



Province of the
EASTERN CAPE
EDUCATION



**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**2021 PRE-TRIAL
EXAMINATION**

ACCOUNTING P1

MARKS: 150

TIME: 2 HOURS

This question paper consists of 8 pages,
a formula sheet and a 8-page answer book.

INSTRUCTIONS AND INFORMATION:

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or black/blue ink to answer the 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	Financial statements of companies	60	50
2	Cash Flow Statement and Financial Indicators	40	30
3	Interpretation of financial information	35	30
4	Audit Report and corporate governance	15	10
TOTAL		150	120

QUESTION 1: FINANCIAL STATEMENTS OF COMPANIES (60 marks; 50 minutes)

- 1.1 Match the abbreviations in Column A with an explanation in Column B. Write only the letter (A – E), next to each number (1.1.1 – 1.1.5) in the Answer Book.

COLUMN A	COLUMN B
1.1.1 MOI	A Responsible for the registration and control of all companies.
1.1.2 CIPC	B A professional body with a membership of all chartered accountants.
1.1.3 SAICA	C A global set of reporting standards that makes financial statements comparable and consistent.
1.1.4 IFRS	D Matching and prudence are examples of principles considered when preparing financial statements
1.1.5 GAAP	E Formation document that includes all the rules, procedures and guidelines concerning a company.

(5)

1.2 BULLDOG LTD

The company is listed with an Authorised Share Capital of 1 200 000 ordinary shares. The financial year ended on 28 February 2021.

REQUIRED:

- 1.2.1 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2021. (26)
- 1.2.2 Prepare the Retained Income note. (8)
- 1.2.3 Prepare the EQUITIES AND LIABILITIES section of the Statement of Financial Position on 28 February 2021. (21)

INFORMATION:**A. Extract of balances/totals from the Pre-Adjustment Trial Balance on 28 February 2021:**

Ordinary share capital	?
Retained income (1 March 2020)	209 000
Loan: ORT Bank	562 800
Creditors control	333 350
SARS: Income tax (provisional payments)	280 000
Bank overdraft	?
Sales	8 711 700
Cost of sales	?
Rent income	55 200
Commission income	165 700
Salaries and wages	621 500
Depreciation	329 000
Interest income	?
Audit fees	48 750
Directors fees	?
Sundry expenses	?
Ordinary share dividends (31 August 2020)	228 000

B. Adjustments:

- (i) A credit sales invoice for R19 800 was not recorded. Goods are sold at a profit mark-up of 50% on cost.
- (ii) The rent income for March 2021 was received and deposited. Note that the storeroom was rented out from 1 August 2020. The business allowed a reduction of R800 per month from 1 January 2021, due to limited access during COVID-19 restrictions.
- (iii) Only 75% of the audit fees was paid. The balance will be paid during March 2021.
- (iv) The company has three directors. Two of them received their fees of R213 600 each for the entire financial year. The third director, appointed on 1 June 2020, earns 10% less than the other directors. He has received his fees for March 2021.

**C. Income tax:**

Income tax at 30% of the net profit, amounted to R348 000, after taking into account all adjustments.

D. Share capital and dividends:

- On 1 June 2020, additional shares were issued.
- On 1 October 2020, 50 000 shares were repurchased at R1,10 above the average share price.
- On 28 February 2021, the share capital comprised 900 000 shares.
- Interim dividends were paid on 31 August 2020
- A final dividend of 17 cents per share was declared on 28 February 2021.

E. Loan: ORT Bank

- Fixed instalments of R12 500 per month, including interest capitalised, was paid and recorded.
- The loan statement received on 28 February 2021 reflected capitalised interest of R63 200, that must still be recorded.
- The business expected to repay 15% of the loan balance in the following financial year.

F. Financial indicators calculated after all adjustments:

- Current Ratio: 1,8 : 1 (based on total Current Asset of R1 260 000)
- NAV: 890 cents

QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS**(40 marks; 30 minutes)**

The information relates to SWI LTD for the financial year ended 30 June 2021.

REQUIRED:

- 2.1 Calculate the following amounts for the Cash Flow Statement:
- Income tax paid (5)
 - Dividends paid (4)
 - Fixed assets purchased (5)
- 2.2 Complete the following sections of the Cash Flow Statement:
- Cash effects of financing activities (11)
 - Net change in cash and cash equivalents (4)
- 2.3 Calculate the following: (Show calculations to one decimal point.)
- 2.3.1 Debt/equity ratio (3)
 - 2.3.2 Dividend pay-out rate (4)
 - 2.3.3 % return on average shareholders' equity (4)

**INFORMATION:**

- A. **Information extracted from the Statement of Comprehensive Income (Income Statement) for the financial year ended 30 June 2021:**

Sales	R 9 375 000
Depreciation	464 000
Interest expenses	312 000
Net profit before income tax	1 375 500
Net profit after tax	962 850
Earnings per share (EPS)	99 cents

- B. **Figures extracted from the Balance Sheet and Notes:**

	30 JUNE 2021 R	30 JUNE 2020 R
Fixed assets (carrying value)	9 363 600	R 8 928 850
Fixed deposits	220 000	300 000
Non-current liabilities	1 800 000	3 000 000
Current assets	1 297 000	1 286 200
Current liabilities	915 750	786 000
Shareholders' equity	8 164 850	6 729 050
Ordinary share capital	7 711 250	6 252 500
Retained income	453 600	476 550
Current assets includes:		
Inventories	583 000	538 000
SARS: Income tax	0	4 200
Cash and cash equivalents	2 000	112 000
Current liabilities includes:		
SARS: Income tax	18 450	0
Shareholders for dividends	238 800	166 000
Bank overdraft	78 500	0

C. Share Capital:

- 830 000 ordinary shares were in issue on 1 July 2020.
- 240 000 shares were issued on 1 November 2020.
- 75 000 shares were re-purchased on 30 April 2021 at R9,15 each.

D. Dividends:

- An interim dividend of 60 cents per share was paid on 31 December 2020, to all shares on the share register.
- A final dividend of 24 cents per share was declared on 30 June 2021, to all shares on the share register at the end of the financial year.

E. Fixed assets:

- Old equipment was sold at carrying value, R76 250.
- Extensions to buildings were completed during the financial year.

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

The information was extracted from the records of Zukina Ltd for the financial year ended 28 February 2021.

REQUIRED:

- 3.1 Comment on the liquidity position of the business. Quote and explain THREE financial indicators (with figures) in your explanation. (8)
- 3.2 Shareholders are concerned about the % returns and dividends for the year. Provide TWO possible reasons for their concern. Quote figures. (4)
- 3.3 The directors decided to change the dividend pay-out policy for the current financial year. Provide TWO possible reasons for this decision. Quote figures. (6)
- 3.4 The debt/equity ratio shows that the company has maintained a gearing ratio of 0,4 : 1 over the two financial years. Was this a good strategy? Explain. Quote a financial indicator (with figures) to motivate your answer. (6)
- 3.5 Terro Kota, owns 360 000 shares which represents 45% of the total issued share capital. He wants to be the majority shareholder in the next financial year, and plans to buy the shares on the stock exchange on 1 March 2021.
 - Calculate the number of shares he would have to buy, and the total amount he would have to spend. Note that the company's shares are only available in batches of 100 shares. (7)
 - Provide TWO different reasons why he wants to be the majority shareholder. (4)

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

	28 FEB. 2021	28 FEB. 2020
Current ratio	2,9 : 1	1,8 : 1
Acid test ratio	0,7 : 1	0,9 : 1
Average debtors collection period	32 days	36 days
Stock turnover rate	5,2 times	8 times
Debt/equity	0,4 : 1	0,4 : 1
% return on average capital employed	12,8%	14,3%
% return on average shareholders' equity	7,4%	9,2%
Earnings per share	86 cents	123 cents
Dividends per share	70 cents	74 cents
Dividend pay-out rate	81,4%	60,2%
Net asset value per share	490 cents	545 cents
Market price per share on the JSE	485 cents	550 cents
Interest rate on loans	13%	12%
Interest on fixed deposits	8,0%	7,5%

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

An extracted of the Audit Report of Xoli Ltd is presented.

REQUIRED:

- 4.1 Identify the type of audit report that the company received, and provide a reason for your choice. (3)
- 4.2 Shareholders expressed concern about the role of the Audit Committee.
- 4.2.1 Explain the difference between an internal auditor and an external auditor. (2)
- 4.2.2 Provide THREE reasons for the concern expressed by shareholders. (6)
- 4.3 Provide TWO suggestions on how good corporate governance can be achieved. (4)

INFORMATION:**Extract of the Audit Report:**

We have audited the annual financial statements of Xoli Ltd for the year ended 28 February 2021. The financial statements are the responsibility of the company's directors.

Basis for Opinion

In the course of the audit it was established that bonuses paid to directors, amounting to R12,5 million, had not been authorised by the Remunerations Committee.

Audit Opinion

Because of the significance of the matters described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements for the year then ended.

Palavi and Rao,
Chartered Accountants (SA)

31 July 2021

15**TOTAL: 150**

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET

$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Total assets : Total liabilities	Current assets : Current liabilities
(Current assets – Inventories) : Current liabilities	Non-current liabilities : Shareholders' equity
(Trade & other receivables + Cash & cash equivalents) : Current liabilities	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales / Credit Purchases}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax + Interest on loans}}{\text{Average shareholders' equity + Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit – Variable costs per unit}}$	
NOTE: * In this case, if there is a change in the number of issued shares during a financial year, the weighted-average number of shares is used in practice.	



Name: _____

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GRADE 12

PRE-TRIAL 2021

**ACCOUNTING P1
ANSWER BOOK**

QUESTION	MAXIMUM MARKS	MARKS OBTAINED	MODERATED MARK
1			
2			
3			
4			
TOTAL			

This Answer Book consists of 8 pages.

QUESTION 1:**1.1**

1.1.1	
1.1.2	
1.1.3	
1.1.4	
1.1.5	

5

1.2.1 Statement of Comprehensive Income on 28 February 2021

Sales	
Cost of sales	
Gross profit	
Other income	
Commission income	165 700
Gross income	
Operating expenses	
Salaries and wages	621 500
Depreciation	329 000
Sundry expenses	
Operating profit	1 240 000
Interest income	
Profit before interest expense	
Net profit before income tax	
Income tax	(348 000)
6 Net profit after tax	

26

1.2.2 RETAINED INCOME

Balance on 1 March 2021	209 000	
Ordinary share dividends		
Balance on 28 February 2021		8

1.2.3 EQUITIES AND LIABILITIES SECTION

SHAREHOLDERS EQUITY		
Ordinary share capital		
Non-current liabilities		
Current liabilities		
		21

TOTAL MARKS	60	
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QUESTION 2:**2.1 Calculate:**

Income tax paid		
WORKINGS	ANSWER	
		5
Dividends paid		
WORKINGS	ANSWER	
		4
Fixed assets purchased		
WORKINGS	ANSWER	
		5

2.2

CASH EFFECTS OF FINANCING ACTIVITIES		
Proceeds from shares issued		
		11
NET CHANGE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents (opening balance)		
Cash and cash equivalents (closing balance)		
		4

2.3**2.3.1 Calculate: Debt/equity ratio**

WORKINGS	ANSWER

3

2.3.2 Calculate: Dividend pay-out rate

WORKINGS	ANSWER

4

2.3.3 Calculate: % return on average shareholders' equity

WORKINGS	ANSWER

4

TOTAL MARKS	40	
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QUESTION 3:

- 3.1** Comment on the liquidity position of the business. Quote and explain **THREE** financial indicators (with figures) in your explanation.

8

- 3.2** Shareholders are concerned about the % returns and dividends for the year. Provide **TWO** possible reasons for their concern. Quote figures.

4

- 3.3** The directors decided to change the dividend pay-out policy for the current financial year. Provide **TWO** possible reasons for this decision. Quote figures.

6

3.4

The debt/equity ratio shows that the company has maintained a gearing ratio of 0,4 : 1 over the two financial years. Was this a good strategy? Explain. Quote a financial indicator (with figures) to motivate your answer.

6

3.5

Terro Kota, owns 360 000 shares which represents 45% of the total issued share capital. He wants to be the majority shareholder in the next financial year, and plans to buy the shares on the stock exchange on 1 March 2021.

Calculate the number of shares he would have to buy, and the total amount he would have to spend. Note that the company's shares are only available in batches of 100 shares.

CALCULATION:

AMOUNT HE MUST SPEND:



7

Provide TWO different reasons why he wants to be the majority shareholder.

4

TOTAL
MARKS

35

QUESTION 4:

4.1 Identify the type of audit report that the company received, and provide a reason for your choice.

Type:

Reason:

3

4.2.1 Explain the difference between an internal auditor and an external auditor.

2

4.2.2 Provide THREE reasons for the concern expressed by shareholders.

6

4.3 Provide TWO suggestions on how good corporate governance can be achieved.

4

TOTAL MARKS	15	
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TOTAL: 150



NATIONAL SENIOR CERTIFICATE

GRADE 12

2021 PRE-TRIAL EXAMINATION

ACCOUNTING P1 MARKING GUIDELINE

MARKS: 150

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 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).
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. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark.
9. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
10. Be aware of candidates who provide valid alternatives beyond the marking guideline.
11. Codes: f = foreign item; p = placement/presentation.

This marking guideline consists of 8 pages.



QUESTION 1:**1.1**

1.1.1	E ✓
1.1.2	A ✓
1.1.3	B ✓
1.1.4	C ✓
1.1.5	D ✓

5

1.2.1 Statement of Comprehensive Income on 28 February 2021

	Sales 8 711 700 + 19 800	8 731 500 ✓✓
	Cost of sales sales amount x 100/150	(5 821 000) ✓✓
5	Gross profit operation S – COS	2 910 500 ✓
	Other income operation	214 500 ✓
	Commission income	165 700
	Rent income 55 200 ✓ – 6 400 ✓✓	48 800 ✓*
6	Gross income operation GP + OI	3 125 000 ✓
	Operating expenses GI – OP	(1 885 000) ✓
	Salaries and wages	621 500
	Depreciation	329 000
	Audit fees 48 750 x 100/75 or 48 750 + 16 250	65 000 ✓✓*
	Directors fees $\frac{(213\,600 \times 2)}{427\,200} \checkmark\checkmark + \frac{(160\,200 - 16\,020)}{144\,180} \checkmark\checkmark$	571 380 ✓*
	Sundry expenses balancing figure	298 120 ✓
9	Operating profit	1 240 000
	Interest income PblE – OP	16 800 ✓
	Profit before interest expense	1 223 200 ✓
	Interest expense	(63 200) ✓
	Net profit before income tax	1 160 000 ✓✓
	Income tax	(348 000)
6	Net profit after tax 348 000 x 70/30 or NPbT – Inc Tax	812 000 ✓

26

-1 for foreign items (max -2)

* one part correct

1.2.2 RETAINED INCOME



Balance on 1 March 2021		209 000
Net profit after tax	see 1.2.1	812 000 ✓
Shares repurchased 50 000 x 1,10		(55 000) ✓✓
Ordinary share dividends	operation	(381 000) ✓
Interim dividends		228 000 ✓
Final dividends 900 000 x 0,17	one part correct	153 000 ✓✓
Balance on 28 February 2021	must subtract SBB and OSD	585 000 ✓

8

1.2.3 EQUITIES AND LIABILITIES SECTION

	SHAREHOLDERS EQUITY	8,90 x 900 000	8 010 000 ✓✓
	Ordinary share capital	balancing figure	7 425 000 ✓
4	Retained income	see 1.2.2	585 000 ✓
	Non-current liabilities		532 100
5	Loan: ORT Bank 562 800 ✓ + 63 200 ✓ – 93 900 ✓✓		532 100 ✓*
	Current liabilities	1 260 000 /1,8	700 000 ✓✓
	Trade and other payables 333 350 ✓ + 6 400 ✓ + 16 250 ✓ see Rent Inc see Audit Fees		356 000 ✓*
	Shareholders for dividends	see RI note above	153 000 ✓
	SARS: Income tax 348 000 – 280 000		68 000 ✓✓
	Current portion of loan	see NCL above	93 900 ✓
	Bank overdraft	balancing figure	29 100 ✓
12			9 242 100 ✓

21

* one part correct

TOTAL
MARKS

60

QUESTION 2:**2.1 Calculate:**

Income tax paid		
WORKINGS	ANSWER	
$1\,375\,500 - 962\,850$ $412\,650 \checkmark\checkmark - 4\,200 \checkmark - 18\,450 \checkmark$ Accept alternative arrangements such as signs reversed, use of brackets or ledger account format	$390\,000 \checkmark$ one part correct	5
Dividends paid		
WORKINGS	ANSWER	
$1\,070\,000 \times 0,6$ $166\,000 \checkmark + 642\,000 \checkmark\checkmark$ Accept alternative arrangements such as signs reversed, use of brackets or ledger account format	$808\,000 \checkmark$ one part correct	4
Fixed assets purchased		
WORKINGS	ANSWER	
$9\,363\,600 + 464\,000 + 76\,250 - 8\,928\,850$ $\checkmark \quad \checkmark \quad \checkmark \quad \checkmark$ Accept alternative arrangements such as signs reversed, use of brackets or ledger account format	$975\,000 \checkmark$ one part correct	5

2.2

CASH EFFECTS OF FINANCING ACTIVITIES		
	$153\,750 \checkmark$ one part correct	
Proceeds from shares issued		
$7\,711\,250 \checkmark + 581\,250 \checkmark\checkmark\checkmark - 6\,252\,500 \checkmark$ (75 000 one mark x 7,75 two marks)	$2\,040\,000 \checkmark$ one part correct	
Funds used to re-purchase shares (75 000 x 9,15)	$(686\,250) \checkmark\checkmark$	
Decrease in loan (3 000 000 – 1 800 000)	$(1\,200\,000) \checkmark\checkmark$	11
NET CHANGE IN CASH AND CASH EQUIVALENTS		
	$(188\,500) \checkmark$	
Cash and cash equivalents (opening balance)	$112\,000 \checkmark$	
Cash and cash equivalents (closing balance)	$(76\,500) \checkmark\checkmark$ $-78\,500 + 2\,000$	4

2.3

2.3.1 Calculate: Debt/equity ratio

WORKINGS	ANSWER
1 800 000 ✓ : 8 164 850 ✓	0,2 : 1 <input checked="" type="checkbox"/> one part correct

3

2.3.2 Calculate: Dividend pay-out rate

WORKINGS	ANSWER
60c + 24c one mark each $\frac{84}{99} \times 100$ <div style="text-align: right;">✓✓ ✓</div>	84,8% <input checked="" type="checkbox"/> one part correct Or 85%

4

2.3.3 Calculate: % return on average shareholders' equity

WORKINGS	ANSWER
$\frac{962\,850}{\frac{1}{2}(6\,729\,050 + 8\,164\,850)} \times 100$ <div style="text-align: right;">✓ ✓ two marks</div>	12,9% <input checked="" type="checkbox"/> one part correct Or 13%

4

TOTAL
MARKS

40

QUESTION 3:**3.1**

Comment on the liquidity position of the business. Quote and explain THREE financial indicators (with figures) in your explanation.

Financial indicators ✓ ✓ ✓ comparative figures ✓ ✓ ✓ Valid comment ✓✓
part marks for incomplete / partial / unclear responses

Current ratio increased from 1,8 : 1 to 2,9 : 1

Acid test ratio decreased from 0,9 : 1 to 0,7 : 1

Stock turnover rate dropped from 8 times to 5,2 times

Liquidity shows a declining trend / the business is holding too much stock (stock piling) / stock is not moving as desired / slow sales / cash tied up in stock / may experience cash flow problems in the future

8

3.2

Shareholders are concerned about the % returns and dividends for the year. Provide TWO possible reasons for their concern. Quote figures.

TWO reasons (with figures) ✓✓ ✓✓ * financial indicators are given in the Question

- % of shareholders' equity (7,4%) dropped to below the interest rate on alternative investments (8%)
- Decreasing trend in % return from 9,2% to 7,4%
- A reflection on the profitability. EPS dropped from 123 cents to 86 cents
- DPS drop is marginal (not significant) from 74c to 70c – not in proportion to the drop in EPS – directors prefer to give more dividends instead of retaining profits to improve profitability

4

3.3

The directors decided to change the dividend pay-out policy for the current financial year. Provide TWO possible reasons for this decision. Quote figures.

Comparative figures ✓✓ TWO valid points ✓✓ ✓✓
part marks for incomplete / partial / unclear responses

Dividend pay-out rate improved from 60,1% to 81,4%

- Directors retained 40% of the earnings last year, but did not apply that effectively to improve profitability; or to use that for expansion
- They decided to give shareholders a greater portion of the earnings to possibly keep them satisfied; not to draw attention to the poor profitability.
- They do not have plans for growth, exposing poor management

6

3.4

The debt/equity ratio shows that the company has maintained a gearing ratio of 0,4 : 1 over the two financial years. Was this a good strategy? Explain. Quote a financial indicator (with figures) to motivate your answer.

Financial indicator and figures ✓✓ Reference to negative gearing ✓✓ Valid comment ✓✓
part marks for incomplete / partial / unclear responses

The business is low geared – not making expensive use of loans
The ROTCE dropped from 14,3% to 12,8%
This is below the rate of interest on loans, 13%
Indicating that the company is negatively geared
The business is not making effective use of the loan and should have made efforts to reduce the loan balance

6

3.5

Terro Kota, owns 360 000 shares which represents 45% of the total issued share capital. He wants to be the majority shareholder in the next financial year, and plans to buy the shares on the stock exchange on 1 March 2021.

Calculate the number of shares he would have to buy, and the total amount he would have to spend. Note that the company's shares are only available in batches of 100 shares.

CALCULATION:

Number of shares in issue: $360\,000 \times 100/45 = 800\,000$ shares ✓✓
50% of share capital is 400 000 shares ☒ or 50% of shares calculated above
 $400\,000 - 360\,000 + 100 = 40\,100$ more ☒ one part correct

AMOUNT HE MUST SPEND:

See above
 $40\,100 \times R4,85 = R194\,485$ ☒ one part correct

7

Provide TWO different reasons why he wants to be the majority shareholder.

TWO valid reasons ✓✓ ✓✓

- He wants to gain control of the Board of Directors
- He would be the sole decision-maker
- He would decide on the appointment of directors / people on key management positions
- He probably sees potential in the company and feels that he can make an impact if he is in control
- He does not have confidence in certain directors and want to get rid of them
- He has inside information about incompetent managers and feels he can expose them
- He will be able to use his contacts in the business environment to the benefit of the company.

4

**TOTAL
MARKS**

35

QUESTION 4:

4.1 Identify the type of audit report that the company received, and provide a reason for your choice.

Type: Disclaimer of opinion ✓ accept Disclaimer

Reason: ✓✓ mark independently from type above
part marks for incomplete / partial / unclear responses

The auditors did not express an opinion of the reliability of the financial statements
They could not get sufficient evidence to support certain significant items

3

4.2.1 Explain the difference between an internal auditor and an external auditor.

Explanation ✓✓ part marks for incomplete / partial / unclear responses

The internal auditor is employed by the business to set up reliable internal controls in line with externally acceptable standards; he/she has the best interest of the business and will engage management in complying with best practices. The external auditor has no interest in the business and will be unbiased in the manner in which he/she conducts the audit (no vested interest / impartial)

2

4.2.2 Provide THREE reasons for the concern expressed by shareholders.

THREE reasons ✓✓ ✓✓ ✓✓ part marks for incomplete / partial / unclear responses

- Impact on the image of the business
- Share price will be negatively affected
- Potential shareholders would not be interested to buy shares
- Existing shareholders would want to sell their shares
- Customers would buy elsewhere
- Creditors would doubt the creditworthiness of the business
- They would not be able to recoup their investment (limited liability)

6

4.3 Provide TWO suggestions on how good corporate governance can be achieved.

TWO suggestions ✓✓ ✓✓ part marks for incomplete / partial / unclear responses

- Engage all stakeholders in decision-making at different levels (transparency)
- Regular report-back on business matters (accountability)
- Consider the needs of the community (social responsibilities)
- Show an interest in current economic trends / environmental issues
- Invest in training employees – create opportunities for growth

4

TOTAL MARKS	15	
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TOTAL: 150