2 Calculate the correct totals for the Cash Receipts Journal and the Cash Payments Journal for May 2017. (11)
- 1.3 Prepare the Bank Reconciliation Statement on 31 May 2017. (8)
- 1.4 Refer to the outstanding deposit of R50 000 in Information E below. Explain why the owner and internal auditor should be very concerned about this outstanding deposit. Provide ONE reason. (2)

INFORMATION:

- A. The following items appeared in the Bank Reconciliation Statement on 30 April 2017:

Favourable balance on the bank statement	962
Outstanding deposit (1 January 2016)	50 000
Outstanding deposit (30 April 2017)	1 340
Outstanding cheques:	
No. 215 (1 November 2016)	180
No. 667 (25 April 2017)	2 200
No. 668 (2 July 2017)	660
Favourable Balance as per Bank account in the General Ledger	49 262

- B. Before receiving the May 2017 Bank Statement, the following provisional totals appeared in the Cash Journals on 31 May 2017:
- CRJ R33 220
 - CPJ R40 921
- C. The following items appeared in the May 2017 Cash Journals but not in the May 2017 Bank Statement:
- Cheque No. 672 (dated 12 May 2017) R700
 - Cheque No. 673 (dated 30 September 2017) R300
 - Deposit (dated 31 May 2017) R1 500
- D. The Bank Statement reflects an unfavourable balance of R7 700 on 31 May 2017. The Bank Statement for May 2017 shows the following items which do not appear in the Cash Journals for May 2017:
- Deposit (30 April 2017) R1 340
 - Cheque No. 667 (25 April 2017) R2 200
 - Stop order in favour of Super Company R920 for insurance
 - Interest on favourable Bank balance R360 on 31 May 2017
 - Service fees R332
 - Cash deposit fees R443
 - Credit Card commission R1 316
 - Direct deposit by B Mtshali (a debtor), R3 150 to settle his account of R3 200
- E. Additional information on 31 May 2017.
- Cheque No. 215 (1 November 2017) is now stale and must be cancelled.
 - Cheque No. 670 appeared on the May Bank Statement as R360. This was the correct amount of the cheque. It was reflected in the CPJ as R260 by mistake.
 - All other cheques issued and deposits made during May were correctly reflected on the May Bank Statement.
 - An investigation revealed that the deposit of R50 000, dated 31 January 2017, was never deposited at the bank. The money has gone missing and it was decided to write off this amount. The previous bookkeeper has left the country and cannot be traced.

QUESTION 2**(70 Marks; 42 Minutes)****CONCEPTS, INCOME STATEMENT, NOTES TO BALANCE SHEET****2.1 CONCEPTS****REQUIRED:**

Choose an explanation from COLUMN B that matches a concept in COLUMN A. Write only the letter (A-E) next to the question number (2.1.1-2.1.4) in the ANSWER BOOK.

COLUMN A (CONCEPT)		COLUMN B (EXPLANATION)	
2.1.1	Materiality	A	Financial statements are prepared with the understanding that the company will continue operating in the future.
2.1.2	Matching	B	All assets are recorded at their original cost price.
2.1.3	Going concern	C	Income and expenses must be recorded in the correct financial year.
2.1.4	Historical cost	D	All important items should be shown separately in financial statement.
		E	Figures used in financial statement should be realistic.

(4x1)

(4)

2.2 ZULU LIMITED

You are provided with information for the financial year ended 28 February 2017.

REQUIRED:

2.2.1 Prepare the Asset Disposal Account. (10)

2.2.2 Complete the Income Statement (Statement of Comprehensive Income) for the year ended 28 February 2017. Some of the figures are entered in the ANSWER BOOK. (48)

2.2.3 Prepare the Cash and cash equivalent note to the Balance Sheet. (8)

INFORMATION:

Figures extracted from the Pre-adjustment Trial Balance on 28 February 2017.

	R
Balance Sheet Accounts Section	
Mortgage loan: Super Bank	1 700 000
Vehicles at cost	520 000
Equipment at cost	145 000
Accumulated depreciation on vehicles	268 000
Accumulated depreciation on equipment	37 000
Fixed deposit: New Bank	800 000
Trading stock	1 200 000
Bank (favourable)	626 000
Petty cash	7 800
Debtors control	792 200
Creditors control	750 000
Provision for bad debts	45 000
SARS: Income tax (Dr)	600 000
SARS: PAYE	48 000
Pension fund	18 000
Nominal Accounts Section	
Sales	?
Cost of sales	9 700 000
Salaries and wages	1 049 300
Directors fees	902 100
Audit fees	203 400
Employers contributions to pension	81 000
Sundry expenses	?
Bad debts	25 000
Packing material	78 000
Advertising	55 000
Interest on fixed deposit	72 000
Interest on loan	?
Bad debts recovered	15 700
Ordinary share dividends	24 000

Adjustments and additional information:

- A. Selling prices are determined by using a mark-up of 60% on cost. However, trade discounts of R75 000 were allowed to special customers during the financial year.
- B. Trading stock, R45 000 was damaged in a fire which broke out in the storeroom. The insurance company accepted the claim and will cover 80% of the claim. This amount was received on 28 February 2017, but was not recorded in the books of the business. Write off the balance.

- C. The physical stocktaking on 28 February 2017 revealed the following on hand:
- Trading stock R 1 160 000
 - Packing material R 9 000
- D. On 28 February 2017, R3 000 was received from J Jones, whose account had been previously been written off. The amount was incorrectly entered in the debtors control column in the CRJ.
- E. A debtor, M Malinga was declared insolvent. His estate paid 40c in the rand. R800 was already received and recorded. Write the rest off as irrecoverable.
- F. The provision for bad debts must be adjusted to R39 700.
- G. Advertising includes R25 000 consisting of a monthly contract with the local radio station for the entire financial year. Advertising was paid for 13 months. From 1 November 2016, the contract rate was decreased by R200 per month.
- H. 40% of the fixed deposit will mature on 1 September 2017.
- I. One employee received a double salary by mistake for February 2017. His normal salary details are as follows:

Deductions		Employers contribution	Net salary
PAYE	Pension	Pension	
R2 000	R1 900	R3900	R10 100

The employee was notified and he subsequently deposited the extra money into the bank account of the business. The business is still waiting for the refunds from SARS and his pension fund. No entry have been made.

- J. An old vehicle was sold for cash on 31 October 2016 for R43 440. No entries have been made.

The fixed asset register of a vehicle sold revealed the following:

Cost price of vehicle	R245 000
Carrying value at beginning of the year	R69 400

Make provision for depreciation as follows:

- On vehicles at 15% p.a. on cost price.
- On equipment at 10% p.a. on diminishing balance

Note: A new computer was purchased on 1 September 2016 for R36 000 on credit. No entries have been made.

- K. Use the following percentages to calculate certain missing figures:
- Operating profit on sales: 20%
 - Income tax for the financial year was calculated as R887 100. This is 30% of the net profit before tax.

QUESTION 3: STOCK VALUATION**(45 Marks; 27 Minutes)****3.1 SIGQAMISE LEATHER**

You are provided with information relating to Siggamise Leather. The business is owned and managed by Khanda Shabangu. Khanda buys and sells leather jackets and exclusive handbags.

REQUIRED:

3.1.1 Calculate the value of the closing stock as follows:

- Leather jackets (use the weighted average method) (10)
- Handbags (use the FIFO method). (10)

3.1.2 Calculate the following for the handbags:

- Cost of sales (6)
- Gross profit (3)
- Mark-up % achieved (3)

3.1.3 Khanda suspects that a number of handbags have been shop-lifted. Calculate the number of bags stolen. (4)

INFORMATION:

- A. The leather jackets are bought from a South African supplier, and the handbags are imported from the USA.
- B. The leather jackets are valued using the Weighted Average method and the handbags are valued using the First-in First-out method (FIFO).
- C. The stocks were valued as follows at the beginning and at the end of the financial year.

Leather jackets				Handbags			
	No. of units	Per unit	TOTAL (Including carriage)	No. of units	Per unit	Exchange rate	TOTAL (Including purchase expenses)
1 Mar 2016	80	R550	R44 000	100	\$45	R11,50=\$1	R51 750
28 Feb 2017	180	?	?	240	?		?

D. Purchases during the financial year

	Leather jackets			Handbags			
	No. of units	Unit cost	TOTAL COST (excluding transport)	No. of units	Unit cost	Exchange rate	TOTAL COST (excluding purchases expenses)
07/03/2016	200	R560	R112 000	80	\$50	R11,00=\$1	R44 000
25/06/2016	250	R620	R155 000	220	\$50	R11,50=\$1	R126 500
02/02/2017	150	R700	R105 000	100	\$55	R11,90=\$1	R65 450
TOTALS	600		R372 000	400			R235 950

E. Purchases expenses:

- Carriage on purchases for the leather jackets was R12 480 and handbags were transported at carriage of R20 per handbag from King Shaka Airport to the business.
- Customs and import duties on handbags paid during the accounting period, R12 000.

F. 20 leather jackets bought on 02/02/2017 were returned to the supplier. The supplier agreed to refund the business in full except for the carriage on purchases.

G. During the financial year, the following sales were made:

Leather jackets: 480 units at R1 000 each = R480 000
 Handbags: 235 units at R900 each = R211 500

3.2 BONA TRADERS

Bona Traders sells one type of camera. The owner Sibahle. has three branches situated in Pinetown, Durban and Umhlanga. The three branches are managed by Ndumiso, Nomcebo and Sphesihle respectively.

Sibahle has obtained the annual figures/amounts from the three branches for the financial year ended 28 February 2017.

REQUIRED:

Identify ONE problem in relation to each branch. Quote figures/amounts to highlight the problem. In each case, offer the owner advice on how to solve the problem.

(9)

Note: All cameras are sold for cash.

INFORMATION			
CAMERAS	PINETOWN (Ndumiso)	DURBAN (Nomcebo)	UMHLANGA (Sphesihle)
Cameras available for sale	1 960	1 600	1 160
Cameras sold during the year	1 560	300	1 000
Cameras returned during the year	20	20	0
Stock on 28 February 2017	340	1 280	160
Total cash sales	R18 720 000	R3 600 000	R11 360 000
Cost price per camera	R8 000	R8 000	R8 000
Selling price per camera	R12 000	R12 000	R12 000
Advertising costs per year	R40 000	R40 000	R40 000
Salary of manager per month	R25 000	R25 000	R25 000

45

QUESTION 4**(55 Marks; 33 Minutes)****BALANCE SHEET AND AUDIT REPORT****4.1 UMSINGA LIMITED**

The information below relates to Umsinga Ltd. The financial year ended on 28 February 2017.

4.1.1 Prepare the following notes for the year ended 28 February 2017:

- Retained income (9)

- Trade and other payables (10)

4.1.2 Prepare the Balance Sheet (Statement of Financial Position) on 28 February 2017. Show ALL workings. (26)

INFORMATION:

A. List of balances extracted from the accounting records of Umsinga Ltd on 28 February 2017, the end of the financial year, unless otherwise stated.

	R
Ordinary share capital	?
Retained income (1 March 2016)	754 500
Loan : Suku Bank	420 000
Fixed assets at carrying value	?
Fixed deposit: Bhubesini Bank	200 000
Trading stock	?
Creditors control	440 000
Debtors control	?
Provision for bad debts (1 March 2016)	3 800
Bank (Unfavourable)	25 000
Accrued expenses (expenses payable)	11 500
Prepaid expenses	8 000
SARS: Income tax (provisional tax payments)	400 000
Shareholders for dividends	320 000

B. Buy-back of shares:

200 000 shares were repurchased on 20 February 2017 from a shareholder at R10.20 average price. The above average was R2.60 and total price was R12.80.

C. Dividends:

Interim dividends: R 123 000

D. Loan from Suku Bank

- The loan was originally received on 1 March 2015.
- This loan is to be repaid over 5 years in equal monthly installments with effect from 31 March 2015. All payments have been made.
- Interest is not capitalized and has been paid in full.

E. Provision for bad debts:

The provision for bad debts must be adjusted to R4 000.

F. The following adjustments have not yet been taken into account:

- A debtor with a credit balance of R1 500 is to be transferred to the Creditors Ledger.
- The bank reconciliation statement, on 28 February 2017, reflected a post-dated cheque for R30 000 dated 31 March 2017.

G. Net profit after tax:

Net profit before tax, after taking into account the adjustments above, was calculated as R1 500 000. The income tax rate is 30% of net profit before tax.

H. the following financial indicators were calculated after all adjustments had been taken into account:

Current ratio	1,5 : 1
Acid-test ratio	0,9 : 1
Debt/equity ratio	0,1 : 1

4.2 AUDIT REPORT

You are provided with an extract of the independent auditors report of Lukaku Ltd for the financial year ended 31 May 2017.

REQUIRED:

- 4.2.1 What type of audit report did Lukaku Ltd received? Give a reason for your answer. (3)
- 4.2.2 To whom is an audit report addressed? Give a reason for your answer. (3)
- 4.2.3 Explain why the auditor mentioned the following in the audit report: (2)
- IFRS (2)
 - Companies Act (Act 71 of 2008) (2)

INFORMATION:**Extract from the audit report:**

In our opinion, the financial statements fairly present in all material respects the financial position of the company at 31 May 2017 as well as the financial results of its operations and the cash flows for the year ended 31 May 2017. This is in accordance with the International Financial Reporting Standards(IFRS) and the manner required by the Companies Act in South Africa,

QUESTION 5**(35 Marks; 21 Minutes)****5.1 CREDITORS RECONCILIATION**

You are presented with information from the records of MG Stores for May 2017. MG Stores buys goods on credit from NN Dealers.

REQUIRED:

5.1.1 Use the table provided to indicate the changes that must be made to the Creditors Ledger account of NN dealers in the books of MG Stores and the statement received from the creditor. Indicate + for increase and – for decrease.

(7)

5.1.2 The owner of MG stores is concerned that the bookkeeper could be defrauding the business through the credit system. List **TWO** internal control measures that can be applied in order to maintain control over creditors.

(2)**INFORMATION:**

The Creditors Ledger Account of NN Dealers in the books of MG Stores showed that **R5 350** was owed to them on 31 May 2017 while the statement received from NN Dealers on 31 May 2017 reflected an outstanding balance of **R12 540**.

An investigation revealed the following:

- A. Returns recorded as R820 in the creditors ledger account of NN Dealers was shown as R280 on the statement received. The amount on the statement was correct.
- B. An invoice for R4 200 received from NN Dealers was incorrectly recorded as a credit note by the clerk of MG Stores in the creditors' ledger.
- C. An invoice received from NN Dealers was correctly recorded as R4 400 in the Creditors' Ledger Account of NN Dealers in the books of MG Stores, but the statement showed this amount as R400.
- D. A payment of R5 000 made by MG Stores appeared on the statement received. The statement also reflected a discount of R250 for early payment. MG Stores did not record the discount in the creditors' ledger.
- E. A payment of R2 500 to NN Dealers on 27 May 2014 did not appear on the statement, due to the statement being processed early.

5.2 DEBTORS RECONCILIATION

You are provided with information relating to Marlin Traders for July 2015.

REQUIRED:

5.2.1 Give **TWO** steps that the bookkeeper must follow when he/she discovers a difference between the Debtors Control Account and the Debtors List. (2)

5.2.2 **Refer to Information A.**

Show the effect of the errors and omissions to the Debtors Control Account in the General Ledger and to each Debtor's Account in the Debtors Ledger. Indicate + increase and – for decrease. (Complete the tables provided.) (16)

5.2.3 **Refer to Information B. (Debtors' Age Analysis)**

- Explain why you would be concerned about the management of debtors in this business. Quote relevant figures in your answer. (4)
- Provide **TWO** internal control measures that the business can use to improve the collection of money from debtors. (4)

INFORMATION:**A. Errors and omissions:**

- (i) The total of the Debtors Allowances Journal was under cast by R120.
- (ii) Stock sold on credit to M. Simkhadi was wrongly entered in the journal as R890 instead of R980 and posted accordingly to the debtors' ledger.
- (iii) Interest of R75 must be charged to the overdue account of D. Slindile
- (iv) A cheque for R530 received from K. Mshibe was returned by the bank marked R/D. No entries were made for this transaction.
- (v) Goods sold to F. Tuko for R1 320 was incorrectly posted to the account of M. Simkhadi. The entry in the journal was correct.
- (vi) A receipt issued to M. Simkhadi for R650 was correctly recorded in the journal but was posted to the Debtors Ledger Account as R600.

B. On 31 July 2015, the Debtors' Age analysis was as follows:

Credit terms: 30 days less 5% discount.

TOTAL	CURRENT	30-60 DAYS	61-90 DAYS	MORE THAN 90 DAYS
R23180	R4 636	R6 954	R9 272	R2 318

QUESTION 6**(70 Marks; 42 Minutes)****6.1 CASH FLOW STATEMENT, RATIO'S AND INTERPRETATION**

You are provided with information extracted from the records of Sivukile Ltd for the financial year ended 28 February 2017.

REQUIRED:

- 6.1.1 Complete the Cash Flow Statement for the year ended 28 February 2017. (30)
Where notes are not required, show ALL workings.
- 6.1.2 Calculate the return on shareholders equity for 2017 (5)
(round off to **ONE** decimal point):
- 6.1.3 **Refer to Information C:**
- On 1 March 2016 additional shares were issued. Will the existing shareholders be satisfied with the price? Explain. Quote relevant financial indicators with figures in your explanation (5)
- 6.1.4 The directors are happy with the improvement in the liquidity position from 2016 to 2017. Quote **THREE** relevant financial indicators (actual ratios or figures) to support their opinion. (6)
- 6.1.5 Besides paying back the loan, the directors have taken other major decisions that have affected the cash balance. State **TWO** other major decisions (exceeding R200 000) and quote the figures from the Cash Flow Statement. (6)
- In EACH case, state how the decision will affect the future of the company. (6)

INFORMATION:**A. Extract from the Income Statement for the year ended 28 February 2017.**

	R
Depreciation	178 000
Interest expense	52 000
Net profit before tax	334 000
Net profit after tax	240 480

B. Figures obtained from the Balance Sheets and notes on 28 February:

	2017	2016
ASSETS		
Fixed assets (carrying value)	2 714 030	2 354 390
Financial assets	150 000	230 000
SARS: Income tax (DR)	-	2 110
Cash and cash equivalents	5 000	34 700
Shareholders' equity	2 392 480	1 848 000
Ordinary share capital	2 016 000	1 520 000
Retained income	376 480	328 000
Non-current liabilities	500 000	800 000
Current liabilities	239 850	253 200
Trade creditors	124 800	165 200
Shareholders for dividends	96 000	88 000
SARS: Income tax	6 300	-
Bank overdraft	12 750	-

C. Share capital

- 400 000 shares were issued on 28 February 2016.
- On 1 March 2016 an additional 200 000 share were issued @ R5 per share.
- On 1 January 2017 the company repurchased shares from a dissatisfied shareholder at 30 cents each above the average price.

D. Fixed assets

- Extensions to the existing buildings were undertaken during July 2016.
- Some asset were sold at carrying value R180 000.

E. Dividends

- An Interim dividend of R60 000 was paid on 30 September 2016.
- The final dividend was declared on 28 February 2017.

F. The following financial indicators were calculated for the past two years.

	2017	2016
Solvency	4,7 : 1	2,9 : 1
Current ratio	2,5 : 1	0,9 : 1
Acid-test ratio	1.7 : 1	1 : 1
Stock turnover rate	10 times	7 times
Debtors collection period	28 days	36 days
Creditors payment period	24 days	20 days
Debt-equity ratio	0,2 : 1	0,4 : 1
Return on average capital employed (ROTCE)	13.9%	17%
Return on shareholders' equity (ROSHE)	?	19%
Net asset value per share (NAV)	498 cents	462 cents
Earnings per share (EPS)	50 cents	46 cents
Market price of shares (JSE)	501 cents	490 cents
Current interest rate on loan	16%	14%

6.2 XULU LTD AND ZWANE LTD

You have R50 000 to invest in a listed company. You choose to focus on two companies in the same industry.

NOTE: When answering the questions below, compare the information given and quote the relevant financial indicators of both companies (percentages, ratios and/or amounts).

REQUIRED:

- 6.2.1 Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange (JSE). Explain how this will influence your choice of company. (6)
- 6.2.2 Compare and comment on the dividend pay-out policies of the two companies. (6)
- 6.2.3 Comment on the degree of risk and gearing. Explain how this will influence your choice of company. (6)

INFORMATION:

	XULU LTD	ZWANE LTD
Current ratio	4,3 : 1	1,5 : 1
Acid-test ratio	2,8 : 1	0,8 : 1
Stock turnover rate	4 times	6 times
Stock-holding period	90 days	62 days
Average debtors' collection period	54 days	26 days
Average creditors' payment period	59 days	62 days
Debt-equity ratio	0,3 : 1	1,6 : 1
Return on total capital employed (ROTCE)	15,6%	10,2%
Return on shareholders' equity (ROSHE)	17,2%	9,1%
Earnings per share (EPS)	420 cents	980 cents
Dividend per share (DPS)	360 cents	490 cents
Net asset value per share (NAV)	310 cents	750 cents
Market price of shares on JSE	400 cents	645 cents
Interest rate on loans	11,5%	11,5%

70

TOTAL: 300



Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING
ANSWER BOOK
COMMON TEST
JUNE 2017

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

Name: _____

Grade: _____

QUESTION	MARKS	MOD BY THE SCHOOL	MOD BY THE CLUSTER	MOD BY THE PROVINCE
1				
2				
3				
4				
5				
6				
TOTAL				

N.B. This answer book consists of 17 pages

1.3 Prepare the Bank Reconciliation Statement on 31 May 2017.

	DEBIT	CREDIT

8

1.4 Refer to the outstanding deposit of R50 000 in Information E below. Explain why the owner and internal auditor should be very concerned about this outstanding deposit. Provide ONE reason.

--

2

TOTAL MARKS

25

QUESTION 2

2.1

Write only the letter (A-E) next to the question number.

2.1.1	
2.1.2	
2.1.3	
2.1.4	

4

2.2.1 DR

Asset Disposal Account

CR

10

2.2.2 SEE NEXT PAGE

2.2.3 **Cash and cash equivalent**

8

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017.

48

70

QUESTION 3**3.1.1 Calculate the value of the closing stock as follows:**

- Leather jackets (use the weighted average method)

10

- Handbags (use the FIFO method).

10

3.1.2 Calculate the following for the handbags:

- Cost of sales

6

- Gross profit

3

- Mark-up % achieved

3

- 3.1.3 Khanda suspects that a number of handbags have been shop-lifted. Calculate the number of handbags stolen.

--

4

- 3.2 Identify ONE problem in relation to each branch, quoting figures/amounts to highlight the problem. In each case, offer the owner advice on how to solve the problem.

Branch	Comment and figures	Advice
PINETOWN Ndumiso		
DURBAN Nomcebo		
UMHLANGA Sphehile		

9

TOTAL MARKS

45

QUESTION 4**4.1.1 Prepare the following notes for the year ended 28 February 2017:****Retained income**

9

Trade and other payables

10

4.1.2 BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON 28 FEBRUARY 2017.

ASSETS	
NON-CURRENT ASSETS	
CURRENT ASSETS	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
CAPITAL AND RESERVES	
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
TOTAL EQUITY AND LIABILITIES	

4.2 AUDIT REPORT

4.2.1 What type of audit report did Lukaku Ltd received? Give a reason for your answer.

--

3

4.2.2 To whom is an audit report addressed? Give a reason for your answer.

--

3

4.2.3 Explain why the auditor mentioned the following in the audit report:

<ul style="list-style-type: none"> • IFRS
<ul style="list-style-type: none"> • Companies Act in South Africa.

2

2

TOTAL MARKS
55

QUESTION 5**5.1 CREDITORS RECONCILIATION**

5.1.1

No.	CREDITORS LEDGER ACCOUNT	STATEMENT
	5 350	12 540
A.		
B.		
C.		
D.		
E.		

7

7

5.1.2

The owner of MG stores is concerned that the bookkeeper could be defrauding the business through the credit system. List TWO internal control measures that can be applied in order to maintain control over creditors.

2

5.2 DEBTORS RECONCILIATION

- 5.2.1 Give TWO steps that the bookkeeper must follow when he/she discovers a difference between the Debtors Control Account and the Debtors List.**

2

- 5.2.2 Calculate the correct balance of the Debtors Control Account and the Debtors List by completing the table provided.**

DEBTORS CONTROL ACCOUNT

No.	11 020

DEBTORS LIST: Show the adjustment amount next to each debtor.

M. Simkhadi (4 480	
D. Slindile (3 270	
K. Mshibe (940	
F. Tuko (2 260	

16

5.2.3 DEBTORS' AGE ANALYSIS

Explain why you would be concerned about the management of debtors in this business. Quote relevant figures in your answer.

4

Provide TWO internal control measures that the business can use to improve the collection of money from debtors.

4

TOTAL MARKS
35

QUESTION 6**6.1.1 SIVUKILE LTD****CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017.**

Cash flow from operating activities	
Cash flow from investing activities	
Cash flow from financing activities	
Net change in cash and cash equivalent	
Cash and cash equivalent at the beginning	
Cash and cash equivalent at the end	

30

6.1.2 Calculate the return on shareholders' equity for 2017.

--

5

- 6.1.3** On 1 March 2016 additional shares were issued. Will the existing shareholders be satisfied with the price? Refer to information C about the price. Explain. Quote relevant financial indicators with figures in your explanation.

5

- 6.1.4** The directors are happy with the improvement in the liquidity from 2016 to 2017. Quote THREE relevant financial indicators (actual ratios or figures) to support their opinion.

6

6.1.5 Besides paying back the loan, the directors have taken other major decisions that have affected the cash balance. State TWO other major decisions (exceeding R200 000) and quote the figures from the Cash Flow Statement.

In EACH case, state how the decision will affect the future of the company.

DECISION	FUTURE EFFECT ON COMPANY

6

6.2 XULU LTD AND ZWANE LTD

6.2.1 Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange (JSE). Explain how this will influence your choice of company.

6

6.2.2 Compare and comment on the dividend pay-out policies of the two companies.

6

6.2.3 Comment on the degree of risk and gearing. Explain how this will influence your choice of company.

6

TOTAL MARKS
70



Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

MEMORANDUM

JUNE 2017

NATIONAL
SENIOR CERTIFICATE

GRADE 12

MARKS: 300

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that 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 the final figure, award one mark. Not the method mark for the answer. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark.
5. 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 a certain question.
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 before awarding the mark.
10. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect.
11. Be aware of candidates who provide valid alternatives beyond the marking guideline.
12. Operation' means 'Check operation'. 'One part correct' means 'Operation & one part correct'.
13. Codes: f=foreign item; p=placement.

This memorandum consists of 17 pages

QUESTION 1

1.1.1 Briefly explain to Xolani what your job as internal auditor requires you to do. Provide ONE point.

ANY RELEVANT ANSWER ✓✓

- To ensure that the internal controls are tested and assessed as effective.
- Detering fraud or error in the business
- To Check on every aspect of the business and that all employees are complying with the procedure they were employed to do.

2

2

1.1.2 Briefly explain to Xolani why it is important that he prepare the Bank Reconciliation Statement at the end of each month. Provide ONE point.

- Good explanation = 2; Satisfactory = 1; Incorrect = 0 ✓✓
- Improves internal control by minimizing fraud or error because records are checked against an external source.
- Improves internal control by identifying outstanding cheques and deposit.
- To compare the books of the business with that of the bank in order to detect errors and dishonesty at an early stage

- Expected responses for 1 mark
- Internal control purposes
- To reconcile the bank account

mark responses may be combined to earn 2 marks

2

2

1.2 Cash Receipts Journal

33 220
360✓
3 150✓
180✓
36 910✓

Cash Payment Journal

40 921
920✓
332✓
443✓
1316✓
100✓
50 000✓
94 032✓

Operation one part correct

11

11

Accept R2051 under CPU is the combination of Bank charges award 3 marks

1.3

Prepare the Bank Reconciliation Statement on 31 May 2017.

	DEBIT	CREDIT
Debit balance as per bank statement	7 700✓	
Credit outstanding deposit		1 500✓
Debit outstanding cheques		
No. 668	660✓	
No. 672	700✓	
No. 673	300✓	
Credit balance as per bank account		7 860✓
Operation for both answers	9 360	9 360

8
8

1.4

Refer to the outstanding deposit of R50 000 in Information E below. Explain why the owner and internal auditor should be very concerned about this outstanding deposit. Provide ONE reason.

Any valid point ✓✓ No of marking

- This deposit should have been reflected on the bank statement within a day.
- R50 000 appears to be missing and will affect the cash flow and liquidity.
- There is lack of internal control.
- Likelihood of fraud by the previous bookkeeper.
- The internal auditor has been negligent by not ensuring that this was detected in January.

2
2

TOTAL MARKS
25
25

QUESTION 2

2.1 Write only the letter (A-E) next to the question number.

2.1.1	D✓
2.1.2	C✓
2.1.3	A✓
2.1.4	B✓

4
4

2.2.1 DR Asset Disposal Account

2016	31	Vehicles✓	GJ	245 000✓	2016	31	Accumulated Depreciation: Vehicles✓	GJ	200 100✓
							(175 600✓ + 24 500✓)		
							Bank✓	GJ	43 440✓
							Operation blue print correct		
							Loss on sale of asset✓	GJ	1 460✓
				245 000					245 000

AWARD 1 MARK FOR 175 600 or 24 500 IS
Show in the final column

10
10

2.2.2 SEE NEXT PAGE

2.2.3 Cash and cash equivalent

Bank (626 000✓ + 36 000✓ + 10 100✓ + 43 440✓)	715 540✓
Petty cash	7 800✓
Fixed deposit	320 000✓
Operation	1043 340✓

8
8

2.2.2 ZULU LIMITED

QUESTION 3

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017.

	Sales (15 520 000✓ - 75 000✓)	15 445 000✓
	Cost of sales	(9 700 000) ✓
5	Gross profit	5 745 000✓
	Other operating income	29 000✓
	Bad debts recovered (15 700✓ + 3 000✓)	18 700✓
	Trading stock surplus (1 200 000✓ - 45 000✓ - 1 160 000✓)	5 000✓
	Provision for bad debts adjustment (45 000✓ - 39 700✓)	5 300✓
11	Gross income	5 774 000
	Operating expenses	(2 685 000) ✓
	Salaries (1 049 300✓ - 14 000✓)	1 035 300✓
	Directors fees	902 100
	Audit fees	203 400
	Employers contributions (81 000✓ - 3 900✓)	77 100✓
	Sundry expenses	229 890✓
	Bad debts (25 000✓ + 1 200✓)	26 200✓
	Packing material (78 000✓ - 9 000✓)	69 000✓
	Advertising (55 000✓ - 1 800✓)	53 200✓
	Stock destroyed by fire	9 000✓
	Loss on sale of assets	1 460✓
25	Depreciation (24 500✓ + 41 250✓ + 10 800✓ + 1 800✓)	78 350✓
	Operating profit	3 089 000✓
	Interest income	72 000✓
	Operating profit before interest expenses	3 161 000✓
	Interest expenses	(204 000) ✓
	Net profit before taxation	2 957 000✓
	Taxation	(887 100) ✓
7	Net profit after taxation	2 069 900✓

TOTAL MARKS
70
70

3.1.1

Calculate the value of the closing stock as follows:

- Leather jackets (use the weighted average method)

$$44\,000\checkmark + 372\,000\checkmark + 12\,480\checkmark - 14\,000\checkmark - 20\checkmark$$

$$80\checkmark + 600\checkmark$$

$$414\,480$$

$$660$$

$$R628\checkmark \text{ operation one part correct} \times 180\checkmark = R113\,040\checkmark \text{ operation}$$

Accept other alternative calculations

10
10

- Handbags (use the FIFO method).

$$100\checkmark \times R654,50\checkmark = R65\,450\checkmark \text{ operation one part correct}$$

$$140\checkmark \times R575\checkmark = R80\,500\checkmark \text{ operation one part correct}$$

$$240\checkmark \times R50\checkmark = R12\,000\checkmark \text{ operation one part correct}$$

$$R157\,950\checkmark \text{ operation one part correct}$$

Accept other alternative calculations

10
10

3.1.2

Calculate the following for the handbags:

- Cost of sales

$$51\,750\checkmark + 44\,000\checkmark + 31\,625\checkmark + 2\,700\checkmark + 4050\checkmark = R134\,125\checkmark$$

operation one part correct

6
6

- Gross profit

$$211\,500\checkmark - 134\,125\checkmark \text{ operation} = 77\,375\checkmark \text{ gross profit operation}$$

See cost of sales above

3
3

- Mark-up % achieved

$$77\,375\checkmark \text{ see gross profit above} \times 100$$

$$134\,125\checkmark \text{ see cost of sales above}$$

$$57,7\%\checkmark \text{ operation or } 58\%$$

3
3

3.1.3

Khanda suspects that a number of handbags have been shop-lifted. Calculate the number of bags stolen.

$$500\checkmark - 240\checkmark - 235\checkmark = 25\checkmark \text{ operation one part correct}$$

4
4

3.2

Identify ONE problem in relation to each branch, quoting figures/amounts to highlight the problem. In each case, offer the owner advice on how to solve the problem.

Branch	Comment and figures ✓✓ ✓✓ ✓✓	Advice ✓✓ ✓✓ <i>Any relevant answer</i>
PINETOWN	Theft occurring. There are 40 cameras missing (380 – 340)	Improve internal control
NDUMISO	Value of shortage of R320 000 (8 000 x 40)	Do regular physical stock takings and stock checks
DURBAN	Too much stock on hand. Only 300 out of 1 580 have been sold.	Restrict amount of stock on hand as this could lead to theft or out of date stock.
NOMCEBO	Stock will become obsolete / out of date, 1 280 left over	Instead of paying Nomcebo a set monthly income he should pay her on commission based on sales.
UMHLANGA	R640 000 cash was stolen	Improve internal control
SPHESITHLE		Division of duties

9
9

TOTAL MARKS
45
45

QUESTION 4

4.1.1 Prepare the following notes for the year ended 28 February 2017:

Retained income	
Balance at the beginning	754 500 ✓
Buy back of shares (200 000 ✓ x 2,60 ✓)	(520 000) ✓
Net profit after tax	1 050 000 ✓
Dividend	(443 000) ✓
Paid	123 000 ✓
Final	320 000 ✓
Balance at the end	841 500 ✓

9
9

Trade and other payables	
Creditors control (440 000 ✓ + 1 500 ✓ + 30 000 ✓)	471 500 ✓
Accrued expense	11 500 ✓
Shareholders for dividends	320 000 ✓
SARS (400 000 ✓ – 450 000 ✓)	50 000 ✓
	853 000 ✓

10
10

4.1.2 BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON 28 FEBRUARY 2017.

ASSETS		
NON-CURRENT ASSETS		2 583 500 ✓
Fixed assets	operation	2 383 500 ✓
Fixed Deposit	operation	200 000 ✓
CURRENT ASSETS		1 489 500 ✓
Inventories	(GL X 1.5) operation	595 800 ✓
Trade- and other receivables	(883 200 ✓ - 4000 ✓ + 1500 ✓ + 8 000 ✓)	888 700 ✓
Cash & cash equivalents	(30 000 ✓ - 25 000 ✓)	5 000 ✓
TOTAL ASSETS	operation	4073 000 ✓
EQUITY AND LIABILITIES		
ORDINARY SHAREHOLDERS EQUITY		2 800 000 ✓
Share capital	operation	1 958 500 ✓
Retained Income	see 4.1.1	841 500 ✓
NON-CURRENT LIABILITIES		280 000 ✓
loan (420 000 ✓ - 140 000 ✓)	operation	280 000 ✓
CURRENT LIABILITIES		993 000 ✓
Trade- and other payables	see 4.1.1	853 000 ✓
Short term loan	see 4.1.1	140 000 ✓
TOTAL EQUITY AND LIABILITIES	operation	4073 000 ✓

Do not accept bank overdraft under current liabilities

26
26

4.2 AUDIT REPORT

4.2.1

What type of audit report did Lukaku Ltd receive? Give a reason for your answer.
Unqualified ✓
Reason: Any valid reason ✓✓
The external auditor has not stated any irregularities in the audit report.
The audit report indicates that there were no issues that were found to be irregular.

3
3

4.2.2

To whom is an audit report addressed? Give a reason for your answer.
Shareholders ✓
Reason: Any valid reason ✓✓
• The independent auditors are appointed by the shareholders at the AGM.
• The shareholders are the owners of the company (contributed the capital).

3
3

4.2.3

Explain why the auditor mentioned the following in the audit report:
• IFRS
Any valid explanation ✓✓
• The financial statements can be compared to international standards.
• The company operates in a global economy.
• Shareholders may be from various parts of the world.
• Companies Act in South Africa.
Any valid explanation ✓✓
• This assures the shareholders that the company is abiding by the law.
• Standards are maintained.
• This satisfies the shareholders that their investment is safe.
• This creates investor confidence in the company.
• The Companies Act dictates how the financial statements are to be presented

2
2

2
2

TOTAL MARKS
55
55

QUESTION 5

5.1 CREDITORS RECONCILIATION

5.1.1		CREDITORS LEDGER ACCOUNT	STATEMENT
		5 350	12 540
A.		+540✓	
B.		+4 200 ✓ + 4 200✓ Or + 8 400	
C.			+ 4 000✓
D.		- 250✓	
E.			-2 500✓
		14 040 (operation for both answers)	14 040✓

Do not award mark(s) if figures are put in both columns

7
7

5.1.2

The owner of MG stores is concerned that the bookkeeper could be defrauding the business through the credit system. List TWO internal control measures that can be applied in order to maintain control over creditors.

Any TWO valid points ✓ ✓

- Division of duties
- Proper authorisation of transactions.
- Items received must be checked against invoices and delivery notes.

2
2

5.2 DEBTORS RECONCILIATION

5.2.1

Give TWO steps that the bookkeeper must follow when he/she discovers a difference between the Debtors Control Account and the Debtors List.

Any TWO valid steps ✓ ✓

- Reconciling debtors' list with debtors' control account.
- Identify if the error affects the control account or the DL or both.
- Identify if ONE, TWO or MORE accounts are affected.
- Make GJ entries to correct posting errors (wrong debtors / amounts over or under cast / wrong general ledger accounts)
- For single entry errors (amounts) make the necessary corrections and adjust the balances.

2
2

5.2.2

Calculate the correct balance of the Debtors Control Account and the Debtors List by completing the table provided.

DEBTORS CONTROL ACCOUNT

	11 020
(i)	-120✓
(ii)	+90✓
(iii)	+75✓
(iv)	+530✓
	11 595✓ (operation one part correct)

DEBTORS LIST: Show the adjustment amount next to each debtor.

M. Simkhadi (4 480 + 90✓ - 1 320✓ - 50✓)	3 200✓
D. Slindile (3 270 + 75✓)	3 345✓
K. Mshibe (940 + 530✓)	1 470✓
F. Tuko (2 260 + 1 320✓)	3 580✓
	11 595✓ (operation one part correct)

operation
one part
correctoperation
one part
correctoperation
one part
correct

16
16

5.2.3 DEBTORS' AGE ANALYSIS

Explain why you would be concerned about the management of debtors in this business. Quote relevant figures in your answer.	
Any TWO valid comments with figures. ✓✓ ✓✓	✓✓
<ul style="list-style-type: none"> • 11590/23 180 = 50% of debtors are more than 60 days overdue. • Only 20% of debtors are current (within the 30 days credit terms). • 10% of debtors are likely to be written off as irrecoverable. • Debtors are not taking advantage of the 5% discount for early payments. • Collection policy needs to be more vigilant. 	

4
4

Provide TWO internal control measures that the business can use to improve the collection of money from debtors.	
Any TWO valid explanations. ✓✓ ✓✓	✓✓
<ul style="list-style-type: none"> • Division of duties – explained. • Shared responsibilities in preparing documents (statements, receipts, invoices) and depositing of money. • If the organisation is big, could assign a set number of debtors per employee. Could result in personalised service and constant monitoring. • A separate screening department (follow-up and approval of credit). • Computerised messages to inform debtors not up to date with payments. 	
For 1 mark each:	
<ul style="list-style-type: none"> • Send SMS and reminders. • Charge interest on late payments (overdue accounts) • Give discounts for early payments. 	

4
4

TOTAL MARKS
35
35

QUESTION 6

6.1.1 SIVUKILE LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017

Cash flow from operating activities	255 190 ✓
Cash generated by operations	540 300 ✓
Interest paid	(52 000) ✓
Dividends paid (88 000 ✓ + 60 000 ✓) or (88 000 + 156 000 – 96 000)	(148 000) ✓
Tax paid (93 520 ✓ – 6 300 ✓ – 2 110 ✓) or (2110 – 93 520 + 6 300)	(85 110) ✓
Cash flow from investing activities	(457 640) ✓
Purchases of fixed assets (2 714 030 ✓ + 180 000 ✓ + 178 000 ✓ – 2 354 390 ✓) or (–2 714 030 – 180 000 – 178 000 + 2 354 390)	(717 640) ✓
Proceeds on sale of fixed assets	180 000 ✓
Decreased in financial asset	80 000 ✓
Cash flow from financing activities	160 000 ✓
Proceeds on shares issued	1 000 000 ✓
Buy-back of shares (120 000 ✓ X 4.50 ✓)	(540 000) ✓
Repayment of loan	(300 000) ✓
Net change in cash and cash equivalent	(42 450) ✓
Cash and cash equivalent at the beginning	34 700 ✓
Cash and cash equivalent at the end	(7 750) ✓

30
30

6.1.2

Calculate the return on shareholders' equity for 2017.

240 480 ✓	X	100
1/2 ✓ (2 392 480 ✓ + 1 848 000) ✓		1
240 480	X	100
2 120 240		1
11.3% ✓		operation

5
5

6.1.3	On 1 March 2016 additional shares were issued. Will the existing shareholders be satisfied with the price? Refer to information C about the price. Explain. Quote relevant financial indicators with figures in your explanation
Yes✓	
Explanation ✓	✓ Valid financial indicators with figures ✓ ✓
Compare R5 issue price to the NAV of 498 cents	
Compare R5 issue price to the market value of 501 cents.	

5
5

6.1.4	The directors are happy with the improvement in the liquidity from 2016 to 2017. Quote THREE relevant financial indicators (actual ratios or figures) to support their opinion.
Three financial indicators ✓✓	✓✓
Possible answers:	
• Current ratio: increased from 0.9 : 1 to 2.5 : 1. (current assets are double the current liabilities)	
• Acid-test ratio: increased from 1 : 1 to 1.7 : 1 (company is operating efficiently)	
• Debtors' collection period: Collection period improved from 36 to 28 days.	
• Stock turnover rate improved from 7 times to 10 times (stock is sold quicker)	
Do not accept the creditors payment period.	

6
6

6.1.5	Besides paying back the loan, the directors have taken other major decisions that have affected the cash balance. State TWO other major decisions (exceeding R200 000) and quote the figures from the Cash Flow Statement. In EACH case, state how the decision will affect the future of the company.
DECISION Decision ✓✓	Amount ✓✓
Purchase of fixed assets R717 640	<ul style="list-style-type: none"> • Capital growth – investment in fixed assets will lead to expanded business activities • Creation of employment • Cater for more customers to increase profits
Issue of shares R 000 000	<ul style="list-style-type: none"> • Financing expansions/ extensions • Expanded shareholder base will affect dividends • Improve cash flow
Repurchase of shares R540 000	<ul style="list-style-type: none"> • Large cash outlay led to bank overdraft • Could result in cash flow problems

6
6

6.2 XULU LTD AND ZWANE LTD

6.2.1 Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange (JSE). Explain how this will influence your choice of company.

Financial indicators or explanation thereof with figures	Do not accept comparison of the JSE price only ✓✓ or nothing
XULU LTD JSE price 400 cents ✓ Greater than NAV ✓ of 310 cents	I would invest in Xulu LTD as the shares seem to be in good demand Or
ZWANE LTD JSE price 645 cents ✓ below the NAV 750 cents ✓	I would not invest in Xulu LTD as the shares might be overpriced. Or I would invest in Zwane LTD as the shares seem to be under-valued

6
6

6.2.2 Compare and comment on the dividend pay-out policies of the two companies.

Financial indicators or explanation thereof with figures		Do not accept comparison of the DPS only or EPS only, must mention both companies. ✓✓ or nothing
Xulu LTD	DPS 360 cents✓ EPS 420 cents✓ Or 2 marks Distribution 86% earnings	Xulu LTD is distributing a higher percentage of income earned; Zwane LTD has decided to return half of EPS
Or		
Zwane LTD	DPS 490 cents✓ EPS 980 cents✓ Or 2 Marks Distribution 50% earnings	Xulu LTD appears to keep shareholders satisfied by giving them good dividends; Zwane LTD appears to have plans for growth.

6

6

6.2.3 Comment on the degree of risk and gearing. Explain how this will influence your choice of company.

Financial indicators or explanation thereof with figures		Comparison must involve a choice
Must use D/E and ROTCE		Accept valid alternative terminology ✓✓ or nothing
XULU LTD	D/E Ratio 0.3:1 ✓ ROTCE 15.6% higher than the interest rate of 11.5% ✓	I choose Xulu LTD as financial risk is low and gearing is positive.
ZWANE LTD	D/E Ratio 1.6:1 ✓ ROTCE 10.2% below the interest rate of 11.5% ✓	I choose Xulu LTD for its positive gearing
		I do not choose Zwane LTD there is high financial risk and negative gearing

6

6

TOTAL MARKS

70

70

